

French Republic

Rating Annex



AA

NEGATIVE
OUTLOOK

Credit strengths

- Large and diversified economy
- Core euro area member
- Favourable debt profile and excellent market access
- Sound and resilient banking sector

Credit challenges

- High public debt, persistent deficits and uneven fiscal consolidation track record
- Growing political fragmentation and polarisation
- Persistent labour market bottlenecks

Rating rationale:

Large and diversified economy: France has a large economy, high GDP per capita, and a diversified economic structure driven by high value-added activities. The economy also benefits from supply-side reforms, including those affecting pension and unemployment benefit systems.

Core euro area member: France is an EU founding member, a leading guarantor of the European institutional framework and a key state in driving and preserving the consolidation of European integration.

Favourable debt profile and excellent market access: France benefits from a favourable debt profile and an excellent market access, providing partial mitigants to risks associated with a high debt stock in a higher interest rate environment.

Sound and resilient banking sector: The French banking sector displays favourable capitalisation ratios supported by comfortable profitability, underpinning its good capacity to absorb external shocks.

Rating challenges include: i) weakening public finances, including high public debt-to-GDP ratio, sustained primary fiscal deficits and an uneven track record of fiscal consolidation; ii) growing political fragmentation and polarisation, potentially limiting the government's ability to address structural pressures through reforms; and iii) persistent labour market bottlenecks compromising a further decline in unemployment notwithstanding already implemented reforms of the apprenticeship programmes, unemployment benefit scheme and pension system.

France's sovereign rating drivers

| Risk pillars | Quantitative | | Reserve currency* | Qualitative** | Final rating | |
|----------------------------------|-----------------------|-------------------|-------------------|---------------|--------------|------|
| | Weight | Indicative rating | Notches | Notches | | |
| Domestic Economic Risk | 35% | aaa | EUR [+1] | +1/3 | AA | |
| Public Finance Risk | 20% | bb+ | | +1/3 | | |
| External Economic Risk | 10% | b+ | | +1/3 | | |
| Financial Stability Risk | 10% | a | | +1/3 | | |
| ESG Risk | Environmental Factors | 5% | | a- | | +1/3 |
| | Social Factors | 7.5% | | b | | 0 |
| | Governance Factors | 12.5% | | aa- | | 0 |
| Indicative outcome*** | | a+ | | +2 | | |
| Additional considerations | | | | 0 | | |

Note: *The reserve currency adjustment applies to currencies in the IMF's SDR basket. **The qualitative scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. ***In line with our methodology, movements between indicative ratings are not immediate but are executed after analyst review of CVS results. The rating committee approved an indicative rating of 'a+' for the French Republic. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

Outlook and rating triggers

The Negative Outlook reflects our opinion that risks to the ratings remain skewed to the downside.

Positive rating-change drivers

- Sustained budgetary consolidation helped place public debt-to-GDP on a structurally declining trajectory
- Growth outlook improved significantly

Negative rating-change drivers

- Public debt-to-GDP resumed on an upside trajectory such as due to the failure to deliver sustained budgetary consolidation
- Growth outlook deteriorated significantly

Ratings and Outlook

Foreign currency

| | |
|--------------------------|-------------|
| Long-term issuer rating | AA/Negative |
| Senior unsecured debt | AA/Negative |
| Short-term issuer rating | S-1+/Stable |

Local currency

| | |
|--------------------------|-------------|
| Long-term issuer rating | AA/Negative |
| Senior unsecured debt | AA/Negative |
| Short-term issuer rating | S-1+/Stable |

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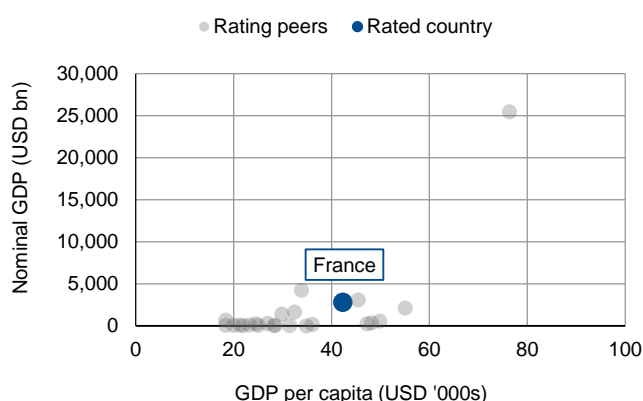
Bloomberg: RESP SCOP

Domestic Economic Risk

Overview of Scope's qualitative assessments for France's Domestic Economic Risk

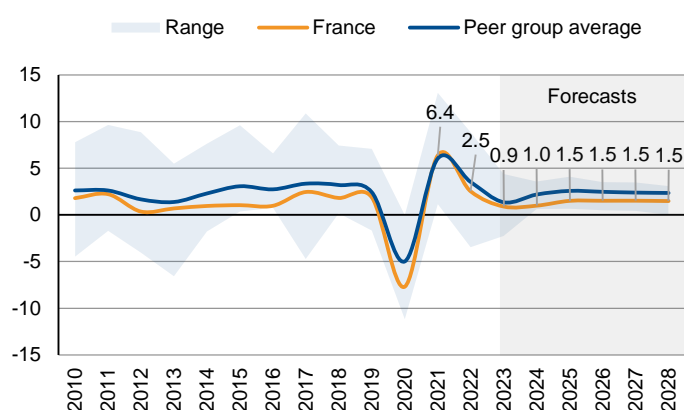
| CVS indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|--|------------|------------------|---|
| aaa | Growth potential of the economy | Neutral | 0 | Moderate growth potential supported by improving labour markets and robust foreign investment |
| | Monetary policy framework | Neutral | 0 | The ECB is a highly credible and effective central bank with an effective policy framework and transmission over the cycle |
| | Macroeconomic stability and sustainability | Strong | +1/3 | Diversified economy reflecting resilient economic structure; good wealth levels relative to sovereign peers, important for shock absorption |

Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Real GDP growth, %



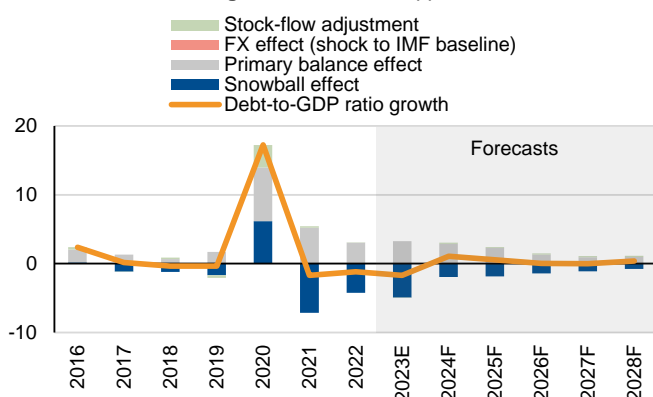
Source: IMF WEO, Scope Ratings forecasts

Public Finance Risk

Overview of Scope's qualitative assessments for France's Public Finance Risk

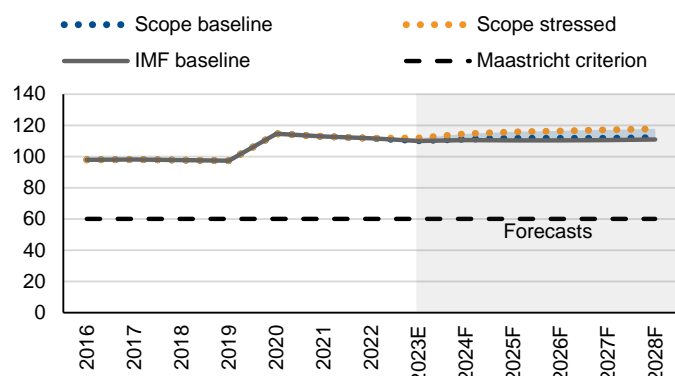
| CVS indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|--------------------------------|------------|------------------|---|
| bb+ | Fiscal policy framework | Neutral | 0 | Enhanced fiscal governance framework, but limited room for additional spending; gradual reduction of deficits conditional upon the outcome of annual spending reviews |
| | Debt sustainability | Neutral | 0 | High public debt; sustainability underpinned by still low interest burden and large tax base |
| | Debt profile and market access | Strong | +1/3 | Excellent market access, long maturity, and high investor demand for diversified issuance series |

Contributions to changes in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



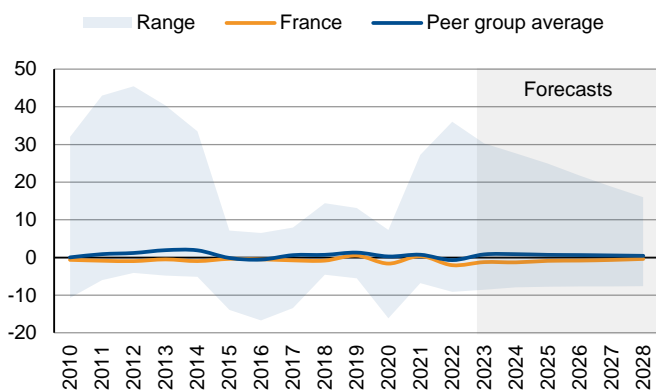
Source: IMF WEO, Scope Ratings forecasts

External Economic Risk

Overview of Scope's qualitative assessments for France's *External Economic Risk*

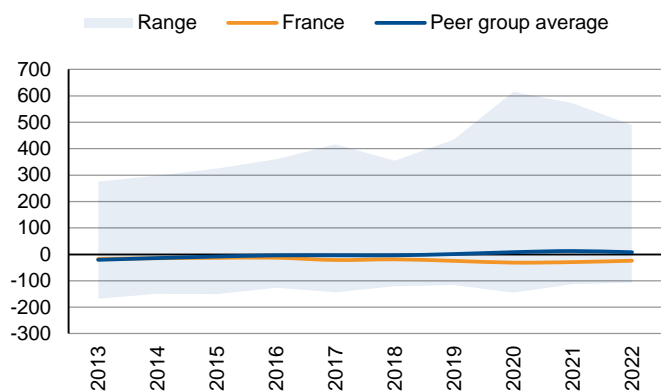
| CVS indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|--|------------|------------------|---|
| b+ | Current account resilience | Neutral | 0 | Diversified and high-technology industries; moderate current account deficits |
| | External debt structure | Neutral | 0 | High external debt, high amount of foreign assets, and limited share of foreign-currency-denominated debt |
| | Resilience to short-term external shocks | Strong | +1/3 | Resilience against shocks with a mature and large domestic market |

Current account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



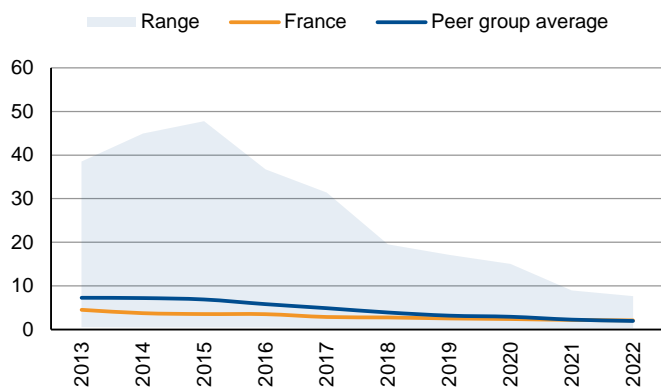
Source: IMF, Scope Ratings

Financial Stability Risk

Overview of Scope's qualitative assessments for France's *Financial Stability Risk*

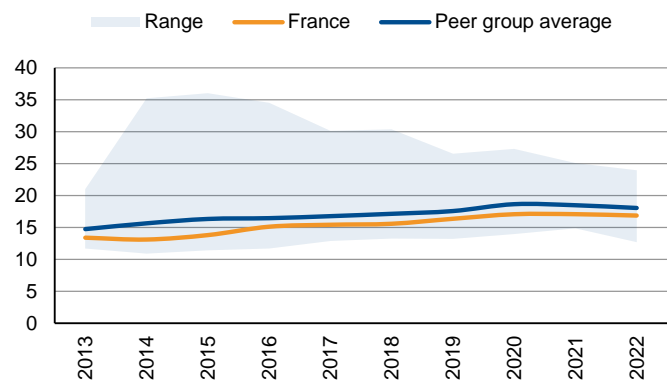
| CVS indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|----------------------------|------------|------------------|---|
| a | Banking sector performance | Strong | +1/3 | Consolidated banking sector with strong capitalisation and liquidity buffers |
| | Banking sector oversight | Neutral | 0 | Oversight under the national supervisory authority (ACPR, under Banque de France) and the ECB as part of the Single Supervisory Mechanism |
| | Financial imbalances | Neutral | 0 | Moderate household indebtedness; high corporate gross debt mitigated by high net wealth; resilient and mature financial system |

Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

Tier 1 capital, % of risk-weighted assets



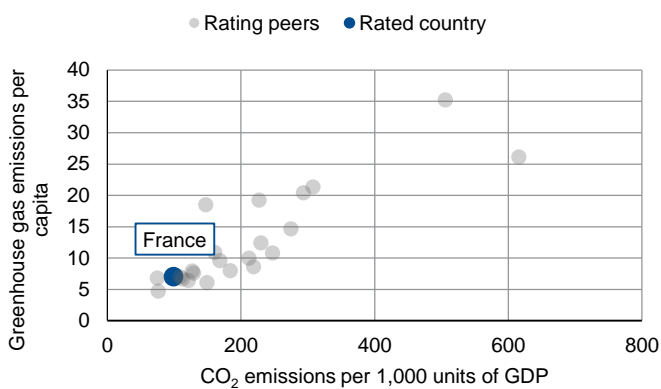
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) Risk

Overview of Scope's qualitative assessments for France's ESG Risk

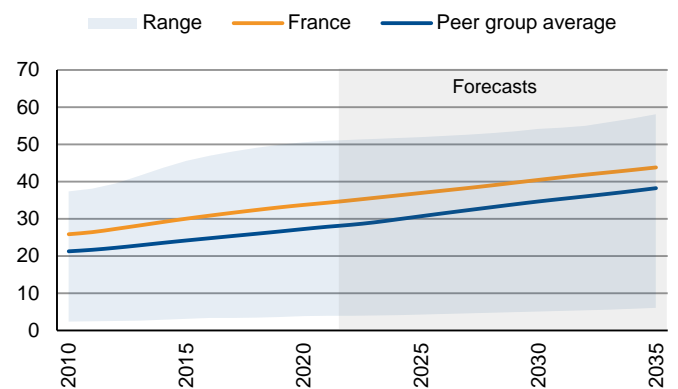
| CVS indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|-----------------------|------------|------------------|---|
| bbb+ | Environmental factors | Strong | +1/3 | Relatively strong resilience to climate risk and ambitious climate targets |
| | Social factors | Neutral | 0 | Large social safety nets, but regular tensions (such as the yellow vests, large public protests amid the pension reform) are downside risks |
| | Governance factors | Neutral | 0 | High-quality institutions, but risks of fading momentum on reforms following the Covid-19 crisis and the 2022 electoral cycle |

CO₂ emissions per GDP, mtCO₂e



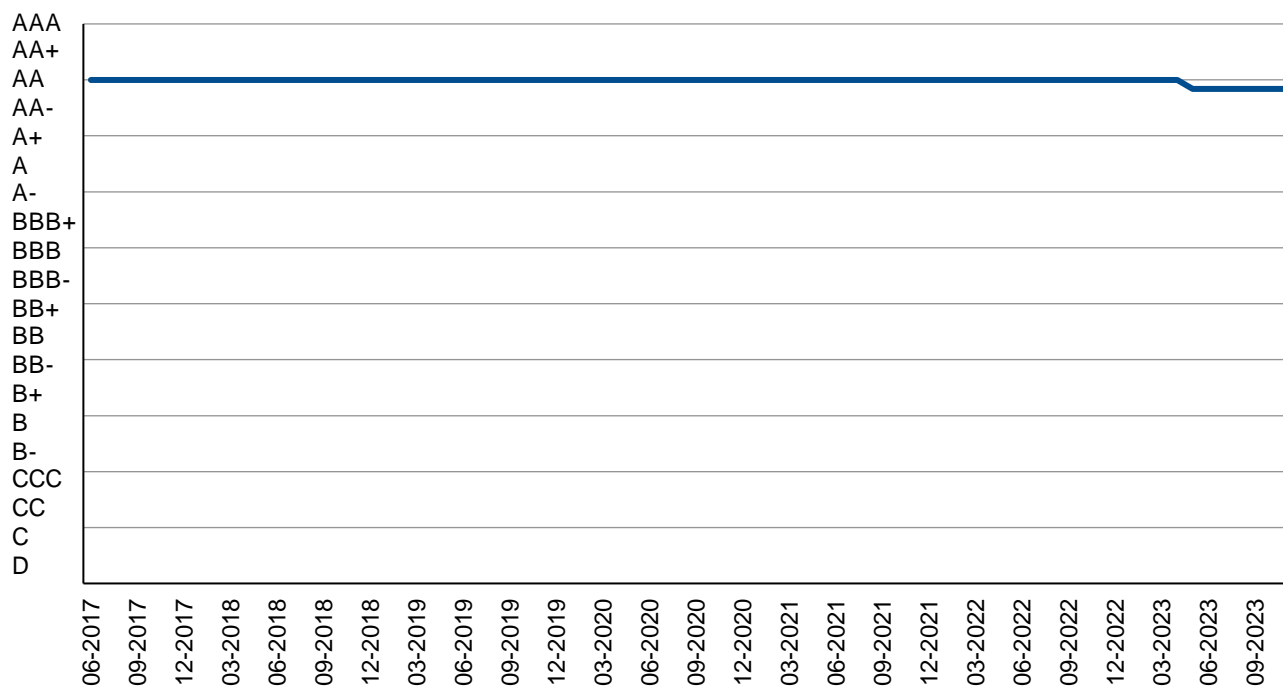
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history (foreign-currency long-term issuer rating)



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's core variable scorecard after accounting for a methodological reserve-currency adjustment.

| Peer group* |
|----------------|
| Belgium |
| Croatia |
| Cyprus |
| Czech Republic |
| Estonia |
| Japan |
| Latvia |
| Lithuania |
| Malta |
| Poland |
| Portugal |
| Slovakia |
| Slovenia |
| Spain |
| United Kingdom |
| United States |

Publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, in line with Scope's [Sovereign Rating Methodology](#). The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

| Pillar | Core variable | Source | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------------|---|--------|---------|---------|---------|---------|---------|
| Domestic Economic | GDP per capita, USD '000s | IMF | 43.1 | 41.9 | 40.5 | 45.2 | 42.3 |
| | Nominal GDP, USD bn | IMF | 2,792.2 | 2,729.2 | 2,645.3 | 2,958.4 | 2,780.1 |
| | Real growth, % | IMF | 1.8 | 1.9 | -7.7 | 6.4 | 2.5 |
| | CPI inflation, % | IMF | 2.1 | 1.3 | 0.5 | 2.1 | 5.9 |
| | Unemployment rate, % | WB | 9.0 | 8.4 | 8.0 | 7.9 | 7.4 |
| Public Finance | Public debt, % of GDP | IMF | 97.8 | 97.4 | 114.7 | 113.0 | 111.8 |
| | Net interest payment, % of revenue | IMF | 3.0 | 2.6 | 2.2 | 2.4 | 3.3 |
| | Primary balance, % of GDP | IMF | -0.7 | -1.7 | -7.8 | -5.2 | -3.0 |
| External Economic | Current-account balance, % of GDP | IMF | -0.8 | 0.5 | -1.6 | 0.4 | -2.0 |
| | Total reserves, months of imports | WB | 1.8 | 2.1 | 2.9 | 2.7 | 2.3 |
| | NIIP, % of GDP | IMF | -18.7 | -24.7 | -31.7 | -29.6 | -24.2 |
| Financial Stability | NPL ratio, % of total loans | IMF | 2.7 | 2.5 | 2.4 | 2.2 | 2.1 |
| | Tier 1 ratio, % of risk-weighted assets | IMF | 15.2 | 15.6 | 15.7 | 16.9 | 16.4 |
| | Credit to the private sector, % of GDP | WB | 104.3 | 106.7 | 125.8 | 121.1 | - |
| ESG | CO ₂ per EUR 1,000 of GDP, mtCO ₂ e | EC | 108.8 | 104.5 | 97.9 | 99.1 | - |
| | Income share of bottom 50%, % | WID | 22.8 | 22.6 | 23.2 | 23.2 | - |
| | Labour-force participation rate, % | WB | 72.7 | 72.5 | 71.8 | 73.8 | - |
| | Old-age dependency ratio, % | UN | 32.4 | 33.1 | 33.7 | 34.3 | 35.0 |
| | Composite governance indicators* | WB | 1.1 | 1.1 | 1.0 | 1.1 | 1.0 |

* Average of the six World Bank Worldwide Governance Indicators.

Appendix IV. Economic development and default indicators

IMF Development Classification

Advanced economy

5y USD CDS spread (bps) as of 6 November 2023

27.5



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