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France

Economic Policy Analysis

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1. Executive Summary

The current report aims to provide an assessment of the French economy focussing on macroeconomic issues, supplemented by financial services, taxation and competition policies. The list of policies analyzed is by no means exhaustive, but attempts to reflect (at least in part) the remit of the European Parliament's ECON Committee.

- **Growth performance:** after stagnating in the first half of 2005, economic activity has regained momentum, but it still slightly lags behind the ongoing global trend. High oil prices, softer global growth, a stronger euro, continuing labour market softness and the ongoing financial turmoil are all likely to limit the prospects for higher growth rates in the near future. The growth forecasts for 2008 broadly range from 1.6% (European Commission) to 1.7-2.0% (French Government).
- **Inflation** remains moderately below the euro area average, albeit strongly following the recent global upwards pressure, reaching 3.5% in March 2008.
- The **public finances**, which improved only modestly between 2004-06, deteriorated in 2007, when the general government budget balance widened to 2.7% as the government privileged tax cuts over expenditure savings. France proclaims a serious attempt at fiscal consolidation but this is unlikely before 2009 at the earliest. France is committed to reduce the overall tax burden (as % of GDP) to 40%, from currently approx. 43%.
- **Taxation policy priorities** with relevance to EU policies include an increasing weight of green (environmental) taxation as well as fiscal harmonization in selected areas, such as corporate taxation (CCCTB).
- **Unemployment** at 8.3% remains slightly above EU average, despite some downward trend recently. Legal restrictions and a relatively high tax wedge remain main barriers for stronger employment growth.
- The **weak export performance** cannot be explained by traditional factors such as exchange rate and unit labour costs, but rather with structural factors. Against this backdrop, the economic debate focuses on how to foster the **structural reforms** necessary to reduce unemployment while also boosting employment, addressing population aging, and allowing French firms to regain competitiveness.
- **Banking** - French banks are focussing more and more on the "originate, rate and distribute model", using securitisation to offload a portion of their risks. This and the increased LBO activity is a source of vulnerability for French banks.
- **Securities -** The AMF has published two interesting studies recently; one on rating agencies and one on corporate governance following the MEDEF guidelines (for main findings see text).
- **Insurance markets:** in 2006 France ranked at no. 4 of the world's insurance markets, just behind the United States, Japan and the United Kingdom, featuring 250 billion EUR of premiums (+11%); 12 billion EUR annual surplus (+37 %); 1500 billion EUR of investments (+9%); 1754 insurance companies (-5%).
- Profound changes have taken place over the past decade in terms of **competition,** partly under the impetus provided by liberalising measures at EU level. The vast majority of product markets are now fully open to competition and those that are not, such as energy, are slowly being liberalised.

European Commission - Spring Economic Forecast 2008/2009, May 2008

Main features of country forecast - FRANCE

		2006			Annual percentage change					
bn Euro		Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at previous year prices		1792.0	100.0	1.9	2.5	1.7	2.0	1.9	1.6	1.4
Private consumption		1016.5	56.7	2.0	2.5	2.2	2.0	2.0	1.8	1.7
Public consumption		423.7	23.6	1.5	2.3	0.9	1.4	1.4	1.4	1.4
Gross fixed capital formation		366.4	20.4	1.7	3.6	4.0	3.7	3.9	2.0	1.6
of which : equipment		95.0	5.3	-	2.2	3.6	5.9	4.6	2.7	2.0
Exports (goods and services)		481.2	26.9	5.5	4.0	2.8	5.5	2.7	2.2	2.0
Final demand		2298.9	128.3	2.5	3.4	2.4	3.1	2.3	1.8	1.6
Imports (goods and services)		507.0	28.3	5.1	7.1	5.0	6.8	4.1	2.6	2.4
GNI at previous year prices (GDP deflator)		1805.8	100.8	1.9	2.6	1.7	2.0	1.9	1.5	1.4
Contribution to GDP growth :	Domestic demand			1.8	2.6	2.2	2.2	2.3	1.8	1.6
	Stockbuilding			0.0	0.6	0.0	0.2	0.0	0.0	0.0
	Foreign balance			0.1	-0.7	-0.6	-0.4	-0.4	-0.2	-0.2
Employment				0.6	0.1	0.3	0.7	1.2	0.6	0.3
Unemployment rate (a)				10.2	9.3	9.2	9.2	8.3	8.0	8.1
Compensation of employees/f.t.e.				2.5	3.5	3.2	3.1	3.0	3.0	2.9
Real unit labour costs				-0.2	-0.5	0.0	-0.4	0.0	-0.2	-0.1
Savings rate of households (b)				-	-	15.0	15.3	16.4	16.0	16.3
GDP deflator				1.5	1.6	1.7	2.3	2.3	2.3	2.0
Private consumption deflator				1.3	1.9	1.8	1.9	1.5	2.8	1.9
Harmonised index of consumer prices				1.7	2.3	1.9	1.9	1.6	3.0	2.0
Trade balance (c)				0.7	-0.3	-1.2	-1.6	-2.8	-3.1	-3.2
Current account balance (c)				1.1	-0.6	-1.7	-2.2	-2.6	-2.9	-3.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				1.1	-0.5	-1.7	-2.1	-3.0	-3.6	-3.5
General government balance (c)				-3.5	-3.6	-2.9	-2.4	-2.7	-2.9	-3.0
Cyclically-adjusted budget balance (c)				-3.4	-3.7	-2.9	-2.4	-2.6	-2.7	-2.6
Structural budget balance (c)				-	-3.8	-3.6	-2.7	-2.7	-2.8	-2.6
General government gross debt (c)				54.7	64.9	66.4	63.6	64.2	64.4	65.1

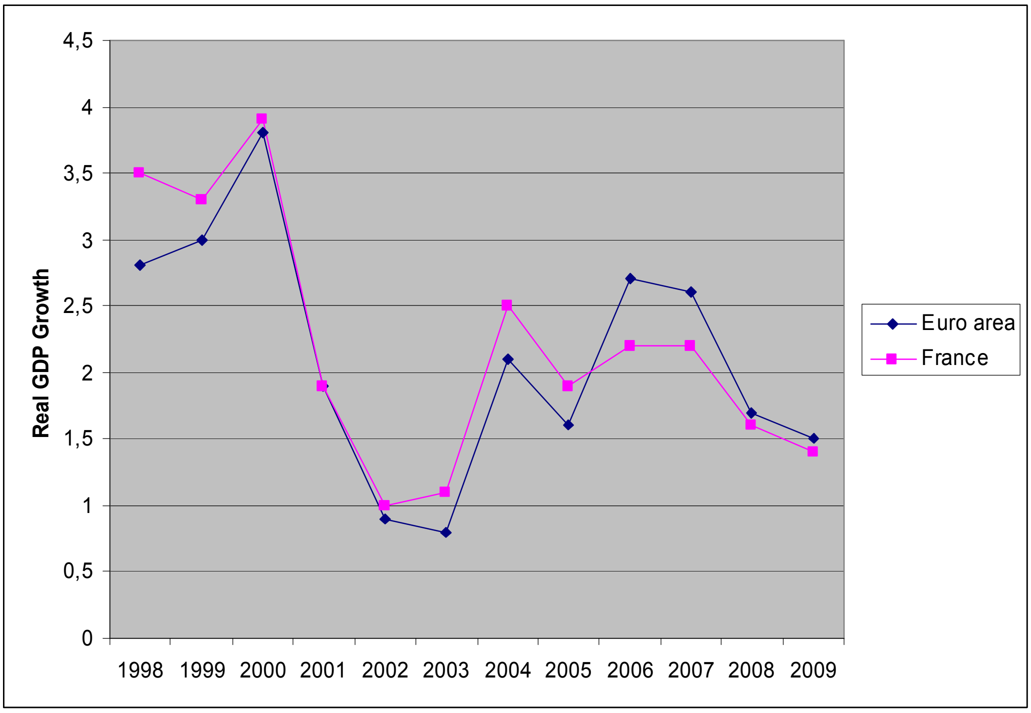
(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

2. General (Macro)Economic Situation

2.1. Growth

Real GDP growth slowed slightly to 1.9% in 2007 (from 2,0% in 2006), making France one of the weakest performers in the euro area on par with Portugal and with only Italy showing a lower value (1.5%). In fact, GDP has risen by less than the euro area average for nine consecutive quarters. The European Commission forecasts a further decline to 1.6% in 2008 and 1.4% in 2009, economic activity is hence projected to remain "lacklustre", as the Commission phrased it in its Spring Economic Forecast. However, the most recent (May 2008) estimates of the French government are slightly more optimistic at 1.7-2.0% growth for 2008. These forecasts reflect a macroeconomic context characterised by growing uncertainties, still high inflation and some tightening of financial conditions.

Graph 1 - Real GDP growth in France vs. euro area since 1998 (Eurostat)



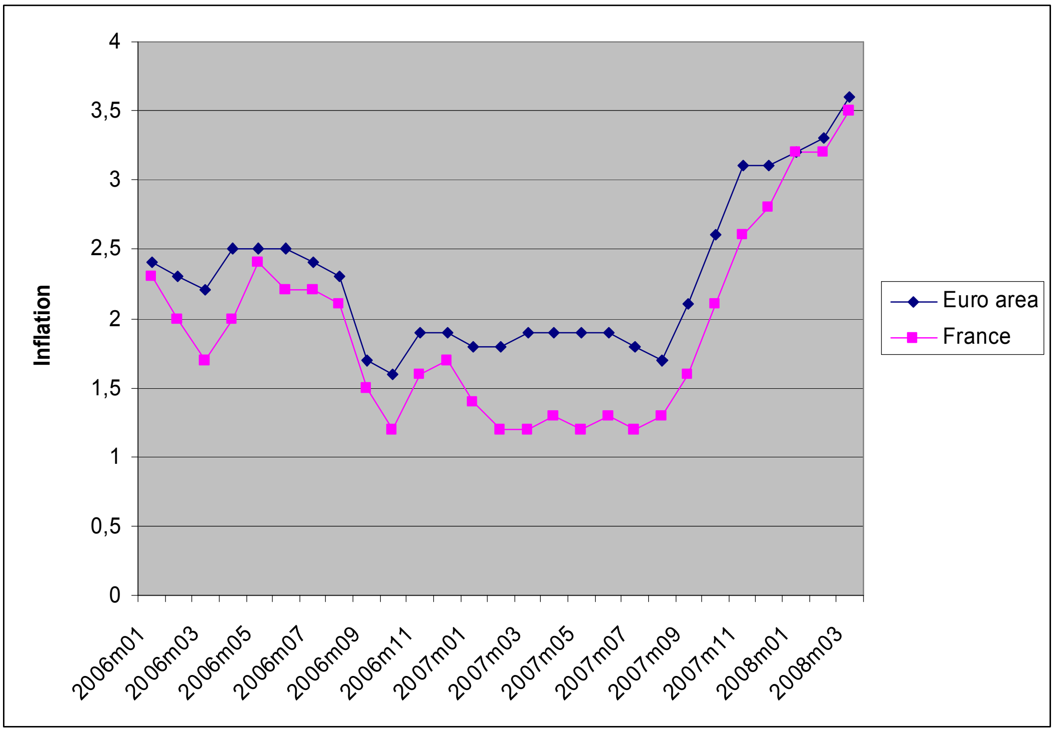
The modest growth rates are largely attributed to supply-side weakness while growth is expected to continue to be largely driven by domestic demand. Net exports should again provide a negative contribution, albeit less than in previous years. Private consumption, though slowing, would remain the main driving force of economic growth reflecting steady increases in real disposable income. However, the surge in consumer confidence following the presidential election in May 2007 has now evaporated, as the recent housing boom has faded and employment growth begins to slow. The growth of consumer credit has also slowed.

In its conclusions of the Article IV consultation last year, the IMF Executive Board observed that France "has changed more than is commonly perceived," but that "much remains to be done." In the eyes of the IMF reform progress has been gradual and piecemeal, growth has stalled below other major industrial economies, unemployment -though falling- has remained high, and export growth has been weak. A growing consensus has emerged that a more aggressive reform strategy is required to move the country onto a higher growth path.

2.2. Inflation

HICP inflation generally fell in 2006 and early 2007 to a low of 1.2% annual rate during some months in 2007. Since then, however, the sharp increase in food and energy prices pushed inflation with the highest value reached in March 2008 (3.5%).

Graph 2- Inflation development in France vs. euro area since 2006 (Eurostat)



As can be seen in the above Graph 2, French inflation has remained below euro area average throughout the last two years. Notable in the good performance of French inflation through the summer of 2007 has been the role played by measures to liberalize product markets. The authorities estimate that laws easing restrictions on large stores and retail sales margins helped lower inflation by 0.5% since mid-2004, with most of this effect since 2006.

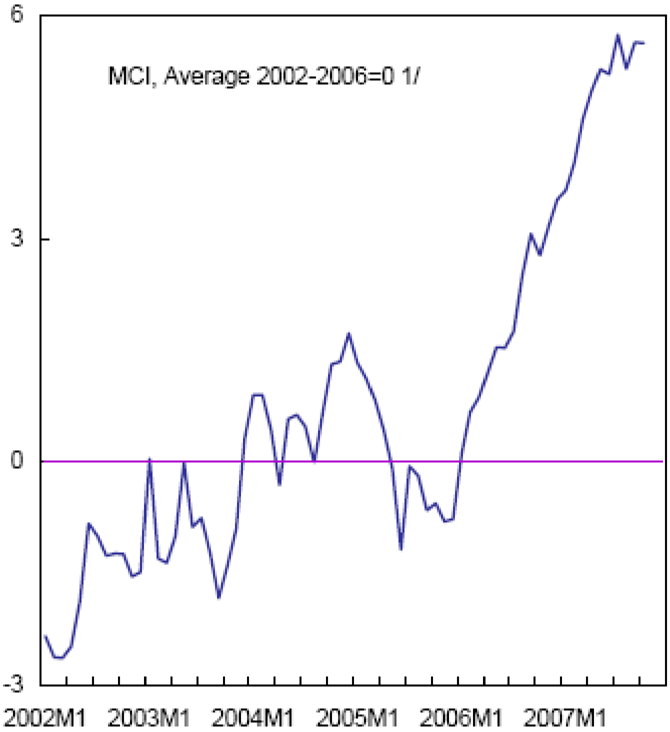
High energy and food prices will continue to exert upward pressure on HICP inflation in the coming months. Although core inflation has also risen, it should remain relatively benign. The Commission estimates the annual inflation rate to reach 3.0% in 2008 before declining to 2.0% in 2009 as base effects become more favourable.

A possible risk to the outlook for inflation comes from the labour market. Recent declines in unemployment have yet to lead to a pick-up in wage growth, but with consumer prices rising and perceptions of inflation also much higher than actual inflation, wage inflation could pick up. However, with a still high unemployment rate (8.3% in 2007, around 1% above the euro-area average) and the projected slowdown in employment growth, wage moderation is expected to continue. And hence the risk of second-round effects on wages from the flare-up in prices cannot be excluded, but seems relatively limited.

2.3. Monetary Policy

Monetary conditions have tightened since 2006 in line with ECB monetary policy. The monetary conditions index (MCI)[1]has moved sharply upward since early 2006, reflecting the ECB's tightening and, more recently, euro appreciation. Moreover, risk premia on lending have increased due to the fallout from the financial turbulence. While long-term interest rates have risen moderately, short-term rates have spiked in recent months. This development has to be viewed in contrast to the fiscal stance which has eased.

Graph 3: Tightening Monetary Conditions



Source: IMF Staff Report France February 2008, p. 26.

2.4. Labour Market

The unemployment rate has followed a steady decline since the first quarter of 2006. The unemployment rate in mainland France has been trending downwards in the last two years, after having peaked at 9.1% during the first quarter of 2006. The unemployment rate reached 8.3% in 2007.

Despite modest GDP growth, employment continued to expand robustly in 2007 largely due to the performance in construction and services. In 2008 and in 2009, employment growth is set to decelerate markedly in the wake of the economic slowdown. Following two years on a strong downward trajectory, the unemployment rate is projected to decrease marginally in 2008 (8.0%), and rise again in 2009 (8.1%).

This highlights that unemployment remains stubbornly above the EU average (7.3% in 2007). It is particularly acute among younger workers. At the same time, the employment rate of 64.6% in 2007 remains below the Lisbon target.

[1] Monetary Conditions Index (MCI) is an index number calculated from a linear combination of a small number of economy-wide financial variables deemed relevant for monetary policy. These variables here include a short-run interest rate and an exchange rate, with weights 2.5 and 1 respectively.

Growth of the minimum wage has sharply outstripped general wages (and productivity), raising fears of many low-end workers being priced out of the market.

In its latest Article IV consultation the IMF agreed with French authorities that labour market rigidities are probably the single most significant barrier to higher economic growth and employment. The main shortcomings in the labour market are identified as:

- burdensome legal restrictions on hiring, firing, working hours, and functional mobility under permanent contracts, generating inefficiencies and a severe "insider-outsider" divide;
- pervasive judicial involvement in labour relations;
- inefficiencies and lack of coordination among public job placement and unemployment compensation agencies;
- a high minimum wage;
- one of the highest tax wedges on employment in the OECD.

The social partners have concluded negotiations on the reform of labour contracts. Changes in the labour framework include an increase in the trial period, a new labour contract that will allow project-linked employment and new incentives to end permanent contracts through amicable separation. Dismissed workers will carry with them rights to complementary health insurance, training and unemployment benefits that reflect the contributions they made while employed.

The government is undertaking other initiatives to mitigate labour market distortions. The most important among these are a review of the mechanism for setting the minimum wage, the merger of the unemployment and job placement agencies, and steps to impart greater flexibility to the 35-hour work week arrangement.

2.5. Competitiveness

French economic activity is significantly affected by economic activity in the rest of the world. Since 2000, French export performance has experienced a substantial deterioration. Some observers have suggested that the country has not benefited fully from the opportunities offered by the rapid economic growth of emerging Asian economies and the enlargement of the EU. Therefore, the question arises as to whether France is suffering from a competitiveness problem. This question has had, so far, an elusive answer.

Traditional variables that explain international trade, such as the exchange rate, relative unit labour costs, and demand pressure seem insufficient to illuminate the recent decline in France's export performance. In addition, equilibrium exchange rate analysis indicates that France's real effective exchange rate is largely in line with fundamentals.

The relative underperformance of exports in past years may point to structural factors that leave French firms behind the global expansion. A more flexible economy should be able to reorient the destination of its exports and product mix toward fast-growing economies and sectors. Indeed, a sectoral study of total factor productivity (TFP) growth in manufacturing found that, while France does not lag significantly behind the U.S. in terms of level, TFP growth is hampered by an unusually high ratio of minimum to median wages in France.

3. Fiscal Policy and Taxation

3.1. *Fiscal Policy*

General government balances

The general government budget deficit in recent years peaked at 4.1% of GDP in 2003, but has been falling steadily since then. The 2006 improvement was mainly due to privatization proceeds and significant corporate revenues. The results for 2007 are disappointing: The general government deficit, increased to 2.7% of GDP as the government privileged tax cuts over expenditure savings. Although the deficit stood below the 3.0% threshold for the third year running, it was much higher than expected. The structural balance showed no improvement.

In 2008, the deficit is expected to increase to 2.9% of GDP stemming both from lower revenue, partly linked to the deterioration of the macroeconomic environment, and from slightly higher expenditure, notably in social security. In structural terms, the deficit is set to deteriorate by 0.1 pp in 2008. The deficit forecast for 2009 is 3% thus approaching the ceiling set by the Stability and Growth Pact.

The state budget for 2008 is based on hefty tax breaks but very few and limited spending cuts. Overall, with a pause in fiscal adjustment in 2008, France remains distant from its medium-term objective of budget balance. The 2008 budget entails no underlying adjustment due to tax cuts, and the achieving of a fiscal balance has been deferred to 2012. This policy stance is likely to meet harsh criticism from other euro area members struggling to comply with their MTO's.

Medium-term stability

The likely deterioration of the public finances in the near term should not, however, distract from the efforts being made by the government to put the public finances on a more stable footing in the medium term. These efforts have centred on rationalising and streamlining government expenditure at all levels. The government took a step forward in this regard in early April, when Mr Sarkozy presented a wide-ranging report entitled *La revision générale des politiques publiques* (RGPP), detailing 166 separate proposals for cutting public spending. These measures will feed into a three-year budget plan covering 2009-11, which will be the first of its kind in France. The RGPP confirms the government's commitment to replace one out of every two civil servants taking retirement. This policy has been a key aim of successive centre-right administrations since 2002, although it has met with only partial success.

3.2. *Development of the tax system*[2]

At 44.5% (in 2006), the tax ratio—revenue, relative to GDP—is well above the OECD and EU 15 averages (of 36.2% and 38.8%, respectively), being exceeded in the OECD by only Belgium, Sweden, and Denmark.

The most striking feature of the composition of tax revenues is the heavy reliance on social contributions (37% of tax revenue, compared to an OECD average of 25.6%) and relatively low reliance on personal income taxation.

[2] This section draws heavily on the IMF staff report on France, 2008.

Personal income taxation—which includes not only the personal income tax proper (*impôt sur le revenue,* the IR) but also, taxes in all but name, the flat rate *contribution social généralisée* (CSG) and *contribution au remboursement de la dette sociale* (CRDS)—accounts for 17% of tax revenue, compared to an OECD average of 25%. The share of VAT in tax revenue is around the OECD average. More suggestive is that that revenue from the corporate tax (*impôt sur les sociétés*, IS) is somewhat lower than the OECD average not only as a share of tax revenue, but also relative to GDP—despite a statutory rate that, at 33.3%, is not low by international standards. Property taxes account for a relatively high fraction of tax revenue, exceeded among OECD members in only Canada and the U.K.

Table 1: Corporate Tax Rates in France in OECD Comparison

	Statutory rate	Average effective tax rate	Marginal effective tax rate (2005) 2/ 3/		Implicit tax base
	(2007) 1/	(2006) 2/	Equity	Debt	(2006) 4/
Australia	30.0	26.0	24.0	-23.0	0.19
Austria	25.0	22.0	20.0	-18.0	0.09
Belgium 5/	34.0	26.0	22.0	-35.0	0.11
Canada	36.0	28.0	25.0	-37.0	0.10
Finland	26.0	21.0	17.0	-23.0	0.13
France	**33.3**	**25.0**	**20.0**	**-36.0**	**0.09**
Germany 6/	38.7	32.0	29.0	-37.0	0.05
Ireland	12.5	11.0	10.0	-8.0	0.30
Italy 7/	33.0	26.0	19.0	-48.0	0.10
Japan	40.0	32.0	28.0	-40.0	0.12
Netherlands	25.5	25.0	21.0	-29.0	0.11
Norway	28.0	24.0	22.0	-21.0	0.44
Spain	32.5	26.0	21.0	-38.0	0.12
Sweden	28.0	21.0	16.0	-29.0	0.14
Switzerland	24.0	25.0	20.0	-36.0	0.13
Kingdom	30.0	24.0	20.0	-28.0	0.13
United States	35.0	29.0	24.0	-46.0	0.09

Sources: OECD Revenue Statistics, Institute for Fiscal Studies, Marini (2007)

There have been many changes to the French tax system over the last two decades or so. Many have been both creative and apparently effective. Measures to reduce social contributions at and just above the minimum wage (the *Salaire minimum interprofessionelle de croissance*, SMIC) since 2002, for example, are estimated to have increased employment by around 3 percentage points. The simplification of the IR (*impôt sur le revenue)* schedule, with a reduction in the top marginal rate and elimination of the abatement for wage income, were also constructive measures. And in terms of administration, the recent decision to merge the *Direction general des impôts* (DGI), responsible for tax assessment, with the *Direction générale de la comptabilité publique* (DGCP), responsible for tax collection, should generate significant efficiency gains.

However, tax policy changes over the years have in many cases been made on a piecemeal basis, responding to immediate pressures and priorities—and often attempting to offset policy-induced distortions—rather than reflecting a strategic vision of the tax system.

3.3. French positions on EU tax policies

The French Finance Minister Christine Lagarde, speaking at the Brussels Tax Forum in the beginning of April 2008, made the following statements about policy priorities:

- reducing the tax to GDP ratio in France to 40% from its present level;
- following intelligent and simple taxation principles which preserve France as an attractive economy and are in line with sustainable development objectives;
- France is not afraid of fiscal competition which it acknowledges is already reality, but nevertheless reserves the right to counter abusive practices.

In terms of EU initiatives, France explicitly supports the following measures:

- enhancing the weight of "green taxation" (i.e. environmental taxes);
- fiscal harmonisation as far as necessary in full respect of the fiscal autonomy of Member States;
- the introduction of the CCCTB;
- revision of the savings tax directive with a view to widen its scope of application.

4. Financial Services

4.1 Banking and Securities

General introduction

The banking and financial sector in France is regulated by the Minister of Finance assisted by the "*Comité Consultatif de.Legislation et de la Reglementation Financières*" who advises an all regulation and legislation . The committee is chaired by the Minister of Finance (other committee members are the governor of the "*Banque de France*", and various members appointed by the national assembly and senate, as well as representatives from industry). The other body important to the sector is the "*Commission Bancaire*" (Secretary General: Danièle Nouy), which is concerned with supervisory aspects. The banking commission has the power to impose administrative penalties and financial sanctions. The governor of the "*Banque de France"* (Christian Noyer) chairs both the Commission Bancaire as well as another institution falling under the Banque de France, namely the" *Comité des établissements de crédit et des entreprises d'investissement*". This latter institution grants licenses and changes of control in banks and investment firms. The "*Autorité des Marches Financiers*" (AMF) headed by Michel Prada, is in charge of financial market regulation and surveillance, including that of portfolio management companies, unit trusts and mutual funds.

Banking Sector

The retail sector is largely dominant in French banks accounting for over 60% of the largest groups' net banking income. In lending the largest share of the market falls to the agricultural sector, SMEs with 75%, whereas the next largest sector is the manufacturing industry with 31% (end December 2007)[3]. As in other national markets, the ever increasing margin squeeze on lending activity and the lengthening of maturities is both adding a downward pressure on income and at the same time fragilising risk exposure. The earnings slowdown has been mitigated by good performance in the investment banking market especially in the leveraged buy outs (LBOs); French banks are focussing more and more on the "originate rate and distribute model", using securitisation to offload a portion of their risks. This together with the increased LBO activity is a source of vulnerability for French banks as the complex structures generated remuneration and led to fierce competition in terms of light covenants, long underwriting periods and new counterparties such as hedge funds. However due to the recent turmoil, authorities have been monitoring closely.[4] The Banque de France latest figures for the first quarter 2008 show that French banks have introduced tougher lending conditions to businesses and that the trend will continue. Banks have started to limit duration and the maximum amounts they will lend. However surprisingly enough this trend will affect large companies more than SMEs as only 28.4% of French banks intend to tighten criteria for SMEs compared to 59% for the large companies.[5]

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[3] Commision Bancaire report on LBOs 2007 and Banque de France occasional paper on the sub-prime crisis February 2008.
[4] Banque de France Annual Stability Review and speech by Christian Noyer June 2007.
[5] Les Echos 13 May 2008

Basel II[6]

The "*Commision Bancaire*" undertook on-site inspections in 2006 and 2007 to evaluate the models developed by French institutions. These inspections revealed that further progress was needed regarding Pillar I especially with regard to the collection and estimation of the Basel parameters (probability of default (PD) and loss given default (LGD). Banks need to upgrade their historical data in order cover full business cycles and so have correct calculations. With regard to Pillar 2, banks needed to make certain their internal Capital Adequacy Assessment processes capture those risks which are not captured by Pillar1 namely concentration risk and liquidity risk. It was also noted that thorough stress testing would be crucial. As regards Pillar 3, French banks had to increase their transparency vis a vis the supervisory authorities.

Securities

The AMF was established by the Financial Security Act in 2003. It merged the three bodies in charge of the financial markets, the objective being to improve the efficiency of the regulatory system. The mandate of the AMF is to safeguard investments in financial instruments and in all savings and investment vehicles; ensure investors receive the right information; and maintain orderly financial markets. The AMF is empowered to rule on any complaint relating to financial instruments or financial markets (through the ombudsman service). The board is composed of 16 members, including a representative of the government designated by the Minister of Finance. The Chairman is named for a non-renewable term of 5 years by the President of the Republic (the Chairman, Michel Prada is charged by the 3 level 3 committees to head a steering committee which will foster a common European and trans-sectoral culture in financial supervision).

AMF Rating Agencies Report 2007

One of the other functions of the AMF is to publish a yearly report on rating agencies; the 2007 report came out in January 2008. Its main findings were:

1. In France 366 entities received long-term ratings in 2006, showing a 4% increase over 2005. By sector, the industrial sector was the largest group to receive a rating with 46%. The average French rating is medium to low risk with speculative ratings accounting for 9%.
2. With regards to the analytical findings, the report stressed the major consequences for a company of a rating as it could affect their financing possibilities and the impact of a rating in the decision of an investor.
3. Rating agencies must present information on how ratings have performed in the past and must also emphasize to investors that a rating is information on the risk of default in the past. A closer look must be taken at the methodologies applied to each sector and public consultation is needed when methodologies change. Following implementation of self regulation through codes of conduct, the AMF feels that information is needed on the implementation of such a code and also statistics.
4. Finally, appropriate handling is required with regards to remuneration, transparency of the methodology and limitations of the models used. For investors it will be also critical to estimate the liquidity of the assets as well as looking to the rating.

[6] Basel II was transposed into French law by decree on 20 February 2007

AMF Corporate Governance Report 2007

Main findings in this report were:

1. The AMF encourages companies to apply the MEDEF recommendations on executive pay, including full transparency to shareholders on compensation paid to individual directors but also on the policy used to determine their remuneration.
2. Regarding Board membership, 85% of companies provided a detailed description as required by the MEDEF report. At the same time efforts were made to define the different roles in the board more clearly.
3. More than 2/3 of companies now mention having rules of procedure compared with 50% two years ago. The AMF recommends these rules be published.
4. Following the MEDEF report 75% of companies now have specialised committees such as a nomination or audit committee.
5. Restrictions are reported to the chief executive's powers or whether there are no restrictions (for more than 90%).
6. Regarding risk and internal reporting, more the 75% of companies now fully describe the main risks they incur and any risk mapping. Links are now made between risks and procedures.
7. 60% of companies now conduct assessments of their internal control systems compared with 30% the year before.
8. Any company making disclosures under e.g. the Sarbanes-Oxley Act need to make equivalent disclosures for the French market.

4.1 Insurance

Life insurance

Life insurance business dominates the sector and counts for 64% of the total premiums in the market.[7] Strong growth in life and health insurance premiums (+15%) in 2006, comparable to the rise observed the previous year, attests to the existence of sustained demand for personal protection and retirement vehicles and the efficiency of the product range.

Due to a change of law in 2005 a new class of contracts named "diversified life insurance policies governed by common law" was introduced. These policies try to combine security and profitability and thus offer a response to the lower returns observed on some assets, and encourage investment in equities.

Since January 2007 new mortality tables went into effect, which are now gender differentiated. Prospective in nature, the tables anticipate gains in life expectancy and refine the technique for measuring the annuity risk.

Non-life insurance

The non-life sector counts for 32% of the total amount of premiums, while specialised reinsurers count for 4 % of the premiums.[8] Property and casualty premium growth slowed in 2006 for the fourth year in a row. The slowdown in growth stems chiefly from heated competition in automobile insurance and corporate risks.

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[7] Autorité de Contrôle des Assurances et des Mutuelles, Rapport 2006, p. 11.
[8] Autorité de Contrôle des Assurances et des Mutuelles, Rapport 2006, p. 11.

In 2006, a draft bill was prepared that would enable consumers to seek class action recourse. The project is controversially discussed and a decision has not yet been taken.

Insurance intermediaries

Following the transposition of EU directives into French insurance law these regulations recognize four types of distributors: tied agents, insurance or reinsurance brokers, insurance underwriting agents and insurance intermediation agents.

As of June 7, 2007, all distributors must be listed on the national register under a single registration number in each of the categories practiced. The registry is overseen by Orias (*Organisme pour le registre des intermédiaires en assurance*), and can be consulted at its website (www.orias.fr). According to Orias data through June 7, 2007, some 12,234 tied agents, 9,574 brokers, 3,491 salaried salespeople and 1,539 authorized distributors are listed in France. Orias also lists 3,324 European distributors certified to practice in France.[9]

Supervision

Following a reform in 2001 the French insurance sector supervised by several bodies:

- Since August 1, 2003 the *Autorité de Contrôle des Assurances et des Mutuelles (ACAM)* supervises 2604 companies (378 insurance companies, 29 reinsurance companies, 1996 mutuelles, 66 institutions de prévoyance, 80 institutions for private pensions (retraite supplémentaire)). Its task is to control compliance with legal rules and to safeguard that companies are in the condition to fulfil their legal and financial obligations towards the policyholder.
- The association of insurers called *Comité des Assurances (CEA*, 372 insurance companies located in France, 105 branches in the EU, 827 companies doing business in France on the basis of the freedom of services), is also incorporated into the supervisory system. The Comité authorises the insurance businesses taken up by a company, transfer of portfolios, mergers between insurance companies, modifications in the shareholder structure and nominations of managing staff.[10]

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[9] Fédération Française des Sociétés d'Assurances, French insurance 2006, p. 54.
[10] Comité des Assurances, Rapport annuel 2006, p.5

5. French views on industry and competition[11]

The French state has traditionally played a more active role in the economy than in many other European countries. Two large waves of privatisation, in 1986-87 and between 1993 and the present, have transformed the contours of the French economy. In 2005, for example, the government reduced its 100% stakes in the electricity and gas firms, *Electricité de France* (EDF) and *Gaz de France* (GDF). At the start of 2007 fewer than ten public enterprises of any significance were still wholly owned by the state. These included the quasi-monopoly supplier of postal services (La Poste), the national rail operator (SNCF) and the operators of the Paris métro and its interlinked suburban express rail system (RATP and RER).

The French *dirigiste* tradition still exists, but in an attenuated form. Policies aimed at supporting national champions in leading sectors, a network of personal relationships linking the heads of large companies with senior civil servants and the belief that France should follow its own model rather than succumb to unfettered "Anglo-Saxon" capitalism remain key features of the French commercial landscape. Typical of this tradition was the espousal by the government of Dominique de Villepin of "economic patriotism", a doctrine that mixes elements of mercantilism and Gaullist corporatism to justify state interference in commercial decisions" notably to prevent foreign takeovers of French companies.

Profound changes have nevertheless taken place over the past decade, partly under the impetus provided by liberalising measures at EU level. The vast majority of product markets are now fully open to competition and those that are not such as energy are slowly being liberalised.

Energy and gas

The state plays a prominent role in the energy sector, and France has long been one of the EU's most resistant countries to liberalisation and privatisation. Although it reduced its holdings in the two companies in 2005, the state retains majority stakes in both *Eléctricité de France* (EDF) and *Gaz de France* (GDF). Government foot-dragging and a *de minimis* approach to the country's obligations under EU directives have slowed the liberalisation of the gas and electricity markets: France was late in implementing the EU electricity liberalisation directive, and it has stuck to the least ambitious timetable allowed (in contrast to Germany and the UK, for example, which have already opened their markets completely to foreign competition). As a result, France's gas and electricity markets will only be opened fully to competition by 2008. Late liberalisation in France has caused friction with other EU countries, particularly as the state-owned EDF exploited early liberalisation elsewhere in the EU to acquire stakes in foreign electricity companies at a time when the latter had no such freedom in France.

[11] This chapter is largely based on an Economic Intelligence Unit Country Analysis for France, April 2008.