



CIO PERSPECTIVES

3 September

Vote of confidence in France: What are the impacts on the economy and financial markets?

French Prime Minister François Bayrou is set to submit his government to a vote of confidence on 8 September. With the opposition now holding a majority, the anticipated rejection heightens the risk of political deadlock and delays fiscal consolidation efforts. This uncertainty is undermining confidence and is reflected in a higher risk premium on French debt. However, France's structural strengths—such as high liquidity, extended debt maturity, and contained borrowing costs—remain robust. These factors are particularly significant given that the credibility of United States and United Kingdom bond markets is also under pressure. On the equities side, some of the risk has already been priced in. In August, we reduced our exposure to Europe in favour of emerging markets, which are better supported by a weaker US dollar and offer a more attractive risk/reward profile.

What is the short-term political context in France?

Amid rising social tensions, Prime Minister François Bayrou plans to seek a vote of confidence on 8 September, ahead of discussions on the 2026 budget in early October. Opposition parties, which collectively hold a majority, have already announced they will vote against it. Furthermore, the use of Article 49.1 of the French Constitution requires a simple majority of votes cast (not an absolute majority of MPs), making the success of the vote unlikely. In the event of rejection, François Bayrou would have to resign, leaving President Macron with the choice of either appointing a new Prime Minister in a fragmented political context or dissolving the National Assembly to call for snap elections. Until a resolution is reached, the outgoing Prime Minister and his government will continue to manage day-to-day affairs.

From 7 October, when the budget is presented, Parliament will have 70 days to adopt it, a timeframe necessary to ensure its implementation by 1 January 2026. To avoid a stalemate, the government may take temporary measures, and Parliament may pass a special law. **Experience with the previous budget process shows that the continuity of the state and public services is maintained in such situations.**

What impact on French economy?

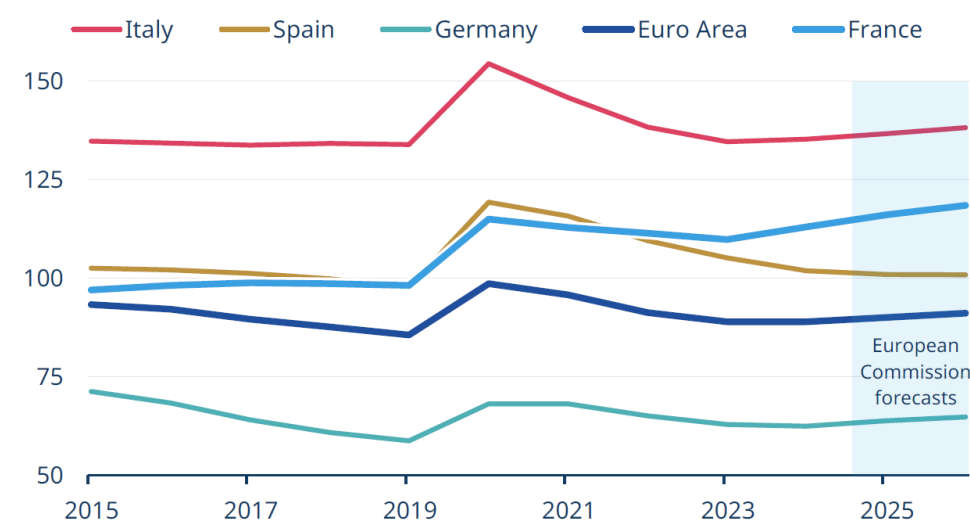
The French economy is currently experiencing modest but positive growth momentum (+0.3% in the second quarter) with inflation stabilised at around 1%. Consumer spending is expected to increase, supported by rising real wages and more favourable credit conditions, while private investment could benefit from improved clarity on US tariffs and German infrastructure plans. Growth is projected to pick up to around 0.7% in 2025 and 0.8% in 2026.

However, domestic political uncertainty could dampen business and household confidence, potentially slowing investments and consumption. On the other hand, successful fiscal consolidation and a strong economic rebound in Germany could boost growth and private investment. In the absence of a majority to approve a new budget, the deficit is expected to rise slightly, reaching 5.7% of GDP in 2026, as certain tax measures adopted in 2025 expire. Public debt, which stood at 3.35 trillion euros in the first quarter of 2025, is projected to increase from 113% to 118-119% of GDP by 2026. Interest payments, which already rose in 2023-2024, are expected to climb further to 2.5% of GDP in 2025 and 2.9% in 2026.

While the fiscal situation requires action in 2026, it is not as critical as it might appear. **Despite the doubling of public debt since 2000, interest payments in 2024 remain lower than in 2000**, thanks to low yields on sovereign bonds. Additionally, the extension of the average debt maturity to about nine years reduces the impact of rising interest rates on debt servicing costs.

Despite its high public debt (Chart 1) and significant structural deficit, France continues to enjoy relatively favourable financing conditions. Stabilising the debt ratio will require considerable effort, but it remains manageable in the short-term. France’s macroeconomic fundamentals are solid: the current account is balanced, and the domestic savings rate is abundant at over 18%. The country is a key player in military exports, a sector experiencing rapid global growth. France is also expected to benefit from the spillover effects of new fiscal spending in Germany.

Chart 1: Public debt trends (% of GDP) in major Euro Area economies



Source: Amundi, Indosuez Wealth Management, data as of May 2025.

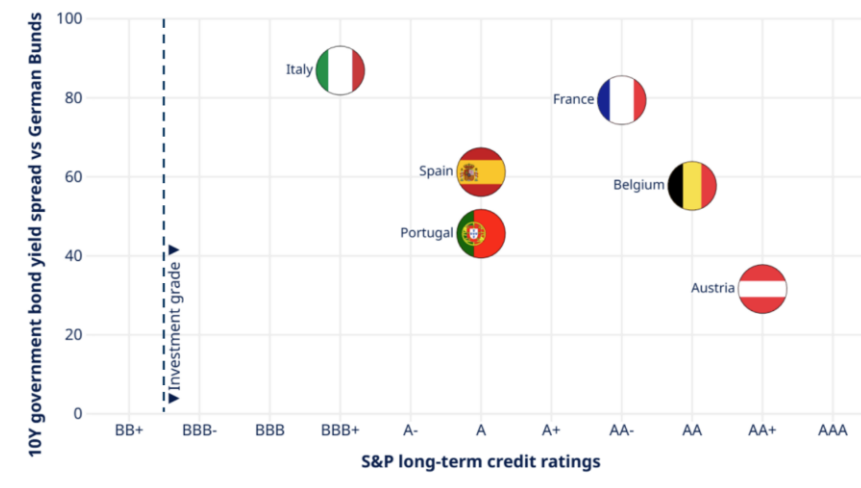
What are the consequences for financial markets and investment?

The bond market has already priced in a political risk premium for France:

The vote of confidence in early September comes as the government must implement credible measures to reduce the public deficit to 3% of GDP by 2029. The yield spread between French sovereign bonds (10-year OAT) and German bonds (10-year Bund) widened following the Prime Minister’s announcement, increasing from 0.65% to 0.8% (Chart 2). The volatility of this spread is expected to persist as long as political uncertainty remains and currently includes a "political risk premium" of approximately 0.25%, according to the Amundi Institute. Despite this, France maintains a strong financial position, thanks to a decade of low interest rates, with a weighted average debt cost below 2%, an extended average maturity of 8.6 years, and interest payments representing only 2.1% of GDP by the end of 2024.

French debt remains one of the most liquid in the Euro Area (Standard & Poor’s AA- rating), supported by strong fiscal capacity, a broad tax base, solvent businesses and households, and a newly accommodative monetary policy from the European Central Bank (ECB). This makes it an attractive market for foreign investors, particularly at a time when confidence in US and UK debt markets is weakened. However, risks persist regarding the credibility of fiscal consolidation, political instability, and investor confidence, which translate into a political risk premium of around 25 basis points on bond yield spreads.

Chart 2: Interest rate spreads and credit ratings of major Euro Area countries



Source: Amundi, Indosuez Wealth Management, data as of 29.08.2025.

The recent decline in French equities suggests risks are already priced in

Unlike the June 2024 parliamentary dissolution, French political risk was already partially accounted for in the equity market, where reactions tend to be temporary. Additionally, over 80% of the revenue of listed French companies (Chart 3) is generated outside France, with half coming from outside the European Union (EU). While certain sectors such as construction, concessions, and infrastructure are more vulnerable to domestic political uncertainty, industries such as manufacturing, consumer goods, technology, and healthcare are less exposed. Lastly, the valuations of French companies are in line with their historical averages after adjustments for US tariffs, lower energy prices, and profit-taking in the banking sector.

Implications for our investment strategy

We are maintaining a significant allocation to equities. Despite a geopolitically uncertain environment, moderate earnings growth and expectations of further rate cuts continue to justify a global equity exposure that remains neutral relative to our benchmarks.

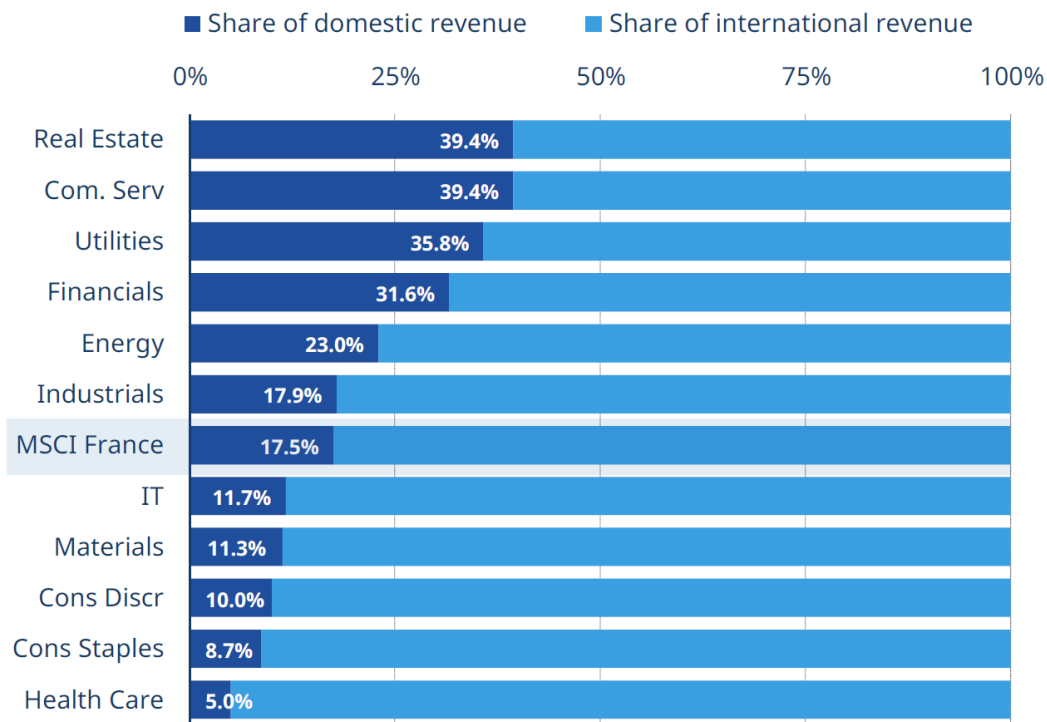
However, in August, we downgraded our European exposure from overweight to neutral, as recent European market performance has been driven primarily by multiple revaluations rather than a genuine recovery in earnings, which remain under pressure. With French political risk back in the spotlight—though it poses no threat to Europe as a whole since it is a localised issue—this situation could provide European investors with a pretext to reduce their overweight positions on European assets.

Conversely, the weakening of the US dollar provides significant support for emerging markets, which are currently delivering strong performance and offering a better risk/reward profile than European markets.

Key dates

- 8 September: vote of confidence
- 10 September: French national strikes
- 12 September: Review of France's Credit Rating by Fitch Ratings Agency
- 14 October: Finance Bill Proposal in the National Assembly
- 24 November: Review in the Senate

Chart 3: Revenue exposure of listed French companies



Source: Amundi, Indosuez Wealth Management, data as of 25.08.2025.



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Contributions from Amundi Investment Institute

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