

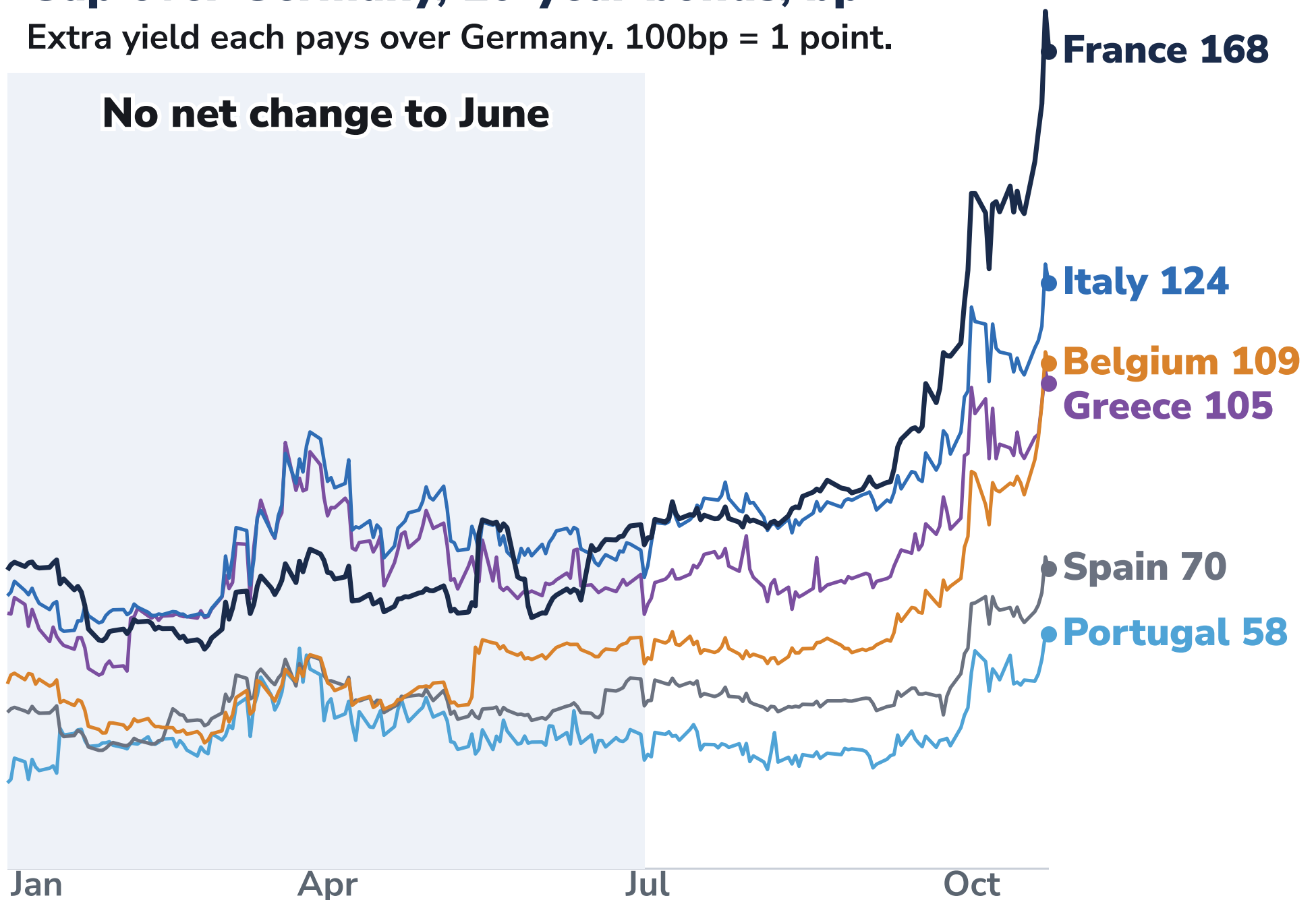
France's sovereign debt crisis

The stress is spreading.

As France came under strain, investors turned up the heat on Italy, Belgium and even Greece. **A second push:** since late September, investors have bought German bonds, which widened every gap at once.

Gap over Germany, 10-year bonds, bp

Extra yield each pays over Germany. 100bp = 1 point.



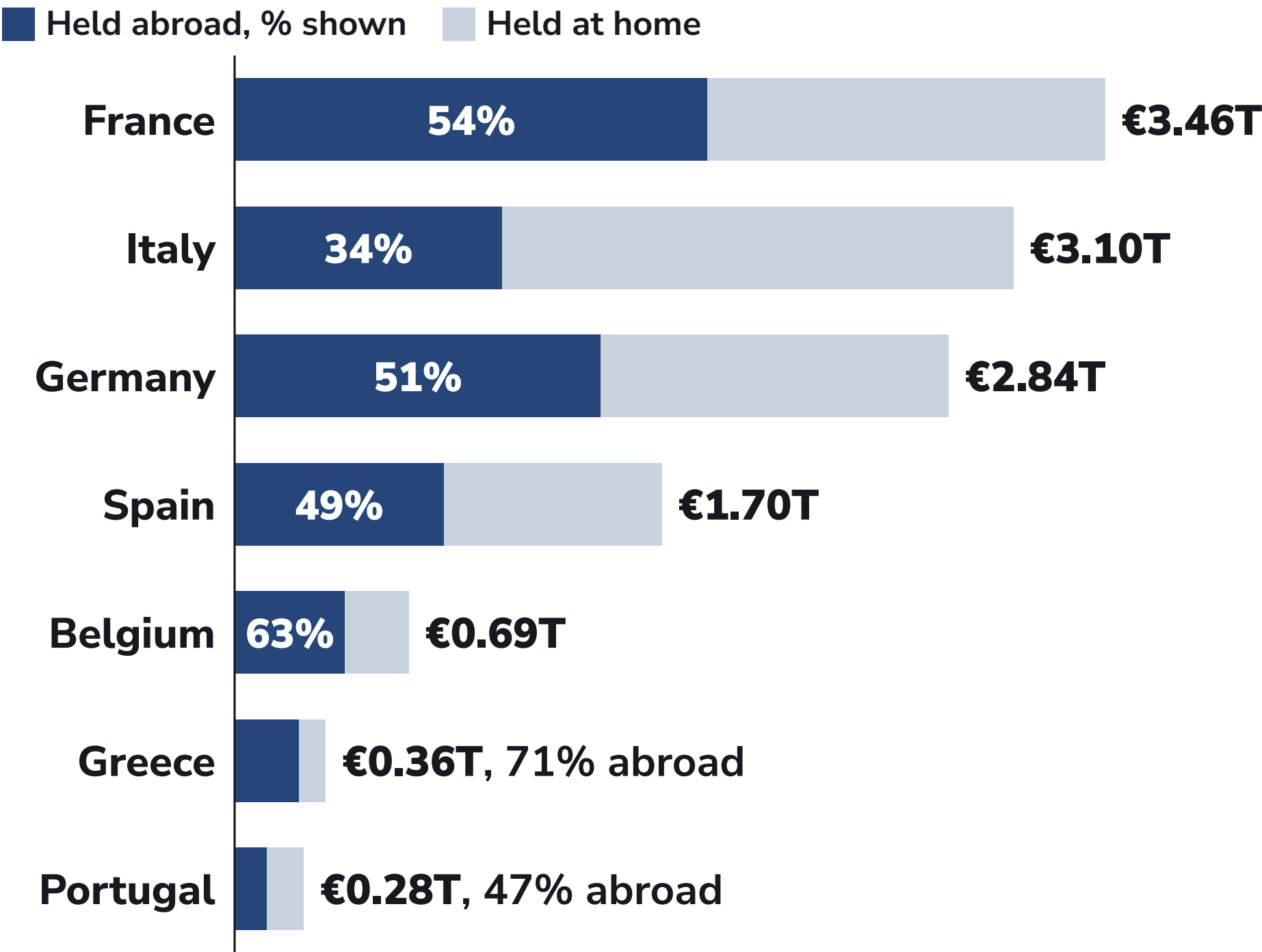
Caveat. Some of it is home-grown: Belgium runs a deficit as large as France's and has its own political issues, and Italy has an election next year.

SOURCES CNBC bond quotes, daily close; [Reuters 22 Oct](#), [22 Oct](#)

More than half of France's €3.46 trillion debt is held abroad. Losses on it would reach investors beyond France

France is the largest pool of euro-area government debt held outside its home country: 27% of €7.0 trillion.

Government debt, 2025, € trillion



France at home: French banks and money funds €580bn (17%), the Banque de France €572bn (17%), insurers and funds €390bn (11%).

Abroad includes investors in other euro-area countries, and the ECB. Greece's is mostly euro-area rescue loans.

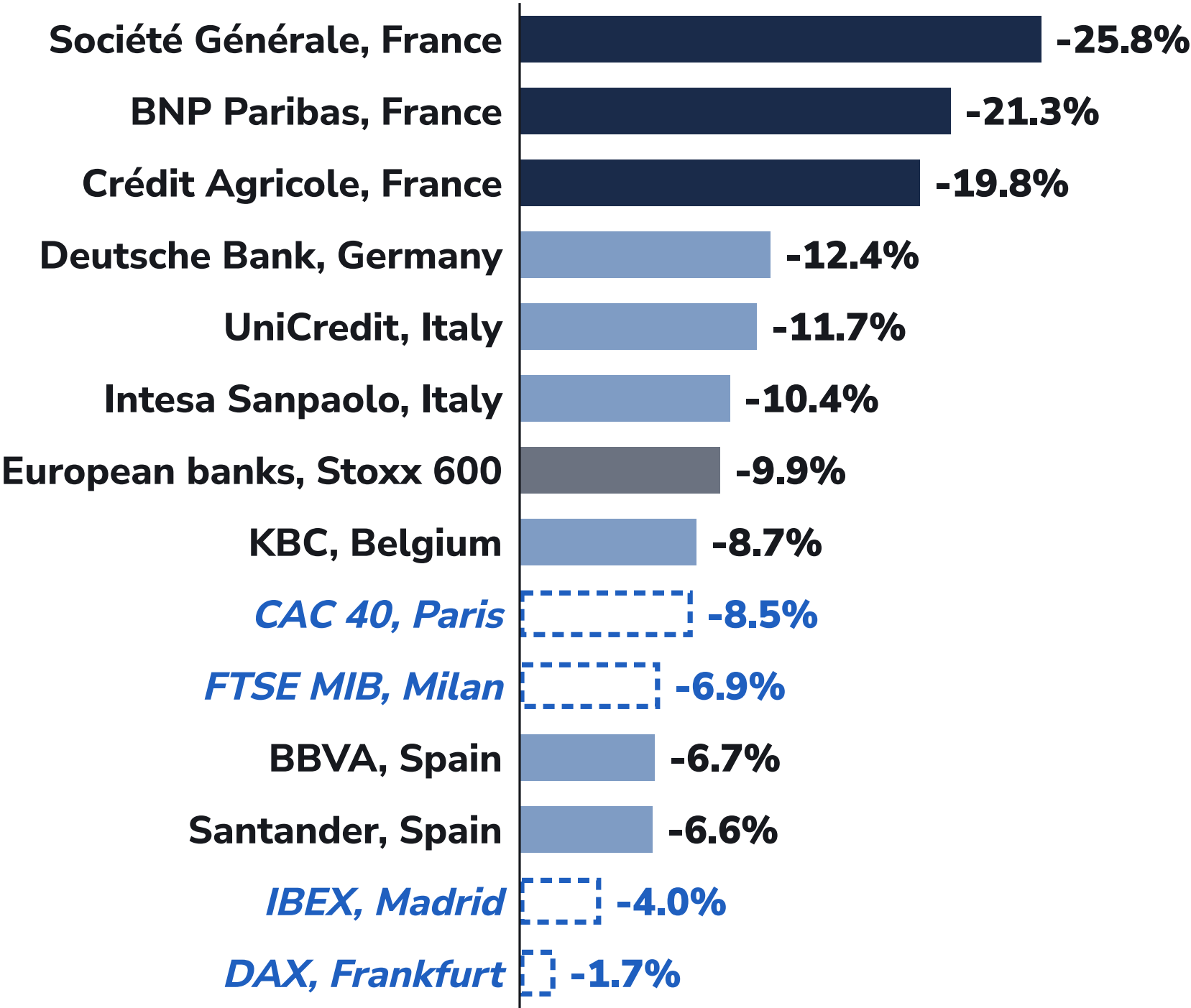
SOURCES Eurostat, government debt by holder, in euros and by instrument, 2025

French bank shares have fallen about twice as much as Europe's banks since July

The bond market has spoken, and bank shares are falling too. Banks hold government bonds, so falling bond prices hit them.

Change since 31 Jul 2026, %

■ Banks, French dark ▤ *Stock markets*



Reuters: in six weeks to 21 Oct, French banks fell 17% and European banks 10%; sovereign worries contributed. **Caveat:** not all of it is France. Since late August Deutsche Bank has fallen more than the French banks, and Paris also has weak luxury sales. Brussels (+1.7%) and Lisbon (+1.4%) rose.

SOURCES Yahoo Finance via tigzig.com APIs, closes to 23 Oct, banks with dividends; [Reuters 21 Oct](#), [CNBC 19 Oct](#)

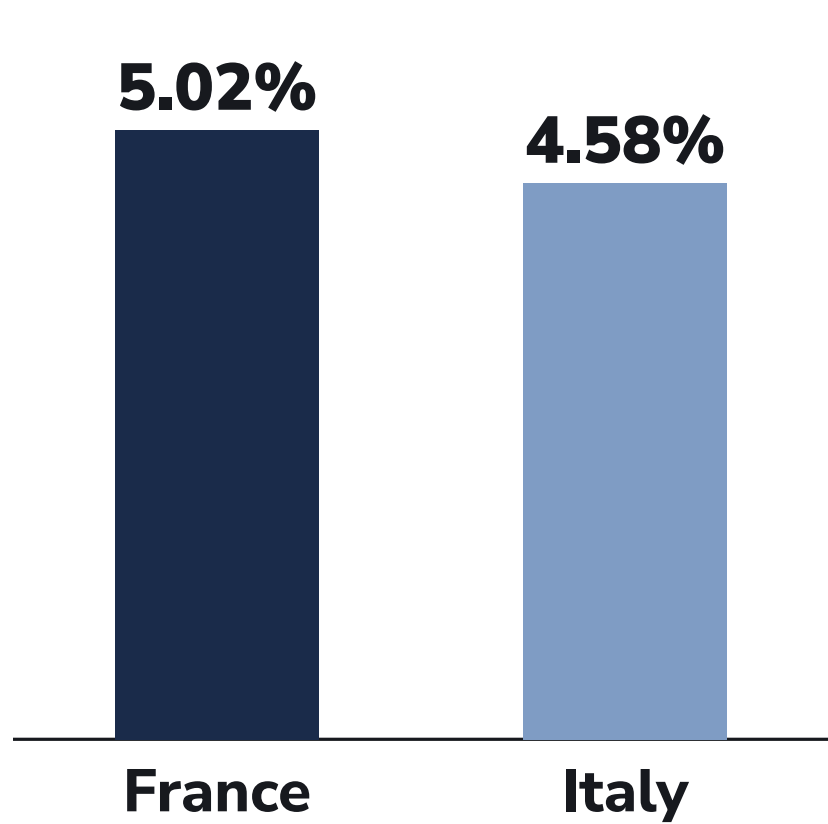
France is rated three to five notches above Italy. It now pays more to borrow

“We are deep into French crisis territory.”

Carsten Brzeski, ING, to CNBC, 23 Oct

10-year bond yield

Close on 23 Oct 2026



Credit ratings

Long-term, today

	Rating	France	Italy	Notches apart
S&P		A+	BBB+	3
Moody's		Aa3	Baa2	5
Fitch		A+	BBB+	3

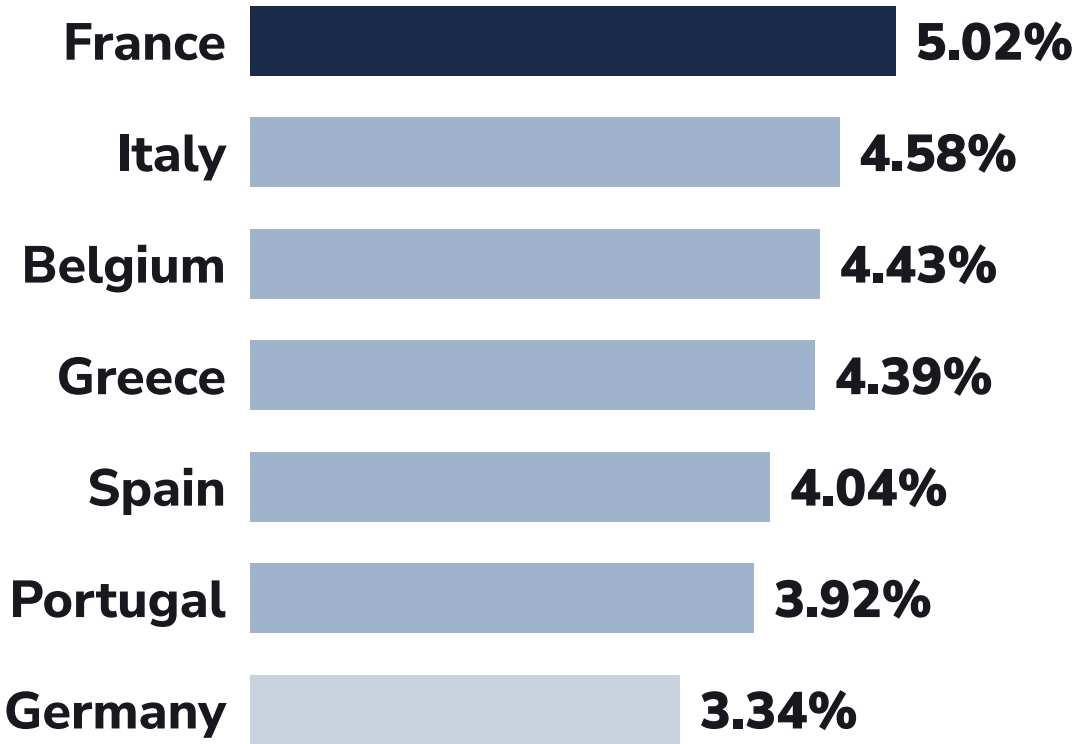
10-year bond yields across the euro area

%, close on 23 Oct 2026

France pays the most.

Germany, the benchmark, pays the least.

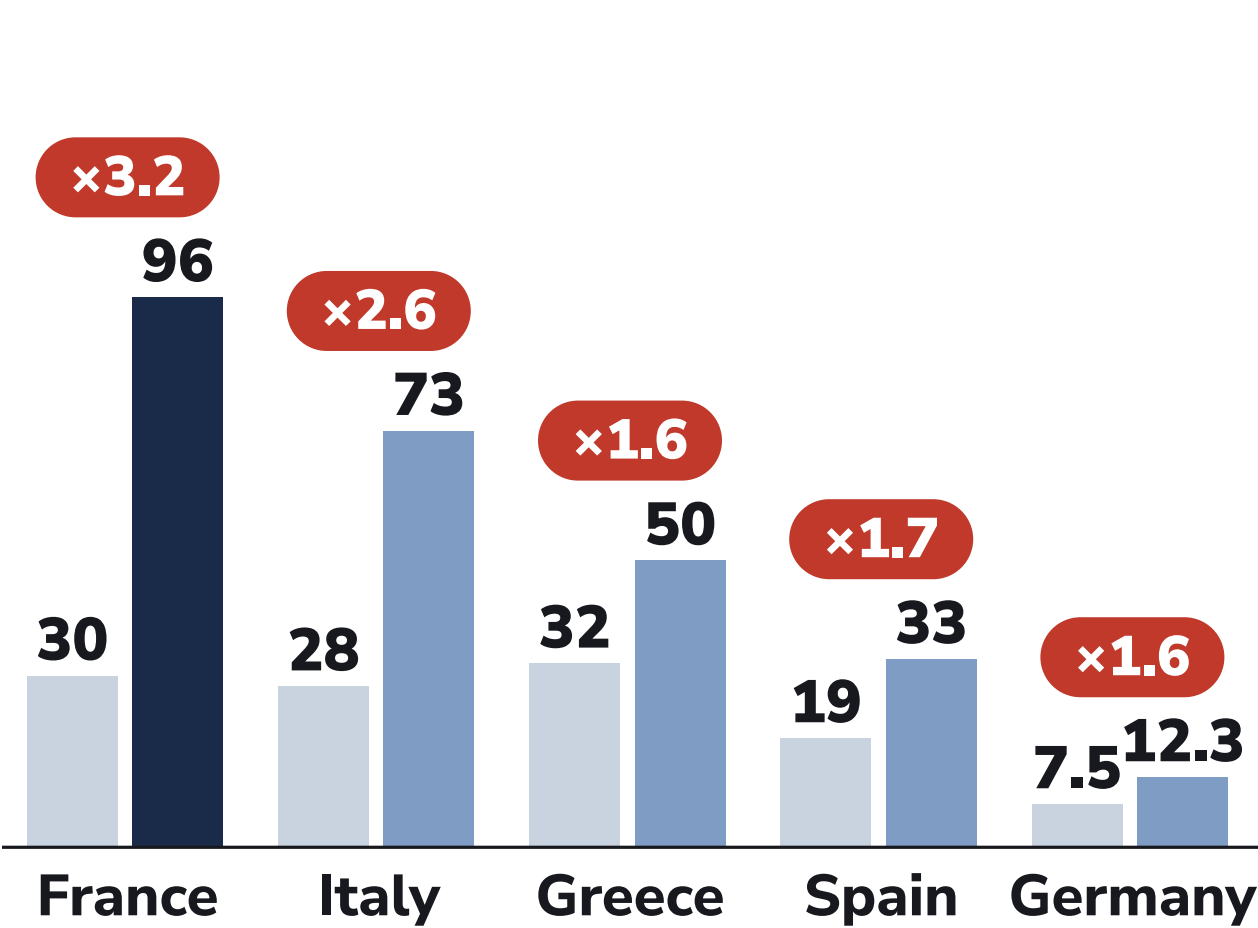
Before interest, Italy ran a budget surplus of 0.8% of GDP in 2025. France ran a deficit of 2.9%.



SOURCES CNBC bond quotes; Eurostat; Reuters on [Moody's](#), [S&P](#), [Fitch](#), [Italy](#); [Il Sole](#); [CNBC](#)

The cost of insuring French debt against default has more than tripled this year

France now costs more to insure than Italy, Greece or Spain. Theirs are rising too, but are still below their 2020 Covid highs.

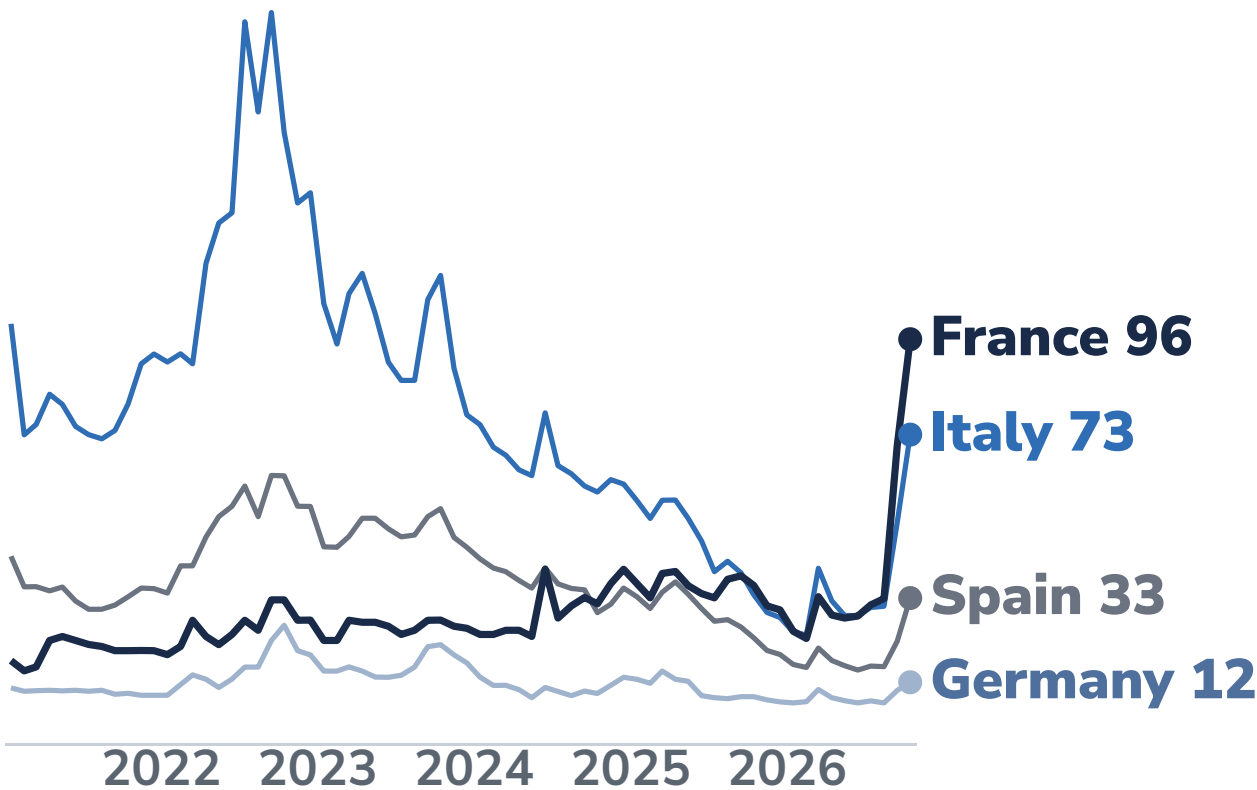


5-year default insurance, bp
End-2025 (pale) vs October 2026. Red: times higher

What it is. A credit default swap pays out if the government defaults. The price is a yearly fee: 96bp is \$9,600 a year to insure \$1 million of French bonds.

Since 2021, bp Monthly close

The 2011-12 crisis.
On monthly closes, Italy's cost peaked at 554bp and Spain's at 590bp, in May 2012. CNBC says France's is now the highest since that crisis.



SOURCES Investing.com, 5-year CDS in US dollars, monthly closes to 22 Oct; [CNBC 23 Oct](#)

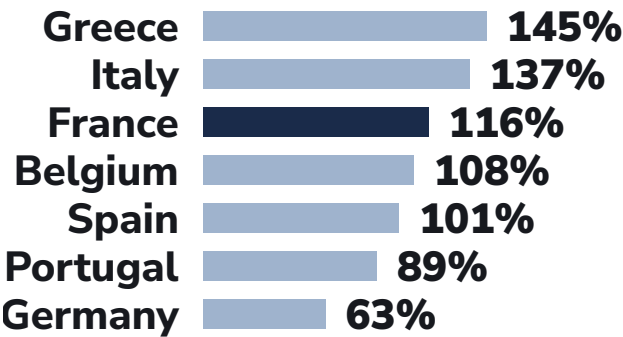
France's debt is at a record. Italy, Greece, Spain and Portugal are below their 2020 peaks

France has had a deficit in all 31 years of Eurostat's data, since 1995. Its interest bill nearly doubled in four years.

The refinancing wall. More than \$1 trillion of French debt matures by 2030. **France's 10-year yield averaged 0.4% from 2015 to 2021. It is now 5.0%.** Across all its debt, the interest paid in 2025 came to about 1.9%.

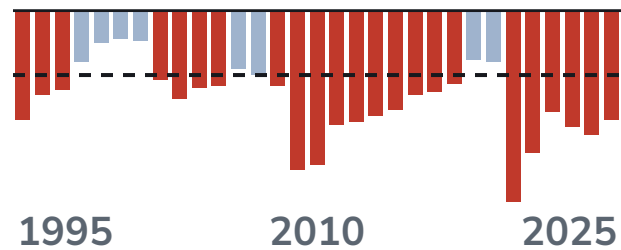
Debt, % of GDP

2025. France is third



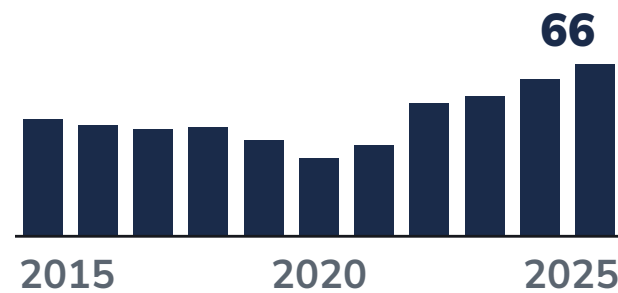
France's deficit

Within 3% in 8 of 31 years



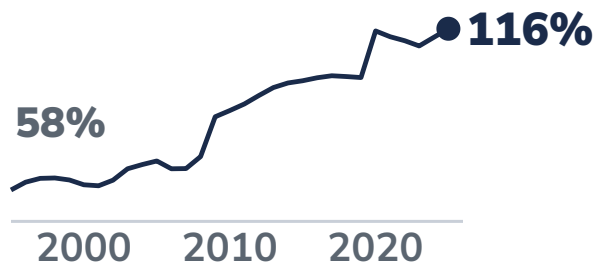
Interest paid, €bn

France. €35bn in 2021



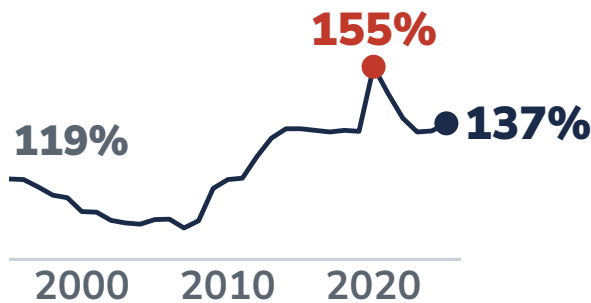
France

116% in 2025, a record



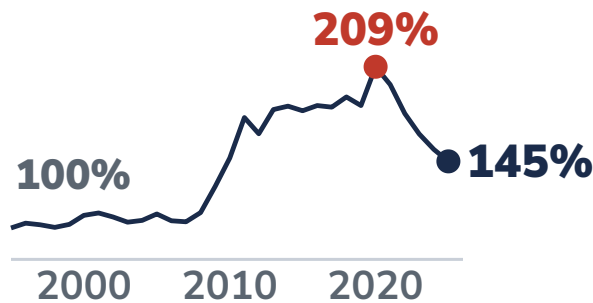
Italy

137%, peak 155% in 2020



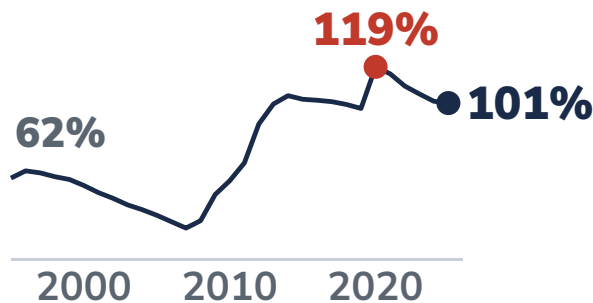
Greece

145%, peak 209% in 2020



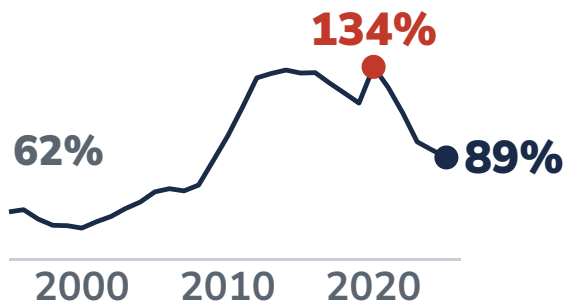
Spain

101%, peak 119% in 2020



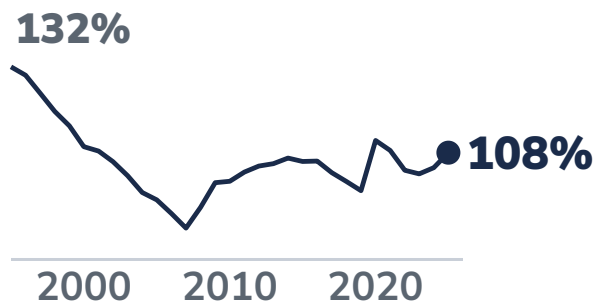
Portugal

89%, peak 134% in 2020



Belgium

108%, below 1995



SOURCES Eurostat, ECB, [CNBC 23 Oct](#). Country charts: own scales

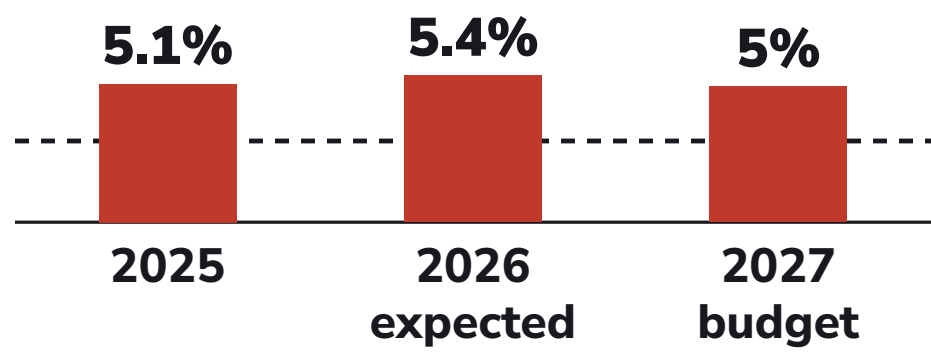
The ECB's tools are a poor fit for France

“If there are serious contagion effects from a hypothetical French crisis to other countries where the fiscal policy is much more sustainable, the ECB would probably use its TPI to shield these other countries, not France.”

Holger Schmieding, chief economist, Berenberg, to Reuters, 23 Oct

Deficit, % of GDP

Dashed: the EU's 3% cap



Gap over Germany

bp. Italy at its euro-era worst month



THE ECB'S TWO TOOLS

Backstop	The TPI buys bonds in a disorderly sell-off; never used. It needs EU fiscal rules followed and debt on a sustainable path; for France, ING says, at least a full budget passed.
Bailout	The OMT is only for a government that first signs up to a bailout from the ESM, the euro rescue fund.

WHAT TO WATCH

27 Oct	State budget debate resumes; MPs rejected the social security budget on 23 Oct. Using Article 49.3 invites a no-confidence vote.
29 Oct	ECB meets. Seen on hold at 2.5%, with a rise expected in December.
5 Nov	A national day of strikes and protests, backed by the unions.
Ratings	Moody's Aa3 (negative outlook) assumes a deficit-cutting budget and calmer borrowing costs and protests. BBB from all three after the election could force sales (RBC BlueBay).
13 Nov	S&P reviews Italy (BBB+, positive outlook); an upgrade cuts the gap to two notches.
2027	Presidential election, 18 Apr and 2 May. Polls suggest the far right could win.

SOURCES [Reuters 23 Oct](#), [23 Oct](#), [Euronews](#), [CNBC](#), [Il Sole](#), [Anadolu](#), Eurostat, ECB

The other side: most analysts see the contagion risk as limited, and banks are stronger than in 2011-12

Contagion

CNBC, 23 Oct

Most analysts CNBC spoke to said reforms keep the contagion risk limited this time, even though markets are behaving much as they did after the financial crisis.

Moody's

23 Oct

Kept Aa3 with a negative outlook, a notch above S&P and Fitch. It assumes a deficit-cutting budget and calmer borrowing costs and protests.

ING

Carsten Brzeski

“There is no risk of an imminent liquidity issue for the French government”, though the loss of bond-market trust should bring “a high sense of urgency to Paris”.

Citi

Giada Giani, economist

“There exists a consensus that Europe is better equipped today to deal with crises.” Re-emerging euroscepticism is a constraint, she adds.

BlackRock

strategists

The setting is “materially different” from 2011-12, though spillovers remain possible.

Banks

Axiom, WisdomTree, via Reuters 21 Oct

Better prepared. Large French banks' home-government bonds are 15-30% of top capital, against 100%+ for Italy's banks in 2011-12.

Interest

Eurostat, 2025

France paid 2.2% of GDP, Italy 3.8%. France's bill is rising.

SOURCES [Reuters 23 Oct](#), [CNBC 23 Oct](#), [Reuters 22 Oct](#), [Reuters 21 Oct](#), Eurostat

My read: France's debt stress comes at a fragile time

In normal times, a debt scare in France would draw plenty of attention and noise, and something would get worked out. It would be a shock, but not one that puts the global economy at risk.

This time it comes on top of other stresses: AI valuations that look stretched and are increasingly funded with debt, an oil shock from the Iran war, and strain on jobs and incomes. With that much already stretched, a small trigger could have a far more destabilising effect.

My earlier analysis More at tigzig.com → [Analysis](#)

24 Oct **Could this time be different?**

Past drawdowns, AI valuations, and cracks across markets and the economy.

23 Oct **A crescendo of warnings on AI debt and returns**

S&P Global, Gartner, Morgan Stanley, the IMF and the World Bank, in one month.

22 Oct **US housing, October 2026**

Mortgage rates above 2007-08, pending sales at a record low.

4 Oct **US jobs, September 2026**

Fewer new jobs, longer searches, hourly pay trailing prices since April.

31 Aug **A correction in AI valuations is looking more likely**

That view now comes from a central bank, an asset manager and a bond investor.

Not investment advice. This is my analysis of public sources, for information only. Care has been taken, but errors are possible. **Use of AI.** Parts of this work were prepared with AI under my direction. I reviewed, edited and approved every page. The analysis and conclusions are mine.