Regional Summary: Western Europe

- Western Europe is a highly developed and affluent region. The 28 countries of the EU accounted for approximately 21.7% of the world’s gross domestic product in 2016, down from 22.0% in 2015 and 24% in 2014.
- The U.K. voted to leave the European Union last year, although France voted against the nationalist candidate who vowed to leave the EU. Other important upcoming elections in Western Europe are in Germany (legislative elections in September 2017) and Italy (legislative elections in February 2018).
- The European Central Bank (ECB) is likely to maintain its asset buying program through the end of 2017. The EU’s GDP is likely to increase marginally at a rate of 1.98% in 2017, and inflation is likely to increase to 1.8% in 2017, which is more in line with the ECB’s target range of 2%. Inflation in 2016 was 0.2%.
Economic Risk: Low

- France’s economy, the second-largest in the eurozone, is experiencing a cyclical recovery, as GDP growth remains positive. Nevertheless, GDP growth continues to fall below expectations, indicating the need for structural reforms.

- Public and private investment are expected to remain strong. Public investment will be supported by President Emmanuel Macron’s proposed USD 56 billion investment plan.

- Unemployment levels dropped in 2016, but remain high, standing at 9.6% as of May 2017. Youth unemployment is even higher, standing at over 24%. President Macron does plan to expand the reach of unemployment benefits.

- Debt levels have risen to 96% of GDP, a reflection of the government’s sizeable expenditures and lower-than-expected growth. France’s 2016 fiscal deficit remained above the EU’s 3% of GDP threshold, but is projected to decline.

Political Risk: Low

- France is a member of the EU and one of the original 11 countries to adopt the euro as its currency in 1999.

- President Macron, member of the La République en Marche party, defeated far-right candidate Marine Le Pen in the April 2017 presidential elections. In the recent parliamentary elections, La République en Marche secured an absolute majority, which will facilitate passage of legislation and provide political stability.

- The new administration will be focusing on improving the labor market, lowering taxes, and accelerating fiscal consolidation. Macron’s labor market reforms, especially those to cut labor costs, will most likely face considerable resistance from the trade unions.

- Should Macron’s tax reforms materialize, France’s business environment will benefit. Currently, France ranks 29 out of 190 countries in the World Bank’s Ease of Doing Business Index.

Financial System Risk: Very Low

- Since 2010, the Prudential Control Authority, also known as the Autorité de contrôle prudentiel (ACPR), regulates the insurance and banking industries.

- The banking sector has bolstered its balance sheets considerably since the 2008 crisis, doubling its levels of capital. However, the regulatory framework is still being strengthened, as banks work to finalize aspects of Basel III guidelines.

- Credit growth has been strong. As of April 2017, credit to private households had grown by 5.6%. This credit growth should be monitored as too much growth could become problematic.

- Monetary policy, directed by the European Central Bank, has been accommodative towards growth and has decreased the government’s borrowing costs.