Cour des comptes

PUBLIC FINANCES: SITUATION AND OUTLOOK

Summary

July 2025

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France has just gone through two dark years in terms of public finances, made all the darker by the fact that it did not experience any major economic shocks during this period. The first steps of the three multi-year trajectories presented by the Government since autumn 2023 have been successively missed: the Multiannual Public Finance Programming Act (LPFP) adopted at the end of 2023 was based on a public deficit of 4.9 points of gross domestic product (GDP) in 2023, but this ultimately came to 5.4 points; the stability programme published in April 2024 forecast a deficit of 5.1 points in 2024, which in fact reached 5.8 points; the medium-term budgetary and structural plan (MTSP) published in October 2024 was based on a deficit forecast of 5.0 points of GDP in 2025, but this was revised to 5.4 points by the Finance Act adopted in February 2025. Instead of the steering of public finances being adjusted to meet national revenue, expenditure and deficit targets, it is these targets that are revised and postponed in the light of the results in order to ratify the latter.

This budgetary drift, despite the limited ambition of the objectives, owes nothing to external circumstances. It is the result of an inability to control spending dynamics and, even more so, to make lasting savings, as well as overly favourable assumptions about growth and revenues. On this last point, 2024 was a worrying year. While the slippage in 2023 called for structural reforms, the increase in "core" public spending – i.e. excluding the cost of debt and exceptional crisis spending – was the main factor in the widening of the deficit in 2024 and will show only a limited slowdown in 2025.

Above all, these two years of drift have led to a doubling of the adjustment efforts needed to bring the deficit back below 3 points of gross domestic product (GDP) (in line with our European obligations) by the end of the decade. These will now amount to almost €105bn by 2029, compared with pre-crisis levels of around €50bn two years ago.

The year 2025 will therefore be decisive in putting an end to this pattern of drifting public accounts. But there are already major risks surrounding this first milestone. Firstly, the outlook for growth is clouded by the threat of a trade war and geopolitical tensions. Secondly, the effort to reduce the deficit this year relies exclusively on over €20bn of tax increases, almost half of which are announced as temporary and of uncertain revenue. Finally, the targets for controlling expenditure, however ambitious they may be for local authorities and social security, still appear fragile and are not based on any significant structural savings.

The path outlined in the annual progress report (APR) of the medium-term structural plan (MTSP) published in April 2025 is just as fragile. Beyond the still optimistic growth assumptions, no details have been given on the nature of the underlying efforts, or even on their breakdown between savings and tax increases. This silence on the budgetary and fiscal choices underpinning the multiannual trajectory, including from 2026, will have to be resolved as part of the preparation of the Finance Bill for 2026.

It is therefore urgent and essential to make this trajectory credible.

While all the other highly indebted European countries – Greece, Portugal, Spain and Italy – have taken advantage of years of inflation to reduce their public debt ratios, France, whose deficit (in GDP points) is now the highest in the eurozone, is increasingly diverging.

In this respect, bringing the total public deficit back below 3% will not be enough. To ensure the sustainability of the public debt, the debt ratio must be stabilised and then reduced[1],

[1] The successive revisions to the deficit targets have already had a cumulative upward effect on public debt, whose target for 2025 has risen from 109.6 points of GDP in the LPFP to 116.2 points of GDP in the Annual Progress Report (APR).

which will require a return to a positive primary balance (i.e. excluding the cost of debt) in the long term, whereas it will be negative by 3.7 points of GDP in 2024. It is crucial to take the measure of the situation: all the alternative scenarios to the path proposed by the Government simulated by the *Cour des comptes*, which are based on the reproduction of past trends in public spending and on more cautious growth assumptions, result in an increase in the public debt ratio throughout the period 2025-2029, with the risk of it spiralling out of control.

Postponing these efforts is no longer an option, at a time when the cost of public debt has already doubled between 2020 and 2024 and is set to become the largest item of government expenditure by the end of the decade, ahead of education and defence. Any further year lost, by prolonging the rise in debt, would imply greater and more painful efforts in the future – particularly in the event of a new macroeconomic shock – or would even expose the country, in the event of sudden mistrust on the part of its creditors, to having to make sudden adjustments on an urgent basis that would be detrimental to growth potential and social cohesion.

An inability to contain public spending in 2024, leading to the highest deficit in the eurozone

The public deficit is set to rise to 5.8 points of GDP in 2024, up 0.4 points on 2023 and 1.4 points on the initial programme drawn up in autumn 2023. This new drift, after an already very bad year in 2023, is even more worrying.

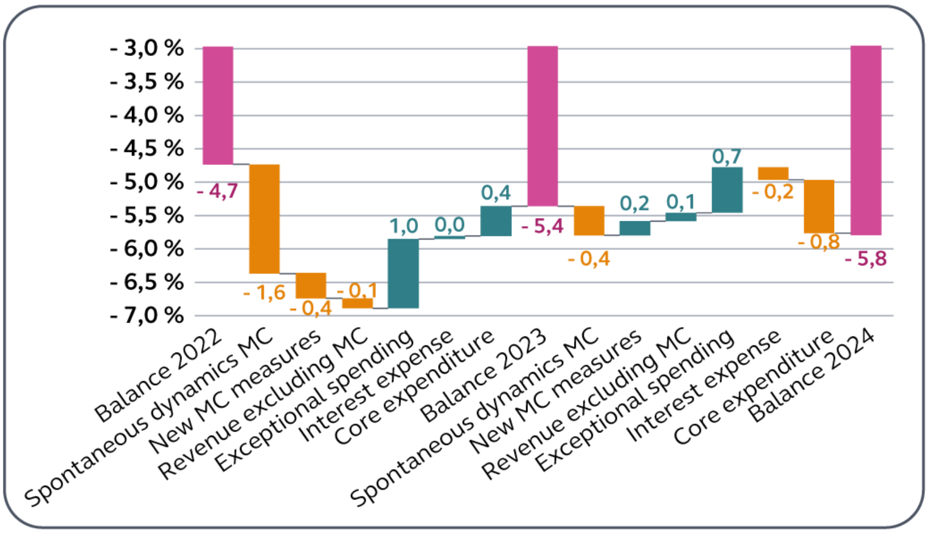
The main reason for this is a sharp rise in "core" public spending (i.e. public spending excluding the cost of debt and exceptional measures), which increased by 2.7% in volume terms, twice as fast as economic growth. It therefore contributed 0.8 points of GDP to the increase in the deficit. This loss of control is essentially attributable to local authority spending dynamics, which rose by 2.7% in volume terms, driven by investment, and even more so to that of the social security authorities, with growth of 3.3% in volume terms, including almost 4% in volume terms for social benefits due to the delayed revaluation of pensions on the back of very high inflation in 2023. This increase in expenditure cancelled out the +0.7 point favourable impact on the public balance of the virtual disappearance of the exceptional energy support measures.

At the same time, the cost of debt increased as a result of the 2023 deficit and the gradual refinancing of outstanding debt at higher rates, contributing 0.2 points of GDP to the deficit.

Lastly, the spontaneous growth (i.e. excluding new measures) in compulsory contributions was again weak in 2024 and well below growth, albeit to a lesser extent than in 2023. This sluggishness contributed 0.4 points of GDP to the deterioration in the deficit. This is due in particular to a fall in VAT, corporation tax and income tax receipts on a like-for-like basis, as well as the continuing fall in transfer duties.

The weakness in mandatory contribution receipts was, however, mitigated by tax increases, a departure from the decreases implemented since 2018. These increases, due in particular to the return of the domestic tax on the final consumption of electricity (TICFE) to its pre-crisis level, slowed the deterioration in the public balance by 0.2 points of GDP.

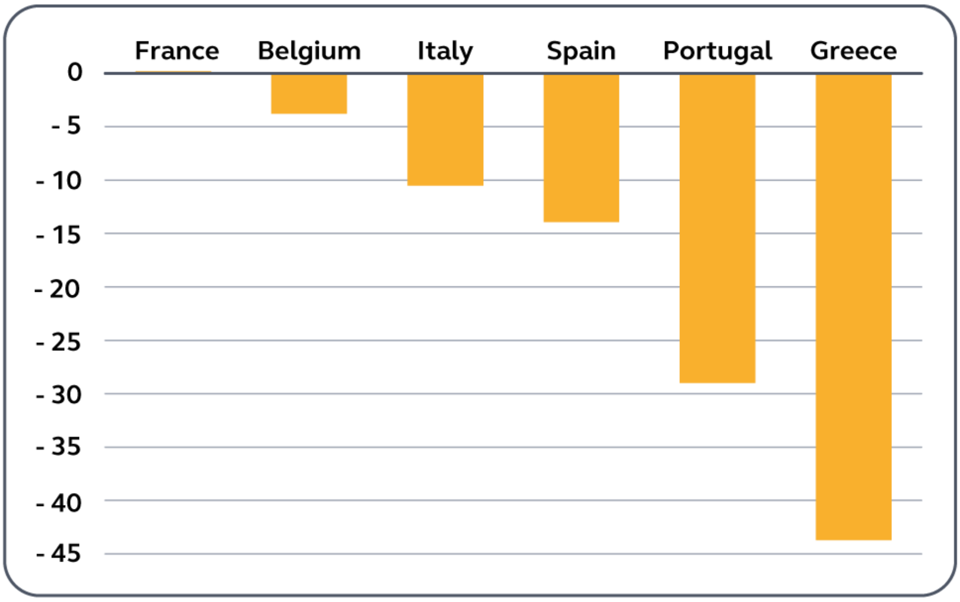
Contributions to the public balance over the period 2022-2024, in points of GDP



Source: Insee, Cour des comptes *restatements*

France is increasingly out of step with its European partners, and now has the highest deficit in the eurozone. The public debt ratio has risen for the first time since 2020, reaching 113.2 points of GDP, gradually moving away from a group of countries that have managed to maintain or reduce their debt to well below 110 points of GDP (Spain, Portugal, Belgium).

Change in the public debt ratio between 2021 and 2024 for the seven most indebted States in the eurozone (in points of GDP)



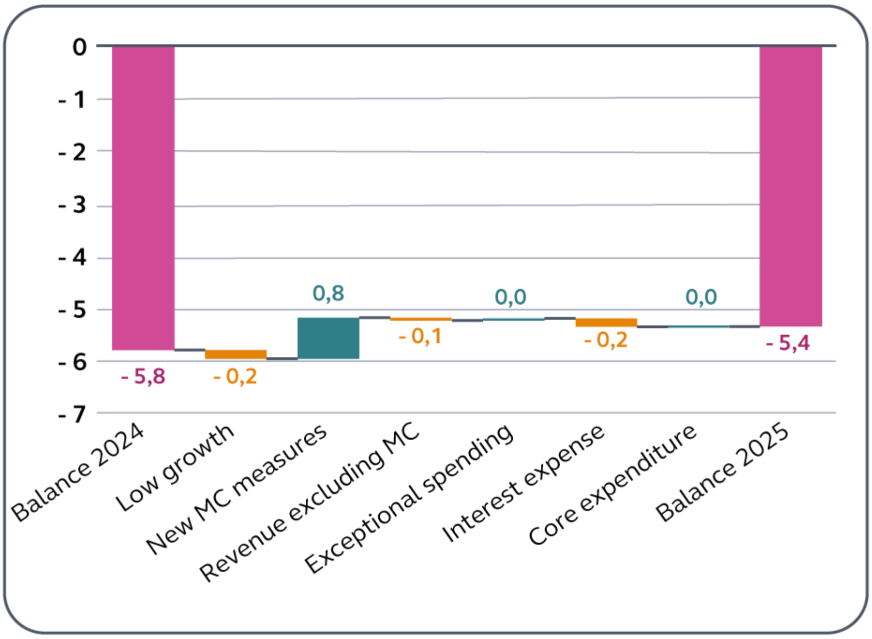
Source: Eurostat

A credible target for bringing the deficit back below 3%

The 0.4 point of GDP reduction in the deficit forecast for 2025, which would bring it to 0.6 points above the 2022 level and would not prevent a 3 point rise in the public debt ratio, still appears fragile. The threats to growth are tangible, particularly in the international arena.

The planned reduction in the deficit in 2025 is based exclusively on major tax increases, almost half of which are announced as temporary, and, beyond that, on revenue forecasts underpinned by less cautious assumptions than in the initial Finance Act. At the same time, the targets for public spending, which are already insufficient overall to reduce the deficit on their own, are uncertain for the local authorities in the absence of any real incentive or constraining mechanism, and for healthcare spending too, as demonstrated by the recent opinion of the Ondam alert committee. Controlling government spending, which is the mainstay of spending efforts, will require measures to manage appropriations in the absence of genuine long-term reforms.

Contributions to the forecast change in the public balance in 2025, in points of GDP

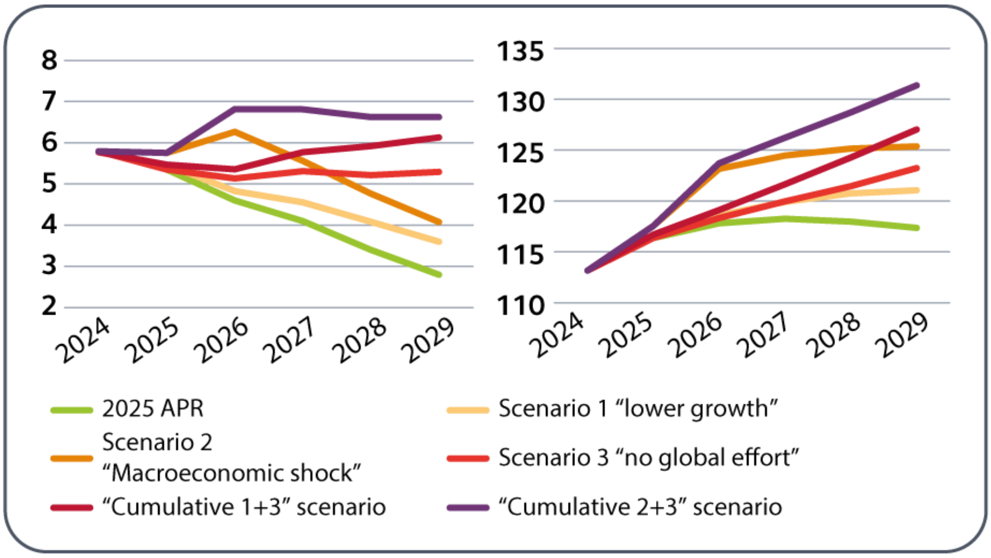


Source: Ministry of Economy and Finance, adjustments by The Cour des comptes

Structural savings efforts have therefore once again been postponed, and are not specified at all in the quite demanding multi-year trajectory published in April 2025. This trajectory, which assumes an adjustment effort of almost €105bn by 2029 to bring the deficit below 3% of GDP, even though increases in public spending are planned, particularly in defence, and to stabilise and then slightly reverse the trajectory of public debt, appears particularly fragile. This fragility is compounded by growth assumptions that are still optimistic for the 2026-2029 period, particularly given the scale of the efforts planned.

The *Cour des comptes* simulations, based on macroeconomic and public finance assumptions that are more in line with past trends and the identified risks, all point to a continued increase in the public debt ratio over the second half of the decade. The forecasts for 2025 and 2026 must therefore be made credible as a matter of urgency, given that no breakdown of efforts between taxes and spending on the one hand, and between the State, local authorities and social protection on the other, has yet been sketched out beyond 2025.

Scenarios for public deficit (left) and public debt (right), in points of GDP



Source: Ministry of Economy and Finance, adjustments by The Cour des comptes
Explanation: the "2025 APR" corresponds to the trajectory presented by the Government in April 2025. In relation to this trajectory, the first two scenarios modify the macroeconomic assumptions and the third modifies the assumptions for the public finance effort. Scenario 1 "lower growth" assumes real growth of 0.5% in 2025 and 1.0% per annum thereafter (compared with 0.7% in 2025 and 1.3% per annum on average over the period 2026-2029 in the Government's trajectory). Scenario 2 "macroeconomic shock" assumes zero growth in 2025, then a 1% recession in 2026, followed by a rebound in subsequent years. Scenario 3 "no overall effort" assumes that primary public spending will grow in volume terms at a rate similar to the pre-crisis trend. Finally, the aggregates of scenarios 1 and 3 on the one hand, and scenarios 2 and 3 on the other, are presented.

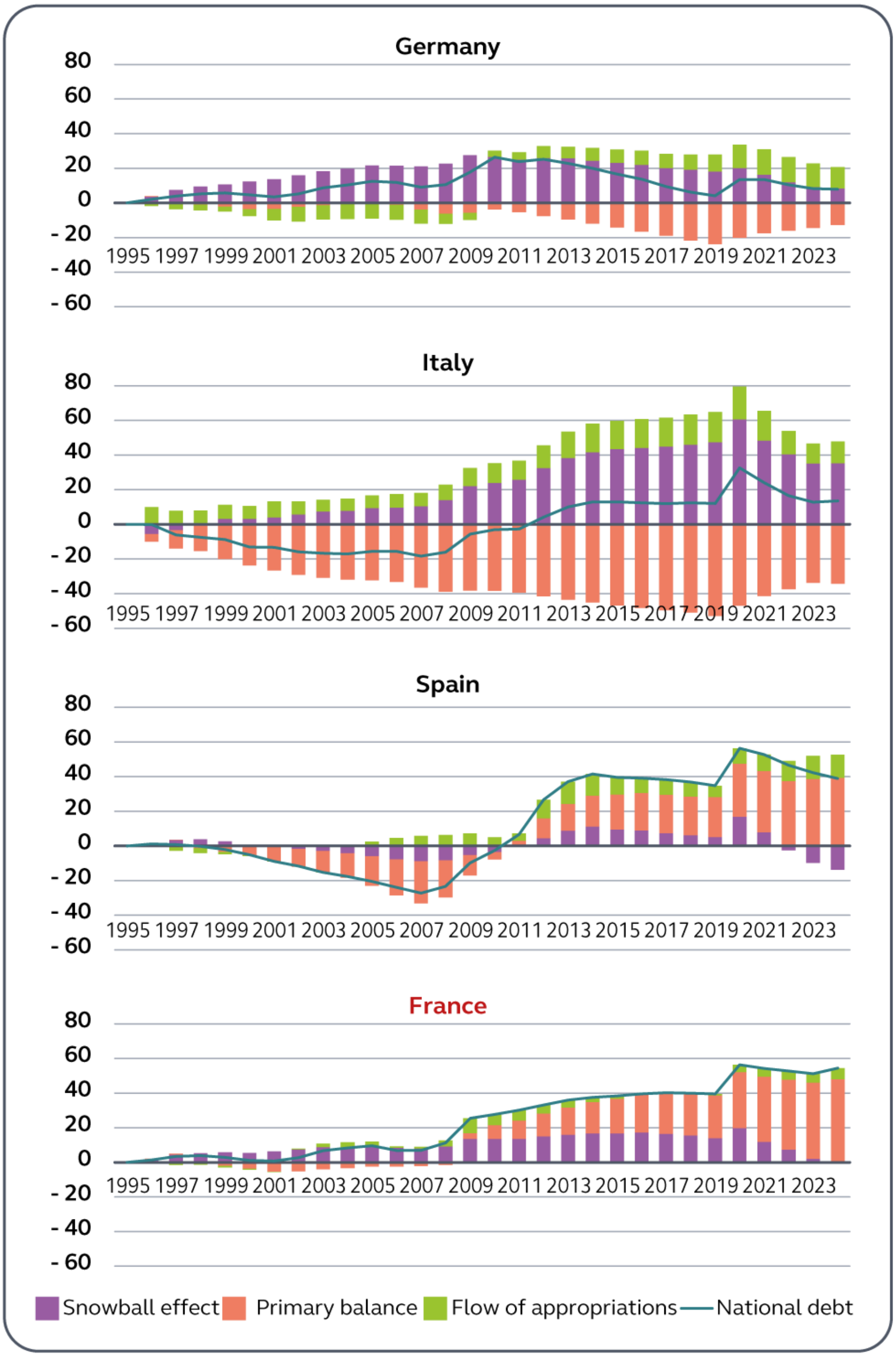
A sustainable return to a primary surplus, a necessary condition for the sustainability of public debt

In order to shed light on the challenges facing French public finances and to assess the risk associated with a further failure to reduce the public deficit in the long term, the *Cour des comptes* has included a chapter in this report devoted to the imperative of public debt sustainability.

The sustainability of public debt in the medium to long term implies at the very least that the debt ratio should stabilise and not increase continuously, even under potentially unfavourable macroeconomic assumptions.

However, for more than two decades, and unlike Germany and Italy in particular, the debt dynamic has been fuelled mainly by the accumulation of primary deficits, while growth has gradually eroded. Interest rates and market phenomena played a secondary role in this dynamic. In addition, the main counterpart to these growing deficits and debt has not been investment or forward-looking spending to increase future growth potential, but rather the financing of rising current expenditure, particularly linked to the national social model and the ageing of the population.

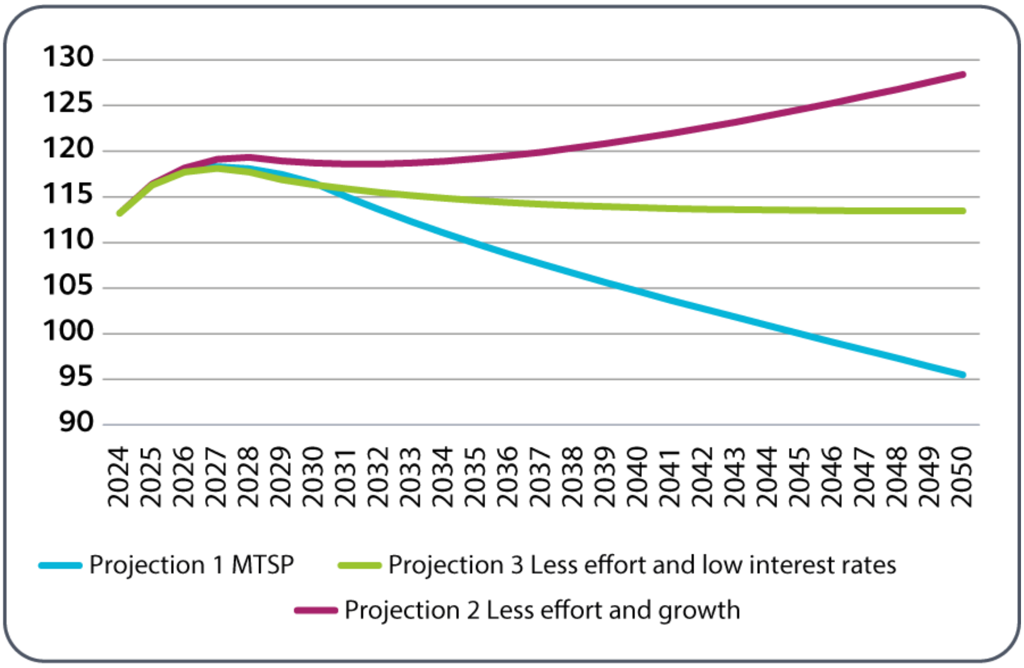
Contributions to the change in the debt ratio in the four main eurozone countries compared with its 1995 level, in points of GDP



Source: Eurostat, Cour des comptes *restatements*
Explanation: France has seen the biggest increase in its public debt ratio since 1995 (+54 points of GDP) among the four main countries in the eurozone, which can be explained almost exclusively by the accumulation of primary deficits from the 2000s onwards. Interest rates higher than growth pushed the ratio up ("snowball effect") until the mid-2010s. The impact of appropriation flows, which refer to financial transactions that have an impact on debt but are neutral on the deficit (e.g. share purchases), is negligible over the period.

This trend is unsustainable. The public finance strategy must regain control of the dynamics of the debt, in a context where it can no longer count on a return to the growth of the past decades or on very low interest rates. The *Cour des comptes* projections show that, given the burden of the debt and the increase in its cost, returning the public deficit to below 3 points of GDP in 2029, as France has undertaken to do, will not in itself be enough to guarantee the sustainability of the debt. To achieve this, it will be necessary to extend this effort until a sustainable primary surplus of around 1.1 points of GDP is reached, something the country has not managed to achieve for almost 25 years.

Projections of the public debt ratio under different assumptions to 2050



Source: Ministry of Economy and Finance, adjustments by The Cour des comptes
Explanation: Projection 1 "MTSP" corresponds to the path adopted by the Government in the Medium-Term Budgetary and Structural Plan (MTSP), updated on the basis of the Annual Progress Report (APR) and extended to 2050, with the assumption of an improvement in the primary public balance to a surplus of 1.8 points of GDP in 2031, stabilised at this level until 2050. Projection 2 "Less effort and growth" assumes that the primary public balance will recover and then stabilise at 0.4 points of GDP from 2029 and that growth will be lower than the trajectory adopted by the Government over the period 2025-2029 (see "Lower growth" scenario above). Projection 3 "Less effort and low interest rates" adopts a primary balance trajectory that is identical to projection 2 but with a lower 10-year interest rate assumption than that of the Government (3.0% compared with 3.7% in the MTSP), while retaining the growth assumptions of projection 1 MTSP.

Very demanding budgetary adjustments are therefore necessary now, to be made from 2026, as provided for in the MTSP. These adjustments will be all the more difficult because they must be socially acceptable and not undermine future growth potential, but they are essential if we are to ensure that our collective choices are consistent with the imperative of public debt sustainability.