FT: The vicious circle linking the outlook for banks with their economies continued on Thursday night after Standard & Poor's rating agency cited increased economic risks as the main reason for downgrading BNP Paribas, France's biggest bank and changed the outlook to negative for 10 other French banks, including Societe Generale and Credit Agricole. "The economic risks under which French banks operate have increased in our view, leaving them moderately more exposed to the potential of a more protracted recession in the eurozone," S&P said in a statement.

BNP Paribas's rating was downgraded by one notch to A plus from AA minus with a negative outlook. The A rating of SocGen and Credit Agricole rating was confirmed but their outlook was cut to negative from stable. The downgrade puts BNP's rating on a par with Fitch's A plus assessment, while Moody's has the bank on a rating of A2.

S&P cited a likely fall in house prices of between 10-15 per cent over the next two to three years as one factor for the change. It also foresaw increased competition among banks in the domestic market – on which they are increasingly focused after cutting back investment banking activities – as another reason.But it said domestic asset quality was "sound" due to "protective consumer regulation, households' cultural aversion to risk, and the prudent lending and selling practices".

French banks have been the target of market fears about the eurozone debt crisis and have been reducing their balance sheets over the past year to conserve capital and reduce reliance on shrinking wholesale funding. S&P recognised the "strenuous efforts" made to bolster capital but said the benefit was in part offset by the rising economic risks.

The agency's criticism of the effects of President Francois Hollande's decision to double the amount that can be put in the Livret A savings account will be music to French banks' ears, however.

The tax-free scheme diverts savings away from more profitable types of saving for the banks. The ratings agency said the scheme "is very popular with households, [but] quite restrictive for banks in terms of rate setting and how these deposits can be used."

The doubling of the ceiling – to €30,600 –could "jeopardize the capacity of the industry to compete for customer deposits at reasonable cost".

S&P reduced its economic risk score for France to 3 from 2, to reflect its view of "a moderate increase in economic risks in France's banking industry".

Though it relatively stable, the resilience of the French economy had been reduced, as "the constraints of a relatively high public debt burden, reduced external competitiveness, and persistent high unemployment are being aggravated in our view by the ongoing eurozone crisis, a more protracted recession across Europe, and lower domestic growth prospects. We consider that this economic environment, including the persistence of low interest rates, will put pressure on domestic revenue growth for French banks in 2013-2014."

S&P also landed a blow on France's banking regulation, saying that though regulators had helped prevent banking failures for more than a decade, "our assessment of France's regulatory track record has been negatively affected by the near failure of the Dexia group, and of Crédit Immobilier de France, one of a few independent midsize players."