



France will respond to downgrade

BY **LEIGH THOMAS**
AND **DANIEL FLYNN**
Reuters

PARIS - France said on Tuesday it would respond to a Moody's credit downgrade by pushing on with reforms, complaining that the ratings agency had overlooked steps already taken to revamp the eurozone's second-largest economy.

France lost its prized triple-A badge from the Standard & Poor's agency in January, so Monday's move by Moody's was not surprising. But it underlined doubts about Socialist President Francois Hollande's ability to fix France's public finances.

The downgrade also highlighted the divergence with the top-rated regional powerhouse Germany, whose finance minister called it a "small warning" to its most important eurozone partner.

Hollande said after the cut: "We must take note, stick to our economic policies, keep on track and understand that we have every interest in improving public finances."

Moody's said it would assess the triple-A ratings of the eurozone's EFSF and ESM bailout funds in light of its one-notch cut of France to Aa1 with a negative outlook.

However, its France downgrade did not appear to affect the perceived status of French bonds, which along with German debt are seen as a safe haven from the crisis in southern Europe.

The benchmark French 10-year government bond yield - which has been trading at historic lows and offering Hollande crucial access to cheap borrowing - was little changed at 2.15 percent versus 2.08 percent before the downgrade.

"Moody's raised concerns about France's capacity to reform and so it is up to us to show that this time we are going to carry out reforms," Finance Minister Pierre Moscovici, leading a government offensive to play down the move, told journalists.

"The rating change does not call into question either the economic fundamentals of our country, the efforts undertaken by the government or our creditworthiness."

The government is planning the toughest belt-tightening effort in 30 years in 2013 but must also try and halt a growth slow-down that has seen unemployment surge to 13-year highs.