

FRENCH REPUBLIC

*EJR Sen Rating(Curr/Prj) A+/ A+

*EJR CP Rating: A1

Rating Analysis - 7/30/20

*EJR's 3 yr. Default Probability: 1.3%

France's economy appears to be recovering somewhat faster than its peers, perhaps because of the severity of the two-month confinement. The policy of aggressive fiscal absorption, including the creation of a generous partial employment scheme, has been essential in limiting the rise in unemployment in the short-term. Both INSEE and BdF data suggest in their latest economic outlooks that economic activity in June was probably around 10% below pre-crisis levels - a positive. OECD expects real GDP will fall by about 11.4% in 2020 and rebound by 7.7% in 2021. Yet, if there is a second virus outbreak in autumn, GDP is projected to decrease by 14.1% in 2020 and to rebound by 5.2% in 2021.

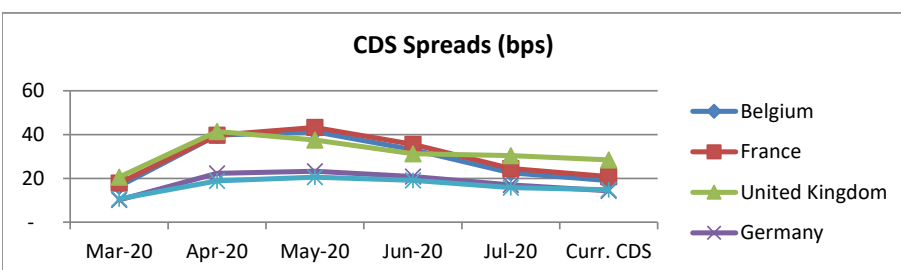
Some of the immediate sectoral turns have initiated turns, with wholesale, retail, transport, hotels, and restaurant sector, where the economic loss has shrunk from ~65% in March to ~15% in June. More progress is expected in the summer as behavior normalizes, but progress will likely be slower given the expected fall in tourism. The Zew Economic Sentiment Index in France decreased to 55.90 in July from 58 in June of 2020. We are affirming our rating.

Annual Ratios
(source for past results: IMF, CountryEconomy)

CREDIT POSITION	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>P2020</u>	<u>P2021</u>	<u>P2022</u>
Debt/ GDP (%)	98.4	98.3	98.1	102.4	106.4	109.8
Govt. Sur/Def to GDP (%)	-2.8	-2.1	-2.5	-2.3	-2.0	-1.7
Adjusted Debt/GDP (%)	98.4	98.3	98.1	102.5	106.5	110.0
Interest Expense/ Taxes (%)	5.8	5.6	4.7	4.6	4.5	4.4
GDP Growth (%)	2.8	2.5	2.9	2.3	2.3	2.5
Foreign Reserves/Debt (%)	1.5	1.8	1.9	2.1	2.1	2.3
Implied Sen. Rating	A+	A+	A+	A+	A	A+

INDICATIVE CREDIT RATIOS	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>CCC</u>
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

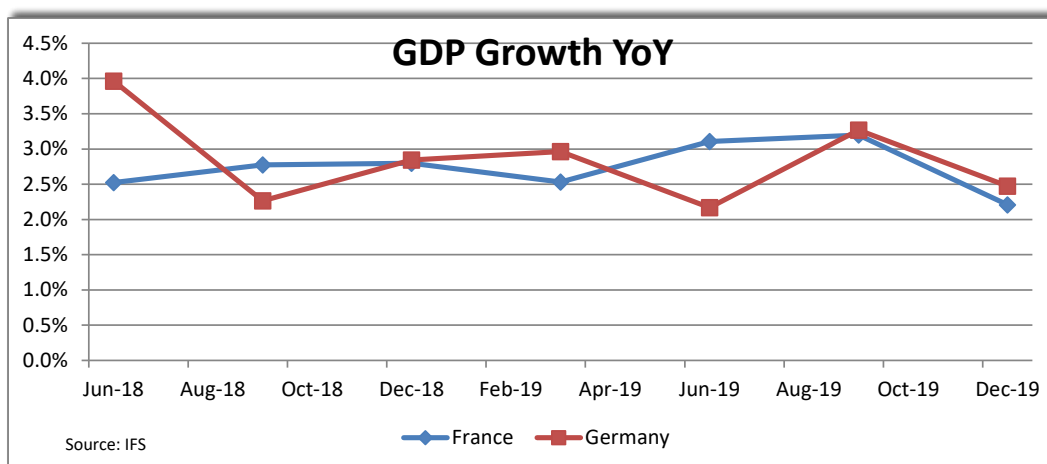
PEER RATIOS	Other NRSROs	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic of Germany	AAA	59.8	1.6	59.8	3.3	2.5	AA+
Kingdom of Sweden	AA+	35.6	2.2	35.6	1.0	3.9	AA+
Republic of Belgium	AA+	98.7	-1.5	98.7	6.6	4.8	AA+
Republic Of Finland	AA	59.4	-0.5	59.4	2.8	3.3	AAA



<u>Country</u>	<u>EJR Rtg.</u>	<u>CDS</u>
Belgium	BBB	19
France	A+	21
United Kingdom	A+	28
Germany	AA	14
Finland	AA	15

Economic Growth

Data suggests France's recession deepened in Q2 2020 - after the economy contracted at the sharpest rate on record in the first quarter (-5.8% YOY). Amid social distancing measures and the suspension of non-essential activities, the unemployment rate rose to an over one-year high in April, while household and capital spending are set to have plunged as reflected by a marked deterioration in business and consumer sentiment in Q2. Moreover, industrial production plummeted in April and merchandise exports fell by nearly half in the same month, while the collapse in international travel seriously impacted the important tourism sector. On a brighter note, the composite PMI returned to positive territory in June as easing restrictions and the reopening of most European borders stoked sentiment among manufacturers and service providers. That said, demand conditions remain weak and employment metrics continue to worsen.



Fiscal Policy

In response to the COVID-19 crisis, the French government increased the central government deficit by almost €200 billion, as the forecast rose from 2.2% of GDP (earlier estimate) to 11.4% of GDP in the latest iteration put before parliament in June. Roughly two thirds of the deficit increase (€133 billion) is attributable to revenues losses, while the remaining third (€64 billion) stems from an increase in expenditure. Discretionary support measures to combat COVID-19 and support the economy that have an impact on the public deficit are worth around €57.5 billion (~2.4% of GDP), of which ~€31 billion for the partial activity (furlough) scheme. Including government guaranteed loans and other items, the total amount of fiscal support is around 4.2% of GDP.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
France	-2.53	98.12	20.78
Germany	1.58	59.76	14.33
Sweden	2.18	35.59	12.59
Belgium	-1.52	98.75	18.94
Finland	-0.50	59.36	14.83
United Kingdom	-1.24	88.12	28.42

Sources: Thomson Reuters, IFS and CountryEconomy

Unemployment

The total number of registered unemployed actively seeking work rose by almost 440k in the three months to May (with a monthly peak of ~205k in April), almost double the 225k drop in the 14 months to Feb-20. The scale of the hit to economy activity would have had very serious consequences on unemployment if the government had not created a partial employment scheme. The unemployment rate in France declined to 7.8 percent in Q1 2020, the lowest level since the three months to December 2008 and below market expectations of 8.4 percent, due to a sharp fall in the number of unemployed declaring themselves available or actively looking for work during the period of lockdown.

Unemployment (%)		
	2018	2019
France	9.11	8.43
Germany	3.40	3.20
Sweden	6.28	6.73
Belgium	5.98	5.44
Finland	7.36	6.60
United Kingdom	4.09	3.80

Source: Intl. Finance Statistics

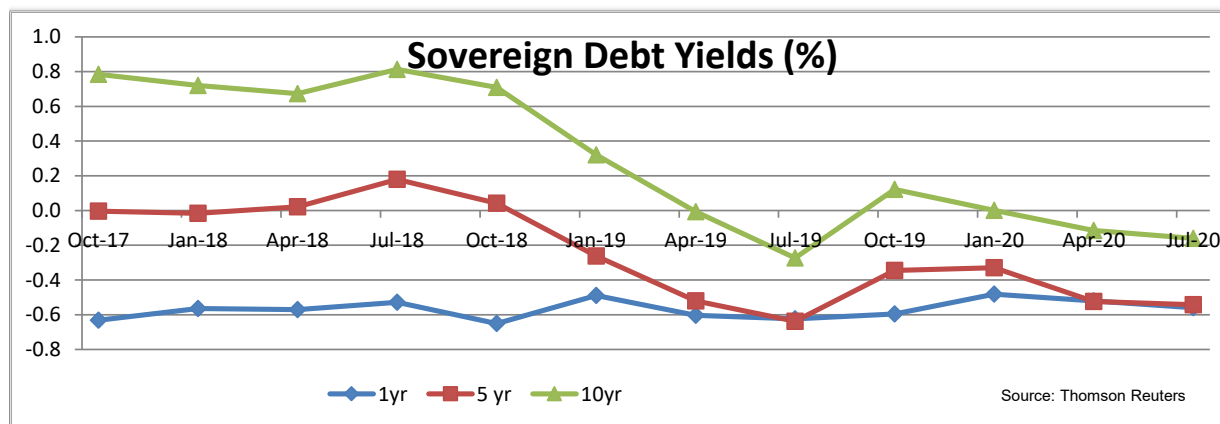
Banking Sector

On the macro-prudential side, the Banque de France removed the counter-cyclical capital buffer to facilitate bank lending. The French policy package also aims to alleviate corporate costs and to keep corporate credit flowing (via public guarantees covering loans up to EUR 315 billion), in order to avoid redundancies and to facilitate a more rapid resumption of production. In addition, EUR 20 billion have been earmarked for equity injections into companies facing significant temporary difficulties, notably in the transport and automotive sectors.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
BNP Paribas	2,040.8	3.15
Credit Agricole	1,624.4	2.25
Société Général	1,309.4	1.82
NATIXIS	495.5	2.55
Total	5,470.2	
EJR's est. of cap shortfall at 10% of assets less market cap		409.7
France's GDP		2,424.7

Funding Costs

In early July, France raised EUR3 billion from an inflation-linked bond due 2036 via a syndicate of banks, receiving over EUR 16 billion of demand - suggesting a strong appetite for such bonds. France 5 Year CDS value is 21.3, which reveals a 0.36% implied probability of default, on a supposed 40% recovery rate.



Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 32 (1 is best, 189 worst) is above average.

The World Bank's Doing Business Survey*			
	2019	2018	Change in
	Rank	Rank	Rank
Overall Country Rank:	32	31	-1
Scores:			
Starting a Business	37	25	-12
Construction Permits	52	18	-34
Getting Electricity	17	26	9
Registering Property	99	100	1
Getting Credit	104	90	-14
Protecting Investors	45	33	-12
Paying Taxes	61	54	-7
Trading Across Borders	1	1	0
Enforcing Contracts	16	15	-1
Resolving Insolvency	26	28	2

* Based on a scale of 1 to 189 with 1 being the highest ranking.

Economic Freedom

As can be seen below, France is above average in its overall rank of 66.0 for Economic Freedom with 100 being best.

Heritage Foundation 2020 Index of Economic Freedom				
World Rank 66.0*				
	2020 Rank**	2019 Rank	Change in Rank	World Avg.
Property Rights	85.9	82.5	3.4	56.6
Government Integrity	83.3	66.1	17.2	43.8
Judicial Effectiveness	71.2	67.9	3.3	45.1
Tax Burden	48.8	48.4	0.4	77.3
Gov't Spending	4.5	3.9	0.6	66.0
Fiscal Health	67.1	64.9	2.2	69.1
Business Freedom	82.5	81.2	1.3	63.3
Labor Freedom	46.1	45.2	0.9	59.4
Monetary Freedom	76.7	79.1	-2.4	74.6
Trade Freedom	81.4	81.0	0.4	73.8

*Based on a scale of 1-100 with 100 being the highest ranking.
 **The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
 Source: The Heritage Foundation

Credit Quality Driver: Taxes Growth:

FRENCH REPUBLIC has grown its taxes of 3.7% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 3.7% per annum over the next couple of years and 3.7% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

FRENCH REPUBLIC's total revenue growth has been less than its peers and we assumed no growth in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions	
			Yr. 1&2	Yr. 3,4,5
Taxes Growth%	2.2	3.7	3.7	3.7
Social Contributions Growth %	4.4	(3.8)	0.5	0.5
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	4.0	7.4	7.4
Total Revenue Growth%	2.3	1.2	1.2	1.1
Compensation of Employees Growth%	3.5	1.2	1.2	1.2
Use of Goods & Services Growth%	4.5	2.8	2.8	2.8
Social Benefits Growth%	2.0	2.7	2.7	2.7
Subsidies Growth%	7.3	8.7		
Other Expenses Growth%	0.0			
Interest Expense	1.8	1.5	1.5	1.5
Currency and Deposits (asset) Growth%	(6.1)	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	0.8	0.7	0.7	0.7
Shares and Other Equity (asset) Growth%	12.7	7.9	7.9	7.9
Insurance Technical Reserves (asset) Growth%	1.8	0.0		
Financial Derivatives (asset) Growth%	7.3	7.6	3.7	3.7
Other Accounts Receivable LT Growth%	(0.3)	(1.1)	(1.1)	(1.1)
Monetary Gold and SDR's Growth %	0.0	0.0	5.0	5.0
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	(1.4)	0.7	3.0	3.0
Currency & Deposits (liability) Growth%	1.0	12.2	3.7	3.7
Securities Other than Shares (liability) Growth%	2.7	6.0	4.2	4.2
Loans (liability) Growth%	(2.3)	(0.3)	0.5	0.5
Insurance Technical Reserves (liability) Growth%	7.0	(1.2)	(1.2)	(1.2)
Financial Derivatives (liability) Growth%	0.0	5.9	4.8	4.8
Additional ST debt (1st year)(billions EUR)	0.0	0.0		

ANNUAL OPERATING STATEMENTS

Below are FRENCH REPUBLIC's annual income statements with the projected years based on the assumptions listed on page 5.

**ANNUAL REVENUE AND EXPENSE STATEMENT
(BILLIONS EUR)**

	2016	2017	2018	2019	P2020	P2021
Taxes	649	681	714	741	768	797
Social Contributions	418	430	424	408	410	412
Grant Revenue						
Other Revenue						
Other Operating Income	<u>118</u>	<u>119</u>	<u>122</u>	<u>127</u>	<u>127</u>	<u>127</u>
Total Revenue	1,185	1,230	1,261	1,276	1,305	1,336
Compensation of Employees	284	291	294	297	301	305
Use of Goods & Services	112	115	117	120	124	127
Social Benefits	580	590	600	617	633	650
Subsidies	56	57	62	68	68	68
Other Expenses				120	120	120
Grant Expense						
Depreciation	75	76	78	80	80	80
Total Expenses excluding interest	<u>1,222</u>	<u>1,255</u>	<u>1,269</u>	<u>1,302</u>	<u>1,326</u>	<u>1,350</u>
Operating Surplus/Shortfall	-37	-25	-8	-26	-21	-14
Interest Expense	<u>41</u>	<u>40</u>	<u>40</u>	<u>35</u>	<u>35</u>	<u>36</u>
Net Operating Balance	-78	-65	-49	-61	-56	-50

ANNUAL BALANCE SHEETS

Below are FRENCH REPUBLIC's balance sheets with the projected years based on the assumptions listed on page 5.

**ANNUAL BALANCE SHEETS
(BILLIONS EUR)**

Base Case

ASSETS	2016	2017	2018	2019	P2020	P2021
Currency and Deposits (asset)	49	64	71	74	81	81
Securities other than Shares LT (asset)	49	44	39	42	42	42
Loans (asset)	86	85	84	85	85	86
Shares and Other Equity (asset)	528	561	575	621	669	722
Insurance Technical Reserves (asset)	5	5	5	5	5	5
Financial Derivatives (asset)	7	7	8	8	9	9
Other Accounts Receivable LT	279	297	298	295	292	288
Monetary Gold and SDR's						
Other Assets					0	0
Additional Assets		<u>0</u>		<u>0</u>		
Total Financial Assets	1,003	1,063	1,081	1,130	1,183	1,233
LIABILITIES						
Other Accounts Payable	253	281	283	285	293	302
Currency & Deposits (liability)	37	38	41	46	46	46
Securities Other than Shares (liability)	2,181	2,217	2,252	2,388	2,488	2,593
Loans (liability)	291	284	285	284	340	391
Insurance Technical Reserves (liability)	0	0	0	0	0	0
Financial Derivatives (liability)	10	10	11	12	12	13
Other Liabilities	<u>0</u>					
Liabilities	2,773	2,832	2,872	3,015	3,124	3,225
Net Financial Worth	<u>-1,770</u>	<u>-1,769</u>	<u>-1,792</u>	<u>-1,885</u>	<u>-1,941</u>	<u>-1,992</u>
Total Liabilities & Equity	1,003	1,063	1,081	1,130	1,183	1,233

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Egan-Jones is not an NRSRO (as defined by the SEC) for sovereign/municipal issuers and structured finance/ABS issuers.

Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "A+" whereas the ratio-implied rating for the most period is "A+"; the median rating for the peers is significantly higher than the issuer's rating.

Changes in Indicative Ratios

We have not made any adjustment in the indicative ratios at this time.

SEC Rule 17g-7(a) Disclosure (Non-NRSRO)

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:

For the issuer FRENCH REPUBLIC with the ticker of 223727Z FP we have assigned the senior unsecured rating of A+. There are three notches in our rating categories (e.g., A- A, and A+) except for AAA and those deep into speculative grade, i.e., CC, C, and D do not have notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:

We are using the Methodologies for Determining Credit Ratings (Main Methodology) version #15 available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to projections on pages 1, 6, and 7 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:

Our rating is dependent on numerous factors including the reliability, accuracy, and quality of the data relied upon in determining the credit rating. The data is sourced from publicly available information from the IMF and other similar sources. In some cases, the information is limited because of issues such as the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such issues are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:

EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:

EJR uses publicly available information from the IMF, governmental filings, and other similar sources for ratings on sovereign issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7:

The information is generally adequate and acceptable.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:

This rating is unsolicited.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	3.7	7.7	(0.3)	A	A+	A
Social Contributions Growth %	0.5	3.5	(2.5)	A	A+	A
Other Revenue Growth %	0.0	3.0	(3.0)	A	A	A
Total Revenue Growth%	1.2	3.2	(0.8)	A	A	A
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	A	A	A

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:

This credit rating is not assigned to an asset-backed security.

ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

- 1) No part of the credit rating was influenced by any other business activities,
- 2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
- 3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature:

Today's Date

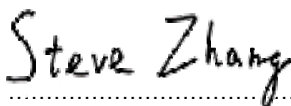


July 30, 2020

.....
Subramanian NG
Senior Rating Analyst

Reviewer Signature:

Today's Date



July 30, 2020

.....
Steve Zhang
Senior Rating Analyst

(Note, see our senior report for additional disclosures.)

Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings.

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.