Decide with Confidence

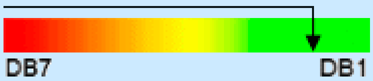
D&B Country RiskLine Report

FRANCE

Region : Western Europe
Edition : February 2010

D&B Country Risk Indicator

DB2a



This "DB" Rating Indicates:

Low risk

Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

Trend

Stable

The country's overall risk profile has not changed appreciably, even though some minor changes to its political, commercial, economic and/or external risk environment may have occurred

The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

> *Political risk* - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;
>
> *Commercial risk* - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;
>
> *External risk* - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;
>
> *Macroeconomic risk* - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	64.1m
Surface area (sq km):	551,500
Capital:	Paris
Timezone:	GMT +01:00
Official language:	French
Head of state:	President Nicolas SARKOZY
GDP (USD):	2.9trn
GDP per capita (USD):	44,686
Life expectancy (years):	81
Literacy (% of adult pop.):	99.9

Country 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.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	OA

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

Recommended Terms:	SD

D&B'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.

Transfer Situation

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.

Trade & Commercial Environment

Payment risks heightened as 2009 drew to a close, although they are still lower than in many other European countries. D&B's proprietary payments performance data show that French companies paid 5.7% of their bills 30 or more days over agreed terms in 2009, a slightly worse performance than in the year to end-Q3 (5.5%) and end-Q2 (5.3%) but better than the average in the six largest EU economies (France, Germany, Italy, Netherlands, Spain and UK). Payment delays will remain a source of concern in the coming months as businesses continue to struggle despite the onset of a mild recovery; indeed, the number of insolvencies increased by 16.0% year on year in the 12 months to November 2009, with sharp rises seen in the real estate and financial sectors.

Export Credit Agencies

US Eximbank	Full cover available
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

	2007	2008	2009e	2010f	2011f
Real GDP growth, %	2.3	0.3	-2.1	1.4	1.6
Inflation, annual ave, %	1.6	3.2	0.1	1.2	1.4
Govt balance, % GDP	-2.7	-3.4	-8.5	-8.7	-7.9
Unemployment, %	8.3	7.8	9.3	11.1	10.7
C/A balance, % GDP	-1.0	-2.3	-2.2	-2.5	-2.7

"Payments Performance" chart reflects experiences of EU rather than US companies; European average refers to payments from France, Germany, Italy, the Netherlands, Spain and UK.

Currency Information

Exchange Rates

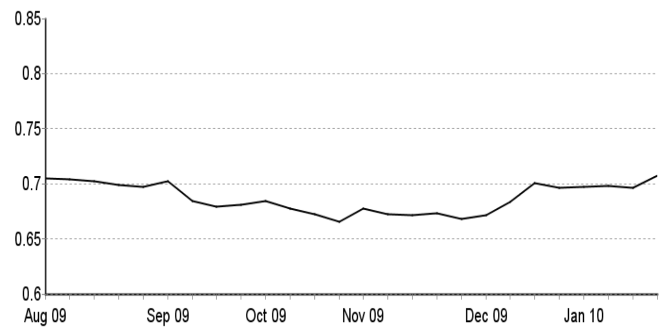
(London, 18 Jan 10)

GBP	1.1312
JPY*	0.766
USD	0.696

*(x 100)

Local Currency

(Euro [EUR]:USD)



Local Currency

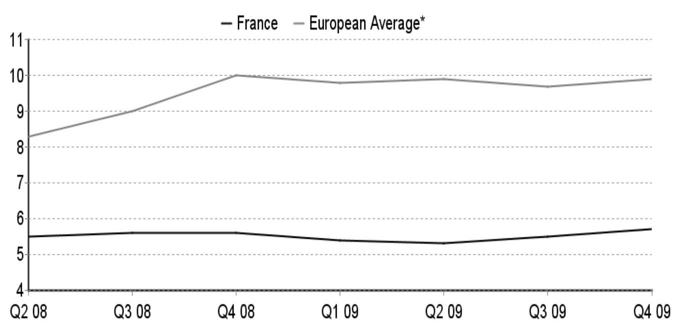
(Euro [EUR]:USD)

	Aug 09	Sep 09	Oct 09	Nov 09	Dec 09	Jan 10
Week 1	0.705	0.703	0.685	0.678	0.672	0.697
Week 2	0.704	0.684	0.678	0.672	0.684	0.698
Week 3	0.702	0.679	0.672	0.672	0.700	0.696
Week 4	0.699	0.681	0.666	0.674	0.696	0.708
Week 5	0.697			0.668		

Payments Performance

Payments Performance

(% of payments made 30 or more days over terms)



Data Table

Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09
5.5	5.6	5.6	5.4	5.3	5.5	5.7
8.3	9.0	10.0	9.8	9.9	9.7	9.9

Risk Factor

Although the short-term economic outlook is brightening, there is a risk of a renewed slowdown in the second half of 2010. Business and consumer confidence, as measured by the European Commission's Economic Sentiment Indicator (ESI), continued its upward trend as 2009 drew to a close: the ESI for France edged up to 97.2 in December, its highest value since June 2008, to almost reach its long-term average (100). Meanwhile, France's Purchasing Managers' Index (PMI) for the manufacturing sector (a good indicator for future output) climbed to 54.7 in December, its highest level in more than three years and the fifth consecutive month in which the index has been above the critical 50 level, indicating an expansion rather than contraction in activity. The service sector PMI also continued to grow (for the fourth month in a row), although the expansion decelerated slightly. Positively, new orders increased further in both the manufacturing and service industries.

The economic recovery in recent months has been driven by inventory restocking, a slight rebound in exports (accompanied by low levels of imports), as well as fiscal and monetary stimulus measures (including the government's car scrapping scheme, tax cuts and the ECB's provision of cheap liquidity). However, there is a risk that there will be another slowdown in the second half of 2010 once the fiscal/monetary stimulus measures have run down and the inventory cycle turns again. A key risk factor is a further sharp increase in unemployment. France's EU-harmonised unemployment rate climbed to 10.0% in November; the rate has risen gradually from 7.6% in May 2008. PMI sub-indices suggest that employment will continue to fall. Rising unemployment, combined with slow wage growth, will weaken household purchasing power and thus consumer spending (the bedrock of the French economy). Hence, businesses selling consumer goods in France could experience further declines in profitability despite the onset of a recovery in the economy as a whole.

Meanwhile, in late December the French constitutional court ruled that the government's carbon tax was unlawful. The tax, which was intended to cut carbon dioxide emissions and raise EUR3.5bn a year, was supposed to come into effect on 1 January 2010. The court objected to the law on the grounds that it contained too many exemptions for industrial emitters and would therefore have placed a disproportionate burden on households. The court's decision will put additional pressure on the budget deficit, which we forecast at 8.7% of GDP in 2010. The government will revise the law and aim to have a revised version ready to come into effect on 1 July. There is a risk that the new version will place a higher short-term financial burden on businesses operating in France than the original proposal.

Glossary & Definitions

DEFINITIONS

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Usual Terms:

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Local Delays:

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F/X Bank Delays:

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C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

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