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France denies **Dexia** bailout will hurt state credit rating

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French officials scrambled Wednesday to defend their plan to save struggling Franco-Belgian bank **Dexia**, insisting it is an isolated event that poses no threat to the state's own credit rating.

Dexia, which specialises in lending to local authorities, is faced with restructuring, and a French government fund and a state-run bank are preparing to step in to guarantee deposits and take over management of much of its activity.

Coming at a time when the markets fear that many other French lenders are overexposed to risky Greek, Spanish and Italian sovereign debt, the **Dexia** move has increased fears about the overall stability of France's financial sector.

A string of officials took to the airwaves to play down the fear, and to rebuff a warnings from Socialist former prime minister Laurent Fabius that France "was caught by the throat" with its prized AAA credit rating put in danger by the bailout.

"I find these suggestions very excessive and, to tell the truth, pretty inaccurate. The states won't be guaranteeing more than they guaranteed a few years ago," central bank governor Christian Noyer said.

Government spokeswoman Valerie Pecresse said **Dexia**'s problems went back as far as 2007 and insisted there was "no connection between **Dexia** and other French banks."

France and Belgium had previously stepped in to help out **Dexia** in 2008, when it found itself in difficulty over its exposure to US sub-prime debt.

"The Belgian and French states will put much less money into this operation than the British put into the Royal Bank of Scotland or Barclays," Noyer said, referring to operations that did not damage London's credit rating.

Finance Minister Francois Baroin confirmed the Caisse de Depots, a state-run long-term investment fund, and the Banque Postale, the banking arm of the French post office, were readying an intervention.

"The board will announce its decision tomorrow," he said. "It's obviously the most serious option."

Baroin also played down the scale of the intervention, and added that such guarantees to financial institutions are not accounted for when calculating a government's public deficit.

European Affairs Minister Jean Leonetti denied that **Dexia**'s crisis could be the first domino in a chain that would topple further French banks.

"**Dexia** has had problems from a long time. For the past 20 years there have been management problems. This is a very specific problem that has nothing to do with Greek debt," he said.

But with the fall of Lehman Brothers in 2008 still fresh in memory, France had no choice but to bailout **Dexia**, said Jerome Cahuzac, chairman of the parliamentary finance committee.

"What is about to be proposed should settle questions over **Dexia**'s financing," he said.

ING researcher Mark Harmer noted that with its unraveling, **Dexia** "becomes Europe's highest profile **resolution** case to date before it has a chance to morph into Europe's Lehman."

On Tuesday **Dexia** customers in Belgium withdrew 300 million euros (\$400 million) from their accounts, according Belgian economic daily De Tijd, far less than amounts pulled out during the 2008 meltdown.

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