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Is France becoming ungovernable?

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Another French prime minister is felled over his budget policies

"Rien ne va plus." Once again. French Prime Minister François Bayrou, as widely predicted, lost last Monday's budget vote, which he had tied to a confidence motion. By Tuesday, he had resigned. Bayrou had led a minority government in a deeply fractured French National Assembly, divided into three rival blocs – centrists, the far-right, and a broad left-wing alliance – none of which commands a majority.

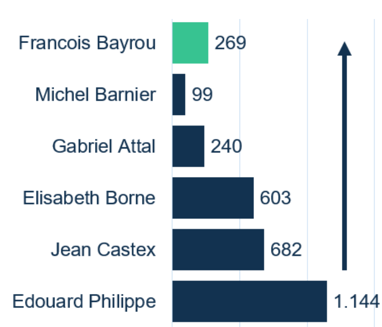
Bayrou's proposed 2026 budget proposal included €45 billion in spending cuts, as well as the elimination of two public holidays. France's public deficit has now risen to nearly 6% of GDP – twice the limit set by EU fiscal rules meant to ensure eurozone stability. At the same time, national debt has soared well above 100% of GDP, with no signs of slowing. This path towards fiscal recklessness is clearly unsustainable. Bayrou justifiably rebuked the opposition, stating: "You can bring down the government, but you cannot erase reality." A striking and fitting remark.

"All Gaul is divided into three parts" (Julius Caesar)

Bayrou's predecessor Michel Barnier lasted just 99 days in office before falling over the 2025 budget, which Bayrou himself only barely managed to pass in February. Sébastien Lecornu, appointed on Tuesday, is now France's fifth prime minister in just two years. The half-life of French governments is shrinking (see fig. 1). France is verging on becoming ungovernable. Lecornu faces the same challenge squaring the circle as his predecessor: crafting a viable budget while negotiating between irreconcilable camps. Marine Le Pen's far-right Rassemblement National (RN), now ahead in opinion polls (see fig. 2), is pushing for snap elec-

1974: the last year France had a budget surplus

Fig. 1: Macron's Prime Ministers since 2017 (Days in office)



Source: Wikipedia, LBBW Research

tions, feeling the wind at its back. Meanwhile, the left-wing alliance is less cohesive than it may seem, creating possible points for compromise for the government. But to secure the support of Socialists or Greens, Lecornu would likely have to abandon austerity measures – maybe even undo the controversial 2023 pension reform, which gradually raises the retirement age from 62 to 64 despite months of nationwide protests and strikes. That is something the centrist government will be reluctant to support.

If no compromise is reached, France will have to carry over the 2025 budget into 2026, a scenario reminiscent of Germany earlier this year, when, following the collapse of its traffic light coalition government, the old budget temporarily remained in place until a new one could be approved. For France this would mean negligible savings and an inexorable rise in public debt.

While these developments don't necessarily signal the return of an existential eurozone crisis, markets are clearly concerned. Yields on French 10-year government bonds have edged closer to Italian levels, despite Italy's credit rating being two categories lower. Investors are signaling discomfort with France's patent inability to address its humongous fiscal imbalance.

Germany is not France. Not yet, anyway

Meanwhile, in neighboring Germany, the government still enjoys a parliamentary majority. But the ability to act is waning across the Rhine, too. The political center is under threat from both flanks leading to ever weaker reform momentum. The government may boast about an 'autumn of reforms'. Alas, considering the track record of these coalition partners there are serious doubts as to whether they can agree on material reforms.

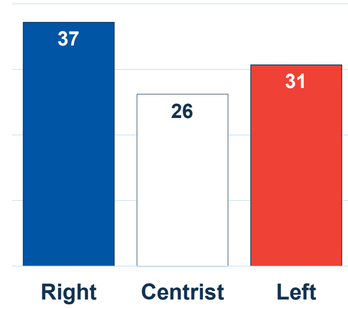
Germany's governing parties have at least succeeded in one area: letting fiscal discipline slip. While Germany's lower debt-to-GDP ratio provides a more favorable starting point than France (see fig. 3), the parallels between the two countries are increasingly difficult to ignore. With political deadlock blocking decisive reforms, the German centrist coalition is instead distributing borrowed funds lavishly among its citizens – betting that voters will show gratitude at the ballot box. France shows the danger of this strategy. Soaring debt has not pacified voters – it has polarized them further. Similar trends can be seen across other democracies, from Italy and Austria to the UK and even Japan. Debt is rising, and yet political divisions intensify.

Governments must stop treating their voters like small children, trying to pacify them in the short term with sweets. Anyone who has raised children knows full well that this is not a sustainable recipe for success. If Germany fails to draw the right lessons from France's budget debacle, fiscal metrics in both countries could again align, as they did in the late 1990s.

The difference, however, is that this time debt levels would no longer oscillate around the relatively stable level of around 60% of GDP (see fig. 3).

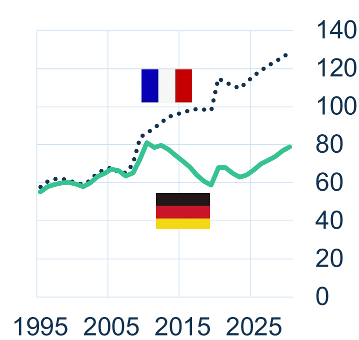
Irreconcilable political camps

Fig. 2: Voting intentions across the political spectrum (in %)



Source: PolitPro, LBBW Research

Fig. 3: General government gross debt (% of GDP)



Source: IMF, LBBW Research (LBBW forecasts for Germany, IMF forecasts for France)

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