TYCHOS

France Commentary 2-1-21

Commentary:

France has accelerating private debt to GDP growth levels in both households and non-financial corporations, which is at a rate and level higher than most other countries in Europe. This high growth contributes to France's ability to grow in the face of ongoing net export and current account deficits, though if this growth accelerates further, it could bring credit concerns.

The first three quarters of 2020 have seen accelerated debt growth, particularly to non-financial corporations.

Particular areas of concern include real Estate and construction, wholesale and retail sectors, manufacturing, business Support, transportation, health and education, and housing loans to consumers.

A disproportionate amount of this growth is from non-bank financial institutions, and more recently, from debt security issuances.

France has a growing level of cross-border lending to the U.S.

High loan growth rates at Credit Agricole and Credit Industrial are of particular note.

We have no derivative information for France.

After holding steady at 98% since 2016, government debt has now reached 116%. That compares to 68% in 2008.

Country Net Worth:

France has an intermediate but stable financial net worth position, with relatively low household financial net worth, relatively high non-financial corporation net worth, and an intermediate level government financial net worth.

Background:

Accelerating private debt for a country is normally a signal for some level of economic boom, which is then often followed by some type of economic reversal or calamity. The same is also true for rapid debt growth within an economic sector. At the point credit growth becomes excessive, the result is credit problems for that country or sector. The reason is this: rapid growth in credit,

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while usually favorable in the short run, if sustained can lead to oversupply or overcapacity—e.g. too many houses or too much oil extraction capacity—at the country level, or within a given industry or sector. In fact, overcapacity is only possible through rapid debt expansion. Significant overcapacity is generally followed by two events—a drop in sector activity and the necessity of sector layoffs during the period while demand catches up, along with high credit losses for lenders in that sector.

There is no hard and fast measure for the level of growth that leads to overcapacity, since the nature of policy responses and other qualitative variables have a significant influence on how events play out. Nevertheless, what has been a useful threshold measure is that if overall private debt to GDP increases by 20% in a five-year window, and reaches 150% in that time frame, credit problems are a likely result. Within a given sector, if sector debt to GDP increases over 40% within five years, credit problems of increased likelihood within that sector. If the sector is large enough, e.g. the real estate sector, that sectors problems can spill over into other sectors bringing systemic national risk.

Disclaimer:

All data in this report is as current as is readily available. Certain data is less timely than desirable, especially sector level data. However, most adverse volume trends must hold for more than a year or two to create significant credit concerns, so this lag in data, while unfortunate, does not preclude of significant trends.

https://www.tychosgroup.org Email: Contact@tychosgroup.org

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