French Banking Outlook 2025

Political Uncertainty Clouds The Business Climate

S&P Global Ratings

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Jan. 21, 2025

This report does not constitute a rating action

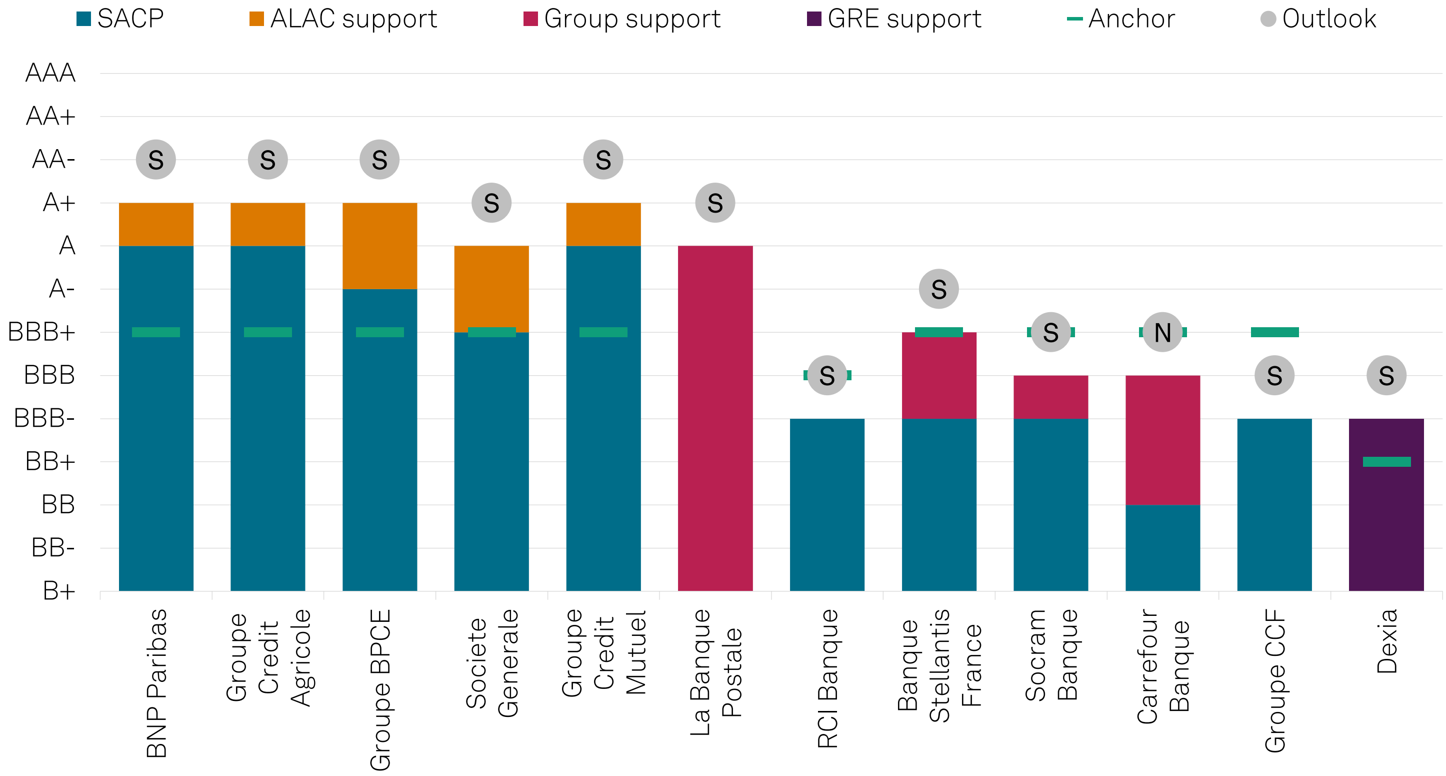
Key Takeaways

- We expect French banks' profitability to improve, because lending books that were originated when interest rates were low continue to reprice, banks' diversified business models and lower deposit costs support the top line, and our base-case scenario assumes that credit cost deterioration will remain modest.
- Economic activity will remain modest, the outlook contingent on the new U.S. administration, new EU leadership, and French fiscal stances. Political instability in France could slow consumption, investment, economic growth, and ultimately bank credit origination and revenue.
- Credit growth will revert under our base-case scenario to about 2.5% per year from 2025 and asset-quality deterioration will be contained. This reflects our expectation that domestic nonperforming assets will increase to just 2.8% of total domestic assets by the end of 2025, up from 2.7% estimated in 2024.
- Risks to French bank operations are rising. Market turbulence and elevated public debt reduces the capacity for economic assistance if needed. French banks' profitability gap with European peers will persist in the event of lower-than-expected economic growth and delay the recovery in new lending volume.
- French banks benefit from a stable and diversified funding structure, featuring wholesale financing and retail deposits, and we think banks could adapt their funding plans to mitigate cost pressure.

Our Outlooks On French Banks Remain Largely Stable

Increasing economic volatility contrasts with moderate GDP growth and lower interest rates by the ECB

French bank ratings



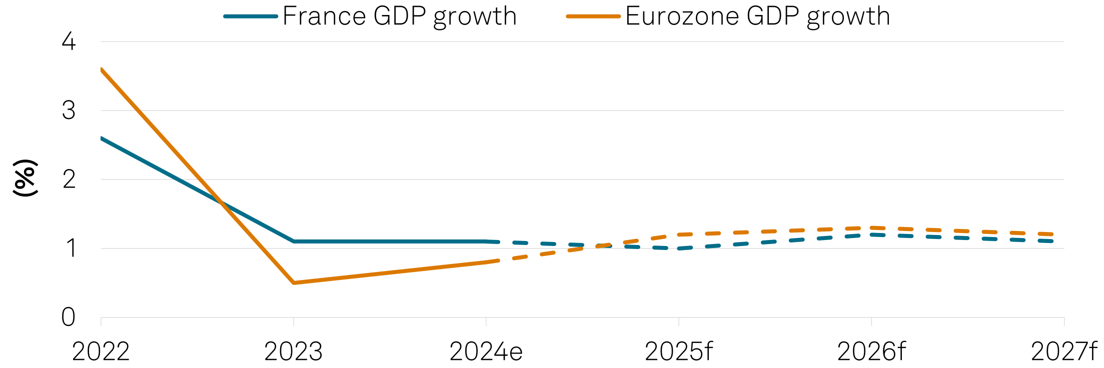
Note: Data reflects ratings and outlooks as of Dec. 10, 2024. ALAC--Additional loss absorbing capacity. ECB--European Central Bank. GRE--Government-related entity. SACP--Stand-alone credit profile. P--Positive. S--Stable. N--Negative. Source: S&P Global Ratings.

Main rating actions in 2024:

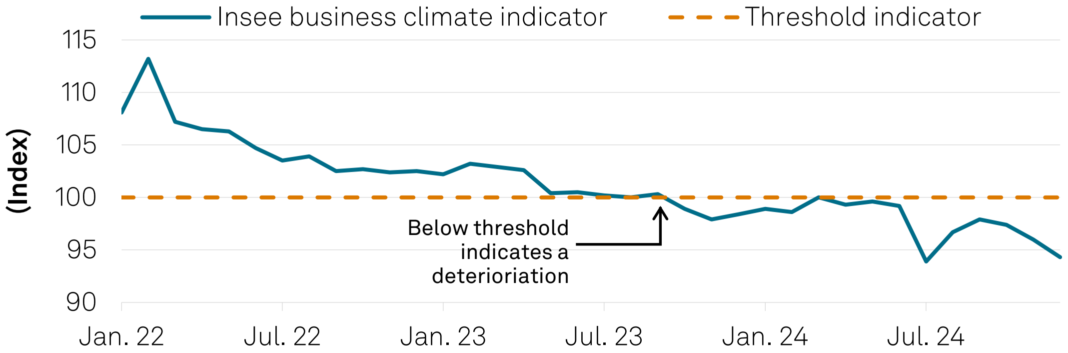
- BPCE upgraded to 'A+' July 15 on increased senior nonpreferred issuance to boost ALAC; the outlook is stable.
- Société Générale affirmed at 'A' June 20 as capital builds up while performance still lags peers'; the outlook is stable.
- Carrefour Banque outlook revised to negative from stable May 22, on pressured profitability and business model development.
- Groupe CCF outlook revised to stable from negative July 18, following the integration of retail activities from HSBC CE in France.

Modest Economic Growth And Fiscal Slippage Impairs Business Confidence

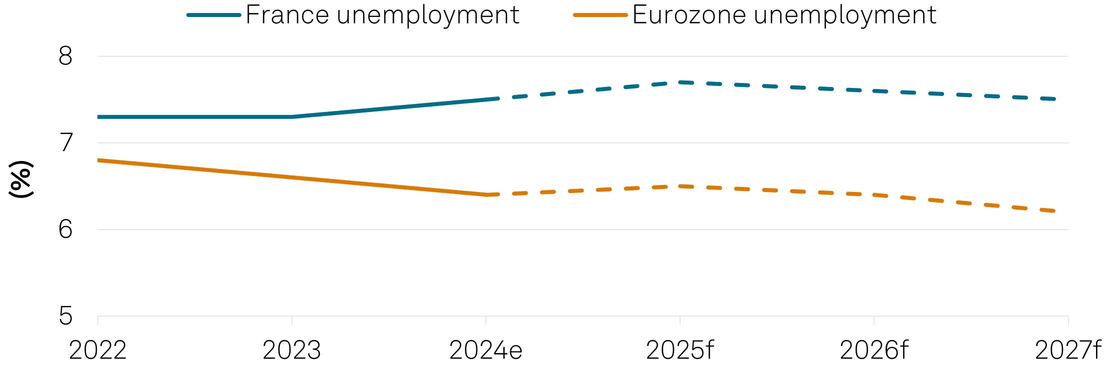
French GDP growth is close to eurozone levels



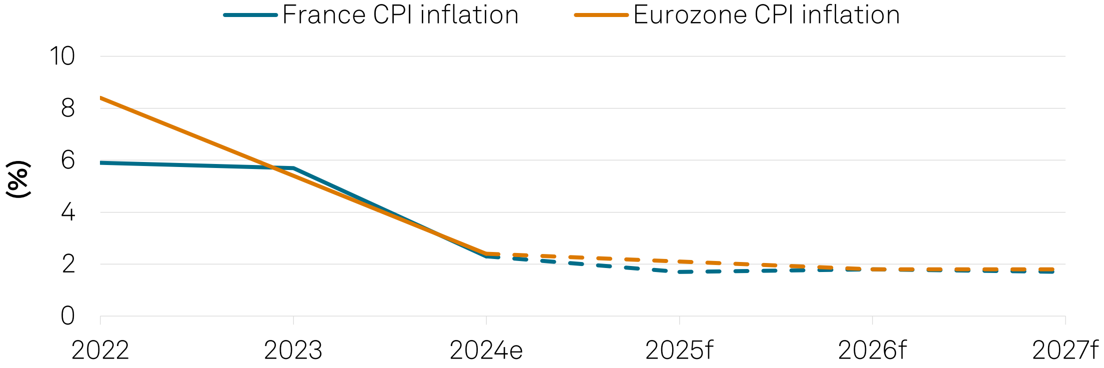
France's business climate deteriorated through December



Unemployment is above peer levels



CPI inflation is set to fall below 2% in 2025



Note: Forecasts as of November 2024. bps--Basis points. CPI--Consumer price index. e--Estimate. f--Forecast. Sources: Insee, S&P Global Ratings.

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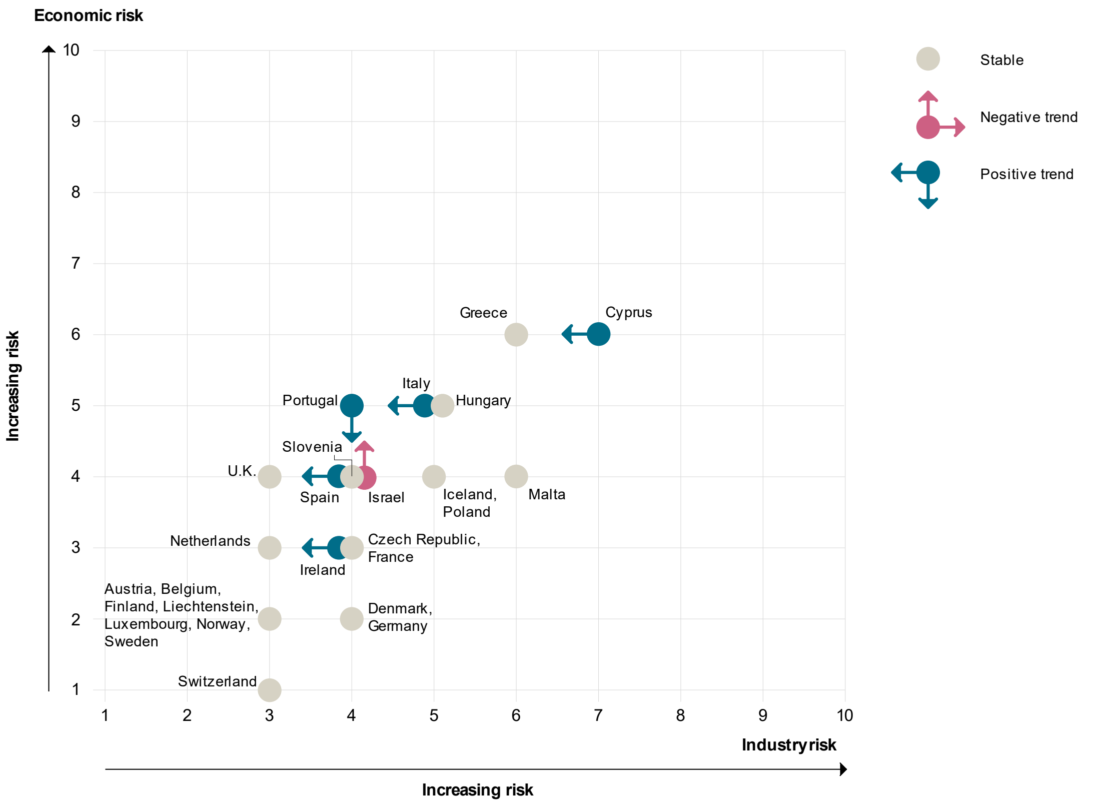
Diversified Business Models Cushion Asset-Quality Deterioration

There is no direct link between the French sovereign rating and those on French banks

BICRA scores and economic and risk trends



Data as of Jan. 10, 2025. BICRA--Banking Industry Country Risk Assessment. Source: S&P Global Ratings.

Key strengths:

- Wealthy and highly diversified economy.
- Stable and concentrated banking sector, with limited space for new entrants.
- Relatively low-risk structure of banks' domestic loan books and strong creditworthiness of the French private sector, particularly households.

Key risks:

- Political fragmentation complicating France's ability to deliver on fiscal consolidation policies and delaying the recovery in new lending volume.
- Asset quality remaining vulnerable to a deteriorating domestic economy.
- Cost efficiency remaining a weakness compared with European peers.

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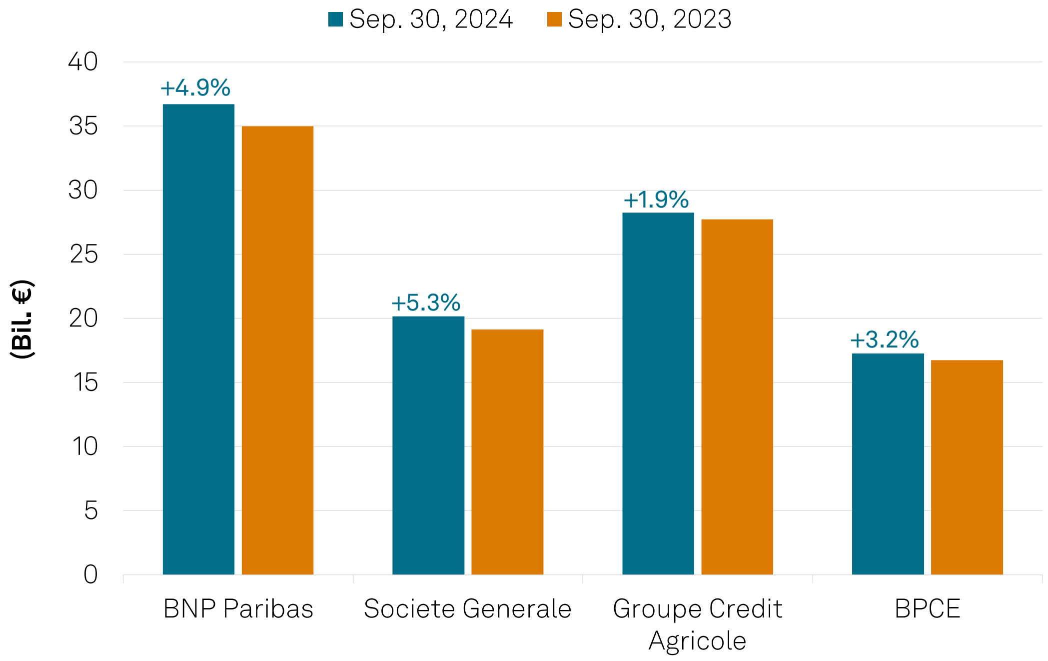
Revenue Comparably Improved For Much Of 2024

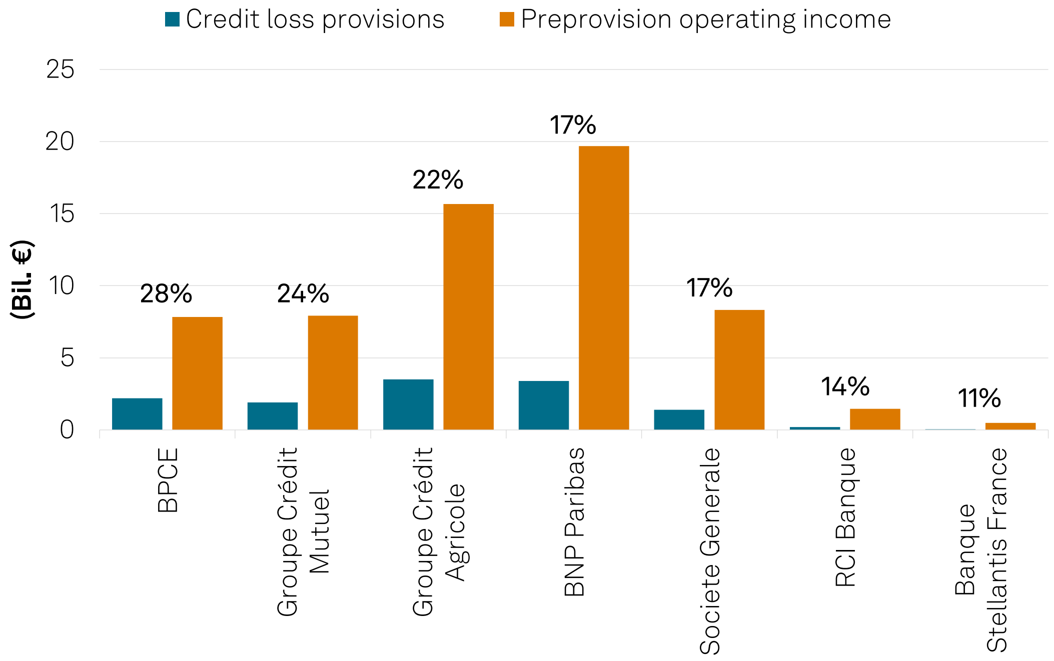
Revenue from commercial and investment banking, wealth management, and bancassurance support results; diversification will boost resilience should asset quality deteriorate sharply

Better revenue year on year for the first nine months



Source: Bank disclosures.

Preprovision earnings counter credit costs



Note: Forecasts for 2025 are under our base-case scenario. Percentages refer to the coverage of credit losses by preprovisions operating earnings. Source: S&P Global Ratings.

2025 Forecast | Large French Banks

Worsening | | Neutral | | Improving

Revenue	Diversified business models and loan books' upward repricing are continuing. With lower rates comes a more stable funding mix between term and sight deposits, along with lower deposit costs, including for regulated savings that were fixed until early 2025. Dynamic commissions continue in areas such as for life insurance collection, in a context of rising disposable income and household savings rates. We anticipate large banks to average revenue growth of about 4% in 2025.
Expense	The lower contributions in 2024 to the single resolution fund will not repeat. We expect rising general costs averaging 2.9% over 2025 for large banks.
Profitability	Profitability will improve thanks to stronger margins and despite cost inefficiencies remaining a challenge. However, it lags European peers, with average return on equity for large banks of about 6% by 2025. Additional taxes would dent earnings improvement for those with more business based in France.
Credit quality	Asset quality is structurally supported by fixed-rate mortgages and we expect related deterioration to be contained to less than 40 basis points for large banks. Default risks should stem from corporates and small and midsize enterprises, mainly in trade, wholesale, and construction. We expect credit cost growth of 4.5% in 2025 for large banks.
Capital	French banks' capital positions remains stable with some mergers and acquisitions the main factor in capital deployment. Capital Requirement Regulation 3 (CRR3) applies from Jan. 1, 2025, but will have no immediate impact on French banks thanks to the long ramp-up period of the output floor and various adjustments.
Funding and liquidity	Large banks have ample liquidity buffers and well-diversified access to wholesale funding.

Note: Forecast for next 12 months. Source: S&P Global Ratings.

Key Risks

Lower economic growth due to political uncertainty
Decreased business confidence, with the risk of slower improvement in lending volumes and fee growth, will lead to lower-than-expected profitability.

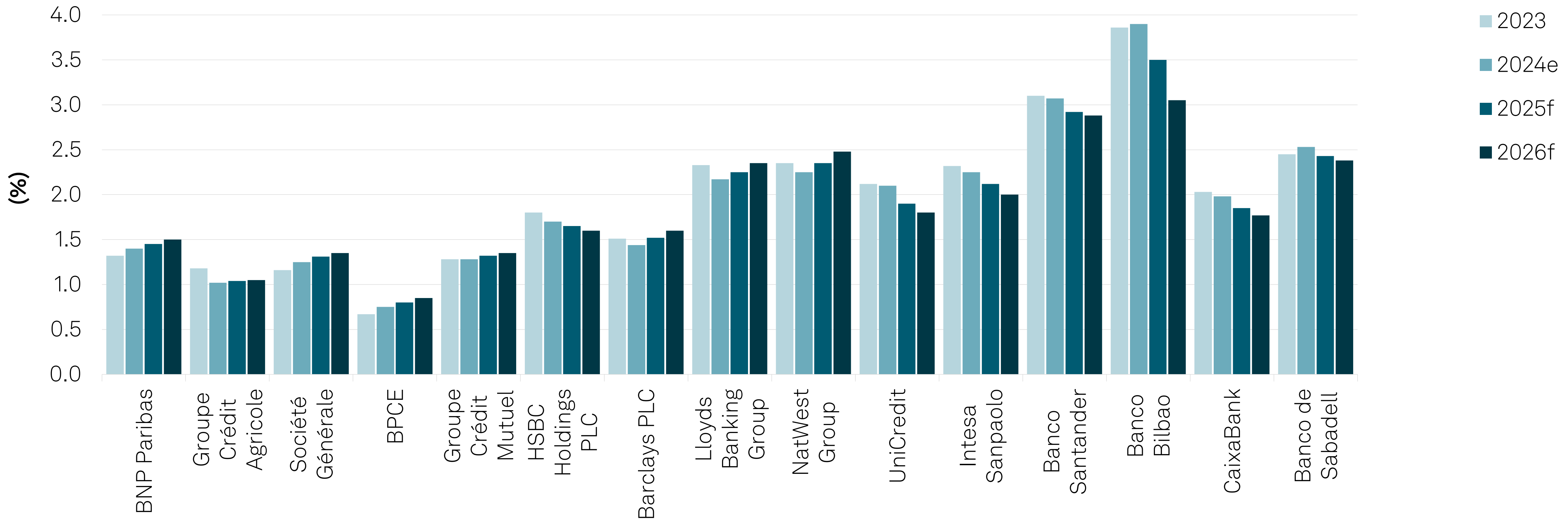
Market and funding volatility due to fiscal challenges
Significant reliance on market funding leads to the risk of spread widening and what it would do to funding costs and, ultimately, profitability.

Asset quality deterioration
Potential credit risks relating to unsecured lending to consumers, small and midsize enterprises, professionals, and in sectors such as construction and real estate development--where credit quality deterioration among borrowers could weigh on some banks' portfolios.

Digital and IT transition
Efficiencies gains or enhanced service coexist with risks such as cyber attacks, which could disrupt operations and lead to reputational and financial consequences.

French Banks' NIM Will Improve But Remain Lower Than Peers

Repricing of banks' back books and a decreased negative hedging impact shape the results; funding costs benefit from the ECB's declining rates policy



e--Estimate. f--Forecast. Source: S&P Global Ratings.

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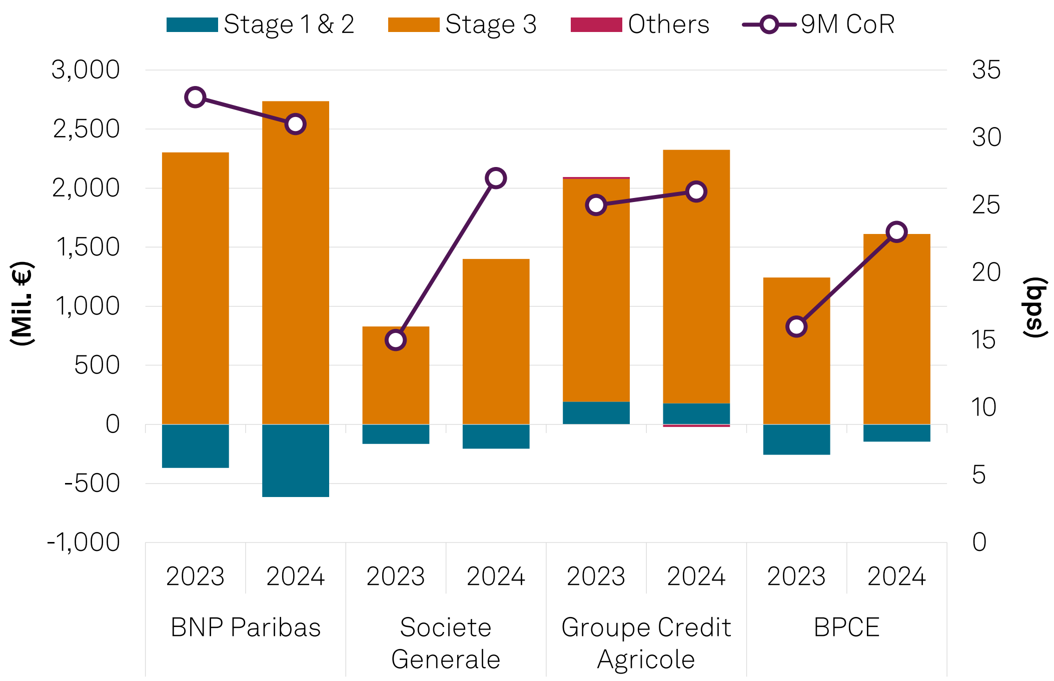
Asset Quality Continues To Normalize

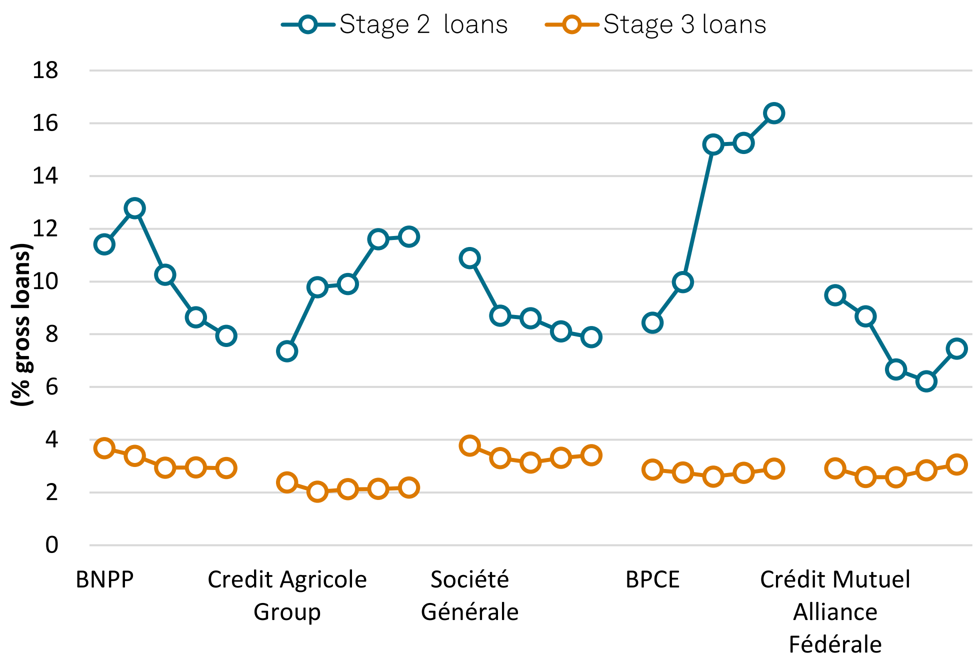
Sector-specific deterioration risks are limited, while moderate GDP growth and stable employment trends support asset quality despite the rise in French bankruptcies

Credit cost rose in the first nine months of 2024



Figures are for 9M 2023 and the same period in 2024. This excludes exceptional and extraordinary items as of 9M23 for BNPP. 9M--First nine months. CoR--Cost of risk. Source: Banks' disclosures.

Stage 2 and 3 gross loans as a share of the total



Note: Data points represent levels as of December 2020, December 2021, December 2022, December 2023, and July 2024 (in order). Source: Bank disclosures and S&P Global Ratings estimates, database, and definitions.

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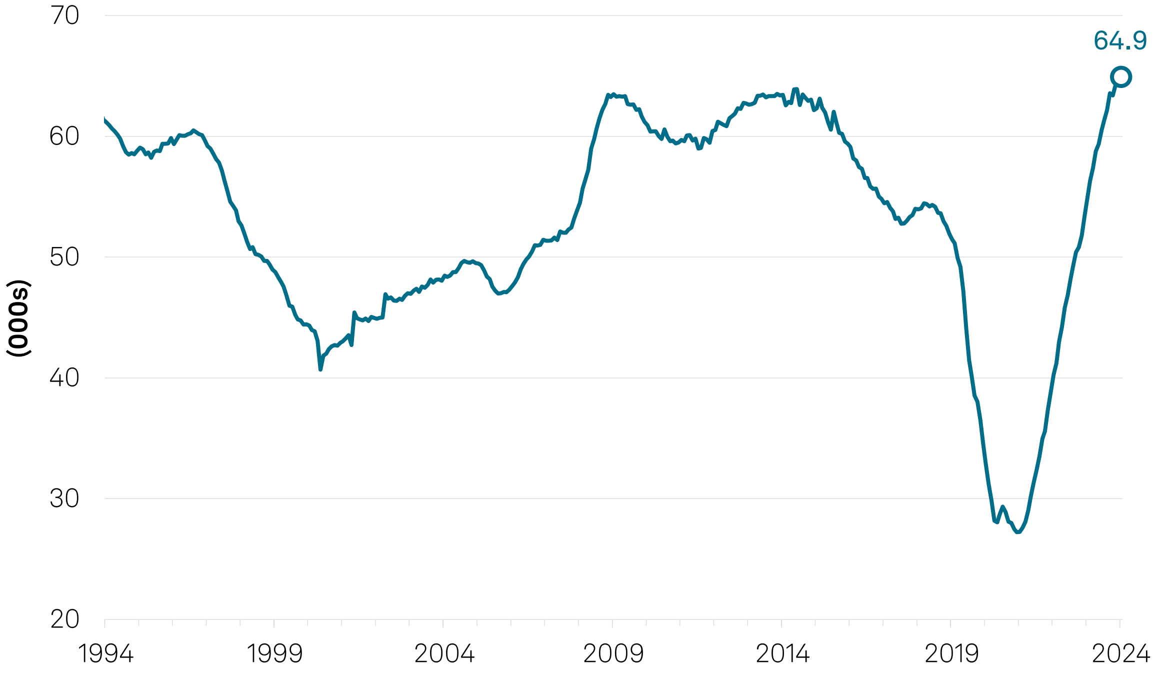
Domestic Business Insolvencies Continue To Rise

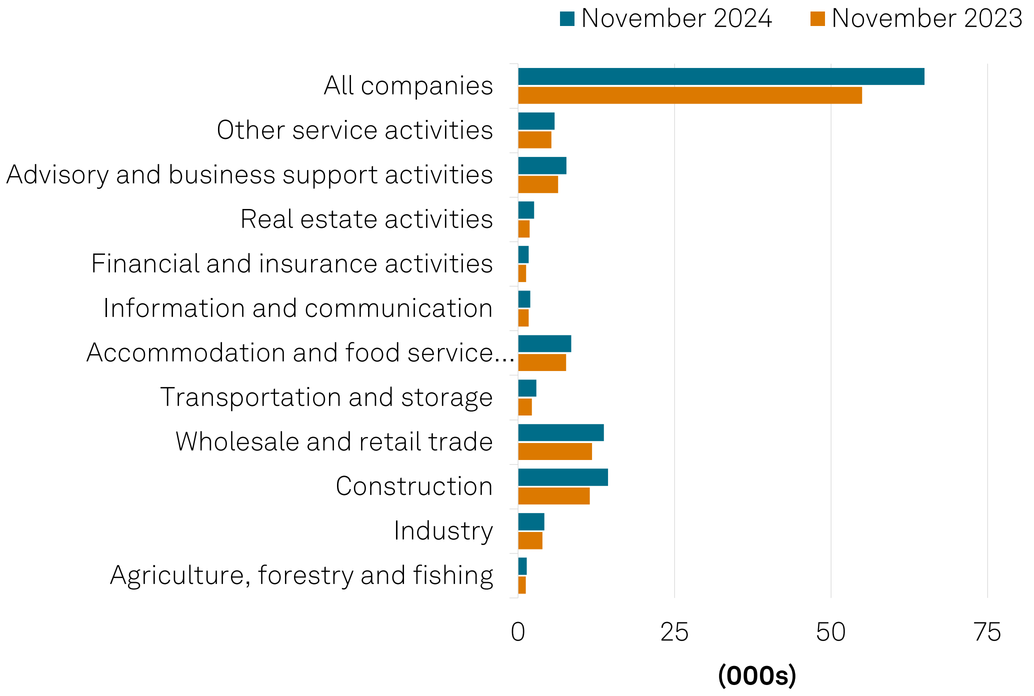
The risks do not materially affect wider financial sector performance

Cumulative bankruptcies over 12 months in France



Source: Banque de France.

Corporate bankruptcies higher in construction and retail



Source: Banque de France.

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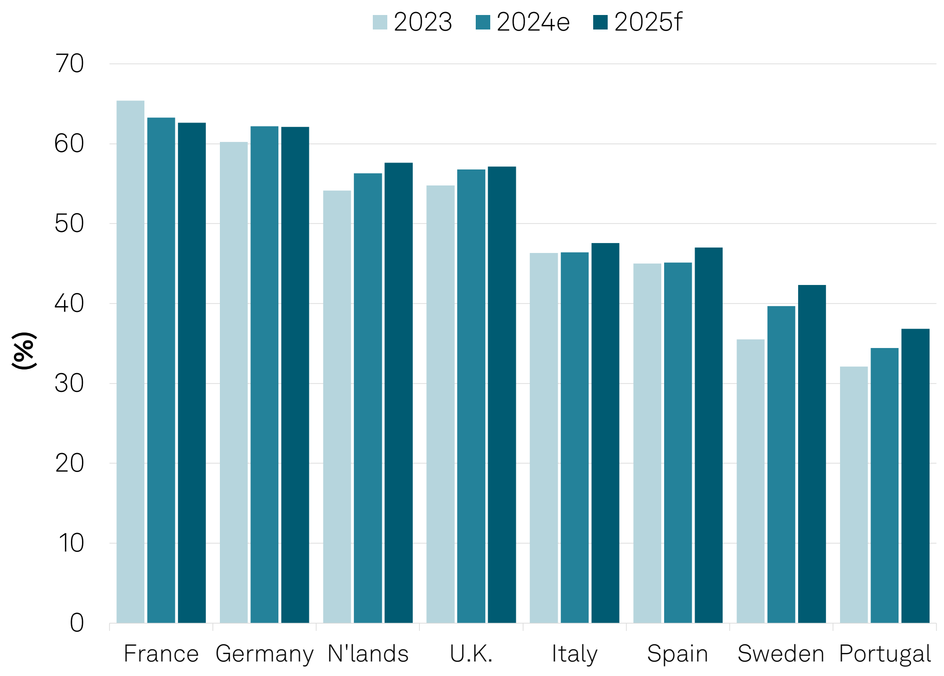
Cost Efficiency Remains A Weakness For French Banks

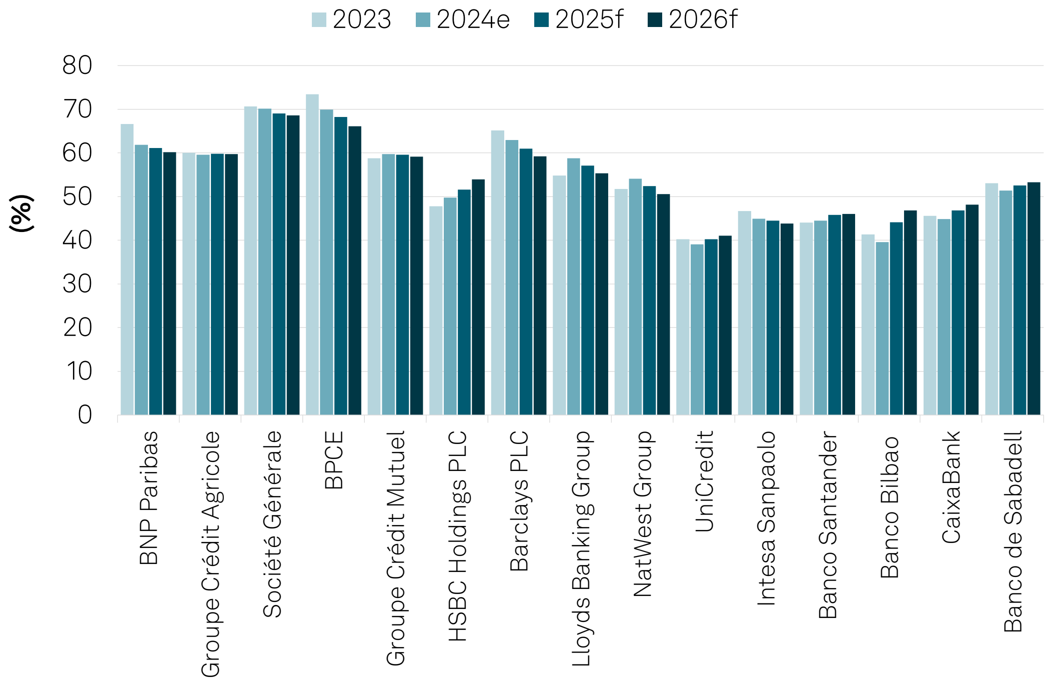
More structural enhancement is needed to reach efficiencies gains

Efficiency improves but remains worse than peers'



Note: Values are weighted by total assets. Sample includes only banks that have data for all three periods (constant sample). e--Estimate. f--Forecast. Source: S&P Global Ratings.

Cost to income by banks



e--Estimate. f--Forecast. Source: S&P Global Ratings.

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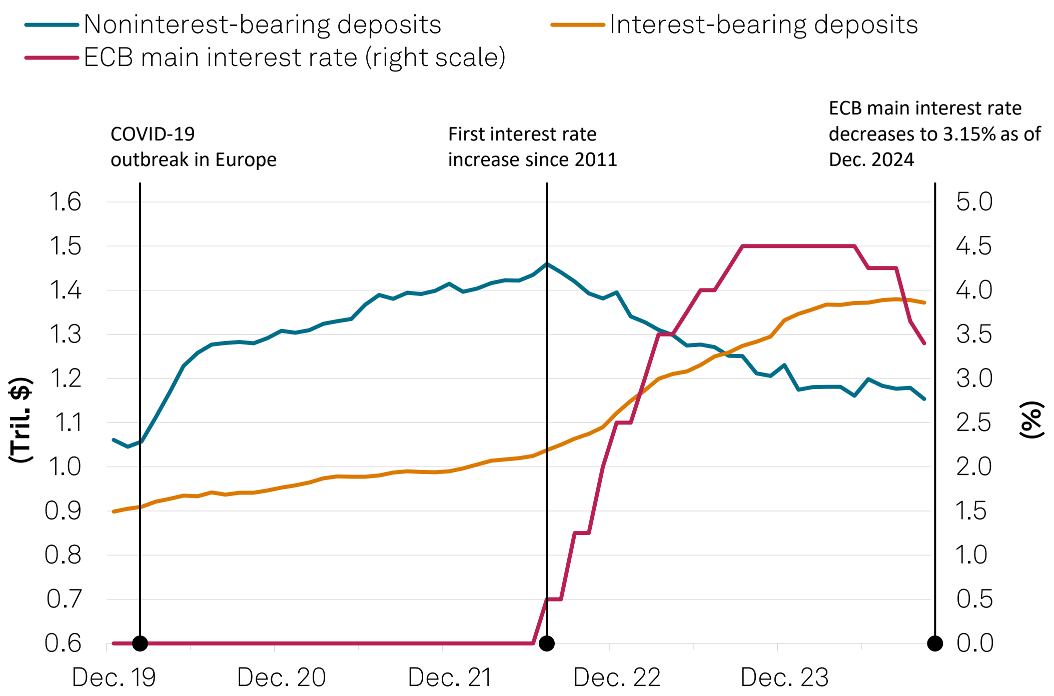
French Banks' Funding Costs Will Benefit From Lower ECB Policy Rates

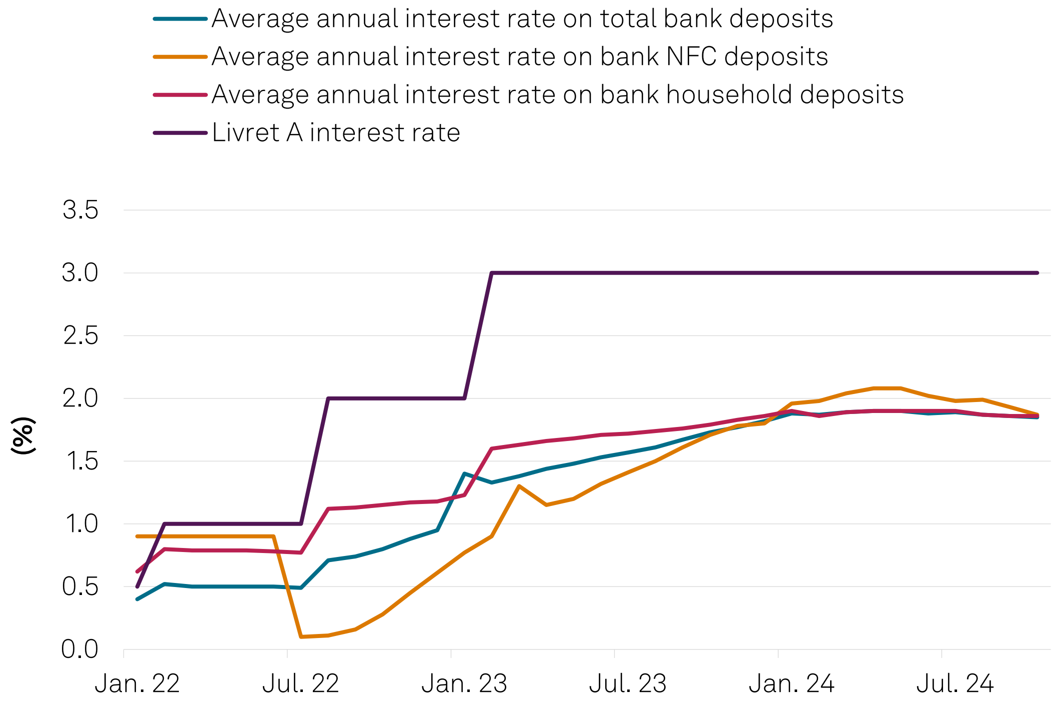
Funding costs will also get a boost from more stable depositor behavior and lower regulated savings rates

The shift to higher-paying time deposits has stopped



ECB--European Central Bank. Source: Banque de France

Livret A's interest rate is anticipated to decrease



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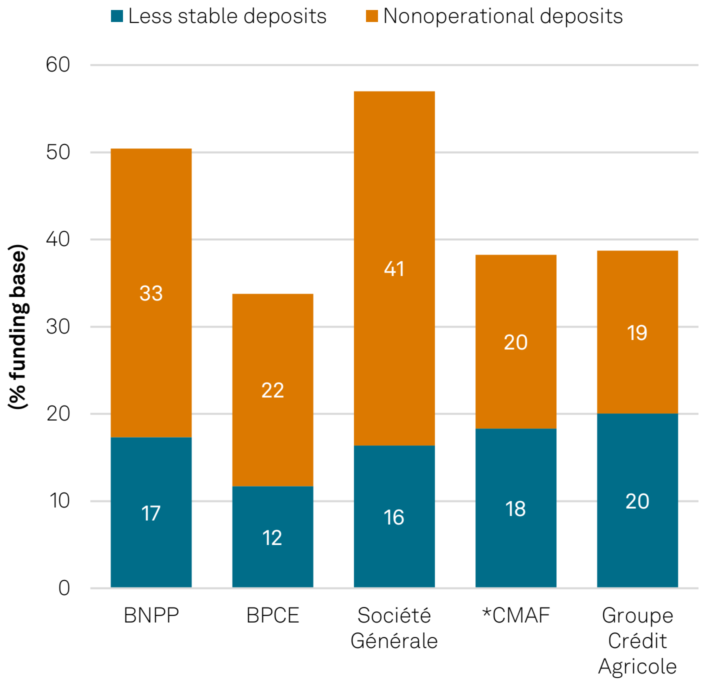
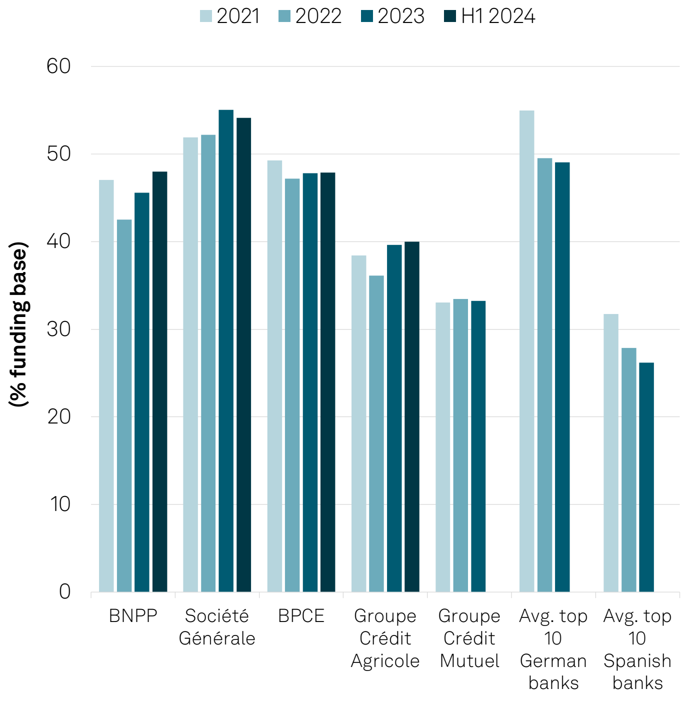
French Banks' Funding Bases Remain Sound

Less stable and nonoperational deposits are slightly lower for mutuals according to banks' LCR



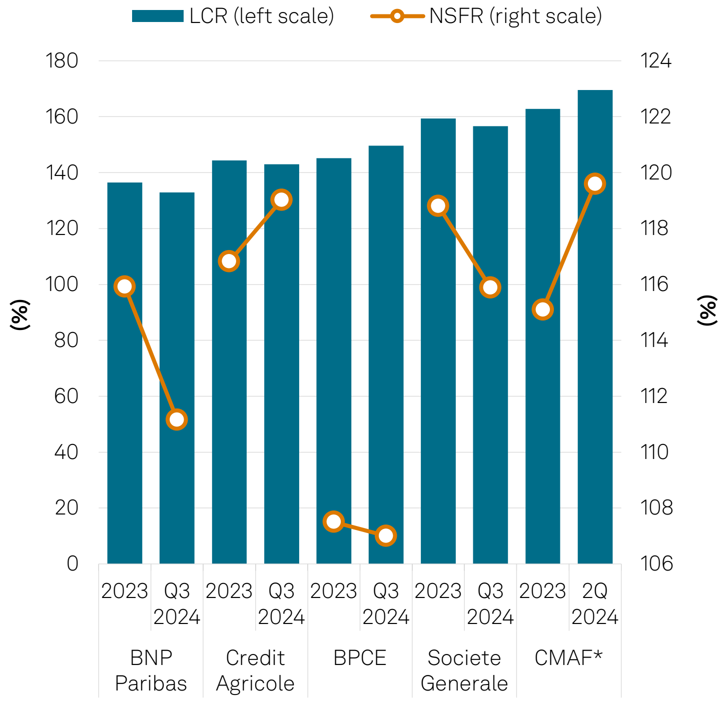
The liquidity coverage ratio (LC)R is unweighted value. Source: Banks disclosures as of Sept. 30, 2024; Crédit Mutuel Alliance Fédérale (CMAF) as of June 2024.

Large French banks continue to rely on wholesale sources



Source: S&P Global Ratings.

French banks' liquidity metrics remain well above regulatory requirements

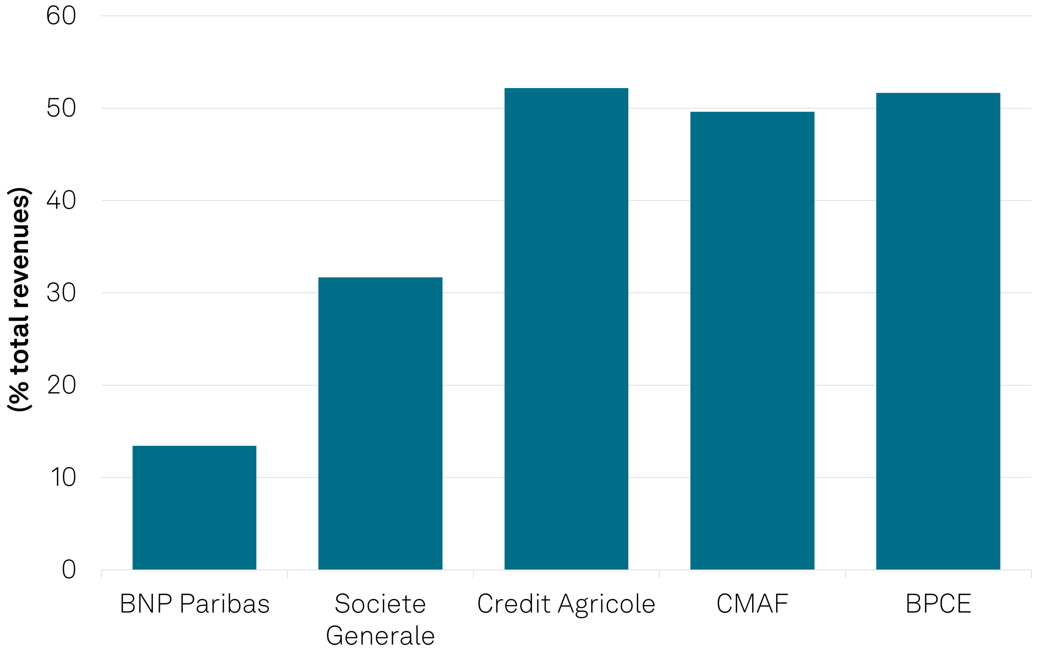


*Crédit Mutuel Alliance Fédérale (CMAF) does not publish quarterly data for the third quarter. Source: Banks' disclosures.

Exposure To France Varies, With Limited Direct Exposure To The Sovereign

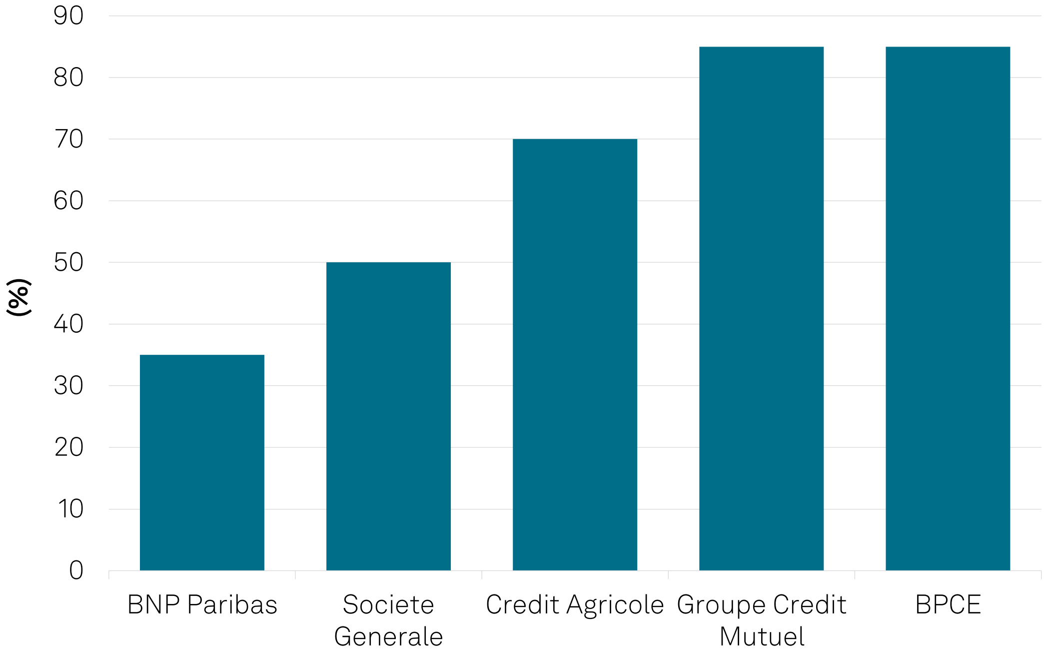
French government debt accounts for an estimated 20% of banks' common equity Tier 1 capital

French banks' estimated share of domestic retail revenues



Source: Banks' segment disclosures. For BNP, CPBF revenue exclude PEL/CEL effects and include 100% of private banking; for Credit Agricole, LCL and Caisses Régionales revenue; for BPCE, BP and CE networks revenue; for Societe Generale, Retail banking in France revenue; for CMAF, retail banking network revenue as of second-half 2024. French debt excludes centralization of regulated savings at the CDC and La Banque Postale.

French banks' share of credit exposures to France



Source: Banks' disclosures. Pillar 3 Exposure at Default.

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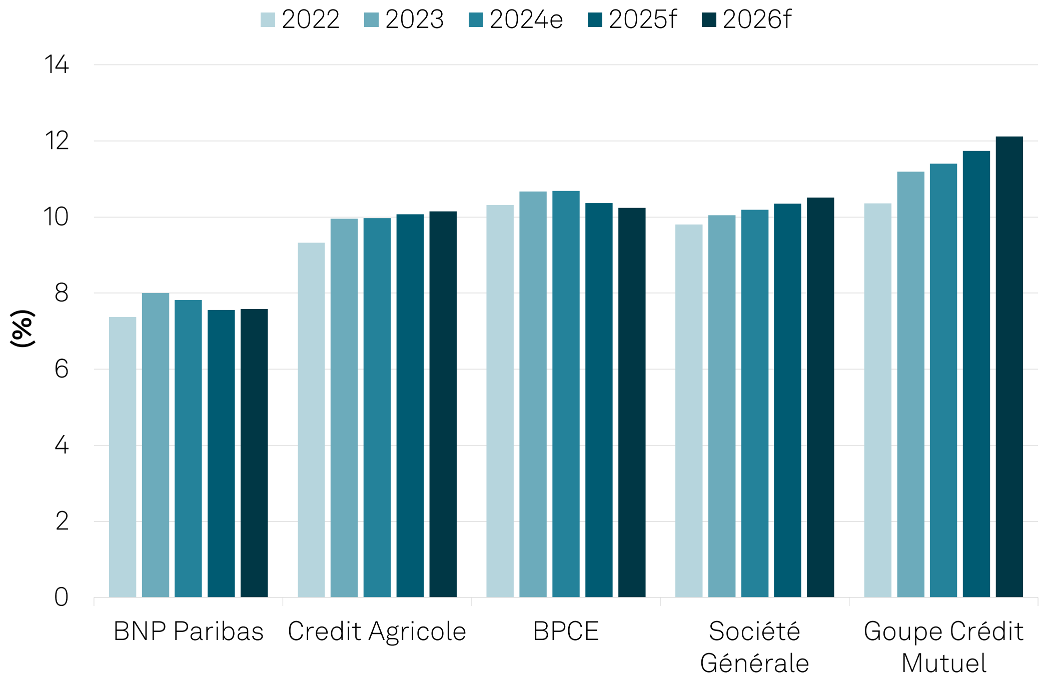
We Expect No Significant Changes In Capital Levels In 2025

CRR3 applies as of Jan. 1, 2025, but has little immediate effect on French banks

We expect French banks' RAC ratios to be stable



RAC--Risk-adjusted capital. e--Estimate. f--Forecast. Source: S&P Global Ratings.

SREP Pillar 2 Requirements (total capital)

(%)	2025	2024
BNP Paribas S.A.	1.84	1.77
Société Générale S.A.	2.40	2.42
Crédit Agricole S.A.	1.80	1.75
BPCE S.A.	2.25	2.10
Groupe Crédit Mutuel	1.75	1.75
La Banque Postale	2.00	2.00

Increases (in red) and decreases (in green) from Jan. 1, 2024, to Jan. 1, 2025.
Source: Bank disclosures and European Central Bank.

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Banks Look To Expand Nonretail Activities

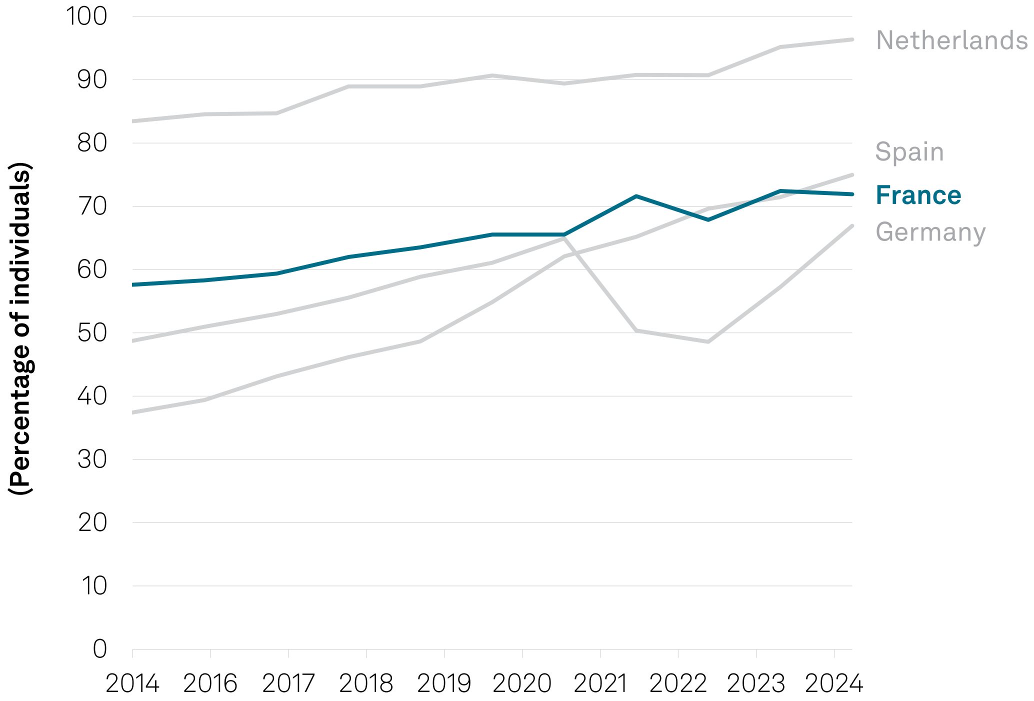
Large banks focus on where they can increase scale, in particular in capital-light activities, such as with the following:

- Strategic partnership to originate and distribute high-quality private credit investment (Brookfield and Société Générale, Apollo and BNPP)
- BNPP Cardif's acquisition of AXA Investment Managers and Neuflize Vie, and sale of HSBC's private banking business in Germany to BNPP
- Groupe Crédit Agricole partnership with GAC International to support CA Auto Bank, in real estate with Nexity Property, purchase from Santander of its stake in Caceis (assets servicing activities) and stake in Bank Degroof Petercam by Indosuez Wealth Management (private banking activities)
- Crédit Agricole increasing its stake on Banco BPM (Italy) to 15.1% from 9.9%, which strengthens its position in decisions concerning Banco BPM
- BPCE purchasing Société Generale Equipment Finance Management

Progress In Digitalization And Sustainability Continues

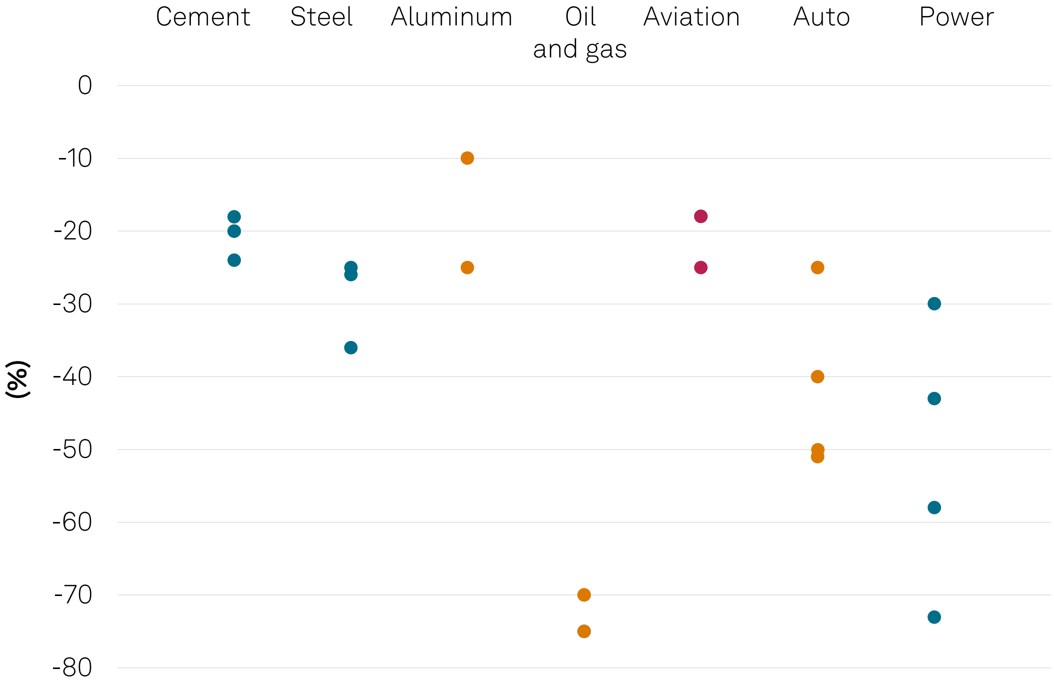
Management is accounting for cyber and climate risks

Digital channels are growing



Source: Eurostat.

Decarbonization targets



Note: Targets for BNP Paribas, Societe Generale, Credit Agricole, and BPCE are not always fully comparable. Base year, scope, and metrics could differ. Yellow dots include Scope 3 exposures. Blue dots cover Scope 1 and 2.
Sources: Banks' reporting, S&P Global Ratings.

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