5 October 2026

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France – from Aaa to Aa3/A+, but not a new debt crisis

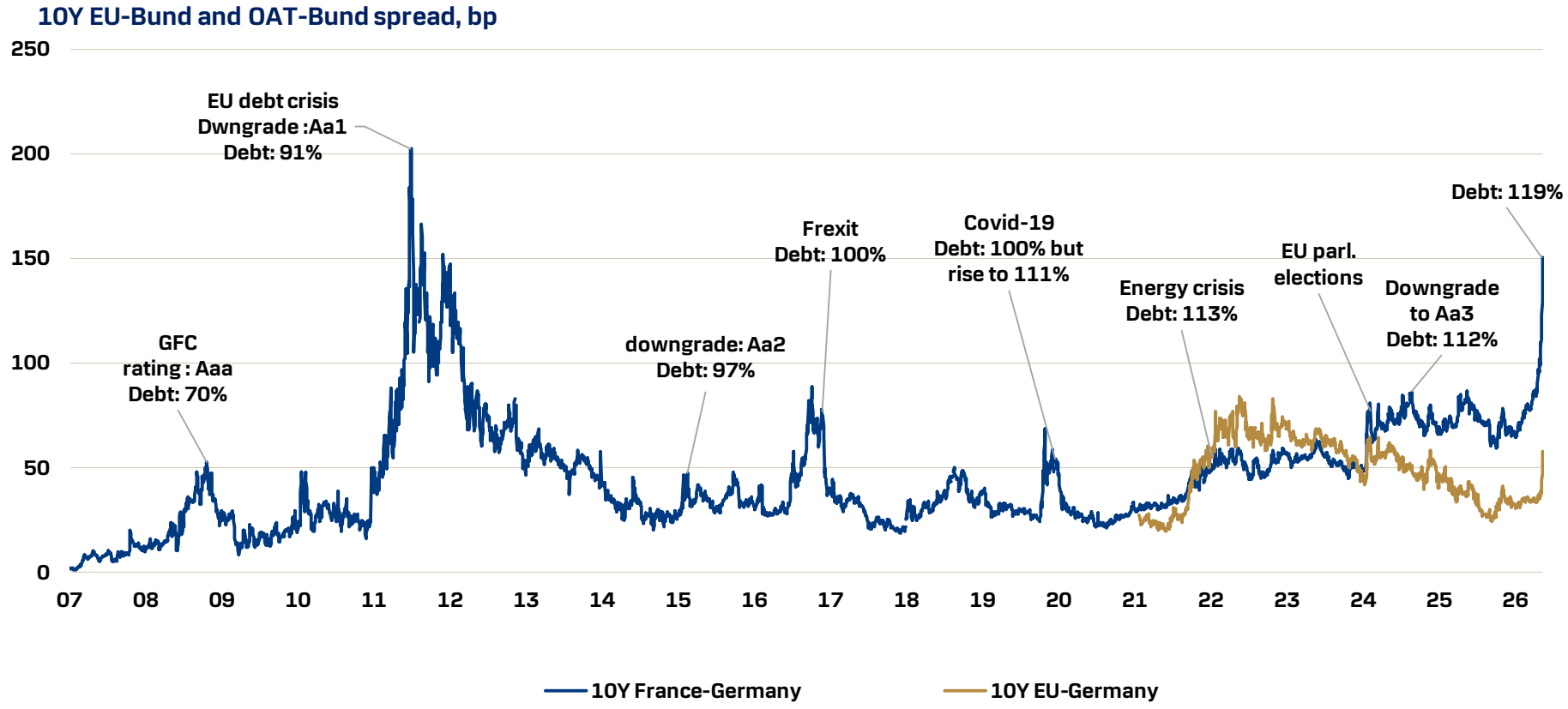
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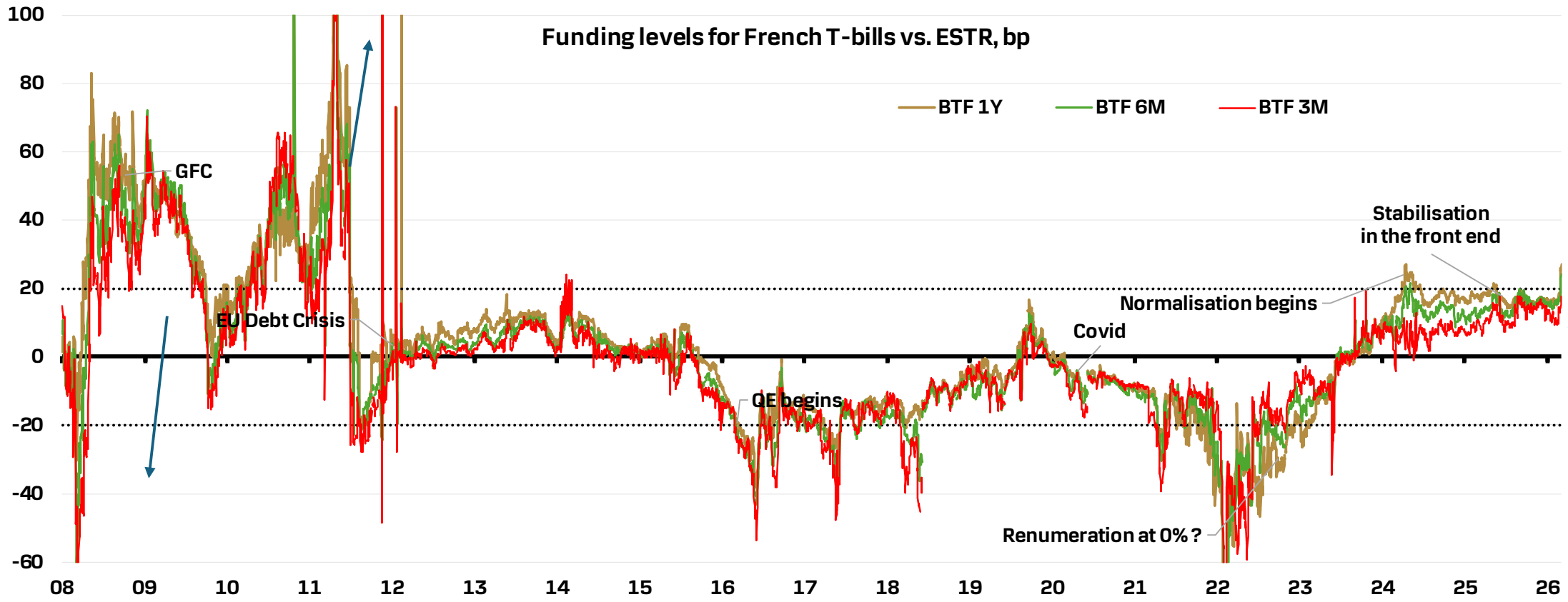
Danske Bank

France has slipped from a Aaa-rating and a Debt-to-GDP ratio from 70% to a Aa3-rating (negative outlook) and 119% Debt-to-GDP



Source. Danske Bank

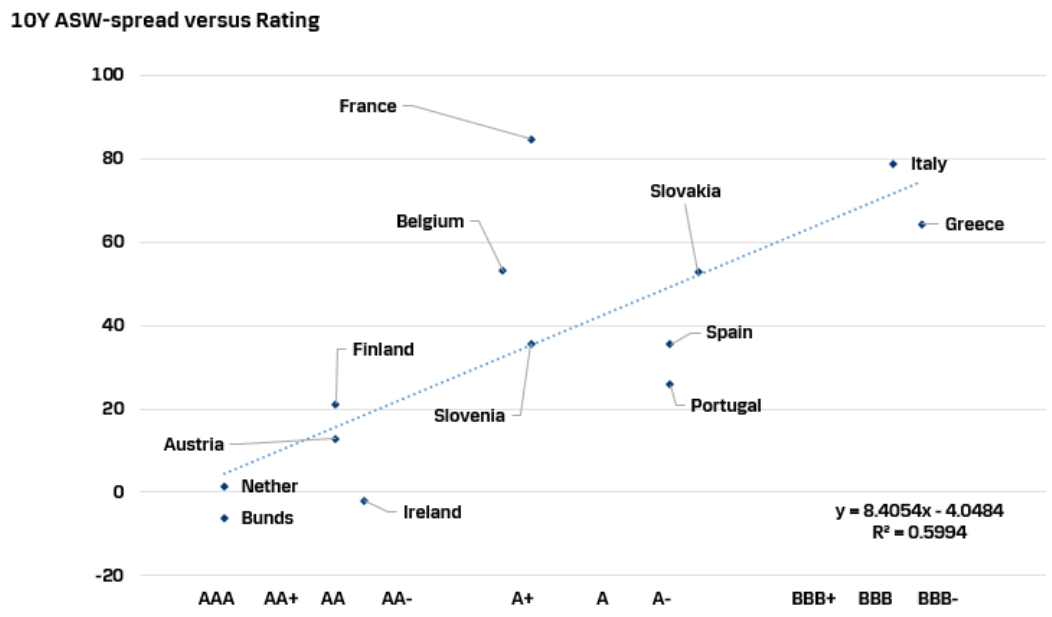
Stress in the French repo market – not really



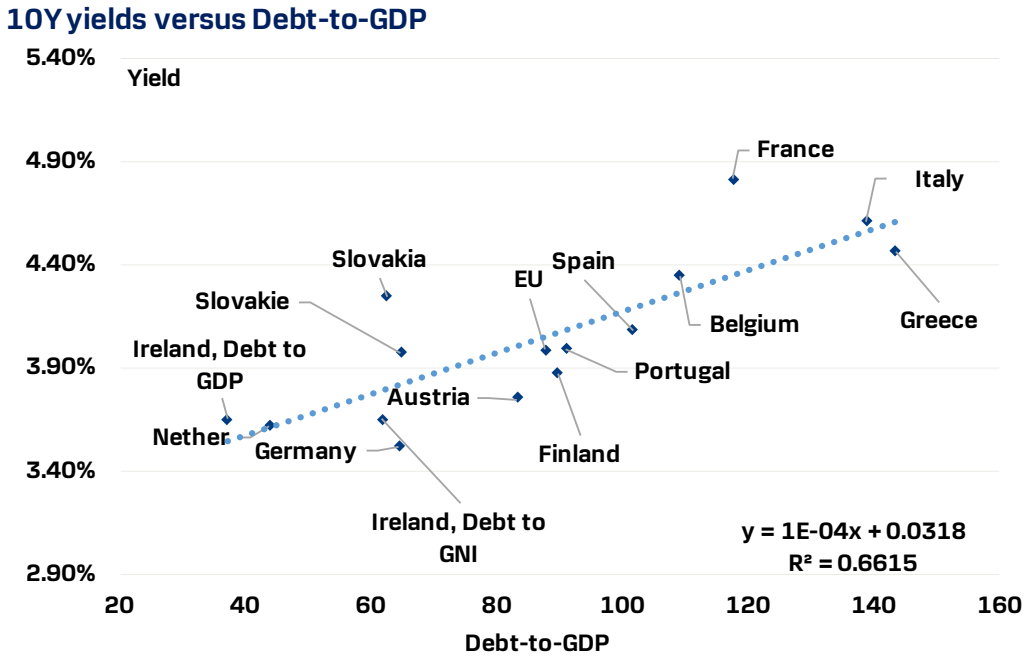
Source. Danske Bank

France is priced like a low BBB or debt-to-GDP of more than 150%

France looks really cheap relative to the rating…



…while it looks more balanced versus the Debt-to-GDP



Source. Rating agencies, Bloomberg, Danske Bank

What can France do?

France.

- **Reduce the budget deficit for 2027 below 5%.** France is on negative outlook by Moody's. It has a Aa3 rating by Moody's, and A+ by S&P and Fitch. Moody's states that "*A downgrade of France's ratings would likely result from further evidence that the ability of the legislative institutions to effectively tackle the country's key credit challenges has durably weakened. This would likely be evidenced by continued difficulties to materially reduce the fiscal deficit and contain the expected weakening of the government's debt burden and debt affordability metrics. A lasting pause or reversal of key provisions of previous structural reforms, most notably on pensions, would also add to downward pressure on the rating.*" **Moody's assumptions for the deficit in 2027 is -4.8%.**

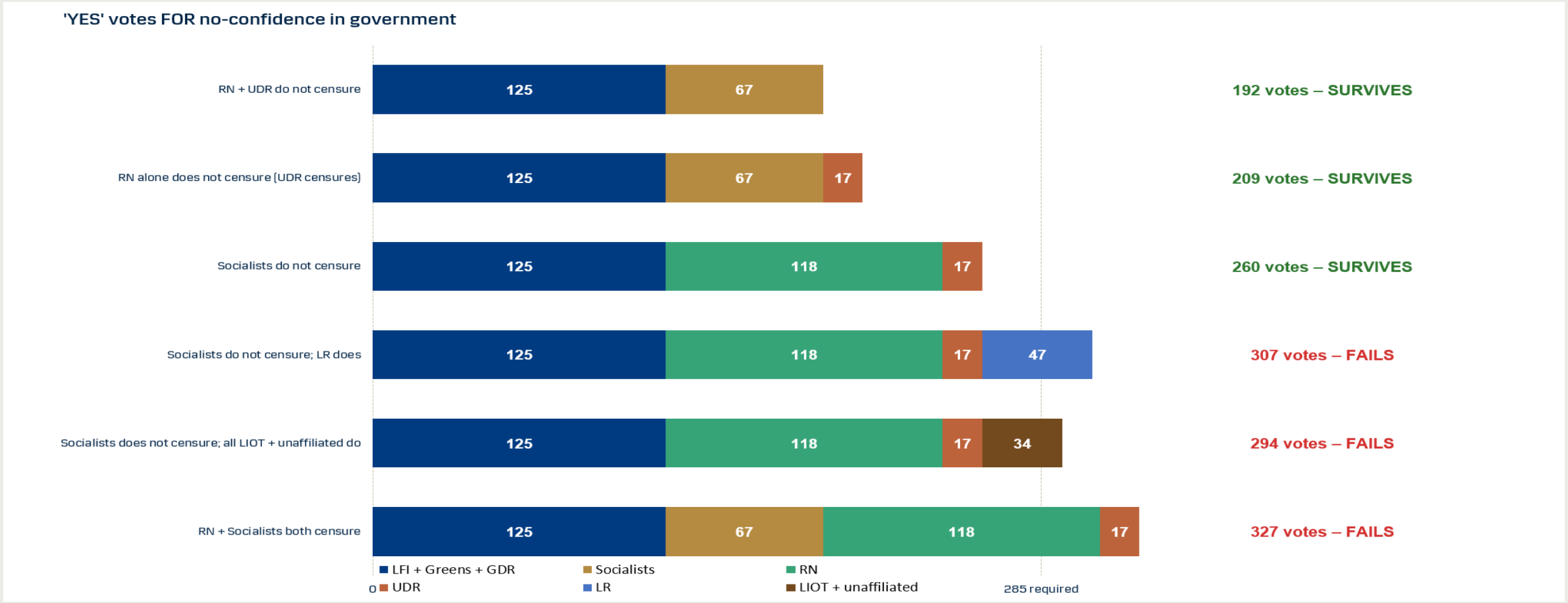
- **A downgrade of France** will most likely also lead to a downgrade of the French agencies, but there should be enough leeway for French covered bonds (especially the private sector pools, but a bit uncertain regarding public sector pools, but here there should be sufficient OC).

- **Bond indices and collateral pools.** France would still be in the various bond indices (typically IG-rating or >A- from three rating agencies) and collateral pools (>A- from 3-4 rating agencies).

Timeline for the 2027 French state budget

- 13 October: National Assembly begins debating the revenue side
- 15 October: French Medium-term and linker auction
- 20 October: Assembly to vote on the revenue side. Debate on the separate social security financing bill begins.
- **23 October: Moody's has France up for review: Aa3/Negative outlook**
- 27 October: Assembly to vote on the social security financing bill. Debate on the state budget's expenditure provisions begins.
- 5 November: French Long-term auction
- 17 November/18 November: Assembly vote on the full state budget.
- Thereafter: Senate examination, normally within 20 days.
- 19 November. French Medium-term and linker auction
- **27 November. S&P has France up for review, A+/Stable outlook**
- 3 December. French auction
- 10 December: Calculated expiry of the 70-day period from submission on 1 October, assuming no suspension. If Parliament has not reached a final decision, the government may implement the budget by ordinance under Article 47.3, or it can also allow parliamentary proceedings to continue like last year.

Routes to government survival of no-confidence vote, using article 49.3 to pass the budget without a majority in parliament



Source: Danske Bank

What can the ECB, ESM and the EU Commission do? Avoid stigmatisation

ECB

- **Pause QT**, introduce TPI, OMT (avoid stigmatisation of France). Pausing QT would be a simple solution and would also limit the "credibility" issue for the ECB. Furthermore, it supports other countries with high debt and solid deficits that are under pressure such as Belgium, Italy and Greece.
- **TPI**: (Transmission Protection Instrument): Activated only when market stress is **unwarranted by fundamentals** and threatens monetary-policy transmission. The ECB can only buy 1-10Y bonds and countries must not run excessive deficits (be under an EDP – Excessive Deficit Procedure), etc. This is not really an option as France does not fulfil the requirements and they can only buy 1-10Y bonds.
- **OMT** (Outright Monetary Transactions): The ECB can buy government bonds in the secondary market from Eurozone countries under certain conditions. This is done through either OMT or **ESM** (European Stability Mechanism) based on "conditionality". The countries that apply have to fulfil certain criteria. They can only buy bonds between 1-3Y. It is highly unlikely that France would apply as it has not lost market access.
- **A new programme**. The PEPP and PSPP have both ended, so cannot be reactivated. Hence, the ECB would have to produce a new programme, but there is a credibility issue if it seen as being supportive only of France and France has not lost market access. Hence, an unlikely solution.
- TPI, ESM and OMT have never been activated. OMT and TPI are funded by the ECB, while ESM is funded issuing ESM bonds in USD and EUR and from 2Y-30Y.

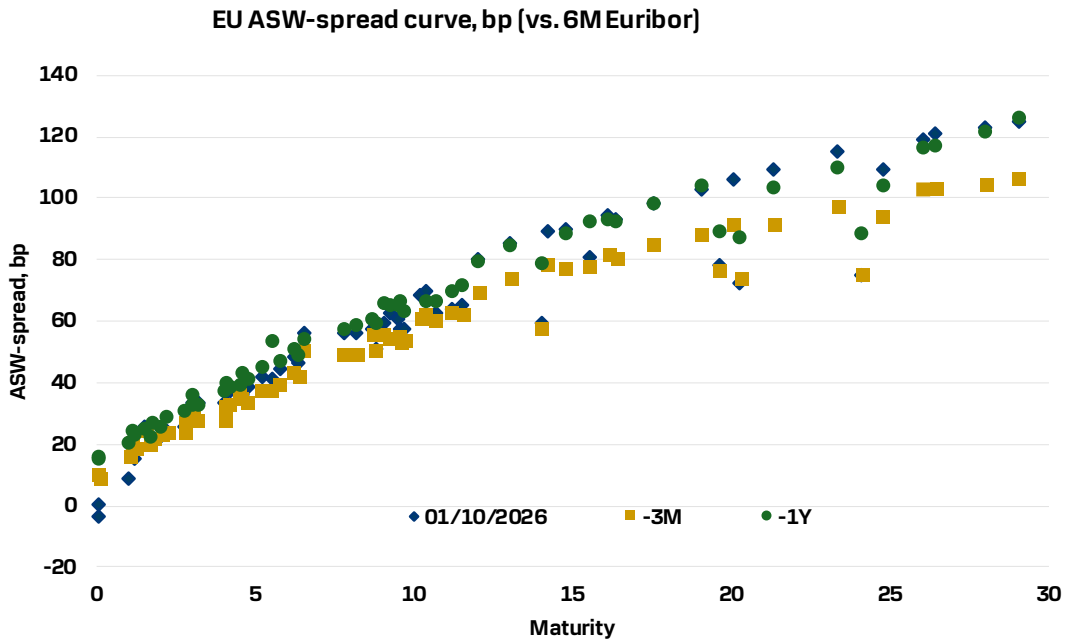
EU

- **MFA:** France can apply for MFA (Macro Financial Assistance) - Very unlikely as France has not lost market access.
- **Use existing programmes**: Increase SAFE such that there is more room for joint defence funding. France has applied for EUR15bn.
- **New programme**: A new joint funding programme for infrastructure and green spending, where the Eurozone countries can apply for loans. This will ease the issuance pressure (an NGEU-2 programme). However, this must be approved by the Eurozone countries.
- **Funding.** The EU funds its programmes through issuing joint EU bonds.

Source. ECB, Danske Bank

Spill-over effects to other markets

There has been a modest impact on the EU ASW-spread curve



Spill-over to other markets – primarily those with a significant deficit and high debt have seen a widening of the spread to Bunds and swaps

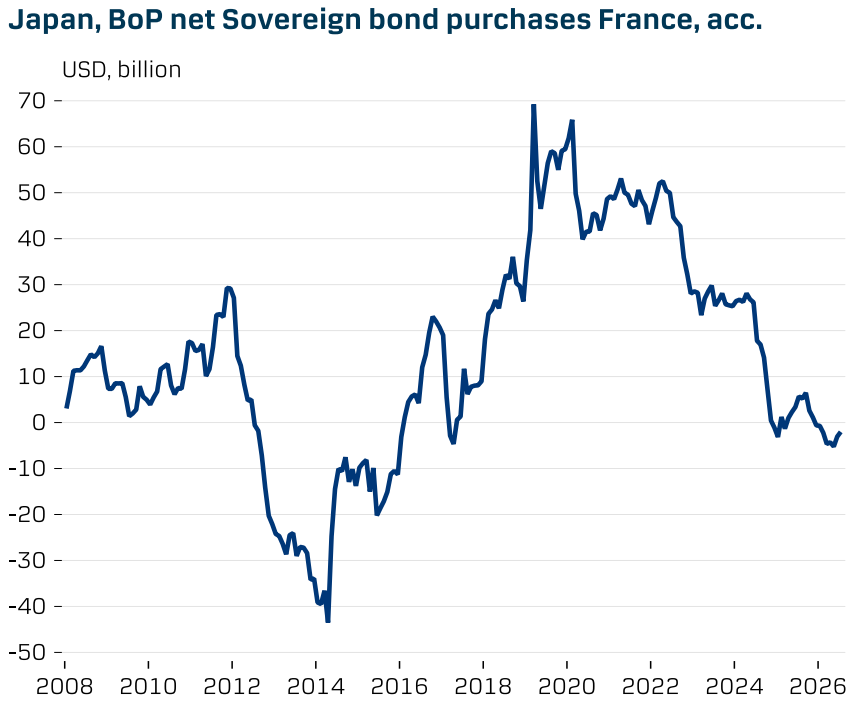
2027	Deficit (% of GDP)	Debt to GDP	Change in 10Y spread to Bunds	Change in 10Y ASW-spread
Germany	-4.1%	68%	0	-10
France	**-5.0%**	**120%**	65	**56**
Italy	-2.9%	139%	44	34
Spain	-2.0%	99%	27	17
Belgium	-5.2%	113%	38	29
Austria	-4.0%	85%	5	-5
Netherlands	-2.9%	47%	5	-5
Finland	-4.5%	93%	10	0
Ireland	0.8%	31%	3	-7
Portugal	-0.4%	86%	25	16
Greece	0.2%	135%	45	35
Denmark	0.5%	26.0%	0	-7
Sweden	-2.5%	37.0%	-2	-11
Norway*	-2.8%		4	-5

Source.. EU Commission, EU Debt offices, Danske Bank

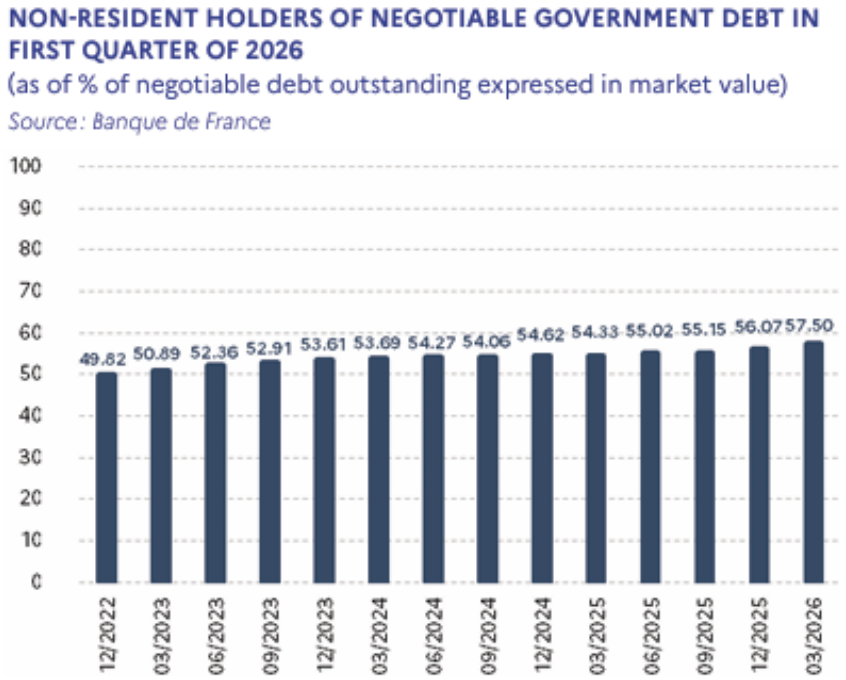
Appendix

Who is buying France – The foreign investor share has been stable, but Japanese investors are scaling down

Japanese investors have been scaling down



Foreign investors keep buying French government bonds



Source. Macrobond and the French Debt Agency

France and Belgium remain under pressure from the rating agencies, while Ireland is heading towards AAA and Italy towards an upgrade to A (and ”repo-eligibility”)

RATINGS

	Fitch	Moody's	S&P	DBRS	Scope
Germany	AAA	Aaau	AAAu	AAA	AAA
Finland	AA	Aa1	AA+u	AAH	AA
Netherlands	AAA	Aaau	AAAu	AAA	AAA
Austria	AA	Aa1	AA+	AAH	AA+
Belgium	A+u	**A1**	AA-u	AA	---
France	A+u	Aa3u	A+u	AA	A+
Ireland	AA	Aa2	AA+	AA	AA
Italy	BBB+u	Baa2u	BBB+u	AL	BBB+
Spain	Au	A3	A+u	AH	A+
Portugal	A+u	A3u	A+u	AH	---
UK	AA-	Aa3u	AAu	AA	WR
Slovenia	A+	A2	AA	AAL	A+
Slovakia	A-	A3	A	AL	A-
Greece	BBB	Baa3	BBB	BBB	BBB+
EFSF	A+	Aaa	A+	AAA	WR
ESM	AAA	Aaa	AAA	AAA	AAA
EU	AAA	Aaa	AA+	AAA	AAA
Denmark	AAA	Aaau	AAAu	AAA	AAA
Sweden	AAA	Aaa	AAAu	AAA	AAA
Norway	AAA	Aaa	AAAu	AAA	WR

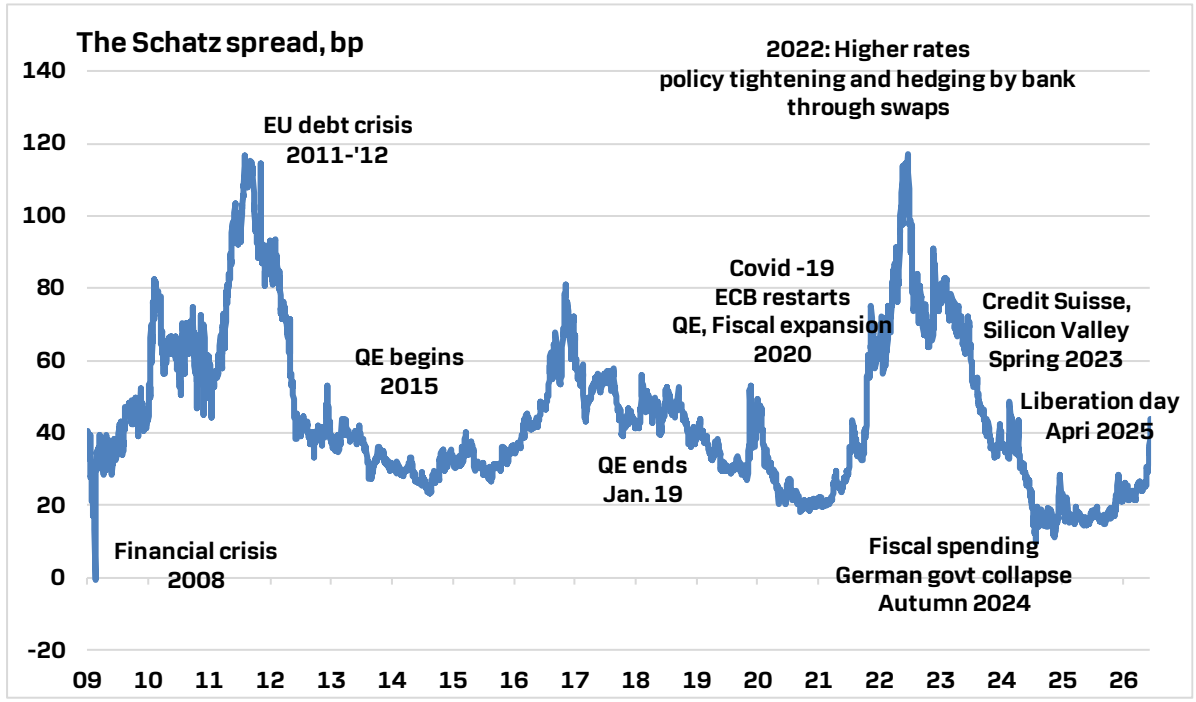
OUTLOOK

	Fitch	Moody's	S&P	DBRS
Germany	STABLE	STABLE	STABLE	STABLE
Finland	STABLE	STABLE	**NEG**	STABLE
Netherlands	STABLE	STABLE	STABLE	STABLE
Austria	STABLE	**NEG**	STABLE	STABLE
Belgium	STABLE	STABLE	STABLE	**NEG**
France	STABLE	**NEG**	STABLE	**NEG**
Ireland	STABLE	**POS**	STABLE	**POS**
Italy	STABLE	STABLE	**POS**	STABLE
Spain	STABLE	STABLE	STABLE	STABLE
Portugal	STABLE	STABLE	**POS**	**POS**
UK	STABLE	STABLE	STABLE	STABLE
Slovenia	STABLE	STABLE	STABLE	STABLE
Slovakia	STABLE	STABLE	STABLE	STABLE
Greece	STABLE	**POS**	STABLE	**POS**
EFSF	---	**NEG**	STABLE	**NEG**
ESM	STABLE	STABLE	STABLE	STABLE
EU	STABLE	STABLE	STABLE	STABLE
Denmark	STABLE	STABLE	STABLE	STABLE
Sweden	STABLE	STABLE	STABLE	STABLE
Norway	STABLE	STABLE	STABLE	STABLE

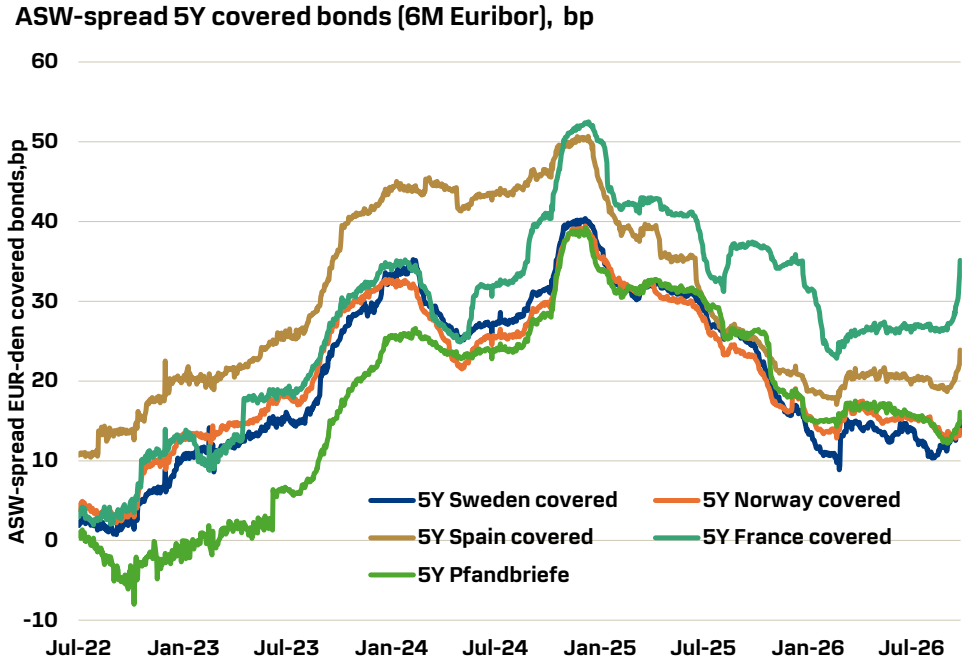
Source. Rating agencies and Danske Bank

Finally, we are seeing a bit of ”safe-haven” effect on the Schatz spread, while covered bond spreads show more resilience

The Schatz spread hardly moves despite tariffs, war in the Middle East, etc.



Covered bonds have more resilience vs. swaps



Source. Danske Bank

What are the ECB programmes - TPI and OMT

TPI: Transmission Protection Instrument

What is the TPI (introduced in 2022)?

- This is a permanent ECB instrument, which was created to ensure smooth monetary policy transmission across all euro-area countries after the OMT, PSPP and PSPP.
- It can only be activated only when market is disorderly, and this is not justified by country fundamentals.

How does it work? The ECB can do secondary-market purchases of:

- Public-sector bonds (central government, regional government, agencies).
- Private-sector securities (if appropriate).
- Eligible maturities: 1–10 years.
- There are no ex-ante purchase limits; the size of the purchase depends on the fragmentation.

Eligibility criteria: A country must meet four cumulative conditions:

- EU fiscal compliance (not under an excessive deficit procedure)
- No severe macroeconomic imbalances
- Fiscal sustainability (based on EC debt sustainability analysis)
- Sound macroeconomic policies.

Activation. The governing council of the ECB will base this on:

- a comprehensive assessment of market and transmission indicators
- An evaluation of the eligibility criteria
- A judgement that the activation of purchases under the TPI is proportionate to the achievement of the ECB's primary objective.

OMT: Outright Monetary Transactions

What is the OMT (introduced in 2012)?

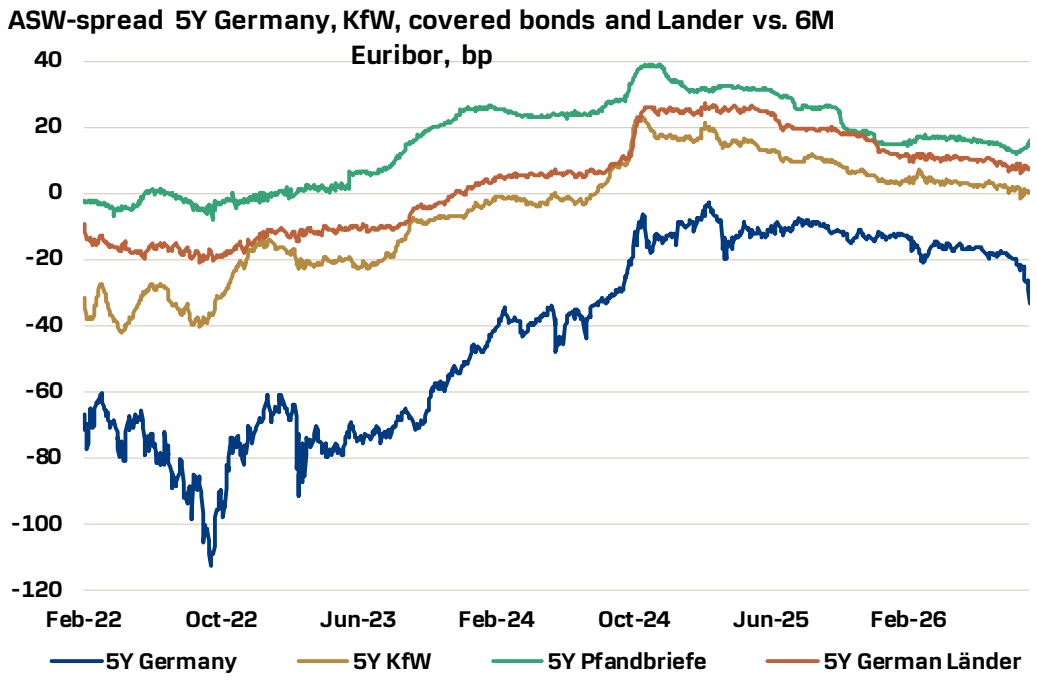
- This is an ECB instrument, which was created in 2012 after the European Debt Crisis. The programme aims at safeguarding an appropriate monetary policy transmission and the singleness of monetary policy.
- A Eurozone government can ask for financial assistance through the OMT.
- A necessary condition for Outright Monetary Transactions is strict and effective conditionality attached to an appropriate European Financial Stability Facility/European Stability Mechanism (EFSF/ESM) programme.
- The IMF is likely to be involved in the design and monitoring of the programme.

How does it work? The ECB can do secondary-market purchases of:

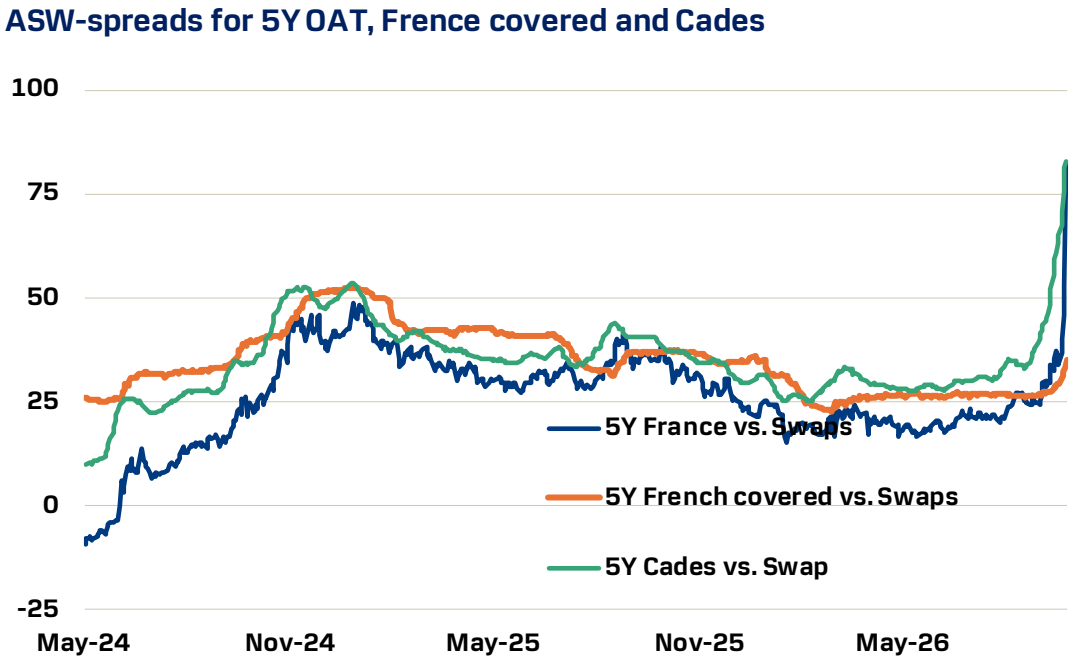
- Public-sector bonds (only government bonds).
- Eligible maturities: 1–3 years.
- Unlimited sovereign buying in the secondary market.
- The purchase of government bonds is sterilised.

French Agencies under pressure

Limited impact on “quasi” German assets: KfW, Länder and covered



France – Agencies under pressure, while still limited impact on covered bonds

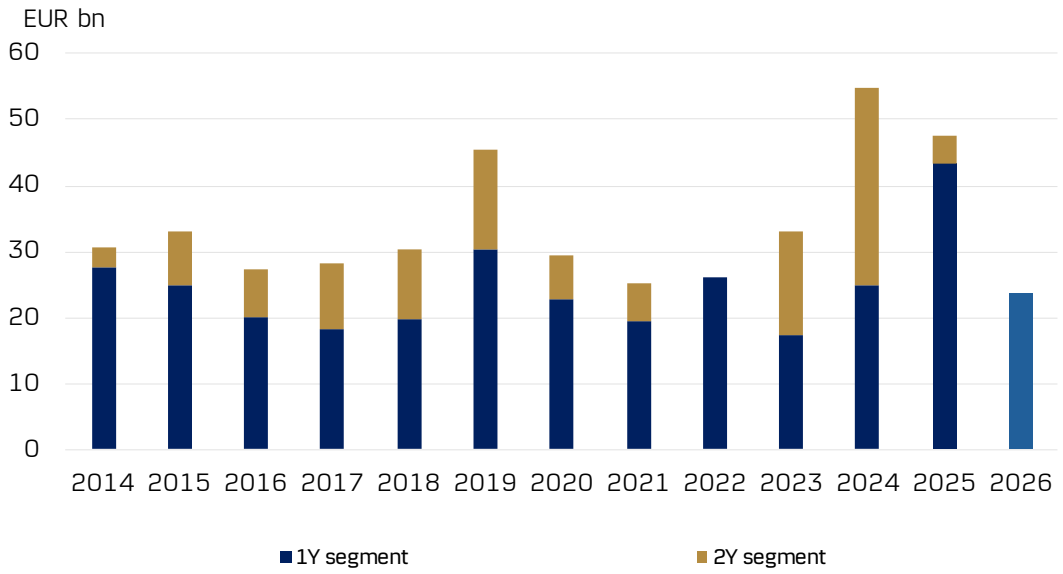


Source. Danske Bank

The front end of the French ASW-spread curve under pressure

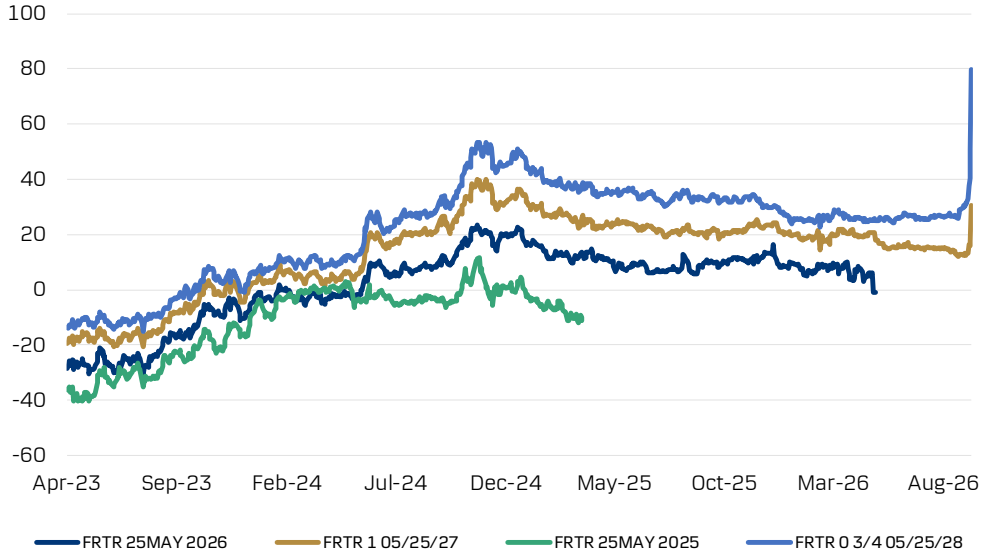
The French Debt Office bought back some EUR50bn in 2025 and has so far bought back some EUR23bn in 2026…

Buy-backs from France in the 1Y-2Y segment, EUR bn



… but there has been limited performance in OATs ranging from 05/25 to 05/28

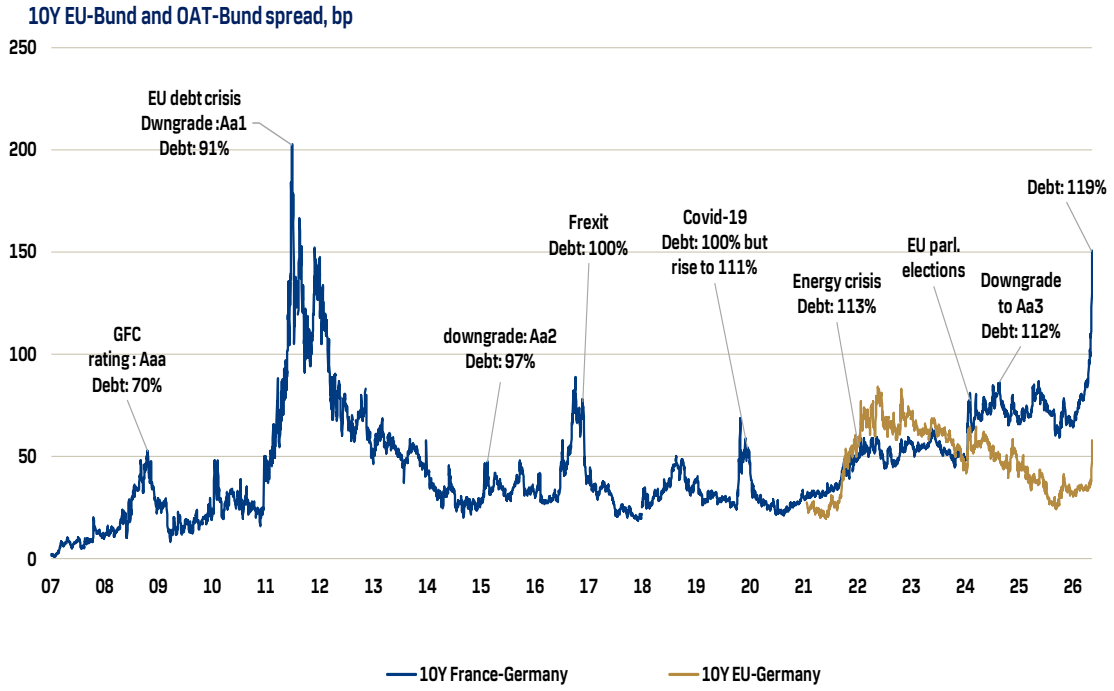
Significant roll-down on the French ASW-spread curve (vs. Estr)



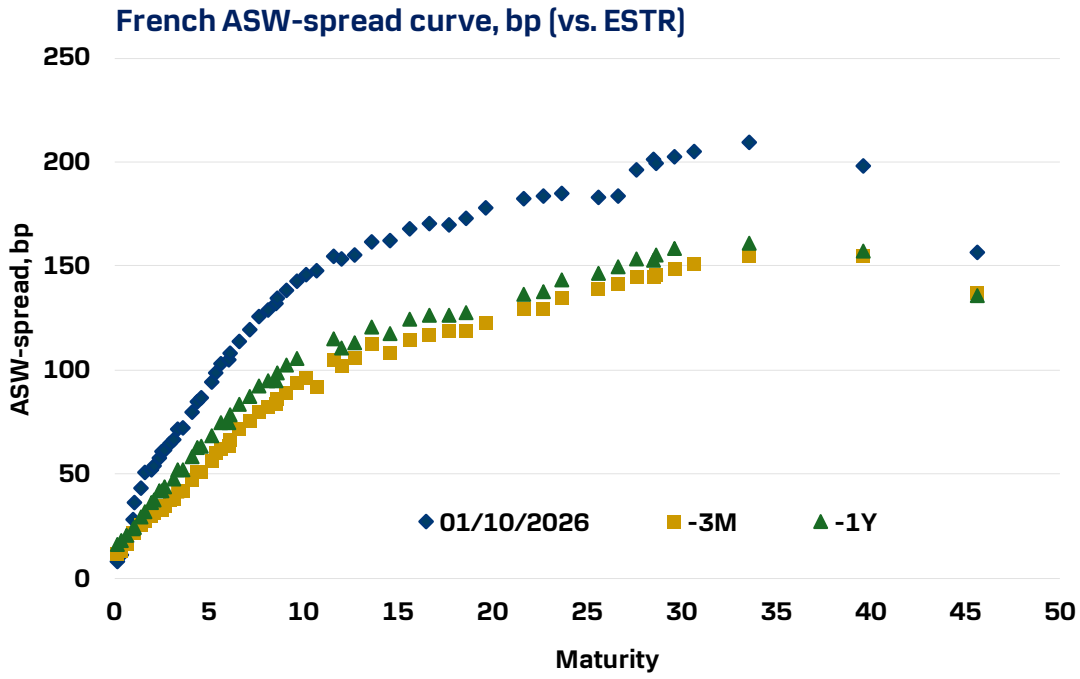
Source. Danske Bank,

France is under pressure from the upcoming budget negotiations and election in 2027 – will they achieve a budget before 15 October?

France has decoupled from the EU…



… and the curve is above the level seen last autumn (before the budget negotiations)



Source. Danske Bank

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