

Country Insight Snapshot

France

January 2017



Written 13 January 2017

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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.

G

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

Political risk is elevated ahead of the upcoming elections, but the economy surprisingly continues to produce good news.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Stable 

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

G

Trend: Stable 

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Improving 

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

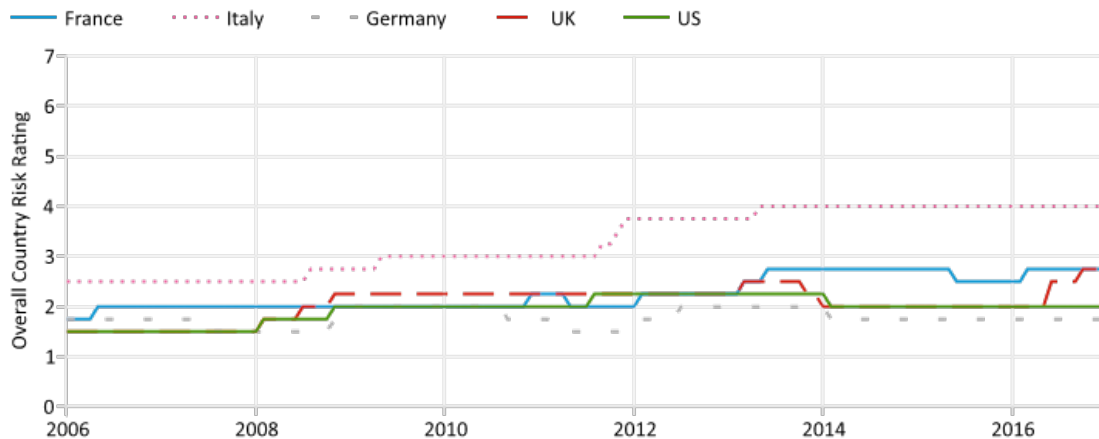
Trend: Deteriorating 

Key Development has had a negative impact on the outlook.



KEY INDICATORS

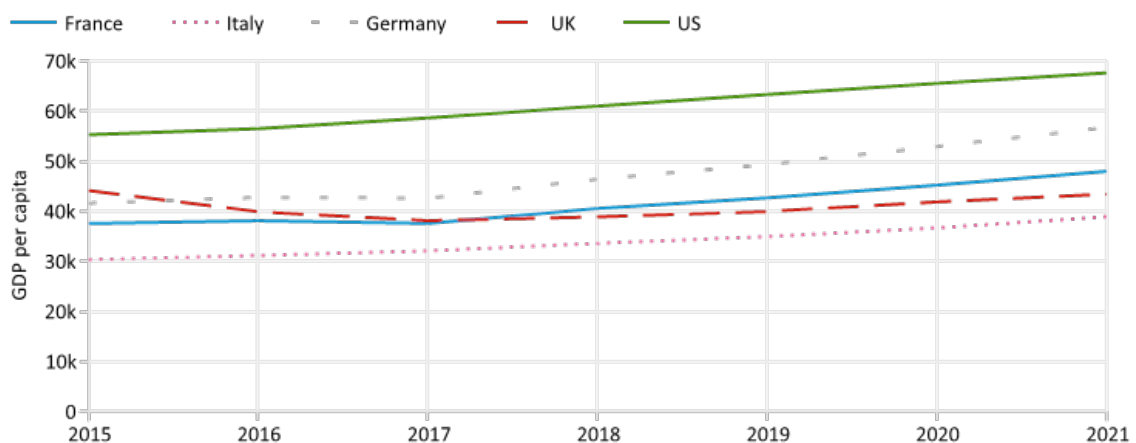
Rating History and Comparison



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	2014	2015	2016e	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	-1.4	-0.2	-0.8	-0.7	-0.3	-0.1	0.2	0.4
Govt balance, % GDP	-4.0	-3.5	-3.4	-3.0	-2.4	-2.3	-2.3	-2.3
Inflation, annual ave %	0.6	0.1	0.3	1.2	1.7	1.9	1.9	2.0
Real GDP Growth, %	0.7	1.2	1.2	1.1	1.7	2.0	2.0	2.0
Unemployment, %	10.3	10.4	9.9	9.4	9.0	8.6	8.3	8.1

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

In the World Economic Forum's *Global Competitiveness Report 2016-17*, the trade and commercial environment in France is ranked the 21st best in the world (out of 138 countries covered). According to survey respondents, the biggest obstacle for doing business are restrictive labour market regulations. 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 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 comparatively well internationally, France's ranking remains below most of its Western European peers (such as Germany, the UK, and Luxembourg - joint 10th; Belgium is ranked 15th, while the US is ranked 16th).

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

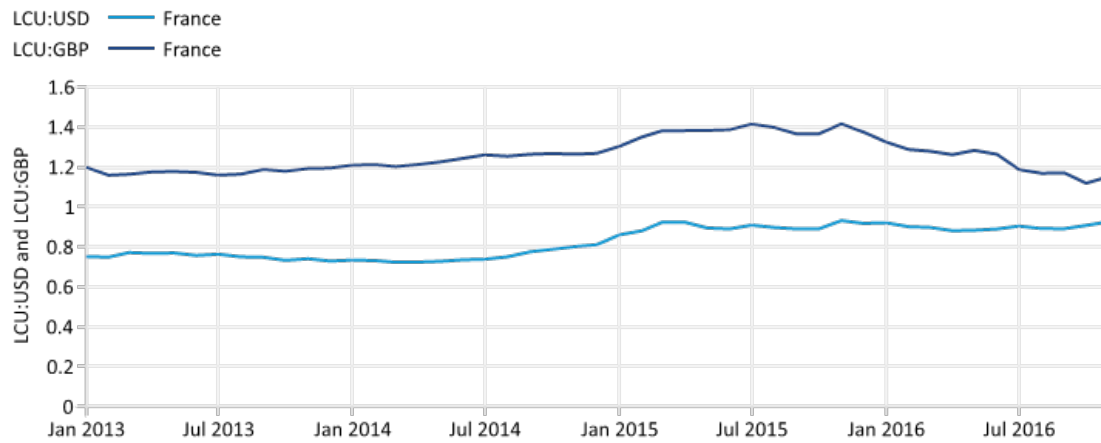
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



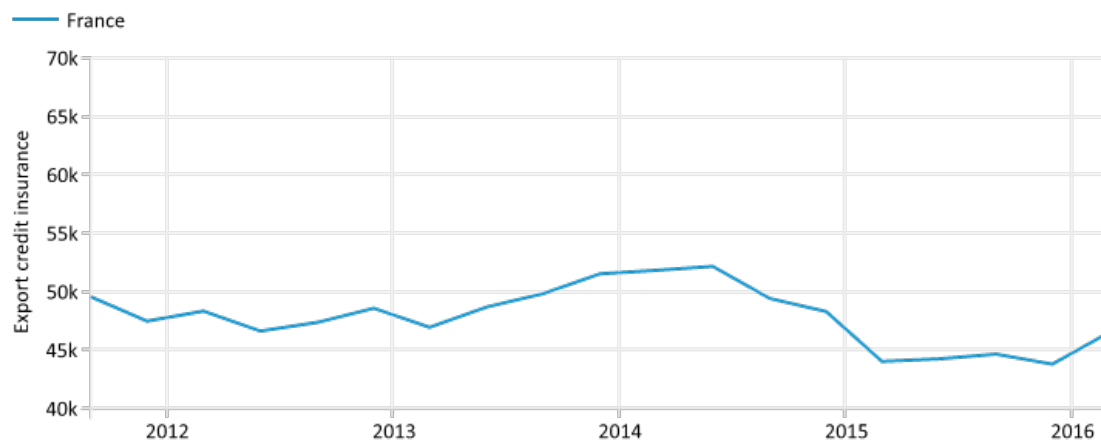
Exchange Rate



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

Economy surprises on the upside

Although political risk continues to cloud the outlook (see below), latest available data surprised on the upside, highlighting an underlying improving trend in the French economy. On the labour market, the harmonised unemployment rate dropped for the fourth consecutive month to 9.5% in November, the lowest value since late 2011 and down from the 10.2% seen 12 months earlier. The improvement recorded in late 2016 is broad based, with Purchasing Managers' Indices (PMI, compiled by Markit) in the manufacturing, retail and service sectors all moving higher. The manufacturing sector PMI came in at 53.5 points in December, not only comfortably above the neutral 50-points line that divides expansion in sectoral activity from contraction but also at a 67-month high. Output grew by the fastest rate since May 2011 and employment levels as well as new order inflow also developed favourably, indicating further likely improvements in the months ahead.

In the retail and service sectors, the upturn is less pronounced but nonetheless visible. Retail PMI moved above the 50-points line in December (to 50.4 point, compared with 47.3 in November) and in the service sector, the PMI came in at 52.9 points, the highest value since September. While most PMI sub-indices continue to leave room for optimism for the year ahead, the development of the input cost sub-index across all sectors is increasingly worrisome as it indicates growing price pressures in the French economy. After three years of inflation rates below 1.0%, Dun & Bradstreet predicts consumer prices to increase by 1.2% in 2017 before moving closer to the ECB's 2.0% target towards the tail-end of this decade.

Political/Insecurity Risk

Political risk elevated in election year

Meanwhile, the upcoming presidential (April/May) and parliamentary elections (June) continue to cause elevated levels of risk. For the presidential elections, Dun & Bradstreet predicts no candidate to win an outright majority in the first round on 23 April, thereby requiring a runoff on 7 May. Current polls indicate that Marine Le Pen from the far-right Front National and Francois Fillon from the centre-right Republicans will reach the second round. Although a victory of Le Pen, who presents herself as an anti-establishment candidate, cannot be ruled out completely since the surprise victory of Donald Trump, we predict that Fillon will eventually secure the presidency for the Republicans. Positively for country risk levels, his campaign promises are the most pro-business of all candidates, with labour market reforms being especially important.

The outcome of the parliamentary elections is more difficult to call but it seems possible that any new president (regardless from which party) would not have a parliamentary majority. This would complicate policy making going forward, and could potentially slow down (if not fully derail) Fillon's reform plans. Positively however, a fragmented parliament would also be a bulwark of the mainstream parties if Le Pen were to be elected president.



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, 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 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)	64.7
GDP (USD billions)	2,467.5
GDP per capita (USD)	38,156
Life expectancy (years)	82
Literacy (% of adult pop.)	99.9
Surface area (sq km)	551,500

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2012	2013	2014	2015	2016e
Real GDP growth (%)	0.2	0.6	0.7	1.2	1.2
Nominal GDP in USDbn	2,682	2,810	2,842	2,420	2,467
Nominal GDP in local currency (bn)	2,087	2,116	2,141	2,181	2,214
GDP per Capita in USD	42,198	44,011	44,315	37,580	38,156
Population (year-end, m)	63.6	63.8	64.1	64.4	64.7
Exchange rate (yr avge, USD-LCU)	0.78	0.75	0.75	0.9	0.9
Current Account in USDbn	-32.9	-24.4	-39.9	-4.7	-20.0
Current Account (% of GDP)	-1.2	-0.9	-1.4	-0.2	-0.8
FX reserves (year-end, USDbn)	332.5	331.0	327.6	333.9	352.9
Import Cover (months)	1.3	1.3	1.3	1.5	1.5
Inflation (annual avge, %)	2.2	1.0	0.6	0.1	0.3
Govt Balance (% GDP)	-4.8	-4.0	-4.0	-3.5	-3.4

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	1.1	1.7	2.0	2.0	2.0
Nominal GDP in USDbn	2,442	2,646	2,797	2,974	3,168
Nominal GDP in local currency (bn)	2,265	2,342	2,433	2,528	2,629
GDP per Capita in USD	37,602	40,580	42,719	45,254	48,019
Population (year-end, m)	64.9	65.2	65.5	65.7	66.0
Exchange rate (yr avge, USD-LCU)	0.93	0.89	0.87	0.85	0.83
Current Account in USDbn	-16.3	-9.1	-1.7	6.1	14.2
Current Account (% of GDP)	-0.7	-0.3	-0.1	0.2	0.4
FX reserves (year-end, USDbn)	367.3	386.0	405.6	426.3	443.6
Import Cover (months)	1.6	1.5	1.4	1.4	1.3
Inflation (annual avge, %)	1.2	1.7	1.9	1.9	2.0
Govt Balance (% GDP)	-3.0	-2.4	-2.3	-2.3	-2.3

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	France	Italy	Germany	UK	US
Income per Capita (USD)	37,580	30,346	41,665	44,162	55,326
Country Population (m)	64.4	59.8	80.7	64.7	321.8
Internet users (% of population)	84.7	65.6	87.6	92	74.5
Real GDP Growth (% p.a., 2017 - 2026)	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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