MOODY’S DOWNGRADES FRANCE’S GOVT. BOND RATINGS TO AA2

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Moody’s on Friday downgraded **France's government bond ratings** by one notch to Aa2 from Aa1; the outlook on the ratings is stable, the international ratings agency said in a statement.

Moody’s said the key interrelated drivers of the action were: "the continuing weakness in France's medium-term growth outlook, which Moody's expects will extend through the remainder of this decade; and the challenges that low growth, coupled with institutional and political constraints, poses for the material reduction in the government's high debt burden over the remainder of this decade."

"At the same time, France's credit worthiness remains extremely high, supporting an Aa2 rating. The country's significant strengths include: (i) a large, wealthy, and well-diversified economy with a high per capita income, [ii] favourable demographic trends as compared to other advanced economies, and (iii) a strong investor base and low financing costs," the agency said.

"The rating and its stable outlook are also supported by the country's efforts to stabilise its public sector finances and initiatives recently deployed or announced to arrest the erosion of the economy's competitiveness," it said.

"In a related rating action, Moody's has today announced its decision to downgrade the ratings of the Societe de Prise de Participation de l'etat [SPPE] to Aa2 from Aa1. The SPPE's short-term rating was affirmed at P-1, including its euro-denominated commercial paper programme. The outlook on the ratings is stable. The debt instruments issued by the SPPE are backed by unconditional and irrevocable guarantees from the French government," Moody's said.

"The local and foreign currency deposit ceilings and the local-currency and foreign-currency bond ceilings for France are unaffected by this rating action and remain at Aaa/P-1," it said.

"The main driver of Moody's decision to downgrade France's government bond rating to Aa2 is the increasing clarity, in Moody's view, that French economic growth will remain low over the medium term, and the obstacle that this will pose for any material reversal in France's elevated debt burden in the foreseeable future," the agency said.

"The current economic recovery in France has already proven to be significantly slower and Moody's believes that it will remain so compared with the recoveries observed over the past few decades. In part, this is due to the erosion of competitiveness and loss of growth potential following the global financial crisis," Moody's said.

"It is becoming increasingly clear, in the rating agency's view, that these problems will continue to constrain growth long after the cyclical recovery from the crisis is completed. In Moody's opinion, France's potential annual growth rate is at most 1.5% over the medium term. France faces material economic challenges, such as a high rate of structural unemployment, relatively weak corporate profit margins, and a loss of global export market share that have their roots in long-standing rigidities in its labour and product markets," it said.

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