31 AUGUST 2026

Flash

French budget and political concerns return

Key Messages

1. French bond yields have risen as concerns over French growth and debt sustainability have started to rise. Today the French 10-year OAT yields 0.85% more than the equivalent 10-year German bund and yields more than equivalent Italian BTPs for the first time since the creation of the eurozone. French equities have also underperformed the broader eurozone this year, with the CAC 40 index gaining only 3% versus 11% for the broad Euro STOXX index.
2. The source of these concerns is threefold: i) the lack of improvement in the French budget deficit since 2021, still over 5% of GDP; ii) weaker growth performance versus the rest of the eurozone; and iii) the strong showing in recent 2027 Presential election polls of both Marine Le Pen (far right) and Jean-Luc Mélenchon (far left).
3. With the two rounds of the 2027 French Presidential election still just under 8 months away (18 April and 2 May), there is plenty of time for the electoral landscape to shift, particularly if a dominant centrist candidate were to emerge.
4. In the near term, the 2027 French budget will be the next challenge to navigate, with the potential renewal of the temporary tax on the largest French corporates on the table.

2027 Presidential election looms large over French bonds and stocks

France has failed to keep up with the rest of the eurozone in recent times both in terms of economic growth and the reduction of its budget deficit.

French economic growth registered -0.2% q/q in Q1 2026 and 0% in Q2, well behind the eurozone's +0.4% q/q/ GDP growth for Q2 led by Spain (+0.7% q/q). This has weighed on French tax receipts, with the 2026 budget deficit projected at 5.1% of GDP, the highest of the major eurozone countries except Belgium.

To add to this lagging economic performance, market concerns have risen following the publication of the August Toluna-Harris Interactive poll for M6 and RTL This poll tested 5 different hypothetical combinations of candidates in the first round of the April-May 2027 French Presidential election. According to these poll results, the far-right Marine le Pen of the *Rassemblement National* party would gain the most votes (35%-38%) to advance to move into the second (and final) round in first place. In 3 of the 5 scenarios tested, the far-left candidate Jen-Luc Mélenchon of *La France Insoumise* arrives second and would thus also qualify for the second round, leaving voters without a centrist choice in May.

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As always, caution is advised with polls

The combination of France's relatively poor recent economic performance and rising uncertainty over next year's Presidential election have contributed to the underperformance both of French bonds and stocks relative to their eurozone peers. Since the beginning of March, French 10-year OAT bonds have seen a 0.85% rise in yields to 4.1% to yield 0.85% more than the equivalent 10-year German bund. For the first time since the creation of the eurozone, 10-year OATs now yield more than equivalent 10-year Italian BTP bonds.

French stocks have also underperformed the rest of Europe this year, returning 3% while the broad Euro STOXX index has returned over 11%. This mirrors French underperformance for calendar year 2025, whereas the CAC 40 index gained 8% against nearly 16% for the Euro STOXX index over the same period.

Some of this recent relative weakness in French asset prices is clearly due to investor concerns over the French political landscape and the outlook for French government spending. However, we would advise caution when interpreting the results of opinion polls.

Not only are opinion polls in general subject to sizeable polling error, but there is still a long runway to the first round of voting in April next year. Much can happen between now and then, including the entrance arrival of more Presidential candidates, particularly from the l left side of the political spectrum. We will also discover, in the coming months, more details of each candidate's election manifesto and proposed programme, which may also have a significant impact on voting intentions.

French bonds and domestic stocks to remain under pressure in the short term

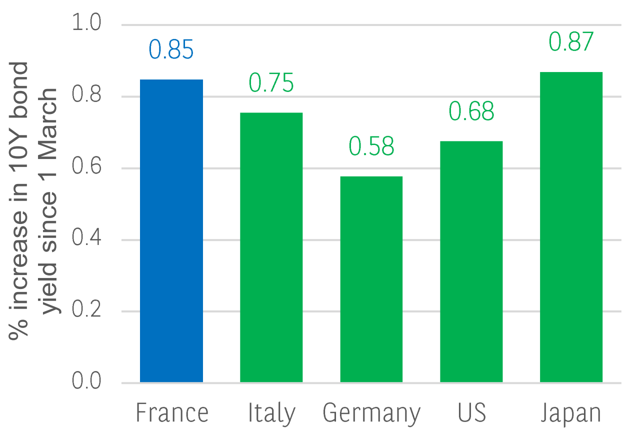
We have seen this story play out once before in June-July 2024, following the snap legislative election called by President Macron, when his ruling centrist coalition lost its majority in parliament. At the time, the France-Germany 10-year bond had spread widened rapidly from under 0.5% to 0.8%. Over calendar 2024, the French CAC 40 index had fallen 2% while the Euro STOXX index had managed a 7% gain, with the bulk of the CAC 40's underperformance accumulating between May and July.

However, unless French economic performance shows some signs of recovery in H2 2026, it is difficult to see French bonds and domestic stocks catching up to their eurozone peers in the near term.

One more positive sign recently came from the credit rating agency Fitch, which last weekend maintained their A+ rating on French sovereign debt with a stable outlook. While they noted the current French political and budgetary context, they also pointed to the benefits of France's large and well-diversified economy.

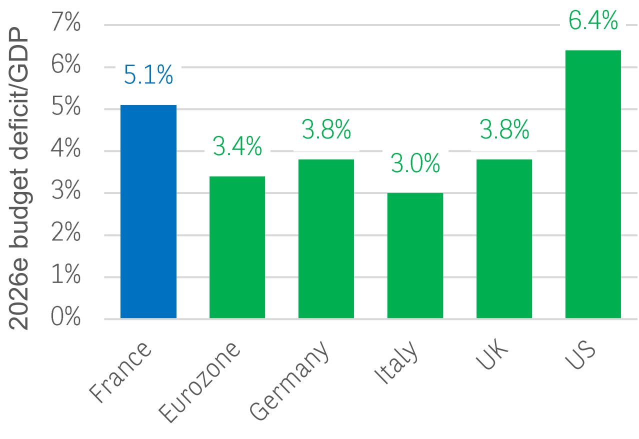
At this point, any more positive economic news on the French economy could result in a narrowing of the France-Germany bond spread closer to its 2026 0.68% average (within a January-July range of 0.55% to 0.80%), given how much negative sentiment has already been built into French asset prices at this point.

FRENCH 10-YEAR BOND YIELDS HAVE RISEN 0.85% SINCE MARCH



Source: Bloomberg, BNP Paribas

FRENCH 2026 BUDGET DEFICIT OF 5.1% WIDER THAN FOR THE EUROZONE



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