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RISING DEBT

Political turmoil, budget put France in financial squeeze

French Prime Minister Michel Barnier arrives Thursday at the Elysee presidential palace to attend the weekly Cabinet meeting, where France's 2025 budget was presented. LUDOVIC MARIN — AFP/GETTY IMAGES

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PARIS>> France has become one of the most financially troubled countries in Europe, with an outsize debt and deficit that are likely to keep ballooning despite efforts by a fragile new government to address the problem, the Fitch Ratings agency said Friday.

A day after France's new prime minister, Michel Barnier, introduced a tough austerity budget aimed at mending the nation's rapidly deteriorating finances, Fitch issued a negative outlook for France's sovereign credit rating. The rating was left unchanged at an AA- level for now, but Fitch warned that it could be revised lower if the government's budget plans fall apart.

The outlook reflects greater financial risks that have swirled in France since President Emmanuel Macron dissolved the lower house of parliament in June and took until last month to appoint a new government. The episode left parliament deeply divided, split nearly evenly between warring political factions on the left, right and center, and leaving Barnier with no clear majority. That will make it harder to pass a belt-tightening budget and assuage nervous international investors at a time when France's national debt has ballooned to more than $3.28 trillion. In a statement late Friday after Fitch's announcement, France's economy minister, Antoine Armand, said the government was determined "to turn around the trajectory of public finances and control debt."

France is the second-largest economy among the 20 countries that use the euro currency. European Union rules require members to have sound finances, including capping debt at 60% of economic output and not letting government spending exceed revenues by more than 3%. But France is well in excess of those limits.

France's debt has spiraled to more than 110% of economic output, the worst in the bloc after Greece and Italy.

The turmoil comes amid a rough patch in the French economy, as a variety of factors take a toll on growth, including the wars in Ukraine and the Gaza Strip, high interest rates and economic slowdowns in Germany and China, two of France's trading partners. The economy is expected to expand by slightly more than 1% next year, but French finance officials warned major budget cuts could hurt the economy.

The austerity budget that Barnier introduced includes plans for about $65.6 billion in savings next year through a set of tax increases on the rich and businesses and big cuts to social programs and government spending. But Fitch cautioned that France also needs to stop an infernal spiral in which interest payments to service the country's growing debt required more and more government spending.

The nation's finances are deteriorating after Macron unleashed a spending spree in recent years to shield businesses and households from an energy crisis and increased spending to stimulate the economy and hiring. Local governments also spent beyond their means. But France's tax revenues shrank drastically last year, the legacy of major tax breaks that Macron created for businesses and wealthy individuals to make France a more attractive place to invest.