Fathoming futures: Fiscal follies, France's fires



CAPITAL CONTOURS

BY **RAY CHOY**

France's latest social unrest offers a global lesson that access to a major reserve currency does not extinguish sovereign credit risk. Protests over living costs and deteriorating public services descended into riots across several cities, adding to investors' doubts about the government's ability to restore fiscal discipline.

On Oct 19, France's 10-year government bond yield approached 4.9% while its spread over the comparable German Bund reached around 146 basis points (bps). That compares with the about 55bps following the adoption of France's 2026 budget in February, a widening of some 90bps. Markets are repricing the institutional capacity of France's government to manage its debts. This signals that even the European Central Bank's capacity to contain disorderly market conditions cannot substitute indefinitely for credible national budgetary adjustment.

France's fiscal follies have accumulated over years rather than emerged from one bout of unrest. Its deficit reached 5.8% of GDP in 2024 and remained at 5.1% in 2025, well above the 3%-of-GDP fiscal deficit ceiling prescribed under the EU's Stability and Growth Pact. Public debt stood at around 115.6% of GDP in 2025, which the European Commission projects to rise beyond 120% by 2027 without further policy measures. Weak growth, rising interest costs and politically contentious pension and spending reforms complicate the arithmetic. A fragmented parliament and the approach of the 2027 presidential election have also made durable fiscal compromises increasingly difficult.

While this is not yet a solvency crisis, the present pathway could very well lead to one. France retains a large, diversified economy, deep bond-market liquidity and a public-debt maturity profile backed by long duration obligations, providing the headroom of time for fiscal adjustments. Nevertheless, as seen from the actions of investors dumping French government bonds, they appear to have little confidence in the government's commitment to fiscal consolidation and its ability to meet the target fiscal ratios under the EU's Stability and Growth Pact.

Investors are increasingly concerned and therefore discerning about the state of global government debt. The International Monetary Fund (IMF) estimates that global government debt reached almost 94% of GDP in 2025 and could reach 100% by 2029. As I wrote in the August edition of this column, higher refinancing requirements, interest rates and energy disruptions leading to fiscal strains have brought the world closer to a debt crisis.

The less appreciated concern is diminishing fiscal flexibility. Much government spending is committed before the annual budget is drafted: salaries, pensions, interest, health services and social transfers cannot be readily withdrawn without economic or political consequences. As these obligations absorb increasingly larger portions of expenditure, development spending is relegated as a mere residual. That is problematic because public investment also strengthens productive capacity and future revenue. It addresses highly pertinent issues such as the global problem of future job creation and youth unemployment. A budget that superficially meets accounting goals by repeatedly curtailing capital formation can lead to a vicious cycle of poorer economies and diminished opportunities for future generations.

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> — Choy

Based on two decades of IMF data, the global government debt-to-GDP ratio was 63% in 2006, compared with an estimated 95% in 2026. Over the same period, the global fiscal balance deteriorated from -0.8% to -5.5%. Between advanced and developing economies, the latter charted a faster deterioration over the same 20-year period, as their debt-to-GDP rose from 36% to 73% while their fiscal surplus withered from 1% to a deficit of 6%.

Prioritising growth and sustaining fiscal plans are defensible objectives but neither should displace the accumulation of fiscal buffers. Growth increases the denominator of debt and deficit ratios but does not automatically create resources that can be mobilised during an exceptional shock.

The idea of a polycrisis captures a confluence of unexpected adverse events, amplifying consequences beyond their individual effects. Consider an escalation in the Middle East disrupting energy shipments, a prolonged conflict in Ukraine affecting commodities, renewed trade restrictions impairing supply chains and climate change causing food shortages and flooding (a super El Niño is predicted in the coming months).

There are also crises deliberately caused by bad actors, including cyberattacks on financial networks, instigated social unrest and environmental pollution, be it from air, water or other sources, alongside migrant crises arising from instability in neighbouring states. What are popularly called black swan events may increasingly be better understood as compound tail risks, where the concurrence of individually identifiable threats produces consequences beyond those anticipated under conventional macroeconomic planning.

France's experience offers several concrete lessons. First, fiscal credibility cannot be secured merely by announcing deficit targets or having them in some form of legal or institutional framework. It requires political commitment, alongside a credible and enforceable medium-term adjustment programme, with clearly identified revenue and expenditure measures rather than repeated reliance on temporary fiscal or budget remedies.

Constructive fiscal adjustments follow a similar pattern globally, with recurrent expenditure commitments requiring periodic reassessment, particularly where demographic changes, entitlement structures and administrative inefficiencies generate expenditure growth disconnected from productive outcomes. Rationalising poorly targeted subsidies, reviewing tax expenditures and improving the efficiency of public services may provide greater fiscal flexibility without disproportionately sacrificing productive public investment.

Finally, fiscal buffers should extend beyond conventional deficit and debt ratios. Governments need explicit contingency provisions, transparent assessments of contingent liabilities and prearranged financing mechanisms for disasters and other exceptional events. Fiscal stress tests should also consider simultaneous revenue losses, higher borrowing costs and additional relief expenditure, rather than treating these as independent risks.

The implications extend well beyond France. As a mature economy that has navigated successive economic and political cycles, the country possesses established institutions, a diversified economic base and access to deep financial markets. Yet, its experience demonstrates how unresolved fiscal imbalances, particularly the accumulation of recurrent expenditure commitments, can progressively erode fiscal flexibility, erode institutions and credibility, and render necessary adjustments increasingly difficult.

For developing economies, the lessons are particularly pertinent. Expenditure commitments made during periods of economic expansion can outlast the revenue growth supporting them while delayed reforms may eventually necessitate the curtailment of productive public investment, undermining future economic opportunities.

France therefore provides a cautionary case study of how fiscal vulnerabilities can become entrenched and manifest dramatically as social unrest over time, even in economies with considerable institutional and financial advantages. In this sense, France's fiscal follies and ensuing social unrest help us fathom a future that developing economies would do well to avoid: one where neglected fiscal embers become uncontrollable fires. ■

Dr Ray Choy is chief economist at MARC Ratings. His views in this article may not necessarily represent the views of the company.

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