DRAFT BUDGETARY PLAN FOR 2019

ECONOMIC, SOCIAL AND FINANCIAL REPORT

EXTRACT

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Introduction

2017 marked a turning point for the French economy, with the strongest growth rate since the 2008-2009 economic and financial crisis began, the public deficit brought below the 3% mark, ending the Excessive Deficit Procedure, and improvements on the job market and in the unemployment rate. The government is rolling out its structural reform agenda, with three goals: unleashing initiative, overhauling the welfare state to protect citizens better, and investing in a sustainable growth model.

Like most advanced economies, France enjoyed a substantial acceleration in economic activity in 2017. Growth was especially dynamic in the euro area, at 2.4% (vs. 1.8% in 2016), driven by buoyant domestic demand and a rebound in world trade. The French economy posted a clear acceleration in activity in 2017, with GDP up 2.2%,[1] after 1.2% growth in 2016. This growth was fuelled by a clear increase in corporate investment (+4.1%) and household investment (+5.6%). While consumption grew at a modest 1.0%, the contribution of foreign trade was positive thanks to strong export momentum (+4.5%).

France's GDP growth is forecast at 1.7% p.a. in 2018 and 2019. The outlook remains upbeat, albeit less so than in 2017, following a slowdown in the economic cycle in the first and second quarters due to a slightly less buoyant international environment and temporary factors that weighed on the economy in the first half. The most recent business surveys point to activity gathering pace again in the second half of 2018. Household spending power is expected to remain on the right track, with support from the favourable job market trend and from the government's reform measures, despite the slight dampening effect of higher inflation (due notably to higher oil prices in 2018). Corporate investment should continue to be dynamic, thanks to the upbeat national and international economic outlook and a still favourable financial context.

The improved economic circumstances have also been visible on the job market: on a year-on-year basis, 335,000 salaried jobs were created in 2017, and already 80,000 in the first half of 2018. The unemployment rate stood at 8.7%[2] in the second quarter. The improved economic situation – in all dimensions, but especially the job market and the current account balance, which stood at –0.6 points of GDP for the full year of 2017 – has further reduced the imbalances that had built up over several years. Thus, France was removed from the "excessive imbalances" category that it had been in under the EU's Macroeconomic Imbalance Procedure since 2015. Our reform efforts have been unanimously praised by our European partners and the European Commission. In 2017, France also exited the Excessive Deficit Procedure, with a public deficit of 2.7% of GDP, below the 3% mark for the first time since 2007. France's debt-to-GDP ratio had virtually stabilised at end 2017, at 98.5%.

Nevertheless, certain global factors are a risk to the entire world economy. Chief among these risks is the rise in protectionist tensions between the United States and its main trade partners. The acceleration in global demand, combined with geopolitical tensions in the Middle East and coordinated actions by some oil-producing countries, has also driven a sharp rise in the price of oil, which has gone from €44 per barrel in August 2017 to €64 per barrel in July 2018. Although financial institutions are on a sounder footing, significant financial risks are still present worldwide due to public and private debt levels reaching record highs in both advanced and emerging economies – especially China. This situation makes these economies more vulnerable to a rise in interest rates, notably if monetary policy tightens sooner due to stronger inflation. Lastly, in Europe, the effects of Brexit still depend on the outcome of ongoing talks between the EU and the UK. Conversely, the structural reforms carried out in France could produce their full effects more quickly than expected, thus bolstering France's growth potential.

In this context, the first year of the President Macron's five-year term in office was focused on adopting and implementing cross-cutting,

[1] All growth figures are in gross terms, i.e. unadjusted for business days.

[2] Scope: mainland France. 9.1% for all of France.

structural reforms to boost employment and investment, first and foremost labour law and tax reform. These far-reaching reforms enable initiative to be unleashed in our country, along with boosting employment and activity. At the same time, we are reforming the French social model to create new forms of social protection that are effective and suited to today's world. Major reforms have already been passed: securing career paths (with vocational training and apprenticeships, extending unemployment benefits to people who have resigned from their jobs and for the self-employed) and providing guidance for students (at secondary and higher education levels). Other reforms are on the horizon to fight poverty, improve the healthcare system, and modernise unemployment insurance and the pension system. Lastly, an in-depth transformation of all levels of government has begun. This transformation is aimed at giving the government the means to invest in priority sectors (including education, the ecological transition and innovation) and at making government more agile and adapted to the public's needs. The government will meet its fiscal consolidation commitments thanks to this deep transformation of public sector methods.

The government intends to continue to implement this transformation programme in an upbeat macroeconomic context that is favourable for further-reaching reforms. The efforts to unleash initiative and boost activity will go forward, including notably the Business Growth and Transformation Bill (PACTE), currently being debated in Parliament, and a further reduction in the corporate income tax rate. In 2019, the emphasis will be placed on making employment more appealing and assisting those looking for jobs. Several strong measures are intended to make work more rewarding: the reduction in employee social security contributions is stepped up in October 2018 and will produce its full effects in 2019; two hikes to the in-work benefit (*prime d'activité*) for low-wage earners will take effect in October 2018 and October 2019; the *forfait social* contribution on profit-sharing and employee incentive schemes is being eliminated in order to encourage SMEs to set up employee profit-sharing; and in September 2019, employee social security contributions will be eliminated on overtime pay. Efforts will be made to transition towards higher-quality employment, on both the supply and demand sides. The Plan for investment in job skills targeting lower-skilled jobseekers will be rolled out with €2.5 billion invested in 2019, as the vocational training and apprenticeship reforms also take effect. In parallel, businesses will benefit from the conversion of the Competitiveness and Employment Tax Credit (CICE) into a permanent reduction in employer social security contributions with a greater focus on lower wages. This strong measure aimed at streamlining and lowering labour costs will feed into job creations. The reform of unemployment insurance will adjust the rules for jobless benefits so that they provide greater incentives to return to work and to create high-quality jobs.

The government intends to carry on with its active policy of supporting public and private investment, backed by both fiscal resources (notably thanks to the Great Investment Plan) and structural reforms, to prepare France for the economy of the future. It will emphasise skills (with attention given to every level from early childhood to vocational training), the ecological transition and innovation. It will also modernise key sectors of our economy, notably housing and transport.

The government also intends to protect the population better, not only by increasing the resources of the justice system, the armed forces and the police, but also by transforming our social protection system. The goal is to adapt the French social model to today's world so that it safeguards real, tangible rights for all citizens. The poverty prevention and reduction strategy will be implemented in 2019 to tackle the root causes of unequal outcomes. The pension system will also be thoroughly reformed to make it more equitable, with each euro in contributions entitling everyone to the same pension rights, while preserving solidarity mechanisms. To ensure that everyone has access to healthcare, the health system will be overhauled to give greater emphasis to preventive care, to eliminate out-of-pocket costs and to tackle the shortage of physicians in rural areas. Taxation will be made fairer and more closely tailored to the transformations that our country and our society are going through. The tax burden on households will be reduced further with a second round of residence tax relief. Residence tax is unfair due to geographic disparities that accentuate the dividing lines in our country. With the roll-out of withholding at source for personal income tax, income will be

taxed when it is earned. Income tax will track changes in income more closely, and taxpayers whose circumstances have changed will no longer face the tax consequences a year later. This reform is crucial at a time when life trajectories have become less and less linear.

At the same time, the transformation of all levels of government will continue as part of the Public Action 2022 plan. A reform plan will be drawn up for each public policy to make it more agile and adapted to citizens' needs, thus boosting the quality of public services and reducing their cost.

Alongside its efforts at national level, France is contributing to overhauling the European Union to give shape to a sovereign Europe that protects its citizens. The revision of the Directive on the Posting of Workers reaffirms the principle of "equal pay for equal work", and ongoing work to harmonise the tax base and digital taxation will strengthen the internal market's efficiency, ensuring fair competition for everyone. The EU is also bolstering its array of trade policy instruments in a context of renewed international tensions. Thus, it is ramping up its instruments for trade defence and controlling foreign investments. Lastly, with regard to the EU financial system, the groundwork for a deepening of the Economic and Monetary Union (EMU) was laid with the Meseberg Declaration (19 June 2018), the French-German Roadmap for the Euro Area and the agreement reached at the Euro Summit (29 June 2018). The idea behind this move is to make the euro area more resilient to economic shocks, while supporting long-term growth.

These transformations will enable France to face the challenges of the 21st century and to take advantage of all the new economic opportunities. The risks to global growth provide additional incentives to strengthen both our resilience and the architecture of the euro area.

Diagnosis

1. The job market is recovering, but significant additional progress can still be made

The unemployment rate has been declining since summer 2015 and stood at 8.7% of the labour force in Q2 2018 in mainland France, vs. 9.1% a year earlier. The long-term unemployment rate has also followed this trend; it stood at 3.6% at Q2 2018, vs. 4.0% a year earlier. This decline has coincided with an increase in the labour participation rate, which currently stands at 72.2%. The trend is underpinned by strong job creations in the private sector: on a year-on-year basis, 335,000 salaried jobs were created in 2017, and nearly 80,000 in the first half of 2018. However, there is still significant potential to reduce unemployment further, and the government's labour market reforms will help reduce structural unemployment.

Unemployment continues to affect certain population categories disproportionately – young people and unskilled or low-skilled workers, in particular. For instance, the unemployment rate for people under age 25 was 20.1% in Q2 2018, vs. 8.1% for the 25- to 49-year-old age bracket. Nevertheless, the job market recovery is benefiting young people; over the past couple years, their unemployment rate has declined by nearly five percentage points from the peak of 24.7% in Q3 2016.

The French job market is still segmented between workers on open-ended contracts (CDIs) and short-term contracts (CDDs, temp contracts, etc.), on the one hand, and between full-time and part-time workers, on the other. However, this segmentation has lessened in recent years. For example, the employment rate of workers on CDIs has increased by 0.4 points over the past year to 49.3% in Q2 2018. Over the same period, the employment rate of workers on CDDs declined by 0.2 points to 7.8%. The proportion of workers on full-time contracts increased 0.6 points year-on-year to 53.9%, while the proportion of part-time workers was stable over the same period, standing at 12.0% in Q2 2018.

2. Efforts to improve competitiveness must continue, backed by measures to move the French economy upmarket

Exports of French goods accelerated in 2017, growing by 4.5% (after a 0.6% decline in 2016); this trend continued in the first half of 2018 (goods exports up 4.4% on the previous half-year). Export market shares for goods and services were stable, at 3.4% in nominal terms and 3.5% in real terms. Yet despite dynamic exports, our trade balance has continued to deteriorate, given the recovery in domestic demand and higher energy prices (trade deficit of €63.4 billion in 2017, vs. €48.8 billion in 2016). Nevertheless, the current account balance

came to –0.6 points of GDP in 2017, vs. –0.8 points in 2016.

France's competitiveness deteriorated before the 2008-2009 economic and financial crisis, partly due to the unit labour cost trend,[3] which was stronger in France over 2000-2008 (+17% in nominal terms for the economy as a whole) than in Germany (–1%), where wage restraint actually lowered unit labour costs, or in the rest of the euro area (+14%). However, since 2009, unit labour costs have risen more slowly in France than in Germany (+6% and +12%, respectively), notably thanks to the Competitiveness and Employment Tax Credit (CICE) and the Responsibility and Solidarity Pact. This has narrowed Germany's pre-crisis lead in competitiveness by 6 points. The hourly labour cost, including social security contributions and the positive effect of the CICE, now stands at €10.60 at statutory minimum wage level as at 1 January 2018, i.e. virtually the same hourly cost as in Germany for the same wage level.

As a result, we need to underpin and continue with the efforts made as regards cost competitiveness. At the same time, we need to foster investment and an upmarket shift in our economy to improve non-cost competitiveness. Growth is supported by investments by non-financial corporations (+4.1% in 2017 after +3.4% in 2016), especially following our pro-investment tax reforms. This trend bodes well for long-term competitiveness gains by French companies.

Several sources of leverage have been identified to foster an upmarket shift.

France must improve the efficiency of its productive fabric with better coordination of the stakeholders in each of its industrial sectors. Further upstream, France must reinforce its position as a leader in science, notably by making its public research expenditure more efficient[4] and by channelling research findings to companies more effectively,[5] or in terms of public support schemes for innovation.[6]

France's economic performance is also hampered by the fact that French businesses tend to expand at a slow pace. Although France is one of the EU countries in which the most businesses are set up, these newly-created companies are not always able to grow over time. As a result, France has fewer mid-tier firms (5,800 in France, whereas Germany has twice as many) and fewer exporting firms (France has 118,000 exporting SMEs, vs. 310,000 in Germany). These growth hurdles are partly attributable to the administrative burden, regulatory staff threshold levels, or a lag in equity financing for young, innovative firms.

Lastly, the French economy's attractiveness has improved substantially, as shown by the record-setting number of investment projects in France in 2017, as well as by recent decisions by large international firms to set up their European headquarters in Paris. International rankings show that France still has leeway for further boosting its appeal as a place to do business, and government policy is likely to work in that direction in the medium term (see the special section on this particular issue).

3. A social security system that requires overhauling to provide the new forms of protection required by French citizens

At first glance, France's social security system seems to afford adequate protection. The poverty rate was 13.6% in 2017 which is less than the EU average of 17.3%. The same applies to inequality which is reined in by the redistribution system. In 2016, the Gini coefficient[7] measured the latter at 29.3 which is slightly under the EU average (30.7). Social protection acted as a shock absorber during the crisis. Nevertheless, the French system has not

[3] Unit labour costs measure total employee compensation (including employer social security contributions) relative to output (measured in terms of real value added).

[4] See "The efficiency of the French public research system", *Trésor-Economics* no. 219, April 2018.

[5] See DG Trésor Working Document no. 2017/05 (in French): "Quelle intervention publique pour favoriser le transfert des résultats de la recherche publique vers les entreprises?"

[6] Conclusions of the Report of the innovation subsidy task force, which met in Q1 2018 and was chaired by Messrs Lewiner, Stephan, Distinguin and Dubertret.

[7] The Gini coefficient (also called Gini index or ratio) is a synthetic indicator of income inequality (wages, standard of living, etc.) ranging from 0 to 100. A measure of 0 indicates perfect equality, i.e. all incomes are equal; at the other extreme, a measure of 100 indicates a situation of perfect inequality, in which all incomes except one are at zero. Between 0 and 100, the higher the Gini index, the greater the inequality.

prevented increasing inequality in terms of opportunities and destiny. Our social security model needs to be overhauled to ensure that everyone is integrated and empowered. It is also unable to effectively combat mass unemployment or the increasing number of temporary jobs. The model should be more resolutely focused on tangibly addressing the underlying causes of poverty which is often provoked by the loss of a job and social exclusion.

This situation is compounded by an education system that replicates inequality and does very little to foster upward mobility. In particular, social background is still a determining factor – even more so than elsewhere in the world – in explaining academic results or the lack of social integration. This is borne out by figures from the OECD's PISA tests.[8] Just as worrying is the fact that access to higher education courses is strongly dictated by social origin, with children whose parents are office workers or operatives losing out.[9]

Lastly, there is still regional inequality that undermines social cohesion. The varying levels of economic performance between urban, suburban and rural France stem from unequal access to the labour market and to integration. This also holds true for access to healthcare, public transport and broadband Internet. There is also still sustained inequality as regards access to housing, especially in areas with acute accommodation shortages. This is in spite of substantial government spending on housing which amounts to the double of the euro area average (€41.7 billion in 2016, i.e. 1.9% of GDP). The housing policy epitomises a suboptimal government policy due to a poor choice of instruments (inadequate support for supply).

4. A falling public deficit which must be kept sustainably below 3% of GDP

The initial expenditure containment measures taken in 2017 and sound economic performance levels have enabled the public deficit to be brought back to less than 3% of GDP. The figure was 2.7% in 2017 after 3.5% in 2016. This allowed France to exit the Excessive Deficit Procedure, which it had entered in 2009, and to restore its fiscal credibility vis-à-vis its European partners.

Standing at 55.1% of GDP, the government expenditure ratio (net of tax credits) was still, in 2017, one of the highest amongst advanced economies. At the same time, the proportion of aggregate taxes and social security contributions, which represented 45.3% of GDP in 2017, is also one of the highest and is burdensome for the economic agents. Our public debt ratio became almost stable in 2017 at 98.5 % of GDP as against 98.2% in 2016. However, once again, it is one of the highest for developed economies. This limits the headroom in the event of another economic crisis and means that public accounts are at risk from a rise in interest rates.

Economic policy strategy

The aim of the current strategy is to give free rein to business activity and initiatives, to invest in a growth model based on knowledge, innovation and ecology, and to protect citizens by transforming social protection into a system fit for the 21st century. Across all sectors, public action is being upgraded and public finances have been made sustainable by containing government expenditure. This national strategy is consistent with the European approach which is geared towards consolidating the resilience and prosperity of the EU and the euro area.

1. Unleashing the French economy's full potential

The first arm of this transformation strategy aims to free up the creative energy in our economy so that everyone can make a decent living and the country can seize the opportunities offered by the 21st century. This involves bolstering incentives to work and for helping people secure employment, reforming the labour market, supporting business investment, creating high-quality jobs and improving the business environment.

a) Bolster incentives to work

[8] For mathematics, 53% of the dispersion of the results can be explained by the parents' economic, social and cultural status (37% on average in OECD countries).

[9] 30% of the latter state that they have a higher education qualification compared to 65% of the children of executives or those in the intermediate occupations. Source: Ministry for Higher Education, Research and Innovation (MESRI), Higher education & research in France, facts and figures.

In an age when there are increasing constraints on the labour supply, as companies have more difficulty attracting staff, it is crucial to make work more appealing. This approach, which began in 2018 with a €20 billion cut in employee contributions funded by the general social security contribution (CSG),[10] is set to continue in 2019.

With an eye to increasing profit-sharing for workers, as from 2019, the *forfait social* (a reduced social security contribution), which currently stands at 20%, will be eliminated for all profit-sharing payments in companies with less than 50 employees and for all employee incentive scheme payments in those with less than 250 employees. The *forfait social* will also be slashed to 10% on employers' contributions to employee shareholdings in all companies with more than 50 employees. The idea is to encourage firms to introduce profit-sharing agreements as part of enhanced labour-management dialogue. Currently, only a fifth of staff in companies with between 50 and 100 employees are covered. This figure is 37% in companies with between 100 and 250 employees and 74% in those with more than 1,000.

To encourage longer working hours, employee contributions on overtime will be eliminated as from 1 September 2019. This incentive will primarily benefit employees on low wages (66% of operatives work overtime; 46% of office workers; only 20% of executives). Increasing working hours also bolsters per capita productivity and, thereby, the country's potential growth.

To encourage a return to the labour market, the in-work benefit (*prime d'activité*) will be substantially increased once again in October 2019 with the introduction of a second €20 bonus at statutory minimum wage (Smic) level. There will be an initial €20 rise this October. It will continue to be increased to reach a total of almost €80 per month at minimum wage level by 2022. The government's benefit increase policy focuses on aid that directly encourages a return to the labour market, alongside benefits for the most vulnerable citizens. The fight against poverty will call for an overhaul of support for recipients of the social inclusion benefit (RSA), by bolstering both rights and duties. It will pave the way for the introduction of the universal activity benefit (*revenu universel d'activité*), that will group together the minimum social benefits, making them easier to obtain and providing a greater incentive to return to the labour market. A public integration service will also be introduced and will rally all the integration stakeholders – who are currently overly dispersed – around single and shared governance.

b) Boost growth and employment by reforming the labour market

The structural reform package adopted last year, which has allowed labour-management dialogue to be adjusted to reflect the specific features of different companies, is being supplemented by initiatives to make work more appealing. The reform, which is being implemented by orders to strengthen labour-management dialogue, has caused significant amendments to the Labour Code. Adopted by the government on 22 September 2017, these orders carry the full force of the law since the ratification act of 29 March 2018.

These orders, which are intended to help companies adjust to their environment and to foster job creation, have three objectives. First, they broaden the scope of collective bargaining so that businesses can rapidly anticipate and adapt to market changes. Second, they streamline and heighten labour-management dialogue, by merging three staff representation bodies into a single body, the Social and Economic Committee (CSE) for all companies having at least 11 employees. Lastly, a group of provisions help provide greater certainty to working relations. These include the introduction of negotiated contractual termination by mutual agreement for groups of employees (RCC) and a mandatory scale based on seniority for labour tribunal damages in the event of dismissal without real and credible grounds. Concurrently, statutory severance payments have been increased by 25% for the first ten years, and the minimum seniority for entitlement to these payments has been brought down from twelve to eight consecutive months with the same employer.

[10] Reduction of 3.15 points in employee contributions, offset by a 1.7-point in the CSG.

c) Support business investment and the creation of high-quality jobs

Having been announced in July 2017 by the Prime Minister in order to provide a grounding for the expectations of the economic agents over the five-year Presidential term, the measures set out in the 2018 Initial Budget Act (LFI) and in the 2018 Social Security Budget Act (LFSS) overhaul our tax system. They reduce the aggregate tax and social security contribution burden by one percentage point of GDP over five years in favour of all the economic agents (households and businesses) and stimulate, in particular, productive investment, an upmarket shift in our economy and job creation.[11]

With regard to businesses, corporate income tax will be progressively cut during the Presidential term to 25% in 2022. In 2018, profits of all companies up to €500,000 are being taxed at a rate of 28%. In 2019, the general corporate income tax rate will be reduced to 31% for all businesses. In addition, to buttress investment in the productive economy and, especially, in the equity of French companies, taxes on household savings were thoroughly revised in the 2018 Initial Budget Act. In January 2018, wealth tax became the property wealth tax (IFI) to encourage French citizens to invest their savings to finance businesses. Similarly, a 30% single flat-rate levy (PFU) now applies to all savings income to remove distortion and the marginal tax rates that discourage investment. Lastly, around twenty low-yield taxes will be eliminated as from 2019 to streamline the tax system.

Taxes on labour will be overhauled in 2019 to reduce the tax burden and support job creation. On 1 January 2019, the CICE tax credit will be changed into a permanent reduction of social security contributions. The new system will be much more straightforward and understandable and this will foster take-up by businesses. From 1 October 2019, the overall reduction of contributions will be bolstered on low salaries with a further cut of around 4% at statutory minimum wage level, at a decreasing rate up to 1.6 times the minimum wage. This will therefore lead to total exemption from employer contributions at minimum wage level. These changes will have a maximum impact on employment (see box 1).

Box 1: The economic impact of the CICE's conversion into a reduction of employer contributions

The conversion of the CICE into a reduction of employer contributions involves two stages. First, a six-percentage point reduction in contributions for healthcare will replace the equivalent CICE rate as of 1 January 2019. A further four-percentage point reduction in labour costs at statutory minimum wage (Smic) level will then take effect from 1 October. CICE rates were lowered from 7 to 6% in 2018 in preparation for the conversion, which will entail the elimination of the payroll tax credit (CITS) as from 2019. Those companies and non-profit organisations concerned are eligible for the new reduction, which in effect represents a substantial net gain.

The CICE conversion forms part of a move to simplify and streamline labour cost-reduction arrangements, making them easier for companies to adopt. By particularly targeting low salaries, the reduction should maximise job creations through increased elasticity of labour demand to low wage cost for employers (a), while its greater clarity will further foster employment, as it is more straightforward for businesses.

In the short term, as 2018 tax exemptions are receivable in 2019, the year the new reduction comes into effect, the conversion should boost GDP by an exceptional 1-percentage point. Forecast short-time effects give rise to several possible scenarios due to the current CICE not having gained sufficient traction among businesses and uncertainty over exactly how the tax credit works. The CICE could be viewed as a reduction of the cost of labour the year salaries are paid or as tax is due and claims refunded. With a mid-point scenario, the effects of switching to the new arrangement should be positive for economic activity and employment in the short and

[11] According to an assessment conducted by DG Trésor using the Mésange macroeconomic model, all these measures could increase growth by 3.3 percentage points of GDP in the long term, for 440,000 jobs created, with gradual scaling up and an excepted 1.6% growth in GDP and 260,000 jobs in 2025.

medium-term. The DG Trésor's macroeconomic model estimates the impact of the CICE conversion at 0.2 GDP percentage points and an additional 100,000 jobs in 2020-2021. The long-term gains from simplifying the measure will supplement those in the short-term.

(a) Further reduction in employer social security contributions for salaries of between one and two and a half times the statutory minimum wage, as from 1 October 2019. In the Matis model, this elasticity is close to 1, in the region of minimum wage level.

d) Improve the business environment and companies' productivity

Freeing up business activity and the productive potential of our country also involves improving the business environment which is a prerequisite for increasing our companies' productivity.

Measures have been introduced to fight excessive standardisation with an eye to improving the business environment. The "one in, two out" rule was enshrined in the circular of 26 July 2017. The idea is to repeal or streamline at least two existing standards to offset any new constraining regulatory standard. The circular led to the simplification of administrative authorisation arrangements in favour of declarative arrangements, and also to the elimination of recurrent information transmission requirements. The Government Reform Act for a Trust-Based Society (ESSOC) of 10 August 2018 simplifies relations between government agencies and their users and heightens the latter's trust. The Act, which has two main objectives, firstly introduces the right to make a mistake for users acting in good faith in respect of all their relations with government. In this way, for the first breach of an obligation, the burden of proof is reversed. The government has to establish that the user was acting in bad faith rather than the user having to prove his/her good faith. The Act also provides for a series of measures to streamline administrative procedures and a number of experiments. For instance, mediation in the URSSAFs, which is being experimented in the Île-de-France region, will be mainstreamed. This will enable the two million employers involved to rapidly settle problems out of court and to avoid litigation. The gradual elimination of the social security scheme for the self-employed (RSI), and the latter's inclusion in the general social security system as from this year, will be completed by 1 January 2020.

Restoring our competitiveness and growth potential will involve removing the obstacles to our businesses' growth. To this end, the **Business Growth and Transformation Action Plan (PACTE) Bill** was presented to the Cabinet on 18 June 2018. It was the fruit of collaboration between the government and all the stakeholders (business leaders, staff representatives, parliamentary groups, the Economic, Social and Environmental Council, CESE) and an online public consultation. The Bill aims to boost companies' growth at all stages of their development and to restore their central role in society by encouraging profit-sharing with employees. The first arm of the Bill is geared towards making it easier to set up businesses and fostering their growth. The reform also plans for an online one-stop-shop for carrying out business set-up procedures or for grouping together company registers. The Bill also slims employee thresholds down to levels of 11, 50 and 250 employees, increases the threshold from 20 to 50 employees for the employer social housing levy (PEEC) and the national housing support fund (FNAL) and freezes, for five years, a number of requirements relating to exceeding certain social security thresholds of fifty (FNAL, PEEC) or 11 (public transport subsidy) employees. These provisions will establish a legal environment that is more conducive to employment and the growth of SMEs. The purpose of the second arm of the Bill is to improve the financing of businesses and to encourage innovation. Retirement savings will be revitalised by improved allocation of resources,[12] there will be transferability between different products and more flexibility in the use of savings during retirement, which will foster long-term financing of the economy and stimulate equity

[12] Rolling out steered management will enable the timeline for savings investment to be factored in: the farther the retirement date, the greater the proportion of savings invested in shares, with the proportion invested in safe and liquid assets increasing progressively until it accounts for all savings on the retirement date.

investment. Bolstering ties between public research and the private sector will help change the provisions of the Research Code to favour researcher mobility. The Bill's third arm focuses on improved sharing in companies' success via, amongst other measures, employee shareholdings. In particular, the reform is looking to eliminate the reduced social security contribution (*forfait social*) on profit-sharing and employee incentive scheme payments for companies with less than 50 employees and on employee incentive schemes only for companies with between 50 and 250 employees (see 1.a above). To make bankruptcy law more effective, the Bill introduces the cross class cramdown mechanism. This means that pivotal creditors[13] will have a decision-making role in the restructuring programme, under the control of the court which is tasked with verifying that the interests of the dissident creditors are upheld. The Bill also provides for an Innovation and Industry Fund to be set up. It will be funded by sales of shareholdings in Engie, Aéroports de Paris and la Française des Jeux (see 2.c below, *Investing in innovation*). These sales will go hand-in-hand with tighter regulation, in particular by better controlling investments in these companies. The fact that the Civil Code factors in the social and environmental issues surrounding businesses' activity and strategy adjusts the latter's role in society so that they become more responsible and target the long term. In addition, bank fees will be capped for the most financially vulnerable populations who are entitled to the "special offer" (see part 3). Lastly, the "*France Expérimentation*" programme, which was initiated in 2016, is being bolstered by the Business Growth and Transformation Action Plan Bill. The most-recent call for projects in May 2018 allows businesses to table legislative derogations as well as regulatory ones. The selected projects will be included in the Bill's "experimentation" section, as will the extension of the experimentation field to autonomous vehicles.

Finally, to improve the productivity of our production capacities, a bold industrial sector coordination policy will be rolled out this year. Production networks are poorly structured with certain production bottlenecks suffering from a lack of investment in the right machinery or even from a shortage of qualified labour. Vocational training (Plan for investment in job skills (PIC), see 2.a. below) will primarily focus on these professions experiencing recruitment difficulties. Similarly, support for investment in production machinery will be implemented as from 2019. The goal of the Industry of the Future Programme is to assist businesses, especially SMEs and mid-tier companies, with the digital transition. Lastly, suppliers and customers do not collaborate sufficiently in respect of their supply chains in France and in terms of their strategy for entering new markets worldwide. For the 2018 year-end, the Strategic Sector Committees of the National Industry Board will draw up an approach to coordinate and optimise value chains and therefore increase collective effectiveness.

Box 2: Initial evaluations of the impact of the Business Growth and Transformation Action Plan Bill

In order to gauge the macroeconomic impact[14] of some of the flagship measures in the Business Growth and Transformation Action Plan Bill (or PACTE), an assessment was made ex ante *using the Mésange macroeconomic model and economic literature. The measures evaluated were the labour-cost reduction resulting from changes made to social security thresholds; the elimination of the reduced social security contribution (*forfait social*) for companies with fewer than 250 employees; and the implementation of a cross-class cramdown mechanism in cases of corporate restructuring, whereby greater powers are given to the creditors interested in maximising the value of the company undergoing restructuring.*

[13] Determining who are pivotal creditors involves ranking the various creditors then working out the category of creditors whose claims may be partly – but not entirely – covered by available assets. The thinking behind this identification is that the interests of the pivotal creditors are the most in tune with maximising the company's value.

[14] See *Trésor-Economics* no. 226 "The macroeconomic effects of PACTE: An initial evaluation"

These three measures, which only amount to part of the ***Business Growth and Transformation Action Plan*** *Bill, are likely to increase GDP by nearly 1 percentage point in the long term, of which a 0.3 percentage point increase in 2025. The driving factors would be productivity gains from closer employee involvement with company performance via profit-sharing and better allocation of production factors via more efficient corporate structuring, and lower labour costs from higher staff thresholds and the elimination of the reduced social security contribution.*

As is the case with all ex ante *evaluations, these estimates are subject to major uncertainties stemming from the macroeconomic model and its calibration, the reliability of the assumptions made in the literature, and the degree to which the economic agents adopt the reforms.*

2. Investing to foster a new growth model

The government's reform strategy aims to unlock and spur France's enterprising potential and to harness that potential to address the major economic challenges of the future – knowledge, innovation and the ecological transition – with a strong focus on key sectors of our economy (housing, transport, energy and agriculture).

a) Equipping France with vital skills for the 21st century

Investing heavily in education and skills is the only viable way to tackle mass unemployment and fully grasp the opportunities that will come with future technological revolutions. That is why the government's strategy touches every level of our education system – from primary school right through to higher education and lifelong learning.

Efforts to reduce first and second grade class sizes in priority education network and priority education network plus establishments are ongoing. First grade class sizes were reduced in priority education network plus establishments at the start of the 2017 academic year, and across all priority education network establishments at the start of the 2018 academic year, when second grade class size reductions also began in both priority education network and priority education network plus establishments. Some 2,200 classes were reduced in size in the 2017-2018 academic year, followed by a further 3,200 classes at the start of the 2018 academic year. This move is expected to deliver significant long-term macroeconomic benefits, increasing GDP by 2 percentage points and creating an additional 120,000 jobs (see box).

Reforms to the baccalaureate were presented to Cabinet on 14 February 2018. The revised qualification, set to be introduced in 2021, will place a greater emphasis on ongoing assessment, feature a new oral exam, and include heightened support and guidance for high school students. At the start of the 2018 academic year, and each year thereafter, tenth grade pupils will sit computer-based positioning tests to assess their abilities in mathematics and French. They will also receive personal assistance with written and oral expression, and 54 hours will be set aside per academic year for guidance to ensure pupils are fully prepared for life in eleventh grade.

These high school reforms will align with changes to the university system. The Student Achievement and Guidance Act, enacted on 8 March 2018, overhauls the way university courses are organised from the 2018 academic year onwards, abolishing the random draw system and introducing personalised "educational attainment contracts" that set out precisely what is expected of students on their chosen course. A new Parcoursup website was launched in January 2018 to give high school students information about course types and content, and what is expected of them. Every regional education authority now has a Higher Education Access Commission to guide pupils who are struggling with the application process or have specific needs (such as disabilities).

The Career Choice Act, presented to Cabinet on 27 April 2018 and adopted by the National Assembly on 1 August 2018, builds on the labour market reforms initiated by the ordinances to strengthen labour-management dialogue by reforming apprenticeships, vocational training and unemployment insurance. The reforms aim to make the apprenticeship route more appealing to young people by increasing pay, protecting apprentices whose contracts are terminated, and raising the age limit to 30. The reforms also reduce

the burden and stress on host companies, with simpler registration and end-of-contract rules and per-apprentice (rather than per-establishment) funding to ensure the system better caters to business needs. The Career Choice Act also introduces sweeping changes to vocational training, "crediting with funds" the personal training account (CPF) scheme and bolstering provision for low qualified workers to provide greater career certainty.

On 28 May 2018, the Minister for Education unveiled the government's vocational high school transformation strategy, which aims to make vocational provision more appealing and easier to understand. Flagship measures will include categorising vocational baccalaureates into groups of professions (around 15 in total), setting up local excellence campuses, and placing a greater emphasis on the professions of tomorrow. Pupils will be able to obtain the certificate of professional aptitude (CAP) in one, two or three years depending on their profile and requirements, and apprenticeship programmes will be introduced at vocational high schools.

Investing in skills is one of the central thrusts of the government's economic policy strategy. Under the "Create a skilled-based society" arm of the Great Investment Plan, €15 billion is earmarked for the Plan for Investment in Job Skills. Much of this investment will focus on long courses (retraining and personal support), as the government seeks to get one million long-term jobseekers and one million young people with few or no qualifications back into work. The plan will draw on the new vocational training system introduced by the Career Choice Act.

As at 30 June 2018, 13 programmes had been approved under the Plan for Investment in Job Skills, amounting to provisional commitments of €1.45 billion. From this amount, €898 million has been earmarked for regional seed agreements (€496 million), training-support courses (€111 million) and the Youth Guarantee scheme (€291 million). Between now and October 2018, the regions will also be on the front foot for implementation by making proposals as part of regional skills investment agreements that will cover the period 2019-2022 and which will factor in the specific nature of each region and of the local labour market.

Box 3: Education and training: key to shaping a knowledge economy

France's education system is lagging behind its counterparts in other major developed economies. French pupils obtain disappointing results in the OECD's standardised PISA[(a)] tests (out of 71 countries, France is ranked 27th for science, 26th for mathematics, and 19th for reading) and are less employable than their peers in other countries when they leave school (71.7%, compared with an EU-wide average of 78.2%).[(b)] Persistent social and cultural inequalities continue to weigh on pupils' chances. In 2011, 12.2% of children of working-class parents were behind in sixth grade, compared with just 2.4% of children of middle-class parents. In deprived neighbourhoods, drop-out and unemployment rates are twice the national average. France also falls short of the OECD average across a number of educational investment indicators (highest primary class sizes, lowest teachers' pay) even though it invests slightly more in education overall, as a share of GDP, than the OECD average.

Education policy is an important driver of human capital development and long-term growth. Microeconomic theory stresses the economic benefits of investing in education and there is broad agreement in the literature that better trained individuals earn more and secure better jobs. French economists Thomas Piketty and Matthieu Valdenaire (2006)[(c)] showed that reducing class sizes by just one pupil can help boost academic attainment across all pupils, with very young children and those from deprived areas seeing the greatest benefits. Studies in other countries suggest that, in the longer term, having smaller class sizes can improve pupils' chances of securing a job and earning higher wages in adulthood (Fredriksson et al.*, 2013;[(d)] Jackson* et al.*, 2016[(e)]).*

A DG Trésor study looking at the macroeconomic effects of just one measure – reducing first and second grade class sizes in priority education network and priority education network plus establishments – found that doing so would, over the very long term, deliver a 2 percentage point increase in GDP and create 120,000 additional jobs because the pupils in question would be more productive and employable once they entered the workforce.

Moreover, the package of education policies for priority education areas (increasing staff pay in priority education network plus establishments, topping up middle school bursaries), coupled with other reforms to primary school (revised timetables) and middle school (new "Help for Homework" programme, relaxing previous middle school reforms), will boost long-term productivity and improve French labour market performance.

These effects will, however, not materialise until pupils passing through the reformed system leave school and enter the workforce.

(a) Programme for International Student Assessment.
(b) Source: European Union Labour Force Survey (EU LFS).

(c) Piketty, T., Valdenaire, M. (2006), "L'impact de la taille des classes sur la réussite scolaire dans les écoles, collèges et lycées français", *Les dossiers évaluations et statistiques*, no. 173, MEN-DEP.

(d) Fredriksson, P., Öckert, B., Oosterbeeck , H. (2013), "Long-term Effects of Class Size", *The Quarterly Journal of Economics*, vol. 128(1), pp. 249-285.
(e) Jackson, K., Johnson, R., Persico, C. (2016), "The Effects of School Spending on Educational and Economic Outcomes: Evidence from School Finance Reforms", *The Quarterly Journal of Economics*, vol. 131(1), pp. 157-218.

b) Investing to accelerate the ecological transition

The 2017 Climate Plan committed France to achieving carbon neutrality by 2050, at which point all residual greenhouse gas emissions will need to be offset by carbon sinks. Hitting this target will require determined action on three fronts – investment, tax policy, and regulation. The National Low-Carbon Strategy (SNBC) maps out France's long-term transition to a low-carbon economy in detail, setting out per-sector carbon budgets between now and 2033.

Above all else, the ecological transition demands sustained public and private investment as France looks to foster a new, sustainable growth model. That is why effective public investment in the ecological transition is one of the headline priorities of France's **Great Investment Plan**. The government has set aside €20 billion (of €57 billion earmarked for the plan[15]) for specific ecological transition measures that will make a real difference. The funds are allocated to different government departments, with the Ministry for the Ecological and Inclusive Transition – which has a bigger budget in the 2019 Draft Budgetary Plan (DBP) – enjoying the lion's share. The government will continue its efforts in this vein in 2019, and will assess how its measures affect the environment (impact on environmental variables) and the economy (influence on behaviour and leverage effect on private-sector investment). The incentive scheme for low-emission cars was a runaway success in 2018, and the government intends to pursue policies like these that make a real difference to people's behaviour.

On the energy front, the government will outline its general strategy for accelerating France's transition to a low-carbon economy in the Multiannual Energy Plan (PPE), which will build on flagship policy measures such as ending oil and gas extraction on French soil and closing down coal-fired power stations. It will also continue to channel more investment into the cleanest forms of renewable energy.

The government will also accelerate the ecological transition in priority sectors such as agriculture (targeted investment in environmental and organic farming initiatives) and transport (investing in everyday mobility, which will be covered under a separate act). The shadow price of carbon, which quantifies the value to society of greenhouse gas emission reduction efforts, will be revised to account for France's 2050 carbon neutrality goal, based on the work of the Quinet Commission. In particular, the revised price will make it easier to factor climate aspects into public investment programme assessments, and will inform public policy-making around reducing greenhouse gas emissions.

The government will continue using **taxation** as a way to accelerate the ecological transition, while ensuring that the most vulnerable members of society are not left behind. It will press ahead with its ambitious carbon trajectory and diesel/petrol tax equalisation plans for 2022. Although the domestic consumption tax on energy products (TICPE) affected both petrol and diesel, it introduced a higher levy on diesel in an effort to equalise the amount of tax charged on both fuels. In 2018, the carbon component of the tax stands at €44.60 per tCO_2. In 2022, this will rise to €86.20 per tCO_2 (ahead of the trajectory stipulated in the 2015 Energy Transition and Green Growth Act), echoing the government's resolve to do more to incentivise lower-carbon energy sources. As well as lightening the tax burden, the government has pledged to bolster grants for green technologies. Building on the success of the low-emission car incentive scheme in 2018, the energy transition tax credit (CITE) will be extended and the average value of the energy voucher will rise by €50 in 2019. The government is therefore giving all French citizens a helping hand as it pursues the transition.

The **circular economy** roadmap, unveiled in April 2018, sets out two flagship targets: recycling 100%

[15] The Great Investment Plan was launched this year, with €57 billion earmarked over a five-year term to fund innovation in areas that will shape the economy of the future. The government will select cost-effective proposals that align with its own priorities, and all projects will undergo rigorous assessment. The preparatory work was completed by Jean Pisani-Ferry, who submitted his report to the Prime Minister on 25 September 2017. On this basis, the plan will focus on four priorities: accelerating ecological transition (€20 billion), creating a skilled-based society (€15 billion), strengthening innovation and competitiveness, especially in agriculture (€13 billion), and building the Digital State (€9 billion).

of plastics by 2025, and halving the amount of waste going into landfill between 2015 and 2025. The roadmap also contains a series of financial incentives to encourage eco-design and favour waste recovery over disposal. The waste component of the General Tax on Polluting Activities (TGAP) will be increased to make dumping waste in landfill more expensive than recycling and energy-efficient incineration, and the government will cut the VAT rate on waste sorting and recycling.

c) Investing in innovation

Shaping a modern economy requires us to be more productive. To achieve that, we need to invest in research and innovation among our existing business base, and welcome high-growth firms operating in promising technology sectors to France. The government is committed to providing a high level of support at every stage of the research and innovation process. And it intends to make that clear by simplifying its funding system and doing even more to support disruptive technologies (see the special economic, social and financial report (RESF) section on disruptive innovation).

On 18 July 2018, the government set up the Innovation Board, co-chaired by the ministers responsible for the economy and research, to enhance the steering of innovation policy and define key policy priorities. The **Innovation and Industry Fund** (FII) has also been set up to supplement innovation funding under the Great Investment Plan (€13 billion of investment). The new fund, with an initial injection of €10 billion from the sale of government-held shares, is expected to generate annual revenues of around €250 million from its assets, to be reinvested in disruptive technologies. The funding is divided into three separate budgets. The first, amounting to €150 million, will be invested in "major challenges" around disruptive innovation in priority areas chosen by the Innovation Board. There is a further €70 million for high-tech start-ups under the Deep Tech plan, plus €25 million earmarked for the Nano 2022 plan.

At the AI for Humanity summit on 19 March 2018, the government set out its AI strategy as outlined in the Villani Report. France's ambition is to compete with the United States and China as a global leader in AI and to harness the growth opportunities that these technologies offer. The government will invest €1.5 billion of public funds in an AI Plan, using some of that money to set up interdisciplinary AI institutes (3IAs) – a network of centres of research excellence on French soil.

d) Modernising key sectors of the economy

Housing

The high cost of housing, coupled with a shortage of provision in high-demand areas, means that low-income households are struggling to find somewhere to live, are living in poor conditions, and are increasingly unable to afford rents. The Housing, Planning and Digital Technology Reform (ELAN) Bill, presented to Cabinet on 4 April 2018 and adopted by the National Assembly and the Senate at its first reading, touches on a number of key areas. The bill's primary aim is to increase housing provision by building more, better-quality, affordable homes. It will ease planning operations (introducing lighter-touch standards, switching the emphasis from resources to performance, converting offices into homes) and simplify the building process by fast-tracking planning applications, improving how disputes are handled, and freeing up vacant land. The bill also introduces reforms to the social housing system by grouping social landlords together into bigger units with more than 15,000 social housing units on their books, reforming the legal environment, making it easier for them to sell their stock, and relaxing the overly rigid rent policy. In addition, it introduces a new application scoring system to make the process by which social housing is allocated more transparent. The bill also brings in other measures to boost mobility in private housing stock, including a new "mobility lease" – a short-term lease for people whose jobs require them to move regularly. The 2018 Initial Budget Act also features a series of measures to increase housing provision, including plans for 80,000 new homes for students and young workers.

The government has announced efficiency improvements to housing supply and demand subsidies, to ensure there are enough affordable homes for everyone. From 2019 onwards, housing benefit will be means-tested against applicants' income for the current and previous years to ensure it better reflects their present circumstances. The government has extended the

interest-free loan (PTZ) scheme for new-build homes in high-demand areas for a further four years, and will phase out the loans for new-build homes in places where demand is lower over two years. For existing homes, the scheme has been extended for a further four years, with a shift in emphasis towards lower-demand areas.

Rail

There was an urgent need to reform France's rail system because the business model had become untenable and passenger service standards were declining despite significant public investment (€14 billion per year). The government also needed to prepare for deregulation of domestic passenger rail travel under the EU's Fourth Railway Package. The New Railway Pact Act, enacted on 27 June 2018, means that SNCF is now fully equipped to prepare for deregulation. On 1 January 2020, SNCF will become a single, integrated group comprising three public limited companies (SNCF Réseau and SNCF Mobilités will become subsidiaries of SNCF). On that same date, a subsidiary of SNCF Réseau will take over management of all stations, and SNCF will no longer hire staff with "railway worker" status. The reforms will also place France's rail system on firm financial footing once again, as SNCF looks to make its business more competitive and makes record investment in network upgrades, and as the State absorbs €35 billion of debt from SNCF Réseau by the end of the five-year Presidential term. The act also sets out the market opening timetable. This will take effect in December 2020 for high-speed trains (TGV) with open access to the infrastructure for any rail company. And for regional express trains (TER), it will take effect as from December 2019 for regions that so wish and compulsorily as from December 2023 via tendering.

Agriculture

The Balanced Trade Relations in Agriculture and Food and Healthy, Sustainable and Affordable Food Bill builds on the roadmap unveiled at the Food Summit. The bill, which is currently being scrutinised by the National Assembly and the Senate, aims to ensure that farmers are paid a fair price for their produce, to improve trade relations between farmers, processors and retailers, and to guarantee healthy, sustainable and affordable food for all. The bill flips the price calculation mechanism, with farmers themselves setting the terms of the contract and the price they are paid, using segment-specific indicators. In terms of healthy, sustainable and affordable food, the bill will require all public-sector catering providers to source at least 50% of their produce from organic, local or quality mark-holding producers. Even though the bill has yet to be adopted, some of the measures are expected to be enacted in the next round of trade negotiations in October 2018.

Box 4: Rail market opening in the EU: the story so far

The market opening of passenger rail travel aims to improve service efficiency and quality and to reduce the burden on the public purse. As France gets ready to open its rail market up to competition, comparable examples in other countries – especially in Germany (regional trains) and Italy (high-speed trains) – show how properly organised competition can benefit passengers and taxpayers alike.

Germany introduced competition on regional train services in 1996, under a state (Länder) run tender system. Private operators now hold a 30% market share. The move has improved both capacity and passenger traffic. Between 1996 and 2014, network traffic increased by around 20% and passenger numbers by almost 50%. Over the same period, public subsidies fell by around 25% on average, delivering significant cost savings for states.

Italy's high-speed train network was opened up to competition under an open access model in 2012. A new market entrant has challenged the country's incumbent operator and currently holds a substantial 20% market share. In the first year alone, capacity on the main high-speed line serving Turin, Milan, Rome and Naples increased by 45%, and fares fell by an average of 30% between 2011 and 2012. Competition appears to have had a positive impact on service quality and variety, as new services such as free Wi-Fi, film streaming and on-board meeting rooms have been introduced.

The United Kingdom is another interesting case in point. The rise in fares since the market opening in 1994-1997 can be attributed to historic under-investment in rail. Since the UK introduced competition, there has been a dramatic increase in network traffic (up 120% between 1994 and 2015) and in the modal share of rail (which doubled between the mid-1990s and 2014). Recent figures ranked the UK second in Europe for passenger satisfaction (European Commission survey, 2013) and safety (fewest fatal accidents per train-kilometre in 2011-2015).

3. Keeping people safe and protected, and building a fairer welfare state that works for everyone

Thanks to its highly redistributive system of cash transfers, France's welfare system has helped to keep poverty below the levels seen in neighbouring countries. However, it has failed to contain rising inequality of opportunity. The current system tends to preserve the status quo instead of creating conditions in which everyone can thrive. That is why, in the coming years, the government will introduce reforms to shape a welfare state that works for everyone, founded on the principles of fairness and solidarity.

a) Protecting French citizens

The government will invest heavily in security in line with its sovereign duty to keep citizens safe and secure. The Ministry of the Interior will deploy the *Police de Sécurité du Quotidien*, a new police unit focusing on routine crime and security problems. The Ministry of Justice will hire new staff, especially in the prison service. And the Ministry for the Armed Forces will be allocated an additional €1.7 billion in resources in 2019.

b) Reforming the welfare state

A more universal welfare system

Creating jobs is the most effective and lasting solution to mass unemployment and limited social mobility. That is why the government is overhauling France's labour market, moving away from a model that merely treats the symptoms of inequality without tackling its root causes. The ordinances of 22 September 2017 introduced measures to redress labour market segmentation, safeguard labour relations, and make it easier for firms to hire new staff. But the government is doing even more to help get people far removed from the job market back into work, with reforms to vocational training and apprenticeships and the new Plan for investment in job skills.

The reformed unemployment insurance system will offer more universal protection, with greater certainty for people changing jobs or returning to work, while the new pension rules will ensure that the varying circumstances that people experience throughout their working lives are treated on an equal footing. The reforms extend unemployment insurance to people who have resigned, who will receive the benefit as long as they intend to retrain and have their proposal approved by a joint committee. And the self-employed will be entitled to a fixed benefit if they cease trading. Lastly, the reforms aim to provide greater incentives for people to return to work.

Shaping a truly universal welfare system also means reforming our entire pension system so that, in the long run, everyone receives the same benefits for every euro they pay in. The reforms will deliver greater clarity and certainty for all French citizens, who will no longer be penalised for taking non-linear career paths in which they switch between the public and private sectors, or between employment and running their own business. Under the revised system, benefit calculation rules will gradually be harmonised across all pension schemes. The High Commissioner for Pension Reform, appointed on 15 September 2017, started a consultation process with labour and management representatives in April 2018. The bill will be presented in 2019.

Box 5: The Gender Equality Plan

On 25 December 2017, the President of the Republic formally declared that the Gender Equality Plan was an issue of "national importance". At its meeting on 8 March 2018, the Interministerial Committee for Gender Equality announced 10 flagship measures to embed a culture of equality, to provide better, more targeted support for abused women, and to ensure that France's public services lead by example on the domestic and international stage. The measures include appointing a new "equality focal point" in every school, creating a guaranteed 5,000 shelter places for abused women in 2018, and achieving a better gender balance in appointments to civil service managerial positions. On 7 March 2018, the government met with labour and management representatives to set out its headline measures to strengthen gender equality in the workplace and reduce the gender pay gap. By 2020, all companies employing more than 50 people will use an open-source software program – embedded in their payroll system – to calculate the gender pay gap against objective criteria. Companies with a demonstrable gap will be required to set aside a specific budget to bring women's pay in line with men's. And, from 2022 onwards, the sanction will apply on a performance basis, rather than on a means basis as is presently the case.

A more effective welfare system

Tackling inequality means revamping our health system, with a strong focus on prevention. The National Public Health Plan (PNSP), unveiled in March 2018, aims to improve everyday prevention and involves all government departments. Some of the flagship measures have already been introduced. Pharmacists are now able to administer the flu vaccine, and there is a coordinated cervical cancer screening campaign with the State covering 100% of the cost. Obesity prevention efforts now begin in early childhood, and alcoholic drinks feature a larger "no alcohol when pregnant" logo. People using stopping smoking aids now get the money refunded directly to them (instead of receiving a fixed annual sum). The government is trialling free condoms for under-25s, and has launched a hearing impairment screening campaign for 15- and 16-year-olds. On 1 January 2018, the number of compulsory vaccines increased to 11. And on 1 July 2018, the tax on sugary drinks – the so-called "soda tax" – changed from a per-volume flat-rate system to a sliding-scale system according to the drink's sugar content. In a similar vein, the government is gradually increasing tobacco duty so that, by 2020, a packet of cigarettes will cost €10. The government will also review healthcare costs in an effort to reward people who take preventive measures. In 2019, it will introduce a flat-rate scheme to cover inpatient treatment for chronic conditions including diabetes and chronic kidney disease. It will extend the scheme to include other conditions in 2020 and, at a later date, to cover outpatient treatment in an effort to better coordinate inpatient and outpatient care.

Tackling inequality also means that nobody should be denied treatment because they cannot afford it. That is why, on 13 June 2018, the government struck a landmark deal with the healthcare sector to eliminate out-of-pocket costs for glasses and contact lenses, dentures and hearing aids. Under the deal, which will come into effect in the next three years, patients will be able to access a selection of high-quality, industry-standard medical aids in all three areas, with no excess to pay above and beyond the amount covered by their standard and complementary health insurance. The government's sweeping health system reforms will focus on the following areas: assessing care quality, reviewing pay structures, harnessing digital technologies to drive change, improving healthcare workers' quality of life, and reshaping the care landscape.

Lastly, tackling inequality also means making it easier for patients to access care. Firstly, it should be easier for patients to see a healthcare professional when they need it, and the professional should have more time to spend with the patient. Forthcoming government initiatives in this area include overhauling medical training (abolishing the *numerus clausus* policy at the end of the first year of medical school, along with the national ranking tests at the end of year 6 that determined students' eligibility for residency), and doing more to help private-practice doctors hire medical assistants. Secondly, patients should

receive more comprehensive care – something that will be made possible by the new local healthcare professional communities. And thirdly, care needs to be delivered closer to patients. That is why, in 2020, the government will introduce the "Local Hospitals" classification – to be awarded to 500-600 hospitals – as part of a broader graduated care model encompassing local, specialist, emergency and referral care providers and spanning different geographical scales.

A fairer welfare system

The government is investing heavily to support those members of our society in greatest need. Welfare benefits will be adjusted, although not at the same rate, since the government's focus is on those benefits that encourage people to return to work (in-work benefit, see 1.a above) and those that target the most vulnerable members of society. Specifically, the government will increase the solidarity allowance for the elderly (ASPA), which currently stands at €833, by a further 4.2% in January 2019 (and to €903 by 2020 – an increase of €100). It will also raise the adult disability allowance (AAH), currently €819, to €860 in November 2018 and then by a further 4.7% in November 2019. The government introduced a one-off increase to the family income supplement and the family support allowance in April 2018, and raised the childcare supplement by 30% for single parents in October 2018. Increases to pensions and other benefits will be capped at 0.3% in 2019 and 2020. One of the exceptions to this rule, however, is the social inclusion benefit (RSA), which will increase in line with inflation as part of the government's commitment to make work pay and better protect those in greatest hardship.

The government is determined to do more to help **the poorest members of society, and will roll out an ambitious poverty prevention and reduction plan in 2019** to fund support for RSA recipients and to tackle child poverty from birth to adulthood. The government launched a nationwide consultation process in early 2018, giving a voice to all stakeholders (charity and non-profit leaders, social workers, and local and national elected representatives) at every level of society. The resulting strategy focuses on social investment and on acting early to tackle the causes of poverty rather than simply treating its symptoms. The strategy will overhaul the childcare system, **especially in deprived areas, and includes a new subsidy programme that will cut the amount local authorities have to pay towards new childcare provision to less than 10% of the total cost**. It also places a strong emphasis on education, with the compulsory school leaving age set to be raised to 18.

The government is shaping a fairer tax and social security regime by introducing a withholding-at-source system for income tax. The reform is especially good news for the seven million French citizens whose income falls from one year to the next. This includes people whose income is variable (such as those who lose their jobs or part-time workers whose hours have been cut), and those who experience unforeseen circumstances (such as divorcees, widows and widowers, and people on long-term sick leave). Currently, these people continue paying tax at a level that is out of step with their real income – sometimes for as long as 18 months. Under the new system, however, they will pay income tax in the same year as they earn the taxable income.

c) Narrowing the geographical divide

Building a more equal society is not just about reducing inequalities between individuals. It also means narrowing the geographical divide. All French citizens should enjoy the public services they need, to the same standard, no matter where they live – be it high-speed broadband, healthcare, transport or decent housing.

In February 2013, the government set out its target of bringing high-speed broadband to every corner of France by 2022 in the High-Speed Broadband Plan. And on 14 January 2018, it signed a landmark agreement with mobile network operators, who pledged to roll out high-quality network coverage throughout France. The planned measures include improving signal strength nationwide, especially in rural areas, fast-tracking coverage of major transport routes, and ensuring every part of France has a 4G signal.

In October 2017, the government unveiled its Better Healthcare Access Plan to bring healthcare to areas where it is currently lacking. Proposed measures include deploying new nurses under the

ASALEE[16] scheme, deploying advanced nurse practitioners, making it easier for retired doctors in under-served areas to continue practising, supporting new multi-disciplinary health centres, rolling out the shared electronic patient record scheme nationwide, providing more urgent care centres to relieve the pressure on hospital accident and emergency wards, and introducing telemedicine legislation. A ministerial steering committee, comprising user representatives and healthcare professionals, will meet every six months to review the plan's progress.

Suburban and rural communities also suffer inequalities in everyday mobility and transport services. Following stakeholder consultation in September-December 2017 to coincide with the National Mobility Conferences, the government will present the Mobility Guidelines Bill to Cabinet in early autumn this year, setting out how it will deliver appropriate mobility solutions for all French citizens and communities. Whereas all of France should be covered by "mobility organisation authorities" (*autorités organisatrices de la mobilité*, AOMs), 80% of French territory and 30% of its population is currently not covered. The government will address this situation by rolling out AOMs nationwide and launching a plan to upgrade the national road network and ensure every part of France is connected. The bill, which aligns with the Climate Plan, will accelerate France's transition to eco-friendly mobility by bolstering support for cyclists and electric vehicles and launching the fourth call for proposals for dedicated-lane public transport systems. The bill will also tighten up the CO_2 emissions-based reward-penalty scheme for new vehicles, further lowering the threshold at which penalties apply in 2019 with the aim of boosting electric vehicle sales five-fold by 2022 compared with 2017 levels. The government will also develop new tools to combat air pollution and urban congestion, including giving local and regional authorities more powers to set up low emission zones and to introduce congestion charges. In addition, the recently enacted New Railway Pact Act will make rail travel more appealing, give regional authorities greater powers to organise the rail sector and, in doing so, enhance mobility throughout France.

On the issue of housing, one of the aims of the Housing, Planning and Digital Reform (ELAN) Bill is to improve people's standard of living and narrow the geographical divide. Over the next decade, the government will double its investment in the National Urban Regeneration Programme – from €5 billion to €10 billion – to raise living standards in the most deprived urban neighbourhoods. The bill also includes plans for a new "urban regeneration operation" contract – a single integrator contract spanning mobility, services, housing, economic development and other local development and city-centre regeneration issues for medium-sized towns and cities. One of the government's aims is to do more to tackle the problem of substandard housing. It will do so by expanding the daily administrative penalty system and by making it easier to penalise slum landlords (introducing a presumption that income has been earned from renting out substandard housing).

Lastly, the **abolition of the residence tax** – the government's flagship measure to lighten the tax burden on households – will make a real difference to narrowing the geographical inequality gap. The residence tax was the least fair household tax, charged at vastly different and entirely unjustified rates from one authority to the next. As expected, 80% percent of households will benefit from the second round of tax relief in 2019. Eventually, the residence tax will be abolished altogether, for all households, as part of the government's comprehensive review of local taxation, echoing the conclusions of the Bur-Richard report to the Prime Minister on 9 May 2018.

[16] The Health Action by Teams of Self-employed Health Professionals (ASALEE) scheme was launched in 2004 as a cooperative arrangement to improve outpatient treatment of chronic conditions. Under the scheme, general practitioners can refer patients to nurses trained in patient education, who carry out screening and follow-up in the practice.

d) A Europe that protects

France's economic policy aligns with our vision of a "Europe that protects". As the President of the Republic made clear in his speech at Sorbonne University on 26 September 2017, this will require tax and social policy convergence, a major overhaul of trade policy, and a stronger Economic and Monetary Union (EMU).

On the issue of tax policy convergence, work has restarted at European level on corporate tax base harmonisation, based on the joint French and German proposal and the Commission's proposal for a directive on a Common Consolidated Corporate Tax Base. These efforts will help create a level playing field and tackle anti-competitive tax practices arising from a fragmented internal market. France would also like to see EU digital tax reforms move forward at a faster pace. The interim solution – a tax on digital-only revenues – will give a clearer picture of the value that digital service users create at the place of consumption. The longer-term solution should involve a complete rethink of corporate taxation rules, based on the concept of a "significant digital presence" – an idea that France supports – so that companies' profits are taxed at the place where they interact with users. This work also aligns with OECD-level discussions on finding a conclusive, coordinated solution to the corporate tax and broader tax challenges raised by the digital economy. Taken together, these efforts should ensure that profits that escape the current tax framework – thereby depriving EU Member States of the resources they need to fund their social models – are properly taxed.

As regards social policy convergence, a watershed moment in efforts to shape a "Europe that protects" came on 1 March 2018 when the European Parliament, the European Commission and the Council of the European Union agreed on the revision of the Posted Workers Directive. The agreement marks a major step forward and fully aligns with the reforms called for by France and its partners. The revised directive caps the duration of the posting at 12 months (plus a further 6 months at the host country's discretion), recognising that posting is, by its very nature, a temporary arrangement. Workers who stay on beyond this limit will be subject to all aspects of labour law in the host country. The revised directive also enshrines the "equal pay for equal work" principle, taking into account all aspects of the worker's pay (hazard bonuses due under branch agreements, plus other bonuses) so that workers are protected from wage dumping practices, and introduces tougher penalties for employers who violate EU abuse and fraud rules. The agreement will result in better protections and enhanced rights for posted workers, and will ensure fairer competition for businesses operating in the internal market. Under the Career Choice Act of 5 September 2018, the government is authorised to issue ordinances enacting the provisions of the revised directive of 1 March 2018 into French law. The act also sets out a series of other measures on posted workers and illegal work. These include lighter-touch declaration of posting procedures under certain circumstances, heavier fines for employers that breach posting-related obligations, and new powers for the administrative courts to ban businesses from providing services for a two-month renewable period if they fail to pay fines. The Proclamation of the European Pillar of Social Rights, signed by EU institutions and heads of state in Gothenburg in November 2017, should further inspire domestic policy and EU initiatives towards a set of common standards for citizens and workers.

On the matter of trade policy, the emphasis is on opening up new opportunities while protecting European interests. The modernisation of the EU's trade defence instruments (anti-dumping and anti-subsidy regulations) has strengthened protections against distortive practices for European jobs and businesses. At the behest of the French, German and Italian governments, the Council and the Parliament are also discussing a new European framework for screening of foreign direct investments in sectors that have strategic implications from a security, public order or European interests perspective. The EU, in accordance with World Trade Organization (WTO) rules, has adopted rebalancing measures in reaction to unilateral steel and aluminium tariffs imposed by the new US administration, along with safeguarding measures on imports of steel products. More generally, amid growing trade tensions and economic risks posed by protectionist measures, France is fully behind EU proposals to modernise WTO rules and the manner in which those rules are applied. At the same time,

the EU is negotiating new Economic Partnership Agreements (EPAs) with other countries and regional groupings as it seeks to establish a community trading under common rules while offering protection for sensitive sectors such as agriculture. Following on from its EPA with Canada, the EU has signed a new agreement with Japan and is putting the finishing touches to a modernised EU–Mexico Global Agreement. Negotiations are ongoing with the Mercosur trade bloc, and with Chile, Singapore and Vietnam, and the EU has opened talks with Australia and New Zealand – in each case championing European values and seeking multilateral commitments on public health, sustainable development and climate change. As regards the future trading relationship between the EU and the United Kingdom after Brexit, the priority is to preserve the integrity of the internal market (free movement of goods, capital, services and labour) and to protect the EU's trade interests and economic sovereignty.

Box 6: Outlook for the EU and the euro area in light of the Meseberg Declaration of 19 June 2018,[(a)] the French-German Roadmap for the Euro Area,[(b)] and the Euro Summit of 29 June 2018

The Meseberg Declaration – signed by the Chancellor of Germany and the President of the Republic on 19 June 2018 – and the French-German Roadmap for the Euro Area set out France and Germany's joint position on the priorities for the functioning of the Economic and Monetary Union (EMU). These two documents mark a major step forward in efforts to strengthen the euro area, paving the way for a broader agreement with all European partners in the coming months.

The first priority is to make Europe's banking system more resilient against future crises. That is why France and Germany agreed that the European Stability Mechanism (ESM) should be the backstop for the Single Resolution Fund (SRF). Such a move would enhance the credibility of the Banking Union's resolution framework and thus contribute to financial sector stability, better financing of the euro area economy, and broader risk-sharing. Talks on the European Deposit Insurance Scheme will also be reopened.

On the matter of crisis prevention, France and Germany reached an agreement to strengthen the ESM by enhancing the effectiveness of precautionary instruments.

Lastly, the French-German Roadmap includes a proposal for a standalone euro area budget with ongoing investment expenditure and a steady stream of resources – something that is vital to euro area stability, convergence and competitiveness. As being in the euro area removes member countries' autonomy on domestic monetary policy, such a budget would fulfil an important macroeconomic stabilisation function that should prove beneficial to shock-affected countries that can no longer use automatic stabilisers to full effect to support their economy. The budget would support convergence by permanently financing public investment in human capital and innovation, both of which are vital to growth and would be protected in the event of a shock. Moreover, the budget would act as an incentive for structural reform to shape more competitive European economies.

(a) https://www.diplomatie.gouv.fr/en/country-files/germany/events/article/europe-franco-german-declaration-19-06-18
(b) https://www.economie.gouv.fr/files/files/PDF/2018/Finances-Euro_Area_Roadmap-EN.pdf

4. Building a more modern government and rebalancing France's public finances

a) Transforming government

Reviewing government spending

The aim of the Public Action 2022 programme – a systematic review of every area of government activity – is to equip France with a more modern government that delivers the high-quality public services that its citizens expect.

The programme will involve a series of reforms, each led by the relevant minister, based on the recommendations of the Public Action Committee (CAP 22) expert panel. For instance, the existing tax and customs recovery system will be overhauled, with responsibility for recovering certain customs duties transferred to the Public Finances Directorate General (DGFiP) and a "zero cash" policy introduced, under which authorities can outsource cash recovery operations to one or more service providers. The reforms will also touch on

public broadcasting, with a view to more efficient use of funds across public channels. The public employment service will adopt new digital technologies to better match supply and demand, while France's network of embassies abroad will be streamlined to deliver efficiency savings.

The government has already made firm policy decisions such as these in its 2018 budget – refocusing the subsidised employment contract policy to free up more money to finance the Plan for investment in job skills, and reducing social housing rents in return for an equal cut in housing benefit as part of a broader shake-up of housing policy.

As well as modernising specific sectors, the government will also conduct a comprehensive review of **public-sector human resources management** to build a more diverse, more open government with the flexibility to redeploy staff where they are needed most. On 2 July 2018, the government opened talks on civil servant mobility with unions and employers' representatives across all three branches of the civil service. In accordance with the guidelines set by the Prime Minster at the 1 February 2018 session of the Interministerial Committee on Government Transformation (CITP), the consultation process focuses on two areas: enhancing training for civil servants, and building more flexibility into the civil service (clarifying the redeployment process and providing more support for civil servants looking to retrain after taking voluntary redundancy). Ongoing talks throughout the summer explored how the training system and personal training account (CPF) could be leveraged, how to deliver career change guidance, how best to support mobility and redeployment in the civil service, and what support schemes are available for civil servants moving into the private sector.

The government has also embarked on an ambitious programme of reforms to build the Digital State – a move that will radically simplify government activity while delivering substantial long-term cost savings (pooling resources and eschewing often costly and inefficient flagship projects). Digital technologies are a standalone component of the Great Investment Plan (€9 billion in investment, including €5 billion for hospital systems). The government has set up a €700 million Government Action Transformation Fund and has launched its first call for proposals for e-government initiatives. On 20 June 2018, it awarded €126 million to 17 winning bidders.

Keeping health spending in check and investing in hospitals

The government has set a growth target of 2.5% for national health insurance spending in 2019 to finance the "My Health 2022" programme, which the President of the Republic presented on 18 September 2018. As the spending target plan for 2018-2022 enters its second year, the government will press ahead with ongoing initiatives in the five core areas of its health system transformation strategy: care quality and appropriateness, health system funding, e-health, human resources and training, and regional healthcare coverage. By keeping health spending in check, the government will free up more funds to invest and ensure that the health system – and hospitals in particular – remains financially viable in the medium term. The government has set aside €3.4 billion for the My Health 2022 programme between now and 2022, including €1 billion for investment in hospitals.

Signing contracts with local and regional authorities

At the 2017 National Territorial Conference, the government pledged to open a new chapter in relations between the State and local and regional authorities. Following four consecutive years of unilateral cuts in State transfers, the government proposed a modest increase in local and regional authorities' actual operating expenditures (1.2% p.a. on average between 2018 and 2022). The 322 biggest-spending local, regional and combined authorities[17] were asked to sign individual contracts governing actual operating expenditure growth in return for this modest increase in transfers. As at 30 June, when the negotiations closed, 228 mayors and executive council presidents had signalled their intent to take part in the scheme, along with a further 16 local and regional authorities that had agreed to sign up voluntarily despite not being required to do so by

[17] Regions, *départements*, communes and government-funded inter-municipal cooperation institutions with actual operating expenditures in excess of €60 million.

law. These impressive figures show that local and regional authorities have embraced the scheme and, by a wide majority, support the government's vision of reasoned, responsible decentralisation. The contract values will be assessed in spring 2019 before the government drafts the 2020 DBP.

Box 7: Public policy evaluation: the key to effective government

Public policy evaluation is an essential part of government business for two reasons. First, the government evaluates policy before enacting a law (policy screening) to carefully consider what effects that law might have and to ensure, through a collective process, that it will fulfil its intended purpose. Second, the government evaluates policy after a law has been enacted (retrospective policy evaluation) to determine whether or not the law has fulfilled its purpose and delivered the expected benefits for society. Public policy evaluation is therefore part of a broader drive to continuously improve public decision-making. Retrospective evaluation informs policy screening, giving the government a clearer picture of how different measures work in practice and allowing it to make informed decisions around forthcoming reforms.

On the issue of policy screening, the Constitutional Bylaw of 15 April 2009 requires all bills to undergo an impact assessment, which must set out the baseline scenario, explain why the law is needed, describe its intended purpose, and anticipate its legal, macroeconomic, budgetary and other implications. The government has recently published the source codes of the models it uses to assess the macroeconomic and redistributive impact of reforms – a move that increases transparency around policy evaluation methods and strengthens consultation, which itself is an inherent part of the evaluation process.

The government has also set up retrospective evaluation committees for the Competitiveness and Employment Tax Credit (CICE) and the ordinances to strengthen social dialogue, and will shortly be creating another committee to look at the capital taxation reforms. These committees, comprising recognised experts, are wholly independent and use dedicated research to support their work, with assistance from the government when required.

In June this year, the National Assembly presented a report outlining the work that it does to monitor and evaluate government business. The report includes a proposal to set up a Parliamentary Evaluation Agency to screen and retrospectively evaluate the impact of public policy and foster a stronger culture of evaluation across public policy-making.

b) The public finance path

The nominal growth rate of government expenditure (excluding tax credits) will remain flat in 2018 after a 1.4% rise in 2017, helping to bring government expenditure down to 54.6% of GDP from 55.1% in 2017. In 2019-2022, the government will maintain its strategy of controlled expenditure growth, reducing the nominal growth rate of government expenditure to an average of 0.2% over the five-year Presidential term (on a like-for-like basis) – a much lower rate than the average over the previous Presidential term (0.9%). This will reduce government expenditure as a share of GDP by 3 percentage points by 2022.

Local and regional authorities will continue working to bring operating expenditures under control, as they are required to do under the contracts signed with the State. The government has capped the growth in national health insurance spending at 2.5% for 2019, while falling unemployment will see the unemployment insurance scheme (Unedic) return to equilibrium in 2020. Reducing expenditure is vital to building a more efficient government. Moreover, it lends credibility to tax cuts and maximises the impact of these measures on investment and job creation. Moreover, by keeping a tight rein on expenditure, the government will be able to place France's debt ratio on a sustainable path, down 5 percentage points from 98.5% in 2017.

At the same time, the government will continue cutting the aggregate tax and social security contributions rate to spur growth and job creation, as the President of the Republic has pledged. On a like-for-like basis, the aggregate tax and social security contributions rate will fall by more than 1 percentage point by 2022.

In 2017, the general government deficit fell to 2.7% of GDP, down from 3.5% in 2016, prompting the European Commission to close the Excessive Deficit Procedure opened against France in 2009. This achievement is the result of the government's determination and resolve to contain expenditure growth. It can also be attributed to benign economic conditions, under which public revenues (up 4.0%, net of tax credits) have grown at a faster pace than expenditure (up 2.4% excluding tax credits). In 2017, France's structural deficit stood at 2.3% of GDP, with a structural adjustment of 0.3% of GDP.

The structural adjustment will amount to 0.1% and 0.3% of GDP in 2018 and 2019, respectively. This path reflects a slower nominal growth rate of government expenditure (excluding tax credits), which will remain flat in 2018 and increase by 0.6% in 2019. Consequently, government expenditure (excluding tax credits) as a share of GDP will continue its downward trajectory to 54.0% in 2019, amounting to a 3 percentage point fall over the five-year Presidential term in line with the government's commitments. This consolidation will come about through the steady deployment of government-initiated structural reforms, and through concerted, sustained expenditure control across all areas of government. Taken together, these efforts will reduce the aggregate tax and social security contributions rate to 45.0% in 2018 and 44.2% in 2019 (or 44.0% discounting the impact of the creation of the nationwide agency France Compétences, as against 45.3% in 2017), in line with the government's pledge to cut this rate by 1 percentage point by 2022.

Macroeconomic impact of reforms

MACROECONOMIC IMPACT OF REFORMS – 2019 BUDGET BILL				
REFORMS		**MAIN MEASURES**	**TIMETABLE**	**ECONOMIC MECHANISMS**
UNLEASHING THE FULL POTENTIAL OF THE FRENCH ECONOMY				
Job creation and encouraging people to enter the labour force	Decrease employee's contributions	**Elimination of employee healthcare and unemployment contributions for both public- and private-sphere employees.** Offset by an increase in the CSG, whose base is larger so that the cost of social protection is not solely paid by labour.	2018 Social Security Budget Act	**Encouraging people to enter the labour force** by making work more remunerative. Increased purchasing power for those in work. **Stimulating hiring by lowering labour costs and increasing productivity.** **Shifting taxation** to less distortionary tax bases.
	Exempting overtime pay from employee social contributions	**Exempting overtime pay from employee social contributions at of 1 September 2019**	2019 Social Security Budget Act	
	Elimination of the reduced social security contribution (*forfait social*)	**Elimination of the social security contribution** on all payments into employee savings plans in companies with fewer than 50 employees, and on all employee incentive scheme payments in companies with fewer than 250 employees. **Lowering the social security contribution to 10%** on all employee shareholding buy-ins.	2018 Business Growth and Transformation Action Plan	
	Converting the Competitiveness and Employment Tax Credit (CICE) into social security contribution cuts	**Simplification of the CICE's existing provisions** to maintain its long-term viability and refocusing it on minimum wage-earners.	2018 Initial Budget Act / Social Security Budget Act	

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<tr>
<td>Labour market</td>
<td>Orders for bolstering labour management dialogue</td>
<td>Priority given to company-level agreements in areas not reserved for sector-level agreements, particularly in terms of wages, working hours and employee mobility, and streamlining via directly consulting with VSEs.

Sector-level management of fixed-term contracts, interim contracts and project-specific contracts.

Extension of sector-level collective agreements that is non-automatic and subject to expert assessment

Streamlining and strengthening economic and labour-management dialogue by merging the various employee representative bodies and recasting the occupational sectors.

Greater security for companies through introducing of mandatory floors and caps for compensations awarded by labour tribunals.
Reduction of the time-limit for appeals in the event of litigation over termination of employment contracts.
Simplification of rules governing layoffs for economic reasons and introduction of negotiated contractual termination by mutual agreement.</td>
<td>Orders signed by the Prime Minister and the President in September 2017 (ratification act published in March 2018)</td>
<td>Better matching of supply and demand on the labour market, leading to productivity gains.

Reduction of the cost of disputes and improved performance and lower costs for representative bodies, resulting in lower labour costs and job creation.

Making career paths more secure, and thus facilitating career changes and greater risk-taking.</td>
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<td rowspan="2">Support for corporate investment</td>
<td>Decrease in corporation tax</td>
<td>Lower the headline corporate income tax rate to 25% by 2022, with a new stage starting in 2019 with a 31% ordinary tax rate</td>
<td>2018 Initial Budget Act</td>
<td rowspan="2">Decrease in the cost of capital and greater savings neutrality allowing savings to be used to invest in businesses and encouraging risk-taking and greater investment.

All of our tax measures (including taxation of labour and eco-taxes excluding the tax measures contained in the Business Growth and Transformation Action Plan, see below) could boost growth by 3.3 percentage points of GDP in the long term, creating 440,000 jobs, with a gradual phase-in and an expected growth of 1.6 percentage points of GDP and 260,000 jobs by 2025.</td>
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<td>Introduction of the Single Flat-Rate Levy (PFU) and replacing the wealth tax with a real estate wealth tax</td>
<td>A single flat-rate levy of 30% on interest income, including social levies.
Replacing the wealth tax (ISF) with a real estate wealth tax (IFI).</td>
<td>2018 Initial Budget Act</td>
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<td rowspan="6">Business environment and competitiveness</td>
<td>Combating normative inflation</td>
<td>"One in, two out" rule concerning the creation of new regulatory standards and combating over-enactment of European standards.

Obligation for future bills to contain a clause concerning streamlining measures.</td>
<td>Circular dated 26 July 2017

Circular dated 12 January 2018</td>
<td rowspan="6">Facilitating company creation, financing and growth, and encouraging business initiative.

Productivity gains through greater involvement of employees in the success of their company and better resource allocation made possible by a more efficient bankruptcy regime.

Lower labour costs by increasing the threshold from 20 to 50 employees for the employer social housing levy (PEEC) and the national housing support fund (FNAL), by freezing, for five years, a number of requirements relating to exceeding certain social security thresholds and by eliminating the reduced social security contribution on profit-sharing and employee incentive scheme payments in companies with fewer than 250 employees.

Stimulating supply and investment.

Increasing the appeal of France as a place to do business.

Promoting the French ecosystem.

The PACTE measures concerning workforce thresholds, the reduced social security contribution and bankruptcy law should lead to GDP growth of nearly 1 point in the long term, including 0.3 points by 2025 (see Box 2 on France's economic policy strategy in Trésor Economics no. 226 "The Macroeconomic Effect of the PACTE: An Initial Assessment", September 2018).</td>
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<td>The "right to make a mistake"</td>
<td>Introduction of a "right to make a mistake" for entrepreneurs of good faith in their relations with the government.</td>
<td>Government Reform Act for a Trust-Based Society of 10 August 2018</td>
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<td>Action plan in favour of business growth</td>
<td>Encouraging the growth trajectories of businesses, particularly VSEs and SMEs, by removing roadblocks to their growth as they progress.
Giving employees a greater say in the company's success.
Financing companies by equity capital.
Boosting retirement savings plans and increasing their returns.
Improving the efficiency of the bankruptcy system, introduction of the "cross-class cram down" mechanism.</td>
<td>Presentation of the Bill to the Cabinet on 18 June 2018</td>
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<td>Streamlined procedures and support for the self-employed</td>
<td>Elimination of the social security scheme for the self-employed (RSI) by 2020.
Degressive exemption from healthcare contributions and lower family allowance contributions
Exemption from the Business premises contribution (CFE).
Expansion of the simplified VAT regime.
Social security contribution exemption for the first financial year for those setting up a business.</td>
<td>2018 Initial Budget Act / Social Security Budget Act</td>
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<td>Increasing France's appeal, including post-Brexit</td>
<td>Elimination of the intraday financial transaction tax.
Elimination of the fourth bracket of the payroll tax.</td>
<td>2018 Initial Budget Act / Social Security Budget Act</td>
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<td>Support for exporters and bolstering competitiveness</td>
<td>Export support strategy.
One-stop shop.
Export financing reform.</td>
<td>Export support strategy presented on 23 February 2018 by the Prime Minister</td>
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<td>Goals for Industry</td>
<td>Industry of the Future Plan.
Coordination of industrial sectors
Transformation of the Industry with French Fab.</td>
<td>Industry of the Future Plan.
Coordination of industrial sectors
Launch of the National Industry Board – Digital Affairs and the</td>
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		Overhaul of the National Industry Board with the creation of new sectors.	National Industry Board – Exports in July 2018	
INVESTMENTS TO ENCOURAGE A NEW GROWTH MODEL				
Investment in training	"Schools that Build Confidence" initiative and reducing the size of first- and second-grade classes in both the REP and REP+ networks	**Reducing the size of first-grade classes within priority education networks (REP/REP+).** Adjustment of the annual bonus paid to teachers working in priority education areas. Introduction of the "Help for Homework" (*Devoirs Faits*) programme.	Beginning of the 2017 to 2019 school years	**Productivity gains** from improved qualifications and by easier and more secure career changes **Increased employment rate** **Moving the economy upmarket** **The measure to reduce the size of first-grade classes could boost growth by 2.1 percentage points of GDP over the long term and create 120,000 jobs** (see Introduction, "Box 3: Education and training: key to shaping a knowledge economy").
	Baccalaureate reform	Overhaul of the baccalaureat examination, with greater emphasis on ongoing assessment and the introduction of an oral exam. Introduction of computer-based positioning tests in French and mathematics for tenth grade pupils in the general and technological branch of high schools.	Reform presented on 14 February 2018 First rollout of the overhauled baccalaureate examination in 2021	
	Reform of access to university	Reorganisation of the school programme and reform of access to university with the introduction of prerequisites.	Parcoursup platform launched in January 2018 The Student Achievement and Guidance Act of 8 March 2018.	
	Vocational training and apprenticeship reform	Increased resources for vocational training ("crediting with funds the Personal Training Account, improving training quality, creation of "France Compétences", a national skills agency). Reform of the apprenticeship system (increasing its appeal, better matching between apprenticeships and companies' needs).	Career Choice Act of 5 September 2018.	
Accelerating the ecological transition	Climate Plan Investment in ecological transition Measures to support the ecological transition	Great Investment Plan in the ecological transition (€20bn). Support for renewable energies. Stepped-up increase in the carbon tax and bringing diesel and petrol taxes into line. Energy vouchers for the most vulnerable households.	Submitted on 6 July 2017 2018 Initial Budget Act for the carbon tax and diesel/petrol tax convergence Multi-year energy plan and national low-carbon strategy (Q2 2018)	Growing awareness of the social cost of the use of fossil fuels and lowering our greenhouse gas emissions. Broadening the tax base and increasing tax incentives.

Investment in innovation	A €57bn Great Investment Plan	Support investment in skills (€15bn), the ecological transition (€20bn), competitiveness and innovation (€13bn) and digital government (9bn€).	2018 Initial Budget Act / 2018–2022 Public finance Planning Act	Increasing potential GDP through increasing productivity and the employment rate by helping people to access the labour market. Achieve savings in public expenditure.
	Industry and Innovation Fund	Introduction of a €10bn Industry and Innovation Fund to support breakthrough innovation thanks to the return on its assets, which are estimated at some €250m annually.	January 2018: creation of the Innovation and Industry Fund within Bpifrance (the government-funded industrial and commercial institution, EPIC), with initial credits of €10 billion coming from the sale of government-held shares at the end of 2017. As stakes in other companies are sold off, Bpifrance will be allocated fresh cash appropriations funded by the proceeds of these sales.	Knock-on effect as regards private spending, and emergence of an ecosystem of innovative startups and SMEs. Productivity gains.
Modernising key economic sectors	Overhauling transport models	Rail transport: Transform the SNCF into a more effective and more unified organisation while maintaining the group's public sector aspect. Introduce a new employment status for new hires Improve the SNCF's performance, particularly via a new company-wide strategic plan. Reforming daily transportation needs	The New Railway Pact Act of 27 June 2018 Mobility Reform Bill submitted in autumn 2018	Improving the performance of the railway model and the final stage before opening up to competition Facilitating daily transportation needs Improving the housing supply and increase of purchasing power. Fair pay for farmers and a healthy, sustainable food supply for French citizens. Reducing competitive distortions between food chain stakeholders. Investments to improve farm sector productivity.
	Housing strategy	**Build more, better and more cheaply:** tax allowance on capital gains, no new technical standards in the construction industry, measures to tackle improper appeals. **Meeting the needs of all:** reform of housing benefits, creation of a "mobility lease", construction of 80,000 housing units for students and young workers, overhaul of social housing. **Improved living conditions:** doubling resources for the national urban regeneration programme, renovation of the most energy-consuming housing units, renovation of housing in mid-sized urban centres.	2018 Initial Budget Act Housing, Planning and Digital Technology Reform Bill (ELAN) submitted in April 2018	

	Agricultural Conference (EGA)	Overhaul provisions concerning the agreement process for agricultural products. Great Agricultural Investment Plan	Agricultural Conference wrapped up in autumn 2017 Bill submitted in January 2018	
OVERHAULING AND PROTECTING OUR WELFARE STATE				
A fairer, more universal and more effective welfare state	Unemployment benefits reform	**Extending unemployment benefits to self-employed workers and those who resign their positions.** Reforming compensation rules to combat job instability	Career Choice Act of 5 September 2018. Labour/management discussions underway	**Better matching of labour supply and demand** through encouragement of mobility. **Ensure the sustainability of pensions.** **Better access to healthcare** with the goal of lower costs for the selection of medical aids in question. Better economic performance in connection with a reduction in wage gaps. Increased measures for getting people into the workforce. **Boosting the purchasing power** of low-income households.
	Systemic pension reform	**Gradually bringing the rules for calculating the various pension schemes into line.** One euro in contributions will confer the same rights to all.	Reform to be submitted in 2019	
	National Healthcare Strategy	Access to healthcare. Prevention. Zero out-of-pocket costs.	2018 Initial Budget Act / Social Security Budget Act National Public Healthcare Plan announced in March 2018 Agreement of 13 June 2018 reached with healthcare professionals introducing "zero out-of-pocket costs"	
	Gender equality	Reduced wage gaps.	Announcements of 8 March 2018	
	Strategy for preventing and combating poverty	**Increased support for recipients of the social inclusion benefit (RSA)** Adjustment of the solidarity allowance for the elderly (ASPA), the adult disability allowance (AAH) and the in-work benefit in 2018.	2019 Initial Budget Act / Social Security Budget Act	

		A cap on banking incident fees at €20 per month and €200 per year for financially vulnerable individuals who are benefiting from the "specific offer".		
Bolstering regional cohesion	High-Speed Broadband Plan	**Access to high-speed broadband Internet** for the entire population by 2022. **High-quality mobile telephone coverage** by 2020.	Stepping up of the plan launched in 2018 January 2018 agreement with operators	Increasing short-term demand through additional investments. Closing the digital divide.
	Plan for combating the rural exodus of physicians	**A plan to combat the rural exodus of physicians**, in connection with local authorities and healthcare stakeholders (specifically by increasing the number of multidisciplinary surgeries that serve rural areas (*maisons de santé pluridisciplinaires*).	Presented in September 2017	
	Housing tax elimination	**Housing tax elimination** for all households.	2018 Initial Budget Act	
BUILDING A MORE MODERN GOVERNMENT AND REBALANCING FRANCE'S PUBLIC FINANCES				
Effectiveness of public expenditure	Public Action 2022	Action and expenditure review by the 2022 Public Action Committee. Cross-departmental initiatives, including: HR management and the digital transformation.	Launched in October 2017 February 2018: First session of the Interministerial Committee on Government Transformation	Effectiveness of public expenditure. Public-sector productivity gains, particularly by curtailing administrative fragmentation and increasing the effectiveness of local expenditure.
	Agreements with regional authorities	**Service-level contracts** with the largest local authorities (covering two-thirds of local expenditure).	2018–2022 Public Finance Planning Act By the end of June 2018, 228 mayors and board chairs had stated their support for this initiative, accounting for some 70% of the local authorities targeted.	

Economic outlook

Economic outlook: overview

Growth is expected to remain sturdy at 1.7% in both 2018 and 2019.

The recovery that has been underway since 2017 is expected to continue, but should dip slightly compared with 2017, reflecting a somewhat less buoyant international context. Continued recovery in the euro area and growth in global demand should continue to support French activity, but at a slightly slower pace than last year. Foreign trade is again expected to make a positive contribution to growth in 2018 and 2019, as in 2017, after four years of holding it back. Household purchasing power is forecast to remain on track, supported by favourable developments in the labour market and by government measures, but affected somewhat by rising inflation. After recovering to 1.0% in 2017, inflation is expected to reach 1.8% in 2018, mainly due to higher oil prices, before falling to 1.4% in 2019, with oil prices contributing less to inflation. Business investment is expected to maintain its momentum, with strong domestic and international business prospects and a financial environment that continues to be favourable.

This growth scenario[17] is close to the most recent predictions by other forecasters. In its Interim Outlook issued on 20 September 2018, the OECD predicts growth of 1.6% in 2018 and 1.8% in 2019. The September Consensus Forecasts project 1.7% growth in both 2018 and 2019. The Banque de France's September forecast calls for growth of 1.6% in both years. The IMF predicts growth of 1.8% in 2018 and 1.7% in 2019 in the Article IV France Report issued on 26 July. The European Commission, in its forecast published in July 2018, forecasts growth of 1.7% in both years. INSEE expects 1.7% for 2018 in its June Conjoncture in France.

Economic growth should gain momentum in the third quarter of 2018 after a notable slowdown in the first half of the year.

In the second quarter of 2018, growth stood at +0.2%, the same rate as in the first quarter.

Activity slowed somewhat after a very robust 4th quarter in 2017 (0.7%), which concluded a series of five consecutive quarters of GDP growth of at least 0.6%. Year-on-year, growth reached 1.7% in the 2nd quarter, a pace consistent with levels noted in business surveys, which continue to be at a high level.

The beginning of 2018 was marked by one-off events that had a negative effect on household consumption. Strikes in the transport sector reduced 2nd quarter growth by around 0.1 percentage points. Abnormally high temperatures in April also affected consumption. In addition, measures in support of household purchasing power will mainly come on line at the end of the year (residence tax and additional cuts in employee contributions). The temporary shutdown of two refineries for maintenance (Gravenchon and Gonfreville-l'Orcher, France's largest refinery) weighed on manufacturing output. Lastly, the holiday schedule was unfavourable to activity in the first half of 2018.

Business investment remained strong, driven by the turnaround in investment in manufactured goods after a sluggish first quarter.

Household investment, on the other hand, declined in the second quarter, reflecting both the continued drop in services investment in the market sector in connection with the number of real estate transactions and the slowdown in construction spending, due to the drop in housing starts in early 2018.

[17] The forecast in the Economic, Social and Financial Report is based on the second estimation for Q2 2018, published by INSEE on 29 August 2018. The forecast was finalised before the High Council of Public Finance (HCFP) was notified on 12 September 2018.

Finally, exports rebounded in the second quarter, after an initial fallback compared to the end of 2017, which saw a large number of Airbus deliveries. However, imports were more robust, particularly in terms of capital goods and refined products (due to refinery closures).

Activity is expected to pick up during Q3. The most recent business surveys in the industrial sector suggest that manufacturing output will be robust: the INSEE and PMI business climate indicators rose in August and are still at high levels. In particular, manufacturing business surveys are at very high levels. There was positive growth in the manufacturing IPF at the end of July for the third quarter (0.8%). In addition to the end of the temporary measures of the first half of the year, household consumption should benefit from the substantial tax cuts that will buoy purchasing power from Q3 onwards. Despite expected sluggishness in household investment as a result of the recent decline in building permits and housing starts, total investment should remain stable, thanks to ongoing vibrancy in business investment. Lastly, exports are expected to pick up, buoyed by notable deliveries of transport equipment and the turnaround in global demand after a tumble in the first half of the year.

In 2019, France's international environment should be less buoyant than in 2017, which would put a damper on exports.

In advanced countries, the strong US economy stands in contrast to the slowdown in the UK and Japan. In the United States, economic activity is expected to pick up significantly in 2018, thanks to the fiscal stimulus, and should lose some momentum in 2019, particularly due to protectionist measures. In the United Kingdom, on the other hand, activity is expected to slow in 2018 and stabilise at a modest pace in 2019. The uncertainties around Brexit are likely to weigh on investment and trade. In Japan, growth is expected to decline significantly in line with the slowdown in exports, due to a slowdown in sales to Asia in early 2018, and with the decline in residential investment in response to worsening credit conditions.

In the euro area, growth is expected to remain robust in 2018 and 2019, although falling off somewhat due to heightened trade and political uncertainties, a less favourable international environment than in 2017 (appreciation of the euro, rising oil prices) and increased tensions on the labour market. Growth is expected to be driven by the forward momentum of world trade and strong domestic demand that continues to benefit from ongoing high levels of household and business confidence. Among the leading euro area countries, growth is expected to decline in Germany, Spain and Italy.

In emerging economies, growth is expected to increase slightly overall. Growth is expected to increase in Brazil and India by 2019. It should remain largely stable in Russia and decline sharply in Turkey. China, on the other hand, should gradual slow, as the country's monetary and fiscal stimuli are progressively curtailed.

World demand for French goods should remain strong, but is expected to slow sharply in 2018 (4.4%, against 5.3% in 2017) and should remain at this level in 2019. It has been adjusted downwards from the 2018 Stability Programme, less buoyed by the dynamism of Chinese trade at the beginning of the year and more exposed to a downturn in Europe, in line with the trend in French trade.

After a very robust year of trade in 2017, exports are expected to slow in 2018, following the stumble in both France and the euro zone in the first half of the year and the slowdown in global demand that caused it. Exports are nevertheless expected to be held up in 2018 by deliveries of large export contracts (two cruise ships), as well as by the strong turnaround in agricultural exports and tourism. On the other hand, they should be held back by sluggish exports of services, and the past appreciation of the euro should also have an impact. Total exports are expected to grow by 3.7%, a rate lower than global demand (4.4%).

In 2019, exports are expected to grow at almost the same rate as in 2018 (3.6%), against a backdrop of stable growth in global demand (4.4%) and the recent appreciation of the euro, with deliveries of large export contracts (comparable to 2018) and a return to normal for agricultural exports and tourism.

Given the decrease in final demand in 2018 (final domestic demand including inventories should contribute 1.3% to growth, against 2.0% in 2017),[18] and a slowdown in imports at the end of 2017 and beginning of 2018, the import trend should slow in 2018 (+2.5% after +4.0% in 2017). Imports of services have been sluggish for the past two years, and were falling early in the year. Imports are expected to pick up in 2019 (+3.1%), in line with final demand.

Overall, the greater slowdown in imports should allow foreign trade to make a positive contribution to growth again in 2018 (0.3 pt, after 0.1 pt in 2017). This contribution is very slightly lower than its carry-over at the end of the second quarter of 2018. Concurrently, changes in inventories are expected to contribute negatively to growth (–0.2 pt) in 2018. In 2019, with the slight pickup in domestic demand and imports returning to normal, the contribution of foreign trade is expected to be lower (+0.1 pt).

Consumption is expected to pick up gradually over the forecast horizon, driven by robust purchasing power.

Purchasing power is expected to rebound in 2018 (+1.6%). It should continue to be held up by a labour market that remains on track, but weighed down by a rise in oil prices that fuels inflation. The increase in distributed income of corporations is also expected to buoy purchasing power. **In 2019, purchasing power is expected to remain dynamic at +1.7%,** driven by an upswing in employment and wages and by government measures (second round of residence tax reductions, exemption from contributions on overtime).

[18] Unless otherwise indicated, average annual growth figures are in gross terms, i. e. unadjusted for business days. The effect of working days on GDP growth as forecast by INSEE is negligible for 2018 and 2019.

Household consumption in 2018 is expected to maintain a growth rate close to that of 2017 (1.1%, after 1.0%). In 2019, consumption is expected to gather pace significantly and grow at the same rate as purchasing power (1.7%). The savings rate is expected to rise to 14.7% in 2018 and remain at this level in 2019.

After peaking in 2017, growth in household investment is expected to slow gradually.

In 2018, growth in household investment is expected to shrink to 1.5% (after 5.6% in 2017) and then to 0.2% in 2019, in line with the stabilisation in real estate transactions (which are reflected in investment in household services) and fewer housing starts in recent months.

However, the economic environment should remain favourable to household investment, via robust purchasing power and financing conditions that remain favourable. The economic context should also usher in a gradual recovery in housing starts.

Business investment is expected to remain robust, although at a slower pace.

While retaining its forward momentum, business investment is expected to slow in 2018 and 2019 (+3.7% and then +2.7%). Non-financial corporations are expected to rein in investment in 2018, after a sharp upswing in 2017 in the wake of increased activity, and at a time when interest rates are rising very gradually. The investment rate (investment relative to value added) of non-financial corporations, which reached 23.5% in 2017 – a rate not seen since the 1970s – is expected to continue to increase in 2018 and 2019 (to reach 24.0% by the forecast horizon).

After strong job creation in 2017, total employment is expected to continue to rise in 2018 and 2019.

Total employment is expected to grow strongly again in 2018 (245,000 more jobs on an annual average basis), thanks to the upward momentum of employment in the market sector. Total employment should continue to increase in 2019 to 170,000 jobs.

After a clear recovery in 2016, employment in the market sector rose once again in 2017, with 255,000 jobs created on an average annual basis. This was driven by strong growth and the combined effects of several employment support schemes (the CICE, the Responsibility and Solidarity Pact and the "SME Hiring Bonus" scheme). In this context, job creation should continue in 2018 at a similar pace, with the creation of 245,000 jobs on an annual average basis. The forward momentum of business activity should nonetheless take over from these mechanisms, which have been the subject of increased targeting, with the ending of the SME Hiring Bonus, and the down-shift in the CICE from 7% to 6%. In 2019, employment in the market sector is expected to slow but continue to grow at a significant rate (160,000 new jobs on an annual average basis, compared to 30,000 on average over the period 2007-2017), with growth continuing apace.

After sharply increasing in 2017 (35,000 jobs), employment in the non-market sector is expected to remain broadly stable in 2018 and 2019.

Inflation is expected to rise to 1.8% in 2018 as a result of higher energy and tobacco prices, and then decline in 2019.

Inflation is set to rise to 1.8% in 2018, after 1.0% in 2017, mainly due to steeper oil prices and higher taxes on energy and tobacco.

Core inflation is expected to rise to 0.9% after 0.4% in 2017. Inflation in the services sector is expected to increase as nominal wages gradually recover. This increase is expected to be offset by weak growth in the prices of manufactured goods and the fall in rental inflation linked to the reform of housing benefits.

Inflation is expected to decline in 2019 (1.4%) – assuming oil prices remain at their recent level[19] (€63 per barrel) – as the inflationary effect of energy prices and new measures concerning tobacco tapers off in 2019. **Core inflation is expected to continue to rise, to 1.1%.** The slow rise in the prices of manufactured goods, dampened by sluggish production and import prices, should be more than offset by the pick-up in service prices in line with rising wages.

Many uncertainties surround this economic outlook, on the upside and on the downside.

This recovery scenario is based notably on both oil prices and euro exchange rates staying close to recent levels.

How well French exports will depend on the growth of our partners, which could be affected by escalation or easing of protectionist measures, the Brexit negotiations, economic policy decisions in Italy, fiscal and financial imbalances in China, and the vulnerabilities of some emerging economies when dealing with rising Federal Reserve rates and higher risk aversion.

The behaviour of French households and businesses is also uncertain. The cyclical turnaround in business investment could be more robust than expected, and household purchasing power gains in 2018 could more strongly support consumption over the forecast horizon. The government's measures could take effect more quickly than had been anticipated when this forecast was finalised (investment support, labour market reforms, etc.). Conversely, the observed slowdown in housing starts could continue or business investment could revert to normal faster than expected. The sluggish household consumption observed in the first half of 2018 could possibly persist, which would put a damper on growth.

[19] The recent level of oil prices is the best possible forecast of the future price. See DG Trésor, "An examination of inflation forecasts in budget bills", *Trésor-Economics* no. 198, May 2017.

Table 1: Economic forecasts for 2018-2019
(real changes in %, unless otherwise stated)

	2017	2018	2019
GDP - France*	2.2	1.7	1.7
World demand for French goods	5.3	4.4	4.4
Consumer price index - France	1.0	1.8	1.4
World GDP	3.7	3.8	3.8
United States GDP	2.2	2.8	2.6
Euro area GDP	2.5	2.1	2.1
Exchange rate USD/EUR	1.13	1.18	1.16
Oil prices (Brent, USD/barrel)	55	72	73

** Raw data, not adjusted for working days.*

Box 1: Review of the forecasts for 2018-2019

In comparison to the April 2018 Stability Programme, growth forecasts for 2018 and 2019 have been adjusted downwards to 1.7% for both 2018 and 2019, compared with 2.0% in 2018 and 1.9% in 2019 as set out in the Stability Programme. For 2018, this adjustment is due to unfavourable events that marked the first part of the year (strikes, unusual temperatures, the holiday schedule, etc.) and for 2018/2019, to expected slower growth in world demand for French goods and higher oil prices.

Household consumption was sluggish in the first half of 2018, in line with the strikes in the second quarter, and was held down by the rise in inflation triggered by higher oil prices; it has been adjusted downward by 0.5 pt for 2018 and 0.2 pt for 2019. Household investment is also expected to be less buoyant in 2018 and 2019 than indicated in the Stability Programme, reflecting the recent falloff in housing starts and building permits. Exports were less robust than called for in the Stability Programme due to weaker global demand and disappointing export performance in the first half of the year, although exports are still expected to maintain a high growth rate of 3.7% in 2018 and 3.6% in 2019. Business investment excluding construction is expected to be a bit slower than described in the Stability Programme in the wake of less vigorous business activity.

Compared to the Stability Programme, inflation has been adjusted upwards for 2018 due to the recent increase in oil prices, while the GDP deflator has been adjusted downwards. The GDP deflator is now 0.9% for 2018 in the DPB, compared with 1.1% as previously stated in the Stability Programme. The consumer price index (CPI) is now 1.8% compared with 1.4% in the Stability Programme, mainly due to higher energy prices. The rise in oil prices is making a rapid and strong impact on the consumer price index, but less so in the short term on the GDP deflator, since the latter measures the "price" of production activity within France. For 2019, the GDP deflator forecast is slightly higher at 1.3% – compared to 1.2% previously – mainly due to the pass-through of higher oil prices to the economy, and a slightly adjusted upward trend in core inflation over the two-year period. The CPI forecast has been revised upwards to 1.4% in 2019 against 1.2% in the Stability Programme. This is in line with both energy prices and more robust core inflation, due inter alia to the smaller-than-expected impact of the stronger euro and higher inflation in the services sector.

Table 2: Comparison of forecasts in the Draft Budgetary Plan for 2019 and in the April 2018 Stability Programme

Annual growth rate (in %)	2019 Stability Programme (April 2018)		DBP 2019	
	2018	**2019**	**2018**	**2019**
International environment				
Oil prices (Brent, USD/barrel)	65	65	72	73
Exchange rate USD/EUR	1.23	1.23	1.18	1.16
World demand for French exports	5.0	4.7	4.4	4.4
France				
GDP	2.0	1.9	1.7	1.7
Imports	4.1	4.1	2.5	3.1
Private consumption expenditure	1.6	1.9	1.1	1.7
Gross fixed capital formation (GFCF)	3.9	3.3	3.3	2.1
o.w. non-financial corporations	*4.4*	*3.5*	*3.7*	*2.7*
Exports	4.9	4.6	3.7	3.6
Contribution of external trade to growth (in percentage pts of GDP)	0.1	0.0	0.3	0.1
Contribution of inventory changes to growth (in percentage pts of GDP)	0.0	0.0	−0.2	0.0
CPI	1.4	1.2	1.8	1.4

Sources: Stability Programme 2018-2022, DBP 2019 forecasts.

Box 2: Authority responsible for producing forecasts and statement of the independent nature of the forecasts

The Directorate General of the Treasury prepares macroeconomic forecasts and compiles public finance forecasts. It works with the Budget Directorate, which is responsible for central government fiscal policy and preparing budget acts, and with the Social Security Directorate, which oversees the financing of social security funds and prepares the social security draft budgetary plan. For interim financial reporting, the Directorate General of the Treasury relies on information produced by other government departments, such as the Public Finances Directorate General and the Directorate General of Customs and Excise. These forecasts were submitted to the High Council on Public Finances ("Haut Conseil des finances publiques", HCFP) for its opinion. The HCFP is an independent body, set up by Constitutional Bylaw no. 2012-1403 of 17 December 2012. Its task is to give its opinion on the macroeconomic forecasts used as a basis for draft budgetary plans and on the consistency of the introductory article of the draft budgetary plan with the multiyear structural balance path set out in the Public Finance Planning Act.

The HCFP issues an opinion on all of these components. This opinion is attached to the draft budgetary plan submitted to Parliament, and made public by the HCFP at the same time under the terms of the Constitutional Bylaw. The Constitutional Council has ruled that opinions issued by the HCFP shall be taken into consideration when assessing whether the texts submitted for its review are sincere.

In its opinion on the draft budgetary plan and draft social security budget plan for 2019, which was issued on 24 September, the HCFP considered the macroeconomic forecast for 2018 to be "credible" and that for 2019 to be "plausible".

Box 3: Comparison with forecasts by the European Commission, international organisations and the Consensus Forecasts

The Draft Budgetary Plan forecast is identical to that of the European Commission and very close to the latest forecasts from the other international organisations

The Government's forecast for 2018, which stands at 1.7%, is identical to that issued by the European Commission in early July (see Table 3). The draft budgetary plan's forecast lies between the OECD's estimate of 1.6% in its Interim Outlook of 20 September and the IMF's estimate of 1.8% in the Article IV France Report issued on 26 July.

The 2019 draft budgetary plan assumes GDP growth of 1.7%, a scenario close to the OECD at 1.8% and identical to the IMF and European Commission forecasts.

The macroeconomic scenario underpinning the draft budgetary plan is identical to that of the most recent Consensus Forecasts

For 2018 and 2019, the forecasts in the DBP are identical to the Consensus Forecasts as at September, namely, GDP growth of 1.7% for both years (see Table 4).

In the scenario for France, the outlook for household consumption and business investment is similar for 2018. For 2019, the DBP calls for a more robust trend in household consumption than the Consensus, whereas the Consensus anticipates more vigorous business investment.

The Consensus Forecasts as at September point to consumer prices rising by 1.9 % in 2018 and 1.6 % in 2019, identical to the DBP scenario.

International forecasts underpinning the draft budgetary plan appear to be similar to those of the Consensus. Growth forecasts are similar for the United States and Japan for both years. For 2019, the DBP scenario is more optimistic than the Consensus for the euro area and vice versa for the United Kingdom.

Table 3: Forecasts for France
Draft Budgetary Plan, OECD, IMF and European Commission

	DBP for 2019		OECD*** Sept. 2018		IMF *** July 2018		European Commission*** July 2018	
Average annual growth rate (in %)	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
GDP	1.7	1.7	1.6	1.8	1.8	1.7	1.7	1.7
Harmonised Consumer Price Index*	2.1	1.5	n.a.	n.a.	1.8	1.7	1.9	1.5
Net Lending (+) or Borrowing (-) of the General Government (in percentage points of GDP) **	−2.6	−2.8	n.a.	n.a.	−2.4	−2.6	n.a.	n.a.

** This forecast corresponds to CPI inflation of 1.8% in 2018 and 1.4% in 2019.*

*** According to the Maastricht definition.*

**** OECD: Interim Outlook, 20 September 2018; IMF: Art. IV France Report, 26 July 2018; European Commission: Summer Interim Forecast, 12 July 2018.*

Table 4: Comparison of the economic outlook of the Draft Budgetary Plan and the Consensus Forecasts

	DBP 2019 core economic scenario		*Consensus Forecasts* September 2018 -	
Average annual growth rate (in %)	**2018**	**2019**	**2018**	**2019**
International				
GDP growth				
United States	2.8	2.6	2.9	2.6
Japan	1.0	1.1	1.1	1.2
UK	1.3	1.3	1.3	1.5
Euro area	2.1	2.1	2.1	1.8
France				
GDP	1.7	1.7	1.7	1.7
Household consumption	1.1	1.7	1.0	1.5
Business investment	3.7	2.7	3.5	3.1
Consumer price index	1.8	1.4	1.9	1.6

Fiscal outlook

Fiscal overview and strategy

France brought its deficit back down under the 3% threshold, enabling it to exit the Excessive Deficit Procedure. This was the first step in the Government's fiscal consolidation strategy. This strategy will continue for the rest of the five-year Presidential term with three goals: ensuring fiscal sustainability, living up to France's European commitments and generating the fiscal headroom for substantial tax cuts that will unleash growth and reduce inequalities, particularly from a territorial point of view. Containment of expenditure, which is the key to achieving these goals, stems from government transformation based on strong and decisive choices, while ensuring continued investment expenditure and quality improvements in public action.

The Government will continue to ensure the gradual reduction of the deficit and keep it sustainably under 3% of GDP, while implementing a programme of bold reforms. For the first time since 2000, the deficit will be under the 3% threshold for three years in a row.

In 2018, the deficit should stand at 2.6% of GDP, representing a reduction of 0.1 percentage points of GDP compared to 2017.[18]

Public expenditure growth, excluding tax credits, should be stable in real terms (0.0%), which represents a virtually unprecedented achievement.[19] This means that the expenditure savings effort will stand at 0.2 percentage points of potential GDP. The containment of public expenditure stems in particular from a fall in real central government expenditure, excluding tax credits, of 0.8%, excluding transfers and on a like-for-like basis. This was made possible by bold public policy choices, such as the switch from subsidised employment contracts to investment in job skills and a new housing policy. It was also the result of contained growth of spending ministries' appropriations, reflecting the probity of the initial budget, as well as payroll measures, such as the civil service wage freeze, pushing back the civil service career and compensation reform (PPCR) measures originally planned for 2018 until 2019, following the first set of measures implemented in 2016-2017. Local government operating expenditure growth will come in under the 1.2% limit set in the 2018-2022 Public Finance Planning Act. More specifically, this will be achieved through the efforts of local governments that have signed contracts with central government. Furthermore, local governments' investment expenditure will continue to show dynamic growth in the run-up to municipal elections. Local government expenditure will post real growth of 0.7% in 2018. Meanwhile, social security funds' expenditure will post real growth of 0.4%.

Discretionary tax measures in 2018, including the revenue reduction from the first stage of eliminating the residence tax for 80% of households, the introduction of a property wealth tax, the introduction of a single flat-rate levy, the cut in the corporate income tax rate, the increase in refunds stemming from the Competitiveness and Employment Tax Credit (CICE) and the shift from the 6% rate to 7%, along with smaller rises in energy taxes and excise tax on tobacco, will lead to a €10-billion cut in aggregate taxes and social security contributions.

At the same time, tax and contribution revenue will grow at a faster pace than the economy, although the gap will be smaller than in 2017. Aggregate taxes and social security contributions will grow slightly faster than GDP, with elasticity standing at 1.1 in 2018, compared to 1.4 in 2017. However, the aggregate tax and social security contribution rate will start to decline, from 45.3% in 2017 to 45.0% in 2018.

The structural deficit will shrink by 0.1 percentage points of potential GDP in 2018, as set out in the 2018-2022 Public Finance Planning Act. With economic growth of 1.7% in 2018 outstripping the potential growth rate of 1.25%, the headline deficit

[18] The 2017 deficit was actually revised upwards to 2.7% by France's National Institute of Statistics and Economic Studies (INSEE) in its findings published on 6 September 2018.

[19] Except for 2011, when the end of the stimulus plans implemented after the 2008 financial crisis meant the real growth rate of public expenditure was virtually nil (0.1%), such containment of public expenditure has not been seen since the early 1980s.

will shrink by 0.2 percentage points. On the contrary, one-off and temporary measures will deepen the deficit by 0.2 percentage points, largely as a result of the refunds France has been ordered to pay to settle the 3% dividend tax dispute. Without this cost, the deficit would have stood at 2.4% of GDP.

In 2019, the Government will uphold its fiscal strategy. As stipulated in the Public Finance Planning Act, it will step up deficit reduction with a structural adjustment equivalent to 0.3 percentage points of potential GDP.

In 2019, without the dual cost of making the CICE tax credit a permanent cut in social security contributions, the deficit will dip below the 2% mark to 1.9% of GDP. Even if we include this dual cost, the deficit will still be only 2.8% of GDP. The 2019 public accounts should also reflect the creation of the France Compétences institution, which will not have an impact on the deficit (see Box 1).

Containment of public expenditure remains the priority for 2019 for all government sub-sectors, with real growth of 0.3%, excluding the expected impact of creating the France Compétences institution (see Box 1). This will mean expenditure growth of less than 1% once again. All general government sub-sectors will contribute to containing expenditure, especially central government, where real expenditure will post another decline of 0.8%, excluding transfers. Moderate growth of social benefits will make it possible to finance investment in the healthcare system and targeted increases in benefits for the most vulnerable and incentives to seek employment (in-work benefit (*prime d'activité*), minimum old-age pension, adult disability allowance). This containment helps slow the real growth of social expenditure to 0.6%. Local governments' operating expenditure growth will be in line with the 1.2% target set out in the Public Finance Planning Act, whereas investment expenditure will continue to post rapid growth in the run-up to municipal elections. Consequently, local governments' expenditure will post real growth of 1.2% in 2019. Ultimately, structural adjustment of expenditure will stand at 0.4 percentage points of potential GDP, excluding the impact of creating the France Compétences institution (see Box 1). More importantly, it will be the first time since 2000 that France posts a real public expenditure growth rate that is substantially under 1% for two years in a row. This means the public expenditure ratio will shrink to 53.8% of GDP by the end of 2019, excluding the impact of France Compétences. This unprecedented effort will continue until the end of the five-year Presidential term.

The dual fiscal cost of transforming the CICE tax credit into a permanent cut in social security contributions will have a major impact on aggregate taxes and social security contributions in 2019. Discretionary tax measures will help reduce the aggregate tax and social security contribution rate by 0.8 percentage points of GDP, largely as a result of the change in the tax credit. On the other hand, discretionary tax measures, excluding one-off and temporary measures, contribute -0.2 percentage points of potential GDP to structural adjustment, excluding the impact of France Compétences. The main discretionary tax cutting measures will continue those from 2018. They include the second step towards eliminating the housing tax, the full-year impact of the cut in social security contributions introduced on 1 October 2018, the continuing cuts to the corporate income tax rate, with the top marginal rate falling from 33.3% to 31%, the exemption of overtime pay from employee's social security contributions, the elimination of the employer contribution (*forfait social*) on profit-sharing in companies with fewer than 50 employees and on incentive scheme payments in companies with fewer than 250 employees, and the additional 4-point cut on 1 October in employers' social security contributions on minimum-wage jobs as part of the transformation of the CICE tax credit into a permanent cut in contributions. These cuts to taxes and contributions will be partially offset by continuing increases in tobacco taxes and eco taxes, as well as the elimination of the tax break for off-road uses of diesel oil.

The structural deficit will shrink by 0.3 percentage points of potential GDP, in keeping with the trajectory set out in the Public Finance Planning Act. As economic growth of 1.7% in 2019 will still be higher than potential growth, as it is in 2018, the headline deficit will improve by a further 0.2 points. On the other hand, one-off and temporary measures will deepen the deficit by 0.7 points, primarily as a result of the dual cost of transforming the CICE tax credit into a permanent cut in social security contributions.

Box 1: Impact of creating the France Compétences institution on the fiscal adjustment trajectory

France Compétences is a new national public institution that was created by the Career Choice Act no. 2018-771 of 5 September 2018. France's Institute of Statistics and Economic Studies (INSEE) will probably have to classify the new institution as part of the general government sector. For the sake of transparency and probity, the government has chosen to anticipate this accounting treatment. This choice will have no effect on the fiscal balance since the new institution's revenue and expenditure are in balance. However, this classification will increase the ratio of public expenditure and aggregate taxes and social security contributions in 2019 by 0.2 percentage points of GDP and increase public expenditure growth by 0.4 points. This choice will not affect corporate taxes either, since the funds now managed by France Compétences were merely reclassified in the national accounts. The figures given in the overview exclude France Compétences. In the rest of this document, the figures include France Compétences, unless otherwise specified, since that is how they are presented in the national accounts.

TABLE 1: Impact of the main public finance indicators

Trajectory in 2019	Including France Compétences	Excluding France Compétences
Aggregate taxes and social security contributions (% of GDP)	44.2	44.0
Revenue effort	0.0	-0.2
Public expenditure (% of GDP)	54.0	53.8
Expenditure effort	0.2	0.4
Public expenditure (real growth in %)	0.6	0.3

NB: The adjustment for France Compétences to both revenue and expenditure comes to €4.8 billion in 2019. As France Compétences starts to play its full role, a further adjustment will be made to expenditure and revenue in 2020.

TABLE 2: Government balance by sub-sector			
Lending capacity (+) or borrowing requirement (-) as a % of GDP	2017	2018	2019
Central government	-2.8	-3.1	-3.6
Central government agencies	-0.1	-0.1	-0.1
Local government	0.0	0.1	0.1
Social security funds	0.3	0.6	0.8
General government balance	**-2.7**	**-2.6**	**-2.8**

TABLE 3: Structural balance			
As a % of potential GDP (except*: as a % of GDP)	2017	2018	2019
General government balance*	**-2.7**	**-2.6**	**-2.8**
of which, cyclical balance*	-0.3	-0.1	0.1
of which structural balance	-2.3	-2.2	-2.0
of which one-offs	-0.1	-0.2	-0.9
Change in the structural balance	**0.3**	**0.1**	**0.3**
of which, structural effort	-0.1	0.0	0.3
discretionary tax measures	*-0.1*	*-0.2*	*0.0*
expenditure effort	*-0.1*	*0.2*	*0.2*
correction for accrual-based measurement of tax credits	*0.1*	*0.0*	*0.1*
of which, non-discretionary component	0.4	0.0	0.0

TABLE 4: Key figures			
As a % of GDP, unless otherwise noted	2017	2018	2019
Total government debt	**98.5**	**98.7**	**98.6**
Government debt, excluding financial support for the euro area	95.6	95.9	95.9
General government expenditure, excluding tax credits	**55.1**	**54.6**	**54.0**
Real growth (%)	*1.4*	*0.0*	*0.6*
Nominal growth (%)	*2.4*	*1.6*	*1.9*
Tax burden	**45.3**	**45.0**	**44.2**

Box 2: Implementing the Government's priorities

Discretionary tax measures

The cuts in aggregate taxes and social security contributions started on 1 January 2018 will continue with the goal of **lowering compulsory levies by more than one percentage point of GDP by 2022**, *to promote growth and employment. The rate stood at 45.3% in 2017. It will fall to 45.0% in 2018, followed by 44.2% in 2019.* **Therefore, the Government will uphold the strategy announced in the 2018-2022 Public Finance Planning Act.**

The cuts are aimed at **enhancing the competitiveness, growth and attractiveness** *of France's economy*. *The first cut in the* **corporate income tax** *rate has already been made. The cuts will continue until the rate stands at 25% in 2022. This will bring France into line with the European average and reduce the cost of capital, thereby stimulating long-term investment. Furthermore, the* **Competitiveness and Employment Tax Credit** *(CICE), which came into full force in 2018, along with an increase in the refund rate, will be transformed into a* **permanent cut in employers' social security contributions** *on 1 January 2019. This change will simplify the existing arrangement and provide lasting support for job growth, particularly for unskilled workers. It will also boost the competitiveness of French companies. General cuts to employers' contributions will be increased by 4 points for minimum-wage jobs on 1 October 2019 so that employers no longer pay any social security contributions on these jobs.*

The 2019 Draft Budgetary Plan includes a programme to **eliminate some twenty taxes that generate little revenue** *in order to simplify the tax system and gradually reduce the level of taxes and social security contributions.*

The **tax cuts are aimed at making work more remunerative and at eliminating unfair taxes for the benefit of most households.** *Therefore, private sector employees' contributions for health and unemployment insurance have been eliminated, resulting in a 3.15-point cut in contributions (self-employed workers were covered by an equivalent measure to cut their contributions for health insurance and family benefits). These cuts were financed by a 1.7-point increase in the general social security contribution (CSG). For 300,000 low-income pensioners with monthly income close to the €1,200 threshold for paying the standard-rate CSG who would have been subject to the increase in this contribution as a result of a change in income, the higher CSG amount will not be applied in 2019. Finally, in a further effort to make work more remunerative, a measure to* **exempt overtime pay from social security contributions** *will take effect on 1 September 2019. Furthermore, the exemption from the* **residence tax** *on main residences introduced in 2018 will cover 80% of households in 2020 and later cover* **all households.** *This will eliminate one of the most unfair taxes, since the amount varies by location without any legitimate justification.*

Personal income tax **withholding at source** *will be implemented on 1 January 2019. This large-scale reform will eliminate the one-year lag between receiving taxable income and paying tax on it. This will reduce tax payment problems when taxpayers' income varies or when their circumstances change.*

Carbon tax *increases will continue along the path set out in the Planning Act to accelerate the* **ecological conversion of our economy** *and convergence of taxes on diesel oil and petrol will be achieved by the end of the five-year Presidential term.*

The tax and social security contribution structure will undergo major changes by the end of the five-year Presidential term: it will make work more remunerative, cut taxes for households, promote ecological conversion and provide better support for business investment and job growth.

Expenditure measures

The public expenditure trajectory makes it possible to finance the priorities for the five-year Presidential term and invest in the future, while contributing to fiscal consolidation *with the goal of reducing public expenditure by more than 3 percentage points of GDP by 2022, including a cut of more than one point to be achieved in 2018 and 2019.*

The government's priority is ***fighting unemployment*** *by attacking its causes. In 2019, expenditure under the* ***Plan for investment in job skills****, which is a component of the Great Investment Plan (GPI), will increase substantially for the full-scale operation of the plan to train a million long-term unemployed job-seekers and a million unskilled young people over the Presidential term. At the same time,* ***unemployment insurance benefits will be extended to workers who resign and the self-employed*** *under the terms of the Career Choice Act no. 2018-771 of 5 September 2018. This move will provide universal unemployment insurance coverage and ensure a more fluid job market and more security for career transitions.*

Effective protection for the most vulnerable *is the government's second major objective. The most fragile groups are at the heart of the* ***National Poverty Prevention and Reduction Strategy****, with additional resources for fighting financial insecurity, particularly child poverty, and support for entering the job market, including larger numbers of integration-through-work contracts and an extension of the Youth Guarantee. The reorganisation of Universal Complementary Health Insurance (CMU-c) and the preliminary measures implemented under the* ***"100% health" reform****, with full coverage of glasses, dental prostheses and hearing aids, will also reduce the number of low-income people who do not seek care. At the same time, benefits aimed at the most vulnerable groups will be increased. The* ***in-work benefit*** *(prime d'activité) was increased by €20 per month in 2018. A second individual bonus of €20 per month will be introduced in 2019, followed by yearly increases for an additional €60 per month for minimum-wage earners in 2021. The major increase in the in-work benefit substantially enhances the incentive to return to the labour market, as well as increasing earnings from work. The government is also continuing its efforts for the disabled, with exceptional increases in the* ***adult disability allowance*** *in 2018 and 2019, bringing the monthly payment up to €900 for a single person. Senior citizens have benefited from an exceptional increase in the* ***minimum old-age pension****, which will be raised to a monthly payment of €903 in January 2020. The* ***social inclusion benefit*** *will be increased to keep pace with inflation. At the same time, the benefit system will be simplified to raise take-up rates and eliminate inequitable situations, while promoting returns to the job market.*

Defence, security and justice *will benefit from substantial fiscal efforts, with a further increase of €1.7 billion in the military budget, following an increase of €1.8 billion in 2018. These increases are part of the drive to raise the national defence effort to 2% of GDP in 2025. Plans also call for substantial increases in the budgets for the Ministry of Justice and the Ministry of the Interior.*

The Great Investment Plan that the government announced in September 2017 and implemented in early 2018 will continue in 2019. *The priorities are still the same. A further increase in resources for* ***faster ecological transition*** *will occur in 2019, with more for renovation of housing and public buildings and subsidies for renewable energy sources. Investment in innovation will benefit from the on-going third Invest for the Future Programme and aerospace industry research. Finally, work on building a government for the digital age will focus on new calls for projects from the Government Transformation Fund, the creation of an interministerial HR support fund to back organisational transformation and further resources for digital development in the healthcare system.*

Major expenditure efforts will finance these strategic priorities and ensure that the goal of reducing public expenditure as a share of GDP is achieved. *Consequently, the Government has decided* ***to focus benefit increases on the most vulnerable people,*** *as other benefits and retirement pensions will be raised by 0.3%.*

As part of the employment policy, as stipulated in the abovementioned act, labour and management representatives will be charged with negotiating a ***new unemployment insurance pact*** *with the aim of changing the rules to fight financial insecurity more effectively and to enhance the incentives for job seekers to return to stable jobs. Labour and management will also be invited to review the coordination between insurance and social benefits, potentially creating a means-tested long-term unemployment benefit. The new unemployment*

insurance pact should result in average annual savings of €1 billion to €1.3 billion over three years. These savings will finance discretionary measures and help reduce the system's debts. Furthermore, the number of ***subsidised employment contracts*** *will be cut further, since they have not proven to be an effective tool for integration into the labour force.*

Most of the savings will stem from ***government transformation*** *(see Box 7), with* ***net cuts of 4,164 central government jobs in 2019****. This is the first step towards the goal of eliminating 50,000 central government jobs over the five-year Presidential term. The transformation of housing benefits will continue, with an update of means testing for housing benefits in the second quarter of 2019 that should produce substantial savings. Moreover, a significant share of expenditure in the* ***local government sub-sector*** *is now covered by contracts on containing expenditure that local authorities sign with central government. As a result, a major effort to slow local operating expenditure growth is being made. Finally, the social security funds have signed agreements on management objectives with the regional funds of the general scheme. The latter are continuing their efforts to seek savings and efficiency improvements over the period from 2018 to 2022, under the hospital investment plan in particular.*

2017 outturn and 2018 mid-year outturn

Outturn in 2017

Overview of the year

The government deficit stood at €61.4 billion in 2017, equivalent to 2.7% of gross domestic product (GDP), compared to 3.5% in 2016. This represents an improvement of 0.8 percentage points of GDP, or €17.7 billion. This improvement stems from an increase in government revenue and favourable economic conditions, with revenue growth of 5.4%, compared to 3.3% in 2016, and from expenditure cutting measures that the government introduced in the second half of 2017.

Structural adjustment of 0.3 percentage points of GDP was driven by the exceptional growth of aggregate taxes and social security contributions, with a slight drag from sluggish growth of non-tax revenue, which together contributed 0.4 points. The structural effort was slightly negative, at -0.1 point.

This was the result of discretionary tax measures and 2.0% growth of nominal public expenditure, excluding expenditure related to the settlement of the 3% dividend tax dispute, and despite the fiscal consolidation measures that the government introduced in the third quarter of 2017. On the other hand, the contribution from the correction for accrual-based measurement of tax credits was slightly positive in 2017, offsetting the gap between new claims, which remained steady, and rising fiscal outlays. It should be noted that structural adjustment is not affected by one-off and temporary measures, such as the settlement of the 3% dividend tax dispute or the corporate income tax surcharge.

Box 3: Data from the advanced semi-final account by France's National Institute of Statistics and Economic Studies

Each September, France's National Institute of Statistics and Economic Studies (INSEE) releases the deficit for the previous year in an "Advanced Semi-Final Account" that includes the latest data from the social security accounts and new information received since the release of the Provisional Account published on 30 May.

The Advanced Semi-Final Account that INSEE published on 6 September incorporates an improvement of €1.3 billion in the social security surplus, which rose from €5.0 billion to €6.3 billion, primarily as a result of a revision of hospital accounts and the general social security fund accounts based on updated source data.

The Advanced Semi-Final Account includes three new elements since the publication of the provisional account on 30 May: i) the reclassification of SNCF Réseau as part of the general government sector in 2016 increased Maastricht debt by €35.8 billion at the end of 2016, and by €39.4 billion in 2017, for an increase of 1.7 percentage points of GDP at the end of 2017, and it deepened the deficit by €2.2 billion in 2017; ii) Eurostat's decision to count the recapitalisation of ORANO as Maastricht expenditure, whereas INSEE had classified it as a financial transaction, added €2.5 billion to the 2017 deficit (this came on the heels of the reclassification of the AREVA SA transaction, which increased expenditure by €2.3 billion); iii) an amended valuation of expenses for the energy transition special-purpose account to bring it into line with the source accounting data that became available after publication of the provisional account, resulting in an improvement of €1.5 billion in the central government balance.

All in all, the revised 2017 deficit was larger by 0.1 percentage points of GDP, standing at 2.7% (compared to 2.6% in the provisional account published on 30 May 2018) and at 3.5% in 2016 (compared to 3.4% previously). Debt was revised from 96.8% of GDP in 2017 to 98.5%, as a result of the reclassification of SNCF Réseau.

Government expenditure in 2017

Nominal growth of government expenditure, excluding tax credits stood at 2.4% in 2017 (1.4% real growth), following growth of 1.3% in 2016. The main cause of this faster growth was the uptick in local governments' investment expenditure in the run-up to municipal elections. Public expenditure as a share of GDP continued to decline nonetheless, falling from 55.3% in 2016 to 55.1% in 2017 (excluding tax credits), as a result of strong economic growth in 2017.

Nominal growth of central government expenditure, excluding tax credits, stood at 2.9%, compared to 3.3% growth in 2016. The increase in expenditure stems in part from strong payroll growth, following the previous Government's decision to raise civil service pay, measures introduced under the civil service career and compensation reform (PPCR) and various other increases, as well as one-off expenditure related to the settlement of the 3% dividend tax dispute, which cost €4.7 billion. Regulation measures, including those that the government introduced after the Government Audit Office's audit of public finances in the third quarter of 2017, restrained expenditure growth by a total of €5 billion, including a large amount of appropriations cancelled during the year.

Expenditure by other central government agencies was down by 1.9% from 2016 (€2.2 billion), largely due to the smaller deficit of SNCF Réseau in the system of national accounts (INSEE has included SNCF Réseau in the other central government agencies sub-sector since 2016). Other central government agencies' expenditure, excluding SNCF Réseau, was down by 0.8% in 2017, notably as a result of exceptionally high levels of expenditure by the Fund for Victims of Terrorism and Other Crimes (FGTI) in the previous year.

The growth of social security funds' expenditure stems mainly from the growth of social benefit expenditure, which rose by 2.2%, compared to growth of 0.8% in 2016. However, faster expenditure growth stems largely from an expansion of the scope of expenditure, including the transfer of €4.6 billion in housing benefits to the central government in 2016, which decreased the amount of benefits paid by the social security funds. When the figures are adjusted for this effect, benefit growth was moderate at 2.2% in 2017, compared to 1.9% in 2016, and resulted from a

1.0% increase in family benefits to account for higher inflation, compared to a 0.2% increase in 2016, and a slightly higher national healthcare expenditure growth target of 2.2%, compared to the 1.8% growth target in 2016.

Local government expenditure picked up again in 2017, posting growth of 2.5%, compared to a contraction of 0.6% in 2016 and a drop of 1.1% in 2015. This stems from 5.8% growth of local government investment expenditure, following three years of decline, including contractions of 3.7% in 2016 and 9.8% in 2015, excluding Greater Paris transit authority (SGP), and from pay rises for local government employees. Payroll growth led to a 1.6% increase in local government operating expenditure.

Aggregate tax and social security contribution rates in 2017

In 2017, the aggregate tax and social security contribution rate stood at 45.3% of GDP, up by 0.7 points compared to 2016. This increase stems in part from strong spontaneous growth of taxes and social security contributions and in part from the one-off surcharge on corporate income tax imposed at the end of 2017 to offset the cost of the 3% dividend tax dispute settlement recorded as an expenditure equivalent to 0.2 percentage points of GDP in 2017.

With the exception of this one-off measure, discretionary measures reduced the amount of taxes and social security contributions with *i)* the impact of the first year in which refunds of unused Competitiveness and Employment Tax Credits from 2013 could be claimed, *ii)* the last tax cuts for households and businesses under the Responsibility and Solidarity Pact, and *iii)* the 2017 Budget Act, which included a 20% reduction in personal income tax, depending on the amount of taxable income. The increase in eco-taxes and changes to the collection dates for certain taxes, such as the fifth instalment of corporate income tax, partially offset these reductions.

After discretionary tax measures are excluded, spontaneous growth of taxes and social security contributions was strong, standing at 4.0%, which was much higher than the nominal GDP growth of 2.8%. This corresponds to spontaneous tax elasticity to GDP of 1.4. The strongest growth was that of central government revenue, resulting from a substantial increase in revenue from value added tax and corporate income tax, followed by growth of social security funds' revenue driven by brisk payroll growth.

2018 Mid-year outturn

Government expenditure in 2018

The following presentation is based on the most recent information available at this point in the year.

The 2018 Budget Act had taken into account the findings of the audit conducted by the Government Audit Office in June 2017, with a major effort to improve the "probity" of the initial budget that increased expenditure by more than €4 billion. The underbudgeted items from previous years were corrected accordingly or provisions were made. This was the case, for example, for the foreign operations and domestic missions of the armed forces. The newfound "probity" has paid off since, for the first time in 30 years, there are no plans for a supplemental appropriation decree in 2018, and the initial contingency reserve was not tapped in the first half of the year. At the same time, expenditure subject to the expenditure growth rule is expected to come in under budget by approximately €600 million in 2018, which is a sign that the bold consolidation effort started in 2017 is continuing.

The accrued interest expense on central government debt should reach €34.8 billion in 2018, compared to €34.6 billion in 2017. This projection is based on issuance since the beginning of the year and the updated yield and inflation forecasts. It assumes that 10-year yields will gradually rise to reach 1.40% by the end of the year and that the annual average increase in the consumer price index excluding tobacco will stand at 1.6%.

The initial and supplementary budgets of other central government agencies do not diverge from the expenditure growth forecasts.

The latest outturn data show that local government expenditure is on track to comply with the growth target for real operating expenditure set at 1.2% in the 2018-2022 Public Finance Planning Act, with a year-on-year increase of 0.9% at this point in the year. This development reflects local government efforts to contain operating expenditure, particularly by the larger authorities that have signed contracts with central government.

At the same time, the latest outturn data seems to confirm strong growth of local government investment expenditure in the run-up to municipal elections, although they are subject to a degree of uncertainty at this point in the year.

The Social Security funds' expenditure subject to the national healthcare expenditure growth target (Ondam) is expected to grow by 2.3%. In its opinion handed down at the end of May, the early warning committee on healthcare expenditure stated that the 2018 national healthcare expenditure growth target should be met and that the €625 million in appropriations in reserve at the beginning of the year were sufficient to cover the potential growth of expenditure for outpatient care.

Government revenue in 2018

The revenue forecast for the current year is based on data about tax revenue collection in the early months of the year and the macroeconomic determinants of the tax and contributions base.

The estimates are based on the following items:

- Social security contributions and levies account for approximately half of aggregate tax and social security contributions. The main determinants are *i)* wage growth, which is expected to reach 3.5% in the non-farm private sector. This projection has been confirmed by the second quarter payroll figures published by the social security authorities, with carry-over growth standing at 2.9%, and, to a lesser extent, *ii)* investment income, driven by strong growth of dividend payments in the first half of the year. Dividend payments to individual investors in the first half of 2018 increased by 60% compared to the first half of 2017.

- The revenue forecast for Value Added Tax (VAT) is sustained by investment growth of 4.6%, intermediate consumption growth of 3.5% and, to a lesser extent, by household consumption growth of 2.8%. Discretionary tax measures will add €1.5 billion in revenue, mainly as a result of the increase in VAT on social housing authorities.

- The corporate income tax revenue forecast shows spontaneous growth of 3.6%, primarily as a result of a 4.3% increase in taxable earnings in 2017, compared to 2016. Nevertheless, corporate income tax revenue will fall by €10 billion compared to 2017, mainly as a result of the end of the surcharge imposed in 2017, which will account for a €5.1-billion decrease in revenue. The switch from the 6% CICE tax credit on 2016 wages, to the 7% rate on 2017 wages, along with the refunds of 2014 claims at 6%, instead of the 2013 claims at 4% will reduce revenue by €3.6 billion and the lower corporate income tax rate will cut revenue by €1.2 billion.

- The personal income tax revenue forecast is based primarily on wage growth estimates for 2017. Strong wage growth should lead to spontaneous revenue growth of 4.5%. This growth will be virtually cancelled out by discretionary tax cutting measures, such as the transformation of the tax reduction for hiring inactive persons as home help into a tax credit. This will reduce revenue by €1.0 billion. The introduction of the single flat-rate levy on investment income will reduce personal income tax revenue by €1.5 billion.

- The revenue forecast for the contribution on business value added (CVAE) shows a sharp increase of 4.5% in 2017, with faster growth of 3.7% in non-financial corporations' value added, which is the macroeconomic aggregate underlying the contribution.

- Forecasts for local direct taxes in 2017 are consistent with the incomplete data now available on changes in tax bases and decisions on tax rates.

The forecast of stamp duty revenue is consistent with the third-quarter accounting data showing little change compared to 2017, and with the current developments in the property market, where transactions are down slightly and prices are continuing to rise slowly.

Outlook and multiyear strategy

The government intends to achieve fiscal balance. The Medium-Term Objective (MTO) is a structural deficit at 0.4% of potential GDP, as defined in the 2018-2022 Public Finance Planning Act and in compliance with the provisions of constitutional bylaws enacted following ratification of the Treaty on Stability, Coordination and Governance (TSCG). The multiyear trajectory will achieve the four major fiscal objectives set out in the Planning Act: cutting the deficit by more than 2 percentage points of GDP, reducing the government expenditure rate by more than 3 percentage points, cutting aggregate taxes and social security contributions by 1 percentage point of GDP and reducing debt by more than 5 percentage points. The pace of progress towards the MTO will be such that it does not impede economic growth, supports implementation of the government's structural reforms and consolidates our public finances to generate some fiscal headroom.

The multiyear trajectory underlying the 2019 Draft Budgetary Plan reflects the determination to reduce the deficit and debt ratio significantly and to sustain a government balance that is less than 3% of GDP. After standing at 3.5% of GDP in 2016 and 2.7% in 2017, the deficit should be 2.6% in 2018 and then 2.8% in 2019. This means that the headline deficit will still be under the 3% threshold, despite the refunds related to the settlement of the 3% dividend tax dispute and the temporary additional cost of converting the CICE tax credit into permanent cuts in social security contributions. If these items were excluded, the headline deficit would stand at 2.4% of GDP in 2018 and 1.9% in 2019. The deficit would then shrink rapidly after 2020 to stand at 0.3% of GDP in 2022. INSEE's latest publication (see Box 3) revised the debt ratio upward by almost 2 percentage points of GDP in 2016 and 2017 to account for the reclassification of SNCF Réseau in the general government sector. It should remain stable in 2018 and 2019 and then start falling after 2020.

The effort to contain expenditure will continue throughout the five-year Presidential term, with real government expenditure growth held down to 0.2% per year on average between 2018 and 2022 on a like-for-like basis, which means after cancelling out the impact of creating France Compétences on government expenditure (see Box 1). Reported growth will stand at 0.3%, compared to an average of 0.9% between 2013 and 2017, and 1.4% between 2008 and 2012 (reported and like-for-like growth see Box 4). Containment of government expenditure between 2018 and 2022 will produce an average expenditure effort of 0.4 percentage points of potential GDP per year. The public expenditure ratio (excluding tax credits) is expected to decline by more than 3 percentage points by 2022, dropping by 0.8 percentage points on a like-for-like basis between 2018 and 2019.

The fiscal headroom achieved should make it possible to finance a cut of approximately 1 percentage point of GDP in aggregate taxes and social security contributions for households and businesses between 2017 and 2022, in addition to accomplishing fiscal consolidation. The reduction of taxes and social security contributions since 2018 will unleash initiatives, promote productive investment and growth and boost purchasing power. The complete elimination of the residence tax for main residences by the end of the five-year Presidential term will boost households' purchasing power. The exemption of overtime pay from social security contributions will be a step in the same direction that testifies to the government's determination to make work more rewarding. The conversion of the Competitiveness and Employment Tax Credit into a lasting cut in employers' payroll contributions will give businesses latitude to invest and grow by making labour costs more transparent. The future trajectory for cutting the corporate income tax rate from 28% to 25% by 2022 is part of this same movement. All in all, the aggregate tax and social security contribution rate is expected to fall from 45.3% in 2017 to 44.5% in 2022, and to 44.1% if the impact of creating France Compétences on aggregate taxes and social security contributions is excluded. This represents a reduction of slightly more than 1 percentage point of GDP (see Box 1). **The resulting structural adjustment in 2019 should stand at 0.3 percentage points of GDP.** The expenditure effort of 0.4 percentage points of GDP on a like-for-like basis (after excluding the impact of creating France Compétences), means that significant tax cuts can continue in 2019. On a like-for-like basis and excluding one-off and temporary measures, discretionary measures are expected to have a negative impact of 0.2 points on adjustment.

After that, the structural adjustment will average 0.3 points per year between 2020 and 2022. Brighter economic conditions will once again play a part in the improvement in the headline deficit. Actual growth is expected to outstrip potential growth and the negative output gap since 2012 will move into positive territory in 2019. Consequently, the cyclical deficit will improve by 0.6 percentage points of GDP between 2019 and 2022 to stand at 0.8% of GDP.

In keeping with the Public Finance Planning Act, the temporary additional cost in 2019 of ending the Competitiveness and Employment Tax Credit, the apprenticeship tax credit and, in 2020, the Energy Transition Tax Credit, along with the costs of settling tax disputes will be classified as one-offs. The effects of these measures will increase the headline deficit by 0.9 percentage points of GDP in 2019 and by 0.1 points in 2020, before tapering off in 2021.

As a consequence, the headline deficit is expected to reach 2.8% of GDP in 2019, after 2.6% in 2018. It is then expected to stand at 0.3% in 2022. The deficit would stand at 2.4% in 2018 and 1.9% in 2019, if the refunds related to the settlement of the 3% dividend tax dispute and the temporary additional cost of transforming the Competitiveness and Employment Tax Credit into permanent cuts in social security contributions were excluded. Continued efforts to reduce the deficit, combined with stronger economic growth, should reduce the debt ratio by more than 5 percentage points by 2022. The debt ratio is expected to be virtually stable in 2018 and 2019 (at 98.7% and 98.6% respectively, after 98.5% in 2017). More specifically, it will be affected by the temporary additional cost of converting the Competitiveness and Employment Tax Credit into permanent cuts in social security contributions in 2019. After that, the debt ratio will start decreasing and is expected to reach 97.5% of GDP in 2020 and then 92.7% of GDP in 2022.

Table 5: Multiyear public finance trajectory						
% of GDP, unless otherwise noted	2017	2018	2019	2020	2021	2022
General government balance	-2.7	-2.6	-2.8	-1.4	-0.7	-0.3
General government balance, excluding one-offs*		-2.4	-1.9			
of which Central government	-2.8	-3.1	-3.6			
of which Other central government bodies	-0.1	-0.1	-0.1			
of which Local government	0.0	0.1	0.1			
of which Social Security Funds	0.3	0.6	0.8			
Cyclical balance	-0.3	-0.1	0.1	0.4	0.6	0.8
One-off and other temporary measures**	-0.1	-0.2	-0.9	-0.1	0.0	0.0
Structural balance**	-2.3	-2.2	-2.0	-1.7	-1.2	-1.1
Structural adjustment	0.3	0.1	0.3	0.3	0.4	0.2
General government expenditure, excluding tax credits	55.1	54.6	54.0	53.3	52.5	51.8
Nominal growth (%)	2.4	1.6	1.9	1.9	1.8	2.1
Real growth (%)	1.4	0.0	0.6	0.5	0.1	0.4
Aggregate taxes and social security contributions, excluding tax credits	45.3	45.0	44.2	44.6	44.6	44.5
Government debt	98.5	98.7	98.6	97.5	95.3	92.7
…excluding financial assistance for the euro area	95.6	95.9	95.9	94.8	92.8	90.2

** Excluding the dual costs of the Competitiveness and Employment Tax Credit and refunds related to the settlement of the 3% dividend tax dispute*

***as a % of potential GDP*

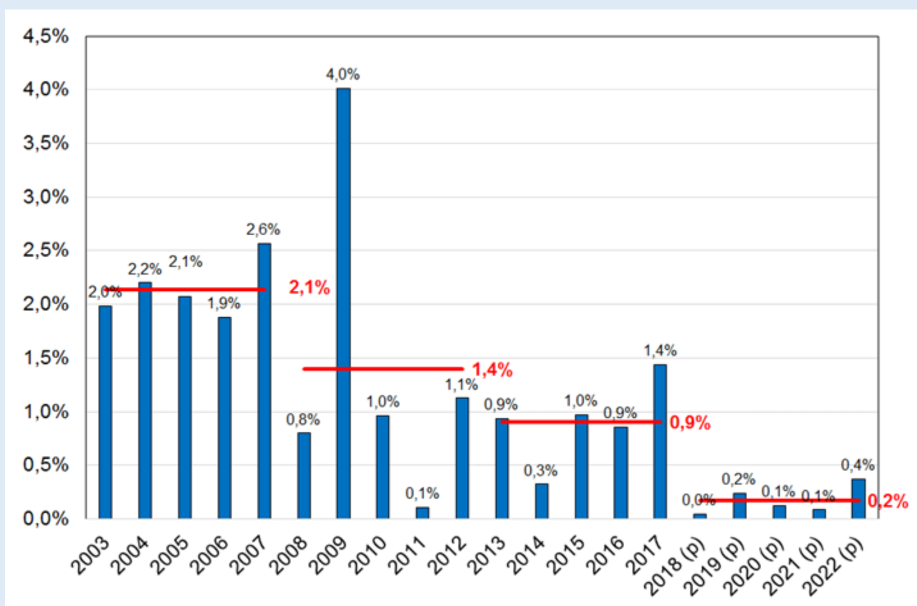
NB: The data in this table is as reported, meaning that the impact of creating France Compétences on government expenditure and aggregate taxes and social security contributions has not been neutralised. On a like-for-like basis, the expenditure ratio and aggregate taxes and social security contributions would be reduced by 0.3 percentage points of GDP in 2022 and expenditure growth would be slower in 2019 and 2020.

Box 4: A consolidation strategy that maintains investment expenditure

Government expenditure growth has slowed substantially since 2000

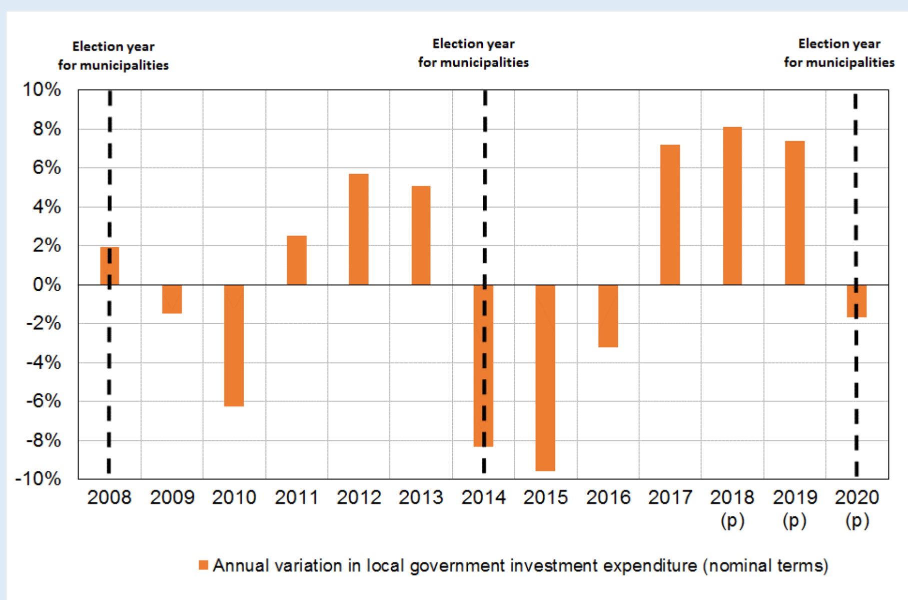
Real government expenditure growth has slowed considerably since 2000. The average growth rate stood at 2.1% before the 2007 crisis and was reduced to 0.9% by the previous government. It will be held down to an average of 0.2% per year between 2018 and 2022.

Government expenditure growth has been slowing down continuously since the early 2000's, but to a greater or lesser degree from one Presidential term to the next. Growth slowed particularly sharply after the economic crisis, with average annual growth slowing by 0.7 point between 2003 and 2007 and between 2008 and 2012. Fiscal consolidation efforts continued after that, with a deceleration of 0.5 point between 2008 and 2012 and then between 2013 and 2017. During the current Presidential term, consolidation efforts should be stepped up to achieve 0.2% average annual growth over the five-year term, compared to 0.9% under the previous administration. This represents a reduction of 0.7 points in the growth rate.

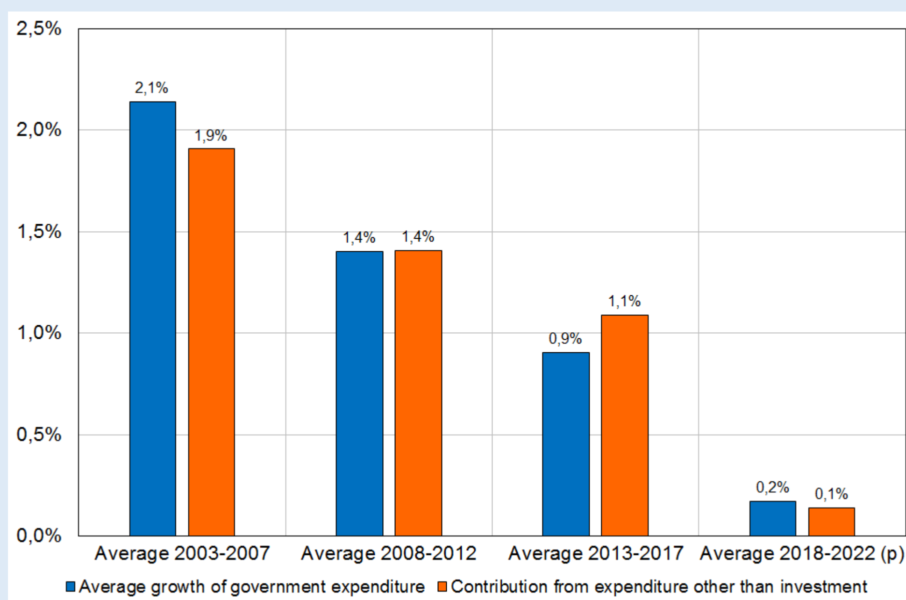


The current consolidation strategy maintains investment expenditure

The impact of slower expenditure growth on economic growth varies, depending on which expenditure is actually cut (operating expenditure, social benefits, investment expenditure). The current fiscal consolidation strategy aims to maintain investment expenditure that promotes long-term economic growth by putting the priority on achieving savings in other areas (see Box 2). Local governments' compliance with the commitments they made under their Pact with central government has strengthened their financial situation. This has enabled them to give a bigger boost to their investment expenditure than during the previous election cycle, as can be seen by the strong recovery in local government investment since 2017.



The current strategy is different from previous governments' fiscal consolidation strategies. Average annual expenditure growth has been reduced by 0.7 percentage point under the current Planning Act, compared to the previous Presidential term. However, average annual growth of expenditure other than investment is expected to slow by 1 percentage point, from 1.1% to 0.1%. Even if the major efforts to contain government expenditure accomplished right after the 2008 financial crisis were of a comparable size, with a 0.7-point reduction in average government expenditure growth between 2008 and 2012 compared to average growth between 2003 and 2007, the slower growth mainly concerned investment expenditure. The growth of expenditure other than investment slowed by 0.5 point, whereas aggregate expenditure growth slowed by 0.7 point.



Scenario with no changes to legislation or practices

The trend path of the general government balance is determined by the natural growth rates of government revenue and expenditure:

- It is based on the natural growth of revenue determined by the economic situation and historic tax elasticities to tax bases, the usual pattern of local tax rates (driven by the municipal election cycle) and index-linked taxes. Discretionary measures under legislation passed before the 2017 Supplementary Budget Act of 1 December 2017 are also taken into account, but discretionary measures adopted after said Act are not. Thus, the measures excluded are those under the first and second 2017 Supplementary Budget Acts, various legislation passed in 2018 and the 2018 and 2019 Initial Budget Acts and Social Security Budget Acts;
- Real expenditure growth after 2017, excluding tax credits, is assumed to match the average 1.2% growth rate from 2007 to 2017. The one-off expenditure for refunds related to the settlement of the 3% dividend tax dispute has been incorporated into this trend path.

With the exclusion of measures passed within the first 2017 Supplementary Budget Act and after, the general government deficit would have been 3.0% in 2017 and 2.8% of GDP in 2019, compared to 2.7% in 2017 and 1.9% in 2019 (excluding the conversion of the CICE tax credit) under the current trajectory. The exceptional corporate income tax surcharge, along with the government's consolidation plan adopted in the third quarter of 2017 and supplemented at the end of the year to reach total consolidation measures of €5 billion, resulted in a deficit of 2.7% of GDP.

This outlook also presents a scenario "with no changes to fiscal legislation and practices", in compliance with the 2012 Constitutional Bylaw on Public Finance Planning and Governance:

- On the revenue side, this scenario adheres to the same conventions as the trend path, but it includes all of the discretionary measures announced before and in the 2018 Budget Acts, such as the conversion of the Competitiveness and Employment Tax Credit and the exceptional corporate income tax surcharge, along with the tax cuts stemming from the elimination of the residence tax for 80% of households, the elimination of the wealth tax and the creation of the property wealth tax, and the reduction of the corporate income tax rate from 33% to 25%. However, it does not include discretionary measures introduced under the 2019 Draft Budgetary Plan and 2019 Social Security Draft Budgetary Plan;
- On the expenditure side, in contrast to the trend path, this scenario calls for an increase of 1.2% in real expenditure, excluding tax credits, but from 2019 only. However, the increase is diminished by the completion of refunds related to the settlement of the 3% dividend tax dispute.

Without the measures passed in fiscal legislation at the end of 2018, the 2019 general government deficit would have been 3.2% of GDP, or 2.4% if the conversion of the CICE tax credit were excluded.

Table 6: Scenario with no changes to legislation or practices

as a % of GDP	2017	2018	2019
Trend path (excluding changes passed since the first 2017 Supplementary Budget Act)	-3.0	-3.3	-2.8
Effect of discretionary expenditure and tax measures on the deficit	0.3	0.7	-0.4
Trajectory with no changes to legislation or practices (excludes changes since the 2018 Initial Budget Act and Social Security Budget Act)	-2.7	-2.6	-3.2
excluding the conversion of the Competitiveness and Employment Tax Credit			-2.4
Effect of discretionary expenditure and tax measures on the deficit			0.4
Target trajectory under the 2019 Draft Budgetary Plan	-2.7	-2.6	-2.8
excluding the conversion of the Competitiveness and Employment Tax Credit			*-1.9*

Appendix

Status of country-specific recommendations 2018
List of measures taken since the April 2018 National Reform Programme

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
CSR 1	*Ensure that the nominal growth rate of net primary government expenditure does not exceed 1.4% in 2019, corresponding to an annual structural adjustment of 0.6% of GDP.*	*- 2019 Budget Bill* *- 2019 Draft Social Security Budget* *- 2018-2022 Public Finance Planning Act*		*The nominal growth rate of government expenditure will be reduced to an average of 0.2% over the five-year Presidential term (on a like-for-like basis i.e. without the impact of reclassification of the nationwide agency, France Compétences), which is a much lower rate than the average over the previous Presidential term (0.9%). This will enable government expenditure to be cut by more than 3% by 2022.* *Containing healthcare expenditure:* *The national healthcare expenditure growth target will be 2.5% for 2019, as against 2.3% in 2018.* *Local authorities:* *During this Presidential term, the nominal growth target for the actual operating expenses of local authorities will remain at an average of 1.2% in line with Article 13 of the 2018-2022 Public Finance Planning Act.*
	Use windfall gains to accelerate the reduction of the general government debt ratio.	*Article 34(I)(10°) of the Constitutional Bylaw on Budget Acts detailed in the Initial Budget Acts* *Article 7 of the 2018-2022 Public Finance Planning Act*	*The Constitutional Bylaw on Budget Acts, detailed each year in the Initial Budget Act and the Public Finance Planning Act, provides for the appropriation of windfall gains to reduce the public deficit and, thereby, general government debt.*	
	Implement expenditure savings in 2018 and fully specify the objectives and new measures needed in the context of Public Action 2022, for them to translate	*- 2018 Initial Budget Act and Social Security Budget Act* *- 2019 Budget Bill* *- 2019 Draft Social Security Budget*	*Discussions have already been completed with an eye to reforms in the following areas: civil service, public broadcasting, tax and customs authorities, education, employment and vocational training,*	*- Finalisation of ministerial transformation plans that include structural reforms over a multiannual period. With regard to the transformation of the regional organisation of public services, a consultation will be conducted by regional prefects between now*

	into concrete expenditure savings and efficiency gains measures in the 2019 budget.	- *2018-2022 Public Finance Planning Act* - *CAP 22 report*	*government's network abroad, regional organisation of public services.*	*and mid-October 2018 with government decisions being expected for the year-end.* - *Announcement of operational decisions for the transformation of government action and the timetable for implementation by the government.* - *Rollout of voluntary redundancy schemes in the civil service.*
	Progressively unify the rules of the different pension regimes to enhance their fairness and sustainability.	*Reform of the pension system*	*September 2017: appointment of the High Commissioner for Pension Reform, J-P Delevoye* *Avril 2018: start of a consultation process with labour and management and the online citizen participation platform.*	*The goal of this reform is to make our pension system more streamlined and fair.* *Early 2019: presentation of the reform's objectives tabled by the High Commissioner and start of a fresh consultation phase with management and labour.* *In 2019: presentation of the bill to the Cabinet and its submission to Parliament.*
CSR 2	*Foster equal opportunities and access to the labour market, including for people with a migrant background and people living in deprived areas.*	*Lowering of the compulsory school age to three* *"Help for Homework" (Devoirs faits) programme* *Assessment in first grade (CP), second grade (CE1) and sixth grade (6e) at key learning milestones*	*Rolled out at the start of the 2017 academic year, this programme, that allows all middle school students who so wish to do their homework at school, is continuing to expand. "Success sessions"* (stages de réussite) *offered to students experiencing difficulties (from fifth grade* (CM2) *to ninth grade* (3e) *represent effective aid during the school holidays.* *September 2018: start of assessments of basic knowledge (French, mathematics) in first grade* (CP), *second grade* (CE1) *and sixth grade* (6e) *classes (Autumn 2017) to better pinpoint students' requirements and*	*September 2019: implementation of the lowering of the compulsory school age to three in order to establish a common framework providing all pupils with equal opportunities for a successful school career by acquired fluency in the language before six years old (97% of pupils in school at three years old but enrolment varies according to the region and social backgrounds).* *Bolstering in 2018/2019: offer the "Help for Homework" programme for four hours per week in each middle school; encourage increasing numbers of middle school students to use the programme (20% in 2017/2018).*

			provide them with the best assistance with the learning process.	
		Financial support for the poorest families	*September 2018: 25% increase for all grants decided on in 2017 for the benefit of the families of middle school students.*	*Increase in the 2019 transfer for the middle and high school social funds and the social fund for canteens (€55million/€49 million in 2017).*
		Reform of the baccalaureate	*February 2018: presentation of the reform* *Start of the 2018 academic year: rollout of standardised positioning tests in tenth grade (seconde), of personal assistance with written and oral expression, and 54 hours set aside for guidance in tenth grade.*	*2021: initial version of the new baccalaureate with heightened support for high school students.*
		Reform of universities	*March 2018: promulgation of the act on the guidance and success of students:* - *Elimination of random draws for university access* - *Introduction of the concept of "required skills"* - *Launch of the Parcoursup website* - *Improved personalisation of courses of study*	
		Transformation of vocational training	*Start of the 2018 academic year:* - *Creating 2,000 places in "gateway" classes to the higher technician's certificate* - *Creating or overhauling courses that address economic change, the challenges of the energy transition and the digital revolution* - *A €50 million call for projects launched in autumn 2018 as part of the Invest for the Future Programme to buttress the setting up of campuses for professions and new generation qualifications* - *Support for guidance in general and technological high schools: 54 hours set aside, guidance weeks, methodological guide*	*Rollout of the transformation of vocational training (2019-2022):* - *Bolster the appeal and understanding of vocational training* - *More progressive guidance with the organisation of vocational baccalaureates by groups of professions in tenth grade (Fifteen or so groups of professions – three as from the start of the 2019 academic year)* - *Overhaul general teaching and improving its interaction with vocational training* - *Expand pedagogical innovation: work in project mode, personalised courses of study, support for students' plans (in twelfth grade (terminale): work integration modules/continuing studies)* - *Streamline certification-linked assessments*

				- *Structure the training offering by fostering the networking (geographic and subject-based) of establishments* - *Introduce cutting-edge training courses that meet requirements in terms of emerging skills and professions experiencing recruitment difficulties, and which prepare students for the professions of tomorrow, close down specialisation courses in professions that do not widely recruit* - *Apprenticeship offering in all high schools, expand combined courses of study and gateways between the academic/apprenticeship track* - *Create excellence campuses (new specifications)* - *Courses leading to the certificate of professional aptitude* (CAP) *in one, two or three years depending on students' profiles and requirements*
		Reduction of class sizes in first and second grade (CP/CE1) in priority education network and priority education network plus (REP/REP+) establishments	*September 2017: reduction of first grade class sizes in priority education network plus* (REP+) *establishments* *September 2018: reduction of first grade class sizes in priority education network establishments; start of reduction of second grade class sizes in priority education network plus and priority education network establishments*	
		National action day in favour of inhabitants of priority neighbourhoods on 18 July 2018	*Heightened support for deprived ninth grade (3^e^) middle school students in finding their work placement.* *Launch of the experimental phase of* "emplois francs"*, in which employers are given financial incentives to hire individuals from disadvantaged neighbourhoods, on 1 April 2018.* *→ Seven regions covered that encompass 194 districts where almost 1/4 of*	- *Creation of 30,000 places in crèches in France by 2022 and introduction of a €1,000 bonus per crèche place created in priority neighbourhoods* - "Cités éducatives" *experiments in certain neighbourhoods whereby there is a general mobilisation around school life* - *Foster the presence of two supervisors per class in kindergartens in certain neighbourhoods*

			jobseekers live in priority urban neighbourhoods (QPV) → *Joint steering by* Pôle emploi *(France's public employment service agency, the funder)/ Town/City* → Pôle emploi *is the agency responsible for the measure*	- *Increase by €3,000 over three years, as from the start of the 2018 academic year, the bonus for the 60,000 national education staff who work in priority education network plus establishments* - *Class sizes in all first and second grade classes in priority education areas reduced by the start of the 2019 academic year.* - *Offer 30,000 high quality placements to ninth grade students in the neighbourhoods (middle school students in priority education network and priority education network plus establishments)* - *Creation of a new placements website (October 2018) for, in priority, middle school students in priority education network plus establishments* - *Invest over €2 billion for the vocational training of young people without qualifications and long-term jobseekers* - *Offer* "emplois francs" *to jobseekers residing in the neighbourhoods, regardless of their age and qualifications* - *Help 100,000 young people from the neighbourhoods with their professional integration by harnessing "Success Ladders"* (cordées de la réussite), *which are partnerships between higher education institutions and middle schools and high schools, sponsorship and tutoring as from 2018* - *Provide support for entrepreneurs in the neighbourhoods via Bpi-France* - *Include special social clauses in the construction contracts for the 2024 Olympic and Paralympic Games* - *Double the number of apprentices originating from the neighbourhoods to 35,000* - *Within the Plan for investment in job skills* (PIC), *invest almost €1.5 billion to fight illiteracy and information-illiteracy*

		Increase of the in-work benefit (prime d'activité)	*October 2018: increase of €20 per month.*	*The in-work benefit will continue to be increased to reach a total of almost €80 per month at minimum wage (Smic) level by 2022.*
		Increase of the childcare supplement for single parent families	*October 2018: one-off 30% increase.*	
	Pursue the reforms of the vocational education and training system, to strengthen its labour market relevance and improve access to training, in particular for low qualified workers and jobseekers.	*Reform of vocational training, apprenticeship and the unemployment insurance system*	*Career Choice Act of 5 September 2018:* - *On apprenticeship: funding of apprentice training centres* (CFA) *on the basis of contracts (the centres receive funding for each apprentice trained), introduction of a single grant for businesses with less than 250 employees which take on apprentices, making the status of apprentice more certain.* - *On vocational training: personal training account* (CPF) *credited with funds to pay for training, training course certification, collection of contributions by URSSAF, creation of the France Compétences agency* - *On unemployment insurance: extension of unemployment insurance to the self-employed subject to conditions and to workers having resigned who intend to set up a business or retrain, start of talks between management and labour on unemployment insurance*	*Measures implemented by decree.* *The personal training account* (CPF) *credited with funds to pay for training as from 1 January 2019.* *Application enabling anyone to choose his/her training course and enrol: autumn 2019.* *Transformation of the OCPA (the accredited organisations that collect training funds) into "skills operators" during 2019 and contributions collection by URSSAF in 2020.*
		"Create a skills-based society" arm of the Great Investment Plan for €15 billion, including the Plan for investment in job skills for €14 billion	*As at 30 June 2018, 13 programmes had been validated for €1.45 billion of provisional commitments. From this amount, €898 million have been earmarked for regional seed agreements (€496 million), training-support courses (€111 million) and the Youth Guarantee scheme (€291 million).* *Between now and October 2018, the regions will also be on the front foot for implementation by making proposals as part*	*Objective: to train a million low qualified workers and a million low qualified young people who are far removed from the job market over five years and foster their access to this market.*

			of regional skills investment agreements that will cover the period 2019-2022 and which will factor in the specific nature of each region and of the local labour market. *The Plan for investment in job skills' "100% inclusion" call for projects.* *As part of the Plan for investment in job skills (see below), there are special measures to help people secure employment and to foster inclusion, including the "100% inclusion" call for projects.*	
	Ensure that minimum wage developments are consistent with job creation and competitiveness.	*Legal formula for the statutory minimum wage and opinion of the Smic group*	*The statutory minimum wage* (Smic) *was adjusted by +1.23% on 1 January 2018 (Decree no. 2017- 1719 of 20 December 2017 on the increase in the guaranteed minimum wage), in strict compliance with the indexation formula, without granting a hike* (coup de pouce). *The adjustment rule allows for increases in the statutory minimum wage which are consistent with achieving cost competitiveness gains at minimum wage level whilst guaranteeing the purchasing power of its recipients. In particular, the indexation formula provides that the minimum wage increases less rapidly than the average salaries of blue-collar and white-collar workers, with only half the latter's increased purchasing power being passed on to the minimum wage, in the absence of a hike, thus leaving significant headroom for wage talks to factor in the productivity gaps between sectors, entities or employees. The statutory minimum wage has not been adjusted in excess of its regulatory determinants since 2007,*[1] *in accordance with successive opinions from the independent expert group on the Smic.*	

[1] Except for the July 2012 hike which was essentially intended to take account of the change in the inflation rate recorded during the first half of 2012.

CSR 3	*Simplify the tax system, by limiting the use of tax expenditures, removing inefficient taxes and reducing taxes on production levied on companies.*	*Streamlining measures and lowering levies on capital* *CICE tax credit changed into a reduction of employer contributions*	*Measures contained in the 2018 Initial Budget Act (effective since 1 January 2018):* - *Reduction of the statutory rate of corporate income tax to 25% between now and 2022 with an initial cut in 2018* - *Introduction of the 30% single flat-rate levy on capital income* - *Creation of the property wealth tax* *Measure contained in the 2018 Initial Budget Act and the Social Security Budget Act:* *As from 1 January 2019, the CICE tax credit will be changed into a lasting reduction of employer contributions. This will streamline the current labour cost-reduction system and therefore make it more effective. In 2018, the CICE provides entitlement to a tax credit (corporate income tax or personal income tax) equal to 6% of the payroll for salaries of less than 2.5 times the statutory minimum wage* (Smic). *The arrangements will be replaced in two steps in 2019 by a reduction of employer social security contributions with immediate effect (and not with a one year time-lag in relation to the operative event). This new scheme corresponds to a standard six percentage point reduction of social security contributions for salaries of between one and two and a half times the statutory minimum wage, as from 1 January, in conjunction, on 1 October, with a further reduction in labour costs at statutory minimum wage level. A larger number of businesses and sectors will be eligible for the new reduction arrangements, in particular the social and solidarity economy which is currently subject to a specific scheme, the payroll tax credit* (CITS), *which will therefore be eliminated.*	*2019 Budget Bill: Elimination of around twenty low-yield taxes paid by businesses as from 2019.* .

		Introduction of withholding at source *Measures to promote the appeal of the Paris financial centre*	*1 January 2019: effective date of the withholding at source system which will bring France into line with international standards. It will also be more simple and understandable for taxpayers.* *2018 Social Security Budget Act (effective since 1 January 2018): elimination of the fourth payroll tax bracket*	
	Reduce the regulatory and administrative burden to increase competition in the services sector and to foster firms' growth.	*Continued simplification, in particular with the "one in, two out" rule* *Combating over-enactment of European directives*	*The circular of 26 July 2017 on limiting new regulations and their impact stipulates that all new regulatory standards must be offset by the repeal or streamlining of at least two existing standards (the circular of 31 August 2017 specifies that the "one in, two out" rule takes effect on 1 September 2017). All draft decrees submitted to the Government's General Secretariat (SGG) must now include a factsheet concerning limiting new regulations which has to be attached to the general impact factsheet. The Prime Minister's circular of 12 January 2018 on the simplification of law and effective procedures stipulates that, in the future, all bills shall include a chapter devoted to legislative streamlining.* *The aforementioned circular of 26 July 2017 provides that any measure over and above the minimum requirements set out in a directive is prohibited, unless there is a duly justified rationale. An inspection taskforce was commissioned to draw up an inventory of all current unjustified over-enactments in order to comply with requirements under EU law. This inventory was presented to the Prime Minister in April 2018. The Prime Minister's Private office asked ministers to send it, during summer 2018, the measures to eliminate over-enactments and the rationale for keeping certain over-*	*During the year following the circular's adoption, government departments only tabled 16 new regulatory constraints and, in return, 38 were either repealed or streamlined.* *Over-enactment elimination measures have been drawn up and the bill was referred to the* Conseil d'Etat *(French Supreme Administrative Court) on 6 September 2018. The text is scheduled to be presented to the Cabinet on 3 October 2018. Some of this bill's main measures should cover the removal of certain regulatory constraints for advertisers, the elimination of over-enactments in the field of company law and in the financial sector. The bill also should contain provisions concerning the environment, inter alia, on waste and the water sector. Lastly, over-enactments in the agricultural and cultural fields should be eliminated.*

		Simplification of relations between users and government agencies	*enactments with an eye to drafting a bill on the elimination of over-enactments.* *Government Reform Act for a Trust-Based Society* (ESSOC) *of 10 August 2018: Introduction of the "right to make a mistake" into relations between users and government agencies. The government will now have to establish that a user, who fails to comply with an obligation for the first time, was acting in bad faith. The act also contains tangible streamlining provisions. For instance, mediation with URSSAF will be mainstreamed.*	*A decree has already been adopted: Decree no. 2018-729 of 21 August 2018 on information certificates concerning the rules governing an activity, defines those activities covered by the information certificate pursuant to Article 23 of the Government Reform Act for a Trust-Based Society.* *A number of implementing measures are still required for the Government Reform Act for a Trust-Based Society, including:* - *a decree setting out the criteria for the experiment provided for in Article 29 of the Act. The experiment will cover a four-year period and will involve a single correspondent handling users' requests for a whole range of services* - *a decree stipulating the application conditions for a four-year experiment of a system which limits the aggregate duration of administrative audits conducted by the government against SMEs to nine months over three years, for the same establishment* - *a decree adopted after consultation with the* Conseil d'Etat *specifying the application conditions of Article 22 of the Act which provides for an experiment for certain advance ruling procedures whereby the user could attach a draft position paper to his/her request that would be deemed to have been approved if the government fails to reply within three months of receipt of the request.*
		Business Growth and Transformation Action Plan (PACTE) *Bill, presented on 18 June 2018*		*Presented to the Cabinet on 18 June 2018, the Business Growth and Transformation Action Plan contains over 70 measures to foster growth and the financing of businesses whilst encouraging profit sharing with employees. Its flagship measures are:*

				- *creating an online one-stop-shop to help with procedures relating to setting up and running a business* - *authorising the establishment of a company register* - *eliminating of the requirement for craftspersons to complete an internship prior to setting up shop* - *upgrading the network of chambers of commerce and industry* - *slimming employee thresholds down to levels of 11, 50 and 250 employees* - *increasing the threshold from 20 to 50 employees for the employer social housing levy* (PEEC) *and the national housing support fund* (FNAL) - *freezing of thresholds for five years* - *streamlining retirement savings* - *bolstering ties between public research and the private sector* - *eliminating the reduced social security contribution* (forfait social) *on profit-sharing and employee incentive scheme payments for companies with less than 50 employees and on employee incentive schemes only for companies with between 50 and 250 employees* - *overhauling bankruptcy law with the introduction of the cross class cramdown mechanism into French law* - *capping fees for incidents paid by the poorest populations entitled to the "special offer" at €20 per month and €200 per year*
		Opening up domestic passenger rail travel to competition	*The New Railway Pact Act of 27 June 2018 set out the timetable for opening up the sector to competition: this will take effect in December 2020 for high-speed trains* (TGV) *with open access to the infrastructure for any rail company; for regional express trains (TER), as from December 2019 for regions that so wish and compulsorily as from December 2023 via tendering.*	

	Step up efforts to increase the performance of the innovation system notably by improving the efficiency of public support schemes and strengthening knowledge transfer between public research institutions and firms.	*Assessments of innovation support mechanisms*	*The Lewiner-Stephan-Distinguin-Dubertret taskforce on grants for innovation has submitted its report and several of its recommendations were used in the Business Growth and Transformation Action Plan Bill or in the context of the Innovation Board and use of the Innovation and Industry Fund's* (FII) *resources (see below)*	*The French Innovation Policy Assessment Commission* (CNEPI) *is drafting an opinion on the Research Tax Credit drawing on the results of the assessments it commissioned, and will continue the assessment strategy via additional studies.*
		Bolstering knowledge transfers	*Presented by the Prime Minister on 3 May 2018, a government plan called "Support innovative businesses" has three main objectives: to foster researchers' entrepreneurship, facilitate access to intellectual property and to mobilise resources to boost hi-tech breakthrough innovations*	*The Business Growth and Transformation Action Plan Bill contains measures to foster moves between the public and private sector for researchers, with a relaxing of conditions for setting up a business or providing their expertise to companies. It also includes streamlined access for businesses to public research innovations with a heightened role for the sole agent for intellectual property originating from public research. Moreover, the French Tech Seed Fund, which has received €400 million in funding from the third phase of the Invest for the Future Programme* (PIA 3)*, is looking to support startups set up from laboratories to conduct their initial fundraising.*
		Setting up the Innovation Board	*On 21 June, the Prime Minister set up the supervisory board of the Great Investment Plan which aims to support industrial innovation and research and to fund the following areas: the energy transition, skills, innovation and economic sectors, and government transformation.* *This Board, which was set up on 18 July 2018, is co-chaired by the ministers responsible for the economy and research, and is tasked with enhancing the steering of innovation policy and with making proposals regarding the main objectives and priorities in this respect. It is also responsible for deciding on use of the*	*Introduction of standard research agreements.*

			Innovation and Industry Fund's annual credits (see below).	
		Innovation and Industry Fund	*January 2018: creation of the Innovation and Industry Fund within Bpifrance (the government-funded industrial and commercial institution,* EPIC*), with initial credits of €10 billion coming from sales and contributions of shareholdings (EDF and Thalès equity interests). As stakes in other companies are sold off, Bpifrance will be allocated fresh cash appropriations funded by the proceeds of these sales.* *The provisional breakdown of the annual €250 million credit was presented when the Innovation Board was set up:* - *€150 million for major challenges* - *€70 million for the Deep Tech plan* - *€25 million for the Nano 2022 plan* - *€5 million as the Board sees fit* *The detailed appropriation of the Fund's resources will be decided upon at Innovation Board meetings.*	
		Launching major challenges	*At the inaugural meeting of the Innovation Board, the first two major challenges where launched and concern artificial intelligence-related topics:* - *"How can medical diagnosis be improved using artificial intelligence?"* - *"How can systems using artificial intelligence be made secure, certified and reliable?"*	*New challenges will be launched at subsequent Innovation Board meetings, at a rate of two to three per year.*
		Great Investment Plan measures in favour of competitiveness and innovation		*The Great Investment Plan is financing the third phase of the Invest for the Future Programme* (PIA 3) *to the tune of €10 billion. These appropriations are overseen by the Secretariat General for Investment* (SGPI)*, which is tasked with cross-cutting monitoring of the entire Great Investment Plan.*

				The Business Growth and Transformation Action Plan Bill stipulates a number of provisions to bolster intellectual property take up by economic stakeholders (enhancing the protection afforded by utility certificates, the right of opposition to invention patents, enacting the EU Trademark Package in French law, assessment of inventive steps).

Detailed forecast tables

Table 1 : Resources and uses of goods and services - Nominal gross domestic product and components

	2017		2018	2019
NOMINAL GROSS DOMESTIC PRODUCT (GDP) - level in billions	2291,7		2349,8	2420,1
	Level in €bn	Volume		
		Rate of change	Rate of change	Rate of change
RESOURCES				
Real gross domestic product*	2 291,7	2,2	1,7	1,7
Imports	733,0	4,0	2,5	3,1
TOTAL OF RESOURCES	**3 024,7**	**2,6**	**1,9**	**2,1**
USES				
Private consumption expenditure	1 239,2	1,0	1,1	1,7
Government consumption expenditure	540,2	1,3	1,0	0,8
Gross fixed capital formation (GFCF)	515,9	4,5	3,3	2,1
- of which Non-financial corporations	288,7	4,1	3,7	2,7
- of which Households excluding self-employed	120,9	5,6	1,5	0,2
-of which General Government	77,5	1,4	4,6	3,1
Exports	707,7	4,5	3,7	3,6
Changes in inventories and net acquisitions of valuables	21,7			
TOTAL USES	**3 024,7**	**2,6**	**1,9**	**2,1**
Contributions to real GDP growth				
Final domestic demand excluding inventories		1,8	1,6	1,6
Changes in inventories and net acquisitions of valuables		0,2	- 0,2	0,0
Net foreign trade		0,1	0,3	0,1

(*) Growth rate non adjusted for working days.

Table 2 : Resources and uses of goods and services - price developments

	2017	2018	2019
	Rate of change	Rate of change	Rate of change
RESOURCES			
Gross domestic product	0,7	0,9	1,3
Imports	2,1	1,8	1,4
TOTAL RESOURCES	**1,0**	**1,1**	**1,3**
USES			
Private consumption expenditure	1,3	1,7	1,4
Government consumption expenditure	0,7	0,2	0,5
Gross fixed capital formation	1,2	1,3	1,8
Exports	0,8	0,7	1,4
TOTAL USES	**1,0**	**1,1**	**1,3**
OTHER PRICE INDICES - annual average			
Consumer Price Index (CPI)	1,0	1,8	1,4
Consumer Price Index excluding tobacco	1,0	1,6	1,3
Harmonised Index of Consumer Prices (HICP)	1,2	2,1	1,5

Table 3 : Sectoral balances – Net lending (+)/ borrowing (-)	2016 pp of GDP	2017 pp of GDP	2018 pp of GDP	2019 pp of GDP
NET LENDING (+)/ BORROWING (-) vis-à-vis the rest of the world	**- 0,8**	**- 0,6**	**- 0,7**	**- 0,5**
Of which:				
- Balance of goods and services	- 0,8	- 1,1	- 1,1	- 1,0
- Balance of primary incomes and transfers	0,0	0,5	0,3	0,4
- Capital account	0,0	0,1	0,0	0,0
NET LENDING (+)/ BORROWING (-) of the private sector	**2,6**	**2,0**	**1,9**	**2,2**
Of which:				
- Households	2,6	2,7	2,9	2,9
- Non-financial corporations	- 0,7	- 0,4	- 0,7	- 0,4
NET LENDING (+)/ BORROWING (-) OF GENERAL GOVERNMENT*	**- 3,5**	**- 2,7**	**- 2,6**	**- 2,8**

(*) According to the Maastricht definition.

Table 4 : French external trade	2016 Level in €bn	2017 Level in €bn	2018 Level in €bn	2019 Level in €bn
TOTAL GROSS TRADE BALANCE CIF-FOB	**- 62,4**	**- 77,9**	**- 85,8**	**- 86,2**
Of which:				
- Manufacture of food products	0,2	-0,6	0,6	1,4
- Energy	- 31,6	- 39,2	- 49,2	- 51,9
- Industry	- 35,6	- 41,7	- 41,0	- 39,7
Total trade balance FOB-FOB - in level	- 48,8	- 63,4	- 65,0	- 65,0
Total trade balance FOB-FOB - in pp of GDP	- 2,2	- 2,8	- 2,8	- 2,7
COMMERCIAL BALANCE EXCLUDING ENERGY AND MILITARY EQUIPMENT - in level CIF-FOB	**- 35,4**	**- 42,3**	**- 40,3**	**- 38,3**

Table 5 : Non-financial Corporations – Detailed data	2016	2017	2018	2019
	Level in €bn	Rate of change	Rate of change	Rate of change
GROSS VALUE ADDED	**1 143,5**	**3,7**	**3,3**	**3,7**
Compensation of employees	749,7	3,8	3,8	1,2
Ratio: compensation of employees / Gross Value Added – level in %	65,6	65,6	65,9	64,3
Taxes on production	59,9	4,5	4,6	12,8
Subsidies on production	- 31,2	5,3	10,9	6,7
Gross operating surplus (GOS)	365,1	3,6	2,8	7,6
Ratio -: Margin rate of non-financial corporations (Gross operating surplus / Gross Value Added) – level in %	31,9	31,9	31,7	32,9
Property income paid	253,2	1,5	6,4	5,1
Property income received	203,6	9,9	3,5	5,4
Taxes on income and wealth	42,2	18,0	- 8,1	8,1
GROSS SAVINGS	**246,6**	**8,0**	**2,0**	**8,6**
Ratio : Saving Rate (Gross Savings / Gross Value Added) – level in %	21,6	22,5	22,2	23,2
Gross fixed capital formation (GFCF)	265,6	5,0	4,8	4,5
Ratio : Self-financing rate (Savings / GFCF) – level in %	92,9	95,5	93,0	96,7
Ratio : Investment rate (GFCF / Gross Value Added) – level in %	23,2	23,5	23,8	24,0
Changes in inventories (1)	16,4	21,9	15,4	15,8
NET LENDING (+) / BORROWING (-) – in level. pp of Gross Value Added	**- 1,3**	**- 0,9**	**- 1,3**	**- 0,7**

(1) Changes in inventories - level in billions.

Table 6 : Households - Income Accounts

	2016	2017	2018	2019
	Level in €bn	Rate of change	Rate of change	Rate of change
RESOURCES				
Wages and salaries	863,7	3,1	3,1	2,9
- *Employees' social contributions*	124,1	3,7	-8,7	-0,6
Wages and salaries (net of employees' social contributions)	739,5	3,0	5,1	3,5
Mixed income (mainly self-employed)	121,1	0,2	1,6	1,6
Gross operating surplus (excluding self-employed)	179,2	3,7	3,0	2,7
Social benefits in cash	486,3	1,9	2,1	1,9
Property income	93,9	6,6	10,4	5,5
Other resources	69,3	4,2	2,5	3,0
USES				
Social contributions by self-employed and non-employed persons	30,0	1,2	-4,6	1,3
Current taxes on income and wealth	221,5	2,3	9,5	0,7
Property income paid (paid interests)	17,4	14,2	4,5	17,3
Other uses	67,1	5,3	2,5	3,0
Gross Disposable Income (GDI)	**1 353,3**	**2,6**	**3,3**	**3,1**

Table 7 : Households - From disposable income to net lending

	2016	2017	2018	2019
	Level in €bn	Rate of change	Rate of change	Rate of change
GROSS DISPOSABLE INCOME (GDI)	**1 353,3**	**2,6**	**3,3**	**3,1**
Purchasing power of GDI	1,8	1,3	1,6	1,7
Final consumption expenditure	1 164,9	2,2	2,8	3,1
GROSS SAVINGS	**188,5**	**5,0**	**6,5**	**3,2**
GLOBAL SAVING RATE (Gross savings/ GDI) – in level	**13,9**	**14,3**	**14,7**	**14,7**
Gross fixed capital formation (GFCF)	122,0	7,2	3,4	2,6
Other net uses	7,4	- 15,9	23,4	- 1,3
NET LENDING (€ billions)	**59,0**	**61,0**	**67,9**	**71,3**
SAVING RATE (Net lending / GDI) – in level	**4,4**	**4,4**	**4,7**	**4,8**

Table 8 : International Environment - Basic assumptions	2017	2018	2019
Short-term interest rate (annual average)	-0,3	-0,3	0,2
Long-term interest rate (annual average)	0,8	0,9	1,8
USD/€ exchange rate (annual average)	1,13	1,18	1,16
Nominal effective exchange rate of the French economy	0,8	2,6	0,2
World GDP growth (excluding EU)	3,9	4,1	4,2
Growth of relevant foreign markets	5,3	4,4	4,4
World imports (excluding EU)	5,5	6,2	4,8
Oil prices (Brent. USD / barrel))	55	72	73

Tableau 9 : International Environment - Detailed forecasts of GDP growth	2016	2017	2018	2019
	Level* (USDbn)	Rate of change	Rate of change	Rate of change
France**	2 467	2,2	1,7	1,7
United Kingdom	2 660	1,7	1,3	1,3
European Union (28 countries)	16 516	2,7	2,4	2,2
Euro area	11 947	2,5	2,1	2,1
Euro area excluding France	9 480	2,6	2,2	2,1
United States	18 624	2,2	2,8	2,6
Japan	4 958	1,7	1,0	1,1

(*)System of National Accounts 2008 (2008 SNA) for the United States; 2008 SNA / European System of Accounts (ESA 2010) for France, United Kingdom, the euro area and the EU while those of Japan are in 2008 SNA.

(**) Growth rate non adjusted for working days.

Table 10 : International Environment - Consumer price Index	2016	2017	2018	2019
France	0,2	1,0	1,8	1,4
United Kingdom	0,7	2,7	2,5	2,1
Euro area	0,2	1,5	1,7	1,7
United States	1,3	2,1	2,4	2,4
Japan	- 0,1	0,5	0,7	0,7

Table 11 : Labour market developments

	2017	2017	2018	2019
	Level	Rate of change	Rate of change	Rate of change
Employment, persons1 - Total economy - Annual average	27 881	1,1	0,9	0,6
Employment, persons - France. all sectors - Annual average, thousands of persons[2]	27 766	290	247	171
Employment, persons - France. Non-farm market sector – Annual average[2]	16 591	1,5	1,5	1,0
Employment, persons - France. Non-farm market sector – YoY, thousands of persons[2]	27 934	332	152	168
Compensation of employees - Total economy	1 196,0	3,1	3,0	1,1
Wages and salaries per employee - Non-farm market sector		1,7	2,0	2,5
Labour productivity - Total economy[3]		1,1	0,8	1,1

(1) Occupied population, domestic concept according to the national accounts definition.

(2) Localised employment estimates (Estel data, INSEE).

(3) Productivity per person employed (Real GDP / total employment).

Table 12 : Real and potential GDP growth

	2017	2018	2019
	Rate of change	Rate of change	Rate of change
Actual GDP growth*	2,2	1,7	1,7
Potential GDP growth	1,25	1,25	1,25
Contributions:			
- Labour (total hours worked)	0,1 / 0,2	0,1 / 0,2	0,1 / 0,2
- Capital	0,4 / 0,5	0,4 / 0,5	0,4 / 0,5
- Total Factor Productivity (TFP)	0,6 / 0,7	0,6 / 0,7	0,6 / 0,7
Output gap (in pp of potential GDP)	- 0,6	- 0,2	0,2

(*)Growth rate non adjusted for working days.

Tableau 13 : General government budgetary targets broken down by subsector				
	ESA Code	2017	2018	2019
		% GDP	% GDP	% GDP
1. General government	S.13	-2,7	-2,6	-2,8
2. Central government	S.1311	-3,0	-3,2	-3,7
3. State government	S.1312	-	-	-
4. Local government	S.1313	0,0	0,1	0,1
5. Social security funds	S.1314	0,3	0,6	0,8
6. Interest expenditure	EDP D.41	1,9	1,8	1,8
7. Primary balance (1 + 6)		-0,8	-0,7	-1,0
8. One-off and temporary measures*		-0,1	-0,2	-0,9
9. Real GDP growth (%)		2,2	1,7	1,7
10. Potential GDP growth (%)		1,25	1,25	1,25
11. Output gap (% of potential GDP)		-0,6	-0,2	0,2
12. Cyclical budgetary component		-0,3	-0,1	0,1
13. Cyclically- adjusted balance (1 - 12)		-2,3	-2,5	-2,9
14. Cyclically-adjusted primary balance (13 + 6)		-0,5	-0,6	-1,1
15. Structural balance (13 - 8) (% of potential GDP)		-2,3	-2,2	-2,0

** A plus sign means deficit-reducing one-off measures*

Tableau 14 : General government debt developments				
	ESA Code	2017	2018	2019
		% GDP	% GDP	% GDP
1. Gross debt		98,5	98,7	98,6
2. Change in gross debt ratio		0,3	0,1	0,0
Contributions to changes in gross debt				
3. Primary balance		-0,8	-0,7	-1,0
4. Interest expenditure	D.41	1,9	1,8	1,8
5. Stock-flow adjustment		0,4	0,0	0,1
for the record.: Implicit interest rate on debt		2,0	1,9	1,9
Debt ratio, excluding support for the euro area		95,6	95,9	95,9

Tableau 15 : Contingent liabilities			
	2017	2018	2019
	% GDP	% GDP	% GDP
Public guarantees	8,5	8,7	

Tableau 16 : General government expenditure and revenue projections in ESA 2010 with no policy change broken down by main components

General government (S.13)	ESA Code	2017	2018	2019
		% GDP	% GDP	% GDP
1. Total gross revenue with no policy change		**53,8**	**53,7**	**52,5**
Of which				
1.1. Taxes on production and imports	D.2	16,2	16,5	16,7
1.2. Current taxes on income, wealth, etc	D.5	12,8	13,2	13,1
1.3. Capital taxes	D.91	0,6	0,6	0,6
1.4. Social contributions	D.61	18,8	18,2	17,0
1.5. Property income	D.4	0,7	0,6	0,6
1.6. Other		4,6	4,6	4,5
for the record: Tax burden		45,1	44,8	43,7
2. Total expenditure with no policy change (including tax credits)		**56,5**	**56,3**	**55,7**
Of which				
2.1. Compensation of employees	D.1	12,7	12,5	12,4
2.2. Intermediate consumption	P.2	4,9	4,8	4,7
2.3. Social payments	D.62, D.63	25,8	25,6	25,4
Of which Unemployment benefits		1,4	1,5	1,4
2.4. Interest expenditure	EDP D.41	1,9	1,8	1,8
2.5. Subsidies	D.3	2,6	2,8	2,8
2.6. Gross fixed capital formation	P.51	3,4	3,5	3,5
2.7. Capital transfers	D.9	1,3	1,1	1,1
2.8 Others		4,0	4,1	4,0

Tableau 17 : General government expenditure and revenue targets				
General government (S.13)	ESA Code	2017	2018	2019
		% GDP	% GDP	% GDP
1. Total gross revenue with no policy change		**53,8**	**53,7**	**52,8**
Of which				
1.1. Taxes on production and imports	D.2	16,2	16,5	16,9
1.2. Current taxes on income, wealth, etc	D.5	12,8	13,2	13,1
1.3. Capital taxes	D.91	0,6	0,6	0,6
1.4. Social contributions	D.61	18,8	18,2	17,0
1.5. Property income	D.4	0,7	0,6	0,6
1.6. Other		4,6	4,6	4,5
for the record: Tax burden		45,1	44,8	44,0*
2. Total expenditure with no policy change (including tax credits)		56,5	56,3	55,6
Of which				
2.1. Compensation of employees	D.1	12,7	12,5	12,3
2.2. Intermediate consumption	P.2	4,9	4,8	4,8
2.3. Social payments	D.62, D.63	25,8	25,6	25,3
Of which Unemployment benefits		1,4	1,5	1,4
2.4. Interest expenditure	D.41	1,9	1,8	1,8
2.5. Subsidies	D.3	2,6	2,8	2,8
2.6. Gross fixed capital formation	P.51	3,4	3,5	3,6
2.7. Capital transfers	D.9	1,3	1,1	1,0
2.8. Others		4,0	4,1	4,0

Tableau 18: Amounts to be excluded from the expenditure benchmark				
	2017	2017	2018	2019
	€bn	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue	2,3	0,1	0,1	0,1
2. Cyclical unemployment benefit expenditure	0,7	0,0	0,0	0,0
3. Effect of discretionary revenue measures	-1,7	-0,1	-0,2	0,0
4. Revenue increases mandated by law				

Table 19 : General government expenditure by function

	% of GDP
- General public services	6.1
- Defence	1.8
- Public order and safety	1.6
- Economic affairs	5.6
- Environmental protection	0.9
- Housing and community amenities	1.1
- Health	8.1
- Recreation. culture and religion	1.2
- Education	5.4
- Social protection	24.4
Total Expenditure	56.4

Source: Eurostat. 2016

Table 20 : Divergence from latest SP

	ESA Code	2017	2018	2019
		% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		-2.6	-2.3	-2.4
Draft Budgetary Plan		-2.7	-2.6	-2.8
Difference		-0.1	-0.3	-0.4
General government net lending projection at unchanged policies	B.9			
Stability Programme		-2.6	-2.6	-1.9
Draft Budgetary Plan		-2.7	-2.6	-3.2
Difference		-0.1	0.0	-1.3

Table 21 : Methodological aspects		
	Step of the budgetary process for which it was used	Relevant features of the model/ technique used
MESANGE[1]	Macroeconometric model used for the analysis of the impact of measures on growth	Error correction model estimated on the national accounts of INSEE
Opale[2]	Macroeconomic forecasts for 2018-2019 on which are based the public finance forecasts presented in the Draft Budgetary Plan	Error correction model estimated on the national accounts of INSEE
Guyon-Sorbe[3]	Structural effort decomposed by general government subsector	Module of decomposition of the structural balance

(1« Le modèle macroéconométrique Mésange : réestimation et nouveautés », by Anne-Sophie Dufernez, Claire Elezaar, Pierre Leblanc, Emmanuelle Masson, Harry Partouche, José Bardaji, Benoît Campagne, Marie-Baïanne Khder, Quentin Lafféter, Olivier Simon, DG Trésor WP (2017).

(2« La maquette de prévision Opale2017 », by Aurélien Daubaire, Geoffrey Lefebvre, Olivier Meslin, DG Trésor WP (2017).

(3) « Solde structurel et effort structurel : vers une décomposition par sous-secteur des administrations publiques », DG Trésor WP (2009).

Table 22 : Multiyear public finance trajectory						
(% of GDP)	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
General government balance (Maastricht definition)	-2,7	-2,6	-2,8	-1,4	-0,7	-0,3
Of which State	-2,8	-3,1	-3,6			
Of which Other central government bodies	-0,1	-0,1	-0,1			
Of which Local government	0,0	0,1	0,1			
Of which Social security funds	0,3	0,6	0,8			
Cyclical balance	-0,3	-0,1	0,1	0,4	0,6	0,8
One-off and other temporary measures (% of potential GDP)	-0,1	-0,2	-0,9	-0,1	0,0	0,0
Structural balance (% of potential GDP)	-2,3	-2,2	-2,0	-1,7	-1,2	-1,1
Structural adjustment	0,3	0,1	0,3	0,3	0,4	0,2
General government expenditures excluding tax credits	55,1	54,6	54,0	53,3	52,5	51,8
Real government expenditure rate excluding tax credits (%)	2,4	1,6	1,9	1,9	1,8	2,1
Nominal growth rate of expenditures excluding tax credits (%)	1,4	0,0	0,6	0,5	0,1	0,4
Tax burden excluding tax credits (% PIB)	45,3	45,0	44,2	44,6	44,6	44,5
Government debt (Maastricht definition)	98,5	98,7	98,6	97,5	95,3	92,7
Government debt (excluding financial support for the euro area)	95,6	95,9	95,9	94,8	92,8	90,2

Table 23: In-year quarterly outturn on cash basis for the general government and its sub-sectors

In •bn	1st quarter	1st semester
Overall balance by sub-sector		
General government		
Central government	-33,1	-58,9
State government		
Local government	-12,0	-3,4
Social security funds	-1,1	-1,0
Total revenue / inflows		
Local government	43,6	128,9
Social security funds	97,4	197,2
Total expenditure / outflows		
Local government	55,6	132,3
Social security funds	98,5	198,2

Table 24 : In-year quarterly outturn in accordance with ESA standards for the general government and its sub-sectors

In •bn	ESA Code	2018	
		1st quarter	2nd quarter
Overall balance by sub-sector			
General government	S. 13	-14,4	-14,5
Central government	S. 1311		
State government	S. 1312		
Local government	S. 1313		
Social security funds	S. 1314		
For general government			
Total revenue	TR	314,9	313,8
Total expenditure	TE	329,4	328,3