Allianz Global Investors

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# Does France’s political turmoil pose risks to Europe?


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**France’s borrowing costs have risen and equity markets have fallen as investors digest the possibility of a government collapse as soon as 8 September. We expect continued underperformance in French risk assets, widening sovereign spreads, and headwinds for the euro until political turmoil subsides.**

France is in the market spotlight as investors digest the possibility of a government collapse as soon as 8 September.

## Key takeaways

- French Prime Minister François Bayrou has sought a confidence vote on his debt-cutting plan, raising the risk of a snap parliamentary election.
- We expect France to remain politically unstable at least until the next presidential election, struggling to reverse its unhealthy fiscal trajectory and acting as a drag on European growth.
- But we think reforms by smaller euro zone countries to boost competitiveness and fiscal disciple reduce the risk of a broader contagion from France’s widening sovereign bond spreads.

Navigating Rates

Prime Minister François Bayrou jolted markets on 25 August when he unexpectedly announced a confidence vote on his plan to slash the budget deficit.

In response, France's main opposition parties stated that they would be voting against Mr Bayrou and his minority government, while Justice Minister Gerald Darmanin told France 2 TV, he "could not rule out" a dissolution of parliament – a scenario that would trigger a snap election.

France's 10-year borrowing costs climbed as high as 3.53%, the highest level since March. France's blue chip CAC40 index was down nearly 2% in trading on 26 August, on course for a second consecutive day of falls.[1]

The fresh political turmoil comes just over a year after President Emmanuel Macron called and lost a snap election. The election led to a more fragmented parliament.

In the current divided political climate, the odds appear stacked against Mr Bayrou, unless he manages to peel away the centre-left Socialist Party from the left bloc and entice the far-right National Rally (RN) to abstain from the confidence vote.

However, we would not rule out that a watered-down 2026 budget could still be passed under a new prime minister.

In the event of snap parliamentary elections, we would expect either another unstable coalition to emerge, or a left- or right-led government to take office.

We see three key questions surrounding the confidence vote:

1. **How does the new instability affect France's fiscal outlook?**
   We think the government will continue to struggle without meaningful fiscal tightening, or even higher spending. We anticipate budget deficit forecasts for 2026 and beyond to rise further, putting upward pressure on French borrowing costs. The government is aiming for a budget deficit of 5.4% of GDP in 2025 and 4.6% in 2026 under a four-year plan targeting bringing France's deficit in line with the EU's 3% limit.[2]

2. **How does this impact Europe's growth prospects?**
   Political instability often weighs on economic confidence. For example, companies may delay investment and hiring decisions if they're uncertain about the political outlook. In France specifically, consumer confidence tends to correlate with the popularity of leading politicians. If consumers have less confidence in their political leaders, they tend to spend less. We think domestically driven weakness could hurt the French economy more than usual in an environment of heightened trade tensions. As the euro zone's second-largest economy, weakness in French demand could drag down broader European growth.

3. **Does this put European cohesion at risk?**
   We see French political uncertainty weighing on European risk assets, including the euro. France's foreign and European policy remains largely under presidential control and we don't expect an imminent change in president. President Macron's position has been weakened by the fallout from his decision to dissolve parliament last year, but an early resignation remains a tail risk. Still, discontent with centrist governance could strengthen the extremes, potentially leading to a scenario where a far-left and a far-right candidate face off in the second round of the 2027 presidential election. While both wings have softened their Eurosceptic rhetoric in recent years, they could still prove difficult partners for the EU and its member states.

## What do France's problems mean for the euro zone?

The euro zone's resilience has improved significantly since the 2011-12 sovereign debt crisis. The European Central Bank has developed tools such as the Transmission Protection Instrument (TPI) to intervene in disorderly markets, and the European Stability Mechanism (ESM) can provide conditional support to distressed sovereigns.

Most importantly, the reforms and fiscal discipline of former crisis countries have restored their competitiveness and fiscal health. Consequently, widening sovereign bond spreads in France are not currently leading to contagion in the periphery.

[1] Source: Bloomberg, 26 August 2025.
[2] Source: French government, 2025.

In summary, France is likely to remain politically unstable at least until the next presidential election, struggling to reverse its unhealthy fiscal trajectory, and acting as a drag on European growth and institutional reform. We expect underperformance in French risk assets, widening sovereign spreads, and headwinds for the euro. But, in our view, only a snap presidential election would pose an immediate risk to European resilience.



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