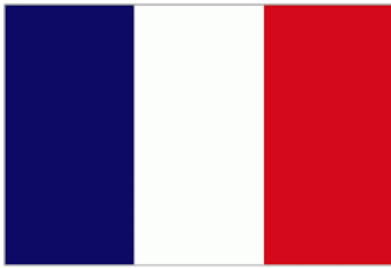


France



▲ Description

France was the home of the liberal ideologies that revolutionized a great part of Europe, the so called French Revolution, abolishing monarchies and implementing republics and liberal democracies. Today the country has a great deal of influence worldwide, being a member of the UN, NATO, the G-7, G-20 and the EU. Across the past few decades it's cooperation with Germany has been fundamental in implementing measures to economically integrate Europe, like the introduction of a common currency, the Euro.

▲ Economic Overview

After a solid growth in 2017, France had a more moderate growth last year, converging to 1,5% on the back of stagnating private consumption (even with the expansionist fiscal measures in 2018), an easing of corporate investment decreasing it's contribution to GDP growth, and increasing the one from net exports to 0,6 percentage points, with import growth decreasing significantly. However, in the two quarters of 2019, trade balance worsened which offset the rebound in private consumption.

The labor market continues the declining trend, although remaining below the European average of 7%, with low-skill, young and old workers being the most evident challenges, with young (15-24 years old) low skill workers having an unemployment rate of 37.8%. With decreasing unemployment and steady inflation of around 1%, wage growth is expected to continue the upward trend (last year nominal wage growth was 2% in 2018).

The external position slightly improved in 2018, with a recovery of the current account deficit to 0,6%, with improvements in the trade of services and growth in the net income from abroad. However, France remains below the 0,5% surplus that fundamentals suggest, since the net lending from households is not sufficient to finance net borrowing from nonfinancial corporations and the government (Pôr gráfico, posso??).

The French economy is showing some resilience to the current global challenges, embodied by the slowdown in global growth and recent international tensions, with rising protectionism from economies like the US and China. Manufacturing and services PMI remain above the value that anticipates a contraction in the economy (contrary to Germany), with volume of new businesses continuing to rise mainly in the services sector and new orders in the manufacturing sector, increasing with new export business that supported export growth in manufacturers and servicer providers.

| Indicators | |
|---------------------------|--------|
| USD GDP Bil (2018) | 2353 |
| USD GDP/Capita (Sep 2019) | 41464 |
| Unemployment (Sep 2019) | 8,5% |
| Inflation (Sep 2019) | 0,9% |
| Ind Prod YoY % (Aug 2019) | 1,4% |
| Exports % GDP (2017) | 30,90% |
| Imports % GDP (2017) | 32,0% |

| Indicator | Actual | Survey |
|---------------------------------|--------|--------|
| Manufacturing PMI (Sep 2019) | 50,1 | 50,3 |
| Services PMI (Sep 2019) | 51,1 | 51,6 |
| Unemployment (Sep 2019) | 8,5% | - |
| EUR-GBP (Oct 2019) | 0,8598 | - |
| EUR-USD (Oct 2019) | 1,117 | - |
| EUR-JPY (Oct 2019) | 121,23 | - |
| Industrial Prod YoY (Aug 2019) | -1,4% | - |
| Capacity Utilization (Sep 2019) | 78,6% | - |

▲ Economic Analysis

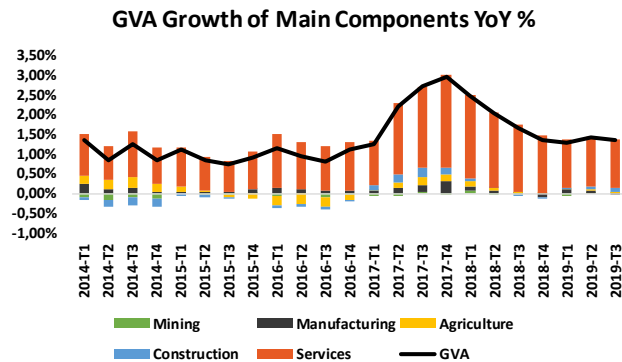
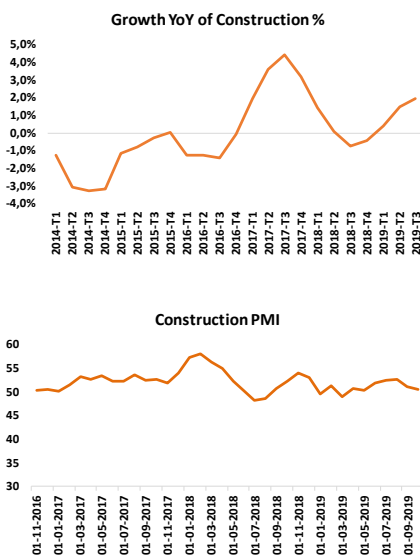
Fiscal Policy and Debt Sustainability

Public debt to GDP has increased 80% in the last 40 years to historically high values of 98,4% in 2018, with governments running considerable budget deficits over the years, not taking advantage of recessions to reduce the necessary expenses during an expansion. Even in the low interest rate environment we are now living in, public debt continues to increase, and is expected to continue to do so, as a result of the yellow vest protests last year, which put additional pressure on an already tight budget.

The government is expecting a deficit of 1,2% of GDP in the budget balance in 2022, with revenues being affected by tax relief on corporations and households and reductions in social contributions. Spending cuts are also expected with through legislation limiting spending growth of local Governments and the elimination of the CICE tax credit (Credit that aims to foster private investments, through research and innovation and the exploration of new markets). The IMF expects the deficit to reach 2,6% of GDP in 2022, deviating from the projections of the Government.

1. Main Components of GDP

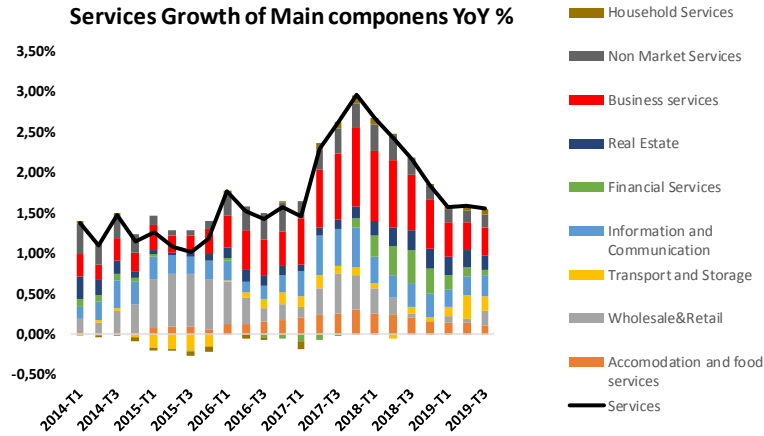
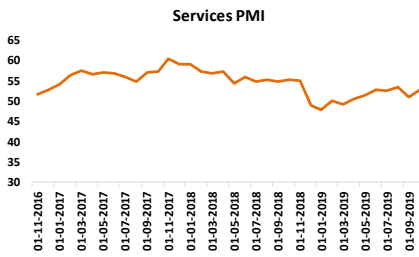
France is no different from most developed countries, in a sense that it's heavily reliant on the service sector, displaying a contribution to total growth around 1 pp between 2014 and the beginning of 2017. In that year, services led the jump in GDP (to a 3% increase), becoming the main driver of growth from that year on. Construction had negative and neutral contributions between 2014 and 2016, however in 2017 we see a slight pick in the construction sector. For now, we don't see a major slowdown in the French economy, probably due to its lower dependence on international commerce, and a lesser dependence from the manufacturing sector (which is often associated to the external trade as well), when compared to countries like Germany.



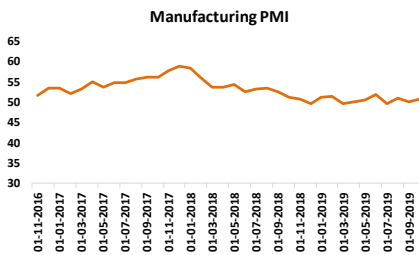
Analyzing the growth of the service sector in the last 5 years, we see that the movements are extremely correlated to the ones we saw in the previous graph, with a spike in growth in 2017, led by a spike in Business and Wholesale&Retail services and a pickup in financial services. However, the growth has slowed down since the beginning of 2018, led by a slowdown in Wholesale&Retail as well as in Business services. However, services are expected to keep growing in the future, with the PMI for services remaining above 50, on the back of new business in the sector and new jobs being created.

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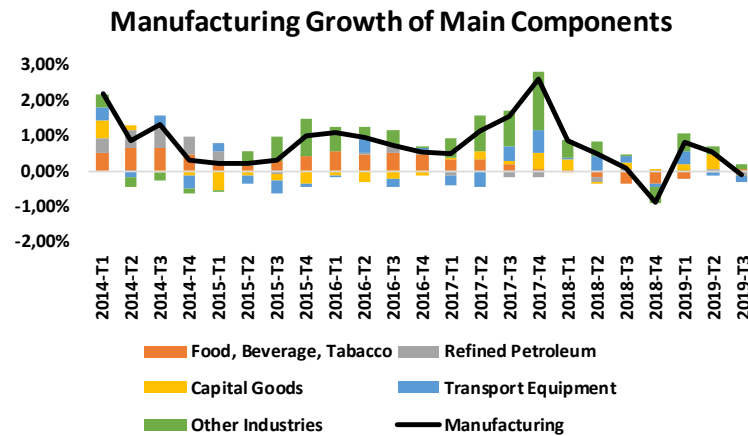
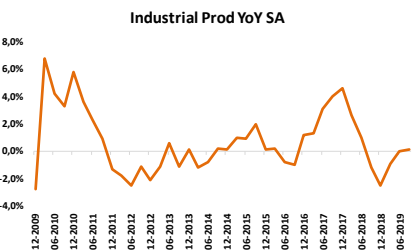
1.1 Services



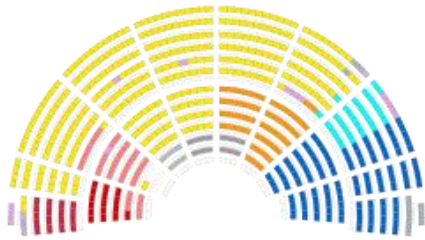
In manufacturing growth, food, beverage and tobacco had a significant contribution to manufacturing growth until the beginning of 2017. From then on the sector begins to weaken, reaching negative contribution to the sector growth in 2018 and 2019. However, manufacturing in other industries occupies the position with the biggest influence on growth, especially since 2015. Despite the slowdown in growth, France remains one of the few European countries with values above 50 for the manufacturing PMI (For October, at least), and so it's expected that industrial production continues to grow in October, after the 0,1% increase in September.



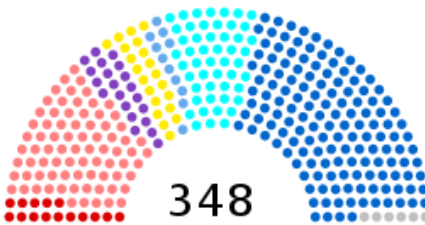
1.2 Manufacturing



National Assembly

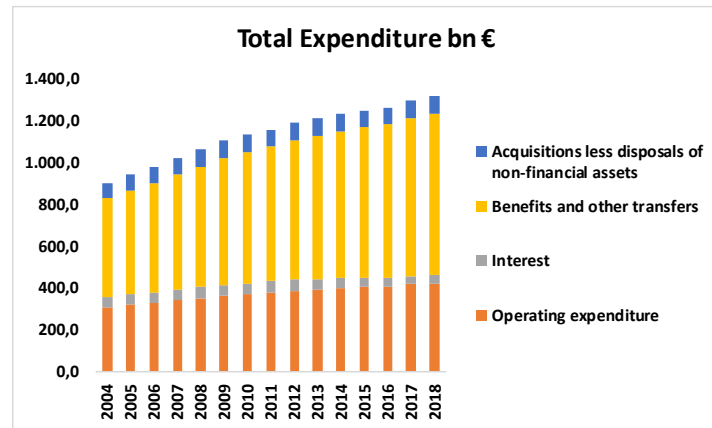


Senate

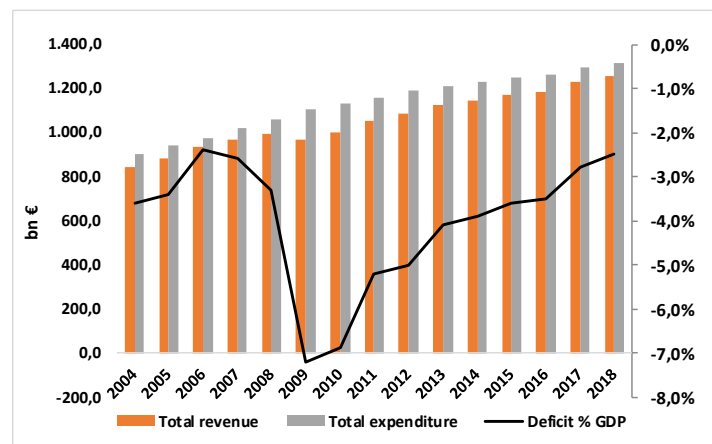


2. Government Expenditures and Revenues

In terms of Government Expenditures, it's clear that operating and Benefits related expenditures represent the biggest portion. Operating Expenditures, which are related to compensation of Government employees and maintenance expenditures, have had moderate growth since 2004, when compared to the segment related to benefits and transfers, that increased around €300 bn since the start of the period. These are related to social benefits provided to the citizens and subsidies, such as employment benefits and family support, as well as subsidies given to companies. The pension system is expected to reduce expenditures to the government



The budget balance has been increasing since the 2008 crisis, currently at 2,2%. With the reforms to the current pension system proposed by the Macron's administration, which intends to turn the currently 42 types of different systems into one. Although the government says it will spend the same amount, unions argue that it's not the case, since for the amount to be the same people will have to work longer. Macron has made a fundamental pillar of his campaign to contain the benefits system, which is currently not sustainable in the long term.



| Situation | Monthly Family Allowances € |
|--------------------|-----------------------------|
| Max For 2 Children | 131.81 |
| Max for 3 Children | 300.7 |
| Max for 4 Children | 469.59 |

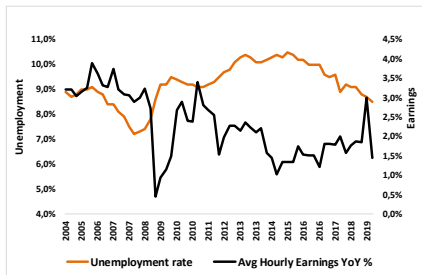
2.1 Government Subsidies

Income Support

In order to receive the allowance the main requirements are:

- To be at least 25 years old, or be pregnant, or have one or more dependant children, or prove a minimum duration of work activity.
- Live in France.
- Provide proof of the household resources for the last 3 months.

| Income Support (RSA) | | | |
|----------------------|---------------------|---------------------|---------------------|
| Nr of Children | Family Situation | | |
| | Single Person | Single Parent | Couples |
| | Monthly Allowance € | Monthly Allowance € | Monthly Allowance € |
| 0 | 550.93 | 707.46 | 826.40 |
| 1 | 826.40 | 943.28 | 991.68 |
| 2 | 991.68 | 1179.10 | 1156.98 |
| Per additional child | 220.2 | 235.82 | 220.37 |



To receive the ARE one must be:

- Actively seeking for work,
- Accept reasonable offers
- Be physically capable of carrying out a job.

The duration of the payment can't be less than 4 months nor higher than 2 years, for people younger than 53 years old and 3 years for people with more than 55.

Unemployment Benefits

| Back To Work Allowance (ARE) (Daily €) | |
|--|---------|
| Fixed Part | 11.92 |
| Variable Part | 0,4*SJR |

*The SJR (Daily Reference Wage, is calculated has the gross average income received in the 12 months prior to the termination of the contract.

The Benefit is intended to provide support for the unemployed while they are in the process of looking for a job.

2.2 Government Revenues

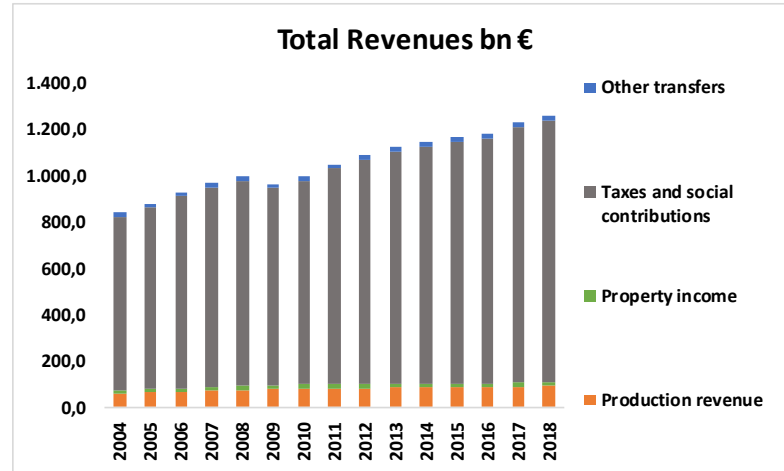
The main source of income for the French General Government comes from taxes and social contributions, which include taxes on consumption, such as VAT, on corporate and personal income.

| Taxes on Corporate Income % | 0 to 500 000 € | More than 500 000 € |
|-----------------------------|----------------|---------------------|
| FY Opened in 2019 | 28,0% | 31,0% |
| FY Opened in 2020 | 28,0% | 28,0% |
| FY Opened in 2021 | 26,5% | 26,5% |
| FY Opened in 2022 | 25,0% | 25,0% |

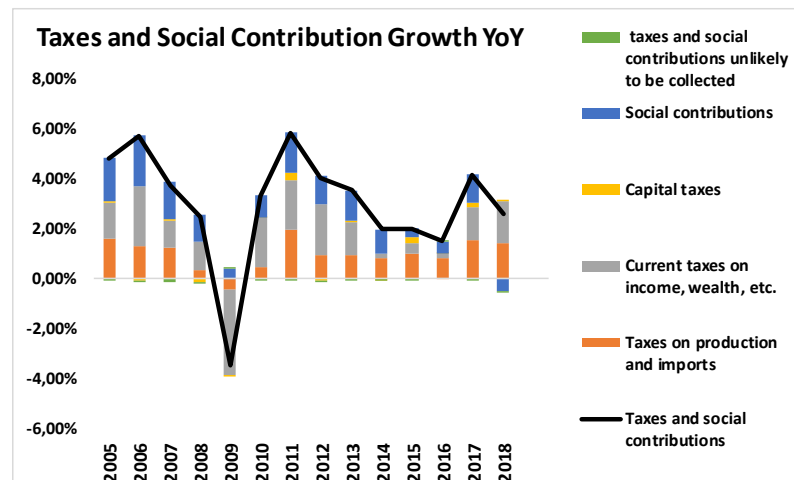
| Income € | Taxes on Household Income |
|-----------------|---------------------------|
| 0-9964 | 0% |
| 9964-27 519 | 14% |
| 27 520 | 30% |
| 73 780- 156 244 | 41% |
| 156 245- + | 45% |

* The taxable income is dependant on the number of households that are reported.

| Taxes on Consumption | |
|-----------------------------|-----|
| Standard Rate | 20% |
| Reduced rate for some goods | 10% |

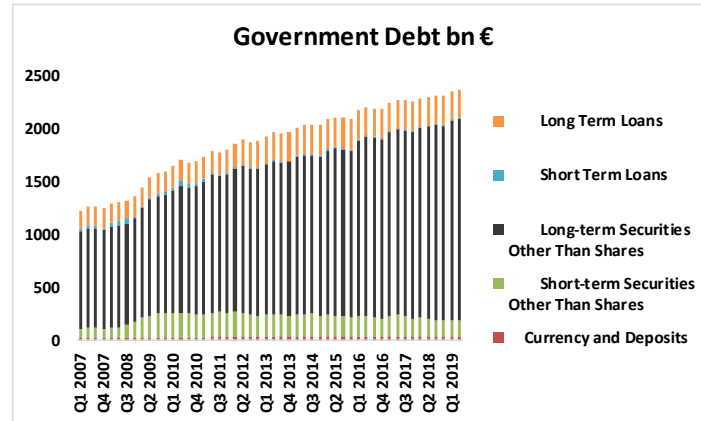


Analyzing the evolution of such taxes, taxes on production (VAT is included in this part) and imports; as well as taxes on income (corporate and personal), wealth, etc, are the main drivers for growth and have been relatively resilient for the period under analysis. Social Contributions have been on a declining trend of contribution to the growth of this metric, even reaching a negative contribution in 2018,



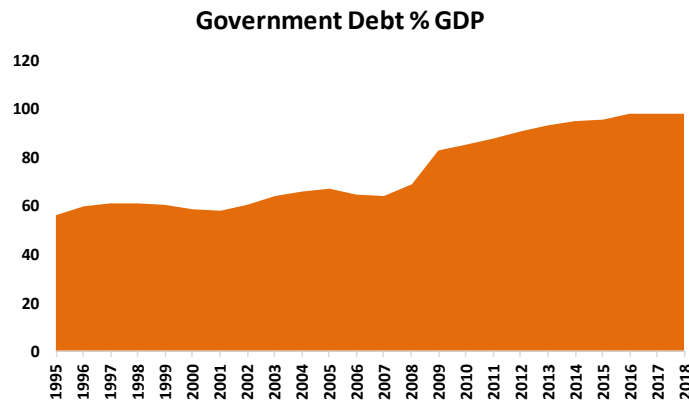
2.3 Government Debt

Analyzing Government debt, the main components are long term, which have been increasing since 2007, in the form of bonds and loans. The short-term component on the other hand has been on a downward trend since 2008.



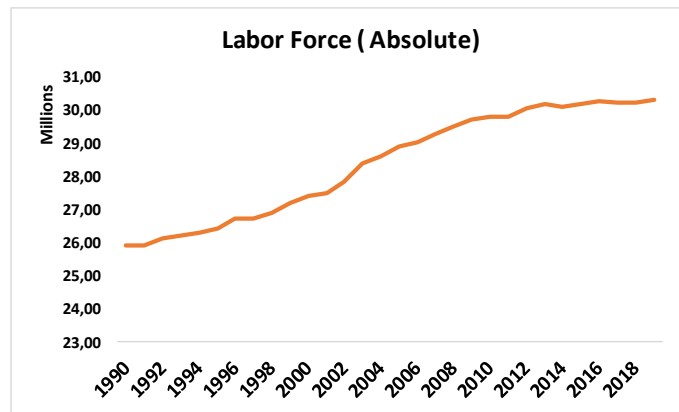
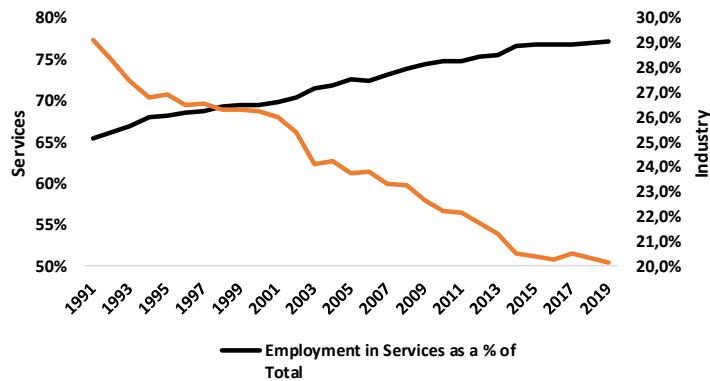
Source: Bloomberg/INSEE

If we analyze debt as a percentage of GDP, it's clear the jump in the period after 2008, which coincides with the same increase in Long term Bonds, observable in the previous graph. At this rate the debt level is expected to remain around these levels (98%) as long as the budget balance remains negative, even with the accommodative interest rate environment we are currently living in.



Source: IMF

3. Labour Market



4. Tourism



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▲ Government**• Executive**

In France the executive power is divided between the chief of state, that is the President (Emmanuel Macron) and the head of Government or the Prime Minister (Edouard Philippe). Prime Minister is appointed by the President. Next Presidential elections will take place in April 2022.



Emmanuel Macron: Macron is the 25th and current President of France. Macron graduated in philosophy at Nanterre University, public affairs at Sciences Po and graduated from École Nationale d'Administration in 2004, an elite University, one of the most prestige universities in the country. After his graduation, Macron passed by the Finance Ministry as an inspector, in 2007 joined the bipartisan Attali Commission on economic growth, in 2008 he joined Rotchild & Co, as an investment banker, being promoted to managing director in 2010. In 2012, he became deputy secretary-general at the Elysée and in 2014 was appointed Minister of Economy, Industry and Digital Affairs. In 2016, he announced his candidacy for the presidential election and in 2017 won, against Le Pen, in a decisive manner making him the youngest French President in history.

• Legislative

The legislative branch consists of a bicameral parliament:

○ National Assembly

It's the lower house of the French Parliament, it has 577 seats, most of them elected from metropolitan France to serve 5-year terms.

○ The Senate

It's the upper house of the French Parliament, it has 328 seats to serve 6-year terms, with one half of the membership renewed every 3 years.

• Judicial

The French judicial branch operates under a civil law system. The courts are divided and among 2 major groups, Judicial Courts, that deal with criminal and civil laws and Administrative Courts, dealing with public law. The highest Judicial court is the Supreme Court of Appeal (Cour de Cassation), and there are a total of 36 courts of appeal. The highest Administrative court is the Council of State, with 8 courts of appeal.

Political Parties

LREM: La République En Marche! is a political party that was founded in April 6 2016 by the current President, and it's main pillars are economic liberalism, defending less taxes, deregulation of the manufacturing sector, promoting entrepreneurship.

Les Républicains: The conservative party change it's name to the current one in 2015, back then led by Nickolas Sarkozy, in order to distance the party from the old UMP, which had been in difficulties since the 2012 defeat. It's one of the main parties in France. Its leader is now Laurent Wauquiez.

Front National: This a classic far right extreme party, founded by Jean Marie Le Penn, and now led by his daughter

Parti Socialiste: PS is the main socialist party in France, led by Jean-Christophe Cambadélis. It was founded in 1969, and it was often compared to England’s Labor party in 1981, when François Mitterrand was elected President, believing in a strong welfare state and a policy for nationalizations. Since then the party has shifted its policies towards a policy of privatizations in the 1990’s, however it has never been able to fully modernize itself has most of the socialist parties in France.

PCF: It’s the main Communist party in France, currently led by Fabien Roussel. The party was founded in 1920 and it exerts a considerable influence in French politics, although having been losing support in recent decades.

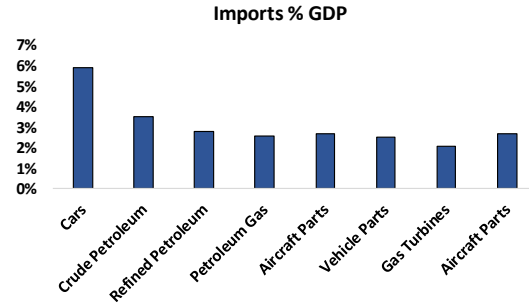
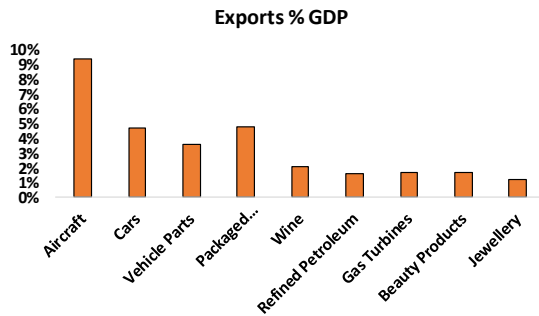
▲ Elections

France has 2 different elections, one for the presidency and another for the deputies that will seat in the National Assembly. For the National Assembly, voters from France’s 577 constituencies choose their representative to seat on the House, it’s a two-round process (if necessary) in which an absolute majority is necessary. The Presidential election is another two-round process in which an absolute majority is needed, from which to be elected the candidate needs to secure 50% of the votes in the first round.

▲ Population

| Indicator | Column1 |
|--|------------|
| Population (Jul 2018) | 67,364,367 |
| Pop Growth rate (2018) | 0,37% |
| Urban Pop % (2019) | 80.7% |
| Median age (Years) (2018) | 41,5 |
| Health Exp % GDP (2015) | 11,1% |
| Education Exp %GDP (2015) | 5,5% |
| School life expectancy (Years) (2016) | 15 |
| Unemployment (Sep 2019) | 8,5% |
| Infant Mortality rate(/live births) (2018) | 3.4/1000 |
| Mother Mean age at 1st birth (2010) | 28.1 |

External trade



Energy

| Electricity | |
|-----------------------------------|--------|
| Production (bn kWh) (2016) | 529.1 |
| Consumption (bn kWh) (2016) | 450.8 |
| Exports (bn kWh) (2016) | 61.41 |
| Imports (bn kWh) (2016) | 19.9 |
| Installed cap (bn kWh) (2016) | 0.1308 |
| From Fossil Fuels % Cap (2016) | 17% |
| From Nuclear plants % cap (2017) | 50% |
| From Hydroelectric % cap (2017) | 15% |
| From Other Renewables %cap (2017) | 19% |

| Crude Oil (CO)/ Refined Petroleum(RP) | |
|---------------------------------------|--------|
| Production (CO) (mn bbl/day) (2018) | 0.016 |
| Exports (CO) (mn bbl/day) (2015) | 0 |
| Imports (CO) (mn bbl/day) (2017) | 1.147 |
| Reserves (CO) (mn bbl) (2018) | 65.97 |
| Production (RP) (mn bbl/day) (2017) | 1.311 |
| Consumption (RP) (mn bbl/day) (2017) | 1.705 |
| Exports (RP) (mn bbl/day) (2017) | 0.440 |
| Imports (RP) (mn bbl/day) (2017) | 0.8868 |

| Natural Gas Billion cu m | Value |
|--------------------------|---------|
| Production (2017) | 0.01699 |
| Consumption (2017) | 41.88 |
| Exports (2017) | 6.031 |
| Imports (2017) | 48.59 |
| Proved Reserves (2018) | 8.41 |

Source

https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-france_en.pdf

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