Economics Focus

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French budget bill: how to find EUR54bn?

- **Last Thursday, Prime Minister Sébastien Lecornu presented his budget bill for 2027. The bill targets EUR54bn of fiscal savings, aimed at a 5% public deficit in 2027. In this paper, we review the list of planned savings presented and start discussing what is easy, what is doable and what seems impossible.**
- **This note follows our previous piece in which we dissected the arithmetic of the French budget, laying out our expectations on consolidation measures and final deficit figures.**
- **The starting point has since deteriorated further. The latest budget execution data now tracks at 5.4% of GDP – worse than our own 5.2% estimate and still above the government's 5.0% target at the time of writing. In other words, the fiscal hole is deeper than assumed just one month ago.**
- **The two budget bills (on the general budget [PLF] and the social security budget [PLFSS]) presented last Thursday were overall more fiscally aggressive than the market had anticipated – a necessary stance to keep the 5.0% deficit target within reach by 2027, but one that raises significant execution risk.**
- **The sharp OAT sell-off since the government cut-off date (ie, the second half of August) has already eroded the fiscal math. Even assuming that the bills are passed by both the National Assembly and Senate with no modifications, we estimate that the 2027 deficit would land closer to 5.2% rather than 5.0%. The room to improve the deficit in 2027 vs 2026 – which would itself represent a deterioration vs 2025 – is now razor-thin and, in our view, unlikely to survive the parliamentary process intact.**
- **As shown last week, with new rates, stabilising France's debt-to-GDP ratio requires a structural primary surplus of around 1% of GDP today – rising to 2% within three years as interest costs compound. The snowball effect is gaining speed: debt crossed 119% of GDP in June and will breach 122% even under the most optimistic budget scenario. The arithmetic is unforgiving and the window to act is shrinking fast.**
- **For more on this topic, see our France Monitor dashboard at Red Mount Analytics. It provides an in-depth view into the polls, macro & fiscal developments, capital flows and our related market analysis.**



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The budget for 2027

On Thursday 1 October, the Lecornu government presented its two budget bills for 2027: the draft general budget (*projet de loi de finances* – PLF) and the draft social security budget (*projet de loi de financement de la sécurité sociale* – PLFSS).

The legislative calendar for those bills is as follows:

- 7-9 Oct — Part I of the draft general budget examined in the finance committee at the National Assembly
- 13-19 Oct — Part I of the draft general budget debated on the floor at the National Assembly
- 20 Oct — Vote on part I of the draft general budget at the National Assembly
- 20-26 Oct — Draft social security budget debated on the floor at the National Assembly
- 27 Oct — Vote on draft social security budget at the National Assembly; PLF Part II of the draft general budget (spending) opens at the National Assembly
- 17 Nov — Vote on the full draft general budget at the National Assembly; text sent to the Senate
- 1 Dec — Constitutional 20-day deadline for the draft social security budget.
- 21 Dec — Constitutional 70-day deadline for the draft general budget.

Main figures and breakdowns

The package was more fiscally aggressive than the market had anticipated – a necessary stance to keep the 5.0% deficit target within reach by 2027, but one that raises increasingly significant execution risk.

The government's headline figures boils down to total savings of EUR54bn. Of this total, EUR43bn are new measures included in the two draft budgets. The official press kit published on budget.gouv.fr and the Council of Ministers communiqué, then announce a split of EUR18bn of revenue measures and EUR25bn of spending savings.

Two accounting conventions explain why these numbers look large: revenue measures are counted against 2026 levels, and spending "savings" are measured against the counterfactual – ie, what spending would have been without the measure. Spending still rises in absolute terms.

To better understand the content of those bills and their possible political obstacles, we break down the figure in a more analytical way:

- The headline EUR54bn breaks down as EUR43bn of new measures in the two bills and c.EUR11-12bn for the full-year carry-over of measures already taken in 2026 (low-value drugs, sick leave, unemployment insurance reform). This was already in the baseline and does not reduce the deficit further.
- We reconstructed the breakdown from the remaining EUR43bn, then assigned each measure to the relevant bill (which would be particularly relevant if only one bill passes):
    - Draft general budget – revenue: EUR5.3bn (EUR7.6bn of new levies, less EUR3.1bn of 2026 one-offs not repeated, plus c.EUR0.8bn of other receipts),
    - Draft general budget – spending: EUR12.8bn (State and local government)
    - Draft social security budget: EUR22.3bn (EUR12.7bn of revenue measures and EUR9.6bn of spending savings)
    - We found c.EUR2.6bn, all on the spending side not itemised by the government.

We provide a full detail of measures ranked by public deficit impact, a grouped by bill (draft general budget vs draft social security budget) in a separate annex.

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Our views

The draft social security budget carries the bulk of the adjustment – and could be approved on a stand-alone basis

At EUR22.3bn out of EUR43bn, the draft social security budget accounts for more than half of the new measures. This is the single most important structural feature of the package. The PLF, by contrast, delivers EUR18.1bn – of which EUR5.3bn is revenue and EUR12.8bn is spending – and relies heavily on transfers to local government whose deficit impact is conditional (see point 4 below).

If the draft general budget were to fail in parliament or be substantially amended, the draft social security budget alone would still represent a very substantial savings: the public deficit would likely land only marginally above 5.5% of GDP, rather than the 5.0% target.

The draft social security budget's firepower comes from four sources: pension under-indexation (EUR4.1bn), a tighter ONDAM health-spending target (EUR4.1bn net), higher employer contributions through payroll-tax reform (EUR6.6bn combined), and a range of smaller social-spending savings.

The Social Security deficit itself narrows from EUR21.8bn to EUR12.7bn – a reduction of EUR9.1bn – even as social spending rises by EUR18bn in absolute terms.

Pensioners are the main political flashpoint – and the measure is split across both bills

The government is pulling both available levers simultaneously on pensioners, which is the most politically unpopular part of this budget. The government has not gone all the way on either measure – it has not frozen all pensions and it has not abolished the pension allowance cap. But using both mechanisms at once, against the backdrop of the 2023 pension reform and with the 2027 presidential election approaching, makes this the most politically challenging part of the package.

In the draft social security budget, pension under-indexation (Art. 35) saves EUR4.1bn: pensions below EUR1,260/month are fully protected, while those above are frozen.

In the draft general budget, the cap on the 10% pensioner tax allowance (Art. 3) saves a further EUR1.4bn, lowering the household deduction from EUR4,439 to EUR3,000.

Together, the government generates EUR5.5bn of the total savings from retirees.

The parliamentary debate will likely force a choice: modify the indexation threshold, the allowance cap, or both. The indexation measure is also structurally fragile: it is set by decree and can be reversed by the next government.

Taxes are rising, despite the government's promise.

The government's claim that there is "no across-the-board tax increase" is technically defensible – income tax brackets are indexed to inflation, the large-company surcharge is reduced and the main rates are unchanged. But the effective tax burden rises meaningfully through a series of targeted measures.

The two largest measures are on employers: broadening the payroll-tax relief base to include salary supplements costs EUR3.7bn and freezing the general payroll-tax relief scale adds EUR2.9bn – a combined EUR6.6bn that falls squarely on labour costs.

Beyond payroll, the pensioner allowance cap (EUR1.4bn), the taxation of daily sick-pay benefits like earnings (EUR1.4bn), the transport infrastructure levy (EUR0.8bn), the LMNP and apport-cession tightening (EUR0.8bn), the termination payment cap (EUR0.8bn) and the end of reduced VAT on TV services (EUR0.4bn) all add to the burden.

The tax-to-GDP ratio is set to rise by around 30bp to c.44.2% of GDP.

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Local government is asked to do more than the headline suggests – and the execution risk is real.

The headline local-government savings is EUR4.6bn[1] but the full picture is larger. This is the single largest source of fragility in the package.

Those measures improve the State's accounts directly, but they reduce the consolidated public deficit only if local authorities respond by cutting their own spending – which is not guaranteed, particularly in an election year.

More generally, all of the EUR43bn is not equally reliable. We estimate that close to EUR15bn is fragile for the consolidated deficit, leaving a genuinely solid core of around EUR30bn only. On the top of the local government transfer reduction, we noted:

- EUR2.9bn from a 2026 payroll-tax relief decision: this may already be captured in the c.EUR11bn carry-over, in which case it would be double-counted.
- EUR3.0bn of accounting measures with limited or no net impact: a pension-fund contribution (EUR1.8bn, zero net effect across the public sector as a whole) and an assumption on local tax rates (EUR1.2bn).
- EUR2.6bn of targets rather than enacted measures: anti-fraud savings (EUR1.0bn), the outcome of the sick-leave negotiation (EUR1.0bn) and the back-to-school allowance reform (EUR0.6bn) – all subject to negotiation or behavioural assumptions.

How recent news has already changed the picture

The High Council of Public Finance (*Haut Conseil des finances publiques* – HCFP) published on Friday an opinion on the 2027 budget.

The HCFP is France's independent fiscal watchdog, attached to the Court of Auditors (*Cour des comptes*), tasked with assessing the realism of the government's macroeconomic assumptions and fiscal projections.

Its assessment, assuming a full budget passed this winter, is notably cautious, pointing to optimistic macro assumptions and significant risks to the government's 5.0% deficit target, particularly on growth, rates and execution.

On the one hand, growth is the first 'stretchy' assumption: the government assumes 1.0% in 2027, vs c.0.8% for the HCFP/consensus. We forecast growth at 0.7%. A c.25ppt shortfall would mechanically imply c.EUR3bn of lower revenues using a unit revenue elasticity, or c.10-12bp of GDP added to the deficit.

Rates / refinancing conditions are the second risk. The budget was effectively built on mid-August market conditions, while French yields rose materially through September. If rates remain around current levels rather than the draft general budget assumption, the higher interest bill would add c.EUR2-3bn to the 2027 deficit, equivalent to c.7-10bp of GDP.

We do not even take into account the negative impact of higher refinancing conditions on growth, which add another layer of risk.

Overall, even when assuming a budget passed during the winter, a more realistic execution consistent with the las reasonable assessment would already put the 2027 deficit at around 5.2% rather than 5.0%, after 5.4% in 2026.

The debt to GDP ratio is therefore very likely to cross 122% by 2027 (vs 121.7% in the new government projection) in the most optimistic scenario.

A future piece will dig into the political path to pass a budget and will quantify the final number we can expect.

[1] *EUR2.5bn from the CPEB (Art. 37), under which the State withholds part of its transfers, and EUR2.1bn from the FCTVA reform (Art. 35), which cuts the base VAT refund rate on local investment by 5pt.*

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Annex: detail and ranking of measures

Draft general budget: revenue (net EUR5.3bn)

Revenue measures are modest and spread across a range of instruments. The government is explicit that there is no across-the-board tax increase. Gross new levies total EUR7.6bn, reduced to EUR5.3bn net after the roll-off of 2026 one-offs.

- Cap on the pensioner tax allowance (Art. 3): EUR1.4bn. The household deduction for professional expenses falls from EUR4,439 to EUR3,000. Structural and recurring.
- Levy on dormant accounts at the Caisse des dépôts (Art. 23): EUR1.4bn. One-off. Refundable to account owners who come forward, making it closer to an advance on future State income than a conventional tax.
- Local tax-rate increases: EUR1.2bn. An assumption about local decisions, not a State measure.
- Anti-fraud push and one-off tax-compliance scheme (Art. 30): EUR1.0bn. A collection target, not a statutory yield.
- Tax on long-distance transport infrastructure: motorways and airports (Art. 22): EUR0.8bn. The rate moves from a flat 4.6% to a profitability-based scale up to 12.2%.
- LMNP depreciation cap and end of the apport-cession deferral (Art. 7 and 5): EUR0.8bn combined. Two property-related tax shelters tightened.
- End of reduced VAT on TV services (Art. 16): EUR0.4bn, plus other small unitemised measures: EUR0.6bn.
- Roll-off of 2026 one-offs: EUR3.1bn. The large-company exceptional corporate tax (Art. 15) is extended at lower rates, reducing its yield from EUR7bn to EUR5bn (-EUR1.6bn net of the shipping levy). A 2026 levy on the energy-sector pension fund (CNIEG) also falls away (-EUR1.5bn).
- Unallocated receipts: c.+EUR0.8bn, inferred from the gap between the EUR18bn government total and the EUR17.2bn identifiable line by line.

Draft general budget: spending (EUR12.8bn)

- The State freezes ministry credits in nominal terms, with Defence carved out (+EUR6.4bn to EUR63.4bn). Increases for Justice (+EUR0.4bn), Interior (+EUR1.0bn) and Education (+EUR1.1bn) are presented as internally offset and are not deducted from the EUR43bn.
- Labour ministry: EUR2.5bn. Credits fall from EUR20.5bn to EUR18.6bn, plus c.EUR0.75bn from earmarked taxes, including c.EUR1.1bn from France compétences, the vocational-training funding body (Art. 42).
- Local-government contribution to the budget savings, CPEB (Art. 37): EUR2.5bn. The State withholds part of its transfers to local authorities. A genuine saving for the consolidated public sector only if those authorities cut their own spending in response.
- FCTVA reform (Art. 35): EUR2.1bn. The base VAT refund rate on local investment falls by 5pt, with a preferential rate preserved for green and road projects.
- Civil-service pay-point freeze: c.EUR2.0bn. The Prime Minister's figure, absent from the press kit. Measured against a pay rise that was never formally decided.
- Cuts to development aid (-EUR0.4bn), France 2030 (-EUR0.4bn) and earmarked taxes of Ademe and Anah (-EUR0.5bn): EUR1.3bn combined.
- Other local-government transfers – EUR1.6bn total: EUR0.7bn in reduced grants, EUR0.6bn from capping the VAT share assigned to local authorities (Art. 36), and EUR0.3bn from DILICO, a revenue-withholding mechanism.
- APL housing-benefit freeze (Art. 74): EUR0.6bn.
- Prime d'activité freeze (Art. 74): c. EUR0.2bn. An iFRAP estimate, not official.

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- One caveat on local government: the press kit quantifies only EUR4.6bn of the local effort (CPEB and FCTVA); the remaining EUR1.6bn is drawn from iFRAP and the HCFP. Despite the cuts, local authorities' revenue still rises by c.EUR5bn in aggregate.

Draft social security budget (EUR22.3bn: EUR12.7bn revenue, EUR9.6bn spending)

The Social Security deficit narrows from EUR21.8bn to EUR12.7bn: it would have reached EUR22.6bn without measures. Social spending still rises by EUR18bn in absolute terms.

- Pension indexation (Art. 35): EUR4.1bn. Pensions below EUR1,260/month are fully indexed to inflation. Above that threshold, indexation is set by decree at 0%. EUR3.0bn falls on the basic pension schemes and EUR1.1bn on State pensions. Combined with the EUR1.4bn allowance cap in the PLF, the government generates EUR5.5bn of the total savings from retirees. Reversible by decree after the 2027 elections.
- ONDAM health-spending target (Art. 43): EUR4.1bn net. Growth set at 2.0% (+EUR5.5bn) against a 3.5% trend, implying EUR5.0bn of gross savings offset by EUR1.0bn of new spending. Main components: health-product price cuts EUR2.0bn (of which EUR1.3bn from price negotiations), sick-pay reform EUR1.0bn, hospital and care efficiency EUR0.9bn, transfers to complementary insurers EUR0.7bn.
- Broadening the base for payroll-tax relief to include salary supplements: EUR3.7bn. Employers lose some relief on low and mid wages, raising their contributions.
- Freeze of the general payroll-tax relief scale: EUR2.9bn. Decided in June 2026. The HCFP treats it as a 2027 measure, so it may duplicate part of the EUR11bn carry-over.
- AT-MP tariff reform, thermal-vehicle benefits and energy-sector (IEG) benefits in kind: EUR2.1bn (HCFP aggregate). The press kit puts the AT-MP package alone at EUR0.8bn, suggesting possible overlap.
- Higher employer contribution to CNRACL, the pension fund for local-government and hospital staff: EUR1.8bn. Adds equally to the fund's revenue and to public employers' costs: zero net effect on the consolidated deficit.
- Taxing daily sick-pay benefits (IJ) like earnings: EUR1.4bn (EUR1.0bn income tax, EUR0.4bn CSG). Both bills touch this measure; counted once here.
- Family benefit reforms (Art. 36-38): EUR1.1bn. The BMAF reference amount is frozen and the back-to-school allowance (ARS) is reformed. The HCFP describes the ARS saving as "undetermined".
- Cap on exemptions for termination payments at c.EUR48,000 (PLF Art. 2): EUR0.8bn. Both bills touch this measure; counted once here.
- Work-injury sick-pay ceiling lowered to 1.8× the minimum wage: EUR0.3bn. Employers are expected to compensate.

Three items fall outside the EUR43bn. The one-year extension of the complementary health insurers' levy (EUR1.1bn) is renewed unchanged and not counted as new by the HCFP. A pharmaceutical industry contribution (EUR1.7bn) and a sugar-tax extension (EUR0.3bn) are unconfirmed in the press kit and may sit inside the draft general budget's EUR0.6bn "other small items". The summer-2026 decrees – including the higher patient co-payment (EUR1.2bn, EUR2.2bn in total) – are carry-over and belong to the EUR11bn baseline.

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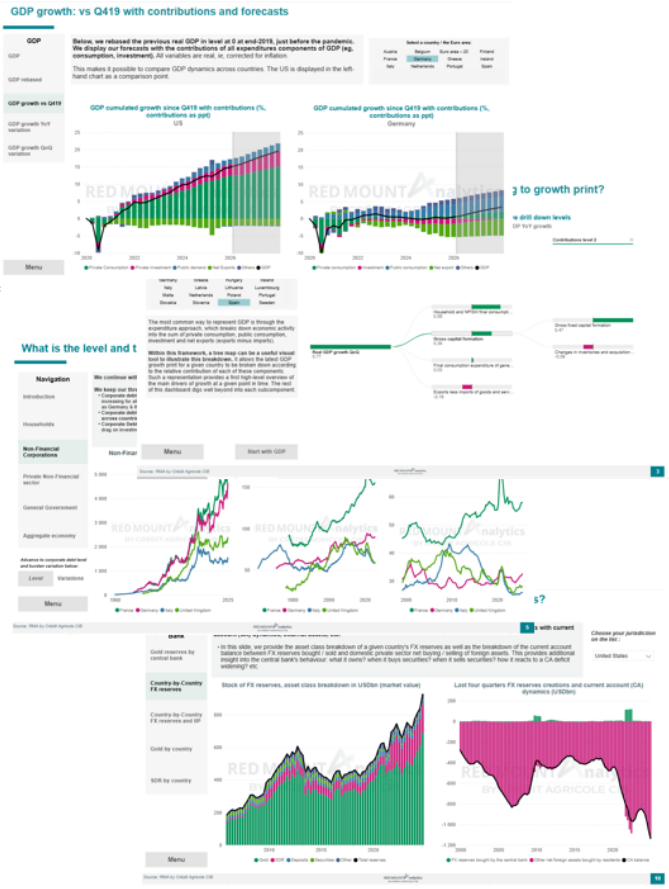
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