Creditreform Sovereign Rating

Creditreform Rating

Rating Object	Rating Information	
FRENCH REPUBLIC	Assigned Ratings/Outlook: **AA /negative**	Type: Monitoring, Unsolicited with participation
Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Initial Rating Publication Date: Rating Renewal: Rating Methodologies:	26-08-2016 19-04-2024 "Sovereign Ratings" "Rating Criteria and Definitions"

Contents

Rating Action

Neuss, 19 April 2024

Creditreform Rating has affirmed the unsolicited long-term sovereign rating of "AA" for the French Republic. Creditreform Rating has also affirmed France's unsolicited ratings for foreign and local currency senior unsecured long-term debt of "AA". The outlook is negative.

Key Rating Drivers

1. Large, productive and wealthy economy; labor market resilience has benefited from structural reforms over recent years; real GDP to remain moderate in 2024 on the back of subdued foreign demand and dampening effects on domestic demand from monetary policy; growth acceleration expected for 2025 amid lower inflation and expected monetary policy easing
2. Medium-term growth prospects remain supported by sizeable investment to foster the twin transition (green and digital) and industrial competitiveness, as well as by recent progress on structural reforms concerning the labor market; further measures addressing remaining challenges on the labor market could add to this, potentially strengthening underlying resilience
3. High-quality institutional framework including advantages linked to deep-routed EU/EMU integration; we continue to see risks to timely implementation of the ambitious reform agenda due to political fragmentation
4. Persistent challenges to adhering to fiscal targets and envisaged budget consolidation, emphasizing the sovereign's main credit weakness; as a result of an expected marked deficit and lower nominal growth, we expect the elevated public debt ratio to edge up this year and next; fiscal risks continue to be mitigated by sound debt management and the favorable sovereign debt profile; the recent pension reform should lower pressure via age-related costs in the medium-to-longer term
5. Risks associated with the external position appear limited; the net international investment position remains negative, though not excessive; having markedly narrowed in 2023 following its energy price-driven widening in the preceding year, the current account balance is likely to continue to post moderate deficits, partly masking export strength in services trade

Reasons for the Rating Decision and Latest Developments[1]

Macroeconomic Performance

The sovereign's generally strong macroeconomic profile is underpinned by the large size of its economy, along with its wealth and high level of productivity, and with a well-diversified service sector contributing to resilience against economic shocks. Structural reforms in the recent past to strengthen the labor market seem to be bearing fruit, notwithstanding some remaining challenges, and are flanked by the recent pension reform, which lifts the legal retirement age in stages and should prospectively be conducive to labor participation. We also continue to monitor the effects of policies aimed at further improving competitiveness. While currently tight monetary policy continues to weigh on near-term GDP growth expectations, the ongoing disinflationary trend and assumed interest rate cuts from the middle of this year should give way to a more noticeable economic expansion next year, alongside some impulses via foreign demand. Economic downside risks continue to emanate from the challenging geopolitical situation, with renewed spikes in commodity prices remaining possible side effects thereof.

Following an increase of 2.5% in 2022, France's GDP saw a considerable moderation to 0.7% (Eurostat) last year, with growth performance being held back by high inflation rates and adverse effects from monetary tightening. The latter also weighed on foreign demand in an overall challenging geopolitical environment. That said, both domestic and external demand made positive contributions to GDP growth in 2023, and total economic output saw slightly stronger growth than in the euro area (EA) overall (EA 2023: 0.4%), ultimately pointing to resilience in the face of challenging circumstances. On top of fiscal support cushioning adverse effects from high energy prices, limited import dependency on Russian energy at the onset of Russia's war against Ukraine has likely acted in favor of last year's economic outcome. However, while real GDP expanded by 0.6% q-o-q in Q2-23 due to a pronounced one-off effect, as exports were boosted by the delivery of a cruise ship, it by and large stagnated in the two following quarters.

Judging by available high-frequency data including survey indicators, GDP may have been flat again in Q1-24. To be sure, apart from some remaining government support, relief for private households continues in the form of falling inflation rates. According to preliminary HICP data, the French inflation rate declined to 2.4% in Mar-24, compared with an average rate of 5.7% in 2023 (2022: 5.9%, Eurostat). With some tailwind from the ongoing disinflationary process, we expect private consumption to see some acceleration in the course of the year, supported in part by the relatively strong labor market and recent pronounced wage increases.

The French unemployment rate stood at 7.4% as of Feb-24, having trended downward since 2016, when it averaged 10.3% (2023: 7.3%, Eurostat data). Structural reforms which were implemented over recent years to strengthen resilience of the labor market, concerning unemployment insurance, tax policies for low earners and cuts in social security contributions, likely play their part here as well. Moreover, there is progress in terms of lowering the rate of young people who are neither in employment nor in education, and in increasing the employment rate of low-skilled individuals (ISCED 2011 educational attainment level 0-2, Eurostat), both of which, however, still compare unfavorably with the EA level. Also, France's unemployment rate remains

[1] This rating update takes into account information available until 17 April 2024.

above the EA level (EA 2023: 6.5%). Labor market policies to address remaining weaknesses include the Oct-23 law on full employment, which aims to raise labor participation by reinforcing support to and incentives for job seekers, as well as support to employers in their recruitment process.

Gross fixed capital formation has been subdued by the dampening effects from previous monetary policy tightening and the slowing housing market, but is set to prospectively benefit from easing financing conditions, given that we expect ECB policy rate cuts from June this year (see below). Investment should remain supported by the recovery and resilience plan (RRP), which emphasizes investment driving the green and digital transformation. While the plan also includes the commitment to build new nuclear reactors to ensure the stability of energy supply, we understand that the timeline for these remains somewhat vague at this point in time. In May-23, parliament passed a law paving the way for accelerated construction of new nuclear reactors.

As regards the RRP, the EC disbursed a second payment of EUR 10.3bn to France in Dec-23, and in Jan-24, the government submitted a payment request for a third disbursement (EUR 7.5bn). Having been updated by a REPower chapter, France's RRP will be financed by 40.3 billion euros in EU grants via the Recovery and Resilience Facility (RRF), subject to meeting related targets and milestones. The multi-year investment plan France 2030, introduced in 2021, is to deploy EUR 54bn over a 5-year period to foster France’s industrial competitiveness and cutting-edge technologies whilst decarbonizing the economy. According to a recent government report on the program published in Oct-23, roughly EUR 21bn had been committed in the first two years.

In terms of its external trade, France’s goods exports were driven by aerospace and textiles in 2023, drawing on data by the Ministry for Europe and Foreign Affairs. Moreover, its diversified service sector saw its trade surplus driven by travel and financial services. By contrast, trade in transport services, which had been propelled by rising freight prices in 2022, returned to a deficit in 2023. We expect net exports to continue to exert some positive impulses to GDP growth this year, partly supported by demand from more dynamically growing destinations, such as the US and Spain, in the near term.

Against the backdrop of a lackluster start into 2024, we expect this year’s annual GDP to post a similar growth rate to last year’s, penciling in 0.7%. Given our assumption of an acceleration in domestic demand amid easing financing conditions and lower inflation than seen recently, we expect real GDP to climb by 1.4% in 2025.

Partly due to adverse effects linked to a higher level of geo-economic fragmentation, uncertainty around current forecasts remains pronounced, with potential further escalation of the wars in Ukraine and Gaza, as well as disruptions in the Red Sea, continuing to pose downside risks. Otherwise medium-term growth prospects remain supported by investment to boost the digital transformation, foster green technologies, as well as by a commitment to further improve competitiveness and continue structural labor market reforms.

Against this backdrop, the outlook for potential growth, which for 2024 (1.2%) and 2025 (1.1%, AMECO data) is estimated to be higher than the 10-year average from 2014-2023 (0.9% p.a.), appears favorable. In its most recent Stability Program (Apr-23), the government had expressed somewhat more optimistic estimates regarding potential growth.

France’s share in the global export market (goods and services) represents the second-highest among the EU members (2022, Eurostat). While at 3.25% its total share stood below its pre-pandemic level (2019) in 2022, its share in global service exports was higher than prior to the corona crisis, posting at 4.93%. Whilst developing somewhat less favorably in 2022 compared to main European trade partners and the euro area as a whole, real unit labor costs do not seem to have obstructed cost competitiveness recently. To be sure, measures over recent years, such as the abovementioned cuts to social security contributions and lower production tax, were likely supportive.

Looking at indicators gauging non-cost competitiveness, we note a deterioration from rank 28 to 33 out of 64 countries considered in the IMD world competitiveness ranking with regard to the respective 2023 publication, partly due to perceived weakening of government and business efficiency. With that, France continues to occupy middle-range territory among the EU members. Preparatory work for a 'simplification bill' in a bid to speed up administrative procedures and to facilitate the development of businesses is ongoing, and we understand that the bill is to be presented to parliament before the summer.

Meanwhile, an 11th rank among 132 countries included in the 2023 Global Innovation Index (WIPO) testifies to France's very strong innovative capacities, as does the European Commission's (EC) EU innovation scoreboard, which highlights, among other factors, strong government support for business R&D as well as a relatively high share of the population with tertiary education. The EC's recent Digital Decade 2023 assessment suggests that France ranges above the EU average in terms of basic digital skills and overall 5G coverage, whilst moving somewhat below the EU average in terms of SMEs with at least a basic level of digital intensity, as well as with a view to digital public services for citizens and businesses.

Institutional Structure

We regard the very strong institutional framework as a major pillar supporting our credit assessment of the sovereign. The institutional strength also includes benefits associated with France's deep integration into the EU and the euro area, as well as by its ability to have an impact on setting respective policies. While president Macron's political alliance remains firmly committed to an ambitious reform agenda, the fragmented parliament and resulting need for the government to partly have to seek the support of opposition parties poses headwinds to its implementation. While the government has made use of article 49, paragraph 3, of the constitution in several cases, which allows for the adoption of a bill without a final vote on a legislative text by parliament, more frequent application of this procedure might entail risks for the overall political climate.

France's institutional quality remains underpinned by the World Bank's Worldwide Governance Indicators (WGIs). Drawing on the most recent reference year (2022), France continues to compare favorably against the euro area median, taking into account the four WGI dimensions which we consider particularly relevant for our assessment of institutional quality, i.e., 'rule of law', 'control of corruption', 'government effectiveness', and 'voice and accountability'. Focusing on our AA-rated sovereigns, France slightly trails their respective median rank across the abovementioned four dimensions. We observe that the perception of 'government effectiveness' (rank 37 out of 213 economies in 2022) and 'rule of law' (rank 32 out of 213 economies) has tended to deteriorate over preceding years.

Having said that, the EC's most recent Rule of Law report (Jul-23) emphasizes progress made with regard to measures further enhancing the quality and efficiency of France's justice system, including efforts to ensure sufficient human resources, further advancements to digitalize civil and criminal court proceedings, and dealing with high-level corruption offences. Adding to the positive assessment of France's institutional quality, in Dec-23 the government presented a roadmap entailing 35 measures to reinforce anti-fraud measures to combat tax, customs and social fraud (Dec-23).

Efforts to step up the combat against corruption continue as well, with the national plan covering the period 2024-2027 currently in preparation. In this context, the latest GRECO report on corruption prevention regarding members of parliament, judges and prosecutors (4th evaluation round, published in Dec-23) mentions desirable progress on two recommendations not yet implemented, whilst underscoring satisfactory implementation of six and part-implementation of five out of a total of 11 recommendations. Apart from that, a recent evaluation report by the OECD working group on bribery in international business transactions (Mar-24) highlights progress with regard to the implementation of a number of key recommendations since the Dec-21 evaluation.

Turning to the domestic political environment, we note that the government has been reshuffled since our last review, and Gabriel Attal took over as new prime minister from Elisabeth Borne in Jan-24. Since the president's political alliance does not have an absolute majority in the National Assembly, policymaking – in particular timely implementation of structural reforms – is likely to remain challenging.

Commitment to drive the green transformation remains high. This also includes raising funds via the issuance of green bonds, as illustrated by a fourth sovereign green bond issued in Jan-24, as well as a newly introduced green industry investment tax credit which entered into force in Mar-24 to support industrial companies in key sectors of the green transformation, such as wind power, solar panels and heat pumps. The tax credit is part of the green industry law promulgated in Oct-23, which is to foster green industries, facilitate and accelerate industrial settlements, and greening public procurement. France ranges in the upper third among the EU members as regards the EC's eco innovation index (2022). In 2022, it increased its overall share of energy from renewable sources to 20.3%, which remains below the level of the EU overall (2022: 23.0%).

Fiscal Sustainability

Notwithstanding expected positive effects on age-related costs from the pension reform effective from September 2023 in the medium-to-longer term, we view France's public finances as its main credit weakness. The debt-to-GDP ratio remains elevated and above its pre-pandemic level, and risks around lowering the public deficit remain pronounced, with the higher-than-expected deficit in 2023 adding to the perception of repeated fiscal slippages, as also registered in the pre-pandemic past. While interest costs look set to rise after a decline in 2023, debt affordability remains comparatively high, flanking very sound debt management as a risk-mitigating factor regarding fiscal sustainability.

Following two consecutive years in which the deficit had dropped from a peak of 9.0% of GDP (2020, Eurostat data) reached during the corona pandemic, France's headline deficit increased to 5.5% of GDP in 2023 (INSEE data, preliminary; 2022: 4.8% of GDP), missing the targeted level of -4.9% of GDP expressed in the Draft Budgetary Plan 2024 (DBP24). Against the backdrop of overall slowing economic performance, as well as some tax relief measures, the increase in general government revenue slowed to 2.0% (2022: 7.4%). At the same time, total government expenditure rose by 3.7% last year (2022: 4.0%), driven by rising social benefits as well as by increasing public wages, partly due to inflation indexation. Expenditure related to cushioning high energy prices increased by EUR 3.3bn in 2023 (INSEE intelligence).

Including energy price support, the net cost of mitigating measures in light of high inflation is estimated to come to about EUR 5.2bn this year (Ministry of Finance, MoF). While the gas price cap was terminated in June 2023, the electricity price cap was extended until early 2025. More generally, spending priorities of the 2024 budget are reflected in planned expenditure increases for the ecological transition, for education and training, as well as for defense, the police, and the justice system.

In its 2024 stability program (Apr-24), the government expects higher deficits for the years 2024 until 2027 compared to the DBP24, but continues to express commitment to lowering the deficit to below the Maastricht threshold of 3.0% of GDP in the medium term. Having missed the 2023 deficit target, the authorities have announced spending cuts of EUR 20bn for 2024 (MoF), and hint at possible further cuts with regard to 2025 in order to lower the headline deficit to below 3% of GDP in 2027. In this context, we are aware that the French Cour des Comptes (Feb-24) had suggested additional required savings of roughly EUR 50bn between 2025 and 2027, on top of recently announced cuts.

We expect the general government deficit to be at roughly 5.1% of GDP in 2024, and to decrease to 4.0% of GDP in 2025, partly based on a somewhat faster economic pace. Given the recent fiscal slippage and commitment to fiscal consolidation, we will closely monitor any effects of efforts to strengthen the management, monitoring, and review of public spending. The declared aim of the expenditure reviews is to increase the efficiency of public policies, whilst generating structural savings for the entire government sector, including local authorities and social security funds. An expenditure review performed in 2023 had identified potential savings of approximately EUR 10bn per year by 2027.

France's debt-to-GDP ratio came in at 110.6% of GDP in 2023 (INSEE, preliminary data), having decreased to 111.8% of GDP in 2022, thus remaining at an elevated level and well above its pre-pandemic reading (2019: 97.4% of GDP). Given an expected very gradual pace of deficit reduction, as well as likely weakening nominal GDP, we forecast France's public debt to come in at about 111.8% of GDP in 2024 and edge up to 112.1% in 2025. At the projected levels, France's debt-to-GDP is likely to remain the highest among our AA-rated sovereigns. Not least with regard to recent additional tensions in the Middle East, there remain marked risks around this expectation.

Contingent liabilities in the form of public guarantees were at an elevated level in 2022, but have decreased to 11.4% of GDP (DBP24). In this context, we note that the government announced the creation of state guarantees for EUR 2bn in green loans to companies (Feb-24), in a bid to support the adaptation to climate change.

We deem risks related to France's banking sector as limited at this stage, also corroborated by metrics capturing asset quality and capitalization. The stock of non-performing loans remained stable at 1.9% as of Q4-23 (EBA data), in line with the EU level. At the same time, the CET1 ratio stood at 16.0%, equally commensurate with the EU-level, and well above regulatory thresholds. Moreover, macroprudential measures are in place to strengthen risk buffers in light of ongoing dampening effects from the ECB's previous monetary policy tightening cycle, as, e.g., illustrated by the increase of the countercyclical capital buffer rate from 0.5% to 1.0% with effect from Jan-24.

Lending dynamics regarding the private sector continue to weaken as a result of tight financing conditions. The annual growth rate of outstanding loans to NFCs became negative from the end of 2023, posting at -0.7% in Feb-24 (Feb-23: 6.5%, ECB data). Outstanding mortgage loans to households have been falling since Jul-23 in a y-o-y comparison (Feb-24: -2.4%; Feb-23: 4.3%). Given elevated levels of NFC debt by European comparison, we will continue to monitor developments. That said, private sector indebtedness has continued to decrease, and debt carried by non-financial participants is largely subject to fixed rates, as well as over relatively long maturities, as also Banque de France highlights (Dec-23). Beyond the short term, the likely turning monetary policy cycle from the middle of this year should prospectively provide some relief as regards the credit cycle.

The ECB decided to maintain policy rates at its April monetary policy meeting. We expect a first rate cut to take place in June, with the main refinancing rate likely to stand at 3.75% at the end of the current year. The yield on 10-year French government bonds has reflected emerging interest rate cut expectations on financial markets amid the ongoing disinflationary process. As of 12-Apr-2024, the respective yield stood at 2.86%, down from a recent peak at 3.51% as of 20-Oct-2023 (weekly data). In connection with the latest monetary policy meeting, the ECB reconfirmed its intention to cease reinvesting maturing government bonds under the PEPP at the end of 2024. Meanwhile, the APP portfolio is declining at a measured and predictable pace, as respective reinvestments have been discontinued as of July 2023.

Risk-mitigating factors pertaining to fiscal risks remain very sound debt management, a large and stable investor base, as well as a relatively long average maturity of the debt portfolio, which, as of end of Feb-24, was 8y and 179 days (negotiable government debt outstanding, AFT data). Contrary to 2022, we note that interest payments fell in 2023, by 4.9%, corresponding to 1.8% of GDP, driven by inflation-linked securities, although partially offset by the increase in the interest expense on non-indexed bonds and loans as a result of increasing interest rates. While we ultimately expect the effect of higher interest rates to lift interest payments in % of GDP this year and next, government debt affordability looks set to remain comparatively high.

The pension reform effective from Sep-23 should contribute to lower risks linked to age-related costs. We note that the Conseil d'orientation des retraites suggests positive effects from the reform until 2030 in a recent assessment (Jun-23). Among other measures, the reform lifts the legal retirement age in stages to 64 years by 2030.

Foreign Exposure

We continue to see limited risks pertaining to France's external position. The current account deficit has narrowed amid a normalization of energy prices. While we expect a deficit to persist over the medium term, the diversified service sector should remain a supportive pillar. Ongoing efforts to enhance the economy's overall competitiveness remain to be monitored and could, if successful, push the current account closer to a balanced position.

Whilst recovering from the corona pandemic, France's current account balance was dragged into a more pronounced deficit in 2022 (-2.0% of GDP, Eurostat data) on account of the energy price developments linked to Russia's war in Ukraine, which exacerbated the deficit in goods trade (2022: -5.2% of GDP). In 2023, amid a normalization of energy prices in the course of 2023, the goods deficit decreased to -2.9% of GDP. Flanking the positive net position in primary income, France's service trade surplus remained a supportive pillar last year, testifying to a diversified and competitive service sector. Overall, the current account deficit shrank to -0.7% of GDP last year, thus moving closer towards its average in the less volatile phase 2015-2019 (average of -0.4% p.a.). Looking ahead, we expect moderate deficits to persist, with the expected recovering domestic demand likely also reflected in stronger import demand next year, potentially counteracted to some extent by further improvements to France's overall competitiveness.

Meanwhile, France's NIIP slipped further into negative territory in 2023 (-29.4% of GDP, 2022: -23.8% of GDP), but remained within the range displayed over the years from 2017. External debt is dominated by the government and the financial sector, but against the backdrop of a large volume of foreign assets, we continue to view vulnerabilities as limited.

Rating Outlook and Sensitivity

Our rating outlook on the French Republic's long-term credit ratings is negative. While uncertainty and derived macroeconomic risks related to geopolitical risks persist, slowing the recovery process from consecutive economic shocks, the recent setback to fiscal consolidation highlights ongoing challenges to sustainably lowering the elevated debt ratio. Notwithstanding progress in implementing structural reforms, policymaking remains complicated by a fragmented parliament.

A positive rating action could be prompted by tangible signs of stronger-than-expected economic growth in the medium-term, possibly on the back of reform measures and strengthened competitiveness. Convincing signs of a sustainable fall in the public debt ratio, possibly against the backdrop of a credible budget consolidation path, could also trigger a positive rating action.

Conversely, we could consider a downgrade of the rating if the sovereign's debt-to-GDP ratio worsens for a prolonged period, possibly amid a markedly deteriorating macroeconomic backdrop, e.g., linked to further escalation of geopolitical tensions and renewed price shocks. Failure to contain expenditure over the medium term could additionally weigh on our assessment, as could a deterioration in France's competitiveness or partially reversing structural reforms, which would likely hamper medium-term growth prospects.

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Ratings*

Long-term sovereign rating	AA / negative
Foreign currency senior unsecured long-term debt	AA / negative
Local currency senior unsecured long-term debt	AA / negative

*) Unsolicited

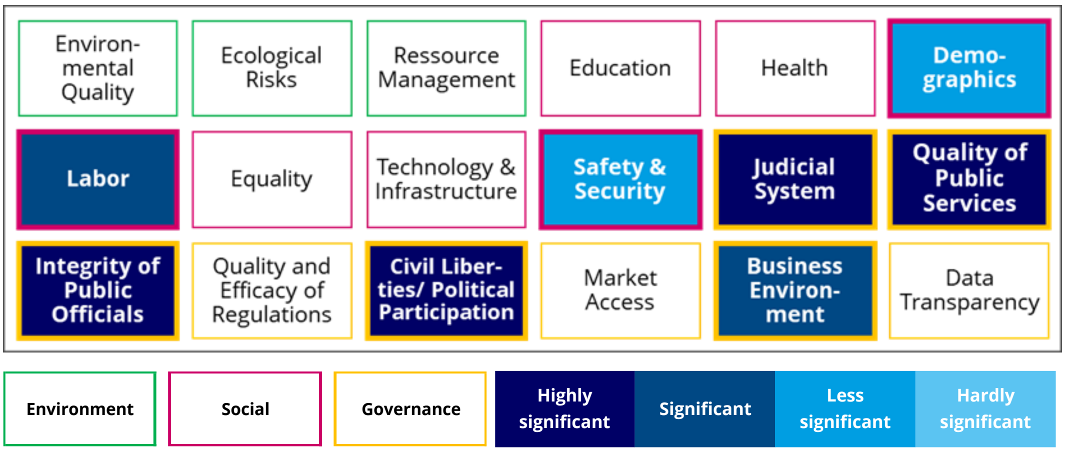
ESG Factors

Creditreform Rating has signed the ESG in credit risk and ratings statement formulated within the framework of the UN Principles for Responsible Investment (UN PRI). The rating agency is thus committed to taking environmental and social factors as well as aspects of corporate governance into account in a targeted manner when assessing creditworthiness.

While there is no universal and commonly agreed typology or definition of environment, social, and governance (ESG) criteria, Creditreform Rating views ESG factors as an essential yardstick for assessing the sustainability of a state. Creditreform Rating thus takes account of ESG factors in its decision-making process before arriving at a sovereign credit rating. In the following, we explain how and to what degree any of the key drivers behind the credit rating or the related outlook is associated with what we understand to be an ESG factor, and outline why these ESG factors were material to the credit rating or rating outlook.

For further information on the conceptual approach pertaining to ESG factors in public finance and the relevance of ESG factors to sovereign credit ratings and to Creditreform Rating credit ratings more generally, we refer to the basic documentation, which lays down [key principles of the impact of ESG factors on credit ratings.]

ESG Factor Box



The governance dimension plays a pivotal role in forming our opinion on the creditworthiness of the sovereign. As the World Bank's Worldwide Governance Indicators Rule of Law, Government Effectiveness, Voice and Accountability, and Control of corruption have a material impact on Creditreform Rating's assessment of the sovereign's institutional set-up, which we regard as a key rating driver, we consider the ESG factors 'Judicial System and Property Rights', 'Quality of Public Services and Policies', 'Civil Liberties and Political Participation', and 'Integrity of Public Officials' as highly significant to the credit rating.

Since indicators relating to the assessment of an economy's competitive stance by e.g. the World Bank, the World Economic Forum, the European Commission, and IMD Business School and the World Intellectual Property Organization (UN) add further input to our rating or adjustments thereof, we judge the ESG factor 'Business Environment' as significant.

The social dimension plays an important role in forming our opinion on the creditworthiness of the sovereign. Labor market metrics constitute crucial goalposts in Creditreform Rating's considerations on macroeconomic performance of the sovereign, and we regard the ESG factor 'Labor' as significant to the credit rating or adjustments thereof. Indicators or projections providing insight into likely demographic developments and related cost represent a social component affecting our rating or adjustments thereof. Hence, we regard the ESG factor 'Demographics' as less significant in our ESG framework. What is more, cases of relatively frequent and/or broad-based social protest in response to government policies would touch upon the social dimension as well, which is reflected among other things by the WGI "Political Stability", and would ultimately affect fiscal performance, so that we regard the ESG factor 'Safety and Security' as less significant.

While Covid-19 may exert adverse effects on several components in our ESG factor framework in the medium to long term, it has not been visible in the relevant metrics we consider in the context of ESG factors – though it has a significant bearing on public finances. To be sure, we will follow ESG dynamics closely in this regard.

Economic Data

[in %, otherwise noted]	2018	2019	2020	2021	2022	2023e	2024e
Macroeconomic Performance							
Real GDP growth	1.9	1.8	-7.5	6.4	2.5	0.7	0.7
GDP per capita (PPP, USD)	48,195	49,792	46,444	51,479	56,305	58,765	60,735
Credit to the private sector/GDP	112.2	114.9	130.3	125.4	125.7	119.6	n/a
Unemployment rate	9.0	8.4	8.0	7.9	7.3	7.3	n/a
Real unit labor costs (index 2015=100)	100.3	98.4	99,8	99.7	101.8	101.6	101.0
World Competitiveness Ranking (rank)	28	31	32	29	28	33	n/a
Life expectancy at birth (years)	82.8	83.0	82.3	82.4	82.3	101.6	n/a
Institutional Structure							
WGI Rule of Law (score)	1.4	1.4	1.3	1.3	1.2	n/a	n/a
WGI Control of Corruption (score)	1.3	1.2	1.1	1.3	1.3	n/a	n/a
WGI Voice and Accountability (score)	1.2	1.1	1.1	1.1	1.1	n/a	n/a
WGI Government Effectiveness (score)	1.4	1.3	1.2	1.2	1.2	n/a	n/a
HICP inflation rate, y-o-y change	2.1	1.3	0.5	2.1	5.9	5.7	2.6
GHG emissions (tons of CO2 equivalent p.c.)	6.8	6.7	5.9	6.2	n/a	n/a	n/a
Default history (years since default)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fiscal Sustainability							
Fiscal balance/GDP	-2.3	-3.1	-9.0	-6.5	-4.8	-5.5	-5.1
General government gross debt/GDP	97.8	97.4	114.6	112.9	111.8	110.6	111.8
Interest/revenue	3.2	2.8	2.4	2.6	3.6	n/a	n/a
Debt/revenue	183.3	186.3	219.0	214.6	208.9	n/a	n/a
Total residual maturity of debt securities (years)	7.5	7.8	7.9	8.2	8.4	8.3	n/a
Foreign exposure							
Current account balance/GDP	-0.8	0.5	-1.6	0.4	-2.0	-0.7	n/a
International reserves/imports	24.6	28.9	38.6	34.2	29.5	30.7	n/a
NIIP/GDP	-19.3	-24.6	-29.4	-30.9	-23.8	-29.4	n/a
External debt/GDP	221.8	234.5	265.2	259.2	245.8	246.7	n/a

Sources: IMF, World Bank, Eurostat, AMECO, ECB, INSEE, IMD Business School, own estimates

Appendix

Rating History

Event	Publication Date	Rating /Outlook
Initial Rating	26.08.2016	AA- /stable
Monitoring	28.07.2017	AA- /positive
Monitoring	01.06.2018	AA /stable
Monitoring	05.06.2019	AA /stable
Monitoring	29.05.2020	AA /negative
Monitoring	27.11.2020	AA /negative
Monitoring	21.05.2021	AA /negative
Monitoring	20.05.2022	AA /negative
Monitoring	21.04.2023	AA /negative
Monitoring	19.04.2024	AA /negative

Regulatory Requirements

In 2011 Creditreform Rating AG (CRAG) was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the

CRA-Regulation. The rating was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

This sovereign rating is an unsolicited credit rating. Agence France Tresor (AFT) participated in the credit rating process as the authorities provided additional data and information and commented on a draft version of the report. Thus, this report represents an updated version, which was augmented in response to the factual remarks of AFT during their review. However, the rating outcome as well as the related outlook remained unchanged.

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	YES
With Access to Internal Documents	NO
With Access to Management	NO

The rating was conducted on the basis of CRAG's "Sovereign Ratings" methodology (v1.2, July 2016) in conjunction with its basic document "Rating Criteria and Definitions" (v1.3, January 2018). CRAG ensures that methodologies, models, and key rating assumptions for determining sovereign credit ratings are properly maintained, up-to-date, and subject to a comprehensive review on a periodic basis. A complete description of CRAG´s rating methodologies and basic document "Rating Criteria and Definitions" is published on our website.

To prepare this credit rating, CRAG has used the following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Banking Authority, European Central Bank, World Economic Forum, World Intellectual Property Organization (WIPO), IMD Business School, Banque de France, Agence France Trésor, INSEE, Ministère de l'Économie et des Finances, DARES, Conseil d'orientation des retraites, Cour des Comptes.

A Rating Committee was called consisting of highly qualified analysts of CRAG. The quality and extent of information available on the rated entity was considered satisfactory. The analysts and committee members declared that the rules of the Code of Conduct were complied with. No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant quantitative and qualitative risk factors, the Rating Committee arrived at a unanimous rating decision. The weighting of all risk factors is described in CRAG´s "Sovereign Ratings" methodology. The main arguments that were raised in the discussion are summarized in the "Reasons for the Rating Decision."

As regards the rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the credit rating report. There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website.

No ancillary services in the regulatory sense were carried out for this rating object. Creditreform Rating AG ensures that the provision of ancillary services does not present conflicts of interest with its credit rating activities and discloses ancillary services provided for the rated entity or any related third party, if any, in its rating reports. For the complete list of provided rating and credit service ancillaries please refer to https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html#non-core-busi-ness-activities.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the rating report; the first release is indicated as “initial rating”; other updates are indicated as an “update”, “upgrade or downgrade”, “not rated”, “affirmed”, “selective default” or “default”.

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An explanatory statement of the meaning of each rating category and the definition of default are available in the credit rating methodologies disclosed on the website.

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