

DIALOGUE &CO



PUBLIC SPENDING AND DEBT (1/2):

Deficit, debt:

How have they evolved over time and what do they serve to finance?

(recorded on 29 April 2025)

VOICE-OVER: Welcome to Dialogue &co. In these two episodes on the government budget and public debt, Corentin Deredec, macroeconomist with the Banque de France, takes a look at France's fiscal situation. What is the difference between a country's budget and its debt? How have they changed over time? And what do they finance? Lucile Rives, podcast production manager for the Banque de France, asks the questions. Enjoy the podcast.

LUCILE RIVES: Hello Corentin.

CORENTIN DEREDEC: Hello Lucile.

LUCILE RIVES: Corentin, you are a macroeconomist, you specialise in public finance and you work in this capacity in the Banque de France's public finance policy division. You also teach macroeconomics and public finance in schools and preparatory classes. Thank you very much for being here with us.

CORENTIN DEREDEC: Thank you.

INTRODUCTION: CENTRAL BANK INDEPENDENCE

LUCILE RIVES: Before we begin, I'd just like to remind our listeners of an important point: fiscal policy, that is the use of the general government budget and the management of its debts, does not fall within the Banque de France's mandate. And yet here we are, two central bankers about to discuss the government deficit and public debt. So, to explain why we are here today, could you discuss the reasons why one single actor, in this case the French state, cannot pursue fiscal policies to support economic activity and at the same time conduct a credible monetary policy to manage inflation?

CORENTIN DEREDEC: Generally speaking, the idea behind fiscal policy is to support the economy, support public investment and the fight against unemployment, support redistribution... And fiscal policy must not be pursued at the expense of monetary policy, which focuses on maintaining price stability. Central bank independence is intended to prevent the government from financing its economic-support measures by creating money; what we call debt monetisation. Debt monetisation involves the central bank funding the government directly and creating money to finance the state, rather than the state borrowing on the financial markets, which is the most conventional way for a government to finance

itself today. However, an increase in debt – an increase in the money supply to finance public spending – would spark inflation and therefore undermine price stability. That’s why, today, central bank independence ensures the credibility of a nation’s currency and price stability.

LUCILE RIVES: Well in that case, why are we here today? Why would a central bank, the Banque de France, responsible for monetary policy and with a price stability mandate, be interested in matters of fiscal policy, which is the responsibility of state government?

CORENTIN DEREDEC: There are several reasons why we at the Banque de France are interested in fiscal policy. Monetary policy decisions and, more broadly, the implementation of monetary policy are based on a macroeconomic assessment. And fiscal policy has a significant impact on the macroeconomic environment, and therefore on that assessment. For example, public spending or the introduction of a new tax can influence household consumption, business investment, government consumption and consequently, overall economic growth.

Every quarter, the Banque de France prepares macroeconomic projections with a three-year horizon to help inform monetary policy decision-making and its implementation. And these projections are based on an assessment that takes account of fiscal policy decisions. This is the main reason why central banks and the Banque de France take an interest in fiscal policy.

PART ONE: DEFICITS AND DEBT

LUCILE RIVES: Thank you for that introduction. Now, to set the scene of public spending and public debt, I suggest that we begin by explaining the concepts. Let’s start with the government deficit. What exactly do we mean when we talk about a government deficit?

CORENTIN DEREDEC: Well, first of all, a government deficit arises when general government spends more than it receives during a year. So, a government deficit is a situation in which the government budget balance is negative. And when I talk about general government, I mean all public administrative bodies in the broadest sense – both central administrations, which include the state government, and local government bodies, notably local authorities, and also social security funds, which administer social security as we know it.

LUCILE RIVES: So, to recap, the government deficit is the difference between government expenditure and revenue over a year. We very often hear and read about it in the media, and we know that France is currently running a budget deficit, meaning that it is spending more than it receives. But can you tell us: is this a recent development?

CORENTIN DEREDEC: It’s important to note that there is a general trend - France has been in deficit since 1975. This means that every year, the government posts a negative budget balance, and general government expenditure exceeds revenue.

Looking a little more closely, what we see during this period is that government spending is increasing faster than government revenue. This explains why the deficit is tending to widen and also remains high. The last time that France had a budget surplus – in 1974 – spending

and revenue were roughly the same in terms of GDP, both at around 41.5%. By way of comparison, in 2024 – if we take the latest available INSEE data – we see that spending had gone up to 57.1% of GDP, while revenue only represented 51.3%. So you can see the difference between the two and how it has evolved over time. And it is this mismatch between expenditure and revenue that is fuelling the government deficit. Last year, in 2024, it stood at 5.8% of GDP.

LUCILE RIVES: So now let's try to understand the second concept at the core of our conversation. What is public debt? And is it the widening gap between expenditure and revenue that you just discussed that alone drives public debt?

CORENTIN DEREDEC: Public debt is all the money borrowed to finance the budget deficits that hasn't been repaid yet. So debt is a stock that is essentially fed by a flow – the deficit. I say “essentially” because there can be variations in debt from one year to the next that are not be related to the deficit for that year. We use the expression “stock-flow adjustment” to refer to these variations that are unrelated to changes in the deficit.

LUCILE RIVES: So am I right in saying that debt can increase, meaning that money has been borrowed, but this may not be reflected in public spending?

CORENTIN DEREDEC: Precisely. The deficit isn't necessarily financed by debt. It can be financed by financial transactions, for example, such as asset sales or cash transactions. Conversely, debt can increase even when there is no deficit. For example, when a country makes financial investments or lends to a foreign nation. One instance of this is when France lent money to Greece during the sovereign debt crisis in the early 2010s.

LUCILE RIVES: In 2024, French debt stood at 113% of GDP. Before we take a closer look at the figures, can you explain why we always talk about debt in terms of GDP? What does the relationship – the ratio – between debt and GDP tell us?

CORENTIN DEREDEC: Debt is conventionally expressed in points of GDP; as a ratio of GDP. Why? Because it brings debt into line with the size of the national economy and therefore with the tax base from which revenue is collected. It is also essential for making international comparisons and being able to contrast the debts of different countries.

LUCILE RIVES: So, in the same way that we considered how the deficit has evolved, can you talk about the trajectory of public debt? And how it's changing over time?

CORENTIN DEREDEC: Public debt represented 113% of GDP in 2024. But if we analyse the trends, it has been increasing significantly for a long time, particularly when we look back to the 1980s, when debt stood at just over 20% of GDP. Today, it stands at 113%, and that's a fairly substantial increase.

LUCILE RIVES: Just so we don't gloss over any definitions, and also so that we can continue explaining the trajectory of debt, people also talk about other types of deficits, such as

primary deficits or structural deficits. Can you explain what they are and how they can help us explain the evolution of public debt?

CORENTIN DEREDEC: It's true that we often distinguish between several types of deficit. For example, the primary deficit is the government deficit excluding interest expenses. So interest payments on public debt are completely excluded from the primary deficit calculation. This means that the impact of current fiscal policies can be considered in isolation, without taking the burden of accumulated debt into account.

Secondly, within the deficit, we often distinguish between the cyclical deficit and the structural deficit. Let's begin with the cyclical component, which reflects the fact that the government deficit is highly dependent on the economic situation. For example, in the event of a recession, revenues decline mechanically while certain spending – the automatic stabilisers, such as unemployment benefit payments – may increase. To isolate this cyclical component of the deficit, we try to determine what the deficit would be if GDP were at its potential level, based on a calculation of the output gap, i.e. the difference between actual GDP and potential GDP.

Once we have determined the cyclical component based on the output gap, we can then calculate the structural deficit. Put simply, the government deficit minus the cyclical deficit gives us the structural deficit. It allows us to see what the deficit would be if the economy were operating at potential.

LUCILE RIVES: So, do we know what type of deficit has the greatest impact on public debt trajectory?

CORENTIN DEREDEC: Yes. Looking at the trends, particularly over the last 25 years, the evolution of debt, is mainly due to an accumulation of primary deficits (excluding interest payments), whose origins are mainly structural, i.e. they are independent of the economic situation.

LUCILE RIVES: But if interest payments and the economic situation are not the main factors behind the increase in public debt, how can we explain that it rose from 20% of GDP in the 1980s to 113% of GDP in 2024?

CORENTIN DEREDEC: Well, there are two factors. First, debt soars during a crisis. For example, French public debt rose sharply during the 2008 crisis, from 65% in 2007 to 86% in 2010. This increase was largely due to declining revenues. Then there was the public health crisis of 2020, which caused debt to jump from 98% of GDP in 2019 to over 115% the following year, mainly due to the measures taken to support the economy.

LUCILE RIVES: Well, to my mind, crises are essentially cyclical phenomena and therefore impact the cyclical deficit. But what you're saying is that they also have an impact on the structural deficit and public debt. Is that right?

CORENTIN DEREDEC: They have an impact on both. Crises have a direct impact on the cyclical deficit we were talking about earlier: a direct impact on economic activity that causes revenue to decline and leads to an increase in the automatic public spending such as unemployment benefits that I mentioned earlier.

But all the other expenditures made during a crisis – the so-called discretionary measures, such as a recovery plan or emergency programmes – impact the structural deficit.

So we see that when there is an economic crisis, there is an impact on both the cyclical and structural deficits. And when we look long term, the main reason for the increase in debt is the accumulation of structural primary deficits.

LUCILE RIVES: So crises, and in particular the discretionary measures taken during crises, are one of the factors behind the accumulation of primary and structural deficits and therefore the increase in public debt. And you mentioned a second factor to explain the trajectory of French debt...?

CORENTIN DEREDEC: The second factor, and this is what really sets France apart from the rest of the euro area countries or its European neighbours, is that during periods of growth, France is unable to bring its debt-to-GDP ratio down. So crises have a ratchet effect, with public debt increasing during periods of crisis and then staying at that level or increasing afterwards. But not decreasing. And when we look at the 2010-20 period, this is one of the differences between France and the other European Union countries.

PART TWO: PUBLIC SPENDING

LUCILE RIVES: Well we've now shed some light on the concepts of deficit and debt. But so that we can understand this crisis ratchet effect that you just mentioned, I suggest that we take a closer look at spending. Can you give us a broad outline of the main categories of spending so that we have a clearer idea of what the deficit and debt are paying for?

CORENTIN DEREDEC: We can break public spending down in two ways. First, by institutional sub-sector, in other words by type of public administration, and second by main function – the major items of expenditure. If we begin with the first, total general government spending represented 57.1% of GDP in 2024. When broken down by institutional sub-sector, 45% of this 57.1% was social security spending, 35% went to central government bodies, including the state, and 20% was expenditure by local government, generally speaking, the territorial collectivities.

LUCILE RIVES: So I imagine that if social security funds are the biggest spenders, social protection comes out as the largest item of expenditure?

CORENTIN DEREDEC: Exactly. In 2023, the main item of public spending was social protection, accounting for around 60% of public expenditure. That's 32.3% of GDP. This includes two major areas of expenditure: the principal public spending item in France today

is pensions, which accounts for 14.5 percentage points of GDP. The second largest item is healthcare, which accounts for 11.7% of GDP.

But social protection spending isn't just healthcare and pensions. There are a number of secondary items such as unemployment benefits, family allowances and housing subsidies, but these account for smaller amounts than pensions or healthcare. For example, spending on unemployment benefits in France represents 1.6% of GDP.

LUCILE RIVES: As we are quoting a lot of figures in this podcast, I'd like to point out that they can all be found in a Banque de France bulletin based on the latest Eurostat data for 2023 and published in May 2025. So, Corentin, what other major items of expenditure are mentioned in this bulletin after social protection spending?

CORENTIN DEREDEC: Well, I'd say that there are three main functions – three major items – to bear in mind. The first is a fairly general category called “economic affairs”. It includes a range of expenditures that support the economy and its players, such as employment support measures, transport policies or energy, and represents 6.3% of GDP.

The second major item in France is spending on education, which accounts for just over 5% of GDP.

And finally, the third item – which is on the rise – is the debt burden. Against a backdrop of rising interest rates and inflation, France's debt burden, i.e. its interest payments, has risen considerably. So the debt burden is becoming an increasingly significant constraint and represented 1.9% of GDP in 2023, or EUR 53 billion.

LUCILE RIVES: I thought that when you were in debt, inflation reduced the real debt servicing cost. Can you tell me why inflation increases the debt burden?

CORENTIN DEREDEC: Well, in theory, inflation can have a positive impact on the debt-to-GDP ratio: for the same volume of production, inflation increases that production's value, i.e. nominal GDP, which is used as the denominator in the debt ratio. So it can have a positive effect in this way.

Secondly, in the very short term, inflation pushes up public revenues. And these public revenues outpace expenditure and thus reduce the deficit, which is used as the numerator in the debt ratio.

But in reality, inflation can lead to an increase in debt. Why? Because some of the bonds issued each year by the French Treasury, the AFT, *Agence France Trésor*, which we will discuss shortly, are indexed to inflation. Some are indexed to French inflation while others are indexed to euro area inflation. This means that when inflation goes up, the debt burden, which is thus indexed to inflation, increases because it becomes more expensive. This indexed interest burden accounts for just over 10% of total public debt.

LUCILE RIVES: So those are the short-term impacts of inflation on, say, nominal GDP values, revenues and repayment costs. Can you also explain the longer term impacts of inflation?

CORENTIN DEREDEC: There are at least two aspects to this. The first is the negative impact that inflation has on economic activity, which thus has a negative impact on our GDP and therefore on our debt ratio.

Secondly, an inflationary crisis leads to increased public spending: certain benefits, such as pensions, are indexed to inflation and will therefore – with a small time lag – increase. Measures taken to combat inflation also intensify. One example is the often-discussed energy price shield, which was designed to support economic activity and protect households. The inflationary burden is thus shifted from the household to state government, leading to a widening deficit and therefore greater public debt.

So, while in theory inflation can have a positive impact on public finances, when we look at the reality, particularly in the context of the recent crisis that we endured, we see that this is not necessarily the case. Inflation can have a negative impact on the debt-to-GDP ratio.

PART THREE: INTERNATIONAL COMPARISONS

LUCILE RIVES: Now, let's wrap up this first episode on the current state of French public spending and public debt, and look at how France compares to its European neighbours. To do so, could you share your thoughts on a few excerpts from various media outlets.

RADIO EXCERPT: *"The problem with France is its public spending. Public spending represents 57% of GDP. We're the world champions of public spending."*

LUCILE RIVES: That was Benoît Perrin on Europe 1, on 1 October 2024. Corentin, in terms of public spending, does France stand out as an exception, if not in the world, then at least in Europe?

CORENTIN DEREDEC: Well, looking at the structure of public expenditure alone, we can see that our European neighbours also spend on social protection, economic affairs and education, which are their main areas of public expenditure too.

Where France stands out is really in terms of the amount it spends as a proportion of GDP. France spends much more than the euro area average. So, when we consider amounts spent, it's true that France is exceptional. In 2023, still according to the figures in the bulletin, French total public spending was the highest in the euro area. It reached 56.9% of GDP in 2023, compared with an average of 49.5% for the euro area, and 47.7% for the euro area excluding France. And when we look at the trends, we see that France's public spending is going up more rapidly than that of its European neighbours. Since 2001, French public spending has increased at roughly twice the average rate of the euro area countries.

RADIO EXCERPT 2: *"So, the issue isn't whether we would like to spend in all areas. The issue is, given that certain types of expenditure have to be reduced, which ones should be prioritised?"*

LUCILE RIVES: We chose this excerpt because Antoine Lévy, who was interviewed on France Culture on 22 April 2025, raises an interesting point about choice. Are there any examples

you can give us of political choices or societal choices that have been made and that help explain the current fiscal situation?

CORENTIN DEREDEC: As I was saying, the gap between France's public spending and the euro area average was 7.4 percentage points of GDP in 2023 and was even greater – at more than 9 percentage points – against the euro area excluding France. This reflects a lack of efficiency in public spending, but also past political choices. And this also suggests that France could reduce its level of spending while preserving the same social model that we share with many of our European neighbours.

Taking the example of social benefits, and particularly pensions; they account for two-thirds of the spending gap between France and the euro area. In terms of trends, I said earlier that public spending in France had increased twice as fast as the euro area average. The greater growth in spending in France is particularly linked to the dynamics of pension expenditure and social protection expenditure in general, which accounts for half of the growth in spending in France.

LUCILE RIVES: Looking more closely at the example of pensions, is the fact that they are the largest item of public spending really a societal choice? Or rather is it a consequence of our demographic structure?

CORENTIN DEREDEC: Demographic structure doesn't explain the weight of pensions in public spending in France. Its preponderance is mainly due to societal choices made in terms of pension levels and retirement age.

France's demographic structure can have an impact on other types of expenditure, however, such as education. Generally speaking, our population is younger than our European neighbours, so our education expenditure is slightly higher.

LUCILE RIVES: For our last excerpt, let's listen to François Lenglet on RTL, in his broadcast of 27 March 2025.

RADIO EXCERPT 3: *"OK. And what about if we compare France to our neighbours?" – "It's the same thing, Amandine, it's the worst deficit in the euro area. And it's worth noting a French particularity: it was worse in 2024 than in 2023, which was worse than in 2022. So things are getting worse and worse, while our neighbours' public finances are following the opposite trajectory. It's like we're passing each other on the stairs. We're on the way down while they're heading up."*

LUCILE RIVES: So, if we look at the deficits and debts of the other euro area Member States, does France have the worst deficit in the euro area? Are we passing our neighbours on the stairs?

CORENTIN DEREDEC: Well, in 2024, most euro area Member States ran a deficit, with the exception of Ireland, Cyprus, Greece, Luxembourg and Portugal. But France did have the

largest deficit in the euro area. Within the European Union, only Romania and Poland had a worse government budget balance than ours.

As for the debt-to-GDP ratio, at the end of 2024, France had one of the highest public debt ratios in the euro area at 113% of GDP, compared with a euro area average of 87%. That's almost 25 percentage points higher. We didn't have the highest though, but only Greece, with 153% of GDP, and Italy, with 135% of GDP, topped France in the euro area.

What is a little more worrying – and François Lenglet refers to it in the excerpt – is that since the Covid crisis of 2020, France's public debt has remained at more than 10 percentage points higher than the pre-crisis level of 2019. Meanwhile, countries such as Italy and Greece, and also Portugal, which now runs a surplus, have returned to or even dropped below their pre-crisis levels.

LUCILE RIVES: Thank you Corentin. In the next episode, we will continue our analysis of France's fiscal situation and public debt, and together we will look at how a country gets into debt and just how deeply in debt it can get. Thank you.

VOICE-OVER: Thank you all for listening. In the next episode of Dialogue &co, Corentin Deredec and Lucile Rives continue their analysis of France's fiscal situation. Don't forget to subscribe to Dialogue &co and to leave us your comments and stars on your podcast listening platforms. Until next time!

FOR MORE INFORMATION:

- General government expenditure by function (source Eurostat): [link](#)
- Comparaison de la détention des dettes souveraines par des étrangers (Source IFRAP): [link](#)
- Interest Rates, Growth and Public Debt Sustainability (Source Direction générale du Trésor): [link](#)
- Putting French public finances on a sustainable footing (Source Conseil d'analyse économique): [link](#)
- Les risques d'un endettement public hors de contrôle (Source : FIPECO): [link](#)
- L'effet de boule de neige et le solde stabilisant la dette (Source : FIPECO): [link](#)