

The AAA Investor

French risk hit by the prospect of government collapse

France is in the spotlight again, after Prime Minister Bayrou's announcement that a confidence vote will be held on 8 September. We look at how French SSAs and French covereds have been impacted, and the possible risks ahead.

French political risk is back: Prime Minister Bayrou announced his intention to hold a confidence vote on 8 September, ahead of budget discussions. With most opposition parties having already signalled their intention to vote against the government, the prospect of (yet another) government collapse in France now appears possible. Should the government fall on 8 September, President Macron could appoint a new prime minister or opt to dissolve (again) the National Assembly.

France has rating reviews coming after the summer, but we believe agencies might adopt a 'wait-and-see' approach given the symbolic importance of being the first agency to strip away France's double-A rating.

Price action on French SSAs has been fairly limited so far, possibly supported by limited funding needs until year end. A risk-off scenario around France could potentially cause some further spread compression vs. OATs and bring back to the surface the differences in risk weights between 0% and 20% rw agencies.

We like covered bonds as they offer enough pick-up over SSAs up to 5y while spreads vs. seniors are very tight in historical terms.

French covered bond spreads were slightly wider on the news of the confidence vote. Most French covered bonds still benefit from a comfortable rating buffer to cushion potential credit pressure at the bank level, and we view their triple-A ratings as stable. If the French sovereign were to be downgraded, the relative rating advantage of French CBs would increase, allowing them to trade more independently to OATs in spread terms. The greater the credit gap between the two sectors, the more likely investors are to accept CB spreads trading clearly below govies.

French political risk is back

Bayrou to hold a confidence vote on 8 September

At a press conference on 25 August, Prime Minister Bayrou caught the market by surprise and announced his intention to hold a confidence vote on 8 September. Prime Minister Bayrou will convene an extraordinary parliamentary session on 8 September to deliver a general policy

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address, followed by a vote of confidence, to clarify the level of parliamentary support for the government's deficit-reduction agenda ahead of budget bill discussions scheduled for early October.

No party has held a clear majority in France's parliament since President Macron called snap elections in July 2024. And the previous Barnier government collapsed in December 2024 after only a few months in power. To remain in office, Prime Minister Bayrou will need to secure a majority of support in the French National Assembly. If the number of MPs voting against confidence in the government exceeds those explicitly voting in favour, it would lead to the resignation of the Bayrou government.

In [Mounting risks](#), Barclays economists highlight that the far-left La France Insoumise (LFI, 71 seats), the Greens (38 seats), and the Communist Party (17 seats) [have declared their intention](#) to vote against confidence in the government. At the other end of the spectrum, [Marine Le Pen](#) stated that the Rassemblement National (138 seats with its allies) intends to cast a no confidence vote and reiterated her call for the dissolution of the National Assembly and the organisation of new legislative elections. Should the Rassemblement National and all parties within the New Popular Front vote against confidence in the government - representing a combined total of about 330 seats - this would be more than sufficient to bring down the Bayrou government.

We expect volatility to remain high amid the noise and the fact that no party holds a clear majority in France's parliament. However, it is important to remind that even if Bayrou is forced to resign if he loses the confidence vote, it does not mean Macron has to call a new election. Instead, he can simply appoint a new PM, who will be tasked to form a new government and work on a new version of the budget.

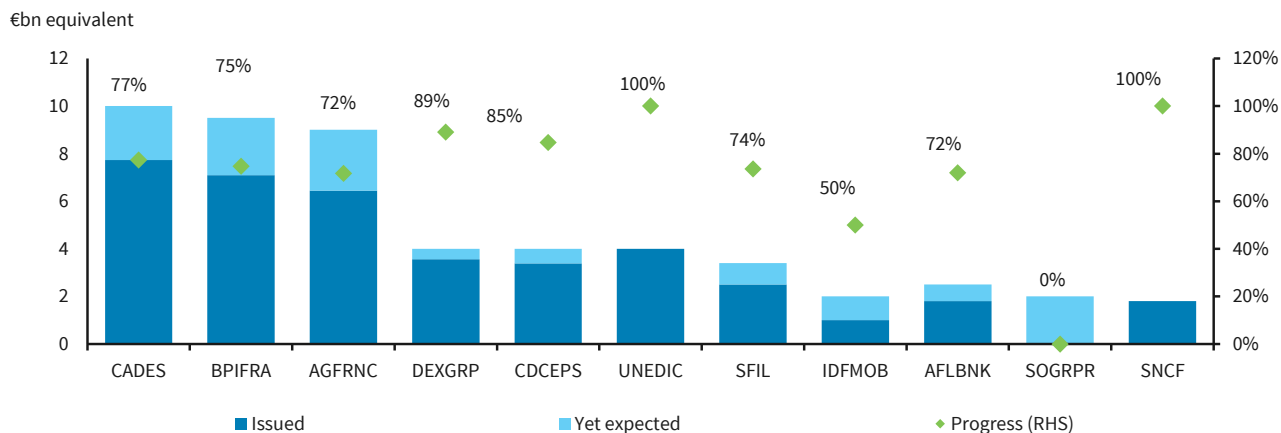
French OATs under pressure

France's 10y borrowing costs climbed as high as 3.5%, with the OAT-Bund spread reaching almost 80bp, close to its peak during last year's political crisis.

France has rating reviews coming up after the summer: Fitch (currently at AA-/negative outlook) will be the first to review France on 12 September, followed by Moody's (stable outlook/Aa3 rating) on 24 October and S&P on 28 November (currently AA-/negative outlook). In [EGBs: Sovereign rating outlook into year](#), Barclays rates strategists discuss risks to monitor at the sovereign rating reviews for the remainder of the year. **The negative outlooks from Fitch and S&P create risks of France being downgraded, but the outcomes could hinge on political developments.** Importantly, agencies might adopt a 'wait-and-see' approach given the symbolic importance of being the first agency to strip away France's double-A rating, and also bearing in mind that rating agencies may wait up to two years or even longer before downgrading a rating, from assigning a negative outlook. With respect to **Moody's**, the only agency with a stable outlook following the rating downgrade in December 2024, Barclays rates strategists believe a fresh outlook change is a close call.

French SSAs

Price action on French SSAs has been fairly limited so far, possibly supported by limited funding needs ([Figure 1](#)). SNCF issued a €500mn 7y green bond at OAT+19bp (c.4bp tighter than initial guidance, books €3.7bn), a day after the announcement of confidence vote, and BPIFRA tapped its 3.25% 2035 bond at OAT+15bp.

FIGURE 1. French agencies are well advanced in their FY funding plans

Note: YTD funding up to 27 August.

Source: French agencies investor presentations, Bloomberg, Barclays Research

A risk-off scenario around France could potentially cause some further spread compression vs. OATs and bring back to the surface the differences in risk weights between CADES, UNEDIC and CDCEPS and the 20% risk weighted names caused by the CRR3. The risk can be even greater in case of a French sovereign downgrade, as this could negatively affect the regulatory treatment.

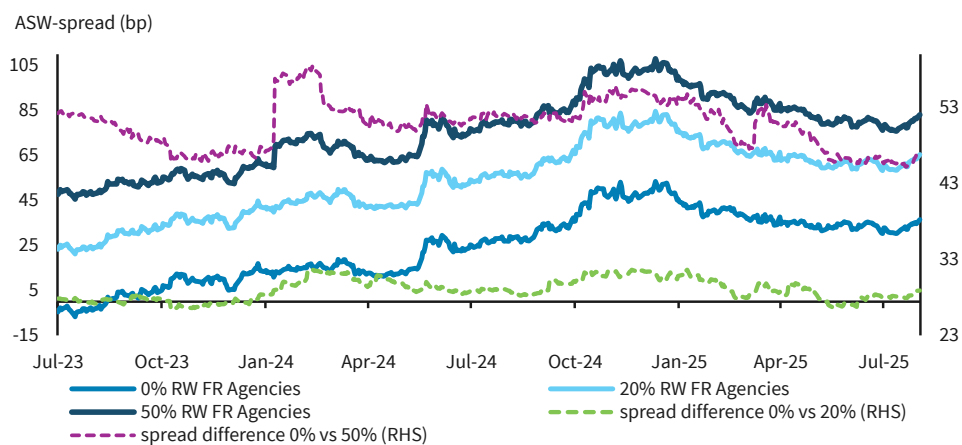
As we highlighted in [French agencies in focus](#),

- A downgrade of France's rating would have a knock-on effect on many French agencies given how their ratings are often aligned with that of the sovereign. **French agencies' potential downgrades** may impact their regulatory treatment in terms of LCR and **risk weight**, with some increasing their risk weights from 20% to 30% or even up to 50%. French agencies are mostly held by domestic investors (bank treasuries, asset managers and pension funds), but we think those agencies with a larger international bank treasury investor base could see spreads widen.
- **SFILFR** and **BPIFRA** could see their risk weight increase from 20% to 30% in the event of a sovereign downgrade to A- (SFILFR, if either its Moody's or S&P fall below Aa3/AA-; BPIFRA, if either its Moody's or Fitch fall below Aa3/AA-). These two agencies see a large take-up of their paper from banks, with a relatively diversified geographic investor base and might experience some widening in spreads, in our view. Also, if either of S&P or Fitch's rating would fall below AA-, **AGFRNC would see its risk weight increase to 50%**; this, combined with a large take-up of its paper from banks and a relatively low take up by French investors, could see it face a degree of spread widening, in our view.
- Overall, looking at current relative value and the recent spread development of French agencies ([Figure 3](#)), we would expect that an increase in risk weight may prompt some widening of the non-zero-percent names vs. the 0% risk weight names, which could be **of up to c.10-15bp**. That said, this year French agencies are much more advanced in their YTD funding than last year.

FIGURE 2. French agencies and sensitivity to ratings

Issuer	Ticker	Ratings (M/S/F)	Ownership	Risk weight	What would trigger a increase in RW?
Agence France Locale	AFLBNK	-/AA-n/AA-n	100% French local authorities	20%	RW=50%, if either S&P or Fitch fall below Aa3/AA-
Agence Française de Développement	AGFRNC	-/AA-n/AA-n	100% French state	20%	RW=50%, if either S&P or Fitch fall below AA-
Action Logement Services	ALSFR	Aa3/-/AA-n	100% French state	20%	RW=50%, if either Moody's or Fitch fall below Aa3/AA-
BPIFRANCE	BPIFRA	Aa3/-/AA-	49.32% French state/49.32% CDC	20%	RW=30%, if either Moody's or Fitch fall below Aa3/AA-
Caisse d'Amortissement de la Dette Sociale	CADES	Aa3/AA-n/AA-n	100% French state	0%	0% rw agency irrespective of issuer rating
Caisse des Depots et Consignations	CDCEPS	Aa3/AA-n/AA-n	100% French state	0%	0% rw agency irrespective of issuer rating
Ile-de France Mobilites	IDFMOB	Aa3/-/AA-n	100% Ile de France	20%	RW=50%, if one agency falls below AA category
SNCF Réseau	RESFER	Aa3/AA-n/AA-n	100% French state	20%	RW=50%, if two out of 3 ratings fall below AA-/Aa3
Societe de Financement Local	SFILFR	Aa3/AA-n/-	99.9% French state	20%	RW=30%, if Moody's/S&P fall below Aa3/AA-
SNCF	SNCF	A1/A+n /AA-n	100% French state	50%	RW=50%, now that Moody's fell below Aa3
Societe des Grands Projets	SOGRPR	Aa3/-/AA-n	100% French state	20%	RW=50%, if either Moody's or Fitch fall below Aa3/AA-
UNEDIC	UNEDIC	Aa3/AA-n/AA-n	100% French state	0%	0% rw agency irrespective of issuer rating
Ile de France (region)	IDF	Aa3/-/AA-n		20%	RW=50%, if either Moody's or Fitch fall below Aa3/AA-

Source: Rating agencies, Barclays Research

FIGURE 3. Spread development of French agenciesNote: custom indices built from Bloomberg EUR Agg
Source: Bloomberg, Barclays Research

French covered bonds

So far, there has not been any panic selling of French covered bonds but, contrary to French SSAs, covered bond spreads were slightly wider on the news of the forthcoming confidence vote. A day after PM Bayrou's announcement, French covered bonds were 3bp wider on average, with CFF and CAFFIL underperforming (both 5bp wider).

As we highlighted in [French covered bonds below OATs?](#), budget discussions in France and upcoming sovereign rating reviews may prompt some volatility in French rates. However, French covered bonds should be unaffected in the event of a sovereign downgrade/issuer downgrade given large rating buffers and sufficient overcollateralisation levels. **In the case of Moody's, most covered bonds have 3-4 notches of TPI Leeway**, ie, the number of notches by which Moody's might lower the covered bond anchor before the rating agency downgrades the covered bonds because of TPI Framework constraints.

FIGURE 4. Moody's rating metrics for select French CBs

	Arkea HL SFH	Arkea Public SCF	BPCE SFH	CRH	CAFFIL	CCF SFH	CFF	CA HL SFH	CA Public SCF	CMCIC SFH	MMB SCF	SC SCF	SG SFH
CB Rating	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa
TPI	Probable -High	Probable -High	Probable -High	Probable -High	Probable -High	Probable -High	Probable -High	Probable -High	Probable -High	Probable -High	Probable -High	Probable -High	Probable -High
TPI Leeway	4	4	3	3	3	1	3	4	4	4	Unpublished	3	3
Collateral Score	4.0%	6.8%	2.7%	4.0%	8.8%	2.8%	8.8%	3.5%	3.4%	3.4%	4.0%	8.9%	2.0%
Collateral	French residential mortgage loans	French public sector assets	French residential mortgage loans	French residential mortgage loans	French public sector assets	French residential mortgage loans	Mixed pool	French residential mortgage loans	French public sector assets	French residential mortgage loans	French residential mortgage loans	French public sector assets	French residential mortgage loans

Note: Moody's also rates Credit Agricole's ACAFHA retained CB programme and CIFEUR's CB programme which is in run-off mode

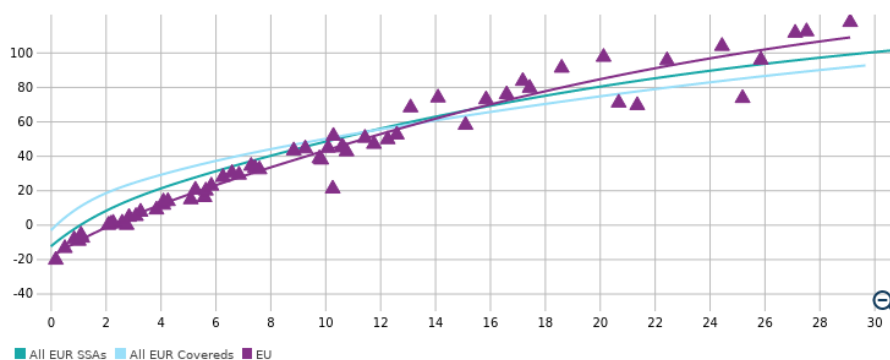
Source: Moody's, Barclays Research

At Fitch, these buffers are in the range of 4-6 notches, with the other agencies only slightly below. At the same time, even after a downgrade, the sovereign rating would remain high enough to avoid triggering any restrictions in the form of a country ceiling below the AAA level. So, **we still view the triple-A ratings of French CBs as stable.**

If the French sovereign were to be downgraded, the relative rating advantage of French CBs vs. the French sovereign would increase, and allow them to trade more independently from OATs in spread terms. The greater the credit/rating gap between the two, the more likely investors are to accept CB spreads trading clearly below govies.

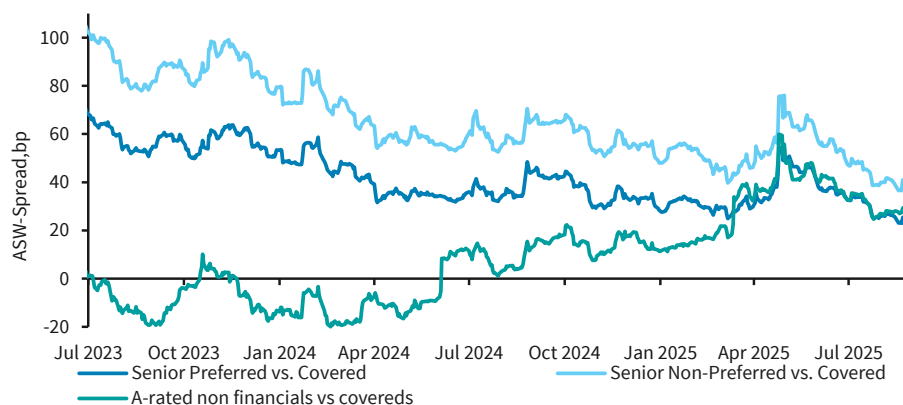
Overall we like covered bonds as they offer enough pick-up over SSAs up to 5y (Figure 5) while spreads vs. seniors are very tight in historical terms (Figure 6).

FIGURE 5. Covereds vs. SSAs relative value across the curve

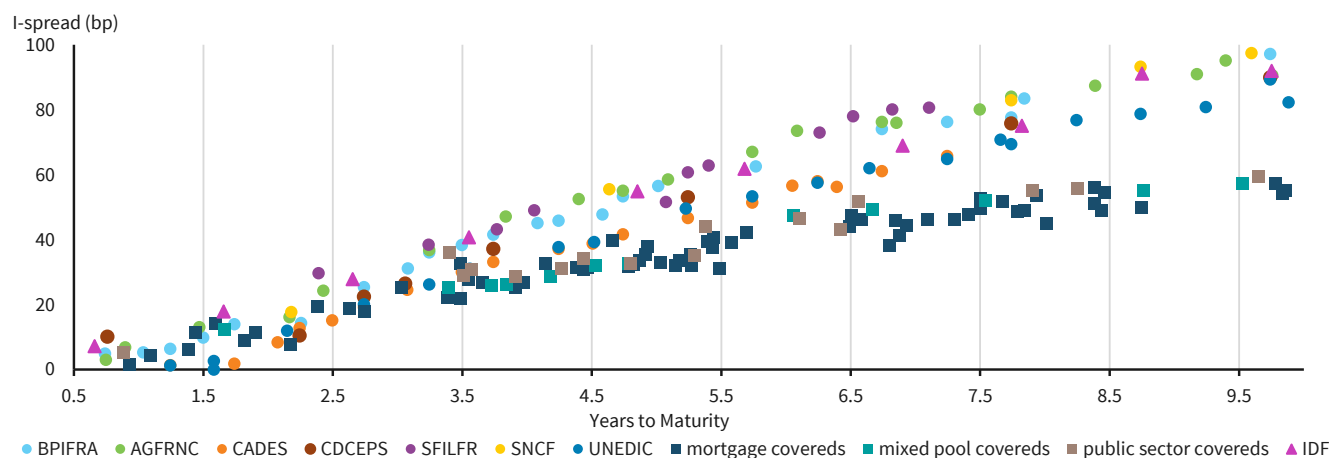


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Source: Rates - Barclays Trading, S&P Global Market Intelligence

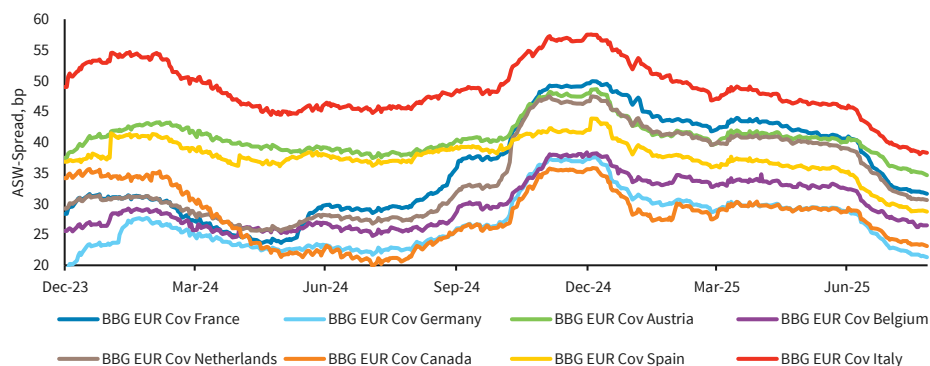
FIGURE 6. Covereds vs credit: spread development


Source: Bloomberg, Barclays Research

FIGURE 7. FR covereds vs. agencies and IDF


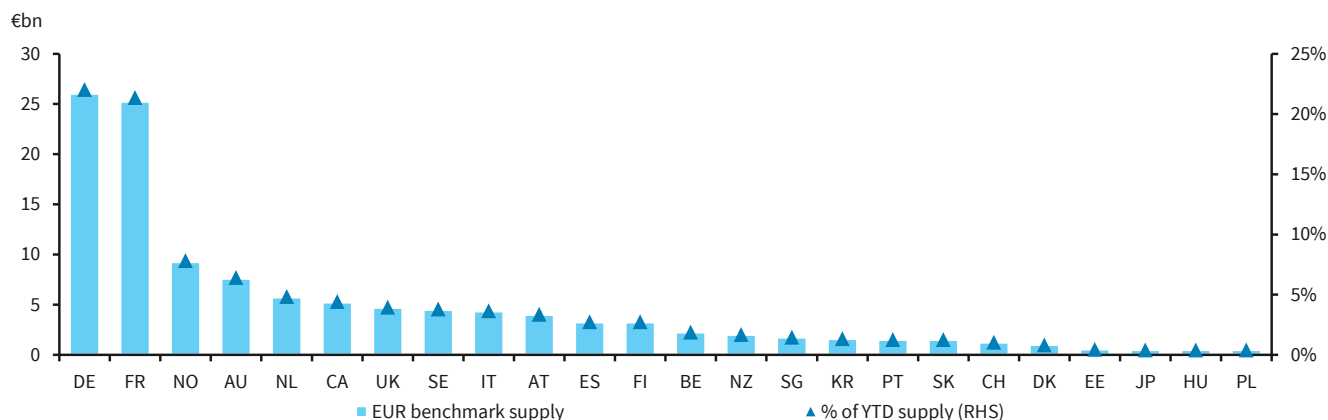
Source: Bloomberg, Barclays Research

French CBs have been performing YTD (Figure 8) owing to their wide ASW levels and lower levels of supply y/y as we outlined in [H2 25 covered bond outlook](#).

FIGURE 8. French covereds spread development vs. covereds of selected jurisdictions

Source: Bloomberg, Barclays Research

What could trigger underperformance of French covered bonds? On the supply side, we believe risks are limited given French banks are well funded for the year. **Listed French banks have already completed c.80% of their medium- and long-term market funding issuance plans for 2025** (BNPP 80%, SocGen 79%; CASA 82%). And as per its [latest investor presentation](#), BPCE had completed 78% of its 2025 medium- to long-term funding plan. Also, covered bond supply is down y/y: YTD EUR benchmark French CB supply totals €25.25bn (vs. €31.5bn YTD 2024), after last week ACACB reopened the French CB segment post summer break by pricing a €1bn, 8y green CB at ms+45bp, a record 18.8bp inside OATs (but books c. €3bn).

FIGURE 9. YTD EUR benchmark covered bond supply by jurisdiction

Note: up to 26 August
Source: Bloomberg, Barclays Research

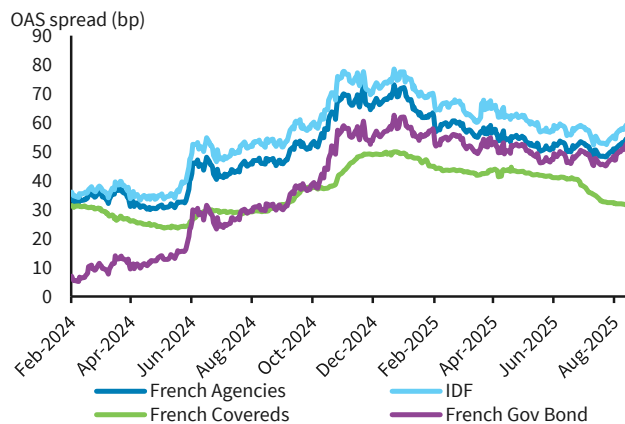
Relative value

Covereds look like the place to be

Looking at performance of French covereds vs agencies, IDF and OATs, we can observe that covereds outperformed in both 2024 and 2025 YTD. In 2024, given political turmoil in France, covereds showed resilience thanks to their safe-heaven characteristics. In 2025 YTD, we believe the outperformance has been driven by the overall scarcity in covereds, which have indeed

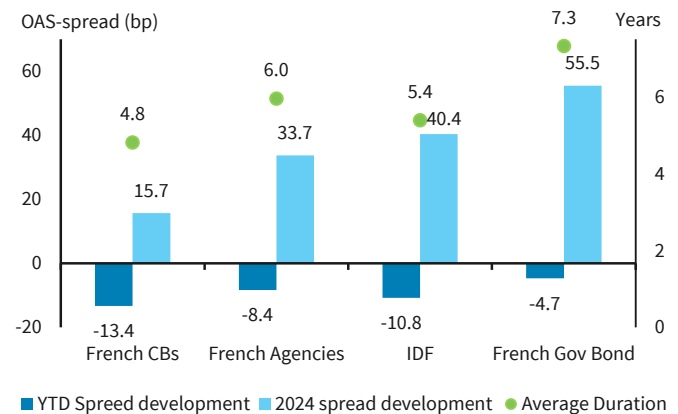
tightened by c.14.5bp at the index level YTD (up to 26 August), and by the fact that French covereds had widened significantly in 2024 and in H1 25 they had been trading wider than most jurisdictions (Figure 8), which made them quite attractive to investors. As a result, as Figure 11 shows, in 2024 covereds widened significantly less than the other asset classes, and in 2025 YTD (up to 26 August) they tightened by c.13bp, vs. a tightening of 8bp for the agencies, 11bp of IDF and c.5bp of OATS, at the index level.

FIGURE 10. Spread development of French covereds, agencies, IDF and OATs



Note: custom indices built from the Bloomberg EUR Agg
Source: Bloomberg, Barclays Research

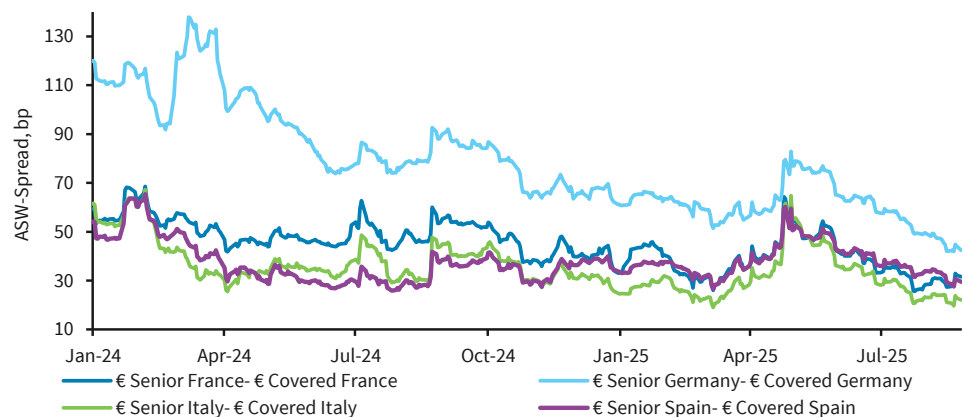
FIGURE 11. Spread development 2024 vs. 2025 YTD of French covereds, agencies, IDF and OATs



Note: custom indices built from the Bloomberg EUR Agg
Source: Bloomberg, Barclays Research

French covereds also look quite attractive vs. French seniors, in historical terms, and they are likely to experience less volatility than seniors in spread terms in case political turmoil persists and/or in case of a sovereign rating downgrade. Looking at the spread differential evolution of French covereds vs. seniors (Figure 12), we see how these tightened to reach levels similar to the Spanish seniors-covereds spread differential of c.40-41bp at the index level, while in the summer of 2024 we could observe French seniors-covereds spread differential to be 10-12bp wider than Spanish seniors-covereds spread differential.

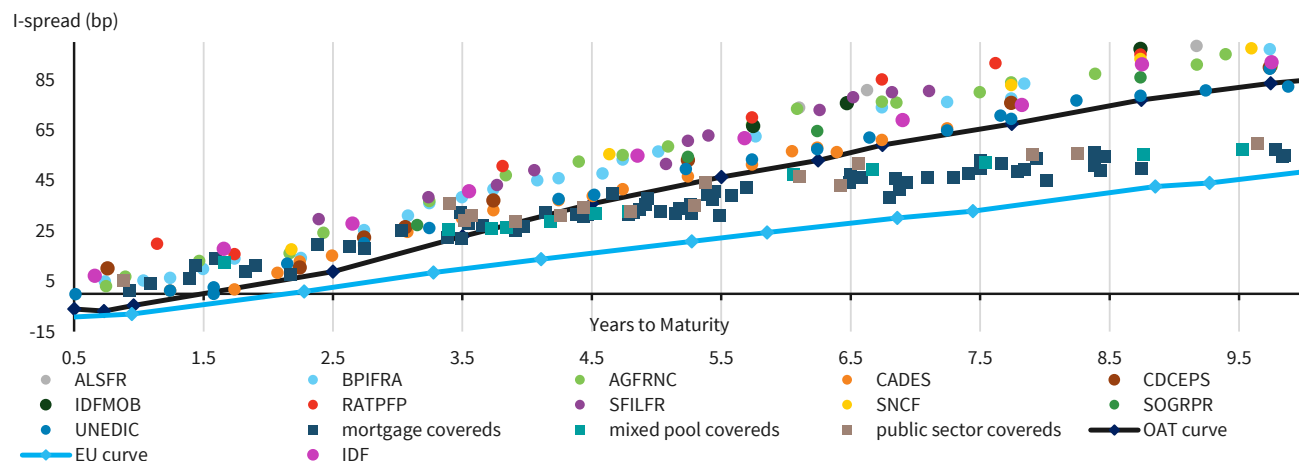
FIGURE 12. Seniors vs covereds spreads in selected jurisdictions



Source: Bloomberg, Barclays Research

Relative value across the curve

Covereds offer the best value in the short end of the curve, up to 4.5 years (Figure 13), offering a good pick-up to OATs and agencies around 1.5 and 2.5 years.

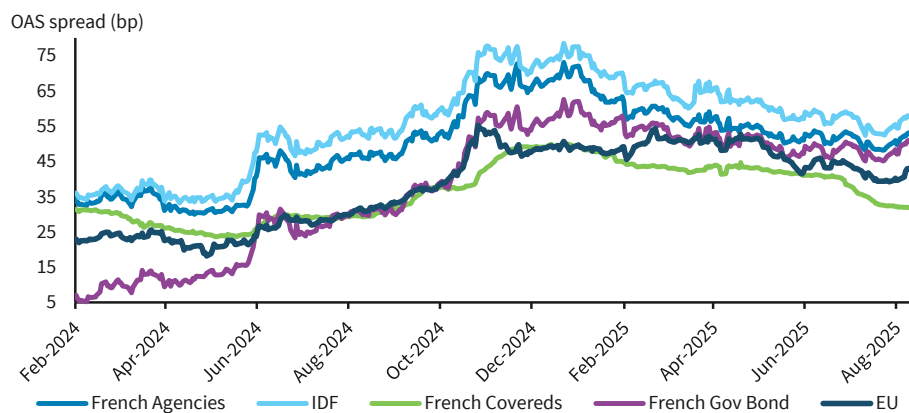
FIGURE 13. Relative value of selected French covereds vs. agencies, IDF, OAT and EU curves

Source: Bloomberg, Barclays Research

Impact on EU paper

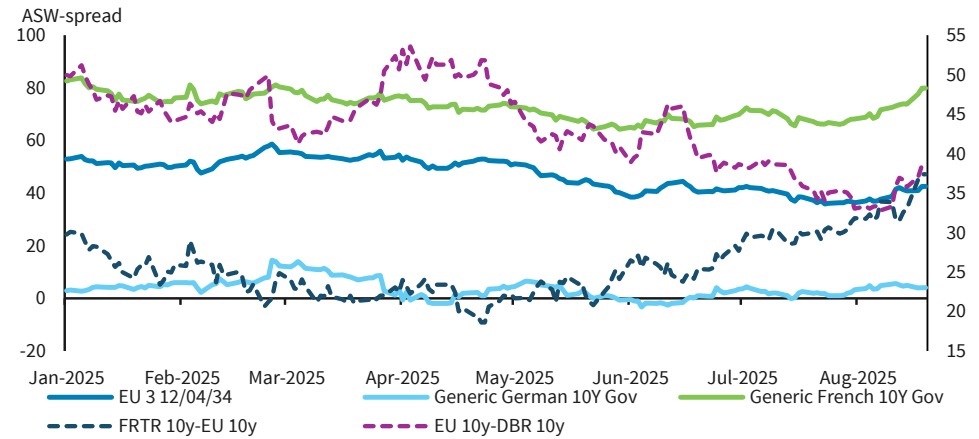
EU widened on the back of French political turmoil

EU spreads saw some mild widening in the last few days, following the widening in OATs.

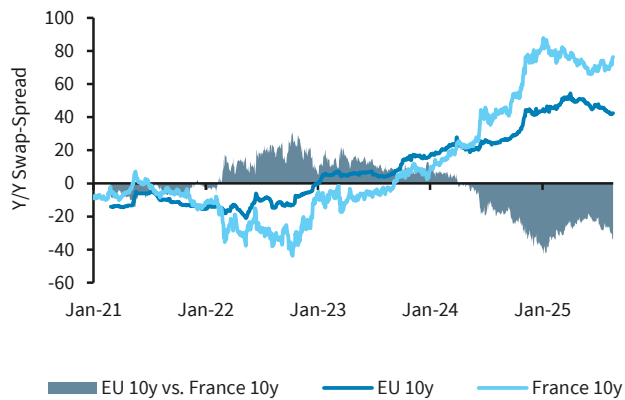
FIGURE 14. Spread development of French covereds, agencies, IDF, OAT and EU

Source: Bloomberg, Barclays Research

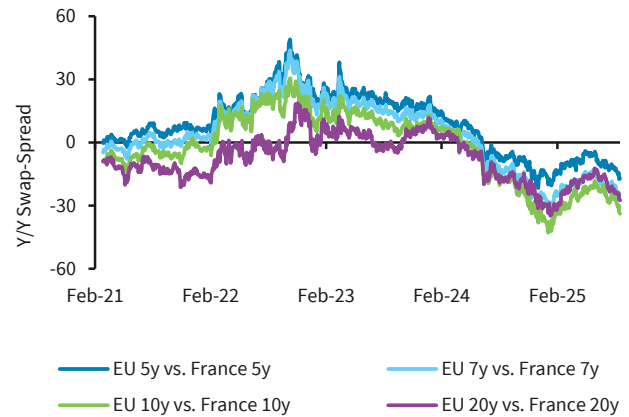
In the 10 year space, we observe c.2bp of widening in EU spreads since the confidence vote was announced, vs. c.3-4bp of widening in the generic 10y French govie, hence the spread between France and EU in 10y has widened by c.2bp (Figure 15).

FIGURE 15. Spread development of EU vs. German and French govies in the 10y

Source: Bloomberg, Barclays Research

FIGURE 16. Spread development of EU vs. French govies in the 10y

Source: Bloomberg, Barclays Research

FIGURE 17. EU vs. France

Source: Bloomberg, Barclays Research

One of the reasons for such widening might be that the market perceives the political instability in France could increase the probability of the formation a more nationalistic government in the country, that in turn may be a negative for the EU. Also, from a rating perspective, the anchor rating of the EU is calculated by rating agencies as the GDP-weighted average of the ratings of its 27 member states, and as such, France is a large contributor to the rating, although, a downgrade of France alone would not prompt a downgrade of the EU: calculation shows that the anchor rating for S&P for example would remain AA ([Figure 18](#)).

FIGURE 18. S&P anchor rating calculation

	2023 GDP (% of Total)	S&P Rating	Number equivalent rating	if France downgraded
Austria	2.81%	AA+	2	2
Belgium	3.45%	AA	3	4
Bulgaria	0.55%	BBB+	9	9
Croatia	0.45%	A-	8	8
Cyprus	0.18%	A-	9	9
Czechia	1.80%	AA-	4	4
Denmark	2.20%	AAA	1	1
Estonia	0.22%	NR	4	4
Finland	1.64%	AA+	2	2
France	16.52%	AA-	4	5
Germany	24.28%	AAA	1	1
Greece	1.30%	BBB	9	9
Hungary	1.16%	BBB-	10	10
Ireland	2.97%	AA	3	3
Italy	12.29%	BBB+	8	8
Latvia	0.24%	A	6	6
Lithuania	0.42%	A	6	6
Luxembourg	0.47%	AAA	1	1
Malta	0.11%	A-	7	7
Netherlands	6.09%	AAA	1	1
Poland	4.42%	A-	7	7
Portugal	1.56%	Au	6	6
Romania	1.91%	BBB-	10	10
Slovakia	0.72%	A+	5	5
Slovenia	0.37%	AA	3	3
Spain	8.61%	A	6	6
Sweden	3.23%	AAA	1	1
GDP-weighted average			3.91	4.11

Source: Eurostat, S&P, Bloomberg, Barclays Research

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