

Lessons for Japan from the Riots in France

-Fiscal Deterioration Risks Fueling Unrest and Deepening Social Divisions -

Tomohisa Ishikawa*

ishikawa.tomohisa@jri.co.jp

This is an English version of the Japanese report “フランスの暴動が日本に与える教訓～財政悪化は混乱と国家分断を生む恐れ”

■Protests Intensify Further in France

Social unrest in France is deepening, with some demonstrations initially sparked by protests against poor educational conditions turning into riots. On October 17, masked rioters broke into the city hall in Limoges, completed in 1883, and the building was almost entirely destroyed by fire, with its bell tower and roof collapsing. Curfews were imposed in several cities on October 19, while protest groups have announced further demonstrations for this Saturday. There is no clear prospect of the unrest subsiding.

■How the Protests Spread

The protests originally began as student demonstrations calling for improvements in educational conditions, against a backdrop of increasingly severe teacher shortages and aging school buildings. According to the French Ministry of Education, teachers are unavailable for 10% of total class hours in public lower and upper secondary schools, while facilities at 10–20% of schools nationwide show significant deterioration. Students had become increasingly dissatisfied with inadequate learning conditions, including broken toilets, water leaks, and classrooms without air conditioning even during extreme heat. With discontent over rising living costs and cuts in public spending also mounting among other segments of the population, the protests rapidly spread across a broad cross-section of society. Demonstrations have long been common in France, and the protests were initially not particularly radical and violent. More recently, however, unrest has deepened as groups known as “black blocs,” whose members act collectively while concealing their identities with black clothing and face coverings, have begun vandalizing and breaking various facilities. There are also concerns about the involvement of violent far-left groups.

*Research Director/ General Manager / Chief Economist (Economics Department, JRI).

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■Fiscal Deterioration Constrains Educational Conditions and Public Services

France's deteriorating fiscal position underlies the worsening educational conditions and spending cuts affecting various public services. Government debt outstanding stands at approximately 120% of gross domestic product (GDP), while the fiscal deficit is also expected to reach 5.4% of GDP. Long-term government bond yields have risen sharply amid concerns that social unrest will lead to a further deterioration in public finances. The yield spread over German government bonds exceeds those of Italy and Greece, countries once grouped under the acronym PIIGS. Moreover, approximately 40% of highly rated French corporate bonds trade at yields below those on government bonds, indicating a marked erosion of confidence in the country's public finances.

Against this backdrop, fiscal consolidation has become an urgent imperative for France. The government is considering measures including a partial suspension of pension adjustments to inflation and a reduction in tax preferences. Budget negotiations, however, have been difficult, as opposition parties strongly oppose fiscal consolidation measures that would impose burdens on pensioners. France's presidential election is scheduled to be held under a two-round voting system on April 18 and May 2, 2027, raising concerns that it could further exacerbate the unrest. Le Pen of the right-wing populist National Rally (RN) is currently in the lead, followed by Jean-Luc Mélenchon of the far-left party La France Insoumise (LFI). Both are blaming the opposing camp for the current unrest. The situation is, in effect, a confrontation between the far right and the far left, with the country becoming divided as moderate voices are drowned out. The turmoil continues, with some discussions both within and outside France also linking the situation to a review of policies concerning foreign nationals.

■Lessons from France: Fiscal Deterioration Breeds National Unrest and Division

Viewed in this point, fiscal deterioration generates public discontent, and even protests that are initially moderate can develop into problems such as deteriorating public security if radical groups become involved as the protest movement broadens. As these problems become more serious, public opinion becomes polarized, further exacerbating the unrest.

Japan, which also faces a difficult fiscal situation, cannot afford to overlook recent developments in France. Foreign investors' share of French government bond holdings rose from approximately 48% at the beginning of 2022 to approximately 60% at the beginning of 2026. This ownership structure differs from that of Japan, where most government bonds are absorbed domestically. Nevertheless, a decline in demand from domestic investors could also impede the smooth issuance of government bonds in Japan. As noted above, investors in France favor highly rated corporate bonds over government bonds, with approximately 40% of the former trading at yields below those on the latter. If Japan's fiscal position continues to deteriorate, the risk of a similar situation arising cannot be ruled out. If the Bank of Japan were to respond by expanding its government bond purchases again, such action could be regarded as overt monetary financing of fiscal deficits, potentially increasing, rather than easing, the burden on households and businesses through yen depreciation and inflation.

Japan's government rests on a relatively stable political foundation, and the risk of the country immediately facing a situation similar to France's cannot be said to be high. Nonetheless, its government debt-to-GDP ratio is the highest among advanced economies. Some currently argue that Japan should pursue fiscal expansion on the grounds that its general government net debt-to-GDP ratio does not differ substantially from those of other advanced economies. However, public pension reserves account for a large share of Japan's general government financial assets. These reserves, of course, exist to fund future benefit payments and, in view of pensioners' property rights, cannot be used to cover deficits arising from the government's ongoing operations. The government's financial assets also include foreign exchange reserves, but these are held for the purpose of foreign exchange intervention, and their use to cover fiscal deficits is likewise subject to constraints.

In light of the above, it is dangerous to be overly optimistic about Japan's fiscal position.. If fiscal expansion is pursued, due regard for fiscal soundness is essential, including the explicit identification and securing of funding through a thorough review of inefficient spending.

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