

# Country Insight Snapshot

## France

April 2016





## OVERVIEW

OVERALL COUNTRY RISK RATING: DB2D

**Low risk:** Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns in future.



**Rating Outlook:** Deteriorating

## CORE OUTLOOK

- + World-class infrastructure will continue to support long-term growth potential.
- + The euro is backed by large communal FX earnings and international reserves, which virtually eliminates France's liquidity risk despite its low import cover.
- France has a long history of political sclerosis; business-friendly reforms are overdue.
- Dismissal protection and a high minimum wage distort the labour market.

## KEY DEVELOPMENT

Forward looking indicators paint a largely bleak picture of the short-term economic outlook, especially in the retail sector where sales are falling at a sharp rate.

### CREDIT ENVIRONMENT OUTLOOK



Key Development has had a negative impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK



Key Development has had a negative impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK



Key Development has had a negative impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

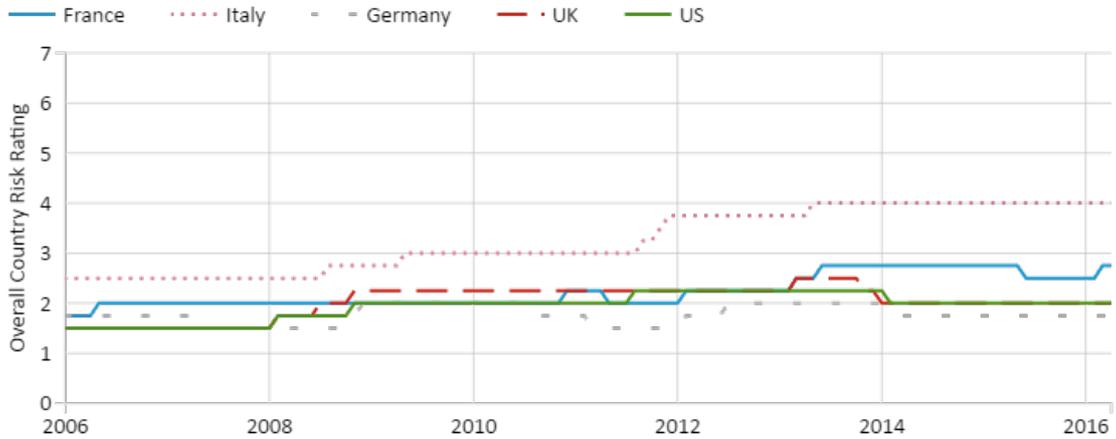


Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

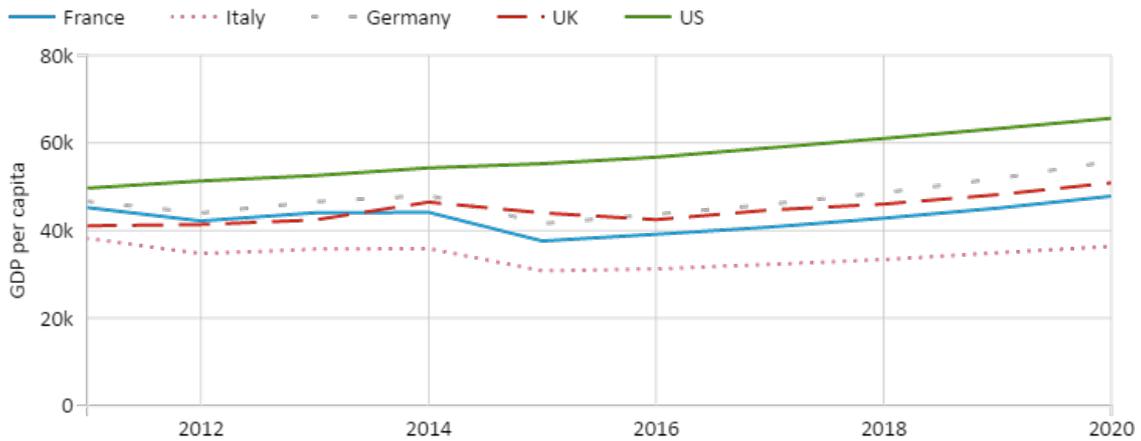
### Rating History and Comparison



Source : Dun & Bradstreet

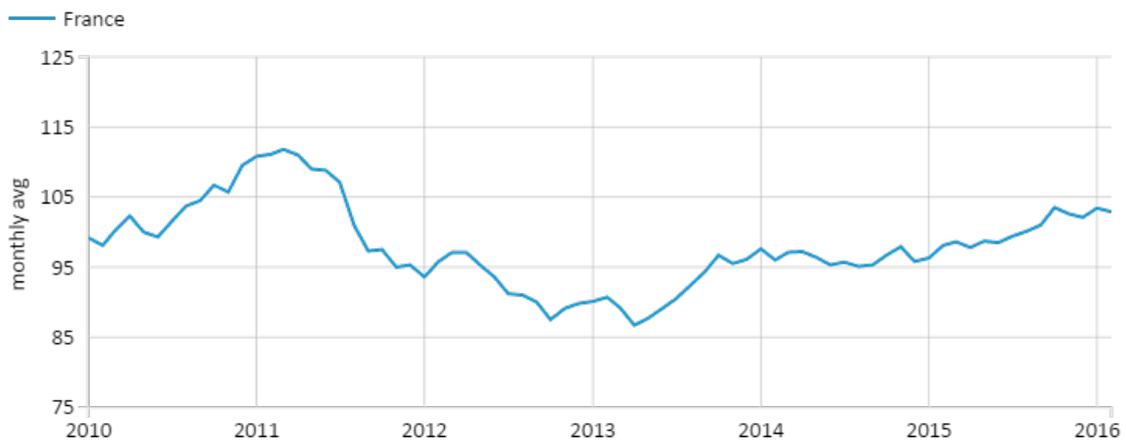
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Economic Sentiment Indicator



Source : National Statistical Offices / Haver Analytics



## Economic Indicators

Indicator	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
C/A balance % GDP	-0.8	-1.4	-0.4	-0.4	-0.6	-0.3	0.0	0.2
Govt balance, % GDP	-4.1	-3.9	-4.3	-3.4	-3.0	-2.4	-2.3	-2.3
Inflation, annual avge %	1.0	0.6	0.1	0.4	1.3	2.0	1.9	1.9
Real GDP Growth, %	0.7	0.2	1.2	1.1	1.5	1.9	2.0	2.0
Unemployment, %	10.3	10.3	10.4	9.8	9.2	8.7	8.2	8.0

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

The latest edition of Transparency International's *Corruption Perceptions Index* shows that things have moved in the right direction in France in the past year. Compared with the 2014 edition, France's ranking improved from 26th to 23rd (out of 168 countries covered), with its overall score improving from 69 to 70 (with the best ranked country, Denmark, scoring 91 on the 0-100 scale). While scoring well in an international comparison, France's ranking remains below most of its Western European peers such as Germany and the UK (joint 10th, together with Luxembourg) and Belgium (15th); the US is ranked 16th. Meanwhile, we recommend using OA terms (which are also our minimum terms) when doing business with France-based counterparties.

## TRADE TERMS AND TRANSFER SITUATION

### Minimum Terms: OA

*The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.*

### Recommended Terms: OA

*Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.*

### Usual Terms: 30-120 days

*Normal period of credit associated with transactions with companies in the stated country.*

### Local Delays: 0-1 month

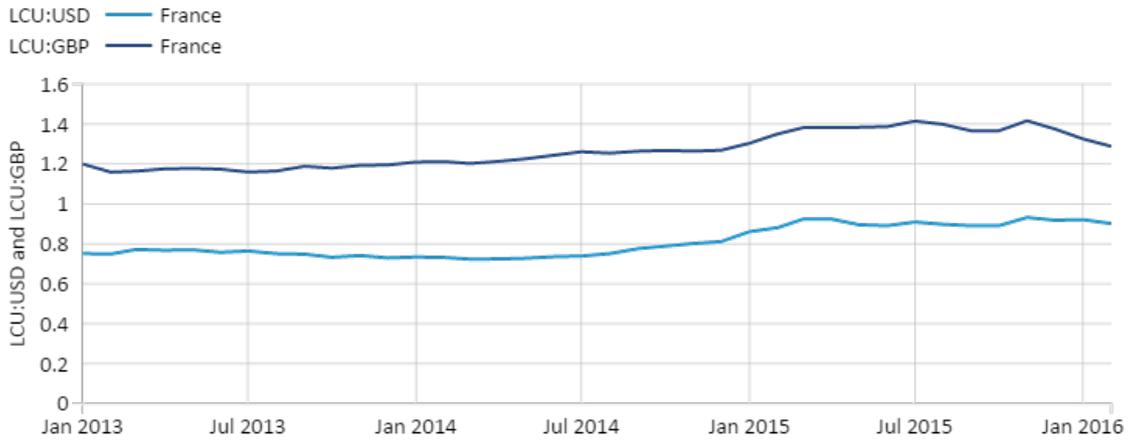
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### FX/Bank Delays: 0-1 month

*The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.*



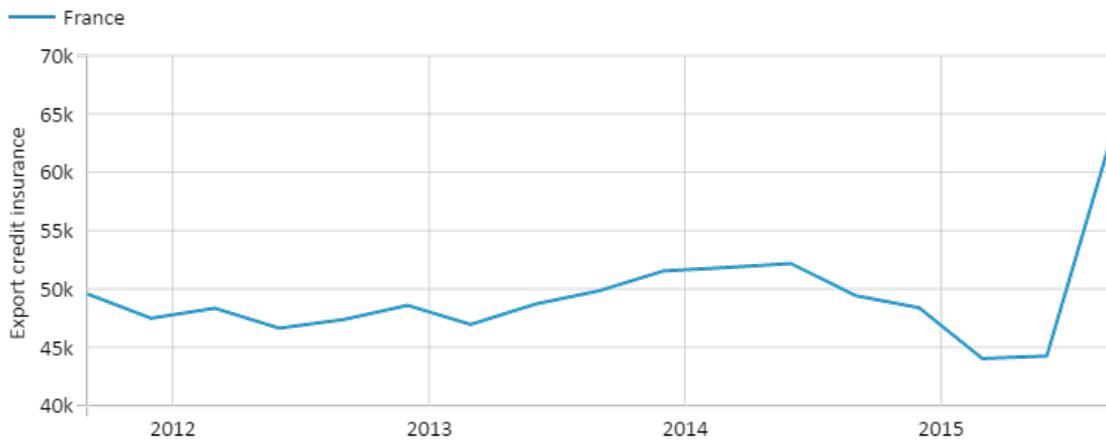
## Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = euro*

## Credit Conditions



Source : Export Credit Agencies

*Insured export credit exposures, USDm*



## RISKS AND OPPORTUNITIES

### Short-Term Economic Outlook

#### ***Forward looking indicators disappoint***

After downgrading France's country risk rating last month from DB2c to DB2d on the back of poor macro-economic performance, latest forward looking indicators continue to disappoint. In this light, we are maintaining the country's deteriorating risk outlook trend. Worryingly, the *Purchasing Managers' Index* (PMI, compiled by Markit) in the retail sector fell from 48.1 points in February to 45.5 points in March. Not only is the PMI now significantly under the neutral 50-point line that divides expansion in sectoral activity from contraction, it is also the lowest reading in 13 months. Contrary to retailers' expectations, sales figures continued to fall in March (by the fastest rate in more than a year) with retailers also reporting a further crunch in profit margins and employment levels fell for the third month in a row.

In the manufacturing sector, the PMI fell below the neutral 50-point line in March, coming in at 49.6 points. Production levels increased marginally, but against the backdrop of sharply falling new order inflow (for the third month running), this positive development will not be replicated in the months ahead. Positively, the service sector PMI improved by 0.7 points in March, but with 49.9 points still stands below the neutral line. Business expectations in the sector rose but profit margins also came under pressure as input prices continued to grow and sales prices fell. With unemployment rates remaining persistently high and consumer confidence having fallen since the start of 2016, growth this year and in 2017 will rely on external demand. Taking all factors into account, Dun & Bradstreet expects the French economy to expand by 1.1% this year and 1.5% in 2017, compared with the 1.1% seen in 2015.

### Business Regulatory Environment

#### ***Government backtracks on labour market reforms***

Also problematically, the government is backtracking on implementing painful but long overdue labour market reforms amid rising public protest, launched by trade unions and the governing Socialist party's left wing. Proposed by the prime minister with the support of the largely pro-business Minister of Economic Affairs, the reform would have given more powers to work councils (at the expense of trade unions) and under certain conditions, longer working time (France has a strict 35h per week policy) would have been allowed. Now, however, it looks likely that the Socialist government is more keen on keeping the left wing of the party pacified, a prerequisite for securing re-election in the upcoming presidential and parliamentary elections next year. Despite watering down the labour market reform bill, chances for winning the elections remain slim for the Socialists, especially as the government has made no noteworthy progress in bringing unemployment down (the key election promise in the 2012 campaign). The recent events will mean that restrictive labour market regulations will remain the most problematic factor for doing business in France for the foreseeable future, thereby also keeping unemployment elevated and household consumption muted.



## COUNTRY PROFILE AND STATISTICS

### Overview

France has the largest surface area of any country in Western Europe. Its biggest neighbour (and main partner for trade and foreign policy) is Germany: these two founding members of the EU have long been the driving force behind European integration. France's domestic politics are characterised by fierce ideological differences between parties of the left and right. Trade unions form an important part of the French polity; their powers of public mobilisation give them a large role in opposing government policy.

Economically, France is a prosperous country with a large industrial base, substantial agricultural resources and a highly skilled labour force. Productivity is extremely high by international standards, and many big French companies are leading global players in their markets. Nonetheless, the state has an influential role in the economy, reflected in extensive public services, a strong social safety net and world-class infrastructure.

### Key Facts

Key Fact	Detail
Head of state	President Francois HOLLANDE
Capital	Paris
Timezone	GMT +01-00
Official language	French
Population (millions)	64.4
GDP (USD billions)	2,445.2
GDP per capita (USD)	37,972
Life expectancy (years)	82
Literacy (% of adult pop.)	99.9
Surface area (sq km)	551,500

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2011	2012	2013	2014	2015
Real GDP growth (%)	2.1	0.2	0.7	0.2	1.1
Nominal GDP in USDbn	2,862	2,681	2,812	2,831	2,445
Nominal GDP in local currency (bn)	2,058	2,086	2,118	2,134	2,183
GDP per Capita in USD	45,242	42,186	44,047	44,154	37,972
Population (year-end, m)	63.3	63.6	63.8	64.1	64.4
Exchange rate (yr avge, USD-LCU)	0.72	0.78	0.75	0.75	0.89
Current Account in USDbn	-29.5	-32.2	-22.6	-40.4	-10.9
Current Account (% of GDP)	-1.0	-1.2	-0.8	-1.4	-0.4
FX reserves (year-end, USDbn)	316.7	332.5	331.0	327.6	338.9
Import Cover (months)	1.2	1.3	1.3	1.3	1.5
Inflation (annual avge, %)	2.3	2.2	1.0	0.6	0.1
Govt Balance (% GDP)	-5.1	-4.8	-4.1	-3.9	-4.3

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	1.1	1.5	1.9	2.0	2.0
Nominal GDP in USDbn	2,532	2,648	2,792	2,953	3,144
Nominal GDP in local currency (bn)	2,215	2,277	2,366	2,458	2,554
GDP per Capita in USD	39,150	40,778	42,817	45,108	47,836
Population (year-end, m)	64.7	64.9	65.2	65.5	65.7
Exchange rate (yr avge, USD-LCU)	0.88	0.86	0.85	0.83	0.81
Current Account in USDbn	-10.1	-16.2	-8.7	-0.9	7.2
Current Account (% of GDP)	-0.4	-0.6	-0.3	0.0	0.2
FX reserves (year-end, USDbn)	375.8	414.8	449.0	481.2	510.8
Import Cover (months)	1.5	1.6	1.6	1.6	1.5
Inflation (annual avge, %)	0.4	1.3	2.0	1.9	1.9
Govt Balance (% GDP)	-3.4	-3.0	-2.4	-2.3	-2.3

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	France	Italy	Germany	UK	US
Income per Capita (USD)	37,605	30,792	41,567	44,019	55,262
Country Population (m)	64.4	59.8	80.7	64.7	321.8
Internet users (% of population)	83.8	62	86.2	91.6	87.4
Real GDP Growth (% p.a., 2016 - 2025)	1.3 - 2.5	0.5 - 2	1.8 - 3	1.8 - 3.5	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



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