INTERNATIONAL MONETARY FUND

IMF Country Report No. 26/187

FRANCE

2026 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR FRANCE

July 2026

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2026 Article IV consultation with France, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 17, 2026 consideration of the staff report that concluded the Article IV consultation with France.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 17, 2026, following discussions that ended on May 21, 2026, with the officials of France on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 29, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for France.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR26/255

IMF Executive Board Concludes 2026 Article IV Consultation with France

FOR IMMEDIATE RELEASE

- *The French economy has remained resilient but faces a more challenging environment as headwinds from the Middle East war have started to weigh on activity and higher energy prices have pushed up inflation.*
- *The authorities' response to the energy shock has so far been appropriate and should remain limited, temporary, and targeted towards the most vulnerable, while preserving market incentives and containing fiscal costs.*
- *Amid high fiscal deficits, modest growth, and rising spending pressures, the upcoming electoral cycle provides an important opportunity for France to articulate a well-defined multi-year strategy to unlock its growth potential and support fiscal consolidation.*

Washington, DC – July 22, 2026: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for France on July 17, 2026.[1] The authorities have consented to the publication of the Staff Report prepared for this consultation.

The French economy expanded at a moderate pace in 2025, despite domestic and external shocks, while inflation remained contained. However, headwinds from the Middle East war have started to weigh on activity, while higher energy prices have pushed up inflation. France's fiscal stance strengthened in 2025, after two consecutive years of slippages, with the deficit declining to 5.1 percent of GDP—below the initial budget target—reflecting proactive spending management. The banking sector remained resilient, with financial stability risks contained, supported by solid buffers and proactive supervisory efforts.

Real GDP growth is projected to remain modest in 2026, slowing from 0.9 to 0.6 percent, as spillovers from the Middle East war raise inflation and dampen domestic demand. While growth is projected to recover gradually in 2027 as external conditions stabilize, rising geoeconomic tensions, including in the Middle East, the potential for a disorderly AI correction, and heightened political uncertainty ahead of next year's presidential elections pose significant downside risks. By contrast, easing geoeconomic tensions and renewed political consensus around ambitious structural reforms—supported by deeper EU coordination—could boost confidence, investment, and overall growth.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the French economy's continued resilience, despite a succession of external shocks, including the Middle East war, and domestic policy uncertainty. Against the backdrop of high public debt, modest growth, rising spending pressures, and downside risks, Directors encouraged the authorities to press ahead with fiscal consolidation while pursuing ambitious structural reforms to unlock France's potential and support durable, inclusive growth.

Directors highlighted the need for credible, growth-friendly, and expenditure-led fiscal consolidation to bring the deficit below 3 percent of GDP by 2029 and durably entrench debt sustainability. They welcomed the 2025 fiscal overperformance and considered the authorities' response to the energy shock as appropriate, agreeing that any further measures should remain limited, temporary, and targeted to the most vulnerable, while preserving market incentives and containing fiscal costs. They concurred that fiscal adjustment should be anchored in a clearly specified multi-year strategy composed of high-quality measures and structural reforms to reprioritize spending, improve efficiency, address aging pressures, and preserve room for priority needs, while protecting the most vulnerable. They underscored the importance of robust contingency planning.

Directors agreed that ambitious domestic and EU-level reforms would strengthen France's economic resilience and growth performance. They welcomed efforts to reduce regulatory barriers, mobilize private financing, and deploy well-targeted instruments to support innovation and the green transition. Directors stressed that deepening the single market would amplify the impact of domestic reforms.

Directors emphasized that a coherent policy mix is essential to support France's labor force amid demographic pressures and the green and digital transitions. Building on recent reforms, they supported measures to strengthen work incentives, foster longer and less fragmented careers, support female labor force participation, and better integrate migrants. Directors also recommended more effective skills development aligned with AI and digital demands, alongside efforts to ease bottlenecks and support labor mobility.

Directors noted that financial stability risks remain contained, supported by proactive supervisory efforts. In line with the 2025 FSAP recommendations, they welcomed ongoing vigilance and efforts to deepen supervisors' understanding of risks from investment funds and broader financial sector linkages, and to strengthen cyber preparedness.

Directors commended France's leadership in multilateral cooperation, including in addressing global challenges related to debt, climate, and global imbalances and through official development assistance.

[2] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Table 1. France: Selected Economic Indicators, 2023–28
(Annual percentage change, unless otherwise indicated)

				Projections		
	2023	2024	2025	2026	2027	2028
Real Economy (change in percent)						
Real GDP	1.9	1.4	0.9	0.6	0.9	1.2
Domestic demand	1.0	0.2	1.0	0.4	0.6	1.1
Foreign balance (contr. to GDP growth)	0.9	1.2	-0.2	0.2	0.3	0.1
CPI (year average)	5.7	2.3	0.9	2.3	1.7	1.9
GDP deflator	5.0	2.1	1.1	1.5	1.7	1.9
Public Finance (percent of GDP)						
General government balance	-5.4	-5.8	-5.1	-5.2	-4.9	-4.5
Revenue	51.3	51.2	52.2	52.4	52.5	52.6
Expenditure	56.8	57.0	57.3	57.6	57.4	57.1
Primary balance	-3.7	-3.9	-3.0	-2.7	-2.3	-1.7
Structural balance (percent of pot. GDP)	-5.3	-5.7	-5.1	-5.0	-4.7	-4.3
General government gross debt	109.5	112.6	115.7	118.5	120.3	121.1
Labor Market (percent change)						
Employment	1.1	1.3	0.9	-0.1	0.3	0.5
Labor force	1.1	1.3	1.2	0.5	0.1	0.3
Unemployment rate (percent)	7.3	7.5	7.7	8.2	8.0	7.8
Credit and Interest Rates (percent)						
Growth of credit to the private non-financial sector	3.6	0.6	1.2	1.0	1.5	1.8
Money market rate (Euro area)	3.4	3.6	2.2	...	...	...
Government bond yield, 10-year	3.0	3.0	3.4	...	...	...
Balance of Payments (percent of GDP)						
Current account	-1.0	0.1	-0.3	-0.8	-0.4	-0.2
Trade balance of goods and services	-1.4	-0.1	-0.2	-0.6	-0.2	0.0
Exports of goods and services	34.4	33.7	33.5	32.8	33.0	32.9
Imports of goods and services	-35.7	-33.8	-33.7	-33.5	-33.3	-32.9
FDI (net)	1.7	-0.3	0.2	0.6	0.6	0.6
Official reserves (US$ billion)	79.2	78.4	86.0	...	...	...
Exchange Rates						
Euro per U.S. dollar, period average	0.92	0.92	0.89	...	...	...
NEER, ULC-styled (2010=100, +=appreciation)	97.0	97.3	98.2	...	...	...
REER, ULC-based (2010=100, +=appreciation)	91.5	89.2	92.0	...	...	...
Potential Output and Output Gap						
Potential output (change in percent)	1.4	1.3	0.8	0.9	0.9	1.0
Memo: per working age person	1.1	0.8	0.2	0.6	0.7	0.9
Output gap	-0.3	-0.2	-0.2	-0.4	-0.4	-0.3

Sources: INSEE, Banque de France, and IMF estimates.

INTERNATIONAL MONETARY FUND

FRANCE

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

June 29, 2026

KEY ISSUES

Context. The French economy continued to grow at a moderate pace in 2025 despite domestic and external shocks, while inflation remained contained. However, headwinds from the Middle East war and the energy shock have started to weigh on activity, complicating the authorities' ongoing fiscal consolidation efforts. High deficit and debt levels, modest growth dynamics, and rising spending pressures—notably from defense, population aging, and the digital and green transitions—underscore the urgency of a credible and well-defined multi-year strategy to unlock France's growth potential and support fiscal consolidation. Presidential elections are planned for early 2027.

Outlook and risks. Real GDP growth is projected to remain modest in 2026, slowing to 0.6 percent from 0.9 percent in 2025, as spillovers from the Middle East war raise inflation and dampen domestic demand. Growth is projected to recover gradually in 2027 as external conditions stabilize, but risks are tilted to the downside. These include rising geoeconomic tensions and prolonged energy supply disruptions in the Middle East, heightened political uncertainty ahead of next year's presidential elections, and the potential for a disorderly AI correction. By contrast, easing geoeconomic tensions and renewed political consensus around ambitious structural reforms—supported by faster digitalization and deeper EU coordination—could boost confidence, investment, and overall growth.

Policies. Staff's main policy recommendations are as follows:

- **Fiscal Policy.** While the authorities remain committed to bringing the fiscal deficit below 3 percent of GDP by 2029, building on the 2025 fiscal overperformance, fiscal consolidation remains slower than planned and still subject to significant implementation risks. Absent further measures, the current pace of adjustment would be insufficient for France to meet its Medium-Term Fiscal Structural Plan (MTFSP)'s objectives. The authorities' response to the energy shock has so far been appropriate and should remain limited, temporary, and targeted towards the most vulnerable, while preserving market incentives and containing fiscal costs. Looking ahead, an updated and clearly specified multi-year strategy is essential to set debt firmly on a downward path. To achieve this goal, staff recommends a frontloaded fiscal effort of about 0.8 percent of GDP per year over 2027–29, broadly consistent with the authorities' MTFSP. Fiscal policy should be anchored by a medium-term package of high-quality fiscal measures and reforms to reprioritize spending and improve its efficiency, strengthen public finances, and support debt sustainability, while preserving space for priority spending needs. If well targeted, carefully sequenced, and complemented by growth-enhancing structural reforms, these rationalization efforts would preserve equity, protect the most vulnerable, and support medium-term growth.

- **Structural Reforms.** France's economic resilience and growth performance will depend on its ability to harness ongoing structural transitions through ambitious reforms. Reducing regulatory barriers, mobilizing private financing, and deploying well-targeted instruments to support innovation and the energy transition are key to fostering entrepreneurship, spurring R&D, and scaling high-growth firms. Complementary EU-level initiatives, including advancing the Savings and Investment Union and deepening the single market, would further mobilize savings, improve financing conditions, and amplify the growth impact of domestic reforms. Strengthening employment and human capital, through a coherent mix of labor market incentives, targeted family policies, and skill development, will be essential to fully leverage France's labor force and capitalize on ongoing structural transitions.

- **Financial Stability.** Overall, financial stability risks remain contained, supported by proactive supervisory efforts to strengthen the policy toolkit in an increasingly complex landscape. The banking sector remains resilient, in the context of stronger income performance, solid buffers, and low credit risk. Borrower-based measures continue to effectively contain household vulnerabilities, while risks from non-financial corporates are manageable but warrant continued monitoring. Vulnerabilities in the nonbank financial sector remain limited, although rising interlinkages call for sustained vigilance. In line with the 2025 Financial Sector Assessment Program (FSAP) recommendations, ongoing efforts to deepen supervisors' understanding of risks from investment funds and broader financial sector linkages and to strengthen cyber preparedness amid rising threats are welcome.

Approved By
Helge Berger (EUR) and Martin Cihak (SPR)

Discussions took place in Paris during May 11–21, 2026. The staff team comprised Manuela Goretti (head), Clara Arroyo, Florian Misch, Rasmane Ouedraogo, Maryam Vaziri (all EUR), and Danila Smirnov (FAD), with assistance from Xun Li and Victoria Timonova (all EUR). Arnaud Buissé (Executive Director) joined the mission. Staff met with the Minister for the Economy, Finance, and Industrial and Digital Sovereignty Lescure, the Minister for Public Accounts Amiel, the Central Bank Governor Villeroy de Galhau; senior officials in the President and Prime Minister's offices, the *Haut Conseil des Finances Publiques*, and Members of Parliament; financial sector interlocutors, think tanks, trade union and employer association representatives. A press conference was held at the end of the mission.

CONTENTS

CONTEXT 5

RECENT ECONOMIC DEVELOPMENTS 5

OUTLOOK AND RISKS 10

POLICY DISCUSSIONS 12

A. Fiscal Policy: Shaping a Medium-Term Strategy to Address New Spending Priorities and Advance Consolidation 12

B. Macrostructural Policies: Turning Structural Transitions into Engines of Innovation and Growth 22

C. Financial Sector Policies: Adapting to a Complex Financial Landscape 30

D. Voluntary Assessment of Transnational Aspects of Corruption 34

STAFF APPRAISAL 34

BOXES

1. Pension Sustainability in France 20
2. State Aid in France 26
3. Demographic Trends and Family Policies in France 28

TABLES

1. Selected Economic Indicators, 2021–31 36
2. General Government Operations, 2021–31 37
3. Balance of Payments, 2021–31 37
4. Vulnerability Indicators, 2019–25 38
5. Core Financial Soundness Indicators, 2019–25 39

ANNEXES

I. Authorities' Response to Past Fund Policy Advice 40
II. Progress on 2025 FSAP Key Recommendations 41
III. Fiscal Governance in France 43
IV. External Sector Assessment 45
V. Risk Assessment Matrix 46
VI. Sovereign Risk and Debt Sustainability Analysis 48
VII. Growth and Distributional Implications of Fiscal Consolidation in France 57
VIII. France's Climate Goals and Transition Risks 61
IX. Innovation Clusters: The France Experience 63
X. Data Issues 65

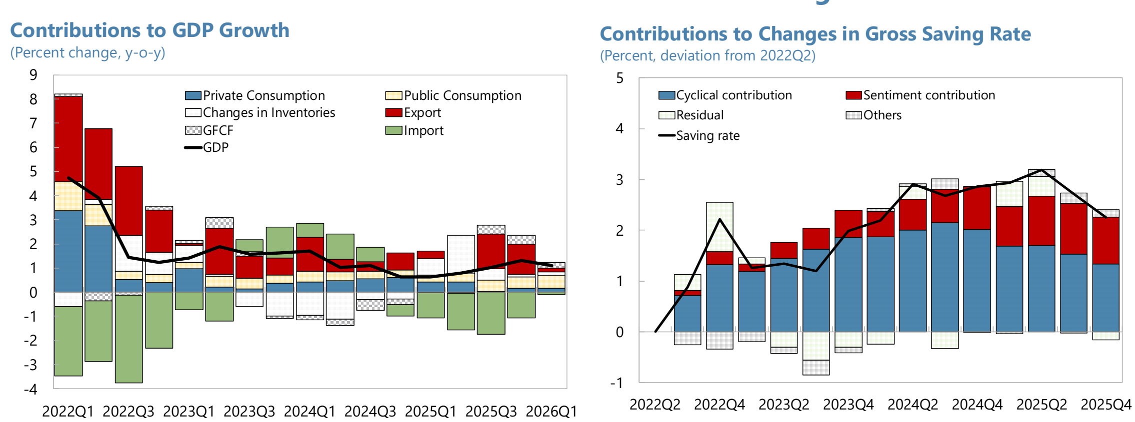
CONTEXT

1. Amid elevated uncertainty, France needs a credible multi-year strategy to unlock its growth potential and support fiscal consolidation. Growth remains modest, notwithstanding the economy's resilience to persistent geoeconomic tensions and domestic policy uncertainty. Despite recent progress, consolidation remains slower than planned, and headwinds from the Middle East war have raised new challenges. High public debt and rising spending pressures underscore the need to advance the consolidation effort, building on the 2025 fiscal overperformance, through a high-quality multi-year fiscal plan to anchor expectations, rebuild buffers, and place debt firmly on a downward trajectory. Macro-structural policies—complemented by deeper EU single-market integration—should reinforce these efforts by fostering innovation and strengthening labor supply in the face of demographic and structural transitions. While implementation risks remain, the upcoming electoral cycle provides an opportunity to clearly articulate medium-term policies.

RECENT ECONOMIC DEVELOPMENTS

2. The French economy expanded at a modest pace in 2025 in the face of domestic and external headwinds. Real GDP growth slowed to 0.9 percent from 1.4 percent in 2024. Domestic demand, excluding inventories, remained broadly stable, contributing 0.6 percentage points to growth. Private investment turned positive in 2025 and supported inventory buildup in specific sectors. Gains in services—notably ICT and professional services—and in aeronautics and other defense-related manufacturing (INSEE, 2025) were partly offset by weaker investment in construction and other manufacturing. Private consumption slowed compared to 2024, with the household savings rate peaking at 18 percent in mid-2025, as weaker sentiment offset declining inflation and easing monetary policy. The net foreign balance negatively impacted growth in 2025, due to suppliers' backlogs in the aeronautics sector, causing export delays and significant import build-up and inventory adjustments within the year.

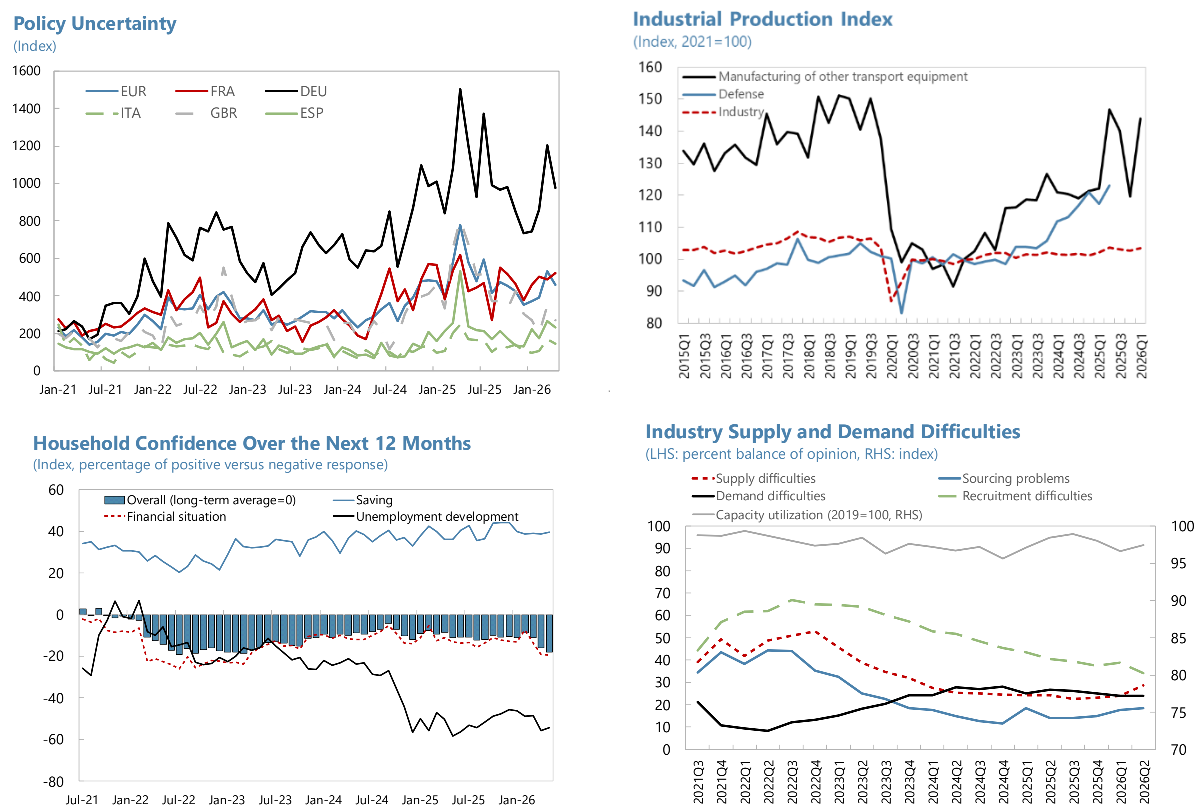
France: Economic Growth and Savings



Sources: Eurostat and IMF staff estimates.
Note: (RHS) Cyclical contribution includes income, interest rate and government balance. Sentiment includes inflation and sentiment. Others include financial wealth, outstanding loans, and old-age dependency ratio.

3. High-frequency indicators for 2026 softened amid higher energy prices and elevated uncertainty related to the Middle East war. Real GDP declined by 0.1 (q-o-q) in Q1, as lower energy demand, amid warmer weather, weighed on already weak consumption, while export weakness due to supply chain disruptions was largely offset by inventory accumulation. While industrial activity remained resilient early in the year, supported by the aeronautics and defense sectors (April 2026 WEO Chapter 2), high-frequency indicators point to weaker growth prospects in the second quarter. Industrial production grew by 0.3 percent in April (month-on-month), from 1.4 percent in March. Business sentiment indicators suggest a slowdown in activity in services and construction, with manufacturing also losing momentum, amid elevated uncertainty, rising input costs, and supply chain difficulties. Meanwhile, household sentiment has deteriorated as higher energy costs and labor market concerns prompt precautionary savings and weigh on consumption.

France and Peers: Economic Activity and Sentiment Indicators

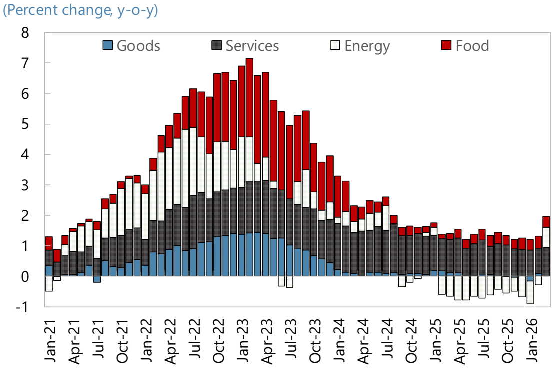


Sources: Baker, Bloom, and Davis (2016), Banque de France, INSEE, S&P Global, and IMF staff estimates.
Note: (Top LHS) The uncertainty measures are based on news and media outlets. (Top RHS) Dash line is long-term average since 2002.

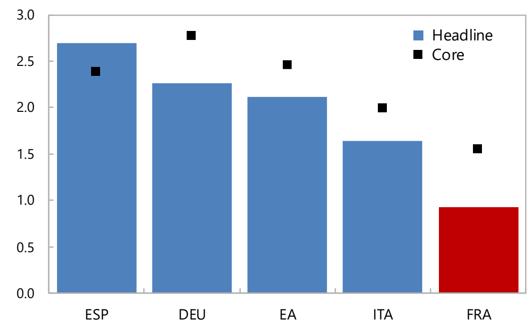
4. Inflation increased in the first half of 2026, driven by higher energy prices. Headline HICP inflation reached 2.8 percent y-o-y in May 2026, following the Middle East war, mainly reflecting higher energy prices. Services inflation rose to 2.1 percent in May. One year-ahead inflation expectations increased to around 2.5 percent as of June, while expectations at the three-to-five-year horizon remained stable at 2 percent. This follows headline HICP of 0.9 percent in 2025, reflecting one-off factors, including a reduction in regulated electricity prices in February 2025 and heightened price competition in the telecommunications sector.

France and Peers: Inflation and Labor Market Performance

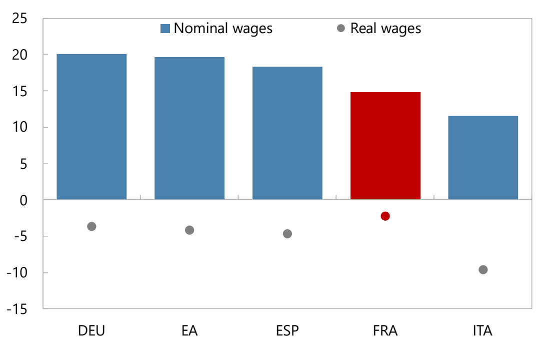
Contributions to Headline Inflation
(Percent change, y-o-y)



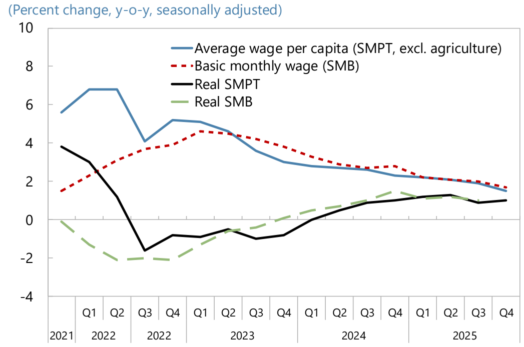
Average Inflation
(Percent, y-o-y, 2025)



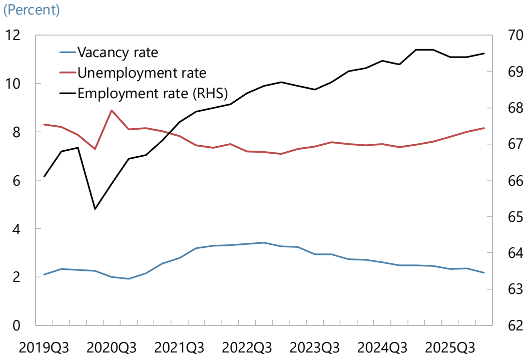
Private Sector Wage Developments
(Percent change, cumulatively, 2021Q1-2025Q4)



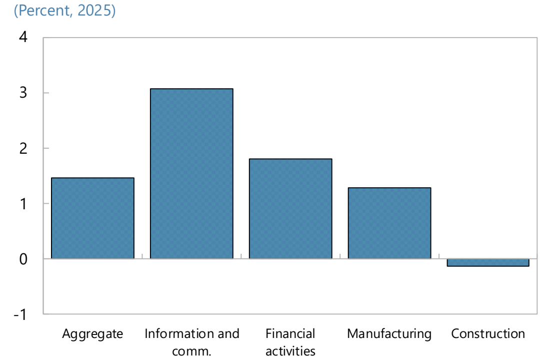
Nominal and Real Wages
(Percent change, y-o-y, seasonally adjusted)



Labor Market Tightness Indicators
(Percent)



Real Labor Productivity Growth
(Percent, 2025)

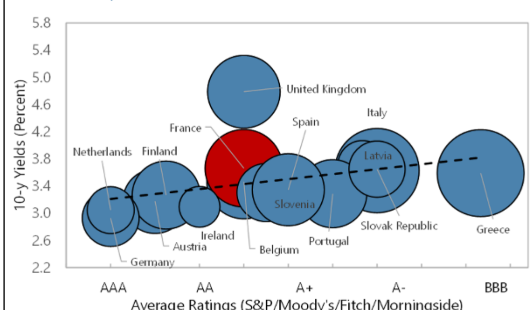


Sources: Eurostat, ECB, INSEE and IMF staff estimates.
Note: (Bottom RHS) Labor productivity is defined as gross value added per hour worked.

5. Labor market momentum has begun to soften. Labor force participation reached a historic high of 75.6 percent in 2026Q1, supported by gains across all groups. After some improvement in early 2025, especially among older workers, the employment rate began to ease in the second half of the year, driven mainly by weaker employment among younger workers following reduced support for apprenticeship programs. The unemployment rate rose to 8.1 percent in 2026Q1 from 7.7 percent in 2025. The Full Employment Act—implemented in 2025 to strengthen enrollment of certain public assistance recipients in training and support programs under *France Travail*—is estimated to have raised recipients' labor force participation and, as a result, at least temporarily, unemployment by about 0.2 percentage points since implementation (INSEE). Labor productivity, while still modest, rose by 1.5 percent in 2025, regaining most of its pandemic losses, as temporary support measures were phased out, albeit with significant sectoral heterogeneity.

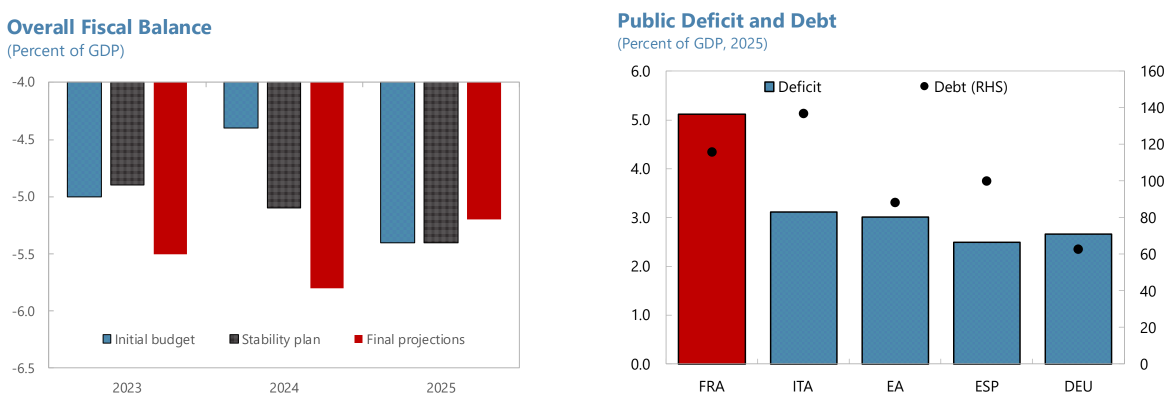
6. **France's fiscal stance strengthened in 2025, after two consecutive years of slippages.** The fiscal deficit declined to 5.1 percent of GDP, below the initial target of 5.4 percent, reflecting proactive spending management by the authorities during the year (see Annex III). Revenue was broadly in line with projections, with weaker VAT largely offset by higher corporate tax receipts, while the new exceptional taxes on high income earners underperformed due to tax optimization. Public debt increased to 115.7 percent of GDP in 2025. Sovereign market conditions tightened in 2025 amid heightened global and domestic policy uncertainty and rising global bond yields, although demand for French debt remained strong and secondary markets liquid. The 10-year OAT-Bund spread peaked above 85 bps in early October 2025, with sovereign credit downgrades by Fitch and S&P from AA- to A+, before narrowing to around 55 bps after the adoption of the 2026 budget in February. As global volatility resurfaced, the spread widened again to about 75 bps (as of mid-June), with the 10-year OAT yield at 3.7 percent.

Europe: Sovereign Bond Yields and Credit Ratings, 6/16/2026
(Bubble size is proportional to general government gross debt in percent of GDP in 2025)



Sources: Bloomberg and IMF staff estimates.

France and Euro Area: Fiscal Developments in 2025



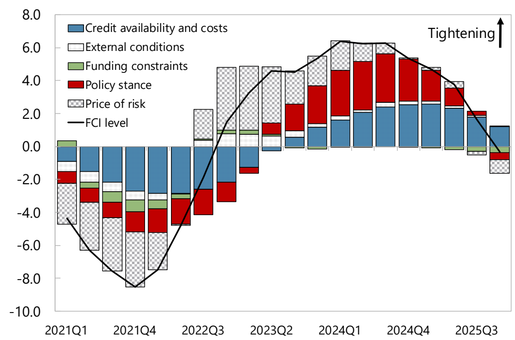
Sources: French authorities and IMF staff estimates.

7. **Credit growth remained subdued, amid renewed funding pressures from the Middle East shock.** After normalizing in 2025, funding costs have edged up in early 2026, although they remain below euro area averages (¶37). Credit growth remains well below pre-pandemic norms, with

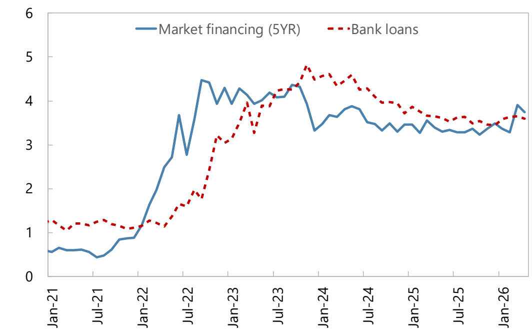
household lending rising by only 0.7 percent (y-o-y, end-of period) since 2025, reflecting weak mortgage activity. NFC credit growth is also tepid, although it picked up to 2.5 percent (y-o-y, end-of-period) in 2026Q1, from 1.9 percent in 2024, alongside a gradual shift from working capital to investment loans. However, renewed inflationary pressures from higher commodity prices (¶10) are tightening financing conditions and could further delay the recovery in credit growth.

France: Recent Macro-Financial and Credit Developments

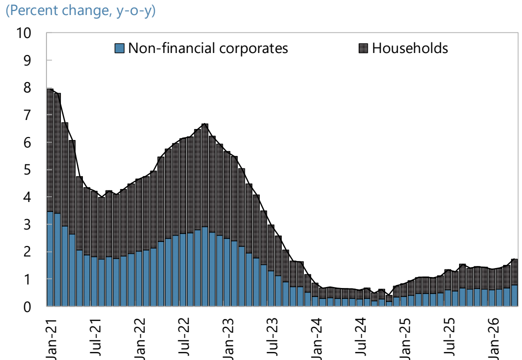
Financial Conditions Index and Components
(Level)



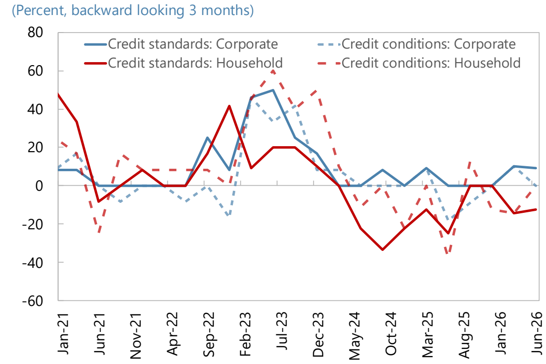
Average Cost of Financing
(Percent)



Private Sector Credit Growth Contribution
(Percent change, y-o-y)



Bank Lending Survey: Credit Supply Indicators
(Percent, backward looking 3 months)

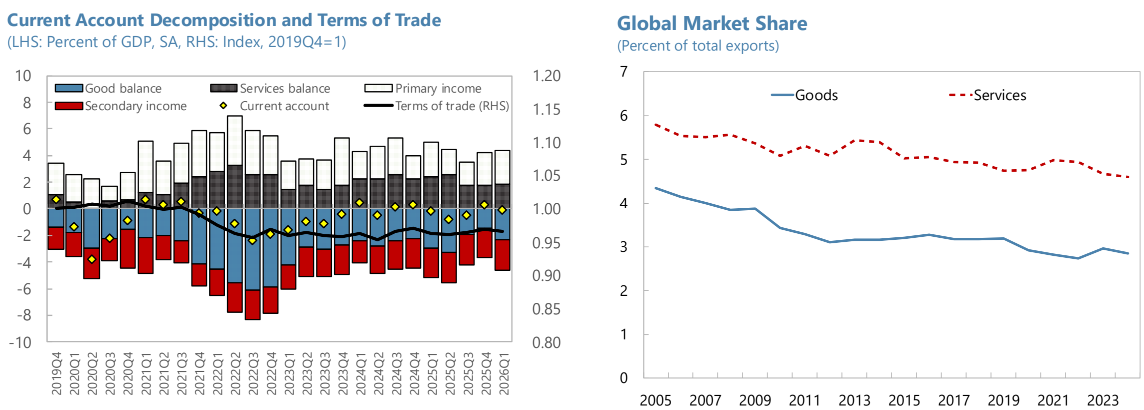


Sources: Banque de France, BLS, Bloomberg, and IMF staff estimates.
Note: FCI is unscaled. See IMF WP/23/209 for methodological details. Market financing of corporate bonds are securities other than shares, excluding financial derivatives, non-financial corporations sector.

8. **The external position in 2025 was broadly in line with the level implied by medium-term fundamentals and desirable policies** (Annex IV). The current account (CA) balance weakened in 2025, shifting from a surplus of 0.1 percent of GDP in 2024 to a deficit of 0.3 percent of GDP, mainly due to a decline in the income balance. The trade deficit widened only slightly, consistent with a largely stable real effective exchange rate, as low inflation and wage growth offset euro appreciation. The CA balance stood at -0.2 percent of GDP in 2026Q1, broadly unchanged from 2025Q1, although April data point to a widening of the energy deficit. Despite higher US tariffs, French goods exports to the US—which account for 7.9 percent of total goods exports—remained largely unchanged in 2025 (-0.9 percent y-o-y), aided by exemptions in key sectors, including aeronautics. France's global export market share has edged down in recent years, although its diversified economic structure has helped mitigate competitive pressures from emerging markets,

including China, with no significant evidence of trade diversion. Nonetheless, France remains exposed to commodity price swings and supply disruptions, notably in the availability of rare earths. Staff assesses the CA gap in 2025 to be between -0.9 and -0.1 percent of GDP, with a midpoint of -0.5 percent of GDP (compared to a midpoint of 0.3 percent of GDP in 2024). The overall policy gap is 0 percent of GDP.

France: Current Account and Terms of Trade



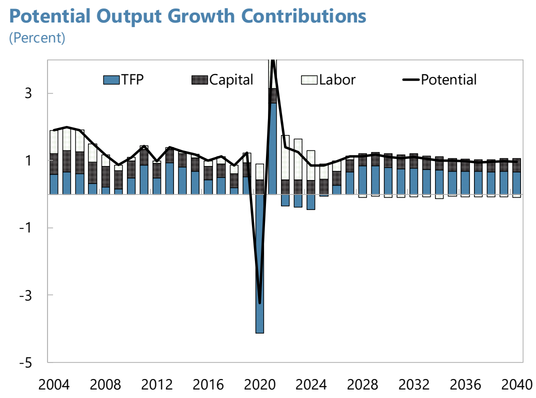
Sources: INSEE and IMF staff estimates.

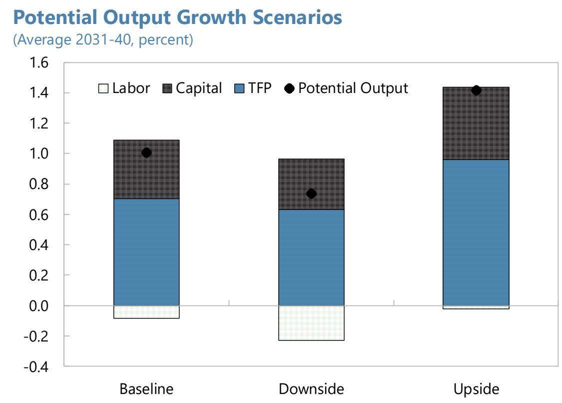
OUTLOOK AND RISKS

9. The economic outlook remains subdued and subject to elevated domestic and external uncertainty. Despite France's relatively low dependence on fossil fuel imports, the energy shock is expected to raise inflation and dampen domestic demand, slowing real GDP growth to 0.6 percent in 2026. Business investment and household consumption are set to moderate, amid a persistent wait-and-see attitude ahead of the 2027 presidential elections. Under the baseline, growth is projected to recover gradually from late 2026 as external conditions stabilize and to firm further in the second half of 2027 as domestic uncertainty recedes following the elections. Headline inflation is expected to rise on higher import prices, averaging around 2.3 and 1.7 percent in 2026 and 2027, respectively, while core inflation is projected to remain below 2 percent.

10. In the near term, the risks to the outlook are tilted to the downside (Annex V). While France benefits from a diversified economy and a low-carbon energy mix, rising geopolitical tensions, including in the Middle East, could disrupt trade, notably energy supplies, further raising inflation and negatively affecting growth (April 2026 WEO downside scenarios). A potential disorderly AI market correction could further impact financial flows, dampening sentiment. Domestically, heightened political uncertainty ahead of next year's presidential elections could further delay planned fiscal consolidation and structural reforms. Weaker private demand and mounting fiscal risks may revive market pressures, worsening debt dynamics. On the upside, easing geoeconomic tensions and renewed political consensus around ambitious structural reforms (¶15) could boost confidence, investment, exports, and overall growth.

France: Potential Output Growth





Sources: INSEE, PWT v 10.0, and IMF staff estimates.

11. In the long term, growth is expected to stabilize around its potential rate of 1 percent, though a strong reform effort would make a substantial difference.[1] Demographic headwinds, including a faster-than-expected fertility decline (¶33 and Box 1) and delays in pension reform implementation, are likely to constrain labor supply and reduce labor's contribution to growth, partly offset by migration (INSEE, 2026). In recent years, apprenticeship programs and other temporary support measures boosted labor force participation but held back productivity. Capital accumulation and total factor productivity (TFP) are expected to gradually recover as lower skilled workers gain skills and integrate into the workforce, but both will remain below historical averages. However, considerable uncertainty surrounds these outcomes, depending on the pace of reforms:

- *Upside long-term potential growth scenario*. Addressing key structural reform gaps (¶25), including through broader AI investments and adoption (¶27, ¶34), could unlock substantial upsides, raising long-term growth above 1.4 percent. Combining domestic structural reforms with deeper EU integration would further support France's potential (IMF October EUR REO 2025), boosting TFP growth by at least 0.4 percentage points.

- *Downside long-term potential growth scenario*. Prolonged domestic uncertainty and policy inertia could depress medium-term growth to about 0.7 percent, as households and firms continue to postpone consumption and investment. Geoeconomic fragmentation may cause productivity-reducing reallocations, heightening risks to the green and digital transitions.

Authorities' Views

12. The authorities broadly agreed with staff's assessment of a softening outlook and elevated uncertainty. They noted that the economy had remained resilient to recent shocks and that Q1 weakness partly reflected temporary factors. At the same time, they saw activity moderating

[1] See Annex IV on "Projecting Medium-to-Long Term Potential Output in France," France: 2024 Article IV Staff Report.

under the impact of the Middle East conflict and domestic factors, while inflation was expected to rise in 2026 on higher energy prices. Compared to 2022, however, they considered the impact likely to be more contained, reflecting a more favorable energy mix, including stronger nuclear fleet availability. The authorities also shared staff's assessment of a balanced external position and were broadly aligned on medium-to-long-term potential growth estimates. While agreeing that risks remained tilted to the downside, they also saw important upsides from a faster-than-expected decline in energy prices in the event of easing geopolitical tensions, stronger external demand, including from higher partner defense spending and gains from AI diffusion, while noting challenges from the green transition.

POLICY DISCUSSIONS

The upcoming electoral cycle provides an important opportunity for France to articulate a credible, well-defined multi-year strategy to unlock its growth potential and support fiscal consolidation, leveraging the digital and green transitions. Fiscal policy should be underpinned by a high-quality medium-term package of measures to reprioritize spending, improve efficiency, strengthen public finances, and support debt sustainability, while preserving space for priority spending needs for defense, population aging, and the digital and green transitions. If well targeted, carefully sequenced, and complemented by structural reforms, these rationalization efforts would preserve equity, protect the most vulnerable, and support medium-term growth. Macro-structural policies should focus on easing regulatory bottlenecks, mobilizing private savings toward productive investment, and strengthening labor supply amid demographic pressures and ongoing transitions. While financial stability risks remain contained, financial sector policies should continue to proactively strengthen the policy toolkit in an increasingly complex landscape and support the efficient transmission of reforms. Together, a coherent policy package, combined with deeper EU single market integration, would bolster confidence and support durable, inclusive growth.

A. Fiscal Policy: Shaping a Medium-Term Strategy to Address New Spending Priorities and Advance Consolidation

13. The 2026 budget remains compliant with EU rules but below initial plans, as additional reforms could not be adopted for lack of sufficient political support.[2] The budget entails a structural primary adjustment of about 0.5 percent of GDP, meeting the EU's minimum requirement but leaving the deficit at 5 percent of GDP, short of the 4.6 percent target in the MTFSP[3] and staff's recommendation in the 2025 Article IV Consultation, even after accounting for the stronger 2025 performance. The adjustment includes 0.4 percent of GDP in revenue measures—mainly from extending temporary taxes on large corporations and high incomes—and 0.6 percent of GDP in

[2] While Parliament approved the 2026 social security budget in December 2025, it failed to pass the state budget by end year, requiring a special law to roll over the 2025 budget and prevent a government shutdown. The 2026 budget was eventually adopted in February 2026, with the government invoking Article 49.3 of the Constitution to bypass a parliamentary vote.

[3] See Box on "France's Medium Term Fiscal Structural Plan," France: 2025 Article IV Staff Report.

gross spending cuts across the state—including reductions in France 2030 investments and foreign aid—and local governments, freeing resources for increased defense spending (€6.5 billion), social security, and interest payments (0.5 percent of GDP in total). Concessions to secure political support on the budget included the temporary suspension of the 2023 pension reform until January 1, 2028 and increases in employment benefits and funding for social housing. The authorities remain committed to supporting the adjustment efforts through additional measures by decree if needed, as they did in 2025 (Annex III). In this context, they recently adopted a €6 billion savings package (about 0.2 percent of GDP) to offset the macroeconomic and interest-rate impact of the Middle East shock. Absent further measures, under staff's baseline, the fiscal deficit is projected at 5.2 percent of GDP.

France: 2026 Budget Measures

Fiscal Measures	Estimated Impact	
	Billion €	Percent of GDP
Revenue	**13.0**	**0.4**
Corporate taxes	8.0	0.3
PIT and product taxes	2.0	0.1
Social contributions	1.5	0.0
Other taxes	1.5	0.0
Spending	**8.2**	**0.3**
Central government	2.1	0.1
Gross savings	16.3	0.5
Additional spending:	(14.2)	(0.5)
Defense	(6.5)	(0.2)
EU contribution	(5.7)	(0.2)
Others (social measures)	(2.0)	(0.1)
Social security	4.1	0.1
Local government	2.0	0.1

Sources: French authorities and IMF staff estimates.
Note: Includes only new and specified budget measures.

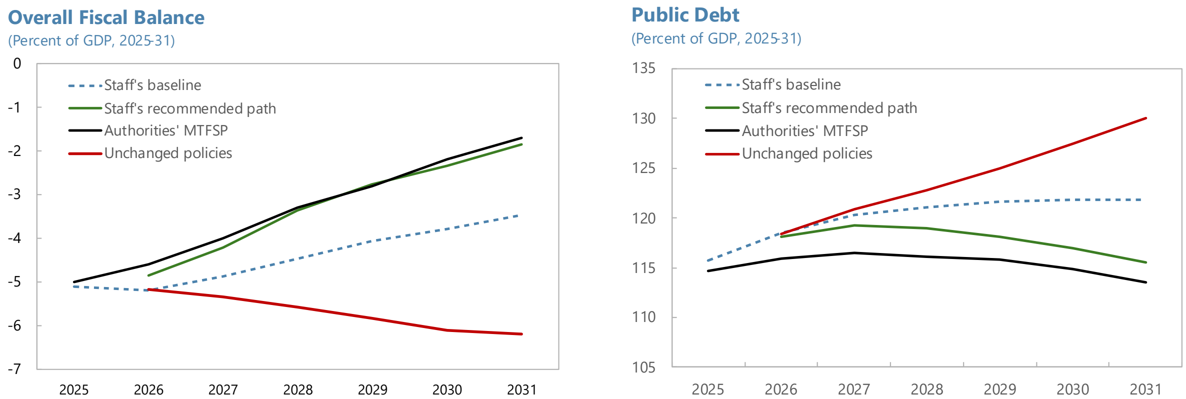
14. The response to the energy shock has so far been appropriate and should remain limited, temporary, and targeted to the most vulnerable, while preserving market incentives. Support measures have been deployed in two phases, totaling about €1.4 billion (0.05 percent of GDP): an initial €470 million package in March–April 2026, followed by an additional €930 million announced in May and June to extend measures through the summer and broaden sectoral coverage. Lump-sum transfers, such as energy vouchers, have helped cushion the impact on vulnerable households while avoiding price distortions. The government has also introduced targeted green incentives, notably electric vehicle subsidies for taxi drivers and a leasing scheme to support home care workers, alongside a structural electrification plan to durably reduce reliance on fossil fuels and accelerating the transition to cleaner energy sources (Annex VIII). While very narrow in scope and time-bound, sector-specific measures for fishery, construction and agriculture partially offset higher fuel prices through rebates. Should the shock persist (¶23), any further measures should continue to target the most vulnerable groups, while preserving market incentives, ensure adequate pricing of externalities, and safeguard fiscal sustainability.

France: Fiscal Cost of Support Measures

	Million €
Households	**613**
Sectoral	**787**
Transportation	320
Agriculture	262
Chemistry	150
Fishery	35
Construction	20
Total	**1,400**
(percent of GDP)	0.05

Source: French authorities, as of June 17, 2026.

France: Overall Fiscal Balance and Public Debt



Sources: French authorities and IMF staff estimates.
Note: The unchanged policies scenario includes only legislated measures. The authorities' MTFSP scenario is based on the original 2024 MTFSP projections.

15. Absent further measures, the current pace of adjustment will be insufficient to meet the MTFSP's objectives, raising fiscal risks and overall adjustment needs. While the authorities remain committed to bringing the fiscal deficit below the 3 percent of GDP Excessive Deficit Procedure (EDP) threshold by 2029, political fragmentation has limited their ability to deliver the ambitious frontloading planned under the MTFSP. Under staff's baseline projection, the consolidation effort during 2027–29 is projected to broadly meet minimum EU requirements[4] and, similar to recent budgets, rely on a relatively less efficient mix of ad-hoc revenue measures and spending cuts than in the initial plans. As a result, the fiscal deficit is projected to decline only gradually and to remain elevated at 3.5 percent of GDP in the medium term, while public debt rises to nearly 122 percent of GDP by 2030 before starting to stabilize. Fiscal adjustment at such pace would remain insufficient for France to exit the EDP by 2029 as targeted, keep debt elevated, and necessitate larger adjustments later. The risk of adverse macro-fiscal feedback loops would increase. The baseline is also subject to significant implementation risks, reflecting reliance on yet-to-be-legislated fiscal measures and uncertainty around macroeconomic assumptions. While France's short-term risk of sovereign debt distress remains low, benefiting from a liquid bond market with diversified investors, staff continues to assess the overall debt distress risk as moderate (Annex VI). At its current high level, the debt ratio remains highly sensitive to uncertainty around future real interest rates, growth, and spending pressures. Delays in adjustment and sustained policy uncertainty heighten medium-term risks by worsening interest-growth differentials and constraining fiscal space for priority spending (¶11).

[4] The fiscal baseline assumes a structural primary adjustment of 0.5 percent of GDP per year. EDP countries must make a minimum annual structural balance improvement of 0.5 percent of GDP, with a transition period (2025–27) allowing adjustments for higher interest expenses. Measures are to be specified in the annual budgets. This compares to an unchanged policy scenario at the time of the 2025 Article IV Consultation.

France: Fiscal Scenarios

(Percent of GDP, unless noted otherwise)

	2025	2026	2027	2028	2029	2030	2031
Baseline							
Real GDP growth (percent)	0.9	0.6	0.9	1.2	1.1	1.1	1.1
Revenue	52.2	52.4	52.5	52.6	52.7	52.8	52.9
Expenditure	57.3	57.6	57.4	57.1	56.7	56.6	56.4
Overall balance	-5.1	-5.2	-4.9	-4.5	-4.1	-3.8	-3.5
Primary balance	-3.0	-2.7	-2.3	-1.7	-1.1	-0.6	0.0
Fiscal effort 1/	0.9	0.5	0.5	0.5	0.5	0.5	0.5
Legislated measures		0.5	0.1	0.2	0.2	0.2	0.2
Planned measures, not yet legislated		0.0	0.3	0.4	0.4	0.3	0.3
Public debt	115.7	118.5	120.3	121.1	121.6	121.8	121.8
Recommended							
Real GDP growth (percent)	0.9	0.6	0.9	1.2	1.2	1.1	1.1
Revenue	52.2	52.4	52.5	52.6	52.7	52.8	52.9
Expenditure	57.3	57.3	56.7	56.0	55.4	55.1	54.8
Overall balance	-5.1	-4.9	-4.2	-3.4	-2.8	-2.3	-1.8
Primary balance	-3.0	-2.4	-1.6	-0.6	0.1	0.8	1.4
Fiscal effort 1/	0.9	0.8	0.8	0.9	0.7	0.6	0.6
Fiscal effort compared to baseline 1/		0.3	0.3	0.4	0.1	0.1	0.1
Public debt	115.7	118.1	119.2	119.0	118.1	117.0	115.5
Recommended with structural reforms 2/							
Real GDP growth (percent)	0.9	0.6	1.0	1.4	1.4	1.3	1.3
Revenue	52.2	52.4	52.5	52.6	52.7	52.8	53.0
Expenditure	57.3	57.3	56.7	55.9	55.3	54.9	54.6
Overall balance	-5.1	-4.9	-4.2	-3.3	-2.6	-2.1	-1.6
Primary balance	-3.0	-2.4	-1.6	-0.5	0.3	0.9	1.6
Fiscal effort 1/	0.9	0.8	0.8	0.8	0.7	0.5	0.5
Fiscal effort compared to baseline 1/		0.3	0.3	0.3	0.1	0.0	0.0
Public debt	115.7	118.1	119.1	118.5	117.3	115.7	113.9

Source: IMF staff estimates.
1/ Computed as the change in the structural primary balance.
2/ Under the recommended scenario with structural reforms, policies are expected to contribute 0.1 to TFP growth in 2027 and 0.2 onwards.

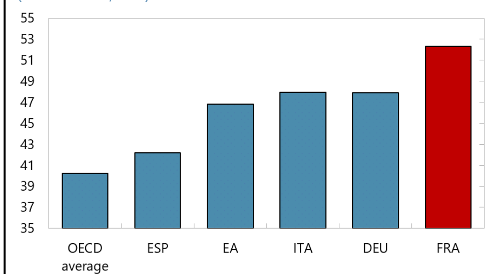
16. A new, clearly specified multi-annual strategy, anchored in high-quality measures and reforms, is essential to support growth and set public debt firmly on a downward path. To meet the MTFSP commitment of reducing the fiscal deficit below 3 percent of GDP by 2029 and markedly reduce medium-term debt sustainability risks, staff recommends a frontloaded fiscal effort of about 0.8 percent of GDP per year over 2027–29, which could be gradually eased thereafter, especially if supported by growth-enhancing domestic and EU-level structural reforms (¶25). Any adjustment that cannot be realized before the 2027 elections should be complemented by a supplementary budget thereafter. The next administration should also align the Organic Budget Law with the new EU governance framework and adopt a new Multi-Year Programming Law[5] to underpin the MTFSP with clearly articulated and quantified high-quality measures and reforms, providing a stronger anchor for medium-term consolidation and enhancing predictability. This fiscal strategy should be complemented by a carefully designed structural reform package to mitigate the macroeconomic and distributional effects of consolidation and reinforce the improvement in debt

[5] The MTFSP sets the forward-looking fiscal strategy submitted to the EU but does not require identifying specific measures, while France's Multi-Year Programming Law is expected to translate it into concrete measures and targets.

dynamics (Annex VII). While delivering on the MTFSP ambition and advancing the structural reform agenda will require resolute action and difficult trade-offs to ensure fairness and social cohesion, it will also set debt firmly on a downward path, safeguarding growth and strengthening resilience to shocks.

17. Well-targeted revenue measures can aid consolidation but will not be sufficient to meet France's sizable adjustment needs, given the already high tax burden. France's revenue-to-GDP ratio—among the highest in the euro area at 52.2 percent in 2025—significantly constrains the scope for further revenue-based adjustment. While consolidation efforts in 2025–26 relied largely on temporary revenue measures, notably higher corporate taxation, the scale of the required medium-term adjustment makes continued reliance on tax increases neither feasible nor desirable, given the risks to business confidence, competitiveness, and growth (Annex VII). Any additional revenue measures should prioritize reducing tax loopholes, eliminating inefficient tax expenditures, and addressing distortions in the taxation of capital income, while strengthening compliance and fairness. In this context, the comprehensive anti-fraud law and the rollout of mandatory e-invoicing from September 2026 are welcome reforms that should enhance transaction transparency and traceability, and strengthen detection, sanctioning, and recovery of social and tax fraud.

France and Peers: Total Revenue
(Percent of GDP, 2025)



Source: IMF staff estimates based on Apr 2026 WEO

18. Reprioritizing France's large spending envelope is essential to create room for emerging priorities, while advancing fiscal consolidation. Public spending reached 57.3 percent of GDP in 2025, the highest in the euro area, largely reflecting elevated current spending. Notwithstanding important savings from past spending reviews, spending demands continue to increase:[6]

- *Population aging* is expected to significantly impact public finances in France, as spending rises sharply with age (¶19), particularly pension and health care, while the tax base narrows markedly after retirement. This results in a growing imbalance between contributors and beneficiaries, amplifying the fiscal effects of aging. Recent budget adjustments have spared retirees, while having a stronger distributional impact on younger cohorts (OFCE). With age-related spending already exceeding 40 percent of total public spending in 2023, from 29 percent in 1998, demographic pressures alone could raise public expenditure to 60.8 percent of GDP by 2070, nearly 4 percentage points above its current level (Court of Auditors, 2025).

- While France 2030 mobilizes €54 billion in public investment for *digital innovation, and decarbonization*, further resources will be needed to fully meet structural and transition challenges. The 2026–35 Multi-Year Energy Program (PPE3) calls for an additional €17 billion (0.6 percent of GDP) in annual investments to strengthen energy sovereignty, expand low-

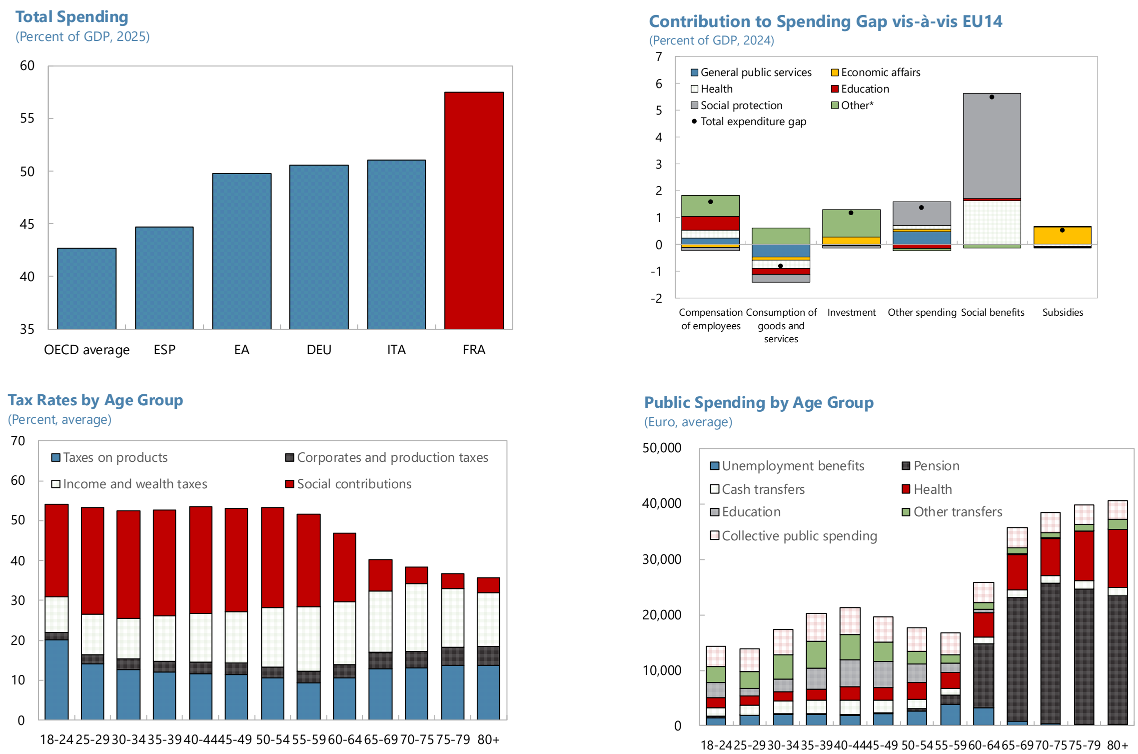
[6] Staff's baseline incorporates structural spending pressures from pensions, defense, health, and green spending, consistent with the authorities' approved measures.

carbon electricity, and reduce fossil fuel reliance. The accompanying Electrification Plan targets a doubling of annual public support to €10 billion by 2030, focusing on accelerating the transition from fossil fuels to low-carbon electricity across transport, buildings and industry (Annex VIII).

- Rising *defense* spending to modernize capabilities and meet NATO core military spending commitments of 3.5 percent of GDP by 2035—up from 2.1 percent in 2025—adds further fiscal demands. To meet the alliance target and sustain support for Ukraine, the government updated the 2024–30 military programming law, adding €36 billion to the existing plan.

In this context, the fiscal consolidation strategy should aim at rationalizing inefficient spending and reallocating current and social spending towards priority areas, supported by ambitious structural reforms and ongoing spending reviews. These efforts should be well targeted and carefully sequenced to preserve equity, protect the most vulnerable, and support medium-term growth (Annex VII). Given the structure of the administrative system, effective implementation will require action across all government levels (central, social security and local), alongside efforts to enhance investment efficiency and reduce overlaps in government spending.[7]

France and Peers: Public Spending and Tax Rates

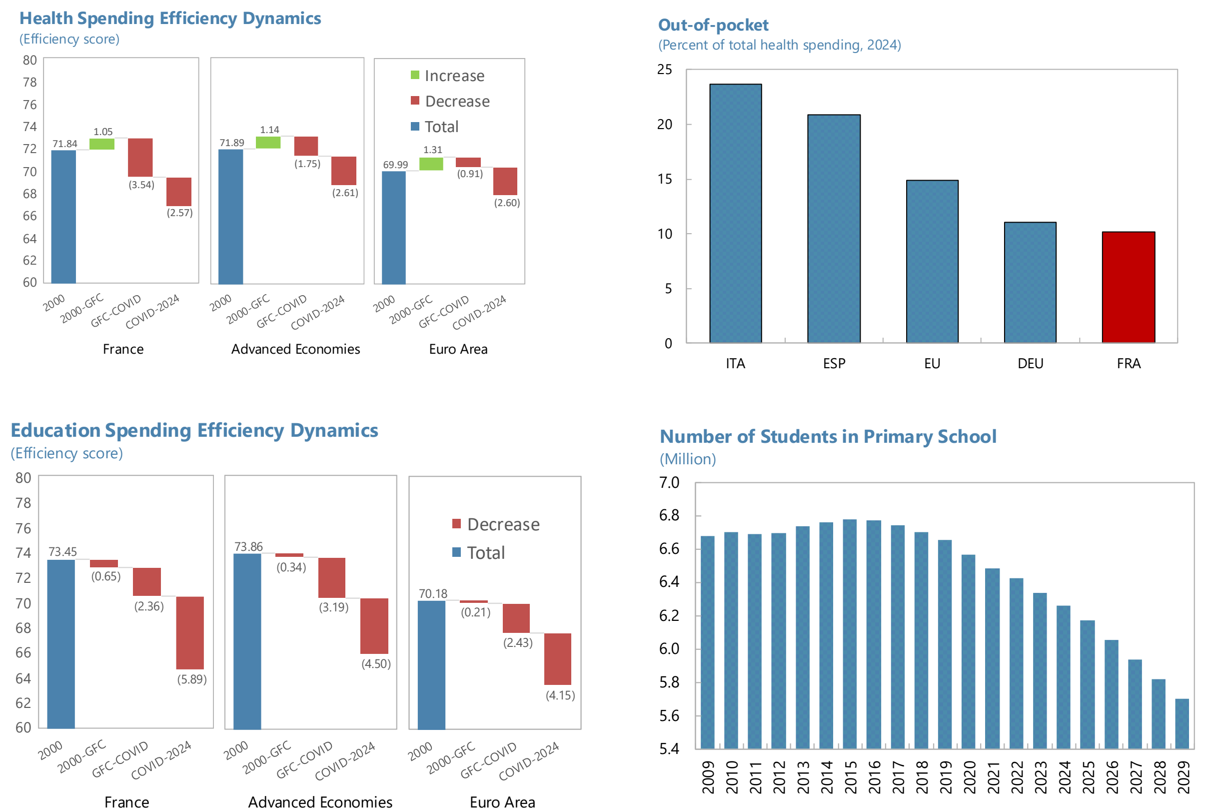


Sources: Eurostat, INSEE, and IMF staff estimates.
Note: EU14 includes Belgium, Denmark, Germany, Ireland, Greece, Spain, France, Italy, Luxembourg, Netherlands, Austria, Portugal, Finland, and Sweden.

[7] See Annex VI on "Improving Spending Efficiency at the Local Level in France", France: 2025 Article IV Staff Report.

19. Evolving demographic trends require adaptation in health and education spending. As population aging reshapes spending needs, health and education systems will need to deliver better outcomes through more efficient rationalization of existing resources:

France and Peers: Health and Education Spending



Sources: IMF staff estimates based on [October 2025 Fiscal Monitor](#) public spending efficiency dataset and DEPP.
Note: Efficiency scores are measured on a 0–100 scale, where 100 denotes the efficiency frontier. For euro area health spending efficiency, the interquartile range (25th–75th percentiles) over the post-COVID period (2020–24) is 71.6–75.3. For euro area education spending efficiency, the interquartile range over 2020–24 is 65–69.

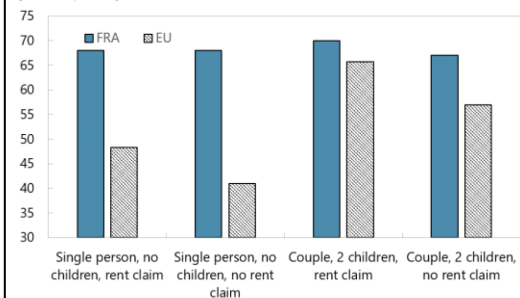
- *Health Spending.* France's public health spending, at about 9 percent of GDP, exceeds the EU average by 1.5 percentage points, partly reflecting limited use of differentiated cost-sharing, with out-of-pocket payments accounting for around 10 percent of total health spending, compared with about 15 percent in the EU. Carefully designed co-payments for non-essential or non-urgent services—calibrated by income and/or health status—could help contain aging-related cost pressures, while preserving access and quality and protecting low-income and high-need households. Efficient spending on disability prevention, especially after age 55 when incidence rises sharply, is also essential to support productive aging, contain sick leave, and alleviate future fiscal pressures (April 2025 WEO).

- *Education Spending.* While education spending, at about 5 percent of GDP, aligns with peers, learning outcomes lag, as seen in PISA scores, and efficiency has deteriorated. As primary school enrollment declines, priorities should continue to shift toward improving quality (*Chocs des*

Savoirs) and reallocating resources to disadvantaged students (*REP/REP+*), lifelong learning, and skills better aligned with labor market needs (¶34). According to the Court of Auditors, vocational training participation among those aged 55–64 remains well below that of younger groups (35 percent versus 57 percent for ages 18–44). Priorities include expanding adult education and reskilling to support longer working lives, strengthening vocational training, and directing resources toward parental leave and childcare to support fertility (¶33).

20. Further strengthening France's unemployment benefit system can ease labor market and social protection pressures. Despite important reforms in recent years, compared to peers, France's unemployment benefits remain relatively generous for certain groups. This provides strong income protection but may also weaken incentives for longer working lives, including by encouraging use as a bridge to retirement. The recent adoption of the bill to reduce unemployment benefits duration by mutual agreement and ongoing efforts to establish a unified social allowance (merging RSA, *prime d'activité*, and housing allowances by 2030) are welcome initiatives to further strengthen work incentives, streamline the system, and strengthen the effectiveness of targeted transfers (Annex VII). Further refinements to eligibility, duration, and conditionality are warranted, building on the 2023 reform. Better alignment between unemployment benefits and active labor market policies would further enhance incentives to work and improve human capital.

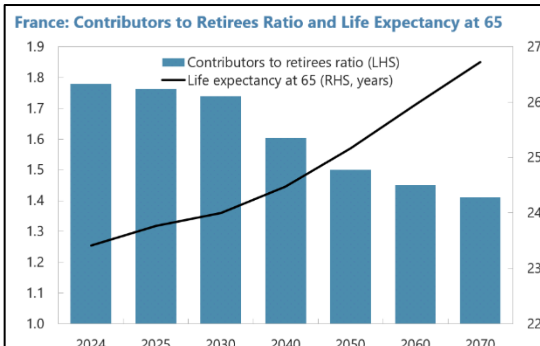
France and Peers: Net Replacement Rate in Unemployment
(Percent, 2025)



Sources: OECD and IMF staff estimates.

21. A credible pension reform strategy is a key lever for restoring the long-term sustainability of public finances. With pension spending relatively high (14 percent of GDP compared to the EU average of 11.5 percent) and demographic pressures set to intensify (Box 1), restoring a credible reform path is essential to contain fiscal risks and support intergenerational fairness. The suspension of the 2023 pension reform froze the retirement age to 62 years and 9 months until January 1, 2028, reducing expected savings by €0.4 billion in 2026 and €1.8 billion in 2027 (¶13), and renewed uncertainty around the system's adjustment path. Reforms to institutionalize automatic adjustment mechanisms linked to demographic developments and regular sustainability reviews—consistent with practices in peer countries—would support ongoing efforts to balance the system, reduce the risk of recurrent political deadlock, and ensure long-term sustainability. Complementary measures should aim at further strengthening incentives for longer working lives, harmonizing the system's 42 retirement plans, and enhancing portability.

France: Contributors to Retirees Ratio and Life Expectancy at 65



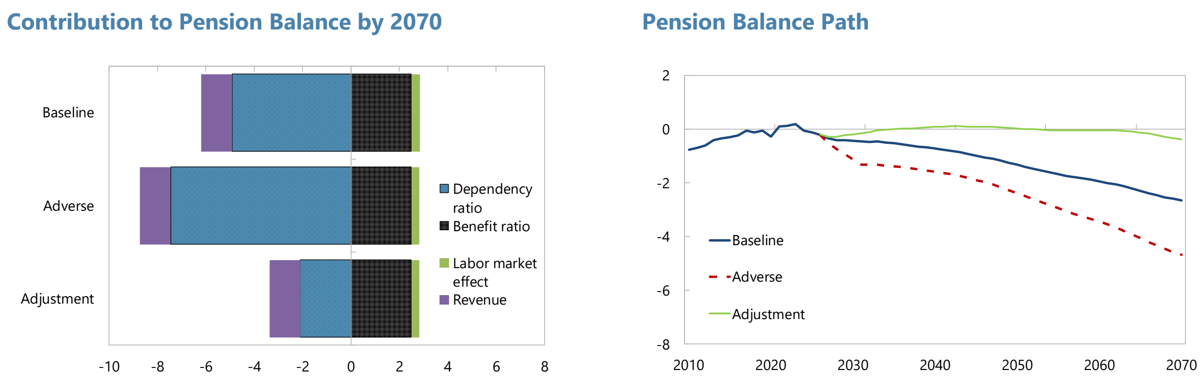
Source: Conseil d'Orientation des Retraites (COR).

Box 1. Pension Sustainability in France

France's demographic outlook points to rising age-related spending and mounting pressures on pension sustainability. The share of the population aged 65 and over is projected to rise from nearly 22 percent in 2024 to about 30 percent by 2070 (Court of Auditors). Absent further reforms, these trends would result in persistent pension deficits and a deterioration of the fiscal position. Delays in pension reform would also worsen distributional outcomes by shifting the adjustment burden onto younger and future cohorts. Under staff's baseline—reflecting the latest INSEE assumptions on fertility, longevity, and migration—the pension balance would shift from a near balance to a deficit of about 2.6 percent of GDP by 2070, broadly in line with 2026 COR's baseline scenario. In a more adverse scenario combining weaker demographics, higher life expectancy, and a freeze of the retirement age at 63, the deficit could widen to around 4.6 percent of GDP. In all scenarios, the deterioration is driven mainly by the dependency-ratio channel.

Labor-supply policies can help mitigate aging-related pressures and improve pension dynamics. Policies that support healthy aging, extend working lives—particularly through retirement-age policies that adjust with longevity—and narrow labor-force participation gaps between men and women can raise employment and contributions, thereby improving fiscal outcomes (IMF, 2025).[1] Staff simulations suggest that the planned increase of the retirement age to 64, as envisaged in the 2023 reform, will reduce the pension deficit by about 1 percent of GDP by 2070. Continuing to gradually increase the retirement age, in line with peers, could help build buffers, secure the balance of the pension system, and strengthen intergenerational equity. Planned unemployment benefit reform could further strengthen labor market participation, boost employment, and create additional fiscal space.

France: Pension System Balance
(Percent of GDP)



Sources: Conseil d'orientation des retraites (COR, 2025) and IMF staff estimates.
Note: Bars show the projected pension system balance in 2070 (percent of GDP; negative values indicate deficits). The decomposition follows the accounting framework used in the European Commission and EPC Aging Working Group's 2024 Aging Report. Lines show the pension system balance over time. The adjustment scenario assumes a gradual additional increase in the retirement age by 3 years.

[1] See also Annex V on "Healthy Aging and Pension System in France", France: 2025 Article IV Staff Report.

22. **Spending reviews should be embedded in the updated multi-annual budget strategy to support re-prioritization and enhance efficiency across all government levels.** In France, they play a crucial role to assess spending effectiveness, identify savings, and reallocate resources toward higher-priority policies. The 2025 reviews yielded about €5.2 billion for the 2026 budget, while reviews of health agencies, waste management, allowances and benefits of civil servants, and family policies are ongoing. Looking ahead, spending reviews should be used systematically under the new multi-year programming law and broadened to cover all levels of general government, including

local authorities and social security funds. Moreover, the quantitative potential savings targets identified through spending reviews should be embedded in the medium-term fiscal framework and translated into binding expenditure ceilings to support implementation. In this context, the *"État efficace"* mission provides an important framework to rationalize public action, reduce administrative complexity, and eliminate overlaps. These efforts should be complemented by measures to strengthen fiscal oversight, enhance transparency, and reinforce the role of the High Council for Public Finances, as also outlined in the March 2025 Action Plan (Annex III).

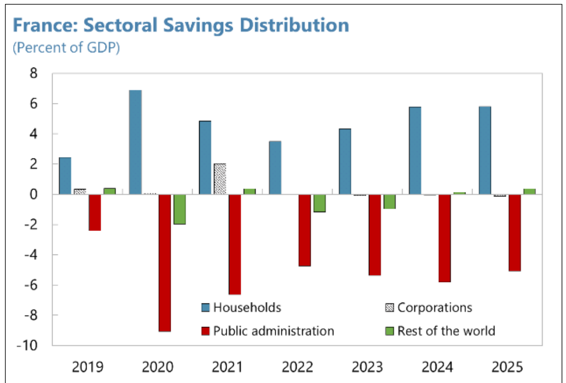
23. Amid heightened uncertainty, contingency planning is needed to ensure that emerging needs are met without compromising public finances. While staff assesses that France has some fiscal space that could be deployed in the event of downside risks, in line with EU fiscal rules, contingency planning is essential to manage adverse shocks and mounting spending pressures in priority areas. The authorities' plan to absorb any new spending needs on defense within their existing fiscal consolidation plans, by reprioritizing resources, is warranted. If growth were to fall significantly short of the baseline, resulting in higher energy prices and tighter financial conditions (¶10 and April 2026 WEO), the authorities could allow automatic stabilizers to partly operate and consider well-targeted and time-bound fiscal measures to support the most vulnerable groups as needed, while preserving market incentives (¶14). Nevertheless, sustained fiscal consolidation efforts will remain essential, as insufficient adjustment risks placing public debt on an unsustainable trajectory and amplifying macro-financial vulnerabilities. A well-defined and high-quality multi-year package of measures complemented by far-reaching structural reforms would provide a valuable medium-term anchor amid weakening debt dynamics in the short term. Greater EU coordination can also improve efficiency, reduce financing costs, and enhance resilience against common challenges.

Authorities' Views

24. The authorities reaffirmed their strong commitment to fiscal consolidation in line with EU rules and the Medium-Term Fiscal-Structural Plan (MTFSP), despite the challenging external environment. They noted that the 2025 fiscal overperformance reflected stronger budgetary governance and additional spending cuts and reiterated their objective of reducing the deficit below 3 percent of GDP by 2029, as set out in the April 2026 Annual Progress Report. They stressed that the response to the Middle East energy shock has been timely, temporary, and targeted, containing budgetary costs and advancing short-term and structural measures to reduce fossil fuel dependence, notably through the electrification plan. Additional spending cuts have been implemented to offset the impact of the shock on the fiscal balance. The authorities also agreed that rising spending pressures, including defense, population aging, and the digital and green transitions, will require structural fiscal reforms to reprioritize spending and improve efficiency across all levels of government (central, social security and local), while mitigating the growth and distributional impact of the adjustment. In this context, they pointed to successive unemployment insurance reforms since 2019 to strengthen work incentives as well as to the 2023 pension reform to improve the system's sustainability and underscored the critical role spending reviews and improved fiscal governance will continue to play to support consolidation. They also noted that discussions are already underway to define a package of measures for the 2027 budget in the fall and secure broad-based political support.

B. Macrostructural Policies: Turning Structural Transitions into Engines of Innovation and Growth

25. France's economic resilience and medium-term growth performance hinge on its ability to leverage ongoing transitions through ambitious domestic and EU-level reforms. Although less exposed to geoeconomic fragmentation than peers—due to a diversified economy, large services sector, and a nuclear-based energy mix—France remains vulnerable to geopolitical tensions via direct and trade-partners exposures (¶10). In an environment of elevated uncertainty, modest potential growth, and high public debt, growth-enhancing structural reforms are essential to lift potential output, redirect abundant household savings towards productive investment, and support fiscal consolidation (OFCE 2026). For an economy with baseline potential growth of 1 percent, a sustained increase of at least 0.4 percentage points (¶11) could improve debt dynamics (¶15),[8] while supporting more inclusive growth (Annex VII). As reform benefits accrue gradually, predictability and timely implementation are critical to strengthen domestic demand by ensuring a steady increase in household incomes and investment incentives. The medium-term agenda should focus on three priorities: tackling structural bottlenecks and unlocking innovation; improving access to finance; and investing in human capital. Deeper integration within the European single market can amplify the impact of domestic reforms by allowing firms to scale up while strengthening competition and expanding financing opportunities (¶11 and 2025 October EUR REO).



Source: OFCE (2026).

Tackling Structural Bottlenecks and Unlocking Innovation

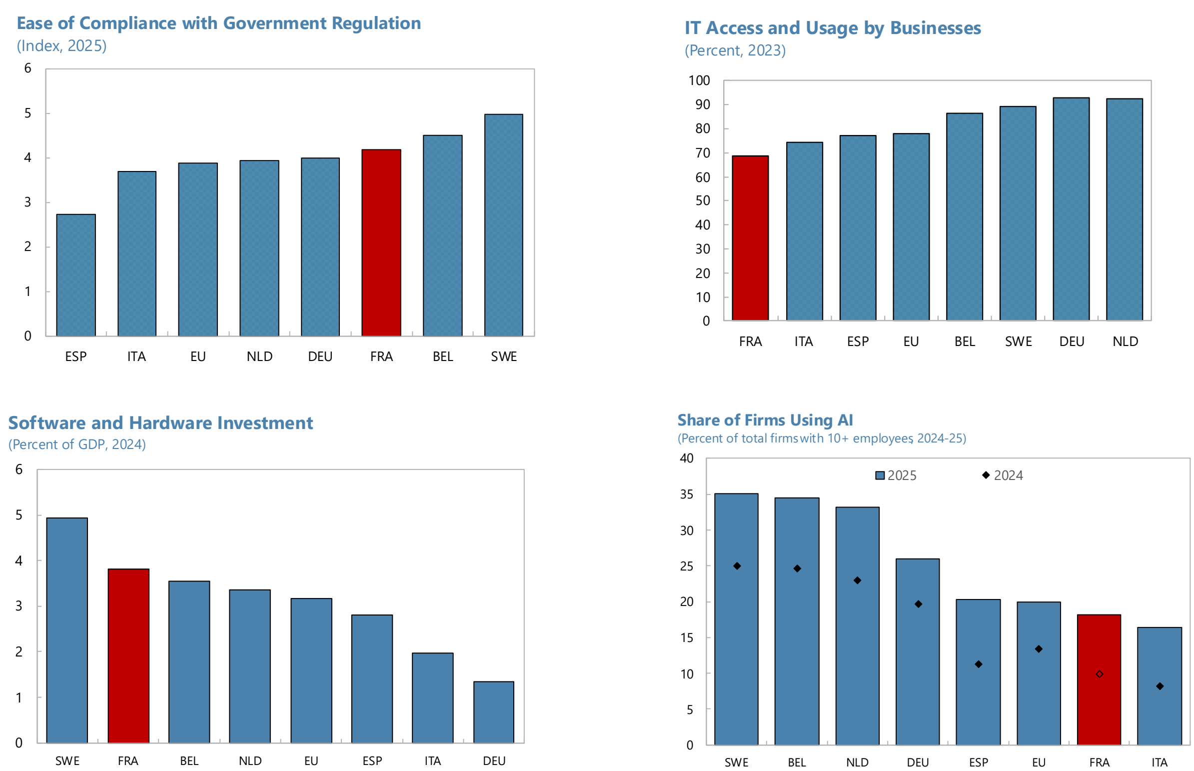
26. Further reducing regulatory barriers can help foster entry and scaling up of innovative firms. Despite progress, administrative barriers remain high in parts of the French economy, weighing on entrepreneurship and competition. The recently approved Simplification Bill and related decrees are welcome steps toward lowering SMEs' compliance costs, notably by converting selected authorizations into declarations, expanding the "Tell us once" principle, and introducing SME impact tests. Faster approval processes for industrial, energy, and data-infrastructure projects are also expected to further support investment in strategic sectors. Additional gains could come from easing entry restrictions in selected services and regulated professions, reducing labor market segmentation by rebalancing incentives across contract types, enhancing mobility, and further tightening unemployment benefit rules (¶20) to support more efficient labor allocation. At the

[8] If saved, revenue gains from structural reforms could reduce debt by nearly 10 percent of GDP in the medium term.

European level, implementing the 28th regime would further reduce transaction costs and facilitate firm scaling (Kukies and Noyer, 2026).

27. France's AI strategy has strengthened R&D capacity, but sustained efforts to foster firm-level adoption will be critical to unlocking productivity gains. Since its launch in 2018, the strategy has supported AI-related R&D and innovation, positioning France as a leading AI hub in Europe, with a dynamic start-up ecosystem and strong research capacity. Recent AI-related investment is increasingly being directed toward data-center infrastructure. While scaling compute capacity supports advanced AI deployment and economic security, sustaining France's technological edge will require continued investment in frontier R&D. AI adoption among firms remains below the EU average, but targeted national initiatives, particularly those promoting sector-specific use cases for SMEs, are beginning to gain traction. AI adoption in 2025 increased significantly relative to 2024, particularly among SMEs. Broader diffusion, given persistent regional and sectoral disparities, could yield meaningful productivity gains, with staff estimating a cumulative increase in total factor productivity of about 1.2 percent over five years.[9]

France: Regulatory Barriers, Digitalization, and AI Adoption

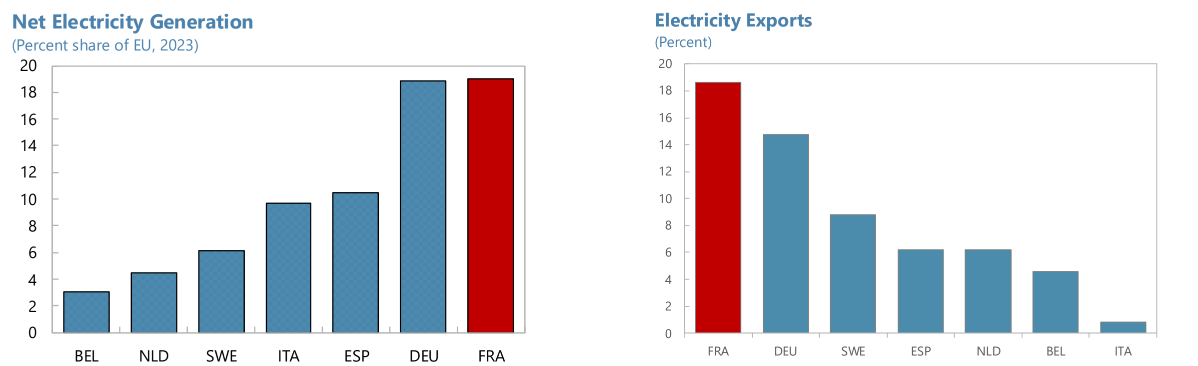


Sources: Eurostat, OECD, Single Market Scoreboard and IMF estimates.
Note: (LHS top) higher values indicate better performance (i.e. less burdensome regulation). (RHS top) IT access is proxied by share of businesses with a website or a homepage.

[9] The estimate is subject to considerable uncertainty, as discussed in Box 2 on "Potential Medium-Term Productivity Effects of Artificial Intelligence in France", 2025 Article IV Report.

28. Implementation of France's climate and energy strategy will bolster economic resilience, while supporting broader technological transformation. With electricity generation largely nuclear- and renewable-based (95 percent of total in 2025), France is less exposed than peers to imported fossil-fuel shocks, although it remains vulnerable through residual hydrocarbon use—especially in transport and heating. France's national low-carbon strategy (SNBC) aims to reduce industrial emissions by 70 percent by 2030 compared with 1990, through the development and deployment of low-carbon electricity, combined with accelerated demand-side electrification and energy efficiency to reduce reliance on imported hydrocarbons (Annex VIII). The multi-year energy plan (PPE 3) and the electrification plan support implementation of the SNBC and are broadly aligned with its objectives, including by setting targets to expand nuclear power production and reduce fossil fuel consumption. Ongoing efforts to accelerate implementation will be critical to meet emission reduction targets (*Haut Conseil pour le Climat*, 2026). Low-emissions resources and relatively low electricity costs can underpin growth in AI infrastructure and advanced manufacturing, while supporting decarbonization objectives. While France is already a major electricity exporter, accelerating grid investment and deepening integration of the European electricity single market would further enhance resilience and help manage supply–demand pressures, including during shocks.

France: Energy



Sources: Eurostat, European Commission, and International Energy Agency.

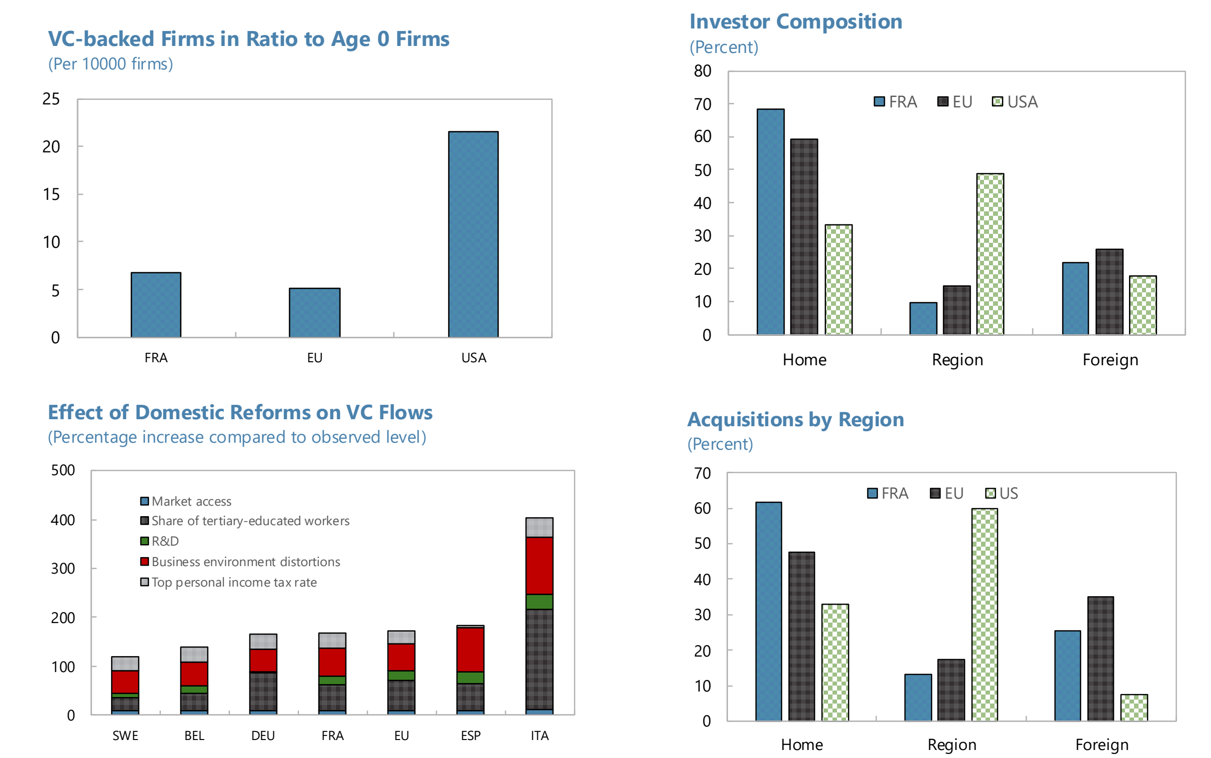
29. France's innovation clusters exemplify efforts to integrate R&D collaboration, scale-up, and diffusion, by leveraging sectoral and regional comparative advantages. These hubs link firms, research institutions, and training providers to accelerate innovation, support industrial transformation, and strengthen integration into European value chains (Annex IX). They play a key role in translating research and public investment (Box 2) into firm-level outcomes—particularly for young firms—while supporting digital, green, and industrial transitions under the France 2030 strategy.

Improving Access to Finance

30. Mobilizing private financing, particularly venture capital (VC), is essential to foster entrepreneurship, spur innovation, and scale high-growth firms in France and across the EU.

While France benefits from growing innovation ecosystems (Annex IX), scaling startups into technology leaders requires access to deeper VC pools. In Europe, the limited depth of VC markets reflects factors such as the prevalence of non-funded pension systems, conservative institutional investment behaviors, regulatory frictions, and fragmented capital markets (Kukies and Noyer, 2026; BDF, 2026). Programs like the Tibi initiative, soon entering its third phase, have helped mobilize domestic institutional capital and strengthen the venture capital ecosystem, with plans to expand similar efforts to support tech financing at the EU level. Yet access to risk capital remains limited, especially at later growth stages. Advancing the Savings and Investment Union—alongside reforms that enhance business dynamism and R&D, facilitate exit opportunities, and boost institutional investor engagement—would unlock investment and more effectively scale innovative firms.

France: Venture Capital



Sources: Dynemp, BDS, PitchBook, a Morningstar company, IMF 2025, SDN 2026/002, and IMF staff estimates. "Region" refers to other EU countries or other states of the US, respectively.

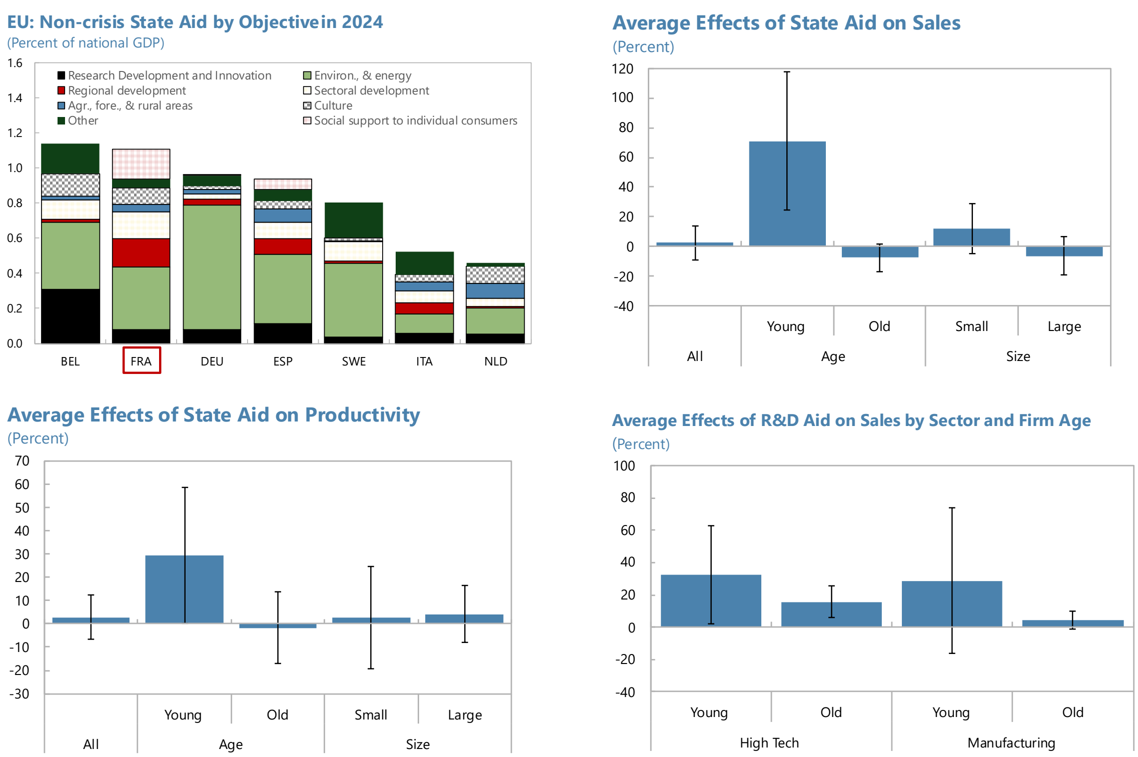
31. State support can catalyze innovation and private investment provided it targets well-defined market failures. In France, R&D tax credits and EU state-aid instruments play a significant role in supporting innovative firms. Recent reforms have tightened eligibility—including under the *Crédit d'Impôt Recherche (CIR)* —and increased selectivity to focus support on R&D-intensive activities. *France 2030* directs public support towards strategic areas like the green transition, AI, and deep tech, aiming to advance technological capabilities and sustainable growth. Initiatives like *Jeune Entreprise Innovante* increasingly target younger firms with high R&D intensity, consistent with staff analysis (IMF WP 26/122 and Box 2), which finds that state support is most effective when focused on firm age rather than size. Well-designed and targeted instruments can provide needed seed

Box 2. State Aid in France

State aid can support firm-level performance, but its effectiveness depends critically on targeting. Non-crisis state aid in France remains sizable at about 1.1 percent of GDP in 2024. Firm-level evidence (IMF WP 26/122) based on a difference-in-differences strategy shows that state aid raises recipient firms' productivity, sales, and employment—for example, by about 3 percent on average for productivity. These gains, however, are primarily driven by younger firms, which see significantly larger impacts (e.g. around 26 percent productivity increases), reflecting relief from binding financing constraints. By contrast, targeting based solely on firm size yields weaker results (around 3 percent for small firms). Research, Development and Innovation (RDI) aid is most effective when directed at young firms in high-tech sectors, where innovation potential is highest. Consistent with these mechanisms, results suggest that aid to young firms might crowd in private investment by facilitating access to external finance, as evidenced by higher long-term debt levels, while no comparable effect is observed for older firms.

These firm-level gains need to be weighed against broader market effects. Evidence from firm-level analysis across EU countries focusing on listed firms reveals that while recipient EU-based firms experience temporary gains, nonrecipient firms operating in the same industries—particularly across borders—face declines in employment and revenues (IMF WP 24/250). These negative cross-country spillovers are more pronounced in more concentrated sectors, highlighting risks to competition and potential fragmentation of the single market. The findings underscore the need for narrowly targeted, time-bound state aid addressing clearly identified market failures, as well as for stronger EU-level coordination to mitigate adverse effects and preserve efficient resource allocation (IMF WP 24/249 and Box on "Coordinating Industrial Policies in Europe", France 2025 Article IV Report).

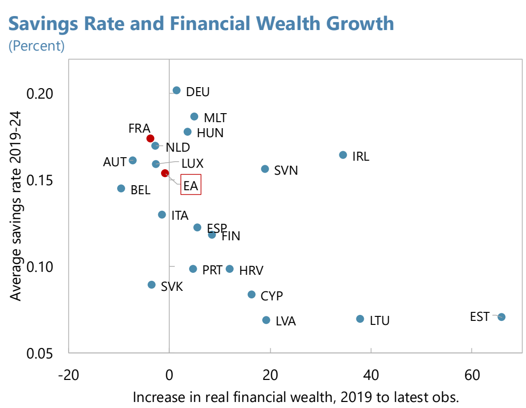
France: State Aid

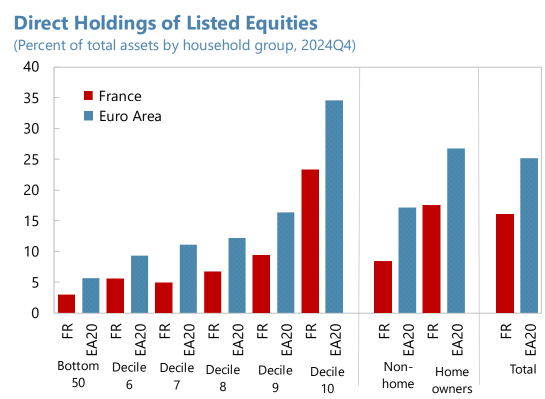


Sources: EU State Aid Scoreboard (2025), EU Transparency database, Orbis, IMF staff estimates.
Note: (Top LHS) For France, social support to individual consumers includes pension-related expenditure.

funding for innovation and account for sectoral differences, while preserving private investment incentives and supporting the transition to low-emissions energy sources. A more selective approach—focused on the largest market failures—can also maximize the impact of public aid while reducing the risk of spreading resources too thin (OECD, 2026). In addition, efforts to strengthen the transfer of public research to the private sector, including by simplifying regulation, leveraging innovation clusters (¶29), and fostering researchers' mobility could further boost knowledge diffusion and innovation. Coordinated EU-level efforts can foster greater alignment of industrial policies with EU objectives, mitigate adverse spillovers, and leverage the scale of the single market.

France: Household Savings and Asset Allocation





Sources: ECB, Eurostat, and IMF staff estimates.

32. Enhancing financial literacy, simplifying regulation, and better aligning tax incentives could channel more savings towards productive investment and raise long-term returns. Despite high saving rates (¶2), French households' real financial wealth has edged down, reflecting portfolios dominated by liquid, capital-guaranteed instruments and limited exposure to risk-bearing assets. This partly reflects still-low financial literacy, despite welcome efforts to continue adapting the operationalization of France's financial literacy strategy (EDUCFI), in place since 2016. Initiatives such as the "Finance Europe" label aim to promote long-term, equity-oriented investment products for EU financing, but their impact hinges on greater coherence in national tax incentives. In particular, there is scope to better align the design and tax treatment of equity-oriented vehicles such as the PEA and PER with those for life-insurance products and regulated savings accounts.

Boosting Employment and Human Capital

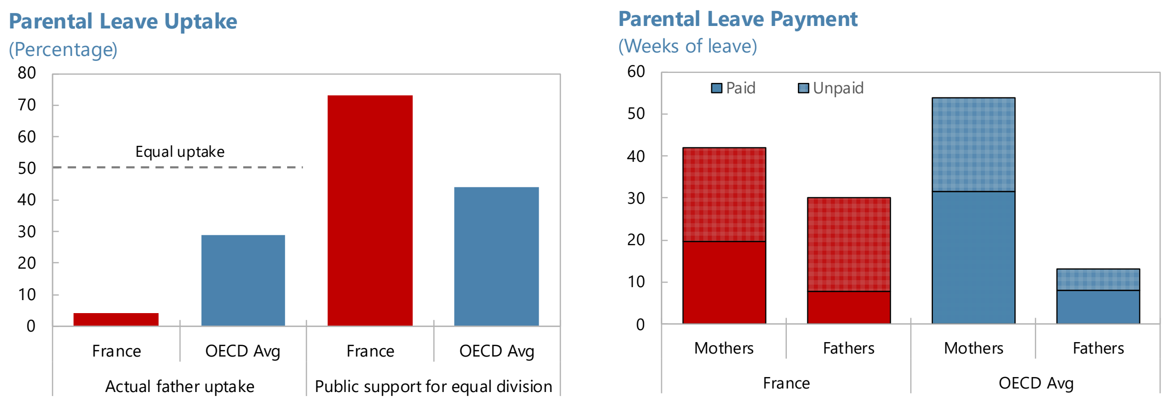
33. A coherent policy mix is essential to support France's labor force amid ongoing transitions. With France's faster-than-expected drop in fertility and aging population (¶11), boosting labor supply requires fostering longer, less fragmented careers, higher female participation, and better integration of migrants. Education and training systems should adapt. Weaker learning outcomes underscore the need to improve efficiency rather than increase spending (¶19), while smaller cohorts imply higher per-student spending—creating scope to reorient resources toward learning gains and training. A coherent strategy combining labor market incentives (20¶), targeted family policies (Box 3), and effective skill development (¶35) will be key to enabling France's strong human capital to adapt to an aging economy and harness the opportunities created by ongoing transitions. Further progress would come from facilitating intra-EU labor mobility, including through improved recognition of professional qualifications.

Box 3. Demographic Trends and Family Policies in France

Demographic pressures underscore the need for policies that support fertility while strengthening labor supply. France's demographic outlook has weakened faster than expected, with declining fertility and accelerating population aging. In 2025, births fell further and the total fertility rate fell to 1.56 children per woman, significantly below the benchmark level of 2.1 required to stabilize the population (INSEE). At the same time, aging is projected to raise the old-age dependency ratio markedly (Box 1). These trends strengthen the case for reforms that both support fertility—by reducing the economic and career costs of childbearing—and strengthen labor supply by enabling longer and less fragmented careers, especially among women. Ongoing efforts to modernize family policies such as parental leave and access to affordable early childhood education and care can help achieve both objectives, with outcomes depending on benefit generosity, duration, and eligibility.

Ongoing reform to parental leave policies could help narrow disparities between men and women in labor force participation. Female labor force participation reached 72.7 percent in 2025Q4, compared with 78.3 percent for men, but disparities persist in working hours, career progression, and pay, partly reflecting caregiving constraints. Following childbirth, mothers are substantially more likely than fathers to reduce working hours or transition to part-time employment, contributing to an estimated lifetime earnings gap of 20–30 percent (ANACT). The 2021 extension of paid paternity leave to 28 days increased take-up to about 80 percent in 2023, indicating that individual entitlements can affect behavior. However, fathers' participation in longer, shareable leave remains limited, consistent with within-household incentives shaped by wage differentials and perceived career costs. The 2026 Social Security Budget's introduction of an additional, gender-symmetric two-month birth leave per parent, could further balance caregiving roles. Complementary reforms—including expanded affordable childcare and stronger incentives for fathers to take longer leave—would help narrow participation gaps and improve women's labor-market outcomes, supporting labor supply and potential growth over the medium term.

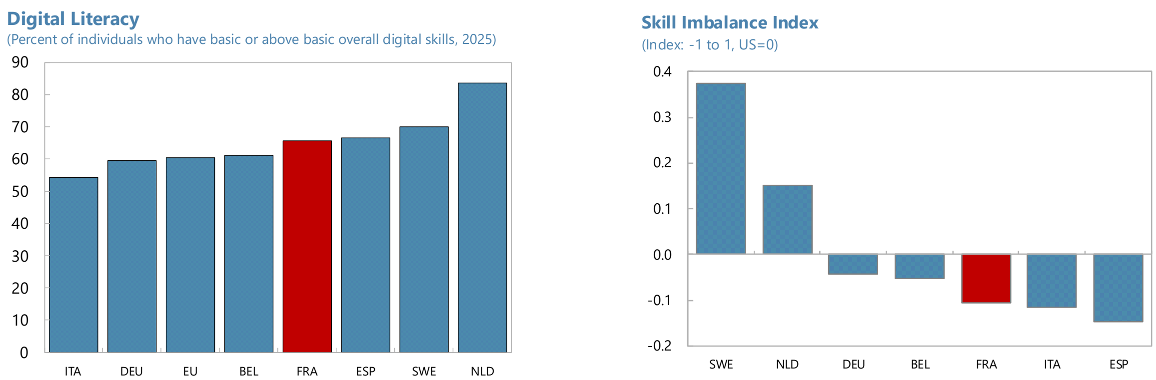
France and OECD Peers: Parental Leave by Duration and Take-up



Sources: OECD Family Database, International Social Survey Programme (ISSP) 2022, IMF staff calculations
Note: (LHS) Data for France refers to 2016. OECD average calculated as unweighted mean across 22 countries with available data, with most recent year (typically 2022–23) used for each country. Share of recipients reflects the proportion of men versus women among all parental leave recipients in a given year. (RHS) Total duration includes both paid and unpaid leave available to each parent. Paid leave shown as full-rate equivalent (FRE) weeks. OECD averages calculated as unweighted means across countries with available data.

34. With digitalization progressing rapidly, the authorities should strengthen preparedness for potential medium-term labor market effects from AI. While there is no clear evidence yet of an impact on aggregate labor demand, AI diffusion could widen existing employment disparities across workers, sectors, and skill groups. For example, automation could reduce entry-level opportunities for young workers in exposed occupations, while digital transformation could prompt earlier labor force exit among older workers, further lowering employment in these groups (SDN2026/001 and SDN/2024/001). Efforts should include expanding AI-related business surveys and leveraging administrative data to better track labor market effects. Structural reforms can help ease the adjustment to automation through increased labor-market flexibility (¶26), lower non-wage costs, and targeted reskilling facilitating reallocation across tasks and occupations.

France and Peers: Digital Literacy and Skill Mismatches



Sources: Eurostat, ILO, Lightcast, OECD, and IMF staff calculations.
Note: (RHS) Calculated as the difference between projected new skill demand relative to the United States and share of graduates with new skills relative to the United States, normalized by the maximum absolute value of these differences to range between –1 and 1. Countries closest to zero have a projected smaller imbalance between skill demand and supply.

35. Specifically, there is scope to accelerate and better align education and training initiatives with fast-evolving digital skill requirements:

- *Basic digital skills for AI adoption*. In 2024, 59.7 percent of the French population (60.2 percent of women) had at least basic digital skills essential for AI adoption and the digital transition more broadly, exceeding the EU average of 55.6 percent. Efforts to strengthen digital literacy should target those with low education levels, where basic digital skills lag by about 20 percentage points the national average. The Strategy for Digital Inclusion provides a useful framework but predates the recent emergence of large language models (LLMs) and would benefit from updating to reflect evolving digital skill requirements.

- *Advanced skills for AI development*. France remains well positioned to meet demand for new skills, thanks to well-calibrated tertiary education, availability of on-the-job learning, and workforce competency in literacy and numeracy. Nevertheless, ongoing efforts to improve secondary education in STEM and advanced digital skills through the France's Digital Strategy for Education are welcome (¶34). This can support the supply of ICT specialists whose share of total employment is slightly below the EU average (4.8 vs. 5 percent).

Authorities' Views

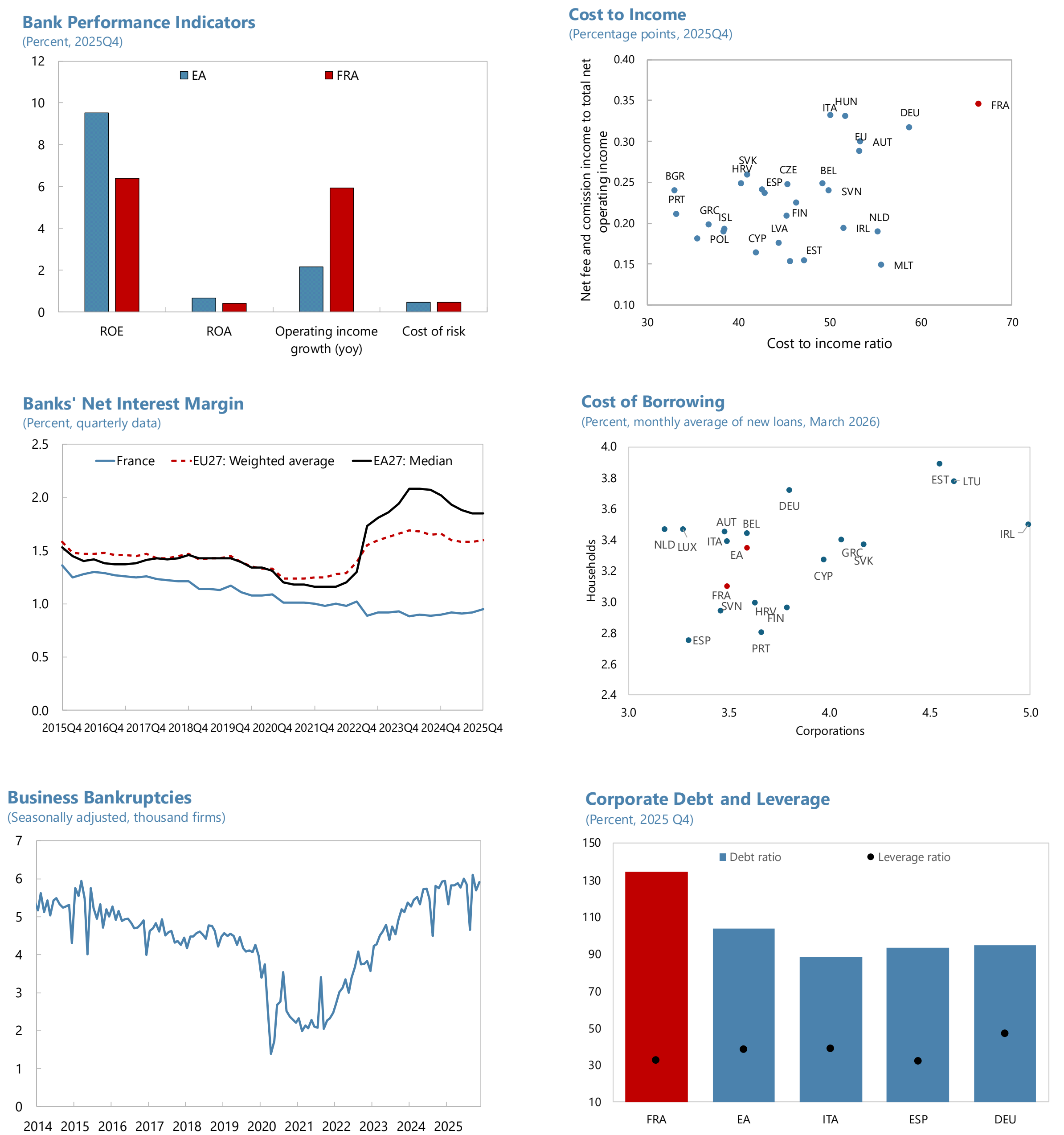
36. The authorities stressed that lifting growth requires mobilizing financing for innovation and further easing regulatory bottlenecks both in France and at the EU level. They viewed the adoption of the Simplification Bill as an important step and welcomed the proposed EU 28th regime to reduce regulatory fragmentation. While underscoring the importance of directing state aid toward high-growth and innovative firms and projects, they also emphasized efforts to improve financing conditions for innovative firms, including by scaling up the Tibi initiative at the EU level and advancing the EU Savings and Investment Union, alongside efforts to boost financial literacy and mobilize elevated household savings. They noted that the recent energy shock reinforces the case for accelerating electrification and reducing fossil fuel dependence. They also pointed to rising AI adoption, underscored the role of labor market flexibility in supporting digital transformation, and highlighted the labor supply and family-support benefits of recent reforms, including to better guide young people towards in-demand careers.

C. Financial Sector Policies: Adapting to a Complex Financial Landscape

37. The banking sector remains resilient, supported by stronger income performance, solid buffers, and low credit risk. Capital adequacy remains in line with the EU average, and liquidity is robust, with a Liquidity Coverage Ratio of 143.4 percent and a Net Stable Funding Ratio of 115 percent in 2025Q4, both exceeding regulatory minima. Proactive provisioning and high NPL coverage continue to mitigate credit risk. Banks' profits rose in 2025, supported by relatively slow asset repricing—given the large share of fixed rate mortgages and NFC loans—compared to the decline in funding costs, alongside ongoing cost-cutting efforts. Overall, profitability remains broadly stable, underpinned by the predominant bancassurance business model and associated fee income, but continues to lag European peers due to high cost-to-income ratios and structurally narrow net interest margins.

38. While manageable, risks from non-financial corporates (NFC) warrant continued monitoring. France's consolidated NFC debt remains stable but elevated at 74.7 percent of GDP, above peer and pre-pandemic levels. The debt service-to-gross income ratio is also high around 45, while corporate profit growth has softened recently. Nevertheless, leverage ratios remain below EU peers, partly mitigating balance-sheet risks. Corporate bankruptcies have continued to edge up after rising sharply in the post-pandemic period as crisis-support measures expired. They remain concentrated among small firms in specific sectors, which account for a limited share of banks' NFC exposures. Accordingly, NFC NPLs have remained broadly stable around 2 percent, close to EU averages. Risks are further mitigated by declining concentration exposures—consistent with last year's decision to lift the systemic risk buffer (SyRB) as no longer binding—although the authorities should continue monitoring NFC developments, including refinancing risks, and stand ready to introduce new measures if needed. While NPLs in the real estate sector, at 3.1 percent, slightly exceed the national average, they remain well below historical highs, and direct exposure to the sector is below the EU average, limiting risks for the banking sector.

France: Banking Sector and NFC Indicators



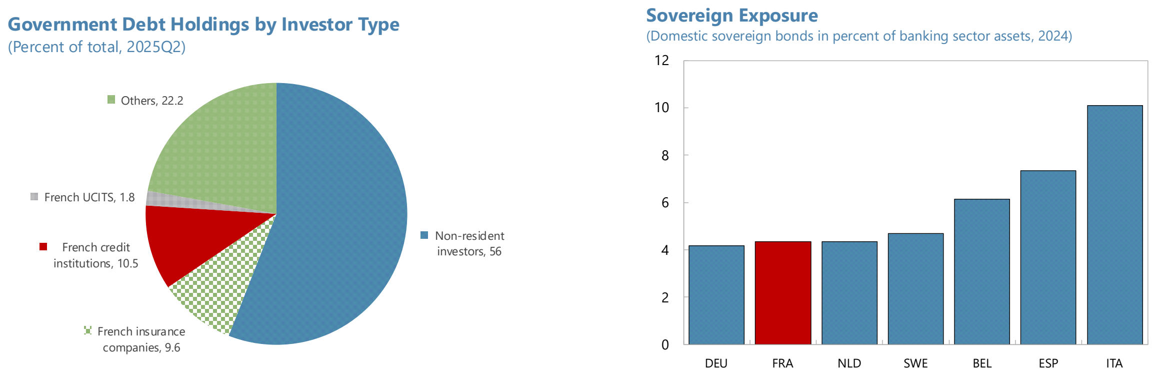
Sources: BdF, EBA, ECB and IMF staff estimates.

39. **Borrower-based measures continue to promote prudent lending practices and contain household-related risks to banks.** Household debt declined to about 60 percent of GDP in 2025, although it remains above peer levels. The average debt service-to-income (DSTI) ratio on new loans has edged up to nearly 31 percent as of end-2025, but remains well below the regulatory cap of

35 percent, while household NPLs are low at 2.2 percent, albeit on a slight upward trend. Housing prices are slowly recovering, but price-to-income ratios remain relatively low compared to peers, limiting vulnerabilities. Risks are further mitigated by France's Mutual Guarantee Fund for housing loans, as confirmed by recent EBA/ACPR stress tests. The authorities should continue to monitor housing market developments closely and periodically reassess the calibration and coverage of borrower-based measures. Consideration could also be given to expanding coverage to home renovation and consumer credit loans to avoid potential leakages (FSAP 2025).

40. Direct sovereign exposure is limited, but bank profitability is indirectly affected by sovereign borrowing conditions. French banks' holdings of domestic sovereign debt are below those of European peers, and most government bonds are held to maturity, with only about 10 percent of domestic sovereign bonds held by major banks—less than 0.6 percent of total assets—marked to market.[10] As a result, direct valuation risks from sovereign exposures are contained. However, despite only limited effects so far on banks' funding conditions and asset quality, higher sovereign borrowing costs (¶10) can weigh on profitability through funding costs, given banks' reliance on market funding, and weaker borrower repayment capacity.

France: Banks' Sovereign Exposure



Sources: BdF, EBA, and IMF staff estimates.

41. Overall, financial stability risks remain contained, in line with the 2025 FSAP assessment, supported by proactive supervisory efforts to strengthen the policy toolkit in an increasingly complex landscape. The 2025 EBA stress test confirmed the resilience of the banking sector under severe geopolitical and recessionary stress test scenarios, with all major banks continuing to meet their regulatory capital requirements. These results are broadly consistent with the findings of the 2025 FSAP stress tests. The countercyclical capital buffer (CCyB), currently at 1 percent, provides an important additional safeguard, and clear communication on its releasability remains important, in line with FSAP recommendations. The authorities should continue to adjust the CCyB proactively, tightening it if systemic risks rise and standing ready to release it if financial

[10] Overall sovereign bond holdings by banks are diversified, with more than 40 percent of bonds held issued outside of the EU.

and credit conditions deteriorate sharply (¶10). In this context, the recently concluded High Council of Financial Stability (HCSF) review of the macroprudential strategy is welcome. It confirmed the appropriateness of the existing framework, broadened its objectives to include preventing sharp credit contractions alongside curbing excessive credit growth, expanded risk coverage, and strengthened communication. Looking ahead, the authorities should continue to ensure that the HCSF enjoys the operational independence needed to focus on financial stability issues and has sufficient and adequate legal powers to respond in a flexible, timely, and proportionate way to new risks that may arise.

42. **The authorities' efforts to sharpen their assessment of risks from interconnectedness and investment funds are welcome.** France's vulnerabilities to overvaluation risks, including from a sharp AI market correction (¶10), are mitigated by the relatively small size of its investment fund sector—less than 10 percent of the euro area total—and moderate exposure to U.S. equities, despite recent increases (BdF FSR, December 2025). Although France is now the second-largest private credit market in Europe, corporate financing through NBFIs remains limited—below 4 percent of annual bank lending to French NFCs in 2024. However, rising interconnectedness between banks and NBFIs, including through bank-funded leverage in private credit vehicles, calls for more systematic analysis of contagion risks, supported by more granular cross-border and inter-agency supervisory data (2025 FSAP). In this context, the ongoing system-wide stress test–the first of its kind in the EU–should deepen supervisors' understanding of risks related to investment funds and broader financial sector linkages, while helping to provide an EU-level blueprint for common metrics, data sharing needs, and future system-wide stress testing (see June 2026 Interim Report).

43. **The authorities should continue to proactively strengthen preparedness against cyber threats.** As cyber risks intensify amid a deteriorating geopolitical environment and growing reliance on external IT service providers, operational resilience has become a key financial stability concern. The entry into force of the Digital Operational Resilience Act (DORA) is welcome, but its effective implementation by financial institutions will be critical to enhance institutional resilience, especially in light of rising AI-related cyber threats. While cooperation and information-sharing on cyber incidents have improved in line with the 2025 FSAP recommendations, further strengthening interagency coordination would bolster crisis preparedness.

Authorities' Views

44. **The authorities broadly concurred with staff's assessment of financial sector resilience while stressing the need to continue adapting the policy toolkit to emerging risks.** They highlighted French banks' strong recent performance and the resilience of financial markets despite the Middle East conflict, while noting uneven sectoral exposure to the shock. Although corporate insolvencies have risen from already elevated levels, they viewed continued business creation and the stabilization of corporate debt as mitigating factors. Following up on the 2025 FSAP recommendations, they emphasized that the macroprudential framework remains appropriate, as confirmed by the recent institutional review, while underscoring the need to broaden risk coverage and strengthen communication. They expressed hope that the ongoing system-wide stress test will shed further light on financial sector interlinkages and provide a template for similar exercises at the

euro area level. They also pointed to close FSB and inter-agency collaboration on cyber preparedness and other emerging risks.

D. Voluntary Assessment of Transnational Aspects of Corruption[11]

45. The authorities' continued efforts to tackle transnational aspects of corruption are welcome. The new National Multi-year Plan to Fight Corruption (2025–29) foresees an increase in resources allocated for anti-corruption investigation and training, while the authorities have also increased staff devoted to combatting transnational financial crime.[12] The establishment of the Organized Crime Task Force, which facilitates coordination and information-sharing between agencies and the national public prosecutor's office specializing in combating organized crime, will help prevent the concealment of proceeds of foreign corruption. The greater focus on disrupting the financial resources of criminal networks of the responsible specialized courts are bearing fruit, with seized assets having increased more than threefold in 2025 relative to 2024.

STAFF APPRAISAL

46. The French economy has remained resilient but faces a more challenging environment. The French economy continued to grow at a modest pace in 2025 despite domestic and external shocks, while inflation remained contained. However, headwinds from the Middle East war have started to weigh on activity, complicating the authorities' ongoing fiscal consolidation efforts. Growth is projected to slow in 2026 and recover only gradually thereafter. Risks are tilted to the downside, including from rising geoeconomic tensions and prolonged energy supply disruptions in the Middle East, heightened domestic policy uncertainty ahead of the 2027 presidential elections, and tighter financial conditions. Conversely, easing geoeconomic tensions and renewed momentum for ambitious reforms in France and at the EU level could lift confidence, investment, and growth.

47. Advancing fiscal consolidation is a priority, amid high deficit and public debt levels. The 2025 fiscal overperformance, underpinned by proactive spending management, is welcome. Moreover, the authorities' response to the energy shock has so far been appropriate and should remain limited, temporary, and targeted to the most vulnerable, while preserving market incentives and containing fiscal costs. However, high debt and rising spending pressures underscore the urgency of advancing the consolidation effort to bring the deficit below 3 percent of GDP by 2029, in line with the authorities' MTFSP and EDP rules. The upcoming electoral cycle provides an opportunity for France to articulate a credible and clearly specified multi-year strategy to place debt firmly on a downward path. The adjustment should be anchored in high-quality fiscal measures and structural reforms to reprioritize spending, improve efficiency, strengthen public finances, and

[11] Under the 2018 Enhanced Framework on Governance, France volunteered to have its legal and institutional frameworks assessed in the context of bilateral surveillance on supply and facilitation of corruption.

[12] The IMF staff and France have provided additional views and information whose accuracy have not been verified by the OECD Working Group on Bribery (WGB) or the Secretariat, and which do not prejudice the WGB's monitoring of the implementation of the OECD Anti-Bribery Convention.

preserve room for priority spending, while protecting the most vulnerable and supporting medium-term growth. Elevated global uncertainty continues to underscore the importance of robust contingency planning.

48. France's economic resilience and growth performance hinge on its ability to leverage ongoing structural transitions through ambitious domestic and EU-level reforms. Reducing regulatory barriers, mobilizing private financing, and deploying well-targeted instruments to support innovation and the energy transition would help foster entrepreneurship, spur R&D, and scale high-growth firms. Deepening the single market—including through the Savings and Investment Union and the proposed 28th regime—would further improve financing conditions, reduce fragmentation, and amplify the impact of domestic reforms. Continued efforts to support AI diffusion and prepare for its labor market implications would help raise productivity and ease adjustment. Accelerating electrification and deeper integration of EU electricity markets would strengthen resilience, further reduce fossil fuel dependence, and support the transition.

49. A coherent policy mix is essential to support France's labor force amid rising demographic pressures and ongoing digital and structural transitions. Boosting labor supply will require longer and less fragmented careers, stronger work incentives, targeted family policies to support female labor force participation, better integration of migrants, and more effective skills development. Education and training systems should adapt to better align with labor market needs and the growing demands of AI, strengthening digital and financial literacy. Reforms to improve labor mobility, including through better recognition of professional qualifications and smoother reallocation across jobs and sectors, would help ease bottlenecks and support structural transformation.

50. Financial stability risks remain contained, supported by proactive supervisory efforts to strengthen the policy toolkit in an increasingly complex landscape. The banking sector remains resilient, supported by solid buffers and low credit risk. Borrower-based measures continue to contain household vulnerabilities, while risks from nonfinancial corporates, although manageable warrant continued monitoring. Rising interlinkages in the nonbank financial sector also call for continued vigilance. Ongoing efforts to deepen supervisors' understanding of risks from investment funds and broader financial sector linkages, alongside stronger cyber preparedness, are welcome.

51. It is proposed that the next Article IV consultation with France takes place on the standard 12-month cycle.

Table 1. France: Selected Economic Indicators, 2021–31

(In percent of GDP, unless otherwise indicated)

	2021	2022	2023	2024	2025	Projections 2026	2027	2028	2029	2030	2031
Real economy (change in percent)											
Real GDP	6.8	2.8	1.9	1.4	0.9	0.6	0.9	1.2	1.1	1.1	1.1
Domestic demand	6.0	2.8	1.0	0.2	1.0	0.4	0.6	1.1	1.0	1.1	1.1
Private consumption	5.3	3.3	1.0	0.8	0.5	0.1	0.7	1.2	1.2	1.1	1.0
Public consumption	6.6	2.7	1.3	1.4	0.7	1.1	1.0	0.7	0.4	0.9	1.2
Gross fixed investment	9.6	-0.2	1.7	-1.1	0.7	-0.2	0.4	1.0	1.3	1.4	1.0
Foreign balance (contr. to GDP growth)	0.7	-0.1	0.9	1.2	-0.2	0.2	0.3	0.1	0.1	0.0	0.1
Exports of goods and services	11.0	9.3	3.0	2.9	2.4	0.1	2.3	2.1	2.4	2.2	2.2
Imports of goods and services	8.0	9.3	0.2	-0.8	2.9	-0.4	1.5	1.8	2.2	2.3	2.1
Nominal GDP (billions of euros)	2,508	2,654	2,834	2,935	2,991	3,056	3,137	3,236	3,334	3,436	3,537
CPI (year average)	2.1	5.9	5.7	2.3	0.9	2.3	1.7	1.9	1.9	1.9	1.8
GDP deflator	1.1	3.0	5.0	2.1	1.1	1.5	1.7	1.9	1.9	1.9	1.8
Gross national savings (percent of GDP)	23.7	22.6	22.0	22.1	22.1	21.6	21.7	21.8	22.0	22.0	22.1
Gross domestic investment (percent of GDP)	23.4	24.0	23.0	22.0	22.4	22.4	22.1	22.0	22.0	21.9	21.9
Public finance (percent of GDP)											
General government balance	-6.6	-4.7	-5.4	-5.8	-5.1	-5.2	-4.9	-4.5	-4.1	-3.8	-3.5
Revenue	52.9	53.7	51.3	51.2	52.2	52.4	52.5	52.6	52.7	52.8	52.9
Expenditure	59.5	58.4	56.8	57.0	57.3	57.6	57.4	57.1	56.7	56.6	56.4
Primary balance	-5.2	-2.9	-3.7	-3.9	-3.0	-2.7	-2.3	-1.7	-1.1	-0.6	0.0
Structural balance (percent of pot. GDP)	-5.1	-4.2	-5.3	-5.7	-5.1	-5.0	-4.7	-4.3	-4.0	-3.7	-3.4
Nominal expenditure (change in percent)	4.3	4.0	3.7	4.0	2.5	2.7	2.3	2.6	2.4	2.8	2.6
Real expenditure (change in percent)	2.2	-1.8	-1.8	1.6	1.5	0.4	0.6	0.7	0.5	0.9	0.8
General government gross debt	112.8	111.4	109.5	112.6	115.7	118.5	120.3	121.1	121.6	121.8	121.8
Labor market (percent change)											
Employment	2.3	1.6	1.1	1.3	0.9	-0.1	0.3	0.5	0.5	0.5	0.3
Labor force	2.1	1.0	1.1	1.3	1.2	0.5	0.1	0.3	0.3	0.3	0.2
Unemployment rate (percent)	7.9	7.3	7.3	7.5	7.7	8.2	8.0	7.8	7.6	7.4	7.3
Credit and interest rates (percent)											
Growth of credit to the private non-financial sector	4.5	5.7	3.6	0.6	1.2	1.0	1.5	1.8	1.8	1.7	1.6
Money market rate (Euro area)	-0.5	0.3	3.4	3.6	2.2	...	...	...	...	...	...
Government bond yield, 10-year	0.0	1.7	3.0	3.0	3.4	...	...	...	...	...	...
Balance of payments (percent of GDP)											
Current account	0.3	-1.4	-1.0	0.1	-0.3	-0.8	-0.4	-0.2	0.0	0.1	0.2
Trade balance of goods and services	-1.0	-2.5	-1.4	-0.1	-0.2	-0.6	-0.2	0.0	0.2	0.3	0.4
Exports of goods and services	31.3	36.6	34.4	33.7	33.5	32.8	33.0	32.9	32.7	32.6	32.7
Imports of goods and services	-32.3	-39.1	-35.7	-33.8	-33.7	-33.5	-33.3	-32.9	-32.5	-32.3	-32.3
FDI (net)	0.7	-0.4	1.7	-0.3	0.2	0.6	0.6	0.6	0.7	0.8	0.9
Official reserves (US$ billion)	101.7	100.4	79.2	78.4	86.0	...	...	...	...	...	...
Exchange rates											
Euro per U.S. dollar, period average	0.82	0.95	0.92	0.92	0.89	...	...	...	...	...	...
NEER, ULC-styled (2010=100, +=appreciation)	97.8	95.9	97.0	97.3	98.2	...	...	...	...	...	...
REER, ULC-based (2010=100, +=appreciation)	88.7	93.2	91.5	89.2	92.0	...	...	...	...	...	...
Potential output and output gap											
Potential output (change in percent)	4.1	1.5	1.4	1.3	0.8	0.9	0.9	1.0	1.1	1.1	1.1
Memo: per working age person	4.5	0.8	1.1	0.8	0.2	0.6	0.7	0.9	0.9	0.9	1.0
Output gap	-2.1	-0.8	-0.3	-0.2	-0.2	-0.4	-0.4	-0.3	-0.2	-0.2	-0.1

Sources: INSEE, Banque de France, and IMF staff calculations.

Table 2. France: General Government Operations, 2021–31

(In percent of GDP, unless otherwise indicated)

	Estimates					Projections					
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Revenue	52.9	53.7	51.3	51.2	52.2	52.4	52.5	52.6	52.7	52.8	52.9
Taxes	30.0	30.7	29.0	28.6	29.3	29.3	29.4	29.4	29.5	29.5	29.6
Direct taxes	12.9	13.5	12.6	12.5	13.0	13.1	13.1	13.1	13.1	13.1	13.2
Indirect taxes	17.1	17.2	16.4	16.1	16.2	16.3	16.3	16.3	16.4	16.4	16.5
Social contributions	16.7	16.7	16.3	16.5	16.7	16.8	16.9	17.0	17.0	17.0	17.0
Other revenue	6.2	6.3	6.0	6.2	6.3	6.2	6.2	6.2	6.3	6.3	6.3
Expenditure	59.5	58.4	56.8	57.0	57.3	57.6	57.4	57.1	56.7	56.6	56.4
Expense	59.1	58.1	56.4	56.6	57.0	57.3	57.1	56.7	56.4	56.2	56.0
Compensation of employees	12.6	12.5	12.2	12.4	12.4	12.4	12.2	12.1	12.0	11.9	11.8
Goods and services	5.4	5.5	5.6	5.5	5.5	5.3	5.3	5.2	5.1	5.0	5.0
Interest	1.4	1.9	1.9	2.0	2.2	2.6	2.7	2.9	3.1	3.3	3.5
Social benefits	27.1	25.8	25.0	25.5	25.8	26.1	26.1	25.9	25.6	25.4	25.2
Other expense	12.6	12.4	11.7	11.2	11.2	10.9	10.9	10.7	10.6	10.6	10.6
Gross public investment	4.1	4.2	4.2	4.3	4.4	4.4	4.5	4.6	4.7	4.8	4.8
Net acquisition of nonfinancial assets	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Net lending / borrowing	-6.6	-4.7	-5.4	-5.8	-5.1	-5.2	-4.9	-4.5	-4.1	-3.8	-3.5
Primary balance	-5.2	-2.9	-3.7	-3.9	-3.0	-2.7	-2.3	-1.7	-1.1	-0.6	0.0
Memorandum items:											
Structural balance (percent of potential GDP)	-5.1	-4.2	-5.3	-5.7	-5.1	-5.0	-4.7	-4.3	-4.0	-3.7	-3.4
Structural primary balance (percent of potential GDP	-3.8	-2.3	-3.6	-3.8	-3.0	-2.5	-2.1	-1.5	-1.0	-0.5	0.0
Change in structural primary balance	*0.9*	*1.5*	*-1.3*	*-0.2*	*0.9*	*0.5*	*0.5*	*0.5*	*0.5*	*0.5*	*0.5*
Public gross debt (Maastricht definition)	112.8	111.4	109.5	112.6	115.7	118.5	120.3	121.1	121.6	121.8	121.8
Nominal GDP (in billion of Euros)	2,508	2,654	2,834	2,935	2,991	3,056	3,137	3,236	3,334	3,436	3,537
Real GDP growth (in percent)	6.8	2.8	1.9	1.4	0.9	0.6	0.9	1.2	1.1	1.1	1.1
Nominal expenditure growth	4.3	4.0	3.7	4.0	2.5	2.7	2.3	2.6	2.4	2.8	2.6
Real expenditure growth (in percent)	2.2	-1.8	-1.8	1.6	1.5	0.4	0.6	0.7	0.5	0.9	0.8
of which: primary	1.9	-2.8	-1.9	1.3	1.3	-0.3	0.4	0.3	0.2	0.4	0.3
of which: structural primary	2.2	-2.6	-1.8	1.4	1.3	-0.3	0.4	0.3	0.2	0.4	0.3

Sources: INSEE, Banque de France, and IMF staff calculations.

Table 3. France: Balance of Payments, 2021–31

(In percent of GDP)

						Projections					
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Current account	0.3	-1.4	-1.0	0.1	-0.3	-0.8	-0.4	-0.2	0.0	0.1	0.2
Net exports of goods	-2.6	-5.1	-2.8	-2.0	-2.0	-2.4	-2.1	-1.9	-1.8	-1.7	-1.7
Exports of goods	20.6	23.6	22.1	21.0	20.8	20.2	20.3	20.3	20.2	20.1	20.1
Imports of goods	23.2	28.7	24.9	23.1	22.8	22.6	22.5	22.2	22.0	21.8	21.8
Net exports of services	1.6	2.6	1.4	1.9	1.7	1.7	1.9	2.0	2.0	2.0	2.1
Exports of services	10.7	13.0	12.2	12.7	12.7	12.6	12.7	12.6	12.6	12.5	12.6
Imports of services	9.1	10.5	10.8	10.7	10.9	10.9	10.8	10.7	10.6	10.5	10.5
Income balance	3.2	3.0	2.1	1.9	1.8	1.6	1.6	1.6	1.6	1.6	1.6
Current transfers	-1.9	-1.9	-1.8	-1.7	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8
Capital and financial account											
Capital account	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Financial account	0.1	-1.6	-1.3	-0.2	-0.9	-0.6	-0.2	0.0	0.2	0.3	0.4
Direct investment	0.7	-0.4	1.7	-0.3	0.2	0.6	0.6	0.6	0.7	0.8	0.9
Portfolio investment	0.4	-3.2	-4.2	1.7	2.5	1.6	1.6	1.7	1.7	1.7	1.6
Financial derivatives	0.7	-1.5	-0.6	-0.9	1.0	0.4	0.1	-0.1	-0.1	-0.2	-0.2
Other investments net	-2.6	3.4	2.5	-0.8	-4.6	-3.4	-2.7	-2.4	-2.3	-2.2	-2.1
Reserve assets	0.9	0.1	-0.7	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Errors and omissions	-0.6	-0.5	-0.5	-0.5	-0.8	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Banque de France, and IMF staff calculations.

Table 4. France: Vulnerability Indicators, 2019–25

	2019	2020	2021	2022	2023	2024	2025
External Indicators							
Exports (annual percentage change, in U.S. dollars)	-2.0	-15.7	24.4	10.3	2.8	1.7	5.7
Imports (annual percentage change, in U.S. dollars)	-3.3	-12.0	20.8	14.2	0.0	-1.9	6.1
Terms of trade (annual percentage change)	0.8	1.2	-0.7	-3.4	-0.5	0.2	0.2
Current account balance	0.6	-2.1	0.3	-1.4	-1.0	0.1	-0.3
Capital and financial account balance	0.1	-2.6	0.4	-1.2	-1.0	-0.1	-0.7
Of which							
Inward portfolio investment (debt securities, etc.)	5.5	7.5	4.5	5.5	10.2	8.1	7.6
Inward foreign direct investment	2.0	0.7	3.3	4.0	0.6	1.6	2.3
Other investment (net)	1.4	-0.9	-2.6	3.4	2.5	-0.8	-4.6
Total reserves minus gold							
(in billions of U.S. dollars, end-of-period)	69.7	76.1	101.7	100.4	79.2	78.4	86.0
Euros per U.S. dollar (period average)	0.9	0.9	0.8	0.9	0.9	0.9	0.9
Market Indicators							
Financial Markets							
Public sector debt 1/	98.2	114.9	112.8	111.4	109.5	112.6	115.7
3-month T-bill yield (percentage points)	-0.4	-0.4	-0.5	0.3	3.4	3.6	2.2
3-month T-bill yield in real terms (percentage points)	-1.5	-0.9	-2.2	-4.9	-1.4	1.6	1.2
US 3 month T-bill	2.1	0.4	0.0	2.0	5.1	5.0	4.1
Spread with the US T-bill (percentage points)	-2.4	-0.8	-0.6	-1.7	-1.6	-1.4	-1.9
10-year government bond (percentage points)	0.1	-0.1	0.0	1.7	3.0	3.0	3.4
10-year government bond (United States)	2.1	0.9	1.4	3.0	4.0	4.2	4.3
Spread with US bond (percentage points)	-2.0	-1.0	-1.4	-1.3	-1.0	-1.2	-0.9
Yield curve (10 year - 3 month, percentage points)	0.5	0.3	0.6	1.4	-0.4	-0.6	1.2
Stock market index (period average, 1995=100)	282.6	291.8	271.2	342.7	387.1	409.2	419.9
Real estate prices (index, Q1-10=100, period average)	110.7	116.8	124.6	132.4	131.6	126.2	127.0
Credit markets (end-of-period 12-month growth rates)							
Credit to the private sector	5.3	8.5	3.8	5.8	-0.4	0.8	1.3
Bank credit to households	6.0	4.7	5.3	4.9	1.0	-0.1	0.7
Housing Loans	6.8	5.5	6.4	5.5	1.1	-0.7	0.2
Bank credit to nonfinancial enterprises	4.2	13.0	3.5	7.3	1.4	1.9	2.4
Sectoral risk indicators							
Household sector							
Household savings ratio	14.6	20.5	19.1	16.9	17.0	18.5	17.8
Household financial savings ratio	4.1	10.5	7.7	5.6	6.9	9.7	9.1
Corporate sector							
Gross margin ratio	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Investment ratio	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Savings ratio	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Self-financing ratio	1.0	0.9	1.0	0.9	1.0	0.9	0.9
Banking sector							
Share of housing loans in bank credit to the private sector	42.7	42.2	43.4	42.9	42.9	41.4	40.9
Share of nonperforming loans in total loans	2.5	2.4	2.2	2.1	2.1	2.1	2.2
Ratio of nonperforming loans net of provisions to capital	12.6	12.1	10.6	11.0	11.5	11.3	11.9
Liquid assets to total short-term liabilities 2/	20.2	26.0	27.1	23.8	24.3	23.4	23.5
Return on assets	0.4	0.3	0.5	0.5	0.5	0.6	0.5
Return on equity	6.6	6.2	7.1	6.4	6.2	6.8	6.5
Regulatory capital to risk-weighted assets	18.9	19.5	19.7	19.4	19.5	19.8	19.6

Sources: French authorities, INSEE, BdF, ECB, and IMF International Financial Statistics.
1/ The debt figure does not include guarantees on non-general government debt.
2/ Data is based on new methodology which is not comparable to older figures before 2014.

Table 5. France: Core Financial Soundness Indicators, 2019–25

	2019	2020	2021	2022	2023	2024	2025
Deposit-Taking Institutions 1/							
Regulatory capital to risk-weighted assets 2/	18.9	19.5	19.7	19.4	19.5	19.8	19.6
Regulatory Tier I capital to risk-weighted assets 2/	16.3	17.1	17.1	16.8	17.2	17.4	17.3
Nonperforming loans net of provisions to capital	12.6	12.1	10.6	11.0	11.5	11.3	11.9
Bank provisions to Nonperforming loans	49.8	48.7	49.2	46.5	45.0	44.6	44.1
Nonperforming loans to total gross loans	2.5	2.4	2.2	2.1	2.1	2.1	2.2
Sectoral distribution of loans to total loans, of which							
Deposit-takers	3.5	3.5	3.1	3.2	4.9	5.6	5.6
Nonfinancial corporation	16.4	16.4	20.8	21.7	20.6	20.0	19.9
Households (including individual firms)	25.9	25.9	30.1	29.6	28.3	27.9	27.5
Nonresidents (including financial sectors)	38.5	37.9	33.7	36.5	37.2	37.5	37.8
ROA (aggregated data on a parent-company basis) 3/ 4/	0.5	0.3	0.6	0.5	0.5	0.6	0.5
ROA (main groups on a consolidated basis) 2/ 4/	0.4	0.3	0.5	0.5	0.5	0.4	0.6
ROE (aggregated data on a parent-company basis) 3/ 4/	6.2	4.5	7.3	6.2	5.9	6.8	6.5
ROE (main groups on a consolidated basis) 2/ 4/	6.6	6.2	7.1	6.4	6.2	6.5	7.2
Interest margin to gross income	37.0	38.8	35.5	36.4	32.9	28.6	29.3
Noninterest expenses to gross income	73.3	71.8	69.2	63.6	67.1	71.4	73.1
Liquid assets to total assets	15.4	16.0	16.2	17.4	16.9	16.1	16.2
Liquid assets to short-term liabilities	20.2	26.0	27.1	23.8	24.3	23.4	23.5

Sources: Banque de France, ACPR, and IMF International Financial Statistics.

1/ These may be grouped in different peer groups based on control, business lines, or group structure.

2/ Consolidated data for the five banking groups (IFRS).

3/ All credit institutions' aggregated data on a parent-company basis.

4/ ROA and ROE ratios are calculated after taxes (same calculation as the ECB consolidated data ratios).

Annex I. Authorities' Response to Past Fund Policy Advice

IMF 2025 Article IV Recommendations	Authorities' Response
Fiscal Policy	
Meet the 2025 deficit target, re-prioritizing spending as needed	The authorities adopted prudent spending management to offset security-related pressures and delivered a lower than targeted deficit.
Implement a fiscal structural primary effort of about 0.9 percent per year over 2026-2030 to bring the deficit below 3 percent of GDP by 2029.	The authorities remain committed to bringing the deficit below 3 percent of GDP by 2029, in compliance with the EU rules.
Fiscal consolidation should continue to focus on targeted measures to lower current spending, while preserving room for growth-friendly investment.	The 2026 budget identified cuts in central and local governments budget to advance fiscal consolidation efforts, while allocating resources to key areas.
Structural Policy	
Promote longer and less fragmented careers through further unemployment benefit reforms.	The unemployment benefits reform, and the automatic RSA registration under the full employment act support job search, while the parental leave reform in the 2026 budget will support labor participation by women.
Undertake education and training reforms to prepare the labor force for the green and digital transitions.	The *Choc des savoirs Acte II* program continues to be implemented, strengthening primary and secondary education.
Further reduce regulatory burden and barriers to entry and review existing R&D tax expenditure.	The authorities have introduced measures in the 2025 budget to better target eligibility for the R&D tax credit.
Enhance access to capital for young, productive firms.	Recent initiatives for EU labeling of savings products could support firms' access to private capital.
Financial Sector Policies	
Broaden coverage of borrower-based limits to home renovation and other consumer loans to avoid leakages.	The authorities see the coverage of borrower-based measures as adequate but would consider expansion if risks materialize and need to be addressed.
Improve guidance regarding the neutral level of the CCyB and to proactively adjust rates as warranted.	The HCSF has concluded the review of the macroprudential strategy, which confirmed the appropriateness of the existing framework while expanding its risk coverage.
Improve data quality and timeliness on interconnectedness of financial institutions, and on derivatives and repo markets.	The ongoing system-wide stress test is expected to deepen supervisors' understanding of risks related to investment funds and broader financial sector linkages.

Annex II. Progress on 2025 FSAP Key Recommendations

FSAP Recommendations	Agency	Time Frame*	Update on Progress
Systemic risk analysis			
Work with relevant European authorities to improve data quality and timeliness on interconnectedness, and on derivative and repo market data, and undertake related risk analysis for banks and markets.	ACPR, AMF, BdF	ST	A system-wide stress test exercise is currently being conducted, deepening the understanding of investment fund redemption risks. The authorities are also strengthening derivatives data and are fostering collaboration at the European level to further enhance systemic risk analysis and close data gaps.
Work with relevant European authorities to improve liquidity monitoring through integration of liquidity stress in major currencies and consider higher liquidity buffers to cover wholesale funding outflows within a two-week horizon.	ACPR, BdF	ST	The EBA has recently published an analysis on banks' funding structure including on FX exposure, while the French authorities are implementing a dedicated dashboard.
Improve monitoring of investment fund redemption risk through data sharing on fund liability structures.	ACPR, AMF, BdF	ST	A MoU between BdF and AMF is now in place to improve sharing of relevant data.
Authorities: Autonomy and resources			
Ensure that supervisory authorities are adequately funded while respecting their financial autonomy based on a thorough review of the sufficiency of resources to meet future needs.	ACPR, AMF, MoEF	MT	A comprehensive assessment of ACPR's resource needs has been conducted, taking into account the expansion of supervisory responsibilities. Staffing levels and the budget trajectory have been revised.
To avoid any perception of a potential conflict of interest and facilitate operationally independent functioning, the government should recuse itself from all supervisory decision-making committees at the ACPR and the AMF.	MoEF, Ministry of Labor	MT	The authorities remain committed to effective and independent financial supervision, consistent with Basel principles, IAIS standards, and EU law. Additionally, the principle of operational independence of ACPR has recently been clarified in the context of the transposition of the Sixth Capital Requirements Directive (CRD6).
Interagency coordination			
Formalize inter-agency coordination through the creation of standing committees dedicated to i) cyber crisis response procedures and ii) financial crisis preparedness and management.	ACPR, AMF, BdF, FGDR, MoEF	MT	The authorities continue to informally discuss this issue internally and with relevant peer institutions in Europe.
Macroprudential policy and tools			
Further strengthen HCSF's institutional framework to ensure effectiveness and improve public communication.	HCSF, MoEF	I	The HCSF has concluded the review of the macroprudential strategy, which confirmed the appropriateness of the existing framework while expanding its risk coverage and strengthening communication and transparency of decision making. HCSF's internal rules have also been updated.
Formalize the availability of releasable capital buffers by improving guidance regarding the neutral level of the credit protection reserve (CCyB), even when cyclical systemic risks are not yet elevated.	HCSF, MoEF	ST	The updated HCSF strategy explicitly includes the use of the CCyB as a releasable credit protection reserve.
Enhance effectiveness of borrower-based measures by broadening their coverage.	HCSF	MT	As per the authorities' latest assessment, the current borrower-based measures are considered sufficiently broad.
Financial conglomerates and LSI supervision			
Cooperate with relevant European authorities on developing a methodology to identify FICOD-relevant competent authorities, in particular for authorities supervising asset managers.	ACPR, AMF	ST	ACPR is working on identifying/calibrating risks and thresholds that would warrant the participation of AMF in FICO colleges / cooperation arrangements together with the AMF and ECB.

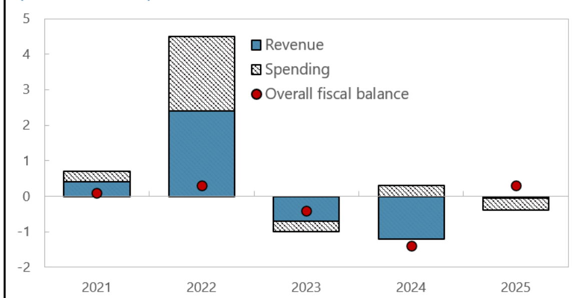
FSAP Recommendations	Agency	Time Frame*	Update on Progress
Work with relevant European authorities to strengthen the framework for supervisory powers with regards to conglomerate-level risks through capital, governance, and risk management tools.	ACPR	MT	Work on capital adequacy reporting at EU level is progressing, while ACPR is strengthening the framework for supervisory powers through defining relevant remedial options in consultation with EU authorities.
Further prioritize targeted onsite examinations for LSIs to enhance coverage and allocate limited resources more efficiently.	ACPR	MT	Targeted on-site inspections (OSIs) have been carried out in 2025, while additional OSIs are planned for 2026.
Insurance sector regulation and supervision			
Implement the Insurance Recovery and Resolution Directive by developing the necessary legislation, processes, guidance, and tools to complete the insurance resolution framework in line with the ICP.	ACPR, MoEF	MT	The transposition of Insurance Recovery and Resolution Directive is currently underway, with the directive set to enter into force in early 2027.
Ensure ComFrame requirements for IAIGs on enterprise-wide risk management are met, including the development of liquidity risk management and recovery plans.	ACPR	MT	Liquidity risk management plans will apply to IAIGs after Solvency II review will enter into application (2027), while IAIGs will be required to develop recovery plans once IRRD is implemented (2027). Other ComFrame requirements not yet fully endorsed by ACPR will be addressed through a review of supervisory guidance after the Solvency II review takes effect
Markets regulation and supervision			
Identify and mitigate the risk of market disruptions due to the outages of critical firms or market operators.	AMF, ACPR	MT	The authorities are preparing relevant scenarios.
Cyber security			
Enhance structured cooperation among relevant authorities and improve information sharing on specific incidents.	ACPR, AMF, BdF	ST	MoU on TLPT between ACPR / BDF / AMF signed. MoU on cooperation and information sharing between ACPR / BDF / ANSSI being prepared.
Crisis preparedness and management			
Enhance ELA arrangements through sufficient prepositioning of credit claims by banks, internal policies for ELA in resolution, and arrangements with other central banks for cross-border ELA.	BdF, ACPR	ST	The ACPR continues to advance the operationalization of combination of tools, aligned with the SRB's priority on operational readiness (SRM vision 2028). The ACPR work on cross border bail-in procedures continues to be conducted together with the SRB in interaction with relevant stakeholders.
Prioritize work to ensure operational readiness for the combination of resolution tools and cross-border bail-in procedures.	ACPR	ST	In consultation with the SRB, the ACPR is strengthening the operationalization of resolution through a national handbook. The SRB is advancing operationalization of cross-border bail-in to securities/liabilities governed by US law at the FSB level.
Strengthen resources of the deposit insurance fund with i) a revised target level sufficient for the combined coverage of the top 2—4 banks for which resolution plans foresee liquidation and ii) a public backstop.	FGDR, MoEF	MT	The deposit insurance fund is at its target level defined in accordance with the deposit guarantee scheme directive (DGSD) and is further bolstered by a credit line from a pool of large credit institutions.

Note: The update on progress is based on information provided by the authorities and does not reflect any staff assessment.
* I: Immediately; ST: short term = less than 1 year; MT: medium term = 1–5 years

Annex III. Fiscal Governance in France

1. Following sizable fiscal slippages, France strengthened its fiscal compliance in 2025, overperforming on its budget target. France's fiscal deficit stood at 5.1 percent of GDP, below the 5.4 percent deficit target. This performance follows two consecutive years of slippages in 2023 and 2024 (French Treasury, 2025), largely driven by weaker revenue collection due to subdued domestic demand and overspending in social security and local governments, despite the central government's savings efforts. The 2025 outturn was primarily due to prudent spending management, despite new pressures, with revenues broadly in line with projections.

France: Difference between Actual Fiscal Outcomes and Initial Budget
(Percent of GDP)



Sources: French authorities and IMF staff estimates.

2. The authorities' action plan launched last March 2025 has underpinned France's prudent spending approach. To restore fiscal credibility, the French authorities have rigorously implemented measures to strengthen the governance and oversight of public finances, including:

- *Establishment of the Public Finance Alert Committee.* Comprising government officials, parliamentary commission members, local authorities' representatives, social security delegations, and the Court of Auditors, this advisory committee has regularly met since April 2025 to review risks of deviations from expenditure and revenue forecasts and discuss potential corrective measures during the fiscal year. For example, the Committee recommended cancelling 3.1 billion in credits in April and €1.7 billion in June, along with increasing contingent reserves for line ministries to accommodate macro forecast revisions and additional spending pressures. At its April 2026 meeting, the Committee reviewed the fiscal impact of the Middle East energy shock and recommended €6 billion in savings to safeguard the 2026 deficit target of 5 percent of GDP, amid revised macroeconomic projections.

- *Regular Meetings of a Circle of Forecasters.* The authorities established regular meetings with a circle of independent forecasters, including Banque de France and OECD and all major experts in public finances in France (IPP, OFCE, Rexecode, and representatives of the Fiscal Council and Social Security Accounts Commission) to enhance the realism of macro-fiscal assumptions, improve transparency, and bolster the credibility of public finance projections. The Circle met in May and October 2025 to take stock of the 2025 budget execution and discuss the assumptions underlying the 2026 draft budget, respectively.

- *Measures to Strengthen Transparency and Risk Communication.* As outlined in the March action plan, the 2026 budget included a section on uncertainty, with a fan chart highlighting the risks to the fiscal deficit trajectory, enhancing communication on budgetary risks. To strengthen transparency and information sharing, the authorities published a series of documents on fiscal forecasting in France, recent VAT underperformance , macroeconomic forecasts in 2024, and budget execution for 2023 and 2024. They are also preparing a 2050 Public Finance Outlook to better assess long-term fiscal pressures, expected to be released by summer.

- *Stronger role of the Fiscal Council (HCFP).* The authorities strengthened the role of the HCFP by enhancing coordination with the Circle of Forecasters and the Alert Committee and systematically involving the fiscal council—both on macroeconomic and public finances forecasts—in the context of the annual progress report (RAA) of the MTFSP, despite this being legally required only by 2032 under EU fiscal rules.

- *Improved communication with Parliament.* The rapporteurs and chairs of the Finance and Social Affairs Committees, as well as the parliamentary delegations for local authorities and elected officials' associations receive timely updates on public finance developments through their participation in the Alert Committee. The authorities have also committed to sharing ex-post reports on macroeconomic and public finance forecasts, along with their underlying sources, with Parliament.

3. The action plan marks a positive step toward enhancing fiscal credibility, but its ultimate effectiveness hinges on sustained implementation. While the plan has improved fiscal governance, transparency, and oversight, embedding it within a credible medium-term fiscal framework—with well-defined multi-year measures—is essential to anchor fiscal consolidation, build confidence, and ensure lasting success. Aligning the Organic Budget Law with the reformed EU fiscal framework presents an opportunity to harmonize definitions and quantitative fiscal rules while further strengthening fiscal governance by enshrining key elements of the March 2025 action plan—including the Public Finance Alert Committee and enhanced transparency requirements—into legislation, including further reinforcing the role of the HCFP, in line with EU best practices.

Annex IV. External Sector Assessment[1]

Overall Assessment: *The external position in 2025 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The current account (CA) balance declined to -0.3 percent of GDP in 2025 from a surplus of 0.1 percent in 2024, driven by a fall in the income balance, while the trade balance declined only slightly to -0.2 percent of GDP. The CA balance is expected to decline to -0.8 percent of GDP in 2026 as a result to the Middle East shock. Over the medium term, the CA balance is projected at 0.2 percent of GDP by 2031, as commodity prices stabilize at lower levels and external demand improves, more than offsetting the strengthening of domestic demand.

Potential Policy Responses: The increase in the CA balance from sustained fiscal adjustment is expected to be partly offset by higher private investment and lower precautionary savings by households, benefiting from reduced policy uncertainty. Structural reforms to raise productivity, boost innovation, and incentivize private investment would help maintain the external position in line with medium-term fundamentals. Deepening the EU single market would further strengthen productivity and resilience by adding scale, internal diversification, and improved risk sharing. Industrial policies should remain targeted to where externalities or market failures prevent effective market solutions, be coordinated at the EU level, and minimize distortions.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP stood at -28.4 percent of GDP in 2025, slightly below the range observed during 2014–19 (between -19 percent and -28 percent of GDP), but broadly stable since 2023. While the net position is moderately negative, gross positions are large. Gross assets stood at 384 percent of GDP in 2025, of which non-FDI- and non-portfolio-related assets accounted for about 49 percent, reflecting in part the financial sector's global activities. Gross liabilities increased to 412 percent of GDP in 2025, of which external debt was about 241 percent of GDP (56 percent accounted for by banks and 30 percent by the public sector) in 2025. Most of France's external debt liabilities are denominated in domestic currency. The average TARGET2 balance in 2025 was about € -198.0 billion. **Assessment.** The NIIP is negative. While its size and projected stable trajectory do not raise sustainability concerns, composition-related vulnerabilities relate to the large public external debt (55 percent of GDP in 2025) and banks' short-term gross financing needs.
2025 (% GDP)	NIIP: −28.4 · Gross Assets: 384 · Debt Assets: 213 · Gross Liab.: 412 · Debt Liab.: 241
Current Account	**Background.** The CA balance weakened to -0.3 percent of GDP in 2025, down from a surplus of 0.1 percent of GDP in 2024, on the back of slightly weakening goods and services balances, resulting in a small increase in the trade deficit of 0.1 percent of GDP, down to -0.2 percent of GDP. In addition, net factor income also softened, while the drag from transfers increased, with a combined contribution of -0.1 percent of GDP to the CA balance in 2025 (down from a 0.2 percent contribution of GDP in 2024). While growth of national savings accelerated in 2025, driven by higher household savings, it was more than offset by an expansion in private investment. In 2026, the CA balance is projected to decline to -0.8 percent of GDP driven by a weak start for exports in Q1 due to supply chain disruptions and the expected impact of the Middle East shock, and a further decline in the income balance. The trade balance is expected to recover later in 2026, as external conditions stabilize. Over the medium term, the CA balance is projected at about 0.2 percent of GDP by 2031 as external demand improves and positive terms-of-trade effects, in part due to the normalization of commodity prices, offset the effects of strengthening of domestic demand and higher real imports. The contribution of net factor income and external transfers to the current account balance is projected to remain negative throughout the forecasting horizon. Overall, the net improvement in the CA mirrors the slow growth of investment relative to savings over the medium term. **Assessment.** The 2025 cyclically adjusted CA balance is estimated at -0.3 percent of GDP compared with an EBA-estimated norm of 0.3 percent. On this basis, IMF staff assesses that the CA gap in 2025 is between -0.9 and -0.1 percent of GDP, with a midpoint of -0.5 percent of GDP. The policy gap is zero as the positive contribution from the credit gap is broadly offset by the negative contributions from fiscal and health expenditure.
2025 (% GDP)	CA: -0.3 · Cycl. Adj. CA: -0.3 · EBA Norm: 0.3 · EBA Gap: -0.5 · Staff Adj.: 0.0 · Staff Gap: -0.5
Real Exchange Rate	**Background.** Limited wage and price increases compared to trading partners resulted in weak real appreciation since 2022. In 2025, the CPI-based REER remained flat, but ULC-based REER appreciated by 3 percent. As of March 2026, the CPI-based REER was 0.3 percent below the 2025 average, and, as of February, the ULC-based REER was 2 percent above the 2025 average. **Assessment.** Consistent with the staff CA gap, staff assesses the REER gap to be 2.0 percent and a range of ± 1.4 percent, using an elasticity of 0.27.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The financial account recorded a net outflow of 0.9 percent of GDP, an increase from a net outflow of 0.2 in 2024. Both inward and outward investment increased significantly, by 12.1 and 12.8 percentage points of GDP, respectively. The financial account is open. **Assessment.** France remains exposed to financial market risks owing to the large refinancing needs of the sovereign and banking sectors.
FX Intervention and Reserves Level	**Background.** The euro has the status of a global reserve currency. **Assessment.** Reserves held by the euro area are typically low relative to standard metrics, but the currency is free floating.

[1] Figures are based on latest staff projections, updating the External Sector Report page which was based on the April WEO projections.

Annex V. Risk Assessment Matrix

Risks	Likelihood[1]	Impact if Realized	Policy Response
Conjunctural Risks			
Geopolitical and Trade Tensions, Protectionism and Intensification of Conflicts. Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to infrastructure, disruptions in major transit routes and supply chains, higher migration pressures, additional financial frictions and market volatility. Tariff and nontariff measures disrupt global supply chains, weighing on activity while increasing inflation.	**High**	**Medium/High:** Increasing geoeconomic tensions would reduce exports and trade market share, directly and indirectly, via trading partners. Heightened uncertainty would weaken consumer and business confidence with a negative impact on consumption and investment, affecting both manufacturing and services, despite higher expected activity in the defense sector.	Further diversify supply chains, including energy mix and sources, and undertake structural reforms to boost competitiveness, deepen the European single market and foster capital market integration to encourage investment and innovation. Maintain a level playing field between firms and sectors and limit state intervention to address market failures.
Commodity Price Volatility. Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability.	**High**	**Medium/High:** While dependence on energy imports is lower than peers, sustained increases in hydrocarbon prices would have a material impact on inflation, undermining the purchasing power of households while increasing costs of firms.	Further diversify energy mix and sources, accelerate grid investment and deepen integration of the European electricity single market. Provide targeted, temporary fiscal measures, which do not distort energy prices, to vulnerable groups, if warranted.
Disorderly AI Correction. An abrupt revision in expectations of strong AI-led productivity gains causes a sharp market correction, investment decline, and wealth loss, which suppress demand and tighten financial conditions globally.	**High**	**Medium:** The exposure of households and investment funds located in France to tech equities has been growing but is limited. However, investment fund leverage and spillovers from abroad could magnify the impact.	Continue efforts to analyze financial sector interconnections and interdependencies, deepen supervisors' understanding of risks related to investment funds and broader financial sector linkages and increase financial crisis preparedness.
Fiscal Vulnerabilities and Higher Interest Rates. Higher public debt and deficit levels put further upward pressure on long-term interest rates, sharply tightening global financial conditions, amplifying currency volatility, and reducing consumption and investment that exacerbate adverse debt dynamics. Disruptions are amplified by increased role of price-sensitive investors and leveraged NBFIs in sovereign debt markets, limited market absorption capacity when NBFIs offload debt securities, higher roll-over needs on shorter sovereign debt maturities, and strong sovereign-financial nexus.	**High**	**Medium:** Higher sovereign bond yields in France would raise refinancing costs over the medium-term, weakening debt dynamics, and reducing fiscal space for growth-enhancing spending. This would be mitigated by France's liquid debt market, diversified investor base and the stabilizing role of the ECB.	Advance fiscal consolidation efforts under the authorities' medium-term fiscal structural plan, underpinned by a comprehensive and credible package of high-quality fiscal measures. Complement fiscal adjustment efforts with structural reforms to support jobs and growth and protect the most vulnerable.

Risks	Likelihood[1]	Impact if Realized	Policy Response
Domestic Risks			
Domestic Policy Uncertainty. Elevated and wide-ranging policy uncertainty weighs on sentiment and holds back consumption and investment.	High	**Medium/High:** Political fragmentation and setbacks to the fiscal and structural agenda could adversely impact business and consumer confidence, weigh on investment and employment, raise refinancing costs, and weaken debt dynamics.	Promote broad-based political and social support to advance France's fiscal plans, as per EU fiscal rules, and structural reform agenda, providing targeted support to the most vulnerable.
Social Discontent. Persistently high living costs, youth unemployment and inequality, amid an erosion in governance standards and pressures from geoeconomic realignments, trigger social unrest, political repression and instability, affecting countries' capacity to pursue economic reforms.	Medium	**Medium:** Social discontent could impact consumer and business confidence and slow growth. This could delay fiscal adjustment and reform efforts, increase financing costs, and weaken public debt dynamics.	Advance structural reform agenda to boost jobs and productivity. Provide targeted fiscal support to further protect vulnerable groups and mitigate distributional impact of fiscal adjustment.
Structural Risks			
Cyberthreats. Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.	High	**Medium/High:** Cyberattacks on key infrastructure could disrupt economic activity and threaten financial stability.	Advance crisis preparedness for cyberattacks and further strengthen coordination at the European/international level. Strengthen the operational resilience of the financial system.
Climate Change. Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.	Medium	**Medium:** Extreme climate events could disrupt economic activity and negatively impact growth.	Provide targeted fiscal support and public investment for climate change preparedness and adaptation, leveraging France's low emission energy sources to support green transition
AI Acceleration. Rapid AI adoption significantly improves productivity, boosts growth, and revives business dynamism. Realizing these gains requires complementary policies to manage energy constraints, scale critical inputs, and support labor market transitions.	Medium	**Medium:** Given the structure of its economy, France could reap relatively high productivity gains if AI adoption accelerates. However, this also implies that a large share of its workforce could be affected.	Continue to promote AI adoption while strengthening preparedness for potential medium-term labor market effects from AI, including through better monitoring and structural reforms to smooth adjustment to greater automation.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline. Likelihood reflects staff's subjective assessment: "low" (below 10 percent), "medium" (10–30 percent), and "high" (30–50 percent). The RAM captures staff views on the source of risks and overall concern as of the time of discussions with the authorities.

Annex VI. Sovereign Risk and Debt Sustainability Analysis

Political fragmentation has limited the authorities' ability to deliver the ambitious frontloading planned under the MTFSP, with the expected average adjustment of 0.7 percent of GDP over 2025–26, below the 1 percent outlined in the MTFSP. Although compliant with EU rules, this pace would prevent France from exiting the EDP by 2029 as targeted, prolonging elevated deficits and debt. Substantial fiscal efforts, anchored in clearly specified and high quality multi-year measures and structural reforms, will be needed to reduce the deficit below 3 percent of GDP by 2029 and place debt on a downward trajectory, in line with their MTFSP. Under staff's baseline scenario, the deficit is projected to increase to 5.2 percent of GDP in 2026 and, absent approval of further measures, remain around 3.5 percent of GDP in the medium-term. Public debt would increase to 121.8 percent of GDP by 2030 before stabilizing thereafter. Main fiscal risks include the high sensitivity of the debt ratio to an uncertain future path of real interest rates and growth and rising spending pressures from priority areas, amid heightened geopolitical and trade tensions and domestic policy uncertainty. Risk-mitigating factors are represented by the France's fiscal consolidation commitments under the EU fiscal rules, the long maturity of the debt profile, and a liquid debt market that benefits from a diversified investor base and the stabilizing role of the ECB.

1. Background. The headline fiscal deficit declined to 5.1 percent of GDP in 2025, from 5.8 percent in 2024. The debt ratio increased to 115.7 percent, from 113.2 percent in 2024—nearly 20 percent of GDP higher than in 2019. At the end of 2025, approximately 45 percent of French public debt (including the Eurosystem, via Banque de France) was held by domestic institutional investors, with the remaining 55 percent owned by international investors across Europe, North America, and Asia. The average maturity of France's public debt stood at approximately 8.4 years. The 10-year OAT-Bund spread peaked above 85 bps in early October 2025, with sovereign credit downgrades by Fitch and S&P from AA- to A+, before narrowing to around 55 bps after the adoption of the 2026 budget in February. As global volatility resurfaced in March, the spread has widened again to around 75 bps, with yields rising to 3.7 percent amid a generalized rise in global bond yields.

2. Baseline. Staff's baseline projection incorporates the 2026 budget and other measures in the sectoral and medium-term programming laws, with a 0.5 percent of GDP structural primary adjustment broadly consistent with the minimum required under the EU fiscal framework.[1] As a result, the projection does not fully capture commitments under the MTFSP to bring the overall fiscal deficit below 3 percent of GDP by 2029. Under staff's baseline, the fiscal deficit is projected at 5.2 percent of GDP in 2026 and around 3.5 percent of GDP by 2031. The debt ratio would increase from 118.5 percent of GDP in 2026 to 121.8 percent of GDP by 2030 and then slightly decline to 120.6 percent by 2035. The differential between the effective real rate and real GDP growth is initially negative, but over the next 10 years it progressively increases and turns positive, although this is not sufficient to prevent an increase in the debt ratio. Over the same horizon, the interest rate burden increases by 1½ percentage points of GDP. This baseline scenario is subject to

[1] This compares to an unchanged policies scenario at the time of the 2025 Article IV Consultations.

implementation risks, reflecting yet-to-be-identified fiscal measures and a high degree of uncertainty surrounding macroeconomic assumptions.

3. **Realism of the medium-term projections.** The realism analysis points to some optimism in staff's past projections for the drivers of debt, with realized values for the primary deficit and the r-g differentials significantly larger than initially projected over the medium term. In the last five years, a large primary deficit from the fiscal response to the pandemic and the energy crisis was the main driver of rising debt levels, but low interest spending was a mitigating factor. Looking ahead, persistent deficits would continue to be the key driver of debt accumulation as well as higher interest payments. Projected fiscal efforts are well within norms of both past fiscal consolidation episodes in France and in other advanced economies.

4. **Risks and mitigating factors.** At its currently high level, the evolution of the debt ratio remains highly sensitive to the path of future real interest rates and real growth, posing risks that unfavorable shocks and additional spending pressures on defense as well as the digital and green transitions may put the debt ratio on a steeper upward trajectory. Prolonged uncertainty due to heightened geopolitical and trade tensions, commodity price volatility, and domestic policy uncertainty (¶10) could further add risks to the debt outlook. At the same time, the baseline fiscal projection does not fully consider consolidations planned under the authorities' MTFSP. For example, the fiscal trajectory under the MTFSP, targeted at below 3 percent by 2029, would already reduce significantly the levels of the mechanical signal of medium-term risks (¶15). In addition, France's sovereign debt has a large investor base and is traded in a liquid market that benefits from the stabilizing role of the ECB. The extended maturity profile also reduces refinancing risks by spreading repayment obligations over a longer period and provides a buffer against short-term market volatility.

Annex VI. Figure 1. France: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	Overall risks are moderate. Under staff's baseline scenario, France's short-term risk of sovereign debt distress remains low, benefiting from a liquid debt market with a diversified investor base and the stabilizing role of the ECB. Nevertheless, staff continue to assess medium- and long-term risk as moderate given high debt levels and refinancing needs. However, there are important mitigating elements to this assessment. The baseline projection for France's primary deficit is conservative, as it considers the minimum adjustment requirement under EU rules and does not fully incorporate consolidations that are planned. For example, the fiscal trajectory under the MTFSP, targeted at below 3 percent by 2029, would already reduce significantly the levels of the mechanical signal of medium-term risks.
Near term 1/			
Medium term	Moderate	Moderate	The mechanical signal has slightly declined since the last Article IV consultation (July 2025), with risks remaining moderate as debt dynamics remain highly sensitive to the future paths of interest rates and growth.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test		...	
Long term	...	Moderate	Long-term risks are assessed to be moderate. Under relatively conservative scenarios, fiscal consolidation can put gross financing needs and the debt on a downward trajectory as a share of GDP. However, there are risks that additional long-term spending pressures may materialize due to security spending, as well as the demographic, digital and green transitions. In line with the EU Fit-for-55 climate goals, France targets to reduce emissions by 47.5 percent by 2030 relative to 2005 levels and achieve net zero by 2050 (see Annex VIII).
Sustainability assessment 2/	Not required for surveillance countries	Sustainable with high probability	
Debt stabilization in the baseline			No

DSA Summary Assessment

France is at a moderate risk of sovereign stress. Medium-term sovereign risks are moderate and stem from high debt levels and from debt dynamics that are highly sensitive to the future paths of interest rates and growth. The debt level would reach 120.9 percent of GDP in 2035. Significant elements mitigate these mechanical signals. They include the use of a conservative deficit projection based on the minimum adjustment requirement under EU rules, thus not fully accounting for the fiscal consolidation planned by the authorities in their medium-term fiscal structural plan. Debt rollover risks from non-fundamental shocks are strongly mitigated by the presence of a deep and liquid debt market. Over the longer term, risks are assessed as moderate as new additional spending pressures, currently not included in the baseline projection, may arise from the demographic and green transitions and security spending needs.

Source: Fund staff.
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex VI. Figure 2. France: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

CPS	NFPS	GG: expected	CG	#	Subsectors captured in the baseline	Inclusion	Comments
				1	Budgetary central government	Yes	
				2	Extra budgetary funds (EBFs)	No	Not applicable
				3	Social security funds (SSFs)	Yes	
				4	State governments	Yes	
				5	Local governments	Yes	
				6	Public nonfinancial corporations	No	
				7	Central bank	No	
				8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-government Debt Holdings

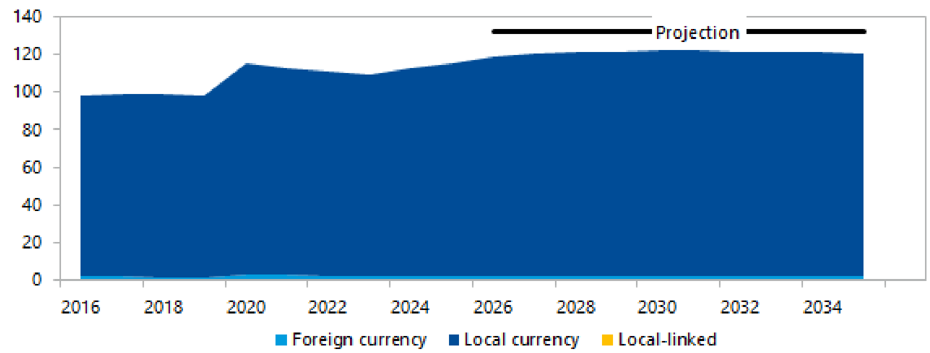
Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1 Budget. central govt									0
2 Extra-budget. funds									0
3 Social security funds									0
4 State govt.									0
5 Local govt.									0
6 Nonfin pub. corp.									0
7 Central bank									0
8 Oth. pub. fin. corp									0
Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

The debt coverage is unchanged from recent AIVs -- i.e. it covers general government debt, with most debt issued by the central government. Bank loan guarantees issued in response to the pandemic and energy crises (PGE) amount to about 0.4 percent of GDP.

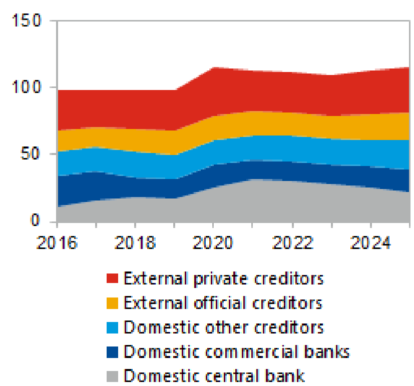
Annex VI. Figure 3. France: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



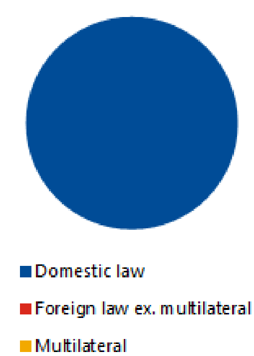
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



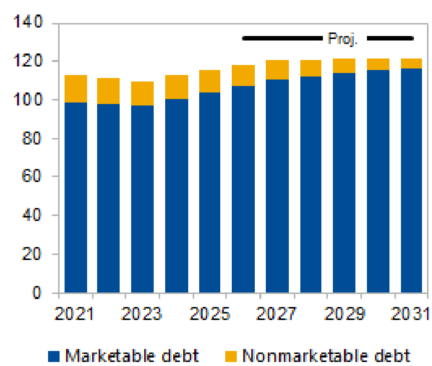
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2025 (Percent)



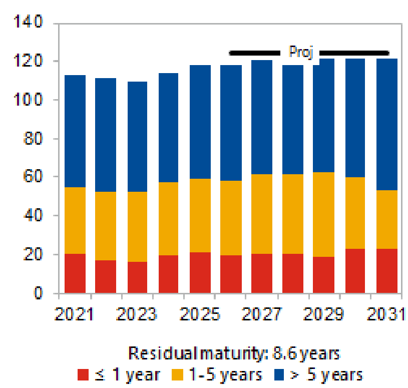
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



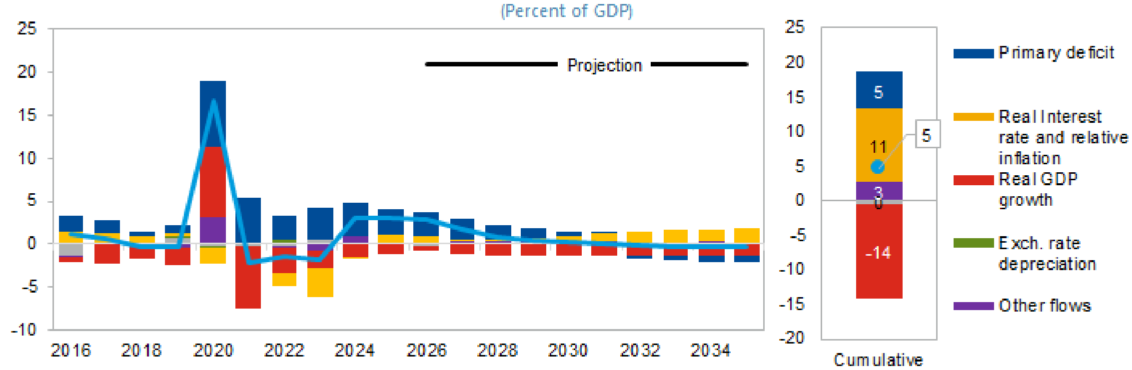
Note: The perimeter shown is general government.

Debt is predominantly in domestic currency and marketable. The share held by the central bank has peaked in 2022 but has since declined. Shares are similar across the other four identified holders, but with a relatively larger presence of external private creditors. All public debt is governed by domestic law. About half of debt is long term, and the overall average residual maturity is about 9 years.

Annex VI. Figure 4. France: Baseline Scenario
(Percent of GDP unless indicated otherwise)

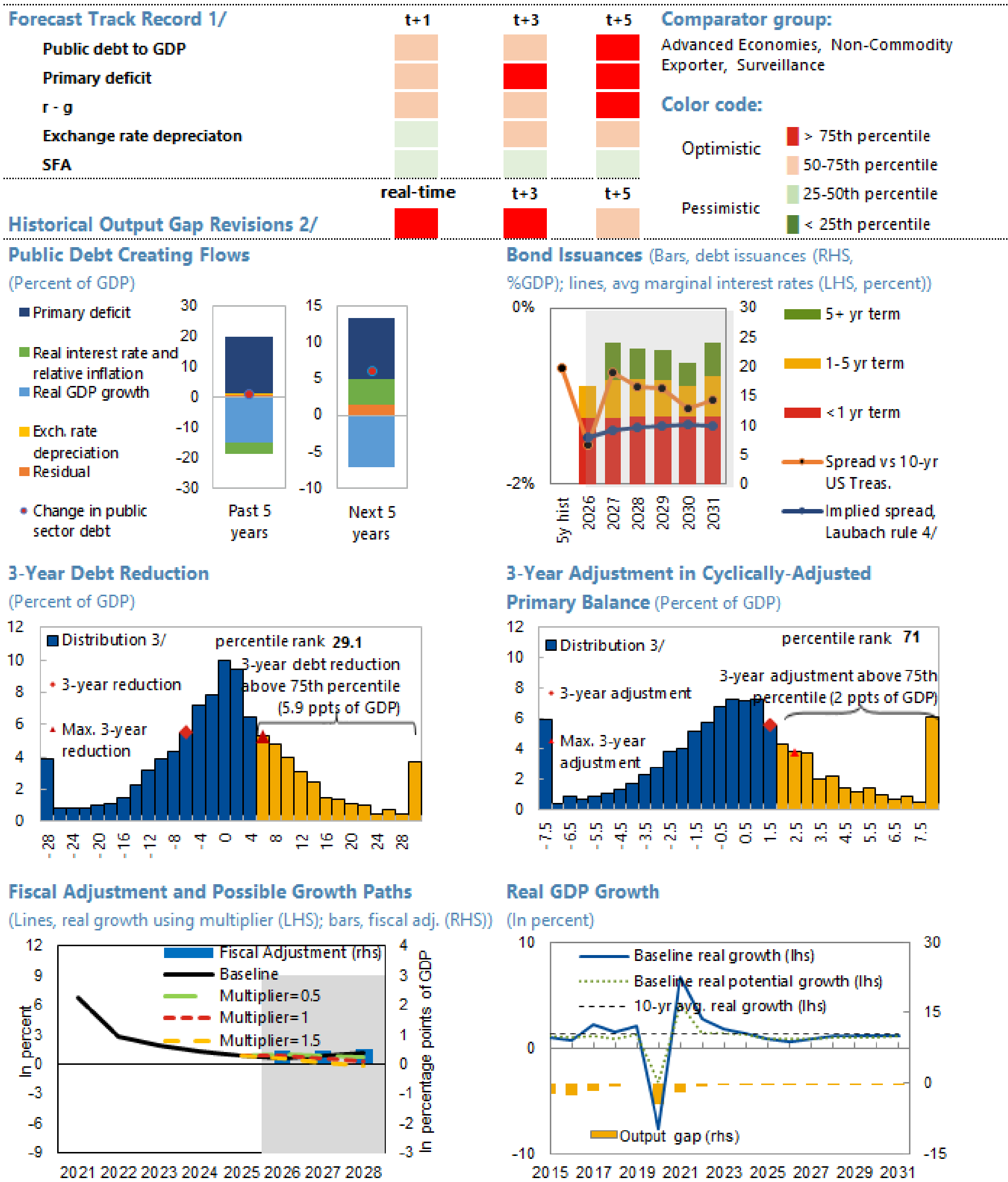
	Actual	Medium-term Projection						Extended Projection			
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public debt	115.7	118.5	120.3	121.1	121.6	121.8	121.8	121.6	121.3	120.9	120.6
Change in public debt	3.1	2.8	1.8	0.8	0.5	0.2	0.0	-0.2	-0.3	-0.3	-0.3
Contribution of identified flows	3.0	2.9	1.8	0.8	0.5	0.2	0.0	-0.1	-0.3	-0.3	-0.3
Primary deficit	3.0	2.7	2.3	1.7	1.1	0.6	0.0	-0.3	-0.6	-0.7	-0.7
Noninterest revenues	52.1	52.3	52.4	52.5	52.6	52.7	52.9	53.0	53.1	53.2	53.2
Noninterest expenditures	54.8	54.7	54.3	53.8	53.3	52.9	52.5	52.3	52.2	52.1	52.1
Automatic debt dynamics	-0.1	0.2	-0.8	-1.2	-0.9	-0.7	-0.3	0.0	0.1	0.2	0.2
Real interest rate and relative inflation	0.9	0.9	0.3	0.2	0.5	0.7	1.0	1.3	1.4	1.5	1.5
Real interest rate	1.0	0.9	0.3	0.2	0.5	0.7	1.0	1.3	1.4	1.5	1.5
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.0	-0.7	-1.1	-1.4	-1.3	-1.3	-1.4	-1.3	-1.3	-1.3	-1.3
Real exchange rate	-0.1	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.1	-0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.2
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Other transactions	0.2	0.1	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.4	0.3
Contribution of residual	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Gross financing needs	23.6	11.5	23.6	22.6	22.4	20.3	23.8	23.7	21.1	21.4	17.6
of which: debt service	20.7	8.8	21.4	21.1	21.4	19.9	23.9	24.2	21.8	22.2	18.4
Local currency	20.7	8.8	21.4	21.1	21.4	19.9	23.9	24.2	21.8	22.2	18.4
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	0.9	0.6	0.9	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Inflation (GDP deflator; percent)	1.1	1.5	1.7	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.8
Nominal GDP growth (percent)	1.9	2.2	2.7	3.1	3.0	3.1	2.9	2.9	2.9	2.9	2.9
Effective interest rate (percent)	2.0	2.2	2.0	2.2	2.3	2.5	2.7	2.8	3.0	3.0	3.1

Contribution To Change In Public Debt
(Percent of GDP)



The ratio of public debt to GDP gradually increases until 2030 before slowly declining, reflecting a projected primary balance that continues to remain negative. The differential between the effective real rate and real GDP growth is initially negative but it progressively increases and turns marginally positive, thus providing a slightly positive contribution to debt creation. Compared to estimates at the time of last year Article IV consultations, the primary deficit and amortizations have declined by 1.7 and 2.4 percent of GDP over 2027-34 due to the minimum fiscal adjustment considered in the baseline scenario, against legislated policies in the last AIV consultations.

Annex VI. Figure 5. France: Realism of Baseline Assumptions



The realism analysis point to some optimism in staff's past projections for the drivers of debt, with realized values for the primary deficit and the r-g differentials significantly larger than initially projected over the medium term. In the last five years, a large primary deficit from the fiscal response to the 2022 energy crisis and revenue underperformance in 2023-24 were the main driver of rising debt levels, but low interest spending was a mitigating factor. Over the medium-term, persistent deficits would continue to be the key driver of debt accumulation as well as higher interest payments. Projected fiscal efforts are well within norms of both past fiscal consolidation episodes in France and in other advanced economies.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

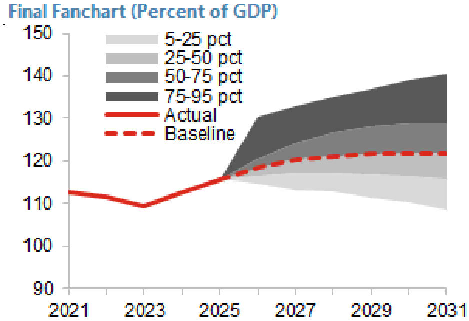
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

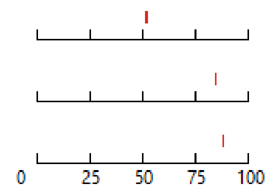
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex VI. Figure 6. France: Medium-Term Risk Assessment

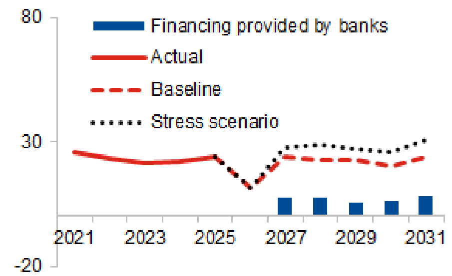
	Value	Contrib [1/]	Percentile in peer group [2/]
Debt fanchart module			
Fanchart width *(percent of GDP)*	32.1	0.5	
Probability of debt non-stabilization *(percent)*	43.8	0.4	
Terminal debt-to-GDP x institutions index	35.4	0.8	
Debt fanchart index (DFI)		1.6	
Risk signal: [3/]		Moderate	
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	20.7	7.1	
Initial Banks' claims on the gen. govt *(pct bank assets)*	4.2	1.4	
Chg. In banks' claims in stress *(pct banks' assets)*	4.2	1.4	
GFN financeability index (GFI)		9.8	
Risk signal: [4/]		Moderate	

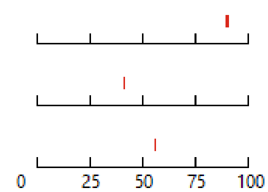
Final Fanchart (Percent of GDP)





Gross Financing Needs (Percent of GDP)

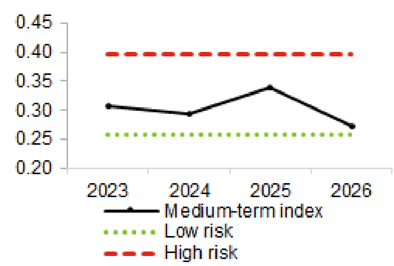




Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term Index (Index number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.6	0.4	0.5	0.2
GFN finaceability index	9.8	0.2	0.5	0.1
Medium-term index		0.27		
Risk signal: 5/		Moderate		
Final assessment:		Moderate		

Prob. of missed crisis, 2026-2031, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2026-2031, if stress predicted: 38.6 pct.

The mechanical signals point to moderate medium-term risks. While the debt ratio is stabilizing under the baseline, the probabilistic fan chart constructed from past shocks points to moderate risks of non-stabilization. The index of the gross financing needs (9.8) is well above the low-risk threshold (7.6), with the moderate risk signal driven by large average gross financing needs. The terminal debt-to-GDP slighly declined to 35.4 compared to last year 37.3. The overall mechanical signal (0.27) improves from its value last year (0.34).

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the Medium-term index is below 0.26; high risk if the Medium-term index is above 0.40; and otherwise, it is moderate risk

Annex VI. Figure 7. France: Long-Term Risk Assessment

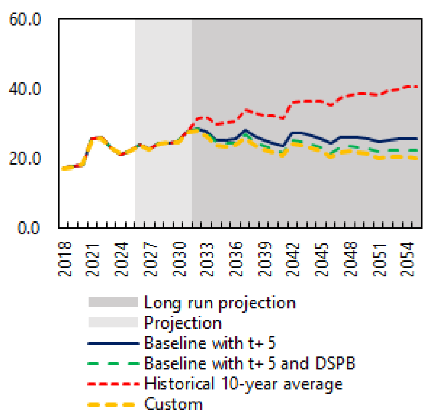
Large amortizations Pensions Health

Long-Term Risk Assessment: Large Amortization

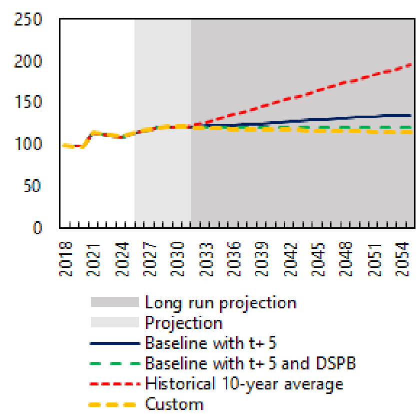
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

Variable	2031	2032 to 2036 average	Custom Scenario
Real GDP growth	1.1%	1.1%	1.0%
Primary Balance-to-GDP ratio	0.0%	0.6%	0.7%
Real depreciation	-1.4%	-1.8%	-1.7%
Inflation (GDP deflator)	1.8%	1.8%	1.8%

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



The Large Amortization module presents a range of four illustrative policy scenarios (three standard and one "Custom") for the long-term evolution of gross financing needs and debt. The "historical" scenario assumes mechanically that after 2029 debt drivers evolve on average as in the past decade (including large and rare negative shocks like the Covid-19 pandemic), without any new fiscal measures. A second scenario ("Baseline") assumes that after 2029 debt drivers are kept constant at their 2029 level, with no new fiscal measures. A third scenario ("Baseline and DSPB") assumes that, starting in 2030, the authorities undertake new fiscal measures to stabilize the debt ratio. In the case of France, under this scenario, the government's deficit remains throughout the projection period above the 3 percent of GDP deficit limit of the Excessive Deficit Procedure (EDP). Finally, the "Custom" scenario is calibrated so that, after 2029, the deficit remains at around 2.2 percent of GDP (corresponding to a primary balance of 0.7 percent of GDP), that is between 3 percent of GDP and the minimum 1.5 percent deficit conservation buffer under the new EU fiscal rules. The mechanical signals of the three standard scenarios breach the GFN thresholds, pointing to the presence of long-term risks in the absence of any new fiscal measures. Under the customized scenario, gross financing needs and the debt ratios return to a downward long-run trajectory under still conservative assumptions for fiscal policy and GDP growth.

Annex VII. Growth and Distributional Implications of Fiscal Consolidation in France

1. **This annex examines how the composition of fiscal consolidation in France shapes both the macroeconomic costs and who bears them across the income distribution.** The composition of fiscal consolidation is as important as its size. Fiscal measures affect households both directly—through taxes and transfers—and indirectly—through wages, employment, profits, and interest rates. Because households differ in their reliance on labor income relative to transfers and in their capacity to smooth consumption, a given fiscal adjustment can have heterogeneous effects across the income distribution. The analysis uses a Heterogenous Agent New Keynesian (HANK) model that captures how households at different income and wealth levels adjust spending when taxes, transfers, and activity change, including economy-wide feedback effects (see IMF WP 26/121 for further details).[1]

2. **Absent fiscal adjustment, growth would follow a lower-quality, unsustainable path, while fiscal vulnerabilities would continue to build.** Under unchanged policies, near-term activity is driven mainly by consumption, while private investment remains subdued, pointing to a lower-quality growth composition not underpinned by capital deepening and productivity gains. At the same time, persistently high deficits would keep public debt on an upward trajectory, further eroding fiscal space, increasing interest burden, and leaving debt dynamics more vulnerable to weaker growth, tighter financial conditions, and higher sovereign risk premia. Elevated debt risks crowding out growth-enhancing investment, amplifying fiscal risks, and making delayed adjustment more costly.

3. **A well-designed fiscal and structural adjustment can lower public debt while mitigating growth and distributional effects.** Model simulations show that under staff's recommended fiscal adjustment path (¶16)—supported by reforms that raise employment and productivity (¶25)—consumption and GDP growth would decline temporarily in the near term, relative to a no-adjustment "unchanged policies" counterfactual, before recovering over the medium term. Importantly, the impact on low-income households would be more contained, as targeted support would offset reductions in untargeted transfers.[2] Structural reforms generate additional medium-term gains in output and debt reduction, with the exact allocation depending on the calibration used in the scenario. Additionally, they further strengthen the protective role of well-targeted social policies during fiscal consolidation.

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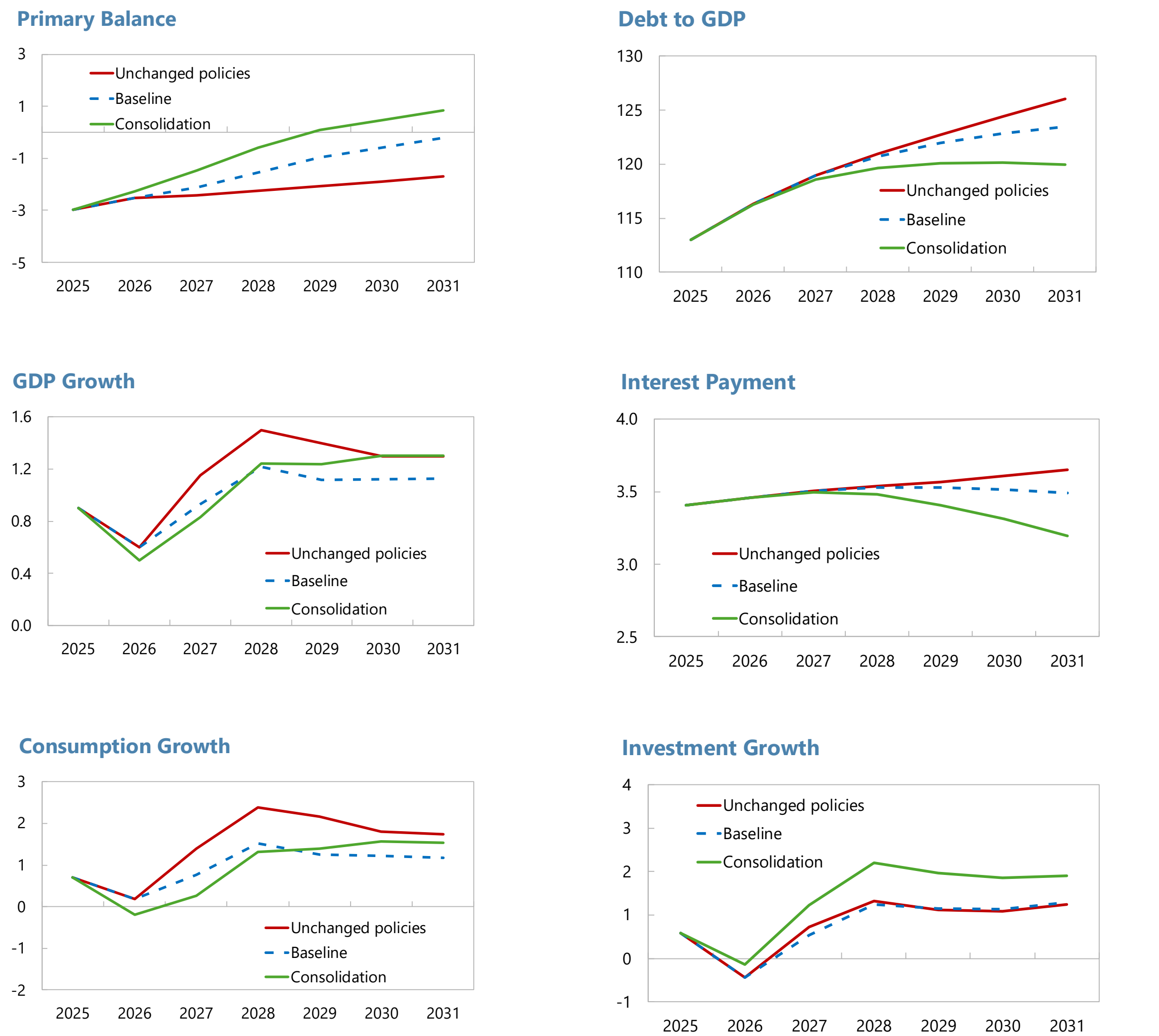
[1] While the model replicates closely historical and medium-term paths of key aggregates around trend, it does not match staff's baseline projections exactly, due to underlying differences in modeling approaches.

[2] The model-implied consumption response may be overstated, as limited self-insurance increases households' sensitivity to current income shocks. In addition, inattention and information rigidities may dampen households' response. Results should therefore be interpreted primarily in terms of relative impacts across income groups rather than point estimates.

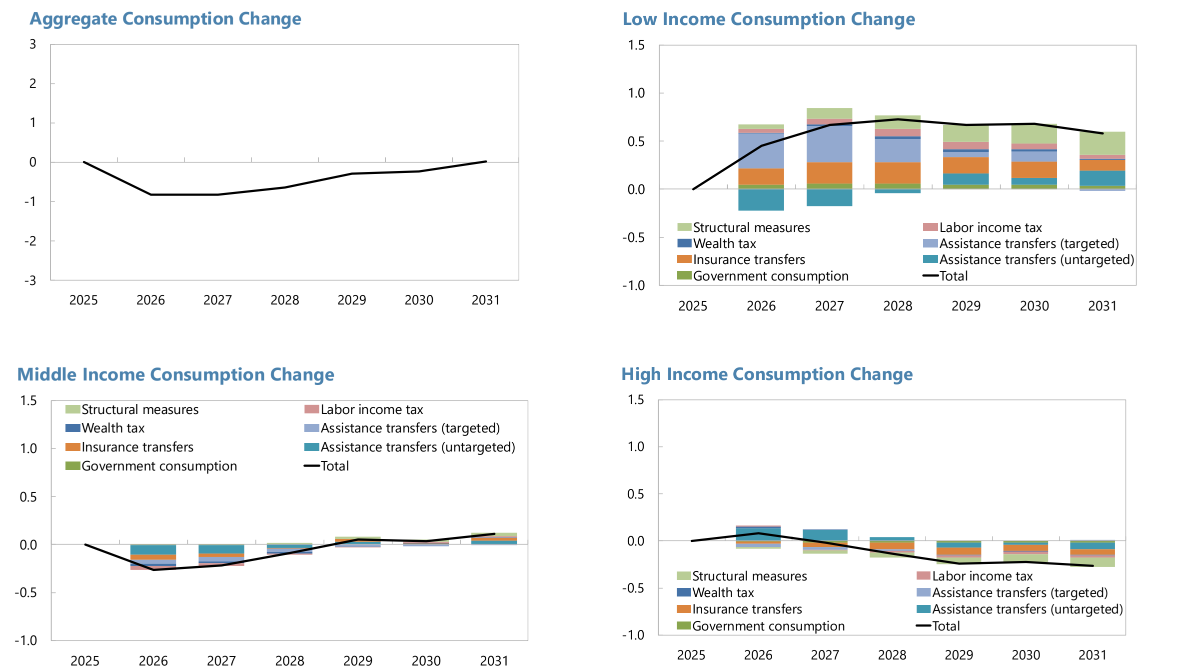
Annex VII. Figure 1. France: Aggregate Macro-Fiscal Effects under Alternative Scenarios



Source: IMF staff estimates.
Note: Fiscal effort is defined as the annual improvement in the (structural) primary balance relative to a no-adjustment counterfactual (percent of GDP). In the recommended scenario (compared to the unchanged policies baseline), revenue measures contribute an average of 0.1 percent of GDP per year in 2027–31 and are split equally between labor taxes and corporate taxes. The remaining adjustment is expenditure-led and is allocated as: government consumption restraint (10 percent), cuts to insurance-based transfers (45 percent), and cuts to untargeted assistance-based transfers (50 percent), partly offset by an increase in targeted transfers (5 percent). Structural policies contribute 0.1 to TFP growth in the first year of the adjustment and 0.2 onwards.

4. Specifically, shifting from across-the-board measures toward better-targeted social transfers would support fiscal consolidation while maintaining household income protection. The model suggests that savings in insurance-based transfers—benefits linked to prior earnings or contributions, including unemployment insurance and contributory pensions—are central to achieve a durable consolidation effort (¶20–21). Assistance-based untargeted support (broad, lump-sum or near-universal measures, e.g., generalized rebates or broad subsidies) tends to be less efficient and can also be rationalized (¶19 and 22). Targeted transfers focused on low-income households such as minimum-income and in-work benefits and housing support, provide the most effective protection while improving the efficiency and equity of the adjustment. Overall, improving the composition of consolidation raises cumulative GDP by 0.2 percent relative to a low-quality package.

Annex VII. Figure 2. France: Distributional Effects of Expenditure-Driven Consolidation

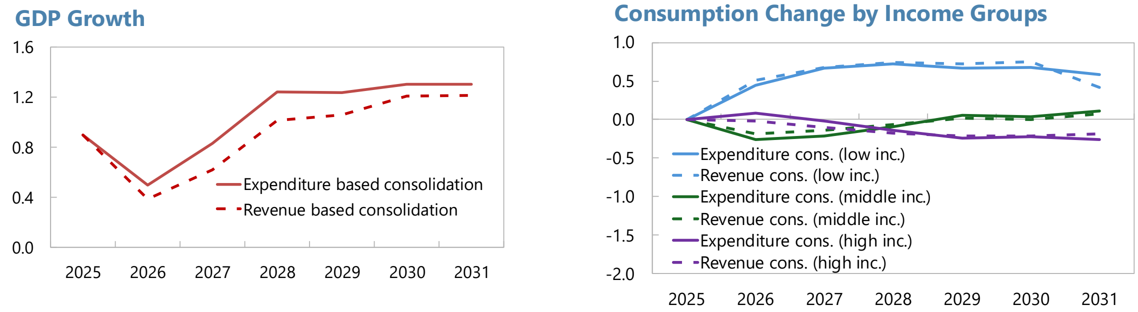


Source: IMF staff estimates.

5. **By contrast, a revenue-based adjustment would entail higher macroeconomic costs and a less favorable distributional profile.** Under an alternative scenario with the same consolidation envelope but greater reliance on labor and corporate taxes, economic activity contracts more, with GDP growth about 0.2 percentage point lower per year over the consolidation period, leaving the level of GDP roughly 0.9 percent below the no-adjustment counterfactual by 2031. Distributional effects are also less favorable: while middle-income households experience consumption declines broadly similar to those under the recommended package, low- and high-income households end up faring worse. This reflects less effective protection at the bottom over the medium term—despite a comparable upfront impact—and a higher tax burden at the top.[3] Overall, compared with a predominantly spending-based strategy, the revenue-heavy alternative worsens the growth–equity trade-off, amplifying output losses without improving distributional outcomes for poorer households.

[3] The model does not capture potential capital and tax flight to other jurisdictions.

Annex VII. Figure 3. France: Distributional Effects of Revenue-Driven Consolidation



Source: IMF staff estimates.

Note: The alternative package is calibrated to match the same annual fiscal effort and upfront low-income distributional impact as in the benchmark recommended expenditure-driven scenario. Current spending is held fixed at the benchmark level (in percent of GDP), and all remaining adjustment is achieved through tax measures, split 60 percent to "revenue taxes" (capital/corporate) and 40 percent to labor-income taxes. Structural measures are kept identical to the benchmark.

Annex VIII. France's Climate Goals and Transition Risks

1. **Climate change poses macro-critical risks to France's economy.** Rising natural hazards linked to accelerated warming pose risks to infrastructure, productivity, and public finances. Absent a timely and orderly implementation, the green transition can also entail significant economic costs, heightened uncertainty, and financial stability risks. Managing these risks requires sizable, and sustained investment across energy, transport, buildings, and industry (IMF WP/26/46). France's low-carbon electricity mix, anchored in nuclear power, supports its transition strategy.

2. **France has made substantial progress in reducing emissions, which can help contain future transition costs.** By 2023, economy-wide emissions were about 22 percent below their level a decade earlier, with particularly large declines in mining, power, and manufacturing, falling by 84, 35 and 25 percent despite some increase in import-related emissions. From 2018 to 2023, explicit carbon prices increased sharply in the electricity and industrial sectors, and overall effective carbon rates, including fuel excise taxes, remained high relative to other large emitters. As a top 20 emitter, France appears to be making a meaningful contribution to global mitigation efforts relative to peers.

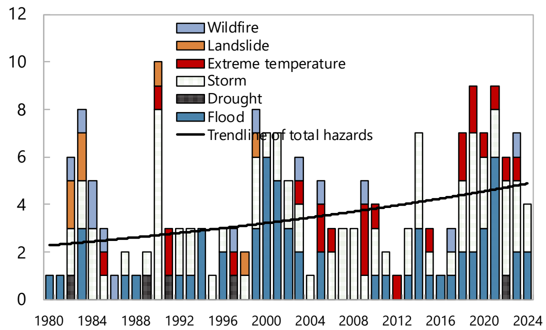
3. **France's climate strategy is anchored in a comprehensive framework integrating mitigation, adaptation, and energy security objectives.** The 2025 National Low-Carbon Strategy (SNBC3) raises the gross GHG reduction target to 50 percent below 1990 levels and France's contribution to the EU Fit-for-55 path, with planned removals over 2023–30 accounting for around 30 percent of the EU total. The National Adaptation Plan for Climate Change (PNACC3) sets out measures to support adaptation, complementing mitigation, and biodiversity protection efforts. Increased nuclear generation aims to strengthen energy security while supporting decarbonization.

4. **France's electrification plan aims to increase the share of electricity in final consumption.** The plan prioritizes electrification of heating, transportation, industrial processes and equipment through a coordinated package of 22 measures. It combines targeted financial support, regulatory measures, and infrastructure expansion, with around €4.5 billion per year in additional financing to support uptake of technologies such as EVs, heat pumps, and electrified equipment.

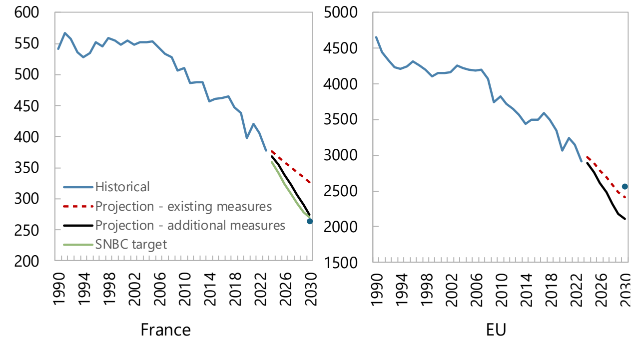
5. **Recent policy initiatives have focused on mobilizing financing and strengthening incentives for the transition, while further measures could help mitigate its costs.** The authorities updated the green bond governing framework in 2025, with an outstanding issuance of about €92 billion, expanded financing for six new EPR2 nuclear reactors, and reinforced the penalty system for vehicle emissions (SPAFTE; ESFR 2025). Additional efforts aim to mobilize private savings (e.g. *Livret A*) in support of nuclear investment. To accelerate the green transition and mitigate its costs, higher carbon pricing and other revenue-neutral schemes can complement green spending measures. Recycling revenues via cash transfers could offset the price impact on lower-income households. Over the medium term, new measures for road transportation, such as distance-based charges, could also be considered. French banks should also continue to mitigate climate transition risks by integrating them into their governance, strategy, and risk management processes (see Deep Dive on the Climate Transitions for France, 2024 for further analysis).

Annex VIII. Figure 1. France and Selected Regions: Selected Climate Indicators

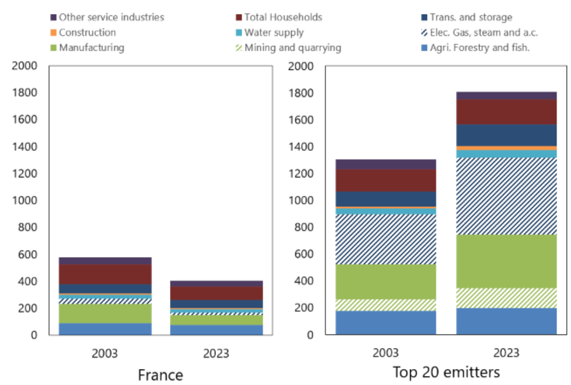
Historical Natural Hazards
(Number of occurrences)



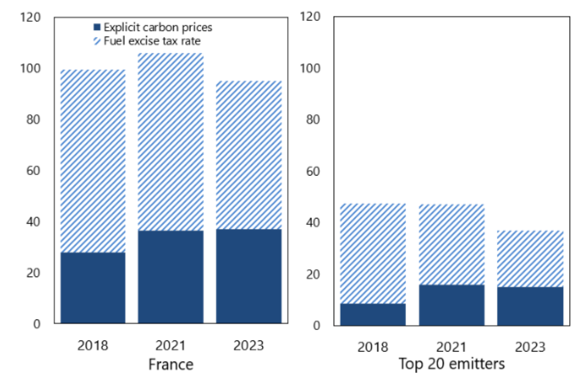
Historical, Projected, and Targeted GHG Emissions
(Millions of tones of CO2 equivalents)



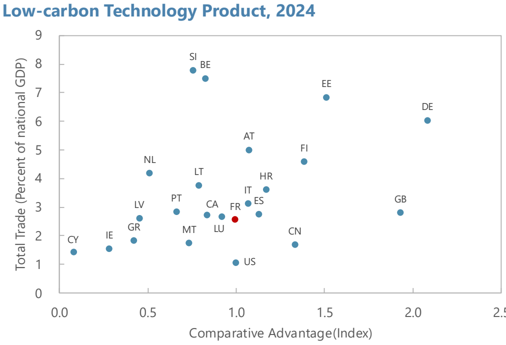
Emissions by Economic Activity
(MtCO2e)



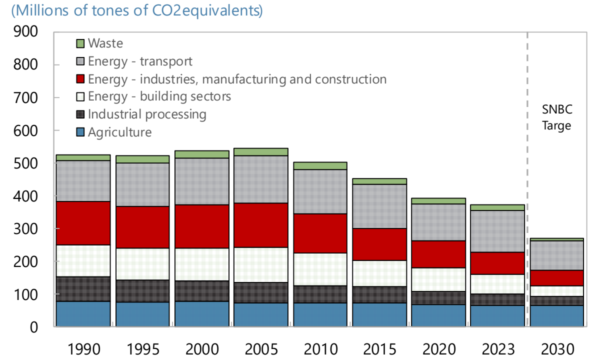
Effective Carbon Rates
(USD/tCO2e, 2021 prices)



Selected Regions: Total Trade and Comparative Advantage in Low-carbon Technology Product, 2024



Sectoral GHG Emission Inventories and Targets
(Millions of tones of CO2equivalents)



Sources: IMF Macroeconomic Climate Indicators Dashboard, EM-DAT, UNFCCC, Crippa et al (2022), FAO, EEA, UNDESA, UN Comtrade, IMF DOTS, SNBC (2025), OECD Air Emission Accounts, OECD Effective and Net Effective Carbon Rates, UNFCCC, EDGAR, and IMF staff calculations.
Note: (Top LHS) Coverage of extreme events in more recent years can be underestimated as only disasters that affect the population and cause large economic damage are recorded. (Top RHS) Projected by EEA (2025). (Middle) Top 20 emitters refer to the average of the 20 largest emitters of the world including China, United States, EU (Germany, France, Italy, and Poland), India, Russia, Japan, Brazil, Indonesia, Canada, Mexico, Iran, South Korea, Australia, Saudi Arabia, United Kingdom, South Africa, Türkiye, Ukraine, Thailand, and Argentina. The list is unchanged across years.

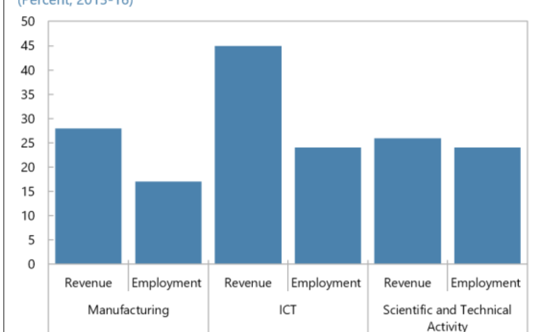
Annex IX. Innovation Clusters: The France Experience

1. France's competitiveness clusters (*pôles de compétitivité*) link firms, research centers, and training organizations to foster collaborative innovation. Launched in 2005, they are organized around shared sectoral priorities—such as aerospace, electronics, and health. Over time, policies have evolved from broad cluster certification towards a stronger focus on economic outcomes and, more recently, on collaborative EU-level programs (Important Projects of Common European Interest, IPCEI). Clusters have also increasingly extended beyond their original regions, allowing multi-regional membership and broader collaboration.

2. Clusters support firms by facilitating access to funding as well as providing a range of other services for collaborative and individual innovation projects. They assist members in identifying partners, structuring projects, and securing public financing at the regional, national (including through BPI France), and European levels. This support has expanded over time and is mostly used by firms for projects related to industrial modernization, diversification, and the digital and green transitions under France 2030 (DGE report). Beyond funding, clusters provide a range of services such as IP advice, economic intelligence, skills development, business support and fundraising, and modernization. Looking ahead, priorities include deepening international and European partnerships and further supporting the digital and green transitions.

3. Cluster membership is associated with higher innovation and faster growth compared with non-members. According to estimates by the DGE, public support generates nearly €2.8 in private R&D for every euro invested, outperforming innovation incentives such as the *Crédit d'Impôt Recherche (CIR)*. Members also experience faster revenue and export growth, with these effects observed across various sectors, and particularly pronounced among SMEs.

France: Average Effects of SME Membership by Sector
(Percent, 2013-16)



Source: DGE (2023).

4. The following are illustrative examples of the dynamics of competitiveness clusters and other innovation hubs in France:

- *Dunkerque*, a northern industrial hub, has become an "Innovative Territory" through the Dunkerque Creative Energy program, advancing sustainable industrial transformation, supported by low-carbon electricity from the nearby Gravelines Nuclear Power Plant. The city hosts the Verkor Gigafactory, where public-private collaboration connects R&D, large-scale production, and workforce development. The strategy aims to shift from carbon-intensive activities in metallurgy and heavy industry towards low-carbon manufacturing and other emerging sectors, supporting new employment opportunities. Regional initiatives in decarbonization and energy transition further strengthen local industry and generate green jobs. Initiatives under consideration to develop a large-scale data center could further position Dunkerque as a regional digital infrastructure hub, leveraging its energy resources and industrial infrastructure.

- *Grenoble* is a leading innovation hub combining R&D, pilot production, training, and industrialization. It hosts major centers like the Verkor Innovation Centre (VIC), CEA-Leti, and STMicroelectronics, advancing strategic technologies such as low-carbon batteries, microchips, and semiconductors while connecting industry, government, investors, and academia. Strong public-private collaboration, including support from EIB and the French government, enables rapid commercialization, talent development, and scalable production.

- *Station F*, launched in 2017 in Paris, is a major national hub for tech startups (more than 7,000 to date), bringing together entrepreneurs, investors, large firms, and public support services in a single location. Operating primarily on private funding, the campus facilitates access to private finance through investor networks and structured selection programs, alongside public support—most notably from BPI France. In 2024, Station F companies collectively raised over €1 billion in annual funding, representing roughly 15 percent of all startup financing in France. On-site services under La French Tech support administrative processes, talent mobility, and links with public agencies, strengthening early-stage firm growth and contributing to innovation diffusion across the economy.

Annex X. Data Issues

Annex X. Table 1. France: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating[1]							
A							
Questionnaire Results[2]							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Intersectoral Consistency	Median Rating
	A	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	A		
Granularity[3]	A		A	A	A		
			A		A		
Consistency			A	A		A	
Frequency and Timeliness	A	A	A	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

[1]The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

[2]The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).

[3]The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Staff assess the overall data quality as adequate for the Fund's surveillance. France's economic and financial statistics are comprehensive, generally of high quality, and are provided to the Fund in a comprehensive manner. The authorities regularly publish a full range of economic and financial data, as well as a calendar of dates for the main statistical releases. France is also subject to the statistical requirements of Eurostat and the European Central Bank, including the timeliness and reporting standards, and it has adopted the European System of Accounts 2010. Although data gaps remain in nascent segments of the NBFI sector, the team judges that available financial sector data is appropriate for surveillance and for its assessment of financial stability risks. Nevertheless, looking forward, continued supervisory efforts by the authorities to close these emerging data needs and capture broader system-wide risks stemming from interconnectedness remain critical.

Changes since the last Article IV consultation No material changes since the last Article IV consultation.

Corrective actions and capacity development priorities N/A

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff do not use data and/or estimates different from official statistics.

Other data gaps. N/A

Annex X. Table 2. France: Data Standards Initiatives

France adheres to the Special Data Dissemination Standard (SDDS) Plus since February 2015 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Annex X. Table 3. France: Table of Common Indicators Required for Surveillance

As of June 9, 2026

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Expected Frequency[7,8]	Announced Frequency[9]	Expected Timeliness[7,8]	Announced Timeliness[9]
Exchange Rates	2026-06-09	2026-06-09	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	2026-05	2026-06	M	M	M	M	1W	1M
Reserve/Base Money	2026-04	2026-05	M	M	M	M	2W	25D
Broad Money	2026-04	2026-06	M	M	M	M	1M	1M
Central Bank Balance Sheet	2026-04	2026-05	M	M	M	M	2W	25D
Consolidated Balance Sheet of the Banking System	2026-04	2026-06	M	M	M	M	1M	1M
Total assets of other depository corporations[2]	2026-04	2026-06	M	M	M	M	1M	1M
Total credit from other depository corporations[2]	2026-04	2026-06	M	M	M	M	1M	1M
Interest Rates[3]	2026-06-09	2026-06-09	D	D	D	...	...	...
Consumer Price Index	2026-05	2026-05	M	M	M	M	1M	Approximately 13D
Revenue, Expenditure, Balance and Composition of Financing[4]-General Government[5]	2025-12	2026-05	A	A	A	...	2Q	...
Revenue, Expenditure, Balance and Composition of Financing[4]-Central Government	2026-04	2026-06	M	M	M	M	1M	45D
Stocks of Central Government and Central Government-Guaranteed Debt[6]	2026-03	2026-05	Q	Q	Q	M	1Q	35D
Total stock of General Government Debt[5]	2026-03	2026-05	Q	Q	Q	Q	4M	4M
External Current Account Balance	2026-04	2026-06	M	M	Q	M	1Q	7W
Exports and Imports of Goods and Services	2026-04	2026-06	M	M	M	M	8W	8W
GDP/GNP	2026-03	2026-05	Q	Q	Q	Q	1Q	50D
Gross External Debt	2025-12	2026-04	Q	Q	Q	Q	1Q	3M
International Investment Position	2025-12	2026-03	Q	Q	Q	Q	1Q	3M

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Other depository corporations include all deposit-taking corporations (except for the central bank) and money market funds.
[3] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic non-bank financing.
[5] The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments. The total stock of general government debt is required for SDDS Plus countries and encouraged for SDDS and e-GDDS countries.
[6] Including currency and maturity composition.
[7] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semi-annual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.
[8] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan. Indicators that are not in the IMF Data Standards Initiatives are shown as "...".
[9] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

INTERNATIONAL MONETARY FUND

FRANCE

June 29, 2026

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | European Department

CONTENTS

FUND RELATIONS ________ 2

FUND RELATIONS

(As of May 31, 2026)

Membership Status: Joined December 27, 1945; Article VIII

General Resources Account	SDR Million	Percent of Quota
Quota	20,155.10	100.00
Fund Holding of Currency (total holdings)	14,868.59	73.77
Reserve Tranche Position	5,286.62	26.23
Lending to the Fund		

SDR Department:	SDR Million	Percent of Allocation
Net Cumulative Allocation	29,451.96	100.00
Holdings	27,683.59	94.00

Outstanding Purchases and Loans: None

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Sep 19, 1969	Sep 18, 1970	985.00	985.00
Stand-By	Jan 31, 1958	Jan 30, 1959	131.25	131.25
Stand-By	Oct 17, 1956	Oct 16, 1957	262.50	262.5

Projected Payments to Fund
(SDR million; based on existing use of resources and present holdings of SDRs):

	2026	2027	2028	2029	2030	2031
Principal						
Charges/Interest	24.44	48.63	48.65	48.60	48.63	48.63
Total	**24.44**	**48.63**	**48.65**	**48.60**	**48.63**	**48.63**

Implementation of HIPC Initiative: Not applicable.

Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable.

Implementation of Catastrophe Containment and Relief (CCR): Not applicable.

Exchange Rate Arrangements:

- The currency of France is the euro. The exchange rate arrangement of the euro area is free floating. France participates in a currency union (EMU) with other members of the EU and has no separate legal tender. The euro, the common currency floats freely and independently against other currencies.

- France has accepted the obligations under Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, except for exchange restrictions imposed solely for the preservation of national or international security, which have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51).

Article IV Consultation:

The last Article IV consultation was concluded on July 11, 2025. The associated Executive Board assessment is available at IMF Executive Board Concludes 2025 Article IV Consultation with France and the staff report at France: 2025 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for France. France is on the standard 12-month consultation cycle.

FSAP Participation and ROSC:

The Financial System Stability Assessment (FSSA) for the last mandatory FSA was discussed by the Board on July 11, 2025. The FSSA and accompanying Reports on the Observation of Standards and Codes (ROSCs) are available at https://www.imf.org/en/publications/cr/issues/2025/07/11/france-financial-system-stability-assessment-568525.

Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT):

France's anti-money laundering and combating the financing of terrorism (AML/CFT) regime was found to be largely effective by the Financial Action Task Force (FATF) in 2022 and has since been further enhanced. The 2022 FATF report is available at https://www.fatf-gafi.org/content/dam/fatf-gafi/mer/Mutual-Evaluation-France-2022.pdf.coredownload.inline.pdf.

Statement by Mr. Arnaud Buissé, Executive Director for France, Ms. Eve Maurice, Alternate Executive Director, Mr. Himed Guessoum, Senior Advisor to the Executive Director, Ms. Meghann Puloc'h and Mr. Amisi Felix Mwenetombwe, Advisors to the Executive Director
July 13, 2026

On behalf of the French authorities, we would like to warmly thank Ms. Goretti and her team for the insightful discussions, as well as for the well-crafted and balanced report. Our authorities greatly valued this constructive engagement on key policy priorities to unlock France's growth potential and support a high-quality and fair fiscal consolidation. The report constitutes a valuable contribution to the policy debate in France ahead of next year's presidential election. They broadly concur with staff's views, notably on the outlook, the main recommendations on fiscal consolidation and on the reform efforts to be undertaken.

Economic outlook

Despite having demonstrated resilience to multiple recent shocks, the French economy is facing a more challenging environment in 2026, as the consequences of the Middle East conflict and domestic factors weigh on activity. Following upward revisions to growth in 2023 and 2024 (to +1.9 % and +1.4 %, respectively), output remained resilient in 2025, expanding by 0.9 % despite heightened uncertainty and external shocks. Nonetheless, activity stalled in early 2026, with GDP declining by 0.1 % in the first quarter after growing by 0.2 % in the last quarter of 2025, although this partly reflected temporary factors. As of the first quarter of 2026, carry-over growth stands at 0.4 %.

While recent high-frequency indicators, including the June composite PMI and consumer confidence surveys, point to some improvement, they continue to suggest a softening outlook. In this challenging and uncertain international environment, our authorities broadly share staff's assessment of the outlook, while noting that differing assumptions regarding oil prices may explain part of the remaining forecast dispersion. The authorities' updated growth forecast for 2026 was revised downward from 0.9 % to 0.7 %, as announced on July 7. This forecast is broadly in line with those of other forecasters including INSEE's estimate of 0.7 %, and slightly above staff's projection of 0.6 %.

The labor market is showing signs of moderation. As staff noted, the implementation of the Full Employment Act has increased measured unemployment by bringing more Active Solidarity Income (RSA) recipients and young people into the labor force through France Travail. After five quarters, these groups accounted for almost half of the rise in unemployment. Nevertheless, the unemployment rate in the first quarter of 2026 remains close to its end-2019 level, while labor productivity recovered most of its pandemic-related losses in 2025. France has continued to gain competitiveness despite the appreciation of the euro in 2025, helped by more moderate private-sector wage growth than in several European partner countries.

As mentioned by staff, France has a relatively low dependence on fossil fuels imports. Inflation, reflecting higher hydrocarbon prices, has hence risen more moderately in France than in the rest of the euro area from March to June, and is now showing signs of easing. After averaging 0.9 % in 2025, inflation (HICP) increased from March to May, before declining to 2.0 % year-on-year in June 2026, supported by the sharp fall in energy prices, particularly petroleum products. Long-term inflation expectations remain well anchored around 2.0 %, supporting confidence that inflationary pressures will gradually subside as energy-related effects fade.

Looking beyond current headwinds, France continues to benefit from strong structural fundamentals, including a skilled workforce, a diversified economy, high-quality infrastructure, and a largely low-carbon energy mix supported by improved nuclear fleet availability, which enhances energy security. France's external position remained broadly in line with medium-term fundamentals and desirable policies in 2025. Exports are expected to be supported by the aeronautics sector in 2026.

<u>Fiscal diagnostic and strategy</u>

Despite various shocks, the authorities remain committed to achieving the Medium-term Fiscal Structural Plan objective to bring the deficit below 3.0 % of GDP in 2029. The credibility of this commitment has been further strengthened by the implementation of the March 2025 Action Plan to improve public finance management (*Plan d'action pour améliorer le pilotage des finances publiques* and efforts presented in Annex III of staff's report). The authorities agree with staff that its effectiveness depends on sustained implementation. As per the now established practice, staff's baseline scenario for debt trajectory assumes a structural primary adjustment of 0,5 % of GDP per year, which is not compatible with a deficit below 3.0 % in 2029. The authorities' commitment to a deficit below 3.0 % of GDP as soon as 2029 is aligned with the IMF recommended scenario.

After higher-than-expected fiscal deficits in both 2023 and 2024, the authorities have demonstrated strong commitment to fiscal consolidation, resulting in an overperformance in 2025. Despite new pressures, proactive management by the authorities has allowed for a 2025 deficit decline to 5,1 % instead of the 5,4 % initially planned. The 2025 Budget Law and the 2025 Social Security Financing Act laid the foundations for this fiscal consolidation. In addition, proactive efforts to strengthen rigorous budget execution were deployed, in application of the March 2025 Action Plan. Under this plan, a "Circle of Forecasters" gathering economists from public and private sector and a "Public Finance Alert Committee" were established in 2025 to strengthen macroeconomic forecast transparency and accuracy underpinning budgets as well as to better monitoring budget execution. Following the first meeting of the Alert committee, savings measures amounting to EUR 5 billion were deployed across the central government and the social security system. After the second meeting, additional expenditure restraint measures were adopted, totaling EUR 3 billion for the central government and EUR 1.7 billion for the *ONDAM* (National Health Insurance Spending Target).

The fiscal packages adopted for 2026, targeting a public deficit of 5.0 % of GDP, continue the fiscal consolidation effort initiated in 2025. They reflect political compromises aimed at ensuring that the required budgetary adjustment is fair, equitably shared and socially acceptable, while preserving the key measures that support competitiveness and long-term growth. In 2026, the objective is that <u>public expenditure growth remains contained</u>, supported by significant savings efforts particularly at the central government level. Government spending will be kept under control while <u>supporting the strengthening of core sovereign functions, foremost among them defense</u>. Savings measures are centered on enhancing the efficiency of operating expenditures and streamlining public action, for example by reorganizing government agencies. Local governments and social security administrations are also contributing to this effort. In this regard, the 2026 Social Security Financing Act sets a lower growth path for *ONDAM*, notably by limiting the duration of prescribed sick leave, improving the efficiency of healthcare institutions, and introducing additional regulatory measures for health products, including pharmaceuticals and medical devices. On the revenue side, the authorities reinforce action against tax avoidance and aggressive tax planning.

Despite various shocks in 2026, notably the Middle East crisis, the Government is taking the necessary measures to keep the deficit as close as possible to 5% of GDP in 2026 target set in the initial budget bill. While any estimation of the total impact of the energy shock on the 2026 deficit remains subject to important uncertainty, and is sensitive to oil price scenarios, it was estimated in April at EUR 6 billion for 2026 – mainly from the impact of the downgraded macroeconomic environment. In line with IMF recommendations, the government has been prudent in the support provided in response to the shock and introduced temporary and targeted support measures aimed at supporting the sectors and households most affected by higher prices for fossil fuels, refined petroleum products, and agricultural inputs. The measures are time-bound to contain their fiscal cost, estimated at EUR 1.4 billion. To offset the impact of the crisis on the fiscal balance, the Public Finance Alert Committee met on 21 April 2026 and announced EUR 6 billion of precautionary measures. These measures form part of a broader strategy that includes the measures relating to the cancellation decree, those concerning the spending freeze, as well as the measures adopted through secondary legislation on reductions in social security contributions. The authorities also announced fiscally neutral measures aimed at accelerating electrification to reduce our reliance on fossil fuels and our exposure to international crisis (see structural reforms part). As the authorities committed to, and in the face of the series of shock that have hit France, including the current heat wave, the Public Finance Alert Committee reconvened on 7 July 2026 identified new risks of spending overruns and revenue shortfalls amounting to approximately EUR 3 billion across the central government (including the support measures mentioned above) and social security sectors. In parallel, EUR 3 billion savings to offset these risks have been announced, in order to keep the deficit under control and maintain our capacity to respond to unforeseen events.

Discussions are ongoing for the 2027 budget, with the objective of securing broad political support. Preparation of the budget notably builds on improved communication with Parliament through the Alert Committee and on the measures taken to strengthen transparency and risk communication under the March 2025 Action Plan**.** The authorities remain committed to identifying savings through spending reviews, which are conducted under strong high-level political leadership. In this spirit, an independent review of public finances led by four experts was launched on May 27, with the objectives of (i) assessing the outlook for public finance between 2027 and 2030 and (ii) proposing options for fiscal consolidation beginning in 2027. Conclusions of the review in July 2026 will inform the preparation of the 2027 budget law.

Beyond, the authorities remain strongly committed to fiscal consolidation in line with EU rules and the MTFSP. The authorities agree that the levels of public debt and fiscal deficits call for the steadfast continuation of the fiscal consolidation strategy. This strategy must primarily rely on stronger expenditure control and better-targeted public spending, with a view to restoring fiscal space and financing key policy priorities. They concur with staff that rising spending pressures, including defense, population aging as well as digital and green transitions require continued efforts in prioritizing spending and improving efficiency. Staff's analysis of the distributional effects of fiscal consolidation is therefore a very useful contribution to the national debate. They underline that authorities have deliberately planned to absorb new spending needs on defense within their existing fiscal consolidation plans. They stress that all levels of government and public administration (central, social security, and local authorities) need to be involved in the consolidation effort. The authorities have also committed to implementing a set of structural reforms around a multi-pillars approach that will positively contribute to fiscal consolidation, through avoided social spending and growth support (see structural reforms part). For example, the reforms that have been implemented on unemployment insurance (2019, 2023, the November 2024 agreement, and the new rules that came into force in 2025)—have strengthened incentives to return to work and remain employed. In February 2026, the social partners signed an addendum to the November 2023 framework agreement. Once fully phased in (from the fourth year onward), the reform is expected to generate annual savings of between EUR 0.6 billion and EUR 0.8 billion.

We agree with staff that short-term risk of sovereign debt distress remains low and that France's sovereign debt benefits from a deep and liquid market.

Structural reform strategy

The authorities remain fully committed to advancing structural reforms to boost productivity and support fiscal consolidation. They are pursuing a four-pillar reform strategy, broadly aligned with staff recommendations and already well underway. Beyond the pillar dedicated to support fiscal consolidation and finance future priorities (see earlier part), the three other priorities relates to: (i) a more efficient labor market and policy; (ii) strengthening competitiveness notably through reindustrialization and a reinforced strategic autonomy; and (iii) accelerating the green transition to position France as a leading low-carbon energy power.

First, labor market reforms launched since 2017 to raise employment and strengthen human capital remain a key priority. We welcome staff's recognition of the positive contribution of recent reforms, including the 2025 Full Employment Act and the ongoing strengthening of France Travail, which support labor force participation, training, and sustainable labor market integration. Together, these reforms, with particular attention to young people, seniors, and low-skilled workers, foster lifelong learning and continuous skills upgrading, a key pillar of the authorities' strategy to adapt the workforce to the digital, AI, and green transitions and facilitate career mobility. Complementing these efforts, the authorities are strengthening core competencies from an early age and pursuing efforts to improve the representation of girls in STEM fields, while the skills component of the France 2030 strategy is accelerating the alignment of education and training with the needs of future-oriented strategic sectors. Measures have been introduced to reduce gender disparities linked to career interruptions or reduced labor market participation associated with childrearing.

Second, improving competitiveness and advancing reindustrialization while strengthening France's technological and strategic autonomy remain at the core of the authorities' agenda. France confirmed its economic attractiveness in 2025, remaining Europe's leading destination for international investment projects for the seventh consecutive year, and the authorities continue to promote an ambitious agenda supporting a more business-friendly environment, as illustrated by the 2026 Simplification Bill aimed at reducing red tape especially for SMEs, and by our strong support for deeper European market integration, including the 28th regime. Consistent with staff's recommendations, ongoing efforts to boost innovation combine a stronger enabling environment with better-targeted financing, focusing on young, R&D-intensive firms in strategic sectors, notably AI and green technologies. The recording of more than 470 net industrial site openings between 2022 and 2025 also reflects reindustrialization trend that has been further strengthened by the 2023 Green Industry Act. The EUR 54 billion *France 2030* investment plan, the AI strategy—in its third phase since 2025—, and competitiveness clusters fostering collaborative innovation are helping mobilize investment, accelerate technology diffusion, and scale up innovative firms. To foster firm-level AI adoption, the 2025 *Osez l'IA* initiative has deployed AI Ambassadors across the country, with the objective of achieving AI adoption by 2030 across 100 % of large enterprises, 80 % of SMEs and mid-sized companies, and 50 % of micro-enterprises. 35,000 companies were reached within just nine months. European savings, which amount to nearly EUR 35 trillion, represent a major source of financing that remains insufficiently mobilized to support innovation and growth. In France, where the household savings rate remains high as mentioned in the report, a large share of savings continues to be invested in liquid, short-term products, to the detriment of long-term financing for European businesses. This is why the effective implementation of the Savings and Investments Union at the EU and national levels remains a priority for France. The authorities are mobilized to support this agenda, including the Market Integration and Supervision Package. The authorities also support the Noyer-Kukies report proposals mentioned by staff and aimed at increasing late-stage financing of European compagnies.

Third, the authorities remain fully engaged in achieving carbon neutrality by 2050. They welcome staff's recognition of France's meaningful contribution to global mitigation efforts and appreciate the Annex VIII on France's climate goals and transition risks. France already benefits from a sovereign, abundant, and 95 % decarbonized electricity supply, but the ongoing conflict in the Middle East underscores the need to accelerate the reduction of our dependence on imported fossil fuels and to step up efforts to advance the energy transition and the electrification of end uses. The third Multiannual Energy Programme (PPE 3) sets France on a path toward a low-carbon, affordable, independent, and efficient energy system, with a clear trajectory of reducing the share of fossil fuels in energy consumption (60 % decarbonized energy by 2030 and 70 % by 2035). The strategy includes an Electrification plan of energy uses across all sectors of the economy, while ensuring that the transition remains fair and sustainable, protecting employment, purchasing power, and territorial cohesion. Beyond, the authorities pursue their determined action on all dimensions of the ecological transition, including biodiversity protection, sustainable water management, waste reduction and effective waste management, together with the strengthening of natural carbon sinks, notably through the sustainable management of forests and soils.

Financial sector

The authorities concur with staff's assessment that financial stability risks are contained and the financial sector resilient, supported by proactive supervisory efforts to strengthen the policy toolkit in an increasingly complex landscape. They remain attentive to the emerging risks identified by staff and committed to preserve the resilience of the French financial system, including through enhanced data sharing on interconnectedness, and continued vigilance regarding emerging risks stemming from geopolitical tensions, AI-related threats, and non-bank financial intermediation. The work is already largely ongoing to implement 2025 FSAP recommendations.

As highlighted in the report, the banking sector is robust, benefiting from strong income performance and liquidity positions, with a Liquidity Coverage Ratio of 143.4 % and a Net Stable Funding Ratio of 115 % as of end-2025, both comfortably exceeding regulatory minima. French banks can rely on a diversified business model and have limited exposure to the sectors most sensitive to fossil fuel prices. Moreover, French banking institutions' exposure to counterparties in Middle East countries involved in the conflict with Iran appears to be very limited. Credit risk for both corporates and households tend to increase slightly, but banks continue to post significantly improved results and maintain a strong position in terms of both solvency and liquidity. Furthermore, the French banking sector has limited exposure to the private credit market.

The recently concluded High Council of Financial Stability (HCSF) review of the macroprudential strategy confirmed the appropriateness of the existing framework. Following the FSAP recommendation, the HCSF broadened its objectives to include the prevention of sharp credit contractions alongside curbing excessive credit growth, expanding risk coverage, and strengthening communication and transparency. On June 9, the HCSF maintained the countercyclical capital buffer at 1 %, in view of the absence of signs of a tightening of credit supply, and given the stable issuance of new credit and sound credit granting conditions. The use of the flexibility margin under the housing loan standard stood at 17.5 %, illustrating the ownership by banks of the norm and its flexibility.

The authorities welcome staff's appreciation of the efforts made to sharpen our assessment of risks from interconnectedness and investment funds. France's vulnerabilities to overvaluation risks, including from an AI market correction is mitigated by the small size of the investment fund sector and moderate exposure to US equities. They nonetheless concur that rising interconnectedness between banks and non-bank financial intermediaries, including through bank-funded leverage in private credit vehicles, calls for more systematic analysis of contagion risks and greater availability and sharing of data. In this regard, the Banque de France, the Prudential Supervision and Resolution Authority (ACPR), and the Financial Markets Authority (AMF) are conducting the first French system-wide stress test. Interim methodological report was published on 17 June 2026 and final results expected in October 2026. Our authorities would welcome a similar system-wide exercise at the European level, including with respect to private credit.

Our authorities further concur with staff that continued efforts to strengthen cyber preparedness are warranted. The 2025 entry into force of the Digital Operational Resilience Act (DORA) and its implementation by supervisory authorities are contributing to improvements in this area. At the national level, the G*roupe de Place Robustesse* (GPR), whose secretariat is hosted by the Banque de France and whose members include main private-sector financial institutions as well as the National Cybersecurity Agency (ANSSI), the ACPR, the AMF, and the Treasury, has, over its 20 years of existence, developed a strong coordination framework to support the French financial sector's preparedness for major operational disruptions, particularly those arising from cyber threats. It has developed a well-established practice of crisis management and crisis simulation exercises. Since 2023, the ACPR has also established a dedicated cyber crisis protocol for managing sector-wide crisis affecting the banking and insurance sectors. The ACPR, Banque de France and AMF are responsible in France for implementing DORA's requirement to conduct triennial Threat-Led Penetration Tests (TLPTs).

Conclusion

Lastly, France, consistent with its longstanding commitment to multilateral cooperation, has remained a leading voice in advancing the international reform agenda, including promoting fair rules-based trade. Through its G7 Presidency, the authorities have advocated for more balanced, sustainable, and resilient global growth, notably by supporting efforts to reduce global imbalances. The French authorities once again thank staff for the reports and policy advice.