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Why France now yields more than Italy

European sovereign debt repricing | A clear investor briefing

France · Germany · Italy · Spain | 26 October 2026

THE MARKET SIGNAL

+42 bp	4.91%	115.7%
FRANCE MINUS ITALY	**FRANCE 10-YEAR YIELD**	**FRANCE DEBT / GDP**
10-year yield differential	26 October 2026	2025 · general government

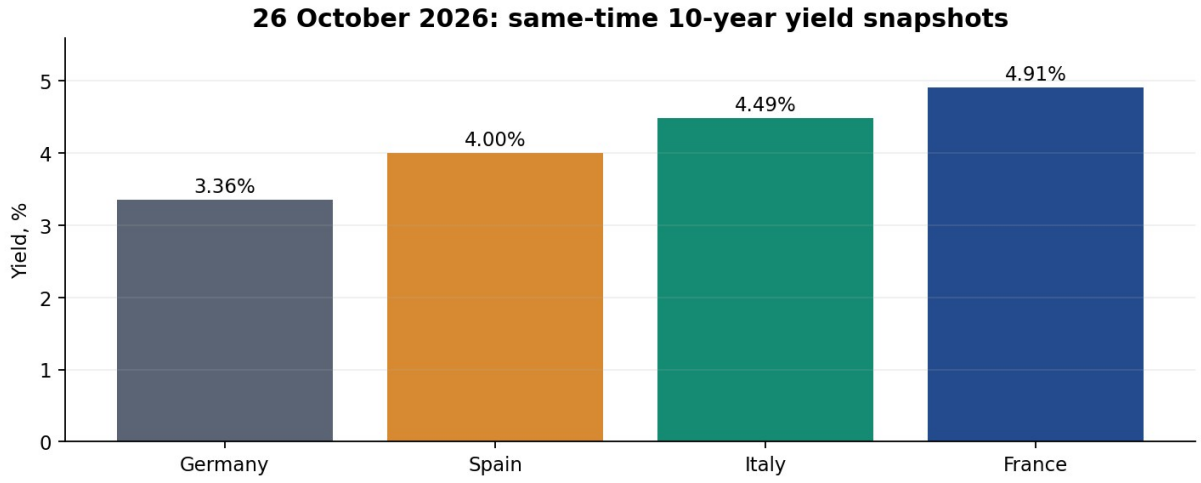


Figure 1. Four-country benchmark 10-year yields, 26 October 2026. Source: Radiocor/Borsa Italiana [1].

PRINCIPAL INTERPRETATION

France's 10-year government bond yielded 4.91%, compared with 4.49% for Italy — a 42-basis-point premium. Yet France's public debt was 115.7% of GDP in 2025, versus 136.7% in Italy, a gap of 21 percentage points. Investors may be responding to France's persistent fiscal deficits, political uncertainty and future borrowing needs, alongside improving Italian fiscal balances. These are plausible explanations, not a proven allocation of the 42bp difference.

READING RULE

Read the figures in three ways: market quotes are observed prices; primary balances and stock-flow adjustments are calculations; explanations for yield movements are hypotheses. This briefing distinguishes all three.

Executive briefing | the five findings

1. France now yields more than Italy. 10-year yields were France 4.91%, Italy 4.49%, Spain 4.00% and Germany 3.36%. France therefore traded 42bp above Italy and 155bp above Germany. Spain and Italy traded 64bp and 113bp above Germany respectively.

2. France's annual borrowing gap is larger. In 2025 France's overall government deficit was 5.1% of GDP, against Italy's 3.1%. Excluding interest costs, the estimated primary balances were −2.84% of GDP for France and +0.77% for Italy. Those interest figures require a cross-vintage qualification explained later.

3. Higher yields do not mean the French government has lost market access. France continues to sell debt, albeit at prices set by investors. A successful auction confirms demand at the clearing price; it cannot by itself prove that future financing will always be easy.

4. Higher market yields enter the budget gradually. At 30 September 2026, France had approximately €2.896 trillion of negotiable central-government debt outstanding. Its average remaining maturity was about 8 years and 158 days. Existing fixed-rate bonds retain their coupons; higher yields affect the cost of new borrowing and bonds that must be refinanced. This stock is not the same as the broader Maastricht general-government debt measure.

5. The European Central Bank is buying less debt. Reinvestments from the Asset Purchase Programme (APP) ended in July 2023, and those from the Pandemic Emergency Purchase Programme (PEPP) ended in December 2024. As these holdings roll off, private investors must absorb more bond supply than otherwise. How much this has affected French spreads specifically is not established.

What is new for investors

Investors distinguish the stock of debt — what a government already owes — from its financing flow: the new fiscal deficit plus debt coming due. Credit ratings change occasionally; bond yields adjust continuously to economic news, liquidity, relative valuations and political developments. The French spread therefore deserves attention, but does not by itself signal imminent default.

Three takeaways for a portfolio meeting

- Do not rank sovereign bonds using debt/GDP alone. Compare primary budgets, nominal GDP growth, annual refinancing needs and the cost of issuing new debt.
- Compare spreads measured on the same date: French OATs (Obligations assimilables du Trésor) and Italian BTPs (Buoni del Tesoro Poliennali) against German Bunds (federal government bonds). German yields also move, so Bund-relative spreads are not purely domestic credit measures.
- Distinguish changes in government credit risk from movements in euro-area interest rates, bond-market liquidity, auction demand and European Central Bank policy.

1 | France’s changing place in the bond market

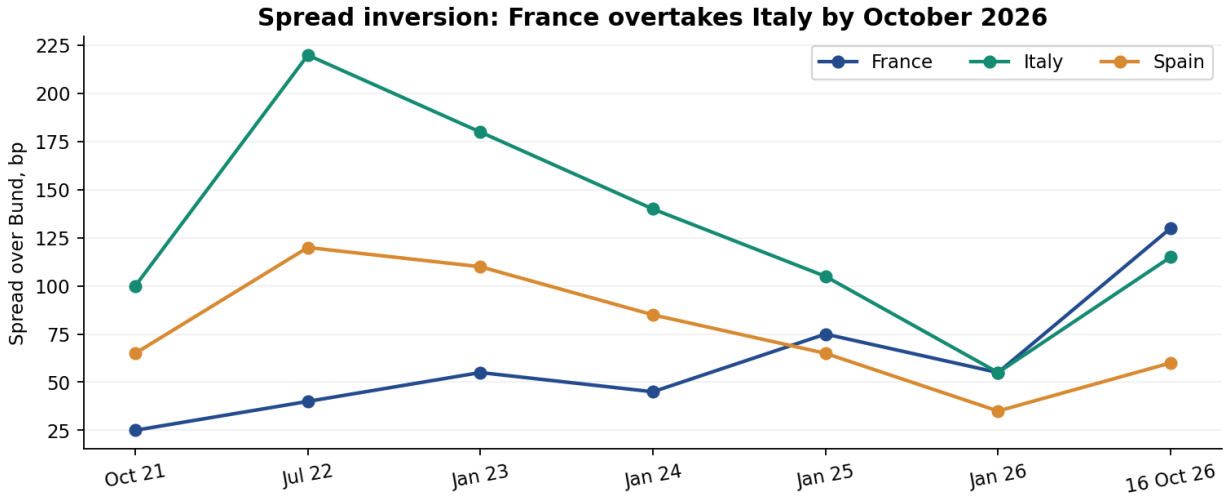


Figure 2. Sovereign spreads over German Bunds, selected matched dates. Source: LSEG/FTSE Russell [4].

The change is relative. In January 2026, French and Italian 10-year spreads were each approximately 55bp above German Bunds. By 16 October, France was about 130bp above Germany, compared with roughly 115bp for Italy and 60bp for Spain. These observations are matched dates; they are not a continuous daily trading history.

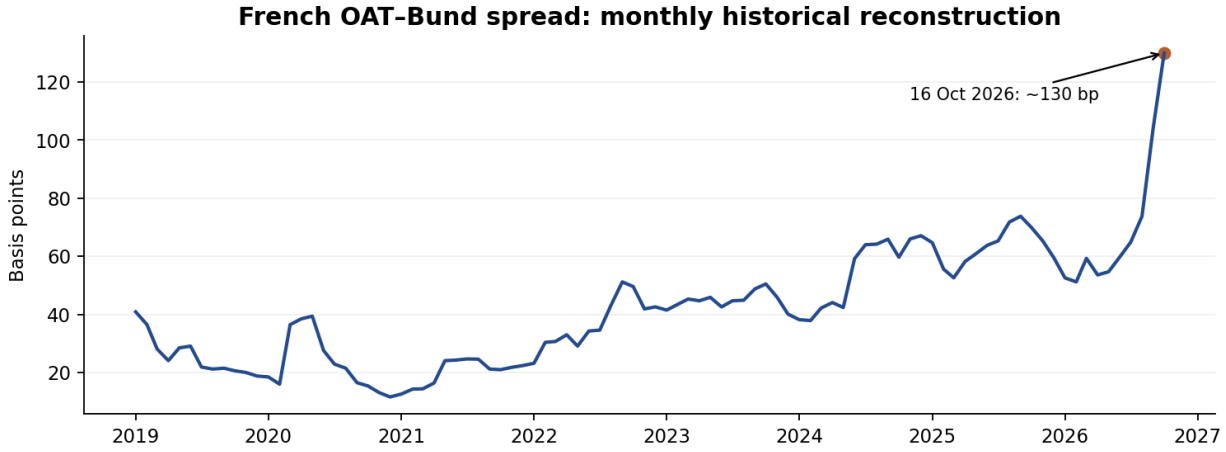


Figure 3. French 10-year spread over German Bunds, monthly chart series and 16 October 2026. Source: LSEG [4].

What spreads do not tell us: a 10-year yield difference is not a direct measure of default probability. Sovereign yields include euro interest-rate expectations, term premium, liquidity, collateral effects and fiscal or political risk. Without a matched daily interest-rate-swap comparison, we cannot assign precise weights to these components.

2 | The fiscal puzzle: stocks versus flows

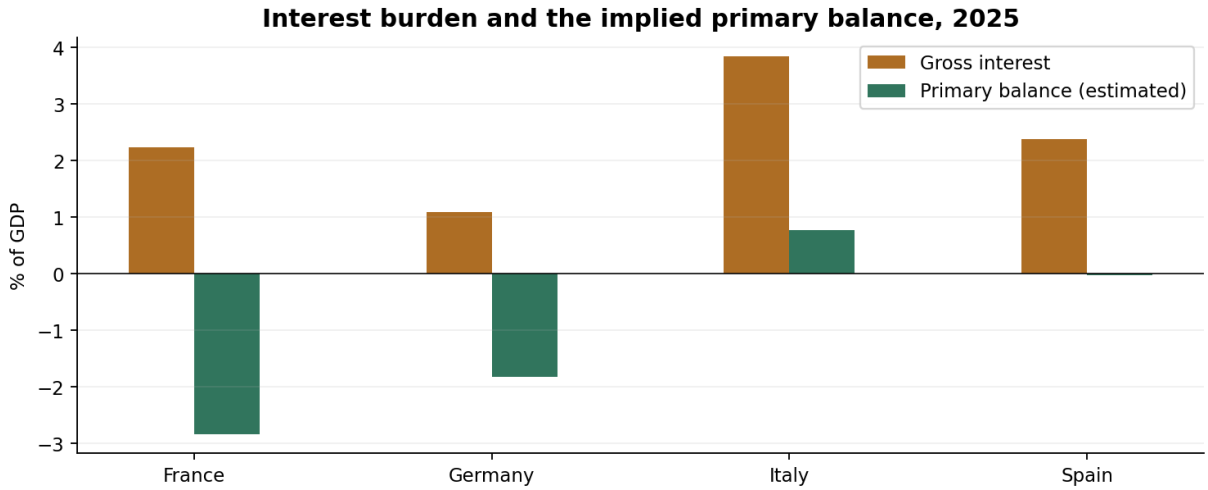


Figure 4. Gross interest and estimated primary balances, 2025. Sources: Eurostat [2]; separate interest vintage [3].

Country	Debt/GDP	Overall balance	Gross interest	Primary bal.*
France	115.7%	−5.1%	2.23%	−2.84%
Italy	136.7%	−3.1%	3.85%	+0.77%
Germany	62.8%	−2.9%	1.09%	−1.82%
Spain	100.5%	−2.4%	2.39%	−0.02%

Primary balance means government revenue minus spending before interest on existing debt. On the available 2025 estimates, France's primary balance was −2.84% of GDP: spending exceeded revenue even before interest. Italy's balance was +0.77%: revenue exceeded non-interest spending. Italy still paid much more interest relative to GDP because it carries a larger inherited debt burden.

This 3.61-percentage-point primary-balance gap is economically important. But it does not mechanically translate into a 42bp ten-year yield premium. Market prices also reflect expectations about future policy, growth, liquidity and the changing position of other issuers.

3 | How the debt ratio changes

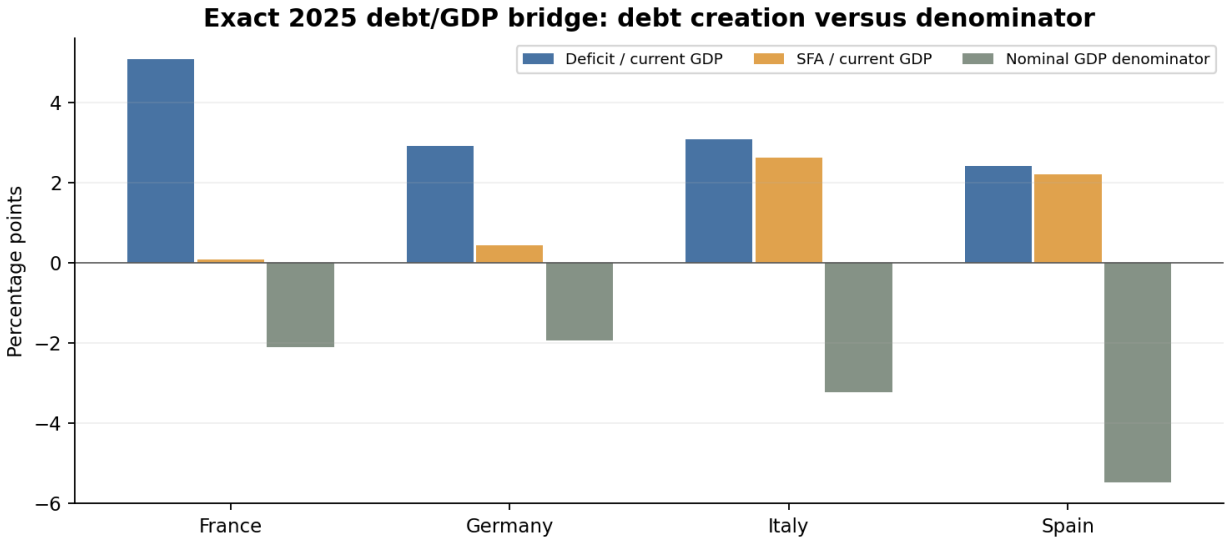


Figure 5. Decomposition of the change in government debt/GDP, 2025. Source: Eurostat [2]; Macro Global calculations.

Government debt does not move by the headline deficit alone. Debt increases can also reflect cash/accrual timing, changes in financial assets and other stock-flow adjustments. The debt-to-GDP ratio is further affected by nominal GDP growth, which changes the denominator.

Italy illustrates the accounting issue. Its 2025 debt stock rose €129.260bn, while its overall deficit was €69.736bn. The €59.524bn residual reflects stock-flow adjustments. Eurostat documents the effect of previously accumulated payable tax credits, among other components. It would be wrong to describe the entire residual as unrecorded deficit or entirely attributable to Superbonus. [2,8]

France shows a different pattern. Its debt rose €154.014bn, almost entirely matched by the €151.592bn deficit; the residual was only €2.422bn. Its debt ratio rose sharply while nominal GDP growth moderated. These are accounting observations—not in themselves a forward default projection.

How to read the interest–growth mechanism

A government debt ratio can rise because of a primary deficit, because effective interest costs outpace nominal GDP growth, or because stock-flow adjustments add to the stock. During the high-inflation recovery, rapid nominal GDP growth made existing debt ratios look more favourable. Cooling nominal growth removes that denominator benefit, even before all old debt has refinanced at higher market rates.

4 | The pandemic baseline and 2026 extension

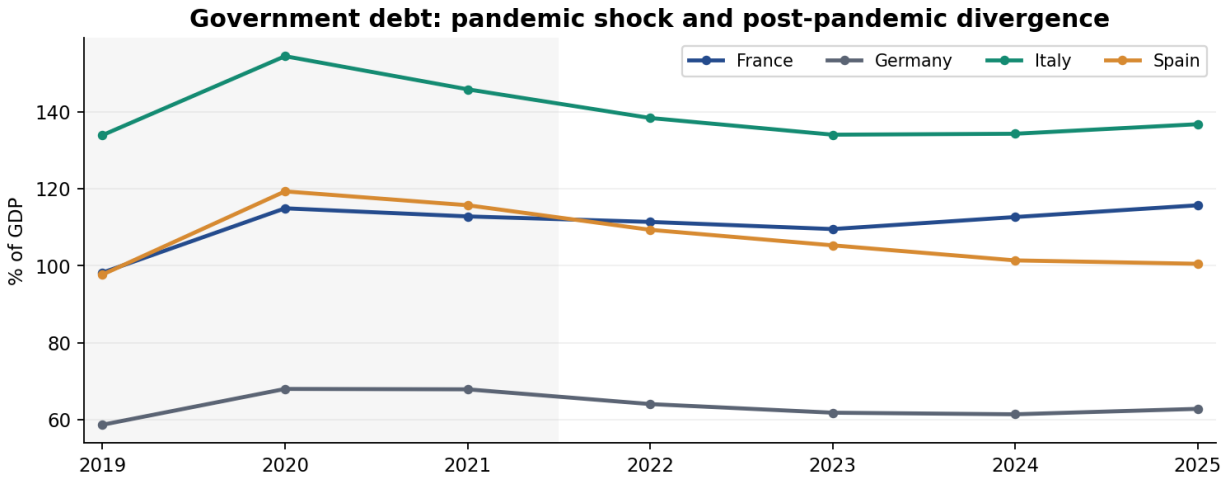


Figure 6. Government debt/GDP, 2019–2025. Historical Eurostat extract [9]; October 2026 fiscal revision [2].

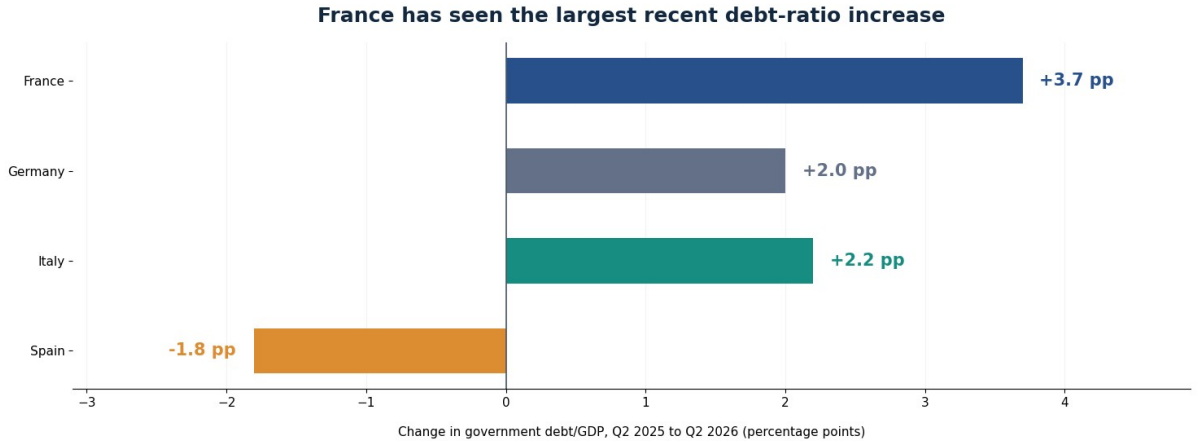
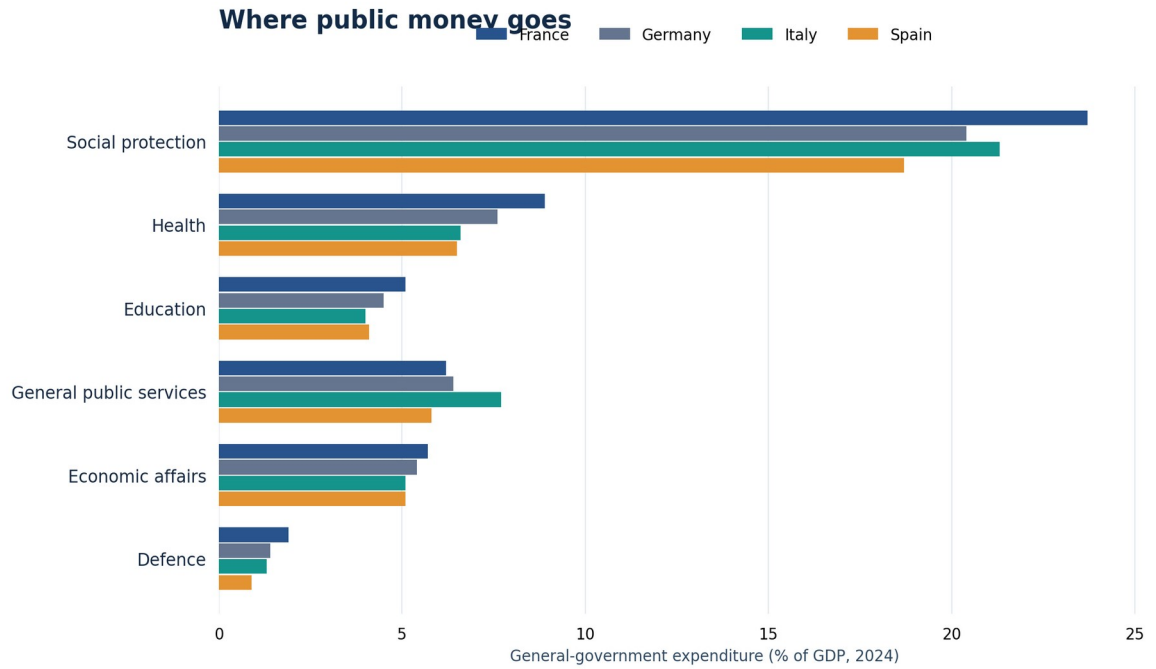


Figure 7. Change in government debt/GDP between Q2 2025 and Q2 2026 (percentage points). Source: Eurostat [10].

The 2026 figures are quarterly observations, not full-year forecasts. In Q2 2026, France's debt reached 119.1% of GDP, versus 139.9% for Italy, 63.4% for Germany and 101.4% for Spain. Compared with Q2 2025, the ratio rose 3.7 percentage points in France, 2.2 points in Italy and 2.0 points in Germany, while declining 1.8 points in Spain. The chart highlights these changes rather than plotting nearly flat lines on very different starting levels.

5 | What governments spend on



Source: Eurostat COFOG 2024 (gov_10a_exp); earlier compilation. Defence is COFOG-defined, not NATO-defined.

Figure 8. Government spending by function, 2024 (% GDP); defence is COFOG-defined, not NATO-defined. Source: Eurostat [11].

Public expenditure needs to be examined by purpose as well as total size. France devoted 23.7% of GDP to social protection and 8.9% to health in 2024, compared with 21.3% and 6.6% in Italy. Defence is also relevant to the fiscal outlook: France spent 1.9% of GDP, Germany 1.4%, Italy 1.3% and Spain 0.9% on defence under Eurostat's COFOG definition. These 2024 figures are not directly comparable to NATO's defence-spending definition.

Differences in spending reflect demographics, pension arrangements, healthcare systems, defence commitments and what governments provide directly versus through private markets. High spending does not by itself establish inefficiency, nor does it make an immediate fiscal reduction feasible. The relevant questions are how programmes evolve, how they are financed and which commitments are already built into future budgets.

Fiscal questions to monitor

- Which expenditure components are structurally indexed to inflation, wages or ageing?
- How much of government revenue is cyclical versus recurring?
- Does a consolidation programme rely on implemented changes or proposed savings?
- Can nominal growth offset rising effective interest costs, or does the primary deficit dominate?

6 | Who absorbs sovereign debt?

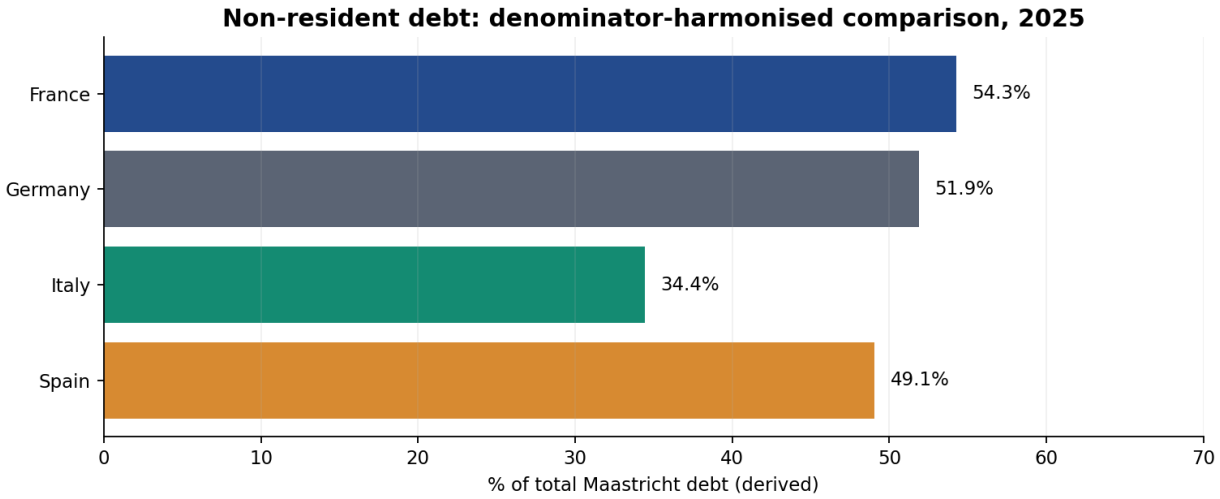


Figure 9. Estimated non-resident share of general-government debt, 2025. Source: Eurostat compilation [12]; mixed-vintage approximation.

Non-residents held an estimated 54% of French government debt in 2025, compared with approximately 52% for Germany, 49% for Spain and 34% for Italy. These are comparable-denominator estimates from compiled Eurostat measures, not security-level beneficial-ownership records. Foreign residence alone does not show whether investors are stable reserve managers, banks, funds or short-term traders.

France's apparent exposure to cross-border demand is relevant because its financing programme is large and changing global risk appetite can affect marginal prices. Yet the available data do not prove that foreign holders caused the spread repricing. The needed test is flow-of-funds and security-holder-sector data, ideally separated by bond maturity and controlling for changes in central-bank portfolios.

Ratings are lagging opinions—not trading screens

Issuer	Fitch	S&P	Moody's	Note
Germany	AAA	AAA	Aaa	Issuer agency sites, 2026
France	A+	A+	Aa3	Moody's affirmed 23 Oct; negative outlook
Italy	BBB+	BBB+	Baa2	Agency snapshot as of 24 Sep
Spain	A	A+	A3	Spanish Treasury snapshot

France retained higher agency ratings than Italy while trading at the higher ten-year yield on 26 October. That demonstrates why ratings cannot substitute for traded yields, but it does not establish that markets expect France to default before Italy. Ratings incorporate longer-horizon sovereign capacity and political/institutional factors; market spreads also capture duration, liquidity and relative value. [13–16]

7 | Refinancing: what is known, and what is not



Figure 10. France's negotiable central-government debt by instrument type, 30 September 2026. Source: French Treasury debt-management agency [5].

At 30 September, the French government had €2.896 trillion in negotiable central-government debt outstanding: €2.679 trillion in medium- and long-term securities and €217.7 billion in short-term bills. Average remaining maturity was 8 years and 158 days. New borrowing and refinancing take place at prevailing market rates, but existing fixed-rate coupons do not automatically reset. These are central-state debt figures, not the broader general-government debt used in the debt-to-GDP statistics.

The maturity average describes the existing portfolio, not the volume that will be refinanced in any particular year. A precise refinancing-cost forecast requires the official security-by-security maturity and coupon records, future issuance terms and the treatment of short-term bill rollover. We do not attach an assumed interest-cost figure to the published data.

8 | Central-bank policy and financial conditions

Quantitative tightening and private absorption

Quantitative tightening (QT) describes the reduction of the ECB's bond holdings. The ECB stopped reinvesting principal under its Asset Purchase Programme (APP) in July 2023 and its Pandemic Emergency Purchase Programme (PEPP) at the end of 2024. Governments therefore face a market in which more debt must be absorbed by private-sector investors than would otherwise have been the case. The France-specific effect on bond spreads has not been isolated.

Transmission Protection Instrument (TPI)

The ECB's Transmission Protection Instrument (TPI) aims to address unwarranted, disorderly market moves that undermine monetary-policy transmission. Its eligibility assessment considers fiscal sustainability and compliance with European fiscal frameworks, alongside other criteria. An Excessive Deficit Procedure does not automatically make a country ineligible; the ECB retains judgement.

Banks and regulatory demand

Banks use government bonds as liquid assets, for collateral and to manage interest-rate exposure. But high-quality-liquid-asset (HQLA) eligibility, regulatory capital rules, market-value losses, repo haircuts and a bank's own risk limits are distinct channels. A widening French yield spread should not be interpreted as an automatic loss of regulatory liquid-asset status.

What the auction evidence actually shows

LSEG reports that a 15 October 2026 French auction placed €13.25bn at an aggregate bid-to-cover ratio of 2.28 times. The inference is narrow: this auction attracted more bids than the securities offered. It does not reveal ultimate investor holding periods or prove that future supply could clear at unchanged yields. [4]

Potential transmission chain

Stage	Economic mechanism	What can be observed
1 Supply	Deficits and refinancing affect net duration to absorb	Fiscal balance, issuance programme
2 Price	Auction/secondary yields reflect the required return	Bond yields, OAT–Bund spread, bid-to-cover
3 Budget	New coupons rise as issuance replaces legacy debt	Official coupon schedule, interest D41PAY
4 Feedback	Costs can worsen future balances and risk premia	Forecast revisions; primary fiscal path

9 | The competing explanations

The market inversion cannot be explained adequately by one accounting ratio. At least six plausible mechanisms are consistent with parts of the evidence. The investment question is which combination is actually changing the marginal willingness to hold French duration.

Hypothesis	Evidence supporting it	What would distinguish it
French fiscal flow	Persistently larger French primary deficit	Budget outcomes; forecast revisions; issuance surprises
Italian relative improvement	Italy estimated 2025 primary surplus	BTP spreads vs Bund and peer bonds
French politics	Uncertain passage of consolidation measures	Dated event analysis around policy decisions
ECB QT / euro duration	APP/PEPP reinvestments ended	Net issuance and Eurosystem redemptions
Foreign demand	High non-resident estimated ownership	Sector-by-sector ownership flows
Liquidity/collateral	Benchmark/market-making differences	Repo specialness, bid–ask and asset swaps

What would confirm or challenge this interpretation?

Evidence favouring a France-specific fiscal explanation: further widening against both Germany and Italy when French budget implementation or borrowing requirements disappoint, accompanied by weaker primary-balance outcomes.

Evidence favouring a broader market explanation: similar spread moves across several euro-area issuers, or widening driven mainly by changes in German Bund pricing and common euro-area financing conditions.

Evidence against the claim of a funding crisis: continued completed bond auctions and functioning secondary-market trading, even if buyers demand higher yields. Auction demand does not prove that issuance costs are sustainable.

These are tests of competing explanations, not numerical forecasts or assigned probabilities. The available data do not identify a unique causal contribution for the 42-basis-point France–Italy difference.

10 | Four-country investor scorecard

France | the repriced borrower

The standout weakness is the current fiscal flow: 2025 overall deficit of 5.1% of GDP and an estimated primary deficit of 2.84%. Its debt stock is large but its average negotiable-debt maturity provides temporary protection against sudden coupons resetting. Market access remains visible in the October auction evidence; the principal risks concern future fiscal execution, higher marginal funding costs and changing required risk premia.

Italy | higher inherited debt, better recent primary flow

Italy still had the highest debt ratio among the four (136.7% in 2025) and the highest estimated gross-interest burden (3.85% of GDP). But its estimated primary balance is positive. The sizeable 2025 debt stock-flow adjustment is a reminder that primary consolidation and immediate cash-debt reduction are not the same. A comparison that looks only at the primary balance misses important legacy funding and accounting exposures.

Germany | benchmark status with growing issuance demands

Germany combines a substantially lower debt burden (62.8% of GDP) with the Bund's special role in euro-area collateral, hedging and risk-free curve construction. Its 2025 deficit was 2.9% of GDP, so being the benchmark does not imply fiscal balance. Wider OAT–Bund spreads can reflect changes in the French premium, German Bund valuation, or both.

Spain | post-pandemic debt-ratio improvement

Spain recorded a 2.4% overall deficit in 2025 and a debt ratio of 100.5%, substantially below its pandemic peak. Its implied primary balance was close to zero, using the separate-vintage D41PAY estimate. The 2026 Q2 debt ratio was 101.4%, down relative to Q2 2025. Regional-government debt and consolidation should be treated carefully when comparing issuance programmes.

Summary comparison

Measure (2025)	France	Germany	Italy	Spain
Debt / GDP	115.7%	62.8%	136.7%	100.5%
Fiscal balance / GDP	−5.1%	−2.9%	−3.1%	−2.4%
Primary balance / GDP*	−2.84%	−1.82%	+0.77%	−0.02%
Gross interest / GDP*	2.23%	1.09%	3.85%	2.39%

11 | What investors should monitor next

HIGH PRIORITY — FISCAL EXECUTION

France 2026 budget execution and any revisions to the projected primary deficit; distinguish binding measures from draft legislation.

2027 budget passage, coalition stability and rating-agency outlook changes, with event-time spread reactions.

Quarterly debt/GDP, cash borrowing requirements and official EDP stock-flow adjustments for all four countries.

HIGH PRIORITY — BOND MARKET

Synchronous 2-, 5-, 10- and 30-year sovereign yields and the same maturities of OIS/asset-swap spreads: identify which curve segments drive repricing.

AFT auction sizes, bid-to-cover, yield tails, dealer inventories and issuance surprises; avoid extrapolating from a single auction.

French OAT–Bund against BTP–Bund and Bonos–Bund; control for Bund scarcity and broader euro risk-free moves.

MEDIUM PRIORITY — STRUCTURAL

Sectoral ownership and genuine custody-adjusted beneficial-owner data, if disclosed, alongside ECB APP/PEPP redemptions.

Index-linked issuance, inflation compensation, nominal growth and debt-interest cash-flow profiles.

Bank balance-sheet conditions, repo specialness, collateral haircuts and liquidity depth through stress events.

What would invalidate the main thesis?

A sustained improvement in France's primary position without any narrowing of relative spreads would weaken the claim that French fiscal flow is the dominant price driver. Conversely, a sharp spread narrowing on credible fiscal delivery would be supporting—but not dispositive—evidence. Persistent spread changes driven by Bund-specific moves or broad euro-area shocks would favour a relative-value interpretation over a France-only credit explanation.

Bottom line

France's 42bp ten-year yield premium over Italy on 26 October 2026 is a notable change in relative market pricing, not evidence of imminent insolvency. The observable fiscal story is clear: France has a weaker current primary balance even though Italy has a larger inherited debt burden. That helps explain why investors may demand more compensation for French bonds; precise causal attribution requires further matched-frequency market analysis.

12 | How to interpret the figures and methodology

Market yields: the 4.91% France and 4.49% Italy ten-year quotes were reported for the same observation on 26 October. Their arithmetic difference is 0.42 percentage points, or 42 basis points. The German Bund is a separate benchmark, not a universal measure of default risk.

Government debt and budget data: Eurostat's annual figures refer to consolidated general government. They are not equivalent to the securities issued by France's central government debt office. 2026 second-quarter ratios are provisional quarterly readings, not full-year projections.

Primary balances: estimated 2025 primary balances remove gross interest expenditure from the overall deficit. The interest extract originates in an earlier Eurostat-derived data vintage than the October GDP figures; consequently the percentages are estimates rather than a fully same-vintage release.

Historical spreads: the long French OAT–Bund chart is an LSEG-published series, and selected peer spreads use dated snapshots. The figures are not a continuous matched daily panel for every country. Some issuer-ownership calculations combine source vintages; they are flagged rather than treated as direct beneficial-owner records.

Refinancing costs: no numerical cash-cost projection is published. Existing bonds have contractual coupons; new issuance yields, redemption dates, inflation-linked instruments and short-term bill rollover determine future expenses.

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Publication note: this brief explains observable economic and market developments and does not recommend buying, selling or shorting any security. Numerical examples unsupported by official cash-flow inputs have been excluded.

Plain-English bond market glossary

Basis point (bp) — One hundredth of a percentage point; 42bp equals 0.42 percentage points.

OAT — Obligation assimilable du Trésor: a French government bond.

BTP — Buono del Tesoro Poliennale: an Italian government bond.

Bund — A German federal government bond, commonly used as the euro-area benchmark.

Primary balance — Government budget balance before interest paid on existing debt.

APP / PEPP — ECB Asset Purchase Programme / Pandemic Emergency Purchase Programme.

QT — Quantitative tightening: the central bank reducing its bond holdings.

COFOG — Classification of the Functions of Government; a system for comparing spending by purpose.

TPI — ECB Transmission Protection Instrument, intended to protect monetary-policy transmission.