

OATs – You Reap What You Sow

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Source: Bloomberg Finance L.P., data as at 2 October 2026.

What does the chart show?

The chart plots the spread of the 10-year OAT (French government bond) against Germany's 10-year Bund, serving as a widely watched measure of the risk premium investors demand to hold French debt rather than German debt. The chart captures a sharp deterioration in France's position in European sovereign bond markets. It plots on the left axis, the sharp pickup in yield of France's 10-year 'OAT'.

That spread has now moved above 140 basis points*, its widest level since the eurozone sovereign debt crisis of 2012. At the same time, the 10-year OAT yield has climbed to around 4.6%, an 18-year high. The significance of the move is not simply that French borrowing costs are rising: it is that they are rising substantially faster than Germany's, signalling that investors are demanding additional compensation for France-specific fiscal and political risks.

The widening has been particularly rapid. France's spread over Germany has almost doubled since the start of 2026, taking it above equivalent maturity spreads for Italy and Greece. The chart therefore illustrates a shift in how markets are pricing French sovereign risk. Germany remains the eurozone's benchmark safe-haven issuer, while France is increasingly being treated as a sovereign credit story in its own right.

Importantly, this does not yet replicate the scale of the 2011-12 crisis: French spreads approached 190 basis points during that period. But the fact that the spread has returned to levels last seen during that episode makes the chart an important warning signal for European markets.

Why this is important

The underlying concern is France's difficult combination of high debt, a large fiscal deficit and political fragmentation. Public debt reached almost 120% of GDP in the first quarter of 2026, while the government expects the deficit to remain around 5.4% of GDP this year. In addition, investors have expressed concerns that the government's proposed €54 billion spending reduction, intended to bring the deficit towards 5% of GDP in 2027, will be unlikely to get parliamentary support.

That political difficulty matters because higher yields increase the cost of servicing an already substantial debt burden, potentially creating a feedback loop: fiscal deterioration raises borrowing costs, higher interest payments worsen the deficit, and investors then demand an even larger risk premium.

There is also a broader European dimension. France is a much larger sovereign borrower than the countries at the centre of the original crisis, meaning sustained market stress could affect banks, corporate financing conditions and other European government bond markets. French bank credit spreads and insurance on government bonds (so-called credit-default swaps or CDS) have already risen, while Italian CDS have also increased, although the moves remain far below 2012 levels.

The comparison with 2012 should therefore be treated as a risk scenario rather than a forecast. Today's Eurozone has stronger institutional safeguards, including the ECB's Transmission Protection Instrument (a backstop allowing the ECB to step in and buy the affected country's government bonds on the secondary market to address spiking borrowing costs), while current market stress remains substantially more France-specific. Nevertheless, the chart shows how quickly fiscal and political concerns can become embedded in sovereign borrowing costs – and why investors are watching France for signs that a country-specific problem could become a wider European debt-market event.

*At the time of writing 01/10/2026.



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