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MOODY'S ANALYTICS FRANCE OUTLOOK

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FRENCH ECONOMY EXPECTED TO RECOVER IN H2 2013 BUT PACE OF GROWTH WILL BE WEAK INTO 2014

LONDON, June 20, 2013 — Moody's Analytics, a leading independent provider of economic forecasting, today released its latest economic outlook for France. According to the report, France Outlook: Green Shoots Offer Hope, there are signs that the recession is moderating but the recovery will be weak into 2014 as recent tax increases and rising unemployment weigh on activity.

French GDP continued to fall in the three months to March for the second consecutive quarter. However, household consumption grew on a year-ago basis in April for a second month, indicating an improving trend.

"We're expecting that the French economy will recover in the second half of this year, as demand rises for exports and credit becomes more available. Economic growth in Germany, the top destination for French exports, will likely accelerate towards the end of 2013 and banks will start to loosen credit as concerns about the euro area sovereign debt crisis ease", says Zach Witton, Economist at Moody's Analytics.

High taxes and rising unemployment remain obstacles on the road to recovery. The unemployment rate for mainland France rose in the three months to March to a 15-year high, while the number of French jobseekers climbed for the 20th consecutive month in April to the highest level since the data series began in 1996. Moody's Analytic expects that the unemployment rate will rise into 2014, as the labour market typically lags the economic cycle.

The report also notes that France's competitiveness continues to decline as high labour costs make French goods and services more expensive in international markets outside the euro area. French nominal wages are elevated compared with those in other euro area countries, while its payroll tax is among the world's highest.

"Corporate tax breaks announced in late 2012, and labour market reforms agreed early this year, are positive steps toward reducing labour costs and increasing competitiveness but do not go far enough", adds Mr Witton.

The French government has recently signalled a shift toward spending cuts in 2014 and vowed to stop increasing taxes on households, as any further rises will most likely undermine growth. Government spending in France reached about 57% of GDP in 2012, the highest in the euro area. President Hollande plans to reduce government expenditure by €60 billion by 2017.

According to the Moody's Analytics report, reforming the French pension system will be crucial as government spending on pensions equals more than 10% of GDP, one of the highest ratios in the euro area. The system is under pressure because France's retirement age of 62 is relatively low, life expectancy has increased and high unemployment has reduced the number of workers making contributions. The pension system is currently in deficit, which the government expects to widen to €20 billion in 2020.

Key employers and unions are due to discuss pension reform this week. Potential options include increasing the period or level of contributions, and not fully indexing pensions to changes in the inflation rate. Recent comments from President Hollande imply that he favours increasing the period of contributions, but experience suggests that radical changes to the pension system are unlikely.

Moody's Analytics expects France to contract 0.2% in 2013 and grow 1.1% in 2014.

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