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Sovereign debt: financing power without losing its freedom of action

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Executive Summary

Sovereign debt occupies a paradoxical position in the analysis of power. It is frequently presented as an indicator of fragility: the more indebted a state is, the more its room for manoeuvre would be reduced and the more its sovereignty would be exposed to the demands of its creditors. This interpretation is based on an undeniable reality, that of the obligation to finance deficits in the long term and to service an accumulated stock of debt. However, it becomes insufficient when comparing national situations. Some states bear very high levels of debt for several decades while maintaining deep access to markets, while others may experience a financing crisis with a much lower public debt ratio. The difference has less to do with a universal debt threshold than with the conditions under which this debt is issued, held, refinanced and integrated into the monetary and financial system.

This distinction becomes particularly important in the mid-2020s. Global public debt reached nearly 94% of global GDP in 2025 and the International Monetary Fund estimates that it could reach 100% in 2029. This increase comes at a time when governments must simultaneously absorb population ageing, finance the energy and climate transition, support industrial policies, invest in infrastructure and critical technologies and, in many countries, rapidly increase military spending. At the same time, the period in which exceptionally low interest rates allowed debt to increase without a proportional increase in the interest burden has come to an end. Global interest expenditure has risen from around 2% to almost 3% of GDP in four years, according to the IMF¹.

The strategic question cannot therefore be reduced to the alternative between debt and debt reduction. Debt is first and foremost an instrument that allows the state to mobilise future resources immediately. It can finance a war, cushion a crisis, build infrastructure, support industry, develop energy or technological capacity and prevent a temporary shock from forcing an immediate contraction in public action. Debt capacity is therefore a component of state power. But this same capacity can be transformed into a constraint when the cost of financing increases, when maturities are approaching, when refinancing needs become excessive or when the preservation of investor confidence begins to determine public choices.

This study therefore defends a central thesis: **sovereign vulnerability does not depend solely on the level of debt, but on a state's ability to preserve its access to financing over the long term without the structure of its debt, its cost, its creditors or its monetary environment excessively reducing its freedom of decision.** This approach leads to a shift in the analysis from the stock to the structure, and then from the structure to the capacity for action. It also helps to understand why the United States, Japan, the euro area states and emerging economies do not have the same capacity to support debt, even when certain indicators appear comparable.

The question then becomes that of the fiscal space available in the face of the next shock. Financial sovereignty does not imply neither the absence of debt nor financial autarky. It is based on the possibility of mobilizing additional resources quickly without causing a disruption of financing or having to give up the essential priorities of the State. From this perspective, sovereign debt must be analyzed less as an accounting snapshot than as an infrastructure of power, whose solidity depends on confidence, time, currency, financial depth and the political capacity to arbitrate between the present and the future.

Problem

¹ IMF, *Fiscal Monitor*, April 2026: <https://www.imf.org/en/publications/fm/issues/2026/04/15/fiscal-monitor-april-2026>

Public debt refers to all the financial liabilities accumulated by general government, while sovereign debt refers more specifically, in financial use, to commitments issued or guaranteed by the sovereign, in particular in the form of marketable securities. The two concepts overlap without being perfectly equivalent. This distinction is important because public debates frequently use an aggregate ratio of public debt to GDP while financial markets simultaneously assess a multitude of other parameters: timing of repayments, average maturity of securities, liquidity of the secondary market, currency of issue, exposure to inflation, investor structure, fiscal credibility, potential growth, fiscal capacity and institutional environment.

The debate on sustainability is often organised around a single figure. However, no single level of debt in relation to GDP constitutes a universal boundary between sustainability and crisis. The Bank for International Settlements still stressed in 2026 that debt tolerance is heterogeneous between countries and variable over time: a burden that appears sustainable in a given configuration can become fragile when financial conditions or the ability of the financial system to absorb emissions change. Gross refinancing needs, debt maturity and the structure of intermediation can cause a compression of fiscal space well before a theoretical limit of long-term solvency is reached².

Sustainability must therefore be distinguished from sovereignty. A debt can remain technically sustainable while gradually reducing a government's freedom of action if an increasing share of its revenues has to be spent on interest or if each budgetary decision has to be evaluated through its potential effect on financing conditions. Conversely, a highly indebted state can maintain a significant strategic margin if it benefits from a solid tax base, a credible currency, a deep bond market, long maturities and structural demand for its securities.

The problem of this paper can therefore be formulated as follows: **under what conditions does sovereign debt remain an instrument of power and at what point does it become a strategic constraint on the State's freedom of action?**

² BRI, *High public debt and shifting financial markets*, 2026: <https://www.bis.org/publications/aer-2026/high-public-debt-shifting-financial-markets>

I. Sovereign debt is a powerful infrastructure

Public debt largely predates the contemporary state, but its institutionalization accompanies the construction of the latter. Historically, the ability to borrow makes it possible to dissociate the mobilization of resources from their immediate withdrawal. A state that is exclusively dependent on its current revenues can only finance an exceptional increase in its spending by immediately increasing taxes, reducing other policies, or creating money when its institutional architecture allows it. Borrowing introduces an additional possibility: spreading the cost of a present decision over time. This ability has played a decisive role in the financing of conflicts, infrastructure and, more recently, economic stabilization policies.

This function makes it possible to understand why debt cannot be analysed as the simple opposite of financial power. A state to which investors agree to lend several hundred billion euros at long maturities has a resource that is not possessed by a state that is poorly indebted but unable to access markets at a sustainable cost. Sovereign credit is based on anticipation: the investor believes that the state will retain in the future the capacity and willingness to mobilize the resources necessary for repayment. Behind a bond security are therefore a tax base, a productive economy, a legal order, a monetary architecture and political credibility. From this point of view, debt capacity is a conversion of anticipated future power into present resources.

Crises give this function its most visible manifestation. In 2020, governments were able to incur considerable spending to absorb an economic contraction that had not been foreseen in their budgets. A similar logic applies to a military conflict, an energy crisis or a major disaster. Requiring that each exceptional expenditure be financed simultaneously by an equivalent increase in revenues would force the government to immediately transfer the entire shock to households, businesses or other public policies. Debt, on the other hand, allows adjustment to be distributed. It then acts as a fiscal capacity reserve, provided that this reserve has not been previously saturated or that investors continue to agree to finance it.

This function is also strategic in long-term competition. Energy infrastructure, digital networks, military capabilities, space programs, basic research, or certain industrial policies require investments whose effects go far beyond the fiscal year in which they are committed. Debt financing can make economic sense when the capacity created increases future output, reduces vulnerability, or provides an asset that will benefit generations. Debt then shifts part of the cost to periods when the benefits of the investment will also be received.

This logic does not mean that all expenditure financed by borrowing increases power. Debt can also make it possible to postpone trade-offs without creating additional future capacity. Permanent expenditure systematically financed by new deficits does not have the same logic as a productive infrastructure or an exceptional investment. However, public accounting does not always allow a clear boundary to be drawn between the two: education, health, research or infrastructure maintenance appear to be current expenditure while having long-term effects. It is therefore preferable to analytically distinguish between **capacity debt**, which contributes to preserving or increasing the State's future resources, and debt that essentially finances the maintenance of a current account imbalance. This distinction is not an accounting category but a strategic grid: it requires us to examine what debt actually makes it possible to build, protect or transform.

The current situation reinforces this question. In the OECD, the stock of sovereign bonds reached \$61 trillion in 2025 and is expected to represent about 85% of aggregate GDP in 2026. The problem is therefore not the existence of a debt market: it has become one of the main

infrastructures of the global financial system. It lies in the ability of these markets to continue to absorb increasing volumes in an environment where governments, companies and new technology investments are simultaneously soliciting available capital³.

II. The level of debt is not enough to measure sovereign vulnerability

Comparing public debts on the basis of the debt-to-GDP ratio alone has an obvious advantage: the indicator reports a stock of liabilities to the size of the economy that will have to bear them. But it does not say how quickly the debt will have to be refinanced, in which currency it is denominated, at what rate, or by which investors it is held. Two states with exactly the same ratio can therefore have profoundly different risk profiles.

The first variable is the fiscal dynamics themselves. In the long run, the evolution of the debt ratio depends in particular on the primary balance — that is, the budgetary balance before interest payments — and on the relationship between the interest rate paid on the debt and the nominal growth rate of the economy. When the economy grows faster than the average cost of financing for a long time, the weight of a debt stock can decrease relative to GDP without massive nominal repayment. When the cost of debt becomes higher than growth, stabilization requires more fiscal effort. This mechanism explains why the same deficit can produce very different trajectories depending on the growth and interest rate regime.

The second variable is maturity. A bond maturing in thirty years and a security redeemable in three months are two commitments with the same nominal value but expose the government to different risks. Long-term debt temporarily protects the issuer against changes in interest rates: a rise in market yields does not immediately change the coupon of a fixed-rate bond that has already been issued. The effect is transmitted gradually when the securities mature and need to be replaced. On the other hand, a short-term debt transmits the new financing conditions to the budget much more quickly. Reducing maturity can therefore reduce the immediate cost of an issue when short-term rates are lower than long-term rates, while increasing the frequency with which the government must return to investors.

The third variable concerns the currency of issue. The history of sovereign crises shows the importance of debt in a currency that the state does not control. When a government has to repay bonds in dollars when its tax revenues are mainly collected in a national currency, a depreciation automatically increases the real weight of the external debt. Exchange rate risk is added to budgetary risk. Conversely, a state that borrows mainly in its own currency has a more protective architecture, but this situation does not remove all constraints. Money creation intended to systematically neutralize financing difficulties can shift the crisis towards inflation, exchange rate depreciation or loss of monetary credibility. Monetary sovereignty therefore changes the nature of the risk; it does not make budgetary constraint non-existent.

The fourth variable is the structure of the holders. Debt held mainly by stable domestic investors, such as banks, insurers, pension funds or households, does not necessarily react in the same way as debt that is highly dependent on international flows that can be quickly reallocated. But domestic ownership is not automatically preferable. An excessive concentration of public debt on the balance sheets of national banks can create a relationship of mutual dependence: the deterioration of the sovereign signature weakens banks, while the weakening of the banking sector can impose new spending on the state. Sovereign risk and financial risk can then feed on each other.

³ OECD, *Global Debt Report 2026* : https://www.oecd.org/en/publications/global-debt-report-2026_e9d80efd-en.html).

The fifth variable is the depth of the market. The liquidity of a sovereign security increases its attractiveness because an investor knows that he or she will be able to sell it more easily. This characteristic explains part of the specific position of US securities. US Treasury bonds are not just the financing of a state: they serve as reserve assets, collateral and price benchmarks in a considerable part of the global financial system. This structural demand increases the US capacity to issue debt, even if it does not make this capacity unlimited. In 2026, the IMF also highlights the erosion of some of the advantages traditionally associated with the safety premium of Treasuries, a sign that a central asset of the system can also be revalued. However, US Treasury data continues to show considerable international flows into US securities: in June 2026, foreign residents bought a net \$207.1 billion of long-term US securities⁴.

Japan is another example of the need to exceed the gross ratio. The IMF estimated in April 2026 that Japan's gross public debt would remain above 200% of GDP in 2026, a level much higher than that of most advanced economies. However, the Japanese experience does not correspond to that of a state that has lost its access to financing for a long time. The depth of the Japanese government bond market, the role of domestic investors and that of the Bank of Japan, as well as yen issuance profoundly change the nature of the risk. This does not mean that Japan is immune to the constraint: the IMF believes that monetary normalization, ageing and the gradual increase in interest costs require maintaining a credible fiscal path⁵.

The comparison therefore leads to abandoning the idea of a universal threshold. The debt-to-GDP ratio remains an essential indicator because it measures the size of liabilities relative to the economic base. But it must be combined with the primary balance, the rate-growth differential, maturities, currency, investor structure, reserve levels, market depth and institutional credibility. Sovereign vulnerability is multidimensional.

III. The return of the cost of capital is gradually transforming the nature of risk

The decade following the global financial crisis had created an exceptional environment for sovereign issuers in advanced economies. Very low policy rates, central bank asset purchase policies, and abundant liquidity have squeezed bond yields. In several economies, nominal rates have risen to near-zero or even negative levels on some maturities. This has allowed governments to increase their debt stocks without immediately experiencing an equivalent increase in interest burden. This configuration has been instrumental during the pandemic.

The change in monetary regime that occurred after the return of inflation does not instantly cancel out this legacy. A government that issued at a fixed rate during the period of low interest rates continues to benefit from these conditions until the maturity of the securities concerned. It is precisely for this reason that the rise in rates is delayed. The central variable gradually becomes refinancing: as an old bond with a low coupon matures, the government must repay it by generally issuing a new security at the market conditions of the moment. If these conditions are more expensive, the average rate of the entire stock gradually increases.

The volumes involved give this mechanism systemic importance. The OECD estimates that gross borrowing by the governments of its member states, which had already reached a record \$17,000 billion in 2025, should approach \$18,000 billion in 2026. Above all, **78% of the sovereign borrowing planned for 2026 corresponds to the refinancing of existing debt**,

⁴ U.S. Treasury, TIC, August 2026: <https://home.treasury.gov/news/press-releases/sb0606>

⁵ IMF, Article IV Consultation Japan, April 2, 2026: <https://www.imf.org/en/news/articles/2026/04/02/pr-26105-japan-imf-executive-board-concludes-2026-article-iv-consult>

and not to the financing of new spending. Refinancing needs had already reached around \$13,500 billion in 2025⁶.

This figure changes the way in which the issuance amounts announced each year are interpreted. A programme of several hundred billion does not correspond to an equivalent increase in net debt: a large part is simply used to replace maturing bonds. But this apparently routine operation is the moment when the new financial conditions are transmitted to the budget. The risk is therefore not necessarily an abrupt inability to repay. It can take the much more gradual form of replacing cheap debt with more expensive debt, and then increasing the interest burden that reduces the space available for other policies.

France allows us to observe this mechanism in practice. Public debt in the sense of Maastricht stood at €3,536.1 billion at the end of the first quarter of 2026, or 117.5% of GDP, compared with 115.6% at the end of 2025⁷. Agence France Trésor forecasts a medium- and long-term issuance programme net of buybacks of €310 billion for 2026, while the budgetary debt burden is forecast at €59.3 billion⁸.

However, the structure of French debt cushions the transmission of rates. At the end of 2025, the average maturity of negotiable debt was 8 years and 184 days; it remained 8 years and 142 days at the end of August 2026. The government is therefore not refinancing all of its outstanding debt under 2026 conditions⁹. This maturity is a protection against an immediate shock, but it also means that the fiscal effect of a persistently higher interest rate regime spreads for several years.

The choice of maturities therefore becomes strategic. The OECD notes that the increase in the cost of long-term funding leads some issuers to favour shorter maturities. Such a strategy can reduce the immediate burden when the yield curve allows it, but it increases future refinancing needs and the sensitivity of the budget to rate changes. Sovereign debt management is therefore not just about minimising the cost now. It must arbitrate between cost and risk, which is why debt agencies generally seek to maintain a diversified issuance curve.

Rising interest rates thus transform a stock problem into a flow problem. A high ratio can remain stable for a long time when financing is cheap. It becomes more constraining when interest absorbs an increasing share of revenues and when annual refinancing needs regularly expose the government to new market conditions. The decisive question is no longer just the amount due, but the frequency and price at which confidence must be renewed.

IV. Sovereigns do not occupy the same position in the international financial hierarchy

Sovereign debt is legally a repayment commitment; economically, it is also an asset held by another actor. This second dimension explains why debt capacity depends as much on the demand for the securities as on the behaviour of the issuer. A government may wish to borrow, but its effective capacity depends on the existence of investors willing to buy its debt at the price it deems sustainable.

⁶ OECD, *Sovereign Borrowing Outlook 2026* : https://www.oecd.org/en/publications/global-debt-report-2026_e9d80efd-en/full-report/sovereign-borrowing-outlook_4470147b.html

⁷ INSEE, 25 June 2026: <https://www.insee.fr/fr/statistiques/9010340>

⁸ AFT: <https://www.aft.gouv.fr/fr/programme-indicatif-financement-letat>

⁹ AFT, 2025 activity report and data as of 31 August 2026: <https://www.aft.gouv.fr/fr/publications/communiqués-presse/07072026-lagence-france-tresor-publie-son-rapport-dactivite-2025>

This relationship places sovereigns in structurally different positions. Large advanced economies typically have deep markets, large financial institutions, widely used currencies, and a diversified investor base. At the other end of the spectrum, some low- and middle-income states must pay significantly higher risk premiums, borrow in foreign currencies, or accept shorter maturities. The difference in cost may become larger than the difference in stock.

The United States is in a unique position because its debt is intertwined with the functioning of the international monetary system. Treasuries serve several functions simultaneously: federal financing, reserve assets, liquid investment instruments, and collateral in many financial transactions. The depth of this market creates a demand that depends not solely on the assessment of U.S. public finances. The dollar reinforces this mechanism because international actors in need of liquid assets denominated in the main international currency rely heavily on Treasury securities. This position allows the United States to finance considerable needs on terms that a state of comparable size but without an international currency would probably not obtain.

However, this advantage should not be interpreted as an exemption from all constraints. A sustained increase in deficits increases the volume that the market has to absorb, while portfolio changes by central banks, institutional investors or private actors can change the marginal cost of financing. The IMF highlights in 2026 that the transformation of the structure of sovereign investors, including the growing role of non-bank intermediaries using leverage, can increase the sensitivity of markets to revaluations. Monetary power therefore makes it possible to shift the limits; it does not remove them.

Japan shows a different configuration. Its gross debt level is exceptionally high, but the debt is mainly denominated in the national currency and is part of a financial system in which Japanese institutions and the central bank play a major role. The Japanese Ministry of Finance publishes an annual report specifically devoted to the management of the JGB market, maturities and funding risk, while the Bank of Japan regularly publishes details of its holdings of government ¹⁰¹¹bonds.

The Japanese case shows that a very high ratio does not automatically lead to a crisis, but the gradual normalisation of monetary policy is a reminder that this configuration itself depends on a set of conditions that are likely to change.

The euro area is a third architecture. Its states borrow in a common currency whose monetary policy is not individually controlled by any national government. This feature was at the heart of the sovereign debt crisis of the early 2010s. When some states lost normal market access, the Economic and Monetary Union initially had neither a permanent sovereign financial assistance mechanism nor a comprehensive crisis management architecture. The creation of the European Stability Mechanism, preceded by the creation of the EFSF, filled part of this gap¹².

This construction produces a particular form of shared sovereignty. France, Italy and Spain have deep national bond markets and borrow in an international currency, but do not individually own all the monetary instruments associated with this currency. On the other hand, they belong to an architecture that includes the European Central Bank, the European Stability Mechanisms, common fiscal rules and an integrated financial system. Their debt capacity therefore depends simultaneously on their national fundamentals and on the credibility of the European architecture.

¹⁰ Ministry of Finance, *Debt Management Report 2026* : https://www.mof.go.jp/english/policy/jgbs/publication/debt_management_report/2026/index.html

¹¹ Bank of Japan: <https://www.boj.or.jp/en/statistics/boj/other/mei/release/2026/index.htm>

¹² ESM, history of the crisis: <https://www.esm.europa.eu/about-us/history>

The situation in developing economies reveals even more clearly the limitations of an analysis based on the debt ratio. According to UNCTAD, developing countries held about \$31 trillion in public debt in 2024, less than one-third of the global total, but their net interest payments reached \$921 billion. Sixty-one developing countries spent at least 10 percent of their government revenue on interest, while 3.4 billion people lived in countries that spent more on interest than on health or education. UNCTAD also points out that, since 2020, developing regions have borrowed at rates two to four times higher than those of the United States¹³.

These data show why the same ratio can produce different fiscal effects. A debt of 60 percent of GDP financed at a high rate, with short maturities and high currency exposure, can exert a more immediate constraint than debt exceeding 100 percent of GDP financed over the long term in a currency with structural international demand. Sovereign inequality therefore lies as much in the price of capital as in its volume.

Finally, this hierarchy has a political dimension. When a state has to devote an increasing fraction of its revenues to debt servicing, the financial constraint comes into direct competition with the other functions of the state. The problem is then no longer that of solvency, but that of the ability to simultaneously maintain social policies, investment, security, infrastructure and the repayment of previous commitments. Debt becomes strategically decisive when it changes the order of possible priorities.

¹³ UNCTAD, *A World of Debt 2025* : <https://unctad.org/publication/world-of-debt>

V. The new competition for fiscal space

The budgetary environment of the second half of the 2020s is characterised less by the emergence of an exceptional need than by the superimposition of several structural needs. Demographic ageing is increasing spending on pensions, health and long-term care. The energy transition requires investment in networks, production capacity, storage and infrastructure adaptation. Technological competition is encouraging governments to support semiconductors, artificial intelligence, high-performance computing, space and dual technologies. At the same time, geo-economic fragmentation is leading to the financing of policies for relocation, securing value chains and stockpiling. Finally, the deterioration of the strategic environment is leading to an increase in defence spending.

The IMF sums up this accumulation precisely when it notes that public finances are simultaneously subject to social spending, defense, strategic autonomy and rising interest rates. The contemporary budgetary problem therefore lies in the impossibility of treating each of these priorities as if it had unlimited financing separately.

European defence is a particularly clear example. The EU has agreed to introduce temporary flexibility in its fiscal rules to allow for an increase in military spending. The national escape clause allows the states concerned to temporarily deviate from their spending trajectory to finance the increase in defence spending, up to a limit of up to 1.5% of GDP over the planned period. As of June 2026, eighteen Member States had achieved its activation. This flexibility is explicitly accompanied by one condition: medium-term fiscal sustainability must be preserved¹⁴.

The mechanism reveals the heart of the problem. Europe considers simultaneously that military underinvestment can constitute a strategic vulnerability and that excessive debt can reduce the future capacity of States to finance this same security. The two objectives cannot therefore be mechanically opposed. Rejecting any additional debt can prevent the rapid constitution of capacities that are urgently needed; financing each increase in spending sustainably through debt can, conversely, transform a present strategic priority into a permanent budgetary constraint.

It is therefore necessary to distinguish between the financing of a transitional effort and the assumption of structural expenditure. Debt can be particularly appropriate when an exceptional investment must be made quickly: construction of infrastructure, initial acquisition of equipment, constitution of industrial capacity or modernisation of a network. But when the investment then creates recurrent expenditure (staff, maintenance, operation, renewal), the State must have permanent revenues capable of supporting them. Debt makes it possible to bring forward a capacity over time; it cannot sustainably replace the tax base necessary for its maintenance.

This distinction applies beyond defence. Debt-financed energy infrastructure can increase resilience, reduce some imports, and produce profits for several decades. An industrial policy can create productive capacity and future revenues, but it can also tie up resources in inefficient projects. Social spending can be account-based while improving human capital and productivity. The strategic question, then, is not to draw an artificial line between "good" and "bad" debt, but to assess the relationship between current spending and the future capacity it produces.

The European Commission adopts a similar logic in its *Debt Sustainability Monitor 2025*, published in February 2026. It does not reduce the analysis to the level of debt observed at a

¹⁴ Council of the European Union : <https://www.consilium.europa.eu/fr/policies/national-escape-clause-for-defence-expenditure-nec/>

given point in time, but looks at policy-unchanged trajectories, the effects of ageing, public assets, climate risks and adjustment paths. In particular, its simulations indicate that the full implementation of the pathways set out in the medium-term budgetary and structural plans would lead to an aggregate EU debt ratio in 2036 that is more than twenty percentage points of GDP lower than under the policy change assumption¹⁵.

The issue is ultimately the strategic value of fiscal space. A government that retains credible borrowing capacity can respond to a crisis without having to immediately abandon its other priorities. Conversely, a government entering every crisis with a high deficit, rising debt, and an already large interest burden has fewer options. Fiscal space thus functions as a strategic reserve: its value becomes fully apparent when an event occurs that was not budgeted.

VI. Debt reduces sovereignty when it begins to determine the decision

The notion of financial sovereignty becomes useful when it makes it possible to identify the moment when debt ceases to be primarily a financing instrument and becomes a constraint on public decision-making. This moment does not correspond to a universal ratio. It arises when several mechanisms converge: a lasting increase in the interest burden, high refinancing needs, shortening maturities, an increase in the risk premium, excessive dependence on certain categories of investors or the inability to mobilise additional resources in times of crisis.

The first manifestation is budgetary crowding-out. Interest is an expenditure that is legally difficult to adjust in the short term without restructuring or default. When it increases, the government must either increase its revenues, reduce other expenditures, or borrow more. If the additional debt itself is used to finance an increasing interest burden, a self-perpetuating dynamic can emerge. The sovereign constraint does not then come directly from an instruction given by a creditor: it results from the very structure of the budget.

The second manifestation is sensitivity to refinancing. A government with a significant portion of its debt maturing each year must regularly obtain implicit market approval to renew its financing. As long as demand remains deep, this can be routine. However, an abrupt repricing of risk can rapidly increase the cost of new issues. The BIS specifically emphasizes the importance of gross financing needs and short maturities as indicators of vulnerability, as they accelerate the transmission of a change in market sentiment to public finances.

The third manifestation concerns the interaction between sovereign debt and the financial system. Public bonds are massively used by banks, insurers, funds and other intermediaries. A sharp rise in yields reduces the market value of bonds already issued; conversely, a concern about the soundness of banks can lead the state to intervene and worsen its own fiscal situation. The eurozone crisis illustrated this circle between banks and sovereigns. The reforms undertaken since then, in particular the banking union and the European stability mechanisms, have sought to reduce this interaction without eliminating it entirely.

The ECB further stressed in May 2026 that persistent deficits and high levels of debt in some euro area countries constituted significant vulnerabilities. It noted that the increase in issuance needs, combined with tighter financing conditions, increased refinancing and interest rate risks, while the increase in interest charges reduced the space available for other priorities¹⁶.

¹⁵ European Commission, *Debt Sustainability Monitor 2025* : https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2025_en

¹⁶ ECB, *Financial Stability Review*, May 2026: <https://www.ecb.europa.eu/press/financial-stability-publications/fsr/html/ecb.fsr202605~50566915a7.cs.html>

France again provides an interesting case because its debt level is high while retaining, at this stage, a deep market and a significant issuance capacity. At the end of August 2026, the State's marketable debt outstanding reached around €2,904 billion. The weighted average rate of OAT issuance since the beginning of the year stood at 3.50%, while AFT continued to place very long-term securities with an international investor base. In February 2026, the issuance of a new OAT maturing in 2057 had generated more than €135 billion in demand for the €8 billion allocated, at a yield of 4.439%.¹⁷

These elements do not mean that French debt is risk-free, nor that a crisis is imminent. They show precisely why it is necessary to distinguish between stock, cost and market access. French public debt was 117.5% of GDP in the first quarter of 2026, but the government simultaneously continued to borrow for more than thirty years in response to demand that was much higher than the volumes proposed. Vulnerability must therefore be analysed as a trajectory: if the deficit remains high, the stock increases and refinancing is gradually carried out at rates higher than those of maturing securities, the interest burden can reduce fiscal space even in the absence of a market access crisis.

Sovereignty thus deteriorates before default. It begins to be affected when the state renounces necessary investments not because they would be deemed useless, but because the financing of previous decisions has saturated its fiscal capacity; when an external shock can no longer be absorbed; or when the need to avoid a reassessment of sovereign risk dominates all trade-offs. A debt crisis is only the extreme form of a process whose strategic effects can become apparent much earlier.

VII. Preserving debt capacity is an objective of strategic sovereignty

A strategy of financial sovereignty cannot therefore have as its abstract objective the absence of debt. Such an objective would lead to the abandonment of one of the main instruments allowing the State to spread the cost of crises and investments over time. Nor can it consist in considering that the issuance in national currency or the existence of a central bank would make any level of debt indifferent. The relevant question concerns the preservation of a capacity for future mobilization.

This capacity depends first and foremost on the management of existing liabilities. Extending maturities when conditions allow it reduces the risk of refinancing; maintaining a sufficiently wide range of securities promotes liquidity; diversifying investors limits dependence on a particular category; maintaining a deep secondary market reduces the liquidity premium; limiting uncontrolled exposure to foreign exchange or indexation protects the budget against certain shocks. In this respect, debt agencies fulfil a strategic function that is rarely perceived as such: they organise the financial relationship between the State and its creditors over time.

Fiscal credibility is the second component. It does not necessarily imply a permanent balance of accounts. Investors can accept a large deficit when it responds to an identifiable shock and they consider that the government then has the institutions, fiscal capacity, and political will to stabilize the trajectory. Conversely, uncertainty about the future path can increase the premium demanded even before any immediate deterioration in indicators. Credibility is therefore less an ideological preference for austerity than an ability to make intelligible the relationship between present spending, future revenues, and debt dynamics.

¹⁷ AFT: <https://www.aft.gouv.fr/fr> ; <https://www.aft.gouv.fr/en/publications/communiqués-presse/11-february-2026-launch-new-oat-440-25-may-2057>

The third component concerns the allocation of additional debt. When debt finances assets that increase potential growth, energy resilience, industrial capacity or security, it can indirectly improve the conditions of its own sustainability. But this reasoning is only valid if the investments actually produce the expected capacities. The evaluation of public policies therefore becomes a dimension of financial sovereignty: the quality of the expenditure is as important as its amount.

Finally, preserving debt capacity requires thinking in terms of scenarios. Fiscal trajectories are often built around central assumptions of growth, inflation and interest rates. However, the strategic value of fiscal space lies precisely in its availability when these assumptions cease to be valid. A pandemic, energy crisis, conflict, financial shock or climate disaster can simultaneously modify spending, revenues and financing conditions. A state whose trajectory is sustainable only in the most favourable scenario has fragile financial sovereignty.

Debt policy must therefore incorporate a logic of resilience comparable to that which is now required in the energy, military or industrial fields. It is not a question of eliminating all dependencies, but of preventing a particular dependence from interrupting an essential function. Applied to debt, this logic means maintaining several categories of investors, several maturities, a tax capacity that can be mobilised and sufficient credibility to be able to temporarily increase debt when circumstances require it.

The real strategic asset is ultimately not a weak debt considered in isolation. It is **the debt capacity still available when it becomes necessary**. A state that reduces its debt but allows its infrastructure, its productive base or its defence to deteriorate can weaken its future power. A state that systematically uses borrowing to avoid any arbitrage can, for its part, gradually exhaust the financial capacity it will need in the face of a major crisis. Financial sovereignty lies in mastering this intertemporal trade-off.

Conclusion

Sovereign debt is neither intrinsically a weakness nor automatically a resource. It is a mechanism by which the state mobilizes part of its future economic capacity in the present. This property explains its historical role in financing wars, crises, infrastructure and economic transformations. It also explains the risk it represents: each future resource mobilized today reduces, all other things being equal, the one that will remain available tomorrow.

The context of the 2020s makes this trade-off more difficult. Global public debt is approaching historically high levels at a time when investment needs are increasing and the cost of capital has become significant again. In OECD countries, the bulk of sovereign issuance is now used to refinance existing liabilities. In developing economies, much higher financing costs can turn relatively lower stocks into particularly heavy fiscal constraints. In the euro area, the need to increase defence spending is combined with the preservation of sustainable fiscal paths. There is therefore no universal debt crisis, but a proliferation of configurations in which the relationship between debt, rates, growth, currency and institutions becomes more demanding.

Strategic analysis must therefore move away from comparisons based solely on public debt ratios. The level remains important, but it only makes sense in relation to maturity, cost, currency of issue, holders, market depth, refinancing needs, and fiscal capacity. The United States, Japan, France, and an emerging economy cannot be valued at the same level because they do not occupy the same position in the international monetary and financial system.

This difference does not mean that some states can take on unlimited debt. It means that sovereign constraint appears at different levels and in different forms. For some, it will take the form of exchange rate risk or a sudden halt in capital; for others, it will take the form of a gradual

increase in interest rates, a reduction in fiscal space or an increasing sensitivity to markets. In all cases, the strategic point is reached when the structure of financing begins to determine the choices that the state can still make.

Sovereign debt must therefore be understood as a relationship between **time, trust and political capacity**. It makes it possible to transfer future resources to the present and, when it finances productive or strategic capacities, to transform this anticipation into additional power. However, the same mechanism reduces freedom of action when refinancing, interest charges or dependence on creditors begin to impose their own trade-offs. The decisive question is therefore not to set in the abstract the level of debt that a state should accept. It consists in determining which debt structure allows it to finance its present priorities, absorb crises and invest in its future power without compromising its ability to decide when the next shock will occur.