dun&bradstreet

Country Insight Snapshot
France
December 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: Stable →

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, virtually eliminating 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

Widespread protests could delay or dilute the reform agenda, and we have downgraded the political environment outlook to amber, with a deteriorating trend.

CREDIT ENVIRONMENT OUTLOOK   (G)

Trend: Improving ↗

Key Development has had a neutral 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 neutral impact on the outlook.
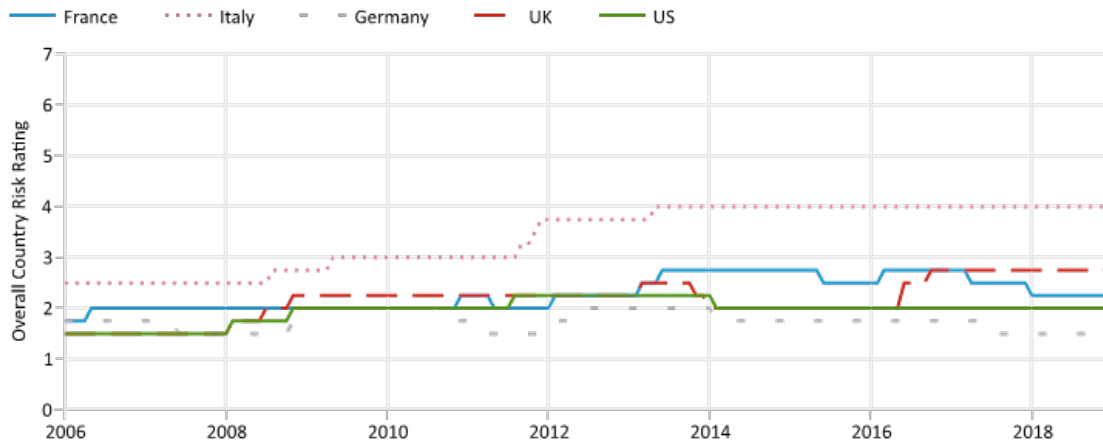
POLITICAL ENVIRONMENT OUTLOOK   (A)

Trend: Deteriorating ↘

Key Development has had a negative impact on the outlook.
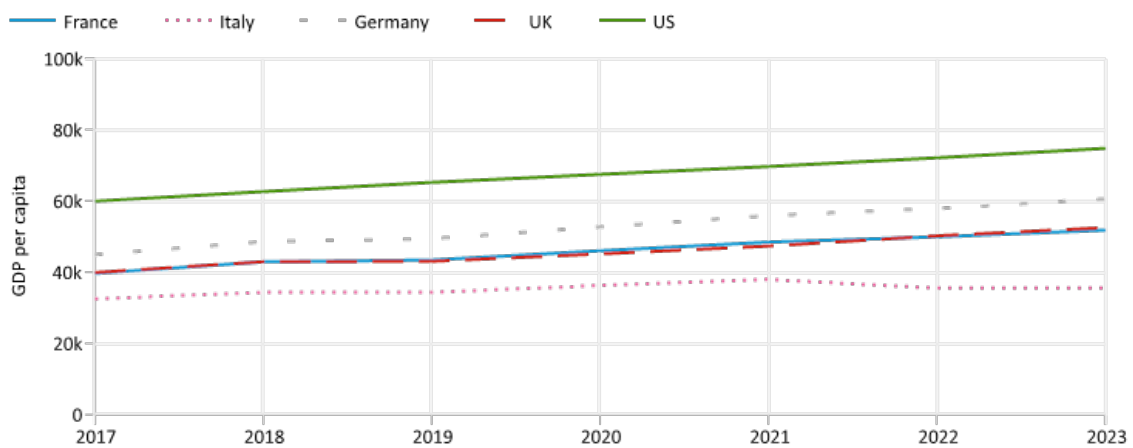
KEY INDICATORS

Rating History and Comparison
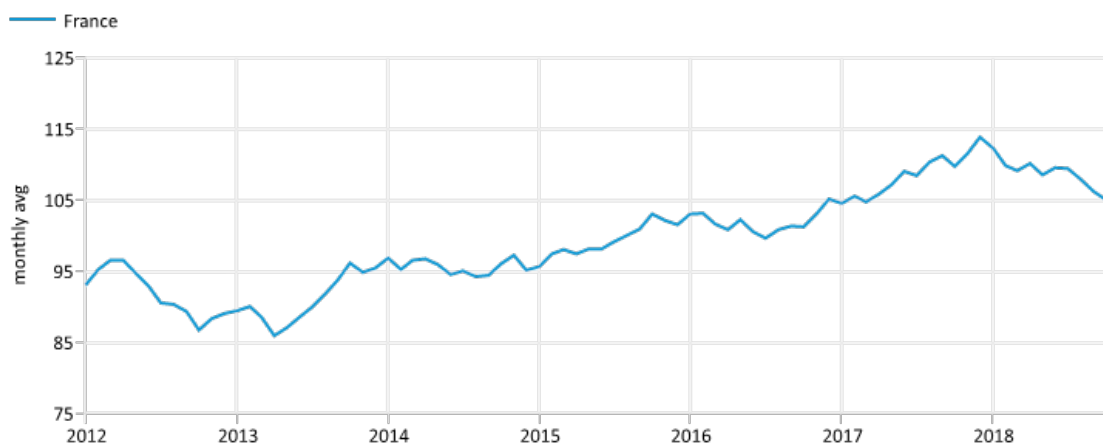

Source : Dun & Bradstreet

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	2016	2017	2018f	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	-0.8	-0.5	-0.5	-0.5	-0.3	-0.1	0.0	0.1
Govt balance, % GDP	-3.5	-2.7	-2.7	-2.6	-2.5	-2.3	-2.5	-2.5
Inflation, annual avge %	0.3	1.2	2.1	1.7	1.9	2.0	2.1	2.0
Real GDP Growth, %	1.1	2.3	1.7	1.6	1.7	2.0	2.1	2.1
Unemployment, %	10.1	9.4	9.1	8.8	8.5	8.0	7.8	7.5

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The current account posted a deficit of EUR3.7bn in Q3, narrowing from EUR7.7bn in Q2; for the 12 months to September 2018, the deficit reached EUR13.4bn, close to the level experienced in 2017. The trade account is a significant feature of the current account: while the deficit contracted slightly from EUR14bn in Q2 to EUR13bn in Q3, it widened in the 12 months to September, from 2017, reflecting continuing weakness in the country's price competitiveness: although the euro has weakened against the US dollar in 2018, making French goods nominal cheaper in US dollar terms, France's real effective exchange rate (which includes other foreign currencies as well as inflation rate differentials) was up 2.3% y/y in Q1-Q3 2018, indicating an overall loss of domestic competitiveness. Further wage moderation is required to improve France's overall international competitiveness, but this could be difficult in the current climate. In the meantime we expect the current account to continue to post small deficits over 2018-20.

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.
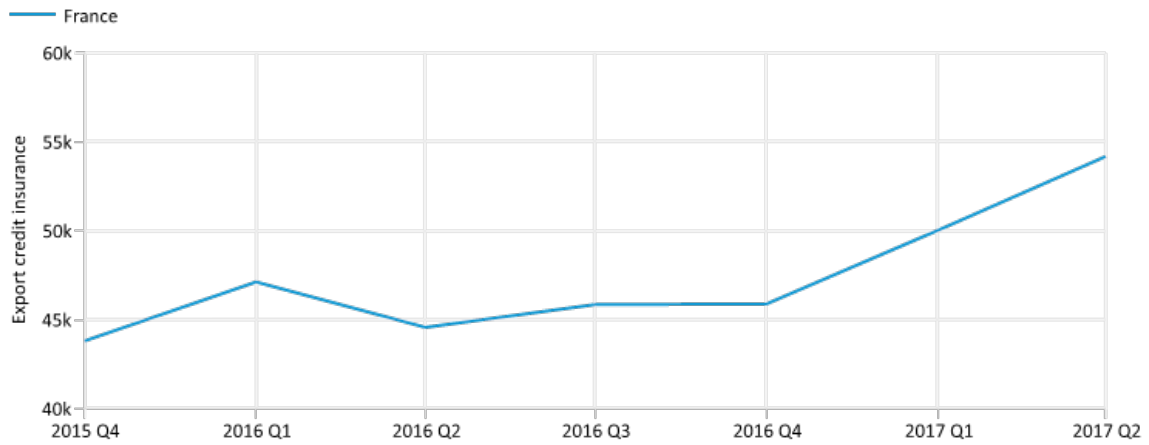
Exchange Rate
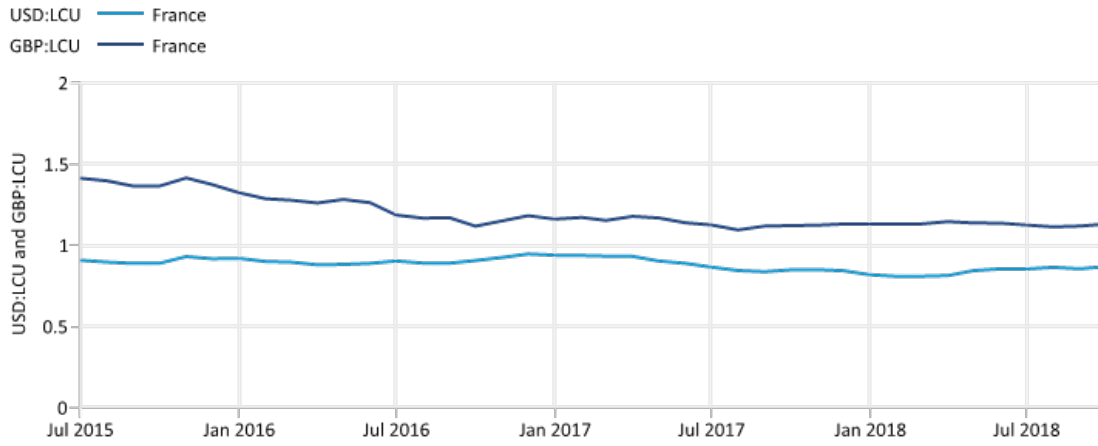
Source : International Monetary Fund/Dun & Bradstreet

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

Political/Insecurity Risk

Riots test government resolve

A third weekend of _gilets jaunes_ protests across France saw the government finally give way and announce a suspension of fuel tax rises. Taxes on diesel and petrol had been increased as part of the government's response to climate change (a stance generally supported by the majority of French citizens), and were due to be raised again in January. However, while fuel taxes were the initial rallying call that sparked the demonstrations, the agenda has widened to include, among other things, frustrations about economic inequality and general protest at the centrist reforms of the EU-focused government, all of which have exposed the social, economic and ideological rifts within the country. As a result of the heightened level of political unrest and the delay or possible dilution of government reforms, Dun & Bradstreet has downgraded the political environment outlook for France to amber (from green) and the trend to deteriorating (from stable).

President Emmanuel Macron and his government have already stood their ground on a number of significant reforms, lifting some of the inertia that had previously beset France. However, Macron's popularity ratings have plummeted and the loyalties of his parliamentary backers to his still-nascent _La Republique en Marche_ grouping have yet to be fully tested. Combined with the prospect of ongoing protests (fuelled in part by populist and far-right groups who see this as a platform for their own agendas), Macron may find his controversial agenda harder to push through than initially thought.

Market Potential

Outlook weakens

With economic growth expected to slow to 1.6% in 2019 as unemployment and inflation only slowly moderate, and as external headwinds strengthen, forward-looking indicators paint a muted picture. Eurostat's Economic Sentiment Index for France stood at 104.8 in November, up slightly from October, but still appreciably lower than in January 2018 (112.4), with weak sentiment prevailing across the industry, services and retail sectors (the construction sector remains more optimistic), and consumer confidence dropping sharply.

Meanwhile, the IHS Markit's Purchasing Managers Index (PMI) for manufacturing fell to 50.8 in November. Although just above the neutral 50-points line that divides expansion in sectoral activity from contraction, this points to a slowing rate of growth, weighed down by a decline in new orders: export orders have now declined in four of the past five months. While this will depress top-line turnover growth, input costs are also rising, potentially weakening margins. The outlook for the service sector is rosier, with the IHS Markit's PMI for services indicating a stronger expansion in business activity in the sector. However, at 55.1 in November, this also showed some slippage (from 55.3 in October), with service providers also reporting slowing growth in new orders. Demand could rebound if and when the uncertainties affecting the EU are resolved in a positive manner. In the meantime, tougher trading conditions could see payment terms lengthen and/or bankruptcies rise: we recommend continual monitoring of key suppliers and customers, and adjustment of credit terms if appropriate.

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)	2,584.8
GDP per capita (USD)	39,779
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	2014	2015	2016	2017	2018f
Real GDP growth (%)	1.0	1.0	1.1	2.3	1.7
Nominal GDP in USDbn	2,855	2,439	2,464	2,585	2,807
Nominal GDP in local currency (bn)	2,151	2,198	2,227	2,293	2,380
GDP per Capita in USD	44,473	37,839	38,067	39,779	43,028
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	-13.0
Current Account (% of GDP)	-1.6	-0.4	-0.8	-0.5	-0.5
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	1.4
Inflation (annual avge, %)	0.6	0.1	0.3	1.2	2.1
Govt Balance (% GDP)	-3.9	-3.6	-3.5	-2.7	-2.7

Source : Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	1.6	1.7	2.0	2.1	2.1
Nominal GDP in USDbn	2,852	3,032	3,205	3,313	3,449
Nominal GDP in local currency (bn)	2,459	2,548	2,649	2,761	2,874
GDP per Capita in USD	43,557	46,130	48,601	50,066	51,936
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	-10.2	-2.4	-1.0	2.5
Current Account (% of GDP)	-0.5	-0.3	-0.1	0.0	0.1
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	1.9	2.0	2.1	2.0
Govt Balance (% GDP)	-2.6	-2.5	-2.3	-2.5	-2.5

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	France	Italy	Germany	UK	US
Income per Capita (USD)	43,028	34,463	48,715	43,065	62,795
Country Population (m)	65.2	59.3	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., 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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