France
CRT-1
August 22, 2019
Region: Europe
Country Risk Criteria Procedures
Guide to Best’s Country Risk Tiers

• The Country Risk Tier (CRT) reflects AM Best’s assessment of three categories of risk: Economic, Political, and Financial System Risk.

• France is a CRT-1 country, with low levels of economic and political risk, and very low financial system risk.

• In 2019, France’s GDP and inflation are both projected to decrease to an estimated 1.3% in 2019 for both. In 2018 GDP and inflation were at 1.5% and 2.1%, respectively.

• The country has one of the largest economies in the world. However, the unemployment rate has remained high and this, along with labor inflexibility, has contributed to constrained GDP growth.

• AM Best categorizes the majority of countries pictured in the map as CRT-1 and CRT-2. Notable exceptions are the Eastern European countries such as Belarus, Romania, and Ukraine.

Regional Summary: Western Europe

• Composed of 28 countries, the EU accounts for slightly over a fifth of the world’s GDP. The IMF predicts that GDP for the region will be 18.71 trillion euros in 2019, largely flat from 18.75 trillion euros in 2018.

• Uncertainty about Britain’s exit from the EU lingers, weighing on regional growth prospects. A decision on Brexit is due in October, with a “no deal” Brexit remaining a possibility.

• Growth in Western Europe has stagnated; impediments include weakness in the region’s manufacturing sectors, heightened trade tensions, and a general worldwide economic slowdown.

• The European Central Bank (ECB) ended its unprecedented quantitative easing program in December 2018. However, the ECB has signaled that further stimulus could be forthcoming if economic softness persists.
Economic Risk: Low

- France’s economy is highly diversified with a strong global and eurozone presence. Domestic demand in France continues to be a significant driver of economic growth.
- Expansionary fiscal policy has supported an increased level of disposable income for households. At the start of 2019 households savings was at a six year high, boosting private investment.
- Weakened external demand caused by global trade tensions is expected to be a headwind to growth in 2019 for France. Additional headwinds include ongoing uncertainty surrounding Brexit and aging demographics. Possible US tariffs on French goods combined with a “no-deal” Brexit could diminish France’s exports significantly as both the US and the UK receive approximately 7% of France’s exports.
- France’s unemployment rate remains high, largely due to the country’s complicated hiring and firing process. To circumvent this, the vast majority of new hires in 2017 received temporary fixed contracts as opposed to permanent contracts.

Political Risk: Low

- The current president of France is Emmanuel Macron of the La République En Marche (REM) party. REM holds an absolute majority in the National Assembly. This majority allows Macron’s administration to enact its policy agenda with minimal legislative opposition. The government’s priorities include labor market, unemployment insurance and pension reform.
- Macron’s administration has been effective in reducing public expenditure; it was 56.4% of GDP in 2016 and is expected to be 51.1% by 2022. Over 100,000 public administration jobs have been cut, state owned monopolies have been broken up and bureaucratic oversight has been reduced.
- Strikes and protests are expected throughout 2019 due to privatization and pro-business reforms. Already enacted reforms have led to tensions with various union groups, which have caused transportation disruptions.
- France is a member of the EU and one of the original 11 countries to adopt the euro as its currency in 1999.

Financial System Risk: Very Low

- Since 2010, the Prudential Control Authority—the Autorité de Contrôle Prudentiel (ACPR)—regulates the insurance and banking industries.
- France ranks 12th out of 190 countries in the World Bank’s Ease of Doing Business Survey for contract enforcement and 14th for getting electricity. This contributes to the country’s overall ranking of 32; excessive bureaucracy is the main drag on the countries ranking.
- Monetary policy, directed by the European Central Bank, has been accommodative towards growth and has materially decreased the government’s borrowing costs.