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FRANCE

FINANCIAL SYSTEM STABILITY ASSESSMENT

July 2025

This paper on the France was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with France. It is based on the information available at the time it was completed on June 26, 2025.

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FINANCIAL SYSTEM STABILITY ASSESSMENT

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KEY ISSUES

Context: The French financial system has proven resilient to the shocks of the last five years but faces headwinds from domestic and external policy uncertainty and high fiscal consolidation needs. Bank-insurance conglomerates that include four Global Systemically Important Banks dominate the financial landscape, and financial markets have become increasingly complex in the post-Brexit environment. Banks' capital and liquidity buffers remain high, but with low profitability versus peers.

Findings: Financial stability risks in France appear contained. Banks and investment funds demonstrate resilience under severe stress-testing scenarios, including a system-wide market shock. High levels of debt in non-financial corporates and households are a longstanding issue and warrant further monitoring, as do interconnections between banks and non-banks. Several strong macroprudential actions to limit systemic risks in these areas have been taken since the previous FSAP. Supervisory practices are strong across the financial sector, with a noted focus on financial stability matters.

Policy advice: Authorities should ensure resources are sufficient to deal with an increasingly complex financial ecosystem. Data quality and monitoring of interconnectedness risks with non-bank financial institutions should be improved. The macro prudential framework and tools should be further strengthened to enhance their effectiveness and avoid any buildup of risks. Cyber and financial crisis management and cooperation arrangements should be formalized and institutionalized, and the resolution framework for insurers enhanced. ELA arrangements need to be improved, and the deposit insurance fund enhanced with a higher target level and a public backstop.

Approved By
May Khamis
Prepared By
Monetary and Capital Markets Department

This report is based on the work of the Financial Sector Assessment Program (FSAP) mission that visited France in December 2024 and March 2025. The FSAP findings were discussed with the authorities during the Article IV consultation mission in May 2025

- The FSAP team was led by Charles Cohen and included Jan Nolte (Deputy Mission Chief), Miguel Otero, Gurnain K. Pasricha, James Roberts, David Rozumek, Eriko Togo, Thierry Tressel, Suzette Vogelsang (all MCM), Torsten Wezel (EUR), Katheleen Kao (LEG), Gabriella Biro, and Ian Tower (both STX). Meiko Xie was the Research Analyst for the FSAP and Jeffrey Vicente provided administrative support. The FSAP team collaborated closely with the France Article IV team.

- The team met with the Governor François Villeroy de Galhau of the Banque de France (BdF), Minister Eric Lombard of the Ministère de l'Économie, des Finances et de la Souveraineté industrielle et numérique (MoEF), Director General Bertrand Dumont of the Trésor, Director General Antoine Deruennes of the Agence France Trésor (AFT), President Marie-Anne Barbat-Layani and Secretary General Sebastien Raspiller of the Autorité des Marchés Financiers (AMF), the Secretary General Nathalie Aufauvre of the Autorité de Contrôle Prudentiel et de Résolution (ACPR), the president Anthony Requin of the Fonds de Garantie des Dépôts et de Résolution (FGDR) and other senior officials of these agencies, as well as members of the Haut Conseil de Stabilité Financière (HSCF), industry associations and select representatives of the private sector.

- FSAPs assess the stability of the financial system as a whole and not that of individual institutions. They are intended to help countries identify key sources of systemic risk in the financial sector and implement policies to enhance its resilience to shocks and contagion. Certain categories of risk affecting financial institutions, such as operational or legal risk, or risk related to fraud, are not covered in FSAPs.

- France is deemed by the Fund to have a systemically important financial sector according to SM/10/235 (9/16/2010), and the stability assessment under this FSAP is part of bilateral surveillance under Article IV of the Fund's Articles of Agreement.

CONTENTS

TABLES

Glossary

ACPR	Autorité de Contrôle Prudentiel et de Résolution (Prudential Supervision and Resolution Authority)
AFT	Agence France Trésor, the French debt management office
AMF	Autorité des Marchés Financiers (Financial Markets Authority)
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ANSSI	Agence nationale de la sécurité des systèmes d'information (the national cybersecurity agency)
BBM	Borrower-based measures
BdF	Banque de France (Bank of France)
CCyB	Countercyclical capital buffer
CDC	Caisse des Dépôts et Consignations
CET1	Common Equity Tier 1
DORA	Digital Operational Resilience Act
DSTI	Debt service-to-income
EA	Euro Area
EBA	European Banking Authority
ECB	European Central Bank
ELA	Emergency Liquidity Assistance
EU	European Union
FICOD	Financial Conglomerates Directive
FGDR	Fonds de Garantie des Dépôts et de Résolution, the funds for deposit insurance and resolution
ORPS	Fonds de Retraite Professionnelle Supplémentaire (Supplementary Occupational Pension Funds)
FSB	Financial Stability Board
G-SIB	Global Systemically Important Bank
HCSF	Haut Conseil de Stabilité Financière (High Council of Financial Stability)
HQLA	High-Quality Liquid Assets
IAIG	Internationally Active Insurance Group
ICP	Insurance Core Principle
LCR	Liquidity Coverage Ratio
LGD	Loss given default
LSI	Less significant institution
LTV	Loan-to-Value Ratio
MMF	Money Market Fund
MoEF	Ministry of Economics, Finance, and Industrial and Digital Sovereignty or Ministère de l'Économie, des Finances et de la Souveraineté industrielle et numérique
NAV	Net Asset Value
NBFI	Nonbank financial institution
NFC	Non-financial corporation

NFCI	Net Fees and Commission Income
ORPS	Organisme de Retraite Professionnelle Supplémentaire
OSII	Other Systemically Important Institutions
RWA	Risk Weighted Assets
SI	Significant Institution
SME	Small and Medium Enterprise
SREP	Supervisory Review and Evaluation Process
SSM	Single Supervisory Mechanism

EXECUTIVE SUMMARY

Notwithstanding high uncertainty, financial stability risks appear contained in France. An increasingly complex financial sector has proven resilient to the stress events of the last five years. Despite recent fiscal slippage and market volatility, sovereign debt markets have functioned well, and large debt issuance continues to be smoothly absorbed by a deep and well diversified buyer base. Sovereign-financial sector nexus risks appear manageable due to relatively lower bank holdings and a diversified global investor base. While household and non-financial corporates (NFC) debt remain elevated, credit growth has moderated, and the housing market has undergone an orderly downward adjustment.

Large and interconnected banks with high capital levels and steady earnings continue to dominate the French financial system. There are six major *bancassurance* conglomerates, which include four Global Systemically Important Banks (G-SIBs) with important cross-border exposures. They support a large corporate bond market, one of Europe's largest money-market fund (MMF) markets, and financial markets that continue to develop in both size and complexity. Conglomerates leverage their large size and ability to cross-sell market products, enhancing customer reach. Associated fees create a steady stream of revenues that increases resilience. The insurance sector is the largest in the EU and among the top five globally.

Conservative lending practices result in a banking system with low credit risk, though it has lower profitability compared to Euro Area (EA) peers. For housing loans, high-quality borrowers, long-term fixed-rate loans, and loan guarantee schemes have meant high borrowers' resilience to interest rate shocks and low credit losses. However, profits on home loans are low and net interest margins have compressed during past periods of increasing interest rates, as fixed-rate loans saw little repricing, while funding costs on largely floating-rate liabilities rose. While high levels of debt in non-financial corporates are a longstanding issue, defaults remain low, despite some rise for small- and medium-size enterprises (SMEs) as Covid-era measures have been rolled off.

French banks and the broader financial system appear resilient under severe stress-testing scenarios, although risks from non-financial corporates and interconnections between banks and non-banks warrant continued monitoring. No bank falls below its minimum capital requirements under the two adverse scenarios used in bank stress testing—a geopolitical inflationary shock and a recession—though several banks draw on their additional capital buffers. The risks associated with sovereign spread widening are manageable. Bank liquidity buffers remain high, and cash flow stress tests indicate that most banks can withstand significant outflows for up to one month under multiple adverse scenarios. Stress tests on investment funds suggests they have adequate liquidity to withstand a substantial redemption shock.

Since the previous FSAP, several robust macroprudential measures have been implemented to mitigate systemic risks, yet further refinements should be made. Improving the public communication of the Haut Conseil de Stabilité Financière (HCSF) would bolster its effectiveness. Borrower-based measures (BBM) on home loans have successfully ensured prudent lending standards amid rising home prices and increased risk- taking by lenders, while a systemic risk buffer has been introduced to limit individual exposures to individual highly indebted NFCs. As the housing market recovers, authorities should consider enhancements to the BBMs to prevent buildup of vulnerabilities. Clearer guidance is needed on the early buildup, neutral rate, and release of the countercyclical capital buffer (CCyB)—known as the credit protection reserve in France—to ensure the availability of releasable buffers even when cyclical systemic risks do not appear elevated.

Supervisory resources must be adequate to address increasingly complex markets and regulations, and inter-agency cooperation should be strengthened. Caps on headcount and spending pose risks of oversight gaps and insufficient resources for evolving requirements, including in high-risk areas such as cybersecurity. While French authorities have a strong track record in managing real-time crises, they should formalize existing arrangements for inter-agency cooperation, information sharing, and financial crisis management and preparedness— including crisis simulations and cyber crisis response—to strengthen resilience.

Robust supervisory practices across the financial sector could be further strengthened. A full Insurance Core Principles (ICP) assessment found an overall high level of observance, with 23 of the 24 ICPs assessed as Observed or Largely Observed. Recently agreed EU legislation should strengthen the insurance resolution framework and thereby improve observance of the one ICP assessed as Partly Observed. The regulatory framework for supplementary occupational pension funds (ORPS) should have more risk-based capital requirements. Supervision of investment funds' liquidity risk management is strong. Supervisors should proactively identify and mitigate potential market disruptions caused by outages of critical market players. Finally, authorities should work with relevant European authorities to further strengthen the conglomerate-level risk framework.

The institutional and regulatory framework of cybersecurity is strong, but more transparency and formalized cooperation is needed on critical infrastructure protection. The authorities should ensure consistency in cyber risk supervisory practices and convergence of methodologies across agencies, as foreseen under the application of the Digital Operational Resilience Act (DORA). Common tools for DORA-related activities should be developed and shared among the financial supervisors, and an increased onsite supervisory presence should be implemented.

France has made progress in financial crisis preparedness and management, yet further improvements are needed. The resolution authority should ensure operational readiness for the combination of resolution tools and cross-border bail-in procedures. Regarding emergency liquidity assistance (ELA), the BdF should require banks to preposition collateral (calibrated on a risk basis) and conduct simulation exercises. Internal policies for ELA in resolution and arrangements with other central banks for cross-border ELA are also needed. The deposit insurer needs to be strengthened through a higher fund target level and a public liquidity backstop.

Table 1. France: 2025 Key FSAP Recommendations		
Recommendation	**Agency**	**Timing***
Systemic risk analysis		
Work with relevant European authorities to improve data quality and timeliness on interconnectedness, and on derivative and repo market data, and undertake related risk analysis for banks and markets.	ACPR, AMF, BdF	ST
Work with relevant European authorities to improve liquidity monitoring through integration of liquidity stress in major currencies, and consider higher liquidity buffers to cover wholesale funding outflows within a two-week horizon.	ACPR, BdF	ST
Improve monitoring of investment fund redemption risk through data sharing on fund liability structures.	ACPR, AMF, BdF	ST
Authorities: Autonomy and resources		
Ensure that supervisory authorities are adequately funded while respecting their financial autonomy based on a thorough review of the sufficiency of resources to meet future needs.	ACPR, AMF, MoEF	MT
To avoid any perception of a potential conflict of interest and facilitate operationally independent functioning, the government should recuse itself from all supervisory decision-making committees at the ACPR and the AMF.	MoEF, Ministry of Labor	MT
Interagency coordination		
Formalize inter-agency coordination through the creation of standing committees dedicated to i) cyber crisis response procedures and ii) financial crisis preparedness and management.	ACPR, AMF, BdF, FGDR, MoEF	MT
Macroprudential policy and tools		
Further strengthen HCSF's institutional framework to ensure effectiveness and improve public communication.	HCSF, MoEF	I
Formalize the availability of releasable capital buffers by improving guidance regarding the neutral level of the credit protection reserve (CCyB), even when cyclical systemic risks are not yet elevated	HCSF, MoEF	ST
Enhance effectiveness of borrower-based measures by broadening their coverage.	HCSF	MT
Financial conglomerates and LSI supervision		
Cooperate with relevant European authorities on developing a methodology to identify FICOD-relevant competent authorities, in particular for authorities supervising asset managers.	ACPR, AMF	ST
Work with relevant European authorities to strengthen the framework for supervisory powers with regards to conglomerate-level risks through capital, governance, and risk management tools.	ACPR	MT
Further prioritize targeted onsite examinations for LSIs to enhance coverage and allocate limited resources more efficiently.	ACPR	MT
Insurance sector regulation and supervision		
Implement the Insurance Recovery and Resolution Directive by developing the necessary legislation, processes, guidance, and tools to complete the insurance resolution framework in line with the ICP.	ACPR, MoEF	MT
Ensure ComFrame requirements for IAIGs on enterprise-wide risk management are met, including the development of liquidity risk management and recovery plans.	ACPR	MT

Table 1. France: 2025 Key FSAP Recommendations (concluded)		
Recommendation	**Agency**	**Timing***
Markets regulation and supervision		
Identify and mitigate the risk of market disruptions due to the outages of critical firms or market operators.	AMF, ACPR	MT
Cyber security		
Enhance structured cooperation among relevant authorities and improve information sharing on specific incidents.	ACPR, AMF, BdF	ST
Crisis preparedness and management		
Enhance ELA arrangements through sufficient prepositioning of credit claims by banks, internal policies for ELA in resolution, and arrangements with other central banks for cross-border ELA.	BdF, ACPR	ST
Prioritize work to ensure operational readiness for the combination of resolution tools and cross-border bail-in procedures.	ACPR	ST
Strengthen resources of the deposit insurance fund with i) a revised target level sufficient for the combined coverage of the top 2—4 banks for which resolution plans foresee liquidation and ii) a public backstop.	FGDR, MoEF	MT
* I: Immediately; ST: short term= less than 1 year; MT: medium term= 1-5 years		

MACROFINANCIAL CONTEXT

A. Macrofinancial Conditions and Trends

1. The French economy and its financial sector have proven resilient to the stress events of the last five years but face some headwinds from domestic and external uncertainty. Growth is projected at 0.6 percent in 2025, down from 1.1 percent in 2024, as policy uncertainty amid domestic political fragmentation and rising geoeconomic tensions is affecting confidence and economic activity. Market volatility appears to have stabilized following the fall of Prime Minister Barnier's government in December 2024 and approval of the 2025 budget this February. The response to the April 2025 market volatility was muted, with negligeable outflows from French investment funds.

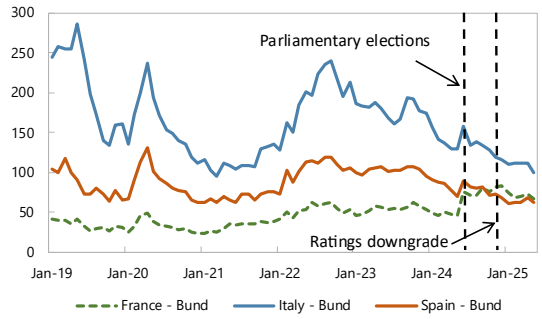
2. The EUR 2.8 trillion sovereign debt markets continue to function well despite the large increase in issuance since the previous FSAP. Over the past five years, the outstanding stock of government securities increased by 40 percent but was smoothly absorbed by the market. 10-year OAT-Bund spreads rose by about 25 bps in June 2024, reflecting increased fiscal concerns, but have stabilized since then (Figure 1). The sovereign market is deep and well diversified, with over half held by non-resident investors. At 4 percent of assets, banking sector holdings of government debt are below the Eurozone average of 6 percent, and banks with larger exposures mainly hold them to maturity. The debt management office ensures predictability and transparency in auctions, builds sizable benchmark securities, and manages refinancing risk through active buybacks. Secondary market liquidity has shown some mixed signals but generally remains strong (Figure 20).

3. Credit growth has moderated, and the housing market is undergoing an orderly downward adjustment, while household and NFC debt remain elevated (Figure 2). Household debt levels are above those in other large European countries, and home ownership rates are below the median. Housing loan issuance declined sharply in 2023-24, and average debt service to income (DSTI) ratio increased (Figure 24). While declining by 5 percent y/y, residential property prices have stabilized following a trough in 2024 Q1. NFC debt is among the highest in Europe (Figure 25). Prospects for a recovery of corporate credit are dim amid soft loan demand and still tight credit standards. The sharp decline in European commercial real estate (CRE) prices has had a limited impact on the French banking system, as direct exposures are small.

Figure 1. France: Government Debt Markets

10 Year Government Bonds Spread over Bund

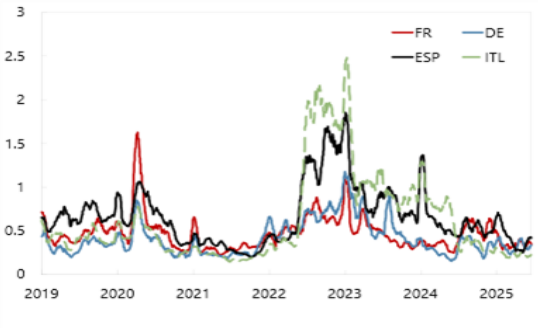
(In Basis Points)



Source: Haver.

Bid-Ask Spread of 10 Year Government Bonds

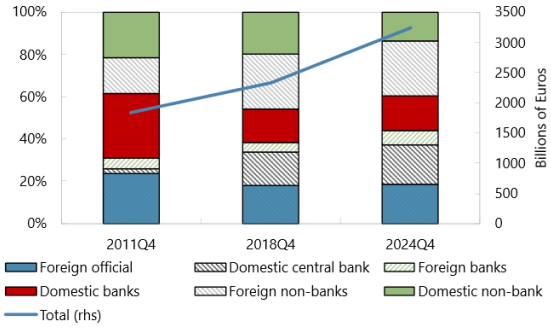
(In Basis Points)



Source: Bloomberg.

Holders of French Government Debt

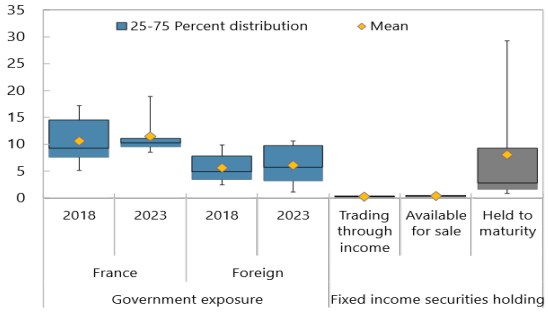
(Percent of Total Outstanding)



Source: Arslanalp and Tsuda.

Banks' Sovereign Exposure

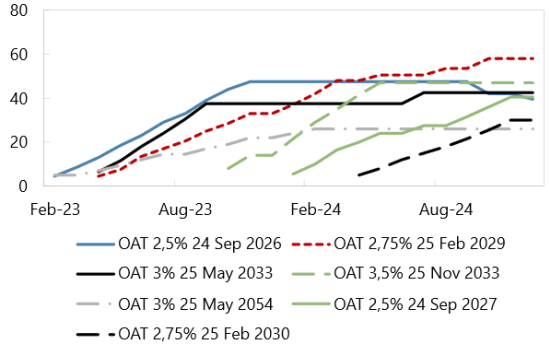
(As a Percent of total assets)



Source: EBA EU-wide transparency exercise and IMF staff calculations.

Cumulative Issuance of Benchmark Securities in 2023 and 2024

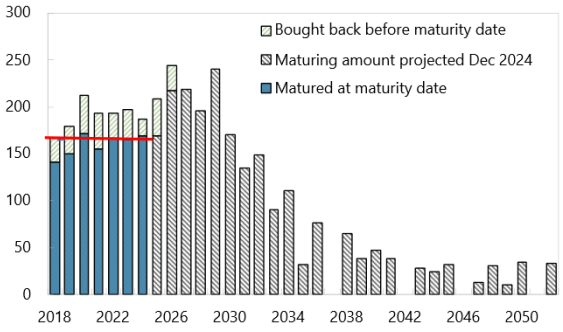
(in billions of EUR)



Source: AFT.

OAT Redemptions, Actual and Projected at End-2024

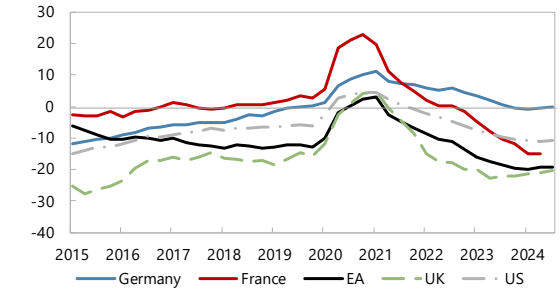
(in billions of EUR)



Source: AFT.

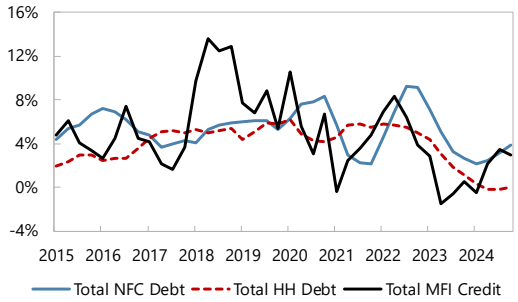
Figure 2. France: Credit Conditions, House Prices and Private Debt

Credit to GDP Gap
(In Percent, Quarterly Frequency)



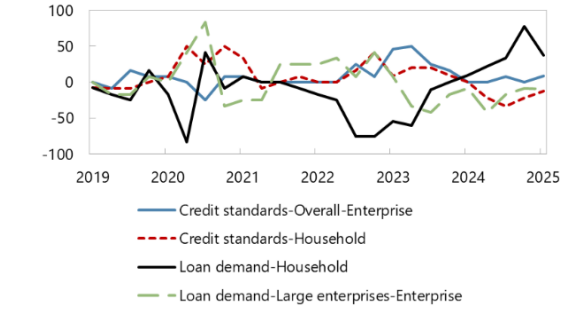
Source: Haver Analytics.

Credit Growth. YoY, Unconsolidated Data
(In Percent, Quarterly Frequency)



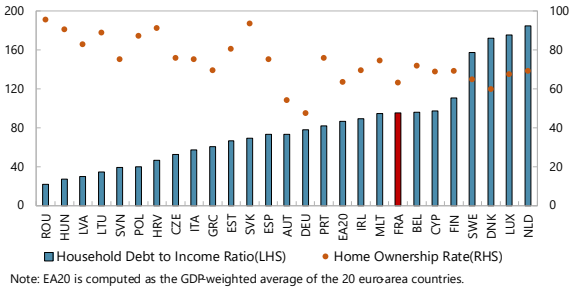
Sources: ECB and IMF staff calculations.

Credit Conditions and Loan Demand
(In Percent)



Source: ECB.

Household Debt and Home Ownership
(In Percent)



Note: EA20 is computed as the GDP-weighted average of the 20 euro-area countries.

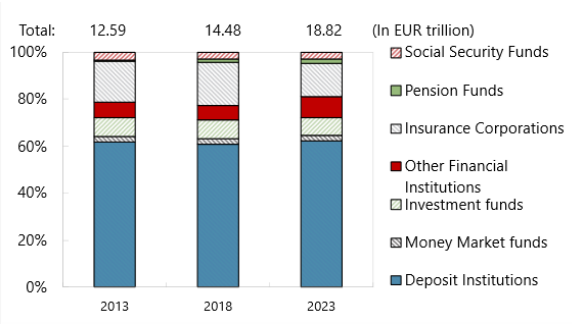
Source: Eurostat and IMF Staff Calculations.

B. Sector Structure and Performance

4. Large and interconnected banks continue to dominate the financial system (Figure 3). The highly concentrated banking sector (including 4 G-SIBs) accounts for 61 percent of the EUR 19 trillion financial system (634 percent of GDP), with insurance companies constituting 15 percent. Many of these are joined together in the six major *bancassurance* conglomerates with important cross-border exposures (Figure 22). The EUR 2 trillion investment fund sector is domestically owned, but assets are invested internationally and could be subject to cross border spillovers. They support a large corporate bond market (EUR 700 billion) and one of the largest (EUR 400 billion) MMF markets in Europe. The industry has recently seen several acquisitions of major asset managers by bancassurance firms, partially driven by favorable risk-weightings for acquisitions through insurance arms.

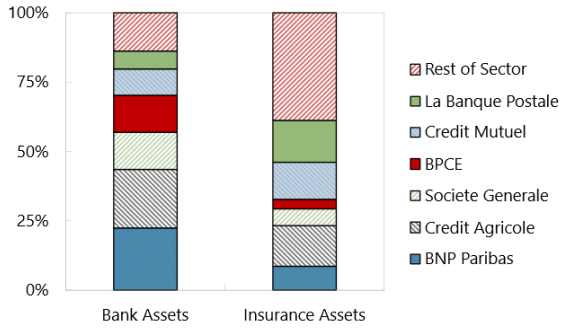
Figure 3. France: Structure of the Financial System

Total Financial Sector Assets in France
(Percent of Total Assets)



Source: BdF.

Bancassurance Conglomerates
(Percent of Industry Assets)



Source: ACPR, and IMF Staff.

2024 Aggregated Balance Sheet of MFIs (Excluding Central Bank)
(Billions of Euros, 2024)

Note: The following abbreviations are used in the chart:
MFIs = Monetary Financial Institutions; Gov = Government; NFPS = Non-financial private sector;
RoW = Rest of the World; Sec. = Securities; Eq. = Equities; EA = Euro Area; MMFs = Money Market Funds,
and unless otherwise specified, all items refer to domestic entities or instruments.

Source: Haver Analytics.

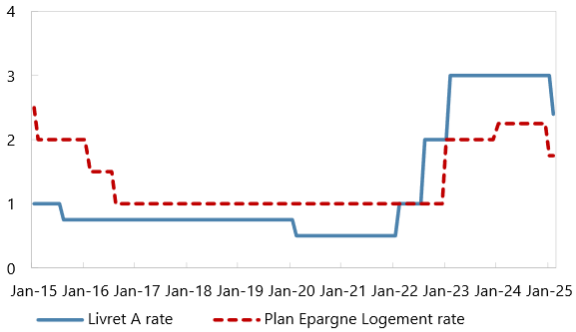
Assets and Liabilities of Investment Funds and Money Market Funds
(Percent of Total)

Source: BdF and ECB.

5. Bank profitability and capitalization have held up well despite poor loan growth and compressed net interest margins (Figure 4). With monetary tightening, margins compressed as fixed-rate mortgage and corporate loan books saw little repricing, while funding costs rose due to a reliance on wholesale funding, increasing term deposits, and higher interest rates in *Livret A* (regulated national savings) accounts. Notwithstanding rising defaults among SMEs as Covid-era measures expired, overall credit losses remain low as fixed-rate loans are shielded from rising rates and strong fee-based income provides steady earnings.

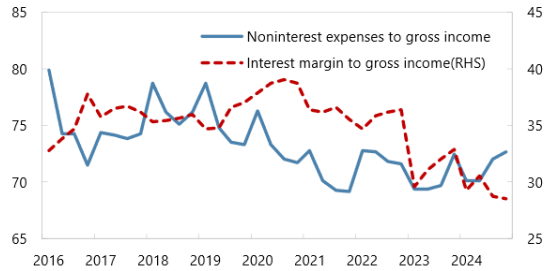
Figure 4. France: Recent Banking Trends

Regulated Interest Rates in France
(In Percent)



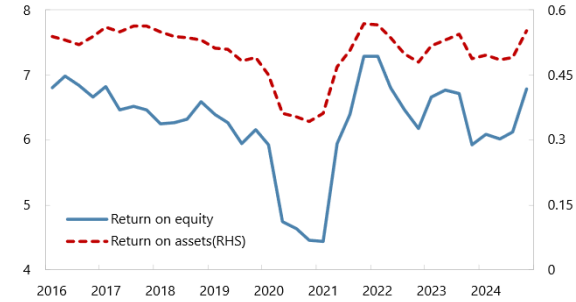
Source: Agence France Trésor.

Structure of Income & Expenses
(In Percent)



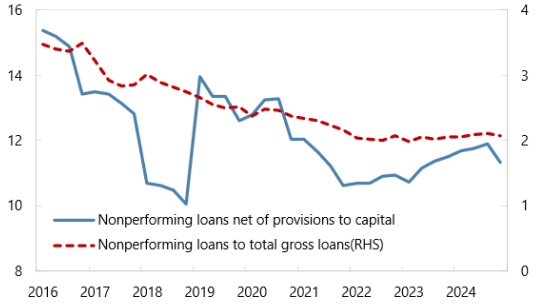
Source: IMF FSIs.

Profitability
(In Percent)



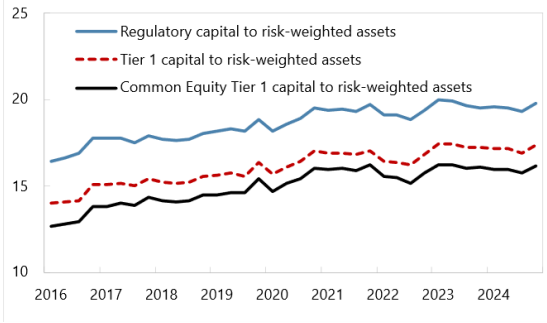
Source: IMF FSIs.

Asset Quality
(In Percent)



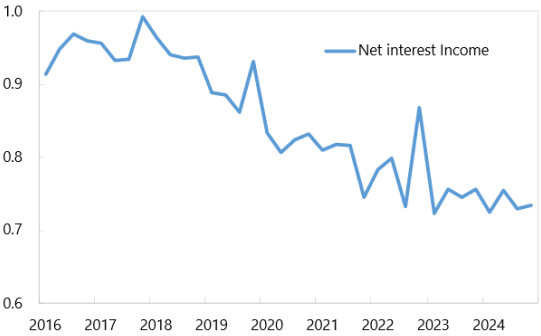
Source: IMF FSIs.

Capital Ratios
(In Percent of RWAs)



Source: IMF FSIs.

Net Interest Income
(In Percent of Total Assets)



Source: IMF FSIs.

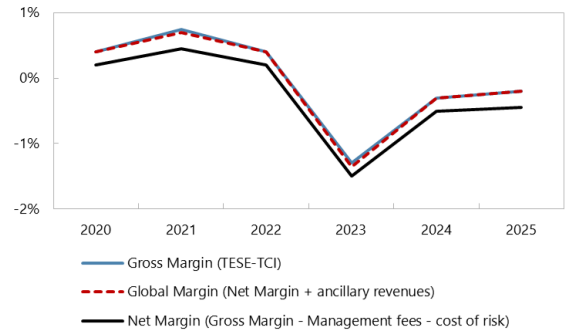
6. The insurance sector is among the top five globally and the largest in the European Union (EU). Over 80 percent of life premiums and 50 percent of non-life premiums are collected by the largest 15 insurers in each market, with eight International Active Insurance Groups (IAIGs) headquartered in France. Life savings and investment products that dominate the sector are mostly either unit-linked or Euro contracts (where typically capital is guaranteed but not the investment

return). Savings and investment products are popular partly due to their advantageous tax treatment.

7. The bancassurance conglomerate model has led to a banking sector with stable revenues but low returns. The sector is dominated by a few large players with conservative lending standards and a relationship business model that generates much of its earnings through fees (including through cross selling) rather than interest income (Figure 5). Asset productivity is relatively low due to high competition for prime borrowers. This setup has created stable banks with high ratings and low debt costs. But they suffer from poor returns-on-assets and low price-to-book values in comparison to peers.

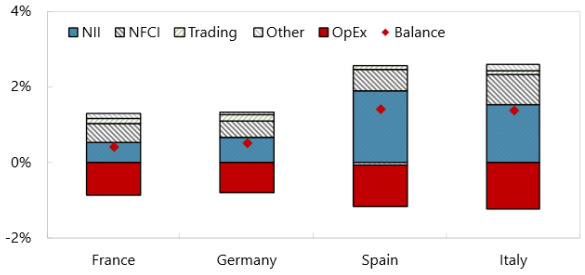
Figure 5. France: Banking Sector Characteristics

Margins on the Production of New Housing Loans
(In Percent)



Source: BdF

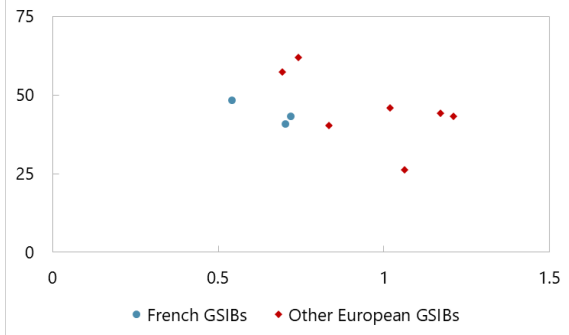
Large Banks: Drivers of Net Income, 2024 Q3
(In Percent of Total Assets)



Note: NII: Net Interest Income, NFCI: Net Fee and Commission Income, Trading: Net Trading (and Investment) Income, OpEx: Administrative Expenses and Depreciation. The "Balance" represents the sum of these components.

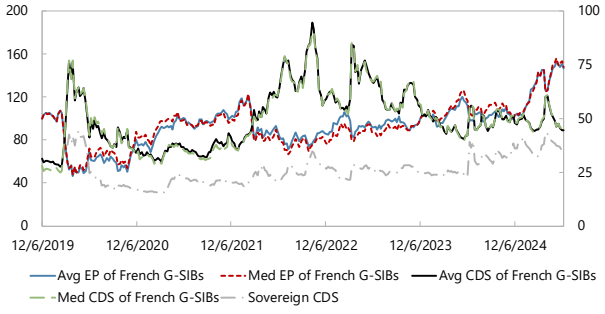
Source: ECB and IMF Staff Calculations.

CDS Levels vs Price-to-Book Ratio, March 7, 2025
(X-Axis: P/B Ratio, Y-Axis CDS)



Source: Bloomberg.

Equity Price vs CDS
(Equity Price in LHS, Index 2019 Dec= 100, CDS in RHS)



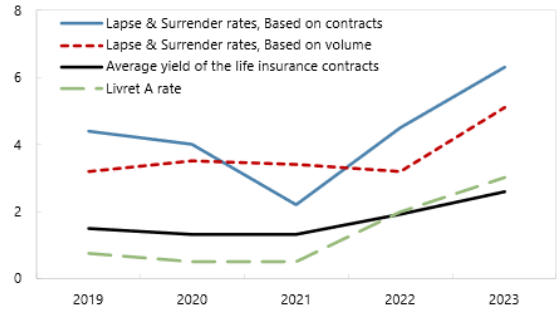
Source: Bloomberg.

8. The insurance and investment fund sectors appear to have weathered the transition to the higher rate environment (Figure 6). In response to rising rates, insurance companies tapped profit-sharing reserves to boost rates of return on investment products, but solvency ratios remain high. Lapses and redemptions rose only modestly from low levels in 2022 and 2023 and returned to normal historic levels in 2024. Real-estate investment funds have shown resilience to recent shocks, with liquidity risks structurally limited by the predominance of closed-end funds and the potential use of gates. MMFs saw large inflows in 2023, appear conservatively positioned to meet

redemptions, and do not use constant net asset valuation (CNAV) structures that offer redemptions at par, posing run risks.

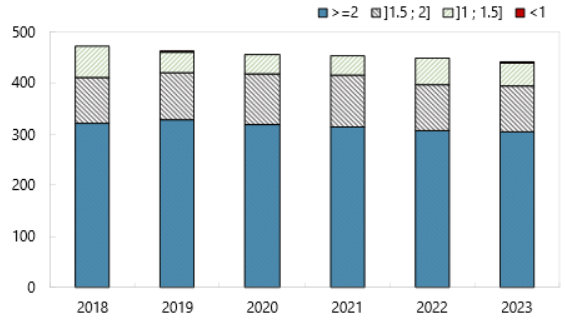
Figure 6. France: Recent Trends in Non-Bank Financial Institutions

Insurance: Yields and Lapse Rates in a Rising Interest Rate Environment (Percent)



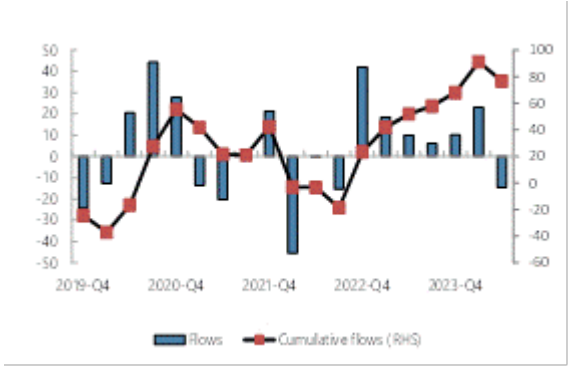
Source: ACPR and IMF Staff.

Insurance: Coverage of the Solvency Capital Requirement
(Number of Firms)



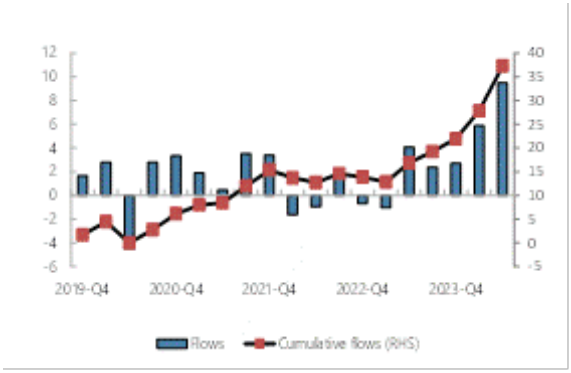
Source: ACPR and IMF Staff.

Net Flows into Money Market Funds
(In Billions of EUR)



Source: BdF.

Net Flows into Bond Funds
(In Billions of EUR)



Source: BdF.

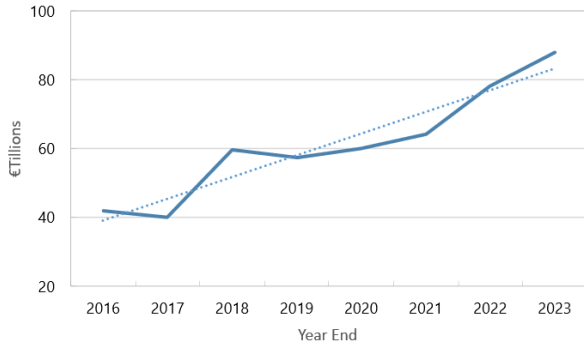
9. Trading activity continues to grow in size and complexity (Figure 7). Post-Brexit, the importance of France as an EU capital markets hub has risen. A range of previously UK-based firms have been registered under French supervision, including investment banks, investment firms, and trading venues. The trading activities of these firms are generally regulated domestically, with firms established as standalone entities rather than as branches. There has been a significant increase in wholesale trading markets. Platforms facilitating the trading of complex financial products have emerged, with volumes on Multilateral Trading Facilities increasing by 100-fold over the Brexit period to EUR 1.4 trillion in 2022. France has become the second largest interest rate derivatives market in the EU.

Figure 7. France: Distribution of Trading Activity

Types of Trading Venues
(As of End-March 2023)

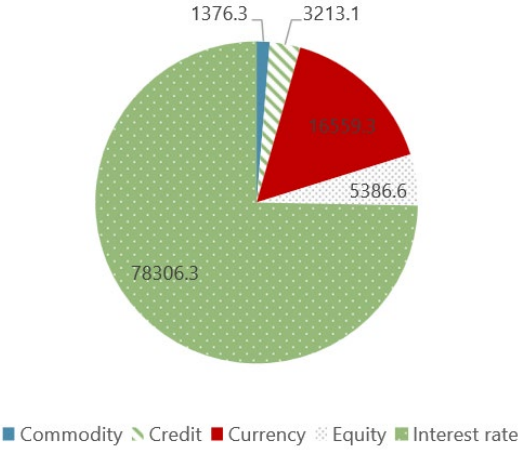
Source: ESMA.

Notional Amount of OTC Derivatives
(in EUR Trillion)



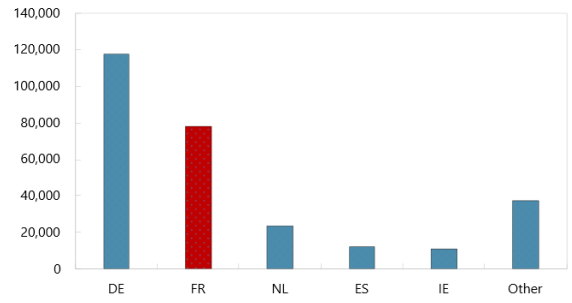
Source: ACPR, and IMF Staff.

Notional Amount Outstandings by Underlying
(In EUR Billion, March 2023)



Source: ESMA.

Interest Rate Trading in the EU
(In EUR Billion, March 2023)



Source: ESMA.

C. Interconnectedness

10. Significant interconnections exist between banks, insurance companies, and other non-bank financial institutions (NBFIs). While only 8 percent of insurance assets are directly invested in domestic banks, insurers are major investors in investment funds, with 39 percent of fund assets under management (Table 2). In turn, French bank debt is the primary asset of MMFs (60 percent of assets) and 14 percent of investment fund assets (Figure 26). Banks are the biggest distribution channel for insurance products, sourcing approximately 40 percent of their business. Most housing loans are guaranteed by affiliated third parties, with the largest guarantor jointly owned by the major banking groups. Banks and NBFIs are further linked through derivatives positions that may include significant contingent liabilities.

Table 2. France: Interconnectedness of the Financial System
(In Billions of EUR, Q2 2024)

		(All instruments, in billions of euros)	Liabilities of: Domestic sectors: Non-financial corps.	MFIs (excl. MMFs)	MMFs	Non-MMF IFs	OFIs	Insurance & pension funds	General government	Households 1/	Rest of World	Total
Assets of:	Domestic sectors	Non-financial corporations	9,075	1,375	99	80	271	63	167	78	3,436	14,645
		MFIs (excl. MMFs)	1,827	3,918	2	72	546	98	1,074	1,637	5,200	14,373
		MMFs	38	177	21	11	2	0	7	1	180	437
		Non-MMF investment funds	320	111	72	193	40	12	32	5	746	1,531
		Other financial institutions	439	274	16	24	242	25	5	184	676	1,886
		Insurance and pension funds	184	247	105	639	86	347	299	1	1,086	2,995
		General government	478	292	10	114	3	48	484	200	170	1,798
		Households 1/	1,604	2,516	17	332	28	2,171	151	0	183	7,003
		Rest of World	3,372	5,621	94	176	768	129	1,584	16		
		Total	17,337	14,531	436	1,642	1,985	2,892	3,803	2,122		

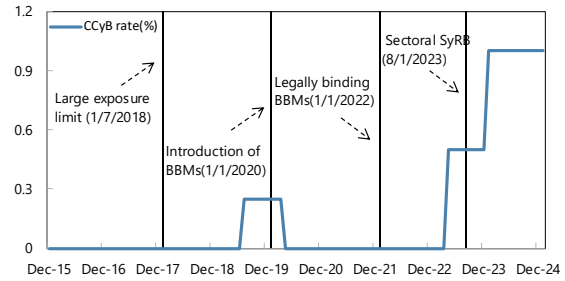
Source: Sectoral Financial Accounts, Banque de France and IMF Staff.

D. Macroprudential Policies

11. The macroprudential authority, the HCSF, has enacted several measures to deal with emerging threats since the previous FSAP (Figure 8). In 2019, to mitigate rising household indebtedness and deteriorating lending standards, it introduced BBMs through DSTI and loan maturity limits[1], but not through loan-to-value (LTV) limits common elsewhere. After a reduction to zero during COVID-19, the CCyB was raised twice and now stands at 1 percent. Consistent with 2019 FSAP recommendations (Table 12), the 2018 hard limit on large exposures to highly indebted corporates was changed in August 2023 to a sectoral systemic risk buffer (SyRB). This succeeded in reducing concentrated exposures of banks to individual highly indebted firms. In June 2025, the HCSF announced its plan to lift the SyRB, noting that the specific risks it was designed for have now diminished, and that its prudential buffer impact is now insignificant.

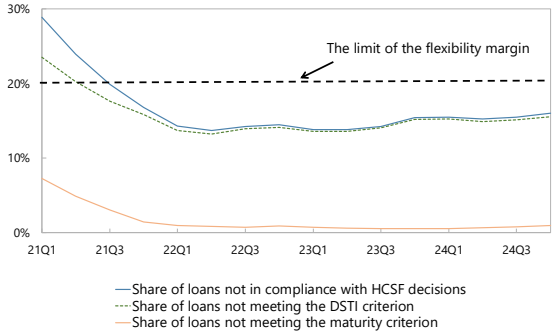
Figure 8. France: Key Macroprudential Policies

Key HCSF Decisions Since 2016.
(Percent)



Source: ESRB.

Share of New Housing Loans Not in Compliance with HCSF Decisions.
(Percent, Quarterly Average of Monthly Data)



Source: ACPR.

[1] Currently, the DSTI limit is 35 percent and loan maturity limit is 25 years.

SYSTEMIC RISK ANALYSIS

A. Vulnerabilities and Risks

12. Key risks in France center on slow fiscal consolidation, stalled structural reforms, and increasing balance sheet weaknesses in households and corporates, amid political fragmentation. Delays in fiscal consolidation could weaken public debt dynamics, further erode confidence and worsen the outlook, triggering higher risk premia, market repricing, and an adverse macro-financial feedback loop affecting private sector balance sheets. This would lead to higher credit risk and to tightening lending standards, further weakening private sector investment.

13. Global risks are on the rise and the outlook has become more uncertain. In the current challenging macroeconomic environment, adverse dynamics could be triggered by market or trade shocks, raising fiscal risks and worsening debt dynamics. A potential widening of sovereign spreads could raise borrowing rates and heighten borrowers' credit risk. Deteriorating asset quality, a contraction in credit, stress in core financial markets, and contagion from strains in NBFIs are risks going forward.

B. Bank Solvency

14. Scenario-based solvency stress tests assessed the stability of the large French banks against two adverse scenarios from the 2025 EA FSAP (Figure 25, and Table 9).[2] The first *geopolitical* scenario features global commodity and trade shocks (which includes the impact of tariff changes that would hamper global trade), combined with a demand shock that triggers a "higher for longer" inflation environment and rising short-term interest rates. The second *recession* scenario combines global demand shocks, tightening of financial conditions and fiscal shocks that raises government borrowing costs and term premia, and structural shocks to productivity growth. These shocks negatively impact the highly indebted NFC sector and the residential real estate market, which causes an increase in credit risk. In addition, the solvency stress tests consider one-off market shocks occurring at the beginning of the first year of the adverse scenarios. The solvency stress tests covered: (i) credit risk from NFCs and households; (ii) interest rate risk; (iii) market risks; and: (iv) fluctuations in net fees and commission income (NFCI).

15. Banks demonstrate resilience against adverse macrofinancial shocks. The aggregate capital ratio remains above the minimum capital requirement in both scenarios (Figure 9). In the baseline scenario, the banking system remains well capitalized. The decline in the average system-wide CET1 ratio amounts to 490 basis points under the recessionary scenario and 570 basis points under the geopolitical scenario. The primary drivers, in descending order, are credit risk—particularly among NFCs—followed by market shocks and NFCI. Aggregate net interest income (NII) appears fairly stable, partly because of heterogenous impacts across banks. The decline for G-SIBs is

[2] As a pilot, the 2025 France FSAP relied on the same stress test scenarios and models as the contemporaneous EA FSAP.

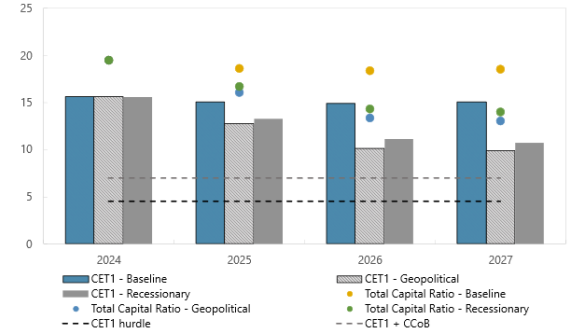
somewhat smaller, at 370 basis points and 520 basis points respectively, reflecting lower credit risk and higher NFCI for G-SIBs than for other banks (Figure 10).

16. While all banks meet their minimum requirements, several utilize their additional buffers under adverse scenarios.[3] Four banks accounting for a large share of banking assets breach the buffer requirements but the shortfall is small, at 1.2 and 0.8 percent of risk weighted assets (RWA) on average in the geopolitical and the recession scenarios, respectively.

Figure 9. France: Scenario-Based Solvency Stress Tests

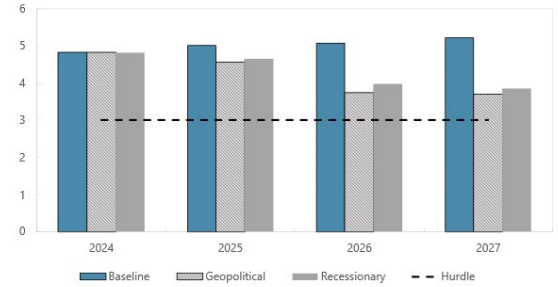
Aggregate capital ratios remain above the minimum capital requirements in adverse scenarios….

Capital Adequacy – All Banks
(In Percent of RWA)



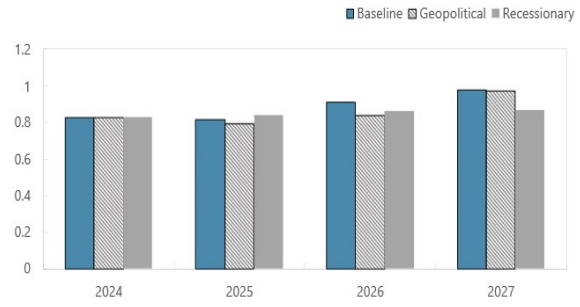
And so does the aggregate leverage ratio….

Leverage Ratio
(In Percent)



Net interest income displays some stability in all scenarios….

Net Interest Margin
(In Percent)



In the baseline, the net interest income and other income broadly offset credit risk and expenses ….

Capital Ratio – Baseline
(In Percent of 2024 RWA, Except of Ending CET1)

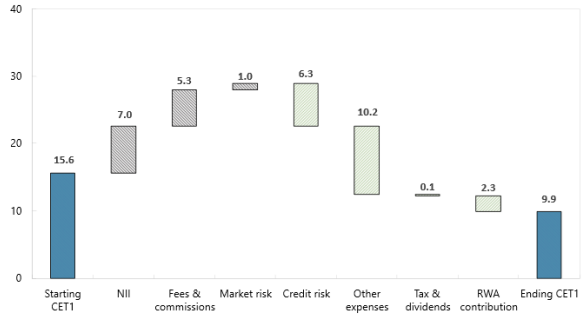
[3] Minimum requirement defined as minimum CET1 ratio plus P2R. Hurdle rate with buffers also includes the capital conservation buffer (CCOB) plus the systemic buffers (G-SIBs and O-SIIs). The SyRB and CCyB are not included.

Figure 9. France: Scenario-based Solvency Stress Tests (concluded)

In the geopolitical scenario, relative to baseline, the decline in capital ratio reflects credit risk, a decline in fees and commission income and the market shock …

Capital Ratio – Geopolitical

(In Percent of 2024 RWA, Except of Ending CET1)



And so does in the recession scenario….

Capital Ratio – Recessionary

(In percent of 2024 RWA, Except of Ending CET1)

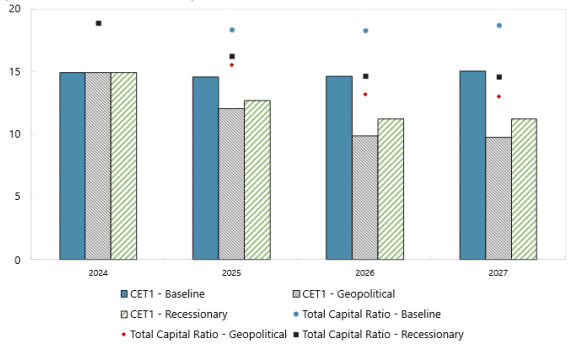
Source: IMF staff calculations.

Figure 10. France: Scenario-based Solvency Stress Tests for G-SIBs

For G-SIBs, the decline in capital is slightly less than for the entire sample….

Capital Adequacy – G-SIBs Only

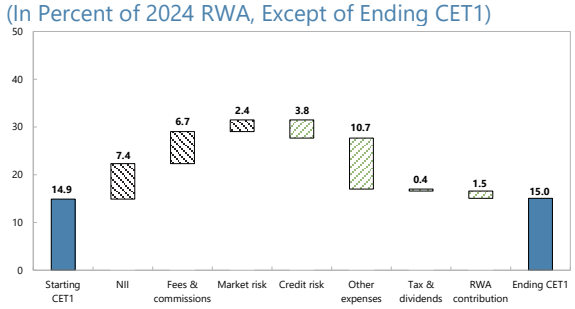
(In Percent of RWA)



In the baseline, the capital ratio remains stable reflecting offsetting factors….

Capital Adequacy – Baseline

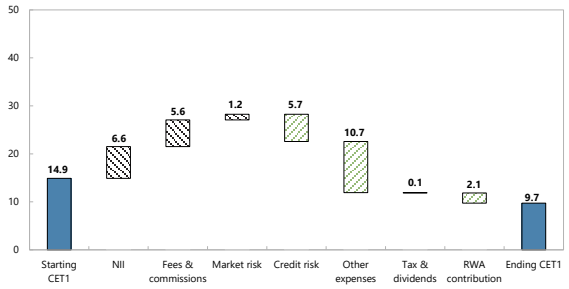
(In Percent of 2024 RWA, Except of Ending CET1)



Relative to baseline, credit risk, net fees and commission income and market risk drive the decline in capital in the geopolitical scenario…

Capital Adequacy – Geopolitical

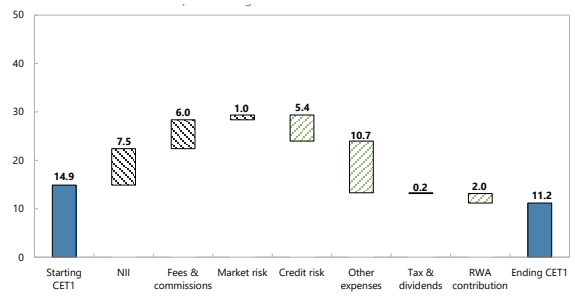
(In Percent of 2024 RWA, Except of Ending CET1)



And in the recession scenario….

Capital Adequacy – Recessionary

(In Percent of 2024 RWA, Except of Ending CET1)



Source: IMF staff calculations.

17. Sensitivity analysis shows that the banking system is resilient to concentration risks. Large exposures, especially after credit risk mitigation measures (CRM), appear well contained and sectoral credit risk—such as in the real estate sector—remains small (Tables 3 and 4).

Table 3. France: Large Exposures, as Percent of Tier 1 Capital

	Exposure value before application of exemptions and CRM	Exposure value after application of exemptions and CRM
All Banks		
Top 10	10.7	0.60
Top 5	7.8	0.36
Top 3	6.3	0.23
G-SIBs		
Top 10	11.5	0.62
Top 5	8.1	0.37
Top 3	6.5	0.23

Source: COREP_LE, C 28.00 - Exposures in the non-trading and trading book

Table 4. France: Sectoral Credit Risk Sensitivity Analysis: Nonperforming Loans (NPL) as percent of CET1

Increase in NPL ratio by:	50%	25%	100%
Construction			
Weighted average	0.7%	0.4%	1.4%
Standard deviation	0.4%	0.2%	0.8%
Real estate activities			
Weighted average	1.3%	0.6%	2.5%
Standard deviation	0.8%	0.4%	1.5%
Total			
Weighted average	2.0%	1.0%	3.9%
Standard deviation	1.1%	0.5%	2.1%

Source: C 01.00, F 06.01 Breakdown of non-trading loans and advances other than held for trading to non-financial corporations by NACE codes and IMF staff calculations

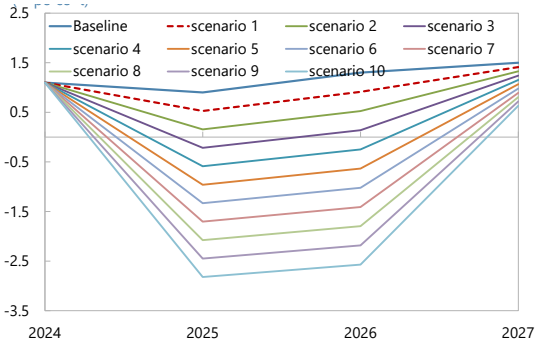
18. Building on solvency stress test models, a range of counterfactual macroeconomic scenarios are designed to illustrate how stress tests could help inform the calibration of the positive neutral CCyB (see Financial Sector Oversight Section). The counterfactual scenarios are designed as intermediate scenarios between the baseline macroeconomic scenario and the geopolitical scenario (excluding the one-off market shocks) with increasing severity of risk

parameters.[4] In this exercise, the aggregate CET1 ratio of banks after three years only reaches the aggregate capital requirement (including the CCyB) in the 10th scenario (Figure 11). This suggests that the current CCyB level at 1 percent of RWAs can absorb the solvency impact of a moderate macroeconomic shock, and current precautionary buffers in combination with the CCyB would likely be sufficient to enable banks to continue lending following a range of shocks. However, if precautionary buffers were lower, the release of the current CCyB might not be sufficient to ensure banks continue to lend under these moderate downturn scenarios (Figure 11).

Figure 11. France: Counterfactual Macroeconomic Scenarios and Impact on Aggregate Capitalization

The analysis considers ten macroeconomic scenarios with increasing severity of the growth decline …

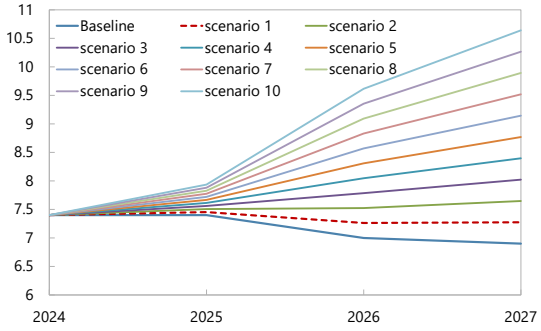
Real GDP Growth Scenarios
(In Percent)



Sources: WEO and IMF staff estimates

… and increasing severity of the unemployment shock

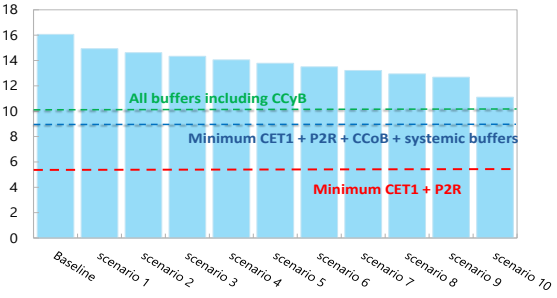
Unemployment Rate Scenarios
(In Percent)



Sources: WEO and IMF staff estimates

… to each scenario corresponds an aggregate capitalization of banks after 3 years

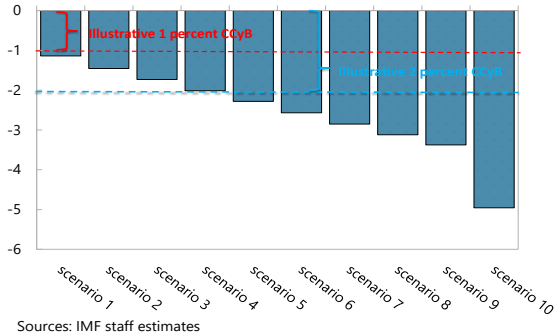
Aggregate Capital Ratios After 3 Years
(In Percent of RWAs)



Sources: IMF staff estimates

… and an aggregate depletion of the capital ratio

Decline in the Aggregate Capital Ratio After 3 Years
(In Percent of RWAs)



Sources: IMF staff estimates

C. Liquidity Stress

19. Liquidity buffers in the banking system remain elevated (Figure 12). For the seven SIs, the aggregate Liquidity Coverage Ratio (LCR) at 148 percent (as of 2024 Q4) appears to provide

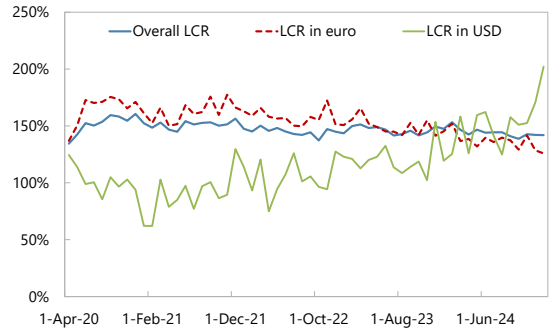
[4] Scenario 10 corresponds to the geopolitical scenario excluding the one-off market shocks.

comfortable buffers against outflows. Asset encumbrance appears to be low on aggregate and concentration of funding remains small. The aggregate Net Stable Funding Ratio (NFSR) at 116 percent exceeds the 100 percent requirement for all banks. Several banks have large USD funding, and this appears to be shorter-term and more volatile than overall funding. Although USD LCRs are now all above 100 percent, they have been very volatile in the recent past, and USD High-Quality Liquid Assets (HQLAs) have not always been commensurate with outflow risks.

Figure 12. France: Liquidity Buffers and Funding

LCRs in all currencies have remained well above the requirement in recent year, and LCRs in USD have improved….

Evolution of LCRs, Weighted Average
(In Percent)



Source: COREP and IMF staff estimates.

Monthly LCRs in USD have been volatile in recent years….

Weighted Average of Bank LCR Standard Deviations
(Liquidity Coverage Ratio)

	2020-2024	2020-2022	2022-2024
Overall LCR	0.12	0.12	0.08
LCR EUR	0.21	0.18	0.15
LCR USD	**0.48**	**0.48**	**0.31**

Source: COREP and IMF staff estimates.

Funding appears well diversified…

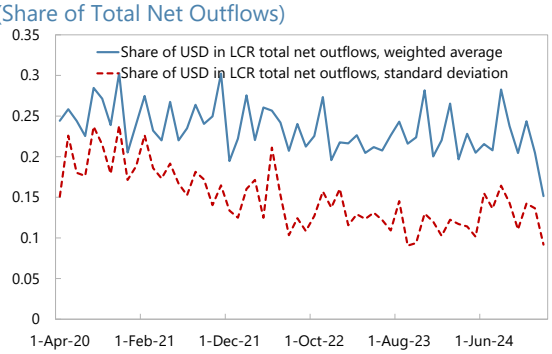
Concentration of Funding
(As a Ratio of Total Funding)

	Weighted average share of top 10 large funding providers in total funding	Standard deviation of the share of top 10 large funding providers
All Banks	0.080	0.20
G-SIBs	0.072	0.056

Source: COREP 67.00.a(0010), COREP 67.00.a – Concentration of funding by counterparty

At the aggregate level, USD outflows account for a non-negligible share of outflows….

LCR: USD (Unweighted) Net Outflows
(Share of Total Net Outflows)



Source: COREP and IMF staff estimates.

USD funding is of shorter maturity than overall funding….

Ratio of NSFR Available Stable Funding in USD / All Currencies Available Stable Funding
(Net Stable Funding Ratio)

	Unweighted	Weighted	Ratio unweighted /weighted
All Banks			
Weighted average	0.21	0.13	1.76
Standard deviation	0.12	0.08	0.44
G-SIBs			
Weighted average	0.26	0.15	1.84
Standard deviation	0.06	0.06	0.58

Source: COREP_NSFR, C 81.00x(USD),C 81.00.c
Note: based on monthly data, starting 2021

And encumbrance of assets is low….

Encumbered Assets
(As a Ratio of Encumbered Assets)

	Aggregate share of encumbered assets	Standard deviation of share of encumbered assets
All Banks	0.142	0.100
G-SIBs	0.138	0.040

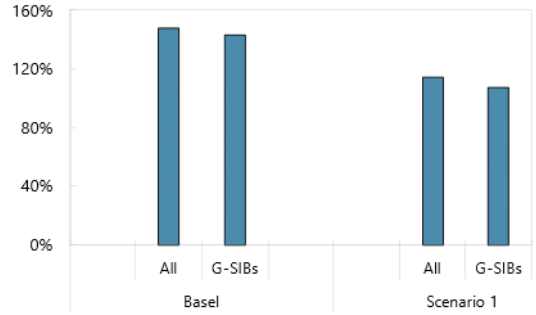
Source: COREP_NSFR, C 81.00x(USD),C 81.00.c
Note: based on monthly data, starting 2021

20. Cash flow stress tests reveal that banks can withstand significant liquidity outflows under multiple scenarios (Figure 13). Under an LCR stress scenario with higher outflow run-off rates than Basel III and valuation losses on HQLAs, the aggregate LCRs in all currencies and in EUR are respectively at 114 percent and 112 percent, respectively, even though three banks have LCRs below the 100 percent threshold. Survival horizons exceed one month for all banks under cash flow stress scenarios, except one which has a net funding gap after use of counterbalancing capacity (CBC) in the first two weeks of the shock.[5] In scenarios with outflows of USD, 1-2 banks experience net outflows that exceed CBC in the first 30 days. The Euro Area FSAP further undertook an analysis of solvency-liquidity interactions reported in the Euro Area FSAP FSSA and systemic risk analysis Technical Note.

Figure 13. France: Bank Liquidity Stress Tests[1]

Aggregate LCRs in all currencies remain above the Basel minimum in a stress scenario….

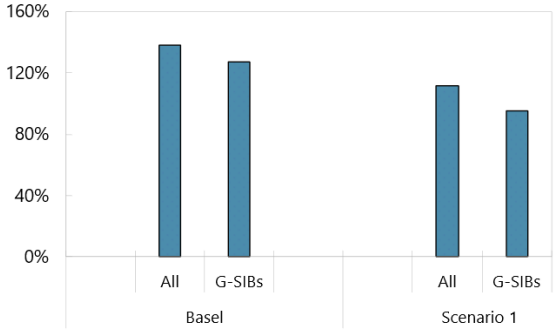
LCR in All Currencies, Weighted Average



Sources: COREP and IMF staff calculations.

This is also the case for Euro LCRs….

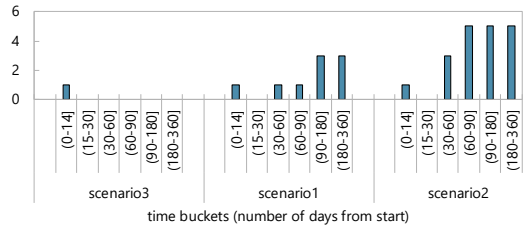
LCR in EUR, Weighted Average



Sources: COREP and IMF staff calculations.

Most banks can sustain liquidity outflows beyond one month even in a severe scenario….

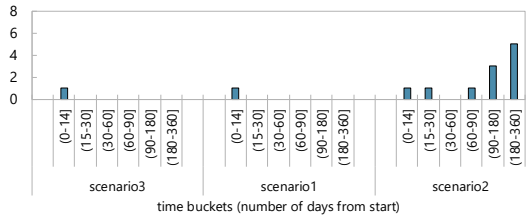
Number of Banks with Negative Funding Gap, in All Currencies



Sources: COREP and IMF staff calculations.

This is also the case for USD outflows….

Number of Banks with Negative Funding Gap, in USD



Sources: COREP and IMF staff calculations.

Aggregate funding gaps remain small as a share of assets at least for 2 months even in the most severe scenario…

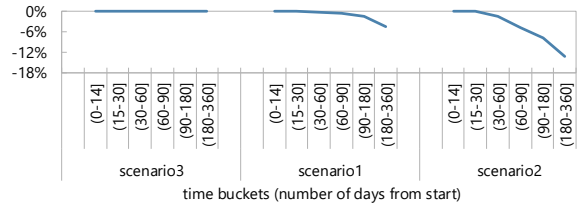
Funding gaps in USD are small as a share of assets even in the most severe scenario….

[1] For details on the liquidity stress test scenarios, please see Technical Note "Systemic Risk Analysis".

[5] Scenarios include run-offs on committed credit lines.

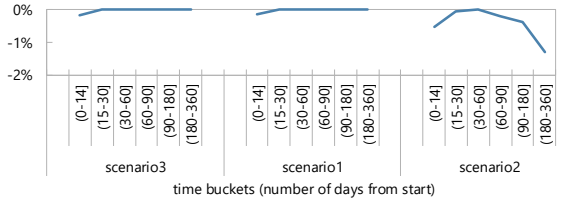
Figure 13. France: Bank Liquidity Stress Tests (concluded)

Aggregate Net Funding Gap of Banks with Liquidity Shortfall in All Currencies
(In Percent of Total Assets)



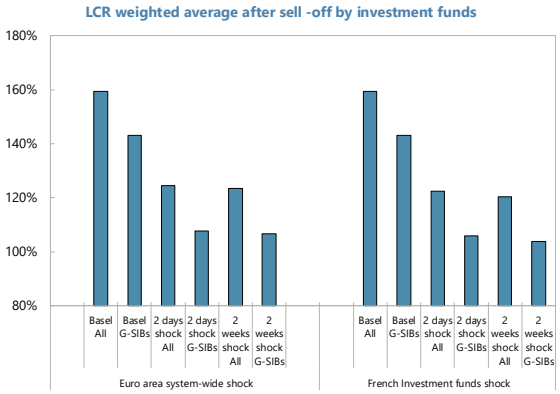
Sources: COREP and IMF staff calculations.

Aggregate Net Funding Gap of Banks with Liquidity Shortfall in USD
(In Percent of Total Assets)



Sources: COREP and IMF staff calculations.

21. Banks' liquidity buffers are sufficient to absorb a system-wide market shock from a sell-off of fixed income securities by investment funds. A system-wide valuation shock on HQLA from a sell-off over two days or two weeks of fixed income securities by investment funds (in response to redemptions caused by spread and interest rate shocks) is calibrated based on (i) the French investment fund liquidity stress tests and (ii) the EA FSAP investment fund liquidity stress tests. In both adverse scenarios, French banks' aggregate LCRs remain above the Basel III requirement.



Sources: COREP and IMF staff calculations.

D. Corporate and Households Risks

22. Corporate debt at risk increases notably under the adverse scenarios (Figure 14).[6] Under the bank solvency stress test scenarios, based on end-2023 data for publicly-listed NFCs, debt-at-risk (Interest Coverage Ratio (ICR) below one) increases in the baseline scenario from 6 percent to 17 percent of total debt, and to about 60 percent after two years in the adverse scenarios.[7] The resulting increased default probabilities are incorporated in the bank solvency stress tests.

23. Under the two adverse macroeconomic scenarios, cash shortages would increase among publicly listed NFCs (Figure 14). In the baseline, firms accounting for up to 65 percent of total outstanding debt of all publicly listed firms would increase their indebtedness to cover cash

[6] Based on the methodology of this paper by Ding and Tressel (2021): Global Corporate Stress Tests—Impact of the COVID-19 Pandemic and Policy Responses.

[7] Debt at risk increases in the baseline reflecting a weakening of the dynamics of earnings relative to interest expenses.

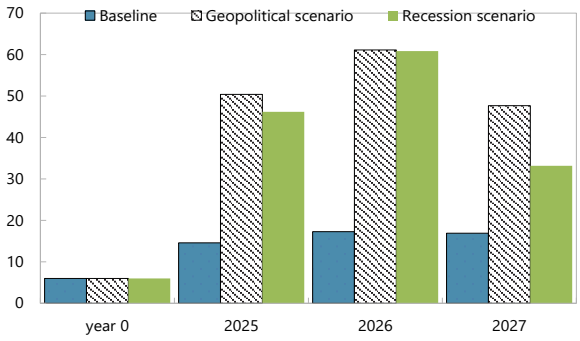
outflows.[8] In the two adverse scenarios, as earnings fall and interest charges increase, this share would increase to almost 80 percent.

Figure 14. France: Scenario-based Stress Tests of Publicly Listed NFCs

Under severe macroeconomic scenarios, vulnerabilities of publicly listed NFCs would increase significantly resulting in an increase of default risk and of borrowing needs to cover cash outflows

Share of Debt Among Publicly-Listed NFCs with ICR <1

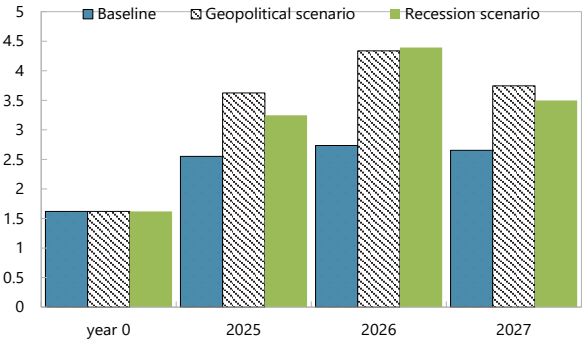
(In Percent)



Sources: Datastream and IMF staff estimates

Default Probabilities of Publicly-Listed NFCs

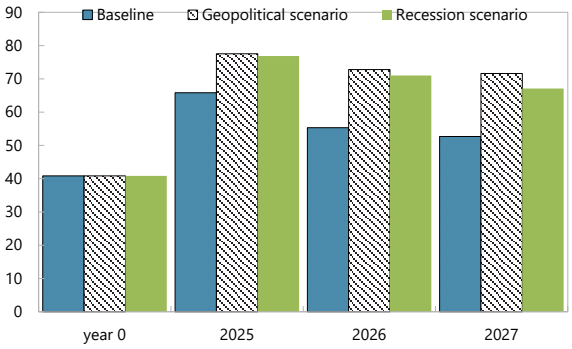
(In Percent)



Sources: Datastream and IMF staff estimates

Share of Debt of Publicly-Listed Firms with Borrowing Needs

(In Percent)



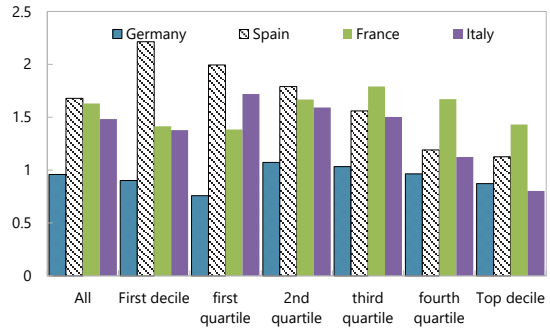
Sources: Datastream and IMF staff estimates

[8] This is defined as firms with borrowing needs in Figure 14.

24. Evidence from micro survey data suggests that French households have debt levels comparable to several other large EA countries (Figure 15). Financial leverage—measured either by the ratio of debt to income or of debt to financial assets—is generally as high as in several peer EA countries, although lower income households have higher debt-to-financial assets ratios.

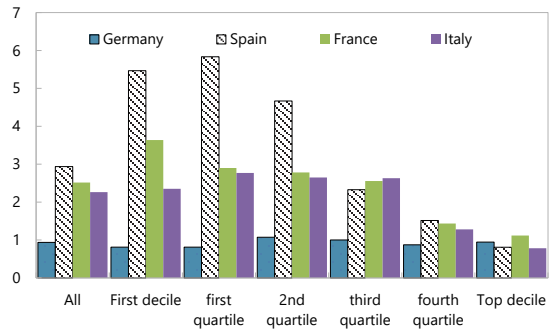
Figure 15. France: Household Vulnerabilities from Micro Data

Debt to Income Ratio by Income Groups
(In Percent)



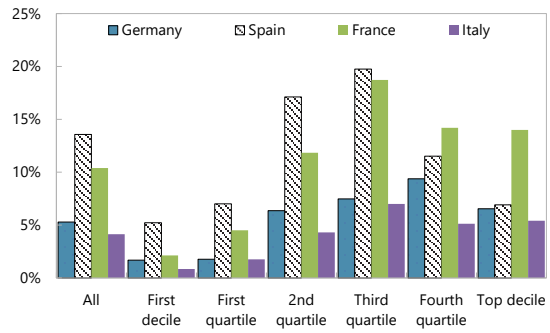
Source: Household Finance and Consumption Survey 2021 and IMF Staff estimates.

Median Debt to Income Ratio by Income Groups
(In Percent)



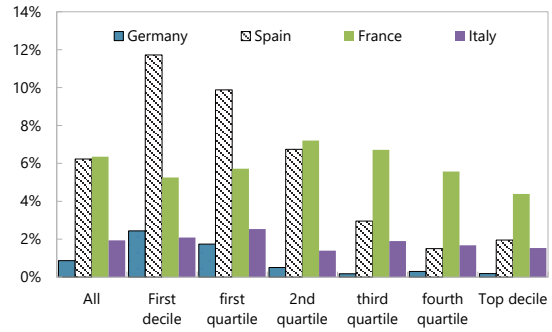
Source: Household Finance and Consumption Survey 2021 and IMF Staff estimates.

Share of Loans with LTV > 90 Percent at Origination
(In Percent)



Source: Household Finance and Consumption Survey 2021 and IMF Staff estimates.

Share of Households with Total Debt-Service-to-Income Ratio > 35 Percent
(In Percent)



Source: Household Finance and Consumption Survey 2021 and IMF Staff estimates.

25. Under the adverse scenarios of the bank solvency stress tests, household default rates would increase significantly but would remain low. Default occurs when a household runs out of liquid financial assets to pay amortization and interest expenses on debt, considering the characteristics of

Annual Default Rates: Model Predicted Weighted Average, Adjusted with Actual Default Rates 2024:Q3

	Entire population			
	2024	2025	2026	2027
Baseline	0.41%	0.41%	0.39%	0.38%
Geopolitical	0.41%	0.42%	0.48%	0.53%
Recession	0.41%	0.44%	0.57%	0.65%

Source: HFCS 2021 and IMF staff estimates

unemployment insurance and incompressible living expenses (see text table).[9]

26. A counterfactual analysis based on the solvency stress tests and micro survey data shows that high DSTI loans are riskier on the margin than high LTV loans, consistent with the current BBM policy framework. Based on the household micro data model described above, two policy counterfactual solvency stress tests are conducted to quantify the impact on default risk and bank capital respectively from tighter borrower-based DSTI limits lowered to 32 percent and from the introduction of an LTV limit of 90 percent at origination (Table 5 provides the counterfactual default probabilities). Such tighter limits would lower the default risk further and result in higher capital ratios, especially under very adverse macroeconomic scenarios. A binding LTV limit at 90 percent (respectively DSTI limit at 32 percent) would result in a 0.15-0.2 (respectively 0.5-0.7) percent capital ratio gain in the baseline, and up to 0.7 (respectively 1.6) percent capital ratio gain in the adverse scenarios. The analysis confirms that the DSTI appears to quantitatively matter more than the LTV in containing credit risk on housing loans in France (Figure 16).[10, 11]

Table 5. France: Counterfactual scenarios for Borrower-based Macroprudential Instruments: Default Probabilities for Housing Loans

Entire population				
	2024	2025	2026	2027
Baseline scenario	0.41%	0.41%	0.39%	0.38%
Geopolitical scenario	0.41%	0.42%	0.48%	0.53%
Recession scenario	0.41%	0.44%	0.57%	0.65%

Only DSTI at origination < 32 percent				
	2024	2025	2026	2027
Baseline scenario	0.17%	0.17%	0.16%	0.16%
Geopolitical scenario	0.17%	0.18%	0.20%	0.22%
Recession scenario	0.17%	0.19%	0.23%	0.27%

[9]See What Drives Mortgage Default Risk in Europe and the U.S.?.

[10] Since a substantial share of housing loans benefit from a credit guarantee from Credit Logement, the Loss Given Default (LGD) on housing loans remains low in France, rendering the LTV less relevant for expected losses. The French authorities perform stress tests of Credit Logement which appear resilient. In addition, the analysis confirms the hypothesis that high LTV loans tend to be originated to relatively low-default risk borrowers.

[11] This partial analysis of housing loan credit risk focused on a policy counterfactual stress test experiment related to borrower-based instruments is not an assessment of capital requirements as many other channels are not analyzed.

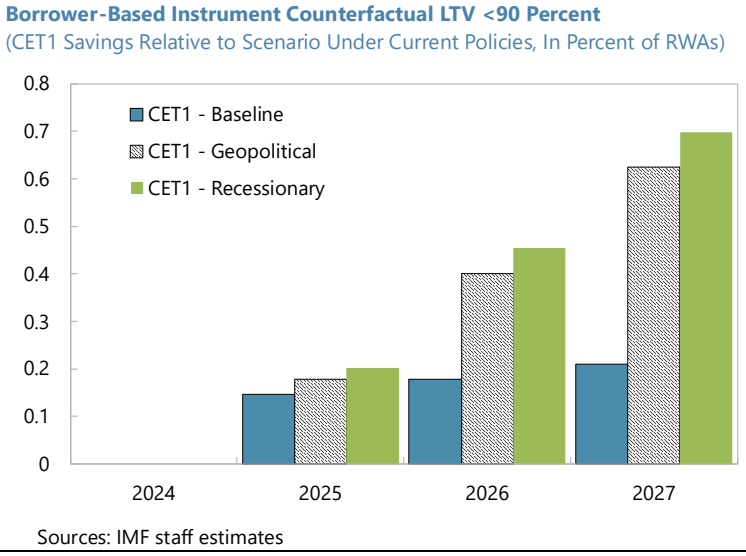
Table 5. France: Counterfactual scenarios for Borrower-based Macroprudential Instruments: Default Probabilities for Housing Loans (concluded)

Only LTV at origination < 90 percent				
	2024	2025	2026	2027
Baseline	0.34%	0.33%	0.32%	0.32%
Geopolitical	0.34%	0.35%	0.39%	0.44%
Recession	0.34%	0.36%	0.46%	0.53%

Source: 2021 Household Finance and Consumption Survey and IMF staff estimates

Figure 16. France: Counterfactual Solvency Stress Tests

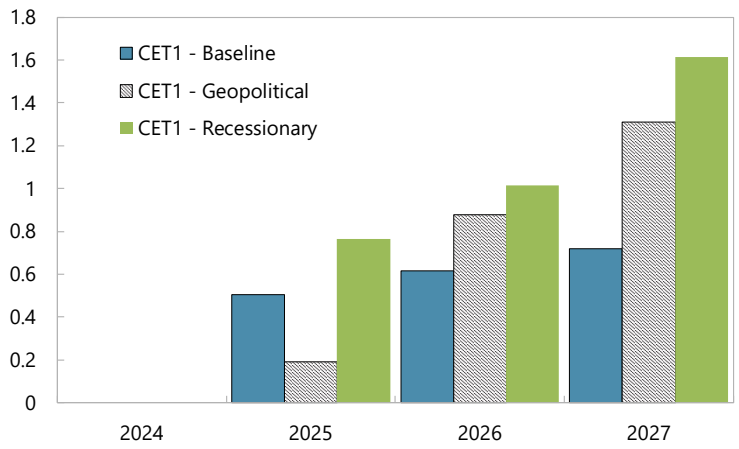
An LTV limit set at 90 percent would under normal macroeconomic conditions economize capital of about 0.1 percent of RWAs, and up to 0.7 percent of RWAs in very severe macroeconomic circumstances



Sources: IMF staff estimates

Figure 16. France: Counterfactual Solvency Stress Tests (concluded)

Setting a DSTI limit at 32 percent would economize capital of about 0.6 percent of RWAs under normal macroeconomic conditions and up to 1.6 percent of RWAs under very severe macroeconomic conditions



Sources: IMF staff estimates

E. Investment Fund Liquidity Risk

27. Investment fund liquidity stress tests assessed the resilience of open-ended investment funds that engage in maturity transformation offering daily liquidity to plausible redemption shocks (Figure 17). The analysis focused on open-ended bond funds, mixed funds, and MMFs. Initial shocks consistent with the EA FSAP were applied to the investment fund sector: (i) a rise in term premia due to high-for-longer interest rate scenario ("IR shock"); and (ii) a recession scenario where credit spreads widen for both sovereigns and corporate sectors ("CR shock"). These shocks negatively impact the asset values held by the funds leading to a collective decline in the net asset value (NAV) of between 2.5 to 3.2 percent, mostly experienced by the rate-sensitive bond funds. The decline in NAV is assumed to lead to a redemption shock, causing asset managers to liquidate their holdings. Average redemption shocks of 2 to 5 percent of NAV were applied, similar to the experience during the COVID-19 pandemic, and funds were assumed to apply a pro-rata asset liquidation strategy.

28. Results suggest investment funds in the sample have sufficient liquidity to withstand the redemption shock. Based on a stringent definition of liquid assets[12], only 4 percent of the funds have a liquidity coverage ratio below 1 under the adverse scenario, with a collective liquidity shortfall of less than 0.1 percent of NAV. The combined negative valuation impact of the initial shock and asset sales following the redemption shock on the NAV can be sizable, ranging between 2.3 to 8.1 percent. Should asset managers hoard cash by 1 percent of NAV, the larger (non-cash)

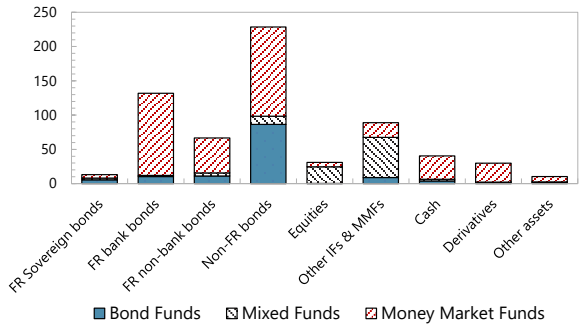
[12] Only assets that would incur up to 85 percent haircut under the banking sector HQLA definition were considered liquid.

asset sales relative to redemptions would imply an additional 0.1 percent in market impact. More granular data to account for the liquidity of funds-of-funds would further sharpen these results, particularly for the mixed funds. French investment funds are well placed to implement liquidity management tools, further buttressing the resilience to redemption shocks. However, liquidity risks can emerge not only from redemption pressures from end investors but also from leverage-induced liquidation demands, which should be closely monitored.

29. The monitoring of investment fund redemption risk could be improved through data sharing of fund liability structures. Ability to understand the behavioral characteristics of investment funds is critical in conducting the stress test. Fund-by-fund level information on the holders of investment fund shares/units and analysis of investment fund shareholder behavior is a key ingredient in stress testing and for systematically monitoring emerging risks, particularly as different insurance product investors may behave very differently under stress. The AMF has conducted a number of *ad hoc* studies on the relationship between performance and outflows. However, AMF does not have systematic access to holdings data which reside with other supervisory bodies (ACPR, BdF).

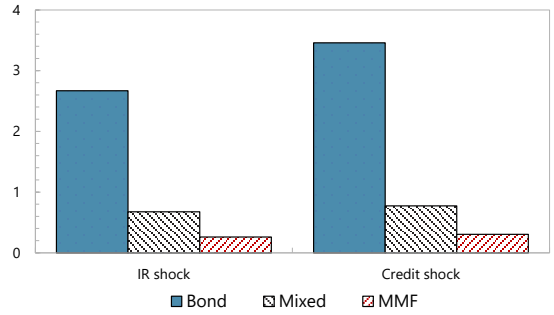
Figure 17. France: Investment Fund Liquidity Stress Test Results

Securities held by Bond, Mixed and Money Market Funds in the Sample (In Billions of EUR)



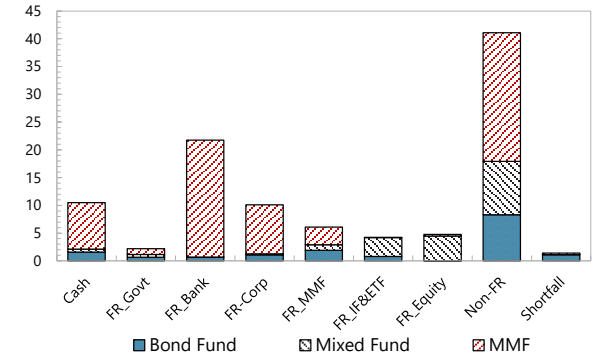
Source: Lipper and Fund staff calculations.

Negative Price Impact of the Initial Shock on Securities held by the Funds (In Percent of Par Price)



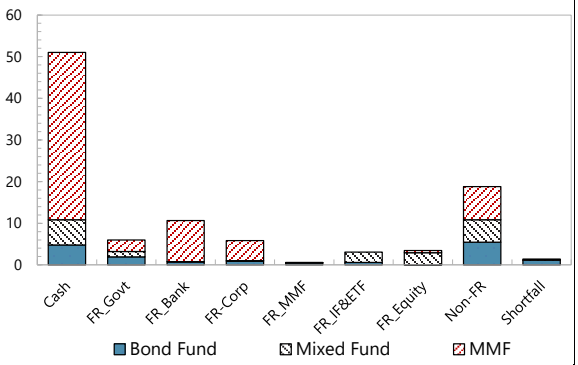
Source: Lipper and Fund staff calculations.

Asset Sales under Adverse Redemption Scenario and Pro-rata Liquidation Strategy (In Billions of EUR)



Source: Lipper and Fund staff calculations.

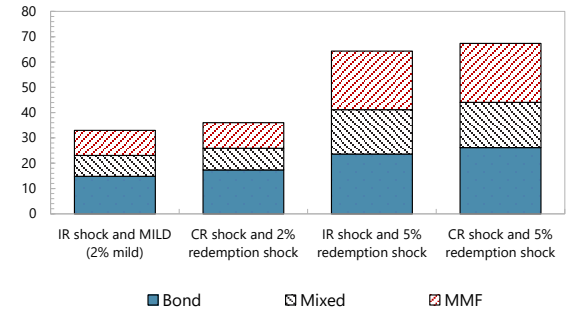
Asset Sales under Adverse Redemption Scenario and Waterfall Liquidation Strategy (In Billions of EUR)



Source: Lipper and Fund staff calculations.

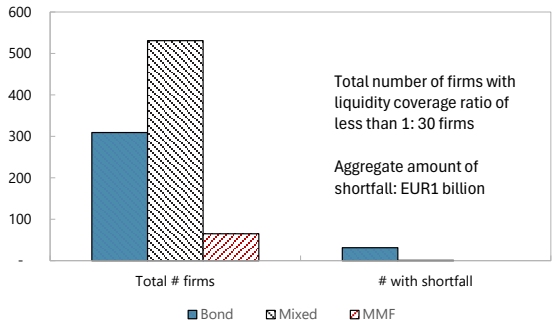
Figure 17. France: Investment Fund Liquidity Stress Test Results (concluded)

Change in Net Asset Value of Investment Funds from Combined Shocks (In Billions of EUR)



Source: Lipper and Fund staff calculations.

Number of Firms in the Sample and Firms Facing Liquidity Shortfalls (Number of firms)



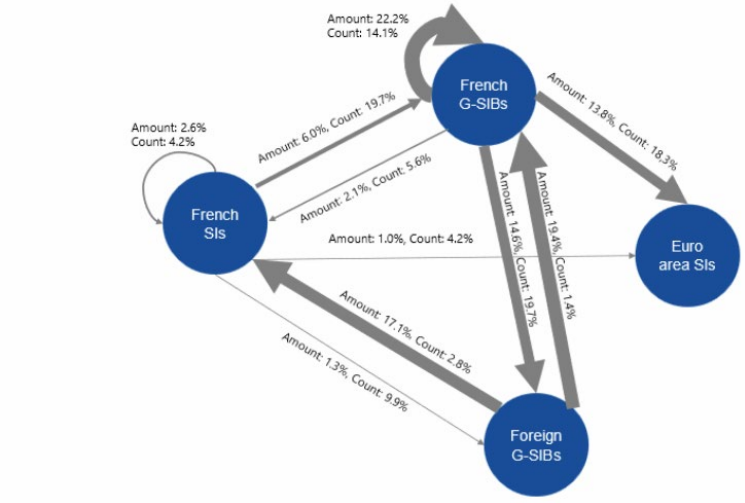
Source: Lipper and Fund staff calculations.

F. Interconnectedness and Contagion Risks

30. A contagion stress test suggests that large banks are generally resilient to hypothetical defaults of domestic and foreign counterparts within a dense network of bilateral exposures (Figure 18). The four French G-SIBs account for the majority of bilateral credit exposures, including with global and EA SIs. The G-SIBs are net providers of liquidity cross-border but net borrowers from the other French SIs, some of which themselves obtain funding from global G-SIBs. The stress test that simulates the propagation of credit and funding losses through the system following individual bank defaults finds that no bank would become insolvent after default of domestic counterparts. If large foreign counterparties also default or withdraw funding, one smaller SI fails due to withdrawal of a relatively large funding exposure.

Figure 18. France: Interconnectedness of Large French Banks

(End-December 2024; In Percent of Total Bilateral Connections)



Source: ECB, IMF staff calculations. Note: Using the model by Covi, G., Gorpe, Z. and Kok, C. (2021): "CoMap: Mapping Contagion in the Euro Area Banking Sector", Journal of Financial Stability, Vol. 53, pp. 1-28.

31. A mapping of securities holdings by type of financial institution shows that insurance companies are the largest investor group (Table 6). They hold close to half of securities. Within these, securities issued by non-residents combine to nearly half of total holdings. Investment funds hold about one third of securities, again with about half invested in foreign paper. Domestic banks account for one fourth of holdings, mostly in foreign instruments and split almost evenly between private and public securities.

Table 6. France: NBFI Securities Holdings by Type of Issuer (percent of total outstanding securities, September 2024)

Issuer/ Holder	Insurance Comp.	Investm. Funds	Domestic Banks	Other, Domestic Private	Other, Domestic Public	Other, Foreign Private	Other, Foreign Public
Insurance Comp.	0.4	10.4	2.2	3.8	6.0	14.5	5.7
Investment Funds	0.2	5.2	3.4	5.3	0.8	16.0	1.8
Domestic Banks	0.0	0.3	0.7	1.4	2.7	10.3	9.0

Source: BdF.

Note: The investment fund industry represented in this statistic includes bond funds, equity funds, hedge funds, mixed funds, real estate funds and other funds as well as money market funds.

G. Emerging Risks

32. Private credit and the financing of corporate borrowing through NBFIs plays a limited role at present, but authorities should continue to monitor this growing asset class. Significant Risk Transfers (SRTs) are increasingly being used by French banks to generate capital relief, supported by regulatory developments, and in many ways mimic the bank/NBFI partnerships in private credit that have become common in the US. As SRTs function as a partial synthetic securitization, this may be providing an alternate path forward in the absence of the development of a more robust European securitization market. However, SRTs are creating new interdependencies between banks and NBFIs and may also be increasing model risk for banks, in addition to procyclicality risks due to defaults and downgrades in stress events.

33. The use of artificial intelligence (AI) by banks and other large financial sector actors appears to be conservatively focused on efficiency gains and customer service. Large bancassurance firms are currently concentrating on areas of AI common across the global financial system, namely back-office improvements, employee productivity gains, and enhanced AI-driven customer products. Regulatory requirements around model explainability mean that banks and insurance companies are moving slowly incorporating AI into risk modeling, while investment firms

may be utilizing it more. While in theory AI could create openings for new fintech disruptors, the relationship-driven customer model appears to have a strong foothold in France, and new participants who offer a more limited scope of services have not taken much share.

FINANCIAL SECTOR OVERSIGHT

A. Cross-cutting Issues

34. Supervisory boards should operate free from the risk of political interference due to the presence of Government representatives, who should recuse themselves from supervisory meetings. The Director-General (DG) of the Treasury and the Director of Social Security (from the Ministry of Labor, Health, Solidarity and Families) are permitted to attend meetings of the ACPR's Supervisory College, including the Insurance College, and Restricted College. Although they do not have voting rights, they can request a second deliberation (which has not happened in practice). The DG also attends the Board of the AMF in a non-voting capacity. Improvements have been made in this regard since the previous FSAP: In particular, government representatives *de facto* no longer attend the ACPR Sanctions Committee, which authorities expect to be legally codified in coming years. In addition, no political interference in supervisory boards was identified, and conflicts of interest seem to be effectively managed. However, current arrangements are not in compliance with international standards for banking, insurance and securities regulation. Alternative structures would better support the relationship and exchange of information between the government and the financial supervisors to support discussion on legislative or regulatory initiatives. The DG of the Treasury's veto power in the ACPR's Resolution College should be narrowed down to resolution cases involving the use of public funds only.

35. Supervisory authorities should receive adequate funding by conducting bottom-up reviews of needs and developing multiyear strategic budgets and workforce plans. Despite the significant post-Brexit increase in market participants and trading activity, resources have been relatively static. At the same time, new regulation adds to the workload of the authorities. Resource caps create the risk of gaps in oversight, including areas with large downside risks such as cyber risk and digital operational resilience. Headcount constraints have been relaxed, and material increases in funding were made in the AMF's and the ACPR's 2025 budgets. However, for AMF these will likely only offset additional resources needed for implementation of DORA and new crypto asset regulation, and ACPR will likely need further increases to be able to fund their strategic projects.

36. Authorities should formalize inter-agency cooperation and information sharing to strengthen financial crisis preparedness and management as well as cyber crisis response. France has a strong track record of dealing with real-time crises (such as the COVID pandemic) and in preparing for crisis events through table-top exercises. The 20 years of collaboration with the private sector on cyber matters through the BdF's Paris Resilience Group (PRG) was noted by supervisors and industry as particularly useful and effective. Formal arrangements should ensure preparedness and timely response to market disruptions. In the areas of cyber and financial crisis management, standing bodies should be created which include all public authorities involved.

ACPR, AMF, BdF, the Fonds de Garantie des Dépôts et de Résolution (FGDR), and the Treasury should be permanent members of a body tasked with strengthening domestic crisis preparedness and management, while respecting the autonomous exercise of their respective mandates. Crisis simulation and table-top exercises should be conducted regularly, including for financial conglomerates and liquidation of bank LSIs.

B. Macroprudential Policies and Tools

37. Institutional arrangements are largely unchanged since the previous FSAP and have several features that align with best practices for effective macroprudential policy. The HCSF is the designated macroprudential authority, with hard powers over specific tools and soft powers for recommendations. Chaired by the Minister of Economy and Finance, it provides a strong role for the Governor of the BdF, enabling willingness to act. Membership includes other key agencies (which have their own financial stability mandates, consistent with best practices) and three external members, facilitating coordination and mitigating inaction bias. National authorities have sufficient powers for information gathering and reasonably strong accountability and disclosure frameworks. The markets authority (AMF) is an active participant in the HCSF, unlike many jurisdictions and was well ahead of the curve in encouraging adoption of liquidity management tools for NBFIs. The HCSF took and maintained several strong actions to mitigate financial stability risks, including releasing and rebuilding the CCyB and introducing a sectoral systemic risk buffer and borrower-based measures, and further enhanced systemic risk assessments since the previous FSAP.

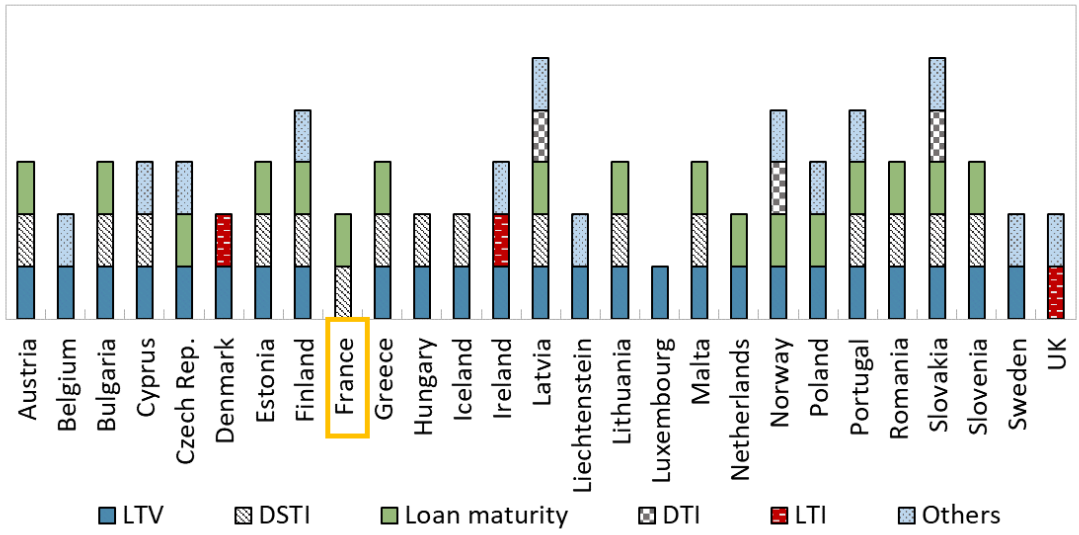
38. While the HCSF is well-functioning overall, its framework should be strengthened to ensure effectiveness and improve public communication. To ensure effectiveness, the HCSF should meet in person; holding meetings as written procedures (as happened three times in 2024) should be avoided. Macroprudential policy communication should be enhanced through periodic strategy reviews, regular press conferences by the Chair and Governor and other best practices. In addition, other governance improvements should be considered: To improve transparency, all recommendations, opinions, and vote outcomes should be published by default, with exceptions voted on by members. Public accountability should be strengthened by publishing voting records of members (with limited exceptions) and mandating testimonies before Parliament about HCSF work at least once a year. While HCSF can issue public recommendations to member institutions, its powers can be enhanced by adding an explicit 'comply or explain' mechanism and explicit powers to make recommendations to the MoEF.

39. BBMs on housing loans should be broadened to reflect best practices and prevent any build-up of vulnerabilities. Existing BBMs have improved lending standards, and, along with structural features of the lending market, have kept the losses low. Although the DSTI limit of 35 percent is tight relative to peers, lending standards within the 20 percent flexibility margin are unconstrained. To prevent leakages, BBMs should, where possible, be broadened to renovation and other consumer loans. Monitoring of loans to Sociétés Civiles Immobilières (SCI), a form of special purpose vehicle, where DSTIs are typically not available, should be expanded. Some prudential requirements could be introduced within the flexibility margin, or the flexibility margin narrowed.

From a macroprudential perspective, it is preferable to broaden the BBMs before the boom phase of the housing cycle.

40. High LTV loans are common in France and warrant further monitoring. Lending practices are more focused on borrowers' ability to pay than on collateral value. Many borrowers with additional assets qualify for high LTV loans, as loans are full recourse, and about two-thirds of outstanding loans are secured by a third-party guarantee, which relies on risk pooling. This has resulted in a market with many high LTV loans - 42 percent of new loans had LTVs above 95 percent in December 2024 (Figure 24). While based on historical performance and stress test results, high LTV loans do not appear to pose a current systemic risk, these loans exhibited higher losses during the recent downturn. A shift towards collateral-based lending could create new risks. As current BBMs do not include an LTV limit, despite their ubiquity in other European countries, many of which also have full recourse lending (Figure 19), authorities should continue to monitor market dynamics and consider customized LTV measures should they assess them appropriate.

Figure 19. Europe: Borrower-Based Measures on Residential Real-Estate Lending



Source: ESRB.

Note: The presence of each indicator (LTV, DSTI, Loan Maturity, DTI, LTI, Others) for the respective countries signifies that the corresponding measure has been implemented.

41. The availability of releasable capital buffers should be formalized by improving guidance regarding the neutral level of the credit protection reserve. Post-COVID, authorities have proactively rebuilt the releasable capital buffer through the credit protection reserve, thereby aligning with the positive neutral CCyB (pnCCyB) approach of early buildup of the buffer. However, formally adopting a positive neutral level, (i.e., a positive rate even when cyclical systemic risks are not yet elevated), would provide predictable insurance against a cutback in lending following

systemic shocks. Offering "forward guidance" on future policy settings (including the conditions and timeframe for the buffer rebuild) would also likely reduce incentives for capital hoarding.

42. The medium-term calibration of the neutral rate for the CCyB over a suitably long transition period should consider capital losses under a moderate shock scenario as well as structural characteristics of the banking system. Although, as seen in the simulation above, system-wide losses under a moderate shock scenario appear manageable at present, for some banks the usability of a CCyB release may be partly constrained by the leverage ratio and the MREL requirements. In combination with the absence of other releasable buffers, this may support a relatively high positive neutral rate to further mitigate the risk of pro-cyclical lending. These considerations should be balanced against the fact that buffer usability will be mitigated by the ongoing capital adjustments under Basel III, and that low profitability remains an issue for French banks.

43. Authorities should continue to closely monitor vulnerabilities in the banking and non-financial corporate sectors and stand ready to raise the CCyB rate if warranted. If NFCs vulnerabilities continue to worsen, a higher CCyB rate would provide releasable capital and protect credit in the event of an adverse shock and would be consistent with the HCSF's current approach for setting the CCyB. Authorities could also consider introducing a broader sectoral SyRB to cover corporate exposures, particularly given the recent lifting of the SyRB.

C. Financial Conglomerates Supervision

44. France faces a unique challenge in conglomerate supervision, given the split between the ECB and French supervision. The supplemental supervision of seven bancassurance conglomerates and their banking operations is conducted by the ECB's Single Supervisory Mechanism (SSM)[13] while their insurance arms are supervised by ACPR, which requires close cooperation and knowledge sharing.

45. Since the previous FSAP, supervisors and regulators further developed already good practice. Financial conglomerate supervision has seen significant enhancements which effectively capture the unique characteristics of French conglomerates. An enhanced reporting framework for intragroup transactions and risk concentrations has been implemented by the European Commission—data are reported at regular intervals—while the work on capital adequacy for financial conglomerates is anticipated to conclude in 2025. EU supervisors have made significant progress in specifying methodologies for calculating capital adequacy, which are essential prerequisites for capital adequacy reporting. Furthermore, the ECB has developed the Supervisory Review and Evaluation Process (SREP) module to incorporate supervisory considerations and assessments specific to conglomerates, taking into account the unique characteristics of French conglomerates, and to steer supervisory actions. Overall, the EU frameworks have gained importance and enhanced robustness of the supervision of conglomerates in France.

[13] Joint Committee, 2024 103 List_of_Financial_Conglmerates_2024.

46. Financial conglomerates face unique cross-sector risks requiring a comprehensive framework. As conglomerates operate across various sectors, the interconnections among these activities can give rise to unique risks that are not adequately addressed by sectoral capital requirements, or their 'sum', and the availability of capital to cover these risks may pose some challenges. In the French market, it is particularly notable that banks which typically head bancassurance conglomerates are allowed to include large equity stakes in insurance subsidiaries in their risk-weighted assets and not deduct these holdings from their regulatory capital.[14] The effectiveness of the conglomerate level capital adequacy requirements need to be ensured by conglomerate supervision while being supported by governance and risk management measures to secure availability of capital. Supervision needs to ensure loss-absorption capacity of capital across a conglomerate especially in situations of financial stress or market volatility, where feedback effects across sectors may magnify individual sectoral risks. A holistic and structured solution, well anchored in legislation at the EU level to include a cross-border component, would considerably improve the position of supervisors, both in supervision and enforcement. An integrated supervisory approach and strong enforcement would also underpin the supervisory dialogue with conglomerates on specific issues through clearly structured and unified messaging.

47. A conglomerate regulatory framework needs to be finalized and coupled with coordinated supervision to tackle cross-sectoral risks. Enhancing collaboration among sectoral supervisors is crucial for conglomerate supervision, involving sharing of work programs and extending joint actions. Cooperation with European authorities is essential to standardize methodologies for identifying relevant competent authorities, thereby allowing the AMF to fully exercise its role in conglomerate supervision, given the growing significance of asset management activities. To address the cross-sector risks faced by conglomerates, it is imperative to establish a regulatory framework that integrates sectoral requirements for capital, governance, and risk management, coupled with robust supervisory coordination, with capital available at the conglomerate level. Additionally, automated tools would further improve efficiency of conglomerate oversight.

D. Less Significant Banking Institution Supervision

48. LSI supervision needs to be more flexible and better targeted. The supervision of LSIs (4 percent of banking sector assets) through ACPR benefits from a proportionate application of a regulatory framework that accommodates the characteristics of these entities and from strong expertise of experienced examiners. The ACPR adheres to the EU regulatory framework outlined in the EU Single Rulebook and the SSM regulation for banks while combining the robustness of the EU framework with its own methodologies. The ACPR conducts comprehensive onsite examinations which only allow it to cover a limited portion of the sector.[15]Targeted examinations would improve the coverage of institutions, optimize the use of resources, and address specific issues in depth. Flexibility needs to be applied in the implementation of EU frameworks, including SREP for LSIs,

[14] It is achieved through the "Danish Compromise" in CRR.

[15] Each year, the ACPR conducts around 5 to 6 on-site examinations of LSIs.

thereby ensuring that diverse business models of LSIs are adequately reflected in supervisory assessments.

E. Insurance Sector Regulation and Supervision

49. The ICP assessment found an overall high level of observance. 23 of the 24 ICPs were assessed as Observed or Largely Observed, a much higher level of observance (despite significant revisions to the ICPs in 2019) than assessed in the 2013 FSAP. Reforms since then include the implementation of EU legislation, especially Solvency II, and national legislation creating a recovery and resolution regime.

50. The scope of the ICP assessment included the recently established regulatory framework for ORPS, most of which are parts of insurance groups. Life insurers were permitted to establish ORPS subsidiaries, which are now subject to a regulatory framework drawing on the IORPs (Institutions for Occupational Retirement Provision) EU directive, and to transfer existing retirement savings portfolios (EUR 216 billion in total, at the end of 2023). They benefited from relief from Solvency II's valuation and capital requirements and reduced volatility of capital requirements, but are otherwise subject to requirements based on Solvency II. ACPR ensured when licensing ORPSs that capital would be sufficient to cover needs in adverse conditions. Although specialist occupational pension providers under a distinct EU regulatory framework, the origins and the nature of the contracts of the ORPSs suggest that for the purposes of the ICPs, they can also be regarded as insurance.

51. Recently agreed EU legislation should strengthen the insurance resolution framework and improve observance. The one ICP assessed as Partly Observed (ICP 12 Exit from the market) sets high standards on recovery and resolution of the most significant insurers. Under its national regime, ACPR lacks some of the necessary tools for effective resolution. The EU Insurance Recovery and Resolution Directive must be implemented by early 2027.

52. Key financial requirements based on Solvency II meet ICP standards. Comprehensive requirements apply at group level as well as to individual insurers. There are well-established requirements and supervisory practices (supported by specialist staff) on the use of internal models and Own Risk and Solvency Assessments (ORSAs). However, the requirements on valuation and solvency applying to ORPSs, which draw on the EU framework for occupational pension funds are less well aligned to ICP requirements. This different valuation and solvency requirements result in ORPSs not reflecting a valuation that is on a market consistent basis on an economic balance sheet and the capital requirements is not reflective of the risks associated with these entities and the products they provide. There are also gaps in the ICP standards applying to IAIGs.

53. The assessment found comprehensive requirements on governance and risk management, although suitability (fit and proper) requirements need strengthening. The ACPR holds Board and senior management responsible for compliance with regulatory requirements including for independent, well-resourced control functions. Supervisors assess the effectiveness of

governance. Suitability requirements apply widely, although all members of the Board of directors should be included within notification and approval requirements.

54. Regulatory processes are also largely observant of the ICPs. While new license applications are rare, ACPR is equipped to assess them. Supervisory risk assessment has recently been improved. Supervisory tools have been enhanced, and supervisors undertake thorough inspections, supplemented by regular meetings with senior managers. Supervisory work is integrated with supervisory colleges process for cross-border groups. The ACPR also carries out wide-ranging macroprudential supervision, including stress testing exercises, which have included the impact of climate change. ACPR will need to continuously evaluate its risk-based approach to ensure that the supervisory intensity on smaller insurers remains adequate to identify and assess all related risks and assess if those risks are adequately managed by those smaller insurers.

55. The ACPR has the necessary enforcement tools, although use of formal powers is limited. Supervisory measures often suffice but the use of administrative sanctions such as financial penalties is limited in number and scope. The process for use of certain powers is lengthy – modifications to or removal of procedural requirements or stages associated with the exercise of such powers should be considered to make the process more expeditious.

56. The ACPR also carries out extensive supervision of business conduct. ACPR's supervision benefits from a specialist conduct supervisory function which carries out risk assessment, based on reporting by insurers (but not also intermediaries) and other information, investigates concerns with individual insurers, products or practices, and issues recommendations and reports. Supervision is focused mainly on products and processes and relies on prudential supervisors to consider conduct issues in their oversight of governance and compliance functions. Intermediaries' supervision focuses appropriately on integrity and competence of the many non-bank brokers and agents but could be strengthened with more off-site supervision work. Licensing and the oversight of professional qualifications and related requirements have been transitioning to a new institutional framework since 2022, giving an important role to ACPR approved representative associations.

57. The ACPR is strongly committed to international supervisory cooperation. It is empowered to share confidential information and does so with other authorities. It has established supervisory colleges for IAIGs and other cross-border insurance groups and participates in colleges established by other supervisors. It cooperates with banking supervisors on the cross-border bancassurance groups and participates actively in EU work.

F. Market Regulation and Supervision

58. The AMF and ACPR have responded well to increasing market complexity, and supervisory approaches are effective. Financial markets have evolved since the previous FSAP, in particular wholesale markets, and there have been significant regulatory changes. The responsibilities of regulators have grown, with new obligations to supervise matters such as digital asset markets, sustainable finance, and digital operational resilience. The FSAP focused on institutional arrangements, supervision of secondary market trading oversight, and liquidity risk in

funds. For AMF, the supervision of fund liquidity risk and secondary markets has shown strong developments. Supervisory mechanisms concerning leverage, liquidity and redemption risks in open-ended funds have driven adoption in advance of EU requirements. The authority has significantly invested in tools to embed data driven supervision, integrating and analyzing market data to improve its oversight, and inform supervisory priorities. This is supported by horizontal thematic supervision and traditional firm specific inspections, which result in a material number of enforcement actions in the context of EU peers. The AMF has also invested resources towards financial stability and systemic risk monitoring.

59. As markets have increased in complexity, oversight of resilience should be prioritized. Markets and regulatory risks have increased, including in over the counter ("OTC") trading, and some markets have shifted from continuous intra-day liquidity towards point in time liquidity concentration. Expected consolidation in the industry could increase dependence on particular firms and infrastructure. Such developments heighten the need for resilience testing in markets, ensuring that critical dependencies are understood, and that there are mechanisms to ensure trading continuity following disruption or outages. The AMF has upgraded its own market oversight systems, particularly from a market abuse perspective, and is monitoring changing trading patterns and emerging risks. Supervisory work should seek to identify key dependencies and firms and consider whether supervisory actions are required.

60. While the AMF focuses its resources on markets issues, it should ensure significant firms are subject to proactive supervision in respect of financial and operational resilience, in line with a risk-based approach. Firms supervised solely by the AMF would generally experience less complex issues should they encounter financial or operational difficulties. Nevertheless, those firms can have significant market presence and have critical outsourcing arrangements and dependencies on group functions located outside of the EU.

G. Cyber Security

61. The collaboration among the involved authorities should be formalized and enhanced to facilitate optimal cooperation and information sharing in cyber security. The overall complexity of the cyber risk supervision within the French financial sector is high, with four dedicated teams within the three financial authorities (BdF, ACPR, AMF), a financial regulator (MoEF) and the national cybersecurity agency (ANSSI) involved. The institutional and regulatory framework is strong, but the supervisory practices are not fully standardized and cooperation and common tasks can be improved. The basis for sharing necessary information should be legally established and procedures and channels set up for collaboration. More cooperation with ANSSI is needed on critical infrastructure protection to cover both technical and financial stability aspects.

62. Common tools for DORA related activities, including incident reporting, should be developed by the financial supervisors to create a holistic cyber risk landscape for the financial sector. Incident reporting tools and databases, as well as the register of information on third party service providers, should be standardized and information sharing between authorities improved. At least one authority should have a complete overview of the incident and IT-related

outsourcing information for the whole financial sector. Such data should be channeled and incorporated into financial stability reports and macroprudential monitoring.

63. Authorities should ensure cyber risk supervisory practices and methodologies become more consistent across agencies. The same type of cyber risk-related observations should result in the same supervisory actions (including deadlines and potential fines) for entities with the same IT complexity and risk profile, regardless of the authority involved. To formulate standard recommendations based on DORA requirements across banks, insurance and financial infrastructures, a supervisory platform should be set up for sharing cyber risk-related case studies, good practices, and methodologies. Increased onsite supervisory presence should be planned for the upcoming years, with resources enhanced accordingly.

H. Financial Integrity (AML/CFT)

64. The anti-money laundering and combatting the financing of terrorism (AML/CFT) regime was assessed in 2022[16] by the Financial Action Task Force (FATF) and found to be largely effective. Recent legislative updates greatly improved France's ability to tackle illicit financial flows. Most AML/CFT competent authorities were deemed to have a comprehensive understanding of the ML/TF risks. France fared well in its investigations and prosecutions of TF activities and made significant strides in investigating and prosecuting ML activities. Beneficial ownership transparency is promoted through the publication of detailed information on legal persons and arrangements.

65. Some weaknesses nevertheless remain. The legislative framework was observed to have some moderate shortcomings, including with respect to customer due diligence obligations relating to politically exposed persons (PEPs) and the scope of coverage of beneficial ownership reporting and disclosure requirements. Risk-based AML/CFT supervision by the AMF was noted as being fairly new. The FATF also noted some delays in the reporting of suspicious transactions by financial institutions and limitations in the identification of beneficial owners. Furthermore, some concerns were noted in the application of the "travel rule"17 by virtual assets service providers. Finally, fit and proper checks did not extend to all management positions and beneficial owners.

66. Efforts to strengthen the AML/CFT regime should continue. France has continued to improve its AML/CFT framework and its effective implementation after the FATF evaluation: it notably published a new national risk assessment, and strengthened its legislative framework pertaining to virtual assets, AML/CFT obligations relating to PEPs, and beneficial ownership requirements. The AMF continues efforts to formalize and calibrate its risk-based approach and the ACPR has strengthened its oversight of virtual asset service providers. France has also raised the awareness of AML/CFT obliged entities in their customer due diligence obligations relating to beneficial owners. Legislative proposals aimed at extending the scope of fit and proper checks are underway. Moving forward, France should continue to strengthen risk-based AML/CFT supervision and ensure that all AML/CFT obliged entities fully understand their obligations relating to beneficial

[16] https://www.fatf-gafi.org/content/dam/fatf-gafi/mer/Mutual-Evaluation-France-2022.pdf.coredownload.inline.pdf

ownership transparency. France should continue efforts to understand and mitigate ML/TF risks arising from the virtual asset sector.

CRISIS PREPAREDNESS AND MANAGEMENT

67. The ACPR should prioritize work to ensure operational readiness for cross-border bail-in procedures, including fallback options, and for the combination of resolution tools. Recent international experiences showed that more work is needed to ensure enforceability of bail-in powers for securities in foreign jurisdictions. As this is particularly relevant for French banks, the ACPR should continue engaging with the SRB and in international fora to ensure advanced preparations for the effective exercise of bail-in powers in all relevant jurisdictions. The ACPR should also intensify work on the combination of tools, placing more emphasis on the sale of business and on the bridge bank tool in case no private acquirers can be found. Regarding financial conglomerates, the ACPR should ensure compatibility of resolution plans for the banking and insurance arms. Domestic law should recognize the potential use of government financial stabilization tools foreseen under the Bank Recovery and Resolution Directive (BRRD) as a last resort option subject to specific safeguards.[17]

68. BdF should require banks to preposition collateral and conduct simulation exercises for ELA. BdF should require banks to have sufficient prepositioning of credit claims to ensure preparedness to mobilize illiquid collateral for ELA purposes. Such prepositioning should be calibrated on a risk basis and prioritize banks with complex and difficult-to-value collateral. BdF is well positioned to achieve mandatory prepositioning given its long experience in valuing credit claims. In fact, a large share of credit claims is already eligible (and widely used) as part of the regular monetary operations framework. Prepositioning should be complemented with simulation exercises (BdF internal and/or with banks). In addition, ACPR should develop an early warning system based on supervisory information to swiftly inform BdF of banks under liquidity stress. Finally, in light of the significance of the bancassurance model, BdF should ensure that it can identify and assess in advance the potential use of a bank proxy for ELA provisioning to an insurer.

69. BdF should develop arrangements for ELA to cross-border banks and for ELA in resolution. BdF should seek cooperation arrangements for cross-border ELA with other EU national central banks (NCBs) and with non-EU central banks, including on the deployment of collateral and the provisioning of ELA in foreign currency. For intra-EA ELA operations, such cooperation arrangements should facilitate the swift establishment of the networks that concerned NCBs in the Eurosystem would establish according to the ECB ELA Agreement. BdF should ensure readiness for ELA in resolution and develop internal policies together with ACPR to assess the prospective solvency of banks in resolution. BdF and ACPR should also document the lines of action to be taken with other financial safety net functions and stakeholders if ELA is provided.

[17] These are the public equity support tool and temporary public ownership tool, prescribed in Articles 56, 57 and 58 of Directive 2014/59/EU.

70. The deposit insurance fund needs to be strengthened through a higher target level and a public backstop. France's bank deposits are largely concentrated in a few major banks which would be subject to resolution and thus not expected, a priori, to utilize the funds held by FGDR for reimbursing their deposits. However, these funds could also be used to finance resolution procedures (subject to the least cost test) and they would certainly be used for smaller banks for which liquidation and payout is the preferred resolution strategy. Per IMF best practices, FGDR funds should be sufficient to withstand the concurrent failure of the 2—4 largest of those banks. Under current circumstances, the funds fall well short of this level.[18] The FGDR also needs a public backstop to provide credibility to the scheme and ensure the quick provision of liquidity within the 7 days payout period.

AUTHORITIES' VIEWS

71. The French authorities greatly valued the FSAP engagement and the cooperative spirit in which the discussions were held. They appreciated the constructive exchanges of views with the team and the in-depth assessment of systemic risks.

72. The authorities broadly agreed with the systemic risk assessment. They agreed with the FSAP stress test findings that the banking system is broadly resilient to severe but plausible macro-financial shocks, both from solvency and liquidity perspectives. The authorities argued that banks' diversified business models ensure that profitability remains stable under stress. They concurred with the assessment that the non-financial private sector, in particular SMEs, appears exposed to macroeconomic shocks but noted that they have been resilient to the rise in interest rate and the recent rise in insolvencies is partly explained by a catch-up effect following the expiration of pandemic support measures. They further noted that, despite high indebtedness, households' default risk remains small thanks to banks' conservative origination practices and an adequate and sufficient macroprudential borrower-based measures.

73. The authorities were supportive of most recommendations and emphasized their commitment to strengthen resilience in the financial sector. Regarding the macroprudential framework and tools, they saw merit in improving public communication and governance practices, but they flagged that the HCSF functions well in practice and that considering a larger macroprudential buffer would need to be embedded in the context of a broader regulatory buffer reform. They also did not see the need to formalize a neutral level of the credit protection reserve given the proactive approach to build up the buffer and deemed that announcing a neutral level would not enhance the banks' willingness to use buffers when released. The authorities noted that, in line with staff's assessment, the presence of the MoEF on the boards of the supervisor did not raise any issues of undue influence in the past and is helpful to discuss legislative and other policy proposals for which the Ministry is the regulator. Therefore, they disagreed with the staff's recommendation. Regarding the Insurance Core Principle Detailed Assessment (DAR), the authorities

[18] This recommendation aims at ensuring the deposit insurance fund's resilience to tail events without considering banks' risk of failure. The current target level in France is 0.5 percent of covered deposits.

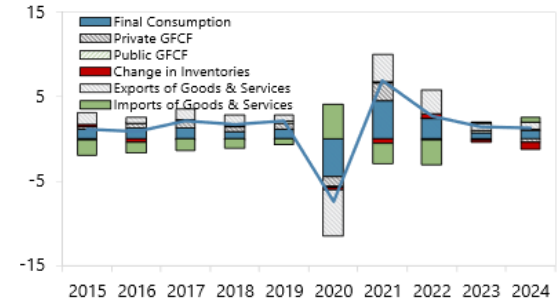
noted that there have been interesting discussions on whether the supervision of French pension funds (ORPS) should be assessed against the Insurance Core Principles, as ORPS were separated from other activities and their dedicated prudential regime implemented rather recently, in 2019. The authorities did not consider that the regulatory and supervisory framework for ORPS should be assessed against the ICPs and noted that the ICPs were also designed and established purposely for insurance companies, but were not all fit for pension funds. Regarding crisis management and cyber security, authorities stressed that well-working informal arrangements should not be made less effective through formalizing them. They consider that the current FGDR target level for its deposit insurance fund is adequate, as it derives from EU legislation and is based on a risk methodology developed by the EC, reflecting France's specific banking structure and risk profile. The authorities think that the size of the deposit insurance fund should be assessed using a publicly available methodology based on the assessment of individual banking risks and loss expectations. The authorities do not support the implementation of a public liquidity backstop for the FGDR, as they consider the announcement of an ex-ante liquidity backstop would also trigger moral hazard issues and would risk strengthening the sovereign banking nexus that the Banking Union seeks to avoid.

Figure 20. France: Macro-Financial Conditions

Real GDP growth has declined as a result of weak domestic demand.

Contribution to Annual Real GDP Growth

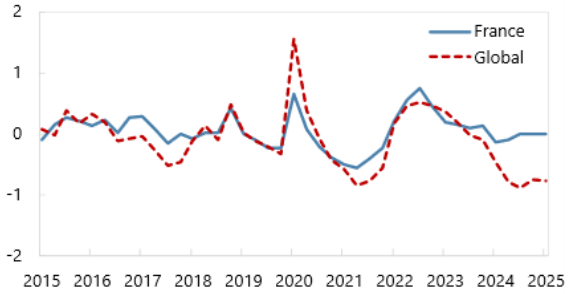
(Percent; YoY growth)



Source: Haver

Financial conditions have been loosened recently, following the 2021-22 monetary tightening.

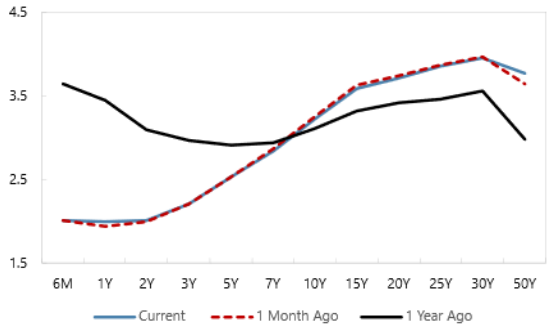
Financial Conditions Index (GFSR)



Source: IMF

The yield curve has steepened.

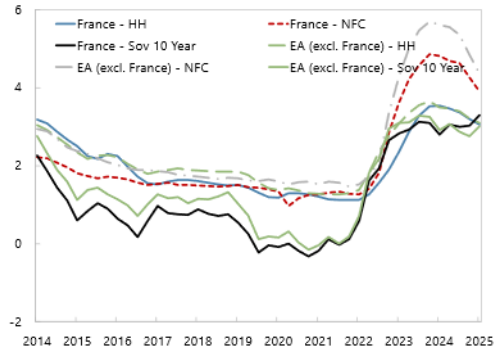
Sovereign Debt Yields, June 17th, 2025 (Percent)



Source: Bloomberg

The cost of borrowing has stabilized and started to moderately decline.

Cost of Borrowing (Percent)

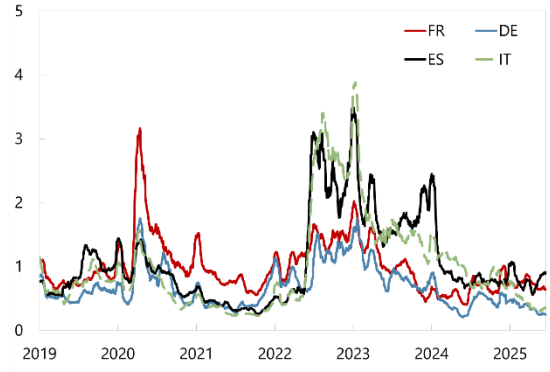


Source: ECB/Haver

Liquidity in core benchmark securities has been reliable.

5-Year Governmental Bond Price Bid-Ask Spread

(In Basis Points)

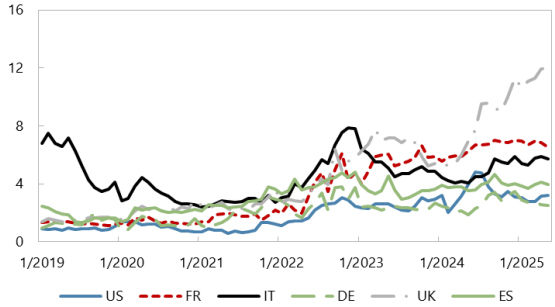


Source: Bloomberg

But liquidity of off-the-run securities are deteriorating.

Relative Liquidity of Non-Benchmark Securities

(Bloomberg GVLQ Index)



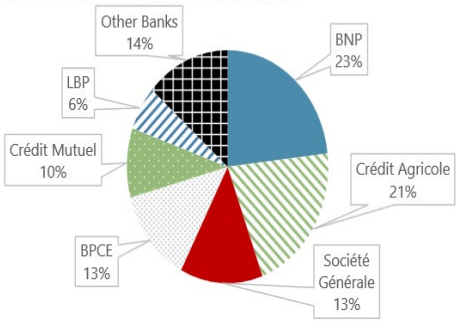
The government bond liquidity index measures the spread between observed yields and the yields expected by a fair value model. The higher the index, the worse the situation.

Source: Bloomberg

Figure 21. France: Structure of Banking System

The banking system is highly concentrated, with six banks accounting for 86 percent of banking assets…

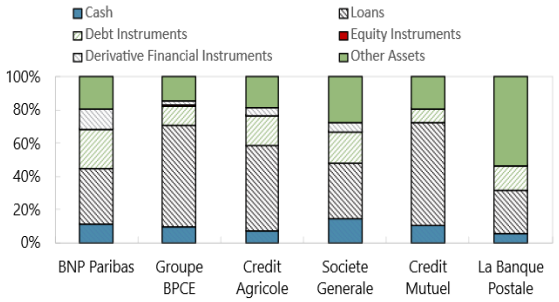
Banking Sector
Market Shares as Latest Available



Source: BMI Research.

BNP Paribas and Société Générale have large market activities…

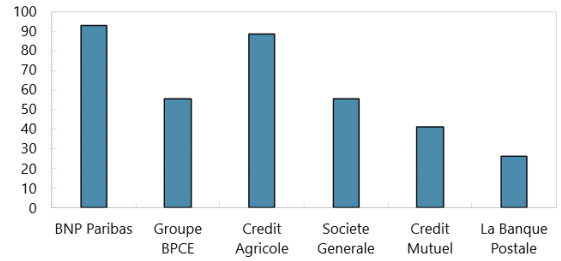
Decomposition of Bank Assets, 2023
(Percent of Total Assets)



Source: BMI Research.

France is home to four GSIBs, with combined assets at 290 percent of GDP….

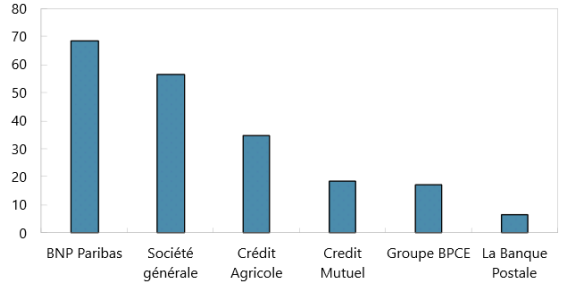
Bank Assets
(In Percent of Home Country GDP, 2023)



Source: EU-wide transparency exercise.

And very internationally active, in particular BNP Paribas and Société Générale….

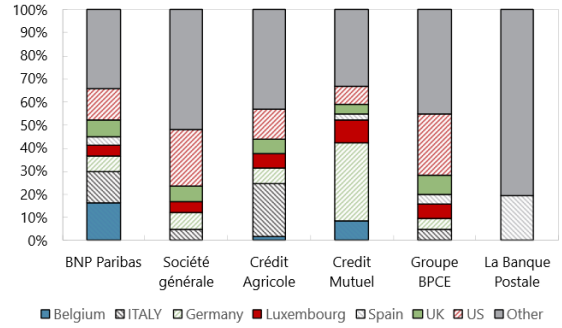
Share of Credit Exposures Outside France
(In Percent)



Source: EU-wide transparency exercise.

International activities are located in other large European countries and in the US…

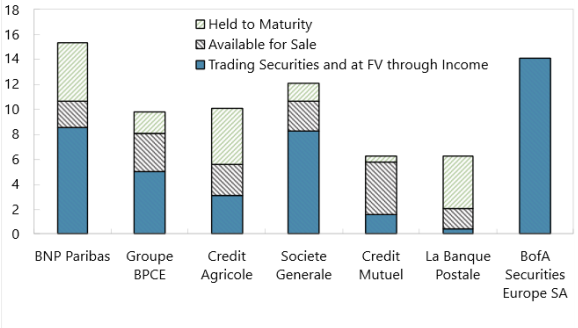
Geographical Distribution of Total Credit Exposure outside France, 2023
(In Percent of RWA)



Source: EU-wide transparency exercise.

Several banks hold large amounts of fair value securities (held for trading or available for sale) ….

Holdings of Fixed Income Securities by Accounting Recognition
(% of Total Assets)

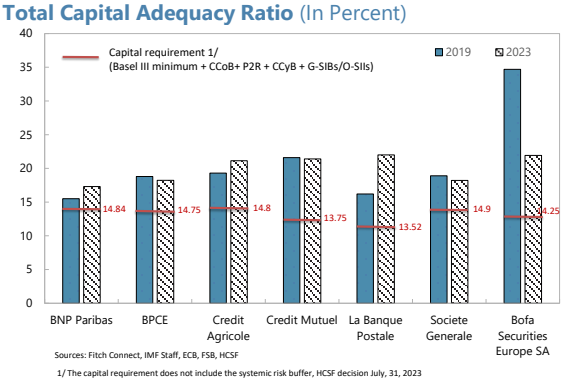


Source: Fitch and IMF Staff Calculations.

Figure 22. France: Bank Performance

Overall, bank's excess capital over requirements has improved, but some banks have small margins ….

Total Capital Adequacy Ratio (In Percent)

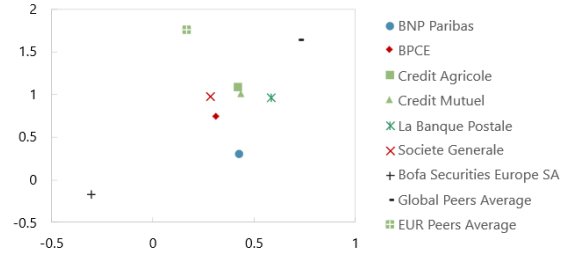


Source: Fitch Connect and IMF staff calculations.

In 2019, profitability was above EUR peer average despite lower-than average net interest margins…

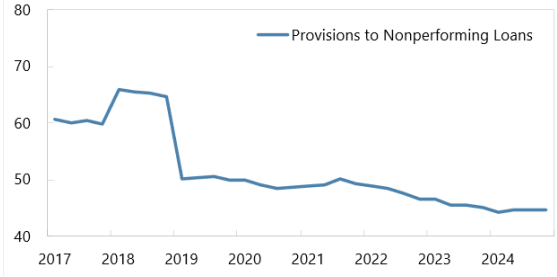
Provision coverage has remained stable since before the pandemic…

ROAA (X-Axis) & Net Interest Margin (Y-Axis) (In 2019)



Source: Fitch Connect and IMF staff calculations.

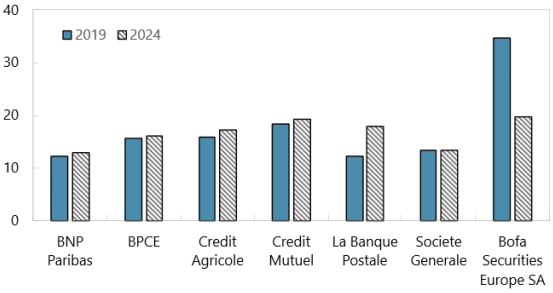
Provision Coverage (In Percent)



Source: Fitch Connect and IMF staff calculations.

And so has the CET1 ratio….

Core Tier 1 Capital Ratio (In Percent)



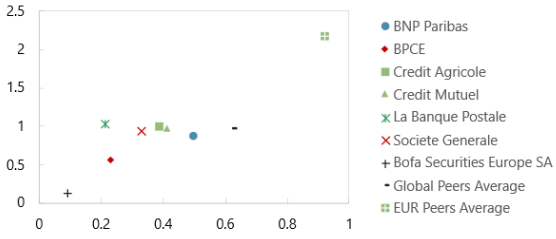
Note: Credit Mutuel and Bofa Securities Europe SA are using the latest 2023 data.

Source: Fitch Connect and IMF staff calculations.

In 2023, both profitability and net interest margins are below EUR peer average for all large banks….

… liquidity ratios have moderately worsened since the pandemic

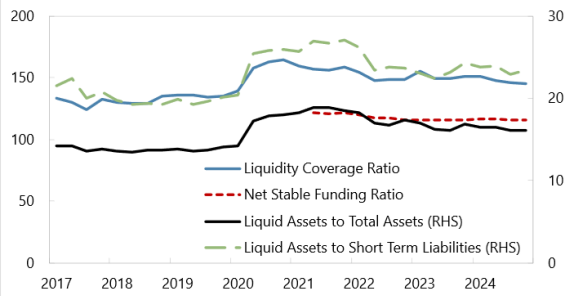
ROAA (X-Axis) & Net Interest Margin (Y-Axis) (In 2024)



Note: Credit Mutuel and Bofa Securities Europe SA are using the latest 2023 data.

Source: Fitch Connect and IMF staff calculations.

Liquidity Indicators



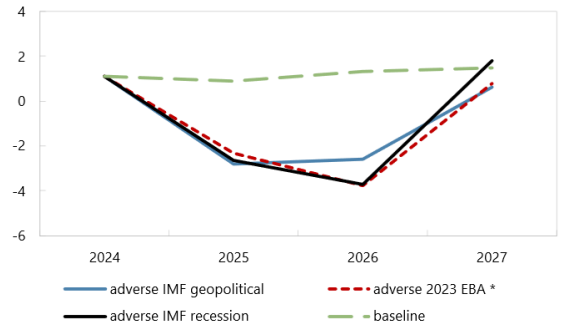
Source: Fitch Connect and IMF staff calculations.

Figure 23. Euro Area: Projected Macro-financial Variables for France

The two adverse scenarios entail a real GDP path broadly similar to the 2023 EBA stress test…

Real GDP Growth

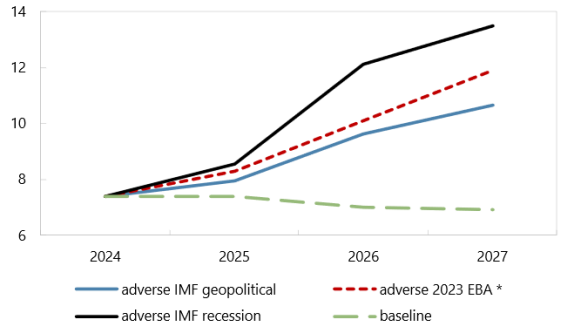
(In Percent)



The unemployment rate rises to a high level, especially in the recession scenario…

Unemployment Rate

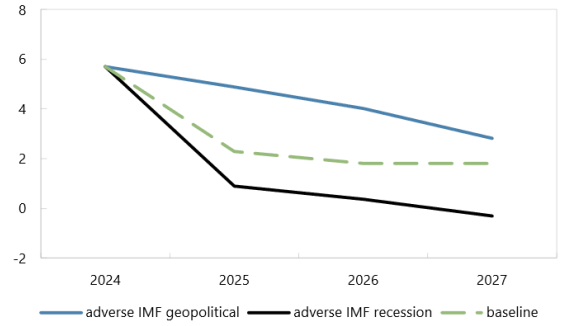
(In Percent)



Inflation remains above target in the geopolitical scenario

Inflation

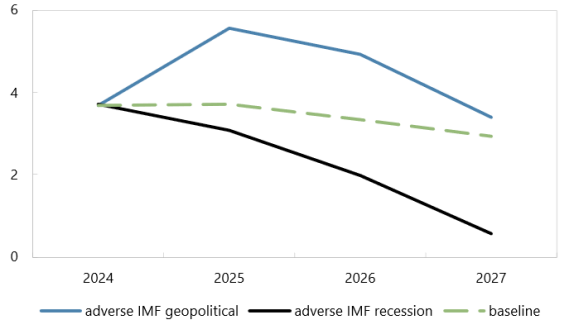
(In Percent)



Triggering a tightening of monetary policy…

Short-Term Interest Rate

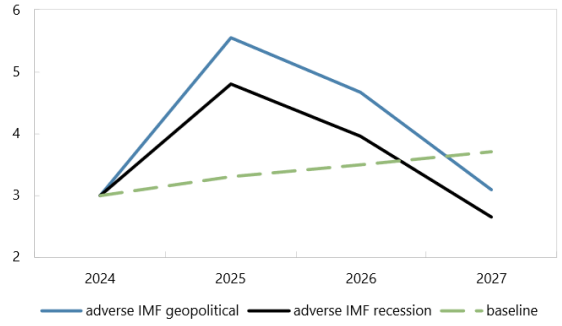
(In Percent)



Long-term rates increase in both scenario…

Long-Term Interest Rate

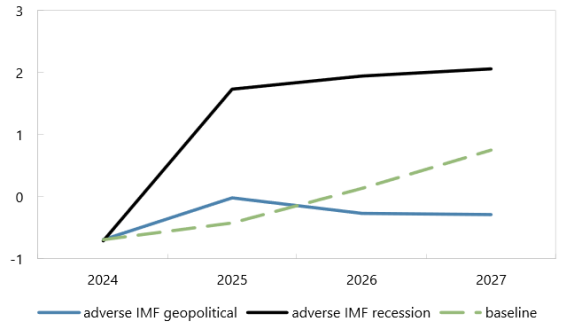
(In Percent)



But the yield curve remains flat or inverted in the geopolitical scenario…

Term Spread

(In Percent)

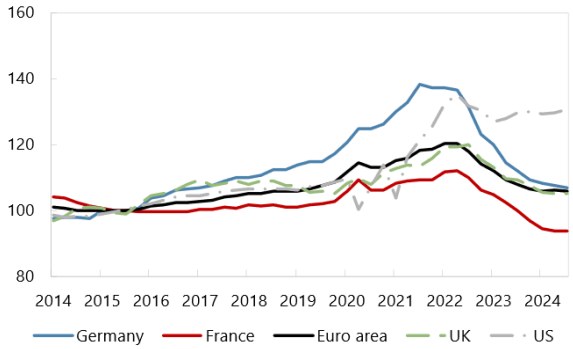


Source: EBA, IMF, and IMF staff calculations. Baseline projections are based on October 2024 WEO; adverse scenarios as of November 2024.

Figure 24. France: Household Debt and Housing Market

House price to income ratio has declined…

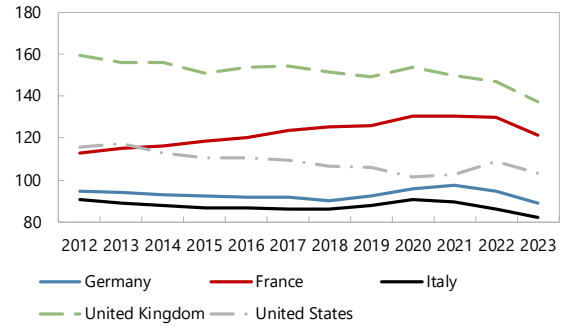
House Price to Income Ratio
(2015 = 100)



Source: OECD.

…while household debt to income ratio remains relatively high

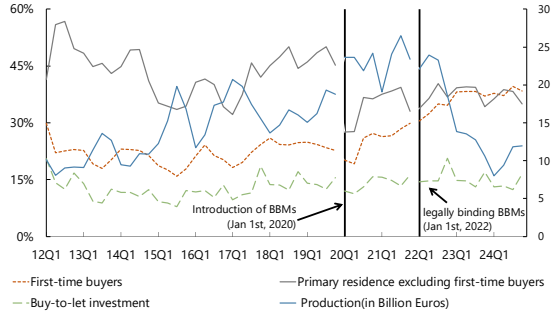
Household & NPISH Debt to Income Ratio
(Percent)



Source: OECD.

With rising interest rates, issuance of housing loans declined sharply in 2023-24…

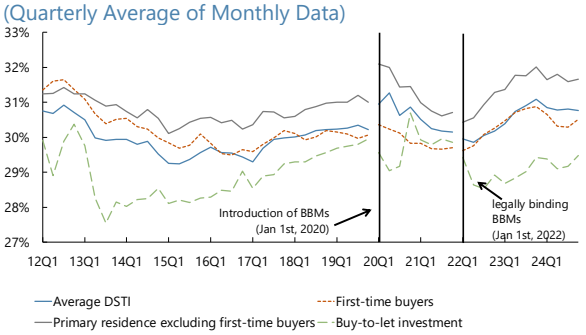
Production of New Housing Loans
(Quarterly Average of Monthly Data)



Source: ACPR and IMF staff calculations.

…and average DSTI increased

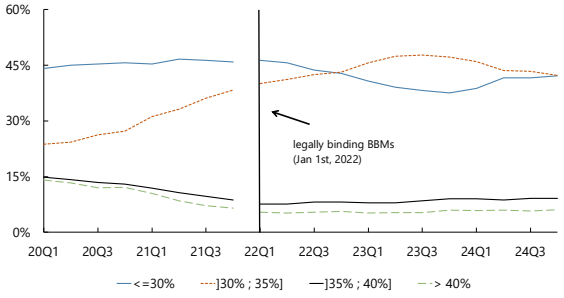
Average DSTI of New Housing Loans
(Quarterly Average of Monthly Data)



Source: ACPR and IMF staff calculations.

About 6% of new housing loans have DSTI above 40%…

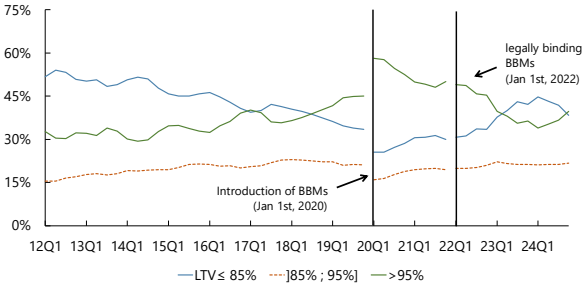
Share of New Housing Loans, by DSTI Ratio
(Quarterly average of Monthly Data)



Sources: ACPR and IMF staff calculations.

…and about 40% have LTV ratio over 95%.

Share of New Housing Loans, by LTV Ratio
(Quarterly Average of Monthly Data)



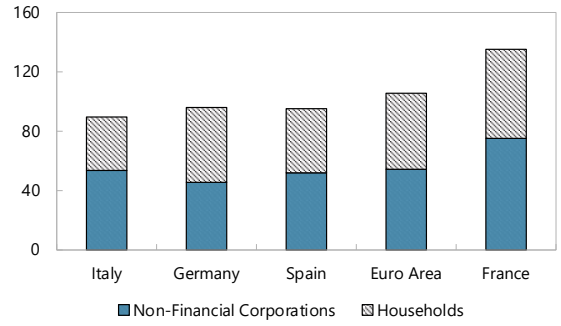
Sources: ACPR and IMF staff calculations.

Note: The jump in data in 2020Q1 is due to a change in reporting requirements, including a switch from volume basis (number of loans) to valuation basis. The latest data point is 2024Q4.

Figure 25. France: Non-Financial Corporates

Corporate debt is high compared to other EA countries….

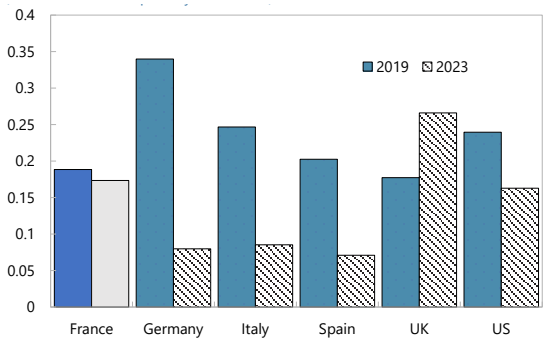
Corporate and Household Debt in 2024 Q4
(Percent of GDP, Consolidated data)



Source: BdF.

Large-indebted corporates account for a significant share of aggregate debt of publicly listed firms…

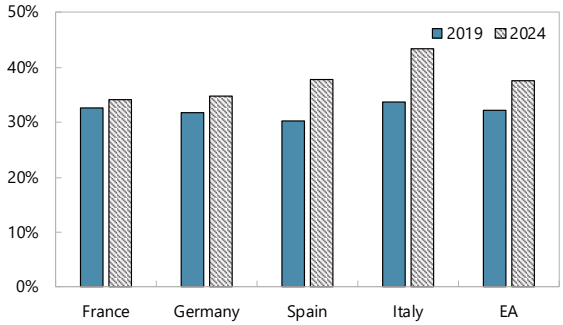
Debt of Publicly-Listed Firms with Debt-to-EBITDA >6 or <0 (Share of Debt of All Publicly-Listed Firms)



Sources: Datastream and IMF staff

But in peer comparison cash buffers are relatively small as a share of debt….

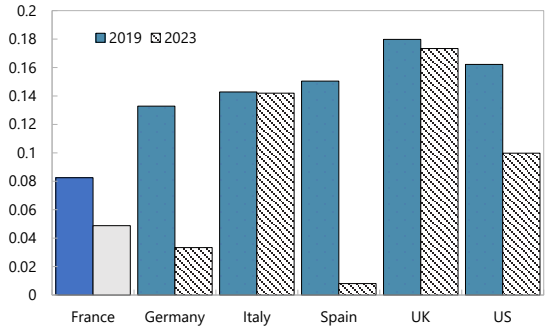
Cash Holdings
(Percent of Consolidated Debts)



Source: ECB.

Interest coverage ratios have improved ….

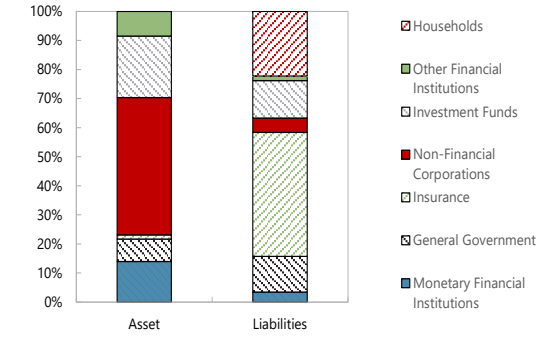
Debt of Publicly-Listed Firms with ICR <1
(Share of Debt of All Publicly-Listed Firms)



Sources: Datastream and IMF staff

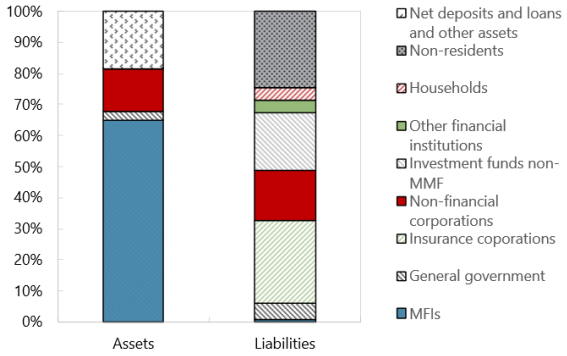
Figure 26. France: Investment Funds and Money Market Funds

Investment Fund Assets and Liabilities, by Issuer and Holder (In Percent of Total)



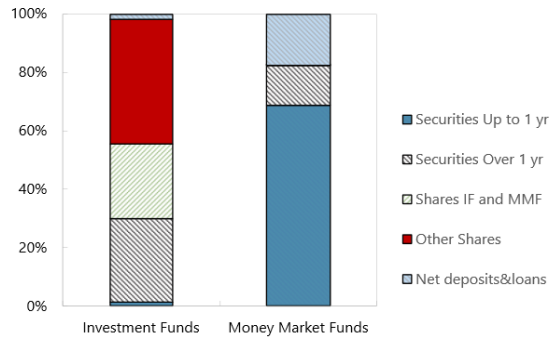
Source: ECB.

Money Market Fund Assets and Liabilities, by Issuer and Holder (In Percent of Total)



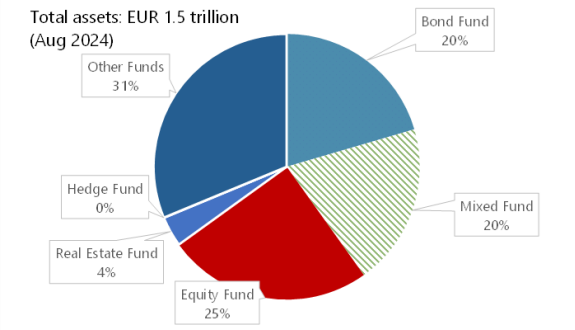
Source: ECB

Investment Fund and Money Market Fund Assets, by Type of Instrument (In Percent of Total)



Source: ECB.

Investment Fund Assets, by Investment Mandate (In Percent of Total Assets)



Source: ECB.

Table 7. France: Risk Assessment Matrix			
Source of Risks	**Relative Likelihood[1]**	**Impact if Realized**	**Policy Response**
Global Risks			
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**High**	**Medium:** Increasing geoeconomic fragmentation could reduce exports and trade market share, directly and due to negative spillovers from key trading partners, and lower potential growth.	Further diversify supply chains and undertake structural reforms to boost competitiveness. Deepen the European single market and foster capital market integration to encourage investment and innovation. Maintain a level playing field between firms and sectors, and limit state intervention to address market failures.
Sovereign debt distress. Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries.	**High**	**Medium:** Higher sovereign bond yields in France raise refinancing costs over the medium-term, weakening debt dynamics, and reducing fiscal space for growth-enhancing spending. This is mitigated by France's liquid debt market, diversified investor base and the stabilizing role of the ECB.	Advance fiscal consolidation efforts under the authorities' medium-term fiscal structural plan, underpinned by a comprehensive and credible package of fiscal measures over the medium term. Support fiscal adjustment efforts with structural reforms to support jobs and growth.
Tighter financial conditions and systemic instability. Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances and worsens debt affordability.	**Medium**	**Medium:** Tighter financial conditions could trigger further deleveraging of the private sector, increase vulnerabilities, and lower growth.	Macroprudential policies, including cyclical and systemic buffers, should be deployed as warranted to mitigate systemic financial instability. Maintain close monitoring of liquidity risks in NBFIs. Fiscal policy should allow automatic stabilizers to operate.
Regional conflicts. Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	**Medium**	**Medium**: Heightened uncertainty weakens consumer and business confidence with a negative impact on consumption and investment, affecting both manufacturing and services.	Accelerate the green transition and further diversify energy mix and sources. Provide targeted fiscal support to vulnerable households and firms. Advance structural reform agenda to boost productivity and improve competitiveness.
Commodity price volatility. Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	**Medium**	**Medium:** France is a net energy importer, with imported products accounting for about half of total energy supply. The adverse terms-of-trade shock from a renewed spike in international energy prices would have a material impact on inflation and real income.	Accelerate the green transition and further diversify energy mix and sources. Provide targeted fiscal support to vulnerable households and firms. Advance structural reform agenda to boost productivity and improve competitiveness.

Table 7. France: Risk Assessment Matrix (concluded)

Source of Risks	Relative Likelihood[1]	Impact if Realized	Policy Response
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	**High**	**Medium:** Increasing geoeconomic fragmentation could reduce exports and trade market share, directly and due to negative spillovers from key trading partners, and lower potential growth.	Further diversify supply chains and undertake structural reforms to boost competitiveness. Deepen the European single market and foster capital market integration to encourage investment and innovation. Maintain a level playing field between firms and sectors, and limit state intervention to address market failures.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	**High**	**Medium/High:** Cyberattacks to key infrastructure can disrupt economic activity and threaten financial stability.	Advance crisis preparedness to cyberattacks and further strengthen coordination at the European/international level. Strengthen the operational resilience of the financial system.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	**Medium**	**Medium:** Extreme climate events disrupt economic activity and negatively impact growth.	Provide targeted fiscal support and undertake public investment for climate change preparedness and adaptation.
Domestic Risks			
Political fragmentation. Lack of political consensus leads to delays in needed fiscal adjustment and the reform agenda.	**High**	**Medium/High.** Setbacks to the fiscal and structural agenda would negatively impact business confidence and investment, employment, raise refinancing costs, and weaken public debt dynamics.	Promote broad-based political and social support to advance France's fiscal plans, as per EU fiscal rules, and make progress on structural priorities, providing targeted support to the most vulnerable.
Social discontent. Real income loss, spillovers from conflicts, dissatisfaction with migration, and worsening inequality ignite social unrest, populism, polarization, and resistance to reforms or suboptimal policies. This weakens growth and leads to policy uncertainty and market repricing.	**Medium**	**Medium:** Social discontent could impact consumer and business confidence and slow growth. This could delay fiscal adjustment and reform efforts, increase financing costs, and weaken public debt dynamics.	Provide targeted fiscal support to vulnerable households and firms. Advance structural reform agenda to boost jobs and productivity.

[1] The Risk Assessment Matrix shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more).

Table 8. France: Stress Test Matrix (STeM)		
A. Banking Sector: Solvency Stress Test		
Top-down by IMF		
1. Institutional Perimeter	Institutions included	• 7 SI banks, 4 of which are G-SIBs
	Market share	• Around 96 percent of the banking sector assets
	Data and baseline date	• Data vintage: 2024 Q4 (starting point for PL, balance sheet and capital). • Supervisory data: Bank balance sheet and supervisory statistics (including FINREP and COREP), information on interest rate risk in the banking book (IRRBB), short-term exercise (STE), provided by the ECB. PDs for non-financial corporates are estimated based on the Corporate Stress Test (see: Global Corporate Stress Tests—Impact of the COVID-19 Pandemic and Policy Responses) and complemented for some foreign exposures with Expected Default Frequency sourced from Moody's. Further supervisory and market information might be provided, including the probability of defaults by credit portfolios and information on debt securities (duration, yield, etc.). Household analysis relies on the 2021 Household Finance and Consumption Survey. • Market and publicly available data, such as information from ECB statistical data warehouse on funding and lending rates for new business (front-book) by type of asset and funding portfolios. Capital IQ and Orbis for corporate sector analysis. • Scope of consolidation: banking activities of the consolidated banking group for banks having their headquarters in France. • Coverage of sovereign and non-sovereign securities exposures: debt securities measured through fair value (FVPL and FVOCI) and amortized cost (AC) account.

Table 8. France: Stress Test Matrix (STeM) (continued)

A. Banking Sector: Solvency Stress Test		
Top-down by IMF		
2. Channels of Risk Propagation	Methodology	• FSAP team satellite models and methodologies. • For internally modelled exposures (IRB), projection of PiT and TTC PDs, PiT and DT LGDs, EAD, and RWA. For SA exposures, projection of new flows of defaulted exposures and RWA based on risk weights for performing and non-performing loans separately. • Balance-sheet regulatory approach. • Provisioning for IRB and SA are modeled using IFRS9 transition matrix approach. • Market risk impact from the revaluation of trading assets (FVPL) and securities classified as fair value thorough other comprehensive income (FVOCI) securities assessed using a modified duration approach or sensitivities to market risk factors (Greeks) with hedging strategy considered. Equity and derivative exposures assessed using sensitivities to market risk factors (Greeks). • Time-to-repricing approach for Interest income and expense
	Satellite models for macro-financial linkages	• Models for credit losses, funding costs, lending rates • Within EA, for household and corporate, analysis of PD using micro-data at individual household (based on household survey HFCS) and non-financial corporate (based on commercial corporate database). Outside of EA, EDF or the Corporate Stress Test model will be used as proxies for PDs. LGD shocks for collateralized exposures will be linked to paths for real estate prices in the scenario using a smoothing factor to account for the TTC regulatory approach. • Interest income to be projected at portfolio level using a structural approach applying interest rate shocks on new originations and loans' repricing ladder to outstanding volumes. • Funding costs to be projected at portfolio level using funding structure by product (retail and wholesale deposits, secured and unsecured debt securities, repo, etc.) and maturity bucket (overnight vs. term).

Table 8. France: Stress Test Matrix (STeM) (continued)		
A. Banking Sector: Solvency Stress Test		
Top-down by IMF		
3. Tail Shocks	Stress test horizon	• 2024 Q2– 2027 Q2 (three years)

	Scenario	• Three scenarios:
		  • A baseline scenario drawn from the October 2024 WEO macroeconomic projections.
		  • Adverse scenario 1: A geopolitical scenario (or higher-for-longer) featuring an escalation of geopolitical conflicts.
		  • Adverse scenario 2: A recessionary scenario showing a synchronized global slowdown amplified by sovereign debt distress in EA.
		  • The two adverse scenarios rely on GFM, a structural macro-econometric model of the world economy, disaggregated into forty national economies, documented in Vitek (2018).
		  • Real GDP paths in the geopolitical scenario (respectively recession scenario) entail a shock over two years of 2.4 times (respectively 2.7 times) the standard deviation of 2-year real GDP growth over 1970-2024.
		  • The market risk shocks are modeled as an add-on materializing at the beginning of the first year of each adverse scenario

	Second-round effects and Sensitivity analysis	• Counterfactual policy analysis of household borrower-based instruments and mortgage default • Sovereign spreads shocks incorporated in the market risk scenarios • Exposures to large counterparties are documented • Variations on scenario analysis to inform calibration of the positive neutral CCyB

Table 8. France: Stress Test Matrix (STeM) (continued)		
A. Banking Sector: Solvency Stress Test		
Top-down by IMF		
4. Risks and Buffers	Risk covered	• Risks covered include credit (on loans and debt securities), market (valuation impact of debt instruments through repricing and credit spread risk as well as the P&L impact of net open positions in market risk factors such as foreign exchange risks) and interest rate risk on the banking book (IRRBB).
	Behavioral Adjustment	• For the growth of the banks' balance sheet over the stress-test horizon, a quasi-static approach is used. Asset allocation and the composition of funding remain the same, whereas the balance sheet grows in line with the nominal GDP paths of major geographical exposures. However, to prevent the banks from deleveraging, the rate of change of balance sheets is set at a floor of zero percent. This constraint is binding in the adverse scenario. FX shock from revaluation effects on foreign currency loans specified in the stress test scenario. • In projecting RWAs, standardized and IRB portfolios are differentiated. For the standardized portfolios, RWAs changed due to the balance sheet growth, new inflows of non-performing loans, exchange rate movements, and the conversion of a portion of off-balance sheet items (undisbursed credit lines and guarantees) to on-balance sheet items. For the IRB portfolios, through-the-cycle-PDs, downturn LGDs and EAD for each asset class/industry are used to project risk weights.
	Calibration of risk parameters	• Interest income from nonperforming loan is not accrued. • Dividends are paid out by banks that remain profitable and adequately capitalized throughout the stress. The dividend rate will be the average ratio between observed dividends and profits after tax over the last five years. The tax rate will be set at 30 percent in line with 2023 EBA methodology.
5. Regulatory and Market-Based Standards and Parameters		• National regulatory framework Basel III regulatory minima on CET1 (4.5 percent) and include any requirements due to systemic buffers (SyRB, G-SII buffer, O-SII buffer), with and without capital conservation buffer (CCoB), and Pillar II requirement. Leverage ratio during the stress test horizon against the 3 percent Basel III minimum requirement.

Table 8. France: Stress Test Matrix (STeM) (continued)

A. Banking Sector: Solvency Stress Test		
Top-down by IMF		
6. Reporting Form for Results	Output presentation	• Capital path under various scenarios by groups of banks, categorized by business model. • System-wide capital shortfall. • Number of banks and percentage of banking assets in the system that fall below regulatory minima or breach capital buffers. • Outputs also include information on impact of different result drivers, including profit components.

B. Banking Sector: Liquidity Test		
Domain		**Framework**
		Top-Down by IMF
1. Institutional perimeter	Institutions included	7 SI banks, of which four are G-SIBs.
	Market share	Around 96 percent of the banking sector assets.
	Data and horizon	Data vintage: 2024 Q4 Data: Supervisory data from ITS files (FINREP, COREP) Scope of consolidation: Consolidated group basis. Perimeter of the banking group (CRD V). Insurance activities are excluded; banking associates are included.
2. Methodology	Methodology	LCR -based tests, using regulatory parameters and more severe scenarios. Breakdown by significant currency, where available. Cashflow-based liquidity stress test. Breakdown by significant currency, where available. Share of large depositors to describe concentration risks.
	Stress test horizon	30 days for LCR-based tests, and up to 1 year for cashflow analysis.
3. Type of analyses	Scenario analysis	Various stress scenarios are considered, with varying intensity of adverse liquidity conditions. Main risks analyzed are market upheaval and tightening of market liquidity conditions (linked to solvency adverse scenario, where possible), deposit run-offs, outflows from top funding sources. Reverse stress tests

Table 8. France: Stress Test Matrix (STeM) (continued)

B. Banking Sector: Liquidity Test		
Domain		**Framework**
		Top-Down by IMF
4. Buffers	Behavioral adjustments	Liquidity from the central bank is not considered.
	Buffers	Capacity of banks to generate liquidity from inflows and from assets under stress (i.e., counter-balancing capacity).
5. Regulatory standards	Regulatory/accounting and market-based standards	For LCR -based tests, the hurdle rate is set at 100 percent at the aggregate currency level (per Basel III and domestic regulation). For cashflow analysis, the outcomes of interest are the Net Liquidity Position and the survival period.
6. Reporting format for results	Output presentation	Outputs include (1) Average LCR, Net Liquidity Position and survival period, (2) Number of institutions with LCR below regulatory limits.
C. Mutual Funds Sector: Liquidity Risk		
Top-down Stress Test by FSAP Team —Assumptions		
1. Institutional perimeter	Institutions included	• All open-end debt-oriented schemes
		• Supervisory data includes: 1) Fund level characteristics and AUM, 2) Cash flow data, 3) Fund investment portfolio, and 4) bond market trading data
		• Other commercial data sources: Bloomberg
		• From December 2017 to September 2024
2. Channels of risk propagation	Methodology	• The liquidity resilience of funds is measured by the Redemption Coverage Ratio which is based on value of high-quality liquid assets and calibration of redemption shock
		• The calibration of redemption shock uses both the historical simulation and flow-performance approach
		• Under the historical simulation approach, instantaneous shocks simulated based on historical net flows under fund homogeneity, fund heterogeneity and fund family assumptions

Table 8. France: Stress Test Matrix (STeM) (continued)		
C. Mutual Funds Sector: Liquidity Risk		
Top-down Stress Test by FSAP Team —Assumptions		
		• With the flow-performance approach, exogenous market shocks trigger the change of NAV which lead to additional redemption outflows
		• The redemption shock triggered from the change of NAV from macroeconomic scenarios which will lead to the change in interest rates and credit spreads
		• The market impact is estimated based on assumptions on different fund liquidation strategies and segmental-market characteristics
		• A second-round redemption shock will be triggered if the market sale causes significant price impacts that lead to the asset devaluation of funds
3. Tail shocks	Scenario analysis	• This analysis includes two scenarios:
		• A baseline scenario uses the historical simulation approach that calibrates the redemption shock based on time series cash flow data under four years horizon.
		• The adverse scenario with exogenous market shock that triggers the asset depreciation through interest rate risk and creates additional redemption shocks.
		• The funds will react to the redemption shock with two liquidation approach: prorate approach and waterfall approach
		• The market impact from asset liquidation is estimated under three market scenarios based on the volume of market trading activity at its peak, normal and low.
	Sensitivity analysis	• Reverse stress test which shows the total number of funds failure with levels of redemption shock apply to funds homogeneously

Table 8. France: Stress Test Matrix (STeM) (concluded)		
C. Mutual Funds Sector: Liquidity Risk		
Top-down Stress Test by FSAP Team —Assumptions		
4. Risk and buffers	Risk factors assessed	• Interest rate risk
		• Market risk
		• Liquidity risk
5. Reporting format for results	Output Presentation	• Redemption Coverage Ratio and liquidity shortfalls on fund level
		• Number of funds that cannot survive the shocks (with the RCR ratio below one and liquidity shortfall larger than zero)
		• Total value of assets sold under different scenarios
		• The percent of price decline under different market conditions and the mitigation effect of central bank lending facilities

Table 9. France: Selected Economic Indicators, 2019–30

(In Percent of GDP, Unless Otherwise Indicated)

	2019	2020	2021	2022	2023	2024	Projections 2025	2026	2027	2028	2029	2030
Real economy (change in percent)												
Real GDP	2.1	-7.6	6.8	2.8	1.6	1.1	0.6	1.0	1.2	1.3	1.2	1.2
Domestic demand	2.1	-6.3	6.0	2.8	0.7	-0.1	1.2	0.9	1.1	1.2	1.2	1.1
Private consumption	1.7	-6.5	5.3	3.3	0.8	1.0	0.7	1.1	1.2	1.4	1.3	1.1
Public consumption	1.1	-4.4	6.6	2.7	1.5	1.4	1.2	1.0	0.9	1.0	1.0	1.0
Gross fixed investment	4.2	-6.2	9.6	-0.2	0.8	-1.3	-0.5	0.3	0.9	1.0	1.1	1.1
Foreign balance (contr. to GDP growth)	0.0	-1.3	0.7	-0.1	0.9	1.2	-0.6	0.1	0.1	0.1	0.1	0.1
Exports of goods and services	2.2	-16.9	11.0	9.3	2.8	2.4	-0.6	1.7	1.8	2.3	2.2	2.2
Imports of goods and services	2.1	-12.5	8.0	9.3	0.1	-1.3	1.3	1.3	1.5	2.1	2.1	1.8
Nominal GDP (billions of euros)	2,432	2,318	2,508	2,654	2,830	2,921	2,976	3,056	3,152	3,255	3,359	3,467
CPI (year average)	1.3	0.5	2.1	5.9	5.7	2.3	1.1	1.5	1.9	1.9	1.9	1.9
GDP deflator	1.1	3.2	1.3	2.9	4.9	2.1	1.3	1.6	1.9	1.9	1.9	1.9
Gross national savings (percent of GDP)	23.6	20.8	23.7	22.9	22.0	21.9	21.8	21.2	20.9	20.9	20.9	20.9
Gross domestic investment (percent of GDP)	23.0	22.8	23.4	24.0	23.0	21.5	21.8	21.5	21.4	21.2	21.1	21.0
Public finance (percent of GDP)												
General government balance	-2.4	-8.9	-6.6	-4.7	-5.4	-5.8	-5.4	-5.7	-6.0	-6.0	-6.0	-6.1
Revenue	53.0	52.8	52.9	53.7	51.4	51.4	51.9	51.7	51.5	51.5	51.4	51.4
Expenditure	55.3	61.7	59.5	58.4	56.8	57.2	57.3	57.4	57.5	57.5	57.5	57.6
Primary balance	-0.9	-7.7	-5.2	-2.9	-3.7	-3.8	-3.4	-3.4	-3.5	-3.2	-3.0	-2.8
Structural balance (percent of pot. GDP)	-1.4	-5.9	-5.1	-4.2	-5.3	-5.8	-5.2	-5.5	-6.0	-6.0	-6.1	-6.2
Nominal expenditure (change in percent)	1.4	6.3	4.3	4.0	3.7	3.8	2.1	2.7	3.4	3.2	3.2	3.4
Real expenditure (change in percent)	0.1	5.7	2.2	-1.8	-1.8	1.5	1.0	1.2	1.5	1.3	1.3	1.4
General government gross debt	98.1	114.9	112.8	111.4	109.6	113.1	116.5	119.1	121.5	123.7	125.9	128.1
Labor market (percent change)												
Employment	0.5	0.1	2.3	1.9	1.0	1.2	-0.3	0.1	0.2	0.3	0.2	0.1
Labor force	-0.2	-0.3	2.1	1.3	1.0	1.2	0.0	-0.1	0.0	0.1	0.1	0.1
Unemployment rate (percent)	8.4	8.0	7.9	7.3	7.3	7.4	7.7	7.5	7.3	7.1	7.0	7.0
Credit and interest rates (percent)												
Growth of credit to the private non-financial sector	5.3	7.1	4.5	5.7	3.6	0.6	1.0	1.2	1.9	2.2	2.2	2.2
Money market rate (Euro area)	-0.5	-0.4	-0.5	0.3	3.4	3.6	...	...	...	...	...	...
Government bond yield, 10-year	0.1	-0.1	0.0	1.7	3.0	3.0	...	...	...	...	...	...
Balance of payments (percent of GDP)												
Current account	0.6	-2.1	0.3	-1.2	-1.0	0.4	-0.1	-0.3	-0.5	-0.3	-0.2	-0.1
Trade balance of goods and services	-0.6	-1.8	-1.0	-2.6	-1.4	-0.1	-0.7	-0.8	-0.8	-0.6	-0.5	-0.4
Exports of goods and services	32.5	28.2	31.3	36.6	34.3	33.9	33.7	33.2	33.0	33.0	33.0	33.0
Imports of goods and services	-33.1	-30.0	-32.3	-39.2	-35.7	-34.0	-34.4	-34.0	-33.7	-33.5	-33.5	-33.4
FDI (net)	1.1	0.4	0.7	-0.8	1.0	-0.3	0.4	0.8	1.0	1.1	1.1	1.2
Official reserves (US$ billion)	69.7	76.1	101.7	100.4	79.2	78.4	...	...	...	...	...	...
Exchange rates												
Euro per U.S. dollar, period average	0.89	0.88	0.82	0.95	0.92	0.92	...	...	...	...	...	...
NEER, ULC-styled (2010=100, +=appreciation)	97.1	97.4	97.8	95.9	97.0	97.3	...	...	...	...	...	...
REER, ULC-based (2010=100, +=appreciation)	88.2	86.6	88.8	90.7	90.5	91.7	...	...	...	...	...	...
Potential output and output gap												
Potential output (change in percent)	1.2	-3.3	4.2	1.4	1.2	0.8	0.8	1.0	1.0	1.1	1.2	1.2
Memo: per working age person	1.4	-3.2	4.5	0.8	1.0	0.4	0.8	1.0	1.0	1.1	1.1	1.1
Output gap	0.0	-4.5	-2.1	-0.7	-0.4	-0.1	-0.4	-0.4	-0.2	-0.1	0.0	0.1

Sources: INSEE, Banque de France, and IMF Staff calculations.

Note: Under current policies, which incorporate only legislated and clearly specified measures.

Table 10. France: Structure of Financial System

End-2023	In trillions of EUR	In percent of Total	In percent of GDP
Total	18.82	100	665.8
Deposit Institutions	11.75	62.4	415.8
Money Market funds	0.42	2.2	14.9
Investment funds	1.45	7.7	51.3
Other Financial Institutions	1.65	8.7	58.2
Insurance Corporations	2.67	14.2	94.6
Pension Funds	0.35	1.9	12.5
Social Security Funds	0.52	2.8	18.5

Source: BdF

Table 11. France: Financial Soundness Indicators, 2015–2024

(In Percent, Unless Otherwise Indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Deposit-taking institutions 1/										
Regulatory capital to risk-weighted assets 2/	17.1	18.3	18.9	18.8	19.6	19.9	20.4	19.4	19.5	19.8
Regulatory Tier I capital to risk-weighted assets 2/	13.8	15.1	15.4	15.6	16.0	17.1	16.9	16.8	17.2	17.4
Nonperforming loans net of provisions to capital	18.0	16.2	15.0	13.6	12.2	11.9	10.3	11.0	11.5	11.3
Bank provisions to Nonperforming loans	50.6	51.0	50.6	50.4	49.9	48.7	49.2	46.5	45.0	44.6
Nonperforming loans to total gross loans	4.0	3.7	3.1	2.7	2.5	2.7	2.4	2.1	2.1	2.1
Sectoral distribution of loans to total loans, of which										
Deposit-takers	3.4	3.0	3.0	3.0	3.5	3.5	3.4	3.2	4.9	5.6
Nonfinancial corporation	15.1	15.3	16.3	16.1	16.4	16.6	20.0	21.7	20.6	20.0
Households (including individual firms)	28.4	29.3	25.8	25.7	25.9	24.2	30.1	29.6	28.3	27.9
Nonresidents (including financial sectors)	40.5	38.8	37.4	38.5	37.9	34.8	38.5	36.5	37.2	37.5
ROA (aggregated data on a parent-company basis) 3/ 4/	0.4	0.4	0.4	0.4	0.4	0.3	0.5	0.5	0.5	0.6
ROA (main groups on a consolidated basis) 2/ 4/	0.6	0.5	0.4	0.4	0.4	0.2	0.5	0.3	0.4	0.4
ROE (aggregated data on a parent-company basis) 3/ 4/	6.8	6.5	6.4	6.5	6.0	4.1	7.1	6.2	5.9	6.8
ROE (main groups on a consolidated basis) 2/ 4/	9.2	8.4	6.3	6.7	6.4	3.9	7.5	5.9	7.1	6.5
Interest margin to gross income	32.9	37.8	36.2	36.0	37.1	38.8	35.6	36.4	32.9	28.6
Noninterest expenses to gross income	75.2	71.5	74.2	76.2	73.3	70.4	67.5	63.6	67.1	71.4
Liquid assets to total assets	0.0	13.0	13.9	13.7	14.1	18.0	18.5	17.4	16.9	16.1
Liquid assets to short-term liabilities	17.5	20.2	20.7	19.3	20.1	26.0	27.0	23.8	24.3	23.4

Source: Banque de France, ACPR

1/ These may be grouped in different peer groups based on control, business lines, or group structure.
2/ Consolidated data for the five banking groups (IFRS).
3/ All credit institutions' aggregated data on a parent-company basis.
4/ ROA and ROE ratios are calculated after taxes (same calculation as the ECB consolidated datat ratios).

Table 12. France: Status of 2019 Key FSAP Recommendations

Recommendations	Agency	Timing*	Implementation Status D—Done / LD—Largely Done / PD—Partly Done / NA—No Action
Preemptive Management of Systemic Vulnerabilities			
Engage with ECB and other EU agencies on use of Pillar II measures to address bank-specific residual risk from concentration of exposures to large, indebted corporates.	ACPR	I	**D** The ECB has published on its website further explanation with the 'guide on leveraged transactions' dated May 2017. In addition, bank-specific letters were sent to the most exposed banks (of which 4 French groups). Banks were required to provide detailed information on their risk appetite framework and how it is operationalized. The answers to the letters were analyzed by the SSM and fed to the SREP analysis. In France, the macroprudential authority, *Haut Conseil à la Stabilité Financière* (HCSF), has replaced the measure art. 458 "Large exposure" with a sectoral systemic risk buffer (SyRB) of 3 percent on the exposures of French banks to large, heavily indebted corporates (see press release published on July 31st).
Develop analytical framework for borrower-based measures for corporates. Consider a sectoral Systemic Risk Buffer (SRB) if risks intensify.	HCSF	NT	**D** Authorities have enhanced monitoring and analysis of non-financial corporate vulnerabilities, particularly highly indebted corporate exposures to the banking system. On July 28th, 2023, the French macroprudential authority introduced a sectoral systemic risk buffer of 3 percent on the exposures of French banks to large, heavily indebted corporates (see press release published on July 31st).
Evaluate options to further incentivize corporates to finance through equity rather than debt.	MoF	NT	**NA**
Ensuring Adequate Liquidity Management and Buffers			
Develop with the ECB options to manage any disruptions in wholesale funding markets. Consider, as appropriate, liquidity buffers to cover at least 50 percent of wholesale funding outflows over/up to five days horizon for all major currencies.	ACPR, ECB	NT	**PD** Banks currently maintain a significant liquidity buffer, above the 100 percent usual threshold for LCR and NSFR introduced as a prudential requirement in June 2021. Within the framework of the SREP analysis in 2022, the ECB judged that liquidity risks were not particularly high and liquidity risk management frameworks globally adequate. Currently, there is no need to add or change liquidity buffer requirements. However – in the context of higher rates environment – the monitoring of liquidity risk will be reinforced through dedicated initiatives to monitor the effects of termination of extraordinary monetary policy actions (TLTRO reimbursement notably) and the impacts of higher funding prices.
Actively engage with the ESRB and others for a speedy development of liquidity and leverage related tools for insurers and investment funds.	BdF, HCSF, ACPR, AMF	NT	**PD** The revision of the AIFM Directive will strengthen the rules on liquidity management for open-ended funds, broadening the range of tools available and requiring managers to choose at least two of them. In addition, article 25 of the AIFM directive provides the market authority with the capacity of imposing a limit on leverage in response to macroprudential concerns. Regarding insurers, the review of Directive 2009/138/EC enhances liquidity monitoring and supervision through the introduction of a *liquidity risk management plan*. It also introduces the power for public authorities to suspend redemptions in the event of a liquidity crisis.

Table 12. France: Status of 2019 Key FSAP Recommendations (continued)			
Recommendations	**Agency**	**Timing***	**Implementation Status** **D—Done / LD—Largely Done / PD—Partly Done / NA—No Action**
			The Banque de France and the AMF closely monitor developments in liquidity and leverage risks in the fund sector. They contribute to the discussions on the topic at the HCSF and regularly publish their analyses in the financial stability review or in the markets and risk outlook. The Banque de France and the AMF are also actively involved in developing a macroprudential approach for investment funds through their participation in several European and international fora. The AMF recently published a position paper on this topic, co-signed with the Spanish, Italian and Austrian regulators) The Banque de France contributes to several workstreams within the Eurosystem (where it co-chairs a high-level task force). Both the Banque de France and the AMF participate in workstreams at the FSB (open-ended funds), and the ESRB (Policy task force, Non-bank expert group, Non-bank monitoring expert group, etc.). Regarding investment and money market funds, the French Treasury is involved in the FSB Working Group on OEFs and has participated in MMF Peer review. It is a member of the FSB Standing Committee on Supervisory and Regulatory Cooperation. It is also a member of the Expert Group on Banking, Payments, and Insurance of the European Commission.
Further Integration of Financial Conglomerate Oversight			
Report intragroup exposures and transactions within conglomerates on a flow and stock basis at quarterly or regular frequency. Develop guidance to address direct and indirect, and common exposures of entities in the conglomerate.	ACPR, AMF	NT	**PD** As of this date, French conglomerates report on common exposures and intragroup transactions within conglomerates on a flow and stock basis at a regular frequency (CONGLOMER reporting). An enhanced reporting has been developed by the European Joint Committee on Financial Conglomerate; the European Commission should adopt it through an Implementing Technical Standard by 2024. The first reporting date was 31/12/2023.
Develop with the ECB and other EU agencies liquidity risk management requirements and stress testing at the conglomerate level.	ACPR, AMF	NT	**PD** No liquidity risk management requirement has been considered at this stage because the current supervisory framework coinciding with the prudential consolidation perimeter is deemed satisfactory. Along with a market-wide stress test that typically encompasses conglomerates and allows distinguishing their performance compared with other financial groups, ACPR is carrying out ad hoc research projects on liquidity analysis and the conduct of stress testing at the conglomerate level, recently presented to the ACPR Scientific Committee. Thorough research is still ongoing and will improve ACPR oversight and assessment of liquidity risk.

Table 12. France: Status of 2019 Key FSAP Recommendations (continued)			
Recommendations	**Agency**	**Timing***	**Implementation Status** **D—Done / LD—Largely Done / PD—Partly Done / NA—No Action**
Strengthen conglomerate oversight and work with the Joint Committee of the ESAs to finalize common reporting templates, and with the ECB on common supervisory guidance for conglomerates.	ACPR, AMF	NT	**PD** The ACPR maintained a high level of engagement in both arenas in order to strengthen conglomerate supervision. An ACPR's deputy Secretary General chairs the works of the JC of the ESAs on common reporting templates and the group should be in position to deliver the full set of reporting by end 2021. ACPR actively participated in ESA's work to answer The Commission's call for advice on digital finance, including questions on a potential review of FICOD to supervise mixed-activity groups. As an "integrated" supervisor, the ACPR actively favors the exchange of information between the insurance supervision side and the banking one, which encompasses discussions with ECB staff members. These discussions also include the development of joint supervisory guidance. ACPR and the ECB are putting in place coordination arrangements for each financial conglomerate to formalize and strengthen their cooperation on this matter.
Enhancing Governance, Financial Policies and Financial Integrity			
The ACPR and AMF should have autonomy to determine their resource levels based on a forward-looking review of supervisory and monitoring needs.	ACPR, AMF, MoF	I	**PD** The NSAs are free to allocate resources towards the most needed fields, but according to the French authorities it is not allowed under the Constitution to let them determine their global resource level as these resources are fiscal by nature thus requiring a parliamentary decision. However, for ACPR the cap on the number of staff has been removed but the cap on the total budget remains. Both caps remain in place for the AMF.
To avoid any perception of a potential conflict of interest and facilitate operationally independent functioning, the government should recuse itself from all supervisory decision-making committees at the ACPR and the AMF.	MoF	I	**NA** The MoEF is still present in both agencies' bodies. The government agencies have adopted a policy of no longer attending any meetings of the ACPR Sanctions Committee (legislation has not yet been changed to reflect this). On the other hand, the Director General of the Treasury remains being a full voting member of the ACPR's Resolution Committee. The Treasury is represented as a non-voting member on the Board of the AMF, but not the Sanctions Committee.

Table 12. France: Status of 2019 Key FSAP Recommendations (continued)

Recommendations	Agency	Timing*	Implementation Status D—Done / LD—Largely Done / PD—Partly Done / NA—No Action
Reduce further the spread between market interest rates and the return on regulated savings products. Ensure timely and effective implementation of CDC governance reform under the Loi PACTE and undertake a full review of regulated savings framework at the appropriate time.	MoF	NT	**PD** Two decisions, taken in 2018 and 2023, have contributed to reducing the spread between market interest rates and the return on regulated savings products. In 2018, a new formula was established to calculate the return on Livret A and LDDS, removing the former « inflation floor » and replacing EONIA benchmark with the new €STR. Since the implementation of this new formula, LA and LDDS rates have increased at a slower pace. The outbreak of the Russian-Ukrainian conflict and the subsequent rise of inflation boosted the Livret A rate from 0.5% in January 2022 to 3% in February 2023. In order to avoid a too sharp rise in the Livret A's and the LDDS' rate and to maintain them within market rates, the Minister of the Economy decided to freeze the rate at 3% for eighteen months until February 2025, as permitted by law. Without this decision, the strict application of the formula would have given a return of 4,1% in August 2023 and 3,9% in February 2024. Under the Loi PACTE, the ACPR has become CDC's supervisor in its own right, thus bringing CDC closer to the framework of ordinary law in relation to financial institutions. At the same time, the "Commission de surveillance" has become a true decision-making body with more qualified individuals chosen for their expertise. The budgetary process has been clarified, with the "Commission de surveillance" adopting the budget and the Minister of Economy and Finances approving it. The reform of CDC's governance under the PACTE Act is thus bearing fruit (appropriation of its new prerogatives by the Commission, better organization of its functioning, etc.) and work is still ongoing to make the governance of the CDC even more optimal under the new PACTE rules.

Table 12. France: Status of 2019 Key FSAP Recommendations (concluded)			
Recommendations	**Agency**	**Timing***	**Implementation Status** **D—Done / LD—Largely Done / PD—Partly Done / NA—No Action**
Enhance AML/CFT supervision of smaller banks rated as high-risk. (¶67) Explore ways to provide systematic guidance on detection of potential terrorist financing activities.	ACPR, Tracfin	I	**D** The ACPR implements a risk-based AML/CFT supervisory approach that links the supervisory intensity applied to any supervised entity (banks, insurance companies, payment services, and electronic money providers) to its individual risk assessment. The AML-CFT supervisory approach provides for different supervisory tools with different levels of intrusiveness, from annual returns and meetings to onsite visits and inspections. Thus, over the 2015-2020 onsite inspection cycle, 88% of the higher-risk banks were subject to an onsite inspection, compared to 44% of the medium-high-risk banks, 9% of the medium-low risk banks, and 1% of the lower-risk banks. As regards guidance on the detection of terrorist financing activities, the CPR/TRACFIN joint Guidelines list several criteria, including weak signals that oblige entities to have to take into account. In addition, the Sectoral Risk Assessment published by ACPR describes the risks of each category of institutions and gives a focus on CFT for each activity
Reinforcing Crisis Management, Safety Nets, Resolution Arrangement			
Work toward an enhanced resolution framework for insurers by including wider powers to restructure liabilities (bail-in), and enhanced safeguards and funding.	ACPR	MT	**NA** No legal changes were made since the last FSAP. However, the European Directive on Insurance Recovery and Resolution (IRRD) should be transposed by end of 2026/early 2027 into French law. It will complete the French resolution toolkit by adding bail-in powers and adequate resolution financing arrangements.
The eligibility of the FGDR's Supervisory Board membership, which is formed by bank executives in activity, should be changed to independent members only.	FGDR	MT	**PD** Although the membership of the Board was not changed, now there are safeguards in place to prevent conflicts of interests.
Develop modalities for providing ELA in currencies other than euros and establish general rules that may assist banks in identifying assets, which might be proposed as ELA collateral and buttress their operational readiness to pledge them.	BdF, ACPR	MT	**PD** The main responsibility for the provision of ELA lies with National Central Banks but must comply with general principles laid down in ECB ELA agreement. Banque de France has a recently updated procedure in place. However, further work remains to be done by the BDF at national level to buttress banks' operational readiness to pledge collateral.
** I= immediate (within one year), NT= near term (1–3 years), MT= medium term (3–5 years); these ratings reflect the authorities' own assessment of implementation status.*			