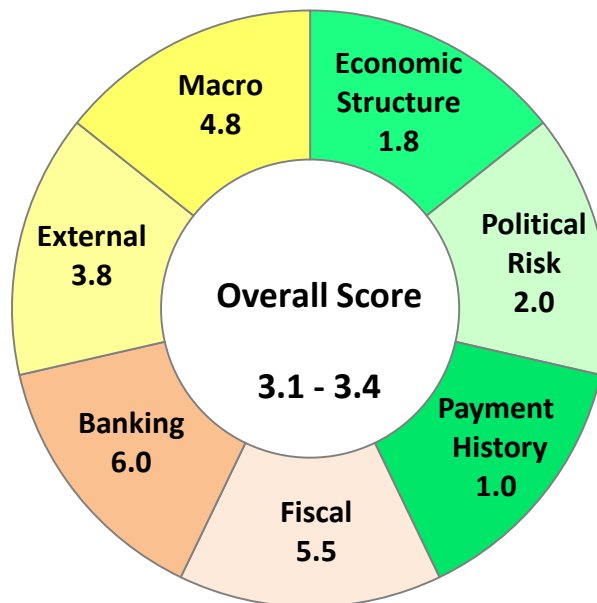


## France Risk Scores



### France Trend Risks

Economic recovery has been slow in France, underlining structural rigidities that limit growth. Consumer demand and housing will lift output by 1.3% in 2017, but export performance will remain weak in the wake of the Brexit vote. French potential output is far below the EU average, and unemployment remains near 10%. Further labor market reforms and changes in basic contracts are needed, but opposition to such changes is intense.

Politics is in disarray. Traditional party candidates have been rejected by voters in the run-up to presidential elections in May 2017. The right-wing nationalist candidate leads most polls, highlighting the social tensions around immigration, social spending and unemployment.

France faces a simmering fiscal crisis, with net public debt nearing 90% of GDP and fiscal deficits about EU limits. Recent attempts to cut spending have evoked political backlash, but are the only real option as France's high tax burden is another obstacle to growth and jobs.

Banking reforms are well underway. Capital ratios are improving, but have not kept pace with loan losses from the recession. French banks suffer from very poor liquidity, and low profitability will require fairly sweeping changes in traditional business models.