

COUNTRY PROFILE:**THE FRENCH REPUBLIC****DATED:****APRIL 2009****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

<i>CGIC rating & comment</i>	1A; We have large exposures in this market. Although our experience is favourable it is not claims free.
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Recent Political Highlights

- ❑ Chief of state since May 2007 has been President Nicolas Sarkozy. The Council of Ministers is appointed by the president at the suggestion of the prime minister. The president is elected for a five-year term and the next election is due in 2012.

Recent Economic Highlights

- ❑ France has a population of 64m people with the population growth rate estimated at 0.5% in 2009.
- ❑ The successful modern economy is changing into an economy that relies more on market mechanisms. Government has partially or fully privatised many large companies, banks and insurers and has disposed of stakes in Air France, France Telecom, Renault and Thales. It still maintains a strong presence in the power, transport and defence industries.
- ❑ In January 2009, Prime Minister Francois Fillon unveiled a series of measures worth €26bn to revitalise the economy. He called for an urgent national mobilisation across 1,000 work sites to combat the crisis. The package included €11bn to help businesses and €4bn to improve infrastructure and public services. The Government expected the stimulus package to produce economic growth of 1.3% this year. The IMF predicted an economic contraction of 1.9%, but more recent forecasts puts the contraction at 2.5% for 2009 on the back of worsening economic indicators, which showed that the economy was shrinking at its fastest pace in over thirty years. The economy is expected to recover next year, albeit very slowly.
- ❑ France expects its deficit to rise to 5.6% of GDP this year and 5.2% next year, but the OECD estimates France's deficit to be 6.6% this year before rising sharply to 8.3% next year. The OECD advised that once recovery is on its way, a programme should be implemented to bring the deficit down to below 3% of GDP – under EU rules. The OECD also urged France to increase employment opportunities for older workers, improve productivity to boost business and to consider limiting the scope of family allowances.
- ❑ Government has decided to reduce the value-added tax that is applied on a range of items in restaurants from 19.6% to 5.5% from July 2009. The decision was presented as a contract for the future between Government and the hospitality industry. The tax-cut decision also includes a commitment by restaurant and hotel owners to work with Government to improve pay, training and working conditions for staff. Government pledged to back up its commitment with as much as €1bn in loan guarantees for as long as three years. France has one of the highest rates of VAT on restaurant meals in Europe. Government stands to lose as much as €3bn in tax revenue a year as a result of this decision.
- ❑ ATS Automation Toolong Systems Inc. said that its Photowatt France solar-power equipment subsidiary will stop production for three weeks in response to lower demand for solar modules and systems. The shutdown will affect 450 production employees at the plant in Bourgoin-Jallieu. ATS announced in March 2009 that it was cutting its 2,700-employee workforce by 80 jobs in Cambridge and 160 jobs in Photowatt.
- ❑ About 70,000 people joined France's unemployed total in March, slightly fewer than in February. About 90,000 people lost their jobs in January this year. Independent economists expect French unemployment to pass 10% at the beginning of 2010, up from its current rate of 8.2%. France now has nearly 2.4m people unemployed.
- ❑ Societe Generale's chairman Daniel Bouton has announced his resignation, saying that the personal attacks against him risked harming the bank. He has faced increased criticism after the rogue trader lost the bank €4.9bn at the beginning of last year. SocGen then needed a €1.7bn loan from Government in December 2008 due to the impact of the credit crisis. Last month saw SocGen's bosses giving up their annual bonuses following public anger.
- ❑ Prime Minister Fillon has decreed that executive bonuses and stock options at bailed-out companies were banned – until 2010. This comes after many executive pay-offs sparked a public uproar. The edict bans bonuses for executives at automakers that announce major lay-offs, while receiving public aid. Government pledged €6bn in loans to the country's beleaguered motor industry in February 2009, in return for guarantees to safeguard jobs and keep factories open.
- ❑ The board of Europe's second biggest car manufacturer, PSA Peugeot Citroen, recently fired CEO Christian Streiff without warning. Streiff was guilty of announcing the 10,000 job losses in addition to the 18,000 he had already cut soon after negotiating a €3bn loan with Government.

Latest Trade Developments

- ❑ Main export commodities: machinery and transportation equipment, aircraft, plastics, chemicals, pharmaceutical products, iron and steel and beverages.
- ❑ Main import commodities: machinery and equipment, vehicles, crude oil, aircrafts and plastics.
- ❑ Major trading partners: Germany, Spain, Italy, UK, Belgium, US, Netherlands and China.
- ❑ While visiting Spain, President Sarkozy urged the intensification of efforts to strengthen rail links between France and Spain. The high speed link between Madrid and Barcelonans is yet to reach France and while the link between Barcelona and Perpignan is expected to be finished by 2012, the connection north from there will not be finished until 2020.
- ❑ China revealed that it is willing to strengthen mutually beneficial cooperation with France. Chinese President Hu Jintao met with president Sarkozy ahead of the G20 summit on the global financial crisis, signifying the restoration of bilateral ties soured by the French leader's meeting with the Dalai Lama.
- ❑ SA's exports to the France totaled R9.1bn in 2007, R10.6bn in 2008 and R1.1bn in the year to February 2009.