MOODY'S ANALYTICS

News

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MOODY'S ANALYTICS FRANCE OUTLOOK 2014

ECONOMY TO PICK UP, BUT LENDING REMAINS RESTRAINED

LONDON, 29 May 2014 — Moody's Analytics, a leading independent provider of economic forecasting, has released its latest economic outlook for France. According to the report, "France Outlook: Bank Lending Stumbles Forward", France's economic growth stalled in the first quarter of 2014, but should resume through the remainder of the year. However, French banks remain reluctant to lend to the private sector, undermining investment and causing liquidity problems for many companies.

Moody's Analytics expects that France's GDP growth will accelerate to 1.1% in 2014 but stay well below its long-term average of 1.8%.

"We expect the French economy to slowly pick up through 2014. Private consumption will likely be the key driver of growth, with little help from private investment as low profit margins among nonfinancial businesses hinder new investment projects. Further, net exports will continue to weigh on growth," says Martin Janicko, economist at Moody's Analytics.

Moody's Analytics notes that despite the economy's anticipated improvement in 2014, French banks are still not lending enough to the private sector, contributing to many companies' cash-flow problems. In particular, small and medium-size enterprises face a credit crunch, owing to the deindustrialisation following the global financial crisis of 2007-08 as well as the rationing put in place during the crisis. In fact, the latest data show that some private companies are unable to qualify for credit lines. In 2013, only two-thirds of small and medium-size enterprises that applied for loans from banks received them, and only 60% were able to borrow as much as they requested.

According to the Moody's Analytics report, tight credit has led large industrial companies to finance themselves by using credit lines from suppliers and issuing bonds. Ultimately, the decline of long-term bank financing undermines long-term investment projects and constrains private-sector profitability.

"For smaller companies, tight bank lending complicates daily operations and contributes to cash-flow problems. Smaller companies have felt the most impact, showing a high number of bankruptcies. A vicious cycle exists as rising bankruptcies restrain bank lending, increasing the likelihood of more companies declaring bankruptcy", says Mr. Janicko.

The French government's initiative to aid smaller firms has had little impact, notes Moody's Analytics. If the government were to consolidate public finances, however, banks would be less inclined to buy domestic sovereign debt and more willing to lend to the private sector.

Furthermore, the government has addressed low private-sector profitability with various measures aimed at helping small firms, including a EUR40 billion tax break. However, these measures alone may not significantly boost lending in France.

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