Moody's Investors Service stripped France of its triple-A rating Monday, following in the footsteps of Standard & Poor's Ratings Services, and delivering a stinging critique of President François Hollande's attempts to turn the economy around amid the euro-zone crisis.

The ratings firm said the main reasons for its action, which leaves Fitch Ratings as the only ratings firm to keep France at triple-A, is the economy's weakness and the risks to the government's finances "posed by the country's persistent structural economic challenges."

Moody's decision highlights the challenge France faces after three years of the broader euro-zone sovereign-debt crisis exposed the country's reliance on borrowing to finance generous social-welfare programs.

Mr. Hollande, whose approval rating has fallen sharply in recent months, said last week that he was acutely aware of the urgent need to refashion France's public sector and welfare systems. Still, he appeared to seek to buy time, saying he wanted to be judged at the end of his five-year mandate.

Since S&P downgraded France in January, Mr. Hollande defeated former President Nicolas Sarkozy in May elections, promising to balance the austerity-focused response to the crisis with growth measures. But while he managed to secure agreement on a growth pact with his European peers, the economic situation in France has deteriorated markedly, with many large French companies laying off workers. Mr. Hollande has struggled to assure critics that his policies to revive the French economy—including his recent plan to jump-start French industrial competitiveness—will bear fruit.

"Those measures alone are unlikely to be sufficiently far-reaching to restore competitiveness, and Moody's notes that the track record of successive French governments in effecting such measures over the past two decades has been poor," the ratings firm said.

Moody's cut France's rating to Aa1 from Aaa and kept a negative outlook on the rating.

This month, Mr. Hollande unveiled €20 billion ($25.5 billion) of tax breaks over three years that will allow firms to cut labor costs by about 6%. The resulting shortfall in government finances will be funded in part by spending cuts and in part by an increase in a form of sales tax.

Dietmar Hornung, Moody's lead analyst for France, said in an interview that the agency's decision was based on "a country-specific analysis" rather than broader euro-zone factors. He said Spain and Italy "to some extent" have taken action, "But there are short-term concerns and to some extent it's about [France's] growth model."

Moody's was critical of Mr. Hollande's tax-increase plans, too, saying the growth targets that lie behind them are "overly optimistic" and tax increases will further weigh on consumer spending, which provides over half of French GDP.

French Finance Minister Pierre Moscovici said the downgrade reflects the "insufficiency" of previous governments. "The French government is large and diversified and the government has proven its strong commitment go drive structural reforms and repair public finances," he said,

As France is now rated triple-A by only Fitch Ratings, investors with rules obliging them to hold only the highest-ranked sovereign debt may be pushed to sell their French bonds.

But the market impact would likely be limited as only a handful of investors have mandates to invest in only
triple-A-rated instruments. In addition, rating downgrades have led to a shrinking of the pool of top-rated debt available for investors.

Reflecting this, the initial market reaction was muted. U.S. stock futures fell slightly on the Moody's downgrade, with Dow Jones Industrial Average futures falling about 15 points to 12723 immediately after the decision. The euro also fell on the Moody's move, slipping to $1.2785 from about $1.2813, taking with it several other risk-sensitive currencies, such as the Australian and New Zealand dollars.

The impact of the downgrade is more likely to be felt on the euro-zone's crisis-fighting tools.

Bailout facilities rely on the strength of countries backing them to keep their costs down. Moody's has signaled that a downgrade of core countries, including France, could have negative consequences for its ratings of the temporary European Financial Stability Facility and the permanent European Stability Mechanism. In July, the ratings firm put a negative outlook on its triple-A rating of the EFSF and said the facility's rating is sensitive to changes in the ratings of key contributors, including France.

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