Cancelling Public Debt : A well-intentioned mistake

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Marketing communication: This document is a marketing presentation. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research; and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. 1 September 2026 EMEA M ACRO S NAPSHOT Cancelling Public Debt : A well- intentioned mistake During its summer school, the leaders of the far-left party, La France Insoumise led by Jean-Luc Mélenchon (LFI) raised the idea to cancel part of the French public debt held by the ECB/Eurosystem (especially that related to the pandemic). Then follows a verbal sparring between the President of the National Rally, Jordan Bardella and Matthieu Pigasse (a not yet official candidate (?) close to the leftist parties). While the former qualified this proposal as a “bad idea”, the latter mocked the former’s grasp of economics. In this report, we analyze these proposals, which may be seen as a well-intentioned mistake, as they are likely to generate more problems than benefits. We see several hurdles with the proposals made by LFI, which make them unrealistic and both institutionally and financially useless. First, without changes in the Treaty on the European Union, any form of public debt restructuring would be legally challenged by euro area partners. Second, in the absence of financial market reaction, the potential benefits look limited, as it will force the Bank of France to stop any profit redistribution to the French government. Third, in case of market reaction (which is highly probable), the likely increase of risk premium on French public bonds would imply an increase of costs rather than benefits. In sum, the current situation is preferable. In fact, French public bonds held by Bank of France generates profits that are distributed in turn to the French State. WRITTEN BY Alain DURRE, PhD Tel. +33 1 58 55 60 49 alain.durre@natixis.com Jean-François ROBIN Tel. +33 1 58 55 13 09 jean-francois.robin@natixis.com Bastien AILLET Tel. +33 1 58 55 39 36 bastien.aillet@natixis.com Discover more on our Website

EMEA M ACRO S NAPSHOT 2 Think the unthinkable As we illustrated in previous reports 1 , the fiscal situation of France is critical for both public deficit and public debt. With a public deficit expected this year and next at above 5% of GDP, we forecast a continued increase of public debt to reach around 118% of GDP by 2028. Behind the expected mechanical increase of public debt stands the so-called “snowball effect” as current nominal GDP growth (2.0% in 2025) remains below the effective cost of funding (1.9%) of the French government. This fragile fiscal situation led some candidates for the presidential election (next 18 April-2 May) to consider the possibility to play with the French debt holdings by the Eurosystem (and the Bank of France in particular) to reduce the financial burden of the French state. Three proposals have recently emerged. The first two proposals are contained in the official programme for the presidential election of the far-left candidate, Jean-Luc Mélenchon (from La France Insoumise, LFI). The last proposal is the suggestion of a businessman close to the far-left party LFI. 2 %º Proposal 1: To demand that the European Union mandate the European Central Bank (ECB) to convert its holdings of sovereign debt into perpetual zero- coupon bonds 3 %º Proposal 2: To have the ECB bypass private banks to purchase public debt directly on financial markets, to bypass private banks, thereby removing government financing from the grip of financial markets. %º Proposal 3: A leftist banker, Matthieu Pigasse, close to the LFI party suggested to cancel simply the share of French public debt held by the ECB (and the Bank of France in particular). All proposals would be legally challenged The introduction of the euro was made possible after a compromise between two opposite visions. Originally, some countries led by Germany argued that adopting a stable single currency requires first a fiscal/ political union that they saw neither desirable nor feasible. By contrast, other countries led by France argued that a stable single currency is possible without a political union under certain conditions. These countries saw deeper fiscal integration as both desirable and achievable. Hence, their enthusiasm for the single currency: it represented a 'forcing mechanism' to drive deeper economic and political integration beyond the economic and monetary union that would pave the way to a more federal Europe A compromise was thus reached through the adoption of several strong legal provisions in the Treaty on the Functioning of the European Union (TFEU), to 1 See e.g. Camatte, H. and Bartoletti, T. (2026), "France remains the Euro area's runner-up for public spending", EMEA Macro Insights: August 28. 2 Some economists also close the LFI party also suggested to force the ECB to relaunch its QE programme, while forcing French banks to hold a minimum level of public bonds. Although beyond the scope of this report, the former suggestion would breach the central bank independence, while the latter appears difficult to envisage in the absence of state control on banks and/or regulatory enforcements. 3 See the official LFI programme for the presidential election https://melenchon2027.fr/programme2025/ livre/chapitre6/s4/ .

EMEA M ACRO S NAPSHOT 3 guarantee the stability of the single currency in the absence of a fiscal union . In particular: %º The establishment of the European Central Bank (ECB) pursuing a single monetary policy objective, namely price stability (Articles 127 and 282 of TFEU). %º The prohibition of monetary financing (Article 123 TFEU) to ensure monetary dominance and to preserve the integrity of central banks' balance sheet. %º The prohibition of privileged access (Article 124 TFEU), which requires to treat similarly the private and the public sector in their relationships with the Eurosystem (i.e. ECB and National Central Banks). %º The independence of the central banks (Article 130 TFEU), which bans central banks and their decision-making bodies to seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other public body. 4 The proposals 1-3 above would breach the above-mentioned Treaty provisions as refinancing part or the entire public debt of states at an interest deviating from market conditions would constitute both monetary financing and privileged access while affecting the central bank independence. In the same vein, cancelling part of the French public debt held by the Eurosystem would thus breach these four Treaty provisions at least, since: (a) reducing public debt level of a country is similar as to finance directly the state (just like financing the State at a rate that differs from market conditions) ; (b) this would also reduce the financial (and institutional, if following instructions of a government) independence of the central bank; (c) cancelling public and not private debt held by the Eurosystem would be against the privileged access prohibition; and (d) a sort of perpetual financing of public deficits would inevitably generate inflationary pressures (and would not comply with the objective of price stability). . As it is, all the proposals would be illegal given the current Treaty provisions and the ECB Statutes. Therefore, the only way to force the implementation of these proposals would be a change of the legal provisions in the Treaty, which appears neither desirable, not feasible (given the historical compromise between countries for the launch of the euro) and or trigger a political and likely financial clash. At the same time, there is no reason why the ECB could decide to act in favour of only one country like France and not for all euro area countries, which would substantially weaken the financial soundness of the Eurosystem, and thereby cancel the likelihood of such proposals. 4 This Treaty provision also stresses that the Union institutions, bodies, offices or agencies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the European Central Bank or of the national central banks in the performance of their tasks.

EMEA M ACRO S NAPSHOT 4 Risk of introducing a ‘ fait du prince ’ premium Beyond the legal challenges, it remains that such a decision – through government pressures or by a deliberate decision by the ECB (not our base case as it is very unlikely) – would introduce an important moral hazard for the whole euro area system. In fact, questioning the reimbursement of public debt (partly or in totally) could be perceived by the market as an implicit threat of Frexit. We see four channels at least through which the cancellation of French public debt held by the Eurosystem could increase the risk premium on the marketable French public bonds, but not only. %º First, this would generate a huge uncertainty about the commitment of France to reimburse the remainder share of its public bonds in circulation. %º Second, the non-respect by France of key founding principles surrounding the euro area and its monetary policy could lead the market to question future participation of France to the euro (implying the resurgence of the (Frexit) redenomination risk). %º Third, the losses faced by the ECB through the balance sheet of Banque of France will de facto reduce the financial provisions and/or the central bank equity, which could weaken the euro exchange rate, thereby increasing the inflation premium. 5 %º Fourth, cancelling French debt held on central bank balance sheets would undermine market confidence in the stability of the entire euro area framework. With the credibility of fiscal rules already severely eroded, such a decision would challenge the very rationale behind the single currency. It would raise fears that European Central Bank (ECB) monetary policy could become subordinate to potential future fiscal profligacy. This would likely trigger a flight to quality, adversely affecting all euro-denominated financial assets and thereby increasing the inflation premium resulting from the depreciation of the euro . Recalling the euro area’s original sin – the initial deep-seated division between Europhiles and Eurosceptics – cancelling a portion of France’s sovereign debt would ignite a severe political conflict among member states. Such a clash would ultimately threaten to call into question the very design of the economic and monetary union. 5 The ECB Governing Council approved this rationale at early stage of the financial crisis (which is considered as an annex of the TFEU).

EMEA M ACRO S NAPSHOT 5 An illusory economy In the very unlikely – because unrealistic – case that one of the above proposals would be agreed by European partners (not our base case), the potential benefits of such operations would be very limited in the absence of market reaction (also unlikely). And in case one of these operations would increase the risk premium on France’s public bonds (very likely), this would lead to additional costs for the French government while being inflationary. A stock story An obvious first question is the volume of debt that would be affected by each of the three proposals. In July 2026, French debt held by the Eurosystem as part of its monetary policy programme stood at €600bn (Chart 1). Of this total, nearly 80% is held by the Banque de France (BdF), amounting to €494bn (or 14% of French Maastricht debt) 6 . This sum is split between €360bn under the PSPP and €239bn under the PEPP by the Eurosystem. Consequently, under Proposals 1 and 3, the debt stock in question is close to €600bn 7 within the Eurosystem. Proposal 2, for its part, target the entire debt held by the private sector. Depending on the scope of the proposal, the figures could vary significantly. For instance, would it only comprise debt securities, or should loans be included as well? Would it focus solely on central government debt, or also encompass local government and social security schemes? For the sake of simplicity, we shall focus exclusively on debt managed by Agence France Trésor (AFT), the debt management office (DMO) of French state debt securities. As of 31 July, the outstanding amount managed by the AFT was €2,882bn, representing around 80% of French Maastricht debt 8 . Of this amount, 47.5% was held by domestic investors, with the remainder held by non- domestic investors. Analysing the ECB’s SHSS database provides a clearer picture of the market participants likely to be affected by this proposal (Chart 2). In total, this proposal would include a volume of debt close to €2,250bn. 6 There is no official figure for the debt held by the Banque de France (BdF) under its monetary policy for July 2026. However, at the end of 2025, the BdF held €545bn of the €663bn total held by the Eurosystem, representing 82.3%. We assumed this share remained unchanged in July 2026.

See 2025 Annual Report Banque de France. 7 By the time the election concludes in May 2027, this figure will have reduced; however, for the remainder of this analysis, we shall stick to the July 2026 data. 8 See Agence France Trésor . At the end of March, the total outstanding amount stood at €2,804bn, compared to a Maastricht debt of €3,536bn, or 79.2%.

EMEA M ACRO S NAPSHOT 6 Chart 1: Holdings of French bonds under PSPP and PEPP programs(€bn) Chart 2: French securities holdings by type of holders in Q1-26 (€bn) 15 16 17 18 19 20 21 22 23 24 25 26 0 100 200 300 400 500 600 700 800 900 PSPP PEPP Eurosystem Private holdings 0 250 500 750 1000 1250 1500 1750 2000 2250 2500 Eurosystem Foreign investors Domestic Banks Domestic I & PF Other € Banks Other € I & PF Other € investors Source : ECB, Natixis CIB Research Sources: ECB SHSS database, Natixis CIB Research Note: I&PF stands for Insurance companies and Pension Funds A flow story Having addressed the question of the debt stock involved, we now turn to the potential benefits the above proposals would yield for the government. These would primarily manifest as a reduction in its debt-servicing costs, with the amount and dynamic differing across the three proposals compared to a no-ECB intervention scenario — which would require refinancing the debt at a 3.7% yield 9 . For the first and second proposals, we assume that the ECB waits for the securities to mature and then refinances them using zero-coupon bonds 10 . These annual amounts refinanced are equal to €94bn in the first proposal 11 and range between €90bn and €150bn for the second proposal. Under the first proposal, the annual interest savings could reach €3.5bn on the debt held by the Eurosystem, split between €2.2bn for the PSPP portfolio and €1.3bn for the PEPP portfolio. Assuming the intervention begins in 2027, the government would save €21.6bn in interest payments once the portfolio is completely refinanced in 2033 (Chart 3). 9 We replicate here the assumptions of our 'market forward -100bp' scenario, which was developed in our previous note. « France’s Rising Public Debt : The Bill Comes Due » 10 Put differently, the government does not default on its debt, whether through interest payments or the repayment of principal. 11 Since the weighted average maturity of the French debt held by the Eurosystem is 6.4 years, we assume that 1/6.4 of the total debt — approximately 16% — is refinanced annually and with the total portfolio being refinanced in 6.4 years This represents €94bn being refinanced each year.

EMEA M ACRO S NAPSHOT 7 Chart 3: Cumulative variation in French general government cost of debt under the different proposals compared to a no ECB intervention scenario (€bn) 0 1 2 3 4 5 6 -35 -30 -25 -20 -15 -10 -5 0 Proposal 1 Proposal 2 Proposal 3 Sources : Agence France Tresor, ECB, Banque de France, Natixis CIB Research The second proposal is expected to generate cumulative savings of nearly €30bn in 2033 or €4.2bn in annual interest savings. Finally, the amount saved in the third proposal is equal to the first one. However, the dynamics of the annual interest saved would differ slightly. A bail-out on the debt held by the Eurosystem would immediately relieve the government of its interest payment obligations. To be specific, these interest expenses amounted to €5.6bn in 2025 and €5.7bn in 2024 12 at the Banque de France level, representing an annual yield of 0.7%. Extrapolating this yield to the entire Eurosystem portfolio in July 2026 suggests the government would save €4.2bn immediately, whereas under the first proposal, this €4.2bn saving would only be realised progressively. Taken together, Proposals 1 and 2 could allow the government to save up to €30.6bn by 2030, and €51bn by 2033, assuming the intervention starts in 2027. From theory to practice The potential savings we discussed above are just theoretical as they suppose no reaction from the financial markets under proposal 1 and 3. However, the reality could be quite different. as this does not take into account: 1) the French government's loss of revenue related to potential dividend distributions from the BdF, and 2) an increase in the risk premium demanded by investors on the remainder of the debt traded on financial markets. Regarding the latter point, the rise in the risk premium would affect both future deficits and the substantial volume of upcoming debt refinancing 13 . Assuming future deficits remain between €150bn and €160bn, a 100bp increase in the risk premium would add €1.5bn to €1.6bn in interest charges. This additional cost is already well above the savings that would be generated by the PEPP portfolio under the first proposal alone. When factoring in the refinancing of maturing debt, this extra 12 Banque de France Annual Report 2025 . 13 It should be noted that Proposition 2 assumes future deficits would be financed by the ECB/Banque de France, which is not necessarily the case for the other two propositions. To avoid the risk premium demanded by the market, the latter two assume that the French State has a balanced budget.

EMEA M ACRO S NAPSHOT 8 cost would range between €2bn and €3bn per year under proposal 1 mentioned above 14 . By netting the cumulative annual extra cost on one hand with the annual savings on the other, a scenario involving a 100bp increase in the risk premium on French debt would result in an overall cost of debt saving of €5.4 in 2033 once the entire portfolio is completely refinanced (Chart 4). Chart 4: Cumulative interest payment difference for different risk premium increases under Proposal 1 compared a no ECB intervention scenario (€bn) 0 1 2 3 4 5 6 -16 -14 -12 -10 -8 -6 -4 -2 0 2 4 6 50bp 100bp 150bp Source : Agence France Tresor, ECB, Banque de France, Natixis CIB Research This projection is obviously highly sensitive to the risk premium increase priced in by the markets. In a scenario where this increase is limited to 50bp, refinancing both the PSPP and PEPP would yield a net gain for the government of €14.9bn; however, it would result in an additional cost of €4bn, should the premium reach 150bp. As we can see, the actual gains are highly uncertain and would depend almost entirely on how markets would react to the decision and for potential gains that are ultimately quite limited, especially since the risk premium will remain after the ECB portfolio is completely refinanced. We do know the floor but not the ceiling. Is it worth the risk? 14 The same exercise can be applied to Proposal 3, but not to Proposal 2, since the ECB refinances all maturing debt.

EMEA M ACRO S NAPSHOT 9 Understanding the dynamics of the ECB’s balance sheet On the basis of the Treaty provisions and the ECB Statutes, financial accounts of central banks need to be audited first before considering the distribution of profits to governments, if any. To strengthen the financial soundness of the Eurosystem, two accounting rules are implemented. First, central banks of the Eurosystem (including ECB 15) need to make mandatory provisions in their financial accounts, with the possibility to have additional ones when losses are expected to materialize. 16 Second, in the calculation of the profits and losses accounts, the ECB and NCBs have to enter realized profits and losses but also latent losses (and not latent profits). Once each NCB has finalized and audited its accounts, then the various profits and losses enter in the consolidated balance sheet of the ECB. Two remarks are thus worth noting. First, it is very likely that there will be no majority within the ECB Governing Council to allow a unilateral operation for French assets. The main reason is that allowing such operation for France would trigger similar requests from other highly indebted countries. 17 Second, given the accounting rules applied in the Eurosystem, any of the above proposals (constituting potential losses) would stop the distribution of profits to the French state for a considerable period of time. Given these accounting specificities, the latent losses of the above proposal would enforce the Bank of France to stop the transfer of dividends to the French government (which amounts between EUR1.5 billion and EUR 3 billion a year in normal conditions since 2008). In the worst case, the cumulative losses of these proposals could eventually oblige the French government to recapitalize Bank of France over time. 18 It is not worth the trouble The proposals to restructure France’s public debt that arose from the left-side of the political spectrum will be problematic at various levels. Beyond the legal challenges, the potential strong market reaction would be very costly for the French government. Additionally, this will deprive the State of receiving dividends from the central bank, given the accounting rules currently in place within the Eurosystem. There is also the question of the funding of public deficit. In case the restructuring of French public debt would be a one-shot operation, the French government would be obliged to avoid any further public deficit in the future as it is unlikely that market will have sufficient trust to continue to buy newly issued French public bonds without additional risk premium. In case any new public deficit would be perpetually financed by the ECB/Bank of France, which in turn would trigger inflationary pressures. In sum, it is more trouble than it is worth. And nothing would be possible without amending the European Treaty, which is very unlikely. Any attempt of the French government to convince its European partners along these lines would trigger a useless strong volatility of French public bond prices in financial markets since this would certainly create huge tensions with the fiscally disciplined countries. 15 The profits generated by the ECB alone are generally redistributed to its shareholders, namely the national central banks 16 For example, the Dutch central bank (DNB) decided unliterally to stop the distribution of profits to the Dutch government at the time of the financial crisis arguing expected losses from the then Securities Market Portfolio (SMP). 17 In the past, rich NCB like Banca d'Italia has faced several attempts from various governments to get the money from it, which it pushed back strongly (protected by the Treaty provisions). 18 In the early stage of the 2007-2012 financial crisis, the ECB Governing Council approved the rationale that any negative equity of NCBs/ ECB would require recapitalization by Member States on the basis of the central bank independence. Note that all decisions by the Governing Council constitute an annex to the European Treaty.

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