dun & bradstreet

Country Insight Snapshot

France

March 2019

Written 08 March 2019

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: Stable

CORE OUTLOOK

+ World-class infrastructure will continue to support long-term economic growth potential.
+ The euro is backed by large communal FX earnings and international reserves, virtually eliminating France’s liquidity risk despite the low level of import cover.

- France has a long history of political sclerosis: while Macron's administration has pushed through a number of reforms, popular resistance could curb the pace and scope of change.
- Despite some recent changes, labour market regulations remain relatively inflexible and labour taxes are still high, potentially deterring business expansion.

KEY DEVELOPMENT

The confirmed economic slowdown will continue over 2019-20, amid faltering confidence and strengthening external headwinds.

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Improving

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

G

Trend: Deteriorating

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

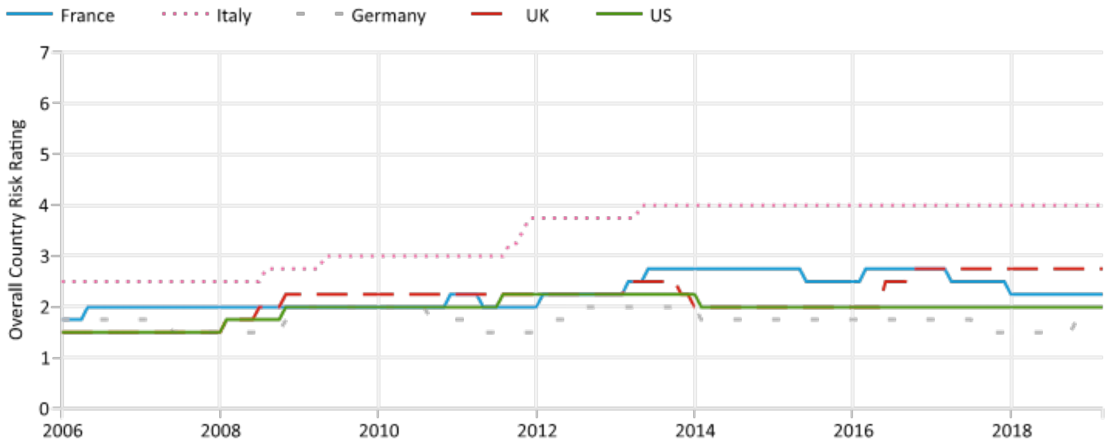
A

Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

KEY INDICATORS

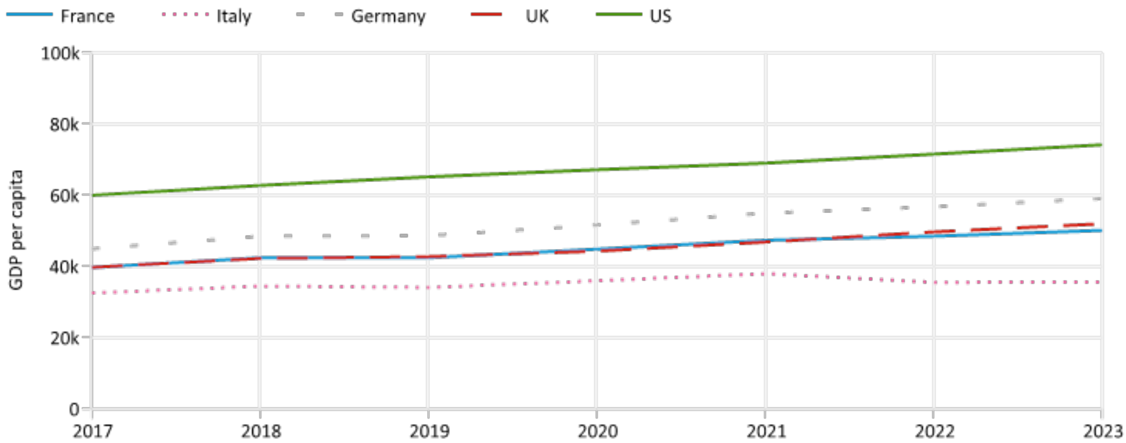
Rating History and Comparison



Source : Dun & Bradstreet

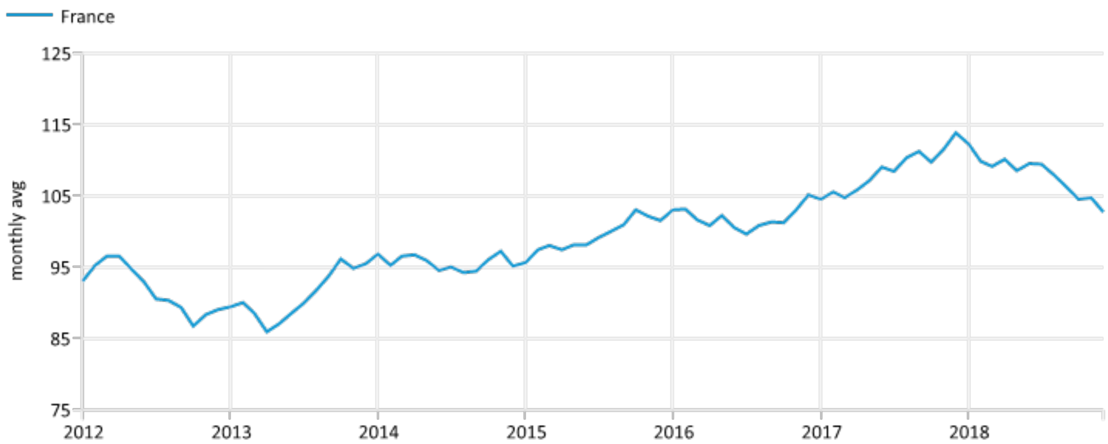
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Economic Sentiment Indicator



Source : National Statistical Offices / Haver Analytics

Economic Indicators

Indicator	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	-0.8	-0.5	-0.7	-0.5	-0.4	-0.3	-0.2	-0.2
Govt balance, % GDP	-3.5	-2.7	-2.6	-3.1	-2.8	-2.5	-2.5	-2.5
Inflation, annual avge %	0.3	1.2	2.1	1.7	1.7	1.8	2.0	2.0
Real GDP Growth, %	1.1	2.3	1.5	1.4	1.6	1.5	1.6	1.7
Unemployment, %	10.1	9.4	9.1	8.9	8.8	8.7	8.5	8.5

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

According to provisional data from the Bank of France, the current account deficit widened to EUR5.0bn in Q4 2018, up from EUR3.3bn in Q3. As a result, the cumulative current account for 2018 widened to EUR16.8bn, equivalent to 0.7% of GDP. This was primarily due to increased energy imports: the trade deficit, excluding energy, narrowed to EUR9.9bn from EUR11.0bn in 2017. The services balance also improved, moving from a surplus of EUR26.4bn in 2017 to a surplus of EUR28.4bn, despite a widening deficit in transport services. Going forward, we expect France to continue to post small deficits of around 0.5% of GDP, reflecting a weak outlook for exports as demand in key markets softens (particularly in the EU and China), and an overvalued real exchange rate erodes French competitiveness. According to BIS data, France's real effective exchange rate (which factors in other foreign currencies as well as inflation rate differentials) was up 2.1% in 2018. Weakened competitiveness will also help to support imports into France over the outlook period.

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.

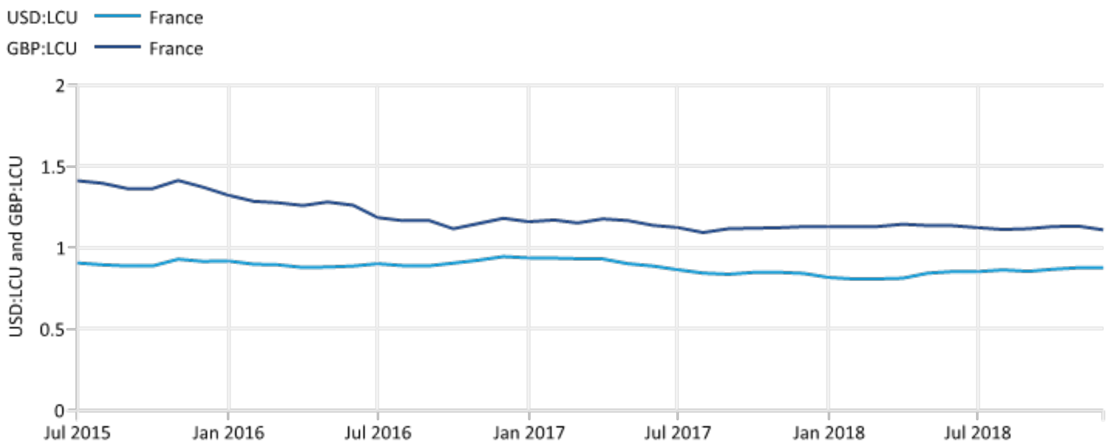
Local Delays: 0-1 month

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.

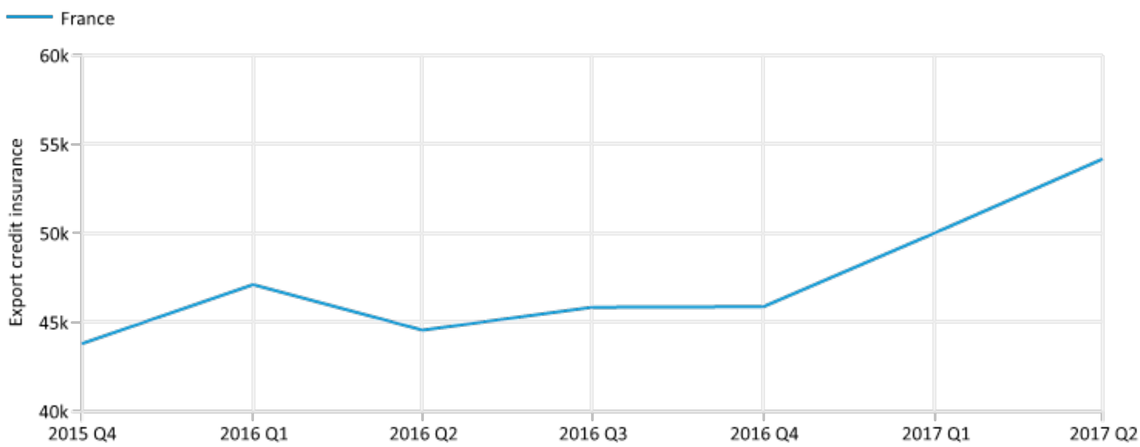
Exchange Rate



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

Short-Term Economic Outlook

Muted growth set to continue

The second estimate of 2018 GDP by Insee (the national statistical office) confirmed last year's slowdown, with the economy growing by 1.5% in 2018, down from 2.3% in 2017. Of particular note was the weaker growth in household consumption: accounting for over half of GDP, spending stalled in Q4 and grew by a relatively anaemic 0.8% over 2018 as a whole (down from 1.1% in 2017). This is likely to persist going forward: while inflation and unemployment are both expected to moderate slightly in 2019-20 compared with 2018, unemployment will remain stubbornly high at just under 9.0%. Government spending also grew at a slower pace in 2018, rising by 1.0% (down from 1.4% in 2017), though we expect it to increase in 2019, in part due to pledges made to gilet jaunes protesters.

Investment growth also moderated in 2018, though a 3.9% rise in business investment underpinned a 2.9% rise in total investment. Investment decisions are likely to have been affected by the slowdown in domestic demand and the slower growth in exports, which were up 3.0% in 2018, compared with a 4.7% expansion in 2017.

Moreover, the outlook for companies remains uncertain, with forward-looking indicators painting a mixed, but generally muted, picture. In February, Eurostat's Economic Sentiment Indicator for France stood at 100.5 (down from 108.7 a year earlier), while the IHS Markit's Composite Purchasing Managers Index (PMI) for France remained weak at 49.9 (just below the neutral 50-points line that divides expansion in activity from contraction). The Composite PMI marked an improvement on January (when it stood at 48.2) as manufacturing output stabilised: the Manufacturing PMI rose to 51.5 in February, from 51.2 in January. However, the marginal gain was primarily due to a rise in domestic new orders, while foreign orders fell for the sixth month in a row. Taking all these factors into consideration, we expect the economy to stay on a relatively-slow growth trajectory in 2019-20, expanding by an average of 1.5%. However, this could be revised lower if downside risks continue to strengthen, for instance due to a no-deal Brexit.

Political/Insecurity Risk

Macron's grand debate

President Emmanuel Macron's efforts to regain the initiative - following over three months of *gilet jaunes* weekend protests - are starting to have an impact. Launching a national consultation (the '*Grand Debat*') in February, involving extensive engagement with community groups around the country, Macron's popularity ratings have recovered somewhat (to at least the level before the protests began in November 2018). In contrast, support for the *gilet jaunes* protestors has cooled as divisions emerge over their agenda, and the role of the extremist wings of French politics - both left and right - in the demonstrations becomes more visible.

The protests were originally sparked in November 2018 by anger at planned fuel tax rises and perceived growing economic inequality, but quickly widened to include general frustrations with Macron's government. While softening support for the *gilet jaunes* movement will be a relief for the president, the protests (which are still far from over) have already caused some policy reversals, and are likely to check the pace and scope of further reform going forward.

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 President 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 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 high by international standards, and many big French companies are leading global players in their respective 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)	65.2
GDP (USD billions)	2,774.8
GDP per capita (USD)	42,536
Life expectancy (years)	82.4
Literacy (% of adult pop.)	99.9
Surface area (sq km)	551,500

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018e
Real GDP growth (%)	1.0	1.0	1.1	2.3	1.5
Nominal GDP in USDbn	2,855	2,439	2,464	2,585	2,775
Nominal GDP in local currency (bn)	2,151	2,198	2,227	2,293	2,350
GDP per Capita in USD	44,473	37,839	38,067	39,779	42,536
Population (year-end, m)	64.2	64.5	64.7	65.0	65.2
Exchange rate (yr avge, USD-LCU)	0.8	0.9	0.9	0.9	0.8
Current Account in USDbn	-44.4	-9.1	-18.7	-13.4	-19.8
Current Account (% of GDP)	-1.6	-0.4	-0.8	-0.5	-0.7
FX reserves (year-end, USDbn)	327.6	333.9	344.4	353.2	374.6
Import Cover (months)	1.3	1.4	1.5	1.4	1.3
Inflation (annual avge, %)	0.6	0.1	0.3	1.2	2.1
Govt Balance (% GDP)	-3.9	-3.6	-3.5	-2.7	-2.6

Source : Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	1.4	1.6	1.5	1.6	1.7
Nominal GDP in USDbn	2,786	2,954	3,130	3,217	3,336
Nominal GDP in local currency (bn)	2,422	2,503	2,587	2,680	2,780
GDP per Capita in USD	42,542	44,944	47,458	48,602	50,238
Population (year-end, m)	65.5	65.7	66.0	66.2	66.4
Exchange rate (yr avge, USD-LCU)	0.9	0.8	0.8	0.8	0.8
Current Account in USDbn	-15.0	-12.0	-8.5	-8.0	-8.1
Current Account (% of GDP)	-0.5	-0.4	-0.3	-0.2	-0.2
FX reserves (year-end, USDbn)	393.6	413.7	430.5	448.0	470.8
Import Cover (months)	1.4	1.3	1.3	1.3	1.2
Inflation (annual avge, %)	1.7	1.7	1.8	2.0	2.0
Govt Balance (% GDP)	-3.1	-2.8	-2.5	-2.5	-2.5

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	France	Italy	Germany	UK	US
Income per Capita (USD)	42,542	34,202	48,730	42,839	65,242
Country Population (m)	65.5	59.2	82.4	67.0	329.1
Internet users (% of population)	85.6	61.3	89.6	94.8	76.2
Real GDP Growth (% p.a., 2019 - 2028)	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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