



**Le Figaro : « A deficit above 5% would put France at risk. »**

**Interview by the Governor of the Banque de France, François Villeroy de Galhau, with French daily *Le Figaro* on 19 December 2025.**

**US customs duties, competition from China, rising bankruptcies, political and fiscal uncertainty... Dark clouds are gathering, yet the Banque de France has raised its growth forecast for 2025 and 2026. How do you explain this astonishing resilience?**

**FRANÇOIS VILLEROY DE GALHAU.** – The credit for this result can above all be ascribed to the ongoing commitment of entrepreneurs and the work of the French people. The international and European context is also slightly less unfavourable than expected. At this stage, therefore, economic life has become somewhat autonomous from political life. That said, growth is resilient but not sufficient: we are talking about 1% for 2026 and 2027. The French economy could do much better in the absence of political uncertainty, which is prompting households to save rather than spend. We estimate that this domestic uncertainty is reducing growth by at least 0.2 percentage points.

**At this stage of the budget review, Bercy estimates the deficit at 5.3% of GDP next year, which is virtually unchanged from 2025... Do we need a “whatever it takes” budget?**

We've already tried the “whatever it takes” approach! No, it is imperative that the budget helps to get our public finances back in order. We must honour our commitment to reducing the deficit from 5.4% of GDP in 2025 to 3% in 2029: not only for the sake of our European partners, but because this is the level that will finally stabilise the debt-to-GDP ratio. Otherwise, our country will succumb to fiscal suffocation: every year, approximately EUR 7 billion more is swallowed up by interest payments on our debt – that's EUR 70 billion over ten years that we no longer have available to spend on education, our security or the digital economy.

**What deficit can we still aim for in 2026?**

To get a quarter of the way towards 3% this year, I argued that the deficit should be reduced to 4.8%. At this stage of the parliamentary debate, that figure unfortunately seems unattainable. But it is absolutely necessary to keep it at 5% or below. A deficit above 5% would put France at risk. Experience shows that the apparent calm on financial markets can rapidly turn into volatility given the succession

of negative signals that could materialise: relaunch of the European excessive deficit procedure against France, further downgrades of its credit rating and the withdrawal of volatile investors such as hedge funds... It is all the more necessary to avoid this rise in French yields – our “spread” – as it would affect businesses, as well as households via their home loans.

**If the deficit stays above 5% of GDP in 2026, can we still get it down to 3% in 2029?**

Regardless of the outcome of the next presidential election, our future political leaders will have to deal with this fiscal problem. If we put it off today, it will be even more burdensome after 2027: this would serve the interest of no political party, and I'm saying that with the full independence of the Banque de France.

**Excessive taxation, unpopular savings measures... Do we still have any room to manoeuvre?**

Yes, but we need to take an opposite approach. So far, the debates have been marked by a refusal to budge on public spending and a concentration of all the creativity on the tax side. Instead, France can and must be more flexible on spending and more stable on its tax regime. Our overall public spending is higher than in our European neighbours: we should compare it sector by sector to boost efficiency. On the revenue side, we no longer have money to lower taxes and we don't have much room to raise them – aside from a few exceptional measures or steps to increase fairness. Given that fiscal stability is a necessity, let's try and turn it into a virtue.

**What do you think of the suspension of the pension reform?**

Last Tuesday's vote on the Social Security budget gives us some political stability, which is of course welcome. But ultimately, the parliamentary compromise chose seniors – myself included! – over the young. The suspension of the pension reform obviously does not solve the problem of its long-term financing; there's no deindexation of pensions – even partial – for the wealthiest retirees, even though many of our neighbours have done so, and even our country did it between 2014 and 2016; there are hardly any savings on healthcare spending; which means even bigger deficits that will weigh on today's youth. In that sense, it's a somewhat gerontocratic social budget. Usually, parents and grandparents help their children; in this case, we're collectively doing the opposite.

**The ECB Governing Council decided to keep rates unchanged on Thursday. Inflation is stable in the euro area in average terms but varies significantly from country to country. How can the ECB take account of these disparities?**

The differences in inflation were much greater in 2022 and 2023. France currently has lower than average inflation, at 0.8%, as does Italy. For our country this is rather positive as it means a moderation in prices – and hence more purchasing power – but also in wages, which is good for our competitiveness in Europe. However, our Governing Council bases its decisions on the European average, which is currently at 2.1%, so very close to our 2% target.

**The Fed seems to want to continue lowering its rates. Are you worried there will be a decoupling from the ECB?**

This concern is unfounded, and we were very comfortable with our decision yesterday to keep rates stable. The Eurosystem can be satisfied that it has accomplished its mission, as inflation has been at

target for the past seven months; but we need to maintain a great deal of humility and maximum “optionality” given the uncertainty weighing on the environment. There are risks in both directions to inflation, but particularly to the downside. We will therefore be as agile as necessary in each of our next meetings. But after eight cuts, European rates are now at 2%, much lower than US rates, which are at 3.6%, and than UK rates, which are at 3.75%. The dollar has admittedly weakened against numerous currencies, including the euro, reflecting a loss of confidence in certain US policies. The ECB does not have an exchange rate target, but we will remain vigilant and pragmatic if we have to adjust our monetary policy to a stronger euro and imported disinflation. That said, at its current level of USD 1.17, the euro is almost exactly in line with its 25-year average.

**Chinese imports are flooding into Europe. Are you in favour of some form of protectionism to counter this trend?**

Over the past six months, Chinese imports into Europe have increased by 11% in volume terms and their prices have fallen by 9%. This is weighing down on both inflation and activity. But in response, I’m more in favour of building up muscle than protections, even though the latter are sometimes necessary. We need to move forward on the 2024 Draghi and Letta reports. In France, we tend to be too complacent about our weaknesses – such as our deficits – and not confident enough in our strengths. The French and European economy should be able to mobilise a “virtuous square” of resources: we have abundant private savings, a very large domestic market – on a par with the United States – an exceptional pool of talent and a thriving business sector. The French economy combines both a large number of major international companies and an increasing number of new start-ups – more than a million this year, a sharp increase over the last 10 years. We need to leverage these strengths offensively rather than focusing too much on fighting defensively.

**Banks are still opposed to your digital euro project. Will it go ahead?**

The decision rests with the Ecofin Council [editor’s note: European finance ministers) – which is in the process of approving it – and with the European Parliament, which will vote on the matter next spring. We must not fight the wrong battle: this is not a contest between the public and private sector in Europe, but a matter of sovereignty of Europe versus the US. For Europeans, the issue is whether, in the future, they will have a “tokenised” digital currency issued exclusively in dollars by private US actors (the stablecoins championed by the new US government), or also one that’s issued in euro. Money has always been the result of a public/private partnership, between the central bank and commercial banks: here again, it’s in our interest to jointly build a sovereign European strategy. This will combine the digital euro – a digital banknote, but better – and private payment solutions such as the Wero wallet, which we support, as an alternative to the major US card networks.