



France Economic Update

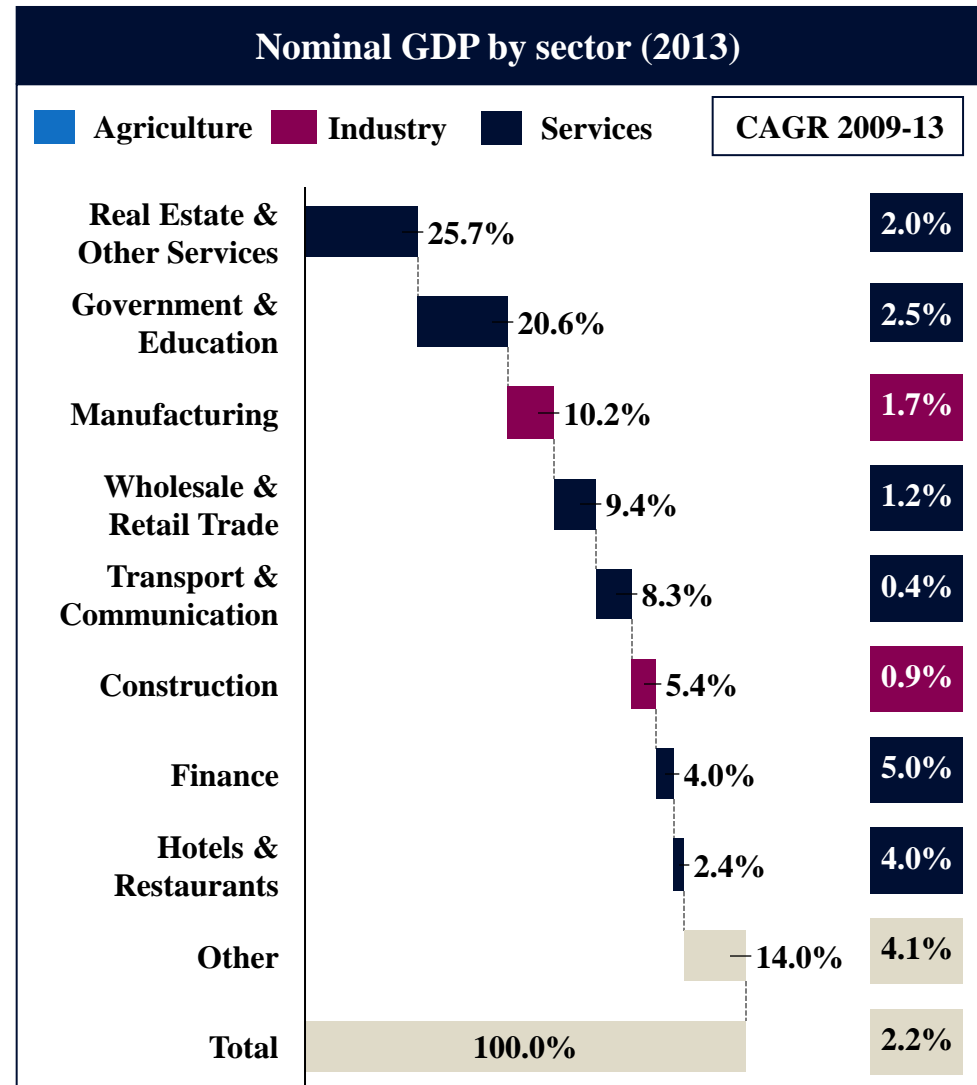
QNB Group

September 2014

France – Overview

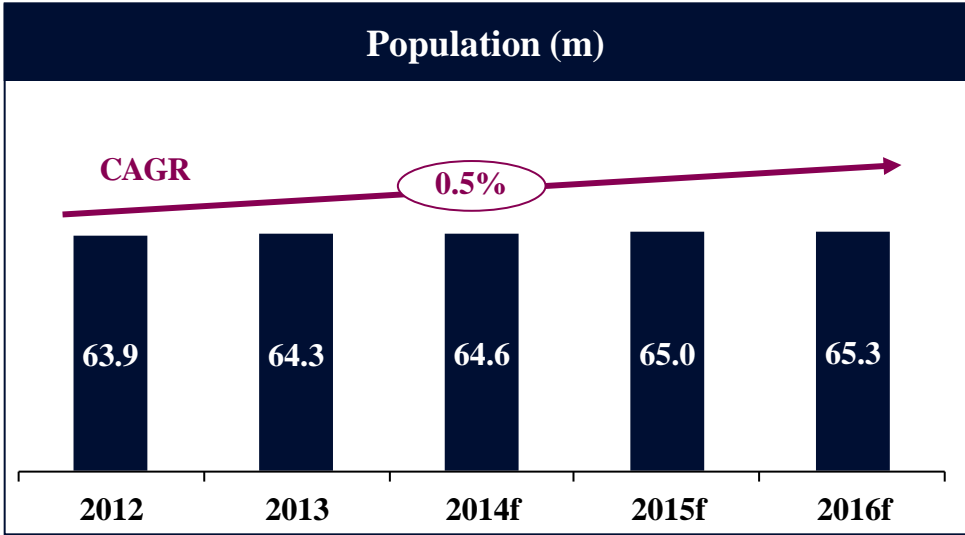
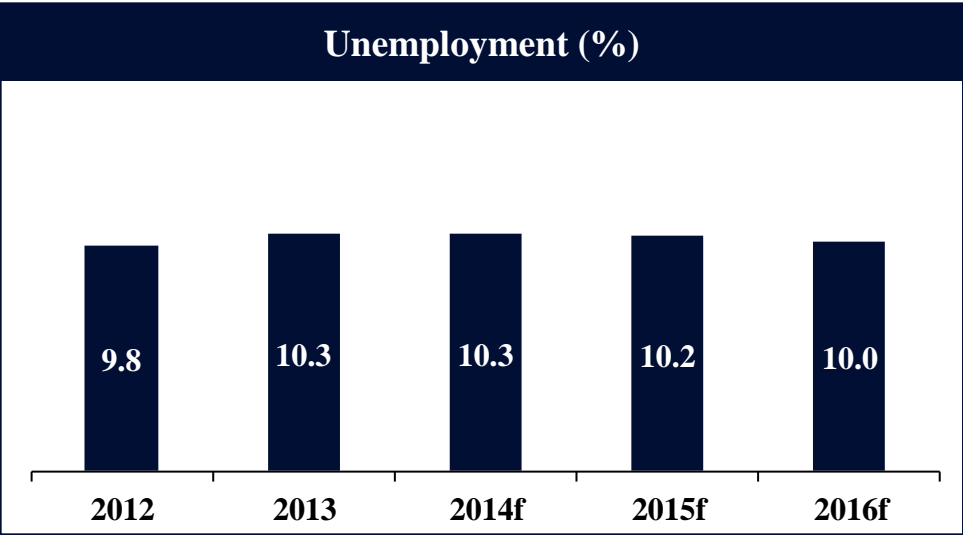
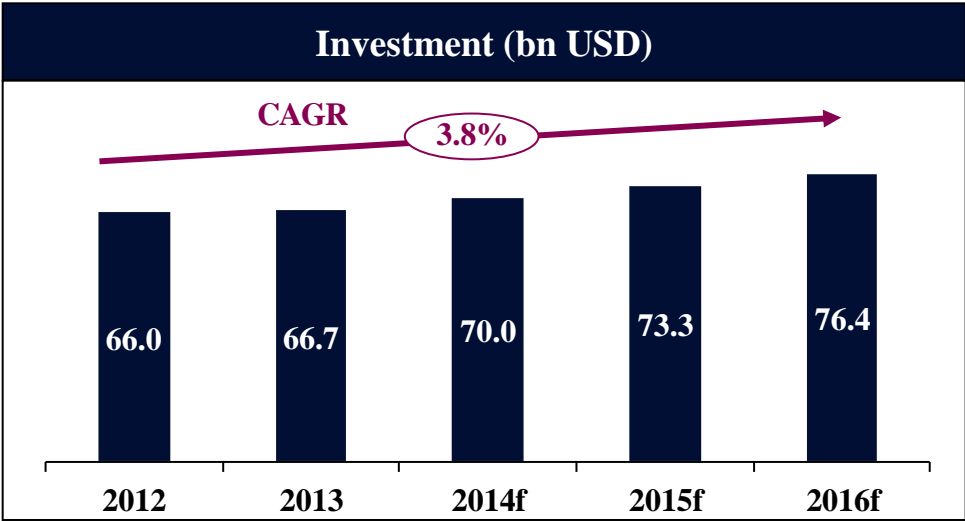
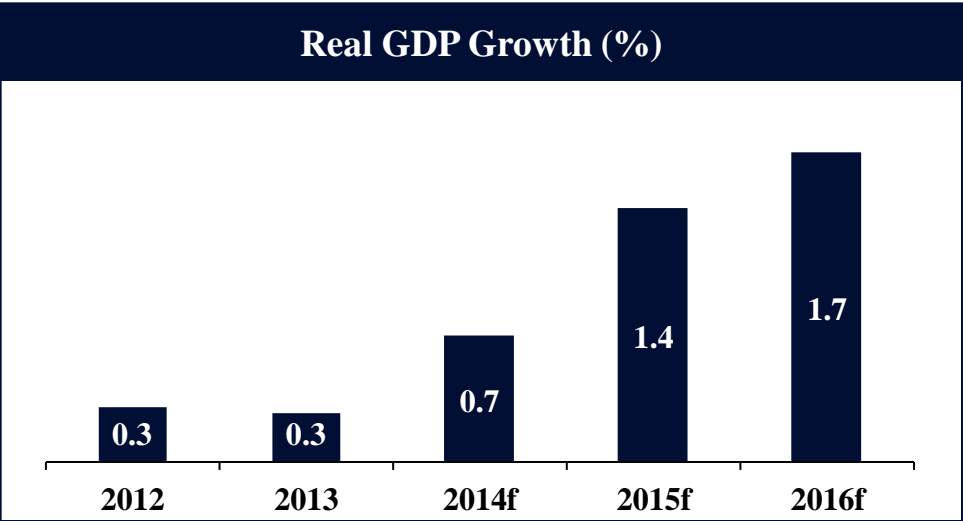
France is the ninth largest economy in the world on a purchasing power parity basis and service-oriented; high indebtedness and lack of reforms are delaying the recovery following the Eurozone crisis, leading to high unemployment

Overview Data (2013)	
GDP (bn USD)	2,808
% GDP related to Services	70.4
Real GDP Growth (%)	0.3
Per Capita GDP (k USD, PPP)	35.8
CPI Inflation (%)	1.0
Current Account Balance (% of GDP)	-1.3
FX Reserves (months of import cover, end-2013)	1.9
Exchange Rate (EUR:USD, period average 2013)	1.33
Fiscal Balance (% of GDP)	-4.2
Government Debt (% of GDP)	91.8
Broad Money Growth (%)	0.3
Banking Assets (% of GDP)	372.9
3-Month Interbank Rate (%)	0.2
Population (m)	64.3
Population aged 15-64 Years (% share)	63.9
Population growth (%)	0.6
Unemployment (%)	10.3
Religion (% Muslim)	7.5
Doing Business Rank out of 189	38
Competitiveness Rank out of 148	23
Moody's Rating (Long-term FX debt)	Aa1



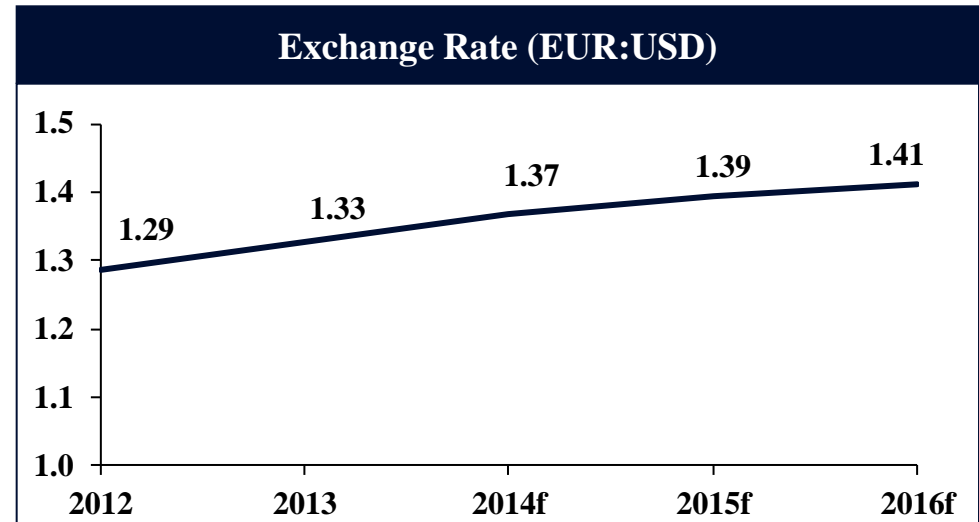
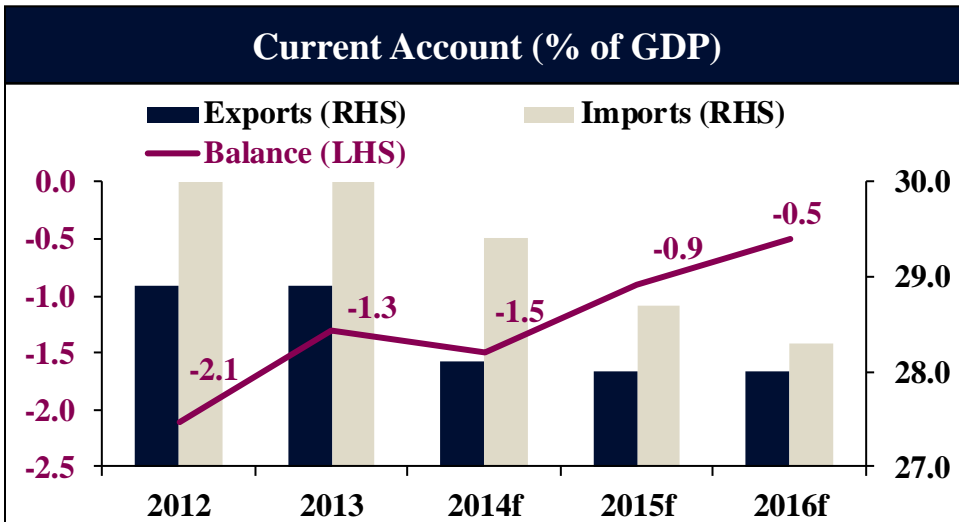
France – GDP Growth

The recovery in real GDP growth is expected to remain slow despite the rise in investment spending; unemployment is projected to remain in double digits over the medium term while population is forecast to grow slowly



France – Balance of Payments

The current account deficit is expected to narrow with the economic recovery as the EUR appreciates; French reserves are projected to decline moderately while trade is mostly with European partners

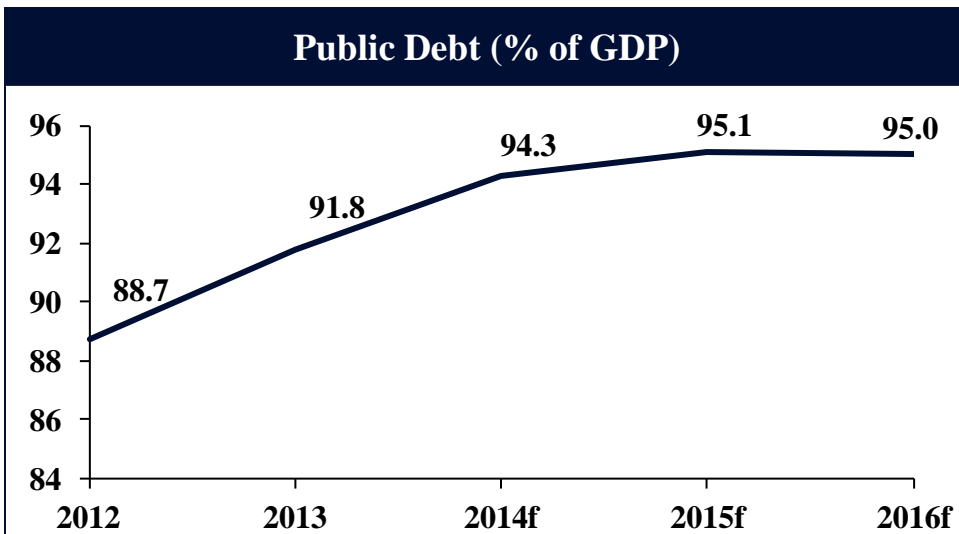
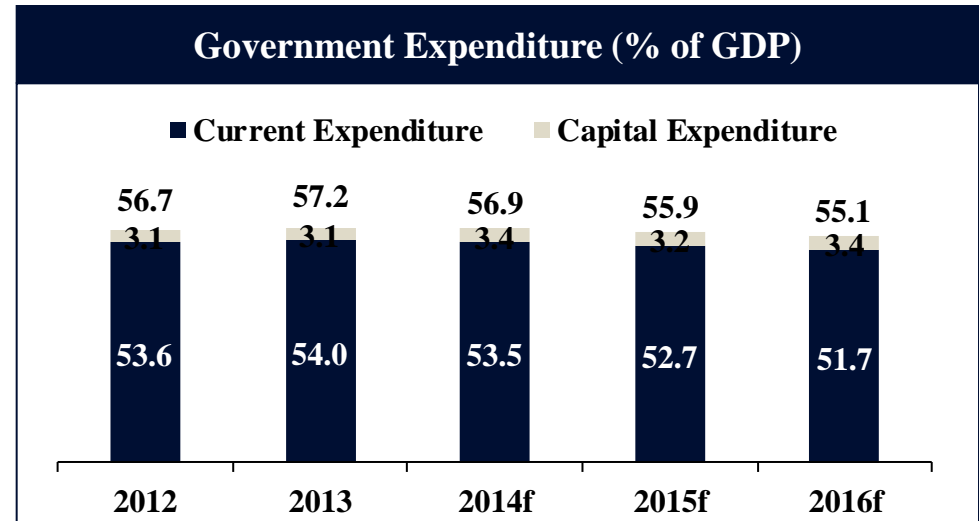
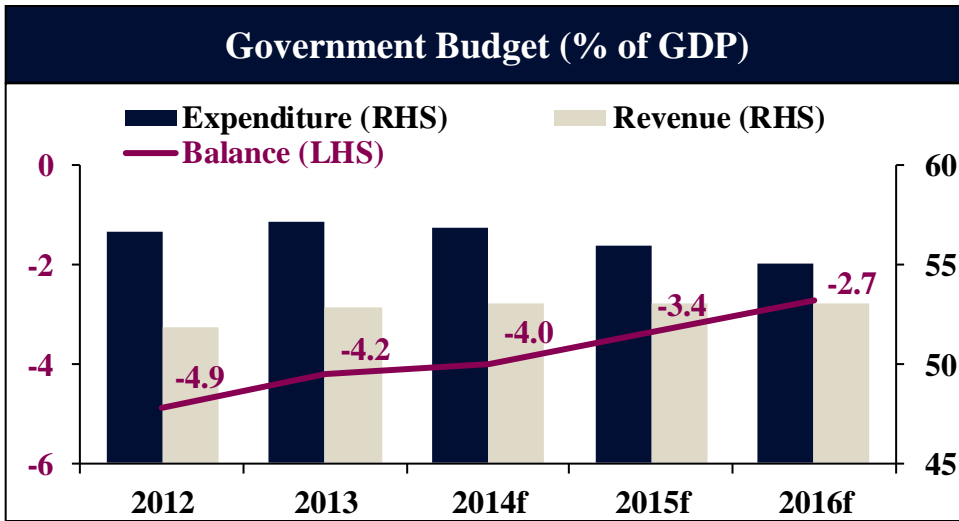


Directions of Trade (2013)

Exports		Imports	
Destination	(bn USD)	Source	(bn USD)
Germany	94.2	Germany	130.5
Belgium	44.6	Belgium	75.9
Italy	40.8	Italy	50.5
United Kingdom	39.9	Netherlands	49.7
Spain	39.0	Spain	45.2

France – Fiscal Policy

The aim of fiscal policy is to reduce the deficit and contain public debt; the deficit is expected to gradually decline partly through cuts in current expenditures; public debt is therefore projected to stabilize at around 95% of GDP by 2015

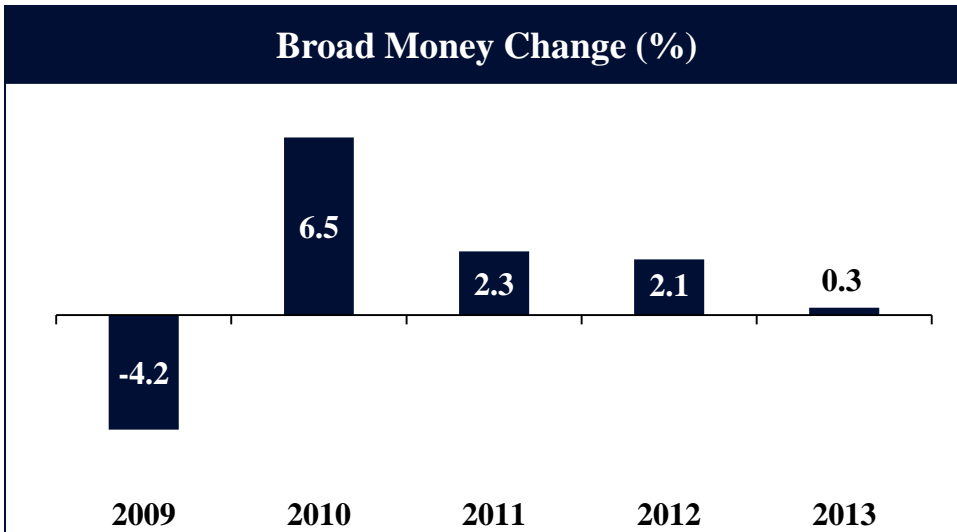
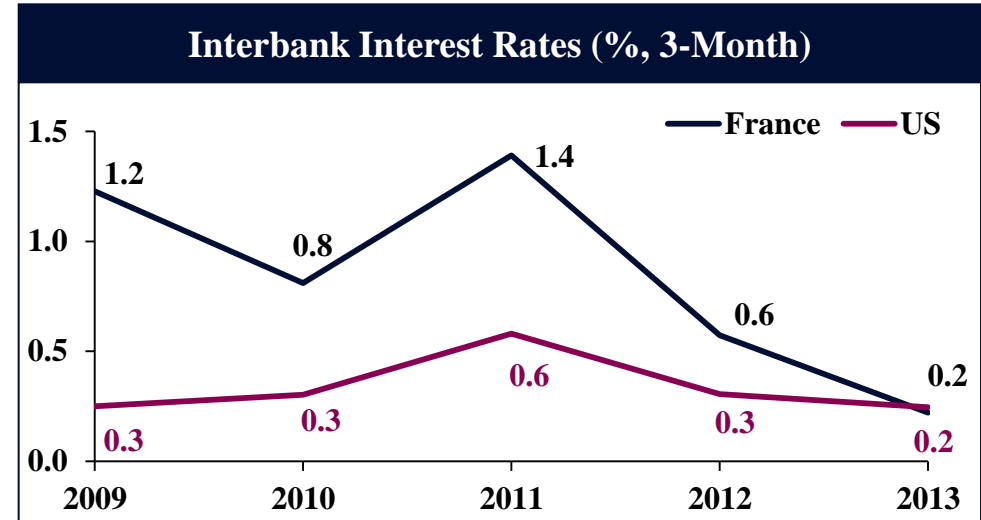
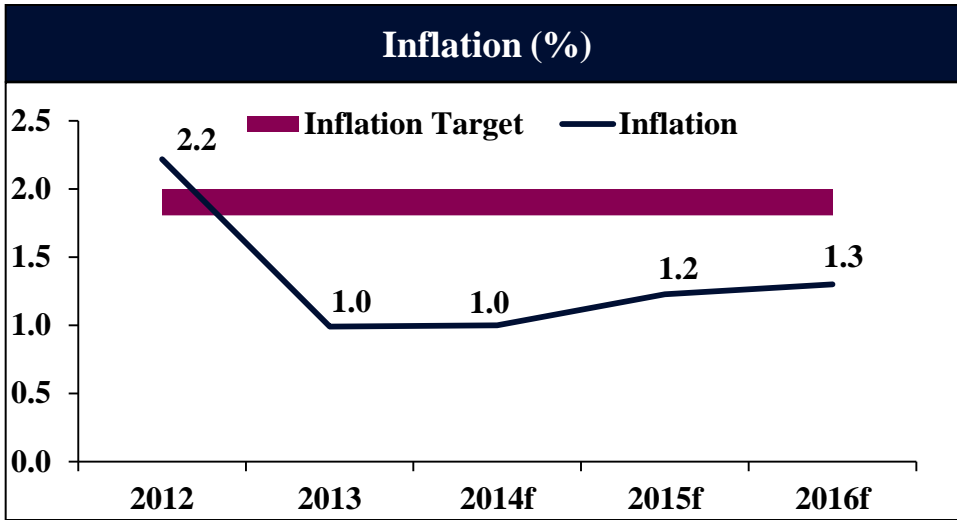


Fiscal Policy

- Fiscal policy aims to reduce the deficit, which peaked at the height of the financial crisis and has been slowly brought under control
- The fiscal deficit is projected to gradually decline to around 2% by 2016 as the government reduces its current expenditure
- Public debt is expected to peak to around 95% of GDP in 2015 on lower projected fiscal deficits

France – Monetary Policy

Monetary policy set by the European Central Bank (ECB) aims to control inflation within a band close to 2%; interest rates and broad money growth has been declining on a slow Eurozone recovery and very low inflation

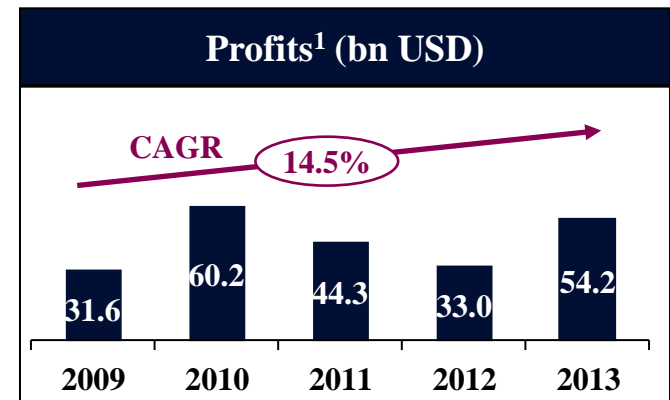
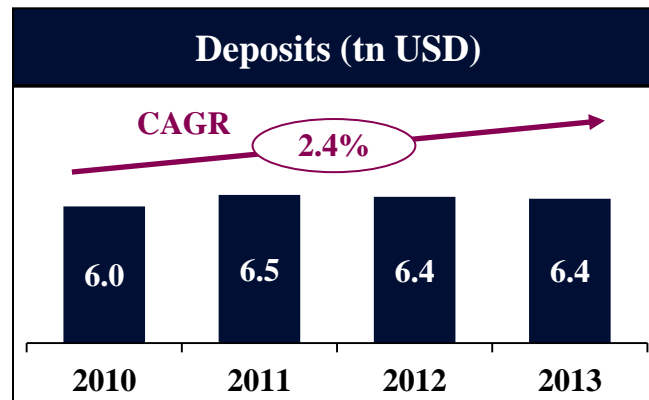
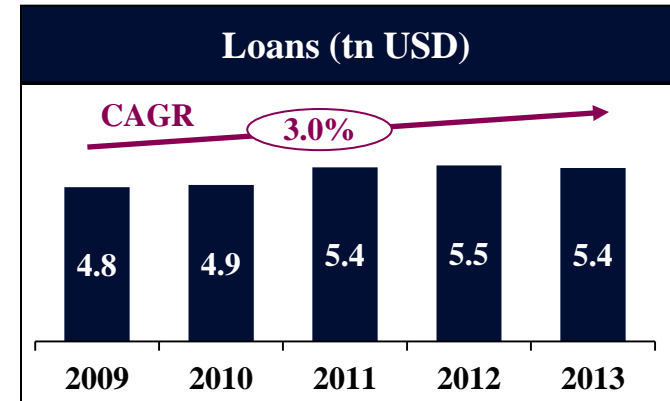
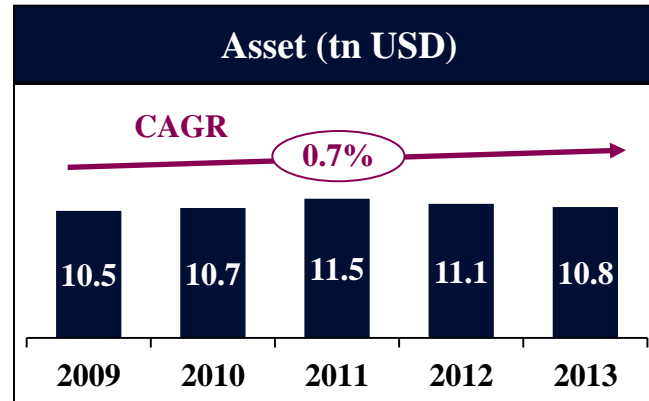
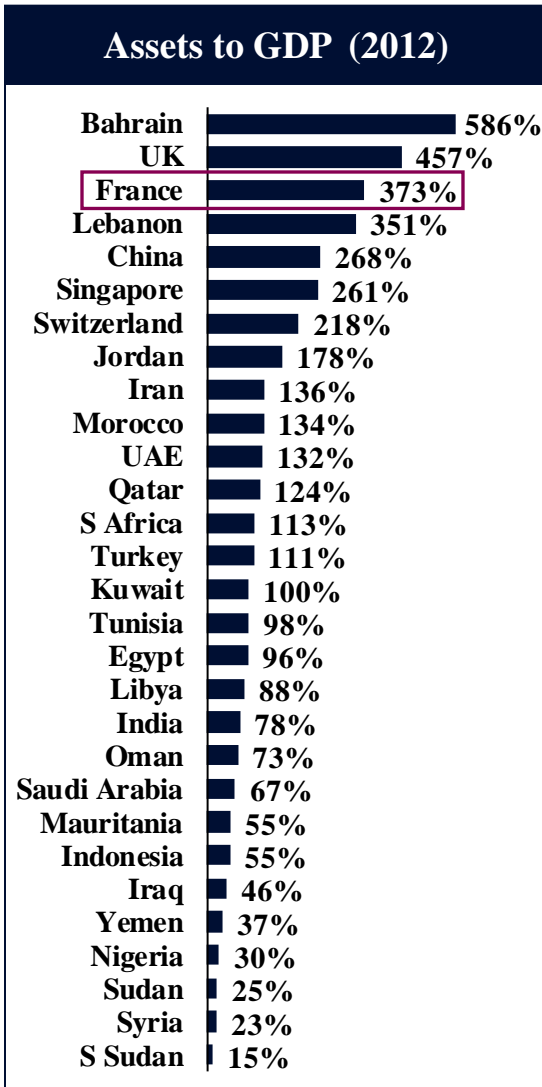


Monetary Policy

- Monetary policy (set for the whole Eurozone by the ECB) targets below but close to 2% inflation through the control of short-term interest rates
- Inflation has been very low in the Eurozone threatening a Japanese-style deflation but is expected to pick up slightly on recent ECB monetary easing
- Broad money shrank during the financial crisis and its recovery remains subdued on a slow recovery and low inflation

France – Banking Sector Overview

Asset penetration is high at 373% of GDP and banking assets have been growing slowly since the crisis on deleveraging; banking indicators have been weak on the back of the Euro crisis, a slow economic recovery, deleveraging and low inflation

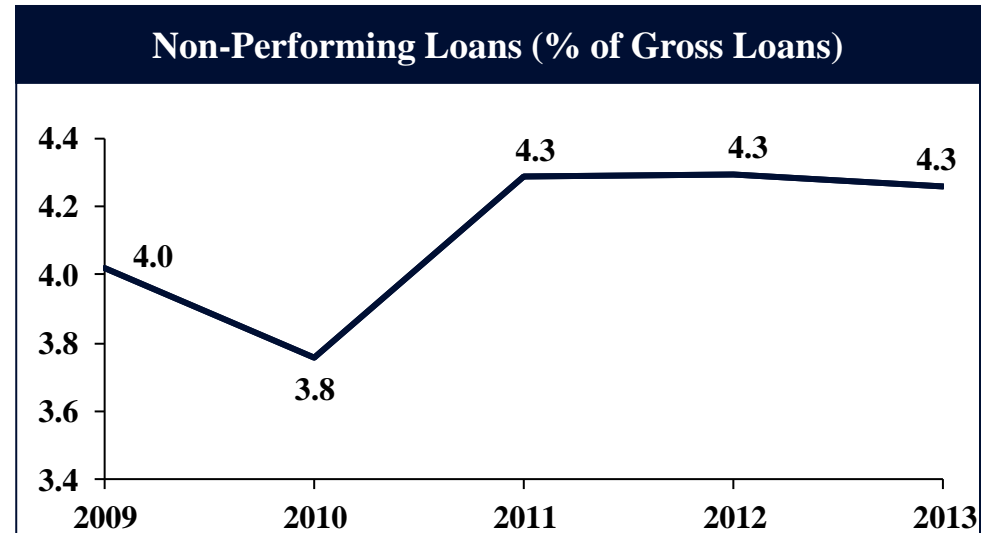
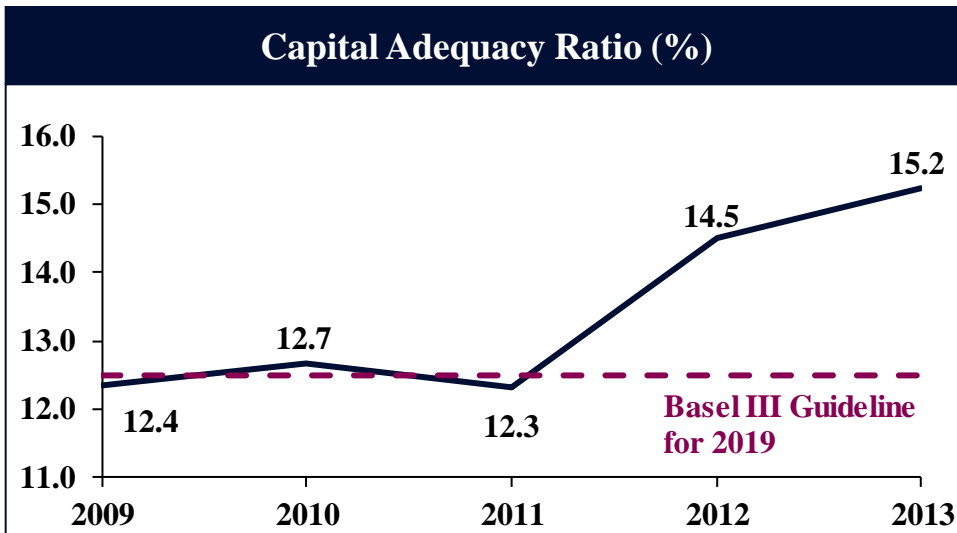
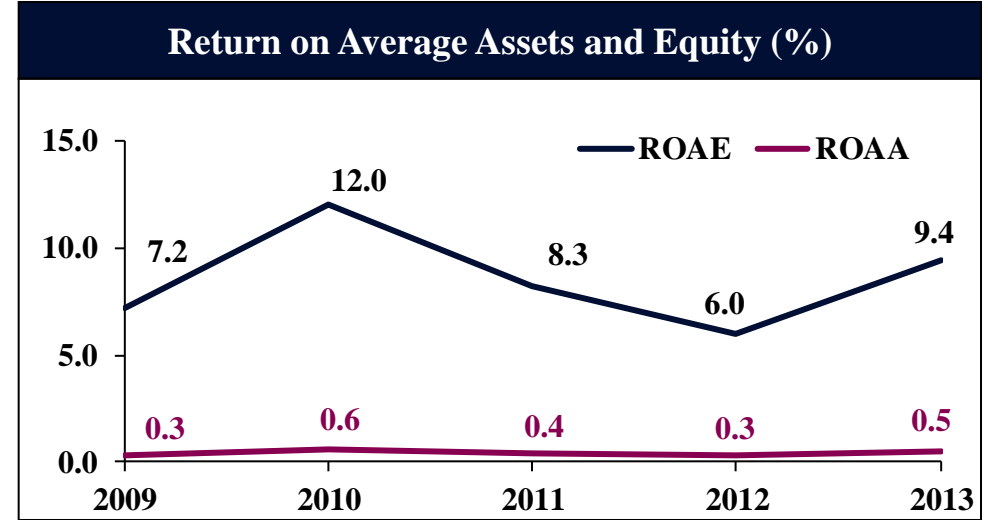
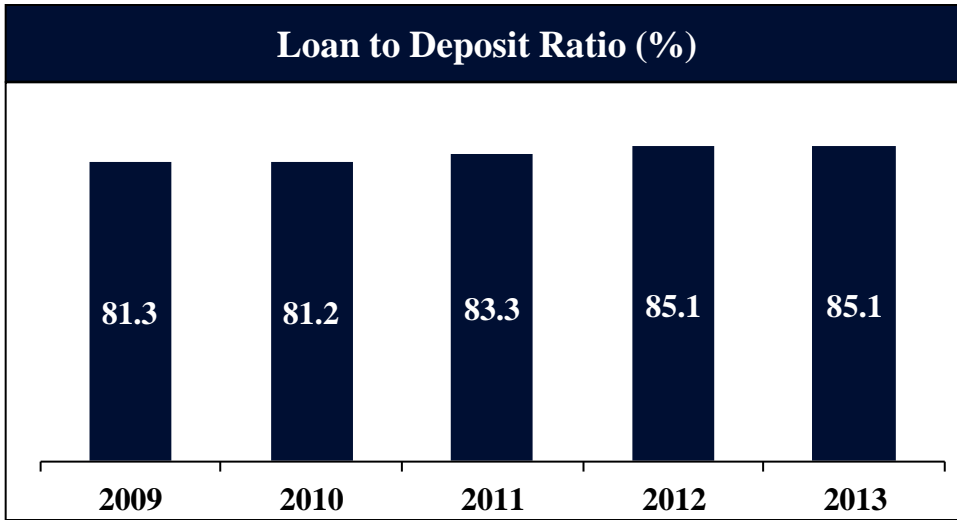


Analysis

- The ECB has recently announced a new program of targeted long-term refinancing operations (TLTROs) to encourage lending to the real economy

France – Banking Sector Ratios

The loan to deposit ratio has been flat on deleveraging; profitability remains low as banks boost their capital base to comply with Basel III guidelines; non-performing loans remain moderate on a weak economic environment



France – Banking Sector Competitor Analysis

The top 5 banks account for 57.7% of total banking assets; profitability is low on continued deleveraging; non-performing loans continue to be high at BNP and Société Générale

Financials for Top 5 Banks (2013)*

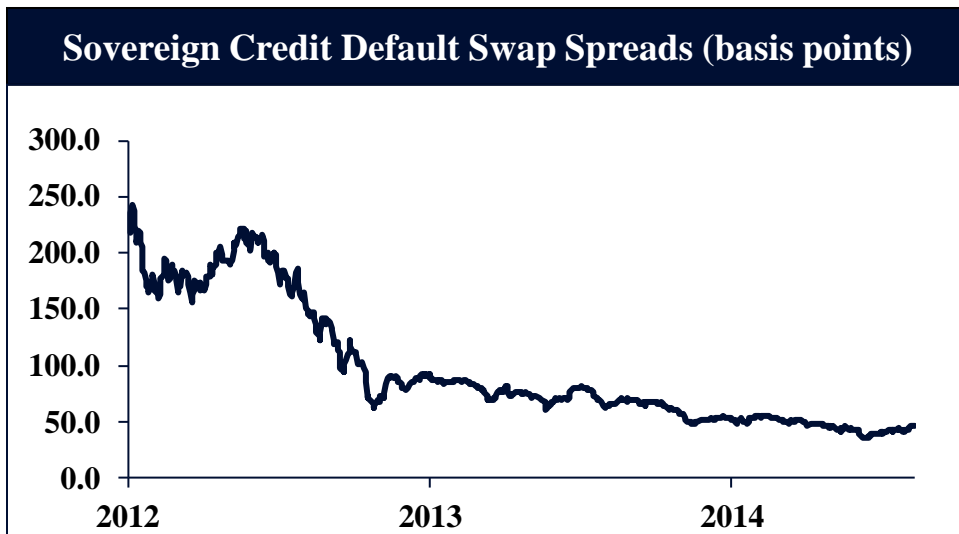
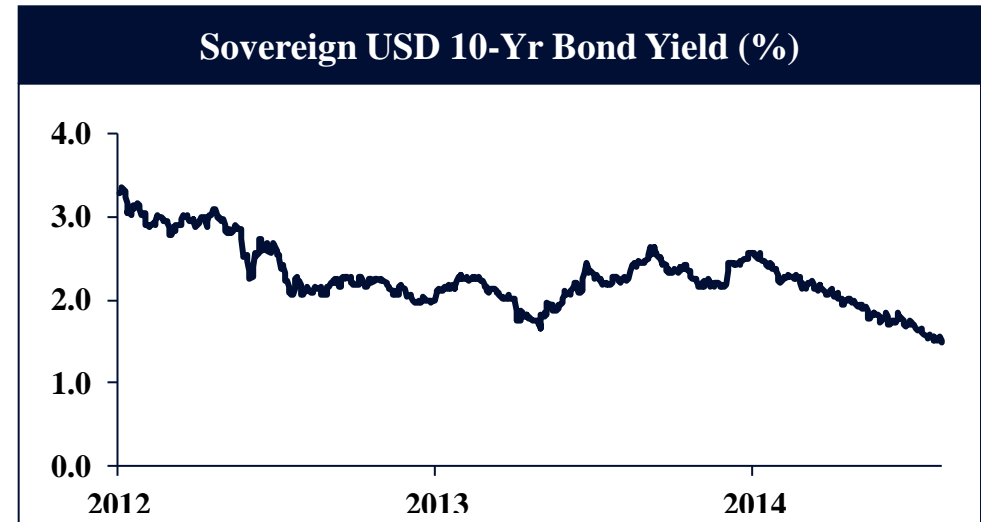
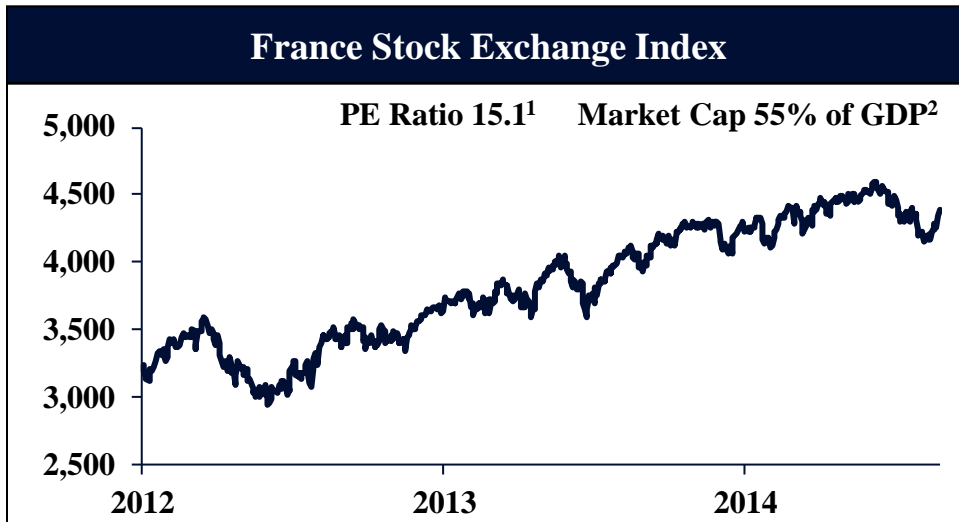
	Market Share by Assets	Net Income	Equity	Return on Equity	Assets	Return on Assets	Loan to Deposit Ratio	Non- Performing Loans
	(%)	(bn USD)	(bn USD)	(%)	(bn USD)	(%)	(%)	(%)
BNP Paribas	16.0	7.5	125.7	5.9	2,482.6	0.3	116.3	7.1
Crédit Agricole	15.2	7.6	112.6	7.0	2,353.2	0.3	114.5	3.8
Société Générale	11.0	3.5	74.6	4.7	1,703.6	0.2	112.2	7.7
BPCE Group	10.0	4.1	80.2	5.3	1,549.5	0.3	129.2	4.1
Credit Mutuel	5.5	2.9	50.7	6.1	851.3	0.4	127.1	4.1

Analysis

- There are 275 operational banks with the top 5 being fairly dominant, accounting for 57.7% of total market assets
- Profitability in the top 5 banks is low with ROE averaging 5.8% and ROA averaging 0.3%
- The loan to deposit ratio is high at over 110% for all the top 5 banks, suggesting heavy reliance on wholesale banking
- The ratio of non-performing loans is mixed across the top 5 banks, ranging from 3.8% to 7.7%

France – Financial Markets

Since the peak of the Eurozone crisis in mid-2012, the stock market has returned 43% while French bond yields and CDS spreads have been on a declining trend; sovereign ratings remain strong despite a negative outlook from Moody's



Sovereign Ratings (July 2014)

	Rating	Outlook
Moody's	Aa1	Negative
Standard & Poor's	Aau	Stable
Capital Intelligence	N/A	N/A
Fitch	AA+	Stable

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