

BEST'S COUNTRY RISK REPORT

France CRT-1

August 22, 2018

Region: Europe

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- France is a CRT-1 country, with low or very low levels of economic, political, and financial system risk.
- Over the last few years, real GDP growth has been constrained due to high levels of unemployment, labor inflexibility, and weak domestic demand growth.
- GDP growth was 1.8% in 2017 and is expected to reach 2.1% in 2018. The increase in economic growth will be driven by a rise in both domestic consumption and investment activity.
- A.M. Best categorizes the majority of countries pictured in the map as CRT-1 and CRT-2. Notable exceptions are many of the Eastern European countries such as Belarus, Romania, and Ukraine.



Economic Risk



Political Risk



Financial System Risk

- Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2) Low Level of Country Risk
- Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4) High Level of Country Risk
- Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: Western Europe

- Western Europe is a highly developed and affluent region. The 28 countries of the EU accounted for approximately 21.9% of the world's domestic product in 2016 and 21.6% in 2017, a figure that is projected to grow to 22.5% in 2018.
- Growth has been driven largely by rising domestic demand due to growing consumer and business confidence, lower unemployment rates, and credit growth.
- The European Central Bank (ECB) has decided to end its three-year EUR2.4 trillion quantitative easing program by the end of 2018, although it did signal that any rise in interest rates before September 2019 was unlikely. The policy rate has been below 1.0% since July 2012 and has been at 0.0% since March 2016.
- Concerns include political instability in certain countries, ongoing uncertainty about Brexit and its potential implications, and below-trend growth and inflation.

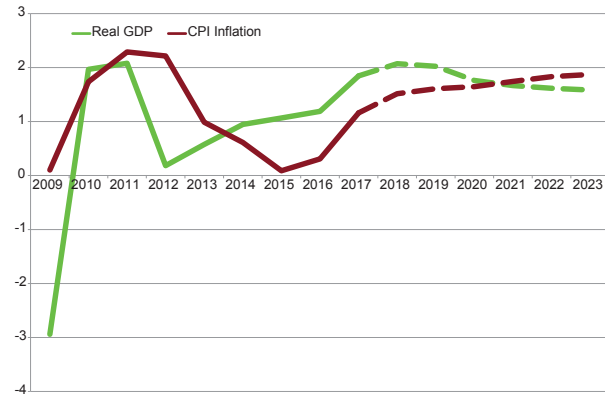
Vital Statistics 2017		
Nominal GDP	USD bn	2583.56
Population	mil	64.8
GDP Per Capita	USD	39,869
Real GDP Growth	%	1.8
Inflation Rate	%	1.2
United Nations Estimates		
Literacy Rate	%	n.a.
Urbanization	%	80.0
Dependency Ratio	%	59.2
Life Expectancy	Years	81.9
Median Age	Years	41.4
Insurance Statistics		
Insurance Regulator	French Prudential Supervisory Authority (ACPR) under Banque de France	
Premiums Written (Life)	USD mil	153,520
Premiums Written (Non-Life)	USD mil	88,083
Premiums Growth (2016 - 2017)	%	-1.3
Regional Comparison		
	Country Risk Tier	
France	CRT-1	
Germany	CRT-1	
Italy	CRT-2	
Spain	CRT-2	
Switzerland	CRT-1	
United Kingdom	CRT-1	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



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Economic Growth (%)



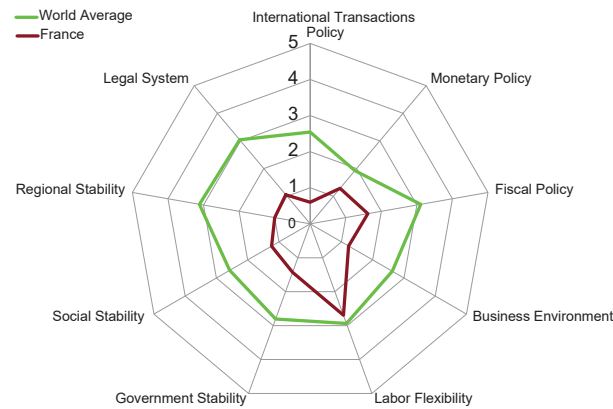
Source: IMF World Economic Outlook and A.M. Best

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 additional structural reforms.
- Headwinds for France include rising trade tensions due to growing trade protectionist policies, ongoing uncertainty surrounding Brexit, aging demographics, and the potential for a misstep from the European Central Bank as it adjusts monetary policy.
- Job growth accelerated in 2017, resulting in lower levels of unemployment for the year. The unemployment rate was approximately 9.4% in 2017 and is expected to decline further in 2018, to 8.8%.
- The economy is diversified, with limited state intervention in most sectors. However, the government maintains a strong presence in the defense, public transport, and power industries.

Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

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 Emmanuel Macron, a member of the La République en Marche (REM) party, defeated the far-right candidate, Marine Le Pen, in the April 2017 presidential elections. In the recent parliamentary elections, REM secured an absolute majority, which will facilitate the passage of legislation and provide political stability.
- Macron has been able to pass legislation with regard to labor and tax reforms, which focused on lowering tax rates and increasing the flexibility of the labor market. However, this has led to tensions with various union groups and has caused significant disruptions to air and rail transportation.
- Additional efforts to improve France's competitiveness, including reforms of unemployment insurance, pensions, and a reduction in companies' administrative burden, are likely to be undertaken in the near term.

GDP Per Capita and Population



Source: IMF and A.M. Best

Financial System Risk: Very Low

- Since 2010, the Prudential Control Authority—the Autorité de Contrôle Prudentiel (ACPR)—regulates the insurance and banking industries.
- The banking sector has bolstered its balance sheet considerably since the 2008 financial crisis, doubling its capital. However, the regulatory framework is still being strengthened, as banks work to finalize aspects of the Basel III guidelines.
- Monetary policy, directed by the European Central Bank, has been accommodative towards growth and has materially decreased the government's borrowing costs.
- Corporate debt levels have increased, which could become a vulnerability when interest rates rise. Authorities have limited banks' exposures to individual large indebted corporations.