

French Presidential Elections

**Cross-Expertise
▶ Research**

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French Presidential Elections: A Primer

As France approaches the crucial 2027 presidential elections, this cross-expertise report provides a comprehensive analysis of the potential political, macroeconomic, and financial market outcomes.

First, we map out the domestic political and macroeconomic landscape. We analyse the key milestones leading to the Elysée, comparing the candidates' economic programmes and evaluating the likelihood of a subsequent parliamentary dissolution. Crucially, we assess the binding fiscal consolidation measures required to stabilize France's public debt trajectory, highlighting the challenging trade-offs between political promises and fiscal reality.

Second, we examine the direct implications for sovereign debt and funding markets. As rating agencies' patience wears thin, raising the threat of further sovereign downgrades, we analyse whether the recent pressure on OAT yields and spreads is here to stay.

In addition to reviewing potential ECB backstop interventions, we evaluate the resilience of the financial sector, demonstrating why French covered bonds are highly likely to maintain their AAA ratings even under sovereign stress.

Finally, we deliver a deep dive into cross-asset and sector-specific dynamics. We explore how political risk and recent OAT volatility are testing the historically strong fundamentals of French banks, utilities, and REITs, while identifying relative value opportunities in both the financial and non-financial corporate credit spaces. Additionally, we address key thematic and structural drivers: the strategic outlook for the defense sector amid geopolitical and Russian threats, the growing political consensus around nuclear energy in the domestic electricity mix, and the emerging role of artificial intelligence as a pivotal campaign issue.

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Political and macroeconomic Outlook

The Road to the Elysée: Key Milestones Ahead



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The French presidential election is scheduled for 18 April 2027 for the first round, and the elected candidate will be known on 2 May after the second round (Table 1). Until then, several key dates should be kept in mind.

Table 1: Key political milestones ahead of the presidential election



Source: Natixis CIB

► **12 March 2027:** Deadline for submitting sponsorships (*parainages*)

To be certified as a presidential candidate, contenders must secure sponsorships before 12 March 2027. This requires the formal backing of at least 500 elected officials (mayors, MPs, senators) from at least 30 different departments or French overseas territories, in the form of signatures validated by the Constitutional Council (*Conseil constitutionnel*). This deadline will mechanically restrict the list of candidates, as this threshold is difficult to clear for candidates lacking a solid local electoral footprint¹.

► **From 5 April to 2 May 2027²:** Official campaign

The official campaign, which begins on 5 of April, is a heavily regulated period during which airtime equality is strictly enforced on television and radio, and public billposting is reserved exclusively for official candidates. It begins only fifteen days prior to the first round. The results are announced on the evening of polling day. It is important to note that the eve of the second-round falls on 1 May, International Workers' Day in France, a day typically characterised by heightened political activity and significant trade union mobilisation. However, the French Electoral Code dictates that the day preceding an election is subject to a period of electoral silence.

The next President of the Republic will take office on 14 May 2027, the date on which President E. Macron's mandate expires.

¹ In 2022, 12 candidates secured the requisite number of signatures, whereas the record of 16 candidates was established in 2002.

² According to the Constitution, the presidential election must take place at least 20 days and at most 35 days before the expiry of the incumbent President's mandate.

► **June 2027:** Early legislative elections?

In order to secure a majority in the National Assembly, the incoming President of the Republic is highly likely to dissolve the Assembly during the first days of her/his mandate. Alternatively, President E. Macron may choose an early dissolution to synchronise the presidential and legislative polls, though this does not constitute our baseline scenario.

Should the incoming President opt for snap elections, the legislative ballot must be held within twenty to forty days following dissolution, with a first round scheduled for 6, 13 or 20 June 2027.

French Presidential Elections: House of Cards

First Round: the race for second place remains wide open beyond M. Le Pen



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Nearly 40 candidates have already declared their intention to run in the presidential election - an unusually high number, though this will inevitably shrink once the sponsorship submission deadline passes. Certain candidacies could, however, be withdrawn in the event of cross-party alliances or the emergence of media-driven controversies. The record for the number of first-round candidates under the Fifth Republic stands at 16 (in 2002); yet presidential elections since 2007 have typically featured between 10 and 12 candidates in the first round.

According to recent polling institute estimates³, **Marine Le Pen** (National Rally) reaches the second round in all scenarios tested. Her first-round voting intentions currently hover between 32 and 35 % (See [Chart 1 & 2](#) and [Table 1](#)).

Meanwhile, the race for second place in the first round is tighter than ever, though the outcome remains uncertain. The most recent polls highlight an increase in second-rounds matchups between **Jean-Luc Mélenchon** (La France Insoumise) and Marine Le Pen. That said, the spread between J-L Mélenchon and the leading centrist candidate in the polls, **Edouard Philippe** (Horizons), fluctuates depending on the polling organisation and the projected scenarios. The latest poll available places M. Le Pen and J-L. Mélenchon as the candidates qualifying for the second round, yet the gap remains tight between La France Insoumise's candidate (17-18%) and the centrist bloc candidate (16-17 % assuming a consolidated candidacy between **G. Attal** (Renaissance) and E. Philippe). Nonetheless, it predicts 13 % for E. Philippe and 5 % for G. Attal should they run separate campaigns. Separately, an alternative poll⁴ conducted a fortnight earlier indicated a mere 1.5 pp spread between the LFI and Horizon candidates, a margin that persists even assuming the incumbency of G. Attal.

R. Glucksmann (Place Publique), representing the social-democratic wing, is credited with around 11% of voting intentions depending on the configuration. B. Retailleau, the candidate for Les Républicains (traditional right), is currently polling at around 7-10%. Despite having a very strong local grass-roots network, the party is currently struggling to reach the 10% threshold nationally. D. Lisnard (liberal right) rarely polls above 3% in surveys but is highly likely to secure the 500 sponsorships required to sustain his candidacy and is credited with a more than 10% chance of victory on alternative online prediction platforms. More candidates are running for the 2027 elections, see [France: Q&A Less Than a Year Ahead of the French Presidential Election](#).

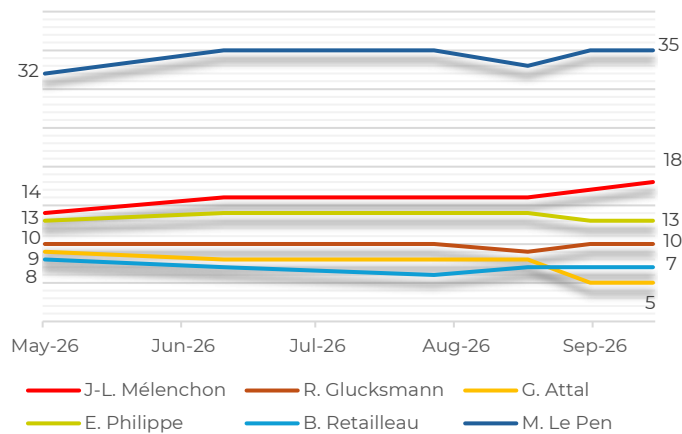
With the 2027 presidential election just under six months away, polling data at this stage of the electoral cycle should be treated with due caution. The electorate can implement strategies regarding their vote (*vote utile*) and choose to support the candidate they consider most likely to qualify for the second round, and to beat the far-right party. In this view, the low scores achieved by V. Pécresse (4.8% of the vote against 12% in the opinion polls one year prior) and A. Hidalgo (1.75% versus 5-10%) in the last presidential election was primarily due to the fact E. Macron was seen as the most viable candidate to defeat M. Le Pen.

³ Toluna-Harris Interactive poll for M6 and RTL, published on 28 September 2027.

⁴ Ipsos-BVA, 13 September 2026

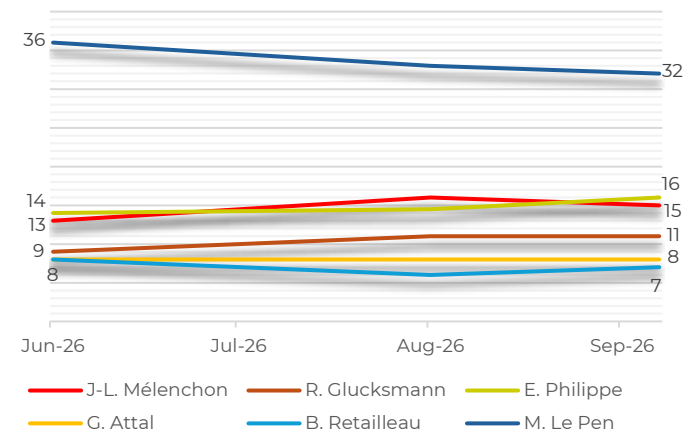
Those dynamics are seen in the late stage of the campaign, with polls becoming more accurate around that time. Thereby, candidates gaining (losing) momentum are systematically underestimated (overestimated) a year before the vote due to the “tactical voting” effect.

Chart 1: Main potential candidates for the presidential election



Sources: Toluna-Harris (29 May – 12 October), Natixis CIB

Chart 2: Main potential candidates for the presidential election



Sources: Ifop (26 June – 2 October), Natixis CIB

Furthermore, in several recent Presidential elections, the eventual winner was a late-emerging candidate. Absent a breakthrough by candidates from the centrist bloc, the possibility remains that a candidate, whether declared or undeclared at this juncture, could rally in the polls, potentially catalysed by a standout performance in the debates. For instance, past presidents were not always the favourites for the position 6 months prior. In 2017, half a year before the ballot, E. Macron was credited with 15.7 % of the voting intentions for the polls and F. Fillon was the projected winner, meanwhile E. Macron’s final score for the first round was of 24 %. Polls began forecasting his advancement to the second round in January 2017, a mere four months prior to the election, driven primarily by the allegations of fictitious employment involving the wife of F. Fillon, who had previously been the anticipated opponent to face MS Le Pen in the run-off.

This situation has been seen in 1995, when E. Balladur was tipped to become president, and J. Chirac subsequently won the election, as in 2002 with a switch between L. Jospin and the re-elected president J. Chirac. In 2007, the polls were accurate, and in 2012 they were broadly accurate, with a hesitation between M. Aubry and F. Hollande as the candidate. As a reminder, eight months prior to the October 2011 Socialist primary, F. Hollande garnered a mere 11% of voting intentions⁵ for the socialist primary election. In 2022, polls realised 6 months before the ballot were right about E. Macron being the leading candidate in the first round.

The identity of the second qualifying candidate will depend on:

- **The number of candidates:** A crowded field lowers the qualification threshold, theoretically making a run-off between two extremist candidates more plausible⁶. In this regard, the fragmentation of candidacies in the political centre represents a substantial risk of yielding a double-extremist second round, which is why we believe a consolidation of certain platforms is highly likely.

⁵ Ifop Opinion, 14 February 2011

⁶ Conversely, in 2022, J-L. Mélenchon missed out on qualifying for the second round by a mere 400,000 votes, which represented half of the votes garnered by the Communist candidate F. Roussel.

- **Turnout rates:** Low turnout tends to favour the extremes, whose electorates are typically more easily mobilised.
- **Polling momentum:** Tactical voting dynamics (vote utile) will accelerate as polling day nears.

Table 2: Main potential candidates for the presidential election

PARTIES		CANDIDATES	2022	Glucksmann Attal Philippe	Glucksmann Attal	Glucksmann Phillipe
RECONQUETE		E. ZEMMOUR	7% (E. ZEMMOUR)	5%	5%	4%
NATIONAL RALLY		M. LE PEN	23.0% (M. LE PEN)	35%	36%	36%
DEBOUT LA FRANCE		N. DUPONT-AIGNAN	2.10% (N. DUPONT-AIGNAN)	2%	2%	2%
LES REPUBLICAINS		B. RETAILLEAU	4.80% (V. PECRESSE)	7%	10%	7%
HORIZONS		E. PHILIPPE	-	13%	-	17%
RENAISSANCE		G. ATTAL	27.80% (E. MACRON)	5%	12%	-
PLACE PUBLIQUE		R. GLUCKSMANN	-	10%	11%	10%
ECOLOGISTS		M. TONDELIER	4.60% (Y. JADOT)	2%	3%	3%
LA FRANCE INSOUmise		J-L. MELENCHON	21.90% (J-L. MELENCHON)	18%	18%	18%
FRENCH COMMUNIST PARTY		F. ROUSSEL	2.30% (F. ROUSSEL)	2%	2%	2%
LUTTE OUVRIERE		N. ARTHAUD	0.60% (N. ARTHAUD)	1%	1%	1%

Sources: Toluna-Harris (12 October), Natixis CIB

Second round: What do the polls say?

Two main configurations emerge for the second round according to the latest polls:

- ▶ **Le Pen-Mélenchon:** In a second-round run-off between M. Le Pen and J-L. Mélenchon, the National Rally candidate is projected to emerge victoriously by a large margin (67-33% according to a recent Toluna-Harris poll, see [Table 2](#)). This outcome is primarily driven by the high rejection rates associated with the La France Insoumise candidate, alongside a pronounced projected transfer of votes among B. Retailleau's electorate (68% supporting the RN versus 3% for LFI). Conversely, supporters of Horizons, Renaissance, and Place Publique would predominantly opt for abstention or blank ballots (at 58%, 54%, and 61% respectively). Centrist bloc voters designate M. Le Pen as their secondary preference (33 % for Horizons voters and 30 % for Renaissance's), whereas R. Glucksmann's electorate would pivot towards J-L. Mélenchon (30%).
- ▶ **Le Pen-Central block** (Phillipe or Attal⁷): If the election were held tomorrow, Marine Le Pen would stand an extremely high chance of winning, as she leads every single second-round matchup tested in the latest polls. However, experience shows that anything can happen in the year before a presidential election until the final list of candidates is officially locked in. Today's polls provide a snapshot of voter sentiment at this moment, but they do not pre-empt the final outcome in six months from now.

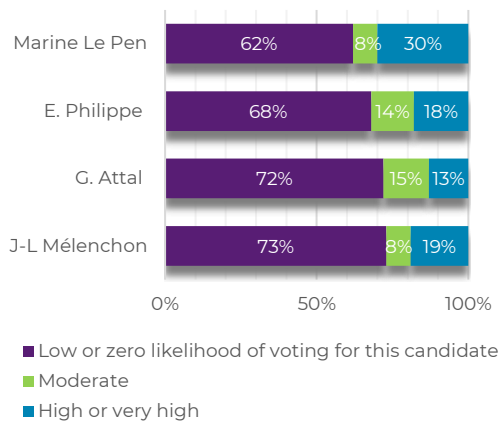
Eventually, the central bloc is not as well-ranked in the polls as a few months ago, but setbacks may occur. The Republican front (*Front Républicain*), seen during previous elections (notably legislative elections in 2024) to counter the far-right, can happen. Calls of from other parties to vote for the central bloc candidate in the second round can boost the odds for E. Philippe or G. Attal to access the Elysée. In the case of a second-round E. Philippe vs. M. Le Pen, votes from other main candidates would shift to E. Philippe.

The projected transfer of votes for the second round is overwhelmingly in favour of E. Philippe. Although La France Insoumise voters would predominantly opt for abstention (55 %), their secondary support would go to the Horizon candidate (35 %). Vote transfers from Place Publique and Les Républicains voters would primarily back the leader of the Horizon party (61% and 47% respectively). Although these substantial transfers do not currently translate into a poll lead for E. Philippe, these flows could be further amplified in the event of a call for a "*front républicain*". Although the economic platforms remain partially undefined at this stage, fiscal and economic credibility could emerge as a decisive driver of support for the centrist bloc, as debt reduction is an increasing concern among French citizens⁸.

⁷ As of today, G. Attal is the lowest ranked in the polls to qualify for the second round, even under the hypothesis that he runs as the sole candidate for the centrist bloc.

⁸ According to the Toluna-Harris poll of 28 September, 26% of respondents identify debt and deficit reduction as the primary determinant of their vote in the 2027 presidential election.

Chart 3: Rejection rates of the leading candidates



Source: Politico and Cluster 17

Table 3: Voting intentions for the second round of the 2027 presidential election

	Mélenchon (LFI)	Philippe (Horizons)
Mélenchon (LFI)	33	
Philippe (Horizons)		44
Le Pen (Rassemblement National)	67	56

Source: Toluna-Harris (12 October)

Legislative elections: the third half

The French bicameral legislature comprises the Senate and the National Assembly. Together, they constitute the legislative branch, tasked with drafting legislation and exercising executive oversight. This system ultimately favours the National Assembly, in the event of a persistent legislative deadlock between the two chambers. The Government can grant the "final word" to the National Assembly, reflecting its direct democratic mandate. Conversely, while the Senate remains immune to dissolution, the National Assembly is subject to executive dissolution powers.

This institutional mechanism was triggered on 9 June 2024, followed by a two-year period of a fragmented parliament and a relative majority for the presidential coalition. The snap election yielded a highly fractured assembly, with no single bloc securing an absolute majority and a state of legislative paralysis that persists to this day (Chart 4). A further dissolution is widely anticipated and even announced by several presidential contenders. Such a move is viewed as a strategic attempt to secure a functioning Assembly to navigate the impending fiscal and budgetary headwinds. Meanwhile, E. Macron has ruled out any further legislative dissolution prior to the next scheduled elections.

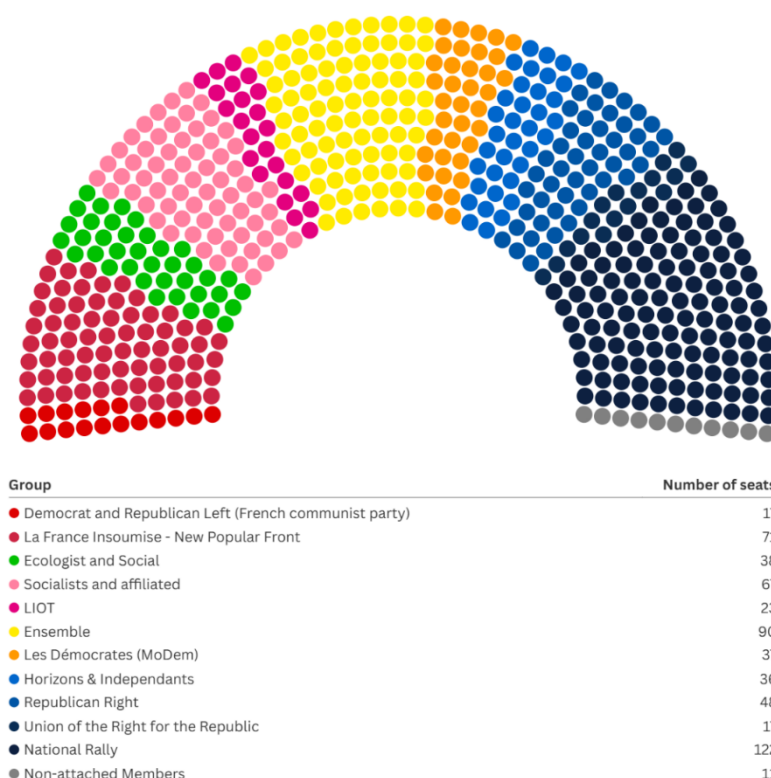
We consider four scenarios:

- Marine Le Pen elected, and a dissolution giving her – or not – a majority;
- Edouard Philippe or a centrist candidate elected, and a dissolution giving him – or not – a majority.

Regardless of who wins, the incoming President is not guaranteed a majority in the National Assembly. The most likely outcome remains a three-way fragmentation of the lower house, reinforced by the voting system and the tactical withdrawal of candidates, as seen in 2024⁹. In a divided Assembly, this configuration will restrict the implementation of the presidential program, both in terms of fiscal adjustments and structural reforms. Alliances will therefore be necessary, which in turn limits the risk of radical economic policies being enacted.

However, a "grace period" momentum allowing the newly elected President to sweep the subsequent legislative elections cannot be ruled out, as rival parties that failed to reach the presidential run-off could collapse rapidly.¹⁰

Chart 4: National Assembly composition ¹¹



Sources: Assemblée Nationale, Natixis CIB

⁹ During the 2024 legislative elections, a strategic coalition known as the "Republican Front" was mobilised. In the event of a three-way second-round runoff, the third-placed candidate from either the left-wing or the presidential coalition would withdraw their candidacy, if they agreed with this strategy, to consolidate the vote against the National Rally, which held a leading position in most runoffs.

¹⁰ In 2017, the presidential majority, comprised of La République en Marche and MoDem, won an absolute majority in the National Assembly with a total of 350 out of 577 seats, whilst Les Républicains lost 84 seats.

¹¹ After the dissolution, the New Popular Front had 184 seats, the presidential majority 166 and the National Rally 143.

Consolidation is Necessary to Stabilize Public Debt



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The French public deficit is projected to widen to 5.4% of GDP in 2026 ([Chart 1](#)), up from 5.1% in 2025. Although the government initially targeted a 5% deficit, several factors are expected to weigh heavily on state revenues because of lower-than-expected domestic economic activity.



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For 2027, the government has announced a €54 bn savings plan aimed at bringing the deficit down to 5% (as opposed to an estimated 6.4% without these consolidation measures, see [France: Looking Beyond the 2027 Budget](#)). The scale of this effort is unprecedented outside of post-crisis recovery periods. This raises significant credibility questions, particularly given that:

- The National Assembly remains deeply fragmented, leaving the government without a clear majority to pass these measures as originally designed;
- The government's 2027 GDP growth assumption of 1% appears optimistic compared to our own forecast of 0.8%.

For these reasons, we expect a deficit closer to 5.5% in 2027. Should this situation materialise in 2027, it would represent the fifth consecutive year that the government has registered a deficit exceeding 5% (the last deficit below this threshold being in 2022 at 4.7%). Consequently, whilst France has experienced the largest increase in its debt-to-GDP ratio since the Covid-19 pandemic ([Chart 2](#), yellow bars), it is also expected to record the sharpest rise over the next two years. Moreover, this ratio is expected to breach the 120% GDP threshold by the end of next year, representing the second-highest public debt-to-GDP ratio among the major Euro area economies.

Chart 1: France public deficit (% GDP)

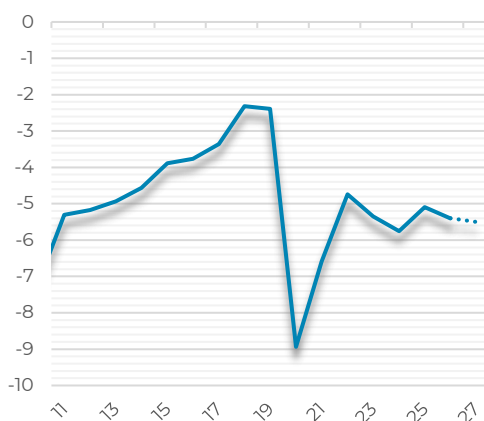
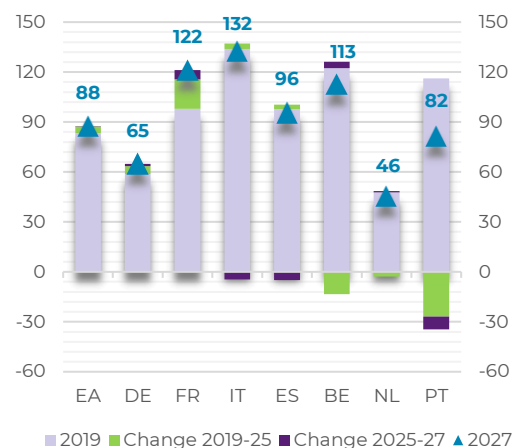


Chart 2: Public debt-to-deficit ratio (% GDP)



Sources: National accounts, Natixis CIB Research

Going forward the primary areas of concern remain the trajectory of structural spending (particularly social expenditure) and the cost of debt servicing which are expected to increase substantially in a no policy change scenario ([Chart 3](#)). Driven by the current high-interest rate environment, debt service charges could reach 4% of GDP by the end of the decade ([France's Rising Public Debt: The Bill Comes Due](#)), compared to 2.2% in 2025.

Considering the uncertainty surrounding the upcoming presidential elections and the composition of the future Parliament, the projected path of the deficit raises questions about the future debt trajectory. We aim to address this question by establishing four deterministic scenarios to assess these dynamics:

- **Scenario 1 (SC1):** The 2027 deficit reaches 5.5% following 5.4% in 2026, and the newly elected president secures a parliamentary majority to reduce France's deficit, bringing it back to 3% by the end of the presidential term in 2032 (representing an annual consolidation of 0.5% of GDP/year). Tensions on financial markets ease, and the debt service burden increases to reach 3.5% of GDP by 2030, in line with our 'market forward - 100bps' scenario in [Chart 3](#). This significant primary deficit consolidation (around 0.7% GDP/ year) results in the economy operating below its potential for a prolonged period, leading to nominal GDP growth of 2% per annum.
- **Scenario 2 (SC2):** The government fails to reduce its deficit sufficiently to meet the 3% target by 2032 but nevertheless manages to consolidate its structural primary deficit at a pace of 0.3% per year. This consolidation exerts a negative, albeit more moderate, impact on growth, resulting in nominal GDP growth of 2.2% per annum. Market tensions also subside, leading to an interest rate environment consistent with the 'market forward -100bps' scenario.
- **Scenario 3 (SC3):** Whilst structural primary consolidation and growth conditions are similar to our SC2 scenario, tensions on financial markets persist, and the debt service burden reaches 4% of GDP by 2030. The consolidation of the structural primary deficit is only sufficient to offset the rising cost of debt service, meaning the overall deficit remains at 5.4% until 2030.
- **Scenario 4 (SC4):** No parliamentary majority is achieved, and the new government only manages to maintain the structural primary deficit at its 2026 level of 2.8%. Consequently, growth tracks its potential, with nominal GDP growth averaging 2.5% per year. Financial markets demand an additional risk premium of 50bps relative to our forward scenario. The debt service burden reaches 4.4% of GDP, and the overall deficit widens to reach 6.5% by 2030.

By applying these four scenarios, we can map out the future path of the debt ratio, breaking down the extent to which it is driven by the primary deficit and the snowball effect (or $r-g$).

Chart 3: Interest paid on public debt (% GDP)

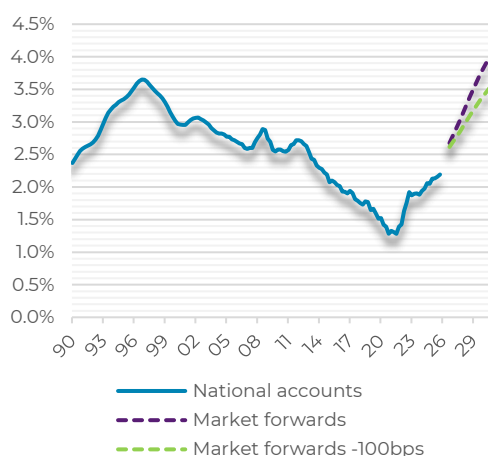
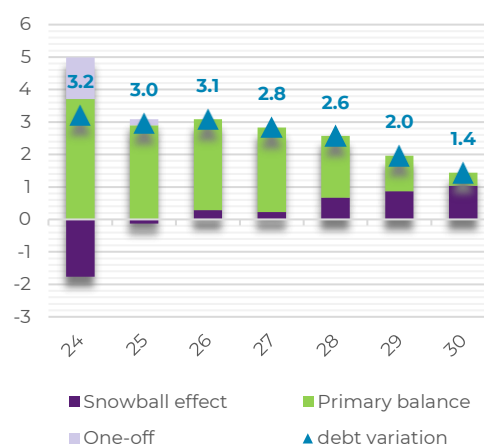


Chart 4: Public debt-to-GDP ratio variation under SC1



Sources : LSEG Workspace, Natixis CIB Research

Under a scenario of returning to 3% of public deficit by the end of the presidential term (SC1), debt would rise each year until 2030 (Chart 4). Indeed, whilst the consolidation of the primary deficit allows for a return to a primary surplus by 2030, this remains insufficient to offset the positive contribution of the snowball effect, which becomes the main driver of the increase in public debt from 2029 onwards. Nevertheless, over the 2025–2030 period, the primary deficit is expected to remain the primary component driving public debt upwards (Chart 5). Hence, despite a proactive action from the future government to consolidate its deficit, the public debt is expected to reach 127% of GDP by 2030 (Chart 6).

Chart 5: Debt-to-GDP ratio variation and breakdown over the period 2025-2030 under the four scenarios (% GDP)

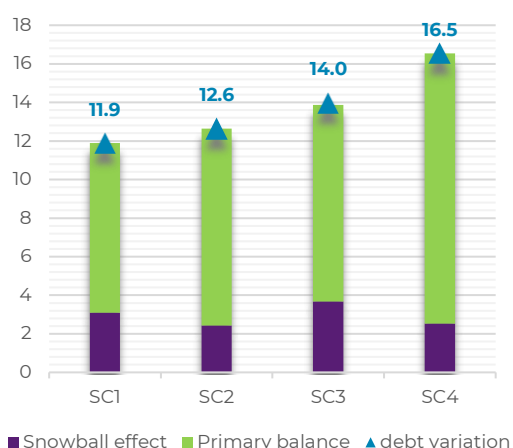
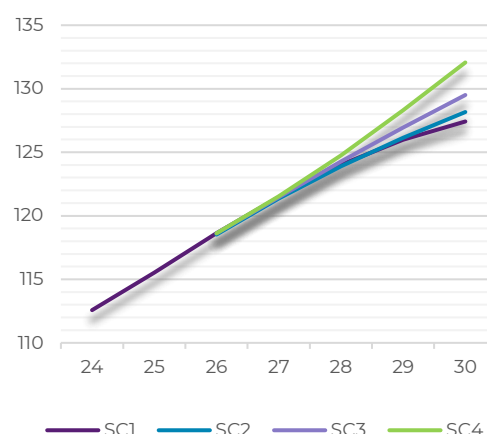


Chart 6: French public debt-to-GDP ratio under different scenarios



Sources: Bundesbank, National accounts, Natixis CIB Research

Our other scenarios all point toward a higher debt than our SC1 scenario which allows us to draw several conclusions:

- The snowball effect must now be regarded as a factor that actively increases French public debt, mirroring the situation in Italy. Indeed, with France's nominal growth now smaller than the average effective interest rate—even when the economy is operating at its potential—the higher cost of debt will make stabilizing public debt increasingly difficult.
- Under a scenario of no primary deficit consolidation (SC4), public debt will inevitably rise and at a faster pace than a scenario including some consolidation. In this scenario, French public debt could surpass Italy's public debt level by 2030.
- None of our scenarios point to a stabilization of the public debt level over the short to medium term. Achieving this will require a sustained and substantial consolidation effort of the primary deficit by around 4% of GDP. The longer the future government waits, the more difficult it will become to stabilise it.

First Assessment of the Economic Programmes


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The economic blueprints of the main candidates have not yet been fully detailed. However, the current concerns of French voters—largely dominated by economic issues (purchasing power, housing, public debt, etc.)—will inevitably shape the parties' platforms, even if the broad strokes are likely to be carried over from previous manifestos presented during the June 2024 legislative elections (see our previous analysis: [Deep dive into French elections](#)).

It is worth noting that several candidates aim for a sharp reduction in the deficit by 2032: below 2.5% of GDP for Marine Le Pen, and down to 2% for both Édouard Philippe and Gabriel Attal.

The Roadmap of the Rassemblement National

Marine Le Pen set out on 6 October a roadmap for the Rassemblement National's (RN) economic programme, promising "€140 billion in net savings" over five years.

This fiscal tightening would rely on a frontloaded consolidation effort, aiming to restore a primary surplus within the first 18 months of taking office and targeting a primary surplus of 1% of GDP by 2032. Ms Le Pen has also committed to bringing the budget deficit below 2.5% by the end of her presidential term, in tandem with a public debt target of 112% of GDP. Furthermore, fiscal discipline would be enshrined in the Constitution through a "golden rule" integrating a hard deficit ceiling set at the debt-stabilising threshold for France. In other words, French public debt would follow a strictly flat or downward trajectory, with the ultimate ambition of returning to the 60% debt-to-GDP ratio to comply with European commitments.

To reduce the budget deficit, the programme outlines a drastic reduction in public spending, targeting a public spending-to-GDP ratio below 50%, down from 57.2% in 2025. This would involve a dual programme of spending cuts alongside tax reductions, given that revenue reached 52.1% of GDP in 2025.

The €140 billion fiscal effort is broken down into €244 billion in new revenues and savings, €49 billion in tax cuts, and €54 billion in new spending.

Table 1: National Rally Economic Program

New Revenues & Savings	Amount	Tax Cuts & New Spending	Amount
State, state operators, and local authorities	58.3	Tax cuts	-49
Social Security	53.1	Spending increases	-54
Immigration	29.0		
Energy, networks, concessions	29.0		
Fraud (VAT, public procurement)	23.8		
European Union (contribution cut)	19.5		
Large corporations	10.9		
Households (higher taxation/lower benefits)	11.1		
Others	8.2		
Total	244	Total	-103

Source : National Rally

Our take: the RN has not yet published the detailed metrics of these measures, and further changes are likely in the coming weeks. Nevertheless, this project relies on additional GDP growth assumptions of +2.8 percentage points (pp) over five years, with only a 0.5 pp contractionary drag at the start of the period—an estimate that appears overly optimistic to us, particularly in the short term. Indeed, under the Mésange macroeconomic model developed by the DG Trésor and INSEE, the one-year multiplier effect is -0.78 GDP points for a negative public spending shock (unfinanced by revenue increases), compared with -1.31 points for a negative public investment shock.

Furthermore, several proposed spending cuts—particularly regarding social security, public agencies, local authorities, energy, networks, and fraud prevention—remain vague or undocumented. Finally, measures targeting immigration and the reduction of France's contribution to the EU budget—which together account for a third of the net consolidation effort by 2031—appear legally fragile. Additionally, the associated savings are likely over-estimated, especially regarding immigration (restricting benefits to French nationals, replacing state medical aid [AME] with emergency medical aid [AMU], taxing money transfers, and levying a tax on hiring foreign workers). Conversely, the costing of some additional spending, such as lowering VAT on energy to 5.5% (€12 billion), is in line with our previous calculations.

La France Insoumise

The new version of "L'Avenir en commun", Jean-Luc Mélenchon's manifesto, will be presented on 6 and 7 November and will subsequently be subject to a more detailed analysis. For the proposal to cancel the government debt held by the Banque de France, please refer to [Cancelling Public Debt : A well-intentioned mistake](#).

Pension Reform: The Fault Line Between Candidates

France is one of the European Union countries that dedicates the largest share of its economic output to funding public pension expenditure. In 2022, France spent 14.4% of its GDP on pensions, compared with 10.4% in Germany. Furthermore, the average age of exit from the labour market is lower in France than in most OECD countries. According to a recent [study](#) by the French Treasury (see Combier C., October 2026), men in the OECD retire on average at 64.7 years and women at 63.6 years. In France, these figures stand considerably lower, at 61.9 years for men and 62.4 years for women. Finally, France stands out as the country with the highest relative standard of living for pensioners among those monitored by the Pensions Advisory Council (COR): households aged over 65 had a standard of living equivalent to that of the overall population.

Consequently, raising the legal retirement age is a pivotal lever for restoring public finances, and serves as a major dividing line among candidates—especially since the 2023 reform raising the statutory retirement age from 62 to 64 has been suspended until January 2028 under the Social Security Financing Bill (see [France has a Social Security Budget for 2026](#)). The RN wishes to return to a statutory retirement age of 62 (60 for long careers), a stance shared by Raphaël Glucksmann (62). Jean-Luc Mélenchon advocates lowering it to 60. Conversely, Édouard Philippe wants to raise it to 65, while Gabriel Attal proposes abolishing the legal retirement age altogether, replacing it with a system based solely on the contribution period. On this matter, the estimates provided by the DG Trésor are unequivocal: after 10 years, a one-year increase in the statutory retirement age improves GDP by approximately 0.6 percentage points (circa €18 billion). Meanwhile, a €6 billion increase in employers' social security contributions reduces GDP by approximately 0.3 percentage points (€9 billion).

A 3D bar chart with red and blue bars on a grid background. The bars are arranged in a series of groups, with the red bars generally higher than the blue bars. The background is a dark blue grid with white lines. The text "Rates, ECB and covered bonds" is overlaid on the bottom right of the image.

Rates, ECB and covered bonds

Is Rating Agency Patience Wearing Thin?

The Autumn Review Triggers New Negative Rating Decisions


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Fitch affirmed France's credit rating at A+ with a stable outlook on 28 August 2026. Nevertheless, we see a very high probability of a revision to a negative outlook at the next review in 2027, or indeed a downgrade should the government fail to pass this year's Budget. In its post-budget analysis, Fitch explicitly warned that France's rating remains weighed down by high and rising debt, low potential growth, and a political and social backdrop that severely hampers fiscal consolidation. The agency noted that a failure to achieve substantial progress on deficit reduction—primarily due to ongoing political fragmentation—could prompt a negative outlook, with any further substantial rise in government debt subsequently triggering a downgrade.

We expect **Moody's** (Aa3, negative outlook) to downgrade France to A1 during its review on October 23, a move already priced in by the market. Moody's is the last of the three major agencies to maintain a rating equivalent to AA- (Table 1).

For **S&P's** review on November 27, 2026, a shift from A+ stable outlook to A+ negative outlook appears highly likely given recent developments (slowing growth, an upward public debt trajectory through at least 2030, rising debt servicing costs, a 2026 deficit exceeding 5%, risks surrounding the 2027 budget, and persistent political instability). In addition, we see, with a non-negligible risk of a direct rating downgrade end November or downgrade in 2027.

This cautious stance is shared by other agencies. **DBRS** shifted France's outlook to negative in September while maintaining its AA rating on 18 September 2026, whilst **Scope Ratings** downgraded the sovereign to A+ with a stable outlook on the very same day.

Table 1: Recent Ratings Actions

Agencies	Rating	Outlook	Last Decision	Provisional Date of Next Decision	Natixis Expectations for the next review
Fitch	A+	Stable	August 28, 2026	2027	Neg Outlook
Moody's	Aa3	Negative	April 10, 2026	October 23, 2026	Downgrade to A1
Standard & Poor's	A+	Stable	May 29, 2026	November 27, 2026	Neg Outlook
DBRS	AA	Negative	September 18, 2026	2027	Downgrade to A+
Scope	A+	Stable	September 18, 2026	2027	Neg Outlook

Sources: Ratings agencies, Bloomberg, Natixis CIB

Key Drivers for Potential Further Downgrades

The rating agencies have been explicit regarding the factors driving their recent downgrades and outlook revisions, setting out clues for further action. These primarily revolve around three interconnected challenges.

- **First, a marked deterioration in growth perspectives.** We have revised our French GDP growth forecasts down to just 0.5% for this year and 0.8% in 2027, compared to the 1.1% projected at the start of the year prior to the outbreak of the Middle East conflict. This downward revision has only been partially incorporated by rating agencies (see [Table 2](#)).

Table 2: Forecasts

	GDP Growth		Public Deficit		Public Debt	
	2026	2027	2026	2027	2026	2027
Natixis (October 2026)	0.5%	0.8%	-5.4%	-5.5%	119.3%	122%
Government (September 2026)	0.5%	1.0%	-5.4%	5.0%	119.3%	121.7%
Fitch (August 2026)	0.8%	1.1%	-5.2%	-5.5%	-	122.7% by 2028
Moody's (April 2026)	1.0%	1.1%	-5.0%	-4.8%	117.2%	118.3%
S&P (October 2025)	1.0%	1.2%	-5.3%	-5.6%	116.6%	118.9%

Sources: Ratings agencies, Bloomberg, Natixis CIB

- **Second, the continued deterioration in the fiscal outlook**, characterised by persistently high fiscal deficits, rising interest expenditure and a growing public debt burden. France's fiscal deficit is expected to exceed the 5% threshold for the third consecutive year, reaching 5.4% in 2026 (following 5.1% in 2025 and 5.8% in 2024), marking two major fiscal slippages in less than three years. Stabilising the public debt ratio would require a fiscal effort of approximately €135bn (circa 3.5 percentage points of GDP)—an adjustment made significantly more arduous by rising financing costs (see our previous note). Fitch highlighted this execution risk in its budget review, pointing out that interest payments have rapidly emerged as a key expenditure pressure, set to increase cumulatively by 0.8% of GDP between 2026 and 2028 (up from 0.3% of GDP estimated a year ago). In particular, the absolute level of public debt increasingly penalises France's credit profile. Fitch illustrated this vulnerability by noting that, at 122.7% of GDP by 2028, France's debt-to-GDP ratio would stand at more than double the projected median of its 'A'-rated peers.
- **Finally, the challenging political outlook characterized by heightened fragmentation and polarization.** The political gridlock limits the executive's capacity to pass the budget and implement structural reforms. Crucially, the 2026 Budget cycle led to the suspension of the landmark 2023 pension reform (which was gradually raising the statutory retirement age from 62 to 63), a policy reversal highlighted as a credit-negative event by several agencies.

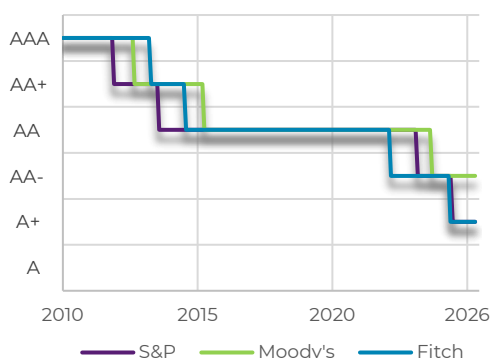
In our view, this combination of weaker-than-expected growth, persistently wide deficits, and a rising debt trajectory projected to persist until at least 2030—all playing out against a backdrop of political fragmentation likely to last until at least June 2027—provides justification for further outlook revisions and downgrades in 2027, failing a rapid turnaround in these metrics.

How Low Can France's Rating Go?

France's sovereign rating continues to be anchored by its structural strengths. These include the country's pivotal role in Europe's economic, financial, and security architecture, its economic resilience, high household savings, excellent market access, and a robust banking sector.

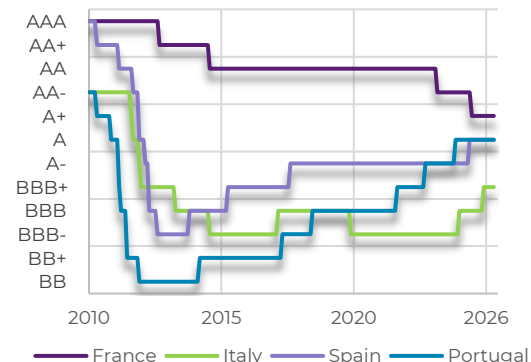
Nonetheless, France's creditworthiness has been on a downward trajectory since S&P stripped the sovereign of its "AAA" status in January 2012. This trend has accelerated significantly since the dissolution of parliament in June 2024, ending a period of relative rating stability (Chart 1).

Chart 1: French ratings



Sources: Ratings agencies, Bloomberg, Natixis CIB

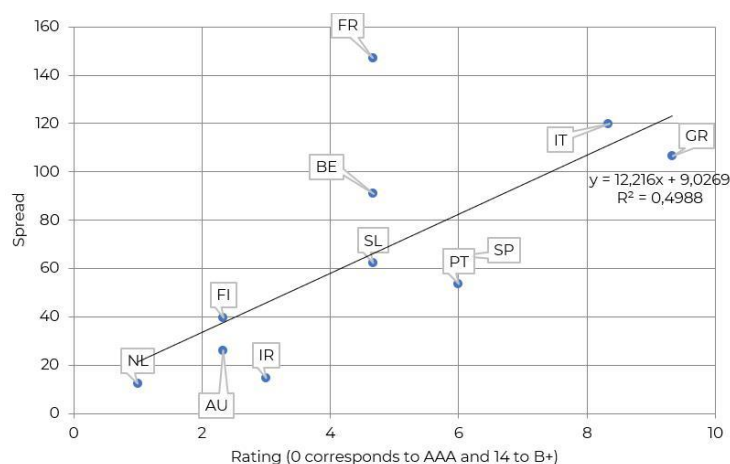
Chart 2: French average ratings vs. peers



Sources: Ratings agencies, Bloomberg, Natixis CIB

When mapping France's rating against its 10-year OAT-Bund spread (see Chart 3), the market appears to have priced in multiple notches of downgrades. Whilst we view this market reaction as somewhat excessive, the euro area sovereign debt crisis taught us that downgrades can occur with high velocity (Chart 2). Furthermore, S&P's decision to downgrade France in October 2025 outside of its scheduled calendar review serves as a stark reminder that the rating timeline can accelerate rapidly in the event of adverse shocks or a sudden loss of market

Chart 3: Sovereign ratings vs. 10Y- spreads



Sources: Ratings agencies, Bloomberg, Natixis CIB

The number of future downgrades will therefore hinge on the government's ability to durably meet its deficit reduction targets in order to stabilise public debt by 2030. The trajectory of France's sovereign rating will also depend on the country's capacity to regain institutional stability once the presidential and legislative elections are concluded in June 2027.

Rates – OATs: More Pressure for a Longer Time?

What is behind the current pressures?



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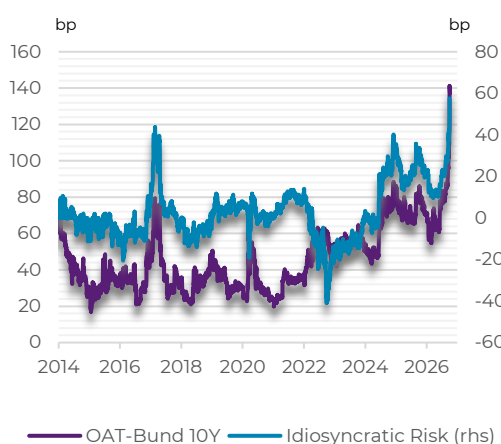
Markets have not waited for the formal start of the 2027 presidential campaign to put pressure on French sovereign debt. The 10Y OAT-Bund spread moved above 140bp at the end of September for the first time since 2012, with volatility accelerating sharply in the final days of the month. In our view, this is not primarily a generic risk-off move. It reflects the combination of a sustained bear market in rates and a sharp repricing of France-specific fiscal and political risk.

France is particularly vulnerable to the current rise in rates. As one of the most indebted sovereigns in the euro area, it is more penalised than most peers when yields move higher, especially now that the marginal funding cost is above nominal growth. At the same time, political fragmentation makes it harder to deliver meaningful deficit reduction, which reinforces market pressure on French spreads.

This broader rate backdrop has interacted with a sharp rise in France's idiosyncratic risk premium. By our estimates, the France-specific component of the 10Y spread is now around 70bp, well above the levels seen during the August 2025 confidence-vote episode, the December 2024 Barnier collapse and the 2017 presidential election period, when Frexit risk was actively being priced. Political risk is therefore no longer a tail issue for OATs; it has become an explicit and material component of daily pricing.

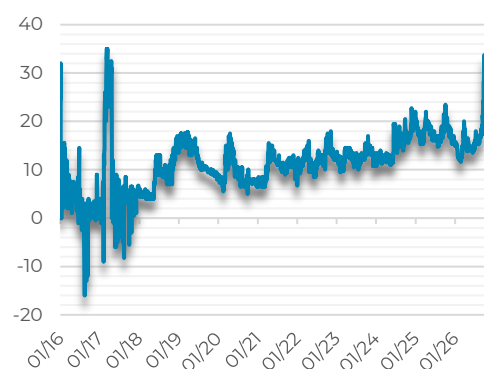
The market is increasingly looking beyond the budget vote and toward the broader electoral distribution. Polls pointing to a high probability of a Le Pen / Mélenchon second round would likely keep this premium elevated, reflecting both uncertainty over the fiscal path and a more adversarial stance toward European institutions. This is also visible in the CDS market, where the widening between the D14 and D03 contracts — a rough proxy for redenomination risk — has moved close to the levels seen in 2017.

Chart 1: 10Y OAT-Bund spread & idiosyncratic risk index



Sources: Bloomberg, Natixis CIB

Chart 2: French CDS D14 – D03 as a “Frexit risk” proxy



Sources: Bloomberg, Natixis CIB

As we mentioned [in a recent paper](#), the situation can be analysed as a strategic game between investors, France and the European institutions (foremost among which is the ECB). The practical implication of this framework is that market dynamics appear highly unlikely, with several possible equilibria and despite the goodwill of the players involved. In the best-case scenario, investors would capitalise on the attractive levels of OAT debt (relative to swaps and the Bund), the French government would succeed in building a consensus around the need to consolidate the public debt trajectory. On its side, the ECB would implement its defensive measures (forward guidance, the pace of quantitative tightening) to ensure, if necessary, a market environment focused on the pricing of fiscal risk rather than the fragmentation of the euro area. However, given that each group of market participants acts on the basis of its expectations of how other participants will react, thereby altering those very expectations, even a convergence of goodwill cannot guarantee a return to calm or that the issue will fall off investors' radar.

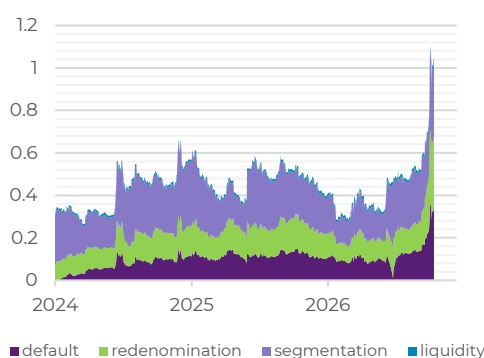
Therefore, the OAT curve is currently at a crossroads, with two possible market regimes. On the one hand, there is the scenario of the conventional repricing of fiscal risk, with an increase in the price of risk linked to a rise in supply against a backdrop of a general rise in interest rates. On the other hand, there is a more problematic scenario involving the possible emergence of systemic risk for the eurozone, a more dangerous prospect because it entails contagion to other EGB yield curves and thus the need for massive derisking of non-resident exposures due to the loss of diversification potential within the investment universe. Yet this is a scenario which, paradoxically, makes it more likely that the ECB will intervene at some point to limit the contagion.

Although certain triggers might be envisaged in principle, the transition, which is unpredictable, to one regime or the other will depend on what the market actually prices into the OAT-Bund spread. A simplified decomposition of any EGB yield in core and various premia would go like this:

$$EGB \text{ yield} = \text{Core yield} + \text{term} + \text{credit} + \text{liquidity} + \text{fragmentation} + \text{redenomination}$$

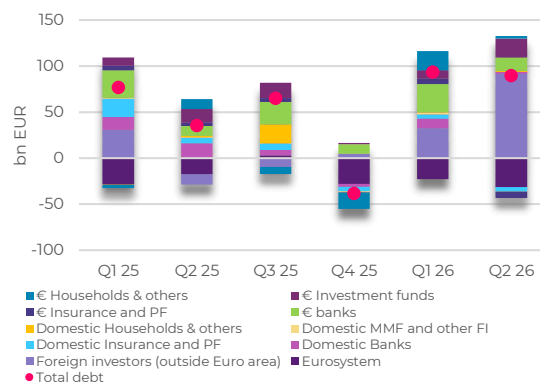
A fundamental shock would be associated with a persistent deterioration in the primary balance, nominal growth, debt-service capacity or political ability to implement fiscal measures. This shock would most likely be captured by the credit risk component. All else being equal, the situation would be painful but makes it easier for investors to assess a fair value on the OAT. On the other side, a fragmentation shock would be more consistent with abrupt spread widening, deteriorating liquidity, contagion across sovereign markets and a repricing disproportionate to fundamental news. Under its mandate (or its current interpretation of the mandate), the ECB can address the second category (see below) more readily than the first. Its backstops are designed to preserve a single monetary policy and orderly transmission, not to guarantee an unsustainable fiscal path.

Chart 3: OAT-Bund 10y spread decomposition (%)



Sources: Bloomberg, Natixis CIB

Chart 4: OAT supply absorption



Sources: Bloomberg, Natixis CIB

From the point of view of an investor looking to assess the relevant OAT risk for its portfolio, what will matter for the market during the presidential campaign will be less the day-to-day political noise than the direction of the medium-term fiscal regime. In our view, three questions will dominate. First, whether a broad enough political consensus emerges around the need to accelerate fiscal consolidation, regardless of who leads in the polls. Second, how the 2027 budget is ultimately executed, and whether France manages to avoid another deficit slippage that would make the required adjustment in subsequent years even more difficult. Third, whether the broader global rates backdrop becomes less punitive, as a sustained easing in long-end bond market pressure would materially reduce the strain on high-debt sovereigns such as France. In that sense, the key issue for OATs is not only political uncertainty in itself, but whether the election cycle helps restore confidence in France's fiscal trajectory at a time when the global bond environment remains far less forgiving than in the pre-pandemic period.

Potential Actions of the ECB

An augmented operational framework



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The ECB has repeatedly demonstrated its willingness to intervene when market tensions drive unwarranted asset mispricing across both sovereign and corporate debt. Since the 2008–2011 euro area sovereign debt crisis, central bank interventions—initially through the Securities Markets Programme (SMP) and OMT, and later via APP and PEPP—have been justified by a core tenet: price stability is impossible without financial stability. To this end, the ECB has established three modern policy pillars: the Transmission Protection Instrument (TPI) as a permanent backstop; structural refinancing operations to help banks manage balance-sheet maturity mismatches; and a structural asset portfolio designed to retain a permanent baseline of accumulated assets.

Risk scenario

Now, the question is not whether the ECB will intervene but rather when and how. We see three possible scenarios from here:

- ▶ **Scenario 1:** While hedge funds typically divest as sovereign spreads widen, wider spreads present buying opportunities for buy-and-hold institutions, such as insurers and real-money investors. The recent tightening of spreads reflects this dynamic. This arbitrage by institutional and tactical investors should alleviate market pressures, anchoring the 10-year OAT-Bund spread below 150 basis points. Such a scenario would relieve the pressure on the ECB. Should transitory turmoil affect bank funding costs, the fixed-rate full-allotment procedures in refinancing operations across various maturities would suffice to contain spreads.
- ▶ **Scenario 2:** If the previous arbitrage fails to materialise, or proves much weaker than expected, spreads could widen further, driven solely by a substantial spike in the French 10-year OAT yield. In this scenario, the ECB would monitor both relative spread differentials—France versus Italy, Spain, and others—and absolute yield levels. The central bank would likely adopt proactive communication, arguing that elevated sovereign and bank funding costs represent a de facto tightening of financial conditions with potentially severe macroeconomic consequences. While reiterating that its primary objective is to maintain market functioning and pricing continuity across systemically important segments—a message likely to dampen volatility—the ECB would also consider pausing or delaying its rate-hiking cycle.
- ▶ **Scenario 3:** A tail-risk scenario would see extreme market volatility, driven by a spike in French yields that triggers contagion across other highly indebted sovereigns, causing spreads to spiral out of control and fuelling a severe snowball effect across sovereign debt dynamics. In this event, the ECB's response would likely be threefold:
 - ♦ The first line of defence would be to slow or halt quantitative tightening, while shifting the composition of the securities portfolio where possible on an intra-year horizon rather than an annual average basis. Concurrently, the ECB would deploy its other backstop facilities to ensure sufficient liquidity provisioning to the banking sector.
 - ♦ Should these measures fail to calm market tensions, the ECB would activate the TPI, on the grounds that market volatility threatens the orderly transmission of monetary policy across the yield curve. To trigger this instrument, the ECB would need to demonstrate both the debt sustainability of the affected sovereigns and the credible risk of contagion.

- ♦ Finally, in the extreme event that French sovereign bonds lose market access, the ultimate line of defence would be activation of the Outright Monetary Transactions (OMT) programme in coordination with the ESM. This scenario would require two conditions: France must lose market access, and a structural adjustment programme—supervised by the European Commission, the ECB, and the IMF—must be imposed on the French government. We view this option as highly improbable, as the French OAT market is far too large for either the ESM or the OMT to absorb. Indeed, the creation of the TPI has arguably rendered the activation of the OMT largely redundant.

At present, the transmission of ECB monetary policy remains effective across the euro area, though recent market developments warrant close monitoring.

First, although France's financing costs are higher than those of Italy, Spain, Portugal, and Greece, a 10-year OAT yield of around 5% remains consistent with its macroeconomic fundamentals—namely a 5% budget deficit, sluggish growth, and elevated inflation. Second, the wider economic impact remains limited, as the vast majority of French mortgages are on fixed long-term rates, unlike in countries such as Spain. Third, France's robust institutions, well-capitalised banking sector, and strong industrial base mean that French assets remain highly attractive to many investors.

Concluding remarks

The European Central Bank's (ECB) recent monetary policy strategy review highlights the framework that will govern its future actions. We believe that this extensive suite of instruments—largely inherited from legacy crises—will enable the ECB to respond effectively to any shocks that threaten the transmission of monetary policy across the yield curve (for more, see [ECB toolkit: Mind the Gap](#)).¹² Should euro area sovereign spreads become highly volatile and unstable, we expect the ECB's first line of defence would be to adjust the pace of quantitative tightening, before activating the Transmission Protection Instrument (TPI) if necessary.

¹² See also Gérard, B. (2026), "A tale of French OAT and the ECB backstops", Market Insights Rates: October 2.

French Covered Bonds Likely to Maintain AAA Ratings in the Event of a Sovereign Downgrade



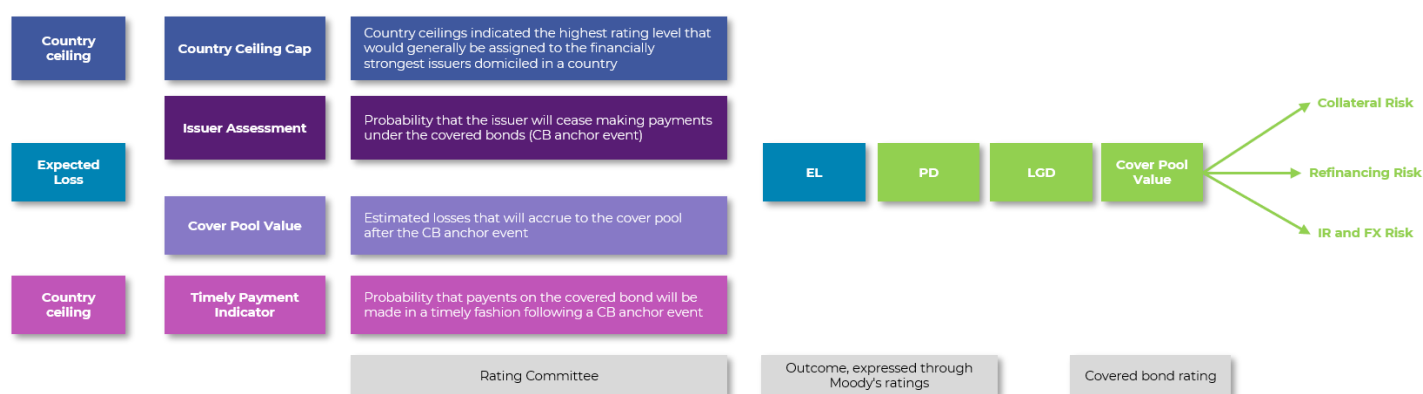
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A downgrade of France by Moody's on 23 October cannot be ruled out. We are therefore assessing the potential impact of such a scenario on the ratings of French covered bonds. Against this backdrop, we assess the potential impact on French covered bond ratings under Moody's methodology, while also looking at how a sovereign downgrade of France would be reflected under Fitch's and S&P's frameworks.

Moody's, Fitch, and S&P share some similar approaches when assessing the impact of a sovereign downgrade on covered bonds, including a sovereign cap that restricts covered bond ratings based on the issuer's sovereign rating and consideration of the issuer's credit quality. In addition, each rating agency analyses refinancing risk, with specific factors that may influence ratings.

Chart 1: Moody's covered bond rating methodology



Sources: Moody's

A downgrade of the sovereign's credit rating can impact the ratings of covered bonds through several key mechanisms:

- **The Local Currency Ceiling:** For EU countries, this ceiling is capped at six notches above the sovereign rating. A one-notch downgrade of France's country ceiling would not affect French covered bond ratings with this factor.
- **The issuer's credit strength:** Sovereign credit quality influences the banking macro profile and government support notching. Moody's Timely Payment Indicator (TPI) leeway measures the resilience of covered bond ratings against issuer downgrades. With a TPI leeway ranging from 1 to 5 notches, a one-notch downgrade of the issuer's rating is unlikely to affect most French covered bonds.
- **Value of the cover pool (credit quality and refinancing risk):** Based on the current methodology, Moody's may require higher overcollateralisation levels for French covered bonds, particularly those backed by public sector assets. To determine the maximum potential covered bond rating and the corresponding OC level, Moody's applies its Expected Loss Covered Bond Model (EL Model). This model is based on i/ the probability that the issuer will cease making payments under the covered bonds (probability of default) and ii/ the estimated losses that will accrue to covered bondholders should a CB anchor event occur (cover pool value).

The cover pool value consists of assessing the credit quality of the underlying assets, the refinancing risk of the cover pool and any potential interest rate and currency mismatches.

The credit quality of the cover pool, measured by the collateral score, determines the amount of loss resulting from credit deterioration of cover pool assets. The rating agency assesses this score with a distinct methodology depending on the collateral type. A sovereign downgrade could impact the collateral score, notably for public sector covered bonds.

To determine refinancing risk, Moody's specifically considers the refinancing margin. This is defined as the annual discount a purchaser would require to buy the assets, contingent on their market price at the time of refinancing. Refinancing margins are influenced by various factors, including market conditions and the sovereign rating. For instance, when the sovereign rating of the issuer's jurisdiction is downgraded from Aa3 to A1, the refinancing stress level increases significantly: from 175 to 275 for mortgage covered bonds and from 225 to 500 for public sector covered bonds. An increased refinancing margin correlates with a greater requirement for overcollateralisation.

Table 1: Refinancing stress levels linked to sovereign rating of issuer's jurisdiction

Sovereign rating of issuer's jurisdiction	Mortgage loans	Public sector loans
Aaa-Aa1	125	175
Aa2-Aa3	175	225
A1-A3	275	500
Baa1-Baa3	400	900
Ba1-Ba3	650	1,000
Lower than Ba3	1,000	2,250

Sources: Moody's

Cover pool loss floors for public sector covered bonds

To take into account the risk of an economic shock following a sovereign default, Moody's applies a cover pool loss floor for covered bonds backed by public sector assets subject to the following conditions: i/ if covered bonds are rated above the sovereign, ii/ the sovereign rating of the issuer's home country is below Aa3 and iii/ more than 25% of the outstanding balance of the cover pool consists of exposures to public-sector entities in the issuer's home country.

The rating agency applies six scenarios where the cover pool loss floors range between 12.5% and 25% when the sovereign is rated between A1 and A3. The cover pool loss floor depends on both the sovereign rating of the issuer's country and the share of domestic public-sector exposures in the cover pool.

Currently, cover pool losses of French public sector covered bond programmes are between 11% and 20%. This floor could influence the required level of overcollateralisation required to maintain the Aaa covered bond rating in case of France's rating downgrade.

Table 2: Cover pool loss floor when covered bond ratings are higher than the sovereign rating of the issuer's home country

		Public-sector exposures in issuer's country (% in the cover pool)		
		>25% and ≤50%	>50% and ≤75%	>75% and ≤100%
Sovereign rating of issuer's country	A1-A3	12.5%	20.0%	25.0%
	Below A3	25.0%	37.5%	50.0%

Sources: Moody's

Moody's scenario analysis highlights higher OC sensitivity for public sector covered bonds

Moody's also performs a set of scenario analyses to quantify how much **additional OC (in %)** would be required to preserve current ratings under various downgrade assumptions for the sovereign and/or the issuer.

First, the rating agency looks at a **one notch downgrade of the covered bond anchor** from Aa3 to A1 (i.e. a deterioration of the issuer/sponsor profile without changing the sovereign rating). In this case, French residential mortgage covered bond programmes would need, on average, only a limited OC increase of around 2% to maintain their current ratings, whereas **public sector programmes would require, on average, an OC increase** of around 3.5%. This already illustrates that public sector covered bonds are more sensitive to movements in the CB anchor than residential programmes.

Second, Moody's considers a **one notch downgrade of the French sovereign** itself from Aa3 to A1, holding the issuer profile unchanged. In this scenario, the impact on French home loan covered bonds is **minimal**, with an average additional OC need of only around 1% to preserve the Aaa rating. By contrast, the effect on public sector covered bonds is materially higher, reflecting their closer linkage to sovereign risk:

- ▶ For public sector programmes with low expected cover pool losses, Moody's estimates that an extra ~9% OC would be required on average;
- ▶ For those with higher expected cover pool losses, the additional OC need is still significant at around +7% OC.

Third, Moody's assesses a combined scenario, where both the sovereign and the sponsor bank are downgraded by one notch. Under this more adverse configuration, the incremental OC required becomes even more differentiated by asset class:

- ▶ **Public sector programmes** would need to increase OC by roughly 10% to 13%,
- ▶ While **residential mortgage programmes** would still only require an additional 2% to 4%.

To conclude, a downgrade of France would translate into a **meaningful, but essentially one off, OC increase for public sector covered bonds**, whereas the impact on residential mortgage programmes would be manageable. Even in more severe scenarios where the sovereign has to move further into the single A range, the agency indicates that this would **not trigger a change in its refinancing modelling assumptions** for French covered bonds. This highlights the robustness of the current structures and the sizeable OC cushions already in place, particularly for residential mortgage programmes.

Table 3: OC requirements by CB anchor level and sovereign rating scenario for French covered bond programmes

Residential	Low cover pool losses		
	CB Anchor	Sovereign Aa3	Sovereign A1
	Aa3	4%	6%
	A1	7%	8%
	A2	8%	9%

Residential	High cover pool losses		
	CB Anchor	Sovereign Aa3	Sovereign A1
	Aa3	13%	13.5%
	A1	15%	16.0%
	A2	17%	17.5%

Public Sector	Low cover pool losses		
	CB Anchor	Sovereign Aa3	Sovereign A1
	Aa3	4%	14%
	A1	8%	17%
	A2	10%	20%

Public Sector	High cover pool losses		
	CB Anchor	Sovereign Aa3	Sovereign A1
	Aa3	14%	19%
	A1	18%	25%
	A2	21%	29%

Sources: Moody's

Notes: (1) Assumptions for low and high cover pool losses are based respectively on the lowest and highest cover pool losses observed amongst the French CB issuers. (2) For public sector in A1 sovereign environment, cover pool losses are set at 20% for the low scenario and 25% for the highest scenario.

Table 4: French covered bond programmes rated by Moody's

Programme Name	Collateral type	Covered Bond Anchor	Covered Bond rating	Comitted OC	Current OC	Collateral score	OC consistent with covered bond rating	OC consistent with current under 1-notch CB anchor downgrade	Timely payment indicator (TPI)	TPI eeway	Surplus OC	Cover pool losses
Arkea Home Loans SFH	Mortgage	Aa2	Aaa	11%	26%	4%	5.5%	11.5%	Probable-High	4	21%	23%
Arkea Public Sector SCF	Public Sector	Aa2	Aaa	5%	25%	6%	3.0%	9.5%	Probable-High	4	22%	19%
BPCE SFH	Mortgage	Aa3	Aaa	8%	33%	3%	4.5%	7.0%	Probable-High	3	29%	14%
Caisse de Refinancement de l'Habitat	Mortgage	CRA + 1	Aaa	25%	39%	4%	12.5%	15.0%	Probable-High	3	27%	18%
Caisse Francaise de Financement Local Public Sector		Aa3	Aaa	5%	25%	9%	11.0%	n/d	Probable-High	3	14%	14%
CCF SFH	Mortgage	A2	Aaa	5%	21%	3%	15.5%	16.5%	Probable-High	1	6%	16%
Compagnie de Financement Foncier	Mortgage	Aa3	Aaa	5%	22%	8%	2.0%	5.5%	Probable-High	3	20%	11%
Credit Agricole Home Loan SFH	Mortgage	Aa2	Aaa	8%	56%	4%	0.5%	8.0%	Probable-High	4	55%	17%
Credit Agricole Public Sector SCF	Public Sector	Aa2	Aaa	5%	52%	13%	1.0%	6.0%	Probable-High	4	51%	13%
Credit Mutuel Home Loan SFH	Mortgage	Aa2	Aaa	8%	47%	3%	5.5%	11.5%	Probable-High	4	41%	23%
MMB SCF	Mortgage	CRA + 1	Aaa	5%	23%	4%	15.5%	n/a	Probable-High	Unpublished	7%	17%
Societe Generale SCF	Public Sector	Aa3	Aaa	8%	28%	7%	3.5%	7.5%	Probable-High	3	24%	11%
Societe Generale SFH	Mortgage	Aa3	Aaa	9%	11%	2%	4.0%	7.0%	Probable-High	3	7%	13%

Sources: Moody's (cut-off date 03/31/2026)

In anticipation of potential rating actions by S&P and Fitch on the French sovereign, an analysis of the impact on covered bond ratings is provided below:

Fitch

- **Country ceiling limits:** Fitch's French covered bond ratings are capped at up to six notches above the sovereign rating. As such, a downgrade of France to A would not directly impact French covered bond ratings.
- **Issuer linkage:** French covered bond programmes generally benefit from a sufficient rating buffer in the event of an issuer downgrade. The cushion against an Issuer Default Rating (IDR) downgrade currently ranges from **4 to 7 notches**. Covered bond ratings would therefore only become vulnerable if the respective issuer IDR were downgraded by **5 to 8 notches**, depending on the programme.

- ▶ **Potential pressure on issuer ratings:** It is nevertheless worth noting that, following the publication of Fitch's updated **Bank Rating Criteria** in May, some large French banks were upgraded to **AA-**, i.e. one notch above the French sovereign rating of **A+/Stable**. These ratings remain constrained by the sovereign and could therefore come under pressure in the event of a downgrade of France. This suggests that, while issuer-linked buffers remain sizeable for most French covered bond programmes, the resilience of the issuer rating itself may still partly depend on the sovereign rating trajectory.
- ▶ **Refinancing spread assumptions:** The level of OC required to support timely payment in a given rating scenario reflects both **credit loss** and **asset-liability mismatch loss (ALM loss)**. The former is derived from Fitch's asset analysis and captures the credit risk of the cover pool through default probabilities and recovery expectations. The latter is derived from the cash flow analysis and represents the cost of bridging maturity, interest rate and FX mismatches between cover assets and covered bonds.
- ▶ A sovereign downgrade is not expected to affect the **credit loss** component. By contrast, **ALM loss** could be affected through more conservative refinancing assumptions, which may lead to a higher breakeven OC requirement to maintain current ratings. Fitch's refinancing assumptions are higher for countries in the **A** category than for those in the **AA** category.
- ▶ At present, these refinancing cost assumptions only apply to **Société Générale SFH's** covered bond programme in France. For the other French covered bond programmes, the **AAA** rating is achieved solely through **resolution uplift** and **recovery uplift**, for which Fitch does not apply refinancing stresses. Refinancing costs are stressed for SG SFH because its issuer rating is lower than that of its French peers (**A+**), meaning that four notches of uplift are needed to reach **AAA**. That said, the programme benefits from a large overcollateralisation cushion.

Overall, even in the event of a downgrade of France by Fitch, French covered bond programmes would be unlikely to face immediate rating pressure.

Table 5: Mortgage and Public sector refinancing spread levels

Stress level	Sovereign debt category	Sovereign debt (bp)			Residential mortgages (bp)		
		Low-end	Mid-point	High-end	Low-end	Mid-point	High-end
Low	AAA and AA category sovereign IDR (both sovereign debt and residential mortgages) A category-rated sovereigns with exceptionally high liquidity in the government bond market (for sovereign debt) or very large covered bonds and RMBS markets (for residential mortgages) subject to spread behaviour consistent with the Low stress group	50	75	100	120	160	200
Medium	A and BBB category sovereign IDR	200	250	300	250	300	350
High	BB category sovereign IDR	450	500	550	450	500	550
Very high	B category and below sovereign IDR			800			800

Sources: Fitch N.B: RSL: Refinancing Spread levels, SLS: Severe Liquidity Squeeze

S&P

Three mechanisms can affect covered bond ratings in case of a sovereign downgrade:

- **Sovereign cap:** S&P updated its methodology for assessing structured finance ratings above the sovereign in April 2026. Under the revised framework, French **mortgage** and **multi-jurisdictional public sector** covered bond programmes that pass S&P's largest sovereign stress test may now be rated **up to six notches above the French sovereign**, provided they structurally mitigate **one-year refinancing risk**. This compares with a maximum uplift of **five notches** under the previous criteria.
- This means that French covered bond programmes can now withstand a **two-notch downgrade of France**, all else being equal. S&P updated its view on **BNP Paribas Home Loan SFH** and **Crédit Agricole Home Loan SFH** considering that their one-year refinancing risk is now structurally mitigated, notably owing to the predominance of **one-year maturity extension features** and the now immaterial share of remaining hard-bullet bonds in these programmes. Similarly, **BPCE Home Loan SFH**, **Compagnie de Financement Foncier SCF** and **La Banque Postale Home Loan SFH** have introduced contractual features in 2026 to ensure **one-year liquidity coverage**, allowing them to be rated up to six notches above the sovereign.

Table 6: Maximum caps on ratings on covered bonds, based on the programmes' exposure to refinancing risk

Sovereign default risk sensitivity	Mitigation of refinancing risk	Maximum differential above the sovereign rating (notches)
High	Covered bonds issued in a country that is not a member of a monetary union, that do not include structural coverage of refinancing needs over a 12-month period	Two
Moderate	Covered bonds issued in a jurisdiction that is within a monetary union, that do not include structural coverage of refinancing needs over a 12-month period	Four
Moderate	Covered bonds issued in a country that is not a member of a monetary union, that include structural coverage of refinancing needs over a 12-month period	Four
Low	Covered bonds issued in a country that is within a monetary union, that include structural coverage of refinancing needs over a 12-month period	Six
Low	Pass-through or conditional pass-through covered bonds	Six

Sources: S&P N.B: * for sovereign ratings 'B' or higher

- **Issuer's credit quality:** French covered bond programmes benefit from sufficient rating headroom to withstand an issuer downgrade. The available buffer currently ranges from 3 to 6 notches, meaning that covered bond ratings would typically only come under pressure if the issuer were downgraded by 4 to 7 notches. However, in case of issuer's downgrade, La Banque Postale Home Loan SFH and AXA Bank SFH's covered bond programmes would require limited additional overcollateralisation to maintain their covered bond rating level.
- **Largest sovereign default test:** French public-backed covered bond programmes, where assets are solely located in France, can achieve a maximum differential of two notches above the sovereign rating. In addition, for countries rated A+ or below, the largest sovereign default test (LST) is applied to borrowers. This test is satisfied if the covered bonds have enough collateral to withstand the default rates without recoveries determined after applying the test. If the test is not passed at the current rating level, it is repeated at a lower rating until successful. Currently, the rating agency assesses two

active covered bond programmes backed partially or entirely by public sector assets: Compagnie de Financement Foncier (CFF) and Credit Agricole Public Sector SCF.

S&P considers CFF's covered bond programme as a multi-jurisdictional cover pool composed of mixed mortgage and public sector assets due to its diversification in asset types and sovereign exposures. Given the specific features of this mixed mortgage and public sector programme, the rating agency would expect the LST calculation under the sovereign risk criteria to exclude public sector assets located in the issuer's home jurisdiction, France. The LST would instead reflect the programme's sovereign exposures to other jurisdictions.

Regarding Crédit Agricole Public Sector SCF, the programme includes ECA (Export Credit Agency) -guaranteed exposures that benefit from a double layer of recovery: first from the underlying asset, then from the ECA guarantee. In the event of a downgrade of France, the weaker credit profile of Bpifrance Assurance Export would reduce expected recoveries, although the impact on the programme would remain limited, with only around 1.2% additional OC needed to preserve the Aaa rating

To conclude, we believe that French covered bond programmes should be able to maintain their ratings in the event of a potential downgrade of France by the three main rating agencies, as long as the overcollateralisation remains consistent with current AAA rating requirements.

Table 7: S&P sensitivity of French covered bond programmes to a downgrade in sovereign rating

	Covered Bond programme	Covered bond ratings	-1 notch	-2 notches
Obligation de Financement de l'Habitat (Home loans)	AXA Home Loan SFH	AAA	Required OC increase	Required OC increase
	BNP Paribas Home Loan SFH	AAA	Unaffected	Required OC increase
	BPCE SFH	AAA	Unaffected	Required OC increase
	Credit Agricole Home Loan SFH	AAA	Unaffected	Required OC increase
	Credit Mutuel Home Loan SFH	AAA	Unaffected	Required OC increase
	La Banque Postale Home Loan SFH	AAA	Unaffected	Required OC increase
Obligations foncières	Compagnie de Financement Foncier	AAA	Unaffected	Required OC increase
	Crédit Agricole Public Sector SCF	AAA	Required OC increase	Required OC increase

Sources: S&P

Table 8: Leeway in case of issuer's downgrade

	Moody's rating	S&P rating	Fitch CB rating	Moody's TPI leeway	S&P's unused notches	Fitch's cushion against downgrade
Obligation de Financement de l'Habitat (Home loans)						
Arkea Home Loans SFH	Aaa	-	AAA	4	-	4
AXA Home Loan SFH	-	AAA	AAA	-	6	7
BNP Paribas Home Loan SFH	-	AAA	AAA	-	5	6
BPCE SFH	Aaa	AAA	-	3	5	-
CCF SFH	Aaa	-	-	1	-	-
Credit Agricole Home Loan SFH	Aaa	AAA	AAA	4	6	6
Credit Mutuel Home Loan SFH	Aaa	AAA	AAA	4	5	6
La Banque Postale Home Loan SFH	-	AAA	-	-	3	-
Societe Generale SFH	Aaa	-	AAA	3	-	5
Obligations foncières (Public loans, home loans and commercial loans)						
Arkea Public Sector SCF	Aaa	-	-	4	-	-
Caisse Française de Financement Local	Aaa	-	-	3	-	-
Compagnie de Financement Foncier	Aaa	AAA	-	3	5	-
Crédit Agricole Public Sector SCF	Aaa	AAA	-	4	5	-
Société Générale SCF	Aaa	-	-	3	-	-
MMB SCF	Aaa	-	-	Unpublished	-	-
CRH (Home loans)						
Caisse de Refinancement de l'Habitat	Aaa	-	AAA	3	-	4

Sources: S&P, Moody's, Fitch, Natixis

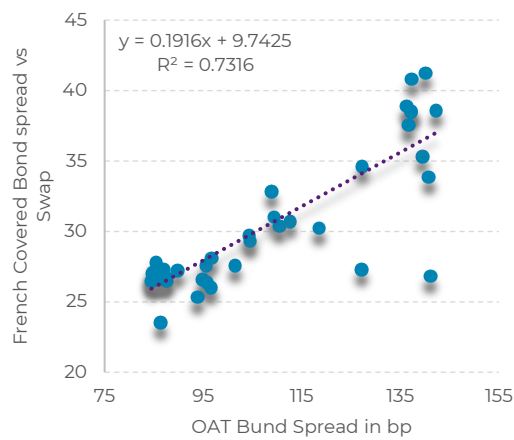
French covered bond spread less sensitive to political risk than OAT/Bund

Based on transactions issued this year, according to Bloomberg data, French covered bond spreads have widened on average by around 12bp versus swaps in the 5-year bucket and by around 26bp in the 10-year bucket since the summer break, while the OAT/Bund spread has widened by around 53bp over the same period, now trading at 138bp. The sensitivity analysis confirms this relative resilience: in the 5-year bucket, a 1bp widening in OAT/Bund translated into around 0.19bp of widening in French covered bond spreads, with a R^2 of 0.73. In the 10-year bucket, sensitivity was materially higher at around 0.43bp per 1bp move in OAT/Bund, with a stronger R^2 of 0.89. Within the French covered bond universe, some underperformance has also been observed in covered bonds backed by public sector assets.

French covered bond spreads have already shown their lower sensitivity during past episodes of political stress, notably in June 2024 following the announcement of snap elections and again between mid-August and early October 2025, around the no-confidence vote involving former French Prime Minister François Bayrou.

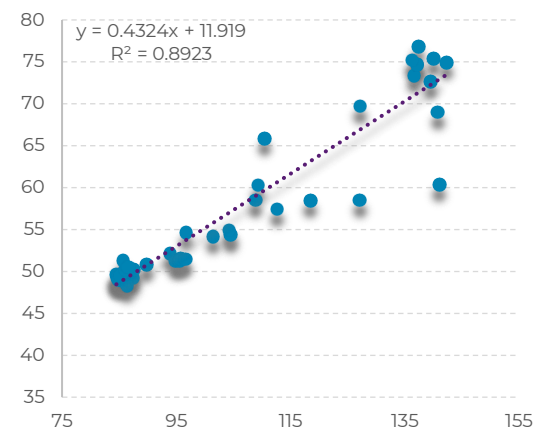
Looking at these two episodes, the sensitivity to OAT/Bund widening remained relatively low compared to other asset classes. In June 2024, a 1bp widening in OAT/Bund translated into only around 0.2bp of widening in French covered bond spreads, with a coefficient of determination (R^2) of 0.86. During the second episode, from mid-August to early October 2025, sensitivity was somewhat higher, at around 0.3bp for every 1bp move in OAT/Bund, with an R^2 of 0.77.

Chart 2: Correlation French covered bonds 5Y vs OAT / Bund – August – October 2026



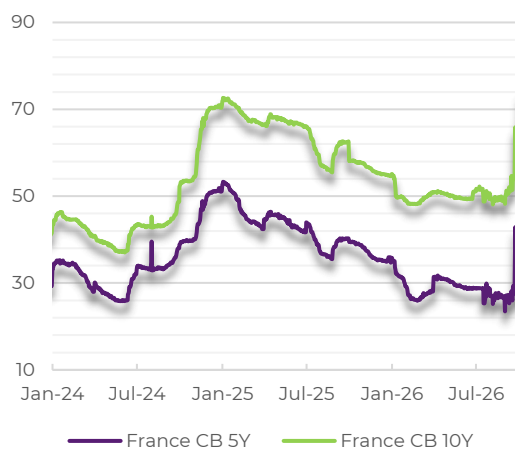
Sources: Bloomberg, Natixis

Chart 3: Correlation French covered bonds 10Y vs OAT / Bund – August October 2026



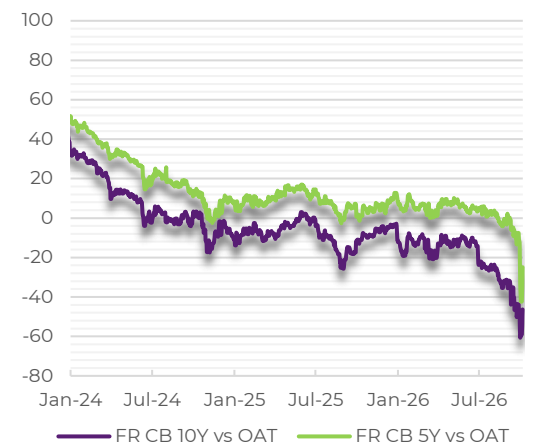
Sources: Bloomberg, Natixis

Chart 4: Covered bond vs Swap spread 5 and 10 yrs



Sources: Bloomberg, Natixis

Chart 5: French Covered Bond vs OAT



Sources: Bloomberg, Natixis



Thematic

Credit Spreads Affected by the Recent OAT Bashing



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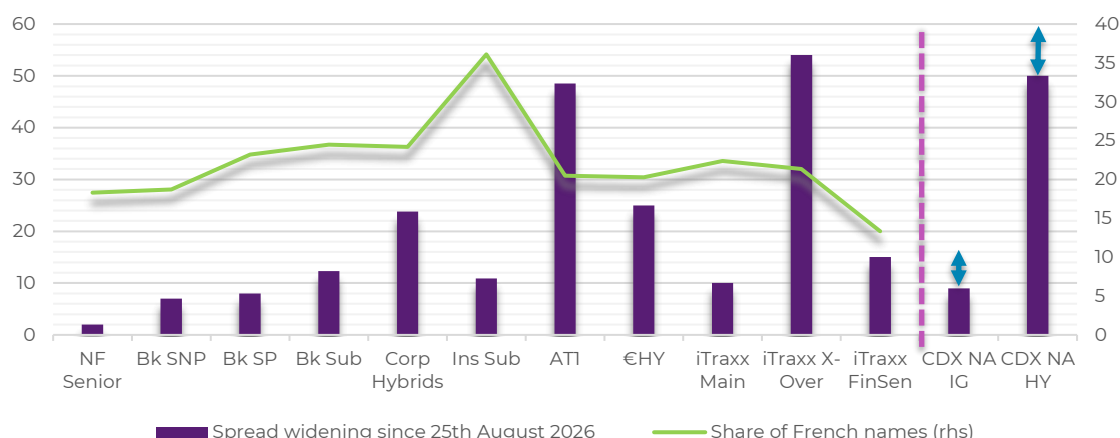
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The recent OAT sell-off has affected € credit spreads, although in different manners depending on the segment/sector:

- ▶ € iBoxx Corporate non-financial spreads have barely moved since the 25th August, despite the presence of 18% French names in the index;
- ▶ € Bank senior spreads have reacted much more quickly, with 4 to 5bp widening at the index level over the same period, with a higher presence of French names in those iBoxx indices. The fact that Senior Preferred spreads have widened faster than their Senior Non-Preferred counterparts is largely explained by the greater exposure to France for the former (see chart below);
- ▶ Spreads of Bank and Insurance subordinated indices have widened by around 8bp over the same period, almost 2x faster than senior indices (roughly in line with historical betas), but the Sub Insurance index is much more exposed to France (as a country of domicile);
- ▶ The iBoxx ATI index has widened by almost 30bp since the 25th August. Part of that underperformance is attributed to French banks, as they represent around 20% of the iBoxx ATI Index while the average spread widening for those French banks amounts to 57bp over the same period;
- ▶ The underperformance of the iTraxx Main over the CDX NA IG index, as well as the one the iTraxx X-Over vs the CDX NA HY (see chart below). Indeed, 5Y CDS of French corporates have widened by 4bp more than the average since the 25th August, and even 10bp more for French banks senior CDS vs the iTraxx Fin Senior index.

Given the fact that around 20% of the components of € iBoxx indices are domiciled in France (often the biggest country of risk "exposure"), the underperformance of France sovereign spreads and the elasticity of French credits to those clearly explains of € indices vs \$ indices for instance, all the more as one is dealing with a financial index.

Chart 1: Change in spreads vs swap (or premium for iTraxx and CDX indices) from the 25th August to 1st October 2026



Sources: Bloomberg, Natixis CIB Research, Data as of 10/01/26

French REITs, Banks, Utilities More Exposed to Domestic Dynamics

In the table below, we summarize the 40 French names with the highest exposure to France, measuring it via revenues, rental income, Ebitda or NBI depending on the sector.

French banks, REITs and some Utilities appear more heavily exposed to their home country, relatively to some other sectors.

As Mercialis, Gecina, Altarea and Icade are 100% dependent on France for their gross asset value and/or their rental income, their spreads have significantly underperformed other French corporates and even OATs (see column change in spread vs interp. OAT in the table below), with 50bp spread widening vs swap on average since the end of August. Carmila, Klepierre, Covivio and Colonial spreads have resisted somewhat better (+25bp) as their revenue diversification out of France (50% on average) offers some protection.

French Banks have also underperformed French corporates as the channels of contagion from sovereign to bank risk are much more obvious (see section below).

We also analyse the exposure of some of the French utilities, and particularly rating linkage with the French sovereign's rating in a section below.

Finally, it is worth mentioning that aerospace & defense French companies usually depend for a quarter of their revenues on France. But their spread sensitivity to sovereign spread changes tends to be higher than the one captured by this revenue exposure, which we also detail in a section below.

Table 1: List of French corporates and banks with higher exposure to France: 5Y spread widening vs swap, current spread vs interpolated OATs by name

Ticker	Sector	Share of Business FR	Metric	5Y Credit spread widening vs swap	5Y Spd vs interp. OAT	Spd vs interp. OAT as of 08/25/26	Change in Spread vs interp. OAT
MERYFP	REIT	100.00%	GAV	51	77	65	12
GFCFP	REIT	100.00%	GAV	26	7	23	-15
ALTAFP	REIT	100.00%	Rental Income	55	122	106	16
ICADFP	REIT	100.00%	Rental Income	50	90	77	13
CTEFRA	Utilities	100%	Revenue	9	9	42	-33
RTEFRA	Utilities	100%	Revenue	14	-2	23	-26
CMARK	Bank	~90-95%	PNB	14	1	26	-25
FRLBP	Bank	~90-95%	PNB	11	12	40	-28
BPCECP	Bank	~75-80%	PNB	24	28	44	-15
EDF	Utilities	75%	EBITDA	20	8	29	-20
CARDFP	REIT	74.00%	GAV	20	57	77	-21
BFCM	Bank	~80%	PNB	17	20	42	-22
ADFP	Industrials	68%	Revenue	27	18	30	-11
ACAFP	Bank	~65-70%	PNB	29	22	32	-10
COLSM	REIT	65.00%	GAV	21	36	55	-19
VPARKI	Cons. Services	62%	Revenue	18	21	44	-23
FRPTT	Industrials	54.30%	Revenue	25	11	26	-16
ENFP	Industrials	49.78%	Revenue	15	-9	15	-24
CAPF	Cons. Services	49.12%	Revenue	18	8	30	-21
ORAFP	Telecom	43.30%	Revenues	21	-2	17	-18
ENGIFP	Utilities	40%	Revenue	19	-1	19	-21
SUEZFP	Utilities	40.26%	Revenue	14	14	44	-30
IPNFP	Health Care	39.70%	Sales (Europe)	35	49	55	-6
TRAGRP	Industrials	37.50%	Revenue	23	47	64	-17
LIFP	REIT	37.00%	GAV	20	7	27	-20
HITTFP	Industrials	36.13%	Revenue	19	13	32	-19
COVFP	REIT	34.00%	GAV	40	47	48	-1
BNP	Bank	~30-35%	PNB	18	13	34	-22
ELISGP	Industrials	29.17%	Revenue	24	32	49	-16
HOFP	Industrials	27.67%	Revenue	15	-16	9	-25
SUFP	Industrials	23%	Revenue	11	-28	1	-29
SGOFP	Industrials	23.10%	Revenue	22	-3	17	-20
ACFP	Cons. Services	23%	Revenue	18	30	56	-25
TTEFP	Energy	23%	Revenue	9	-22	8	-30
DSYFP	Technology	23%	Revenue	10	-5	23	-28
ADENVX	Industrials	23%	Revenue	8	0	31	-31
VIEFP	Utilities	20%	Revenue	22	10	29	-19
ERFFP	Industrials	19%	Revenue	23	15	31	-15
SAFFP	Industrials	19%	Revenue	7	-19	12	-31

Sources: Markit, Bloomberg, Natixis CIB Research. GAV= Gross Asset value, PNB = NBI

The channels of contagion from sovereign to bank risk

Indeed, French bank spreads remain structurally exposed to any deterioration in sentiment towards the French sovereign, most visibly through a widening in the OAT-Bund spread, to which the sector has historically shown pronounced sensitivity, particularly in periods of market stress. In our view, French bank credit remains one of the most efficient transmission channels for the repricing of France risk, reflecting a combination of sovereign anchoring, investor positioning and domestic macro-financial linkages.

First, the sovereign-bank nexus remains a key anchor for spread behaviour. Even if less explicit than in the past, the existence of an implicit sovereign ceiling across most major banking systems continues in practice to tether banks' market funding costs to those of their home sovereign. For French banks, this means that moves in the OAT-Bund spread tend to feed through into wholesale funding premia, albeit with some differentiation across maturities and layers of the capital structure.

Second, beyond this direct linkage, French banks are also exposed to a clear "France zip code" effect. In periods of heightened political or fiscal uncertainty, investors typically seek to reduce exposure to French assets more broadly, and bank credit often underperforms early in that process. This reflects the market's view of French banks as relatively high-beta expressions of France risk — more directly exposed to the domestic financial backdrop and more liquid and scalable as a vehicle for de-risking than many other French asset classes. This market sensitivity is underpinned by fundamentals. French banks remain closely tied to the domestic operating environment through the scale of their retail banking franchises, their meaningful mortgage market shares and their central role in corporate lending. As a result, any deterioration in France's fiscal, political or macroeconomic outlook is readily transmitted into investor concerns around asset quality, earnings resilience, business volumes and funding conditions.

That said, French banks appear comparatively less exposed to the sovereign through direct balance sheet channels. OAT holdings are generally modest, including within LCR portfolios, and a significant share of these exposures is accounted for at amortised cost, thereby limiting direct sensitivity to market rate moves.

In other words, the key transmission mechanism from sovereign stress to French bank spread widening is, in our view, less a function of sizeable mark-to-market sovereign exposure and more a reflection of funding repricing, investor de-risking and the market's reassessment of domestic macro-financial risk.

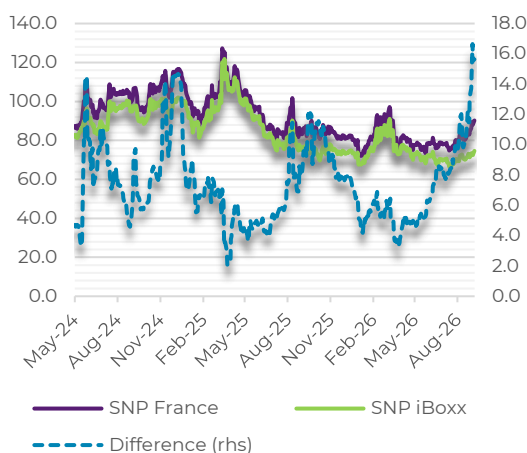
For more details, we invite readers to the following document: [**French Banks caught in the OAT storm: how to play it?**](#)

Relative Value in the French Banking Sector

Prefer SNP 4-7Y from French banks, but be cautious on the SP curve

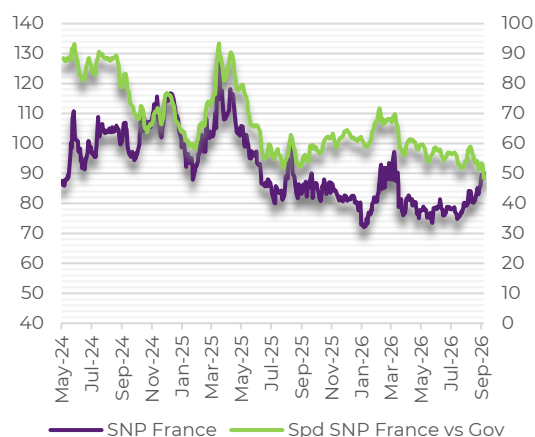
Those market effects explain the significant underperformance of French banks vs the iBoxx index, notably on the SNP debt segment (see charts below).

Chart 2: Trend in z-spreads for French bank SNP debts vs iBoxx SNP index, data as of 10/01/2026



Sources: Company reports, BDC investor, Natixis CIB Research

Chart 3: French banks SNP's z-spread, spread differential with interpolated OATs, data as of 10/01/2026



Sources: Company reports, BDC investor, Natixis CIB Research

Given the historical tight levels of French banks' SNP debt vs interpolated OATs (see chart above right), French banks' spreads hardly appear attractive as long as France sovereign spreads stay where they are.

However, we see some opportunities as the sharp spread movements have created distorted relative values across the capital structure:

- ▶ 4-7Y bucket of French SP debts is the most at risk of suffering a correction in the coming days/weeks, with only 11bp of pick-up vs OATs currently.
- ▶ Conversely, French SNP of maturities between 4 and 7Y offer higher pick-up vs interpolated OATs than Italian SNP vs BTPs, for better ratings too;

Table 2: Comparison of z-spreads and spreads vs interpolated govies for SP and SNP bank debt in € and in Europe

Country	Rating	SP									SNP				
		Credit z-spread			Gov Spread			Credit vs Gov			Credit z-spread			Credit v	
		1-4Y	4-7Y	7-10Y	1-4Y	4-7Y	7-10Y	1-4Y	4-7Y	7-10Y	1-4Y	4-7Y	7-10Y	1-4Y	4-7Y
FR	AA														
FR	A	50	82	98	30	81	113	20	1	-15	67	105	120	37	24
FR	BBB										76	115	135	41	37
ES	A	40	72	75	-6	16	39	45	55	36	44	76	91	51	58
ES	BBB	71	110		-4	11		75	99		54	84		59	71
IT	A														
IT	BBB	66	85		22	51		44	34		62	92	114	44	35
DE	AA	27	49		-31	-24		58	72						
DE	A	45	72		-29	-26		73	98		32	61	83	61	86
DE	BBB	93			-29			122			63	89	109	92	112
NL	AA														
NL	A	33	55		-21	-8		54	63		50	71	88	72	81
NL	BBB										46	88	86	68	96
AT	A	51	83		-17	-1		68	84						
AT	BBB	113	119		-18	-4		131	123		62			81	
FI	AA	27	53		-14	8		42	45						
FI	A										34	60	69	51	56
PT	BBB	60			-12			72							

Sources: Bloomberg, Natixis CIB Research, Data as of 10/09/26

Seize buying opportunities on French ATIs with short-dated calls

We also see some opportunities in the ATI market, as French banks' ATIs have widened far more than their European counterparts since the end of August (see table below left), particularly on short-dated calls:

For instance, SocGen's ATI on 1-3Y calls and BNP's ATI on 3-5Y calls have underperformed by more than 25bp comparable ATIs, while offering a strong revenue diversification out of France.

For more details, please read [French ATIs, threats and opportunities](#).

Table 3: Trend in z-spreads for €ATIs by country/call date

	1-3Y	3-5Y	5-7Y	>7Y
DE	76.1	56.0	51.1	47.8
IT	98.2	56.4	46.8	23.3
ES	61.6	48.0	39.0	22.2
FR	100.4	87.5	67.5	54.1
NL	40.2	44.1	36.4	56.1
AT	63.7	53.1	35.5	
GR	85.2	46.4	32.5	40.0
BE	59.6	56.4		
IE	62.4	57.6	33.6	
GB	27.9			41.3
Average	74.6	55.5	45.5	42.3

Sources: Bloomberg, Markit, Natixis CIB Research

Table 4: Trend in z-spreads for €ATIs by bank/call date

	1-3Y	3-5Y	5-7Y	>7Y
FRLBP	129.3			
BNP		94.3	58.4	57.9
ACAFP	91.2		38.4	52.2
SOCGEN	109.6	65.1	78.2	
CCFHD	102.8			
ISPIM	66.5	49.8	51.7	
UCGIM	72.4		40.0	23.4
SANTAN	60.5	41.8		
BBVASM	86.3	60.9	29.4	
Average	70.1	69.3	66.1	55.1

Sources: Bloomberg, Markit, Natixis CIB Research

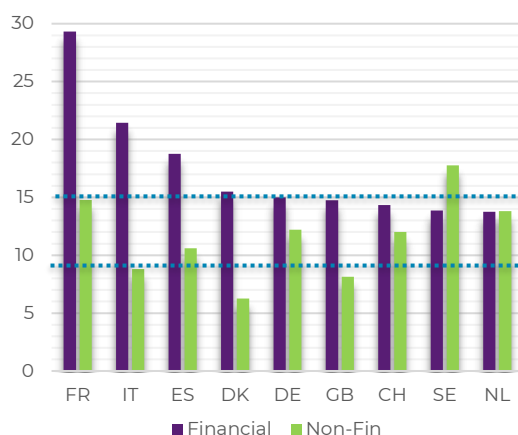
Relative Value in French Corporate Non-Financials

French BBB corporates at risk of repricing on the back of low pick-up vs OATs

French corporates have been slightly lagging their European counterparts as they have also been taking a hit from the sovereign spread's widening. However, the underperformance of French corporate non financials is far more moderate than those of French banks: 3bp widening for 5Y CDS (see chart below left) vs the average corporate CDS from the iTraxx Main, compared with 12bp for French banks vs the iTraxx Fin Senior index.

The same pattern has been seen on the cash market: As a consequence, French corporate non-financials are trading significantly inside interpolated OATs (see table below right), even for BBB names on maturities above 7 years.

Chart 4: Slight underperformance of French Corporate 5Y CDS since end of August



Sources: Markit, Bloomberg, Natixis CIB Research

Table 5: French corporates' spreads vs swap and vs interpolated OATs, relative to other European corporates

		Vs Swap			Spreads vs Interpolated Gov		
		AA	A	BBB	AA	A	BBB
All Corp	1-4Y	13	33	52	16	38	52
	4-7Y	37	59	89	22	44	62
	7-10Y	57	82	106	34	49	59
	10-15Y	74	92	121	47	38	57
	>15Y	99	132	154	78	80	44
FR	1-4Y	26	36	54	-8	1	20
	4-7Y	46	64	100	-33	-15	22
	7-10Y	65	87	109	-54	-30	-5
	10-15Y	71	100	127		-40	-10
	>15Y		144	166		-18	4
IT	1-4Y		25	60		10	39
	4-7Y		62	83		2	23
	7-10Y		92	135		4	46

Sources: Markit, Bloomberg, Natixis CIB Research

For more details, we advise our clients to read the following document: [**Beware of knock-on effect from the sovereign spread widening!**](#)

Of course, as it happened during the eurozone crisis of 2011/2012 with many Spanish and Italian corporates trading far inside Bonos and BTPs at the time, the deeper a sovereign crisis, the tighter a non-financial corporate will trade vs its interpolated govie, all things being equal, as revenue diversification outside the country of domicile partially protects any corporate from the pure sovereign credit risk.

French Utilities: watch out the rating linkage with France's ratings

In the utilities sector, **EDF is the issuer most exposed to the French sovereign environment, given the strong link between its senior ratings** (BBB+ stable/Baa1 stable/BBB+ stable) **and those of France** (A+ stable/Aa3 negative/A+ stable). **At the senior rating level, this strong link translates into uplifts of the standalone rating ranging from two notches** (Fitch) **to four notches** (S&P) (see table below). These uplifts themselves reflect the rating agencies' expectation of extraordinary state support if need be. The evolution of the regulatory and political context in France regarding nuclear energy is therefore an important parameter influencing EDF's senior rating, this alongside the evolution of issuer's credit profile and financial trajectory (cash flow generation, debt level, key credit metrics, etc.). Our central scenario is on the absence of any significant change regarding France's nuclear policy in the wake of the upcoming presidential elections.

Could the evolution of France's sovereign rating be another potential driver of change for EDF's ratings, given the notching differential resulting from GRE (government-related entity - S&P) / GRI (government-related issuer - Moody's) methodologies? From this perspective, an analysis of the rating agencies' methodologies reveals **no short-term risk of a sovereign-driven downgrade for EDF**. At S&P, a one-notch downgrade of France's rating would have no implication on EDF's rating. At Moody's, only a "substantial" downgrade of France's sovereign rating would affect EDF's rating.

French Defence companies: potential impact of budget cuts

While major defence contractors generate only 25% of their revenues in France, this domestic share remains relatively protected by the Military Programming Law (LPM).

It would take massive budget cuts to have a significant impact on the financial results of the major prime contractors within the DTIB (Defence Technological and Industrial Base). In short, major contractors capture 50% of the defence budget. A €10bn budget cut (which would be considerable) would result in a €5bn shortfall for these major players, or approximately €500mn per contractor. This is an absorbable shock. Consequently, the real stakes lie within the remaining 75%.

However, arms procurement is primarily a political choice and a commitment to a long-term alliance. Under these circumstances, the 2027 presidential election represents a critical milestone for the defence industry. Their success abroad—which accounts for nearly 75% of their revenue—thus depends on the future foreign policy as well as France's capability and credibility to guarantee the security of its partners. The true risk in this election lies not in budget cuts, but in a shift in foreign policy that would deter international partners.

French Banks: Strong Fundamentals Tested by Political Risk



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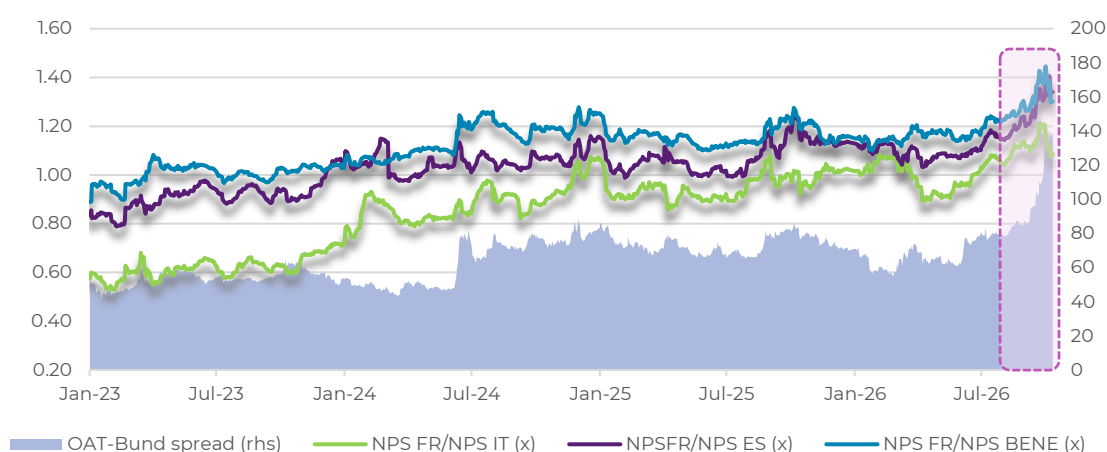
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Despite boasting their strongest credit fundamentals in years, French banks are once again at the forefront of French sovereign risk ahead of upcoming electoral milestones. While capital, asset quality, and earnings resilience have improved, the sector remains highly exposed to sovereign repricing, with a renewed OAT-Bund spread widening likely to drive spread underperformance. In our view, this is not just headline-driven volatility but a structural pattern: French bank credit continues to trade as a high-beta proxy for France risk, with renewed sovereign scrutiny also raising the risk of rating spillovers. Beyond market technicals, any further stress on French sovereigns could increasingly test banks through a weaker domestic operating backdrop, underscoring how closely the sector remains tied to the country's fiscal, political, and macroeconomic outlook.

Market impact, the dual structural and cyclical sensitivity to a widening in the OAT-Bund spread

French bank credit spreads remain structurally sensitive to French sovereign risk, most visibly through their historical correlation with the OAT-Bund spread, making them one of the most efficient transmission channels for the repricing of France risk. This sensitivity is anchored in the **sovereign-bank nexus**, which operates through two main channels. First, an implicit sovereign ceiling continues to link banks' wholesale funding costs to their home sovereign, driven by government support assumptions, rating considerations, and direct sovereign exposures creating a "soft" floor on bank spreads that moves in tandem with OAT dynamics, with some differentiation across maturities and capital structure layers. Second, French banks are deeply embedded in the domestic macro-financial environment through their retail franchises, mortgage market presence, and corporate lending activity. Any deterioration in France's fiscal, political or macroeconomic outlook therefore readily translates into investor concerns over asset quality, earnings resilience and funding conditions. As a result, French banks are widely perceived as high-beta proxies for France risk, more liquid, scalable and directly exposed to domestic dynamics than most other French asset classes, amplifying their vulnerability to sovereign sentiment shifts.

Chart 1: A structural repricing of French banks' spreads vs peers'



Sources: Natixis, Bloomberg, Data as of 10/09/2026

Ultimately, as sophisticated financial institutions and market participants, banks are inherently more sensitive to market volatility, which affects their performance across both equity and credit markets.

The widening pressure observed on the OAT-Bund spread since late spring 2026 has significantly impacted the spread performance of French banks. The 'two-speed year' we anticipated (see our cross-expertise paper [France: A two-speed year](#)) is unfolding before our eyes. After temporary relief on French risk between mid-January and the end of May 2026, renewed tension on France is sending the OAT-Bund to new highs therefore contaminating French banks spreads across seniorities:

- This has translated into a material underperformance of French banks in the credit market vs peers
- French banks are also underperforming vs French Corporates that prove particularly resilient
- French banks are however outperforming OATs for some maturities and seniorities. The rationale behind this resilience is that banks are deemed to be financially sounder than the State, as evidenced by Fitch's recent commentary, which cites the French banking system as one of the key pillars supporting the retention of France's A+ sovereign rating Stable outlook.

Table 1: From temporary relief...

15/01/26 to End of May	SP		SNP		T2		ATI	
	Δbps	Δ%	Δbps	Δ%	Δbps	Δ%	Δbps	Δ%
France	-10.1	-13.5%	-8.2	-9.0%	-3.5	-2.8%	-13.9	-5.6%
Italy	-4.0	-4.1%	-6.0	-7.4%	-6.3	-5.6%	-14.2	-5.6%
Spain	-3.5	-5.9%	-6.9	-9.0%	-5.2	-4.9%	-7.2	-2.8%
Germany	-4.1	-10.2%	-6.7	-7.7%	7.4	7.9%	6.9	2.6%
BENE	-6.9	-26.9%	-3.3	-4.5%	-2.1	-1.9%	-0.5	-0.2%
UK	-7.6	-11.5%	-4.3	-5.1%	0.1	0.1%	9.3	3.6%
Austria	-9.1	-13.5%	-1.8	-3.7%	-8.3	-7.0%	-23.2	-8.5%
Ireland	-	-	-5.3	-9.9%	-1.2	-1.0%	-22.5	-8.5%
Sweden	-2.9	-9.4%	-3.3	-5.7%	5.3	6.8%	-6.2	-2.9%
US	-	-	-3.2	-4.1%	-	-	-	-
Average	-6.1	-11.9%	-4.9	-6.6%	-1.5	-0.9%	-7.9	-3.1%

Sources: Natixis, Bloomberg, Data as of 10/08/2026

...to renewed tensions

EoMay to Date	SP		SNP		T2		ATI	
	Δbps	Δ%	Δbps	Δ%	Δbps	Δ%	Δbps	Δ%
France	20.5	31.6%	19.9	24.1%	21.6	18.3%	66.2	28.2%
Italy	7.5	8.7%	10.6	14.1%	11.2	12.5%	21.1	8.8%
Spain	6.6	11.8%	4.9	7.1%	14.6	14.3%	23.8	9.6%
Germany	5.8	16.0%	3.7	4.6%	6.6	11.4%	4.0	1.4%
BENE	1.4	6.8%	3.8	5.4%	6.6	6.1%	25.2	10.5%
UK	1.1	5.5%	7.4	9.3%	9.6	10.3%	9.4	3.5%
Austria	2.6	4.5%	0.3	0.6%	22.9	20.7%	18.1	7.3%
Ireland	-	-	3.7	3.8%	9.0	7.3%	11.4	4.3%
Sweden	-0.8	-3.0%	4.8	8.6%	0.0	0.0%	20.1	9.8%
US	-	-	5.5	7.3%	-	-	-	-
Average	5.6	10.2%	6.4	8.5%	11.3	11.2%	22.1	9.3%

Sources: Natixis, Bloomberg, Data as of 10/08/2026

Rating trajectory: technical contagion

The highly negative trajectory of public debt is set to continue almost inevitably, regardless of the election outcome, at least over the near term. French banks' ratings remain closely linked to the French sovereign. This link is even more acute today as the gap between these ratings has narrowed significantly following multiple sovereign downgrades. Indeed, rating agency methodologies frequently incorporate sovereign caps and/or support uplift mechanisms, which are currently being tested on the downside.

Table 2: Mounting rating pressure on French banks... already priced-in

Senior Pref Ratings	France		BNP		SOCGEN		ACAFF		BPCEGP		BFCM/CMARK		FRLBP	
	Hypothesis		Expected Impact		Expected Impact		Expected Impact		Expected Impact		Expected Impact		Expected Impact	
	From	To	From	To	From	To	From	To	From	To	From	To	From	To
S&P	A+	A	A+	A+	A	A	A+	A	A+	A	A+	A	A	A-
	Stable	Stable	Stable	Stable	Positive	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable
	29/05/2026	??	Immune		Sovereign Cap		Sovereign Cap		Sovereign Cap, IR/SP		Sovereign Cap		Multifactorial	
Moody's	Aa3	A1	A1	A1	A1	A2	A1	A1	A2	A2	A1	A2	A2	A2
	Negative	Stable	Stable	Stable	Negative	Stable	Stable	Stable	Stable	Stable	Negative	Stable	Stable	Stable
	10/04/2026	??	Sov + BCA or LGF		SP uplift removed		Sov + BCA		BCA or LGF		SP uplift removed		JDA flexibility	
Fitch	A+	A	AA-	A+	A+	A+	AA-	A+	A+	A	AA-	A+	A	A
	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Negative	Stable	Stable	Stable
	28/08/2026	??	Across Cap Structure		Idiosyncratic drivers		Across Cap Structure		Fundamentals to weigh		Across Cap Structure		VR + GSR together	

Sources: Natixis, Rating Agencies

At this stage, **expected bank downgrades are not fundamentally driven and appear largely priced into spreads.**

Financial impacts: predominantly second-round effects

French banks are in a uniquely contradictory position. While caught in the spiral of French sovereign risk, through weaker credit valuations and external rating pressure, their fundamentals remain very strong, as illustrated by Q2 2026 earnings. At the end of H1 2026, the sector benefited from a still highly supportive operating backdrop, driven by strong market activity, a recovery in domestic retail banking, a positive jaws effect, and a resilient cost of risk still at low levels despite ongoing normalization in particular in the SMEs portfolios. The key question is how far this adverse market and political backdrop could derail this momentum. Pressures on the operating environment are multiple, stemming both from a difficult global backdrop, i.e., geopolitical and energy shocks still weighing on inflation and rates, and from France's fast deteriorating idiosyncratic domestic situation. Transmission channels are also diverse. A weaker environment could first weigh on activity through slower growth, weaker confidence, and a wait-and-see stance among economic agents, thereby limiting loan origination, delaying corporate initiatives, and capping credit growth. This would in turn weigh on profitability, alongside somewhat higher funding costs, although some nuance is needed given still-tight credit spreads vs historical levels. Cost of Risk will be a key variable, particularly if inflation, energy prices or potential austerity measures were to pressure the macroeconomic environment further. Asset quality could therefore come under pressure as well. By contrast, French banks appear less exposed through direct sovereign balance sheet channels: OAT holdings are generally modest, including in LCR portfolios, and often carried at amortised cost.

French banks' direct exposure to OATs appears indeed well contained, standing at only circa €115bn, which represents a mere 1.1% of their aggregate total balance sheet. This compares favourably with the domestic sovereign exposure of Italian peers. Indeed, the six largest Italian banks hold a €171bn direct exposure to the Italian sovereign; given their significantly smaller balance sheets, this translates into an aggregate exposure to BTPs of 6.1% for the Italian banking sector, nearly six times the concentration observed in France. However, these figures should be treated with caution. French banks also carry substantial indirect sovereign risk through sizable loan and bond exposures to regional and local authorities, as well as to public sector agencies and state-owned enterprises, which ultimately heightens their overall sensitivity to the French state. In our view, sovereign stress is therefore transmitted to banks less through mark-to-market losses than through funding repricing, investor de-risking and a reassessment of domestic macro-financial risk.



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Russian Threat, 2027 Presidential Election: The Trial by Fire for the Defence Sector

The 2027 presidential election represents a critical turning point for the Defence Industrial and Technological Base (BITD), which comprises nearly 4,500 companies accounting for more than 220,000 jobs.

As the President of the Republic is also the Commander-in-Chief of the Armed Forces, they hold a central responsibility in defining major strategic orientations [1]. This pre-eminence is particularly strong regarding nuclear deterrence, as the head of state is the sole authority authorized to decide on the use of nuclear weapons.

The French BITD approaches this transition backed by a robust industrial and commercial momentum, marked by strong public procurement support which has quadrupled since 2016 to reach €38 billion in 2025. France has established itself as the world's second-largest arms exporter, with €21.2 billion in export orders in 2025. This dynamism is already visible in the real economy: the defence shift has a noticeable impact on the French commercial surplus in military equipment, which reached €7.2 billion in 2025—recording an increase of €2.3 billion (or 0.2 GDP points) over one year (cf. European Defence Shift: One Year On, Translating Strategy into Action).

However, this dynamism faces uncertainty regarding the post-2027 period. Although the 2024–2030 Military Programming Law (LPM) theoretically sets a budget trajectory until 2030, none of the candidates have formalized quantified proposals—with the exception of Bruno Retailleau, who sets an ambition of €100 billion in 2032—even though a new White Paper and a new LPM appear inevitable.

Behind this financial vagueness, various programs outline diverging but structural capability visions. Edouard Philippe proposes a "massification LPM" centred on drones, ammunition, and naval capabilities, while Raphaël Glucksmann targets efforts toward drones, space, and Artificial Intelligence (AI). Jean-Luc Mélenchon (LFI) seeks capability sovereignty through breakthrough technologies, whereas Marine Le Pen (RN) concentrates her immediate disruptions on halting collaborations (Ukraine, Saudi Arabia).

This ambiguity is reinforced by the imperative to reduce public deficits, which severely constrains the State's room for manoeuvre to continue its defence efforts. This is further complicated because France's already high level of debt makes financing its defence difficult in the face of US disengagement and prospects of a "clash" with Russia, carrying potential consequences for sovereign ratings.

The 2027 Budget: Hostage to the Presidential Pre-Campaign

The short-term risk relates to the lack of a vote on the 2027 budget before December 31, 2026. The General Inspectorate of Finance (IGF) estimates that a "voted services" regime (minimal operational budget) lasting nine to twelve months cannot be excluded in 2027. This means spending would be limited to the bare minimum required to maintain public services, excluding the commitments and payments planned under the €6.3 billion budget increase scheduled for 2027. This budget "freeze" will delay new programs (under commitment appropriations) and put pressure on the cash flow of the BITD (under payment appropriations), which has nevertheless already invested to increase production rates and shorten delivery times.

Support for Ukraine: A Point of Divergence Between Candidates...

Military and financial support to Ukraine has become a presidential campaign issue since National Rally (RN) candidate Marine Le Pen proposed questioning it, arguing that France "can no longer" assist Ukraine given the state of its public finances.

This break from current policy is likely to impact the BITD in two phases.

In the short term: Stopping this support would moderately reduce pressure on public finances—as direct support costs are estimated by the Ministry of the Armed Forces at €1.65 billion over the 2022–2025 period—since the BITD would remain busy meeting national requirements to replenish stocks.

In the long term: Ending support to Ukraine could lead to a major industrial and strategic breakdown. Since 2023, France has engaged in a framework of industrial partnerships, materialised by 16 agreements signed between Ukrainian and French industrialists (KNDS, Thales, MBDA, etc.). This momentum of industrial alignment was reinforced in July 2026 with the launch of the "Brave France" initiative. Ending this support could also jeopardize major export prospects, notably the letter of intent signed in 2025 for Kyiv's acquisition of 100 Rafale fighter jets (estimated at approximately €8 billion).

Nonetheless, this industrial risk must be qualified. Ukraine's solvency at the end of the conflict remains a major question mark, casting doubt on its actual capacity to autonomously finance export contracts of such scale without massive financial support.

... As is France's Place in NATO

Both the RN and LFI advocate for withdrawing from NATO's integrated military command, while LFI envisions an ultimate exit from the Alliance itself [1]. Marine Le Pen (RN candidate) has specified, however, that this decision would only take place after the end of the conflict in Ukraine.

The consequences of withdrawing from NATO's integrated command for the BITD could run deeper than just regulatory status due to the tight link between security guarantees and arms procurement choices.

Historically, many European countries directed their purchases toward the United States because they had reasonable assurance that "Uncle Sam" would intervene militarily in the event of aggression. US disengagement presents itself as a strategic opportunity to advocate for European preference. However, this dynamic can only benefit the BITD if France remains anchored within NATO's integrated command. To convince European partners to substitute American equipment with French equipment, France must offer guarantees of solidarity and integration.

The exit from NATO advocated by Jean-Luc Mélenchon, the LFI candidate, is of an entirely different nature. While it would save on France's contribution to common budgets and NSIP investment programs (€415 million in 2026 and about €1 billion in 2030), it would lead to highly unfavourable consequences for the BITD, notably by threatening major cooperative armament programs (such as the Future Anti-Ship Missile program). This decision could hand Germany and its defence industry a central role in Europe, especially since the German government has set a target to reach 3.5% of GDP in defence spending by 2029.

What Risks for French Exports?

Another major policy shift supported by the RN and La France Insoumise (LFI) concerns the deployment of military assets to Saudi Arabia. This shift extends more broadly to strategic partnerships in the Middle East.

In August 2026, France strengthened its strategic partnership with Saudi Arabia, a rapprochement solidified by the presidential announcement on October 24, 2026, enacting the deployment of French military assets to protect Saudi oil infrastructures.

The RN and LFI strongly dispute this operational deployment [1]. However, this contestation comes at a strategic moment when the historical bond between Saudi Arabia and the United States is weakening [1]. In the event of a change in foreign policy in 2027, the BITD might not be able to capitalize on this diplomatic window of opportunity [1]. Defense manufacturers would thus be deprived of major export opportunities to Saudi Arabia, which possesses a defense budget of \$87 billion (exceeding that of France).

Table 1: Summary of the Main Proposals

	Main orientations	Ukraine	NATO	Saudi Arabia
Edouard Philippe	♦ Massification MPL ♦ Focus on drones ♦ Ammunition Plan ♦ Naval capabilities reinforcement			
Marine Le Pen		♦ End of financial aid to UKR	♦ Withdraw from integrated command	♦ No military deployment
Jean-Luc Mélenchon	♦ Capability sovereignty ♦ Focus on breakthrough technologies		♦ Withdraw from NATO	♦ No military deployment
Bruno Retailleau	♦ €100 Bn in 2032 ♦ New White Paper ♦ New MPL			
Raphaël Gluksmann	♦ Focus on drones, space and AI ♦ Focus on industrial production			♦ Support the deployment



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Energy Sector: Share of Nuclear Energy in the Electricity mix, an Increasingly Consensual Topic

Despite the landing of forward electricity prices since the last (2022/23) energy crisis (from €1,200/MWh as at 26/08/2022 to €101/MWh as at 09/10/2026¹³), **energy topics occupy a noticeable place in various candidates' platforms.**

All major candidates share the objective of reducing France's dependency on fossil fuels (nearly 60% of final energy consumption) and of supporting electricity uses in industry, building and transport, either to leverage France's strong foothold in nuclear energy production¹⁴ and/or to accelerate CO₂ emission reductions in hard-to-abate sectors. There is a consensual view among French political parties that substituting electricity for oil and gas in these sectors not only can support French consumers' purchasing power in the short run but also foster French economy's competitiveness in the medium to long run.

Hence, **dividing lines among major candidates revolve less around the role of electricity in the global energy mix¹⁵ than around the organization of the electricity sector itself**, with two controversial topics:

- **Features of the electricity mix**, which is currently dominated by nuclear energy (70%). While far-left movement LFI (J.-L. Mélenchon) and, to a lesser extent, Greens support full nuclear phase-out, liberal, conservative and far-right parties share clear pro-nuclear sentiment. Among the latter group of political parties, the dividing line revolves around the respective shares of nuclear and renewable energy sources (RES) in the electricity mix, with conservative and far-right candidates supporting a moratorium / streamlining of RES development. Noteworthy is the potential candidate of the Socialist Party (PS), R. Glucksmann, currently taking a nuanced approach to the matter. R. Glucksmann has stated his opposition to immediate nuclear phase-out and has even advocated new nuclear build projects, while stressing the need for massive development of RES. It remains to be seen how these potentially contradictory statements on nuclear energy and RES will be reconciled in the event of PS forging a new alliance with Greens as seen in 2011 ahead of François Hollande's election;
- **Structure and level of the electricity bill**. With electricity prices having landed from historical highs since 2022/23 (see above), the topic is less controversial than it was three years ago. Substitution of electricity for fossil fuels in industry, buildings and transport is generally seen as a way to support increased decoupling of energy costs borne by households and businesses from international oil and gas prices in the medium to long run. While current market organization is relatively consensual among moderate parties both on the left and on the right of the political spectrum, far-left and far-right parties share a common ambition to challenge, if elected, electricity price formation mechanisms currently prevailing. LFI advocates the introduction of an energy price freeze, while RN wants France to align French electricity prices with EDF's sole (nuclear and hydro) production costs, hereby cutting their alignment with gas prices under the merit order mechanism (see below).

¹³ The current €101/MWh forward Y+1 price reflects the recent surge in gas prices on the back of continuing war in the Middle East.

¹⁴ And the associated electricity production surplus, with the equivalent of nearly 25% of nuclear energy production in 2024 and 2025 exported to neighbouring countries.

¹⁵ Share of all energy sources (fossil fuels, electricity, etc.) in the satisfaction of final energy consumption. The latter is currently covered by fossil fuels and electricity in the proportions of ~60% and ~30%, respectively.

Table 1: Cross-comparison of main candidates' energy programs

	Electricity mix	Electricity bills	Energy taxes	Other proposals
JL Mélenchon (LFI)	♦ Nuclear phase out 100% RES production	♦ Energy price freeze		♦ Full public ownership of EDF and Engie
R. Glucksmann (Socialist party & allies)	♦ Development of RES assets Nuclear policy still to be determined	♦ Market reform allowing for electricity price formation solely based on real production costs		♦ Support to geothermal energy
G. Attal (LREM)	♦ Joint development of new nuclear and RES assets			♦ Support to geo energy (ground geothermal energy)
E. Philippe (Horizons)	♦ Joint development of new nuclear and RES assets			♦ Electrification policies (industry & transport) Support to carbon border mechanisms et EU level
B. Retailleau (Republicans - LR)	♦ Focus on nuclear and hydro assets Moratorium on RES additions	♦ 10% reduction of electricity bills for households, businesses and farmers		
M. Le Pen (National Rally - RN)	♦ Focus on nuclear and hydro assets Moratorium on RES additions	♦ Reintroduction of regulated electricity prices, set for 10 years based on actual production costs	♦ Reduced VAT on all energies (electricity, gas and gasoline)	

Sources: various

All in all, **with LFI unlikely to win the elections at this stage, nuclear revival is set to continue**, with the construction of 6 to 14 reactors currently scheduled through to 2050. In the event of **RN winning the elections, the main uncertainty lies in the changes potentially introduced to the organization of the French electricity market.**

A long-standing proponent of a full decoupling of French electricity prices from European wholesale prices, M. Le Pen recently softened her stance on the matter. Late last month, she proposed reintroducing regulated electricity prices in France, set for a ten-year period based on actual production costs, while preserving the market price valuation of volumes traded with neighbouring countries. The proposed reform aims to leverage the benefits of a nuclear energy-dominated electricity mix in terms of price stability and competitiveness for all customers (including industrials), while ensuring France remains interconnected with its neighbours through market mechanisms¹⁶. That said, **reintroduction of regulated tariffs for industrials** (ended in 2016) would **likely raise opposition** from the European Commission as well as certain Member States, particularly Germany.

¹⁶ In practical terms, cross-border exchanges of electricity would probably continue to be governed by the market-coupling mechanism whereby transactions would be at common, wholesale market-determined price for participating countries until interconnection capacities are exhausted.

AI: A Key Presidential Election Issue?



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The Macron legacy: building an AI powerhouse

During his two terms in office, Emmanuel Macron has proven highly supportive of artificial intelligence, seeking to establish France as an AI powerhouse through various initiatives, including:

- ▶ The launch in 2018 of a national AI strategy following the Cédric Villani report (backed by a €1.5bn budget for scientific research),
- ▶ The France 2030 plan, with €2.5bn dedicated to AI (funding infrastructure and supporting innovative startups),
- ▶ The creation of a ministerial portfolio specifically dedicated to AI and digital affairs,
- ▶ The AI Action Summit held in Paris in February 2025, which brought together over 100 countries and where €109bn in investments were announced,
- ▶ Last June's announcement of an additional €655mn in investments (via France 2030) to accelerate the development of the national AI strategy.

The President views AI as a major economic and industrial revolution, believing that France and Europe must invest massively to reduce their dependence on the United States and China. Emmanuel Macron advocates for a sovereign, European AI while remaining open to foreign investment and competition. He emphasizes "trusted", inclusive, and sustainable AI, governed by common rules to protect citizens, combat biases, and regulate its use.

As President Macron's term draws to a close, AI is already shaping up to be an important issue for the 2027 presidential candidates.

AI is already on the agenda for presidential candidates

The main candidates agree that AI has become a strategic issue for France and insist on technological sovereignty (at the European level or national level), wish to invest in AI, train the population, and support the transformation of work.

The divergences focus primarily on the scale of investment, the allocation of public and private financing, the mitigation of the environmental impact of AI infrastructure, and the safeguarding of employees against automation risks. The regulatory framework also constitutes a key dividing line: whereas certain candidates apprehend that overly stringent regulations might hinder innovation, others insist on the necessity of robust rules to mitigate potential AI-related risks. In the following table, we summarize the AI positions of the main candidates.

Table 1: The Main Candidates' Positions on AI

Candidate	Party	Comments
Gabriel Attal	Renaissance (centrist)	Highly pro-innovation: he wants to establish France as a major AI powerhouse by accelerating its adoption across public administrations and economic sectors, while investing in infrastructure and skills. He views AI as a key driver to boost French competitiveness. He is in favour of European regulation, provided it does not hinder innovation. In the event of victory, he plans to launch a €200bn 'France 2040 Plan for AI and Innovation' (with a 50/50 split between public and private funding), alongside a program designed 'to train 20 million French employees in AI'
Edouard Philippe	Horizons (centrist)	Favourable to AI, which he views as a tool for industrial power and stresses the importance of having national champions like Mistral. He wants to invest massively to increase computing capacity and thereby reduce dependence on the US and China. He aims to leverage AI to modernize public administrations. He is nevertheless concerned about its impact on employment. On the regulatory front, he would like to see some simplifications while maintaining ethical standards.
Marine Le Pen	Rassemblement national (radical right)	Marine Le Pen's vision for AI, which is mainly driven by her party, revolves around technological and military sovereignty in order to reduce dependence on US and Chinese giants. Rather than regulating through bans (RN is highly critical of European regulation), she advocates for the development of sovereign computing and storage capacities, as well as support for European champions. She warns about the potential replacement of white-collar workers (secretaries, translators, graphic designers, accountants) by generative AI.
Jean-Luc Mélenchon	La France Insoumise (radical left)	While he does not oppose innovation, he wants it to be under public control: AI must serve industrial and human objectives set by the public authorities. Integrated into a national planning initiative organized around 'missions', 'French AI' and quantum computing are placed on the same level as the spaceplane or marine energies. The State must direct research and create the pioneering markets. He worries about the risk of digital dependence on big tech as well as the social, democratic and environmental consequences (particularly regarding data centers) of AI.
Raphael Glucksmann	Place publique (social democracy)	He is clearly positioned against big techs, refusing to let France become a 'digital colony' of the American tech giants. He believes that we must not 'miss the AI boat', calling for a 'European Manhattan Project for AI' (estimating that the national level is inadequate). He calls for a 'Buy European' act, the utilization of the approximately €2,000bn in European public procurement, and the choice of strategic sectors 'that we control from A to Z'. Additionally, he defends very strict regulation.
Bruno Retailleau	Les Républicains (conservative right)	Favourable to AI that he views as a productivity tool: wants to implement a costed plan of €25bn to infuse AI into every level of France's public administration and economy. Believes that AI can be used to transform public administration with the goal of redeploying 125,000 civil servants to other tasks. He advocates for sovereign AI and regulation that does not slow down innovation. He also wishes to use AI in security, particularly through facial recognition

Sources: Press, Natixis CIB

While the various candidates are expected to refine their AI proposals over the coming months, the results of the 2027 presidential election will almost certainly affect investments and shape a more or less innovation-friendly environment, depending on the political decisions of the newly elected president and their administration, and whether they secure a majority in the National Assembly:

- ▶ An increase in spending dedicated to research, infrastructure, and AI startups by a government highly supportive of innovation. Conversely, if the elected candidate seeks to curb public spending and adopts a more cautious policy toward AI, the budget allocated to innovation could suffer.
- ▶ Attractive taxation through tax credits and schemes designed to attract foreign researchers or investors—depending on the winning candidate's vision of sovereignty—or, alternatively, the taxation of certain companies.
- ▶ Choices regarding energy policy, urban planning, and grid connection that should favour or discourage investments in AI infrastructure (especially datacenters).

However, this impact could be limited, as investment in France is also heavily influenced by the European AI strategy, particularly the EU's drive to reduce its dependence on the United States and China (through regulation, research and innovation support programs like Horizon Europe or Digital Europe, the development of computing power, etc.). Furthermore, France remains highly attractive to private investors, as demonstrated by SoftBank's announcement of a €75 billion investment at the Choose France summit to build AI gigafactories, praising "the available brownfield sites, the French power grid, as well as the dynamism of the national AI ecosystem and the availability of talent." These French advantages should remain resilient to any government action—even from an administration less friendly to AI—at least in the short to medium term.

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