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What is the cost to public finances of the spread between French and German sovereign bond yields?

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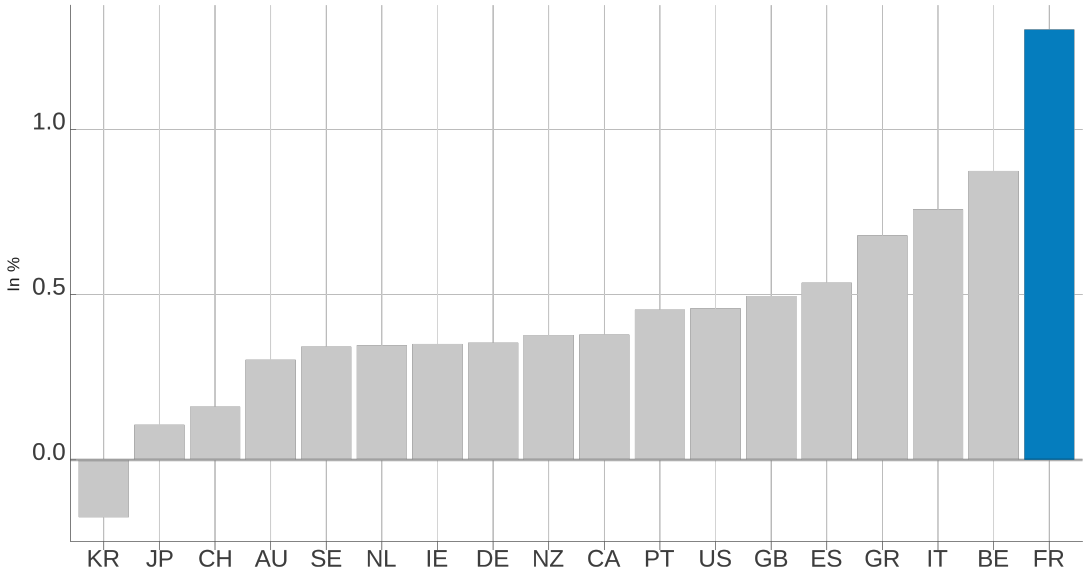
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As of November 3, 2026, France's 10-year yield exceeds Germany's by 1.63 percentage points—a spread not seen since the sovereign debt crisis. What is the cost of this spread to public finances? Our simulations estimate the additional interest expense at approximately 7 billion euros by the end of 2027 and 10.5 billion by the end of 2028. This additional interest expense makes it more difficult to reduce the deficit.

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Since the summer, sovereign bond yields have been rising in most advanced economies, but France stands out: the increase there is more pronounced than in other comparable economies (graphique 1). As of November 3, 2026, the French 10-year government bond yield stands at 4.94%, which is 1.63 percentage points higher than Germany's—a spread not seen since the eurozone sovereign debt crisis.

Graphique 1: Changes in sovereign interest rates between June and October 2026



Source: OECD via Fred

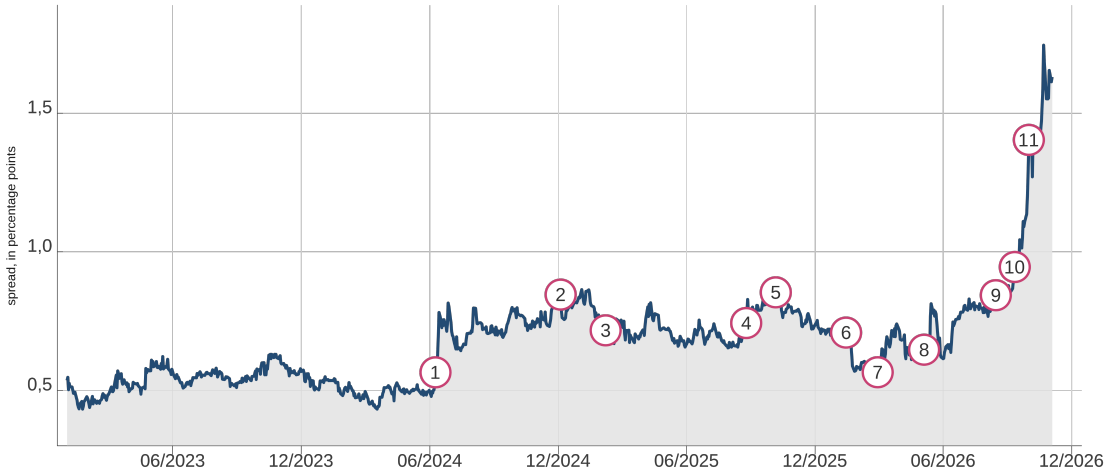
1 Political uncertainty weighs on French sovereign rates

Following the dissolution of the National Assembly on June 9, 2024 (data point number 1 in graphique 2), the sovereign spread rose sharply, reaching 0.8 points, compared to an average of 0.53 points during the 16th legislative term (2022–2024). Subsequently, the rise continued in stages, in line with domestic and international political developments (graphique 2). As the 2027 budget debates approach, the spread has reached 1.63 points[1] and doubts are emerging about the soundness of France's public finances. Beyond its effects on the sovereign yield, this political uncertainty has significant macroeconomic effects on private-sector demand and economic growth[2].

[1] As of November 3, 2026.

[2] See Sampognaro (2024) and Briodeau (2025) for quantitative evaluations of the effect of political uncertainty on activity in France.

Graphique 2: Spread between France's 10-year OAT and Germany's 10-year Bund



Note : 1 : Announcement of the dissolution of the National Assembly ; 2 : Vote of no confidence in the Barnier budget ; 3 : Passage of the 2025 Budget Act ; 4 : F. Bayrou announces a vote of confidence in the National Assembly ; 5 : Surprise resignation of S. Lecornu ; 6 : Adoption of the 2026 Budget Act ; 7 : Outbreak of war in Iran ; 8 : ECB announces an upcoming rate hike ; 9 : Return of tensions in the Middle East, concerns over the deficit target and government growth revision ; 10 : S. Lecornu announces a budgetary effort of 54 billion euros for 2027 ; 11 : Official presentation of the 2027 Budget Bill.
Sources : Investing.com, IFE-OFCE calculations.

2 Through what mechanisms are secondary market developments reflected in the interest burden?

The developments described above pertain to sovereign bonds traded on the secondary market[3]. They affect the government's budget constraint only if the yields demanded in this market are passed on to the primary market[4]. Since yields in the two markets converge (barring transaction costs), these developments will ultimately affect public finances.

The speed at which rising rates are passed on to the interest expense paid by the government depends largely on the issuance schedule for new securities. According to the Agence France Trésor (AFT), as of October 31, 2026, the average maturity of the government's negotiable debt stands at 8 years and 139 days[5]. Over the coming months, only newly issued securities will see their rates change in line with the secondary market. This adjustment occurs quickly for fixed-rate Treasury bills (BTFs), which account for about 7.5% of the outstanding balance and are rolled over in less than a year, and slowly for long-term securities such as Treasury-Assimilable Bonds (OATs). The cost of indexed securities (OATi and OAT€i) also depends on inflation.

The impact of rate hikes on public spending (and thus on the deficit) will also depend on the AFT's issuance strategy, particularly the maturity of the new securities. Since the yield

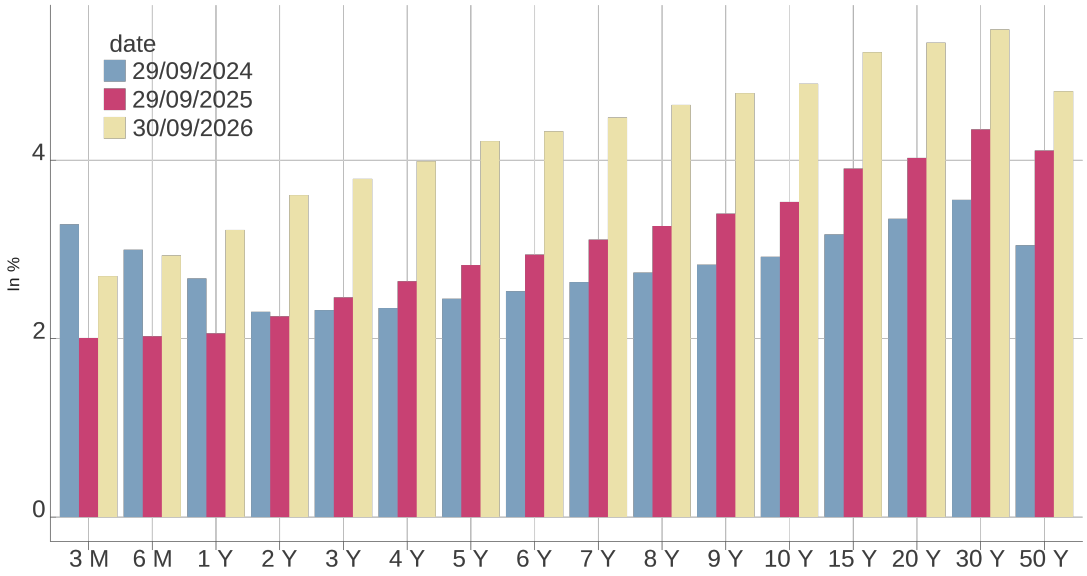
[3]The secondary market is the financial market where economic agents can buy and sell existing financial assets. It is a "used" market.

[4]The primary market is the financial market where economic agents can buy and sell newly issued financial assets. It is a "new" market.

[5]Among the stock of securities issued by the French Treasury, maturing securities represent more than 10 percentage points of GDP.

curve does not necessarily move uniformly, the AFT can adjust its strategy to prioritize maturities where rates remain more contained (graphique 3).

Graphique 3: Yield curve for French government securities



Sources : Agence France Trésor, IFE-OFCE calculations, calculs OFCE.

The graphique 3 shows that the slope of the yield curve can invert, at least in certain segments. Thus, in September 2024, the rates demanded of the French government were higher for short-term debt (less than one year) than for certain medium- and long-term bonds.

Finally, the size of the deficit affects the government's financing needs and, consequently, the issuance of new securities. If the 2027 draft finance bill (PLF) for 2027 is passed as is, and in the absence of a new macroeconomic shock, we anticipate a public deficit of 5.4 percentage points of GDP, but significant uncertainties remain regarding the outcome of the parliamentary process for the budget bills.

3 The current spread would increase the interest burden by approximately 7 billion euros by the end of 2027

If the secondary market conditions observed on November 3, 2026, for France and Germany persist through the end of 2027, by how much will the interest burden paid by the government increase? To answer this question, we took into account the determinants presented above (the methodology is detailed in encadré 1).

Pending the AFT's issuance strategy for 2027, which will be published in December, we assume that the new deficit is financed with the average maturity of the current debt

stock[6]. The amounts presented are annualized interest expenses, applied to the debt stock as of the date indicated: they do not represent the amounts actually paid during the year.

According to our calculations, the structure of the government's marketable debt as of November 3, 2026, generates an annual interest expense of 61.4 billion euros, for an average apparent interest rate (ratio of interest expense to outstanding debt) of 2.10%. If we project the maturity profile of securities issued by the Treasury, the simulated debt as of December 2027 generates an interest expense of 78.8 billion euros, representing an apparent rate of 2.52%[7]. Due to the inertia of securities already issued, this rate increases by only 0.40 percentage points and remains well below secondary market rates. It would also remain below our estimate of nominal potential GDP growth[8]: the "snowball effect" (the automatic rise in the debt-to-GDP ratio when the apparent interest rate exceeds nominal growth) would therefore not be a major determinant of public debt dynamics through 2027.

If we repeat the exercise assuming that France borrows on German terms, the simulated interest burden in December 2027 would be 71.4 billion euros (apparent rate of 2.28%). The spread observed on the secondary market between France and Germany therefore implies, at the end of 2027, an annualized additional cost of 7.4 billion euros for public finances (0.2 percentage points of GDP). Returning to a spread equivalent to that observed the day before the dissolution of the National Assembly (the last quotation dating from June 7, 2024) would reduce the interest burden by 5.2 billion euros (0.2 percentage points of GDP).

Obviously, the further the horizon, the higher the share of the newly issued stock at secondary market conditions. If we neglect the effect of the deficit, in one year, the rolling of the government's negotiable public debt will concern 15% of the debt stock. The degraded market conditions will only concern these new securities. The apparent rate of this stock increases from 2.10% to 2.40%. In 10 years, the rolling will concern 73% of the debt stock. The apparent rate would therefore be 4.17%. In 20 years, 90% of the debt will be new and the apparent rate will be 4.61%.

If we extend our analysis taking into account the financing needs related to deficits until December 2028, the additional interest cost linked to the spread between France and Germany would be 13.2 billion euros (0.4 percentage points of GDP), which reflects the gap between an apparent rate of 2.89% (under French conditions) and 2.49% (under

[6]According to the AFT, at the end of September, 92.5% of the stock of the government's negotiable debt consists of medium- and long-term securities, with an average maturity of 9 years and 33 days. The rest consists of short-term securities (BTFs), with an average maturity of 129 days.

[7]These figures differ from those published in the 2027 Budget Bill. It should be noted that the 2027 Budget Bill retains the sum of interest paid during the year, whereas the annual interest charge that applies to the government's debt stock in December 2027 is published here. Due to the assumption of a homogeneous monthly deficit, the simulated figure for June 2027 (71.7 billion) is closer to that of the 2027 Budget Bill (72.3 billion). Part of the gap can be explained by intra-annual treasury requirements, another part by the maturity strategy of new issuances and, finally, by a different appreciation of the deficit level for 2027.

[8]According to our latest evaluation, the potential GDP growth rate in volume for France is 1.2% and the evolution of the GDP deflator would be close to 2%.

German conditions)[9]. If we compare with a less ambitious scenario, if France regains a spread level equivalent to that observed the day before the dissolution of the National Assembly, the interest burden would be reduced by 9.3 billion euros (0.3 percentage points of GDP).

Conclusion

If the gap between France's and Germany's financing conditions observed today on the secondary market is maintained until the end of 2027, France will have to bear an additional interest burden of around 0.2 percentage points of GDP at the end of 2027 and 0.4 percentage points at the end of 2028, which will make reducing the deficit more difficult. This post does not aim to list the economic policy instruments to quickly reduce the spread. A renewed confidence in the willingness and ability of public decision-makers to engage in a trajectory of improving public finances is a necessary but probably not sufficient condition. This confidence matters not only with regard to financial markets but also with regard to other European Union countries, and more particularly those in the eurozone.

Box 1: Methodology of the simulations

To calculate the cost of the French spread on public finances, we have collected the detailed structure of French public debt securities, both short-term (BTF) and medium- and long-term (OAT, OATi and OAT€i).

Based on this, the structure of French negotiable public debt securities has been aged by one month at a time. Each time a month ends, our simulations renew the maturing securities with securities of the same maturity. The interest rate of these new securities is set at the rate observed on the secondary market on October 19, 2026, for securities of that maturity.

Finally, each month, new securities are issued to finance the public deficit forecast in the OFCE's latest forecast published on October 14, 2026. We assume that the annual deficit is evenly distributed over the year and that there are no particular treasury requirements at the intra-annual level. These new securities are issued with a maturity identical to the average maturity of the securities they replace. We therefore implicitly assume an issuance strategy that does not modify the average maturity of the stock of government negotiable debt.

To calculate the cost of the spread, this exercise is repeated with the German yield curve observed on the secondary market on the same day as for France. We can thus compare the interest burden of the French debt stock if refinancing were done under French conditions with that which would prevail if it were done under German conditions.

[9]To carry out this simulation, we assumed that the French deficit would improve by 1.2 percentage points in 2028, in line with the budgetary adjustment announced in the Economic, Social and Financial Report annexed to the 2027 Budget Bill.

Briodeau C. (2025). “Comment expliquer le taux d’épargne élevé en France ? : Nouvelle estimation de l’équation de consommation,” *Revue de l’OFCE*, *Perspectives économiques 2025-2026*, n° 191, pp. 1–26.

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