French budget: what did you expect?

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- **The French budget fundamentals have not materially changed since our last piece in July. This applies to both the 2027 budget that Sébastien Lecornu will present in roughly one month, and the public finance equation for the next President / National Assembly, from next Spring.**
- **However, we tend to be marginally more pessimistic for two reasons:**
  - **First, H126 growth was materially revised down by INSEE in August, making the 2026 execution more challenging. A deficit at c.5.2% is now more likely than the government's 5.0%.**
  - **Second, the political (pre)-discussion around the measures of the budget has remained at a standstill. The government will need, just like last year, the non-opposition of either the RN or the PS. Faure sees little prospect of meaningful concessions from the government. The RN remains ambiguous – and whether a joint PS-RN censure coalition could materialise remains an open question.**
- **In this piece, we:**
  - **Dig deeper into the updated 2026 execution and explain why the positive surprise that unexpectedly brought down the deficit to 5.1% in 2025 is unlikely to happen again this year.**
  - **Detail our estimates of the 2027 deficit under unchanged policy, which, in our view, is roughly 5.8%. This would mean an increase in the deficit and a step back toward 2024 levels, despite some welcome consolidation in 2025 and 2026.**
  - **Discuss the measures that could be taken to keep the deficit close to stable, as targeted by PM Sébastien Lecornu, and the political (lack of) consensus for them. In our view, it is unlikely that a budget would be voted that could bring the deficit below 5.4-5.5%.**
- **For more on this topic, see our France Monitor dashboard at Red Mount Analytics. It gives an in-depth view into the polls, macro & fiscal developments, capital flows and our related market analysis.**

Challenged execution for 2026

2026 GDP growth

France's growth performance in H126 has been a clear underperformer relative to its Eurozone peers. After a contraction of -0.2% QoQ in Q1 (revised down last week from -0.1%), GDP stagnated at exactly 0.0% in Q2 – itself a downside surprise, as the preliminary estimate had printed at +0.2%. The mechanical consequence for France is a carry-over (acquis) of just +0.3% for full-year 2026 – meaning the **2026 budget law** +1.0% assumption now requires H2 growth averaging close to +0.94% per quarter.

The government had already acknowledged the deteriorating outlook: the April 2026 rapport sur *l'actualisation des prévisions* (RAA) revised the official growth forecast down to +0.9%, and a further reduction to +0.7% was announced in early July. With the carry-over now at just +0.3%, even this latest official forecast requires H2 growth averaging close to +0.55% per quarter – an assumption that looks increasingly difficult to defend.

On a YoY basis, France continued to decelerate to just +0.5% in Q226, against +1.0% YoY for both Germany and Italy – a 50bp gap that is striking given France's historically stronger cyclical profile.

CPI is running at +2.4% YoY as of August, which could provide a marginal upside surprise on the deflator relative to the budget law's c.+1.5% assumption, partially offsetting the volume miss on nominal GDP. However, a supply shock – by definition an adverse terms-of-trade shock – drives a wedge between CPI and the GDP deflator: import prices rise sharply, pushing headline CPI higher, while the deflator (which excludes imports and reflects domestic value-added prices) remains comparatively subdued, meaning the nominal GDP base is much weaker than a cursory CPI read would suggest.

2026 deficit

The 5.0% target that has switched from easy to challenging

The 2026 budget law targeted a general government deficit of 5.0% of GDP, representing a reduction of only 40bp from the 2025 outturn. Crucially, however, the actual 2025 deficit came in at 5.1% of GDP – better than the government's own forecast of 5.4% – meaning the effective consolidation effort embedded in the budget law was a mere 10bp. This 30bp gap mostly came from a massive beat on corporate tax receipt we discuss below.

That said, the budget law was built on a GDP growth assumption of +1.0%, which was already optimistic at the time of passage. Had the government translated the better-than-expected 2025 starting point into a more ambitious target, the 2026 objective could have been set at 4.7%. Instead, the windfall was absorbed by the deteriorating macro outlook, and the 5.0% target – already unambitious – quickly became a ceiling rather than a floor.

The erosion of the 5.0% target was acknowledged gradually and reluctantly. In early June 2026, the Cour des Comptes warned that the objective was "far from guaranteed" given weaker growth and rising interest costs. By early July, Budget Minister David Amiel quantified the risk at EUR5bn of slippage – EUR3bn on the State and Social Security, EUR2bn on local governments – and announced EUR3bn in additional savings. Economy Minister Roland Lescure simultaneously conceded that the 5.0% target would be "difficult to achieve". At an economic policy conference on 28 August, Lescure went further, explicitly acknowledging that revenues were not meeting projections.

Where do spending and revenues stand? What to expect for H2? Could the 2025 beat be repeated?

The problem lies on the state spending side… for the time being. Total state expenditure plus revenue-sharing transfers reached EUR328.1bn, up +4.8% YoY – outpacing revenue growth by 150bp. The single driver of this divergence is debt service, which reached EUR44.1bn at end-July, up +23.6% YoY (+EUR8.4bn in just seven months), consuming 74.4% of its full-year budget law allocation with five months remaining (vs 69% at the same time last year). This component alone already explains close to EUR3bn (0.1ppt of GDP) of slippage[1]. Public investment has been slightly more dynamic than expected but not to the same extent. All other expenditure lines – personnel (+2.5%), intervention (-0.8%) – are broadly within budget.

On the revenue side, revenues are in line, but H2 will likely miss a little. Net fiscal revenues have reached EUR182.9bn at end-July, up +3.4% YoY – broadly on track seasonally, with VAT (+4.1%) and income tax (+2.6%) performing adequately. However, the budget law's FY26 +1.0% real growth (and +2.5% nominal growth) assumption has been comprehensively invalidated. On the top of that, it assumes a tax elasticity of 0.5. That elasticity was already conservative relative to the long-run average, but generous relative to recent history. Sources of possibles miss include:

- **Growth miss is likely creating a revenues shortfall of around 5bp of GDP.** Nominal GDP growth is now tracking around +2.2% (volume +0.4%, GDP deflator inflation +1.8%) in our view vs the budget law's +2.5% assumption – a shortfall of -0.4ppt points. Applying the budget law's own elasticity of 0.5 to the EUR353.8bn base multiplied by the nominal GDP growth miss gives around EUR1bn of shortfall.
- **On VAT, close to 10bp of GDP of miss cloud occur.** Elasticity to GDP has collapsed in recent years (0.52 in 2023, 0.26 in 2024, vs an average slightly above 1.0 between 2016 and 2022. Roughly two-thirds comes from macro assumptions and base effects, while one-third is a residual 'unexplained' component linked to structural factors (according to IGF 2026 report) – unfavourable demand composition, rising VAT credit refunds and e-commerce fraud[2]. For 2026, if actual elasticity remains near 0.26, a second gap of c.EUR1bn will appear. This can rise to 0.1ppt of GDP once the structural residual is included, consistent with the IGF's documented annual miss pattern.
- On corporate tax, two topics should be circled out:
  - **The corporate tax execution is highly volatile. It close to fully explained the 2025 beat on the deficit (5.1% instead of 5.4% in the budget law)[3]. It should be more like a two-side risk for 2026.** The outperformance was driven by corporate taxable profits in 2024-25 proving stronger than the conservative BFI assumptions embedded in the budget law, with both instalment payments and the year-end balance coming in above forecast. For 2026, the budget law targets EUR59.0bn, a near-flat assumption (+EUR0.8bn vs 2025 revised). Risk vs budget law are relatively two sided and will not be removed before the very end of the year[4].

[1] *The Cour des comptes had flagged this risk explicitly: the budget law's EUR59.3bn debt service envelope was built on rate assumptions that the Iran-driven inflation shock has rendered obsolete.*
[2] *Since 2023, VAT forecasts have thus overestimated actual revenues by an average of EUR9bn per year – with the gap reaching EUR8.2bn in 2023 and EUR11.2bn in 2024.*
[3] *Corporate tax revenues came in at EUR59.9bn against an initial budget law target of EUR53.0bn (+EUR6.9bn outperformance, or 20bp of GDP, which explains the largest part of the 2025 beat). The 2025 budget law target started at EUR56.2bn, but was revised down to EUR53bn after the December 2024 instalment disappointed and the government added an explicit EUR1bn prudence buffer following the 2024 massive gap (EUR57.4bn actual vs EUR 72bn budgeted).*
[4] *The central uncertainty is the 15 December instalment: large companies must self-estimate current-year profits and pre-pay 98% of estimated IS (and 98% of the surtax) at that date – meaning the entire year's forecast can swing by several EURbn in a single payment. If 2026 profits disappoint – plausible given macro headwinds – companies will modulate downward, turning December into a downside risk rather than the upside surprise it was in 2025; conversely, a profit rebound would again produce a positive variance against the cautious budget law baseline.*

Base corporate tax: budget target vs execution FY since 2022

Year	Budget target of base corporate tax receipt (EURbn)	Executed (EURbn)	Gap (EURbn)
2022	40	62.1	22.1
2023	55.3	56.8	1.5
2024	72	57.4	-14.6
2025	53	59.9	6.9
2026	61.6		

Source: French Ministry of Budget, Crédit Agricole CIB

Base corporate tax: budget target vs execution at the end of July

Year	Executed on July 31	Share of target executed on July 31	Share of total executed on July 31
2022	**30.5**	76.3%	49.1%
2023	26.0	47.0%	45.8%
2024	24.6	34.2%	42.9%
2025	28.6	54.0%	47.7%
2026	29.1	47.2%	

Source: French Ministry of Budget, Crédit Agricole CIB

- **The exceptional corporate surtax creates a slight downward risk on revenues.** The 2026 budget law maintained the exceptional corporate surtax at the same rates as 2025 (20.6%/41.2%), but raised the eligibility threshold. The tax base is the average corporate tax paid in year N and year N-1 – meaning 2026 and 2025. If 2025 corporate profits were weaker than assumed (consistent with near-zero growth), the N-1 component mechanically drags down the 2026 surtax yield. Deloitte produced a very interesting simulation, which integrates both this base effect and second-round behavioural responses (profit-shifting, margin compression). It estimates the effective yield at c.EUR5bn – roughly EUR2.3bn below the government's EUR7.3bn assumption.

Conclusions on the 2026 fiscal execution

All in all, aggregating the three channels, the revenue shortfall that could materialize in H2 could realistically reach EUR4-6bn, or roughly 15-20bp of GDP, while the positive surprise for 2025 is unlikely to repeat. On top of rising interest costs discussed above, that will likely add a further c.10-15bp of pressure, execution risks on social security spending and the absence of any meaningful improvement from local governments add residual uncertainty.

The government has not officially revised its 5.0% target, preserving negotiating room ahead of the 2027 budget presentation in early October. In practice, however, the implicit official range has shifted to c.5.2%. The consensus among independent forecasters now clusters around 5.1-5.3%, with the upper end of that range increasingly plausible given the H2 revenue dynamics. Banque de France's June 2026 projections are aligned with a deficit that should stand at 5.2% of GDP.

In short, 5.0-5.1% has become very challenging, c.5.2% is the central case now, and +5.3-5.4% is plausible if social security overruns, local government slippage and corporate tax revenues disappoint in Q4.

Unchanged fiscal policy: the road to a 5.8% deficit in 2027?

As explained in July, the arithmetic of a 2027 fiscal drift is straightforward, even if its political resolution is not.

The official 2026 target remains 5.0%, but as argued above, let's use BdF forecast of 5.2%, for 2027. **From there, unchanged fiscal policy generates a rapid deterioration of close to 1ppt through two largely mechanical channels:**

1. **The first is interest expense. France faces the most acute rise in debt servicing costs of any major developed economy – more severe than the UK or Japan, slightly above the US, and well above the Eurozone average.** The sell-off this summer compounded this effect, and part of the 2026 mild fiscal slippage will likely come from an interest cost surprise on the upside. General government debt at 115-116% of GDP currently costing close to 2.0% of GDP per year. However, new issuance is costing closer to 4.0%. The interest bill is set to roughly double as a share of GDP by the end of the decade – rising from 2% to around 4% of GDP. This adds approximately 30-40bp of deficit per year, or around EUR10bn annually, under unchanged policy. **In 2027 alone, the contribution is around 30bp, or EUR9bn.**

2. **The second channel is social spending indexation.** Pension, health[5] and other social expenditures are covered by the social security budget – not the general budget – and are therefore indexed over inflation, not frozen by a special law (see appendix) if no actual budget is voted by year-end. Under unchanged fiscal policy:

   - **The pension branch contributes a net drift of roughly +EUR5bn (15-18bp of GDP) to the 2027 social security deficit.** This reflects a spending increase of approximately +EUR10bn that outpaces the EUR5bn automatic revenue growth from wage-linked contributions. The spending drift breaks down into a price effect of c.EUR6.5bn, assuming a 1.6% inflation indexation and volume effect of c.EUR3bn driven by the structural demographic inflow of new retirees. A specific additional item of c.EUR1bn arises from the ramp-up of the 2023 reform suspension decided last year. **A complete freeze of pension spending would therefore save only the price effect, which corresponds to c.20bp of GDP.**
   - **The healthcare branch (ONDAM), contributes a net drift of roughly +EUR4-5bn (c.15bp of GDP) to the 2027 social security deficit.** This reflects a spontaneous spending growth of approximately +EUR9bn that exceeds a c.EUR4-5bn automatic revenue growth from health contributions. The spending drift breaks down into a price effect of c.EUR3-4bn – embedded in annual tariff renegotiations with healthcare professionals, permanent Ségur wage costs and pharmaceutical price trends – and a volume effect of c.EUR5-6bn driven by rising outpatient activity, hospital catch-up dynamics, sick-leave claims and aging-related medical and social spending. The mix price vs volume for healthcare therefore providing less room for freeze than for pensions. The PLFSS 2026 already required EUR4.5bn in savings measures, which roughly correspond to the price effect, to just to bring the growth rate from 3.4% down to 3.1%, which illustrates the scale of the effort required.
   - **The social security remaining branches (disability, AT-MP, family, autonomy) contribute a combined net drift of roughly c.EUR1-2bn (c.5-8bp of GDP) to the 2027 social security deficit.** This reflects a spending drift of approximately +c.EUR2-3bn that modestly exceeds the c.EUR1-2bn revenue growth from the corresponding contributions. The spending drift breaks down into a price effect of c.EUR1.5bn from the inflation indexation effect, and a volume effect of c.EUR1bn driven by rising disability pension beneficiaries and structural ageing pressure on the autonomy branch, partially offset by declining birth rates containing family benefit growth. **A complete freeze of pension spending would therefore save only the price effect, which corresponds to c.5bp of GDP.**

All in all, as covered in July, we have a somewhat more conservative estimate of a 2027 under unchanged fiscal policy that the government. The deterioration totals c.EUR20bn: EUR5bn from pensions, EUR4-5bn from healthcare and EUR1-2bn plus the close to EUR10bn interest charge increase. When coupled with some healthcare savings that were passed by decree over the summer (see below for details) for around EUR2bn, this implies a 2027 deficit of approximately 50-55bp above the 2026 one. **We believe that 5.7-5.8% is therefore a reasonable figure for 2027 deficit under unchanged fiscal policy (no PLFSS – but the health decree kept – and a carbon copy of 2026 for the state budget). That will be the baseline from which efforts will be computed.**

The three main risks are: the final indexation rate (upside if inflation stays elevated through October), the revenue offset (sensitive to the growth slowdown) and ONDAM execution (which has overshot its voted target every year since 2017). Those risks are mainly tilted toward an even higher deficit figure.

[5] *For health expenditure (and for pensions as well), beyond the price effect, there is clearly a volume effect linked to the aging of the population (ie, something other than indexing to inflation) which is also the 'natural drift' of the deficit in the medium term.*

Lecornu's plan for 2027: limiting the damage

To pass a budget for 2027, Sébastien Lecornu will likely use Article 49.3. This means that in order to stay in office as PM and to get his budget approved, he needs to:

- Keep his coalition (Les Républicains, Ensemble and part of LIOT)
- Get the implicit support of the RN or the PS (the agreement that one of them would not vote against the government but abstain at the vote).

Over the summer, Lecornu announced possible paths / measures, and others were reported in the press.

Let's dig into the main measures that could be used, their budget impact and our understanding of the political capacity to move on those.

Social Security Budget (PLFSS)

The social security financing law (PLFSS) will likely target around EUR5bn (close to 0.2ppt of GDP) of savings, with around EUR2bn already passed by decree and supposed to apply under unchanged fiscal policy. This means the PLFSS would gain only 10-15bp of deficit reduction (5.5-5.6% if PLFSS passed and no savings on the PLF).

- **Indexations (a broad freeze – "*année blanche*" – ex-Healthcare, proposed and then dropped by former PM François Bayrou last year, would save up to c.EUR11-12bn or 40bp of GDP[6]) will likely propose a potential fiscal gain of c.EUR2bn, only covered by the PLFSS.**

  The Lecornu government will likely propose a partial *année blanche* scheme. Lecornu officially ruled out a blanket freeze but is actively pursuing a tiered de-indexation of higher pensions. Budget Minister David Amiel opened the debate on 31 July, calling automatic indexation "a mechanism that crowds out essential investment". Finance Minister Roland Lescure followed on 13 August, explicitly floating "a more moderate indexation for wealthier retirees" as a path he wanted examined. By 24 August, both ministers confirmed that de-indexation "is on the table" and said that "everyone will have to make an effort", while ruling out cuts to small pensions and social insurance schemes. The most likely scheme would be a three-tier structure – full freeze above a high threshold, partial indexation in the middle, full indexation for small pensions – with Lecornu having vetoed a blanket freeze.

  The government's actual measure is therefore likely to land in the EUR1-2bn range, far short of the structural drift it is meant to address. While full freeze of all pension indexation would save approximately EUR5bn, the targeted scenarios under discussion are arithmetically much smaller: a freeze above EUR3,000/month yields roughly EUR0.7-1.0bn, a freeze above EUR2,000/month yields roughly EUR1.2-1.8bn (ie, EUR0.5-0.8bn more). Since the government has not actively discussed a freeze of income tax brackets[7], we estimate that a government proposal around EUR2bn of savings out of EUR11-12bn fully depends on the fate of the social security financing law (PLFSS), not the state budget (PLF).

  The parliamentary arithmetic makes passage of any meaningful de-indexation measure structurally unlikely, and the 2025 precedent provides a precise read-across. Bayrou's measure was struck down by a 308 to 99 vote on first reading in November 2025, then 197 to 84 on second reading, with RN (103 votes) and PS (61 votes) forming the core of the majority against it. The RN's opposition is categorical and electorally locked – with 13.6m voters aged 65+ representing a core constituency ahead of the presidential election, the party has no incentive to move. The PS position is more conditional: some PS MPs have acknowledged de-indexation as a "non-negligible savings lever", but their conditions (accompanying revenue measures on inheritances, corporate social niches and AI giants) are structurally incompatible with the government's commitment to not raise taxes. **The base case is therefore a repeat of the 2024-25 pattern: the measure**

[6] *EUR6bn on pensions, EUR2bn on the rest of the social security ex-Healthcare and EUR3-4bn on the income tax bracket freeze*
[7] *Which would save approximately EUR3.5-4.0bn in 2027.*

enters the PLFSS, is struck down in committee by a RN-LFI-PS coalition, and the drift remains largely unaddressed in the 2027 budget.

- **Healthcare (ONDAM) measures, also covered by the PLFSS will likely cover four topics: (1) sick leave conditions; (2) work accident and occupational disease (AT/MP) daily allowance package; (3) reimbursement rates of healthcare and prescription drugs; and (4) health co-payments (*franchises médicales*). They lead to a potential global fiscal gain of c.EUR3bn, EUR2bn of which were already passed by decree over the summer (and will therefore apply in the absence of PLFSS).**

PM Sébastien Lecornu has already locked in via décret or the LFSS for 2026 some measures that will apply from or 2027 or Sept 2026[8].

On the first topic, he has signalled that he wanted an extension of the *délai de carence* (from three to seven days) and a further cut to the daily compensation replacement rate below the 1.4x SMIC ceiling, for a combined EUR1bn gain. This is one of the highest-risk items in the entire PLFSS as it was already rejected under Bayrou in 2025. PS has made its opposition categorical – Olivier Faure has explicitly listed it as a trigger for a vote of no confidence – and will not negotiate on this point. RN's position is structurally split: the party has historically supported *carence* extension for civil servants but opposed it for private-sector workers, giving it maximum leverage to extract concessions elsewhere in the budget in exchange for abstention. In our view, the government's only viable path to passing the *carence* measure is using Article 49.3, which Lecornu has said he wants to avoid – making the legislative sick leave package a possible casualty of the autumn negotiations.

On the second, the government is pursuing the full taxation of AT/MP allowances – currently only 50% taxable – for an additional EUR285m on top of the summer decree effective 1 November that lowers the AT/MP daily allowance ceiling from 3.0x to 1.8x SMIC (for an additional c.EUR270m). This measures bypass Parliament entirely and make this portion certain to be executed. The taxation measure faces the same structural vulnerability as the sick leave package: both RN and PS have historically opposed any erosion of AT/MP protections. The base case is EUR270m locked in by decree, with the EUR285m taxation measure a likely casualty of the autumn negotiations.

On the reimbursement rates of healthcare and prescription drugs, again, four decrees published on 22 August 2026, effective 1 January 2027 are supposed to save EUR1.4bn in 2027. The decrees reduce Assurance maladie reimbursement rates on dental care, medical devices, transport and drugs with low or moderate medical benefit Since the measures are regulatory, they are execution-certain – but the PLFSS 2027 is the first vehicle through which the same RN-PS-LFI coalition that rejected the 2025 mutuelle surtax (236 to 64) could legislatively reverse them. This EUR1.4bn gain is therefore the highest-value item in the package and the single largest bargaining chip in the autumn negotiations.

Finally, the annual patient co-payment cap (*franchise médicale*) from EUR100 to EUR140 and patient co-payment reduction on drugs with low or moderate medical benefit was also already passed by decree on 24 August, in order to save EUR300m in 2027. A broader version of this measure (valued at EUR750m/year) was rejected 197 to 23 by the National Assembly in November 2025. The PLFSS 2027 does not re-open the *franchise* itself, but it is the first legislative vehicle through which deputies could attempt to cap or reverse the decree. The *franchise* is therefore the one item where RN and PS could find common ground to legislatively reverse a government decree, making it a live bargaining chip in the autumn negotiations.

[8] *A prescription caps at 31 days (initial) and 62 days (renewal), with mandatory medical review beyond 3 months – in force on 1 September 2026. Second, the ceiling for sick leave compensation was cut from 1.8x to 1.4x the minimum wage by decree in February 2025, in force since April 2025. Third, accidents at work and occupational disease indemnities capped at four years per incident, in force for new cases from 1 January 2027 – but with full budgetary effect only from 2031 given the horizon.*

State budget (PLF)

The State budget (PLF) likely measures amount to c.EUR10bn (close to 0.3ppt of GDP) of savings. Combined with what was just said on the PLFSS, this could bring the deficit to 5.2-5.3% in our view.

Spending

- **A massive EUR2.8bn cut to the "Travail, employ" mission is likely to be the largest single spending reduction in the PLF 2027. This could pass at least in a narrower version.** This mission funds France's active labour market policy such as apprenticeship hiring bonuses, jobseeker training, the Contrat d'engagement jeune (CEJ) for young people not in employment or education, the operating subsidy to France Travail (the public employment service), support for social enterprises employing people furthest from the labour market (IAE), and the regional co-financing of training plans for unemployed people (PRIC).

  Labour Minister Jean-Pierre Farandou has been the primary government voice on this case. At the end of July, he confirmed the EUR2.8bn figure and stated that he had secured a personal arbitration from PM Lecornu to ring-fence youth-related spending: apprenticeship hiring bonuses and the *Contrat d'engagement jeune* (CEJ) envelope are both protected. The PRIC (regional jobseeker training co-financing) could be zeroed out entirely from EUR527m, and state transfers to regions for CFA operating costs eliminated.

  Politically, the government's strategy is consistent but operationally contradictory: Farandou can claim he preserved the apprenticeship headline while the regional infrastructure underpinning it is being hollowed out. The Senate – historically the defender of regional prerogatives – is the most likely vector for partial restoration, as it was in both 2025 and 2026. That said, this theme is not the most controversial across opposition and could be secured.

- **On local authorities, the 2027 PLF will likely target a total effort of EUR6-7bn. This could pass like in the previous years, at least in a narrower version.** The PLF does not impose individual contracts but combines three indirect constraint mechanisms: (1) operating expenditure growth must be below inflation – 0.5ppt, with a clawback on monthly instalments for non-compliant authorities; (2) the Dilico, a pre-emptive levy on the wealthiest authorities introduced in 2025; and (3) the discretionary allocation of investment grants.

  Several measures have already been announced like (1) a cap on operating expenditure at inflation for close to EUR3.7bn in nominal savings, volume-neutral; (2) a freeze in the main transfers from the State to local authorities (the DGF) frozen in nominal terms at c.EUR27bn, as in 2026 – implying a real-terms loss of c.EUR350-400m; and (3) a cut to investment support grants (the mission "Relations avec les collectivités territoriales") for EUR200m. This amounts to c.EUR4bn already.

  New measures are relatively likely such as a cap on the VAT compensation fund for local investment (c.EUR7bn/year) and a Dilico renewal[9]. On the latter, if the 2027 levy is not enacted, the repayments owed on the 2025 and 2026 levies (c.EUR570m) cannot legally be disbursed, as there is no incoming flow to fund them. Both the *Cour des comptes* and the parliamentary mission (Cazeneuve-Pires Beaune-Vermillet) have recommended abandoning it. The government keeps renewal on the table without formally inscribing it for the time being.

- On the overall spending envelope, additional moderation will likely be proposed, but that will be sufficient to offset the Defence mission, which should rise from EUR57.0bn to c.EUR63.4bn, a +EUR6bn increase. We do not add this line to the total thus. Last year, ex-defence, Bayrou's government also wanted to freeze ministries' operating expenses and budgets, for a EUR4.8bn gain.

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[9] *Created in the 2025 budget (for a EUR1bn gain), renewed in 2026 (for an additional EUR740m while it was extended to municipalities), the Dilico is a levy on the monthly tax instalments of local authorities whose financial capacity exceeds the national average by more than 10%, with 90% returned to contributors over three years.*

Revenues

Lecornu has been explicit that the 2027 budget will contain no new tax increases relative to 2026. This make this part trickier, but not uncritical.

- **The reform of the 10% pension tax allowance (*abattement forfaitaire pour frais professionnels*[10]) on income tax could bring an additional EUR1.2bn.** The government is floating a conversion to a flat EUR2,000 deduction per retiree as an alternative or in addition to de-indexation of pensions.

  The government's proposal – identical to the Bayrou 2026 PLF proposal – would replace this proportional deduction with a flat EUR2,000 deduction per retiree in the household, mechanically raising taxes on pensions above EUR20,000/year. Last year, the proposal was struck down in committee and then rejected by 213 votes to 17, with RN, LFI, LR, UDR and PS all voting against. Only Edouard Philippe' Horizons group voted in favour of it.

  The RN's opposition is categorical. Recently, Jean-Philippe Tanguy claimed that retirees were turned into the "whipping boy", and Laurent Jacobelli explicitly listed the measure as a potential grounds for a no-confidence motion.

  The PS position is structurally identical to its stance on de-indexation – opposed in isolation, potentially negotiable only against revenue measures on inheritances and tax loopholes that the government has ruled out. The base case is a direct repeat of the PLF 2026 pattern: the measure enters the text, is struck down by the same cross-partisan coalition in committee, and the EUR1.2bn gain remains unbooked – leaving the government to choose between two politically unpassable instruments to address the same structural drift.

  On 29 August Lecornu explicitly acknowledged that "some parliamentary groups prefer to touch the 10% tax allowance" and that "there can be a debate between these two approaches" – framing it as a potential substitute for de-indexation rather than a complement.

- **Surtaxes on corporate profits and high household income are already included in the baseline deficit.** Together, they generate a close to EUR10bn gain. They will be proposed again, and we believe they will be maintained. Removing either measure would worsen the deficit relative to the 2026 baseline, not the other way around. Keeping them generates no fiscal improvement – it simply avoids a (risky) hole.

  On the corporate surtax (*contribution exceptionnelle sur les bénéfices* – CEB), it applies a surcharge on top of the standard 25% corporate tax rate for large groups, bringing the effective rate to approximately 31% for companies with turnover between EUR1.5bn and EUR3.0bn, and approximately 36% for those above EUR3.0bn. Around 300 groups are affected. It yielded EUR7.5bn in 2025 and is expected to yield EUR7.3bn in 2026. It was originally introduced for a single year in the 2025 budget law, and it was already extended once by the 2026 budget law. Economy Minister Roland Lescure confirmed on 24 August that it will be renewed for a third consecutive year in the PLF 2027. PM Lecornu struck a more cautious tone on 29 August, warning that renewal "would send a very bad signal to international investors" – but Bercy sources are unambiguous: "the maintenance of the surtax at full rate, as this year, is not really in doubt". We expect the CEB to be renewed, very likely at unchanged rates. The political and fiscal logic is overwhelming, and the track record speaks for itself: the measure has now passed through Parliament twice, each time despite business opposition and government promises of temporariness. No parliamentary majority – including the RN and the PS, both of which supported the measure in prior years – has an incentive to hand back EUR7.3bn to large corporates in an election year. The only realistic variable is whether Lescure can secure a modest rate reduction or threshold increase as a concession to business, contingent on offsetting savings being found elsewhere.

[10] *Under current rules, retirees deduct 10% of their pension income from their taxable base, capped at EUR4,399 per household – a mechanism introduced in 1978 to align retirees with active workers, at a total cost of EUR4.7bn to the State.*

On the high-income household surtax (CDHR), it ensures a minimum effective tax rate of 20% on the income of households above EUR250,000 (single) or EUR500,000 (couple). Unlike the CEB, it does not require annual parliamentary renewal: the 2026 budget law replaced its original sunset clause with an automatic condition – the CDHR remains in force until the budget deficit falls below 3% of GDP. No PLF 2027 provision is then needed to keep it alive. Its fiscal impact has proved far smaller than advertised: the actual 2025 yield was only EUR0.4bn against an initial forecast of EUR1.9bn, largely due to taxpayers deferring dividend distributions. The 2026 budget law revised the 2026 forecast down to EUR650m. The CDHR is therefore politically visible but fiscally modest – and already locked in by law regardless of what the PLF 2027 contains.

Combined, the two measures represent approximately EUR8bn of revenues that are already in the baseline. The PLF 2027 debate is not about whether to **raise this revenue, but about whether the government can afford to give any of it back.**

- **Leaked documents circulating last week briefly put the taxation of *épargne salariale* on the 2027 budget agenda – a measure estimated to raise approximately EUR1bn.** The leak prompted the PM's office to refer the matter to the judiciary branch. PM Lecornu has since publicly ruled out the measure, confirming that the government will not commit to this reform. The episode illustrates both the political sensitivity of touching incentivised savings vehicles and the difficulty of identifying credible revenue measures in a constrained fiscal environment.

Measures already excluded

- **Wealth tax proposals, Zucman tax**

The Zucman tax is a proposal – championed by left-wing and ecologist groups, inspired by economist Gabriel Zucman – to institute a minimum 2% floor tax on the net wealth of households with more than EUR100m in assets. If a household does not already pay, through existing taxes (income tax, social contributions, wealth taxes), a total burden equal to at least 2% of its wealth, it would owe the difference. Proponents estimate it would affect around 1,800 households and yield up to EUR20bn per year.

The Zucman tax has now been rejected twice by Parliament – once by the Senate in June 2025, and once by the National Assembly on 31 October 2025, where both the full version and a 'light' PS alternative (a 3% floor on wealth above EUR10m, excluding innovative and family companies) were voted down by 228 votes to 172 and 228 to 171 respectively. The RN, which had supported the measure in 2024, voted against it in 2025.

The yield debate has also shifted. The president of the CAE (the PM's economic advisory council) has revised the realistic yield down to less than EUR5bn – far below the EUR15-25bn cited by proponents. Lecornu himself stated bluntly in the National Assembly: "There is no tax that is both constitutional and yields EUR10 or EUR 15 billion". The government also cited a Conseil d'État opinion on the unconstitutionality of the light version.

Last year, it has since become clear that the Zucman tax was not an actual PS. Faced with the arithmetic reality that neither the RN nor the centrist bloc would support the measure, Olivier Faure acknowledged on 31 October 2025 that the tax would "in all likelihood not be voted" and asked Lecornu for alternative tools. The PS ultimately accepted an IFI 2.0 compromise rather than trigger a motion of no confidence.

Therefore, rather than the Zucman tax, the 2026 budget introduced a package of wealth measures negotiated between the government, MoDem and the PS. The IFI (wealth tax on real estate) was transformed into an "impôt sur la fortune improductive" (IFI 2.0), broadening the base to include luxury goods, yachts, crypto-assets, cash and non-productive financial assets, at a flat rate of 1% with the threshold maintained at EUR1.3m. This should yield approximately EUR0.5-3.0bn (the range reflects significant uncertainty about behavioural responses) and is already included in the 2026 figures.

A tax on patrimonial holding companies was introduced, initially proposed at 2% on financial assets but heavily amended to 20% on a very narrow base of luxury and non-professional assets. This should yield c.EUR100-200m with the first revenues in 2027.

Lecornu has been explicit that the 2027 budget will contain no new tax increases relative to 2026. The Zucman tax will not appear in the government text. The IFI 2.0 and the holdings tax are already in the baseline. The 2027 debate on wealth taxation is therefore likely to be a parliamentary one, driven by PS and left-wing amendments, rather than a government initiative.

The political context has, however, shifted materially. With the presidential election due in 2027, the Zucman tax has migrated from a budget instrument to a campaign issue. Zucman himself, in a September 2026 interview, stated that the tax "will eventually be adopted" and described the presidential election as the decisive moment. The PS may therefore have less incentive than in 2025 to accept a diluted compromise – preserving the issue for the campaign may be more valuable than securing a modest parliamentary win.

Conclusion

Starting from a no-policy-change deficit of 5.8% of GDP – already incorporating the corporate surtax in the baseline – the measures the government is likely to propose in the PLF 2027 amount to a consolidation effort of roughly EUR15-18bn, bringing the deficit to approximately 5.3%. The official target remains 4.9%, a gap the government will need to fill with measures not yet announced or that it will quietly abandon.

We estimate that EUR5-6bn of the projected savings will prove difficult to deliver in execution – pension indexation, the 10% pension tax allowance, and a portion of the local authority and healthcare savings have resisted arbitrage in each of the past two budget cycles. Our most likely scenario is therefore an effective deficit of around 5.5% of GDP, representing a real but modest improvement of 0.3ppt vs 2026 with unchanged fiscal policy but deficit increase of around the same amount, well short of France's European commitments.

As in the past two year, the political constraint is the binding one. The budget will be presented on 30 September, with parliamentary debate opening on 12 October and a first-reading vote due by 17 November. With no stable majority and nine presidential candidates in the National Assembly, the government faces an environment as least as hostile as in either 2025 or 2026.

The PS's position has hardened materially. At the party's summer conference in Blois on 28 August, Olivier Faure was unambiguous: "The suspense is low, to say the least. There will be a no-confidence motion". His reasoning is explicitly electoral – he sees no scenario in which Gabriel Attal or Edouard Philippe's camp would offer meaningful concessions to the left eight months before the presidential election. Notably, François Hollande, notably, broke with Faure on this, calling for negotiation rather than an automatic no confidence motion and warning that a budget-less start to 2027 would put any incoming president in an extremely difficult position.

The RN's calculus is more ambiguous – and arguably more consequential. Jordan Bardella stated that the party "rules out nothing in principle" but repeated this week-end at Cernobio that no tax increases will be tolerated. Marine Le Pen, who has announced EUR125bn in spending cuts and a constitutional golden rule targeting a deficit below 1% of GDP, must weigh the reputational cost of triggering instability against the electoral benefit of appearing fiscally responsible. The party's internal debate has not yet been resolved.

The 2027 budget can be passed in a diluted form – either through a negotiated compromise with the PS (as in 2026) or using Article 49.3, with the RN declining to join a no-confidence coalition for electoral credibility reasons with an effective deficit near 5.5%, kicking the structural adjustment to the next presidential term.

Below that level (ie, if the government insists on a 4.9% target requiring measures the PS deems unacceptable), the risk of a no-confidence motion becomes acute.

What about a special law?

Without a budget, a special law will be voted by year-end. A full-year special law in 2027 would be constitutionally and operationally unprecedented, severely constraining fiscal policy[11].

However, it would be very similar to unchanged fiscal policy in terms of deficit. The French Treasury estimates a deficit deterioration of at least +0.5ppt of GDP relative to 2026 – a static lower bound, excluding uncertainty and financing cost effects. With France's 2026 deficit tracking around 5.2%, a prolonged special law would push the 2027 deficit to approximately 5.7-5.8% of GDP.

While administratively extremely burdensome – freezing investment grants, suspending discretionary measures and paralysing any new fiscal initiative – a full-year special law produces a deficit outcome that is not so different in net terms from a negotiated budget: various effects partially offset each other, and our central scenario puts a compromise budget at only 0.2-0.3ppt better (c.5.5% of GDP).

On the top of that, if the PLFSS is passed and allows c.EUR5bn in savings even under a special law, the gap narrows further to perhaps 5.5-5.6%, making the credibility premium of a formal budget – for PS or RN – look thin.

Consequently, the real incentive to compromise may therefore be less about fiscal arithmetic than about avoiding ownership of an institutional crisis ahead of the 2027 electoral cycle. In turn, this reinforces the assessment that an executed budget below 5.5% of deficit in 2027 is increasingly challenging as well.

[11] *Under the special law, the state operates under voted serviced: spending is capped at the minimum deemed strictly necessary for public service continuity, within the global ceiling of the previous budget law (2026 in this case). The Conseil d'État opinion of 9 July 2026 clarified that only expenditure tied to prior commitments or strictly required for continuity may be authorised, with some flexibility in credit allocation across programmes but no breach of the aggregate envelope.*

The fiscal deterioration stems from three distinct channels. On the revenue side, the government cannot introduce new tax measures, cannot renew provisions expiring on 31 December 2026, and – critically – income tax brackets would not be indexed to inflation, mechanically raising the tax burden without any legislative act. On the spending side, mandatory expenditure (social transfers, wages) continues to grow spontaneously, while the 2026 budget ceiling may prove insufficient to cover all inescapable outlays – the budget directory estimates 2027 spending needs exceed the 2026 envelope by approximately EUR10bn. On the social security side, the absence of an ONDAM means healthcare spending lacks a binding anchor, and the Acoss financing requirement could exceed EUR90bn, generating treasury tensions.

The IGF's aggregate estimate – a deterioration of at least +0.5ppt of GDP relative to 2026 – is explicitly a static lower bound. It excludes the confidence shock, the likely widening of sovereign spreads, and the probability that a sub-annual application actually produces worse outcomes than a full year, due to expenditure acceleration in Q4. A realistic dynamic estimate would likely add a further 0.2-0.3ppt, pointing to a 2027 deficit of 5.9-6.0% of GDP in an adverse but plausible scenario.

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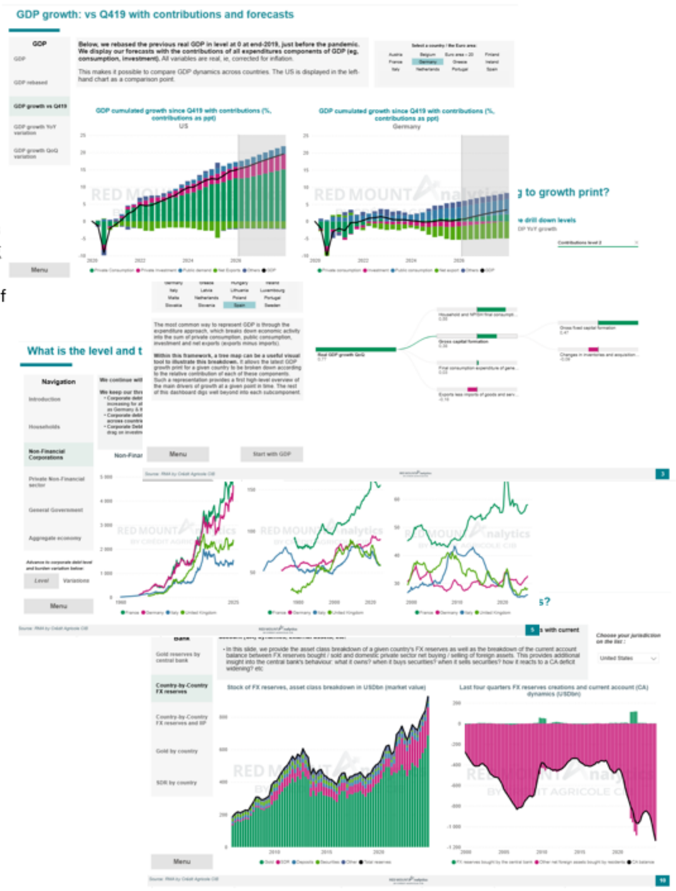

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