

Country Rik Coface 2018 : 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

	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	1.2	2.3	1.5	1.4
Inflation (yearly average, %)	0.3	1.2	2.1	1.7
Budget balance (% GDP)	-3.5	-2.7	-2.6	-3.3
Current account balance (% GDP)	-0.8	-0.6	-0.6	-0.7
Public debt (% GDP)	98.2	98.5	98.7	98.9

(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, agri-food, retail)
- 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 spending; high public debt
- Private debt on an upward trend

RISK ASSESSMENT

Growth set to slow further in 2019

Growth will remain moderate in 2019, after easing significantly in 2018. Household consumption is expected to rebound thanks to a slight uptick in employment and purchasing power, driven by measures as the scrapping of employee contributions – effective as of October 2018 –, the reduction in housing tax, the increase in the minimum wage subsidy (work bonus), the tax exemption for overtime pay and the reduction in the general social contribution (CSG) for one third of pensioners, whose pensions are between €1,200 and 2,000 per month. Real wages are expected to rise, due, on the one hand, to tight labour market conditions, with many companies reporting recruitment difficulties, and, on the other hand, to lower inflation, in line with the stabilisation of oil prices in 2019. The unemployment rate will continue its gradual decline but will remain high, at around 9%. Despite persistently favourable credit conditions, household investment will slow due to weaker confidence levels, which will affect construction (building permits were down 7% over the first three quarters of 2018). Conversely, investment by businesses, which are reporting record high profit margins (39.1% at the end of 2017), should remain brisk due to supply constraints, with the production capacity utilisation rate at 85% at the end of 2018. However, since these investments are mainly made using credit, corporate debt will remain on an upward trend. Business insolvencies will rebound in 2019, increasing by 1% after declining by 3.4% in 2018, in connection with more muted growth.

Despite the slowdown in France's main trading partners (rest of the European Union, United States, China), exports will be resilient, thanks to cost competitiveness gains recorded in recent years. However, foreign trade is no longer expected to contribute positively to growth in 2019 because of the rebound in imports. Hotel stays increased by 3% in the first three quarters of 2018, exclusively due to the return of foreign tourists (+8%), in a

trend that is expected to continue in 2019, despite less favourable economic conditions in all advanced economies.

Public and external accounts stuck in deficit

Despite tax revenues driven by resilient activity, the government deficit is expected to widen in 2019, due to tax measures to increase purchasing power (estimated cost of €10 billion, or 0.4% of GDP) and to the conversion of the competitiveness and employment tax credit (CICE) into a permanent reduction in employer contributions, which will entail a double cost for public finances in the transition year (estimated deficit excluding exceptional measures: 2.4% of GDP). As a result, the government deficit is expected to temporarily return to over 3% in 2019. As a consequence, although its public debt is among the highest in the eurozone, France will be one of the few countries where the debt does not decline.

The current account deficit will remain stable in 2019. While the goods balance is structurally in deficit as the country is a net energy importer, the services balance is in surplus thanks to tourism revenues. Since 2015, the balance of goods and services excluding energy has become negative, as the deficit in manufactured goods continues to widen, mainly due to the relocation of automobile production and investment in imported machinery. At the same time, this deficit is only partially offset by the excess income generated by dividends from French subsidiaries abroad. The resulting small current account deficit is mainly financed by debt or equity issues held by non-residents.

President Macron's popularity rating falls

Despite having a strong remit after his clear victories in the 2017 presidential and legislative elections, President Emmanuel Macron is facing growing social unrest. While during his first year in office, protests were essentially led by trade unions opposed to reforms aimed at making the labour market more flexible and changing the status of the SNCF (state-owned rail transport company), this transformed into a popular protest with the arrival of the gilets jaunes (yellow vests, name for the hi-vis safety jackets that drivers must keep in their cars), protesting against fuel taxes. President Macron's popularity rating halved between January and November 2018, falling to 25%. Major reforms to the pension system, including the abolition of special schemes, which is due to be unveiled in 2019, could be the source of further protests. However, President Macron has a comfortable majority in the National Assembly through his party, La République en Marche, which holds 308 seats out of 577. In addition, as the main moderate opposition parties (Socialist Party on the left and Republicans on the right) are rebuilding, the main alternatives are currently on the far right (Rassemblement National) and the far left (France Insoumise). Meanwhile, the increased European integration called for by President Macron will depend on the outcome of European elections in May, amid rising nationalism in many European countries.

SECTOR RISK

AGRI-FOOD	MEDIUM
AUTOMOTIVE	MEDIUM
CHEMICAL	MEDIUM
CONSTRUCTION	MEDIUM
ENERGY	MEDIUM
ICT*	LOW
METALS	HIGH
PAPER	HIGH
PHARMACEUTICAL	LOW
RETAIL	LOW
TEXTILE-CLOTHING	HIGH
TRANSPORT	MEDIUM
WOOD	MEDIUM

* Information and Communication Technology

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 fifteen 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 in terms of total value they remain important. 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 the 1st January and for the second half year in question, the rate applicable is that in force on the 1st July.

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 fifteen 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

COURT-ASSISTED PROCEEDINGS

These can be either mandated Ad Hoc or 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.

INSOLVENCY TREND



Source : COFACE, February 2019

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