# Country Insight Snapshot

## France

February 2018

Written 09 February 2018

## OVERVIEW

### OVERALL COUNTRY RISK RATING: DB2b

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

G

***Rating Outlook:*** Improving

## 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 level of import cover.

- France has a long history of political sclerosis; business-friendly reforms are overdue but the Macron administration has started to tackle the problem.

- Despite some changes in recent months, dismissal protection and a high minimum wage distort the labour market.

## KEY DEVELOPMENT

As the number of business failures falls further, Dun & Bradstreet upgrades the country's credit environment outlook from 'amber' to 'green'.

### CREDIT ENVIRONMENT OUTLOOK

G

***Trend:*** Improving

Key Development has had a positive impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK

G

***Trend:*** Stable

Key Development has had a positive impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK

G

***Trend:*** Improving

Key Development has had a neutral impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

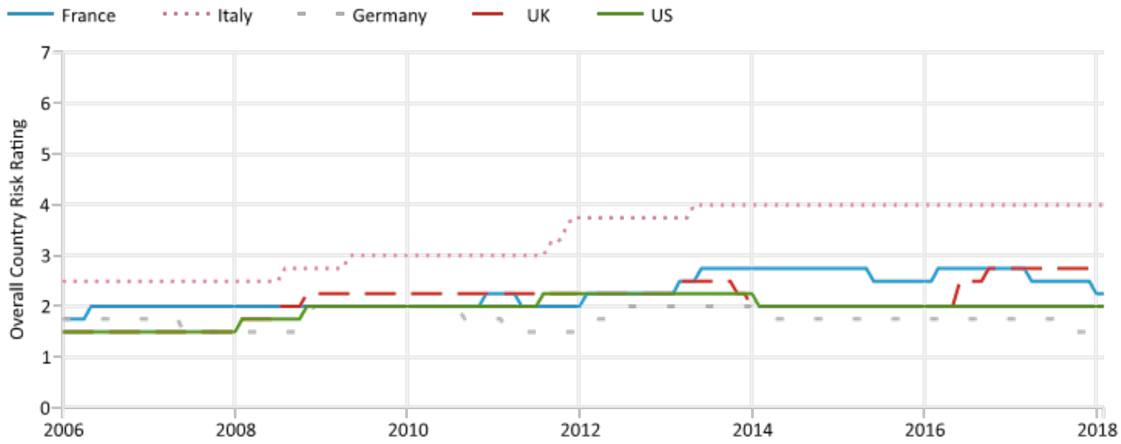
G

***Trend:*** Improving

Key Development has had a neutral impact on the outlook.

## KEY INDICATORS

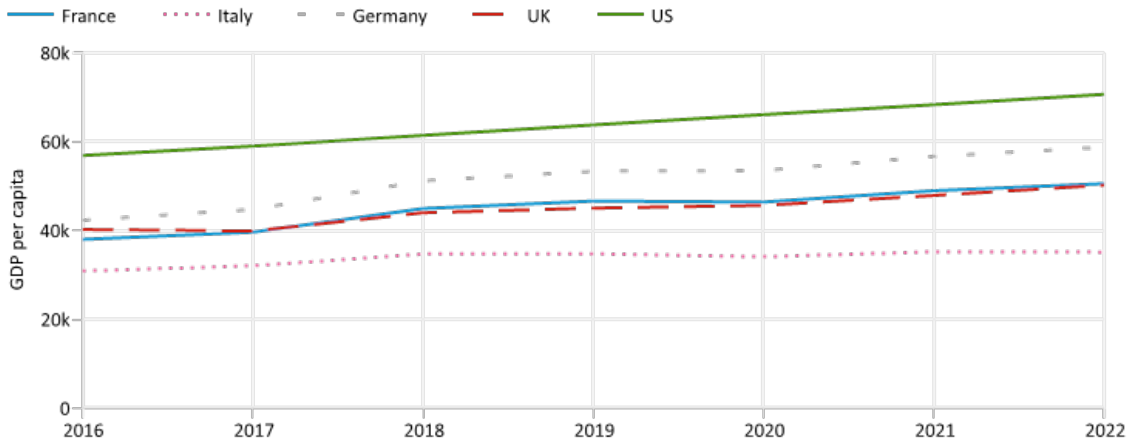
### Rating History and Comparison




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 | 2015 | 2016 | 2017e | 2018f | 2019f | 2020f | 2021f | 2022f |
|---|---|---|---|---|---|---|---|---|
| C/A balance % GDP | -0.4 | -0.9 | -1.3 | -1.3 | -1.1 | -0.9 | -0.6 | -0.3 |
| Govt balance, % GDP | -3.6 | -3.4 | -3.0 | -2.7 | -2.6 | -2.5 | -2.3 | -2.5 |
| Inflation, annual avge % | 0.1 | 0.3 | 1.3 | 1.4 | 1.9 | 1.9 | 2.0 | 2.1 |
| Real GDP Growth, % | 1.0 | 1.1 | 1.9 | 2.1 | 2.2 | 2.2 | 2.1 | 2.4 |
| Unemployment, % | 10.4 | 10.0 | 9.5 | 9.2 | 8.4 | 7.6 | 7.0 | 7.0 |

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

In the World Economic Forum's *Global Competitiveness Report 2017-18*, the trade and commercial environment in France is ranked the 22nd best in the world (out of 137 countries covered). According to survey respondents, tax rates and restrictive labour market regulations are the biggest obstacles to doing business. Meanwhile, the latest edition of Transparency International's *Corruption Perceptions Index* shows that things have moved in the right direction in France in the past two years. Compared with the 2014 edition, France's ranking has improved from 26th to 23rd (out of 176 countries covered), with its overall score standing at 69 (with the best-ranked country, Denmark, scoring 91 on the 0-100 scale). While scoring comparatively well internationally, France's ranking remains below most of its Western European peers (such as Germany, the UK, and Luxembourg - ranked joint 10th; Belgium is ranked 15th, while the US is ranked 18th).

## 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.*

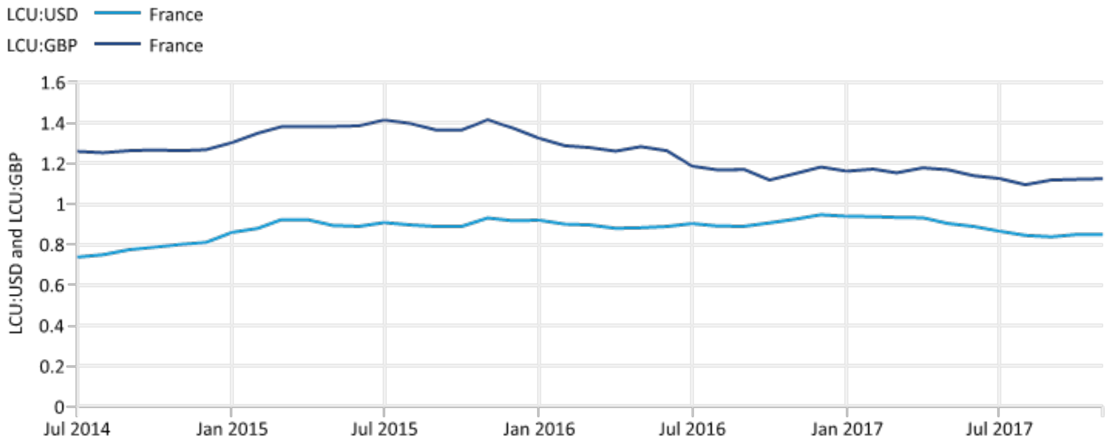
**Local Delays: 0-1 month**

*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.*

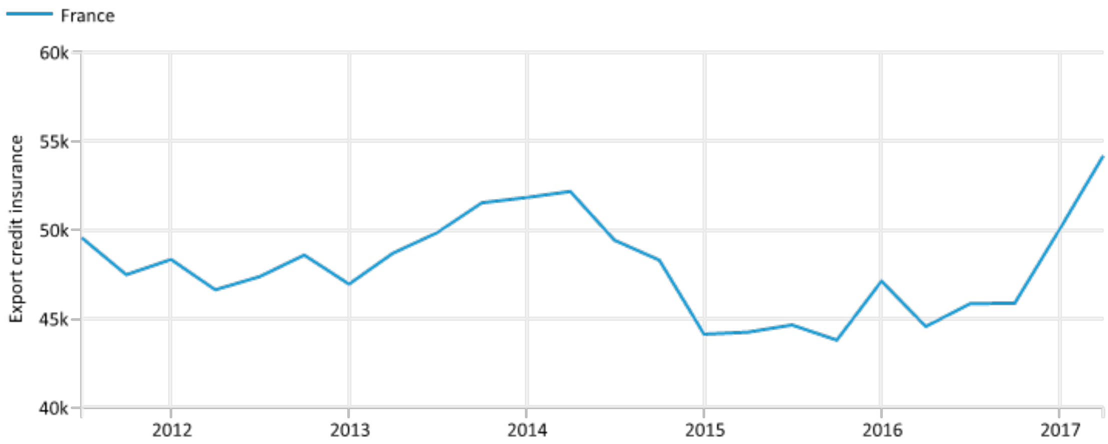
## Exchange Rate




Source : International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = euro*

## Credit Conditions




Source : Export Credit Agencies

*Insured export credit exposures, USDm; increase going into 2017 is partly due to methodology changes.*

# RISKS AND OPPORTUNITIES

## Business Continuity

***Credit environment outlook upgraded***

One month after we upgraded France's country risk rating by one quartile to DB2b (the best ranking since February 2013), Dun & Bradstreet has revised the credit environment outlook upwards from 'amber' to 'green' while also maintaining the improving outlook trend. This decision was made on the back of the latest business failures data from Altares, our Paris-based World Wide Network partner. With Q4 figures having been released in late January, it is now clear that France saw a sizeable reduction in the number of business failures in 2017: overall, 55,175 companies went bankrupt (of which only 295 companies had more than 50 employees), down 4.6% against the prior year and the lowest reading since 2008.

A sectoral comparison shows that most industries followed the positive overall trend, with retail trade (down 17%), construction (-10%) and manufacturing (-5%) showing particularly encouraging results. Meanwhile, hospitality (up 19%) and agriculture (+10%) have seen more business failures in 2017. The fall in insolvency risk in France last year is in line with developments in most other countries in the region (but not all, such as Switzerland and the UK, for example). Looking ahead, Dun & Bradstreet forecasts the number of business failures in France to drop further. That said, the ongoing strength of the euro (see below) could create some problems for export-orientated companies and thereby lead to profitability problems over the medium run.

## FX Risk

***Euro is gaining strength***

Problematically for the international price competitiveness of France-based companies, the euro had risen almost 15% against the US dollar in the twelve months to early February (with a very pronounced appreciation having taken place since mid-December). While this generally undermines the position of all euro-zone-based companies on world markets, French ones remain particularly exposed. Domestic labour costs have risen sharply over the past 15 years, reducing France's industrial base as well as investment, which in turn has reduced the potential to innovate. As a result, France's share of overall euro-zone exports has fallen from 17% in 2000 to just 13% in 2017.

Coupled with elevated corporate debt levels (168% of GDP, the third highest in the EU, behind only Portugal and Belgium) and the prospect of rising interest rates in the euro zone in 2019-20, headwinds are clearly visibly. That said, Dun & Bradstreet remains confident that the government's reform proposals will reduce some of the underlying competitiveness problems and that French real GDP will grow by 2.1% this year, despite the euro retaining the gains it made over the past quarters. Against the backdrop of a strong euro, together with improving labour market conditions in France, exporters to the country can count on robust import demand in 2018-19.

# 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 were traditionally characterised by fierce ideological differences between parties of the left and right, but the country is now governed by Emmanuel Macron's centrist party. Trade unions form an important part of the French polity, with their powers of public mobilisation giving them a large (albeit declining) 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 Emmanuel MACRON |
| Capital | Paris |
| Timezone | GMT +01-00 |
| Official language | French |
| Population (millions) | 65.0 |
| GDP (USD billions) | 2,579.4 |
| GDP per capita (USD) | 39,696 |
| Life expectancy (years) | 82.2 |
| Literacy (% of adult pop.) | 99.9 |
| Surface area (sq km) | 551,500 |

Source : Various sources/Dun & Bradstreet

## Historical Data

| Metric | 2013 | 2014 | 2015 | 2016 | 2017e |
|---|---|---|---|---|---|
| Real GDP growth (%) | 0.6 | 1.0 | 1.0 | 1.1 | 1.9 |
| Nominal GDP in USDbn | 2,810 | 2,852 | 2,434 | 2,464 | 2,579 |
| Nominal GDP in local currency (bn) | 2,116 | 2,149 | 2,194 | 2,227 | 2,288 |
| GDP per Capita in USD | 43,955 | 44,428 | 37,765 | 38,069 | 39,696 |
| Population (year-end, m) | 63.9 | 64.2 | 64.5 | 64.7 | 65.0 |
| Exchange rate (yr avge, USD-LCU) | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 |
| Current Account in USDbn | -24.4 | -44.4 | -10.8 | -21.1 | -33.7 |
| Current Account (% of GDP) | -0.9 | -1.6 | -0.4 | -0.9 | -1.3 |
| FX reserves (year-end, USDbn) | 331.0 | 327.6 | 333.9 | 344.4 | 354.3 |
| Import Cover (months) | 1.3 | 1.3 | 1.5 | 1.5 | 1.4 |
| Inflation (annual avge, %) | 1.0 | 0.6 | 0.1 | 0.3 | 1.3 |
| Govt Balance (% GDP) | -4.1 | -3.9 | -3.6 | -3.4 | -3.0 |

Source : Haver Analytics/Dun & Bradstreet

## Forecasts

| Metric | 2018f | 2019f | 2020f | 2021f | 2022f |
|---|---|---|---|---|---|
| Real GDP growth (%) | 2.1 | 2.2 | 2.2 | 2.1 | 2.4 |
| Nominal GDP in USDbn | 2,937 | 3,057 | 3,054 | 3,233 | 3,351 |
| Nominal GDP in local currency (bn) | 2,368 | 2,466 | 2,567 | 2,672 | 2,792 |
| GDP per Capita in USD | 45,022 | 46,690 | 46,474 | 49,019 | 50,626 |
| Population (year-end, m) | 65.2 | 65.5 | 65.7 | 66.0 | 66.2 |
| Exchange rate (yr avge, USD-LCU) | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Current Account in USDbn | -38.1 | -33.7 | -26.6 | -19.2 | -11.5 |
| Current Account (% of GDP) | -1.3 | -1.1 | -0.9 | -0.6 | -0.3 |
| FX reserves (year-end, USDbn) | 372.4 | 391.4 | 411.3 | 428.0 | 445.4 |
| Import Cover (months) | 1.3 | 1.3 | 1.3 | 1.3 | 1.2 |
| Inflation (annual avge, %) | 1.4 | 1.9 | 1.9 | 2.0 | 2.1 |
| Govt Balance (% GDP) | -2.7 | -2.6 | -2.5 | -2.3 | -2.5 |

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

| Indicator | France | Italy | Germany | UK | US |
|---|---|---|---|---|---|
| Income per Capita (USD) | 45,022 | 34,769 | 51,253 | 44,074 | 61,495 |
| Country Population (m) | 65.2 | 59.8 | 82.3 | 66.6 | 326.8 |
| Internet users (% of population) | 85.6 | 61.3 | 89.6 | 94.8 | 76.2 |
| Real GDP Growth (% p.a., 2018 - 2027) | 1.3 - 2.5 | 0.5 - 2.0 | 1.8 - 3.0 | 1.8 - 3.5 | 1.8 - 2.5 |

Source : Various sources/Dun & Bradstreet

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