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Focus France

Towards the elections: fiscal and political risks

France will return to the polls in the spring of 2027 for the presidential elections, which will likely be followed by snap parliamentary elections. The vote will take place against a backdrop of a highly fragmented political landscape: in the first round, Marine Le Pen is clearly leading in the polls, whilst the outcome of the run-off is more uncertain. The uncertainties concern not only who will be the next head of state, but also the ability of the new National Assembly to form a stable majority. A parliament that remains fragmented could, in fact, hinder the already difficult path of fiscal adjustment. Under a no-policy-change scenario, the deficit could approach 7% of GDP and debt could reach 130% of GDP by 2030.

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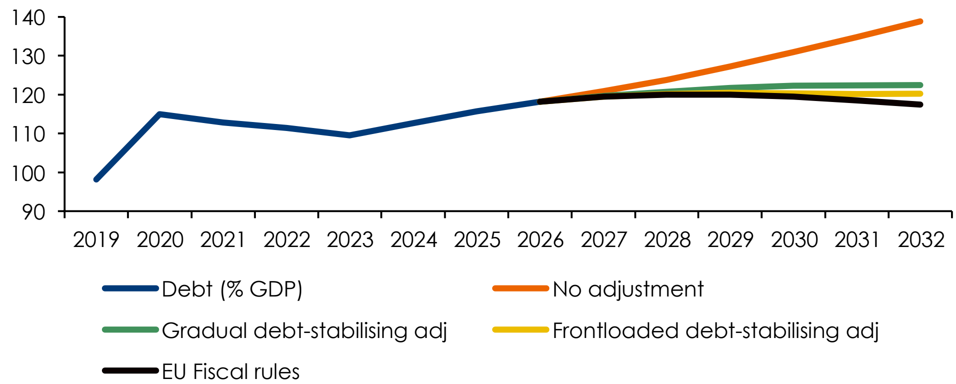
- Polls show that Marine Le Pen has a clear lead in the first round, but the outcome of the run-off against a centrist candidate is uncertain; a contest against Mélenchon, on the other hand, would be significantly more favourable to the Rassemblement National (RN).
- The main election manifestos present problems of fiscal credibility: the platform of La France Insoumise (LFI), if fully implemented, would entail upside risks to the deficit. Conversely, even for those candidates promising a reduction in debt, the targets still appear ambitious.
- Political fragmentation increases uncertainty regarding who will reach the second round and could lead, following the presidential election, to a National Assembly still lacking a stable majority, with the risk of hindering the process of consolidating public finances.
- On the fiscal front, risks remain regarding the achievement of the deficit target for 2026, and negotiations for the approval of the 2027 Budget Law are drawing near. To avoid having to resort, for the third consecutive year, to special legislation, the Government appears intent on drastically scaling back its ambitions and aiming for a planned deficit only marginally below 5% of GDP.
- Even if an agreement were reached on next year's budget, the main uncertainties would concern the following years. In a baseline scenario, the deficit could approach 7% of GDP and debt could reach 130% of GDP by 2030, partly due to the gradual rise in interest payments. Full compliance with European fiscal rules seems an overly ambitious target, but even simply stabilising the debt would require a considerable effort.

Public debt (% of GDP) under various fiscal adjustment scenarios



Source: Intesa Sanpaolo elaborations

Towards the presidential elections: who are Marine Le Pen's main challengers?

The first round of the presidential election is scheduled for 18 April, followed by a possible run-off on 2 May.

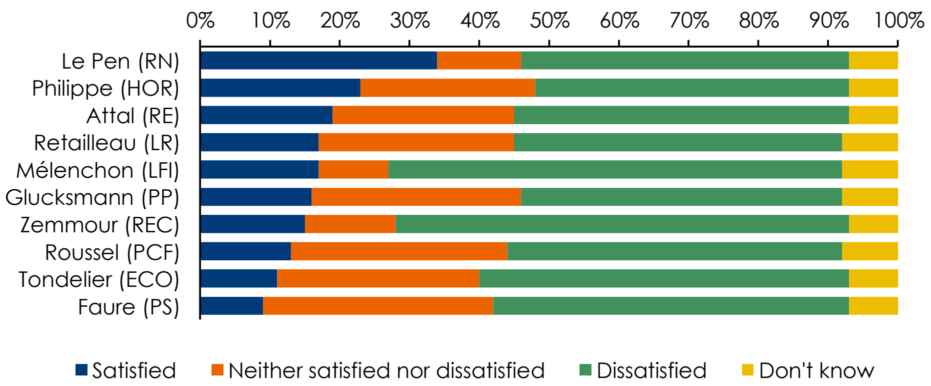
Voting intentions in the first round of the presidential elections under various candidate scenarios

	Results in 2022	Philippe centrist candidate	Attal centrist candidate	Philippe and Attal both candidates
Arthaud (LO)	1%	1%	1%	1%
Mélenchon (LFI)	22%	17%	17%	16%
Roussel (PCF)	2%	3%	2%	2%
Tondelier (ECO)	Yadot (4.6%)	3%	3%	3%
Glucksmann (PP)	Hidalgo - PS (1.8%)	10%	11%	10%
Attal (REN)	Macron (27.9%)	-	15%	8%
Philippe (HOR)	-	17%	-	14%
Retailleau (LR)	Pécresse (4.8%)	7%	9%	6%
Le Pen (RN)	23%	35%	37%	35%
Zemmour (REC)	7%	4%	3%	3%
Others		3%	3%	3%

Note: polls as of 24 August. Source: Intesa Sanpaolo elaborations on Harris Interactive data

According to polls on voting intentions, **it is almost certain that Marine Le Pen will reach the second round**, as was the case in 2017 and 2022. Unlike in previous elections, however, this time it will be the other candidates who are chasing her. **A fierce contest is indeed taking shape to identify the figure who can be designated by voters as the main alternative to the Rassemblement National.** Much can change over the next eight months, yet the current picture reflects the widespread perception that the parties are finding it increasingly difficult to identify an effective strategy and a credible candidate to stem the rise in support for the RN. The various political forces are, in fact, proceeding in a disorganised manner, often hampered by internal divisions, with a large number of potential candidates and a real risk that qualification for the second round will be decided by narrow margins. In any case, confirming the French people's distrust of the current political landscape, polls show that the majority of voters believe that none of the current candidates would make a good president.

Voters' satisfaction with the election of certain political figures as President



Source: Intesa Sanpaolo, Ipsos-bva

Marine Le Pen remains in the lead for the first round

Marine Le Pen, leader of the Rassemblement National (RN), will stand in the presidential election, despite her conviction for the misappropriation of European funds. In July, the Court of Appeal reduced her sentence from four to three years' imprisonment, two of which were suspended on probation and the remainder to be served whilst wearing an electronic tag. Her disqualification from holding public office was also reduced from 60 to 45 months, 30 months of which are suspended, thereby limiting her ineligibility to just 15 months, a period she has already served, as it is counted from March 2025. Following the reduction in her sentence, Le Pen has stated that she will appeal to the Court of Cassation; this decision will lead to the temporary suspension of her sentence, allowing her to stand as a candidate in the forthcoming presidential elections and to begin her election campaign without restrictions. The Court of Cassation's ruling is expected by early April 2027, i.e. before the election. Should the Court of Cassation also uphold the conviction, Le Pen would have to complete her election campaign whilst wearing an electronic tag, though she could also request its temporary suspension. If she were elected, the sentence would be suspended by virtue of presidential immunity. Marine Le Pen would, however, be ineligible if the Court of Cassation were to reinstate the conviction handed down at first instance. Nevertheless, according to some legal experts, the precedent would not apply to the Le Pen case as the Court of Cassation is not expected to rule again on the merits of the case.

On the political front, despite the conviction, Le Pen does not appear to be losing momentum in the polls and, indeed, is well ahead in the first round with around 35% of voting intentions. **The RN has therefore now become a party capable of attracting voters with diverse profiles,** no longer confined exclusively to the core of the far right concentrated in rural, deindustrialised areas and in the south of the country. In particular, moderate or politically disengaged voters, those who are disillusioned and facing economic hardship, who had never previously voted for the movement but now regard the RN as a viable option, represent a potentially large electoral base.

Staying with the far right, Nicolas Dupont-Aignan (DLF) is expected to stand for a fourth time, and it is possible that Éric Zemmour (REC) may also return to the race. However, the polls suggest that the latter is unlikely to repeat his 2022 feat, when he secured 7% of the vote in the first round.

Moderate right and centre: a neck-and-neck race between Philippe and Attal

On the centre-right, the main candidates are the two former prime ministers, Édouard Philippe (Horizons, HOR) **and Gabriel Attal** (Renaissance, REN), followed by the president of Les Républicains, Bruno Retailleau (LR).

Retailleau can count on his party's strong local roots and the network of local councillors that has always characterised LR, but he remains consistently below 10% in the polls. Furthermore, some leading figures from his own political camp have expressed support for other candidates or hinted at standing as candidates themselves. This weakness stems from the gradual erosion of the Republicans' electoral base, with their traditional voter base having shifted partly towards the RN or the centrist camp. Indeed, it is the two centrist candidates, Philippe and Attal, who are garnering the most support within the centre-right.

Philippe was initially considered the best-placed candidate, as he was seen as capable of attracting both moderate voters from Les Républicains and disillusioned voters who had switched to the Rassemblement National, as well as centrists from the Macron camp. Conversely, Gabriel Attal could be penalised for his association with Macron's political legacy (although Philippe also served as Prime Minister between 2017 and 2020, his record is viewed as relatively more positive), and he draws his support mainly from the centrist electorate. **The candidacy of two highly ambitious but not particularly charismatic politicians, both from the same political camp,** also **risks diluting their support, reducing the likelihood of a centre-right candidate reaching the second round**. For this reason, rumours emerged during the spring that, in early 2027, **the candidate with the least support might withdraw in favour of the one with the best chance of victory**. Before the summer, almost 50% of the French public believed that Attal would be the one to withdraw; however, he has stepped up his election campaign in the last few months, raising the **risk that neither candidate will establish a clear lead in the coming months.**

The Left: Mélenchon launches his fourth bid for the presidency. Can an alternative social-democratic candidate be competitive?

On the left, **Jean-Luc Mélenchon has already launched his fourth presidential campaign**. In the 2017 and 2022 elections, the leader of La France Insoumise was the left-wing candidate who secured the most votes but failed to reach the second round. Current polls show his support rising, though it remains below the peak of 22% reached in 2022. However, it should be remembered that in the previous election too, his candidacy started from relatively low levels of support, before showing a marked surge in the final months of the campaign. **Mélenchon remains**, moreover**, a highly divisive figure, who appears less capable than other potential candidates of attracting support beyond his own** (albeit solid) **electoral base**. According to the polls, in fact, even socialist voters themselves would not be particularly pleased with Mélenchon's election as President of the Republic, preferring instead a centrist candidate. For this reason, **the LFI leader could prove to be the weakest candidate in a potential second round.**

Among the other parties, the picture remains fluid, but a potential single candidate from the socialist camp could benefit from the moderate left's scepticism towards Mélenchon and the return of those social-democratic voters who, from 2017 onwards, had voted for Macron. The **Socialist Party** (PS) has recovered from its low point in recent years and distanced itself from LFI. In July, PS members voted in favour of primaries restricted to party members, with the aim of identifying a candidate capable of drawing up a programme and forging alliances with other left-wing forces, whilst excluding La France Insoumise. **The first round of the primaries will take place between 9 and 11 October, followed by a possible run-off between 16 and 18 October. Raphaël Glucksmann, leader of Place Publique (PP), will also be standing** in the primaries**.** According to various polls, Glucksmann, with voting intentions of around 10 per cent, **is the most competitive candidate on the social-democratic side**. Despite his relatively strong showing in the polls, however, Glucksmann's party lacks the resources needed to run an election campaign and would therefore require the support of the Socialists, who, at present, do not appear capable of fielding a competitive candidate (among the main contenders are the Socialist secretary Olivier Faure, the 2007 presidential candidate Ségolène Royal and, although not yet a formal candidate, former President Hollande).

The Greens and the Communists will not take part in the Socialist primaries. The Greens remain divided over whether to stand alone, with LFI, or in support of Glucksmann. The PCF, on the other hand, is preparing for an independent candidacy by its national secretary, Fabien Roussel.

There are still around seven months to go before the presidential elections and, although it remains possible that new candidates may emerge, **the current political landscape does not seem to offer any figures with potential comparable to that which enabled Macron to quickly establish himself as a competitive candidate in 2017**. Moreover, in 2016, although Macron did not formally announce his candidacy until November, he had begun hinting at his entry into the race as early as the previous spring, before making it official in the summer of that year, when he resigned from his ministerial post to focus on his presidential ambitions.

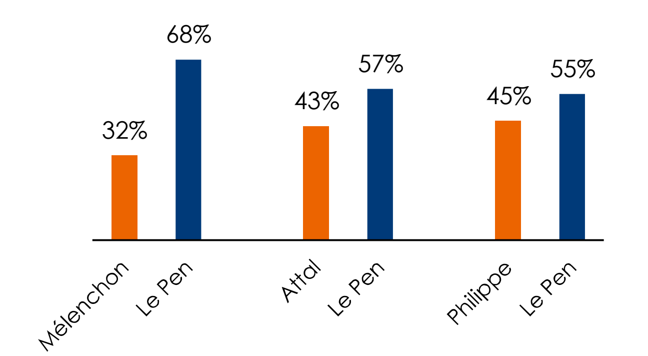
Possible scenarios for the second round

We have analysed the polls and the results of the first round of presidential elections over the last 20 years (from 2002 to 2022). **Six months before the vote, the average absolute error in the results for the six candidates with the most votes is around 6 percentage points, whilst one month before the vote it stands at around 4 percentage points.** Analysis of the signs of these errors also suggests that, particularly in the most recent elections, polls tend to underestimate the results of the top two candidates, which could be evidence of the growing tendency to cast a 'tactical vote' as early as the first round in more fragmented electoral contexts.

However, historical experience shows that every election has its own specific characteristics. In 2022, the polls had correctly predicted, several months in advance, the run-off between Macron and Le Pen, as well as the incumbent president's lead. However, they had underestimated Mélenchon's final surge and overestimated the support for Valérie Pécresse, the candidate for Les Républicains. In 2017, the 12 months leading up to the election held many surprises, including the unexpected result of the LR primaries, the scandals that subsequently engulfed the nominated candidate Fillon, and Macron's rise. By contrast, in 2007 and 2012, the polls had predicted with reasonable accuracy both the candidates who made it through to the second round and the eventual winner. The most notable exception remains 2002, when the RN was significantly underestimated and the polls failed to predict Jean-Marie Le Pen's access to the second round.

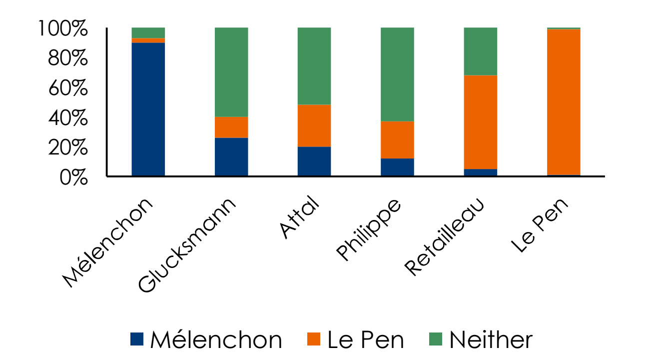
Essentially, **based on the average historical margin of error, confidence intervals and past experience, the polls still do not allow to determine with certainty who will challenge Marine Le Pen in the second round**. At present, **the candidates most likely to reach the run-off appear to be Philippe and Mélenchon, but their chances vary depending on the number of alternative candidates in the first round**. The various polls do not yet provide clear-cut answers, but **Philippe would be more likely to qualify if he were the only centrist candidate; Mélenchon, on the other hand, could reach the run-off if Attal were the only centrist candidate, or if both Philippe and Attal were to stand**, thereby competing for the same electorate.

Polls on the outcome of the second round under various scenarios



Source: Intesa Sanpaolo, Harris Interactive

Vote flow by candidate voted for in the first round in the event of a run-off between Mélenchon and Le Pen



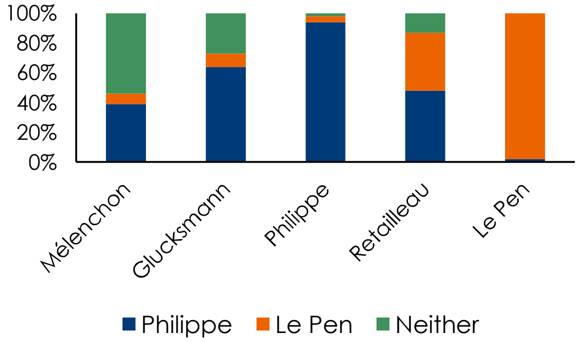
Source: Intesa Sanpaolo, Harris Interactive

Simulations of the second round suggest that Mélenchon would be the weaker candidate against Le Pen. Polls put him at around 30% against nearly 70% for the RN leader. **It appears that the anti-LFI front has replaced the anti-RN front amongst moderate voters,** who would prefer to vote for the far right rather than the radical left. Polls on voter behaviour do indeed show that the majority of centrist or centre-left voters would not be certain to vote for Mélenchon in case of a second round.

It is still too early to draw definitive conclusions, but in the presence of a united and competitive social-democratic candidacy, an increase in tactical voting within the left-wing electorate cannot be ruled out, due to fears that an LFI candidacy might reduce the chances of defeating Marine Le Pen in the second round. Even in this scenario, however, it would still be unlikely that the PS candidate would manage to reach the run-off.

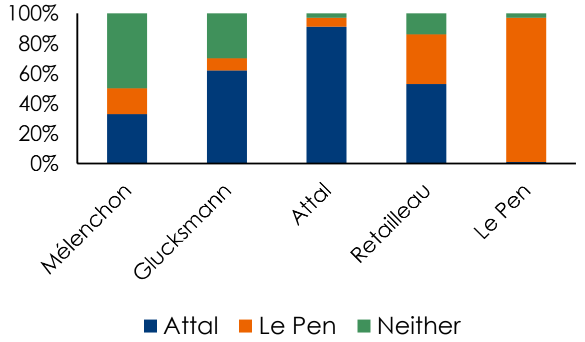
Simulations pitting Le Pen against Philippe, on the other hand, paint a picture of a race that remains very much wide open. Last spring, Édouard Philippe was the only candidate capable of beating RN leader, albeit by a narrow margin. Over the summer, his lead gradually narrowed, eventually reversing. If Gabriel Attal were the centrist candidate in the run-off, his position would currently be weaker because, according to vote flow analyses, he would be less appealing to left-wing voters than Philippe.

Vote flow by candidate voted for in the first round in the event of a run-off between Philippe and Le Pen



Source: Intesa Sanpaolo, Harris Interactive

Vote flow by candidate voted for in the first round in the event of a run-off between Attal and Le Pen



Source: Intesa Sanpaolo, Harris Interactive

In any case, barring any surprises in the coming months, **uncertainty remains regarding the outcome of both the first round (or rather, as to who will be the second-most-voted candidate after Le Pen) and the run-off** (unlike in previous elections). In fact, with the exception of a possible run-off between Mélenchon and Le Pen (which seems a foregone conclusion in favour of the latter), **the polls do not currently allow to identify a clear favourite for the second round, as the margins observed are consistent with a situation of virtual parity.**

Election manifestos: a credibility issue

The polls show that French voters are deeply concerned about the country's economic and social situation, particularly with regard to safeguarding the healthcare system and maintaining purchasing power. For right-wing and centre-right voters, security is also a key issue, whilst identity and cultural issues appear to be of relative importance compared to those linked to material living conditions. The polls also highlight an interesting polarisation of opinion: most French people believe that the political landscape is already excessively radicalised, but voters for the RN and LFI are calling for further radicalisation and for their representatives not to compromise.

The election campaign will therefore be dominated by economic and social issues, but the candidates' promises may lack credibility due to the complex fiscal context, because they are either too generous or excessively ambitious. **At present, the details of the main candidates' manifestos are not yet available, but** from their campaign rallies and the first debate organised by Medef on 27 August, **it is possible to get an idea of their different approaches to economic policy.**

On the economic front, Jean-Luc Mélenchon's programme is expected to be based on an update of the 2025 platform 'L'avenir en commun', which itself was an extension and integration of previous election manifestos. **The plan is expected to be very costly and to involve a significant increase in public spending, only partially offset by higher taxation**. The repeal of the pension reform, with a return to a retirement age of 60, and an increase in minimum pension payments, is expected to remain a key pillar, as are pay rises for civil servants and increased minimum wages and public spending. The 2025 programme also included a EUR 200 billion investment plan, the framework of which could be retained, as well as the nationalisation of companies in strategic sectors. On the revenue side, promises to cut VAT on essential goods and to reduce taxes on energy bills have historically been part of Mélenchon's proposals. Among the sources of funding, in addition to the multiplier effect resulting from higher growth, the main approach is to rely on higher taxation. Proposals include the reinstatement of the ISF wealth tax (abolished in 2018), the introduction of the so-called ‘Zucman tax’ at 2% on large fortunes, a permanent tax on super-profits and financial transactions, as well as the abolition of the flat tax on capital gains introduced in 2018. According to some LFI members, this increase in taxation could generate up to 180 billion in additional revenue; however, this is likely an optimistic estimate.

LFI’s vision of Europe is structurally different from the EU’s current framework: the existing rules on competition, state aid and the free movement of capital are in fact regarded as hurdles, as are trade agreements. Plans to renegotiate or disregard fiscal rules were already on LFI programmes in recent years. Changes to the ECB’s statutes are also being called for, so that the central bank can directly finance public debt, and recently the candidate even raised the possibility of writing off part of the debt (that held by the Banque de France).

Whilst Mélenchon has not substantially altered his election pledges over the last five years, the RN appears to have moderated its positions compared with the past, even if it maintains an opportunistic reticence on the most complex and potentially controversial issues, a stance that also reflects the differing positions of Marine Le Pen and Bardella. During the period when a Le Pen candidacy seemed unlikely, Bardella had attempted to present himself as a candidate representing both a break with the past and stability, with rhetoric more in line with the economic establishment. By contrast, Le Pen, who has historically been closer to micro-enterprises and shopkeepers, could revert to her traditional anti-establishment rhetoric. In any case, **compared with Marine Le Pen’s first presidential bid in 2012, 2022 has already seen a substantial shift in the RN’s economic programme which, whilst retaining a populist stance, has toned down its most radical proposals.** The party has, in fact, long since abandoned its desire to leave the euro and its promises of central bank debt financing, as well as of raising customs duties to fund tax cuts. On the issue of pensions, too, the party has changed its position several times: whilst her father Jean-Marie was not opposed to raising the state pension age, Marine, who had previously been more reluctant, has recently softened her stance, without, however, abandoning the promise (a cornerstone of her 2022 election manifesto) to maintain a retirement age of between 60 and 62, depending on the age at which one enters the labour market. According to the RN’s projections, the economic cost would be offset by adjusting the number of contribution years and other parameters of the pension system. On the issue of fiscal discipline, unlike Mélenchon**, Le Pen does not explicitly contradict the European rules of the Stability Pact, but her proposals for reducing debt have always been regarded as lacking credibility. Le Pen recently stated that in the coming weeks she will present a savings plan worth EUR 125 billion** (equivalent to 4% of GDP), but in the past her promises of debt reduction and tax cuts were based on optimistic estimates, for example, regarding savings arising from the ‘cost of immigration’. Last year, the RN presented a, rather unrealistic, budget proposal based on cuts to expenditure deemed ineffective, totalling nearly 60 billion, largely comprising contributions to the EU and welfare spending for foreign nationals.

The issue of fiscal consolidation is more prominent among the centrist candidates. In particular, **Philippe promises to bring the deficit back down to 2% of GDP by the end of his term without raising taxes, but by reducing the state’s operating expenditure** (Attal is even aiming for a balanced budget). Philippe’s programme also provides for the introduction of a budgetary rule into the Constitution and a reorganisation of the structure of the state in order to reduce expenditure and bureaucratic complexity. As regards growth, the main driver would be a ‘fiscal pact’ with businesses, which would result in EUR 50 billion in tax relief on production, funded by a 50 billion reduction in unproductive public aid (cutting business subsidies is a proposal shared by much of the French political spectrum, but it is not easy to implement). There are also plans to ease the tax burden on labour. Pension reform is considered a top priority and also involves the introduction of a funded pillar in the pension system. As regards European policy, the programme calls for greater EU integration, the completion of the single market for goods, services and capital, the harmonisation of national rules and protection against unfair Chinese competition.

In summary, **Philippe's proposal** builds on some of the policies implemented during his term as Prime Minister and **appears more pragmatic than those of the other candidates**. By contrast, **Mélenchon's programme would have the greatest impact on budget deficit and sets out very radical views on the architecture of the European Union**. Finally, **Le Pen, who has moderated her positions in recent years, will seek to reconcile the need for fiscal adjustment with economic promises that could prove costly for the public finances in the absence of realistic sources of funding**. For Le Pen to be a genuine favourite to become the next President of the Republic, her ability to broaden her electoral base by establishing credibility on complex economic issues, a subject on which she has never managed to be truly convincing to centrist voters, will be crucial. Conversely, Philippe, who is perceived as competent and reassuring but lacking in charisma, will need to seek to present himself as a break with Macron's ten-year presidency.

The implementation of the election manifestos will also depend on the outcome of the parliamentary elections. The risk of a new, still-fragmented National Assembly

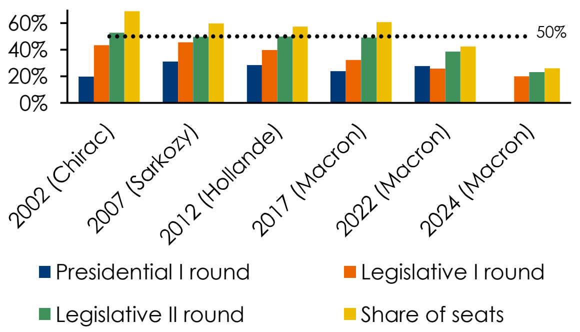
The new President will take office on 14 May and is very likely to move swiftly to dissolve the National Assembly to call a snap general election. The Constitution stipulates that elections must take place between 20 and 40 days after the dissolution of the Assembly: **the vote could** therefore **be held in June 2027. The most likely dates for the first round are 6, 13 or 20 June, with the run-off on the following Sunday.**

Some observers have speculated that the National Assembly might be dissolved early, before the presidential elections, with the aim of combining the two electoral events. This scenario has been interpreted as a move to limit the advantages of the Rassemblement National, which, having a weaker regional base than the traditional parties, would benefit less from any knock-on effect of a presidential victory. This scenario would not contravene constitutional provisions, but it appears unlikely, not only for political and symbolic reasons, but also because it would increase the risk that the future president would find themselves, from the very start of the parliamentary term, with a non-aligned parliamentary majority, as they would be unable to dissolve Parliament again for at least twelve months.

Following the snap elections in 2024, the current National Assembly would theoretically have a term running until 2029; however, in addition to realigning the presidential and parliamentary cycles, new elections appear necessary in light of the current context of high political fragmentation. **Traditionally, legislative elections following presidential elections tend to favour the party and coalition of the new head of state, who benefits from the momentum of victory at the Élysée.** With a few exceptions (such as in 1988 and 2022), legislative elections following presidential elections have, in fact, generally secured an absolute majority in Parliament for the presidential coalition.

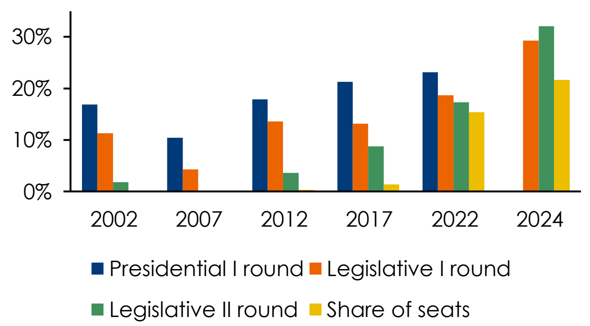
However, the risk that the forthcoming parliamentary elections will result in a National Assembly still lacking a clear majority is not negligible. Today, the French political system is far more fragmented than in the past: the political landscape has now crystallised around four main poles: two on the left (one radical and one social-democratic) and two on the right (one far-right and one moderate, which also includes the centrists). Consequently, **even a clear result in the presidential elections does not necessarily translate into a stable parliamentary majority.**

Historically, in parliamentary elections, the coalition of the President-elect tends to benefit from the results of the presidential election



Note: election results. Source: Intesa Sanpaolo elaborations

Over the years, support for the RN has increased, but the party has historically performed worse in parliamentary elections than in the first round of the presidential elections



Note: election results. Source: Intesa Sanpaolo elaborations

The outcome of parliamentary elections is also historically very difficult to predict. The large number of constituencies, the two-round system, the influence of local dynamics and the possibility of stand-down agreements in the run-off significantly reduce the reliability of national polls. Historically, the RN tends to achieve less favourable results in the second round, precisely because of the tactical convergence of the other parties against its candidates. As was the case in the recent local elections, alliances are more likely to form between left-wing parties, including LFI, than in the presidential elections. However, it is by no means certain that this mechanism will work as effectively in 2027 as it has in the past, and the parties may be less inclined to enter into withdrawal agreements than in 2022, when the RN, despite achieving a good result in the first round, ranked only as the third-largest parliamentary force. Therefore, **given the high level of political fragmentation, a scenario could arise involving numerous run-offs with three or four candidates, which would ultimately favour the RN.**

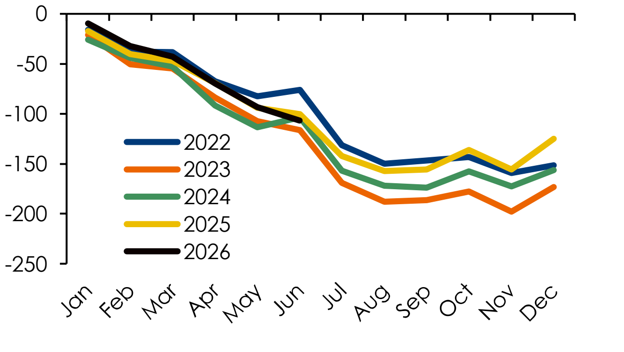
In summary, **particularly in the event of an RN-led presidency, a (at least relative) far-right parliamentary majority is no longer as remote a prospect as it was in the past.** In this context, in addition to the support of Ciotti's UDR, the RN could strike a deal with the more moderate right (LR in particular), which might also have the effect of softening its more radical positions. However, **there remains a real possibility that a scenario similar to the current one could recur, with a more fragmented National Assembly**: forming a majority would be extremely difficult and the majority would be inherently fragile. In such a situation, the government's room for manoeuvre, particularly regarding potentially controversial fiscal policies and structural reforms, would be drastically reduced, further delaying the already difficult process of consolidating public finances.

Fiscal policy: difficult decisions ahead

The 2026 budget was only approved in February this year and forecasts only a marginal improvement in the target deficit, to 5% of GDP from 5.1% the previous year. However, just a few months after the budget was approved, **the Government began to highlight risks of a rise in net borrowing, which could reach 5.2%** due to a number of factors, including higher-than-expected interest payments, uncertainty surrounding local authority accounts, the impact of the conflict in the Middle East and the summer heatwave. The macroeconomic backdrop does not look particularly promising either, following the most recent revision of the national accounts data, which painted a picture of a stagnant economy in the first half of 2026.

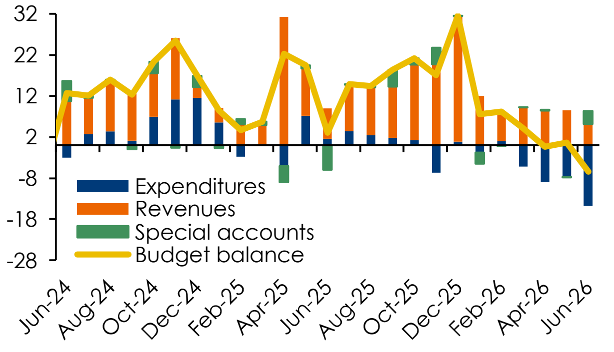
In the first six months of the year, the State (social security and local authorities are excluded) accumulated a budget deficit of EUR 106.8 billion, marking a deterioration of 6.4 billion (+6.4%) compared with the same period in 2025. In other words, the improvement in public finances that had characterised 2025 appears to have come to a halt, at least based on H1 2026 figures (which, however, are not necessarily representative of the annual trend).

Cumulative monthly balance of the State



Source: Intesa Sanpaolo, Ministère de l'Action et des Comptes Publics

The deterioration compared with last year is mainly due to the increase in expenditure



Source: Intesa Sanpaolo, Ministère de l'Action et des Comptes Publics

The negative surprises stem mainly from the expenditure side, which rose by 5.6% compared with the first half of 2025. This trend is due in particular to the rise in interest expenditure, which grew by 18.3% compared with a year earlier, but primary expenditure also rose by 4% (whereas it had fallen in the first six months of 2025) driven, amongst other things, by an increase in military spending. Government revenue, on the other hand, appears to be in line with forecasts: at the halfway point of the year, revenue in the general budget (excluding special accounts) had risen by 2.8%; this increase (slightly above inflation) is mainly due to value-added tax and income tax, against a backdrop of falling revenue from energy excise duties and substantial stagnation in corporate tax.

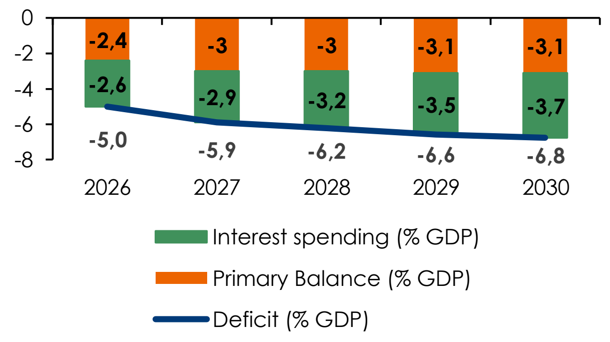
The government has already announced savings totalling 9 billion euros (0.3% of GDP). These consist of 6 billion in spending cuts approved in April, followed by a further 3 billion in cuts announced in July, although no details have been released regarding the latter. These savings could partially mitigate the risks of a rise in net borrowing in 2026, **but the main uncertainties concern the coming years.**

The first hurdle is the approval of the 2027 budget. With the election campaign approaching, there is a strong **temptation for the parties to resort, for the third consecutive year, to the special law that ensures the state can continue to function even in the absence of a budget**. This would mean postponing the approval of the Finance Act until after the presidential elections, and therefore not before the summer. The special law was already used in 2025 and 2026 (as well as in 1979), but for no longer than six weeks. **Should the budget not be approved before the presidential election, due to delays caused by the electoral timetable, the special law could remain in force for up to nine months.** According to the Inspection Générale des Finances, **in this scenario, the deficit would worsen by at least 0.5% of GDP compared with the outturn for 2026.**

Prime Minister Lecornu's aim, having seemingly abandoned the idea of setting out a path to bring the deficit back below 3% of GDP by 2029, **is therefore to present a budget that is not particularly ambitious, but which can be approved by the end of the year**. The draft bill will be presented on 30 September, but **press reports suggest a target deficit of around 4.9% of GDP.**

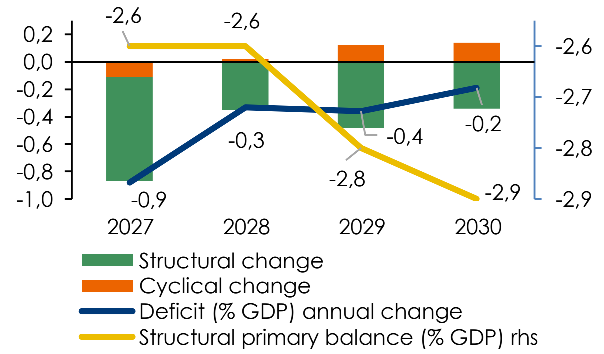
At face value, if the outturn for 2026 were indeed to stand at 5% of GDP, the correction would be only marginal (equivalent to one-tenth of GDP). However, when compared with trend estimates, the corrective measures needed to achieve this target are expected to exceed EUR 30 billion, equivalent to 1% of GDP, as in 2027 it would be necessary to offset the impact of higher interest payments, the initial effects of increased military spending and the expiry of the one-off tax on large corporates. Even assuming that the one-off tax on corporate profits will be renewed, as is highly likely, achieving the target of 4.9% of GDP will still require finding over EUR 20 billion (around 0.7% of GDP) compared with the baseline scenario.

Deficit trends under a no-policy-change scenario



Source: Mission sur la transparence des finances publiques

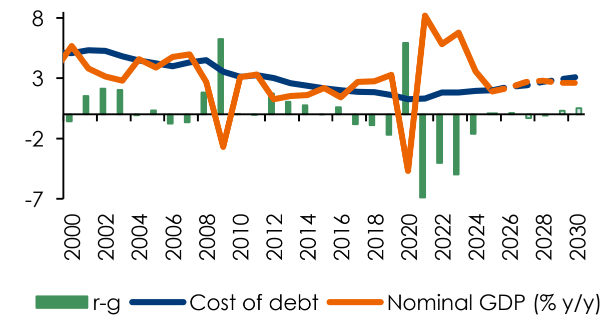
The deficit is expected to continue to be affected by a structural deterioration (particularly on the expenditure side)



Source: Mission sur la transparence des finances publiques

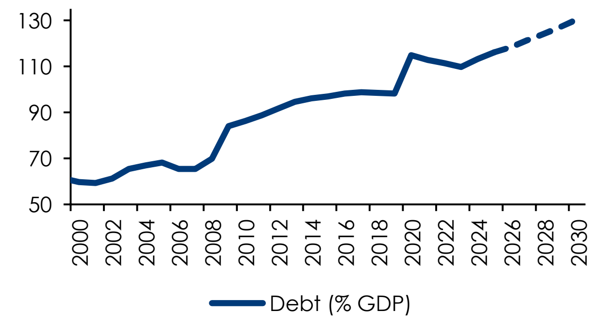
In July, a commission of independent experts[1] , tasked by the Government with estimating the long-term trends in public finances up to 2030, calculated that, under a no-policy-change scenario, the deficit would stand at 5.9% of GDP in 2027 (compared with the 5.7% estimated by the European Commission), **before rising gradually to 6.8% of GDP in 2030.** The rise in the deficit over the coming years would reflect not only higher interest expenditure (increasing by around 10 billion on average per year), but also a structurally deficit primary balance due to expenditure growth outpacing nominal GDP.

The 'snowball' effect is expected to turn marginally unfavourable



Source: Intesa Sanpaolo elaborations on INSEE, Mission sur la transparence des finances publiques data

Public debt under a no-policy-change scenario



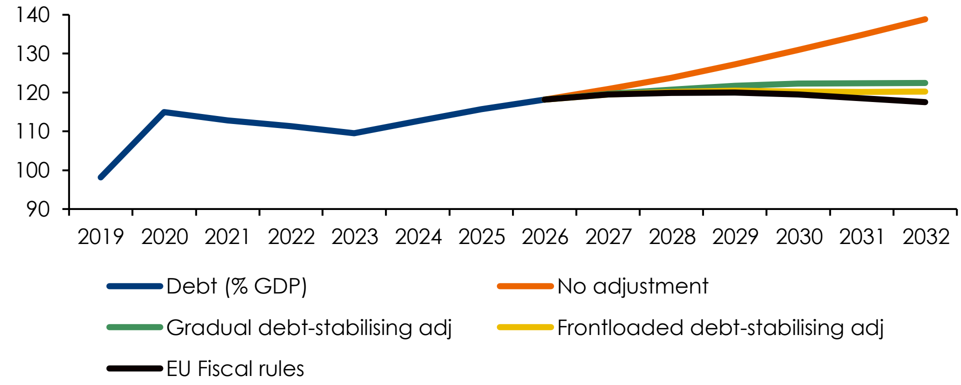
Source: Mission sur la transparence des finances publiques

Under this scenario, debt would reach 130% of GDP in 2030, an increase of around 15 percentage points compared with 2025. This rise is partly due to the 'snowball' effect, resulting from **the difference between the average cost of debt and nominal GDP growth, which is forecast to become unfavourable**. With nominal growth projected to converge towards 2.6%, the average cost of debt is expected to exceed 3% by 2030 (the report's estimates are consistent with what would emerge from estimating the average cost of debt based on our forecasts for government

[1] Jaravel X., Ragot X., Tavernier JL., Valla N., *Mission sur la transparence des finances publiques*. Juillet 2026

bond yields). **This makes a primary deficit reduction inevitable to reduce or at least stabilise the debt-to-GDP ratio.**

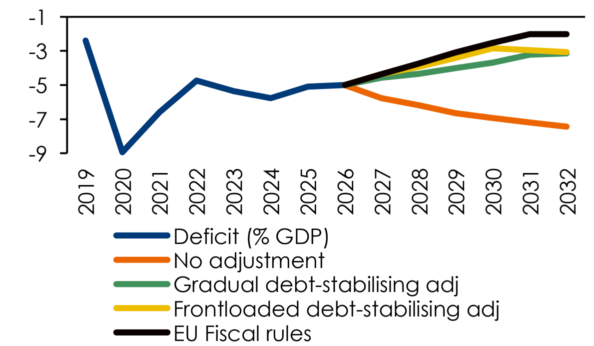
Public debt (% of GDP) under various fiscal consolidation scenarios



Note: in the simulations, we assume a zero fiscal multiplier. Source: Intesa Sanpaolo elaborations on INSEE data

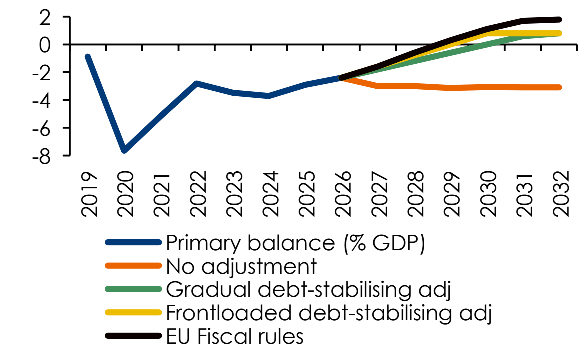
For France, a country subject to an excessive deficit procedure (EDP), European fiscal rules require an average structural adjustment of half a percentage point of GDP per year to bring the deficit back below the 3% of GDP threshold, followed by a reduction in the debt-to-GDP ratio by an average of one percentage point per year. **Assuming full compliance with the Stability Pact rules**, **France would not be able to bring the deficit below 3% until 2030 at the earliest**, in a context where debt would continue to rise relative to GDP. **It would then be necessary to achieve and sustain a primary surplus of around 1.8% of GDP over time to put the debt on the required downward trajectory.**

Deficit (% of GDP) under various fiscal consolidation scenarios



Note: in the simulations, we assume a zero fiscal multiplier. Source: Intesa Sanpaolo elaborations, INSEE data

Primary balance (% of GDP) under various fiscal consolidation scenarios



Note: in the simulations, we assume a zero fiscal multiplier. Source: Intesa Sanpaolo elaborations, INSEE data

This scenario not only appears unrealistic due to the effort required relative to trend projections (almost 150 billion cumulatively at current prices, i.e. an average of 25, billion annually or 0.8% of GDP per year), **but also because it would require a very robust underlying economic environment for the tightening to be implemented without excessively dampening the cycle.** In our simulation, in fact, we assume (rather unrealistically) a fiscal multiplier of zero, i.e. a scenario in which the scale of the fiscal adjustment does not prevent the economy from reaching its potential growth rate[2] . Over the last 50 years, in fact, it was only during the three-year period 1999–2001 that France managed to achieve an average primary surplus of 1.6% of GDP, but this was in a decidedly favourable economic climate (with growth rates at least double the current potential). Analysing various alternative scenarios with fiscal multipliers ranging from 0.5 to 1, the primary surplus required to fully comply with the Stability Pact rules would increase further, reaching around 2% of GDP in 2032, against a backdrop of real growth likely to be around 0.5%.

Change in public debt (% of GDP) over a five-year horizon under various scenarios for the primary balance and real GDP growth

	Primary balance (% GDP)									
Real GDP % y/y	-2.0	-1.5	-1.0	-0.5	0.0	0.5	1.0	1.5	2.0	2.5
-2.0	32.9	30.2	27.5	24.8	22.2	19.5	16.8	14.1	11.4	8.8
-1.5	29.2	26.5	23.9	21.2	18.6	15.9	13.3	10.6	8.0	5.3
-1.0	25.6	23.0	20.4	17.7	15.1	12.5	9.9	7.3	4.6	2.0
-0.5	22.1	19.5	17.0	14.4	11.8	9.2	6.6	4.0	1.4	-1.2
0.0	18.8	16.2	13.6	11.1	8.5	5.9	3.4	0.8	-1.8	-4.4
0.5	15.5	13.0	10.4	7.9	5.3	2.8	0.2	-2.3	-4.8	-7.4
1.0	12.3	9.8	7.3	4.8	2.3	-0.3	-2.8	-5.3	-7.8	-10.3
1.5	9.3	6.8	4.3	1.8	-0.7	-3.2	-5.7	-8.2	-10.7	-13.2
2.0	6.3	3.8	1.3	-1.1	-3.6	-6.1	-8.6	-11.0	-13.5	-16.0

Note: we assume an average deflator of 1.6%, an average cost of debt of 3% and a zero fiscal multiplier. Source: Intesa Sanpaolo calculations

Primary balance required to stabilise debt at 120% of GDP under various scenarios of average real GDP growth and the cost of debt

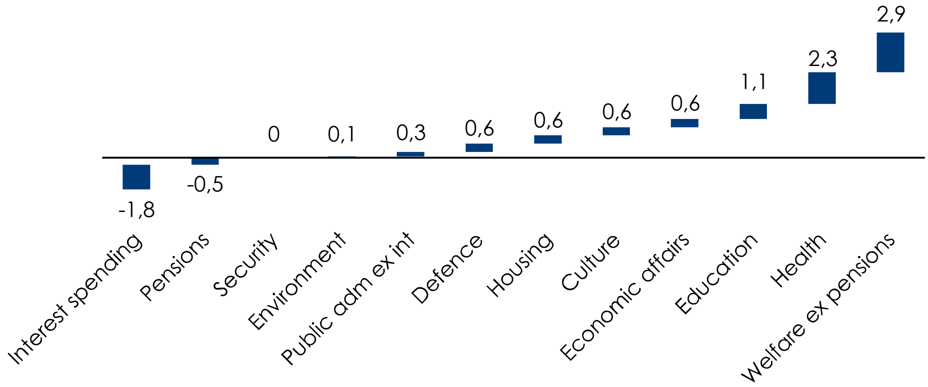
	Average cost of debt									
Real GDP % y/y	2.0	2.2	2.4	2.6	2.8	3.0	3.2	3.4	3.6	3.8
-2.0	2.9	3.2	3.4	3.7	3.9	4.1	4.4	4.6	4.9	5.1
-1.5	2.3	2.5	2.8	3.0	3.3	3.5	3.7	4.0	4.2	4.5
-1.0	1.7	1.9	2.2	2.4	2.6	2.9	3.1	3.4	3.6	3.8
-0.5	1.1	1.3	1.6	1.8	2.0	2.3	2.5	2.7	3.0	3.2
0.0	0.5	0.7	0.9	1.2	1.4	1.7	1.9	2.1	2.4	2.6
0.5	-0.1	0.1	0.3	0.6	0.8	1.0	1.3	1.5	1.8	2.0
1.0	-0.7	-0.5	-0.3	0.0	0.2	0.4	0.7	0.9	1.2	1.4
1.5	-1.3	-1.1	-0.8	-0.6	-0.4	-0.1	0.1	0.3	0.6	0.8
2.0	-1.9	-1.7	-1.4	-1.2	-1.0	-0.7	-0.5	-0.3	0.0	0.2

Note: we assume an average deflator of 1.6% and a zero fiscal multiplier. Source: Intesa Sanpaolo calculations

If, on the other hand, a more gradual approach were adopted, aimed solely at stabilising the debt at just over 120% of GDP by the end of the next five-year presidential term, the authors of *the 'Mission sur la transparence des finances publiques'* still consider **a primary surplus of at least 0.8% of GDP to be necessary, consistent with the budget deficit stabilising at around 3%.** However, based on the historical record of persistent primary deficits, **even this target would prove ambitious**, as it would require a cumulative adjustment relative to the trend of more than 100 billion euros at current prices, equivalent to an average of almost 20 billion per year (0.6% of GDP). Even in this scenario, assuming a fiscal multiplier of just under one, the risks to the primary balance required to stabilise the debt would be on the upside (around 1%), with higher debt (close to 125% of GDP) and average real GDP growth during the adjustment period below the 1% estimated as potential growth. The fiscal situation is therefore highly complex, and the risks are high even in scenarios that do not appear particularly challenging at first glance: given the growing weight of interest expenditure, a gradual return of the primary balance to –0.9% of GDP (the level reached in 2019) by 2032 would be barely sufficient to stabilise the deficit at 5% of GDP, leaving the debt on an upward trend.

[2] The authors of the report "*Mission sur la transparence des finances publiques*" also assume a zero fiscal multiplier, positing that the recessionary effect of fiscal consolidation is entirely offset by a fall in the savings rate and an improvement in the contribution of net exports to growth (an assumption which they themselves acknowledge as unrealistic).

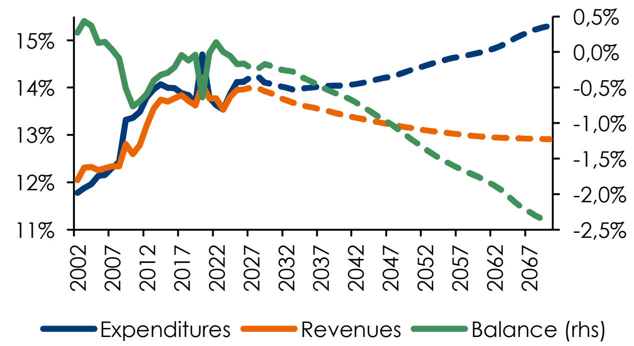
Difference between categories of public expenditure as a % of GDP between France and Italy: the share of expenditure in France is higher than in Italy in all main components except for interest on debt and pensions



Note: 2024 data. Source: Intesa Sanpaolo elaborations on Eurostat COFOG data

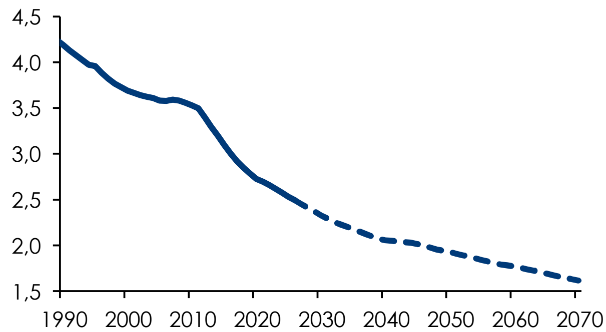
In summary, **if the next government truly wishes to stabilise public finances, it will inevitably have to take decisions that could prove very costly and politically controversial**, particularly against a backdrop of rising military expenditure. The *'Mission sur la transparence des finances publiques'* report highlights that horizontal cost-saving measures, such as across-the-board cuts to ministerial expenditure, have now reached their limits and that there is little scope for further increasing the tax burden. The report identifies the first area for action as the reform of the mechanisms for indexing revenue and expenditure to inflation, as well as the control of pension expenditure.

The pension system's balance (as % of GDP) is expected to be structurally in deficit in the long term...



Source: Intesa Sanpaolo, forecasts by the Conseil d'Orientation des Retraites

...hampered by an increasingly unfavourable demographic outlook



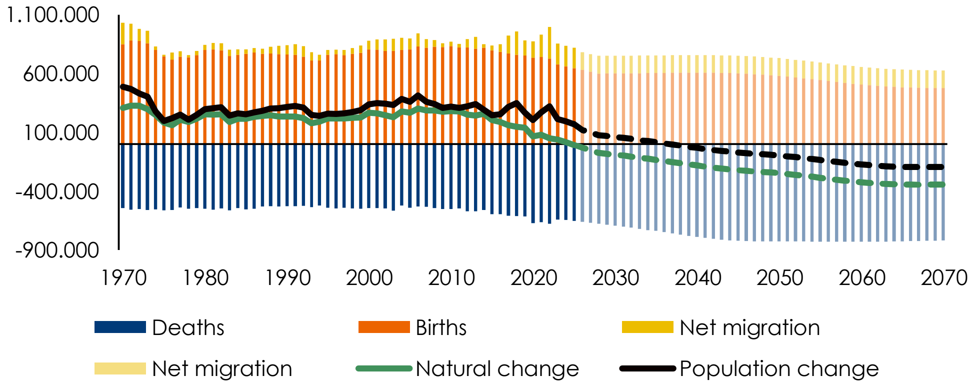
Note: population aged 20–64 as a proportion of those aged over 65. Source: Intesa Sanpaolo, INSEE forecasts

It is therefore likely that the next government will once again have to tackle the issue of **pensions**. **The latest projections from the COR** (*Conseil d'Orientation des Retraites*)[3] **show a marked deterioration in the pension system's balance over the coming years, with a deficit that could reach almost 2.5% of GDP by 2070**, despite a gradual reduction in pensioners' standard of living. This outcome is due to increasingly unfavourable demographic prospects, but this scenario of a worsening deficit also holds true even under productivity and growth assumptions that are far more favourable than the baseline ones. To restore the system to balance, it may therefore be necessary to gradually raise the retirement age, reduce pensions (by modifying, for example, the indexation mechanism) or increase contribution rates. In short, a rethinking of the pension

[3] Conseil d'Orientation des Retraites, *Évolutions et perspectives des retraites en France*. June 2026

system's architecture seems inevitable, but it will be up to the next government to introduce a reform supported by a parliamentary majority, capable of minimising the social costs.

Within 10 years, not even net migration flows will be able to prevent a decline in the population



Source: Intesa Sanpaolo elaborations, INSEE forecasts

Appendix

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