

Unlocking funding for sustainable growth and digital transformation

Trends in French Capital Markets

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France's role as a key market and leading voice on CMU

France's vibrant capital markets have continued to represent a key tool in the context of the need to mobilise massive amounts of capital to be able to accelerate the green and digital transition. The scale of the funding needs require capital markets to grow and to be more integrated. Policymakers have focused on initiatives aimed developing the capacity of capital markets, both at domestic and European level.

In this context making progress on the EU's Capital Markets Union (CMU), remains a key priority and continued momentum on the integration and greater capacity of EU capital markets is crucial.

AFME, representing key capital market players, has published every year report on "Key Performance Indicators on CMU" which tries to measure progress achieved in key areas and to help policymakers assess developments both at EU and at national level and the effectiveness of the reform efforts. The objective is to offer policy-makers a tool to understand to what extent efforts to build the CMU and national capital markets are producing positive results.

CMU remains under-developed, despite some important improvements. Market-based financing remains relatively low, with lending-based financing remaining predominant. Also, securitisation markets are far from achieving their full potential and continue to fall short of expectations.

Progress in building the CMU depends on Member States prioritising the project and engaging in ambitious and productive discussions at EU level. The recent Franco-German roadmap on CMU lays out important proposals on the best way forward.

France has been a central voice in support of ambitious targets in the development and integration of EU capital markets. France has also been successful in promoting a dynamic and competitive domestic financial market. Given the large size of the French economy, this had an important positive impact on EU's overall capital markets capacity.

We have analysed the situation in France against our CMU Key Performance Indicators and we provide below some of the main highlights:

- The overall attractiveness of the French financial ecosystem has remained very high.
- France has remained a very strong issuer of ESG bonds, with the second highest volume in the EU (after Germany) during H1 2023, and accounted for 19.8% of total EU ESG issued bond volumes. H1 2023 marked the first period since 2016 France had not been the leading EU country in terms of total ESG debt issuance.
- In France, capital markets issuance (bonds and equity) by non-financial corporations increased 46% (annualised) compared to 2022. The increase in H1 2023 was driven exclusively by a surge in investment grade and high yield bond issuance, with equity volumes falling sharply in the first half of 2023 as a result of extremely low levels of NFC activity in the French IPO market.
- France offered the second-highest number of ELTIF instruments out of EU countries with 40 instruments marketed locally in H1 2023, up from 28 in 2022.
- The Loan Transfer Indicator value for France more than doubled in H1 2023 with the proportion of loans transferred into marketable securities significantly increasing as securitisation issuance in France reached the highest volume on record for any year since 2000. This was largely as a result of a large retained RMBS deal from the BPMHL programme (EUR 49.5bn) issued in May 2023. Excluding this large deal, total securitisation issuance in France during H1 2023 would have decreased by 3% (annualised) compared to 2022.

Key indicators for French capital markets

Below, we summarise the findings in four key areas: Access to capital; Transitional to sustainable finance; Digitalisation/FinTech; Household market investment.

1. Access to capital & Market Finance

In an EU business environment in need of diversification from over reliance on bank financing, and importantly political momentum to do so, French non-financial corporates (NFC) have a sustained appetite for market financing and in particular debt issuance. Funding for non-financial corporations derived from market-based finance is significantly above the EU average at 18.5% (for the EU's 10.3%) but this is also a significant improvement year-on-year as this represents a 46% jump.

This positive outlook has been primarily fueled by debt issuance led in turn by investment grade and high yield issuances. The first half of 2023 saw the total value of investment grade bonds issued by French corporations rise to EUR 36.0 bn, representing an annualized increase of 66% compared to 2022. A similarly encouraging picture can be seen on the high yield side as issuance also picked up significantly, increasing 67% (annualised), compared to 2022.

Another bright spot in the French capital markets landscape has been securitisation where market players seem to be “walking” the policymakers “talk,” as the latter group have explicitly voiced their intent to revive the securitisation market to service the real economy. The proportion of loans transferred into capital markets instruments in France during H1 2023 more than doubled compared to 2022, increasing from 1.1% to 2.7% of total outstanding loans. This was driven exclusively by an increase in total securitisation issuance (placed and retained). Securitisation issuance rose 155% (annualised) compared to 2022. The surge in activity in French securitisation markets in the first half of 2023, already represents the largest total (both place and retained) securitisation issuance volume in France on record (since 2000). It is important to note however that this increase in securitisation issuance was driven by a large retained RMBS deal from the BPMHL programme (EUR 49.5bn) issued in May 2023. Nevertheless, the signs are encouraging when the market can support a transaction of this size.

While the debt perspective is uplifting, bank loan origination and equity issuance through the IPO market have suffered some setbacks. New loan volumes are down an annualized 14% compared to 2022, while the IPO market in France was virtually inactive for NFCs during H1 2023, with only EUR 0.03 bn in IPO proceeds issued on French exchanges. This can be explained by a rising interest rate environment and more so by moribund EU and global IPO markets which have been at their lowest levels in over a decade. But the infrastructure required to support emerging and innovative companies remains solid in France, with 20 crowdfunding platforms offer services within the country as of August 2023. Representing the second highest number of platforms within any EU country, after the Netherlands (which has 23).

2. Transition to sustainable finance

While no longer being the EU's “premier de cordée”, having temporarily ceded that title to Germany, France retains an important leading role in ESG financing in the EU. French corporate appetite for bonds is further evidenced in the ESG space. In the first half of 2023, France had the second-largest ESG bond issuance volume in the EU, accounting for 19.8% of total EU ESG issued bond volumes. The

Franco-German duo represent together more than 40% of total ESG bond issuance in the EU, further asserting their leadership in capital allocation towards the transitioning of the European economy.

Social bond issuance remains the dominant ESG category in France, making up 44% of total ESG issuance during H1 2023, down from 52% in 2022. A drop in activity that has somewhat been compensated by Green bond issuance which has increased by 19% YoY (annualised) in H1 2023 to EUR 14.0 bn.

This positive trend in green bond issuance is likely to continue its upward trajectory in the coming months and years when considering the French government's efforts to ensure France re-industrialisation policy is a green one through their proposal, and the Parliament and Senate's adoption, of the "[projet de loi industrie verte](#)". This law aims to boost private investments (including retail) into the French economy's green transition needs. A momentum that should also be carried further at EU level by the transposition of the [EU Green Bond Standards](#) (coupled with work to enhance the usability of the EU's taxonomy), reinforcing the EU's position as the leading market for ESG finance.

3. Digitalisation/FinTech

The French Fintech sector has however remained dynamic and with a positive growing contribution to job creation. French authorities have been at the forefront of policy discussions aimed at creating an effective regulatory framework in the Fintech sector. After the adoption of the "Loi Pacte" in 2019, French regulators have been active in exploring the opportunities and risks of DeFi, with the ACPR and AMF engaging with stakeholders to understand the impacts of the technology.

However, in France, as elsewhere, after a period of extremely rapid growth, the Fintech sector has been adapting to the current macro-economic environment, with higher interest rates and reduced availability of capital. This is confirmed in our Fintech indicator, which decreased in H1 2023. Global funding for the fintech industry saw a sharp decline in 2023, with fintech investment in France decreasing by 70% (annualised) compared to 2022. Funding in France contracted to greater extent than other global regions, with total EU fintech funding falling by 55% in the first six months of 2023, compared to 2022, (vs a contraction in the UK and US of 59% and 29% respectively). Elsewhere in funding, fintech M&A volumes in France decreased 76.3% (annualised) compared to 2022 (vs 89.0% drop in EU total over the same period). The valuation of French fintech unicorns decreased 59.2% against 2022.

In terms of the pool of available talent, the percentage of the population with tertiary education or above in France increased to 41.6% in H1 2023, up from 40.7% in 2022, having a marginal positive contribution on the indicator.

4. Household investment in capital markets

One of the main goals of the CMU is to encourage households to allocate more of their financial wealth in capital market instruments. Among EU countries, French households have the sixth deepest pool of savings on capital markets instruments with the equivalent of 100% of GDP invested in listed equity, bonds, investment funds, or insurance and pension products. This is close to the EU average investment rate and similar to that of Belgium, Italy and Germany.

However, there is a large gap between the amount of savings by French households and that in other European countries like Denmark (187% of GDP), the United Kingdom (182% of GDP), and in the Netherlands (174% of GDP).

5. Long term capital

ELTIFs are designed to increase the amount of non-bank finance available for companies investing in the real economy and needing long-term capital. France offered the second-highest number of ELTIF instruments out of EU countries (second to Italy) with 40 instruments marketed locally in H1 2023, up from 28 in 2022FY.

London Office

Level 10,
20 Churchill Place
London E14 5HJ
United Kingdom

Switchboard:
+44 (0)20 3828 2700

Brussels Office

Rue de la Loi, 82
1040 Brussels
Belgium

Switchboard:
+32 (0)2 883 5540

Frankfurt Office Neue

Bürohaus an der Alten Oper,
Neue Mainzer Strasse 75
60311
Frankfurt am Main Germany

Switchboard:
+ 49 (0)69 710 456 660

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