Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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France's Debt Crisis Will Worsen with More Anti-Growth Policies

France is in the middle of a historic fiscal crisis, with huge deficits and public debt, increasing political division, and no agreement on how to bring stability back.

Sébastien Lecornu's arrival as the fourth prime minister in a year shows how serious and urgent the problem is, as France's public finances quickly get worse and governments always promise growth and deliver stagnation.

France’s problem is one of enormous taxes, a bloated government and anti-growth policies implemented by governments that reject any liberalisation measure.

France never had austerity, imposes the highest tax wedge of the OECD on businesses and families, and the size of government spending is so large that the economy has been in stagnation for decades.

French governments always use the easy option of imposing more taxes and hurting the economy because they refuse to cut bloated spending.

France’s public debt crisis

French public debt is now over €3.34 trillion, or about 114% of GDP. This is one of the highest levels in Europe and more than €1 trillion higher than when Emmanuel Macron took office in 2017.

This unprecedented rise in debt was caused by ten years of yearly deficits and no action to reduce government spending. In 2024, the fiscal deficit was 5.8% of GDP, and in 2025, it is officially aimed at 5.4%, still the largest in the eurozone.

These are not just short-term spikes; they are long-term imbalances. France has not balanced its budget since the 1970s, and in recent years, deficits have consistently gone over already generous targets.

> Rating agencies are warning that more downgrades are likely

Debt service is quickly becoming impossible to handle. Interest payments are expected to jump from €59 billion in 2024 to more than €100 billion by 2029, which could mean that all discretionary spending must be erased.

After several credit downgrades, the cost of borrowing has also gone up. Rating agencies are warning that more downgrades are likely because of a political deadlock and a lack of credible plans for fixing the problem.

Two options on the table

French citizens are offered two options: continue overspending and increase taxes or higher spending and raise taxes. Governments seem to ignore all pro-growth supply-side strategies because of the perverse incentives created in the public sector over three decades.

France's problems go beyond just slow growth or poor fiscal policies. France's public spending as a share of GDP is still at record levels, and efforts to cut the deficit are always symbolic.

Even though tax revenues went up again in 2024–2025, spending kept going up faster than they did, thanks to unsustainable subsidies and healthcare costs. Macron's pension reform was timid and did not solve the structural deficits it creates, and still it led to huge protests and political opposition.

> The ongoing deficit will cause public debt to rise to nearly 117% of GDP in the next few years

The French economy remains in stagnation, which makes the structural outlook more complicated and makes it harder for the country to "grow out" of debt, especially because governments continue to implement anti-growth policies designed to calm unions but erase investment growth.

Additionally, as interest rates are rising, the placebo effect of cheap borrowing is going away. This means that more of the budget must go towards paying off debt.

The ongoing deficit will cause public debt to rise to nearly 117% of GDP in the next few years, and refusal to cut excessive spending will make it even more difficult to face a slowdown.

A controversial wealth tax proposal

The debt crisis has caused political chaos. Macron's government has fallen apart several times because of failed budget votes and minimal spending cuts. Three prime ministers have been removed in just one year.

The early parliamentary elections in July 2024 led to a divided assembly, which meant that no one fiscal plan had a clear majority. Unions are threatening general strikes, and left-wing opposition parties are saying they will try to bring down the government if it makes any more cuts.

> If raising taxes was the solution for France, it would have solved its debt problem years ago

The new Prime Minister, Sébastien Lecornu, quickly reversed any spending cuts. Instead, he chose small symbolic savings by cutting ex-minister benefits, which had only a minuscule effect on the budget.

So, what he proposed was more of the same: more taxes. The latest and controversial proposal is a new 2% annual wealth tax on people with more than €100 million in assets.

Left-wing economists think this could bring in €15–20 billion a year, but the evidence of past similar examples is that the revenues are small and the negative impact on the economy is significant. Experts say that actual receipts could be as low as €5 billion or smaller, and rich entrepreneurs and investors will leave.

This latest proposal of confiscatory taxation will hurt growth and job creation even more. If raising taxes was the solution for France, it would have solved its debt problem years ago.

Avoiding the easy route of higher taxes

The Medium-Term Fiscal Structural Plan (MTFSP) promises to bring the deficit down to less than 3% of GDP by 2029. Yes, by 2029. This obviously is another kick of the can and will obviously fail.

In fact, even this non-existent adjustment implementation is already in danger. The promised adjustment measures were pushed back to 2026 and beyond because of missed budget deadlines in early 2025.

The new government of Lecornu needs to avoid the easy route of higher taxes - Daniel Lacalle

There is no credibility. The entire adjustment depends on an optimistic increase in tax collection and vague promises to maybe cut spending in the future, both of which will not happen in a parliament that doesn't like government spending cuts and a stagnant economy that already damaged its investment and job creation potential years ago.

No sensible investor believes the French government will support its battered businesses and job creators. France is still subject to the EU's "excessive deficit procedure," which means it could get more downgrades that would make borrowing even more expensive.

France's fiscal issues are now structural and existential. Wealth taxes and other solutions are politically motivated mistakes and will not restore solvency, and no party currently has the parliamentary power or public support needed for the required reforms.

Meanwhile, other countries in Europe are implementing the same interventionist policies that led France to stagnation and a debt crisis.

The new government of Lecornu needs to avoid the easy route of higher taxes because the damage to the already crippled productive economy will be enormous.

The solution for France is to listen to businesses and job creators. Repeating the same mistakes of keeping high spending and raising taxes will only destroy the French economy.