

**REPUBLIC OF FRANCE**  
**JULY 2008**

**CREDIT GUARANTEE COUNTRY PROFILE:**

IES/02: ATTACHMENT N

Country Rating	S/T Business Cycle Indicator	S/T Political Indicator	Debt Recovery
1A	→	→	Debt recovery can be pursued either through legal channels or with the use of a good collection agent

Credit Guarantee Experience

We are open for cover in this market without any restrictions. Our exposure to this market is large and continues to grow. Whilst our experience has been good it is always prudent for exporters to adequately protect themselves against non-payment risk as no market is risk free and the risk of a bad debt is a reality.

Political Highlights

- Chief of state since May 2007 has been President Nicolas Sarkozy with Head of Government Prime Minister Francois Fillon. The president is elected by popular vote for a five year term. The next election is scheduled for 2012.
- As president of the EU from 1<sup>st</sup> July, France is ready to lead the 27-nation bloc with President Sarkozy calling for profound changes in building the European Union. He said the he was hoping to lead the EU into a new era of strength and unity, but Ireland's rejection of a key treaty meant to streamline EU decision making, has all but upset his ambitious agenda.
- On the eve of taking over the EU presidency, Sarkozy renewed his long-running criticism suggesting that the EU trade negotiator Peter Mandelson and the WTO head Pascal Lamy were trying to force an unfavourable trade deal on Europe. Sarkozy has long been fiercely critical of the EU trade negotiator accusing him of offering excessively generous concessions on farming. The deal between the EU and the WTO included an agreement to commit to cutting farm output by 20% and reducing farm exports by 10%. Sarkozy says that this would result in 100.000 jobs being lost.

Recent Economic Highlights

- France has a population of 64m with an expected growth rate of 0.6% in 2008.
- France's Government was elated and proclaimed its reforms were working after data showed better-than expected growth in 2007 and an economic pick up in the first quarter of 2008. The economy expanded 2.1% in 2007. Official expectations for growth in 2008 were between 1.7% and 2%. The European Commission predicted GDP growth of 1.6% this year, while the IMF forecast 1.4% this year and 1.2% next year. A more recent publication claims that economic expansion will be 1.6% this year – its slowest pace in five years due to rising prices dampening consumer spending. The economy is expected to grow 0.2% in the second quarter from 0.6% in the first quarter. Corporate investment is expected to grow 4.4% this year from 7.3% in 2007. As a result of the slowing growth, the economy may add about 200.000 jobs this year, down from 380.000 last year.
- Inflation is said to peak at a 17-year high of 3.6% in the coming months before slowing to 2.8% in December and will average 3.2% this year – the highest since 1991 and up from 1.5% in 2007.
- Official data showed that French industrial production fell sharply in March, particularly in the auto sector. Manufacturing output, excluding energy, agriculture and food processing fell 1.5% in March after a revised rise of 0.5% a month earlier. Production of consumer goods, the main driver of French expansion in the last two years fell by 0.8% and analysts say that the data fitted a picture of darkening gloom. Overall economic activity in France was likely to worsen and growth is expected to remain weak throughout the year at an average of 1.4%.
- France was due to make its first appearance in the EU's economic policy chair as the EU ministers gather to address two issues where Paris has previously sparked controversy, interest rate moves and measures to freeze oil prices. The European Central bank (ECB) raised interest rates to 4.25% following the record rise in inflation to 4% in June. While the interest rate is double the eurozone's limit of 2%, the bloc recorded a slump in economic growth as many exporters say the strong euro has harmed business.
- Renault SA, France's second-largest carmaker, faces increased costs of raw materials and energy next year. According to Renault CEO Carlos Ghosn, steel costs are expected to rise €1bn in 2009, the same increase between 2006 and 2008. Ghosn also said that consumers will gradually see more of the increased costs.
- France will build a second third-generation European Pressurised Water Reactor (EPR) nuclear plant which it claims is the country's best answer to escalating energy prices. France's first EPR – one of two under construction worldwide – is being built by utilities giant Electricite de France in Flamanville in northern France and will be complete in 2012. Sarkozy said that a new site for the second EPR will be chosen next year. It will be designed by French giant Areva as a safer and cleaner model of nuclear reactor. Construction will begin in 2011. Sarkozy defended his choice against environmentalists,

saying that nuclear power produced electricity 30% to 50% cheaper than gas or coal and replacing a coal plant with an EPR would cut some 11m tonnes of global warming emissions a year. Nuclear power accounts for 87% of France's electricity production.

- ❑ France's banking regulator fined Societe Generale €4m over 'grave deficiencies' in its internal controls that enabled a massive rogue trade scandal at the bank. The banking commission also issued a warning to the bank for failing to prevent the staggering losses of €4.9bn, which was blamed on a trader. As one of France's big three banks, it shocked the financial world in January by announcing the losses incurred, as it was forced to unwind more than €50bn of unauthorised deals.
- ❑ Government plans to slap a freeze on public spending for the next five years and make savings across the board. The economy ministry revised up its forecast for the public deficit this year to 2.5% of GDP after recent data showed that Government missed its target for 2007. Euro partners have called on France to rein in spending and balance its budget by 2010. Government is planning on cutting 35,000 public service jobs in the 2009 budget by not replacing half of the retiring civil servants. Sarkozy is hoping to get rid of the deficit by 2012. France's total public debt amounted to 64.2% of output for 2007 – exceeding the EU's limit of 60%. Public debt rose 1.4 points to 65.3% of output in the first quarter of 2008 compared to the last quarter of 2007. The debt totaled €1.25 trillion. The fiscal deficit was 2.7% of GDP in 2007 and is predicted to be 2.9% in 2009. Unless Paris takes measures to rein in spending, the shortfall could widen to 3% next year – the maximum allowed under EU rules.
- ❑ France will open its job market to citizens of the eight central and eastern European countries that joined the EU in 2004 during the second half of the year. A work permit for citizens from these countries will still be required, while workers from Romania and Bulgaria, which joined the EU on 1<sup>st</sup> January 2007, will still be subject to temporary limits. French unemployment fell by 1% to reach 8.3% at the end of 2007 – 1.3% above the EU limit and 2.7% above the OECD average.
- ❑ Nissan Motor Company and Renault SA will sell electric vehicles in Portugal in 2011 and the allied companies have partnered with Government to create a national network of charging stations. Nissan will sell electric cars globally in 2012. Peugeot Citroën has reported a rise in global vehicle sales during the first half of the year, but warns that the rest of 2008 looks less bright, particularly in Western Europe. Sales in France have been relatively buoyant owing to Government's financial incentive for low-emission cars.
- ❑ Unless France can update some of its old traditions and boost sales, it stands to lose its place to Spain as the world's top wine producer. Sophisticated marketing and innovations have helped global competitors such as Australia and South Africa elbow in on France's market share. According to current predictions, France will trail Spain in 2015 as its wine production drops to 1.16bn gallons from the annual average of 1.39bn during 2000-04. Shrinking domestic demand has been partly attributable. In 2015, the US will be the world's largest wine consumer, buying 871m gallons ahead of France's 686m gallons and Italy's 607m gallons. In 2007, France's wine and spirit industry exported \$15bn – a 7% increase from the previous year.
- ❑ Only two of the major remaining reinsurance companies in France are French as France has been losing ground in this market over the last decade. The recent success of Scor, with the acquisitions of Germany's Reviros and Switzerland's Converium, further underline the fact that the company is the only major player left in Paris. The French market is the fifth largest in terms of non-life cessions, with a focus on non-proportional covers and ranks fourth in terms of life reinsurance. Most reinsurers active in Paris are now local subsidiaries of foreign groups.

#### Trade Developments

- ❑ Main exports: machinery and transportation equipment, aircraft, plastics, chemicals, pharmaceutical products, iron and steel and beverages.
- ❑ Main imports: machinery and equipment, vehicles, crude oil, aircraft, plastics and chemicals.
- ❑ Major trade partners: Germany, Spain, Italy, Belgium, US, Netherlands, and UK.
- ❑ South African exports to France – its 16<sup>th</sup>-largest export destination – totaled R6.4bn in 2005, R8.2bn in 2006, R9.4bn in 2007 and R617m in January 2008. As South Africa's tenth-largest import source, imports from France totaled R15.4bn in 2005, R16.9bn in 2006, R18.9bn in 2007 and R1.5bn in January 2008.

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