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France's public debt crisis: Time to restructure?

Corrado Andini¹, Ricardo Cabral² and Francisco Louçã³

Abstract

To the best of the authors' knowledge, this study is the first to propose a sovereign debt restructuring for contemporary France. It shows how France could gain meaningful fiscal space through a sovereign debt reprofiling, arguing it is a warranted solution to France's current fiscal, economic, and social challenges. Such a debt workout would lower the present value of France's public debt from 113.5% to 64.3% of GDP while halving the country's problematic net external debt. It would place France on a trajectory toward compliance with the Maastricht's deficit and debt criteria. The paper further shows how a debt workout could be initiated and managed by France without reliance on external funding. Finally, it contends that a sovereign debt restructuring is an essential tool for any future progressive government seeking to operate within the Maastricht's framework, thereby pursuing its fiscal priorities without provoking a direct breach of current fiscal rules.

JEL Classification: H63

Keywords: debt sustainability, debt restructuring, sovereign default, doom loop

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1. Introduction

In March 2025, the European Commission (EC, 2025a) projected France's public debt (following the Maastricht definition) as being on track to reach 142.5% of GDP by 2035, from 115.3% of GDP in 2025. In the European Union (EU), this was second only to the forecast for Italy's public debt (156.9% of GDP by 2035, from 138.2% of GDP in 2025).

Given size and trajectory of France's public debt, together with budget deficits larger than 3% of GDP in the recent past, on recommendation by the EC, the European Council put France under the corrective arm of the Excessive Deficit Procedure (EDP) of the EU in July 2024. This occurred after the end of the COVID-19 era suspension of the European fiscal rules, through the activation of the so-called "escape clause".

A comprehensive reform of the European fiscal rules was adopted in February 2024 and entered into force shortly thereafter, in April 2024. It required the full implementation of the new framework, including national medium-term fiscal structural plans, starting for budgets from 2025 onwards. Consequently, in October 2024, France submitted its structural plan which was endorsed by the Council in January 2025.

In February 2025, the French government pushed through a large fiscal consolidation package (€50 billion, 1.7% of GDP), invoking Article 49.3 of the French constitution, in order to bypass a parliamentary vote. Despite a majority in parliament, the opposition failed to muster a no-confidence vote and the consolidation package was not revoked.

Yet, the inclusion of the package in the 2025 budget did not help much. And, in late August 2025, a piece titled "France may need IMF bailout, warns finance minister" appeared in the international press (The Telegraph). Indeed, in November 2025, France's budget deficit for 2025 was projected (EC, 2025b) to be significantly higher than that of Italy (5.5% vs. 3% of GDP). And, France's yield curve was already above Italy's across several maturities (see Figure 1).

On current trends, both Italian and French annual implicit interest rates on the respective stocks of public debt will soon surpass annual nominal growth rates. Yet, unlike Italy, France has consistently registered primary budget deficits in the last decade. These deficits have markedly deteriorated in recent years, and France's public debt ratio has steadily increased (see Figure 2).

- Figure 1 about here –
- Figure 2 about here –

The size of the French public debt and its trajectory motivate this paper's research questions: Given France's fiscal imbalances, should the French sovereign debt be restructured? And, if so, how could a restructuring be done?

Ours is, to the best of our knowledge, the first academic paper to investigate the possibility of restructuring of present-day France's public debt and to describe how the debt workout could look like.

Explicit calls for restructuring the French debt have been rare because, at least until July 2025, France was still viewed as a low-risk borrower (IMF, 2025a). Particularly in the context of the low interest rates set by the European Central Bank (ECB) between 2019 and 2022, many observers saw France's debt as sustainable and believed that the French government had fiscal space (Blanchard, 2019; Ragot, 2021).

This dearth of literature on restructuring France's sovereign debt is somehow surprising given that the issue has been often investigated for the case of Italy, which is projected by the EC to have an only marginally higher public debt than France by 2035.

For example, Galli (2019) acknowledged Italy's sustainability risks but argued against restructuring measures due to systemic risks. The IMF (2025b) considered Italy's sustainability risks as moderate, noting various mitigating factors but pointing out the absence of Italy's fiscal

space. Several other studies suggested instead that Italy's debt should be viewed as unsustainable and should be restructured, proposing various approaches to debt workouts (Edelen et al., 2012; Panizza, 2014; Harrington et al., 2019; Cervantes et al., 2020).

While no academic paper has explicitly dealt with why and how to restructure the French public debt, the issue has not been ignored by the French political and academic circles. For instance, Piketty (2014a) noted that France already benefited at least thrice in the past from forms of debt restructuring — through inflation, *de facto* default, and haircuts. He even argued that France's post-WWII growth would have not been possible without a clean slating of the preexisting stock of public debt (Piketty, 2019).

In addition, Piketty occasionally endorsed sovereign debt restructuring proposals — notably participating in the joint-advocacy for the 2012 Greek debt relief (Andor et al., 2015) and for the cancellation of public debt held by the ECB (Piketty et al., 2021). Yet, his prevailing theoretical preference has been consistently more supportive of progressive wealth taxation or public debt mutualization at the EU level rather than of sovereign debt restructuring or debt cancellation policies (Piketty, 2014a, 2014b, 2019).

On the same side of Piketty, Toussaint (2019) went further and supported the cancellation of unsustainable debts, following the example of Ecuador. Other authors went even further and advocated the exit of France from the Euro Area (EA), seen as responsible for the poor economic performance of the French economy (e.g. Sapir, 2012).

On the other side of the French debate, Ragot (2021) explicitly argued against default or debt cancellation scenarios, which he saw as harmful due to the loss of confidence they could engender. Analogously, Blanchard (2024) criticized France's inability to achieve fiscal consolidation, suggesting that, over time, the French government should improve the primary budget balance by 4% of GDP, around €120 billion. He did not even contemplate debt restructuring as a viable policy option arguing that France's failure to adopt appropriate budget measures may even lead to a financial crisis (Leali, 2025).

As a matter of fact, the academic debate on sovereign debt restructuring is lively at international level. For instance, the IMF (2013, 2021, 2024) noted that several sovereign debt restructurings occurred too late and represented too little debt alleviation, with detrimental effects for economic development and even for fiscal consolidation programs (Reinhart et al., 2003; Reinhart and Trebesch, 2016; IMF, 2010, 2023; Gelpern and Powell, 2023; Grund et al., 2025). Zettelmeyer et al. (2013) underlined the importance of the 2012 Greece's sovereign debt restructuring and its implications for the recovery of the Greek economy. Togo et al. (2025) emphasized how debt restructurings have been used in the past to aid developing countries that were burdened by unsustainable levels of external debt. Finally, Asonuma and Trebesch (2016), Horn et al. (2022), and Asonuma et al. (2023) noted the sheer number of sovereign debt restructurings that occurred between 1970 and 2021 — nearly 1000 —, signaling that sovereign debt workout should be viewed as a useful policy instrument, even though to some extent traumatic (Asonuma et al., 2024).

Our contribution is twofold. First, we argue that France's public debt and net external debt are very high and should be restructured on political, economic, and social grounds. Second, we show how France's sovereign debt restructuring could be done.

We propose a sovereign debt reprofiling (IMF, 2013, 2024; Buchheit et al., 2015) that would reduce the present value of France's public debt (Maastricht definition) to 64.3% of GDP. We show that this debt workout could be implemented unilaterally by a (new) French government without recourse to any external loans. We further show that the proposed debt workout would put France's public debt on a declining trajectory. The proposed sovereign debt would allow France to maintain the budget deficit well under 3% of GDP as well as to reduce by more than 50% its net external debt, without needing to adopt what we see as unreasonable and unsustainable restrictive fiscal policies.

In sum, we argue that the restructuring of France’s sovereign debt is a policy instrument that should be seriously considered by the French authorities (Heinemann, 2021), abandoning more than two decades of failed efforts to bring the public debt ratio under control through fiscal austerity strategies.¹

Our paper is structured as follows. Section 2 presents the context and the financial position of France. Section 3 discusses why France should restructure its sovereign debt. Section 4 summarizes the data used for our case analysis. Section 5 presents a debt restructuring proposal for France that reduces the present value of its public debt (Maastricht definition) to 64.3% of GDP through sovereign debt reprofiling. It also summarizes how France could arbitrage the difference in discount rates between the sovereign debt holder and the creditors to offer a menu of debt exchange options. Finally, it develops a post-restructuring debt sustainability analysis that shows why France would gain significant fiscal space. Section 6 discusses risks and limitations of the proposed approach. Section 7 concludes.

2. Financial position

The adopted measure of public debt in the EU — the so-called gross consolidated public debt according to the Maastricht definition — has the virtue of defining a standard that facilitates comparisons of public indebtedness among EU member states. However, as with any alternative indicators of public debt, it presents only a partial view of a government’s financial position (Ragot, 2021). Thus, to investigate the case for a possible restructuring of France’s public debt and to explain why France’s renewed push for a fiscal austerity strategy is unlikely to sustainably reduce its public debt, it is necessary to consider in more detail the financial position of the French government and economy.

– Table 1 about here –

As Table 1 shows, at the end of 2025, France’s gross consolidated debt (Maastricht definition) amounts to €3,473 billion (116% of GDP). Its negotiable debt, namely short-term debt securities (“Bons du Trésor” or BTFs, 7.5% of total) as well as medium- and long-term bonds (“Obligations assimilables du Trésor” or OATs, 92.5% of total), amounts to €2,774 billion (92.7% of GDP). Its gross non-consolidated debt (our definition), including debt of general government subsectors, amounts to €4,162 billion (139% of GDP).

Besides the above numbers, there are additional nuances regarding France’s public debt and economy that should be noted. First, we estimate the differential between the implicit interest rate and the economy’s growth rate as being positive by 0.10 p.p. since France’s adoption of the euro² — i.e., between the end of 1998 and the end of 2025 —, that is, marginally unfavorable to France’s public debt dynamics (Blanchard, 2019; Debrun et al., 2019).

¹ Critics to our position might argue that France never adopted a “fiscal austerity strategy”, pointing out its inability to achieve primary balance surpluses since 2002. So, it is important to clarify what we mean by “fiscal austerity strategy”. We mean government policies of announcing and implementing multi-year fiscal consolidation plans. In fact, in the last two decades or so, virtually all French governments announced multi-year fiscal consolidation plans and their stability programs, submitted to the EU, promised ambitious primary balance improvements. As a result, unpopular structural reforms and budget policies were pushed through, including raising retirement age, tax increases, and expenditure cuts. Moreover, France was put under the corrective or preventive arm of European fiscal rules in most years between 2003 and 2026. Glencross (2018) described this process as “institutionalized austerity”, specifically referring to the France’s fiscal policy during Francois Hollande’s presidency between 2012 and 2017. In practice, the only exception to Glencross’s “institutionalized austerity” was the period between 2020 and 2023, when the European fiscal rules were suspended through the activation of the so-called “escape clause”.

² In this period, the average nominal implicit interest rate and the average nominal growth rate were 3.13% and 3.03%, respectively.

Second, in the context of its non-conventional monetary policy operations — specifically, the Public Securities Purchase Programme (PSPP) and the Pandemic Emergency Purchase Programme (PEPP) —, the Eurosystem holds French negotiable bonds (OATs) valued at an amortised cost of €665 billion (25.9% of total outstanding OATs) at the end of 2025, most of which are held by the Banque de France (BdF) at its own risk, according to PSPP and PEPP rules.

Third, we estimate that Agence France Trésor (AFT) holds deposits and liquid financial assets of approximately €240 billion (8% of GDP).

Fourth, the BdF holds a portfolio of EA debt securities not related to the implementation of monetary policy, including Employee Reserve Funds, a part of which are likely French medium- and long-term sovereign debt securities. As the BdF does not publish detailed information of its holdings of France's sovereign debt securities, we estimate the BdF's holdings of negotiable bonds issued by France's AFT at approximately €630 billion at the end of 2025 (approximately 25% of total outstanding OATs, or 21.4% of GDP).

Fifth, France still has one of the largest (if not the largest) state-owned enterprise sector among the EU member states. France's equity shareholdings are valued in its national net worth accounts at €678 billion at the end of 2024.

Finally, the BdF holds 2,436 tons of France's fine gold, valued at €197 billion on 31 December 2024 using the reference prices indicated by the ECB, i.e., 80,733 € per kilogram of fine gold (BdF, 2025).

Thus, if BdF holdings are included in the perimeter of consolidation, France's public debt held by the resident private sector and the rest of the world is significantly lower than the headline gross consolidated public debt (Maastricht definition), amounting to €2,843 billion ($\approx$ €3,473 billion – €630 billion) or 95% of GDP at the end of 2025. In addition, France's international reserves and financial assets are valued at more than €1,100 € billion ($\approx$ €240 billion + €678 billion + €197 billion) and could in theory be sold to reduce France's public debt.

It follows that some observers might take issue with our position, arguing that France's public debt is not excessive and should not be restructured, given the financial options that are in theory available to the French government. As a matter of example, such observers might propose an aggressive plan of privatizations.

We challenge such conclusions. Indeed, most indicators present France's financial position and public debt levels under a much less favorable light, and this is why the alternative strategy of sovereign debt restructuring is suggested in this work.

To begin with, in the last twenty years, France experienced reiterated non-compliance with European fiscal rules and rising public debt ratios. France's official budget deficit has been, on average, 4.6% of GDP between 2002 and 2025, much larger than the 3% of GDP threshold set by the European fiscal rules. France's fiscal budget deficit has been equal or below 3% of GDP (but above 2% of GDP) in only four years in the recent past (2006, 2007, 2018, and 2019). Meanwhile, its gross consolidated public debt (Maastricht definition) increased from 61.2% of GDP in 2002 to 116% of GDP at the end of 2025 (see Figure 2).

Further, at the end of the second quarter of 2025, France had a negative net international investment position of 27.3% of GDP (see Table 1). And, its gross external debt was high, at 259.6% of GDP (see Table 1), when compared with other economies' ratios as reported by either Reinhart et al. (2003) or Manasse and Roubini (2009). Last but not least, France's net external debt was very high, at 42.3% of GDP (see Table 1), when compared with the "tipping point" estimated by Catão and Milesi-Ferreti (2014), namely 35% of GDP, beyond which the authors warned for an increased risk of countries' external crises (defined as defaults, debt restructurings or IMF-led bailouts). Interestingly, the foreign position's deterioration of the French economy accelerated in the last decade (see Figure 3 and Figure 4).

Moreover, at the end of 2024, France's banking sector gross external debt was very high, at 137.7% of GDP, with 64% represented by foreign deposits or 88.1% of GDP (see Table 1).

Finally, despite an approximately balanced current account (−0.6% of GDP), France's goods trade deficit has been 2.2% of GDP on average between 2007 and 2024 (Eurostat, 2026). Indeed, several of the major France's industrial goods' sectors have been facing increased competition from Germany, China, and other Southeast Asia economies.

3. Grounds for intervention

The sum of the above considerations clearly calls for intervention. Unfortunately, the available evidence (IMF, 2010, 2023) shows that fiscal austerity policies would represent a drag on economic growth and would prevent the French government from adopting more expansionary fiscal policies, such as infrastructure spending, aimed at reducing import dependence while raising international competitiveness and economic growth.

Given France's fiscal imbalances, it is necessary to identify policy instruments that represent a viable alternative to the “new Washington consensus” policies that have been widely adopted, unsuccessfully, by center-left and center-right governments of EA member states in the past decades (Rodrik, 2002). That is, a progressive government wishing to adopt a more expansionary fiscal policy within the context of the EA framework must consider an alternative policy instrument that provides fiscal space in the short term. Further, this policy instrument must be relatively sovereign in the sense of not relying on the support of external actors, be them the markets or EU partners. We will show how public debt restructuring could allow a new government to implement progressive fiscal policies, within the context of the EU-EA framework and related fiscal rules.

We believe that France's public debt should be restructured on the following political, economic, and social grounds:

- (1) On political grounds, a potential electoral shift towards more progressive political forces must allow the adoption of economic policies that represent a break from the austerity strategy of recent decades (Andini and Cabral, 2012). That is, a progressive government with a fresh electoral mandate should be able to adopt progressive economic policies in the context of its 4-year electoral cycle. Progressive economic policies must be capable of showing results to a wide segment of the population in the short term, implying the existence of fiscal capacity, particularly in the context of independent monetary policy and the lack of last-resort lending in the EA. In the case of France, progressive policies are only feasible if the austerity strategy of the last two decades is abandoned, while some fiscal capacity is made available in the very short term, i.e., less than two years. Public debt reprofiling is a policy instrument that fulfills the above requirements.
- (2) On economic grounds, various arguments can be put forward. First, the fiscal austerity strategy (see footnote 1) has failed to reduce public debt ratios and has weakened economic growth (Andini and Cabral, 2012; IMF, 2010, 2023). Second, France's public and net external debt levels are very high, and there are growing doubts about France's debt sustainability. Third, France's growth has accelerated in the past after episodes of public debt reduction (Piketty, 2014a; 2019). And finally, France growth prospects would likely improve by using fiscal capacity to adopt pro-growth policies, such as to increase infrastructure investment aimed at import substitution.
- (3) On social grounds, the percentage of people in poverty in France has grown between 2007 and 2023, reaching a peak of 15.4% or approximately 9 million people. Inequality has increased. The fiscal austerity strategy that would be required to significantly reduce France's

public debt ratio or merely stabilize it — should it be successful in achieving recurring primary budget surpluses of at least 1% of GDP (as suggested by Blanchard, 2024) — would dramatically aggravate social conditions in France. In addition, clearly, we believe it is questionable whether such a policy approach would succeed in achieving the desired budget outcomes, given the past failure to do so.

An ambitious restructuring of France’s public debt, achieved exclusively through public debt reprofiling (Edelen et al., 2012; Buchheit et al., 2015; Cervantes et al., 2020; Andini et al., 2026b), would leave France with some fiscal space to adopt less restrictive fiscal policies.

Moreover, it would be a policy option which, in contrast with other suggested alternatives, would allow France to rapidly reduce its net external debt from its current very high levels.

Our proposed public debt reprofiling would improve the present value of France’s net international investment position by 22.9 p.p. to -4.4% of GDP (see Table 1), balancing its net international financial position, while more than halving the present value of France’s net external debt to 19.3% of GDP (see Table 1).

4. Data

Our main data sources are the Banque de France (BdF), the Institut National de la Statistique et des Études Économiques (INSEE), the Agence France Trésor (AFT), the European Commission (EC) and the Eurostat.

We use BdF data on France’s net international investment position as well as gross and net external debt levels. We use EC and INSEE data, including EDP data, on the budget deficit, primary budget deficit, and gross consolidated public debt (Maastricht definition). We also use INSEE data on France’s national net worth accounts to estimate France’s gross non-consolidated public debt. We use BdF data to estimate the aggregated monetary financial institutions’ balance sheet components and gross external debt. We use AFT data on French short-term debt securities (BTFs) as well as on medium- and long-term bonds (OATs) to estimate the present value of pre- and post-restructuring tradable public debt. In particular, the AFT data play a key role for the estimation of the effects of the proposed public debt reprofiling (see Section 5).

Unless otherwise stated, we use December 2025 data either published by authorities or estimated on the basis on the most recent published data.

5. Public debt reprofiling

In this Section, we show how to restructure France’s public debt. In addition, we propose both a debt relief sensitivity analysis and an evaluation of post-restructuring debt sustainability.

5.1. Debt exchange offer without menu options

Nearly all of France’s public debt is governed by French law and jurisdiction. Thus, following a seminal proposal by Buchheit and Gulati (2010), we argue that the preferred approach to restructure France’s public debt is through changes in domestic law, even after the introduction in the EU, and in France by extension, of standardized Collective Action Clauses — called euro-CACs — in 2013.

These clauses require voting majorities or super-majorities to change debt contracts' reserved matters, namely payment terms.³

The euro-CACs are often seen as limiting the ability of the member states to unilaterally restructure sovereign debt contracts based on local law and jurisdiction (Gelpern and Gulati, 2013; Andini et al., 2026b). However, as argued by Weidemaier (2019), the euro-CACs are but feeble attempts to contractually restrict the theoretically unbounded limits of sovereign law making. Thus, following Weidemaier (2019), we will assume that it would be feasible to restructure France's public debt through changes in domestic law (Buchheit and Gulati, 2010), discussing risks and limitations of the approach in Section 6.3.

We now characterize in detail the proposed debt workout. Table 2 summarizes France's stock of gross non-consolidated public debt. It also defines the nominal amount of public debt that would be subject to restructuring.

– Table 2 about here –

We propose that a public debt reprofiling law should offer to exchange existing gross non-consolidated public debt at the end of 2025 with nominal value of €3,693 billion (123.4% of GDP) for New Treasury bonds (in French, "Nouvelles obligations assimilables du Trésor" or NOATs) with identical nominal value, i.e., no haircut of principal, 0.5% coupons, and maturities extended by 10 years (in the case of BTFs) or 20 years (in the case of OATs and remaining gross non-consolidated public debt).

We exclude from the public debt restructuring approximately €469 billion (15.7% of GDP) of certain categories of the general government gross non-consolidated debt such as state, local and social security's, including commercial credits, to avoid impacting on the normal functioning of the general government (e.g., the payment of social security pensions and public employees' wages).

We propose that the debt exchange offer should be compulsory and not bound by creditor vote (Zettelmeyer et al., 2013). With the exchange by new debt securities of France, all existing gross non-consolidated French public debt subject to the exchange offer should be made legally void and electronically eliminated following the expiration of the exchange offer. Other approaches more consentaneous with voluntary participation would be possible, but we find it unlikely that France would be able to obtain the voluntary consent of a supermajority of creditors to fully comply with the restriction imposed by the euro-CACs on changes to reserved matters' clauses.

To estimate the effect of the debt workout on the present value of France's public debt, we use a discount rate from the perspective of France, the sovereign debt holder, rather than that of the creditors (Sturzenegger and Zettelmeyer, 2008; Andini et al., 2026b). Consequently, we use France's average nominal growth rate in 2016-2025, i.e. 3.1%, as the discount rate for assessing the present value of France's public debt pre- and post-restructuring. In our view, this average nominal growth rate is an appropriate indicator for France's capacity to pay back debt through future economic growth. Pre-restructuring, this discount rate would be higher than the market discount rate, which we estimate at 2.7%.⁴ Post-restructuring, the market discount rate would initially become significantly higher than 3.1% (Sturzenegger and Zettelmeyer, 2008), but we believe that the market discount rate would in due course significantly fall and converge to a rate close to the discount rate we assume in our estimates. In any case, we consider that we are warranted in adopting a 3.1% discount rate, as the determining factor for a successful sovereign debt restructuring is the actual sovereign debt holder's

³ In November 2021, EA member states agreed to introduce aggregated single-limb voting in euro-CACs to become effective following the ratification by all member states. However, Italy has not ratified the agreement yet, with the Italian parliament's lower house voting against it in December 2023. Thus, EA sovereign debt securities contracts do not yet include aggregated single-limb voting as of the writing of this paper.

⁴ We define the pre-restructuring market discount rate as the rate yielding a present value identical to the nominal value of France's gross non-consolidated debt eligible for restructuring.

capacity to pay (Sturzenegger and Zettelmeyer, 2008), and not the markets' evolving perception of the sovereign risk (see also Section 5.2).

- Table 3 about here –
- Table 4 about here –
- Table 5 about here –

Table 3 provides the present value of France's public debt and expected cash-flows in the next decades, pre-restructuring. Table 4 summarizes the effect of the debt reprofiling on the present value of France's public debt and future associated cash-flows. Table 5 estimates the effect of the debt workout on France's government net and gross borrowing requirements.

We estimate that the present value of France's gross non-consolidated public debt subject to the restructuring would be reduced to €2,059 billion or 68.8% of GDP, representing a haircut of 43.1% relative to the present value at the end of 2025, pre-restructuring (see Table 4). This would leave the present value of France's gross non-consolidated debt, including the debt not subject to restructuring, at €2,528 billion (84.4% of GDP), i.e., some 52.2 p.p. of GDP lower ($\approx 136.6\% - 84.4\%$) than the present value at the end of 2025, pre-restructuring (see Table 4).

We estimate that the present value of France's gross consolidated public debt — what we here consider as our post-restructuring Maastricht equivalent definition — would be reduced to €1,924 billion or 64.3% of GDP. The present value of France's Maastricht debt would fall from 113.5% to 64.3% of GDP (see Table 3).

We consequently estimate that France's government interest expenditures would fall from €67 billion in 2025 to approximately €17 billion in 2026 (Table 5). In the same period, France's budget deficit would fall from 5.5% to 3.4% of GDP (see Table 5). New issuance and gross borrowing requirements of medium- and long-term debt securities would fall from around 11.6% of GDP in 2025 to 3.4% of GDP in 2026, as the payment of most of the principal would be delayed by 20 years (see Table 5).

Importantly, France's government would be able to restructure its public debt without the recourse to external official lending. This would occur because the proposed debt restructuring would drastically reduce France government's gross borrowing requirements for a period of 20 years (see Section 5.4). Pre-restructuring, the average implicit interest rate of France's general government debt is 2%. Post-restructuring, we assume that France would be able to issue NOATs at the average implicit interest rate of 3.5% — possibly, with lower average maturities than pre-restructuring —, given its improved financial prospects and very low gross borrowing requirements of 3.4% of GDP in 2026 (see Table 5). If necessary, initially, France could also use its liquid financial assets to finance its post-restructuring gross borrowing requirements.

- Table 6 about here –

Table 1 shows that the proposed sovereign debt restructuring would reduce the present value of France's net external debt from 42.3% to 19.3% of GDP. Table 6 presents the estimated impact of the debt restructuring on interest payments on France's gross external debt, namely France's primary income balance would see the general government's yearly interest outflows fall by €28 billion. This would also contribute to lower the implicit interest rate on France's external debt by 0.4 p.p. from 3.2% to 2.8% (Table 6), which would contribute to improve France's net external debt dynamics, particularly if accompanied by a public investment program aiming at faster nominal growth through import substitution.

Our proposal would reduce the implicit interest rate on public debt by 1.5 p.p. from 2% to 0.5% (see Table 3 and Table 4), also reducing the implicit interest rate on gross external debt from 3.2% to 2.8% (see Table 6), *ceteris paribus*. The reduction in the implicit interest rate on the gross external

debt in combination with more rapid nominal growth, following the adoption of less restrictive fiscal policies, would improve France's net external debt dynamics.

5.2. Debt relief sensitivity analysis

In this Section, following Zettelmeyer et al. (2013), we estimate the debt relief using different assumed discount rates. We focus on the stock of negotiable French debt securities (BTFs, OATs and NOATs), for which maturities and coupons are known. Our results are similar to those for the entire stock of France's public debt.

Zettelmeyer et al. (2013) estimated the 2012 Greek debt exchange present value reduction using pre- and post-restructuring secondary market yields, as well as discount rates of 3.5%, 5%, 8%, and 15.3%. They argued that the rate of 3.5% could be rationalized by using the perspective of the official sector lenders (the IMF and the EU) that backed and financed the Greek government, pre- and post-restructuring. They noted that 5% was the rate assumed by the IMF in its long-term debt sustainability analysis, i.e., the discount rate to which Greece's sovereign debt was expected to converge in the long term, a rate that was approximately 1.5 p.p. above the German sovereign debt.

Summing up, Zettelmeyer et al. (2013)'s central estimate of present value debt relief (62.4%) for Greece is based on a 5% nominal discount rate for future cash flows. Seen in this light, our assumption of a 3.1% nominal discount rate in the long term for France seems reasonable, particularly in the context of much lower international interest rates prevailing in recent years. Clearly, estimates of the post-restructuring present value of France's public debt should be based on a lower discount rate than the one used for Greece.

– Table 7 about here –

Our sensitivity analysis in Table 7 shows that, assuming a post-restructuring discount rate between 3.1% and 5%, the debt restructuring would result in a present value debt reduction of between 45.4% and 59%. As mentioned before, the haircuts are significantly lower than those estimated by Zettelmeyer et al. (2013, p. 23) for the 2012 Greek debt workout.

Despite the sensitivity analysis, as stressed before, our view is that the relevant discount rate is France's past average nominal growth (3.1%) for being an appropriate proxy of France's ability to service its public debt.

5.3. Debt exchange offer with menu options

It would be possible to design a sovereign exchange offer with menu options, namely by arbitraging between the discount rate that should be used by the sovereign debt holder and the different discount rates of France's creditors.

Consider a scenario where creditors discount restructured French debt at 9%, while the sovereign debt holder uses a 3.1% rate. This divergence in valuation creates fiscal space for alternative exchange terms. Thus, alongside a default reprofiling offer, it would be possible to propose menu options featuring principal reduction paired with immediate or short-term repayment schedules (ranging from cash settlement to maturities of one to five years).

– Table 8 about here –

Table 8 shows how the debt workout could be designed with debt exchange offer alternatives to the default exchange offer terms. The point of the menu options would be to offer lower haircuts

from the perspective of creditors with different time preferences and higher discount rates, while simultaneously attaining higher haircuts from the perspective of the sovereign debt holder.

For instance, for a creditor using a 9% discount rate, an exchange offer with a 60% cut to principal, one-year maturity, and no coupon payment, would offer higher present value (haircut of 50.2%) than the proposed default exchange offer (haircut of 75.9%), while offering the sovereign debt holder, from its perspective and discount rate, also a better present value reduction (haircut of 60.3%) than the proposed default exchange offer (haircut of 45.5%).

From the perspective of France, a key challenge would be to ensure the refinancing of a significant amount of sovereign debt shortly after restructuring, namely through the recourse to financial markets. Thus, the exchange offer menu options should be designed to propose increased reductions to principal, the shorter the maturity of the post-restructured debt. For example, France could offer a 75% cut to principal, but immediate payment terms, for creditors that prefer to voluntarily exchange French restructured long-term debt securities for cash. France could offer a 50% cut to principal for two-year maturities (haircut of 42.9% for a creditor with a discount rate of 9%), and so on.

Alternatively, for creditors with low discount rates such as life insurance funds, France could also offer higher coupons or higher principal payments at maturity. Such an offer could be made to those creditors willing to exchange their holdings of France's sovereign debt bonds for NOATs with maturity extension longer than 20 years (e.g., 30 or 40 years). This would protect and benefit those savers.

Since France has liquid holdings it could sell for cash, the offering of alternative exchange options (that arbitrage between the discount rates used to calculate the present value of post-restructured debt) would allow France to more rapidly reduce the present value as well as the nominal value of its restructured debt while increasing the voluntary participation of creditors in the sovereign debt restructuring, allowing these creditors to self-select among the offered post-restructuring sovereign debt securities (NOATs) according to their preferences.

France could also consider menu options for retail investors in its sovereign debt. For instance, it could foresee a special debt-restructuring exchange offer with improved present value for the first €100,000 of creditors' savings. This would result in a lower present value debt reduction but may be warranted on political and social grounds.

5.4. Post-restructuring debt sustainability analysis

As pointed out in Section 1, the EC forecasts that France's public debt will rise by 27.2 p.p. from 115.3% to 142.5% of GDP between 2025 and 2035. The current austerity strategy, in following with the EU fiscal rules, is likely to be a drag on France's economic growth for decades going forward (Andini and Cabral, 2012; IMF, 2010, 2023). We believe that the current strategy based on pursuing repeated primary budget surpluses for an extended period is not viable. To help illustrate and support our argument, this Section proposes a post-restructuring debt sustainability analysis showing that, even after the very significant reduction in the present value of France's public debt that we propose, fiscal consolidation would still be quite demanding.

– Table 9 about here –

Table 9 summarizes the analysis. Following the proposed debt restructuring, we estimate that France could raise its trend nominal growth rate to 4%, through a fiscal policy far more accommodative than the currently envisioned.

Post-restructuring, we estimate that the nominal implicit interest rate on France's stock of public debt would initially drop to 0.5% and gradually increase to 1% by 2035.⁵ As a result, a differential between the nominal implicit interest rate and the nominal economy's growth rate of, on average, 3.25 p.p. ($\approx 4.0 - (1/2) \times (0.5 + 1.0)$) could be achieved between 2026 and 2035 (see Table 9).

This means that, in the post-restructuring years, France could run primary budget deficits of around 1.4% of GDP and still manage to reduce the nominal value of the gross consolidated public debt (Maastricht definition) by 19.3 p.p. to 96.7% of GDP by 2035 (see Table 9), rather than the 27.2 p.p. increase in this ratio forecasted by the EC (2025a). In these conditions, it would be possible to stabilize the present value of the gross consolidated public debt (our Maastricht equivalent measure) below 70% of GDP until 2035 (see Table 9). Post-restructuring, we estimate recurring nominal budget deficits of, on average, 2.2% of GDP between 2026 and 2035 (see Table 9).

Despite a debt reprofiling resulting in a large reduction in the present value of the Maastricht public debt, the above scenario would still require a permanent fiscal consolidation effort of 1.9% of GDP. That is, the primary budget deficit would have to improve from 3.3% of GDP in 2025 to 1.4% of GDP, on average, between 2026 and 2035 (see Table 9). This fact is illustrative of the fiscal challenge faced by France to put its public debt on a sustainable path.

The proposed debt work through public debt reprofiling, while continuing to require a very sizable primary balance improvement, would allow France to avoid most of the fiscal contractionary policy that would be required to stabilize France's public debt dynamics under the current austerity strategy. The above-mentioned fiscal consolidation could be achieved by implementing Piketty's and other economists' suggestions of a wealth taxation aiming to raise between 0.5% and 1% of GDP, yearly.

6. Discussion

In this Section, we discuss our proposed restructuring in the light of the historical precedents, the ECB's stance, the legal hurdles, the impact on banking and insurance, as well as the alternative of a progressive tax on net wealth.

6.1. Historical precedents

We believe that France would be warranted in adopting unilateral debt restructuring to address its public and external debt overhang. Debt reprofiling seems a feasible and justifiable policy option, given France's past fiscal and macroeconomic performance.

We note that there are important precedents for the adoption of drastic economic policies, such as sovereign debt restructuring, in the context of severe macroeconomic distress. Some examples of earlier drastic interventions can be enumerated as follows: i) the debt restructurings following major wars; ii) the Roosevelt's 1933-1934 confiscation of gold and his administration's restructuring of private and public debt through a 40.9% devaluation of the dollar against gold; iii) the Nixon administration's abandonment of the gold standard in 1971; and iv) the recent Trump administration's unilateral tariffs.

⁵ Pre-restructuring, we estimate the nominal implicit interest rate on the stock of France's public debt (Maastricht definition) and medium- and long-term debt securities (OATs) at 2.01% and 2.34%, respectively. In this post-restructuring debt sustainability analysis, we assume that following the debt restructuring France could issue new medium- and long-term debt securities (NOATs) — with shorter average maturities than pre-restructuring — at a nominal implicit interest rate of 3.5%, on average, between 2026 and 2035. Our results are robust to small variations in this parameter.

Although all these policies are responses to different macroeconomic environments, their effective implementation proves that the problem of public and external debt management is crucial and that, under certain circumstances, the solution to a major problem requires a drastic intervention.

6.2. ECB's stance

Our proposed approach, based on debt reprofiling and no cut to principal, is designed to protect the Eurosystem from mark-to-maturity accounting losses. Yet, the Governing Council of the ECB would likely oppose the proposed restructuring of France's sovereign debt. It follows that the ECB's response is one of the key challenges to the use of our framework either by France or any other EA sovereign member state.

In the 2012 Greek debt restructuring, the ECB negotiated a sweetheart deal in the form of a pre-exchange offer swap, which protected the Eurosystem from losses on the Greek restructuring of some €205 billion of tradable public debt (Zettelmeyer et al., 2013; Buchheit and Gulati, 2018).

In 2015, when quantitative-easing interventions were started, the ECB assured the markets that its acquisitions of EA member states' public debt securities would be made on *pari passu* terms, that is, the Eurosystem would be subject to identical terms as other creditors in the event of a member state's sovereign debt restructuring.

Note that according to the PSPP and PEPP rules, 92% of the risk of losses on member states' holdings remains with the national central bank. Thus, France's proposed debt reprofiling would foremost negatively affect the BdF's valued-at-market net worth, the BdF's profitability and net seigniorage transfers to the French Treasury (Andini et al., 2026a). That is, it would have a negligible effect on balance sheet and net worth of the Eurosystem as a whole (8%).

In fact, provided that the Eurosystem holds €665 billion of OATs (see Section 2) and assuming a haircut of 75.9% (see Table 7), the public debt reprofiling proposed in this paper would result in financial losses for the Eurosystem of approximately €40 billion ($\approx 8\% \times €665 \text{ billion} \times 75.9\%$). This would be a relatively small loss for the Eurosystem as a whole.

Nonetheless, France's debt restructuring would be politically highly contentious. It could be argued that it would damage the reputation of the ECB, particularly given contagion fears to other member states' sovereign debt markets and risks of destabilization of the currency union. Despite the 2012 Greek precedent (Zettelmeyer et al., 2013; Andini et al., 2026b), the ECB could even argue that a French debt restructuring would violate the "no bailout" clause of the EU treaties.

The potential for these reputation losses creates a strong incentive for the ECB to oppose a restructuring of France's public debt and to prefer solutions that involve financial assistance and fiscal transfers rather than debt write-downs. The reasons for this preference can be summarized as follows. First, the ECB might be concerned about the threat of reemerging fiscal dominance in the EA. Second, the ECB might see the assistance as an opportunity to increase its relative power in EA policy making. Third, the ECB would be mindful of the impact of France's debt reprofiling on the EA's financial stability, given the importance and size of France's largest banks.

As a matter of fact, the ECB holds powerful tools to obstruct the implementation of a debt restructuring by France, as it could in theory exclude the French banks from access to the Eurosystem and not accept the restructured French sovereign debt securities as collaterals in refinancing operations.

However, being the second largest EA economy, France has significant political leverage in EA policy making, including in the Governing Council of the ECB. In addition, France's proposed adoption of a public debt reprofiling, with no losses to principal and the fact that risk borne by the Eurosystem concerns only 8% of the total holdings of French debt securities, would improve France's ability to negotiate or to impose the debt restructuring to the ECB and its European partners. That is, France would be better positioned than other member states to implement a

unilateral sovereign debt restructuring, as it has more political clout than smaller member states to influence the ECB's posture vis-à-vis a potential unilateral debt workout.

6.3. Legal hurdles

We focus on two main types of legal challenges to the unilateral approach proposed here: the creditors' protections related to either constitutional rights or international conventions and the so-called euro-CACs (see Section 5.1).

Fundamental individual rights are typically protected in Europe at a higher juridical level than ordinary law. Such a protection could be used by creditors to neutralize the effects of a restructuring law. In other words, creditors might claim a restructuring law not being in compliance with constitutional rights and international conventions. It follows that a key point is whether such claims would succeed in court or not. On this specific issue, precedents show that the answer is "probably not".

For instance, a 2016 sentence by the European Court of Human Rights (Mamatras & others vs. Greece) established that the 2012 Greece's debt exchange offer did not violate property rights. Among other elements, the offer was judged to be a fair balance between public interest and individual rights. And, the adopted measures were not considered to be disproportional. They were seen as a reasonable compromise of conflicting goals, particularly in the light of the normal risk associated to a financial investment.

Regarding the CACs in general, these clauses are usually seen as a form of obtaining consent from a majority of creditors to a debt restructuring, thus addressing coordination problems in debt workouts. Putting it differently, they are normally seen as a useful instrument to prevent creditor holdouts from sabotaging well-intended restructurings of over-indebted countries, through litigation (Gelpern and Gulati, 2013; Buchheit and Gulati, 2018; Weidemaier, 2019). Thus, CACs in general are considered as a key element for an orderly sovereign debt restructuring, facilitating the resolution of sovereign debt crises and avoiding long-term litigation (IMF, 2021).

Unlike the CACs in general, the euro-CACs have been widely seen as limiting the member states' ability to unilaterally restructure their sovereign debt (Gelpern and Gulati, 2013). These clauses were included in the legal debt contracts of member states' negotiable debt issued from 2013 onwards. In practice, prior to 2013, negotiable sovereign debt securities of the EA member states, issued in local law and jurisdiction, basically offered no enforcement provisions. Thus, creditors had little legal recourse, should a sovereign debt holder choose to restructure its sovereign debt through changes in domestic law (Buchheit and Gulati, 2010). Instead, after 2013, the euro-CACs made unilateral restructuring based on changes in domestic law more fraught with risk of litigation in national and international courts as well as arbitration *fora*.

There are, however, a couple of points that should be made in this respect. On the one hand, Weidemaier (2019) has stressed that the euro-CACs are an artifact that is likely to be powerless in the face of the capabilities of sovereign domestic law-making, allowing for the design of legal workarounds to the restrictions created. On the other hand, the IMF (2013, 2021, 2024) has developed criteria to justify sovereign debt restructuring. In particular, prior to any IMF bailout, the IMF has developed the practice of performing a sovereign debt sustainability analysis. And, the IMF itself has advocated for a preemptive sovereign debt restructuring, should the public debt be considered unsustainable.

While following years of advice against any sort of public debt restructuring, the above view has gained strength in IMF circles. Indeed, some adjustment programs of the past have been even qualified as ineffective due to "too little and too late" implementation of sovereign debt restructurings (e.g., IMF, 2013, p. 1).

In conclusion, a unilateral restructuring of France's sovereign and external debt could be grounded on unsustainability reasons, given France's past failed attempts at consolidating its fiscal and external accounts. Nonetheless, the proposed sovereign debt restructuring would probably entail reputational risks for France and would likely face legal challenges.

In the light of such conclusion, a few additional considerations seem to be in order. First, we point out the accomplishment of the Greek sovereign debt workout (Zettelmeyer et al., 2013) on harsher restructuring terms (62.4% present value debt relief, with a 5% nominal discount rate) than those proposed here for France (59% present value debt relief, with a 5% nominal discount rate). Second, we believe that both the political clout of France and the proposed terms of reprofiling would make legal challenges less likely to succeed than the unsuccessful challenges to the Greek restructuring.

6.4. Impact on banking and insurance

According to the AFT, the French banking and insurance systems each hold approximately 10% of France's negotiable debt amounting to €2,774 billion or 92.7% of GDP at the end of 2025 (see Table 1), i.e., each sector holds French sovereign debt amounting about 9.3% of GDP. Most of this debt is held to maturity and appraised at cost. Thus, the impact of the proposed public debt reprofiling on the aggregated balance sheet of the French banking and insurance systems would likely be manageable. This is particularly true if special accounting rules⁶ for the sovereign restructured debt securities (NOATs) are introduced, post-restructuring. However, the reprofiling would have some impact on revenues, profitability and liquidity because of the reduction in sovereign debt coupon payments and the extension in maturities.

Given France's aggregated balance sheet of the banking system and gross external debt, of 326% and 137.7% of GDP at the end of 2024 (see Table 1), respectively, the impact of the sovereign debt restructuring on the French banking system would constitute one of the main challenges to the proposed debt restructuring. This occurs because creditors might fear the so-called "sovereign-bank debt nexus" (Farhi and Tirole, 2018) and this might precipitate a run on the French banking system deposit and wholesale liabilities.

The above fear could be addressed, without further measures, through a stated commitment by the French government to recapitalize or even to nationalize the domestic banking system as well as through a stated commitment by the ECB to intervene as a lender of last resort. As the latter is unlikely to materialize, we focus on the former.

Using the same discount rate as the sovereign debt holder (3.1%), our estimates suggest that the French negotiable debt would be reduced from €2,707 to €1,477 billion (Table 7). That is, fully accounting for the impact of the sovereign debt restructuring on the French banking system's aggregate balance sheet would imply acknowledging a present value loss of approximately 4.2% of GDP ($\approx 9.3\% \times 45.5\%$). Thus, the French government could recapitalize the French banking system by issuing NOATs with long maturities (e.g., 30 years) and a present value of 4.2% of GDP. This would result in marginally higher sovereign debt ratios and trajectories.

Yet, the French authorities could adopt an additional measure — a systemic resolution of the French banking system — should the run on the French banking system prove too significant. For lack of space, we do not explore this policy option in detail in this paper. Yet, a systemic resolution of the banking system would allow France to restructure its banking system's aggregated liabilities, reducing interest outlays and potential capital outflows, while recapitalizing banks. Focusing on the case of Portugal, Andini et al. (2026b) discuss an example of how a systemic resolution of the banking system could be designed in the EA.

⁶ An example is the introduction of guidelines mandating the market valuation of the French public debt securities held for transaction at their present value with a discount rate set from the perspective of the sovereign debt holder.

6.5. Progressive net wealth tax

In this Section we do not address the debate on the merits of a net wealth tax, even though we believe it would be a useful instrument to raise tax revenues and reduce public debt. Instead, our focus is on whether a net wealth tax could constitute an alternative to a sovereign debt workout of the type proposed in this paper.

We argue that a strategy limited to a progressive net wealth tax (Piketty, 2014a, 2019) has three key disadvantages vis-à-vis the proposed sovereign debt restructuring.

First, unlike the proposed debt reprofiling, a progressive net wealth tax imposed annually would not sufficiently reduce France's public debt. That is, the annual tax receipts raised through progressive net wealth taxes are typically below 0.5% of GDP (OECD, 2018; Enache, 2024). Thus, the adoption of recurring progressive net wealth taxes alone would not allow the abandonment of an austerity strategy and the adoption of a less restrictive fiscal policy in the short run. A large one-time net wealth tax on specific categories of net financial wealth — for instance, a 10% tax on bank deposits exceeding €1 million — also does not address the above referred problem, as it would again result in a smaller public debt reduction than the proposed sovereign debt reprofiling.

Second, and more importantly, unlike a sovereign debt workout, a progressive net wealth tax would not contribute to reduce France's net external debt. This happens because France's ability to tax non-residents is limited in the context of the EU and bilateral treaties on double taxation agreements. Thus, if only French residents are subject to a wealth tax, France's net external debt would remain at the current problematic high level even though France's public debt would be reduced. The lack of reduction in France's net external debt would constrain the French government's ability to adopt a more expansionary fiscal policy, as a more rapid growth of the French economy vis-à-vis its main trading partners would result in the further deterioration of its net external debt position.

Finally, there is some evidence that very wealthy tax payers employ aggressive fiscal planning strategies to avoid taxes on net wealth (Enache, 2024). In this context, we note France's abrogation of its net wealth tax in 2018, and its replacement with a real estate wealth tax for residents and non-residents with real estate valued at €1.3 million or more (OECD, 2018; Enache, 2024). We also note several other European countries' abrogation of their net wealth taxes between 1994 and 2007. Though a few countries continue to tax certain categories of wealth, only four OECD countries (Spain, Switzerland, Norway, and Colombia) still impose a net wealth tax (Enache, 2024).

It is precisely because of the aggressive tax planning issue that several authors, including Piketty (2014a), advocate for the coordinated introduction of world-wide progressive net wealth taxes between 0.1% and 2%, implemented through an international agreement. However, given the likely opposition of powerful interest groups, the prospects for the coordinated adoption of wealth tax by the developed countries seem low. Moreover, an international negotiation process would not result in the timely introduction of a new wealth tax for a hypothetical new French government with a progressive electoral mandate.

In summary, we see progressive net wealth taxes as a complement rather than as a substitute for a debt restructuring policy.

7. Conclusions

This paper provides what is, to the best of the authors' knowledge, the first formal investigation into the necessity and the feasibility of restructuring France's public debt. Our analysis demonstrates that a sovereign debt workout is not merely a theoretical possibility, but a warranted response to France's growing economic, political, and social difficulties.

France's fiscal position and public debt dynamics have deteriorated significantly in the last two decades, with France's public debt ratio doubling to 116% of GDP at the end of 2025. Moreover, on

current trends, the EC forecasts that France's public debt will increase by 27.2 p.p. in the next ten years, reaching 142.5% of GDP by 2035. Still, many observers consider that France's public debt is sustainable, though high risk, even if they seem clearly worried with France's fiscal prospects. In fact, there are growing calls for the adoption of much stricter fiscal austerity aiming at achieving repeated primary budget surpluses, as if France had not tried (unsuccessfully) this approach in the last decades.

France's worsening fiscal prospects are compounded by a high level of net external debt and a persistent goods trade deficit. Importantly, these macroeconomic pressures have coincided with a profound economic and social crisis: nominal growth has weakened since 1998, while poverty has climbed to a record 15.4% rate in 2023, leaving 9 million citizens below the poverty threshold.

In the current situation, placing France's public debt on a downward trajectory would require repeated primary budget surpluses for a decade or more — a fiscal austerity strategy that would likely further weaken economic growth and aggravate social conditions.

Importantly, for a government elected with a mandate for progressive growth-oriented policy, debt restructuring becomes a policy option for reclaiming fiscal policy's sovereignty. By unilaterally reducing gross borrowing requirements and interest outlays through debt reprofiling, a new government can create the necessary fiscal space to implement its program within the constraints of an electoral cycle and in compliance with the Maastricht fiscal rules' framework. Though such a compliance choice could be debated, our proposal is built around the assumption of no open defiance of existing rules.

While various debt workout models could be considered, we favor a strategic debt reprofiling model characterized by a haircut of 43.1% of present value, from the perspective of the sovereign debt holder using a discount rate of 3.1%.

We show that, even with an ambitious public debt reprofiling, France's fiscal prospects and public debt dynamics would remain challenging. Following a debt workout, France might be able to reduce the nominal value of its public debt (Maastricht definition) by 19.3 p.p. by 2035 ($\approx 116\% - 96.7\%$), but this would still require a permanent fiscal primary budget deficit improvement of some 1.9 p.p. each year, to a primary budget deficit of 1.4% of GDP, yearly, between 2026 and 2035.

This suggests that, even following an ambitious unilateral debt workout, France would not be able to adopt a fully accommodative fiscal policy and further fiscal measures would be required, for instance, based on the introduction of a progressive net wealth tax. However, the public debt reprofiling would provide critical relief in France's fiscal consolidation efforts. It would create the necessary fiscal space to avoid further drastic fiscal tightening, allowing for a gradual reduction in the public debt ratio while preserving the country's ability to improve social policies and to accelerate economic growth.

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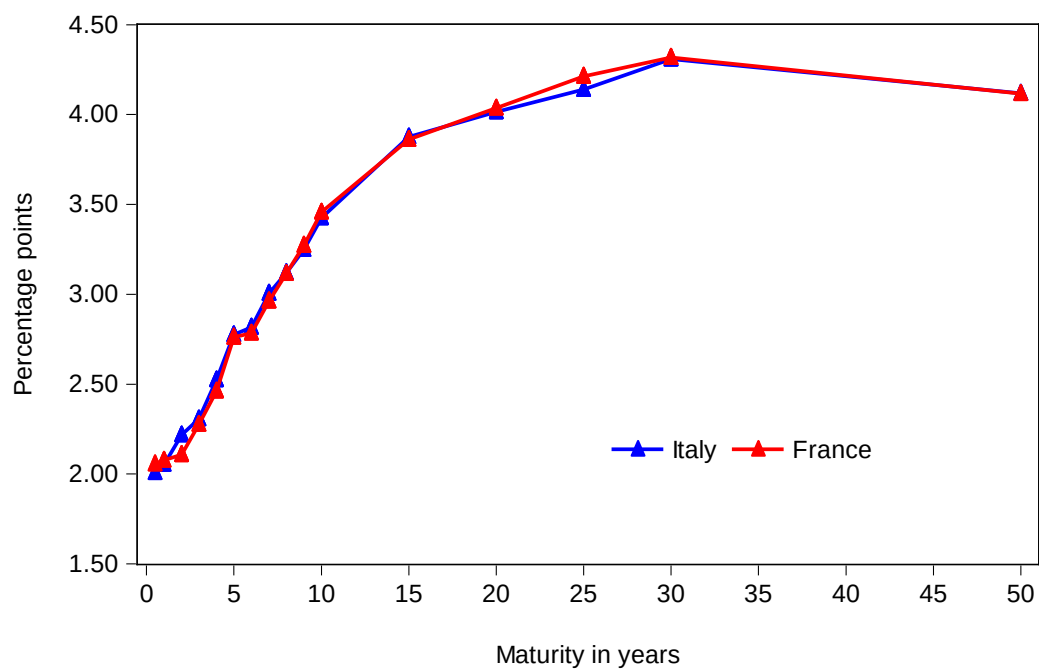
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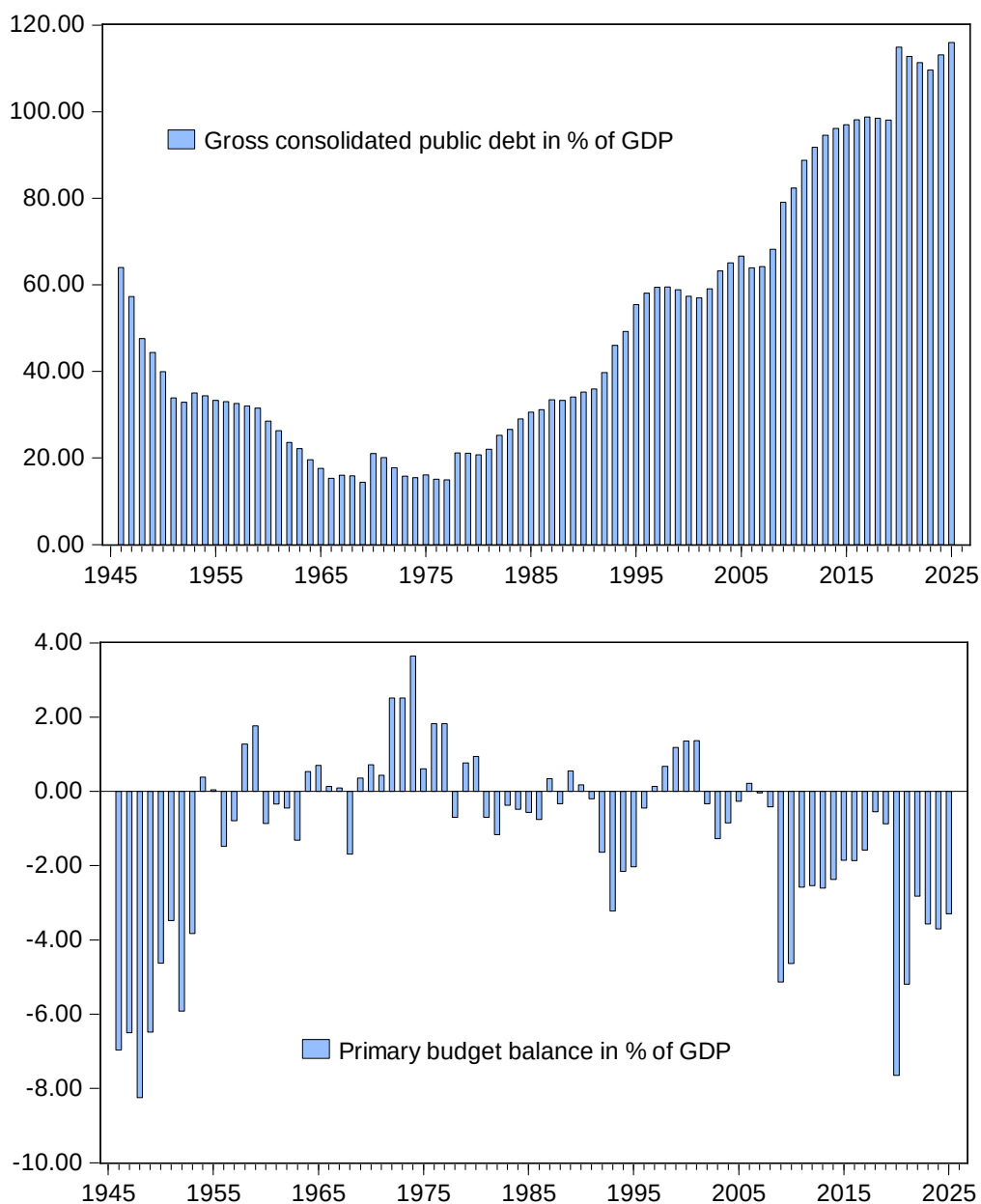
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Figure 1. France's and Italy's yield curves



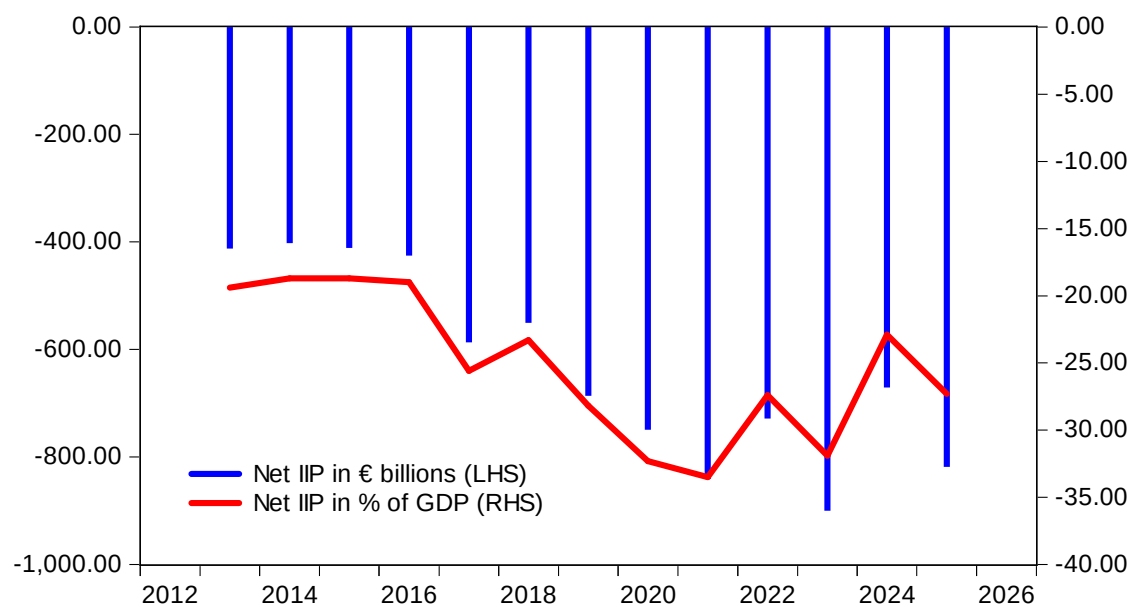
Source: Investing.com (retrieved November 5, 2025) and authors' elaborations.

Figure 2. France's gross consolidated public debt and primary budget balance



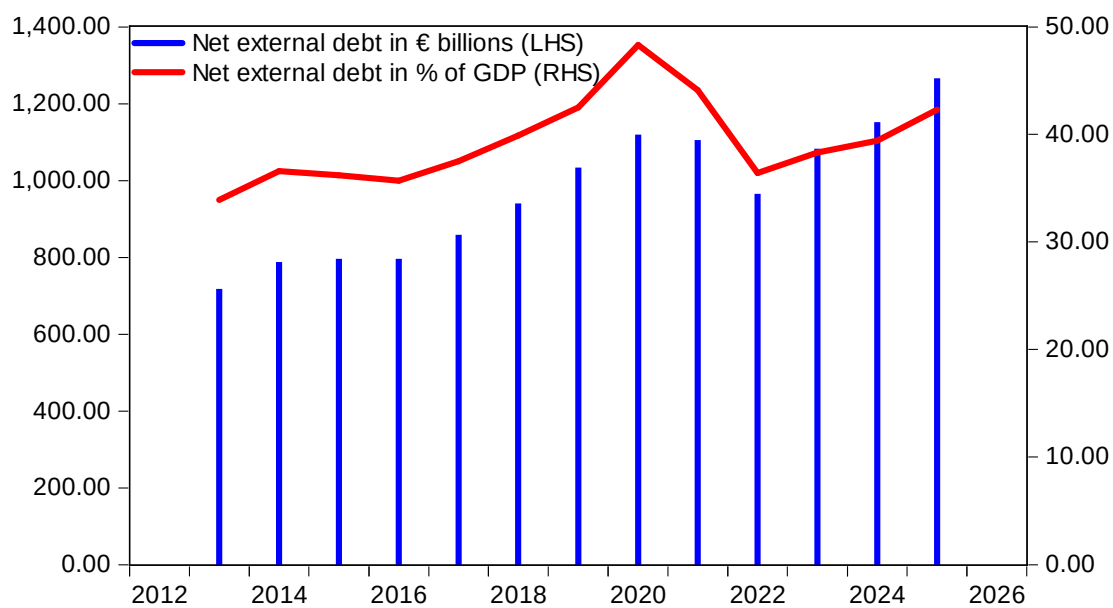
Source: IMF (2025c), Eurostat (2025) and authors' elaborations.

Figure 3. France's net international investment position



Source: BdF (2025b) and authors' elaborations.

Figure 4. France's net external debt



Source: BdF (2025b) and authors' elaborations.

Table 1. Macroeconomic policy targets of the public debt restructuring

	Pre-restructuring (Dec. 2024)		Pre-restructuring (Dec. 2025)*		Post-restructuring (Dec. 2025)	
	(€ billion)	(% of GDP)	(€ billion)	(% of GDP)	(€ billion)	(% of GDP)
General government's public debt						
Gross non-consolidated debt						
Nominal value	3 874	132.0%	4 162	139.0%	4 162	139.0%
Present value			4 089	136.6%	2 528	84.4%
Gross non-consolidated debt subject to restructuring						
Nominal value			3 693	123.4%	3 693	123.4%
Present value			3 619	120.9%	2 059	68.8%
Gross consolidated debt (Maastricht definition)						
Nominal value	3 305	113.0%	3 473	116.0%	3 473	116.0%
Present value			3 397	113.5%	1 924	64.3%
Negotiable debt (BTFs + OATs or NOATs)						
Nominal value	2 604	89.0%	2 774	92.7%	2 774	92.7%
Present value			2 707	90.4%	1 477	49.3%
General government's external debt						
Gross external debt						
Nominal value	1 614	55.2%	1 690	56.4%	1 690	56.4%
Present value			1 653	55.2%	1 002	33.5%
Net external debt						
Nominal value	1 465	50.1%	1 542	51.5%	1 542	51.5%
Present value			1 505	50.3%	854	28.5%
Monetary financial institutions						
Aggregated balance sheet	9 537	326.0%				
Cash and cash balances with central banks	983	33.6%				
Equity	630	21.5%				
Total deposits	5 687	194.4%				
Gross external debt	4 028	137.7%				
Of which, foreign deposits	2 577	88.1%				
France's economy						
Nominal GDP	2 926	100.0%	2 994	100.0%	2 994	100.0%
Net International Investment Position (Nominal value)	-670	-22.9%	-818	-27.3%	-818	-27.3%
Net International Investment Position (Present value)					-130	-4.4%
Gross external debt (Nominal value)	7 304	249.7%	7 772	259.6%	7 772	259.6%
Gross external debt (Present value)			7 735	258.4%	7 084	236.7%
Net external debt (Nominal value)	1 152	39.4%	1 266	42.3%	1 266	42.3%
Net external debt (Present value)			1 229	41.1%	557	19.3%

Source: INSEE (2025), BdF (2025d), AFT (2025), EC (2025c) and authors' estimates.

* Data for net international investment position and gross/net external debt are at Jun. 2025.

Table 2. Gross non-consolidated debt of the general government, pre-restructuring

		2024	2025
		(€ billion, unless otherwise stated)	
1	Gross non-consolidated debt of the general government	3 815	4 022
2	Direct state administration debt: negotiable debt securities		2 774
3	Direct state administration debt: deposits of the rest of the world		41
4	Direct state administration debt: loans		136
5	Deposits of state administration agencies, local administration and social security with the Treasury		190
6	Currency (coins)		4
7	Local administration non-consolidated (aggregated) gross debt: loans + debt securities		257
8	Social security non-consolidated (aggregated) gross debt: loans + debt securities		297
9	Other accounts payable (including commercial credits and accrued interest), state administration		176
10	Other accounts payable (including commercial credits and accrued interest), local administration		60
11	Other accounts payable (including commercial credits and accrued interest), social security		192
12	Equity, investment fund shares and derivatives		37
13	Other liabilities and adjustments		N.A.
14	Gross consolidated debt of the general government (Maastricht definition)	3 305	3 473
15	Gross non-consolidated debt of the general government (our definition)	3 874	4 162
16	Nominal GDP	2 936	2 994
17	Gross non-consolidated debt of the general government (our definition) (% of GDP)	132.4%	139.0%
18	Gross non-consolidated debt not subject to the debt restructuring process (= 6 + 9 + 10 + 11 + 12)		469
19	Gross non-consolidated debt subject to the debt restructuring process (= 2 + 3 + 4 + 5 + 7 + 8)		3 693
20	Gross non-consolidated debt subject to the debt restructuring process (% of GDP)		123.4%

Source: INSEE (2025), BdF (2025c), EC (2025c) and authors' estimates.

Table 3. Cash-flows and present value of the gross non-consolidated debt of the general government, pre-restructuring

	2026-2072	2026	2027	2028-2030	2031-2040	2041-2050	2051-2072
	(€ billion, unless otherwise stated)						
Gross non-consolidated debt subject to restructuring							
Nominal value	3 693						
Discount rate	3.1%						
Nominal value of principal cash-flows	3 693	600	441	1 086	1 094	246	227
Nominal implicit interest rate (% of nominal value)	2.0%						
Nominal value of interest cash-flows		83	69	151	219	83	35
Total nominal cash-flows		683	510	1 237	1 313	329	262
Present value of gross non-consolidated debt subj. to restructuring	3 619	683	494	1 135	1 019	183	104
Present value of gross non-consolidated debt subj. to restructuring (% of GDP)	120.9%						
Nominal value of gross consolidated debt (Maastricht definition)	3 473						
Nominal value of gross consolidated debt (Maastricht definition) (% of GDP)	116.0%						
Present value of gross consolidated debt (Maastricht equivalent)	3 397						
Present value of gross consolidated debt (Maastricht equivalent) (% of GDP)	113.5%						

Source: INSEE (2025), BdF (2025c), EC (2025c) and authors' estimates.

Table 4. Cash-flows and present value of the gross non-consolidated debt of the general government, post-restructuring

	2026-2092	2026	2027	2028-2030	2031-2040	2041-2050	2051-2070	2071-2092
	(€ billion, unless otherwise stated)							
Gross non-consolidated debt subject to restructuring								
Nominal value	3 693							
Discount rate	3.1%							
Nominal value of principal cash-flows	3 693	0	0	0	206	1 921	1 340	227
Nominal implicit interest rate (% of nominal value)	0.5%							
Nominal value of interest cash-flows	504	24	18	55	181	153	65	8
Total nominal cash-flows	4 198	24	18	55	387	2 074	1 405	234
Present value of gross non-consolidated debt subj. to restructuring	2 059	24	18	51	289	1 069	558	50
Present value of gross non-consolidated debt subj. to restructuring (% of GDP)	68.8%							
Present value reduction (haircut)								
(Total amount)	1 560							
(% of present value of gross non-consolidated debt subject to restructuring)	43.1%							
Gross non-consolidated debt not subject to restructuring	469							
Gross non-consolidated debt not subject to restructuring (% of GDP)	15.7%							
Present value of gross non-consolidated debt	2 528							
Present value of gross non-consolidated debt (% of GDP)	84.4%							
Nominal value of gross consolidated debt (Maastricht definition)	3 473							
Nominal value of gross consolidated debt (Maastricht definition) (% of GDP)	116.0%							
Present value of gross consolidated debt (Maastricht equivalent)	1 924							
Present value of gross consolidated debt (Maastricht equivalent) (% of GDP)	64.3%							

Source: INSEE (2025), BdF (2025c), EC (2025c) and authors' estimates

Table 5. Effects of the debt restructuring on borrowing requirements

	2024		2025		2026	
	(€ billion)	(% of GDP)	(€ billion)	(% of GDP)	(€ billion)	(% of GDP)
General government						
Interest outlays	60	2.1%	67	2.2%	17	0.6%
Primary budget deficit	110	3.7%	98	3.3%	90	2.9%
Net borrowing requirements, i.e., Total budget deficit (Maastricht EDP)	170	5.8%	165	5.5%	107	3.4%
Gross borrowing requirements	340	11.6%	348	11.6%	107	3.4%
France's economy						
Nominal GDP	2 926	100.0%	2 994	100.0%	3 113	100.0%

Source: INSEE (2025), Eurostat (2025), AFT (2026), EC (2025b), EC (2025c) and authors' estimates.

Table 6. Gross external debt composition and primary income balance gross interest outlays, pre- and post-restructuring

Pre-restructuring						
	Gross external debt		Gross external debt		Yearly interest expenditure	Implicit interest rate
	4Q2024		2Q2025		3Q2024-2Q2025	
	(€ billion)	(% of total)	(€ billion)	(% of total)	(€ billion)	(%)
France's external debt	7 304	100.0%	7 772	100.0%	232	3.2%
General government	1 614	22.1%	1 690	21.7%	36	2.2%
Monetary financial institutions	3 763	51.5%	4 028	51.8%	137	3.7%
Bank of France	398	5.4%	472	6.1%	10	2.5%
Other sectors	988	13.5%	1 013	13.0%	31	3.2%
Foreign direct investment	541	7.4%	569	7.3%	17	3.2%
Post-restructuring						
	Gross external debt		Yearly interest expenditure	Implicit interest rate	Change in yearly interest expenditure	
	2Q2025		3Q2025-2Q2026			
	(€ billion)	(% of total)	(€ billion)	(%)	(€ billion)	
France's external debt	7 772	100.0%	218	2.8%	-14	
General government	1 690	21.7%	8	0.5%	-28	
Monetary financial institutions	4 028	51.8%	147	3.7%	10	
Bank of France	472	6.1%	12	2.5%	2	
Other sectors	1 013	13.0%	32	3.2%	1	
Foreign direct investment	569	7.3%	18	3.2%	1	

Source: BdF (2025b) and authors' estimates.

Table 7. Debt relief sensitivity analysis

	Assumed discount rate			
	2.7%	3.1%	5.0%	9.0%
Present value of old debt securities (BTFs + OATs)*	2 774	2 707	2 440	2 043
Present value of new debt securities (NOATs)	1 614	1 477	1 000	493
Present value debt relief (% of pre-restructuring present value)	41.8%	45.4%	59.0%	75.9%

Source: AFT (2025) and authors' estimates.

* Calculations are presented for the estimated stock of BTFs and OATs at Dec. 2025.

Table 8. Debt exchange offer menu options

	Haircut	
	(% of pre-restructuring present value of negotiable debt securities)	
	<u>Perspective of sovereign debt holder</u>	<u>Perspective of creditors</u>
Assumed discount rate	3.1%	9.0%
1. Debt reprofiling (0.5% coupon, up to 20-year maturity extension)	45.5%	75.9%
2. Immediate payment (0% coupon, 75% haircut of principal)	74.4%	66.1%
3. One-year maturity (0% coupon, 60% haircut of principal)	60.3%	50.2%
4. Two-year maturity (0% coupon, 50% haircut of principal)	51.8%	42.9%
5. Five-year maturity (0% coupon, 40% haircut of principal)	47.3%	47.1%

Source: AFT (2025) and authors' estimates.

Table 9. Public debt sustainability analysis, post-restructuring

	2025	2026	2028	2030	2035
	(€ billion, unless otherwise stated)				
Assumptions:					
Nominal GDP growth rate (2026-2035)	4.0%				
Nominal implicit interest rate on NOATs (%)	3.5%				
Forecasts:					
Nominal GDP	2 994	3 114	3 368	3 643	4 432
Total budget deficit	165	61	69	78	104
Total budget deficit ratio (% of GDP)	5.5%	2.0%	2.0%	2.1%	2.4%
Nominal implicit interest rate on public debt (Maastricht definition) (%)	2.0%	0.5%	0.6%	0.7%	1.0%
Interest expenditure	67	17	22	27	42
Interest expenditure ratio (% of GDP)	2.2%	0.6%	0.6%	0.7%	1.0%
Public debt (Maastricht definition)	3 473	3 535	3 660	3 820	4 285
Public debt ratio (Maastricht definition) (% of GDP)	116.0%	113.5%	108.9%	104.9%	96.7%
Primary budget deficit	98	44	47	51	62
Primary budget deficit ratio (% of GDP)	3.3%	1.4%	1.4%	1.4%	1.4%
Difference between nominal GDP growth rate and nominal implicit interest rate (p.p.)		3.5	3.4	3.3	3.0
Present value of public debt (Maastricht equivalent)	1 924	2 016	2 198	2 397	3 063
Present value of public debt ratio (Maastricht equivalent) (% of GDP)	64.3%	64.8%	65.3%	65.8%	69.1%

Source: EC (2025b), EC (2025c) and authors' estimates.