

# Analyse. Debate. Act.

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Analyse. Debate. Act. aims to deliver state-of-the-art macroeconomic research to improve the performance of companies.

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# Overview

- This is the first edition of ADA's chartbook on France. GDP growth in the past few quarters has been rising, reaching 2.2% YoY in the past quarter, and we expect the growth rate to be maintained around 1.5% in 2018E. According to our analysis, this growth rate may be backed by increasing confidence indicators, which are likely to fuel domestic demand.
- October 2017 saw the CPI increase by 1.1% YoY. We do not expect a significant variation in inflation in the coming months.
- Surveys on competitiveness are showing improvements, and we believe that the proposed reforms under President Emmanuel Macron are likely to help the sector further.
- The official budget target is to bring down the expenditure growth from 1.8% in 2017 to 1.5% in 2018E. Furthermore, the budget deficit is targeted to be kept at 2.6% for 2018E.
- However, our models predict that the French economy is likely to fare even better than its deficit target, as our estimate for the budget deficit stands at 2.36% for the coming year. We also expect revenue growth to do well, at 2.8% in 2018E.
- Our estimates for debt-servicing costs for housing in France range from about 30% to 35%, similar (although slightly towards the higher end) to the debt-servicing costs of other European countries we have analysed.

# Policy changes put forward by President Emmanuel Macron

## LABOUR MARKET

- Limitation of compensation in the event of litigation. In exchange for these new ceilings, the government has increased the minimum amounts of statutory severance pay. Reduction of employee appeal periods.
- Possibility of bargaining without a union if fewer than 50 employees: where there is no union in a company (which is the case in 96% of SMEs), enterprise agreements are now negotiated by union-mandated employees. In small- and medium-sized enterprises, the reform provides for an employee to enter into a company agreement. In companies with between 11 and 50 employees, an agreement can be negotiated with a non-union delegate. In companies with fewer than 20 employees, where there is no union-mandated employee, a referendum may be organised for employees on the initiative of the employer.
- Economic layoffs: widening the scope of economic redundancies
- The economic difficulties of the licensing groups in France will be appreciated at the level of national territory, instead of the world.
- Introduction of collectively agreed termination
- Right to secure home working – now in written into the law. For the better conciliation of professional and private life.

# Policy changes put forward by President Emmanuel Macron

## TAXATION: Households

- The reform of the wealth tax and the abolition of the housing tax are the major proposed changes, which may be implemented as early as 2018E.
- Emmanuel Macron has decided to re-focus the wealth tax on real estate assets, so that securities are not taxed. The creation of the "real estate wealth tax" (IFI) is intended to stimulate activity by encouraging the most taxable taxpayers to invest in the real economy.
- The wealth tax reform will be supplemented by the implementation of a single flat rate levy (PFU) of 30%, also called a flat tax, set up on household income, with the exception of Livret A, PEA (savings in shares) and some life insurance policies. This reform aims to simplify the taxation of capital.
- An increase in the taxation of luxury goods: from 10% to 11% on the sale of precious metals, and an additional tax capped at EUR 8,000 for sports cars that have 36 brake horsepower.

## TAXATION: Businesses

- One of the main measures is to lower the corporate tax rate (IS) from 33.3% to 25% by 2022E.
- Withdrawal of the 3% tax on dividends: created in 2012, this tax has been criticised **constantly** by the business community.

# Policy changes put forward by President Emmanuel Macron

## POSTED WORKERS

The government has drafted eight points to amend the draft revision of the status of posted workers currently under discussion by the European Council. The main points being defended by France are:

- Limit detachments to 12 months over a period of two years (the commission proposes 24 months vs. 36 currently);
- Ensure that allowances for transportation, accommodation and meals are integrated in posted workers' salaries; and
- Create a European platform managed by the Commission to share information between labour inspectors.

On 23 August 2017, Emmanuel Macron met with the leaders of Austria, the Czech Republic and Slovakia to discuss the issue of detached work (i.e., related to posted workers – people who work abroad). For the President of the Republic, the current status is seen as "a betrayal of the European spirit". At the end of the meeting, Slovakia and the Republic declared themselves in favour of France's position. The Eastern European countries (mainly Poland, Romania and Bulgaria), the main providers of posted workers, are against these projects, which they believe restrict the free movement of workers.

# Draft budget 2018E

Economic forecasts for France, annual % change

	2016	2017E	2018E
Real GDP	1.1	1.7	1.7
Total CPI	0.2	1	1.1
Core inflation	0.6	0.4	0.8
Wages & salaries	2.4	3.3	3.1

Public finances, in % of GDP

	2016	2017E	2018E
General govt balance	-3.4	-2.9	-2.6
Tax and social contributions	44.4	44.7	44.3
Public expenditure ratio, excluding tax credits	55	54.6	53.9
Debt	96.3	96.8	96.8

Source: Agence France Trésor, ADA Economics



# ADA's deficit projections

- France's budget is based on an estimated growth of 1.7% next year — the same as this year.
- Macron's government hopes to reduce its public deficit to 2.6% of gross domestic product next year, so it is under the 3% limit favoured by the European Union.
- Substantial measures have been decided this summer to lower expenditure growth
- It is expected that, if the public deficit consequently falls below the 3% threshold, France would, accordingly, leave the excessive deficit procedure that was opened in 2009.

	Source	2017E	2018E
<b>Expenditure growth</b>	Budget target	1.8	1.5
<b>Revenue growth</b>	ADA	2.3	2.8
<b>Deficit (% of GDP)</b>	Budget target	2.9	2.6
	ADA	3.11	2.36

Source: Agence France Trésor, ADA Economics

# French State funding table

Borrowing requirements, in EUR billions

	2017E	2018E
Redemption of medium- and long-term debt	115.2	120.1
Redemption of other debts	-	-
Deficit to be financed	76.5	82.9
Other cash requirements	0	0.3
<b>TOTAL</b>	<b>191.7</b>	<b>203.3</b>

Source: Agence France Trésor, ADA Economics

# French State funding table

Financing resources, in EUR billions

	2017E	2018E
Issuance of medium- and long-term debt, net of buybacks	185	195
Funds allocated to the “Caisse de la Dette Publique” to reduce debt	-	1
Net change in outstanding short-term securities	3.8	-
Change in correspondents’ deposits	-4.6	1
Change in cash position in the Treasury’s account	1	2.8
Other cash requirements	6.5	3.5
<b>TOTAL</b>	<b>191.7</b>	<b>203.3</b>

Source: Agence France Trésor, ADA Economics

# Employment forecasts

Despite a reduction in non-market sector employment due to less subsidised jobs:

- **Non-market sector employment** should slow its progression in 2017E, and decline in 2018E (reduction of subsidised jobs).
- **Total employment** is expected to increase by annual averages of 270,000 and 135,000 in 2017E and 2018E, respectively.

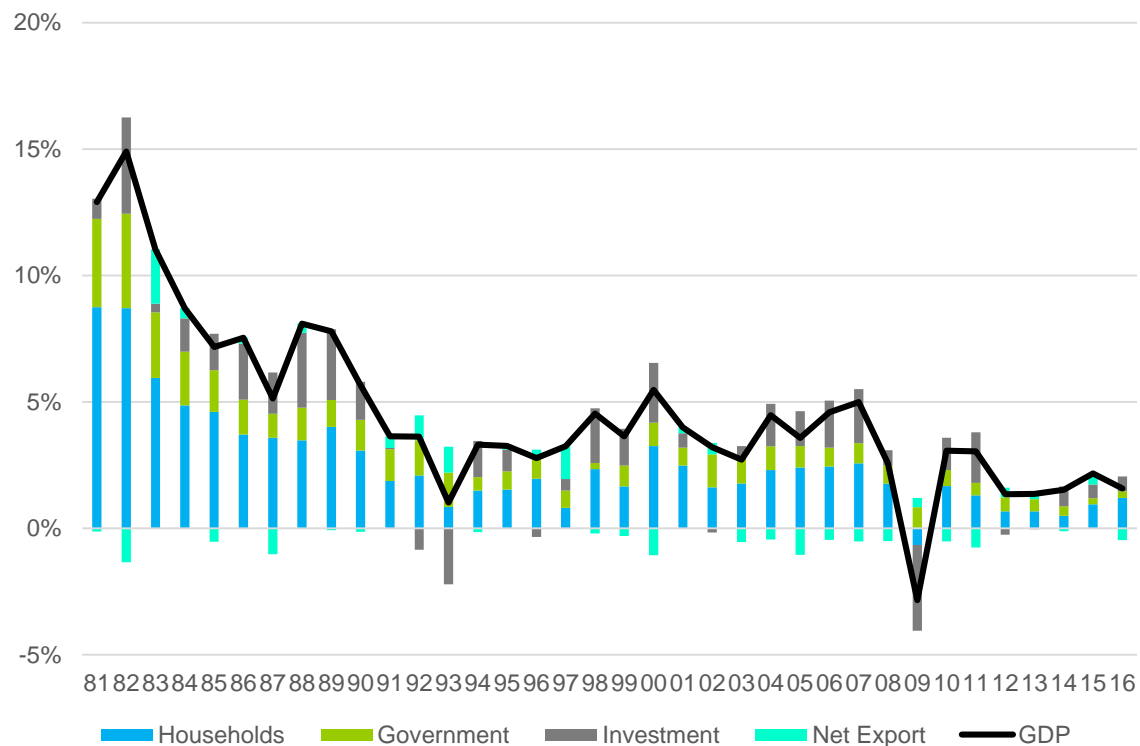
Variation in annual average (in 1,000s)

	2016	2017E	2018E
<b>Private employment</b>	<b>170</b>	<b>235</b>	<b>160</b>
<b>Non-market sector employment</b>	<b>40</b>	<b>35</b>	<b>-45</b>
Farm employment	5	0	5
Self-employment	-5	0	15
<b>TOTAL</b>	<b>210</b>	<b>270</b>	<b>135</b>

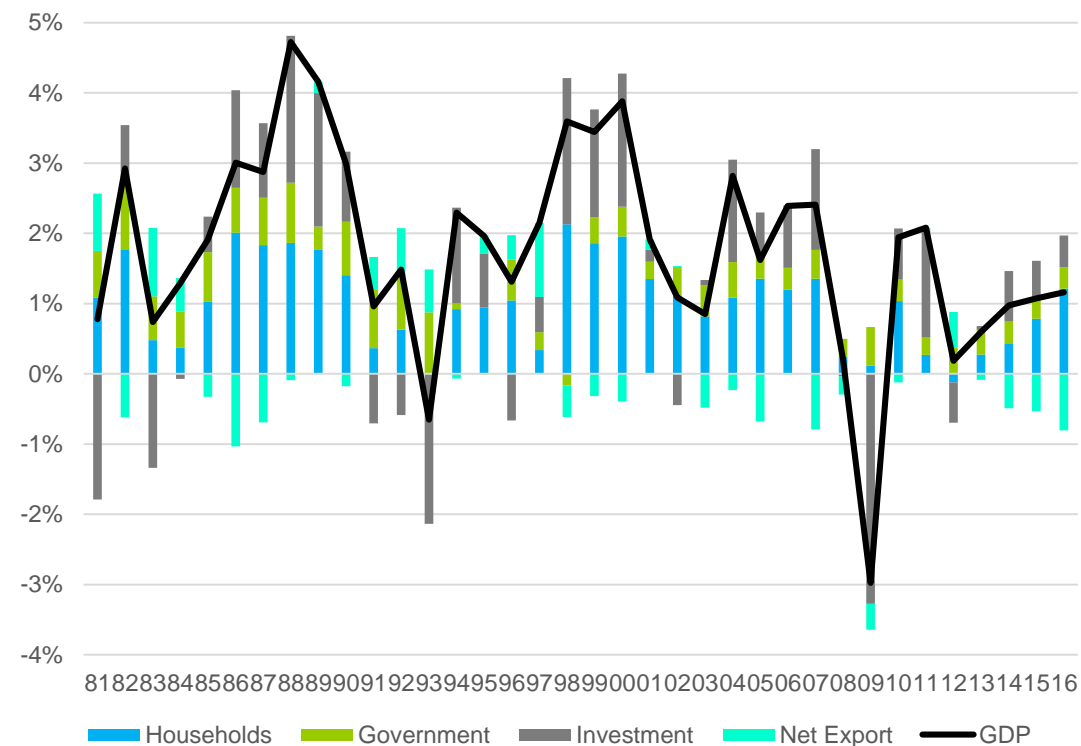
Source: Agence France Trésor, ADA Economics

# GDP in France, breakdown

## GDP contributions, current prices



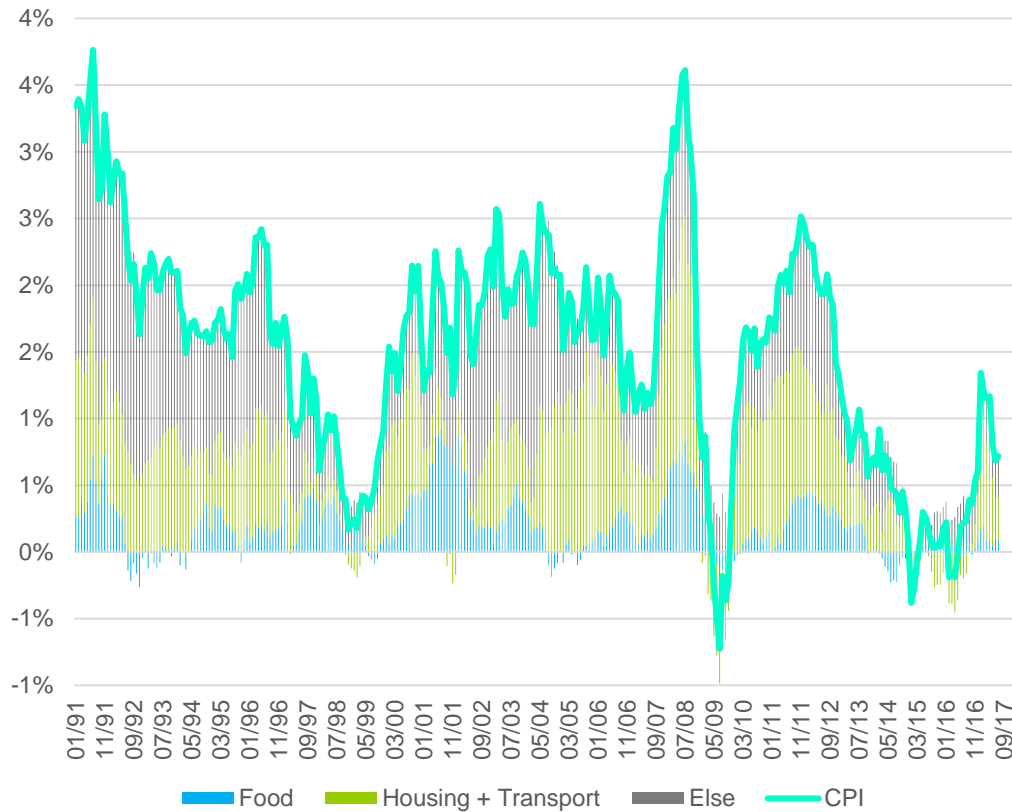
## GDP contributions, 2010 prices chain linked



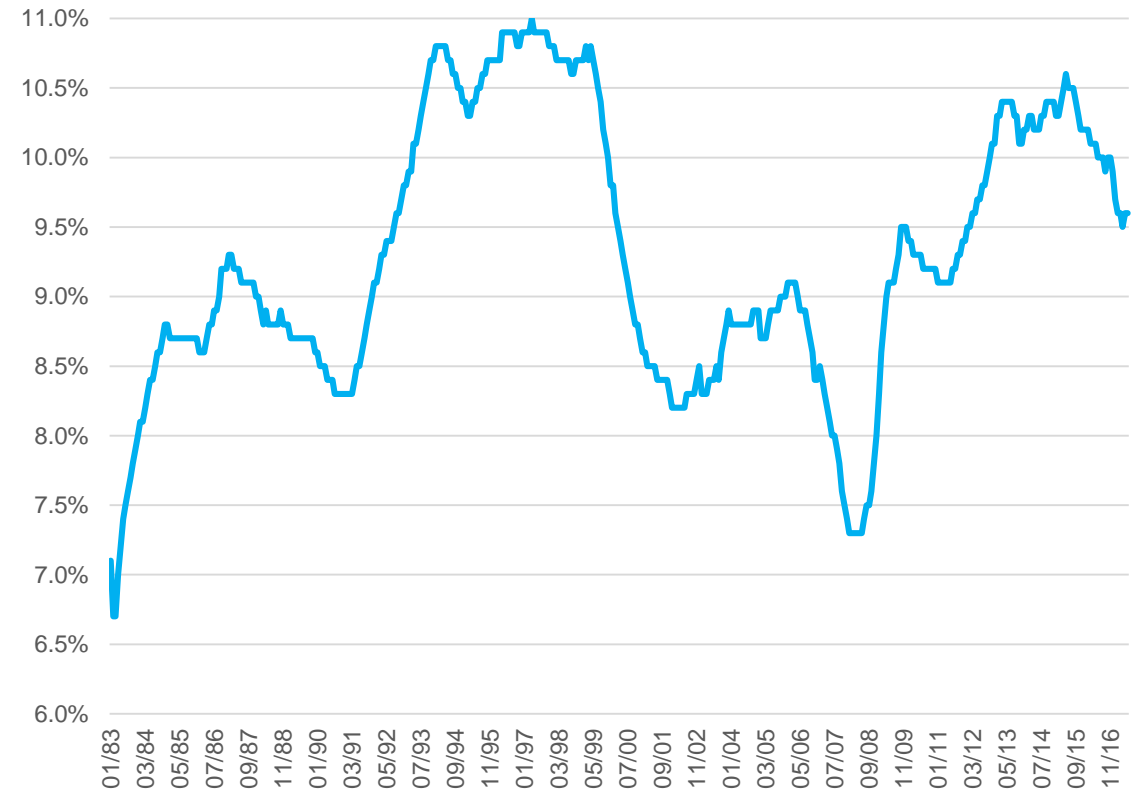
Source: CEIC, ADA Economics

# RPI and unemployment rate in France

## YoY CPI change



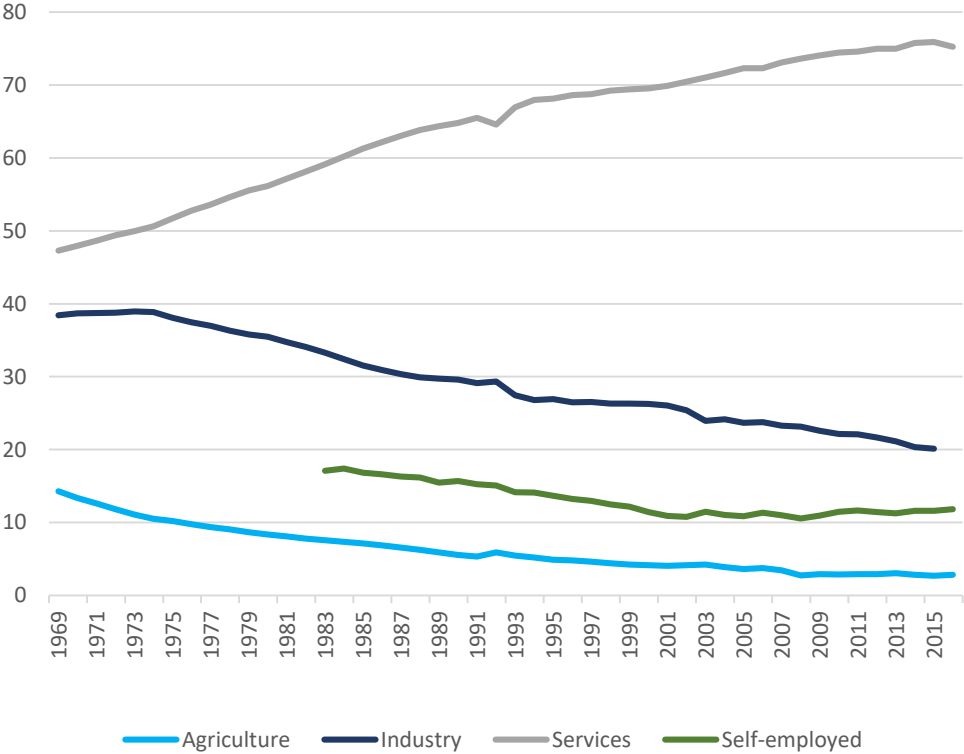
## Unemployment rate



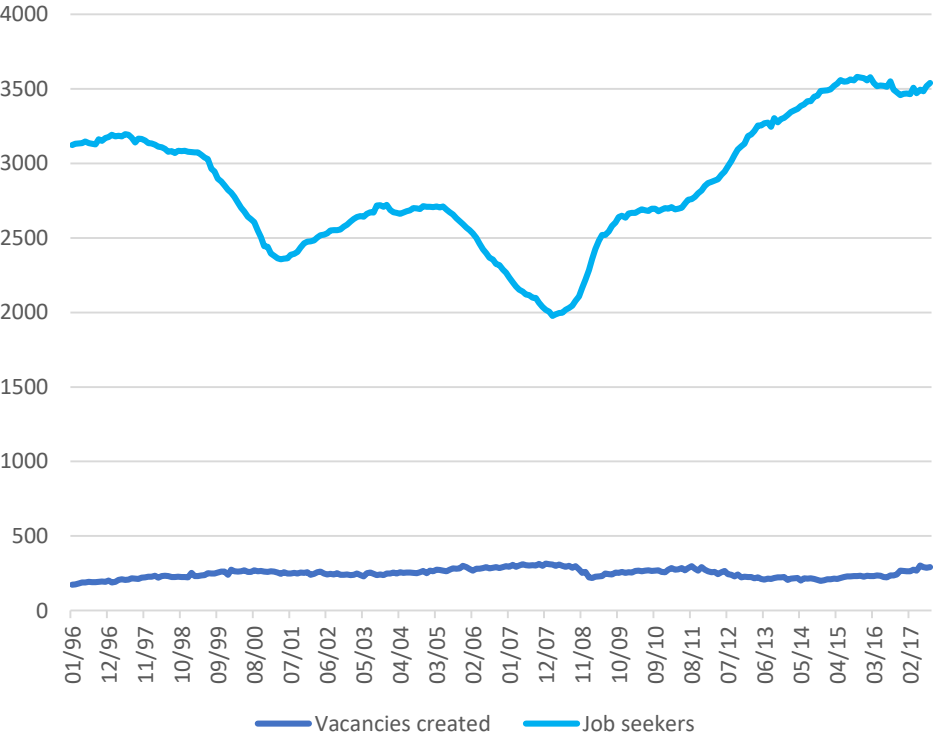
Sources: CEIC, ADA Economics

# Labour market

% of total employment



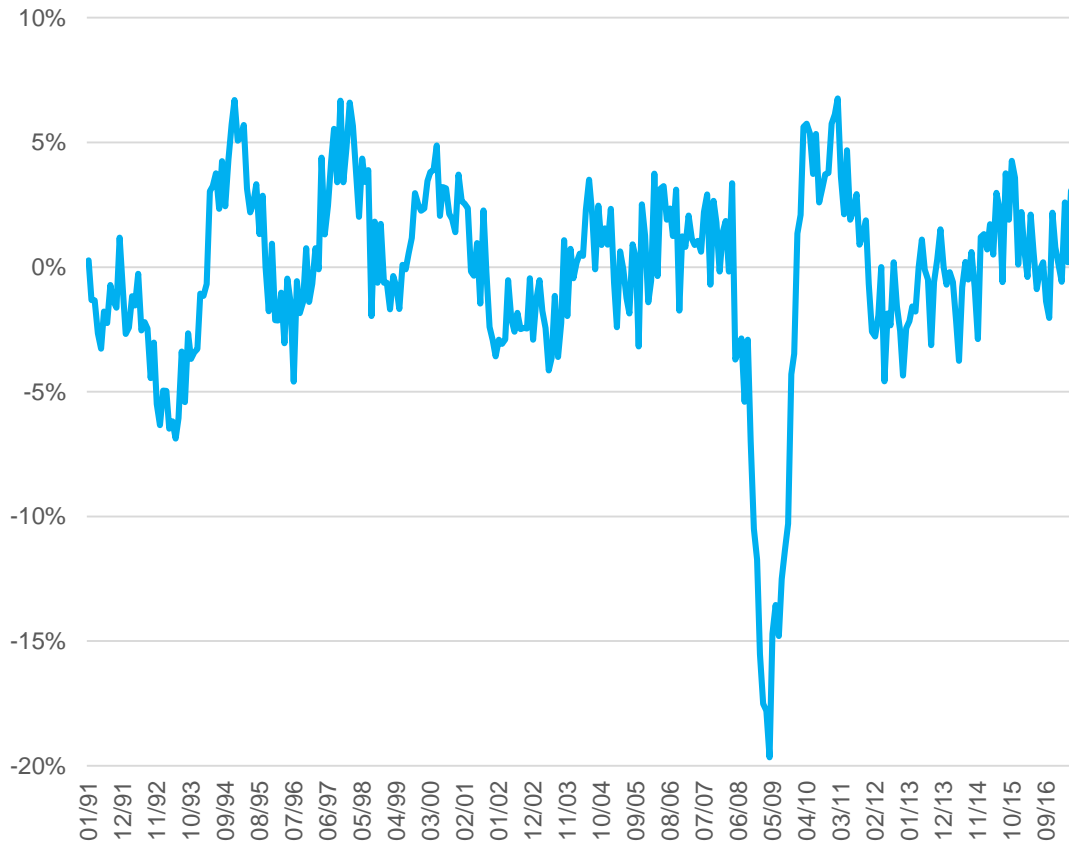
Vacancies vs. job seekers (in 1,000 persons)



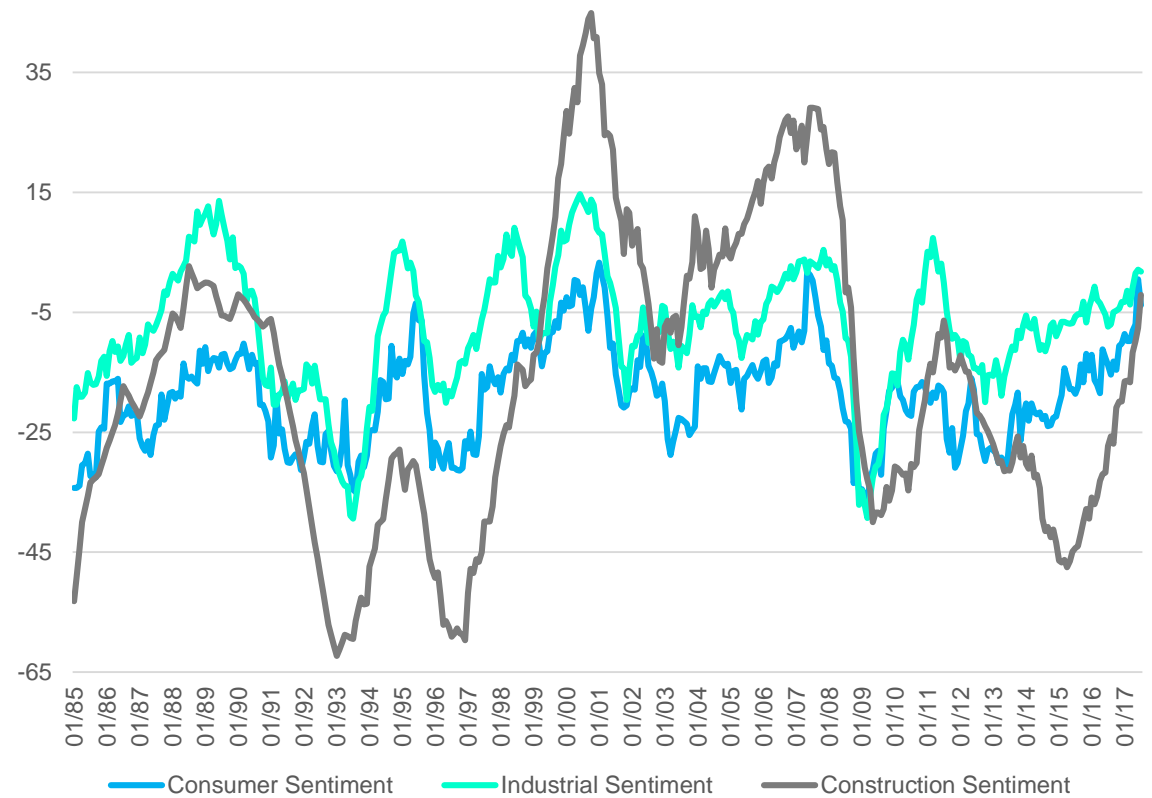
Source: CEIC, ADA Economics

# Industrial sector

## YoY change in industrial production



## Confidence indicators

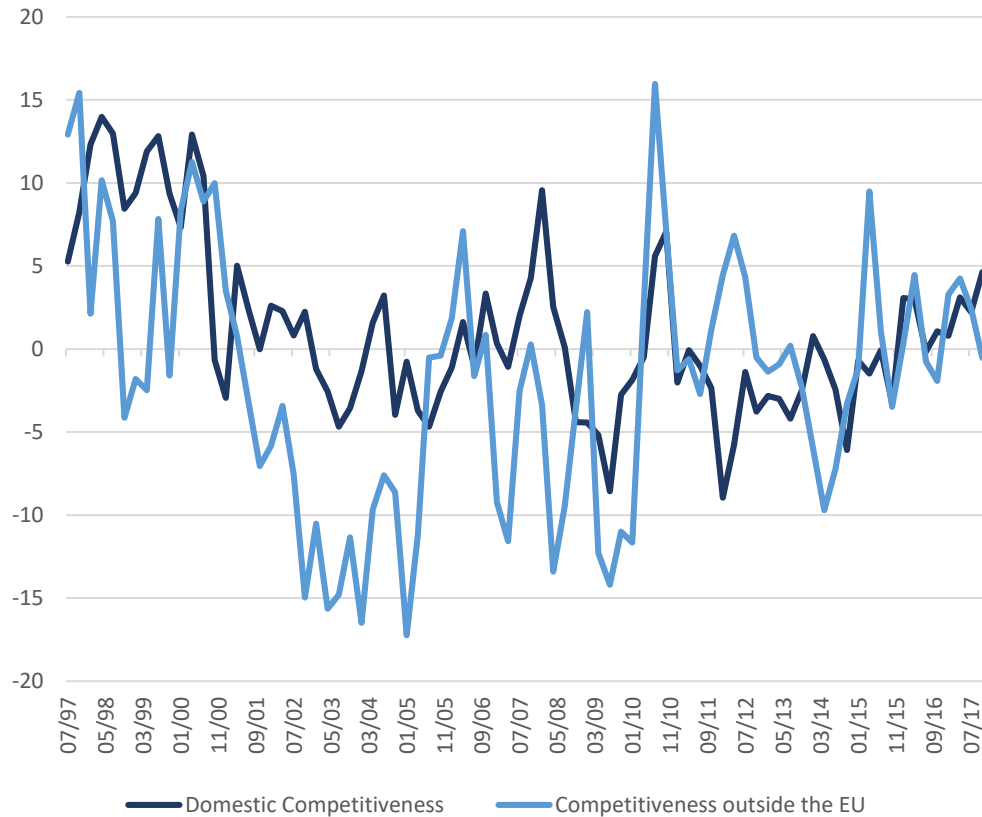


Source: CEIC, ADA Economics

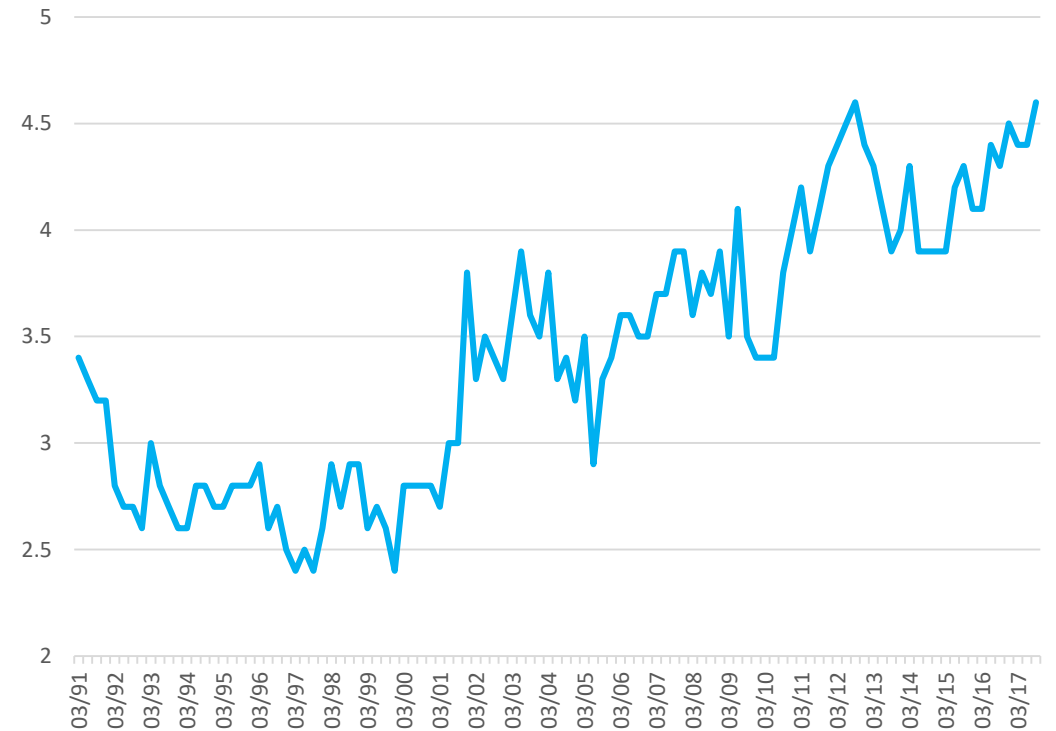


# Industrial sector

## Competitiveness



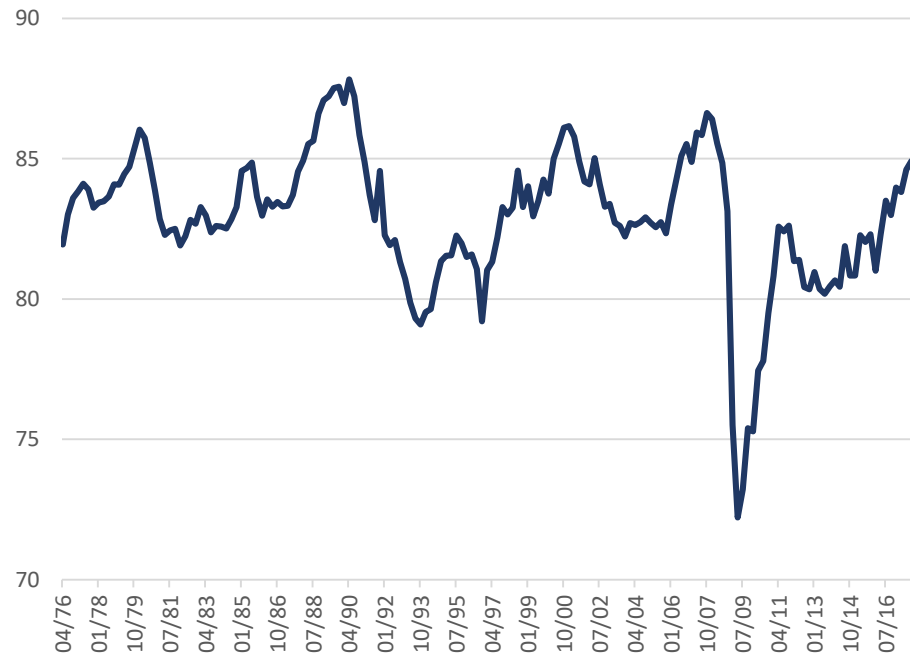
## Duration of current order



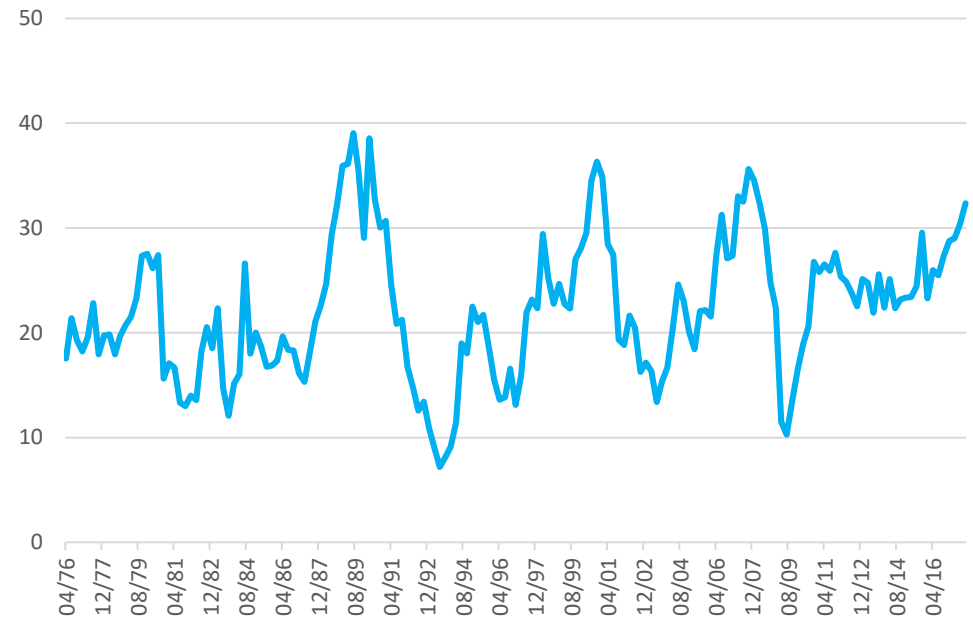
Source: CEIC, ADA Economics

# Industrial sector

Productive capacity utilisation rate %



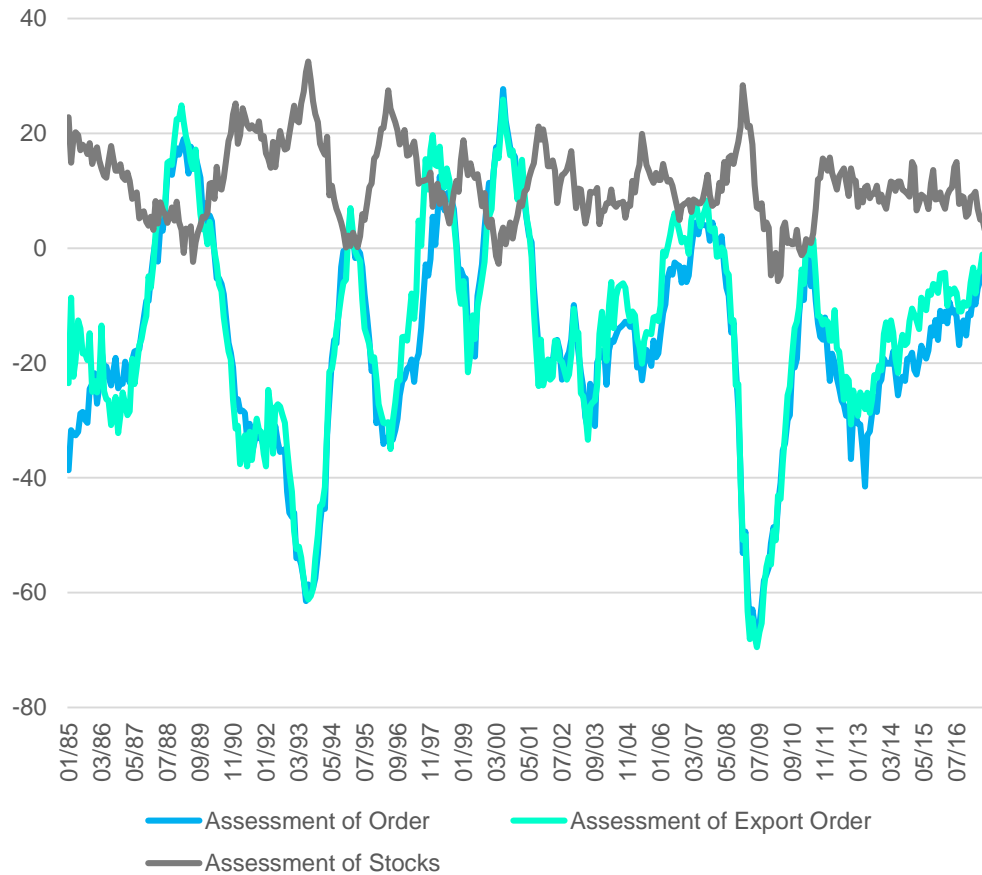
Share of firms producing at full capacity %



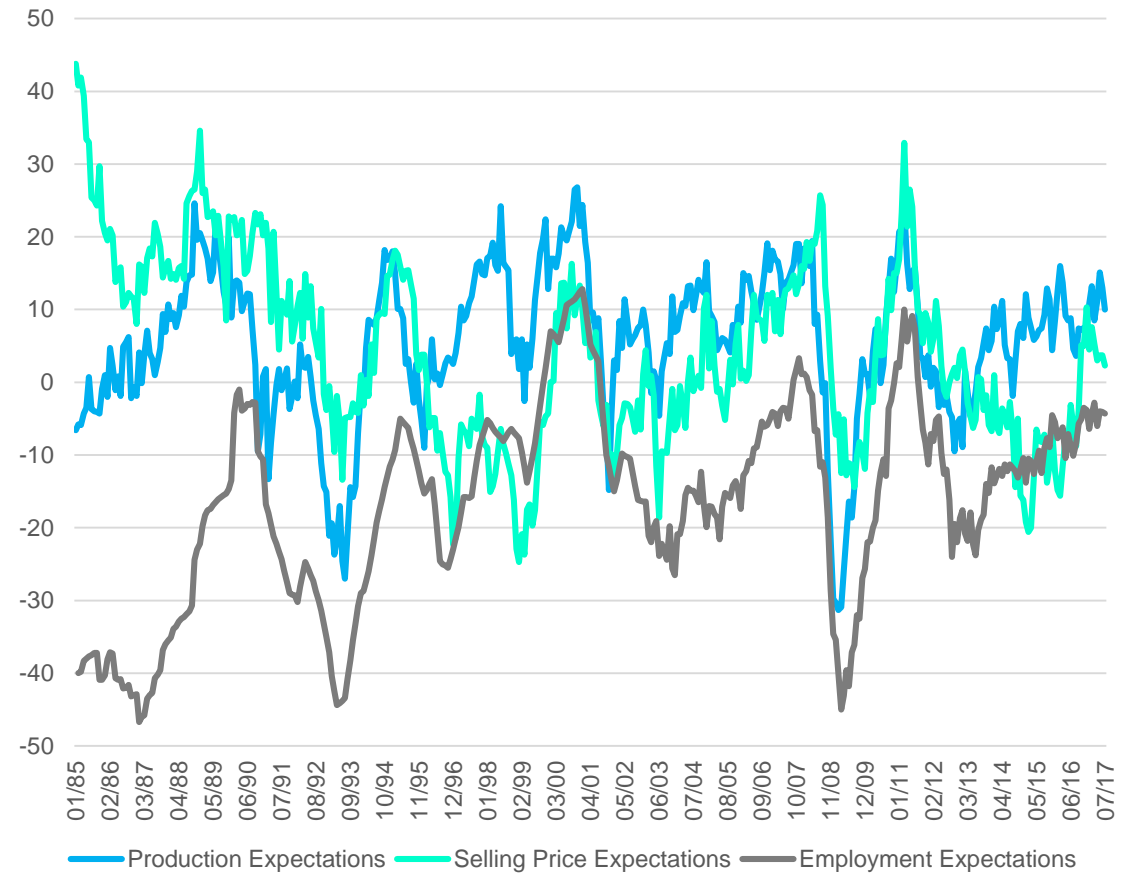
Source: CEIC, ADA Economics

# Industrial sentiment

## Assessments



## Expectations



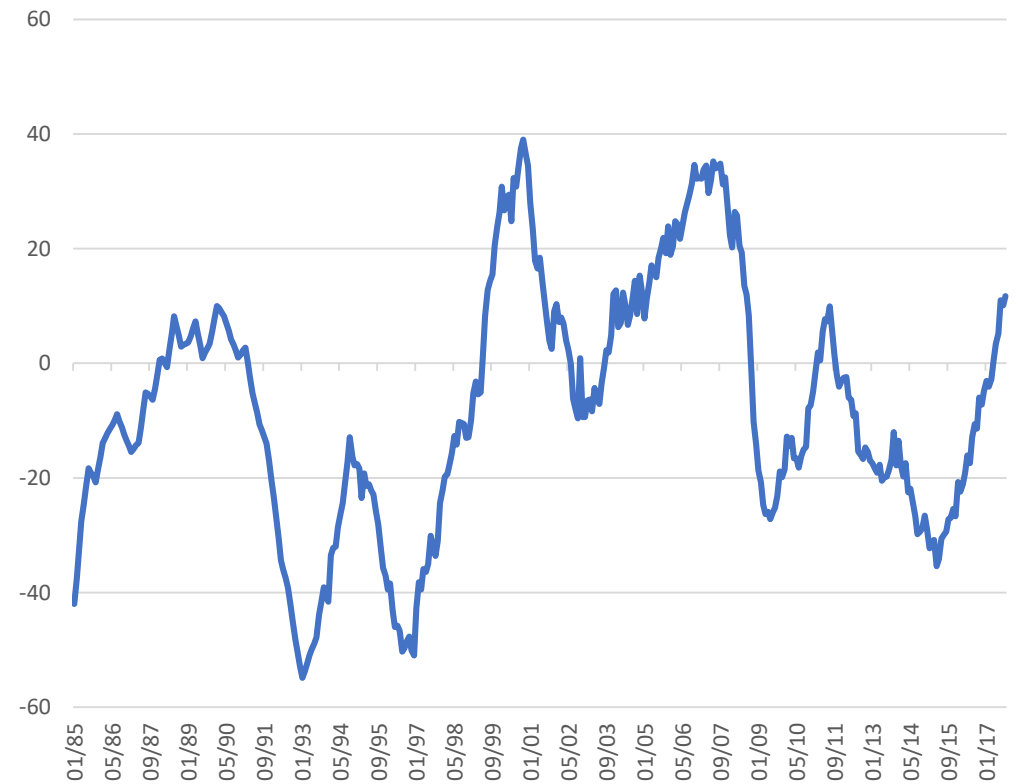
Source: CEIC, ADA Economics

# Construction sentiment

## Confidence and expectations



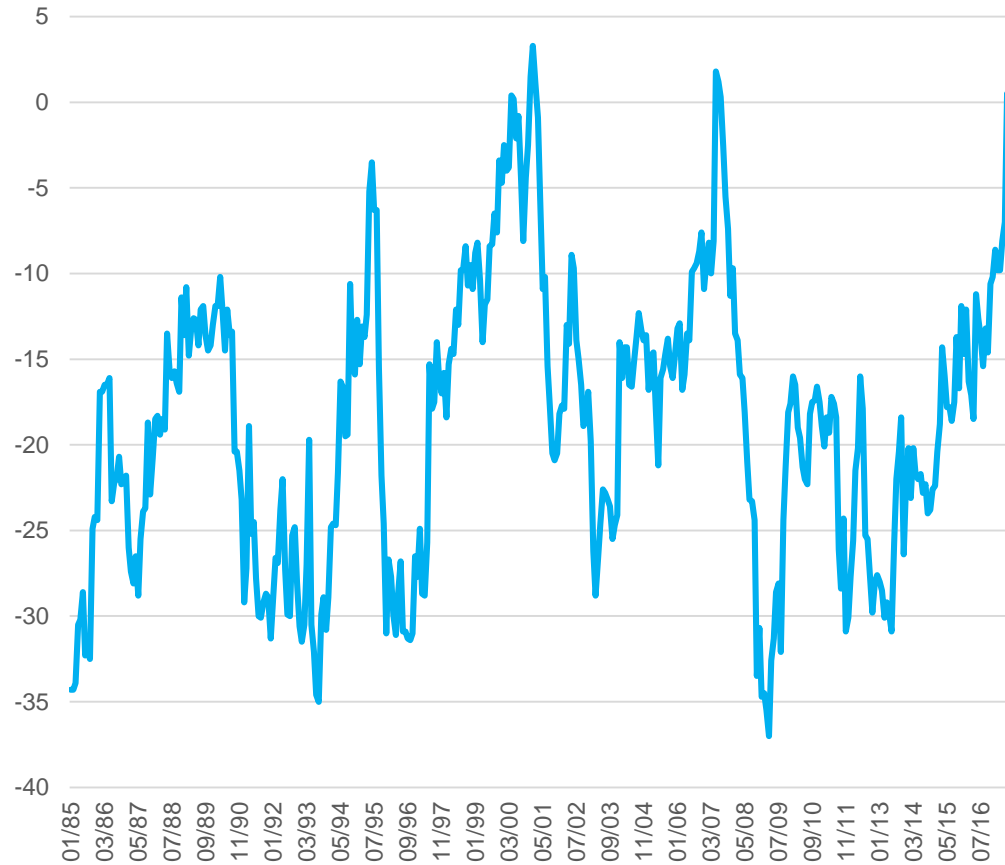
## Hiring appetite



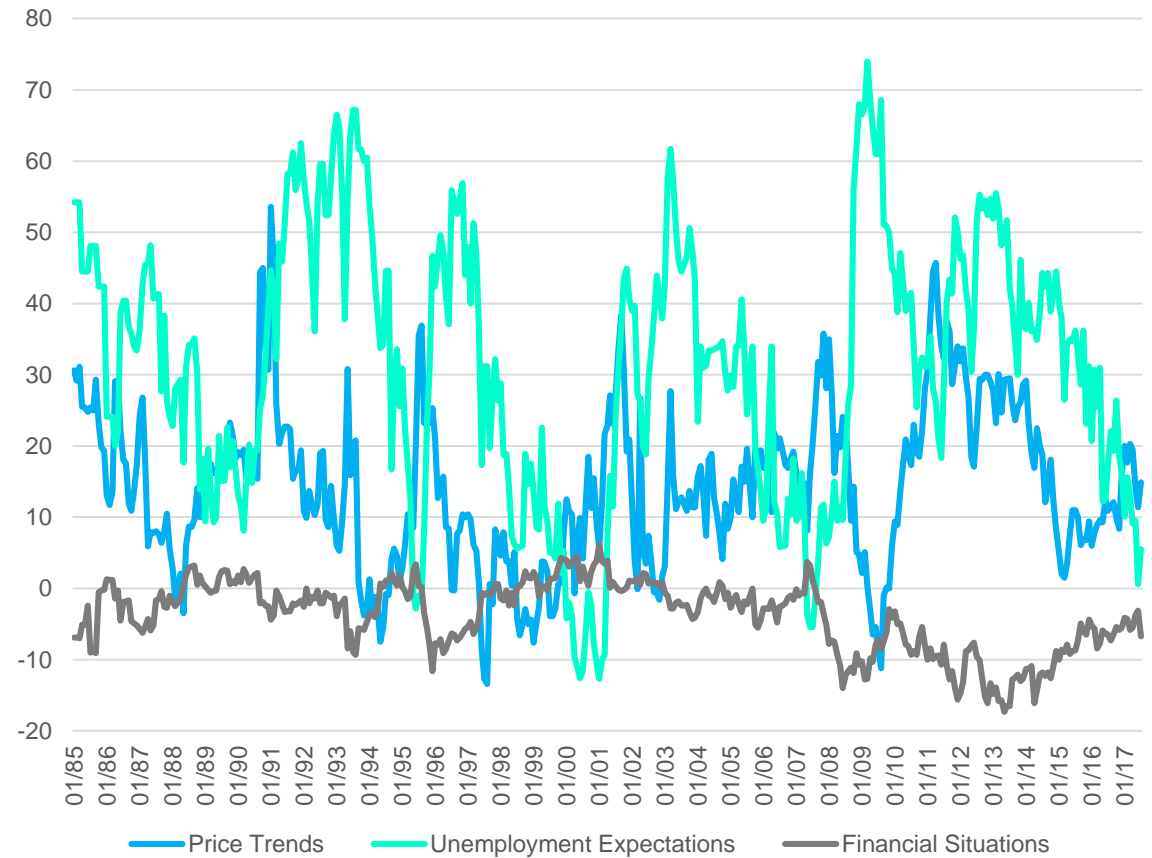
Source: CEIC, ADA Economics

# Consumer sentiment

## Total balance



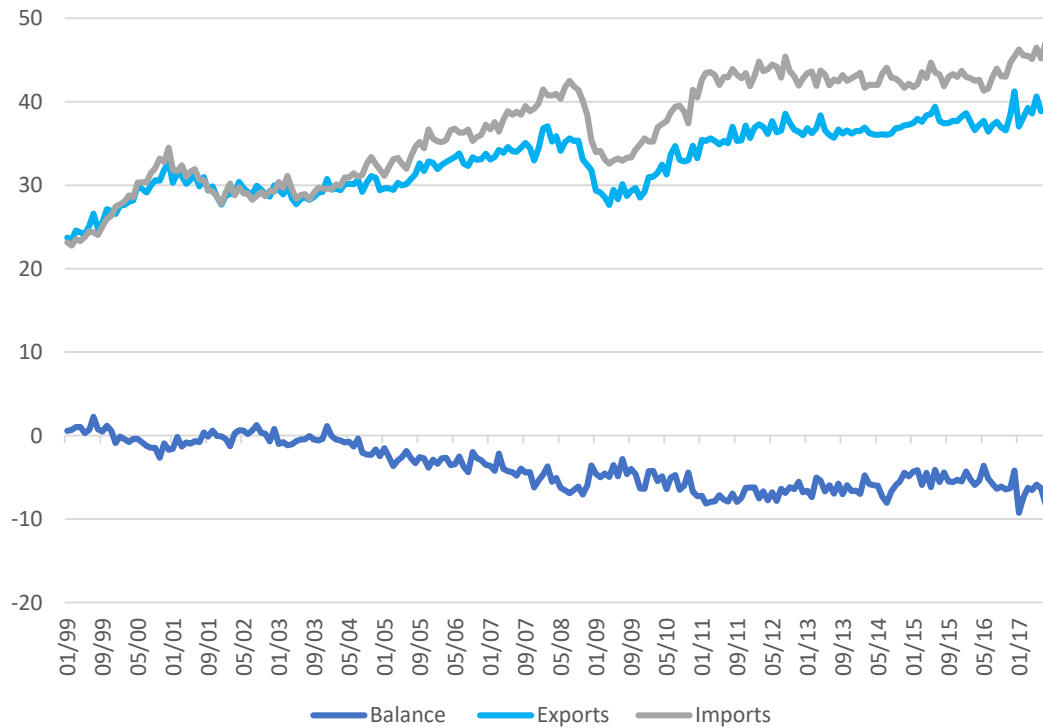
## Indicators



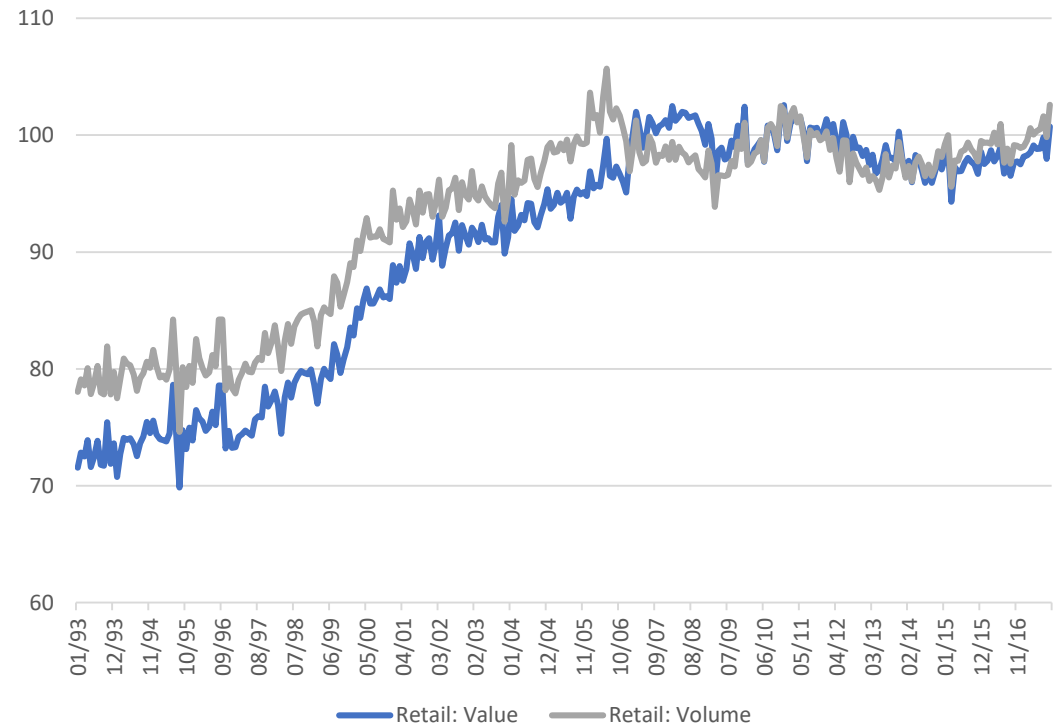
Source: CEIC, ADA Economics

# Trade

## Export and import dynamics, in EUR bn



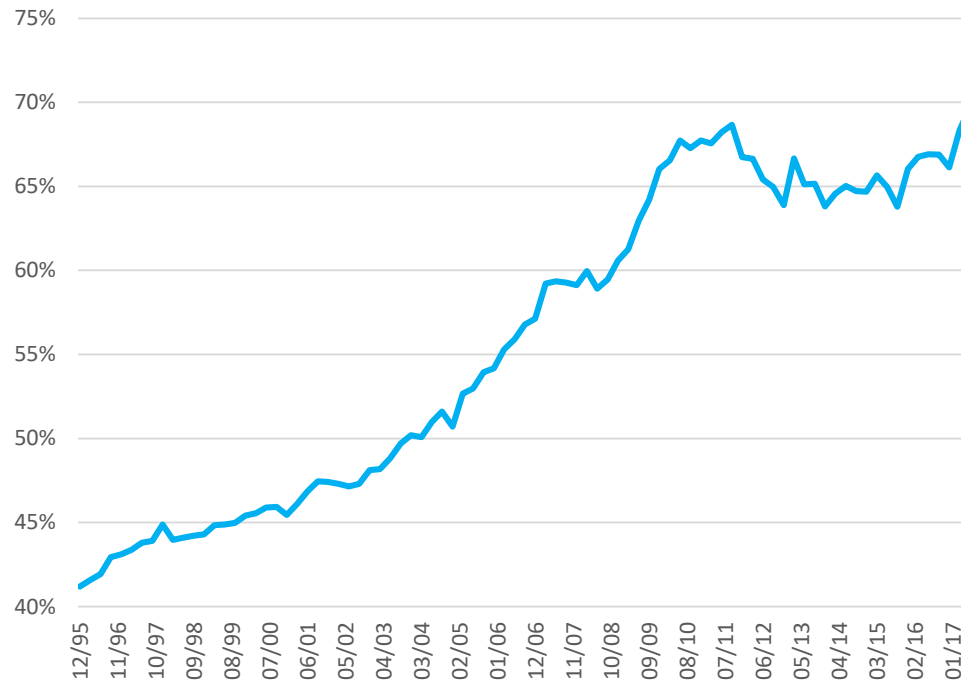
## Retail trade



Source: CEIC, ADA Economics

# Households and NPISH

## Debt-to-GDP



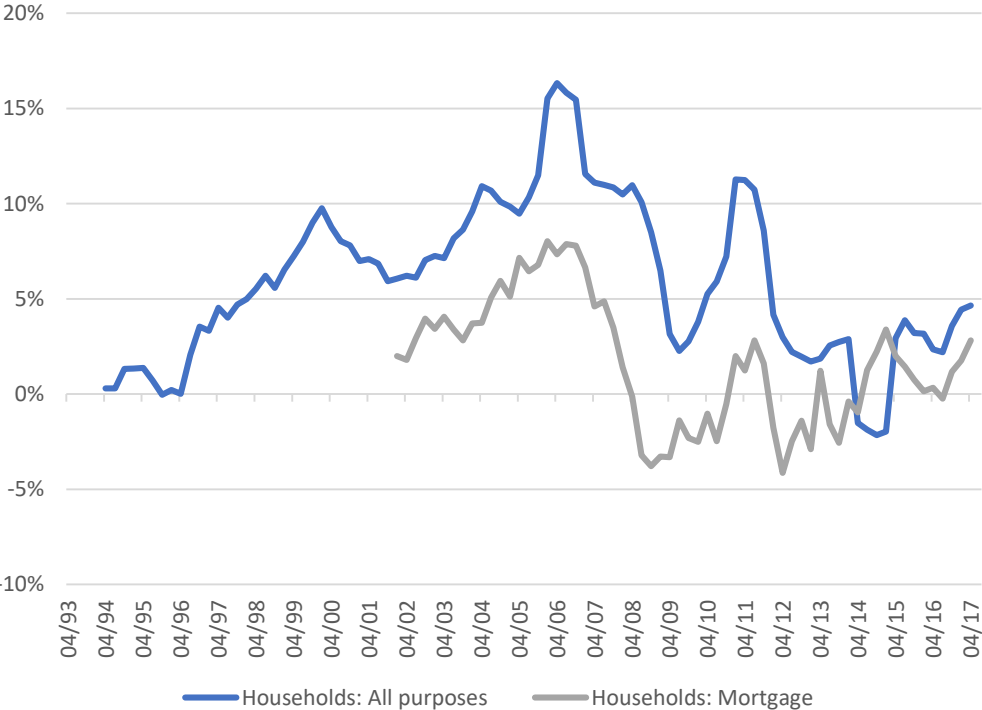
## Net assets-to-GDP



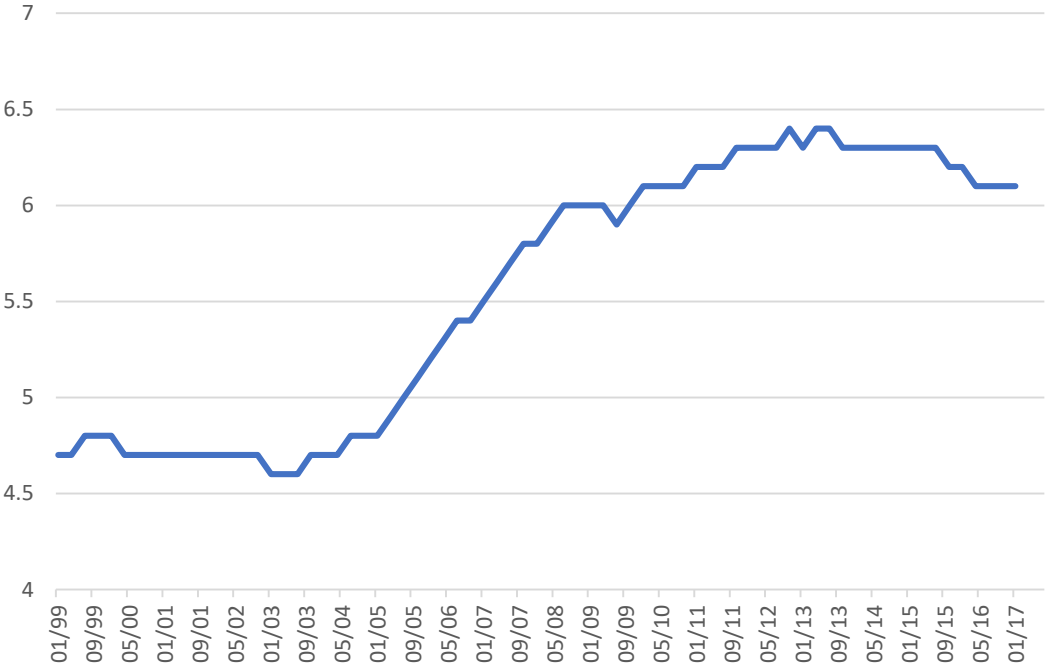
Source: CEIC, ADA Economics

# Loans to households

Loans to households, YoY



Debt service ratios, as a share of income

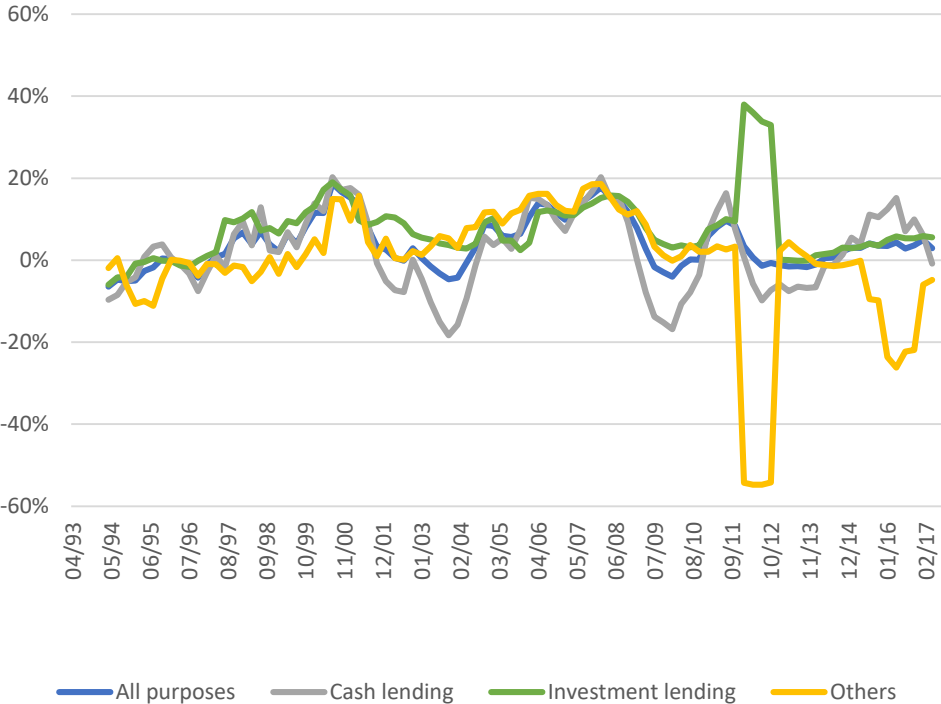


Source: CEIC, ADA Economics

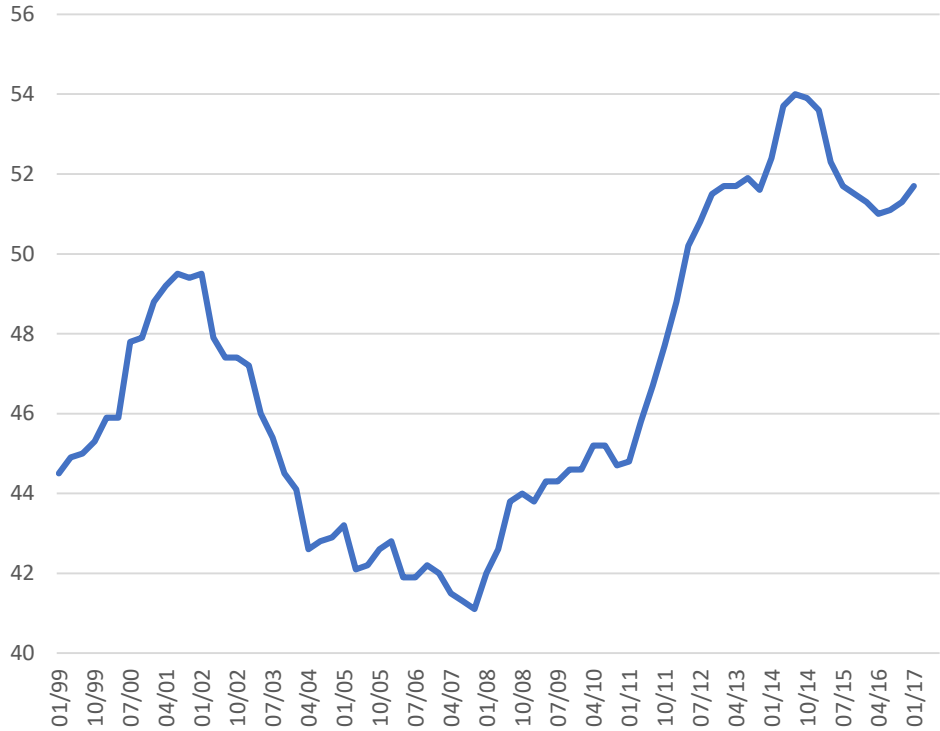


# Loans to NFCs

Loans to NFCs, YoY



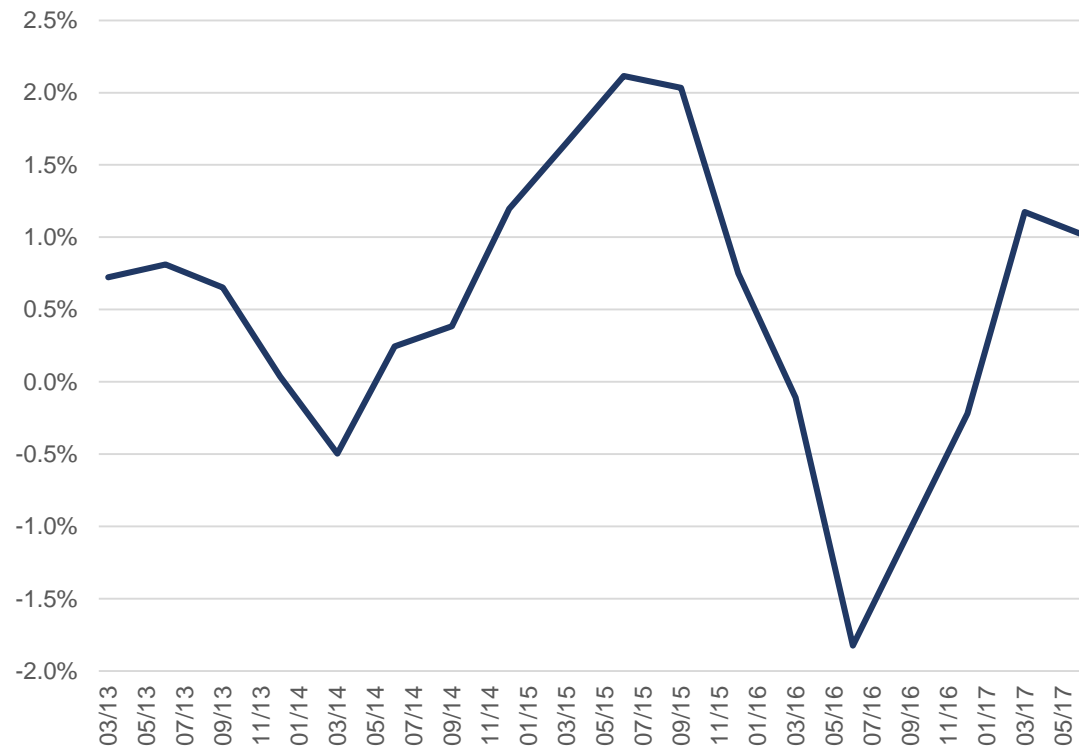
Debt service ratios, as a share of income



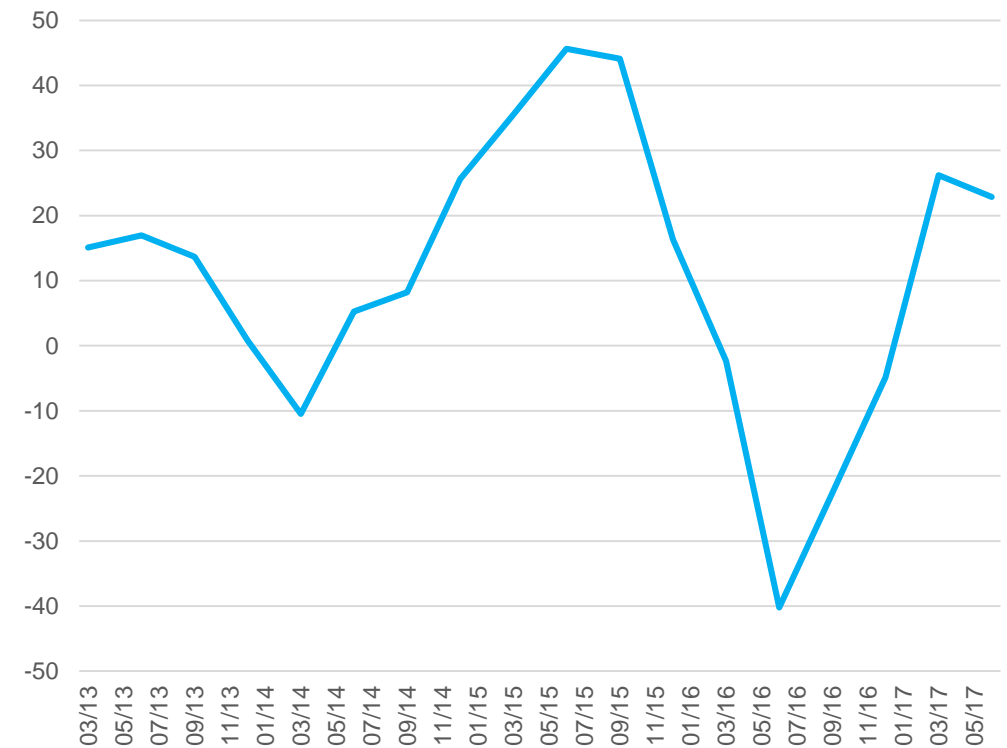
Source: CEIC, ADA Economics

# Balance of payments

## Direct investment as % of current account



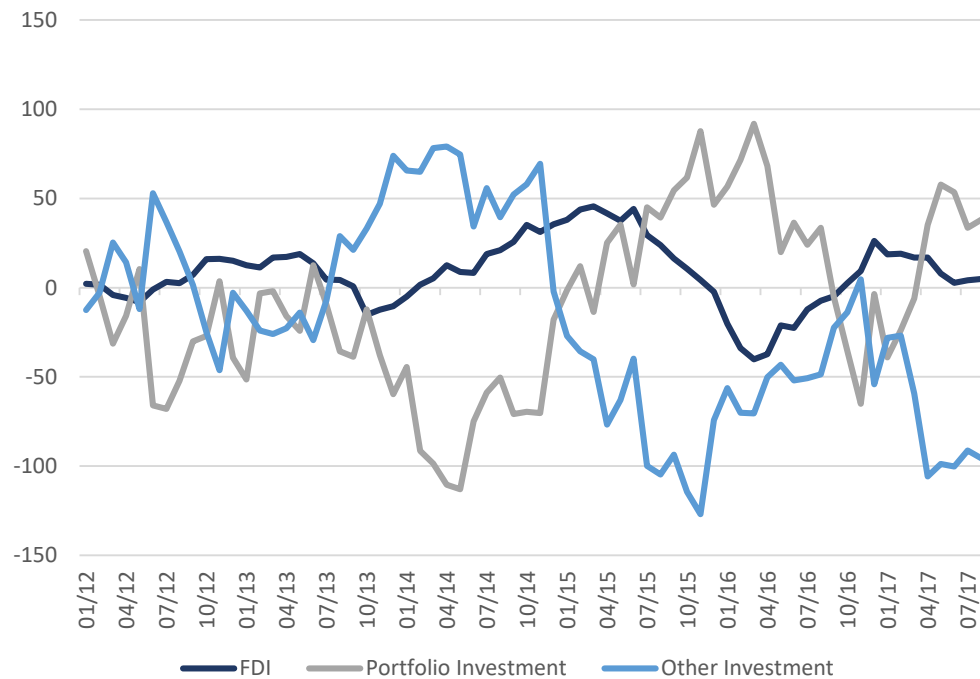
## Direct investments, in EUR bn



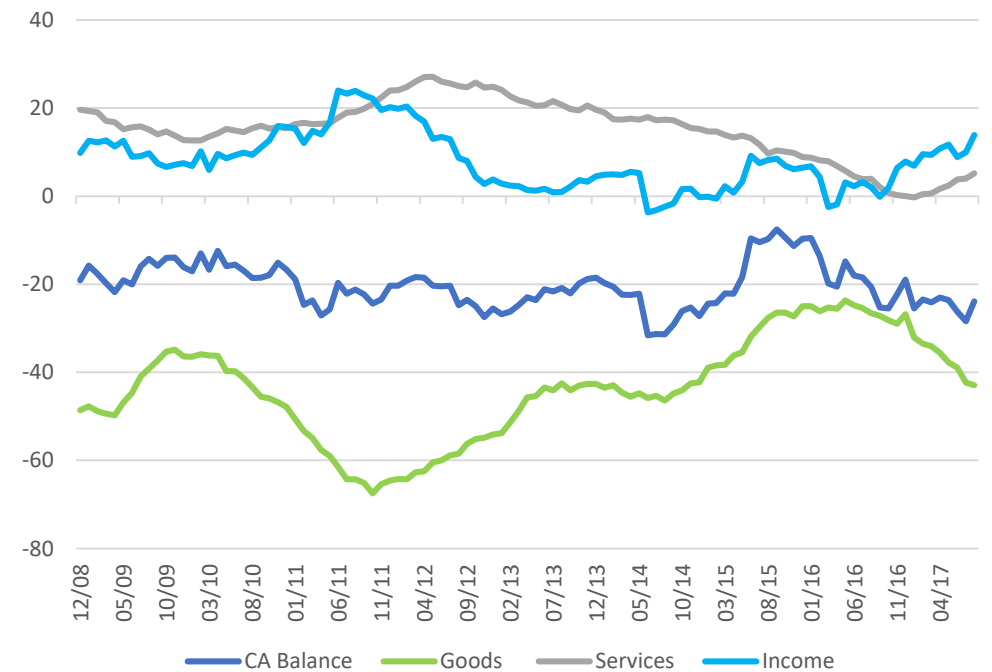
Source: CEIC, ADA Economics

# Balance of payments

FDI and other investments, in EUR bn



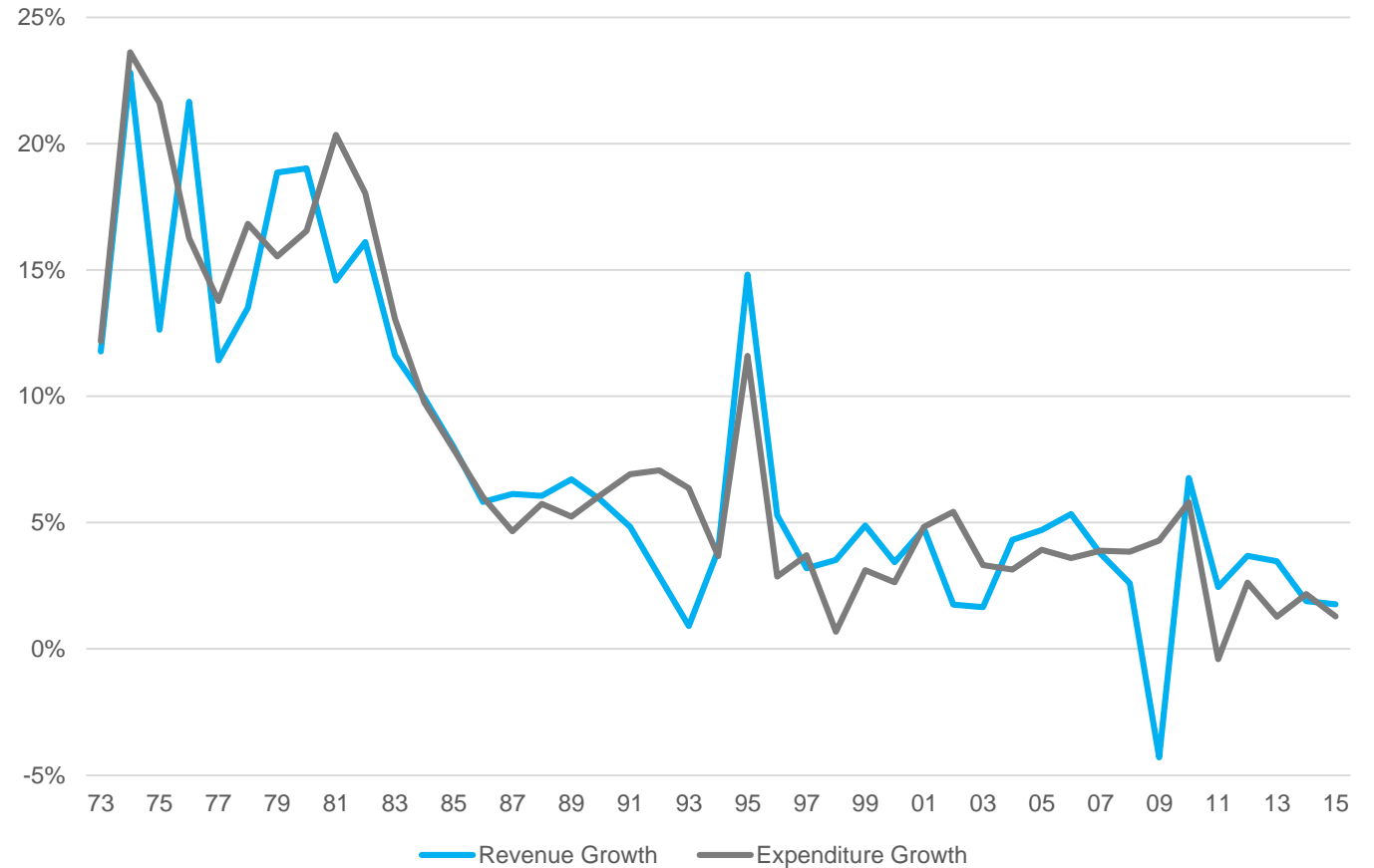
Current account breakdown dynamics, in EUR bn



Source: CEIC, ADA Economics

# General government non-financial account

YoY % change  
in general government  
expenditure and  
revenue



Source: CEIC, ADA Economics

# Income distribution, top cut-off point

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
First Quintile	11,357	12,926	13,305	13,676	13,685	13,977	14,218	14,398	14,541	14,850
Second Quintile	14,655	17,093	17,647	17,796	17,840	18,462	18,830	18,911	19,283	19,639
Third Quintile	18,196	20,996	21,926	22,319	22,383	23,118	23,465	23,435	23,919	24,082
Fourth Quintile	23,725	28,015	28,903	29,655	29,747	30,458	30,737	30,628	31,387	31,387

Source: EUROSTAT, ADA Economics

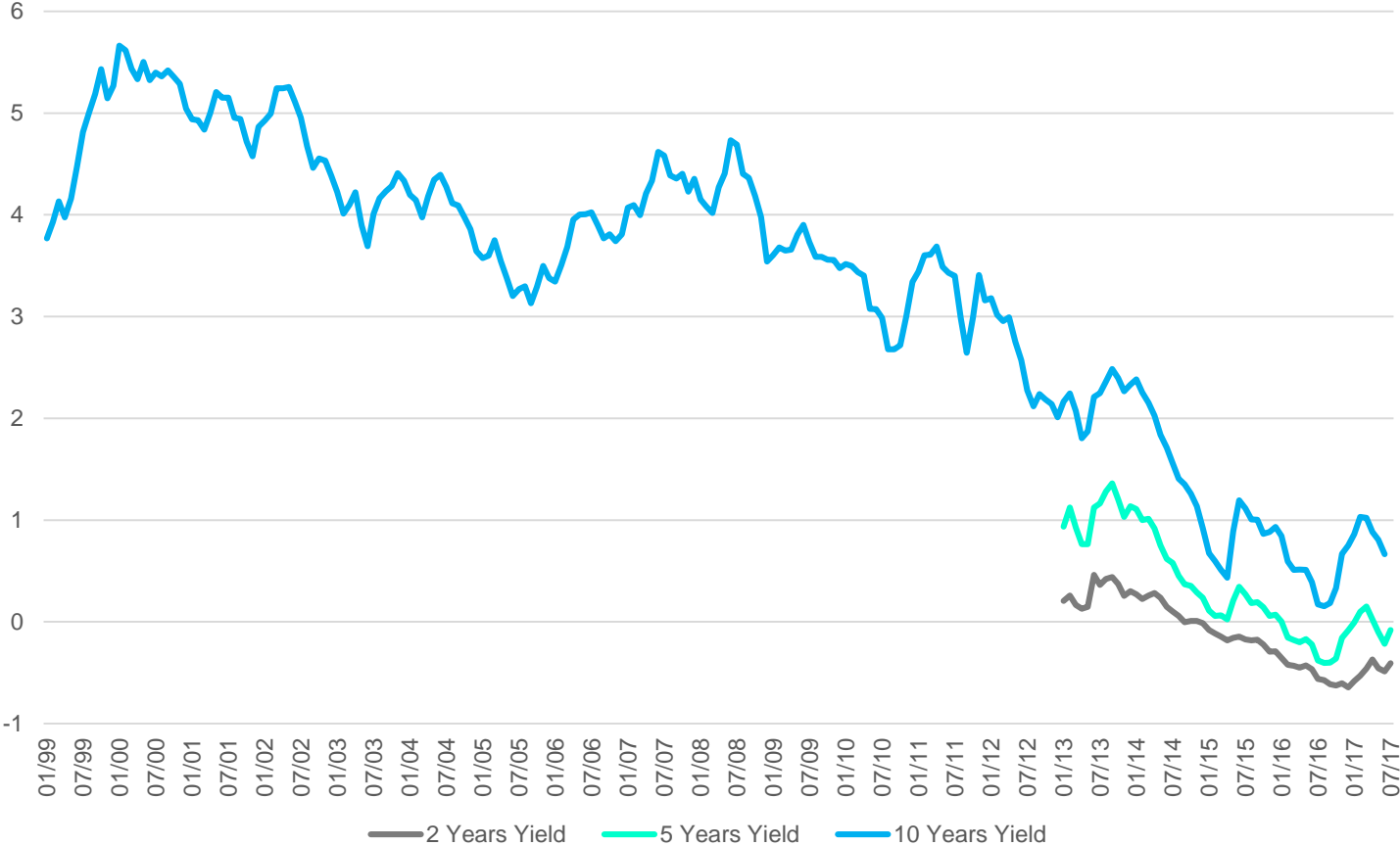
# Income distribution, share of national equivalised income

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
First Quintile	9.3	8.9	8.9	8.8	8.7	8.7	8.8	9.0	9.0	8.9
Second Quintile	14.2	13.5	13.4	13.4	13.2	13.3	13.4	13.6	13.6	13.7
Third Quintile	17.9	16.9	17.0	17.1	16.8	16.9	17.0	17.2	17.2	17.2
Fourth Quintile	22.5	21.4	21.5	21.8	21.5	21.6	21.6	21.7	21.8	21.6
Fifth Quintile	36.2	39.2	39.2	38.9	39.9	39.5	39.3	38.5	38.5	38.3

Source: EUROSTAT, ADA Economics

# Monetary policies

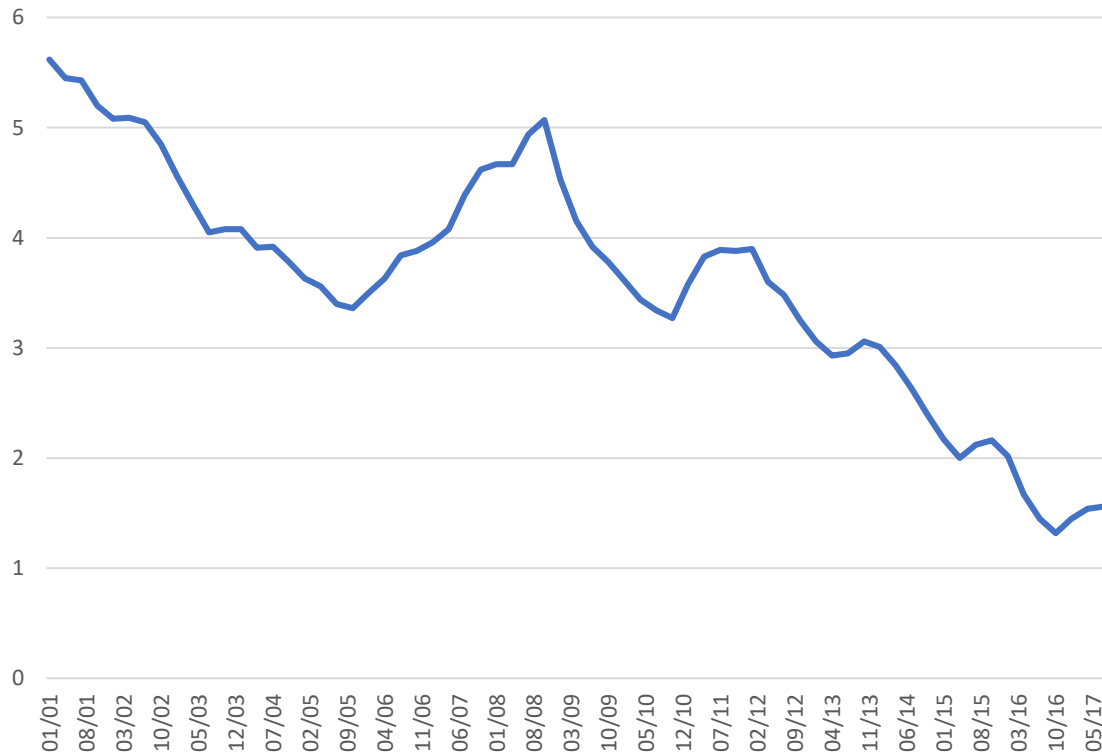
Government bond yield



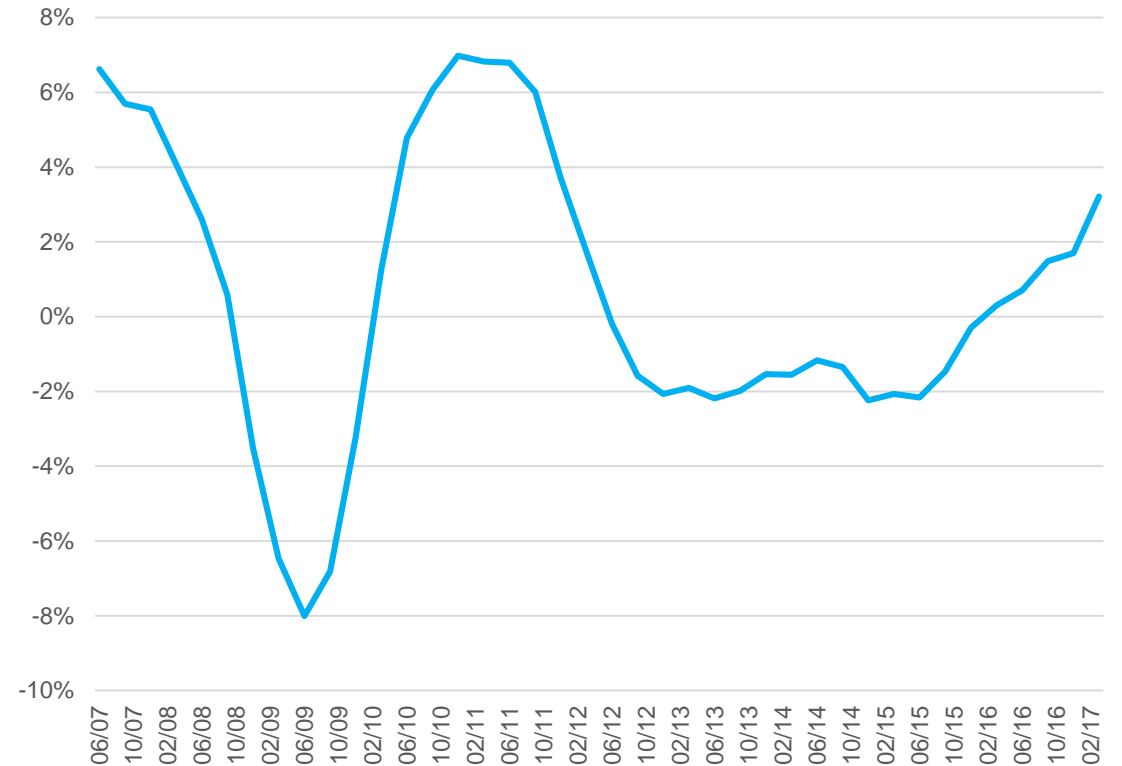
Source: CEIC, ADA Economics

# House prices

## Average interest rate on mortgages



## YoY house price change

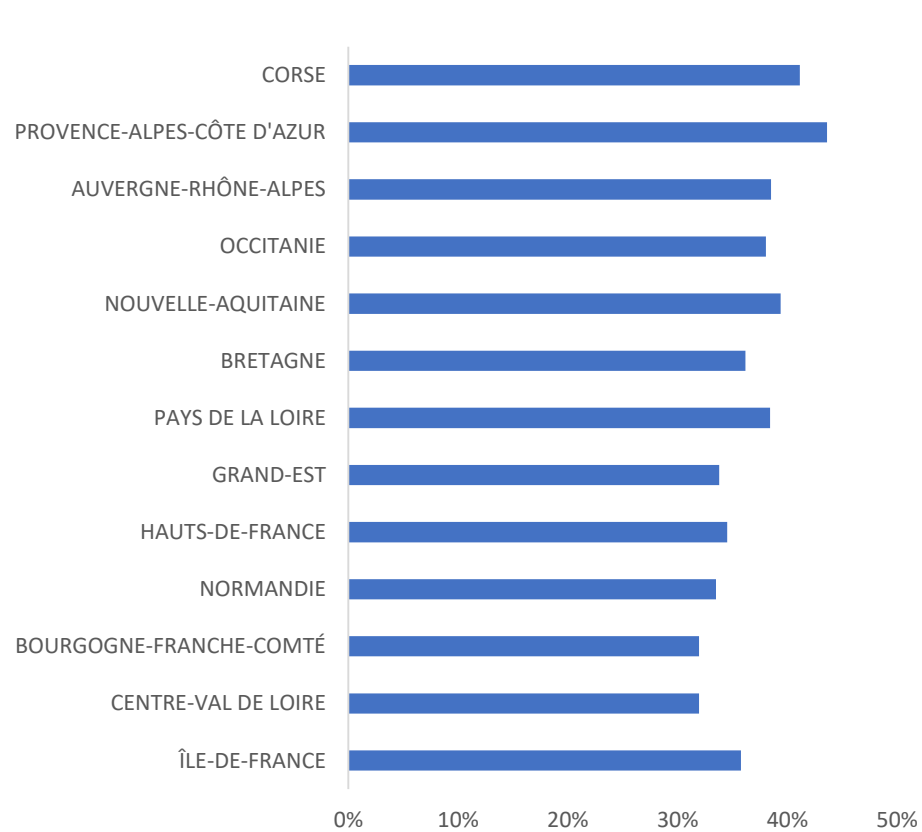


Source: CEIC, ADA Economics

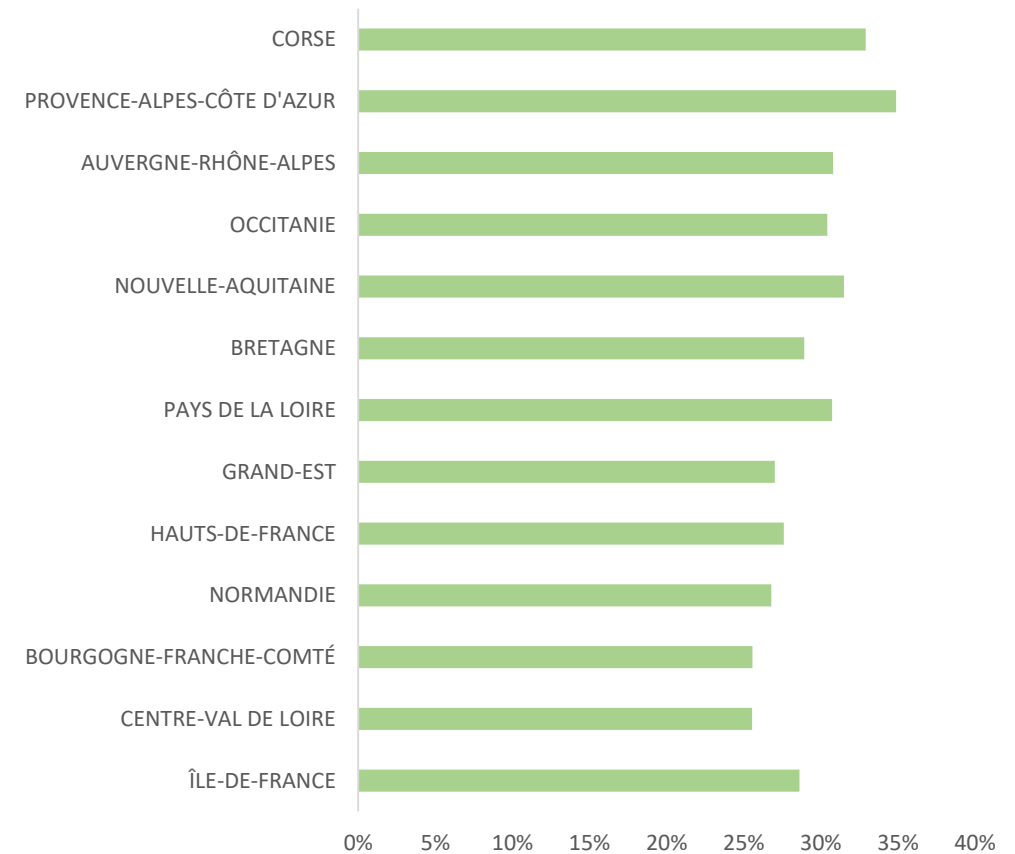


# Debt servicing costs, by region

For 60m squares, 100% LTV



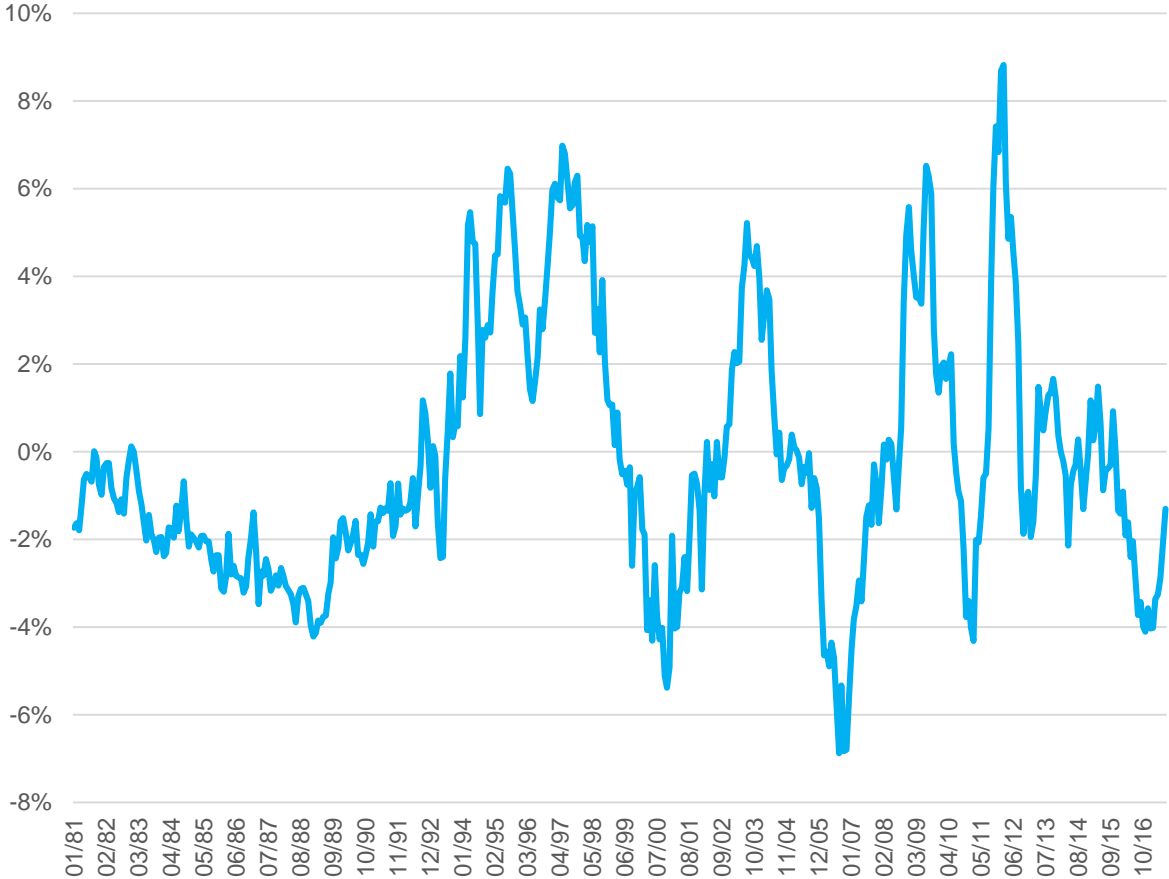
For 60m squares, 80% LTV



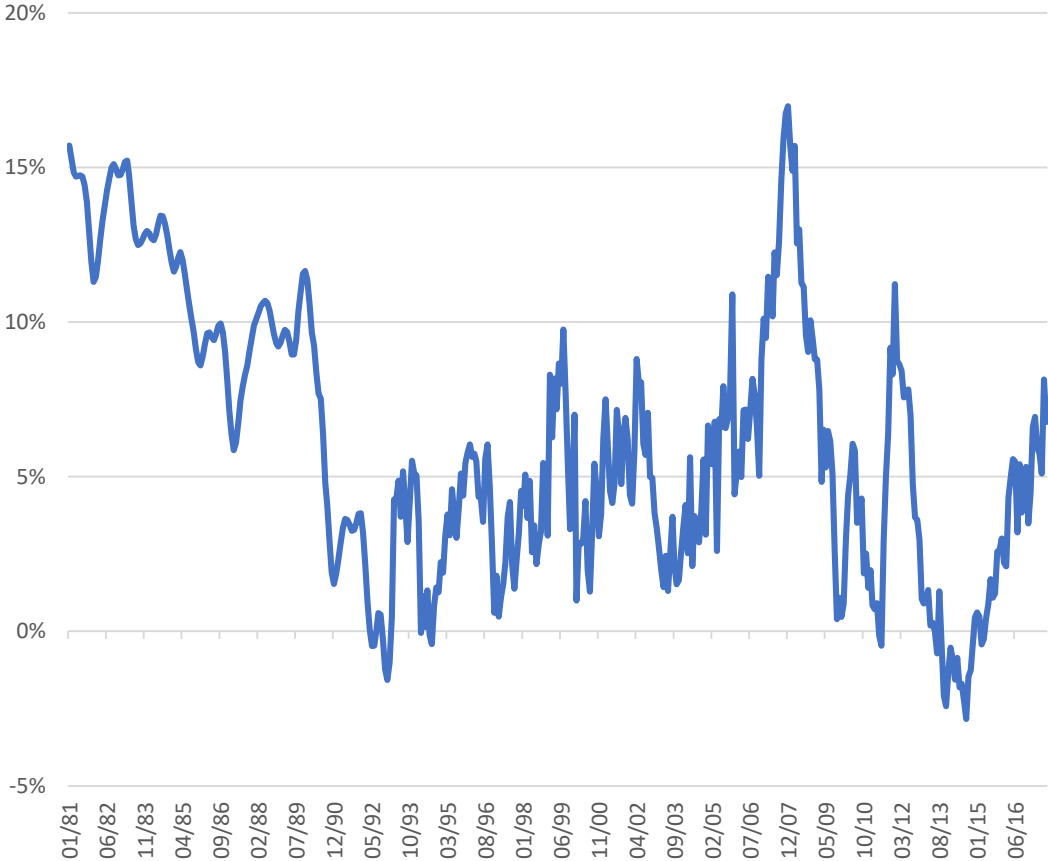
Source: CEIC, ADA Economics

# Banking sector

### YoY deposit % change



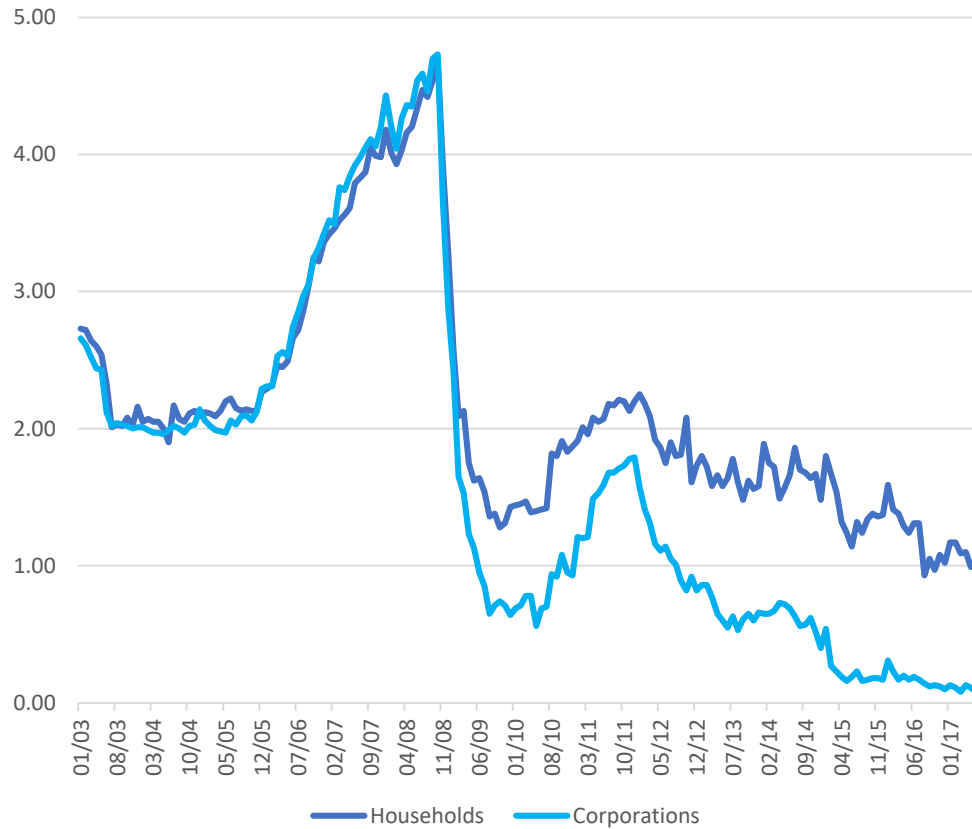
### YoY loan % change



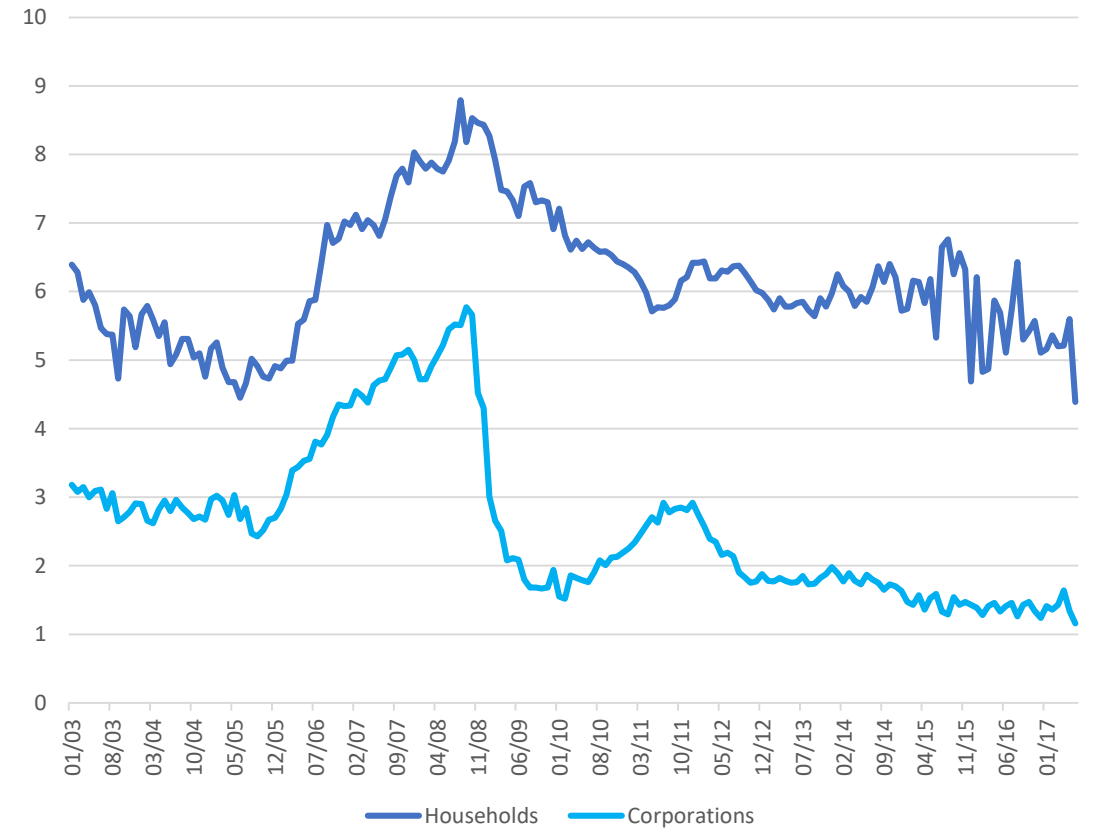
Source: CEIC, ADA Economics

# Banking sector

## Deposit rates, %, up to 1 year, new business



## Lending rates, %, floating and up to 1 year, new business



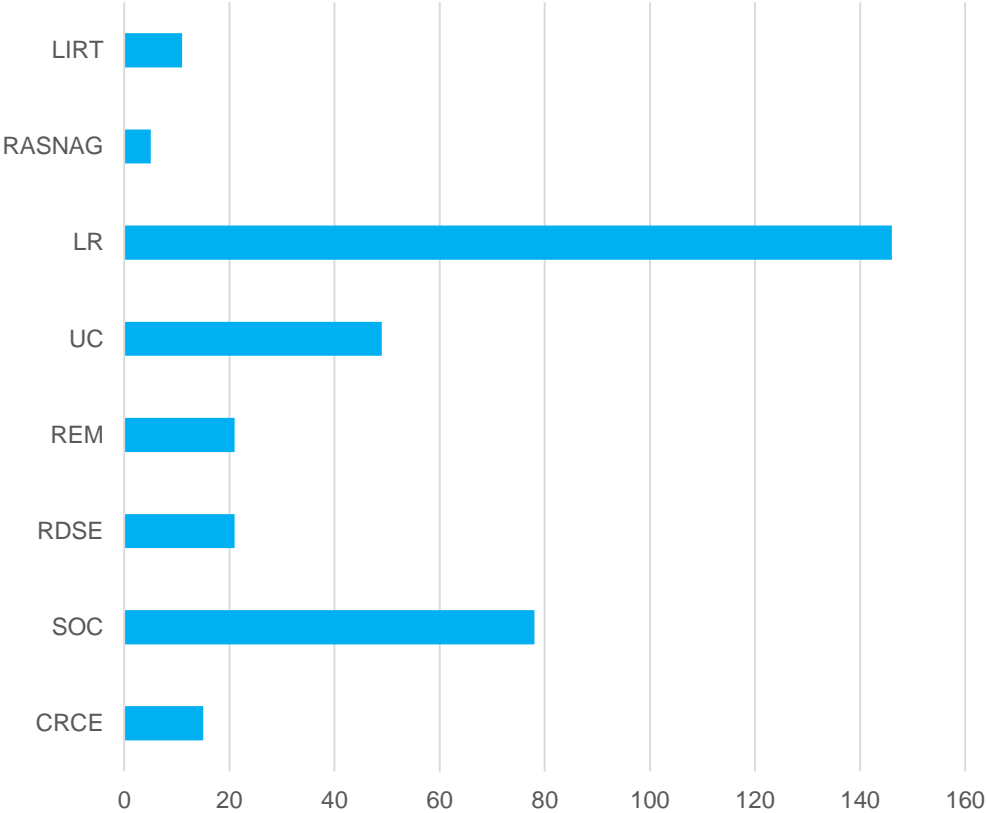
Source: CEIC, ADA Economics

# France – government structure

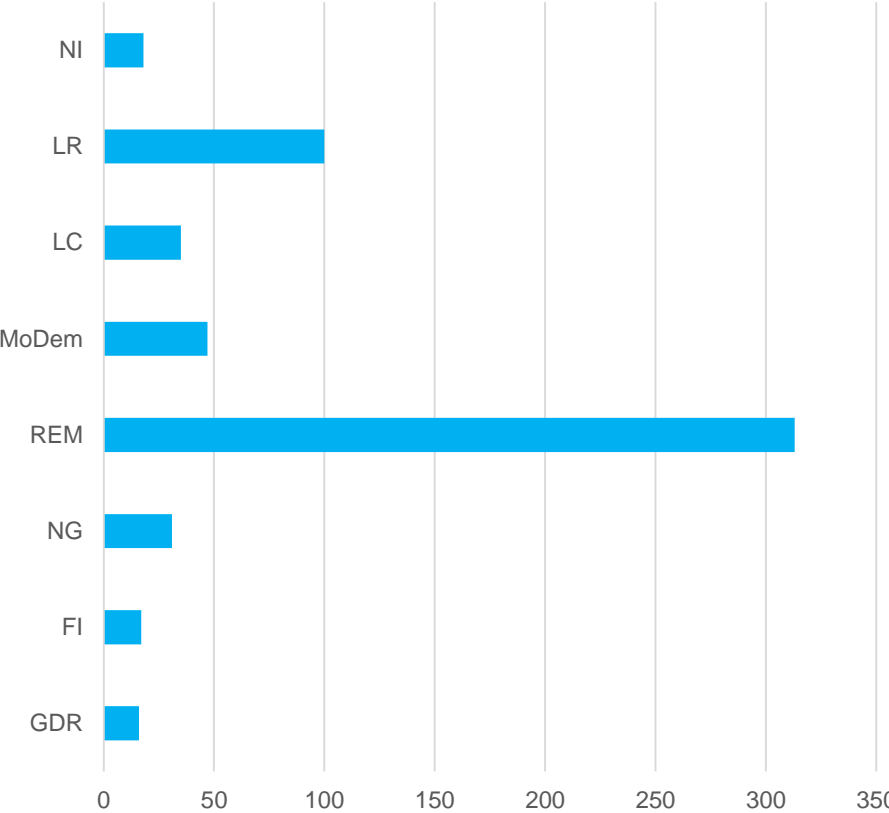
- President: Emmanuel Macron
- Prime Minister: Edouard Philippe
- President of the Senate: Gerard Larcher
- President of the National Assembly: Francois de Rugy

# France – parliament structure

### Senate Political Groups



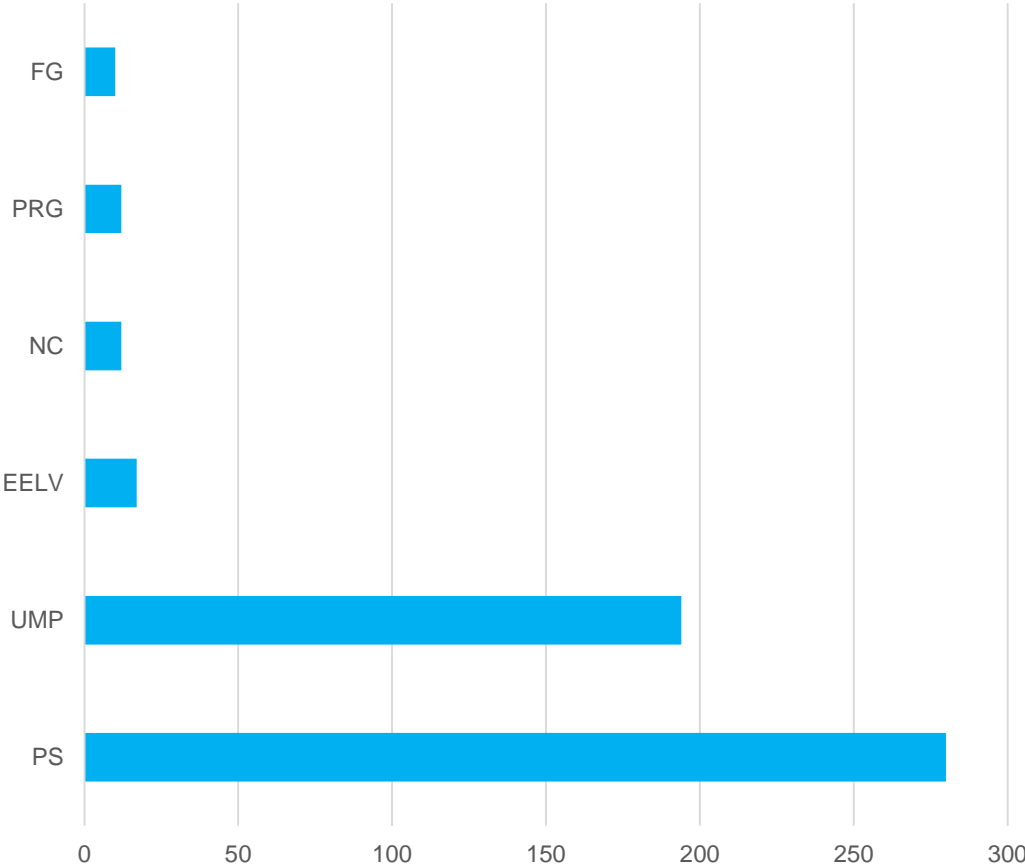
### National Assembly Political Groups



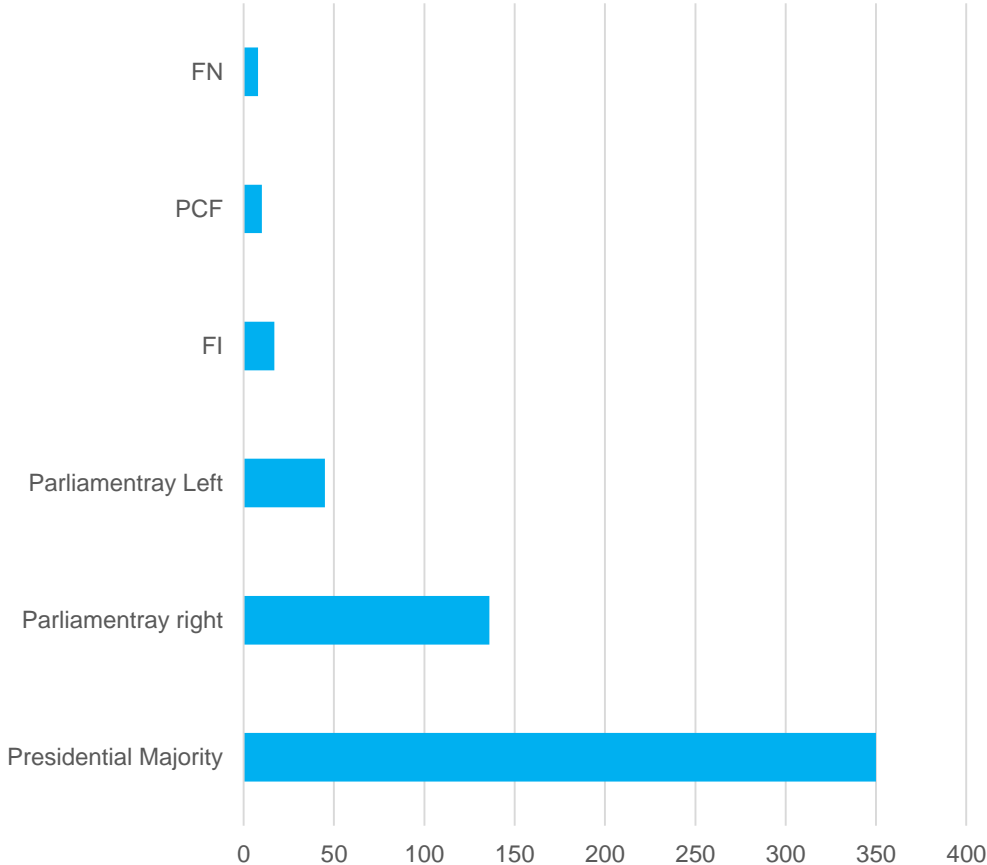
Sources: Wikipedia, ADA Economics

# France – parliamentary elections

2012 elections



2017 elections



Sources: Wikipedia, ADA Economics