

Country Risk Coface : France

Note Country Risk Assessment (from A1 to E ; 8 levels) : **A2**

Note Business Climate (from A1 to E ; 8 levels) : **A1**

MAJOR MACRO ECONOMIC INDICATORS

	2017	2018	2019 (e)	2020 (f)
GDP growth (%)	2.3	1.7	1.3	1.2
Inflation (yearly average, %)	1.2	2.1	1.3	1.3
Budget balance (% GDP)	-2.8	-2.5	-3.3	-2.5
Current account balance (% GDP)	-0.8	-0.7	-0.8	-0.9
Public debt (% GDP)	98.4	98.4	99.1	99.2

(e) Estimate (f) Forecast

STRENGTHS

- High-quality infrastructure and public services
- Skilled and productive workforce, dynamic demographics
- Powerful tourism industry
- Competitive international groups (aerospace, energy, environment, pharmaceuticals, luxury, food, distribution)
- Global agricultural leader
- High level of savings

WEAKNESSES

- Too few exporting companies, loss of competitiveness and market share
- Weakening level of product sophistication; insufficient focus on innovation
- Low employment rate among young people and older workers
- Room for more efficiency in public expenditure
- High public debt
- Growing private debt

RISK ASSESSMENT

Activity to remain resilient thanks to domestic demand

The French economy will continue to show resilience in 2020, thanks to strong domestic demand. Household consumption is expected to accelerate owing to ongoing job creation and government tax measures to boost purchasing power. In addition, real wages will increase overall in a persistently tight labour market (three quarters of construction companies and half of all industrial firms were experiencing hiring difficulties at the end of 2019), despite an unemployment rate above 8%. Although financing conditions are still favourable, residential investment is expected to continue to slow. The construction sector will therefore once again be driven by the non-residential segment, and mainly warehouses, in line with the rise of e-commerce, as public works will decline after accelerating sharply in 2019 in the run-up to municipal elections (+13% over the first nine months). Although slowing from the peak in 2019, business investment should remain strong to meet the pick-up in domestic demand, as production capacity is already under pressure, with an 83% utilisation rate at the end of 2019. Corporate debt will therefore continue to increase (73% of GDP in March 2019). Despite an unfavourable external context (slowdown in the United States and China, weak growth in the EU), exports will remain resilient, thanks to the non-cyclical sectors (aerospace, pharmaceuticals, luxury, cosmetics, defence) and the cost competitiveness gains recorded over the past five years. However, as imports are expected to grow more, driven by robust domestic demand, foreign trade will have a negative impact on growth. As activity cools, insolvencies will rebound slightly in 2020 (+0.9% after -2.5% in 2019).

Public debt relief will wait

The public deficit will be reduced in 2020, following the conversion in 2019 of the tax credit for competitiveness and employment (CICE) into a reduction in permanent employer contributions, which entailed a one-off additional cost for public finances (0.9% of GDP). However, aside from this accounting effect, the deficit will remain stable. Following the “yellow vest” protest movement, the government reduced the income tax rate from 14% to 11% for the first bracket (0.2% of GDP) and re-indexed pensions below EUR 2,000 (0.1% of GDP) to inflation, in addition to the initially planned move to scrap the final third of the housing tax for 80% of households (0.15% of GDP). Despite firm activity and, more importantly, the decline in debt service (-0.2% of GDP), thanks to historically low interest rates, the government deficit will remain high in 2020, and France will be one of the few countries not to see a decline in its public debt, which is among the highest in the Eurozone.

The current account deficit is expected to remain stable in 2020. The goods deficit (2% of GDP), which is mainly due to net energy imports, will again only be partially offset by the services surplus (1% of GDP), which is driven by tourism revenues. Numbers of incoming foreign tourists, which fell by 1.1% in the first nine months of 2019 (including a 10% decrease from the United Kingdom) after two boom years (+9.5% in 2017 and +7.1% in 2018), will continue to be held back by the weak global economic situation. The deficit in the balance of goods and services will therefore widen. Since dividends from subsidiaries of French companies abroad support only a small income surplus (0.1% of GDP), the current account will remain in deficit and will be financed by debt or equity issues held by non-residents.

Limited room for manoeuvre to implement reforms after protests

In power since 2017, President Macron and his centre-liberal La République En Marche (LREM) Party enjoy a large majority in the National Assembly, with 304 seats out of 577. However, in the autumn of 2018, President Macron faced widespread popular protests spearheaded by the “yellow vest” movement. While the protests sputtered in the spring of 2019, partly because of government measures to increase household purchasing power, President Macron now looks to have limited room for manoeuvre to implement major reforms. For example, the pension reform initially planned for 2019, which involves scrapping special schemes and introducing alignment with the universal system, has been pushed back to the summer of 2020 in order to organise a nationwide consultation. Still, this sensitive reform generated major protests in December 2019. European elections in May 2019 showed that the main moderate opposition parties (Socialist Party on the left and Republicans on the right, which took 6% and 8% of the votes respectively), which have been rebuilding since 2017, continue to struggle. As a result, the main rival of the LREM (22%) is the far-right Rassemblement National (RN), which came out on top in the elections taking 23% of the votes. Six months on, polls indicated that the political landscape was still largely dominated by the LREM and the RN, with each taking 28% of the votes, compared with 10% for the other main parties.

MEANS OF PAYMENT AND COLLECTION METHODS

PAYMENT

Bank cards are now the most commonly-used form of payment in France, although cheques are still widely used. In value terms, cheques and transfers are still the most popular forms of payment.

If a cheque remains unpaid for more than 30 days from the date of first presentation, the beneficiary can immediately obtain an enforcement order (without need for further procedures or costs). This is based on a certificate of non-payment provided by the creditor’s bank, following a second unsuccessful attempt to present the cheque for payment and when the debtor has not provided proof of payment within 15 days of receipt of a formal notice to pay served by a bailiff (Article L.131-73 of the Monetary and Financial Code).

Bills of exchange, a much less frequently used payment method, are steadily becoming rarer in terms of number of operations – although they remain important in terms of total value. Bills of exchange are still an attractive solution for companies, as they can be discounted or transferred and therefore provide a valuable source of short-term financing. Moreover, they can be used by creditors to pursue legal proceedings in respect of “exchange law” (droit cambiaire) and are particularly suitable for payment by instalments.

Bank transfers for domestic or international payments can be made via the SWIFT electronic network used by the French banking system. SWIFT offers a reliable platform for fast payments, but requires mutual confidence between suppliers and their customers. France is also part of the SEPA network..

DEBT COLLECTION

Unless otherwise stated in the general sales conditions, or agreed between the parties, payment periods are set at thirty days from the date of receipt of goods or performance of services requested. Interest rates and conditions of application must be stipulated in the contract – otherwise the applicable interest rate is that applied by the European Central Bank in its most recent refinancing operations. Throughout the first half of the year in question, the rate applicable is that in force on January 1 and for the second half year in question, the rate applicable is that in force on July 1..

AMICABLE PHASE

During this phase, the creditor and the debtor try to reach an amicable solution via direct contact in order to avoid legal procedures. All documents signed between the parties (such as contracts and invoices) are analysed. Where possible, the debtor can be granted an extended time period to pay his debts, with the period's length negotiated as part of the amicable settlement..

LEGAL PROCEEDINGS

Order for payment (injonction de payer)

When a debt claim results from a contractual undertaking and is both liquid and undisputable, creditors can use the injunction-to-pay procedure (injonction de payer). This flexible system uses pre-printed forms and does not require the applicants to argue their case before a civil court (tribunal d'instance) or a competent commercial court (with jurisdiction over the district where the debtor's registered offices are located). By using this procedure, creditors can rapidly obtain a court order which is then served by a bailiff. The defendant then has a period of one month in which to dispute the case.

Fast-track proceedings

Référé-provision provides creditors with a rapid means of debt collection. If the debtor is neither present nor represented during the hearing, a default judgment can be issued. The court then renders a decision, typically within seven to fourteen days (though same-day decisions are possible). The jurisdiction is limited to debts which cannot be materially contested. If serious questions arise over the extent of the debt, the summary judge has no jurisdiction to render a favourable decision. Judgments can be immediately executed, even if the debtor issues an appeal.

If a claim proves to be litigious, the judge ruled competent to preside (juge des référés) over urgent matters evaluates whether the claim is well-founded. If appropriate, the judge can subsequently decide to declare himself incompetent to rule on the case. Based on his assessment of whether the case is valid, he can then invite the plaintiff to seek a ruling through formal court procedures.

Ordinary proceedings

Formal procedures of this kind enable the validity of a claim to be recognised by the court. This is a relatively lengthy process which can last a year or more, due to the emphasis placed on the adversarial nature of proceedings and the numerous phases involved. These phases include the submission of supporting documents, written submissions from the litigants, the examination of evidence, various recesses for deliberations and, finally, the hearing for oral pleadings (audience de plaidoirie).

Proceedings are issued through a Writ of Summons (Assignation) which is served on the debtor 15 days before the first procedural hearing. During this hearing, the court sets a time period for the exchange of pleadings and discovery. Decisions rendered do not necessarily have the possibility of immediate execution. In order to be executed, they must first be served on the debtor. They are also subject to appeal.

ENFORCEMENT OF A LEGAL DECISION

Unless the court decision is temporarily enforceable, enforcement can only commence if no appeal is lodged within one month and must occur within ten years of notification of the court's decision. Compulsory enforcement can be requested if the debtor does not comply with the judgment. Obligations to pay can be enforced through attachment (of bank accounts or assets) or through a third party which owes money to the debtor (garnishment).

France has adopted enforcement mechanisms for decisions rendered by other EU member countries. These mechanisms include the Payment Order under the European Enforcement Order. Decisions rendered by non-EU members can be recognised and enforced, provided that the issuing country is party to a bilateral or multilateral agreement with France. In the absence of an agreement, claimants are obliged to use the French exequatur procedure.

INSOLVENCY PROCEEDINGS

French insolvency law provides for six procedures to undertake restructuring or avoid insolvency. These are either assisted proceedings or proceedings controlled by the court.

ASSISTED PROCEEDINGS

These can be either mandated ad hoc or via conciliation proceedings. Both are informal, amicable proceedings, where creditors cannot be forced into a restructuring agreement and the company's management continues to run the business. These negotiations are governed by contractual law throughout their duration. The proceedings are conducted under the supervision of a court-appointed practitioner (a mandataire ad hoc, or a conciliator) in order to help the debtor reach an agreement with its creditors. Both of these types of proceedings are confidential but conciliation can eventually be made public if the debtor has the approval of the commercial court. Nevertheless, the terms and conditions of agreements remain confidential and can only be disclosed to signatory parties.

COURT-CONTROLLED PROCEEDINGS

The four types of court-controlled proceedings are judicial reorganisation, judicial liquidation, sauvegarde, and Accelerated Financial Sauvegarde proceedings (AFS).

In all four proceedings, any pre-filed claims are automatically stayed. Creditors must file proof of their claims within two months of publication of the opening judgment, or four months for creditors located outside France. Debts which arise after proceedings commence are given priority over debts incurred beforehand. Certain types of transactions can be set aside by the court, if they were entered into by the debtor during a hardening period (before a judgment opening a judicial reorganisation or a judicial liquidation).

With Court-Controlled proceedings there can be variations in the extent of involvement of the court-appointed conciliator. The sauvegarde and AFS procedures are debtor-in-possession proceedings, but with judicial reorganisation, the court can decide whether to set aside the company's managers. The role of management is particularly reduced in cases of judicial liquidation, as the debtor company usually ceases to conduct business. Nevertheless, the court can decide for a business to continue operating under a court-appointed liquidator.

NUMBER OF CORPORATE FAILURES



Source: Banque de France, Coface.

Source : COFACE, February 2020

<https://www.coface.com/Economic-Studies-and-Country-Risks/France>