

France Business Forecast Report Q3 2014

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Abstracts

Core Views

While the rest of the eurozone is showing early signs of recovery, the French economy continues to lag behind the region. While the improving regional economic outlook may provide some limited upside potential, this might not be sufficient to drive a recovery in French manufacturing unless the country first addresses its outstanding competitiveness issues.

While we are likely to see a gradual increase in positive rhetoric towards structural reforms, Hollande is unlikely to become an ambitious reformer of the French model. While we expect some reformers will take baby steps in the right direction, the ability of Hollande to implement sweeping reforms will be restrained by divisions within his own party and core support base, and resistance from the proliferation of special interest groups which will make unilateral reform a troublesome and compromised process.

We expect pressures on the government to engage in more concerted fiscal consolidation to mount over the coming quarters, particularly as lower growth begins to translate into lower government revenues. While France has thus far not fallen prey to the bond vigilantes like the peripheral countries of the eurozone, the country nonetheless has one of the largest public sector debt piles in Europe and remains susceptible to contagion effects.

Major Forecast Changes

We have revised our debt forecasts, and now expect the government debt load to reach 100% of GDP by 2018 due to a lack of political willpower to rein in the fiscal deficit combined with weak growth.

Contents

Executive Summary
Core Views
Major Forecast Changes
Key Risks To Outlook

CHAPTER 1: POLITICAL OUTLOOK

SWOT Analysis

BMI Political Risk Ratings

Domestic Politics

Old Faces Will Restrain Reform Progress

While the appointment of Manuel Valls to the premiership portends well for economic reform prospects in France, we caution that his influence is likely to remain restrained by the majority of left-leaning members in the cabinet.

Table: Political Overview

Long-Term Political Outlook

A Tumultuous Decade Could Lie Ahead

We expect several dynamics to come to the forefront of France's political scene in the coming decade. These include France's role in the world, economic reforms, the challenge of demographics and the potential resurgence of left-wing parties after years in the political wilderness.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis

BMI Economic Risk Ratings

Economic Activity

Regional Recovery Lifting France's Outlook

While French economic activity has improved slightly over Q114, the outlook is still relatively uninspiring, and headline real GDP growth will remain below pre-crisis averages. Nonetheless, improving external demand from Spain and Italy should help lift France into positive real GDP growth in 2014 and 2015.

Table: ECONOMIC ACTIVITY

Fiscal Policy

Public Debt To Reach 100% Of GDP

A lack of political willpower to rein in the fiscal deficit combined with weak growth is likely to see France struggle to reach its revised deficit target of 3.0% by 2015. Our new

public debt forecasts expect government debt-to-GDP to reach 100% of GDP by 2018 as a consequence.

Table: FISCAL POLICY

Balance Of Payments

Struggling To Attract Investment

The failure of President Francois Hollande to undertake meaningful reform of the French economy will ensure that the country continues to run a steady current account deficit for the foreseeable future.

Table: CURENT ACOUNT

CHAPTER 3: 10-YEAR FORECAST

The French Economy To 2023

A Difficult Decade

The French economic model is looking increasingly threatened over the coming decade, with tepid growth, rising debt loads and persistent unemployment expected to characterise the country's long-term outlook. Despite this somewhat bleak prognosis, we highlight that we expect France to outperform relative to most of its regional peers.

Table: Long-Term Macroeconomic Forecasts

CHAPTER 4: BUSINESS ENVIRONMENT

SWOT Analysis

BMI Business Environment Risk Ratings

Business Environment Outlook

Institutions

TABLE: BMI BUSINES AND OPERATION RISK RATINGS

Infrastructure

Table: BMI Legal Framework Rating

Market Orientation

Table: Labour Force Quality

Table: Trade And Inv estm ent Ratings

Table: Top Export Destinations

Operational Risk

CHAPTER 5: KEY SECTORS

Defence

Table: Defence Expenditure

Table: Total Electricity Generation Data And Forecasts, 2012-2017

Other Key Sectors

Table: Oil & Gas Sector Key Indicators

Table: Pharma Sector Key Indicators

Table: Infrastructure Sector Key Indicators

Table: Telecoms Sector Key Indicators

Table: Autos Sector Key Indicators

Table: Food & Drink Sector Key Indicators

Table: Freight Key Indicators

CHAPTER 6: BMI GLOBAL ASSUMPTIONS

Global Outlook

Chinese Economy Under Pressure

Table: Global Assumptions

Table: Developed States, Real GDP Growth, %

Table: BMI VERSUS BLOMBERG CONSENSUS REAL GDP GROWTH FORECASTS, %

Table: Emerging Markets, Real GDP Growth, %

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