Economics Focus

07:43 CET
20 October 2026

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French public pensions: could fixing a misnomer be the first step toward fixing France's deficit?

Mal nommer les choses, c'est ajouter au malheur du monde
[Misnaming things adds to the misfortune of the world]

Albert Camus



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- **Right now, for French public finance, pensions are probably the most acute problem given their size, momentum, indexation and absence of corrective reforms.**
- **On the top of this, part of the problem is currently being minimised by the prevailing accounting conventions for public pensions. Last week, for the first time, the Ministry of Finance provided data on pensions broken down by individual ministry. This data showed the full extent and breakdown of civil servants' pensions.**
- **In this focus, we dig into how public pensions have been 'misnamed' and look at how this affects assessments of the 'causes' of the French deficit and marginally increases reported debt-to-GDP ratio.**
- **Most civil servant pension schemes in France have less than one employee per retiree in a pay-as-you-go system (0.9 on average for state civil servants) coupled with a worsening trend. This set-up makes financial balance almost impossible without transfers from other tax receipts.**
- **In practice, to balance most civil servant pension schemes, the state must pay notional employer contributions for pensions that far exceed the normal cost of pension rights. This balancing item is accounted as public, not social, expenditure. It is covered by the state budget rather than the social security budget. It alone amounts to 1.1-1.8ppt of GDP depending on the calculation method.**
- **If excess state employer contribution expenditure were requalified as social expenditures:**
  - **French excess social protection spending vs the Eurozone average would rise from 5.0ppt to about 5.5ppt of GDP while the rest falls from 3.0ppt to about 2.0ppt. This would dramatically change the assessments of the 'causes' of the French deficit, which would be even more concentrated in social security.**
  - **The French public deficit would be unchanged, still above 5%. However, its composition would radically change if the state deficit were significantly reduced and the social security deficit increased in turn.**
  - **GDP would drop in level by roughly 1.1-1.8% and the debt-to-GDP ratio would therefore rise by roughly 1.3-2.0ppt, without a single EUR of extra debt. This is arguably only six to nine months of debt-to-GDP increase at the current pace, and the correction would change only levels not dynamics of debt-to-GDP, and this for past decades.**
- **Overall, in our view, pension accounting is worth fixing. But fixing it will not fix France's public finances. The harder choices on pensions, spending and taxes would remain – but they would be easier to identify.**

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Nearly one-third of the Education Ministry budget goes to pensions, and that is not new

In France, most civil servants benefit from special pay-as-you-go pension schemes.

On 15 October, the Finance Ministry published a report detailing how much of each ministry's budget is really pension money (vs what is actually compensation).

Most ministries face a rising pension bill while their staffing and operating budgets are flat or falling. Consequently, total budgets say little about the resources actually available to deliver services, which are probably much less funded than believed (and this could explain part of users' & recipients' discontent).

For instance, pensions represent EUR28.5bn, or 32%, of the Education Ministry's EUR89.1bn 2027 budget and around 30% of the Interior Ministry's budget, almost as much as wages and compensation.

The aggregate pension bill is pooled across the state, so ministries are hit by the size of their payrolls rather than by their own retirees. The Ministry of Finance stresses that no single ministry exclusively funds its own former staff's pensions; the ratio of contributors to pensioners is not published for the Education Ministry or for the police.

There is a ratio for the whole state scheme and for some of its sub-groups. **The state scheme had 0.94 contributors per pensioner with direct rights at the end of 2025 (1.9m contributors for 2.0m pensioners), vs around c.1.5 contributors per pensioner in the general pension scheme (which is broadly for private sector and self-employed workers).**

In the figures published by the *Cour des Comptes* in September 2026, the ratio fell from just over 1.1 in 2015, because the number of contributors dropped by about 10% in ten years while rising by about 15% in the general scheme[1]. Civil servants excluding La Poste and Orange had 1.18 contributors per pensioner in 2026, despite massive gaps across schemes[2].

Over the longer run, pension spending rose by about 2.5ppt of GDP between 2000 and 2023, while education spending fell by about 0.5ppt. That is not proof of a direct trade-off, but it shows how pension commitments absorb a growing share of resources.

The state therefore pays employer pension contributions that far exceed the normal cost of pension rights

To balance civil servant pension schemes, the state formally pays an "employer contribution". This represents over 80% of salary into its own pension scheme, vs around 17% in the private sector.

Excess civil servant employer contributions explained

That rate is not what a civil servant's pension actually costs; it is whatever is needed to balance the scheme's books.

In 2026, the state's employer contribution rate to CAS Pensions[3] is 82.28% of civilian basic pay and 126.07% for military personnel, with an employee rate

[1] Roughly 60% of the decline comes from La Poste and Orange (formerly France Telecom), and 40% from the shift towards contract staff, which rose from 18% to 26% of state civil employment and who pay into the general scheme. La Poste's and Orange's (formerly France Telecom) schemes have about 0.17 contributors per pensioner in 2026 (50,000 against roughly 290,000), down from 0.27 in 2023 and projected to halve between 2025 & 2030.

[2] This aggregates massive gaps:

- *Local and hospital civil servants (CNRACL): 1.29 on the corrected ratio in 2025, down from 1.41 in 2024*
- *The military had about 0.84 contributors per pensioner in 2025 (295,000 contributors for 350,000 retirees), because of early retirements.*
- *The Education Ministry and the police have not published a ratio*
- *Other special schemes have the following ratios: 0.67 at SNCF, 0.87 at RATP, 0.90 in electricity & gas, 0.67 for notary clerks, 0.49 for seamen and almost 0 in the miners' scheme (586 contributors for about 84,000 pensioners). SNCF closed to new entrants in 2020, and RATP, electricity & gas and notary clerks in 2023, so these ratios will keep falling mechanically*

[3] CAS Pensions (Compte d'Affectation Spéciale Pensions) is a French budgetary instrument created in 2006 that consolidates retirement and disability benefit revenues and expenses for state civil servants, military personnel and state workers. Covered by the annual PLF (Projet de

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of 11.10%. For comparison, the civil rate was still 74.28% in 2023-24 and rose to 78.28% in 2025, while the private sector employer rate below the social-security ceiling is 16.67%.

The state scheme has no autonomous fund, so the contribution rate is set each year to close the gap between benefits owed and other receipts. It is not the price of the rights accrued by one more civil servant. It is implicitly voted with the state budget allocation of each ministry budget.

For schemes that governments run directly, the standard allows an imputed employer contribution calculated as the difference between current benefits and the contributions actually received.

The entire balancing contribution is recorded as employee compensation and therefore as spending of the ministry that employs them. The same amount is recorded as public revenue, and then once more as pension benefits paid to retirees.

Between 1.1ppt and 1.8ppt of GDP

How much does this amount to? It is worth noting a few caveats: what sits inside the balancing contribution can be separated, at least roughly, and are not entirely made up of public transfers to civil servant pension schemes.

Moreover, it is necessarily based upon a counterfactual employer contribution that is arbitrary (and often calculated based on the private sector contribution).

A National Assembly report by Charles de Courson breaks down the scheme's EUR60.2bn of 2023 costs with:

- Actual employee contributions cover EUR6.2bn
- About EUR26.4bn related to items that, in de Courson's view, should be explicit budget subsidies (eg, military pensions, the pensions of former La Poste and Orange civil servants, invalidity, family and solidarity features)
- The remaining EUR27.6bn, a normalised employer contribution, equalling 41.8% of the EUR66.1bn payroll excluding bonuses, against the 74.28% observed. At private-sector rates, employer contributions would be only EUR12.2bn, leaving a true balancing subsidy of EUR15.4bn (1.6ppt of GDP)

A study from the IPP reaches a similar order of magnitude by a different route. It estimates an equilibrium employer rate of 34.7% on a 2020 basis, and treats EUR25.8bn (1.1% of GDP) as reclassifiable, of which about EUR18bn reflects the scheme's demographic imbalance. These figures date from 2020; with the civil rate raised by 8ppt since. The current amount is likely larger now.

A February 2025 note by specialist Jean Pascal Beaufret puts the same overstatement at 1.8ppt of GDP.

Overall, the IPP's 1.1ppt is the most conservative estimate. The National assembly report stands at 1.6% and Beaufret's at 1.8%[4].

None of this makes the pension costs fictitious. Benefits are paid, and they are a real claim on public resources. The question is how much of the contribution charged to ministries is the ordinary cost of their employees' rights and how much of it finances the legacy and special features of the scheme?

Which re-classification?

Reclassifying this extra contribution in social spending would mechanically remove it from public spending and from public revenue. Indeed, in public accounting, this excess contribution is counted first as compensation of active civil servants, then as revenue from their contributions and again as pension benefits.

Consequently, strip out the part of that contribution that really covers past pension promises and the scheme's special features, and French public spending looks smaller on paper. The adjustment is modest in aggregate

Loi de Finances), it constitutes a budgetary mission subject to a balance requirement: its revenues must cover its expenses. The account faces growing structural deficits requiring government subsidies.

[4] Local and hospital employers also pay above-market rates into their own scheme (31% against 17% in the private sector), which would add to the adjustment if treated the same way.

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(1.1-1.8ppt of GDP as mentioned above), but it changes the picture for individual ministries.

For instance, after reclassification, the Education Ministry's budget overstated by EUR10.6bn or 13.4% in 2023 according to IPP estimates. Domestic education expenditure is falling from 5.4% to 5.0% of GDP, close to the OECD average.

In a September 2025 note entitled "No Hidden Deficit, but an Overstated Wage Cost", the Economic Analysis Council used the same reasoning and found defence spending falling from 1.8% to 1.6% of GDP[5].

Using Beaufret's method, with a single 28% contribution rate, Education spending in 2024 would be EUR18bn (20%) lower and Defence EUR8bn (14%) lower.

Local and hospital employers also pay above-market rates into their own scheme (31% vs 17% in the private sector), which would add to the adjustment if calculated in the same way.

The Ministry of Finance publication is explicit that none of this changes the official aggregates today. It says the inflated ministry payroll has no direct effect on GDP, public spending or international comparisons, because national accounts rely on imputed contributions calculated by the balance method, not on the CAS employer rate. Only a switch to the "reasonable rate" method, with that rate set equal to a new CAS rate, would change them. The adjustment is therefore a conditional scenario, not a restatement already in the pipeline.

After adjustment, France looks like less of an outlier on spending, but even more so on pensions

Usually, next to its Eurozone neighbours, France looks like a big spender. Correcting the label softens that headline. However, the largest part of the gap, pensions themselves, remains and explains even more of France's excess deficit issue.

In 2024, according to Eurostat Cofog that harmonises public spending by function in the Eurozone, France total public spending amounted to 57.3% (vs 49.3% for the Eurozone average). Among which:

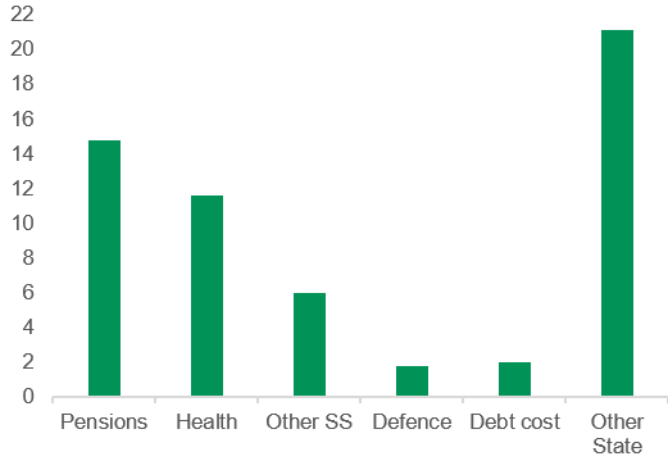
- 14.8% of GDP on pensions, vs a Eurozone average of 12.5%
- 11.6% of GDP on healthcare, vs a Eurozone average of 10.1%
- 6.0% of GDP in other social security schemes (eg, unemployment, social protection, family), vs a Eurozone average of 4.8%
- 21.1% of GDP in other non-social public spending after excluding defence and interest costs, vs a Eurozone average of 18.6%

In other words, the French public-spending premium over the Eurozone average was 8.0ppt, of which 5.0ppt came from social protection. The rest, 3.0ppt, comes from other functions.

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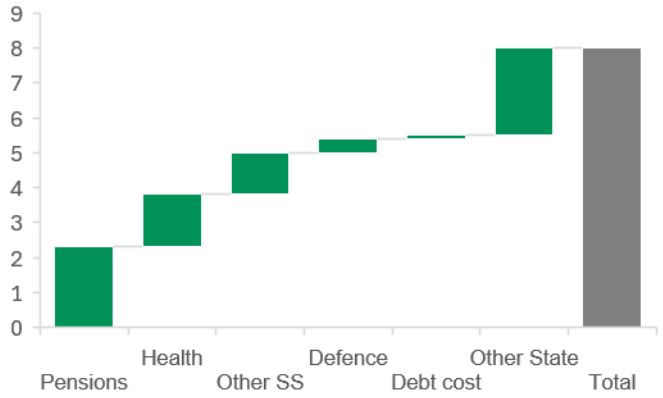
[5] *Which, again, makes France less of a positive outlier in international comparison*

France public spending by function, % of GDP



Source: Eurostat, Crédit Agricole CIB

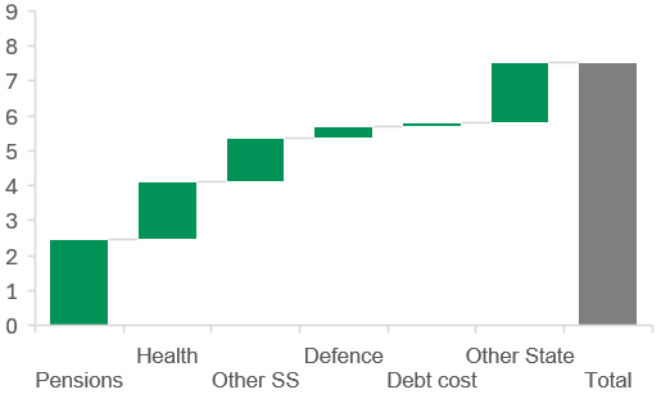
France's official excess public spending by function vs the average of the Eurozone, ppt of GDP



Source: Eurostat, Crédit Agricole CIB

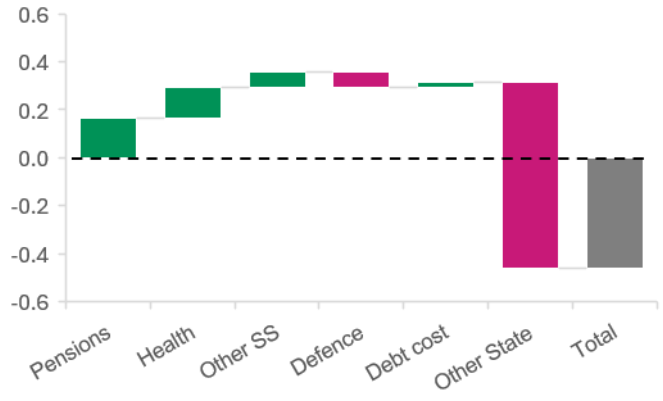
We can now correct those figures by taking the most conservative IPP adjustment, which is worth 1.1ppt of GDP. Then, with spending near 57% of GDP, removing 1.1ppt from both the numerator and the denominator[6] lowers the ratio by about 0.5ppt (from 8.0ppt to 7.5ppt). **In rounded terms, on the IPP's figure[7], with social protection premium rising from 5.0ppt to about 5.5ppt of GDP and the rest falling from 3.0ppt to about 2.0ppt.**

France's excess public spending by function vs the Eurozone average after adjustment, ppt of GDP



Source: Eurostat, IPP, Crédit Agricole CIB

Change in excess public spending by function vs the Eurozone average due to adjustment, ppt of GDP



Source: Eurostat, IPP, Crédit Agricole CIB

In other words, reclassifying the extra pension contribution of civil servants in social spending, marginally reduces the French government's total amount of excess spending while making it even more concentrated on social security than before (71% of total excess spending is social security vs 62% before).

[6] *The arithmetic needs care, because two effects work together:*
- *The numerator effect removes the excess contribution from French spending.*
- *The denominator effect follows from national-accounts logic: non-market output is measured at cost, so lower compensation means lower government output and lower GDP.*

[7] *On Beaufret's maximum estimate of 1.8ppt, the fall is about 0.7ppt. Social protection, untouched in EUR, rises by c.0.6ppt of GDP, and represent 77% of excess public spending vs the Eurozone average*

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Deficit breakdown between the state and social security budgets

Relabelling spending inside the public sector does not shrink the deficit, because the state, local authorities and social security all sit in the same pot. What changes is which pocket the cost appears in, and so who looks responsible for it.

The *Cour des Comptes* has argued that the different presentations of the balance have no effect on the burden borne by public finances as a whole, and that comparing state and private-sector contribution rates is not meaningful. That is correct for the consolidated accounts. An employer contribution is spending for the paying administration and revenue for the scheme; once the two are consolidated, the transfer nets out, whereas benefits paid to households remain general-government spending; therefore reclassifying within general government spending does not in itself create fiscal savings.

Perimeters below the consolidated level are different. Changing how pension financing is split between the state budget and a pension scheme alters the state's reported balance without changing the general government balance. A lower contribution charged to ministries would improve their reported position while leaving the scheme's financing need to be met elsewhere.

More importantly, the presentation may also have shaped political choices. If pensions absorb 30% of a ministry's budget, cutting its operating allocation can look like the most direct way to control spending within its perimeter. The figures cannot show that this caused spending cuts rather than pension reform, since political constraints and long transition periods also matter. What they do support is the case for clearer attribution, so that decision makers can separate the cost of delivering current services from the financing of inherited pension commitments.

When reclassifying deficit pockets, several eye-catching numbers circulate, from EUR25bn (the balancing contribution discussed above) to more than EUR80bn (when adding some other financing transfers to the pension system). Most measure how much the whole pension system leans on outside funding, not just the balancing 'excess' contribution of the state pension schemes for civil servants. Three numbers have been circulated: (1) the IPP's EUR25.8bn; (2) Charles Dennery's EUR30-50bn; and (3) Beaufret's EUR82bn+ for 2023. They are not estimates of the same variable[8].

The high estimates embed judgements about which transfers count as 'real' revenue, and those judgements are what the authors disagree about.

We agree that the official presentation flatters the pension system's finances at the direct expense of the state deficit. Calculating the state's over-contribution differently and treating certain tax transfers differently would come to a pension system deficit of EUR30-50bn (instead of 0 as of now)[9]. In practice, only the narrow reading, in its 1.1-1.8ppt of GDP version detailed above, feeds the full functional comparison with other countries.

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[8] *The biggest figure comes from economist Beaufret: **over EUR82bn**, which represents 2.9% of France's GDP and roughly half of the country's entire public deficit. To get there, Beaufret applies a simple but strict rule: he only counts actual pension contributions as real income – meaning the money that employees and employers formally pay into the pension system. Everything else the state injects to keep the system afloat (eg, not only the extra pension contribution of civil servants discussed above but also VAT transfers and so on) are labelled a hidden subsidy. Beaufret splits it into three main blocks:*

- *Employer over-contributions from public bodies amounting to EUR52.7bn, mostly coming from the extra pension contribution of civil servants discussed above but applied to a larger perimeter. According to Beaufret, this block breaks down as EUR39.2bn paid by the State for its own civil servants, EUR4.7bn paid by State operators (eg, universities, public agencies), EUR8.8bn paid by local authorities and public hospitals (CNRACL).*
- *Subsidies to special pension schemes amounting to EUR8.4bn, mostly coming from direct subsidies to balance out the special schemes (eg, SNCF, RATP, miners, sailors) which have very few active contributors relative to the number of retirees they support.*
- *Transfers from other social spending branches amounting to EUR16.8bn. This is money taken from elsewhere in the social system to fill the gaps. Beaufret mentions EUR10.9bn from the family branch (CAF) and the CNSA, EUR4.0bn from Unédic (unemployment insurance), EUR1.2bn from health insurance, EUR0.8bn from Urssaf*
- *Compensation for contribution exemptions amounting to EUR4.7bn, which are derived from the State reimbursement of private-sector employers for payroll tax breaks it granted them, which reduces Agirc-Arrco's income.*

[9] *Martinot's own rule of three, which allocates to pensions a quarter of the public deficit because they are a quarter of public spending, gives about 1.5% of GDP or EUR45bn. That falls inside Dennery's range, as a cross-check rather than as his method. Martinot concludes that every such measure contains an arbitrary element and that what matters most is the level of pension spending.*

Debt ratio up, debt unchanged

Reclassification does not change nominal debt. Maastricht debt is a stock defined by statistical rules and is not affected by how an imputed contribution is recorded.

However, it does mechanically reduce GDP by the exact amount of the balancing excess contribution (1.1-1.8ppt of GDP). In national accounting, non-market output is measured at cost, removing the excess contribution from compensation lowers government output by the same amount, and with intermediate consumption unchanged, GDP falls one for one[10].

With a debt ratio of around 119%, a GDP revision of 1.1% raises the debt-to-GDP ratio by about 1.2ppt, and one of 1.8% by about 2.2ppt. This would be a change in level similar to a past GDP revision, not a change to the debt-to-GDP ratio dynamic (which is currently growing by c.3ppt per year).

On the deficit, the change from a lower GDP would be very marginal, by less than 7-10bp. As for the debt, this would be a change in level similar to a past GDP revision, not a change to the deficit dynamic.

Neither the revised ratio nor the revised deficit changes debt sustainability. Sustainability depends on the gap between the effective interest rate and nominal growth, the primary balance, and the stock and maturity of debt.

This statistical revision would move the ratio without changing liabilities, financing needs or the capacity to service debt. It would still matter for comparisons, for fiscal-rule thresholds and for market perceptions, which is why the direction of the effect is worth stating plainly.

Nothing here changes France's financing needs overnight. What matters for investors is whether statisticians, rating agencies and the budget follow the new reading. These possible re-classification are counterfactual estimates that rest on the revision actually being made, which requires a decision by Eurostat and INSEE[11], not a presentational choice by the Treasury.

Conclusion: fix the label, then do the hard part

Pension accounting is worth fixing, but fixing it will not fix France's finances. The harder choices on pensions, spending and taxes remain.

The Ministry of Finance disclosure last week confirmed how much pension financing is embedded in ministry budgets, and the very high State employer rate makes civil-service pension costs hard to compare with private-sector contributions or with other countries' spending structures. A transparent presentation would separate three things: the cost of rights accrued during the year, the financing of past commitments including the scheme's demographic imbalance and the cash contribution charged to the State budget.

The cash contribution charged to the State budget for balance civil servant pensions is worth 1.1-1.8ppt of GDP. If properly accounted in the social security deficit, it would:

- trim the French spending premium by about 0.5-0.8ppt of GDP and reshapes its composition even more toward excess social spending, not state spending
- leave the consolidated deficit almost unchanged

[10] Let's take a simple example: a teacher is paid EUR3,200 gross per month. Assume that this corresponds to EUR1,500 of net wages, EUR700 of 'normal' social contributions and EUR1,000 of extra pension contributions. Under the current treatment, this gross wage is counted in full in GDP, which therefore creates EUR3,200 of GDP per month. If the extra pension contribution is reclassified as a transfer, then the GDP generated by this wage would amount to only EUR2,200 per month. Looking at the three ways to calculate GDP, this would remove EUR1,000 of GDP via the following channels the wages and compensation component when calculating GDP by revenues, the public consumption component when calculating GDP by spendings and the value added of the public sector component when computing GDP as the sum of all sectoral value added.

[11] Four developments would change that reading. The first is any decision by Eurostat or INSEE on the treatment of imputed contributions for unfunded schemes. The second is the response of rating agencies, whose debt and spending comparisons would be affected. The third is the 2027 budget, where the CAS Pensions balance, the contribution rate and the handling of La Poste, which has suspended its payments to the account since September 2024, will come into focus. The fourth is how any revised presentation interacts with the debt-reduction path under the EU fiscal rules.

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- raise the debt-to-GDP ratio by roughly 1.2-2.1ppt (and push it above 120% then) through lower GDP.

For sovereign investors, the message is that France's fiscal problem is real while its headline spending allocation is only a partial guide to the underlying cost of public services. Better accounting can clarify the source of the gap. It cannot replace decisions on pensions, spending and taxation.

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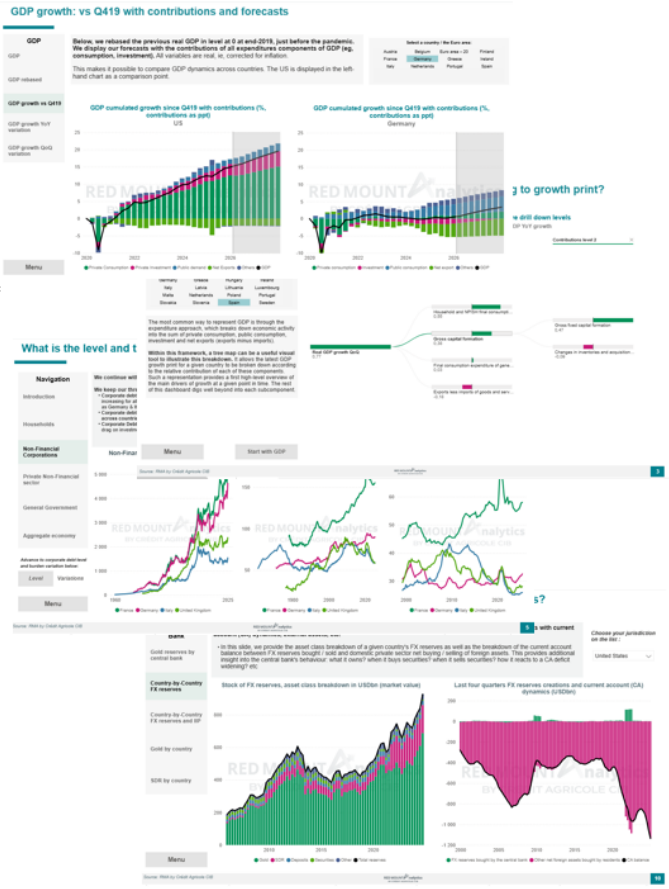
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