



GOVERNMENT BUDGET, DEFICIT AND DEBT: COUNT ON US TO HELP YOU UNDERSTAND IT ALL!

(recorded on 9 September 2025)

Introduction

LUCILE

The budget, government deficit, and public debt regularly make headlines.

My name is Lucile, I work at the Banque de France, and together with my guests, we will be taking a look at French public finances.

ADRIEN

Hello, my name is Adrien, I'm 28 years old, and I'm a social media manager.

LOUISE

Hello, my name is Louise, I'm a graphic designer and I'm 25 years old.

LUCILE

Welcome to L'Éco en court.

RADIO EXCERPT

LUCILE

When we talk about public finances, we're not just talking about the government's money.

ADRIEN

When I hear the term “public finances,” I immediately think of the French government.

LUCILE

We are actually referring more broadly to the money of general government, which is divided into three categories.

Category 1. Central government, which includes the State. It is responsible for providing essential services such as education, security and defense, and justice.

Category 2. Public and local government, which includes local authorities such as regions, departments, and municipalities. They manage local services such as school maintenance, road maintenance, and urban and rural development.

Category 3. Social security administrations. They manage French citizens' pensions, healthcare, and benefits through pension funds or the National Health Insurance Fund. Each type of public administration therefore has its own missions and its own resources to finance them.

ADRIEN

There are taxes, and then, I believe, they are redistributed, but I'm not sure how they are redistributed.

LUCILE

The government gets most of its revenue from Value-added tax (VAT), then from income taxes. It can also collect revenue from public companies or its assets.

Local authorities are partly funded by local taxes, through the revenue it derives from the services they provide, such as parking, and sometimes by borrowing. Lastly, there are the social security administrations.

LOUISE

I have no idea how the social security is funded.

LUCILE

The social security administrations are financed by social security contributions, the CSG (general social contribution) and other specific taxes.

If local government and social security administrations do not have sufficient resources to balance their accounts, the State transfers funds to them. Following various tax reforms, these transfers are becoming increasingly significant. A balanced budget is when, over the course of a year, general government revenue exactly covers the amounts it spends to fulfill its missions. But when general government spends more money than it collects over the course of a year, this is referred to as a public deficit.

ADRIEN

I think France has been in deficit since before I was born.

LOUISE

When were you born?

ADRIEN

1996.

LOUISE

I think France has been in deficit since at least World War II. No, it was then followed by the “Trente Glorieuses” (the 30-year post-war boom), so the situation must have fluctuated, inevitably.

LUCILE

Since 1975, every year, France’s general government expenditure has exceeded its revenue. And France's deficit is widening because expenditure is increasing faster than revenue. To measure government deficit, we compare it to a benchmark, the gross domestic product or GDP. This is the amount of wealth produced by a country in a year.

LOUISE

I have no idea what France's deficit is as a percentage of GDP.

ADRIEN

Not as a percentage, but in euros, yes, roughly, I believe it is more than 3,000 billion.

LUCILE

In 2024, the government deficit amounted to 5.8% of GDP. This means that the gap between general government expenditure and revenue was equivalent to 5.8% of the wealth produced by France that year. General government therefore spent EUR 168.6 billion more than it collected. France has the highest deficit rate in the euro area.

So, what is public money spent on?

LOUISE

I think a lot of the money goes into social security and education.

LUCILE

In 2023, pensions were the largest item of public spending. They accounted for 14.4% of GDP. Healthcare ranked second, at 11.7% of GDP, followed by economic support measures, at 6.3% of GDP, and finally education, at 5% of GDP.

These main categories of spending are the same as in other European countries. But what sets France apart is the level of its expenditure, and above all the rate at which it is increasing, particularly social protection expenditure, including pensions.

Another item that has been rising significantly is the debt burden, i.e., the payment of interest on France's debt. In 2024, it represented 2.1% of GDP. This is more than unemployment insurance spending.

But before talking about the debt burden, let's have a look at the debt. When general government's revenue is not sufficient to cover its expenditure, money needs to be found to make up the difference.

For example, it can sell its assets, such as public buildings or shares in public companies. It can also carry out cash management operations, such as using invested money or staggering payments.

However, for the most part, general government borrows on financial markets, it goes into debt.

As we saw earlier, since it transfers certain resources to local government and social security systems to balance their accounts, it is mainly the State that borrows for general government. It is therefore the State that bears the bulk of France's debt.

It should be noted that the State can also borrow to finance other things besides the deficit, such as equity investments in companies or loans to other States. Public debt is therefore the total amount of loans taken out by general government that have not yet been repaid.

While in the 1980s it represented just over 20% of GDP, public debt rose to 113% of GDP in 2024. In France, debt increases especially during crises, such as the Covid pandemic, as the State introduces measures to support the economy. But unlike other European countries, when the economy improves, the additional revenue is not used to repay the debt.

So how much debt can a government take on? In practice, there is no maximum level of debt. Japan's debt, for example, represents 240% of its GDP. But the steady increase in France's debt ratio has concrete consequences. First, the more the debt increases, the more expensive it becomes. The debt burden is already greater than the defence budget, and within two years, it could be equivalent to the budget of the Ministry of Education. A high debt burden therefore reduces the possibilities for spending or investing in the future.

Second, high debt levels with rising interest charges in a context of weak growth could undermine debt sustainability and damage France's credibility vis-à-vis its creditors, i.e. the banks, funds, and insurance companies that hold its debt.

At the end of 2024, 52% of French debt was held by non-resident creditors, i.e., non-French creditors, mainly European. France's debt may also weigh on its relations with its European partners.

ADRIEN

I believe there is a maximum debt level, and in any case, I believe the European Union had set a maximum debt percentage, but I can't remember what it was.

LUCILE

Yes, within the euro area, there are rules to prevent the debt of some economies from weighing on the economies of others. These rules are set out in the Stability and Growth Pact. This pact sets two limits. Each year, the deficit of each euro area country must not exceed 3% of its GDP and its debt must not exceed 60% of its GDP. France, like seven other euro area countries, exceeds these thresholds and is therefore subject to an excessive deficit procedure.

ADRIEN

Maybe be accountable...

LOUISE

There may be sanctions from the European Union against France...

LUCILE

In practice, it must present the European Commission with a medium-term structural budget plan, i.e. a set of measures to gradually bring its accounts back to the 3% and 60% thresholds.

France's plan spans seven years and aims to stabilise and then reduce debt, regardless of the economic climate.

So, now you know how the budget, the deficit, and public debt work. In the next episodes, L'Éco en court will be going out into the field to meet professionals working in the area of banking inclusion. So don't forget to subscribe to L'Éco en court, a podcast from the Banque de France. Till next time!