

FRENCH REPUBLIC

MARCH 2007

CREDIT GUARANTEE COUNTRY PROFILE:

IES/02: ATTACHMENT N

<u>Country Rating</u>	<u>S/T Business Cycle Indicator</u>	<u>S/T Political Indicator</u>	<u>Debt Recovery</u>
1A	→	→	Debt recovery may be pursued successfully either by utilising the legal route or by way of a good collection agent.

Credit Guarantee Experience

We are open for cover in this market without any restrictions. Our exposure whilst significant remains favourable. Non-payment risks are not absent and exporters need to be aware of this when exporting on open account terms.

Recent Political Highlights

- ❑ France will hold presidential and legislative elections in 2007. Leading presidential candidates are expected to be Interior Ministry and UMP party leader Nicolas Sarkozy and socialist Segolene Royal.
- ❑ President Jacques Chirac has said he will only decide in 2007 whether to run again for presidency. After 11 years in the presidency, Mr Chirac is now the most unpopular French president since polling began in 1978. Mr Chirac was elected in 1995, with promises to cut taxes, to curb unemployment, and to mend the social fracture. Yet under his watch, France has slipped out of the world's top five economies. Its public debt has swollen from 55% to 66% of GDP and unemployment has never dropped below 8%.
- ❑ Sarkozy is expected to defeat left-of-centre Royal in the second runoff of the presidential election on 6th May 2007. A victory for the right would mean a programme of tax cuts and labour market reforms, while a victory for the left could see the renationalisation of key energy utilities and a repeal of various measures adopted since 2002 to relax the laws on the 35-hour working week. The Socialist Party's spending promises amount to \$63bn by 2012 - an increase of 32% from the current Government's plans.

Recent Economic Trends

- ❑ France has substantial agricultural resources, a large industrial base and a highly skilled work force. A dynamic services sector accounts for about 76% of GDP and is responsible for nearly all job creation in recent years.
- ❑ France is the EU's leading agricultural producer, accounting for about one-third of all agricultural land within the EU and the world's second-largest agricultural producer after the US. France remains Europe's strongest opponent of genetically modified organisms and often assumes an agricultural position at the EU Council to promote this policy.
- ❑ In 2005, economic growth lost momentum and GDP grew by only 1.4% in real terms, compared with 2.1% in 2004. Despite a strong expansion of external demand, real export growth remained subdued, while imports rose markedly by 6.6% in response to the robustness of final demand. Strong economic growth has become difficult to sustain due to the French industry losing competitiveness within the euro zone and ceding market share to Germany and Italy. Its high minimum wage and the impact of the 35-hour working week are also accountable. Private consumption is forecast to remain the main driving force of economic growth and the EIU expects real GDP to rise by 1.9% in 2006 and 2.3% in 2007. The Economist expects growth of 1.8% in 2007 while averaging 2% until 2011.
- ❑ Government's economic policy aims to promote investment and domestic growth in a stable fiscal and monetary environment. Creating jobs and reducing the high unemployment rate (9.1% in 2006) through recovery-supportive policy has been a top priority. Despite significant reform and privatisation over the past 15 years, the government continues to control a large share of economic activity. Government spending was 54% of GDP in 2005 and is among the highest in the G-7. Public debt is to be stabilised in 2007 at 2.5% of GDP.
- ❑ Mounting pressure for short- and long-term reforms include more labour-market flexibility, lower taxation, and an improved business climate, including further privatisation and liberalisation.
- ❑ The current account deficit is forecast to widen slightly to 1.7% of GDP in 2006 and 1.6% in 2007 from a deficit of 1.2% of GDP in 2005.
- ❑ France has been very successful in developing dynamic telecommunications, aerospace and weapons sectors. With virtually no domestic oil production, France has relied heavily on the development of nuclear power, which now accounts for about 80% of the country's electricity production.
- ❑ The Swiss Converium reinsurance company has rejected an unsolicited takeover offer of \$2.5bn from Scor, a French rival. Scor maintains that it has acquired a 32.9% stake in Converium and confirmed that the Swiss company had rejected a full offer. It claims that the combination of the two firms would be in the best interest of both companies, their shareholders and stakeholders.
- ❑ On 1st February 2007, France adopted a European trend by making it illegal to smoke in offices forcing staff into the streets to smoke. The new anti-smoking rules do not specify how to treat time spent on a cigarette break, but they make it impossible for France's 15m smokers to light up in or near office buildings, schools, hospitals and in public transport and from 2008 bars, hotels and restaurants will also be smoking-free areas.

Recent 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, Belgium, Italy, Spain, Netherlands, UK and US.
- ❑ France is the second-largest trading nation in Western Europe after Germany and the ninth largest trading partner of the US. The US is the top destination for French investments worldwide.
- ❑ France was South Africa's 14th largest export market in 2005, with exports worth R6.5bn. SA's exports to France totaled R8.2bn in 2006.

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