Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

By: Daniel Lacalle

Mélenchon wants part of France's debt cancelled – to borrow even more

A write-off is not a gift. It is the official recognition that the issuer cannot pay.

Jean-Luc Mélenchon has found the perfect campaign promise, one that appears cost-free. The France Unbowed leader wants the roughly 18% of French public debt on the balance sheet of the Banque de France, purchased on behalf of the Eurosystem, to be simply erased.

"All we have to do is take the 18% held by the Bank of France and chuck it in the fire," he said. That is close to €600 billion.

Elsewhere, he softened this to putting state debts "in the freezer, starting with the Covid period". Either way, it is sold as a mere accounting entry, an irrelevant move of numbers.

Furthermore, the stated purpose of erasing part of the debt is to spend more. Cancel the debt to borrow more again. Fascinating.

The internal contradiction invalidates the proposal before any legal argument is needed. If, as the defenders of unlimited public spending insist, deficits do not matter and rising debt is harmless because it creates reserves, why cancel it? If France's solvency is not in question, why ask for forgiveness?

Nobody cancels what they can pay. Debt relief is not a gift. It is evidence that the issuer is not solvent or reliable, and it destroys access to current and future financing.

The cancellation is only the entry point. The Mélenchon programme also demands that the ECB convert the sovereign bonds it holds into perpetual zero-coupon debt, buy government paper directly without going through private banks, grant states an overdraft facility with the central bank, and run a "citizens' audit" to decide which part of the debt is "illegitimate" and should be restructured.

Stripped of the slogans, that amounts to permanent direct monetisation of any and all public spending, with no limits and no differentiation.

It is the Kirchner Argentine model, the Venezuela way, the Chile hyperinflation debacle, the collapse of dozens of state-issued currencies. Every single example of direct monetisation has shown that it leads to a destroyed currency and chronic inflation.

The same people who complain about persistent inflation caused by years of public spending plans and central bank easing are demanding even more. Ludicrous.

'Fraud in its purest form'

The proposal is illegal in any case. Article 123 of the Treaty on the Functioning of the European Union prohibits the ECB and national central banks from granting overdraft facilities or any other type of credit facility to public authorities or EU bodies, as well as from directly monetising debt. It also bans buying debt instruments directly from them.

There is a very clear reason for this ban: euro area nations have suffered the disastrous inflationary effects of “printing money for the people” on numerous occasions in the past decades.

Even if it were legal, the operation achieves nothing. Olivier Blanchard, former IMF chief economist, has pointed out that the net effect is zero. The Treasury saves the interest on those bonds but loses exactly the same amount in central bank profits remitted to the state.

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What changes is not the fiscal position but the balance sheet of the central bank. Cancelling €600 billion of assets would blow a hole in the Banque de France, which needed an €8.1 billion profit in 2025 just to clear the €7.7 billion loss carried forward from 2024.

The recapitalisation bill would fall on the taxpayer. François Villeroy de Galhau, the former governor, was blunt: cancelling the bonds on the central bank's books would force France to give up the euro and saddle the taxpayer with the loss.

Prime Minister Sébastien Lecornu called Mélenchon’s proposal as "fraud in its purest form" and asked the only question that matters: if France, which must raise €310 billion this year, reneges on its own signature, who would lend to it, and at what rate?

Suffocation under debt

This is not a theoretical debate in a country with fiscal room. French public debt reached €3.536 trillion, or 117.6% of GDP, in the first quarter of 2026, the third-highest ratio in the European Union.

The Cour des Comptes expects debt to hit around 118.5% of GDP and exceed €3.6 trillion this year, with interest payments of roughly €77.4 billion, and has concluded that "suffocation under debt is not a risk, it is a reality of our public finances".

An expert report commissioned by the government itself projects the deficit widening from 5% of GDP to nearly 7% by 2030 and debt rising above 130%, with interest costs climbing from €78 billion to €124 billion, absent €126 billion of consolidation.

> Markets are already pricing in political risk

Markets are already pricing in political risk. The ten-year OAT yields around 4.3%, some 0.87 points more than a year ago, and the spread over the German Bund has widened to roughly 85–88 basis points, close to its widest level since the 2012 crisis.

France has been downgraded three times in under two years and now sits at A+.

In such a challenging environment, a front-running candidate proposes to demonstrate that French bonds held by the Eurosystem are not high-quality collateral but junk that can be burned.

If the ECB removed what is supposed to be the safest asset on its balance sheet, what would investors conclude it is holding? And does anyone really believe a "one-off" cancellation would not be demanded again two years later?

Debt is a symptom, big government is the disease

Debt is a symptom. Big government is the disease. France spent 57.5% of GDP through the public sector in 2025, the highest level in the euro area, according to the IMF, and regained the European spending crown with 57.3% of GDP in early 2026.

The tax burden, at about 43.5% of GDP, is the heaviest in the EU. The return on that colossal fiscal effort is stagnation. France’s GDP growth was 0.0% in the second quarter of 2026, unemployment was back up to 8.3%, and inflation stood at 2.4%.

France does not have a revenue problem. France has excellent human capital, great entrepreneurs, innovative businesses and strong financial capital.

However, it has a spending, competitiveness and productivity problem, and every attempt to fix it with higher taxes has crippled the private sector that must pay for the state.

On top of the recorded debt sit mounting, unfunded commitments. Social spending of around 31% of GDP is the highest in the OECD, pensions are largely pay-as-you-go, with automatically indexed benefits that the government's own economists say must be revisited, and accrued pension entitlements do not even appear in the Maastricht debt figures. Defence and interest costs are rising simultaneously.

Mélenchon's proposal would devastate the situation of those he claims to defend - Daniel Lacalle

Cancelling €600 billion changes none of this. The deficit keeps widening, the structural gap keeps compounding, and soon the debt ratio is back where it started, except that the country has proven to the world that it does not honour its obligations.

Debt restructurings are real. Greece obtained relief, but in exchange for a forceful programme of reforms and budget cuts designed to restore a primary surplus.

What has never existed anywhere is a write-off granted in exchange for spending more and borrowing even more. A reduction solves nothing while spending and the deficit run wild, and any restructuring of Eurosystem-held debt would entail far deeper cuts than the ones French politicians refuse to make today.

Debt is not just a number on a spreadsheet. It is a contract whose value rests on the credibility of the issuer and on the savings of citizens, present and future. It is the credibility of the issuer that keeps the currency stable.

The euro is the only global reserve currency with redenomination risk, and its credibility survives only because the eurozone is assumed to be committed to repaying what it owes.

Mélenchon is not offering France relief. He is offering emerging-market financing conditions and the destruction of the currency.

Mélenchon's proposal would devastate the situation of those he claims to defend, as workers and families would see their wages and savings disappear, while borrowing costs and inflation soared.

This is not a hypothetical assumption; it is the history of France with the Assignats, and it would mean the end of the euro as a reserve currency.