Les Echos : "We can no longer continue to sleepwalk into a wall of debt"

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International tensions and the tariff war have led you to revise your growth forecast downwards for this year. What is your current assessment of the French economy?

The chaos unleashed by the Trump administration is primarily affecting US growth, but it is also holding back global growth. Assuming a 10% increase in tariffs and no European retaliation, France would suffer a slowdown in GDP growth limited to 0.6% in 2025, instead of the 0.7% forecast in March. However, the French economy is now growing slower than its European neighbours, even though it will avoid recession. The financial situation of businesses – with historically high profit margins – and households – with rising average purchasing power – remains fairly satisfactory, albeit at the cost of a severe deterioration in the public finances.

On a cumulative basis, between now and 2027, US policies are expected to represent a loss of 0.4 percentage point of French GDP. The main channel is not the mechanical effect of tariffs, which would only reduce GDP growth by 0.1

percentage point, but rather the uncertainty, which would cause it to fall by 0.3 percentage point. This unpredictability amplifies the challenge of sluggish growth that France and Europe have been facing for far too long.

Inflation in France is now very low. Could the US offensive revive it?

This is highly unlikely. Falling commodity prices, the strong euro and slowing growth are all working against this. Even potential European retaliation would have a limited effect, as it would only affect imports from the US, unlike US tariffs, which would hit all imports and are therefore far more inflationary.

The victory over inflation therefore appears to be sustainable: our inflation forecast is at 1% in France this year, followed by 1.4% and 1.8% in the following two years. Low inflation protects the purchasing power of French citizens.

Low inflation complicates budget setting. Is the Bayrou government's programme to consolidate the public finances credible?

Based on our projections, a public deficit reduced to 5.4% of GDP this year is still achievable. It is then expected to fall slightly below 5% in 2026 and 2027, depending on the budgets actually enacted. But this will not be enough to stabilise public debt, which is forecast to rise to 120% of GDP by late 2027. France is still too fond of public spending. As long as it runs a primary deficit, excluding interest payments, the debt-to-GDP ratio will automatically rise. Only the 3% deficit target set for 2029 will stabilise this ratio, so it must absolutely be met. This is in the national interest, regardless of the outcome of elections between now and then.

What is at risk for the country if it fails to meet its commitments?

The danger is that France will be squeezed between increasingly demanding lenders – bond investors have become more mindful of fiscal policies everywhere, starting with the United States – and increasingly urgent expenditure: the interest burden as well as defence and rising transition costs, be they related to climate change, digital technology or an ageing population. We can no longer continue to sleepwalk into a wall of debt.

France has always managed to obtain finance on favourable terms. How should we assess the severity of the situation?

The wall of debt does not mean that France is going to go bankrupt. But it is a continuous deterioration for which there are two objective yardsticks. First, annual interest payments: these were EUR 30 billion in 2020 and are expected to exceed EUR 100 billion in 2030. Second, the total debt burden we are passing on to future generations. This represented 30% of GDP 40 years ago and will therefore be four times greater in 2027. Our children and grandchildren are already having to contend with a harsher world and the threat of climate change. Let's not saddle them with a crippling debt on top of all that.

How can we achieve this?

We must focus first on spending – not for ideological, but for practical reasons. Despite a similar social model, we spend over 9 percentage points of GDP more than our European neighbours. Reducing the deficit to 3% is therefore contingent on stabilising public spending in real terms [excluding the impact of inflation, Editor's note]. The State must remain exemplary, but it cannot act alone, as it accounts for only a good third of total expenditure. Welfare and local government spending is still increasing by more than 2% a year. The effort must be shared in a fair and equitable manner involving all stakeholders, starting with the most privileged.

Are you in favour of a 'blank year' in 2026?

It is not for the Banque de France to decide, but this option may perhaps be useful in a context where inflation has fallen.

What do you think of “social VAT”?

Let's first allow the ongoing dialogue with employee representatives to take its course, as it is often quite effective. I would simply note that expanding the tax base would not represent a miracle cure. Switching from one revenue stream to another would not reduce the volume of expenditure.

Aren't you worried about the recessionary impact of spending cuts?

If we bring debt under control, we will reduce uncertainty in France. This is a favourable effect that should offset the Keynesian impact of deficit reduction. And, in the long run, our high level of spending has not brought us high growth, rather quite the opposite.

What stance should we adopt in the face of the sharp deterioration in the international environment?

We need to shake off our stupefaction. We cannot change the US policies, but we need to beef up our side. Europe built its monetary sovereignty 25 years ago with the euro, which currently enjoys record support from 83% of Europeans. Now, beyond the area of defence, Europe must gain economic sovereignty along at least three related ‘new frontiers’. First, finance: every year, Europeans save more than EUR 1 trillion, which is more than in the United States. Second, a European artificial intelligence community: it is not too late for this, if we pool our resources. Last, low-carbon – renewable or nuclear – energy. We can hope for a certain Franco-German *détente* on this issue.

How can we make better use of financing?

At present, our savings are sub-optimally allocated, both geographically and in terms of the nature of the capital. A net amount of such capital totalling between EUR 300 million and EUR 400 billion is exported annually, mainly to the United States. Europe is not short of credit, but it does lack equity capital financing for innovation, if reforms are resulting in more profitable projects in the digital and energy sectors.

Five times less venture capital is raised in Europe compared to the United States. More generally, equity capital represents less than 90% of GDP in Europe, compared with 215% in the United States. This makes companies less willing to take risks. For example, there is a lot of investment in the automotive sector but the key disruptive innovation – the electric vehicle – was developed in the United States and China.

This is the aim of the Savings and Investments Union: promoting financial intermediaries on a pan-European and no longer on a merely national level, both in the case of equity funds and investment banks. One of the keys to this is harmonised European supervision.

What are the main risks to financial stability?

Unpredictability affects financial stability – including the US bond market, which has traditionally been a safe haven. This is compounded by the stated desire for financial deregulation. However, the new US regulators have officially said that they intend to transpose Basel III banking regulations. Many risks also relate to the expansion of opaque non-bank financial intermediation. Cryptocurrency players also need to be regulated before it is too late, while the market is still manageable, as Europe has done.

Is this an opportunity for the euro to take on a new dimension internationally?

The dollar remains at the centre of the financial system but investors are increasingly eager to diversify. There is powerful synergy for the euro between its internal objective – to develop the Savings and Investment Union – and its external objective, which is to attract more international investors. What the euro still lacks is a financial market that is as integrated as the US market, with large pools of safe and liquid assets. A number of options have been mooted, like issuing European debt or pooling a portion of national debt, but technical and political difficulties will have to be resolved. So there is a chance to strengthen the role of the euro, but nothing is going to happen automatically.

What do you mean by that?

It would be tempting to say that the Trump administration has created problems in the United States that will automatically benefit Europe, but that would be a dangerous illusion. In a rapidly changing world, a general mobilisation is required, as called for by the Banque de France in its recent annual Letter to the President of the French Republic. If we don't act now on France's debt and on sluggish growth in Europe, we will suffer the consequences. So let us awake and seize this unique opportunity, which may not come around again for us Europeans.

To this end, we need a mobilising deadline, as Jacques Delors managed to impose for the single market and then for the single currency: why not 1 January 2028, during the Trump mandate, to deploy the levers of European economic sovereignty?

Are we approaching the end of the cycle of interest rate cuts in the euro area? Is there a risk of deflation?

Inflation in the euro area is expected to be 2% this year, and we have lowered our interest rates to 2%. This "2 and 2" situation is a favourable one, but it doesn't necessarily mean that rates remain static. I still advocate a data-driven, agile pragmatism. I do not believe there is a risk of deflation, though. If this were to occur, the ECB would have the necessary tools to deal with it.