

France at centre of global bond market storm

Nick Beams
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As the global bond sell-off continues, with yields (interest rates) on government debt reaching quarter-century highs, there is an increasing focus on the financial position of France as it moves to the centre of the storm.

Since the start of the US war on Iran at the end of February and the surge in global inflation it has produced, the yield on long-term French government debt has risen more than for any other G7 country. The yield on the 10-year bond is approaching 5 percent, compared to 3.2 percent before the onset of the war.

And there are concerns the growing French debt crisis could start to impact the rest of the eurozone with the euro falling to its lowest level against the US dollar in 17 months when trading began this week.

The senior currency analyst at the Japanese global financial firm MUFG, Lee Hardman, told the *Financial Times* (FT) the euro's slide was "driven by intensifying fears over the destabilising financial conditions in the eurozone triggered by the sharp sell-off in French government bonds."

Like others, he is concerned that the rise in French yields will trigger fragmentation when the yields on bonds of financially weaker economies start to rise sharply above the rest.

This process was at the centre of the eurozone crisis of 2011–12 and there are signs it is returning with the yield on French bonds now 1.36 percentage points higher than those of German bonds. This is one of the largest divergences since the eurozone crisis and the gap for the eurozone's second largest economy is now greater than that for both Italy and Greece.

In early September, as the crisis was developing, Emmanuel Moulin, the head of the Bank of France said he would not say France was "in danger, but it is in a situation that is worrying and unsatisfactory."

In the month since those comments were made, he appears to have become more concerned.

In an interview with the FT earlier this week he said the country risked being "strangled by interest rates" if it did not act on public finances.

"France is not Greece during the eurozone crisis," he said. "If it can pass a budget this year to reduce spending and narrow the deficit as the government has proposed, then markets will be reassured by this concrete step of fiscal consolidation."

But this is a very big if because the government is faced with massive social opposition in the working class and the youth as it seeks to impose budget cuts of €43 billion as military spending is increased.

As the *World Socialist Web Site* noted back in August as cuts were being prepared: "[President] Macron's 2023 pension cuts provoked the rejection of an overwhelming majority of the French population and the largest wave of strikes since the May 1968 general strike. Nonetheless, the government is charging ahead, trampling democracy underfoot, toward a new confrontation with the working class."

In his remarks to the FT, Moulin warned: "If we don't act, there is indeed a risk of being gradually strangled by rising interest rates. We have to remain masters of our own destiny."

The warnings on the interest rate crisis, which is emerging in many other countries as interest payments consume an ever-larger portion of budget spending, are not misplaced. The cost of servicing French debt is expected to increase by 25 percent this year to €65 billion. This is more than is spent on education and the military. Total government debt is €3.5 trillion, equivalent to 120 percent of GDP.

France has more than \$1 trillion (close to €900 billion) in debt due for payment by 2030 and the cost of servicing the debt is expected to increase 59 percent by 2030 according to a recent study by the French finance ministry.

No relief will be provided by expanded economic

growth. The government has already scaled back its forecast for growth this year from 1 percent to an anaemic 0.5 percent. Reflecting the slowdown in the economy, the unemployment rate reached 8.3 percent in the second quarter, the highest level since 2020 during the pandemic.

The notion advanced by the head of the central bank that a “strong France”—that is one that carries out social devastation against the working class and war—can remain “master” of its own destiny is being shattered by the violent movement in global markets.

This was underscored by the announcement of the Japanese asset management firm Sumitomo Mitsui that its global fixed income funds had sold their entire holdings of French government bonds. It redirected its money into German bonds and short-term Japanese government bonds.

Shinji Kunibe, a senior portfolio manager at the firm said French bonds had previously offered attractive returns, but recent fiscal and political developments had changed the risk-reward balance.

One of the major changes is the rise in interest rates in Japan when longer-term bonds are returning 3 percent. This shift is undermining the so-called carry trade in which investors borrowed money at ultra-low rates in Japan to invest in higher yield assets in other major economies. Japanese insurers, pension funds and asset managers have been among the largest investors in government debt internationally.

Japan has been one of France’s largest creditors holding around 5.2 percent of French foreign debt in 2025. Another estimate put Japanese holdings of French debt at about \$145 billion in July this year.

Some comments by Bloomberg pointed to the shift in the situation. In an article published last Friday, before the Sumitomo decision was revealed, it said that for most of the euro’s history “investors took the view that France would muddle through its political and economic challenges and remain a relatively safe bet. That idea isn’t holding anymore.”

The sell-off in global debt had “fuelled a rout that’s hitting harder and faster in France than anyone expected.”

In further comment this week, it noted that “a great asset migration is taking place in Japan” and that as investors shift capital from bonds to stocks and unwind yen-funded carry trades, “they are also deepening

France’s sovereign debt crisis.”

The development of the class struggle in France is also becoming a major factor, as Bloomberg commented: “If you are a Japanese investor capable of earning 3 percent risk-free at home, why would you want exposure to volatile French politics?”

The French debt crisis and the intensification of the class struggle it is producing is by no means simply a national event.

It is the expression in France, with all its peculiarities, of a developing breakdown of the global capitalist system as governments the world over, the representatives of the oligarchs, carry out a war against the working class—a diktat transmitted to them via the global bond markets. It raises before the working class in France and internationally the fight for a socialist program as the only realistic and viable answer to this crisis.



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