# CareEdge Global assigns 'Negative' outlook to the rating of Republic of France

**Reaffirms Long Term Foreign Currency Rating of 'CareEdge AA-' (Unsolicited)**

| | |
|---|---|
| Issuer rating | CareEdge AA-/ Negative (Unsolicited) |

CareEdge Global has assigned a 'Negative' outlook to the rating of Republic of France (France), while reaffirming the Long Term Foreign Currency rating of 'CareEdge AA- (Unsolicited)'. France's credit profile is derived from its large & diversified economy, benefits from being part of the European monetary union, and strong institutions. Strong service exports and a well-developed financial system also provide support. However, despite these strengths, France faces challenges from a high level of government debt, poor fiscal track record, an ageing population, and high net social benefits.

Going forward, France's ability to improve its fiscal position, mainly by improving spending efficiency, is a key monitorable.

**Strengths**

- Large economic size
- Key member of European Union
- High GDP per capita
- Strong access to capital markets

**Weaknesses**

- Overleveraged economy across all sectors including households and corporate sector.
- High fiscal deficit and poor fiscal record of the government

**Key Monitorables**

- Economic growth outlook for key trading partners
- Outcome of general elections (expected by November 2025) to understand policy continuity
- Government efforts to mitigate economic and fiscal impact of ageing population

**Rating Outlook: Negative**

The outlook reflects a higher than expected fiscal deficit for France, recent political uncertainty post the July snap elections, and widening of sovereign yields. The outlook also factors in the projected upward trajectory of general government debt to GDP, rising interest burden, and continued high government expenditure levels.

As per the revised government budget plan released on October 10, 2024, the fiscal deficit is now expected to be higher at 6.1% of GDP in 2024, as against the first draft plan 4.4% of

GDP and initial IMF forecasts of 5%. Fiscal deficit is also expected to remain above 5% until 2029, indicating a slower than previously expected fiscal consolidation path. Moreover, there is uncertainty over passage of fiscal reforms with no party having majority in the lower house of parliament.

Also, over the past year the 10-year government bond yields have widened by about 75bps over Germany vis-a-vis 50 bps in 2023, indicating higher borrowing costs.

**Downside scenario**
We could lower our ratings on France if the weakness in public finances persist as a result of the government's inability to significantly reduce public spending or implement reforms, especially related to pension. Risks from lower than expected growth that lead to higher debt burden could also cause a rating downgrade.

**Upside scenario**
We could revise our outlook to stable if the government takes measures to significantly reduce public expenditure on a sustainable basis and adhere to fiscal plan thereby restoring fiscal credibility.

## Key Rating Drivers

### Economic Structure & Resilience

France is the second largest economy in the Eurozone (GDP of USD 3.05 trillion in 2023) with a high GDP per capita (USD 57,558 constant PPP in 2023). France's economic strength arises from its competitive services sector (~79% of GDP) and high value-added exports (aircraft, machinery, and vehicles). France further benefits from high investments. Gross fixed capital formation contributed a healthy 25% to GDP in 2023 as against key peers like Germany (22%), Netherlands (21%), UK (18.3%) and USA (21.5%). Since 2017, the government has been implementing various economic reforms like tighter eligibility for unemployment benefits, higher retirement age, longer pension contribution periods, and lower corporate tax rates (25% in 2022 from 33.3% in 2017). The success of these reforms can enhance growth potential.

These positives are partly offset by challenges arising from high leverage of the private sector, France's key trading partners, an ageing population, and weak growth (GDP growth of 1.1% in 2023 from 2.6% in 2022). Economic growth slumped in 2023 because of slowdown in household consumption and tighter monetary policy. Going further, growth is expected to remain subdued in the medium term. Aging is another challenge faced by the economy as about 22% of the population is aged 65 and above. The new immigration law passed in January 2024 has taken a tougher stance towards immigration and social welfare benefits. This is likely to weigh on mitigating aging and growth potential.

### Fiscal Strength

France's fiscal assessment is constrained by a very high debt-to-GDP ratio of 109.9% in 2023 and is expected to reach 124% of GDP by 2028. The fiscal deficit continues to be high at 5.5% of GDP in 2023 against the budgeted 4.9% of GDP and is likely to moderate only gradually. The recently unveiled budget plan on October 10, 2024 has indicated a higher fiscal deficit to GDP for 2024 at 6.1%, as against the initial plan of 4.4%, further delaying the debt consolidation. Persistent higher fiscal deficits have led to France being placed under Excessive Deficit Procedure (EDP) by the European Commission forcing the country to come up with a corrective plan. The government has also introduced an ambitious fiscal consolidation plan to reduce the deficit by about EUR 60 billon (2% of GDP) in 2025, the implementation of the same remains uncertain amid political challenges.

Unlike some other EU peers, like Germany and the Netherlands, who have displayed fiscal consolidation, France has a poor track record reflected in a 5-year average fiscal deficit at 3.1% of GDP between 2015-19. France's overall expenditure level was high at 57% of GDP in 2023, including net social benefits at ~10-11% of GDP.

Despite the recent pension reforms, expenditure is expected to remain at 57% of GDP in the medium term too.

Even with these challenges, France benefits from its excellent access to capital markets, low borrowing costs, long average maturity of its debt, and higher proportion of fixed-rate securities (88% of total debt).

### External Position & Linkages

Euro's reserve currency status and easy access to funding are key positives for France. Recent reforms have attracted foreign direct investment inflows, which is the highest in Europe for four consecutive years. The current account remains in a narrow deficit supported by strong services exports.

However, these strengths are partially offset by a high external debt at 252% of GDP in 2023. Banks (58%) and Public sector (24%) accounted for most of the external debt. France also has negative net international investment position of 30.1% of GDP in 2023. On a net basis, though international position is negative, the country has large foreign assets (334.9% of GDP in 2023) implying no sustainability concerns in the medium term.

### Monetary & Financial Stability

France is a key member of the European Monetary Union with the Euro being a reserve currency. Harmonized index of consumer inflation (HICP) inflation for France was 5.7% in 2023, higher than the EU average of 5.48%, partly due to base effects and partly from higher energy prices. Going forward, inflation is expected to decline to reach around 2% over the next 2 years.

France has a well-developed banking and financial system. Private debt remained high at 154.5% of GDP with non-financial corporation debt at 91% of GDP and household debt at 66% of GDP in 2023. However, credit growth is expected to be moderate amidst property price adjustments.

## Institutions & Quality of Governance

The institutional and governance framework of France is robust and at par with similarly assessed peers. The government's efforts at bringing structural economic reforms are praiseworthy. However, government's inability to contain fiscal deficit has led to large accumulation of debt making the fiscal policy effectiveness weaker.

In recent months, political uncertainty has increased especially after July snap elections with no party gaining absolute majority in the lower house. This could slow down the reform agenda. Also, there is considerable risk of reversal of pension reforms implemented earlier.

| France – Select Indicators | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Unit | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 F | 2025 F |
| **Economic Indicators** | | | | | | | | | |
| Nominal GDP | USD Billion | 2783 | 2723 | 2646 | 2968 | 2799 | 3053 | 3174 | 3283 |
| GDP Per Capita (Constant-PPP) | USD | 55965 | 56904 | 52444 | 55825 | 57098 | 57558 | 58028 | 58476 |
| Real GDP Growth | % | 1.6 | 2.1 | -7.6 | 6.8 | 2.6 | 1.1 | 1.1 | 1.1 |
| GFCF/GDP | % | 22.9 | 23.5 | 23.3 | 24.5 | 25.2 | 24.8 | 22.3 | 22.1 |
| Gross Domestic Savings/GDP | % | 22.8 | 23.4 | 22.0 | 23.0 | 22.6 | 23.0 | - | - |
| Exports (G&S)/GDP | % | 31.7 | 31.6 | 27.3 | 30.0 | 34.7 | 32.7 | - | - |
| Working-Age (15-64) Population (% Share in Total) | % | 61.9 | 61.6 | 61.4 | 61.3 | 61.1 | 61.0 | 60.8 | 60.6 |
| Old-Age (65+) Population (% Share in Total) | % | 20.3 | 20.7 | 21.0 | 21.3 | 21.7 | 22.0 | 22.3 | 22.7 |
| **Fiscal Indicators – General Government** | | | | | | | | | |
| Fiscal Balance/GDP | % | -2.3 | -2.4 | -8.9 | -6.6 | -4.7 | -5.5 | -6.0 | -5.9 |
| Revenue/GDP | % | 54.0 | 53.0 | 52.8 | 52.9 | 53.7 | 51.5 | 51.3 | 51.2 |
| Expenditure/GDP | % | 56.4 | 55.3 | 61.7 | 59.5 | 58.4 | 57.0 | 57.2 | 57.1 |
| GG Gross Debt/GDP | % | 98.1 | 97.6 | 114.6 | 112.6 | 111.1 | 109.9 | 112.3 | 115.3 |
| GG External Debt (by Creditor)/GG Gross Debt | % | 48.0 | 52.0 | 50.9 | 47.7 | 41.3 | 44.8 | - | - |
| Interest/Revenue | % | 3.3 | 2.9 | 2.4 | 2.6 | 3.6 | 3.3 | - | - |
| **External Indicators** | | | | | | | | | |
| Current Account Balance/GDP | % | -0.7 | 0.6 | -2.1 | 0.3 | -1.2 | -1.0 | 0.1 | -0.1 |
| FDI, Net Inflows/GDP | % | 2.8 | 2.0 | 0.7 | 3.2 | 3.8 | -0.1 | 1.2 | 1.2 |
| Outstanding FII Liabilities/GDP | % | 128.2 | 144.7 | 169.9 | 150.8 | 138.0 | 148.7 | - | - |
| NIIP/GDP | % | -18.7 | -24.7 | -31.7 | -29.6 | -24.2 | -30.1 | - | - |
| Foreign Exchange Reserves | USD Billion | 166.6 | 188.9 | 224.5 | 244.5 | 243.0 | 240.9 | - | - |
| Import Cover | Months | 2.1 | 2.5 | 3.4 | 3.0 | 2.6 | 2.6 | - | - |
| External Debt/GDP | % | 208.8 | 229.7 | 279.5 | 245.3 | 248.8 | 252.1 | - | - |
| **Monetary and Financial Indicators** | | | | | | | | | |
| CPI Inflation | % | 2.1 | 1.3 | 0.5 | 2.1 | 5.9 | 5.7 | 2.4 | 1.9 |
| Exchange Rate (Average) | LC per USD | 0.85 | 0.89 | 0.88 | 0.85 | 0.95 | 0.93 | - | - |
| Non-Performing Loans/Total Gross Loans | % | 2.7 | 2.5 | 2.7 | 2.4 | 2.7 | 2.1 | - | - |
| Private debt, loans and debt securities/GDP | % | 207 | 213 | 242 | 233 | 228 | - | - | - |

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

**Solicitation Status**
The rating is unsolicited

**Rating History**

| Instrument | Type | Rating | Date |
|---|---|---|---|
| Issuer Rating (Long Term Foreign Currency) | Unsolicited | CareEdge AA-/ Negative | November 25, 2024 |
| Issuer Rating (Long Term Foreign Currency) | Unsolicited | CareEdge AA- | October 3, 2024 |

**Criteria Applied**
CareEdge Sovereign Rating Methodology

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