DRAFT BUDGETARY PLAN FOR 2021

ECONOMIC, SOCIAL AND FINANCIAL REPORT

EXTRACT

Table of contents

FRANCE'S ECONOMIC POLICY STRATEGY 5

INTRODUCTION 7

ECONOMIC OUTLOOK 43

FISCAL OUTLOOK 55

APPENDIX 72

STATUS OF COUNTRY-SPECIFIC RECOMMENDATIONS 2020 73

DETAILED FORECAST TABLES 81

ECONOMIC OUTLOOK 82

FISCAL OUTLOOK 87

France's economic policy strategy

1

Introduction

In 2019, French growth remained firm and job creation continued despite the subdued international backdrop, unemployment fell further and business competitiveness gradually improved. However, 2020 will bring an unprecedented recession. The Covid-19 pandemic has caused a sudden and deep economic crisis. Government action taken when the first wave of infections was peaking has softened the blow, with a set of unequalled emergency measures. The Recovery Plan announced on 3 September will boost the economic rebound and minimise the long-term effects of the crisis, while making France's productive base more resilient and accelerating its digital and environmental transition.

Growth remained robust at 1.5% in 2019 after 2.4% in 2017 and 1.8% in 2018, higher than the euro area average and in spite of the subdued international context. As a result of ambitious reforms brought in since the start of President Macron's term of office, the French economy's fundamentals continued to improve (see Box 1): 690,800 salaried jobs were created between the end of the first quarter of 2017 and the fourth quarter of 2019 and unemployment fell to 8.1% at the end of 2019, showing good momentum in the labour market. Business competitiveness and France's economic appeal also improved.

Now 2020 has brought an unprecedented recession, with output falling 19% between the fourth quarter of 2019 and the second quarter of 2020. GDP is expected to contract by 10% over the year as a whole. One of the effects of the lockdown was a 16½% drop in household consumption in the second quarter of 2020 compared with the fourth quarter of 2019. With uncertainty running high and economic activity slumping, business investment also fell 21% over the same period. Finally, foreign trade was seriously damaged by the drop in economic output among France's partners.

This contraction in activity brought with it a deterioration in the jobs market, with the loss of 715,000 salaried jobs in the first half of 2020 and 800,000 expected by the end of the year.

Economic activity is expected to surge back by 8% in 2021 as a result of public health restrictions being lifted combined with the Recovery Plan. The Recovery Plan will continue to boost activity, with output expected to return to its pre-crisis level by 2022.

As regards the public finances, 2019 showed the effect of efforts to bring them under control, with the public-sector deficit amounting to only 2.1% of GDP excluding the temporary increase caused by converting the CICE tax credit into a permanent reduction in social-security contributions (3.0% including the conversion of the CICE). In 2020, the public-sector deficit is set to reach 10.2% of GDP, while public-sector debt should rise to 117.5% of GDP, pushed higher by the fall in activity and massive public-sector intervention to mitigate the potentially devastating impact of the crisis. The process of bringing the public finances back to normal, underpinned by the upturn in economic activity and the implementation of structural reforms, will take place gradually in order to preserve the economic recovery, and primarily through renewed growth. For 2021, the projected deficit in the Draft Budgetary Plan (DBP) is 6.7% of GDP, with public debt equalling 116.2% of GDP.

The government responded to the Covid-19 pandemic with determination. It took immediate, aggressive public health measures, including the lockdown, to stop the virus spreading and increase France's ability to combat the pandemic. At the same time, it quickly rolled out large-scale economic support measures to preserve household incomes, safeguard jobs, boost companies' cash positions and enable businesses to cover their ordinary expenditure, and support the sectors most affected by the drop in activity. Overall, those emergency measures totalled around €470 billion, including €64.5 billion directly affecting the public-sector balance (excluding cash support measures and guarantees, whose impact on the balance will

occur after 2020 and remains uncertain), €76 billion of cash support measures and €327.5 billion of guarantees.

To supplement these emergency measures by putting the recovery on a firmer long-term footing and to help transform the French economy, a €100 billion Recovery Plan was announced on 3 September 2020. This public investment package will boost the recovery in the short term, with the aim of bringing activity back to its pre-crisis level by 2022, and will lay foundations for the future by accelerating the ecological transition and encouraging investment and innovation, particularly in digital technologies. The plan has three parts:

- €30 billion will be devoted to investments in all aspects of the ecological transition, including the energy retrofitting of buildings, green infrastructure and mobility, decarbonisation of industrial processes and support for green innovation, support for the circular economy, limits on land take, and agricultural transition.
- €34 billion will go towards increasing the competitiveness and independence of France's productive base, particularly through reducing taxes on production by €20 billion over two years and investing in the technologies of the future.
- Finally, there will be €36 billion for social and regional cohesion and the preservation and development of skills, with the introduction of long-term short-time working arrangements, a "1 Young Person, 1 Solution" scheme, help with integrating the most vulnerable and retraining employees, efforts to increase the purchasing power of the poorest households, and measures directly aimed at combating regional inequalities.

To accompany this major investment effort and make it more effective, the government will continue the reform programme that it has been pursuing with determination since the start of President Macron's term of office, while adjusting it to the new requirements of the current economic and social situation. To ensure that the welfare system is resilient and sustainable, it will be strengthened and safeguarded through investment and pay rises for healthcare workers as part of the Ségur Agreement, the introduction of measures – after discussions with the trade unions – to ensure that the pensions system is fair and sustainable, and work to complete the implementation of unemployment insurance reforms. The Recovery Plan's emphasis on ecological transition will be backed up with a new climate and environment act, based on proposals formulated by France's Citizens' Convention for Climate. In addition to the Recovery Plan's investments in future technologies – overseen through a fourth Invest for the Future programme (PIA4) to ensure the scientific quality of the projects concerned – France's innovation capabilities will be boosted by the adoption of a Multiannual research programming law, which will increase long-term funding for public-sector research and make scientific careers more appealing. Lastly, the Recovery Plan will be accompanied by a streamlining measures, including the ASAP (acceleration and streamlining of public action) Act, which will simplify procedures and rules for companies and households to ensure that the economic recovery is as rapid and robust as possible. The transformation of public action will also involve further reform of housing policy to ensure that public money is well spent, with further decentralisation giving regions the resources they need to take effective action, and with a stronger public finance governance framework.

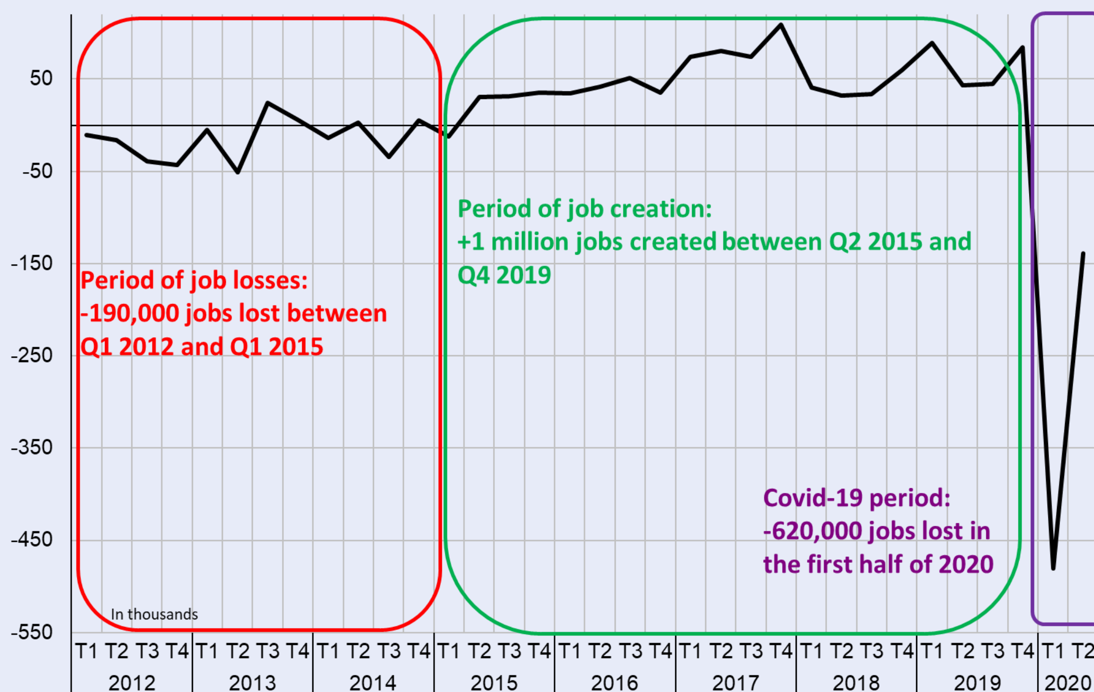
Box 1: France's economic situation before the Covid-19 crisis

Between the time the government was formed in 2017 and start of the COVID-19 crisis, a large proportion of the President's ambitious reform programme had been implemented. *The benefits of those reforms are shown by the fact that, over the same period, the French economy saw a substantial improvement in its fundamentals, although the economic situation arising from the Covid-19 crisis is affecting performance in 2020 and beyond.*

In 2019, French growth was resilient despite the subdued international backdrop*. In particular, it was driven by robust investment, strong job creation and government measures to support purchasing power and consumption, such as gradually eliminating residence tax, increasing in-work benefits and reducing taxes on overtime. France's economy therefore grew by 1.5% in 2019, higher than the euro area average, after two years of strong growth (2.4% in 2017 and 1.8% in 2018). The slowdown in 2019 was due to an international situation in which trade tensions increased and several of France's major trade partners experienced economic difficulties.*

The jobs market had been improving steadily from the start of President Macron's term of office until the Covid-19 crisis. *In the fourth quarter of 2019, France's unemployment rate hit its lowest level since the 2008 crisis at 8.1%, and 290,000 salaried jobs (in both the market and non-market sectors) were created in 2019 despite slower GDP growth. This took the total number of salaried jobs created between the first quarter of 2017 and the fourth quarter of 2019 to 690,800. Lower labour costs – resulting from the conversion of the CICE tax credit into a permanent reduction in employer social security contributions, and from reforms to the labour market, the apprenticeship system and vocational training – helped boost employment. The improvement was accompanied by an increase in the employment rate and a stabilisation of the activity rate. At the same time, the proportion of permanent and full-time jobs increased, a sign that the quality of jobs was improving.*

Chart 1: Quarterly change in market-sector salaried jobs (thousands)

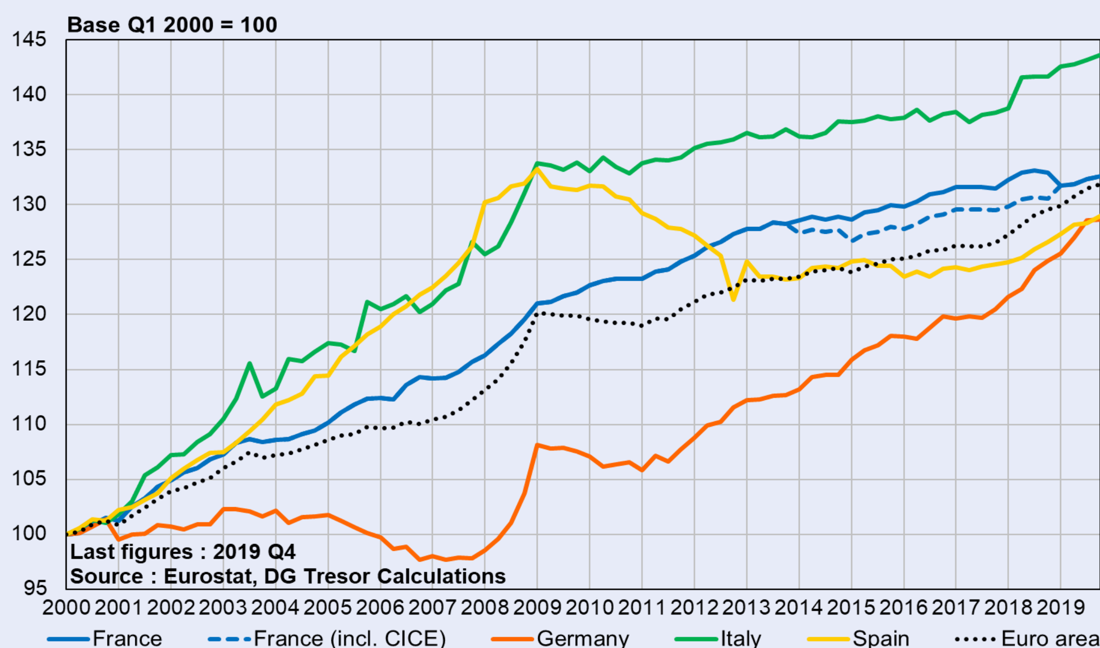


Source: INSEE, quarterly jobs estimates

***French competitiveness improved gradually**, with labour costs under control and a healthy business environment. Labour cost inflation was contained by measures to reduce employer taxes, such as the move to convert the CICE tax credit into a permanent reduction in social security contributions, and to increase tax breaks for low earners, while reforms to business and capital taxes supported business investment and France's economic attractiveness. The PACTE act also simplified the business environment and removed barriers. The performance of French companies exporting goods to address world demand improved, showing that France was becoming more competitive. French exports grew 3.3% in 2019 despite weak growth in overall global trade.*

***France's appeal for foreign investors continued to increase:** for example, France overtook Germany and the UK to become Europe's number one destination in terms of the number of foreign investment projects, according to the EY 2020 attractiveness survey for France.*

Chart 2: Unit labour costs in the euro area (Q1 2000 = 100)



Source: Eurostat, DG Trésor calculations

***France's public finances continued to stabilise in 2019,** with the public-sector deficit amounting to 3.0% of GDP. For the third straight year, therefore, France kept its deficit at or below the 3% ceiling, despite the temporary increase caused by converting the CICE tax credit into a reduction in social-security contributions; excluding that effect, the deficit would have been only 2.1% of GDP, down from 2.3% in 2018. The structural deficit was 2.2% of potential GDP, the same as in 2018 and close to the targets set out in France's multiyear public finance planning act (1.9%) despite emergency measures taken in late 2018. Public-sector debt equalled 98.1% in 2019, the same as in 2018 and lower than the 2017 figure of 98.3%.*

The COVID-19 pandemic has now caused a public health and economic crisis on an unprecedented scale, and in response the government has adopted large-scale emergency measures to protect the health of its citizens, the incomes of households and the future of businesses.

The French government has introduced a series of ambitious measures to address both the public health emergency and the economic shock arising from the Covid-19 pandemic.

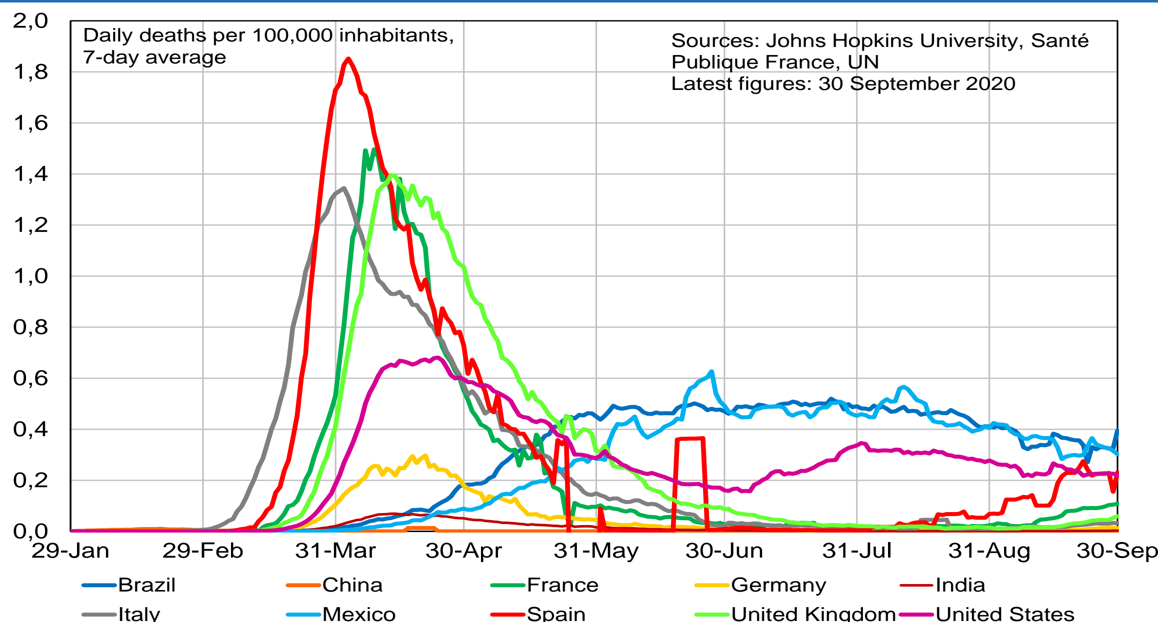
1. The extent of the Covid-19 public health crisis has prompted a strong response from the government in order to contain the spread of the virus

France recorded its first cases of COVID-19 on 24 January 2020. In the following weeks, the spread of the virus was exponential, before it was curbed by the lockdown (chart 3). The public health measures adopted by the government were designed to reduce the rate of infection and to make additional resources available to combat the pandemic. By slowing the spread of the virus, the government flattened the curve of infections and prevented healthcare facilities from being overrun, thereby mitigating the human damage caused by the pandemic.

Measures taken to **slow the spread** mainly involved limiting contact between people and adopting social distancing. This initially involved a general lockdown, introduced on 17 March and gradually lifted from 11 May. During that time, travel was reduced to the strict minimum and non-essential public areas as well as educational establishments were closed. Based on scientific data, the lockdown was eased gradually, at rates that varied according to the activity and region in question and over time. As the pandemic progressed, mask-wearing was mandatory on public transport, then in all enclosed public spaces, then outdoors in large cities depending on local officials' assessment of the local situation, and finally in businesses and government offices from 1 September. Public spaces reopened gradually, with ongoing restrictions on risky situations, such as bans on gatherings of more than 5,000 people. In late September, the restrictions were toughened again in areas where the virus was circulating more widely.

To **increase its ability to combat the pandemic,** the government has provided logistical and financial support to the healthcare system, increased its flexibility and made it easier to reorganise healthcare services to focus on this priority. These measures include increasing the resources, particularly financial resources, available to the healthcare system. €9.8 billion of additional healthcare spending – in addition to the increase in the national healthcare expenditure growth target (ONDAM) to 2.45% for 2020 – has been allocated to buying equipment (particularly masks and ventilators), granting daily allowances to vulnerable people and parents of children whose schools are closed, and paying bonuses to care workers. Measures have also been taken to increase the flexibility of the healthcare system and provide it with greater logistical support to deal with the pandemic, such as increasing capacity in resuscitation units to 10,000 beds, arranging support from the armed forces to relieve the pressure on resuscitation units, and transferring patients between regions to make the best use of available capacity in intensive-care units.

Chart 3: Daily deaths per 100,000 inhabitants - 7-day average



2. The pandemic has triggered an economic crisis on an unprecedented scale

The pandemic and the measures used to limit the spread of the virus are having a major impact on economic activity, causing a shock to both supply and demand. Whole sectors have been forced to close – and some, like the events industry, remain closed – because of the risk of contagion arising from their business model.

The impact on economic activity has been huge, with GDP falling 5.9% in the first quarter and a further 13.8% in the second. The government expects activity to fall by 10% this year. The impact is varying between sectors. Output has not fallen much in the farming and agri-food, information and communication services or financial services sectors. However, there has been a drastic slump in activity in sectors that had to stop operating during lockdown because of the interpersonal contact they involve, such as the accommodation and food service sector, where some businesses have been officially ordered to close. There has also been a large decrease in the production of transport equipment (automotive and aerospace) and in transport services.

There has been a dual demand-side shock. Domestic demand has collapsed because of the slump in household consumption and business investment. Household consumption has suffered from public health restrictions, but has now recovered significantly, although partially, in most areas since restrictions began to be lifted. Businesses have also slashed investment given the major uncertainty about the outlook in their markets. External demand for French goods has fallen sharply because of the recession among France's trading partners.

There has also been a supply-side shock. Production processes have been thrown into confusion by disruption to production and supply chains – particularly international ones – and the work interruptions resulting from factors such as forced closures, illness and childcare issues.

The COVID-19 crisis and the ensuing lockdown have hit foreign trade particularly hard. According to data from French Customs, exports of French goods fell 21.5% year-on-year in the first half of 2020. In particular, aerospace exports – France's leading category of exports – fell by almost half. According to the Banque de France, exports of services fell by 15.4% during the same period. Revenue from international tourism, which usually accounts for a quarter of French service exports, halved during the period.

This has created **an increased risk of bankruptcy for businesses, while consumers are facing the risk of unemployment and lower incomes, although those risks have been mitigated by the numerous measures adopted by the government.** As of 8 September, INSEE estimated that almost 715,000 salaried jobs had been lost in the first half of 2020. Salaried employment fell 0.9% or 215,200 in the second quarter, after a historic decline of 2.0% or 499,700 in the first.

3. The government urgently rolled out a battery of support measures for businesses and households

In light of the serious fallout from the COVID-19 crisis and like France's main international partners (see Box 2), the government introduced a series of emergency economic measures totalling around €470bn. The plan comprises €64½bn of measures with a direct impact on the general government balance, €76bn for cash-flow measures and €327½bn for guarantee measures. **The priority was to safeguard, insofar as possible, businesses, jobs and income at the height of the pandemic**, so as to mitigate the adverse impacts of the crisis for households and the manufacturing sector, and to maintain conditions for a vibrant recovery.

Table 1: Summary of the support measures adopted in the First, Second and Third Supplementary Budget Acts		
Measures having a direct impact on the general government balance*		
Short-time working	€31bn[2/3]	Coverage by the central government and Unédic (an unemployment insurance agency) of 100% (up to 1 June before being cut to 85% except for specific sectors) of the benefits paid by companies to workers within the limit of 4.5 times the statutory minimum wage (SMIC). Extension of the scheme to individual employers until 31 August 2020. On 1 May 2020, extension of the scheme to workers who were particularly vulnerable to the coronavirus and to the parents of children who had no child care options.
Solidarity Fund	€8½bn€[3]	Payment of a fixed grant to the smallest businesses having experienced a sharp slump in turnover and meeting a number of conditions. Two components: (i) “safety net”, capped at €1,500; and (ii) “bankruptcy prevention”, between €2,000 and €5,000 for businesses in dire straits. Extension of the scheme (period, entitlement conditions, amount) to the sectors most affected by the crisis (i.e. restaurants, cafés, hotels, tourism, event management, sport and culture).
Health expenditure	€10bn	Coverage for equipment procurement (masks, ventilators, tests, *etc.*), statutory sick pay (*indemnités journalières*) and bonuses for healthcare workers
Procurement of non-surgical masks	€½bn	Managed by the central government
Exemption from social security contributions	€5bn[3]	As part of the support plan for the tourism sector
Social inclusion and protection	€1bn	Payment of a one-off solidarity grant
Extension of substitution income and postponement of the effective date for unemployment insurance reform	€1½bn	Unemployment insurance extended for jobseekers at the end of their benefit entitlement. Postponement of the effective date of unemployment insurance reform to 1 January 2021.
Repayable advances to SMEs	€½bn	Repayable advances or subsidised loans to small and medium-sized strategic industrial enterprises (between 50 and 250 employees)
Carrying forward prior deficits to the corporation tax base	€½bn	
One-off grant to self-employed workers	€1bn	Grant introduced by the Board for the Social Protection of Self-Employed Workers (CPSTI). The grant, which is capped at the amount of payments made for the contribution to the supplementary scheme in

		2018, may not exceed €1,250 net of taxes and social security contributions.
Other credit lines	€5½bn[2]	Additional emergency loans (Second Supplementary Budget Act) and loans provided for in the Third Supplementary Budget Act
Total measures having an impact on the general government balance		**€64½bn (2.9% of GDP)**
Cash-flow measures without a direct impact on the general government balance**		
Extension of payment deadlines for certain taxes and social security contributions	€38bn	Actual extension of the deadline for tax and social security contribution payments due from March to August, including for self-employed workers (the latter will have to settle the deferred amounts in 2021)
Early payment of tax credits	€14bn	Including corporation tax and VAT receivables
Economic and Social Development Fund (FDES)	€1bn	Support for mid-tier firms
Support for companies facing difficulties	€20bn[4] ***	Additional appropriation to the "government financial holdings" special allocation account for 2020 and 2021
Advances and compensation for tax revenue losses to local authorities	€3bn	
Total measures without an impact on the general government balance		**€76bn (3.4% of GDP)**
Guarantee measures		
Extraordinary government guarantee scheme for loans to businesses	€300bn[1/2/3/4]	For all new cash-flow loans granted by banks between 16 March and 31 December 2020 to businesses registered in France
Activation of a government reinsurance guarantee to cover outstanding credit insurance	€10bn	To provide companies with the continued credit insurance cover they need to maintain their business activity with their French SME and mid-tier company customers
Introduction of reinsurance for short-term export credits	€5bn	Extension of the "Cap Francexport" government reinsurance scheme, which was unveiled in October 2018, with the doubling of the cap on outstanding amounts able to be reinsured by the government and extended to other countries of destination
SURE	€4½bn	European loan instrument to provide financial support for national short-time working measures by granting loans to Member States
EIB	€4½bn	European business support instrument
Loan to the IMF	€2½bn	By the Banque de France
Raising the authorisation ceiling for France's loan to the IMF	€½bn	

French Development Agency (AFD) overseas loan	€½bn	For overseas local authorities and businesses to help them tackle the health and economic crisis
Total guarantee measures		**€327½bn (14.7% of GDP)**
Total		**€468bn (21.0% of GDP)**

** Excluding guarantee measures, whose impact on the balance will occur after 2020and remains uncertain.*

*** An adverse effect on the balance is nevertheless expected due to losses on part of the extensions of payment deadlines for taxes and social security contributions. It is included in the general government account underlying the 2021 Draft Budgetary Plan.*

**** The appropriation to the "government financial holdings" special allocation account (CAS-PFE) in respect of support fo companies facing difficulties will be €20bn (€9bn in 2020 and €11bn in 2021).*

[1] including the emergency support plan for start-ups quantified at €4bn.

[2] including measures in the automotive sector recovery plan quantified at €8½bn.

[3] including measures in the support plan for the tourism, hotel and restaurant sectors quantified at €18bn.

[4] including measures in the aeronautic sector support plan quantified at over €15bn.

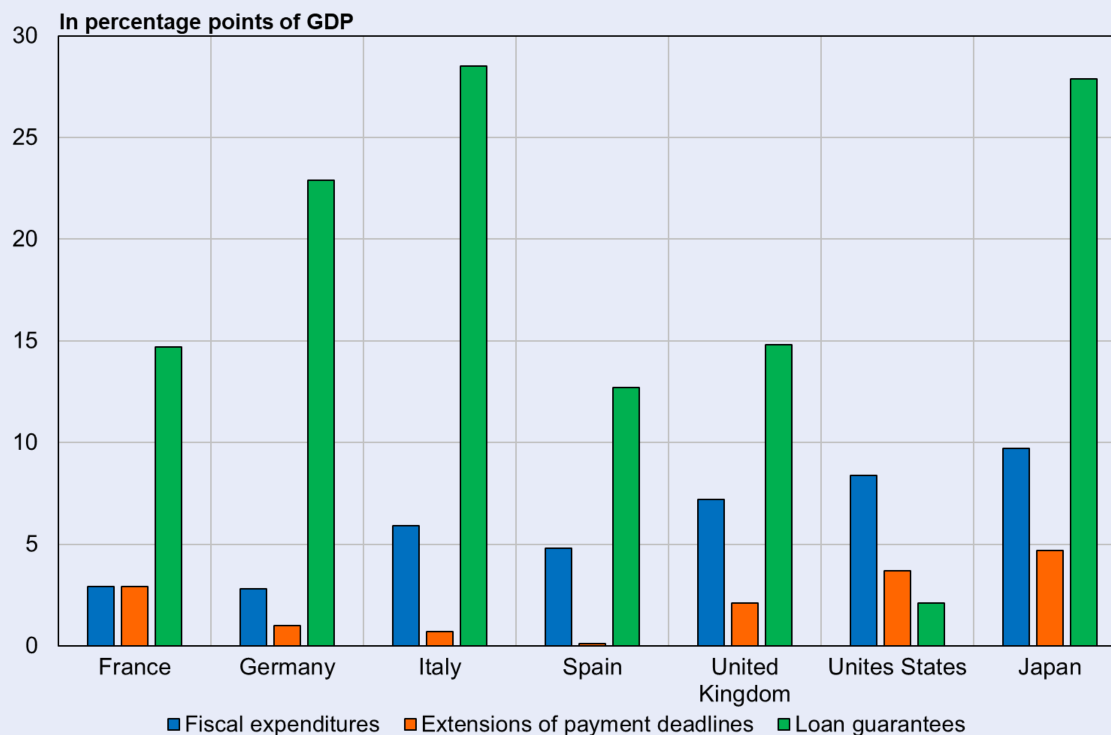
Box 2: All the advanced economies have addressed the crisis with wide-reaching emergency measures

***Confronted with an unprecedented crisis and to mitigate its impact, all the major advanced economies rapidly rolled out massive support measures**. These measures, which varied in nature, accounted for between four and fifteen points of GDP depending on the country (excluding guarantees, see Chart 4).*

***These support plans do have common features**. Households' purchasing power was buoyed by the ramping up of welfare benefits to partly offset the loss of earned income. Similarly, cash-flow measures (such as the deferred payment of social security contributions or taxes) enabled businesses to overcome the crisis-induced liquidity shock. In addition, the government guarantee measures that were announced were of an adequate scope to cater for requirements and avoid a credit crunch. Although the amounts announced varied greatly (between ten and thirty points of GDP), those that were actually used were broadly less than five points of GDP and were easily covered by these amounts.*

***That said, there were also specific geographical characteristics.** In Europe, this support principally took the form of short-time working arrangements and direct grants for the most-affected sectors. In the United States, the measures focused more on bolstering automatic stabilisers, that are structurally weaker than in Europe (especially unemployment insurance), which explains the extent of the amounts marshalled, and on the rollout of subsidised loans for SMEs.*

Chart 4: Comparison of advanced economies' support plans (amounts announced)



NB : Guarantee measures in the United States appear inadequate as the Fed grants loans to businesses with a Treasury guarantee. The amounts in the Chart represent Treasury-backed losses, with a leverage factor of ten.

a. Measures to preserve jobs, skills and household income

The government has taken several measures to **keep people employed and limit the loss of skills and income** for those unable to work. The short-time working scheme was considerably enhanced (see Box 3). Conditions for receiving statutory sick pay (*indemnités journalières*) were loosened by abolishing the time during which employees receive no pay or benefits (*délai de carence*) and removing conditions for benefit entitlement for people in isolation or parents who are unable to work. Support was extended to healthcare professionals in urban areas during the lockdown. In addition, self-employed workers received benefits disbursed by the Solidarity Fund as well as additional aid through the supplementary scheme.

Schemes for exceptional increases in earned income were created to boost the purchasing power of employees who worked during the lockdown. For instance, civil servants who were particularly called upon to manage the crisis were rewarded with a bonus. Tax exemption conditions for the exceptional purchasing power bonus along with conditions to receive the payment were relaxed. In addition, the exemption limit for additional and overtime pay was lifted.

Box 3: The short-time working scheme

Owing to the ***exceptional short-time working scheme*** *that was introduced in response to the crisis, employment and household income were shielded to a significant extent from the effects of the temporary decline in business activity during the lockdown. Under the scheme,* ***wages for hours not worked were paid by the government for people furloughed by their employers.*** *Workers (employees, home helps and sales representatives) received an allowance equal to 70% of their gross pay (about 84% of their net pay), but no less than the net statutory minimum wage (SMIC). The allowance was paid in full by the government and Unédic, an unemployment insurance agency, up to 4.5 times the minimum wage. As of 7 September, 1,720 million hours of short-time working had been paid between March and July, equivalent to 5 million employees working part-time on average.* ***At the peak of the scheme's usage in April, more than eight million employees had filed claims.***

Although the lockdown justified deploying such a generous scheme, it was adjusted during the recovery phase to balance payouts with the need to restart the economy. Accordingly, the government ***gradually reduced its payment levels and conditions for use****, while still maintaining a much more generous scheme than prior to the onset of the crisis:*

- *Since 1 June, wages paid by the government have been subject to new conditions. Employers must now satisfy an out-of-pocket contribution of 15% of the indemnity (or 10% of gross pay), except for sectors particularly hard-hit by health restrictions*
- *Effective 1 November, the exceptional scheme will be replaced by two systems (with a few exceptions,* see below*): a scheme for "****short-time working under ordinary law****", which helps companies confront short-term business shocks; and a "****long-term short-time working scheme****", subject to executing a collective bargaining agreement to foster social dialogue (first discussed on 1 July)*. *The latter targets companies that could return, in the short to medium-term, to levels of business activity greater than at the worst point of the crisis. It is designed to protect skills required to restart the economy while letting any necessary restructuring take place*.

Both of these short-time working schemes are included in the Recovery Plan (see below*).*

Certain industries continue to be adversely affected by burdensome health restrictions*, including tourism, hotels and restaurants. From 1 June to 31 December, businesses in these sectors (as well as those open to the public and closed by administrative decision) will continue to have access to a short-time working scheme identical to the exceptional scheme that was in place during the lockdown, that is with no out-of-pocket employer contributions.*

The short-time working scheme safeguards household income and gives companies the leverage required to rapidly adjust their payroll while protecting jobs from the slump in activity. This avoids excessive distortion of the share of value added, which would be detrimental to the future ability of these businesses to invest. Negative economic shocks typically distort the share of value added in the short-term in favour of employees. Companies are trimming margins. When employees enjoy an excessive share of value added, this can jeopardise the financial viability of a business and hamper its ability to invest and grow, and by extension, to create jobs. In 2020, the loss of economic activity caused by the health crisis coupled with the measures taken to fight the pandemic will lead to an unprecedented collapse in value added which would have significantly harmed corporate profits had the government not responded commensurately. The short-time working scheme allows employers to reduce their payroll without having to lay off workers, in order to remain on solid financial footing, to the greatest extent possible, and quickly resume operations. Households, for their part, are protected owing to the short-time working benefits they receive.

b. Specific measures to protect the most vulnerable

The unemployment insurance system was adapted to protect jobseekers during the lockdown, a difficult time to find work. In order to address the economic and social consequences of the COVID-19 pandemic, certain scheduled unemployment insurance reform measures were postponed until 1 January 2021 (see box on unemployment insurance for more information),[1] and unemployment benefit payments were extended for jobseekers who were at the end of their benefit entitlement during the lockdown.

The automatic renewal of rights ensured timely payout for recipients of the earned income supplement, the adult disability allowance, the family support allowance and the daily parental attendance allowance in situations where they were unable to provide the documents necessary to review their entitlement to benefits. Entitlements to the solidarity-based supplementary healthcare cover and government medical assistance were extended by three months, while those for the adult disability allowance and other disability rights were extended by six months.

Exceptional grants for the most vulnerable have been arranged: students in difficulty and vulnerable young people under the age of 25 received €200 (800,000 total beneficiaries) and households entitled to an earned income supplement or specific solidarity allowance received €150 plus €100 per child (4.1 million total beneficiaries). The child supplement is also available to families receiving housing benefit.

c. Support measures for businesses

Liquidity support was used to help companies get through the lockdown phase, beginning with the extension of social security contributions and tax payment deadlines. Measures were also taken to anticipate or accelerate the repayment of certain tax receivables held by companies. Then, a massive system of government-backed loans was set up, supplemented by measures of public reinsurance of credit insurance. In a show of solidarity, and to share the burden of the economic damage caused by COVID-19, large companies must commit not to pay dividends or buy back their own shares in 2020 in order for tax and social security payment deadlines to be extended or to receive a government-backed loan. Public procurement has also been set into motion by eliminating penalties for late completion of public contracts and waiving the ceiling for advances by the government. Lastly, mechanisms have been introduced for intervention in companies facing difficulties through an additional appropriation to the "government financial holdings" special allocation account and by bolstering loans from the Economic and Social Development Fund (FDES).

In certain cases, these cash-flow measures are accompanied by **direct solvency support.** Depending on the situation, and within sector-specific plans, deferred taxes and contributions may provide relief along with specific exemptions for sectors that have been particularly crippled by the crisis (see below). A measure for the early repayment of carried-forward receivables on prior deficits has also been introduced for corporation tax.

[1] Some measures, including the extension of the minimum vesting period required to qualify for unemployment insurance and obtain renewable rights, had already entered into force and were revised in the light of the health crisis.

An **emergency plan to support exporters** was created to safeguard cash-flow and help them bounce back on the international stage after the crisis. The plan includes extending the validity of government guarantees and existing prospecting insurance policies, expanding the scheme for re-insurance of short-term export credits and activating a government reinsurance programme for outstanding credit insurance.

Direct solvency support measures specifically targeted for very small enterprises (VSEs) and small and medium-sized enterprises (SMEs), self-employed workers and micro-entrepreneurs have been established to kick in when liquidity measures have proven insufficient to help these highly vulnerable companies. A Solidarity Fund was created to compensate VSEs, self-employed workers, micro-entrepreneurs and professional occupations for their loss of turnover (see Box 4), an indemnity for lost income for craft workers and retailers was established by the Board for the Social Protection of Self-Employed Workers (CPSTI), and a system of repayable advances was set up for SMEs. The non-payment of rent and service charges by VSEs and SMEs in sectors where activity was interrupted may not be invoked to levy financial penalties, trigger recourse to guarantors or initiate legal proceedings during the lockdown. In addition, rent and fees for occupying public land have been cancelled.

Box 4: The Solidarity Fund

The Solidarity Fund, which is endowed with €8bn by the government (€8.9bn when taking into account contributions from regions and insurers), reimburses the turnover that has been lost by those companies most vulnerable to the economic crisis caused by COVID-19 and emergency health measures*. The fund provides substitution income to self-employed workers and VSEs in order to limit losses due to halted business activity and to stave off bankruptcy. The objective is to preserve productive capital and solidarity in the face of lost income induced by the health crisis.*

Tax-exempt financial assistance was provided to VSEs and self-employed workers that underwent administrative closure or suffered a loss of turnover of at least 50%, subject to the following three conditions: (i) annual turnover ceiling of €1m (€2m for the most affected sectors),[2] (ii) headcount ceiling of 10 employees (20 employees for the most affected sectors), (iii) annual taxable profit of less than €60,000 during the last fiscal year.

The fund disbursed two components of aid for the months of March, April, May and June 2020:

- ***Monthly "safety net" grants** equal to the loss of turnover, capped at €1,500*
- ***Additional one-off "bankruptcy prevention" grants** of between €2,000 and €10,000 depending on the sector and based on conditions that have been gradually relaxed.[3] At the local level, some regions provide additional support for VSEs.*

***The fund has been gradually extended**, notably to companies set up in February 2020, and it has been prolonged until the end of 2020 for businesses in the most affected sectors (which also benefit from higher aid ceilings and broader eligibility).[4] Eligibility for the second component of aid was recently modified: the condition for refusing a cash-flow loan was eliminated by the decree of 16 July and the requirement to have*

[2] The sectors most affected include hotels, restaurants, cafés, tourism, event management, sports and culture.

[3] Initially, the main eligibility criteria for the second component of aid were: a company with at least one employee on the payroll, eligible for the fund's first component of aid, nearing payment default, having been denied a cash-flow loan, *etc.* The loan refusal condition has now been removed for all sectors, and the requirement to have one employee has been loosened.

[4] In these sectors, the fund was broadened in order to capture companies with up to 20 employees and €2 million in turnover, and the ceiling for the second component was raised to €10,000.

one employee on the payroll was loosened. Compensation for the loss of turnover compared to the previous year was increased to €10,000 on 25 September for businesses affected by administrative closures, or operating in the hardest-hit sectors, particularly those affected by time restrictions.

As of 7 September 2020, the Solidarity Fund had disbursed aid to more than 1.7 million businesses, which represents total payouts of €5.9bn and an average payout of €3,471. *In line with its objectives, the programme has first and foremost supported:*

- ***The sectors most affected by the crisis****, including retail (€0.9bn), hotels and restaurants (€0.7bn) and construction (€0.6bn). These sectors account for nearly 40% of the amounts paid out. The second component for "bankruptcy prevention" was mainly used to support the hotel and restaurant sector, as well as retail (39% and 15% of the grants paid out respectively).*
- ***Micro-enterprises and self-employed workers, which account for 99.5% of beneficiaries*** *(87% of companies that received assistance have a turnover of less than €200,000 and 66% of them have no employees).*

Altogether, **government departments will have absorbed nearly two-thirds of lost business in 2020** in response to the short-term shock through the use of automatic stabilisers and emergency measures. Massive public intervention has therefore proved particularly effective in protecting households and businesses from the short-term impact of the crisis.

Post-crisis, several sector-specific plans extended emergency measures for the hardest-hit sectors, and the French Recovery Plan was launched to drive the fastest and strongest possible economic recovery while preparing the country for the major challenges expected in the medium-term.

1. **After the first wave of the pandemic subsided, the recovery in activity was accompanied by a fine tuning of emergency health and economic measures**

a. Carefully steered health and economic measures were designed to create the best conditions for the recovery

After an acute period of crisis management, the critical **phase to reopen the economy** got underway. Indeed, the longer the crisis, the more likely it is that another shutdown will cause lasting economic damage in spite of emergency measures. A swift upturn in activity under proper health safety conditions is therefore necessary to minimise the effects of the COVID-19 crisis. As the economy reopens, lifting uncertainties weighing on businesses and households is a key issue to restore confidence and stimulate consumption and investment during the recovery phase.

In order to meet the delicate balance between the need to protect the health of French citizens and the importance of resuming economic activity, the government will **fine-tune how aggressively it rolls out new public health measures across different regions according to the situation of the pandemic.** Health restrictions have been gradually loosened since 11 May, but new national and local health requirements have been introduced, particularly since the end of August. A massive deployment of coronavirus tests has also taken place in order to prevent clusters from forming and growing. Economic support measures have been refined over time and by sector to encourage the resumption of activity under conditions that are compatible with controlling the pandemic, while continuing to provide strong support to sectors where this is not feasible.

b. Support plans for the hardest-hit sectors have been adopted

To supplement the exceptional emergency plan launched during the crisis, **a series of plans to support the hardest-hit sectors** were announced during the recovery phase. These plans make it possible to adjust the methods, duration and intensity of emergency government support in order to adapt it to the best extent possible to the challenges of the most crippled sectors. They also foreshadow the Recovery Plan since support for beneficiary sectors carries with it incentives and commitments to invest, innovate and adapt to the strategic challenges of the future, and in particular the environment.

Several service sectors have suffered greatly from the health measures taken to limit the spread of COVID-19, justifying the deployment of sector-specific plans. A **plan for the country's arts and culture sector** was announced on 6 May, followed by an **€18bn support plan for the hospitality sector, including tourism, hotels, restaurants and cafés (HCR)**, presented on 14 May at an inter-ministerial tourism committee meeting. The **support plan for book trade** and the **financial aid package for local shop owners, craft workers and self-employed workers** were announced on 19 and 29 June respectively.

Some industrial and technological sectors have encountered major difficulties during the crisis due to a collapse in demand and a deterioration in their business. The **€8.5bn recovery plan for the automotive sector** announced on 26 May supports those companies which have seen a precipitous drop in sales. A **€4 billion tech plan** announced on 5 June comes to the rescue of technology start-ups which have been severely affected by the crisis and generally have weak balance sheets. The airline industry suffered from a near-total halt in air traffic, as did the aeronautic sector, whose order books from downstream customers were greatly affected. These sectors benefited from the **€15bn aid package to save the aeronautic industry** announced on 9 June. The lockdown caused numerous interruptions that halted the progress of construction work, which prompted the announcement of a **plan for the construction sector** on 10 June.

c. Extension of emergency support coupled with preparation for the future

A first set of measures consisted in **broadening and extending the emergency measures** to take into account sector-specific issues:

- First, the Solidarity Fund and the exceptional short-time working scheme have been extended (in particular for companies in the hotel, restaurant, café, tourism, event management, sport and culture sectors)
- Exemptions from social security contribution and tax payments as well as credits for social security contributions have also been granted to companies in these sectors (particularly in the plan to support the tourism industry, as well as the plan for local trade, crafts and self-employed workers)
- Lastly, exceptional actions providing guarantees and compensation for lost income have taken shape in certain sectors, such as a special fund to support independent bookstores and publishers, a compensation fund to help counter losses in box office sales, and the indemnity fund to safeguard film productions halted as a result of COVID-19

A second set of measures consisted of **equity investments** to address solvency problems in sectors where liquidity measures have proven insufficient:

- An equity investment of €600m intended for the consolidation of the automotive sector
- A €500m equity investment has been announced for the aeronautic sector
- A €1.3bn equity investment by Banque des Territoires and Bpifrance is planned the tourism sector as well as hotels, restaurants and cafés
- Several funds which aim to strengthen the financing of start-ups have been deployed or bolstered, notably the €150m "French Tech Sovereignty" fund and the dedicated fund for innovative start-ups, which has been replenished to the tune of €120m.

Lastly, **measures to support demand, investment and innovation** that are consistent with long-term objectives, particularly environmental objectives, and which foreshadow the Recovery Plan, have been included in these support plans.

- Measures to support demand, which are included in the Recovery Plan *(see below)*, have been announced, including an increase in the conversion incentive and the bonus for electric vehicles, the electrification of the government's car fleet and various aeronautical orders in the pipeline.
- Two funds supporting investments by companies in the aeronautic and automotive sectors have been announced to help them modernise and carry out their ecological transformation. In addition, the Social Tourism Investment Fund was enhanced.
- Lastly, government funding to support research and innovation has been released (in the aeronautic and automotive sectors, for example, but also in other key industries), and innovation aid for start-ups has been reinforced.

In return for the aid granted, the companies in the automotive and aeronautic sectors have undertaken to **expand their strategy towards the green transition**, and to comply with a certain number of principles in terms of relations with subcontractors, preservation of skills as well as job creation and business activity in France.

2. **The French Recovery Plan aims for a return to pre-crisis levels of activity and prepares for the future**

a. The crisis poses significant risks to the French economy, and the structural challenges identified before the crisis persist

The economic risks weighing on the recovery relate primarily to bankruptcies, under-investment and the related risk of rising unemployment. On the demand side, the short-time working scheme and emergency measures supporting households have allowed the loss of household income to be contained. Because consumption fell sharply while purchasing power was largely preserved, a significant accumulation of aggregate savings ensued. The savings rate reached a historical level of 27% in Q2 2020 (up from 15% in Q4 2019) and it is estimated that surplus savings will stand at around €100bn at the end of 2020. This development covers a wide range of situations, with some categories of the population having suffered a loss of income, particularly casual workers under temporary employment or fixed-term contracts and low-income students. It appears that household consumption will not resume until confidence is restored. The dramatic fall in business activity and added value, on the other hand, led to a sharp drop in corporate net income margins to 26% in Q2 2020, down from 33.4% in Q4 2019 (including the one-off effect of the conversion of the CICE (Competitiveness and Employment Tax Credit) into a permanent reduction in social security contributions). Combined with deteriorating corporate balance sheets and continued uncertainty about the economic outlook, this situation could lead to corporate bankruptcies and under-investment, with ensuing risks to productivity and the ability to innovate and create jobs.

In addition, the crisis has not erased the structural challenges facing the French economy, which the government has been working to address since the start of the five-year Presidential term. Rather, it runs the risk of aggravating them. The 2019 report from the National Productivity Board[5] noted that the **slowdown in productivity** observed across the country was a phenomenon common to most advanced economies, but that factors specific to France were at play. These include insufficient digitisation of SMEs, a mismatch between the skills of the workforce and the needs of businesses, and innovation performance that is still too weak. The lack of fluidity in the functioning of the labour market and the **structurally high rate of unemployment** are another historical structural weakness of the French economy, which was beginning to dissipate before the COVID-19 crisis hit. Moreover, the **competitiveness of French companies** had strengthened before the crisis, but there is still room for improvement. Beyond this, the crisis has highlighted the need to **secure the continuity in supply of** essential goods, particularly in the healthcare sector, and to **increase the resilience of our economy** by strengthening our capacity to cope with external shocks such as a pandemic. Public finance issues, already identified before the crisis, reinforce the need to sustain economic growth. Moreover, regional inequalities have increased over the last two decades and require resolute action to revitalise certain geographic areas. Lastly, the green transition and digital transformation, the two major challenges that lie ahead, call for strong actions by all stakeholders across all countries.

b. The French Recovery Plan is a strong response to meet these challenges and build the France of 2030.

In response to these findings, the government unveiled a €100bn stimulus plan, dubbed the French Recovery Plan, which aims for a return to the pre-crisis level of economic activity by 2022 and the transformation of the French economy to meet today's major challenges.

The Recovery Plan primarily provides a short-term stimulus by supporting aggregate demand to mitigate the impact of the crisis on households and businesses and ensure a strong recovery to quickly return to pre-crisis levels of activity and absorb the expected rise in unemployment. To meet

[5] *Productivity and competitiveness: where does France stand in the euro zone?* First report from the National Productivity Board (CNP), July 2019

this objective, the plan provides for the rapid deployment of a set of government investment measures, notably oriented towards the green transition, and measures to support household income, through labour force integration, and business investment.

For the Recovery Plan to be as effective as possible as rapidly as possible, **responsive and flexible governance** will be set up, under the chairmanship of the Prime Minister to steer the progress of the plan according to a sectoral and regional approach, and at the level of the Minister for the Economy, Finance and the Recovery to ensure weekly monitoring. If necessary, the credits can be rapidly redeployed between different Recovery Plan actions, based on the realities in the field, to allocate the credits where they are most useful. National governance will be coupled with local monitoring by government departments, representatives from local authorities as well as unions and employers. They will be responsible for keeping all local stakeholders informed of the plan's implementation conditions, monitoring the progress of regional projects, and identifying and resolving any sticking points.

The plan also aims to transform the manufacturing base to counteract the lasting effects of the crisis, prepare for the future and return to a sustained growth path. To this end, the Recovery Plan tackles the effects of the economic crisis at its root – in companies' income statements – so that they can retain their staff, hire young talented individuals, invest and modernise through digitisation. The Recovery Plan is also an opportunity to correct the structural weaknesses identified before the crisis in the Productive Pact in order to stimulate activity on a sustainable basis. This can be accomplished through a reduction in taxes on production which weigh heavily on business competitiveness in France, support for innovation and investment, and investment in skills.

Lastly, **it is consistent with the Government's main political priorities and contributes to addressing the societal challenges facing the country**. The major actions of the Recovery Plan target the energy and green transition, the digitisation of the manufacturing base and public services, social and regional cohesion, and the competitiveness, independence and resilience of the French economy.

3. **The measures of the Recovery Plan comprise three parts, each reflecting the Government's priorities and the main challenges facing the country**

The actions of the Recovery Plan are divided into three main components: ecology, competitiveness and cohesion. They will be financed by the government budget, and by €40 billion[6] in grants from the Recovery and Resilience Facility (RRF), the financial instrument adopted by the European Council to co-finance the recovery plans of Member States.

[6] According to the latest estimates from the European Commission

Figure 1: Breakdown of the €100bn French Recovery Plan

a. Speeding up the green transition

The first component of the Recovery Plan is devoted to the green transition of the French economy. A total of €30bn has been earmarked for the transition of France's production methods and consumption habits, and for the reduction of its greenhouse gas emissions (see Box 6), as well as protection of biodiversity and the French economy's resilience to climate change.

These actions to foster the green transition will firstly involve **huge investments to improve the energy efficiency of buildings** taking in public buildings, social housing, VSE/SME premises and private housing (see Box 5).

Box 5: Energy performance renovations for buildings

The Recovery Plan allocates €6.7bn (excluding the Ségur Agreement) to improve the energy efficiency of private housing, VSE/SME premises, public buildings belonging to the government and social housing.

- *For **private housing**, the Recovery Plan will increase the budget of the MaPrimeRénov' scheme by €2bn for the period 2021-2022. This represents almost a doubling of the current budget. The Plan's measures will target populations which currently receive little assistance with renovation work, such as owner-lessors and associations of co-owners, and highly energy efficient renovations. There will also be increased support for households that carry out renovation work.*
- *A €4bn allocation will be devoted to renovating **public buildings** (schools, universities and government buildings) which account for a large proportion of the French property stock (100 million square metres). Improving the energy efficiency of these assets is imperative if France is to achieve its climate targets and improve the standard of its public services.*
- ***Businesses, especially VSEs and SMEs,** will also be entitled to a grant for improving the energy efficiency of their premises (insulation, installing a more high-performance heating system, etc.) starting in autumn 2020. As part of the recovery, €200m will be earmarked for this measure.*

- *Lastly, the Recovery Plan devotes €500m to the energy retrofitting and major restructuring of* ***social housing****. The goal is to be able to offer very high-performance French energy efficiency retrofitting solutions for housing complexes. Subsidies will be granted to social housing (HLM) organisations, to local authorities or to integration project owners (non-profits,* etc.*) so that the social housing stock achieves higher standards (changeover from "energy sieve" status to "low-consumption building" certification).*

In addition to these €6.7bn, over €2bn has been earmarked to improve the energy efficiency of care homes (EHPAD) and hospitals under the Ségur Agreement.

These efforts will be supplemented by measures to **reduce the carbon intensity of industry** by fostering the transition towards cleaner production methods, as well as **investments in green infrastructure and mobility** (investments in the railways, public transport, active and shared mobility, particularly bicycles, and support for demand for "clean" vehicles). Besides helping our economy shift towards an ecologically sustainable model, these measures will drive and accompany the recovery starting in the short term.

To ensure a lasting transformation of our economy along sustainably greener lines, the Plan also provides for **assistance and support for the expansion of green technologies** through investments in key green markets (including recycling and reducing the carbon intensity of industry) and the introduction of a hydrogen strategy. Whilst the short-term impact of these measures should be less than for the demand measures, a knock-on effect is expected for "green" research. This will heighten the transformative nature of these investments.

The green component of the Recovery Plan also contains bold measures for the **circular economy and short distribution circuits** which will provide support for plastic substitution solutions and the use of recycled plastic, spur repairs and reuse, and expand waste recycling.

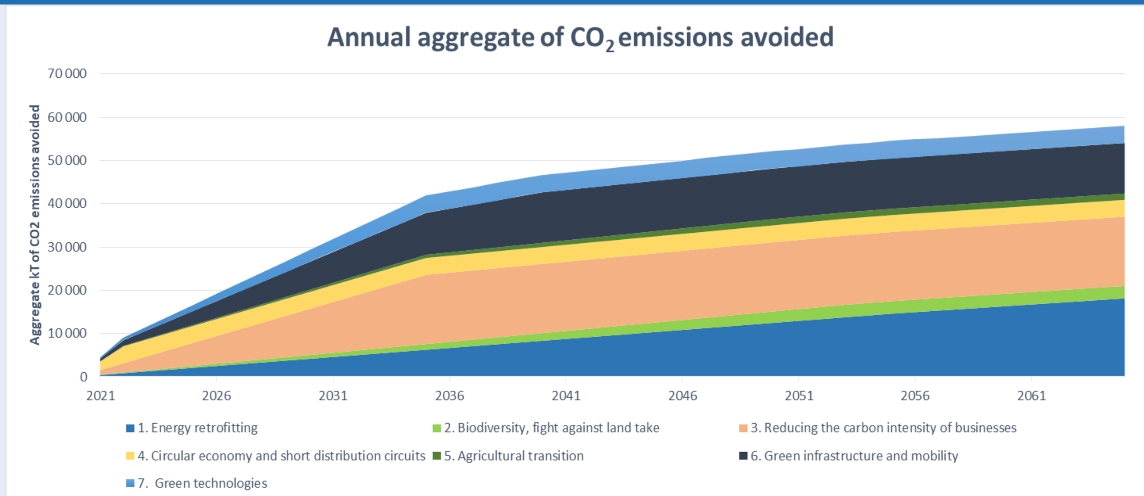
To buttress the **green transition of agriculture**, the Recovery Plan includes support for agroecological production methods, the renewal of farm equipment to reduce pollution and investments for the development of vegetable proteins. These measures will help cut pollution in the sector owing to a decline in the use of fertilisers.

A number of the Recovery Plan's targeted measures will reduce pressure on **biodiversity**, especially due to the emergence of ecological restoration and protected areas, and the fight against land take. The Recovery Plan will also **bolster protection of the coastline** against natural hazards and global warming. As regards the **maritime economy**, the Plan also provides support for the green transition of the fishing and aquaculture sectors. Lastly, the greening of grants allocated by **Bpifrance** as part of its **new "Climat" products** such as green loans and energy savings, and also the channelling of equity investments towards transition projects under its **Climate Plan**, will help achieve this goal.

Box 6: Assessment of the impact of the Recovery Plan on greenhouse gas emissions

The aim of the Recovery Plan is to put the economy back on a sustained growth trajectory in order to restore pre-crisis momentum and to help France achieve its climate goals. To this end, ***the Plan allocates €30bn for transformation measures geared towards speeding up the greening of the economy.*** *These measures will have lasting effects, which will scale up over time, on French* ***greenhouse gas*** *(GHG) emissions.*

Chart 5: Annual aggregate of CO_2 emissions avoided by the Recovery Plan



Sources: DG Trésor calculations and CGDD (General Commission for Sustainable Development)

An ***initial assessment of the impact of the Recovery Plan on GHG emissions*** *was presented at the same time as the Plan itself. The growth in business activity driven by the Plan will unavoidably lead to an increase in these emissions in the short term, in the same way as reduced activity during lockdown led to a fall in emissions. The aim was to assess the transformative effect of the Recovery Plan in terms of the green transition. To quantify the GHG emissions avoided by the "Ecology" component's measures, the benchmark scenario used was that of a recovery plan with the same scope but without special measures for the green transition, which would only substitute the value destroyed during the crisis with new investments.*

The assessment quantifies ***avoided emissions in a sub-field of the €18bn "greening" component measures between 55 and 60 $MtCO_2eq$.*** *Only those measures having a substantial impact on emissions, for which the effects are directly quantifiable and the implementation conditions are sufficiently clear at this point, were assessed. According to this initial assessment, the parts of the Recovery Plan that make the most telling contribution to cutting greenhouse gas emissions are the energy retrofitting of buildings, grants to reduce the carbon intensity of industry and investments in sustainable mobility.*

This quantification is grounded in conservative assumptions of the abatement costs traditionally noted in each sector. It does not enable productivity gains to be factored in, particularly those anticipated by the structuring of the energy renovation or hydrogen sectors, nor the indirect gains that are desirable for fighting climate change. *Nevertheless, economic literature considers this structuring action and its long-term impact as one of the major contributions of the green components of the 2009 recovery plans.[7] In addition, the quantification does not reflect the carbon impact of planned R&D*

[7] Agrawala *et al.* 2020, "What policies for greening the crisis response and economic recovery? Lessons learned from past green stimulus measures and implications for the Covid-19 crisis" (Shardul Agrawala, Damien Dussaux & Norbert Monti – OECD ENV, 27 May 2020).

investments for green technologies, due to difficulties in quantifying them, despite their essential role in helping meet carbon intensity reduction goals. Only the impact of R&D investments in the hydrogen sector, which already partly exists, was able to be taken into account.

This assessment of the Recovery Plan's effects will be enhanced in conjunction with civil society and academia *with an eye to honing estimates and broadening the scope of the measures factored in by including, for instance, research and innovation, investments in future technologies and training for tomorrow's professions.*

More broadly, ***the measures for the green transition set out in the Recovery Plan carry major environmental and socio-economic co-benefits****, especially as regards the adjustment to climate change, the management of natural resources, combating atmospheric pollution, health and regional cohesion. Concurrent with this assessment of the impact on greenhouse gas emissions, work is ongoing to provide,* ***using the Green Budget,*** *an evaluation of the environmental consequences of the Recovery Plan which encompasses all these factors, and which is presented at the same time as the 2021 Draft Budgetary Plan* (see *Box 11).*

b. Making the economy more competitive and more resilient

Consistent with discussions on the Productive Pact that began prior to the crisis, **the second component of the Recovery Plan will earmark €34bn for the transformation of France's production capacity** to achieve greater independence and buttress the competitiveness of the manufacturing sector.

To mitigate the dangers of corporate over-indebtedness, related to the pandemic, which could put a drag on the recovery, as well as the associated risks of bankruptcy, **measures to ensure the solvency of businesses** will supplement the support provided at the height of the crisis, via the strengthening of the equity of VSEs/SMEs and mid-tier companies. An allocation of €3bn of government funds will be earmarked to marshal €15 to €20bn of equity, via two principal measures: (1) introduction of "*France Relance*" certification to leverage investment vehicles that foster the bolstering of the capital of businesses based in France and (2) granting of participation loans (long-term loans that are subordinated and similar to quasi-equity funding) by banking networks to businesses with a viable model but which have been badly affected by the crisis, with financial support from the government.

A **huge cut in taxes on production** (€10bn per year) will reduce businesses' fixed costs in the short term thus stimulating the restart of business activity for the most affected companies. More importantly, this will underpin the long-term competitiveness and appeal of the French economy, and boost productivity, by cutting those taxes that are especially distortive and harmful to business activity in France (*see* Box 7).

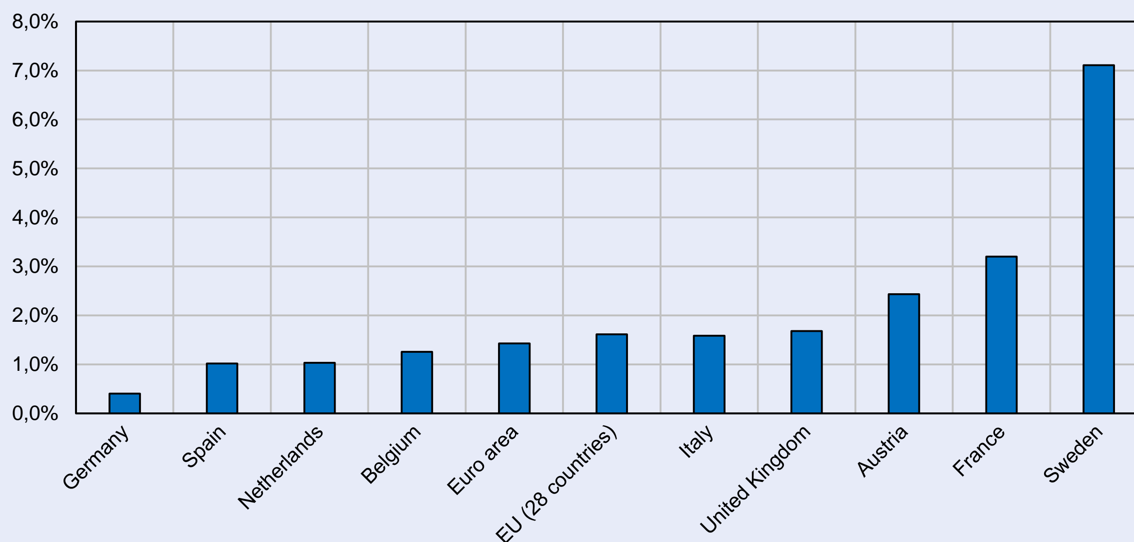
Box 7: Lower taxes on production

As part of the Recovery Plan, taxes on production will be permanently lowered by €10bn from 1 January 2021, ***i.e. a €20bn reduction in production taxes over 2021–2022.***

France stands out for the number and level of taxes on production, i.e. levies on companies' production factors (their wage bills, investment and productive capital, among others) regardless of their profits and therefore their ability to pay.

These taxes weigh heavily on French companies' competitiveness: €77bn in 2018, i.e. 3.2% of GDP, against an EU average of 1.6%.

Chart 6: Taxes on production paid in 2018 by companies in advanced countries



How to read this chart: D29 paid by non-financial and financial corporations.
Sources : Eurostat and DG Trésor calculations.

Industry is particularly affected: although it accounts for less than 14% of domestic added value, it is responsible for nearly 20% of taxes on production. These taxes also weigh on France's investment appeal and dissuade industrial firms from setting up shop.

The taxes covered by the measure include the property tax on developed land (TFPB) and the local economic contribution (CET), which is comprised of a business premises contribution (CFE) and a contribution on business value added (CVAE).

The lowering of taxes on production under the Recovery Plan is based on a combination of three measures:

- ***CVAE****: a 50% reduction for all companies liable for this tax, which reflects the elimination of the share paid to the regions: –€7.3bn (cost when fully implemented, as from 2022)*
- ***TFPB and CFE****: a 50% reduction in taxes on industrial properties for some 32,000 companies operating 86,000 establishments: –€1.8bn in TFPB and –€1.5bn in CFE from 2021 onwards*
- ***CET****: lowering the cap based on added value, which will be brought down from 3% to 2% to ensure that some or all of the benefits to businesses of the reduction in the CVAE and property taxes are not neutralised by the cap. In 2022, this measure is expected to earn the government €0.4bn.*

This package of measures is specifically focused on the competitiveness of France's industrial companies and will facilitate growth and investment for our SMEs and mid-tier firms, which create jobs in the country's regions. The CVAE in particular is a burden on companies that need to renew their production facilities on a regular basis and creates distortions that penalise the most capital-intensive sectors.

Local authorities, which are the beneficiaries of these taxes, will be fully compensated for the drop in taxes on production. Compensation provided to the regions will also enable them to offset the drop in the CVAE expected in 2020 as a result of the crisis – the portion of VAT paid in 2021 in fact corresponds to the CVAE paid by companies in 2019, i.e. prior to the economic and health crisis. The loss of revenue suffered by municipalities and government-funded intercommunal co-operation institutions (EPCIs) as a result of rental value reforms will also be fully compensated in the form of a levy on government revenue. In subsequent years, the compensation will evolve continuously: the regions will benefit from an increase in VAT, and the municipalities and EPCIs will continue to receive compensation based on changes to the TFPB and CFE tax bases.

Thanks to the **export support strategy**, exporting firms will be given greater support, thus helping them get back into the international trade scene. The aeronautics sector will also benefit from temporary support for demand at the end of the crisis, thanks to acceleration of planned **orders of military equipment**, a measure set out in the aeronautics plan.

The government will provide increased support for the country's **technological independence** through a fourth, large-scale Invest for the Future Programme (PIA4). It will invest in developing strategic technologies in certain key markets, in programmes to support innovation and in support for structuring the R&D community. Measures to support **companies making the digital changeover** will help shift France's manufacturing sector upmarket. Lastly, relocating critical supply sources and making them more secure will increase the **resilience of domestic manufacturing**.

This second component will be supplemented by measures to support the **digital changeover for the central government and the regions**, as well as **increased support for the cultural sector**.

c. Strengthening social and regional cohesion; maintaining and building skills

The third component of the Recovery Plan, totalling €36bn, will be devoted to **skill-building and to social and regional cohesion**. It will include a set of measures focusing on **youth and employment** to mitigate the effects of the economic crisis on young people's career paths and the hysteresis risks associated with unemployment. It will also provide more **resources for training** to cope with economic changes and boost productivity. This component of the Recovery Plan will also seek to promote the integration of workers with disabilities via a recruitment bonus. It will also focus on supporting **households that have been most affected by the crisis**, those facing particular financial difficulties, the regions, which have had to cope with financial shortfalls, and the **healthcare sector**, which has come under heavy pressure during the crisis.

Investment in youth is critical given the particularly high vulnerability of youth employment in times of crisis. It will notably be based on the **"1 Young Person, 1 Solution" scheme**, which will allocate €6.7 billion to a set of one-off measures to support young people aged 16-25 as the crisis draws to a close (see Box 8).

Box 8: The "1 Young Person, 1 Solution" Scheme

*The first goal of "1 Young Person, 1 Solution" is to **make it easier for young people to enter the job market**. A total of **€3.8bn** has been earmarked for this, and will take several forms:*

- *A **subsidy for new hires under the age of 26**, capped at €4,000, which is designed to lower labour costs for employment contracts signed between 1 August 2020 and 31 January 2021.*
- *An **apprenticeship subsidy** for the first year of an employment contract signed between 1 July 2020 and 28 February 2021. The subsidy is €4,000 for apprentices under 18, and €8,000 for those over 18.*
- *A **vocational training contract subsidy** for the first year of an employment contract signed between 1 July 2020 and 28 February 2021. The subsidy is €5,000 for those under 18, and €8,000 for those aged between 18 and 30.*
- *An **increase in the number of public service volunteers** from 145,000 to 165,000 in 2020 (+20,000), then 245,000 in 2021 (+80,000) by expanding the number of accredited host organisations, particularly those in the non-profit sector.*

*In addition, the "1 Young Person, 1 Solution" scheme will be used **to provide guidance and training to young people entering the sectors and trades of the future**. To cope with the expected rise in young people seeking employment, whatever their level of qualification – and a skills deficit in view of the changes in the labour market that will affect the least-qualified among them – **€1.6bn** has been set aside to increase the number of qualifying training courses available to all young people entering the labour market from September onwards. **An additional 223,000 young people will be trained in skills that are expected to be needed in the labour market** (the ecological transition, the digital sector, healthcare and sectors affected by the crisis).*

*The third goal is to **provide support for young people who are far removed from the labour market. €1.3bn will be used to create customised support and integration pathways for 300,000 young people**, and to tackle job insecurity through three measures:*

- ***€400m for the Youth Guarantee programme** via local initiatives, stepped-up support for young people via Pôle Emploi (France's public employment service agency), increased funding for the Contract-Based Employment and Independent Living Support Programme (PACEA) and customised support for sports and leisure activities (SESAME).*
- ***€900m for the Employment and Skills programme (PEC)**, the Employment Initiative Contract (CIE) and for scaling up the Integration through Economic Activity programme (IAE).*
- ***€49m to support business creation**, including €9m dedicated entirely to supporting business creation programmes in overseas France (PIJ).*

Measures relating to **vocational training** will need to ease occupational transitions and adjust the labour supply to meet future needs. To this end, greater resources will be earmarked for **professional retraining** of active workers, through sandwich programmes or traditional training schemes. Workers wishing to train for **tomorrow's strategic occupations** will also receive contributions to their Personal Training Account (CPF). Compensation for jobseekers in training will also be increased. Finally, the Skills Investment Plan (PIC) will be deployed for a vast digitisation plan for the vocational training system.

These measures will be supplemented by efforts to **protect jobs and skills**, by extending and enhancing the part-time work system, including long-term part-time work, together with a training plan, at an estimated cost of €7.6 billion. The educational costs of training for employees in part-time employment will be partially covered, in return for their remaining employed throughout the duration of the training, so that they can develop their skills and adapt to transformations linked to economic change.

Some key public services will receive large-scale investment, which will also stimulate demand and support the economic recovery. **Investment in public research** is therefore included as part of the fourth Invest for the Future programme, backed up by increased resources for the French National Research Agency (ANR), with a view to making our economy more innovative. Our healthcare system will also receive additional investment support of €6 billion as part of the **Ségur Agreement** and the **Long-Term Care Plan**.

The Recovery Plan also includes a package of measures to **promote regional cohesion**. Investments by local and regional authorities geared towards sustainable development and spatial planning will be stepped up (digital inclusion, expansion of the High-Speed Broadband Plan to step up the country-wide deployment of fibre networks, support for local and regional authorities' operating revenue inter alia). In addition to the transformative nature of these investments, they will provide short-term support designed to stimulate activity as the crisis ends. A compensation mechanism for tax and state revenues will also complete support for local authorities. The Recovery Plan led by the *Banque des Territoires* is also in line with this approach.

Lastly, **specific support is provided to vulnerable households** through an exceptional €100 increase in the back-to-school allowance and the provision of €1 meals for scholarship students in university restaurants. The most disadvantaged will also benefit from a one-time support plan for associations involved in the fight against poverty and an increase in emergency accommodation resources. In addition to their social aspect, these measures will also stimulate aggregate demand at the end of the pandemic crisis.

The Recovery Plan will also include a set of **streamlining measures**, which will ensure that it is rolled out swiftly and closely matches the needs of the regions. In this way, the measures can begin producing the desired effects as quickly as possible.

Box 9: The macroeconomic impact of the Recovery Plan to 2025

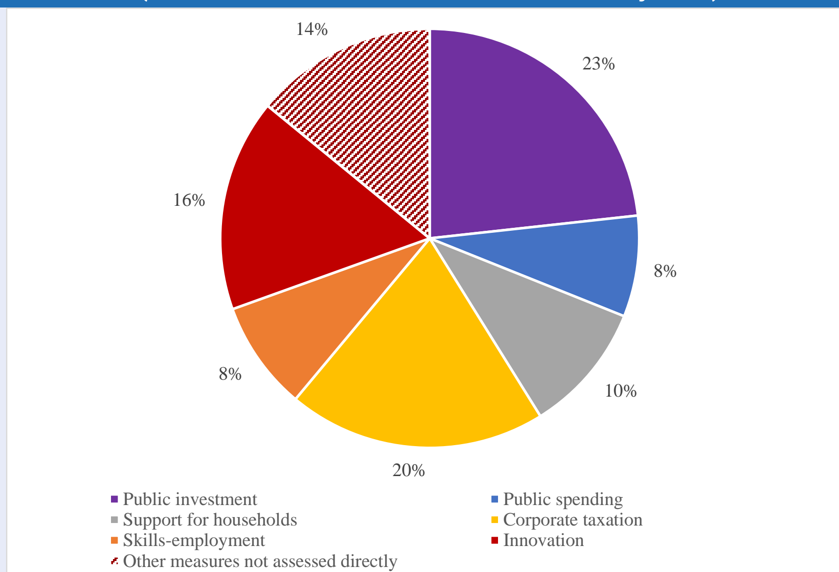
The Recovery Plan measures assessed here*[8] *are grouped into six areas, corresponding to the macroeconomic channels through which the French economy will benefit from it: *a "demand" component (public investment,[9] support for households,[10] other public spending[11]), and a "supply" component (corporate taxation,[12] innovation,[13] skills and employment[14]) (see Chart 7).*

*Over the period 2020-2025, all these assessed measures represent a total of **5 percentage points of GDP**, comprising, in addition to the Recovery Plan's measures, €30 billion to perpetuate the reduction in taxes on production (€10 billion/year).*

- *For **2020–2022**, disbursements related to the assessed measures will amount to 3 percentage points of GDP, and nearly 50% of these will be associated with the demand component*
- *For **2023–2025**, disbursements related to the assessed measures are expected to amount to **2 percentage points of GDP**, and they will largely be associated with the **supply component (85 %),** in connection with efforts to perpetuate the reduction in taxes on production.*

In all, between 2020 and 2025, the assessed measures relating to the demand component should represent around 1/3 of the measures assessed, and those relating to the supply component around 2/3.

Chart 7: Breakdown of the Recovery Plan[15] by macroeconomic channel (as a % of the total amount of the Recovery Plan)



Source: DG Trésor calculations.

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[8] The measures assessed do not take into account support measures for business financing (such as equity financing), support for local authorities (guaranteed minimum income), and the Banque des Territoires' Recovery Plan. On the other hand, they include the whole of the fourth Invest for the Future programme and the multi-year research programming act.

[9] This area includes investments in thermal renovation of buildings and green infrastructure and mobility.

[10] This area includes support for demand for clean vehicles and an increase in the back-to-school allowance.

[11] This area includes, for example, digitisation of public services (schools, justice, culture) and businesses.

[12] This area includes a reduction in taxes on production.

[13] This area includes the fourth Invest in the Future programme.

[14] This area includes the "1 Young Person, 1 Solution" scheme.

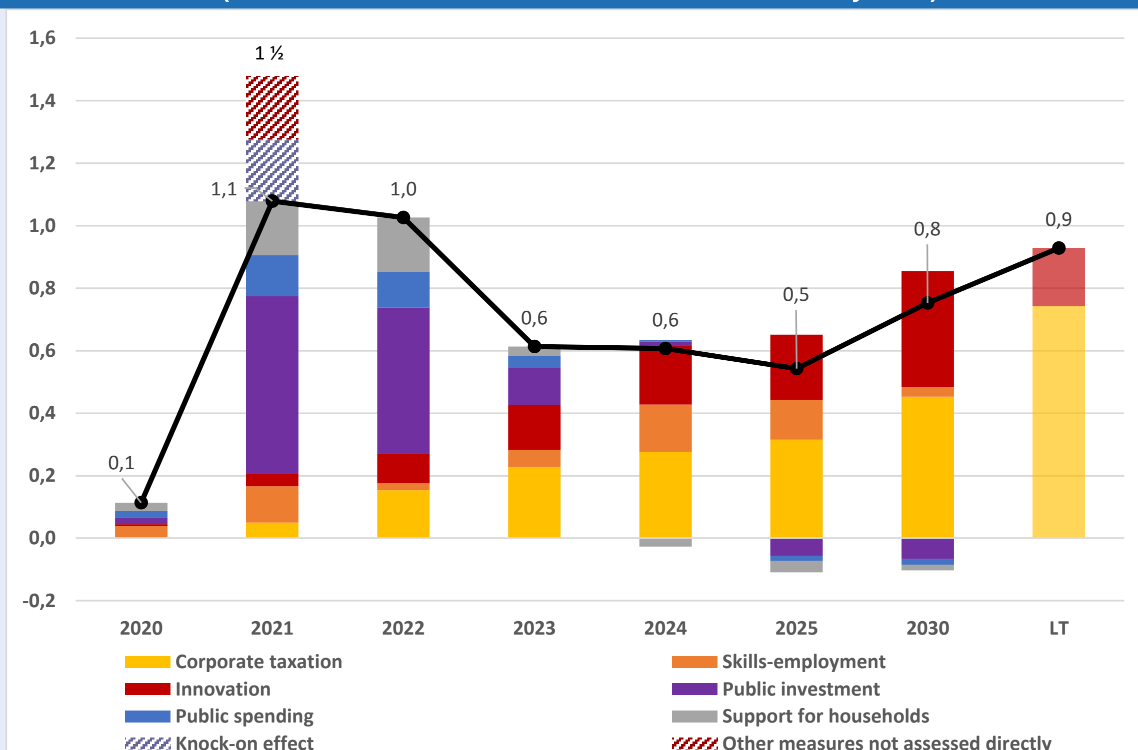
[15] Excluding the perpetuation of the reduction in taxes on production.

***In total, over the period 2020–2025**, the measures assessed would **increase activity by a cumulative 4 percentage points of GDP**[16] (see Chart 8). Specifically:*

- ***In 2020,** the effects of the Recovery Plan are expected to be low, in line with limited disbursements within this time period*
- ***In 2021**, the measures assessed are expected to boost activity by just over 1 point, for 160,000 jobs created. If the other non-assessed measures are taken into account – in particular those intended to support financing for **businesses**, which will prevent bankruptcies and support the recovery, as well as the knock-on effects of the other, simultaneously-implemented European recovery plans – the Recovery Plan **should support activity by 1.5 percentage points of GDP in comparison to a scenario without a Recovery Plan**.*
- ***By 2022**, the Recovery Plan is expected to buoy activity by 1 percentage point of GDP, thus returning GDP to its pre-crisis level. By this time, the Plan will have created 240,000 additional jobs.*

*Moreover, activity should also be robust in the **long term** (with an increase in activity of around 1 percentage point of GDP), primarily reflecting the effects of the permanent reduction in taxes on production, and the long-term effect of certain measures to support innovation. Employment is also expected to be sustained over the long term, with the creation of 120,000 jobs.*

Chart 8: Impact of the Recovery Plan on GDP
(in % deviation from a scenario without a Recovery Plan)



Source: DG Trésor, calculations made using the Mésange model.

NB: Knock-on effects and the effects of other measures not assessed directly are included only for 2021, but will be carried forward in subsequent years.

[16] The cumulative multiplier is thus estimated at 0.8 (1.0 for demand side measures and 0.5 for supply side measures).

Measures in the demand component *will drive the recovery during the period* ***2020–2022****, generating* ***about 75% of the GDP effects*** *of the Plan in that time. These measures will provide an immediate boost to activity via an increase in demand for businesses and a rise in household purchasing power. The measures in the demand component will be particularly effective in the short term, justifying the need for a rapid disbursement. However, their effects would gradually fade over the medium and long term.*

Subsequently, over the period ***2023-2025****, measures in the* ***supply component*** *(including the continued reduction of taxes on production) will take over, accounting for more than* ***90% of the Plan's GDP effects over this period****. On the one hand, by reducing costs for businesses, these measures will stimulate competitiveness. On the other hand, by supporting innovation and skills development, they will boost productivity. The supply-side measures, some of which are sustainable, will thus boost activity and support employment in the medium to long term.*

To support the Recovery Plan's investments and make them more effective, the government's reform strategy is in line with measures implemented since the start of the current 5-year term, and continues to improve the fundamentals of the French economy, taking into account the current crisis.

The Covid-19 crisis has obliged the government and the parliament to focus their attention and efforts on combating the pandemic, protecting the health of the French people and preserving businesses and jobs. This is why President Macron announced the temporary suspension of all reforms during the crisis. Once the height of the crisis had passed, the Prime Minister, in his general policy statement of 15 July, reaffirmed the government's commitment to **pursue the implementation of the reform agenda** that has been in place since the beginning of the current term, while **adapting it to the new circumstances**. The reform agenda is divided into four main areas.

1. Rebuild the welfare state for a fairer society

The global health and economic crisis has put a strain on our social welfare system and its financing, and has highlighted its crucial importance for social cohesion. The first part of the reform agenda therefore consists of consolidating the system to ensure its durability and sustainability, strengthen its effectiveness and tackle the inequalities that have been exacerbated during the crisis. In line with the Prime Minister's stated intention in his general policy statement, these reforms will be carried out in consultation with the social partners, according to a method launched at the social dialogue method conference on 17 July.

The healthcare system has been at the forefront in coping with the epidemic and caring for the French people, thanks to the unstinting commitment of healthcare workers. To ensure the long-term resilience of the health system, support for investment continues, under the terms of the Ségur Agreement, to increase its fairness and efficiency. Wages will be increased and new positions will be created in hospitals, thanks to an additional €8.2bn appropriation, which will be scaled up between 2020 and 2022 and will be sustainable thereafter. These additional resources will be combined with an improvement in the organisation of work (local agreements, more replacement team staff, individual agreements concerning increased overtime and calculating working time on an annual basis, etc.). In addition to this investment in human capital, the government will renovate hospitals and socio-medical establishments and quickly help them make the digital changeover. The investment portion of the Ségur Agreement that was included in the Recovery Plan will be devoted to this aspect, as will the assumption of hospital debt announced in November 2019. In addition to these investments, the government will work to ensure **more efficient use of healthcare services**, with the aim of identifying ways to **manage increased outpatient care expenditures** and incorporating them into the next social security budget bill. There is considerable potential for efficiency gains in terms of delivery of care (prescriptions, diagnostic testing, treatments, etc.). As part of the **national**

healthcare system reform strategy, more decision-making will take place at local levels, and quality of care will be a more important factor in allocating funding to hospitals and other healthcare facilities. Investments will also be made in preventive care, with increased focus on the role of exercise in health. Doctors and healthcare professionals, particularly those working in sparsely populated areas, will see their administrative workloads reduced so they can dedicate more time to patient care. Investments will also be made in telemedicine, which will be better integrated into existing medical practices.

The unemployment insurance system has been providing critical support to jobseekers as labour market conditions have worsened. Further to consultations with labour representatives on potential adjustments to the system, the **unemployment insurance reform** will go ahead, aiming to streamline the system, ensure its long-term sustainability and help jobseekers make lasting returns to the labour market. The aim of the reform has not changed: to boost employment growth and combat job insecurity by strengthening incentives for salaried workers and limiting employers' overuse of short-term contacts. Some measures have already been implemented, such as extending benefits to self-employed workers and people who resign from their jobs. However, due to the impact of the pandemic, the the reform's main measures (introducing further benefit reductions over time for top earners, revising the daily reference wage used to calculate benefits, tightening eligibility criteria and top-up rules) have been postponed to better support jobseekers while opportunities remain limited due to low employment growth. Consultations on how to adapt the implementation of these three measures are expected wrap up by the end of 2020, as is the implementation of the so-called "bonus/malus" employer contribution system, which incentivises longer-term contracts. Together, these measures should create the conditions needed to get people back into the workforce, and stay there, once the employment growth rate picks up.

The COVID-19 crisis has highlighted the need to better serve seniors and people living in long-term care, who are particularly vulnerable to the virus and have been isolated by lockdown and social distancing rules. An old age and independent living reform is under development, the goal of which will be to improve both homecare and facility care and ensure equitable delivery of services, by putting more focus on lower-income citizens and increasing funding.

Further to consultations with labour and management representatives, parliament will resume debate on the **pension reform** in 2021, with the aim of introducing a universal system. The pension plan's financial position, which has been affected by the COVID-19 crisis and its impact on the job market, will also be the subject of consultations with labour and management representatives, based on a joint analysis of new projections from the Pensions Advisory Council.

The crisis has also exposed and exacerbated inequalities, and decisive action is needed to address them. In addition to measures in the Recovery Plan for lower-income individuals, the **Anti-poverty Plan** will go forward and be applied as needs arise to protect those most vulnerable and hardest hit by the pandemic and its economic fallout. **New measures will also be introduced to combat inequalities of outcome**, which have been reawakened by worsening conditions for students under COVID-19. President Macron has announced expansions in three areas of education, funded in part by the Recovery Plan. The first is an increase from 80,000 to 200,000 available spaces in *cordées de la réussite* (a mentoring programme), which will involve identifying secondary school students who will benefit from personalised support and a scholarship for access to higher education or specialised programs. The second and third are expansions to *internats d'excellence* (special boarding schools), with a target of one per *département* for the start of the 2022 school year, and *campus d'excellence* (a category of specialised school), which will be brought up to 80 by 2021. In addition to these measures, the Minister of Education has announced €400m to increase teacher salaries in 2021, in line with increased training and in-person teaching requirements. In **early childhood education**, in 2019 President

Macron set up an advisory committee on the first 1,000 days of life, charged with (i) establishing a scientific consensus for public health recommendations, (ii) drafting a clearer roadmap for new parents, (iii) providing scientific insight on the issue of parental leave (paternity leave in particular) and (iv) reforming the country's childcare model over the next decade. The committee's proposals, which were submitted on 8 September 2020, will be reviewed by the government. A measure to extend paternity/foster parent leave will be included in the social security budget bill for 2021.

2. Accelerate the ecological transition and promote green living

The environment is a main focus of the Recovery Plan and the government's reforms. For the ecological transition to succeed, planned government funding, while substantial, will only go so far; we also need communities and citizens across the country to adopt new behaviours. As part of its efforts in this area, the government has published the results of its first-ever "green budgeting" exercise, where budget items are scored against six environmental criteria (see Box 11).

The government is preparing to introduce a **climate and environment bill** in the autumn, which will include some of the proposals from the Citizens' Climate Convention (see Box 10). The objective is to plot a clear and workable course to cut greenhouse gas emissions by 40% from 1990 levels by 2030 and achieve carbon neutrality by 2050. The bill will include, for example, new advertising rules aimed at curbing the promotion of environmentally unfriendly products.

Box 10: Citizens' Climate Convention

The Citizens' Climate Convention (CCC) is a working group of 150 randomly selected citizens set up in October 2019. On 21 June 2020, after nine months of work, the CCC issued 149 proposals *for achieving France's objective of reducing greenhouse gas emissions by 40% from 1990 levels by 2030, in line with social justice imperatives. The proposals cover five broad areas of daily life: consumer habits; work and manufacturing; transportation; housing; and food. Some would require legislative changes, such as amending the Constitution or making "ecocide" a crime.*

President Macron has pledged to move forward with 146 of the CCC's 149 proposals and introduce a bill for those requiring legislative measures. *The bill is currently being drafted. Some proposals are regulatory in nature or fall under European law, and others have been included in the Recovery Plan announced on 3 September, such as support for expanding carpool and public transit lanes.*

Here is a selection of the CCC's proposals in different areas:

- *Production and consumption: Make it mandatory to disclose the carbon impact of products and services; introduce advertising rules to help curtail overconsumption*
- *Transportation: Promote alternative solutions to individual vehicle use; optimise supply chain flows and support the shift away from road transport of goods to rail, inland waterway and sea transport; modernise vehicles; reduce greenhouse gas emissions in the airline industry*
- *Land use and housing: Make energy-efficiency building renovations mandatory by 2040 (for owner-occupants and landlords); impose stronger rules to combat land take and urban sprawl*
- *Farming and food: Develop green farming practices; shorten food supply chains; improve food service practices; propose changes to European trade policy*

The Prime Minister also recently announced **a series of environmental measures**, some of which will be included in the bill currently being drafted. The framework for bringing private and public buildings up to energy efficiency standards is to be reviewed. In addition to new incentives in the Recovery Plan to recycle abandoned urban land, the government also plans to halt current land take trends and achieve "net zero land take" as announced at the July 2020 Climate Cabinet meeting. This will involve introducing measures such as a moratorium on new commercial builds in suburban areas.

Interested intermunicipal structures will be able to sign an **ecological development and stimulus contract** with the government, including concrete action plans and quantifiable and measurable objectives for issues such as bike lanes, responsible land use, solar panels, recycling programs, waste reduction, renewable energy, water treatment, water and energy use reduction, street lighting, etc.

Box 11: Green budgeting

"Green budgeting" is a move toward transparency about the environmental impact of the government budget, *a commitment President Macron made on behalf of France at the One Planet Summit on 12 December 2017. France is the first country in the world to adopt this kind of approach to measuring the environmental impact of its expenditures in this year's Draft Budgetary Plan.*[17]

The green budgeting methodology was developed by the General Council for Ecology and Sustainable Development (CGEDD) and the Inspectorate General of Finance (IGF).[18] *It involves using available studies and data to* ***identify expenditures and revenues with major environmental impacts, both positive and negative, relating to six environmental objectives.*** *These objectives are: mitigating climate change, adapting to climate change, sustainable water management, the circular economy, reducing pollution and protecting biodiversity. Budget measures are awarded a positive, negative or neutral score for each of these objectives, a method that is able to account for multiple environmental objectives while also presenting a clear picture of the environmental impacts of public spending for both members of parliament and the general public.*

In addition to scoring all of the budget's appropriations, earmarked taxes and tax expenditures, the Directorate General of the Treasury, the Budget Directorate and the CGEDD also used green budgeting methodology to score the Recovery Plan's expenditures. *The exercise revealed that €32bn of the announced €100bn in spending has been scored as positive for at least one environmental objective. Of this €32bn, €5.2bn has been awarded a "mixed" score, having been graded negatively in other environmental areas.*

[17] *Rapport sur l'impact environnemental du budget de l'État,* September 2020
[18] *Green Budgeting : proposition de méthode pour une budgétisation environnementale*, IGF-CGEDD report, September 2019

3. Build a resilient and sustainably productive economy anchored on knowledge and skills

A main focus of the Recovery Plan is ensuring the independence and resilience of the economy and the competitiveness of French businesses, part of a renewed effort to bring the country to the forefront of science and technology and invest in public research, new technologies and higher education. It is the best way forward to get France back on a path of strong growth and job creation and secure its technological independence.

In addition to the Recovery Plan's promised funding for public research, **the multi-year research programming bill** will be adopted and implemented in an effort to increase France's research output, with a planned investment of €25bn in public research over the next decade. The bill's main measures aim to increase funding for research projects, programs and laboratories, prioritising investments in performance, to make jobs more attractive and to foster public engagement with the scientific community.

Investments in new technologies will be accelerated through the fourth Invest for the Future Programme (PIA4). Although €11bn of the programme's €20bn budget is earmarked for innovation investments in 2021–2022 under the *France Relance* plan, the overall programme has a longer-term horizon, extending beyond 2022. The government will also invest substantial sums in supporting key technologies in strategic sectors, in particular green technology such as batteries, ideally at the European level as part of Important Projects of Common European Interest.

4. Continue to modernise central government and public administration

Central government modernisation efforts will continue in order to more closely involve individuals and local governments in decision-making and realise efficiency gains. As we make our way out of the crisis, there is an opportunity to simplify practices and procedures and expedite the recovery of business activity. The measures outlined here are in addition to planned public governance reforms, which complement the investments in the Recovery Plan and will be outlined in France's recovery and resilience plan, to be submitted to the European Commission as part of the Recovery and Resilience Facility process.

The housing policy reform, underway since the start of the current presidential term, will be expanded. Improvements continue to be made to housing policy, including a new calculation for individual housing benefits. Set to come into effect on 1 January 2021, it will both simplify the current system and make it more equitable. Further reforms in the sector may include changes to social housing entity Action Logement. Along with the increased support for energy retrofitting in the Recovery Plan (see Box 5), the reform initiated in 2020 to convert the energy transition tax credit (CITE) into a benefit (*MaPrimeRénov'*) for low-income households will be completed in 2021.

The Government Action Acceleration and Streamlining Act (ASAP Act), which was introduced in February 2020, debated in the National Assembly in September and adopted on first reading by the Senate, is part of the government's ambitions to transform the public administration. It will enact many of the commitments made coming out of the Great National Debate: bringing the government closer to its citizens, making it easier for businesses to grow and simplifying administrative procedures for individuals. Measures include eliminating and consolidating advisory councils, transferring decision-making power on individual cultural, economic and health issues to local levels, and simplifying procedures for industrial facilities as a way to boost regional job growth and economic activity. The Prime Minister also announced a number of simplification measures to accompany the Recovery Plan, including legislative and regulatory

measures to bolster the recovery and improve uptake of the government's measures by economic stakeholders. In particular, some of the special measures introduced in response to the pandemic may be extended to reduce red tape and facilitate access to public procurement contracts.

Thanks to the new **Office of the High Commissioner for Planning**, the government will be better equipped to anticipate long-term economic needs and challenges. The office will help assemble a comprehensive and inclusive assessment of the major economic, social, environmental and sovereignty issues faced by France over the long term, and to develop new and innovative public policy measures to effectively address them.

Regions will be given differentiation rights, meaning local authorities will be able to develop public policy adapted to regional needs and deviate from nationally enacted laws on a case-by-case basis. **A new step will also be taken toward decentralisation and devolution**, so as to better direct resources and funding at local levels rather than within the central government. It will ensure more of a focus on taking action and executing initiatives as opposed to drafting and revising guidelines.

It is part of an exercise in reassessing how public services are delivered to **bring the government closer to its citizens**. Some tax departments, soon followed by customs departments, will begin relocating activities to rural and semi-urban areas, to counteract the recent trend of concentrating these activities in major cities. The idea is to achieve a better regional balance, not only to better serve users but also to improve the quality of life for many public-sector employees. It will also make public services more accessible to citizens who don't live near major urban centres, providing them with administrative support close to home.

Other central government modernisation measures include **simplifying and consolidating the collection of all taxes and social security contributions** in order to make things more straightforward for taxpayers and achieve cost efficiency gains by streamlining these core activities. More opportunities for simplification will arise from the recent move to deduct income tax at source.

The so-called "COVID debt" incurred by the government to respond to the pandemic will be segregated from the country's balance sheet. The debt will be paid down gradually from public funds on a regular schedule until it is fully repaid. A similar strategy has been used to pay down €136bn in social security debt, segregating it in the Social Security Debt Repayment Fund (CADES). There are also plans to strengthen the **public finance governance framework**, and a new **public finance planning bill** will allow the government to lay out an ambitious course for its medium-term fiscal consolidation strategy, which is based on a return to growth under the recovery plan, more efficient public spending and effective management of total public expenditure.

Economic outlook

Economic outlook: overview

The French economy is expected to contract by 10% in 2020, before rebounding by 8% in 2021 with the support of the Recovery Plan. France is on track for a rapid recovery in 2021, which should take it back to pre-crisis levels of prosperity by 2022. In 2021, economic activity is expected to be 2.7% lower than its 2019 level.

The coronavirus pandemic and its consequences have created a huge and unprecedented economic shock for the French and European economies. In France, economic activity in the second quarter of 2020 was almost 20% lower than in the fourth quarter of 2019. This is the sharpest drop since INSEE started measuring economic output in 1949.

The measures taken to limit the economic impact of the crisis are paying off, and the Recovery Plan will have a positive effect from 2021. In France, economic output and consumption rebounded fairly quickly after the strict lockdown period. In August, according to INSEE and Banque de France estimates, activity had already recovered to 95% of its pre-crisis level.

The Recovery Plan announced on 3 September, supported by the EU's Recovery and Resilience Facility and large-scale action by the ECB, will help output to bounce back quickly in 2021. The French government's support measures mean that household incomes and the country's productive base have been broadly preserved in 2020. Business investment, which had been very buoyant since 2017, is set to fall significantly in 2020 due to lower activity levels and the uncertain situation, before rebounding because of the Recovery Plan and support measures that have preserved companies' ability to invest.

Tax cuts for households, which had already been factored into France's budgets since the start of President Macron's term of office and particularly the reductions in residence tax and income tax, together with emergency measures, are considerably mitigating the hit to consumers' incomes and purchasing power in 2020. However, lockdown pushed down household consumption, which is likely to show an 8.0% year-on-year fall in 2020 as a whole. In 2021, households' purchasing power is expected to recover with support from the Recovery Plan, and their consumption should rebound strongly (+6.2%).

Short-time working arrangements mean that job losses in 2020 will be much lower than could have been the case with a crisis of this magnitude. In 2021, the Recovery Plan will support the upturn in jobs.

Inflation is expected to fall to 0.5% in 2020, with lower oil prices and limited inflation in other items because of decreased demand. It should then rise slightly in 2021, reaching 0.7%. Inflation is expected to remain fairly low because demand will still be catching up with its pre-crisis level.

This scenario[19] is close to the most recent forecasts made by other forecasters.

The current economic situation is not as bad as might have been expected when France emerged from lockdown. However, the scenario forming the basis for France's draft budgetary plan remains cautious for 2020, given the uncertainty about how the pandemic will develop towards the end of the year.

The GDP forecast for 2021 lies in the middle of other institutions' forecasts. The sharp upturn in 2021 is expected to bring GDP to a level 2.7% lower than the 2019 figure, which is within the range of other forecasts: the Banque de France anticipates a 1.9% decrease between 2019 and 2021, September's consensus forecasts shows a contraction of 3.3% and the OECD expects a 4.3% decline.

[19] The forecast in the Economic, Social and Financial Report is based on detailed figures for Q2 2020, published by INSEE on 28 August 2020. The forecast was finalised before the High Council of Public Finance (HCFP) was notified on 16 September 2020.

Output is expected to show a sharp rebound in the third quarter following the historic fall in the second.

French GDP has seen its sharpest contraction since INSEE started measuring output in 1949: 5.9% in the first quarter and 13.8% in the second, making a cumulative 18.9% contraction in the economy.

However, the second-quarter fall in GDP was not as bad as the 17% INSEE predicted in early July, because the lockdown-easing process went well and the government provided large-scale support. Since bottoming out in April, economic activity rebounded strongly in May and June, and the recovery has continued at a more gradual pace since then. All sectors have recovered, but at different rates.

Household consumption should rebound significantly in the third quarter but is likely to remain below its pre-crisis level, since the Covid-19 situation and targeted local restrictions are continuing to affect activity, particularly in the tourism and leisure sectors. In INSEE's monthly household surveys, the indicator showing opinions about whether the time is right to make large purchases has been almost unchanged for several months. It rose slightly in September after a slight fall in July and August, but remains below its long-term average, suggesting that the catch-up process has slowed, but also that consumers are being cautious.

After hitting all-time lows during lockdown, indicators from economic surveys have now moved closer to their long-run averages, reflecting the gradual improvement since restrictions were eased. In September, INSEE's business confidence indicator continued to rise, although at a slower pace, driven by a rising balance of opinion about business levels in the last three months, whereas forward-looking signals are more mixed: opinions regarding the business outlook have recently fallen again in the manufacturing, building, services and retail industries.

Covid-19 restrictions likely to drag down output towards the end of the year

The renewed increase in infections seen in France and several European countries in late summer is likely to affect economic activity at the end of 2020. Cautious behaviour and targeted local restrictions are likely to hamper household consumption and drag down growth in the sectors most affected by social distancing, particularly those connected with tourism and leisure (hotels, restaurants, transport, arts, entertainment etc.). Tourist numbers are also likely to remain depressed by the pandemic and the resulting restrictions on international travel. Other sectors should be affected less badly, or less directly. Covid-19 measures could affect how companies organise their activities, but the impact on growth should be less severe than in the spring given the protocols already put in place.

World demand for French goods is set to fall sharply in 2020 before making up some of the lost ground.

In the euro area, which has been particularly hard hit by the pandemic, economic output is set to show an unprecedented fall in 2020, mainly because of the fall in consumption. Certain effects of the crisis, along with pandemic-related uncertainty, are likely to limit the pace of the recovery in the euro area. Among the major euro area countries, output is likely to fall very sharply in Italy and Spain, which have been more badly affected by Covid-19, before rebounding moderately in 2021. Economic activity should fall less in Germany, where efforts to combat the pandemic have been less harmful to the economy, although it will probably continue to be hampered by the limited upturn in global trade.

Among other advanced countries, the UK will be badly affected, whereas the US and Japan will be more resilient. The UK's long lockdown has seriously affected its economy, and its recovery will also be limited by uncertainty surrounding the terms of the UK's withdrawal from the European Union. In the US and Japan, output has been less affected by the pandemic because lockdown measures have been less strict there.

Barring exceptions, emerging economies are likely to see a smaller contraction in 2020 before rebounding strongly in 2021. Growth in China is set to slow in 2020, with a contraction in the first quarter but a subsequent rapid recovery, as shown by the forecast 3.2% year-on-year GDP growth in the second half of the year.

Global demand for French goods is set to fall sharply in 2020 (by 11.0% after a 1.1% increase in 2019) before recovering partially in 2021 (growth of 6.5%). As a result, global demand for French goods is expected to be 5.2% lower in 2021 than in 2019.

In 2020, imports are expected to fall less than exports, and so foreign trade is likely to drag growth down by 2.1 percentage points.

Exports are expected to be hit hard by the coronavirus crisis throughout 2020, with a fall of 18.5%, more than the 11.0% drop in global demand. Exports of goods are likely to be affected particularly badly by difficulties in producing transport equipment, as shown by the latest figures from INSEE and the French customs department. Tourism-related exports are also likely to be severely affected. Imports are expected to fall 11.5% because of lower final demand, but the decline will be smaller than the fall in exports, partly due to imports of equipment needed to combat the pandemic.

In 2021, the trend is expected to turn and foreign trade should make a positive contribution to growth of 1 percentage point, although that will not make up for the 2020 decline.

In 2021, as things return to normal among France's trading partners and in the French tourist industry, French exports are expected to recover, with growth of 12.6%. In real terms, however, exports are still expected to be around 8% lower than their 2019 level.

France's trade balance should continue to suffer from difficulties in specific sectors – mainly aerospace – along with the decline in tourism, which usually makes a positive contribution to the trade balance, and imports of equipment required to combat coronavirus. On the plus side, the lower oil price should help the trade balance in 2020 and 2021, although it will not fully offset sector-specific difficulties.

Exceptional support measures have maintained consumers' purchasing power, and this has supported the recovery in consumption.

After rising sharply in 2019 (+2.1%), purchasing power is expected to see only a slight decrease in 2020 (−0.5%) compared with the 10% contraction in the economy. The fall in earned and property income is expected to be offset to a large extent by exceptional government measures (short-time working arrangements, solidarity fund for freelancers etc.) and the automatic adjustment of tax and social security contributions.

Tax measures adopted since the start of President Macron's term of office – including the cut in income tax in 2020 and progress towards eliminating residence tax – should also support households' purchasing power.

In 2021, purchasing power is expected to rebound by 1.5%, taking it above its 2019 level, although output is expected to fall over the combined period. In particular, households should benefit from a gradual improvement in the jobs situation, and therefore in earned income, throughout 2021. Purchasing power is also expected to receive a boost from the Recovery Plan (short-time working payments, support for young people) and pay rises in the healthcare sector as part of the Ségur plan.

Household consumption is set to fall 8.0% in 2020 after a 1.5% increase in 2019, before rebounding 6.2% in 2021.

After sharp falls in the first and second quarters of 2020, aggregate consumption has recovered close to pre-crisis levels, due in particular to a rapid rebound in the consumption of certain manufactured goods as lockdown measures were eased in May and June. However, some sectors – such as the leisure and tourism industries, which have been particularly badly affected by the pandemic – are seeing consumption remain well below pre-crisis levels and are likely to suffer for longer. Consumption is expected to rebound automatically in 2021, but is unlikely to recover to its 2019 level. It will remain hampered by ongoing social distancing – both mandatory and voluntary – along with job-related uncertainties, which will cause people to act cautiously and build up their precautionary savings. The household savings rate is therefore expected to average 18% in 2021

as opposed to 15% in 2019, after peaking at 21.4% in 2020.

Household investment, hit by Covid-19-related measures in 2020, is expected to recover in 2021, but remain below its 2019 level.

Household investment is expected to fall 14.6% in 2020, before rising by 12.5% in 2021. In 2020, household investment dropped sharply during lockdown, in terms of both construction (newbuild homes or maintenance and improvement works) and services (related to property transactions). Most building sites shut down when lockdown began, and the catch-up effect following the sharp fall in property transactions during that period is likely to be only partial. Since May, the building industry and new housing starts have staged a strong recovery, although the upturn in planning consents has been more moderate. In 2021, the upturn is likely to continue, but household investment is not expected to rise back to its 2019 level, since employment will remain well below its pre-crisis level.

Business investment is expected to fall 17.0% in 2020 before recovering rapidly in 2021 (+17.2%), supported by emergency measures and then the Recovery Plan.

In 2019, business investment was very strong despite the slowing economy, and reached a historically high level relative to value added.

The economic contraction and the climate of major uncertainty in 2020 are likely to cause a sharp drop in business investment (−17.0%). However, support measures adopted by the French government and the ECB should mitigate the impact of lower business levels on companies' financial positions and investment capacity.

In 2021, business investment is expected to be a little less than 3% below its 2019 level. Support measures taken by the French government, along with the Recovery Plan, should underpin this rapid recovery. Because of these measures – first and foremost business tax cuts – companies should see margins recover to a fairly high level, with an aggregate figure of 32.5% expected in 2021. This will support their investment capacity, although some companies will experience sector-related difficulties. Near-equity funding available to small and medium-sized businesses, along with investment subsidies as part of the Recovery Plan, will also support investment in 2021 and beyond.

After major job losses in 2020, the labour market will be dynamic in 2021, helped by the upturn in economic activity and the Recovery Plan.

Total employment is likely to fall sharply in 2020, with the loss of 920,000 jobs compared with 2019 including 800,000 salaried jobs. Employment should then recover in 2021 with a net 435,000 jobs created between the end of 2020 and the end of 2021, including 400,000 salaried jobs.

Before the coronavirus crisis began, job creation had been firm in France, with more than 200,000 jobs created every year since 2016. In 2019, employment accelerated despite slightly slower economic growth, with 335,000 jobs created compared with 2018.

However, the Covid-19-related economic contraction has broken this positive trend. Crisis-related job losses in 2020 have mainly been salaried jobs in the market sector (750,000 expected between end-2019 and end-2020, including 620,000 in the first half of 2020), but have been limited significantly by short-time working arrangements. At the end of 2020, total employment will be back close to end-2016 levels.

In 2021, total employment is expected to recover, with a large number of jobs created in the market sector, i.e. a 325,000 year-on-year increase in salaried market-sector jobs. That improvement should be driven by the upturn in economic activity and employment policies. The Recovery Plan is therefore likely to give a major boost to jobs.

Inflation is expected to fall sharply, from 1.1% in 2019 to 0.5% in 2020, before rising to 0.7% in 2021.

In 2020, total inflation is expected to fall to 0.5% from 1.1% in 2019, mainly due to lower energy prices. The sharp fall in the oil price between 2019 and 2020 reflects weak global demand resulting from the Covid-19 pandemic. Core inflation is likely to fall from 0.8% in 2019 to 0.5% in 2020, due in particular to lower inflation in services. Transport and other services are likely to be hard-hit by the Covid-19-related fall in demand. Non-fresh food prices are also likely to show lower inflation.

In 2021, total inflation is expected to rise slightly, while remaining very low at 0.7%. Energy prices should push inflation up a little, assuming that the crude oil price remains steady at €37.6. However, government-controlled prices are likely to be less inflationary than in 2020, as the increase in tobacco duties comes to an end. Core inflation should remain stable at the low level of 0.5%, due to the large output gap. Business tax cuts scheduled as part of the Recovery Plan should also result in slight downward pressure on consumer price inflation in 2021, as should the recent rise in the euro.

There is greater uncertainty about these forecasts than usual.

Developments in the Covid-19 situation will be crucial, and a serious second wave of infections, in France and worldwide, cannot be ruled out. The discovery of a vaccine or the development of tests and/or treatments that limit the spread of infection would boost consumer and business confidence, allow the removal of Covid-19-related restrictions and unleash economies' recovery potential.

At the international level, trade tensions remain high and the crisis has led to more protectionist attitudes. This is particularly the case regarding relations between China and the US, which centre on compliance with the “phase one” agreement of December 2019 and the situation in Hong Kong, but there are also some trade-related issues between the US and EU. There is still uncertainty about how Brexit will play out, even though the end of the transition period is fast approaching. The performance of the financial markets is also a key issue, particularly in the US: after slumping in March, equity markets have rallied much faster than the real economy, and there is a risk that they could fall again.

It is unclear how robust household consumption will be in France. Because households built up a lot of savings during lockdown, and because of the Recovery Plan and the increase in purchasing power in 2020 and 2021, the upturn in consumption could be stronger than expected, particularly if significant progress is made with treating Covid-19 and getting on top of the pandemic. On the downside, business investment could suffer more than expected from the crisis.

Table 1: Economic forecasts for 2020-2021
(real annual changes in %, unless otherwise stated)

	2019	2020	2021	2020 and 2021 combined
GDP - France*	1.5	-10	8	-2.7
World demand for French goods	1.1	-11.0	6.5	-5.2
Consumer price index - France	1.1	0.5	0.7	//
World GDP*	2.9	-4.1	5.2	0.9
United States GDP*	2.2	-5.2	3.0	-2.3
Euro area GDP*	1.3	-7.9	6.3	-2.1
Exchange rate USD/EUR (absolute level)	1.12	1.13	1.16	//
Oil price (Brent, USD/barrel) (absolute level)	64	42	44	//

** Data adjusted for working days.*

Box 1: A look back at the forecasts

Compared to the 2020 Stability Program, presented on April 15, 2020 at the Council of Ministers, the activity forecast for 2020 is revised downwards (-10% compared to -8% for the STABP). Following the crisis and in accordance with the guidelines issued by the European Commission on April 6, 2020, the Stability Program focused on 2020 and did not cover 2021.

The revision of the magnitude of the recession anticipated for 2020 is mainly due to an unanticipated deterioration in the contribution of foreign trade (revision of -2.3 pt, see table below). Exports of transport equipment, to which France is particularly exposed, have been very severely affected by the crisis and represented in April only 29% of their February level. General government consumption fell more sharply than expected because of a specific accounting treatment of the compensation of public employees whose activity ceased during the containment,

On the other hand, the upturn in household consumption in May and June was surprisingly strong, with catching up behavior on certain types of goods, particularly automobiles and housing equipment, and the gradual recovery of household services activities, which led to an upward revision of the consumption forecast (+2 pt, see table below). This surge in consumption has, however, resulted in an increase in imports, particularly in products needed to fight the epidemic (masks, etc.).

The inflation forecast is not revised for 2020, at +0.5%.

Table 2: Comparison between the Finance Bill for 2021 forecasts and those of the Stability Program				
Annual growth rate, in %.	**STABP – April 2020**	**Finance BILL 2021**		
	2020	**2020**	**2021**	**Cumulative**
International environment				
Global demand for goods addressed to France		-11,0	6,5	-5,2
USD/EUR exchange rate (level)		1,13	1,16	//
Brent price in USD (level)		42	44	//
France				
GDP	-8	-10	8	-2,7
Consumption expenditure of households	-10,0	-8,0	6,2	-2,3
Total GFCF	-11,0	-14,5	14,9	-1,8
of which non-financial companies	-17,0	*-17,0*	*17,2*	*-2,7*
of which public administrations		*-3,7*	*12,1*	*8,0*
Imports	-13,4	-11,5	8,2	-4,3
Exports	-12,9	-18,5	12,6	-8,3
Contribution of foreign trade to growth (in pts of GDP)	0,2	-2,1	1,0	//
Stocks contribution to growth (in pts of GDP)	-1,0	0,0	-0,7	//
Contribution of the application inland excluding stocks (in pts of GDP)	-7,3	-7,8	7,7	//
Index of consumer prices total	0,5	0,5	0,7	//

Sources: Stability Program 2020; RESF 2021 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 social security draft budgetary plan for 2021, which was issued on 28 September, the HCFP considered the macroeconomic forecast for 2020 to be prudent and that for 2021 to be plausible.

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

The Draft Budgetary Plan forecast for 2021 lies within the range of other organisations' forecasts, and so is realistic.

The Government's forecast for 2020, which involves a 10% contraction in economic activity, is slightly below that announced by the European Commission in early July (see Table 3), which was prepared before the release of better-than-expected second-quarter figures. The Government's forecast is more cautious than the most recent projections because it factors in the less favourable fourth-quarter Covid-19 situation suggested by the latest developments. The alternative scenarios presented by INSEE, the OECD and the Banque de France show that the differences between the Draft Budgetary Plan and the various published forecasts are within the margin of error.

The Draft Budgetary Plan for 2021 includes 8% GDP growth, which equates to an expected 2.7% fall in GDP between 2019 and 2021. This forecast lies in the middle of the range of other organisations' forecasts. In its Interim Economic Outlook of 16 September, the OECD forecast a 4.3% decline in economic activity between 2019 and 2021. The Banque de France, in its September forecast, predicted that GDP would fall 1.9% between 2019 and 2021. In July, the European Commission forecast that the French economy would contract by 3.8% between 2019 and 2021.

The differences in these forecasts relate in particular to the Covid-19 scenarios adopted. The Banque de France scenario does not factor in any deterioration in the Covid-19 situation, and only partly factors in measures adopted in the Recovery Plan. The OECD's forecast assumes that intervention will be required until the end of 2021 to get on top of the pandemic.

The level of economic activity in 2021 underpinning the Draft Budgetary Plan is close to that of the most recent Consensus Forecasts

For 2020, the forecasts in the DBP (a 10% drop in GDP) are close to the September Consensus Forecasts (a 9.5% contraction, see Table 4).

The DBP scenario and the Consensus Forecasts agree that GDP in 2021 will be around 3% below its 2019 level, although there is a great deal of uncertainty: among economists surveyed for the Consensus Forecasts, the central half of estimates regarding the contraction in GDP vary by around 2.5 percentage points.

The September Consensus Forecasts point to consumer prices rising by 0.5% in 2020 and 1.0% in 2021, identical to the DBP scenario for 2020 and slightly higher than the DBP scenario for 2021.

The Draft Budgetary Plan's international forecasts appear to be similar to the Consensus Forecasts. Growth forecasts for 2020 and 2021 combined are similar for Japan and the United Kingdom. The Draft Budgetary Plan scenario features a larger contraction in activity than the Consensus Forecasts for the United States, and a smaller contraction for the euro area for the two years combined.

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

	DBP for 2021			OECD**** Sept. 2020			European Commission**** July 2020			IMF**** June 2020		
Average annual growth rate (in %)	2020	2021	Cu-mu-la-tive***	2020	2021	Cu-mu-la-tive***	2020	2021	Cu-mu-la-tive***	2020	2021	Cu-mu-la-tive***
GDP	-10	8	-2.7	-9.5	5.8	-4.3	-10.6	7.6	-3.8	-12.5	7.3	-6.1
Harmonised Consumer Price Index	0.6*	0.8*	/	n.a.	n.a.	/	0.3	0.7	/	0.3	0.7	/
Net Lending (+) or Borrowing (-) of the General Government (in percentage points of GDP) **	-10.2	-6.7	/	n.a.	n.a.	/	n.a.	n.a.	/	-13.6	-7.1	/

** This forecast corresponds to CPI inflation of +0.5% in 2020 and +0.7% in 2021.*

*** According to the Maastricht definition.*

**** DG Trésor calculations.*

**** OECD: Interim Economic Outlook, 16 September 2020; IMF: World Economic Outlook Update, 19 June 2020; European Commission: Summer Interim Forecast, 7 July 2020.*

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

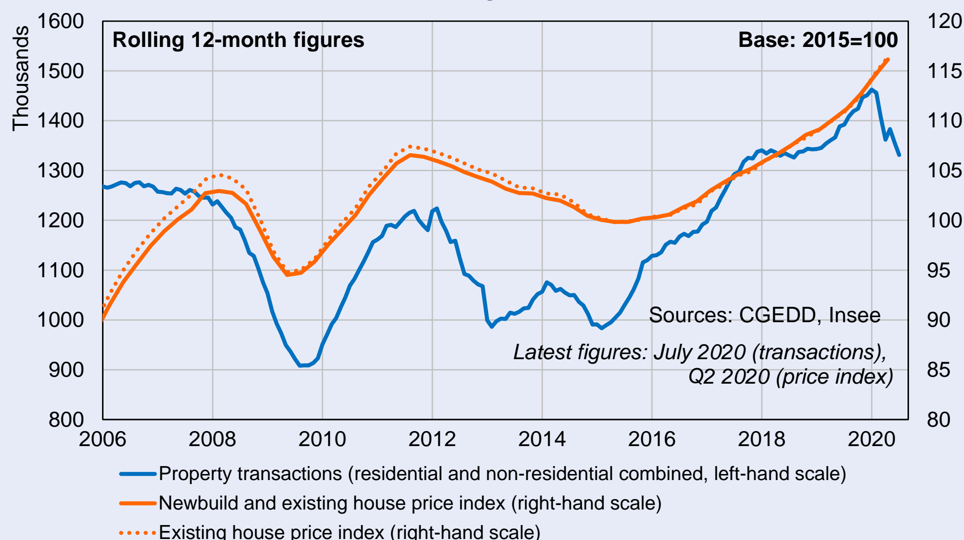
	DBP 2021 core economic scenario			Consensus Forecasts September 2021		
Average annual growth rate (in %)	**2020**	**2021**	**2021/ 2019**	**2020**	**2021**	**2021/ 2019**
International – GDP growth						
United States	-5.2	3.0	-2.3	-4.4	3.8	-0.8
Japan	-5.3	2.7	-2.8	-5.6	2.6	-3.1
United Kingdom	-10.5	7.2	-4.1	-10.1	6.5	-4.3
Euro area	-7.9	6.3	-2.1	-7.7	5.5	-2.6
France						
GDP	-10	8	-2.7	-9.5	6.9	-3.3
Household consumption	-8.0	6.2	-2.3	-8.0	6.9	-1.7
Business investment	-17.0	17.2	-2.7	-13.4	10.9	-4.0
Consumer price index	0.5	0.7	/	0.5	1.0	/

Box 4: French property market

In 2019, more than a million property transactions took place, an all-time high, and the average property price in France rose 3%. The market is segmented, with areas in which prices have risen sharply since 2010 (attractive large cities) and those where prices have still not recovered to levels seen before the 2008 crisis despite a slight upturn in the last two years (e.g. Marseille, Carcassonne and rural areas). This distinction is desirable given the large proportion of vacant homes in areas with low housing pressure, efforts to combat the exodus from town centres and limits on land development. In areas with high housing pressure, price growth appears to be mainly driven by falling interest rates, the concentration of well-paying jobs and rising purchasing power. As a result, in its October 2019 report, France's financial stability council (the HCSF) stated: "There are no clear signs of an overvaluation [...] Property-owning households have low exposure to the risk of a fall in prices". In December 2019, the HCSF issued a recommendation to lenders in view of changes in mortgage terms since 2015 (rising loan terms and falling affordability).

During lockdown, the property market ground to a halt. All residential property transactions were suspended, except for those that could be completed electronically. As we move into the autumn, it is still too early to assess how the Covid-19 crisis has affected property prices and transaction volumes since lockdown measures were eased (see chart below). This makes it harder to predict how the property market will behave in the near future, because of the unprecedented nature of the current public health crisis. Although economic support measures have limited the decline in household incomes on a short-term view, the medium-term consequences of the crisis could drag down demand because of greater uncertainty about jobs, incomes and the direction of the market, and could result in land hoarding. In addition, the number of planning consents being granted remains low. In terms of demand, however, these negative factors could be offset by a shift in households' spending priorities towards their homes post-lockdown, pent-up demand and housing's status as a safe-haven financial investment. The relative importance of these effects will determine the general direction of the market, but any short-term decline in property prices and transaction volumes should be limited by market forces, including the build-up of savings during lockdown. It should be noted that the rise in house prices in the second quarter of 2020 could merely reflect the pre-crisis trend, due to the completion of transactions suspended during lockdown, and so it is too soon to gauge the property market's medium-term post-crisis direction.

Property transactions and newbuild and existing house prices



Construction activity is now returning to normal. At the height of the pandemic, construction companies were among the main recipients of public-sector support, receiving €12.7 billion between March and May (€9.8 billion of state-guaranteed loans, €0.6 billion from the solidarity fund and €0.2 billion of tax and social-security deferrals). After activity levels dropped 65% during lockdown, the sector seems now to be recovering at a similar rate to the rest of the economy, or even more quickly. In July, activity was only 3% below the pre-crisis level according to the construction-sector IPI, and economic survey indicators have rebounded strongly since July.

Fiscal outlook

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Fiscal overview and strategy

Overview

Massive and rapid government action to cope with the crisis

The Covid-19 pandemic derailed a fiscal trajectory showing clear improvement. The Government has set an ambitious course based on curbing the growth of government expenditure and achieving a lasting decrease in the deficit and government debt in order to achieve fiscal consolidation and cut taxes. France's general government deficit stood at 3.0% of GDP in 2017, followed by 2.3% in 2018. It then fell to 2.1% of GDP in 2019, its lowest level since 2001, after restatement of the expenditure related to the conversion of the Competitiveness and Employment Tax Credit (CICE) into a permanent cut in social security contributions. If the one-off effect of the dual cost of this conversion is included, the deficit would stand at 3.0%. This meant that the government debt ratio has been stabilised since the beginning of the President's five-year term, standing at 98.1% of GDP in 2019, matching the ratio for 2018, and down from 98.3% of GDP in 2017. This decline in the debt ratio was the first since 2007. It was interrupted by the unprecedented health crisis in 2020, followed by the economic crisis that has hit all of the countries in the world. In addition to a massive drop in revenue, large-scale discretionary measures have been taken to limit the economic and social impact of the health crisis and have softened the blow to household and corporate incomes. In mid-March, the Government took emergency support measures to make the economy more resilient in the face of this unprecedented shock.

The emergency measures were enacted by means of three Supplementary Budget Acts submitted in March, April and June and representing €64½ billion in measures that have a direct impact on the deficit. Additional measures were aimed at improving businesses' cash position by giving them more time to pay certain taxes and contributions, and speeding up the payment of tax refunds due in 2020. There was also direct capital support for troubled businesses, along with business loan guarantees and credit insurance, bringing the total intervention amount up to approximately €470 billion.

Recovery measures were set out in detail on 3 September to speed up the economic rebound in the short term, while modernising the means of production to decarbonise France's economy, make it more competitive and strengthen cohesion. These measures totalled €100 billion. The procedures for implementing the Recovery Plan were designed so that it could be deployed in the coming months and all of the funds could be committed by 2022 at the latest (see Box 3).

With the crisis, the deficit is expected to reach 10.2% of GDP in 2020, followed by 6.7% of GDP in 2021.

The forecasts have been revised from the previous forecasts published at the end of June in the Preparatory Report for the Public Finance Policy Debate. In 2020, the deficit was revised downward to 10.2% of GDP, versus 11.4% in the Budget Policy Debate. This was primarily due to the smaller-than-expected slowdown in growth and the relative resilience of government revenue. The 2021 deficit forecast has been revised upward to 6.7% of GDP, versus 5.5% in the Budget Policy Debate. This revision stems from the impact of the measures announced since that debate, and primarily the Recovery Plan and the Ségur Agreement on the renovation of the healthcare system.

The aggregate tax and social security contribution ratio, which stood at 44.1% of GDP in 2019, will go up to 44.8% in 2020, and then drop sharply to 43.8% in 2021. These ups and downs stem directly from the crisis, which caused a significant drop in tax revenue and social security contributions in 2020, but not in proportion to the sharp slowdown in economic growth. This results in an automatic increase in the ratio because of the denominator effect. The rebound in growth in 2021 should lead to a symmetrically smaller rebound in government revenue and thus a smaller ratio. The overall effect is neutral over the two years in question. These automatic effects are combined with the effects of

discretionary tax measures that result in a net decrease of €15 billion[20] in taxes and social security contributions in 2020 and another decrease of nearly €10 billion in 2021.

The government expenditure ratio will rise sharply in 2020 as a result of the measures adopted to cope with the pandemic and the denominator effect stemming from a drop in GDP. It will stand at 62.8% of GDP, excluding tax credits, after reaching 54.0% in 2019. Government expenditure should grow by 6.5% in nominal terms in 2020, following 2.2% growth in 2019 (restated for the inclusion of France Compétences in general government expenditure). Growth of government expenditure should be more moderate in 2021 as a result of two opposing effects: the winding down of the emergency measures on one side and the activation of the Recovery Plan on the other. These should bring government expenditure growth back down to 1.0% in nominal terms. Combined with the rebound in GDP growth, this should lead to a big drop in the government expenditure ratio to 58.5%, after peaking in 2020.

The government debt ratio, as defined by the Maastricht Treaty, should show a strong rise to nearly 117.5 percentage points of GDP in 2020, following 98.1 points in 2019. The rise will be driven by the deficit, combined with an unprecedented contraction of GDP. The ratio should ease somewhat in 2021, to 116.2 percentage points of GDP, as growth rebounds and despite a persistently large deficit.

Under the circumstances and for the sake of transparency and accountability, the additional debt arising from the measures taken to respond to the Covid-19 crisis will be subject to special redemption arrangements. In the case of social security debt, the transfer of €136 billion in debt from the Central Social Security Agency (ACOSS) to the Social Security Debt Repayment Fund (CADES) was enacted by Act 2020-992 of 7 August 2020 and the maturity of the debt was extended. Following the same pattern, the additional central government debt could be set apart and repaid *(see Box 1).*

The smaller deficit in 2021 stems from stronger growth. The cyclical deficit will shrink significantly in 2021 and when the emergency measures end. The latter will be recognised as one-off and other temporary measures and reported as such in the accounts. The structural balance has shown temporary ups and downs through the crisis, making it more meaningful to compare the 2021 figure directly to 2019.

The structural balance is expected to show a deficit of 3.6% of GDP in 2021, compared to 2.2% in 2019 using the metrics underlying the January 2018 Public Finance Planning Act[21]. This change stems in part from the implementation of measures under the Recovery Plan and the Ségur Agreement on the renovation of the healthcare system, which are not treated as one-offs in the accounts, in contrast to the emergency measures implemented in 2020 under the three Supplementary Budget Acts.

The decrease of 1.4 percentage points of GDP in the structural deficit between 2019 and 2021 can be explained by: (i) a negative revenue effort of -0.7 points (including the correction for the accrual-based measurement of tax credits) because of the various tax cuts, including the cut in taxes on production; (ii) a cumulative expenditure effort of -1.2 points over the two years, stemming mainly from the impact of the Recovery Plan (which will contribute -1.0 point in 2021, not counting the European financing which is treated as non-tax revenue); (iii) and, finally, the "non-discretionary" component, which will add 0.5 points mainly as a result of setting up the European financing for the Recovery Plan in 2021, which offsets some of the negative contributions.

(20) Absent the impact of converting the Competitiveness and Employment Tax Credit into a permanent cut in social security contributions. With this impact, discretionary tax measures offset each other overall in 2020.

(21) The breakdown of the general government balance show here is based on the same potential GDP growth assumptions as the 2018-2022 Public Finance Planning Act, i.e. 1.25% in 2020 and 1.3% in 2021.

Table 1: Government balance by sub-sector			
Lending capacity (+) or borrowing requirement (-) as a % of GDP	**2019**	**2020**	**2021**
Central government	-3.5	-8.7*	-5.5
Central government agencies	-0.1	1.1*	-0.1
Local government	0.0	-0.1	0.0
Social security funds	0.6	-2.6	-1.0
General government balance	**-3.0**	**-10.2**	**-6.7**

** Including the SNCF Réseau debt assumed in 2020 (€25 billion). This transaction is neutral for the general government balance because the central government expenditure is recorded as revenue for central government agencies. Without this transaction, the central government deficit would be equal to 7.6% of GDP and the central government agencies deficit would be equal to 0.0% of GDP.*

Table 2: Structural balance			
As a % of potential GDP (except*: as a % of GDP)	**2019**	**2020**	**2021**
General government balance*	**-3.0**	**-10.2**	**-6.7**
of which, cyclical balance*	0.2	-6.5	-2.8
of which structural balance	-2.2	-1.2	-3.6
of which one-offs	-1.0	-2.6	-0.2
Change in the structural balance	**0.0**	**1.1**	**-2.5**
of which, structural effort	-0.2	0.8	-2.7
discretionary tax measures	*-0.1***	*-0.6*	*-0.4*
expenditure effort	*-0.1***	*1.1*	*-2.3*
correction for accrual-based measurement of tax credits	*0.0***	*0.4*	*0.0*
of which, non-discretionary component	0.2	0.2	0.3

Unless otherwise specified, the structural decomposition is in comparison with the potential growth rates applied in the 2018-2022 Public Finance Planning Act, meaning 1.25% in 2020 and 1.3% in 2021.

*** Absent the impact of creating France Compétences on expenditure and revenue, which came to €6.3 billion in 2019, the expenditure effort would stand at +0.1 points and the revenue effort, including discretionary tax measures and the correction for the accrual-based measurement of tax credits, would be -0.3 points.*

Table 3: Key figures			
As a % of GDP, unless otherwise noted	**2019**	**2020**	**2021**
Total government debt	**98.1**	**117.5**	**116.2**
Government debt, excluding financial support for the euro area	95.4	114.6	113.5
General government expenditure, excluding tax credits	**54.0**	**62.8**	**58.5**
Real growth (%)	1.8	6.3	0.4
Nominal growth (%)	2.7	6.5	1.0
Tax burden	**44.1**	**44.8**	**43.8**

** Absent the impact of creating France Compétences (€6.3 billion in expenditure and revenue, neutral for the balance), government expenditure would increase by 1.3% in real terms and by 2.2% in nominal terms in 2019 to stand at 53.7% of GDP in 2019, compared to 54.0% in 2018 and 55.1% in 2017. The aggregate tax and social security contribution rate, absent France Compétences, would stand at 43.8% of GDP in 2019, compared to 44.8% in 2018 and 45.1% in 2017.*

Box 1: Impact of the crisis on public finances and debt sustainability

The Covid-19 crisis has led to a significant increase in the debt of the general government sector as a whole caused by the combined action of automatic stabilisers, essentially less revenue as the economy shrinks and more expenditure to finance emergency measures. This "Covid debt" will be set apart. This will make it possible to isolate a fraction of government debt and allocate a dedicated source of revenue to repay it, as is currently the case for the Social Security Debt Repayment Contribution and the General Social Security Contribution, which finance the repayment of the social security debt through the Social Security Debt Repayment Fund. This makes it possible to plan the repayment timetable explicitly using dedicated revenues. In addition, allocating dedicated revenue to repay the debt makes the presentation of the residual borrowing requirement in government accounts fully transparent.

The Act of 7 August 2020 has already enacted the transfer of nearly €136 billion(a) in social security debt to the Social Security Debt Repayment Fund and extended the maturity of the debt in order to discharge past debts, the additional debt incurred by the social security administration as a result of the crisis and one third of the debt owed by hospitals as of 31 December 2019. The repayment will be made in instalments ending in 2033.

(a) This amount corresponds to the social security debt transferred to the Social Security Debt Repayment Fund by Act 2020-992 of 7 August 2020. This debt breaks down into €31 billion of the debt of the Central Social Security Agency as of 31 December 2019, €92 billion of the projected debt accumulating between 2020 and 2023 and €13 billion of the debt owed by hospitals (including €10 billion in principal) under an arrangement to assume part of that debt.

Box 2: Impact of emergency and support measures having a direct impact on the Maastricht deficit

The direct cost to the general government of the emergency measures came to €64.5 billion in 2020, including major actions to support households and businesses, such as part-time working, the solidarity fund and exemptions from social security contributions, and support for the medical sector in coping with the health crisis. These costs correspond to the expenditure required for government intervention or to forgone revenue in the case of exemptions granted, for example (see Table 4).

The emergency measures as a whole represent an effort that could be as much as €470 billion (see Table 1 in the Introduction), including €327 ½ billion in loan guarantees and €76 billion in cash support, in addition to the direct impact of €64.5 billion on the government balance. These measures include guarantees granted, along with measures allowing companies to defer payment of taxes and social security contributions. Such measures do not have a direct impact on the general government balance insofar as they do not cost the general government sector any money; they merely represent a commitment to pay if a specific event occurs, such as a default by a company covered by a guarantee, or a delay in collecting revenue. Nonetheless, they enable economic activity to continue by helping businesses cope with temporary cashflow problems. Actual disbursements are expected to come in the longer term as a result of projected default rates on loans guaranteed by the French government or by the Pan European Guarantee Fund. The amounts disbursed in 2020 are small, but provisions have been set aside for the coming years. Deferred collection of taxes and social security contributions may also have an impact on the general government balance since some of the amounts owed might never be repaid. The 2020 balance includes a provision for this risk (see Box 8).

Table 4: Cost of emergency and support measures having a direct impact on the Maastricht deficit	
€ billion	**2020**
Short-time working	30.8
Solidarity Fund (excluding insurers' share)	8.5
Special National Healthcare Expenditure Growth Target	9.8
Offset of social security contribution exemptions	5.2
Extension of income replacement and postponement of the reform of unemployment insurance	1.6
Special support for self-employed workers	0.9
Social inclusion and protection of vulnerable persons	0.9
Repayable advances to businesses	0.5
Carry back of previous deficits against taxable income for businesses	0.4
Purchase of non-surgical masks	0.3
Default rate on guaranteed loans (net of premiums)	0.0
EIB default rate	0.1
Miscellaneous appropriations for central government expenditure (emergency supplemental appropriations, other appropriations under the third Supplementary Budget Act)	5.6
Total	**64.5**

Box 3: Fiscal impact of the Recovery Plan

Implementation of the Recovery Plan that the Government presented on 3 September, with the first measures coming into force this year, will lead to a high level of disbursements next year. Once the resources contributed by the financing under the European Recovery Plan have been taken into account, the cost of France's Recovery Plan should increase the general government deficit by 0.8 percentage points of GDP in 2021, after contributing 0.2 percentage points in 2020.

A share of the €100-billion Recovery Plan, which will continue for several years after 2021, even though the bulk of the disbursements is expected between now and 2022, does not affect the fiscal aggregates defined by the Maastricht Treaty. On the one hand, some of the measures under the Recovery Plan are financed by entities that are not part of the general government sector in the national accounts. On the other hand, some of the disbursements by government entities are deemed to be financial transactions, which do not constitute government expenditure as defined by the Maastricht Treaty. The main measures that do not affect the general government deficit include the Climate Plan financed by €2.5 billion from BPI France, the Local Bank Recovery Plan, worth €3 billion, other capital transactions that affect government debt, but not the deficit, and the loan guarantees that constitute a contingency. The total impact on the deficit of the recovery measures planned for 2021 comes to more than €37 billion.

European financing, under the EU Recovery Plan, should come to €40 billion in subsidies in all, including €17 billion for expenditure in 2021. These flows are recorded as non-tax revenue starting in 2021, with a differential between the accrual-based national accounts and the cash-based account owing to the lag between the execution of the expenditure financed by the EU and the actual remittance of the relevant funds. The general principle calls for revenue from the EU to be recognised when the Member States make actual disbursements for the eligible expenditure. Eligible expenditure in 2020 is treated differently. The expenditure is recognised when the Council formally approves the eligible expenditure in 2021. Talks between the French National Statistics Institute and Eurostat are ongoing to come up with more precisely defined recognition procedures.

The fiscal impact of the Recovery Plan in 2020 and 2021 can be broken down as follows:

Table 5: Breakdown of Recovery Plan measures in 2020 and 2021

	2020	*2021*
Measures affecting the national accounts balance (a)	*4.5*	*37.4*
Total European financing recognised as non-tax revenue in the national accounts (b)	*0*	*17.3*
Impact on the general government balance = (b) – (a)	*-4.5*	*-20.1*
Memo item: Total European financing recognised as non-tax revenue in the cash-based accounts	*0*	*10.0*

2019 outturn and 2019 mid-year outturn

Outturn in 2019

Overview of the year

The 2019 general government deficit, as defined by the Maastricht Treaty, stood at €73 billion, or 3.0% of Gross Domestic Product (GDP), up from 2.3% in 2018. This represents an increase of €18.9 billion in the general government deficit compared to 2018. This increase stems from the double impact of the one-off cost of replacing Competitiveness and Employment Tax Credits (CICE) and payroll tax credits (CITS) with permanent cuts in social security contributions in 2019, leading to a one-off negative impact of €21.8 billion on the deficit. Without this one-off expenditure, the deficit would have stood at 2.1% of GDP, representing an improvement of 0.2 percentage points compared to 2018. These data are from the latest update of the general government accounts published by Insee at the end of August, with little revision of the deficit figure compared to the data published in May 2020[22].

In addition to the impact of converting the CICE, new tax cuts also contributed to the decline in the aggregate tax and social security contribution ratio to 44.1% of GDP (or 43.8% when restated for France Compétences), compared to 44.8% in 2018 and 45.1% in 2017. The growth rate of government expenditure (excluding tax credits) stood at 1.3% in real terms (after eliminating the effect of France Compétences), which led to a further reduction in the government expenditure ratio to 53.7% of GDP, compared to 54.0% in 2018 and 55.1% in 2017.

Structural adjustment was neutral in 2019. The slightly positive contribution from the non-discretionary component (+0.2 points), stemming from the spontaneous growth of revenue, was offset by a slightly negative structural effort (-0.2 points). After stripping out the effect of creating France Compétences, this effort breaks down into: (i) a negative revenue effort (including tax credits) of -0.3 percentage points of GDP, which results from cuts in taxes and social security contributions, and is partially offset by (ii) a positive expenditure effort of +0.1 points.

The deficit on one-off and other temporary measures was particularly large in 2019, standing at -1.0 point, as a result of the conversion of the CICE being recognised in this category. Real GDP growth stood at 1.5%, outstripping the potential growth rate. The cyclical component of the general government deficit led to an improvement of 0.1 percentage points of GDP compared to 2018.

Government expenditure in 2019

Government expenditure (excluding tax credits) grew by 2.7% in nominal terms in 2019, compared to 0.7% in 2018. When restated for the change in the scope of the general government sector, following the creation of France Compétences, which has no effect on the general government balance, government expenditure increased by 2.2% in nominal terms. This was slower than GDP growth, which led to a decrease in the share of government expenditure in GDP from 54.0% to 53.7%. The increase in expenditure in 2019 was driven by sustained local government investment growth in the final run-up to municipal elections and to brisk growth of social benefits paid by the central government following the broadening of eligibility for the in-work benefit and an increase in the benefit amount. In the opposite direction, wage growth was contained and a decline in interest rates and the inflation rate reduced the cost of debt service.

Central government expenditure, excluding tax credits, grew by only 1.3% in nominal terms. The limited growth of the central government payroll (1.4%) and the decrease in interest expense

(22) Source: Insee, August 2020 https://insee.fr/fr/statistiques/4494181?sommaire=4494218

(13.2%) offset the rise in social benefit expenditure (6.0%), stemming from the increase in the in-work benefit, and brisk growth of intermediate consumption expenditure (3.6%). Central government agencies' expenditure grew by 12.5% in 2019, primarily as a result of the creation of France Compétences, which led to a matching increase of expenditure and revenue of €6.3 billion. If this effect were eliminated, central government agencies' expenditure would have grown by 4.5%.

Nominal local government expenditure growth picked up in 2019, standing at 4.5%, compared to 2.0% in 2018. The faster growth stems mainly from local government investment expenditure growth (excluding Société du Grand Paris), which was very strong in 2019 at 14.2%, compared to 6.8% in 2018, as measured by gross fixed capital formation. This is consistent with the usual pattern towards the end of the local election cycle. Operating expenditure increased by 1.7% on average, driven by intermediate consumption, which was up by 2.2%, compared to 2.1% in 2018, and by faster growth of payroll expenditure, which rose by 1.7%, compared to 0.1% in 2018. This was the result of the resumption of the agreement on Careers and Compensation (PPCR), which had been suspended in 2018.

Social security expenditure growth returned to 2.0%, the level seen in 2017, after slowing slightly to 1.9% in 2018. Social expenditure growth was limited to 2.3% in 2019, which enabled the social security administration to post a surplus for the third year in a row. This surplus of €14.4 billion resulted in particular from meeting the National Healthcare Spending Growth Target set in the 2019 Social Security Budget Act.

Aggregate tax and social security contribution rates in 2019

The aggregate tax and social security contribution rate in 2019 stood at 44.1% of GDP, down by 0.7 points compared to 2018. Absent the inclusion of France Compétences in the general government sector, it would have decreased further and stood at 43.8%. The lower rate stems from discretionary measures cutting taxes and social security contributions, which account for -€24.0 billion (or -€30.3 billion, excluding France Compétences). These measures include the conversion of the Competitiveness and Employment Tax Credit (CICE) into a permanent cut in employers' social security contributions and major tax cuts, such as the second stage in the elimination of the residence tax for 80% of households and the exemption of overtime pay from employees' social security contributions and personal income tax. Cuts in taxes and social security contributions benefitting households directly totalled €10.3 billion, reducing their tax burden and boosting their purchasing power.

Without discretionary tax measures, trend growth of aggregate taxes and social security contributions stood at 3.4%, outstripping the nominal GDP growth rate of 2.8%. This corresponds to spontaneous tax elasticity to GDP of 1.2. This brisk growth stems from strong expansion of private sector payrolls, as job creation booms, and growth of the VAT base, business profits and property transactions.

Non-tax revenue also decreased as a share of GDP. The ratio of non-tax revenue continued to shrink, falling from 7.3 percentage points of GDP in 2018 to 7.2 points in 2019. This decline has continued for ten years and stems from many factors, such as falling returns on financial assets, especially bonds, and declining general government sales revenue, particularly in the local sector as the investment cycle was curbed by cuts in central government grants between 2014 and 2017.

2020 mid-year outturn

Government expenditure in 2020

Discretionary expenditure in the **central government budget** increased by €6.7 billion between the Initial 2020 Budget Act and the third Supplementary Budget Act. The 2020 Budget Act upheld the objective of greater budget probity introduced with the 2018 Budget. This "probity" effort led the Government to maintain the average 3% ratio for setting aside reserves from appropriations and to introduce a reduced ratio of 0.5% for programmes where the bulk of appropriations is for expenditure on social benefits (housing benefit, disability benefit and in-work benefit[23]) and cannot be used for other purposes. The Government also extended the €175-million provision for rejected Common Agricultural Policy subsidy settlements for the third year in a row and increased the provision for the foreign operations and domestic missions of the Ministry of Defence from €950 million in 2019 to €1.2 billion in 2020.

The counterpart to this fiscal headroom provided to managers is greater accountability for their expenditure and compliance with the limits passed by Parliament, in keeping with the idea of greater self-sufficiency for the ministries. As was the case in 2019, the contingency reserve was untouched at the end of the first half of 2020, with the exception of funds released for a few programmes that were severely affected by the health crisis. It is possible to identify some areas that will see overruns, but the crisis has put a damper on several types of expenditure, particularly personnel and investment expenditure.

As of 25 September 2020, **emergency measures** provided help for more than 1.7 million businesses through the solidarity fund, with cumulative disbursements of €6.2 billion out of a total package of €8.9 billion[24]. The Acemo-Covid survey published by the statistics division of the Ministry of Labour (DARES) on 23 September 2020 showed that the number of unworked hours paid under the short-time working measures could stand at 2 billion over the period from March to August, for a cost of €21.8 billion as of 20 September 2020 out of a total financing package of €30.8 billion provided by the central government and the unemployment insurance scheme.

In addition to the short-time working measures, the expenditure of the **unemployment insurance scheme** (Unédic) increased by €1.6 billion (see Box 14) following the postponement of several measures to reform the system and the extension of benefits until the end of June 2020 for beneficiaries whose benefits were running out. Even though measures to maintain the household incomes and support businesses contained the rise in unemployment, hundreds of thousands of jobs have been destroyed with a projected average annual loss of 430,000 jobs, leading to an increase in expenditure on unemployment benefits.

The third Draft Supplementary Budgetary Plan and the Budget Policy Debate were based on the assumption of an €8 billion overrun of the **2020 national healthcare expenditure growth target** (Ondam). The data available as of this writing have resulted in an upward revision of this overrun to €10.1 billion. The main factors behind the revision are as follows:

- Increased expenditure on outpatient care as a result of the testing policy (on the assumption that 1 million tests will be administered every week until the end of the year) and as a result of the decision to provide full coverage of telemedicine visits, long office visits for vulnerable persons, and free masks for vulnerable persons;
- the shortfall in expenditure on outpatient care is smaller than envisaged in the third Draft Supplementary Budgetary Plan;

(23) APL, AAH and PPA.

(24) €8.0 billion contributed by the central government, €0.5 billion by the regions and €0.4 billion by the French Insurance Federation (FFA).

- €1.0 billion in expenditure included for the first round of pay rises as part of the Ségur Agreement on the renovation of the healthcare system;
- €1.0 billion subtracted from expenditure for the special contribution from the supplementary health insurance providers.

The expenditure target for healthcare institutions set out in the 2020 Social Security Budget Act will be met, except for the added costs directly linked to the crisis and the expenditure under the Ségur Agreement, which are subject to special offsets. The activity of these institutions has been severely affected by the crisis, but a financing guarantee was put in place in the early months of the lockdown to secure hospitals' cash positions. This guarantee could be supplemented at the end of the fiscal year to provide institutions with adequate resources for the level of activity projected before the crisis, even though the crisis meant that this level was lower.

The information available about **local government** as of this writing is even more difficult to interpret than usual at this point in the year because of the severe volatility of the items considered. The low growth of operating expenditure shown by the mid-year data is consistent with meeting the real operating expenditure growth target of 1.2% set in the 2018-2022 Public Finance Planning Act, even though the contracts signed with local governments to contain their expenditure have been suspended this year because of the crisis. The outturn data on local government investment are consistent with slower investment expenditure growth than expected in an ordinary election year.

Aggregate tax and social security contribution rates in 2020

The aggregate tax and social security contribution projections for 2020 are based on a review of collection data from the early months of the year and the macroeconomic determinants of their bases.

The projection relies on the following elements:

Private-sector payrolls subject to social securitycontributions declined by 8.5% over the first half of 2020 compared to the first half of 2019. The projected total payroll figure for 2020 takes this decrease into account, but high quarterly volatility in 2020 makes extrapolating the whole-year figures more complicated and makes infra-annual tracking more difficult. In addition, the Government has allowed companies to defer payment of their contributions. The total amount of deferred contribution payments stood at around €35 billion between March and the beginning of September[25]. Some companies have already started to pay the deferred contributions. Employers in the non-farm payroll sector still owe approximately €15 billion, which is slightly less than 10% of the total contributions due for the period. In addition to these deferrals, the Government has granted €5.2 billion in exemptions from contributions to businesses in distressed sectors.

Net Value Added Tax (VAT) revenue is estimated on the basis of the revenue amount at the end of August, which stood at €104 billion. This is nearly €12 billion less compared to the same period in 2019, representing a 10% decrease.

Net collection of corporate income tax came to €15.8 billion at the end of July, including €23.6 billion in advance payments for the first half of 2020. The amount collected is much greater than the net corporate income tax collected over the same period in 2019 (€8.1 billion, including €23.0 billion in advance payments) following the 17% growth of taxable profits in 2019, which increased the advance payments and balance in 2020, and the elimination of the Competitiveness and Employment Tax Credit. However, taxable profits are expected to fall by 24% in 2020, which will mainly impact the advance payments due in December. The preliminary collection figures corroborate the projected net annual revenue from corporate income tax of €29.9 billion, compared to €33.5 billion in 2019.

(25) The figure of €38 billion in Table 1 in the Introduction includes €3 billion in deferred taxes.

The accounting data from the first eight months of the year show that revenue from withholding at source of personal income tax is higher than for the same period in 2019, despite the crisis and the bracket reform introduced in the 2020 Initial Budget Act that reduced revenue by €5 billion. This revenue growth stems mainly from the one-month lag between the debit and the remittance of most of the revenue from withholding at source. This lag led to a dip in revenue in January 2019, which was the first month that withholding at source came into effect. Remittance over the whole year in 2020 will increase revenue by approximately €5 billion and temporarily offset the effect of the bracket reform on 2020 revenue. The increased revenue from withholding at source also stems from the resilience of the tax base, which has been sustained by government measures to support household incomes, the share of income that is not subject to cyclical effects, such as retirement pensions, and income that is only partially contemporaneous with the personal income tax base. Advance payments from self-employed workers are calculated on the basis of earnings from previous years, whereas the wage earners' tax withholdings are contemporaneous with their income, but their tax rates are calculated on the basis of past earnings by default. On the other hand, the accounting data show a slight increase in requests to lower the tax rates used for withholding at source compared to 2019. An analysis of the earliest income tax returns filed for earnings in 2019 shows a positive balance owing after accounting for the withholdings paid in 2019, along with tax credits and reductions. This situation can be attributed to taxpayers' receiving pay rises that were greater than the inflation rate or taxpayers' receiving income that was not subject to withholding at source.

Local governments' revenue from local direct taxes depends mainly on changes in the tax base and the tax rates passed into law. Between January and the end of August 2020, cumulative revenue from transfer taxes came to €9.8 billion, which is €1.0 billion less than over the same period in 2019. This signal has been incorporated into the projected annual revenue, which is 10% lower than in 2019, in keeping with the sharp drop in property transactions, even though prices remain firm. Payments of the first instalment of the Contribution on Business Value Added due in June stood at €6.7 billion, which corresponds to a self-adjusted rate of 91% (versus 97.5% under normal circumstances). Businesses will have a clearer idea of the expected decline in their value added in 2020 when the second instalment comes due in September, which should lead to larger self-adjustments. Therefore, the annual projection is based on a self-adjusted rate of 90% and a 3.3% decrease in revenue from the Contribution on Business Value Added[26] in 2020.

Outlook and multiyear strategy

In accordance with Article 50 of the Constitutional Bylaw of 1 August 2001 on Budget Acts, this report presents a multiyear fiscal trajectory up until 2025.

The multiyear trajectory underlying the 2021 Draft Budgetary Plan reflects the need to overcome the deficits arising from the crisis in order to stabilise and start reducing the government debt ratio by 2025. For this to happen, the general government deficit will have to be brought back down to less than 3% of GDP by 2025, following the increase in expenditure to stimulate the economy. This stimulus is needed, since a return to strong growth is the leading requirement for the sustainability of government debt. It is critical to regain the fiscal headroom needed to make our economy more resilient and able to cope with shocks that are likely to occur in the future.

A return to the level of growth seen before the crisis will make it possible to eliminate part of the deficit. After rebounding in 2021, actual growth should be much higher than the potential growth rate in 2022 and then closer to the potential

[26] In the accrual-based national accounts, local governments' net revenue from the Contribution on Business Value Added is recognised in the current year, whereas, in the cash-based budget accounts, the revenue is recognised in the following year. Local governments receive the revenue from the Contribution collected in the previous year, along with a top-up transfer from central government.

growth rate after that. This means that the cyclical balance should start to stabilise in 2023. This improvement will not, however, be enough on its own to achieve fiscal consolidation once the crisis is over, since the growth rate is expected to be persistently two percentage points of GDP lower than the trend seen before the crisis.

Structural adjustment of 0.5 points per year will be needed to achieve a return to fiscal sustainability following the implementation of the Recovery Plan measures, which will focus mainly on 2021 and 2022, and depend on how the health and economic crisis actually plays out.

The adjustment in 2022 will primarily reflect the timing of the recovery measures, which will peak in 2021. This will automatically lead to substantial structural adjustment as the implementation of the Recovery Plan is wound down, and more especially in 2022. Starting in 2023, the improvement of 0.5 points per year in the structural balance should meet the adjustment benchmark for achieving the Medium-Term Objective under the European rules[27]. It would also correspond to the pace of structural adjustment that corrects the deficit without hampering growth. Furthermore, this adjustment could be achieved through greater efficiency in government expenditure; it will not be the result of tax increases.

(27) "The Council and the Commission, when assessing the adjustment path toward the medium-term budgetary objective, shall examine if the Member State concerned pursues an appropriate annual improvement of its cyclically-adjusted budget balance, net of one-off and other temporary measures, required to meet its medium-term budgetary objective, with 0,5 % of GDP as a benchmark." Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

Table 6: Multiyear public finance trajectory

% of GDP, unless otherwise noted	2017	2018	2019	2020	2021	2022	2023	2024	2025
General government balance	**-3.0**	**-2.3**	**-3.0**	**-10.2**	**-6.7**	**-4.9**	**-4.0**	**-3.4**	**-2.9**
of which Central government	-3.1	-2.8	-3.5	-8.7*+	-5.5				
of which Other central government bodies	-0.2	-0.1	-0.1	1.1*+	-0.1				
of which Local government	0.1	0.1	0.0	-0.1	0.0				
of which Social Security Funds	0.2	0.5	0.6	-2.6	-1.0				
Cyclical balance	-0.3	0.0	0.2	-6.5	-2.8	-1.6	-1.2	-1.2	-1.2
One-off and other temporary measures*	-0.2	-0.1	-1.0	-2.6	-0.2	-0.2	-0.1	0.0	0.0
Structural balance*	-2.4	-2.2	-2.2	-1.2	-3.6	-3.2	-2.7	-2.2	-1.8
Structural adjustment*	**0.3**	**0.2**	**0.0**	**1.1**	**-2.5**	**0.5**	**0.5**	**0.5**	**0.5**
General government expenditure, excluding tax credits**	55.1	54.0	54.0	62.8	58.5	56.3	55.0	54.4	53.7
Aggregate taxes and social security contributions, excluding tax credits**	45.1	44.8	44.1	44.8	43.8	43.7	43.8	43.9	43.9
Government debt	**98.3**	**98.1**	**98.1**	**117.5**	**116.2**	**116.8**	**117.5**	**117.8**	**117.4**
…excluding financial assistance for the euro area***	95.4	95.3	95.4	114.6	113.5	114.3	115.1	115.4	115.2
Real growth (%)	**2.3**	**1.8**	**1.5**	**-10.0**	**8.0**	**3.5**	**2.0**	**1.4**	**1.4**

** Including the SNCF Réseau debt assumed in 2020 (€25 billion). This transaction is neutral for the general government balance because the central government expenditure is recorded as revenue for central government agencies. Without this transaction, the central government deficit would be equal to 7.6% of GDP and the central government agencies deficit would be equal to 0.0% of GDP.*

** as a % of potential GDP. The government balance has been broken down using the same assumptions as the 2018-2022 Public Finance Planning Act, with the potential growth rate standing at 1.35% starting in 2022. The revised potential growth rate discussed in Box 6 would lead to a cyclical balance of zero starting in 2024, which means that, after that, the deficit would be seen as entirely structural.*

*** The impact of the creation of France Compétences on government expenditure and aggregate taxes and social security contribution are not eliminated. If the impact of the creation of France Compétences is eliminated, the government expenditure ratio, excluding tax credits, would be 53.7 percentage points of GDP and the aggregate tax and social security contribution ratio would be 43.8 percentage points of GDP in 2019. If this effect is eliminated after 2019, these ratios would be 0.3 percentage points of GDP smaller through 2022 and then 0.2 points smaller starting in 2023.*

**** financial support for the euro area includes bilateral loans, France's share of the European Financial Stability Facility (EFSF) and France's capital contributions to the European Stability Mechanism (ESM).*

Box 4: Government expenditure and economic recovery

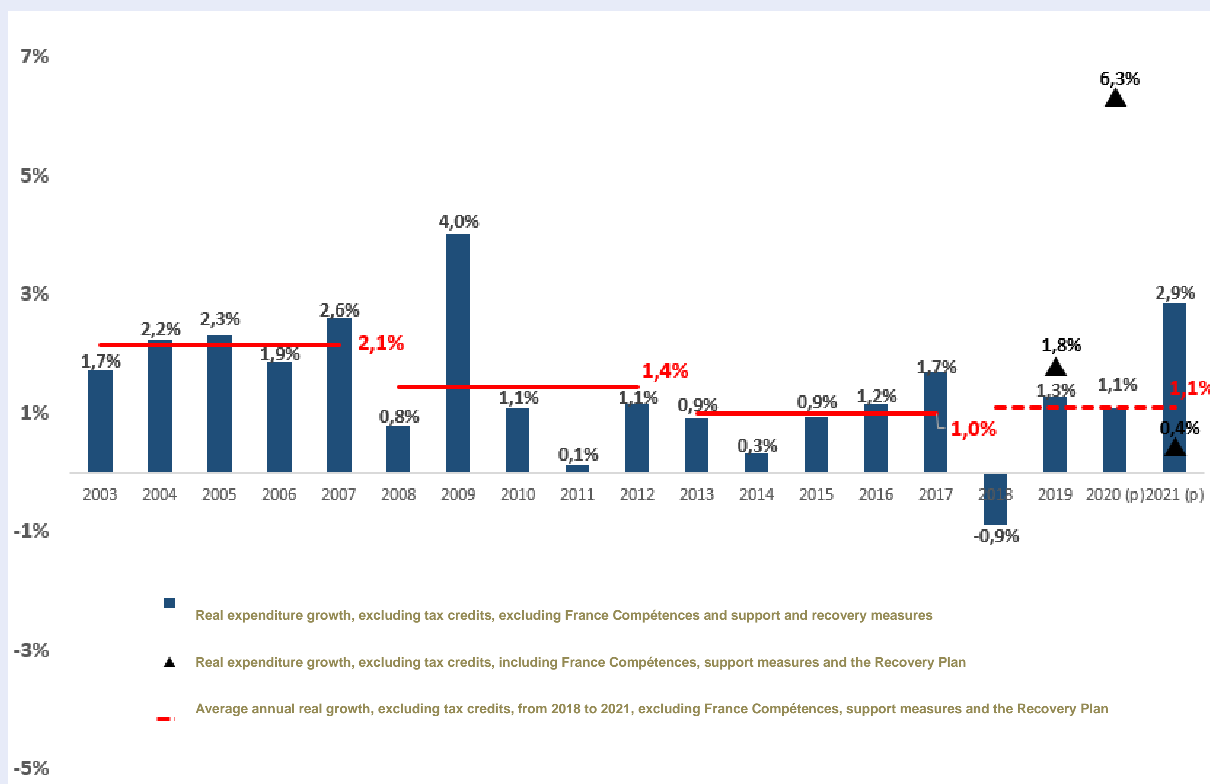
Government expenditure will post strong real growth in 2020 of 6.3%, driven by measures to support the economy and the healthcare system, along with the first measures under the Recovery Plan, contributing 4.7 percentage points to the real government expenditure growth rate. This follows two years of containment of this growth at 0.2% in real terms per year in 2018 and 2019, after restatement for the impact of the creation of France Compétences. Without these emergency measures and the Recovery Plan, real expenditure growth in 2020 would have been 1.1%.

In 2021, real growth of government expenditure should stand at 0.4%, primarily because of the end of the temporary support measures in 2020. If the support and Recovery Plan measures are eliminated in 2020 and 2021, the real growth of government expenditure would stand at 2.9% in 2021. This faster growth stems from the pay rises included in the Ségur Agreement on the renovation of the healthcare system, the expected rebound in local government investment expenditure and the persistent impact of the shock in 2020 on the cyclical component of expenditure on unemployment benefits.

The real growth of government expenditure would have averaged 1.1% per year over the period from 2018 to 2021, after stripping out the emergency support measures, the Recovery Plan and France Compétences.

The strong growth of government expenditure in 2020 and 2021 illustrates the unprecedented scale of the support provided for our healthcare system and for our economy during the health crisis. The Recovery Plan will provide more than €100 billion, with government expenditure and investment accounting for the major share. This plan will enable the French economy to bounce back more quickly from the health crisis, while speeding up ecological transition, making our businesses more competitive and promoting France's social and territorial cohesion.

Chart 1: Real general government expenditure growth, excluding tax credits



Scenario with no changes to legislation or practices

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

Revenue growth is determined by trend growth rates related to the economic situation and historic tax elasticity. Discretionary measures under legislation passed before the 2017 Supplementary Budget Act of 1 December 2017 are also taken into account, but not the discretionary tax measures that came afterwards;

As of 2017, real growth of government expenditure, excluding tax credits, is expected to be in line with the average growth of the last ten years (or 1.2%, which is close to the potential GDP growth rate). One-off expenditure to refund the disputed 3% dividend tax has been incorporated into this trend path, along with the trend growth rate seen mainly in 2017. The expenditure for the support measures in 2020 has not been included in the trend path since it is driven by the Government's economic policy.

All in all, without the measures passed since the first 2017 Supplementary Budget Act, the general government deficit would have stood at 3.4% of GDP in 2017 and 3.1% in 2018. The measures the Government implemented back in the third quarter of 2017 enabled France to exit the Excessive Deficit Procedure in 2018 on the basis of the 2017 outturn and to end the practice of recurrent under-budgeting. In 2019, the deficit would have stood at 2.6% of GDP on the trend path, without the conversion of the Competitiveness and Employment Tax Credit into a permanent cut in employers' social security contributions. When the impact of this conversion is eliminated, the Government's other decisions made it possible to improve the balance by 0.4 percentage points of GDP. The trend improvement over the previous year is significant and reflects a slight cyclical improvement, and the trend growth rate of revenue. In 2020, with the same economic recession, but no discretionary measures, the annual deficit would have stood at 7.2% of GDP as a result of the drop in growth related to the crisis. This scenario is particularly artificial since the drop in growth would likely have been much greater without the Government's massive intervention to deal with the crisis. The rebound in 2021 would have reduced the deficit to 4.7% of GDP.

This report also presents a scenario "with no changes to legislation or budget practices" in accordance with the 2012 Constitutional Bylaw on Public Finance Planning and Governance, which is no different from the actual trajectory under the current Draft Budgetary Plan up to and including 2020, but then deviates from this trajectory in 2021:

The scenario follows the same conventions as the trend path for revenue, but incorporates all of the discretionary tax measures announced before the 2021 Draft Budgetary Plan and Draft Social Security Budget. These include the exemptions from taxes and social security contributions introduced to cope with the crisis, but not the cuts in production taxes, which are part of the Recovery Plan;

The scenario calls for 1.2% real growth of government expenditure in 2021 compared to expenditure in 2020 without the support measures. The scenario growth rate excludes tax credits and matches the trend path.

Based on these assumptions, the deficit would have been 5.0% of GDP in 2021 with no changes to policy and under the artificial assumption that the economic rebound would have been similar without the support measures and Recovery Plan, this compares to the deficit of 6.7% of GDP set out in the Draft Budgetary Plan. The difference stems from the Government's measures and, more particularly, from the Recovery Plan and increased expenditure on healthcare.

Table 7: Scenario with no changes to legislation or practices					
As a % of GDP	**2017**	**2018**	**2019**	**2020**	**2021**
Trend path (excluding changes passed since the first 2017 Supplementary Budget Act)	-3.4	-3.1	-2.6	-7.2	-4.7
Effect of discretionary expenditure and tax measures on the deficit*	0.4	0.8	0.4	-3.1	-0.3
Conversion of the Competitiveness and Employment Tax Credit			-0.9		
Trajectory with no changes to legislation or practices (excludes measures in the 2021 Draft Budgetary Plan and Draft Social Security Budget)	-3.0	-2.3	-3.0	-10.2	-5.0
Effect of discretionary expenditure and tax measures on the deficit					-1.6
Target trajectory under the 2021 Draft Budgetary Plan	-3.0	-2.3	-3.0	-10.2	-6.7

* Excluding the conversion of the Competitiveness and Employment Tax Credit in 2019

Appendix

Status of country-specific recommendations 2020 –
list of measures taken since the 2020 national reform programme

CSRs	SUB-RECOMMANDATIONS	MEASURES	DONE	IN PROGRESS/PENDING
CSR1	In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery.	**Health measures: National Reform Programme for 2020 (reminder) :** **First Supplementary Budget Act** **Second Supplementary Budget Act** **Third Supplementary Budget Act**	The government responded to the Covid-19 pandemic with determination. It took immediate, aggressive public health measures, including the lockdown, to stop the virus spreading and increase France's ability to combat the pandemic. At the same time, the government quickly rolled out large-scale economic support measures to preserve household incomes, safeguard jobs, boost companies' cash positions and enable businesses to cover their ordinary expenditure, and support the sectors most affected by the drop in activity. Overall, those emergency measures totalled around €470 billion, including €64.5 billion directly affecting the public-sector balance (excluding cash support measures and guarantees, whose impact on the balance will occur after 2020 and remains uncertain), €76 billion of cash support measures and €327.5 billion of guarantees.	
CSR 1		**2021 Draft Budget Act** **« France relance » plan,** (French recovery plan) **« Mission relance »,** (recovery mission)		To supplement these emergency measures by putting the recovery on a firmer long-term footing and to help transform the French economy, a €100 billion Recovery Plan was announced on 3 September 2020. This public investment package will boost the recovery in the short term, with the aim of bringing activity back to its

CSRs	SUB-RECOMMANDATIONS	MEASURES	DONE	IN PROGRESS/PENDING
				pre-crisis level by 2022, and will lay foundations for the future by accelerating the ecological transition and encouraging investment and innovation, particularly in digital technologies. The plan has three parts: - €30 billion will be devoted to investments in all aspects of the ecological transition, including the energy retrofitting of buildings, green infrastructure and mobility, decarbonisation of industrial processes and support for green innovation, support for the circular economy, limits on land take, and agricultural transition. - €34 billion will go towards increasing the competitiveness and independence of France's productive base, particularly through reducing taxes on production by €20 billion over two years and investing in the technologies of the future. - Finally, there will be €36 billion for social and regional cohesion and the preservation and development of skills, with the introduction of long-term short-time working arrangements, a "1 Young Person, 1 Solution" scheme, help with integrating the most vulnerable and retraining employees, efforts to increase the purchasing power of the poorest households, and measures directly aimed at combating regional inequalities.
CSR 1	When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.	**"COVID debt" segregation**		The so-called "COVID debt" incurred by the government to respond to the pandemic will be segregated from the country's balance sheet. The debt will be paid down gradually from public funds on a regular schedule until it is fully repaid. A similar strategy has been used to pay down €136bn in social security debt, segregating it in the Social Security Debt Repayment Fund (CADES).

CSRs	SUB-RECOMMANDATIONS	MEASURES	DONE	IN PROGRESS/PENDING
		Public Finance Planning Bill : Strengthening the public finance governance framework		There are also plans to strengthen the public finance governance framework, and a new public finance planning bill will allow the government to lay out an ambitious course for its medium-term fiscal consolidation strategy, which is based on a return to growth under the recovery plan, more efficient public spending and effective management of total public expenditure.
CSR 1	Strengthen the resilience of the health system by ensuring adequate supplies of critical medical products and a balanced distribution of health workers, and by investing in e-Health.	**Health expenditure as part of emergency measures (cf. NRP for 2020)** **Ségur Agreement:** Massive investment in health (€6bn over 3 to 5 years) dedicated to structural investment priorities in the health and medico-social sectors, as well as in digital health.	- Purchases of non-surgical masks, - Purchase of equipment (masks, ventilators, tests, etc.) - Increased overtime and exceptional bonuses for care workers	- Transformation, renovation, equipment and digital upgrading in medical-social establishments (€2.1bn over 5 years) - Health investments in the regions: prioritised hospital projects and city-hospital projects (€2.5bn over 5 years) - Catching up on the delay in the interoperability and modernisation of digital health tools (€1.4 billion over 3 years). - Development of the coordinated exercise (territorial health professional communities, multi-professional health centres) and telemedicine in all territories to improve access to care via the conventional negotiations in progress (achievements in progress - 1st monitoring committee of the *Ségur Agreement* - 23 September 2020) - An old age and independent living reform is under development, the goal of which will be to improve both homecare and facility

CSRs	SUB-RECOMMANDATIONS	MEASURES	DONE	IN PROGRESS/PENDING
		Dependency	Organic Law of 7 August 2020 on social debt and autonomy: creation of a 5th branch of social Security.	care and ensure equitable delivery of services, by putting more focus on lower-income citizens and increasing funding.
CSR 2	Mitigate the employment and social impact of the crisis, including by promoting skills and active support for all jobseekers.	**Acquisition of skills during the education course**	- Educational continuity: "My Class at Home" scheme for all students; pedagogical and material support (partnership with the national Post office) for students from underprivileged backgrounds.	- Sharing and mutualisation of education data (Education Data Hub) - Teachers training (pedagogical component of the "Digital France" plan)
		Tackling inequalities	- Provision of computers and internet connection keys for the most underprivileged students thanks to a partnership with Emmaus Connect and various private and associative actors throughout the country. - A €15M ANCT scheme to provide computer equipment in the neighbourhoods that need it the most during the lockdown period and to support local neighbourhood associations.	- Experimentation of the "educational digital territories" scheme in Aisne and Val d'Oise since the start of the 2020 school year: training for teachers and parents, digital equipment for students, new teachers and classes, teacher access to digital resources, etc. - Revitalisation of boarding schools: 140 boarding schools will be labelled "21st century boarding schools". - A €50M programme under the Recovery Plan for the creation/rehabilitation of new boarding schools of excellence (objective: 1500 positions created/rehabilitated) - *Cordées de la réussite* (a mentoring programme): doubling the number of beneficiary students
		Continuation of studies for new high school graduates - *bacheliers*		- Continuation of studies for new high school graduates (*bacheliers*) and reform of the high school and transformation of the professional path with the aim of preparing students for their future. - 40 new Educational Cities (in addition to the 80 labelled in September 2019) in order to strengthen the local cooperation of all the actors mobilised around the journey of children and young people from 0 to 25 years old. - Future development of service centres, in the spirit of the "Maisons France Service"

CSRs	SUB-RECOMMANDATIONS	MEASURES	DONE	IN PROGRESS/PENDING
		Emergency measures to support the sustainability of the employment and household income: (cf. NRP 2020)	- Increased flexibility of the partial activity scheme and reinforcement of the compensation; - Extension of unemployment insurance for jobseekers at the end of their benefit entitlement; - One-off grant to self-employed workers; - Payment of a one-off solidarity grant ;	
		Unemployment insurance	- Adaptation of unemployment insurance rules (decree of 29 July 2020).	
		Social dialogue		- Launching consultation with the social partners on crisis response measures and post-crisis preparation
		Vocational integration of young people: "youth plan".		- The "1 Young Person, 1 Solution" Scheme to support young people aged 16 to 25 at the end of the Covid-19 crisis. - Adaptation of apprenticeship rules *(apprentissage*)
		Vocational integration: (apart the youth plan)		- Setting up an insertion public service ; - Adaptation of insertion through economic activity (reinforcement of inclusion in employment through economic activity, extension of the experimentation territories with zero unemployment). - Reform of the partial activity scheme, with the creation of an ordinary law scheme and a long-term scheme - Hiring subsidies for disabled workers
		Vocational training		- Vocational training: Reinforcement of the Skills Investment Plan (PIC), with new training related to the jobs of the future.

CSRs	SUB-RECOMMANDATIONS	MEASURES	DONE	IN PROGRESS/PENDING
CSR3	Ensure the effective implementation of measures supporting the liquidity of firms, in particular for small and medium-sized enterprises	**Emergency measures to support business liquidity and the most affected sectors**	- Introduction of an extraordinary government guarantee scheme for loans to businesses (for all new cash-flow loans granted by credit institutions between 16 March and 31 December 2020 to businesses registered in France) - Setting up a system of repayable advances or subsidised loans to small and medium-sized strategic industrial enterprises (between 50 and 250 employees). - Extension of payment deadlines for certain taxes and social security contributions, due from March to August. - Exemption from social security contributions - Setting up a solidarity fund - Strengthening of the economic and social development fund (FDES) - Early repayment of tax credits (corporation tax and VAT receivables) - Establishment of Commissioners for Restructuring and Prevention of Business Difficulties.	
		France Recovery Plan: competitiveness		- Strengthening the equity capital of SMEs / VSEs and medium-size enterprises

CSRs	SUB-RECOMMANDATIONS	MEASURES	DONE	IN PROGRESS/PENDING
CSR 3	Focus investment on the green and digital transition, in particular on sustainable transport, clean and efficient production and use of energy, energy and digital infrastructures as well as research and innovation.	**Green Budgeting** **Environmental taxation (2021 Draft Budgetary Act)**	- Report on the Environmental Impact of the State Budget (Annex to the 2021 Draft Budgetary Plan)	- Strengthening incentives for the use of renewable energy in transport - Reinforcement of the CO2 malus on vehicle registration - Maintenance of a tax credit for the acquisition and installation of charging systems for electric vehicles - Measures to adapt the tax on land development to promote land sobriety and the fight against land take
CSR 3		**French Recovery Plan: Greening** **France Recovery Plan: Digital** **French Recovery Plan: Research and Innovation: PIA4** **Multiannual Research Programming Draft Law: giving public research visibility, freedom and means.**		- Energy retrofitting of buildings - Green infrastructure and mobility modes - Green energies and technologies - Measures to reduce the carbon intensity of industry - Digital upgrading of the State and territories - Digital upgrading of companies - Expansion of the High-Speed Broadband Plan - Digital inclusion - Innovating for ecological transition and for the resilience of our business models - Supporting ecosystems for education, research, valorization and innovation - Supporting innovative companies - Reinforcement of research funding capacity notably through the National Research Agency - Strengthening partnerships between private and public research ;

CSRs	SUB-RECOMMANDATIONS	MEASURES	DONE	IN PROGRESS/PENDING
				- Simplification measures ; - Renovation of the evaluation; - Reform of the compensation system and upgrading of researchers; - Continued development of site and contractualisation policies for all of the institutions' missions.
CSR 4	Ensure the effective implementation of measures supporting the liquidity of firms, in particular for small and medium-sized enterprises.	**Draft law for accelerating and simplifying public action (ASAP)**		- Abolishment or consolidation of 18 advisory commissions ; - Deconcentration of administrative decisions in the fields of culture, economy and health; - Simplification of administrative procedures to speed up industrial installations and develop activity and employment in the territories.
		Tax simplification (2021 draft budgetary plan)		- Continuation of the elimination of low-yield taxes and inefficient tax expenditure, begun in 2018: In 2021, the implementation of the eliminations already voted and the voting of new eliminations will make it possible to eliminate €307 million of low-yield taxes. In 2019 and 2020, this effort was €209 million and €226 million respectively. - Harmonisation of electricity taxation and simplification of its management - Reform of vehicle taxation: rationalisation of the tax regimes for taxes due on the use of motor vehicles - Transfer of the management of urban planning taxes to the Directorate General of Public Finance (DGFIP) - Simplification of the formality of the registration of certain company deeds.
		Cut in taxes on production		- Lower taxes on production (cf. CSR1). - Modernization of the property tax base of industrial establishments

Detailed forecast tables

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

	2019		2020	2021	2021/2019
NOMINAL GROSS DOMESTIC PRODUCT (GDP) - level in billions	**2 425,7**		**2 223,0**	**2 407,8**	
	Nominal	Volume			
	Level in €bn	Rate of change	Rate of change	Rate of change	Rate of change
RESOURCES					
Real gross domestic product	2 425,7	1,5	-10,0	8,0	-2,7
Imports	794,4	2,6	-11,5	8,2	-4,3
TOTAL OF RESOURCES	**3 220,2**	**1,8**	**-10,3**	**8,0**	**-3,1**
USES					
Private consumption expenditure	1 303,3	1,5	-8,4	6,5	-2,5
Government consumption expenditure	560,2	1,7	0,8	3,1	3,9
Gross fixed capital formation (GFCF)	573,1	4,3	-14,5	14,9	-1,8
- of which Non-financial corporations	320,7	3,7	-17,0	17,2	-2,7
- of which Households excluding self-employed	129,8	1,8	-14,6	12,5	-4,0
- of which General Government	88,7	7,7	-3,7	12,1	8,0
Exports	770,7	1,8	-18,5	12,6	-8,3
Changes in inventories and net acquisitions of valuables	12,9				
TOTAL USES	**3 220,2**	**1,8**	**-10,3**	**8,0**	**-3,1**
Contributions to real GDP growth					
Final domestic demand excluding inventories		2,2	-7,8	7,7	
Changes in inventories and net acquisitions of valuables		-0,4	-0,0	-0,7	
Net foreign trade		-0,3	-2,1	1,0	

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

	2019	2020	2021
	Rate of change	Rate of change	Rate of change
RESOURCES			
Gross domestic product	1,2	1,8	0,3
Imports	0,2	-2,3	0,3
TOTAL DES RESSOURCES	**1,0**	**0,8**	**0,3**
USES			
Private consumption expenditure	0,9	0,5	0,7
Government consumption expenditure	0,2	3,1	-1,8
Gross fixed capital formation	1,7	1,4	1,5
Exports	1,0	-1,3	0,2
TOTAL USES	**1,0**	**0,8**	**0,3**
OTHER PRICE INDICES			
Consumer Price Index (CPI)	1,1	0,5	0,7
Consumer Price Index excluding tobacco	0,9	0,2	0,6
Harmonised Index of Consumer Prices (HICP)	1,3	0,6	0,8

Table 3 : Sectoral balances – Net lending (+)/ borrowing (-)

	2018	2019	2020	2021
	pp of GDP	pp of GDP	pp of GDP	pp of GDP
NET LENDING (+) / BORROWING (-) vis-à-vis the rest of the world	**- 0,8**	**- 0,8**	**- 2,9**	**- 1,2**
Of which:				
- Balance of goods and services	- 1,0	- 1,0	- 3,0	- 1,9
- Balance of primary incomes and transfers	0,2	0,1	0,1	0,7
- Capital account	0,0	0,0	0,0	0,0
NET LENDING (+)/ BORROWING (-) of the private sector	**1,4**	**2,2**	**7,3**	**5,5**
Of which:				
- Households	2,6	2,8	8,4	5,1
- Non-financial corporations	- 1,2	- 0,3	- 1,5	0,2
NET LENDING (+)/ BORROWING (-) OF GENERAL GOVERNMENT*	**- 2,3**	**- 3,0**	**- 10,2**	**- 6,7**

(*) According to the Maastricht definition.

Table 4 : French external trade

	2018	2019	2020	2021
	Level in €bn	Level in €bn	Level in €bn	Level in €bn
TOTAL GROSS TRADE BALANCE CIF-FOB	**- 77,2**	**- 73,9**	**- 97,5**	**- 85,9**
Of which:				
- Manufacture of food products	1,4	1,9	1,9	1,5
- Energy	- 45,6	- 44,6	- 31,2	- 30,7
- Industry	- 37,0	- 37,0	- 72,5	- 61,1
Total trade balance FOB-FOB - in level	- 62,6	- 57,5	- 79,1	- 67,5
Total trade balance FOB-FOB - in pp of GDP	- 2,7	- 2,4	- 3,6	- 2,8
COMMERCIAL BALANCE EXCLUDING ENERGY AND MILITARY - in level CIF-FOB	**- 35,6**	**- 33,8**	**- 71,0**	**- 60,0**

Table 5 : Non-financial Corporations – Detailed data

	2018	2019	2020	2021
	Level in €bn	Rate of change	Rate of change	Rate of change
GROSS VALUE ADDED	**1 217,3**	**4,1**	**- 12,7**	**11,6**
Compensation of employees	806,1	0,7	- 9,3	7,7
Ratio: compensation of employees / Gross Value Added – level in %	66,2	64,1	66,5	64,2
Taxes on production	63,9	15,8	- 2,4	- 8,6
Subsidies on production	- 35,0	11,9	- 42,6	13,8
Gross operating surplus (GOS)	382,3	10,0	- 23,8	25,3
Ratio : Margin rate of non-financial corporations (Gross operating surplus / Gross Value Added) – level in %	31,4	33,2	29,0	32,5
Property income paid	269,3	1,4	- 21,6	22,7
Property income received	223,9	- 1,9	- 20,4	23,7
Taxes on income and wealth	45,2	7,2	- 14,1	8,3
GROSS SAVINGS	**269,9**	**8,8**	**- 25,5**	**30,7**
Ratio : Saving Rate (Gross Savings / Gross Value Added) – level in %	22,2	23,2	19,7	23,1
Gross fixed capital formation (GFCF)	295,2	5,1	- 16,0	18,8
Ratio : Self-financing rate (Savings / GFCF) – level in %	91,4	94,6	83,8	92,2
Ratio : Investment rate (GFCF / Gross Value Added) – level in %	24,3	24,5	23,6	25,1
Changes in inventories (1)	20,2	10,0	11,3	- 2,6
NET LENDING (+) / BORROWING (-) – in level. pp of Gross Value Added	**- 2,2**	**- 0,6**	**- 3,0**	**0,3**

(1) Changes in inventories – level in billions

Table 6 : Households - Income Accounts

	2018	2019	2020	2021
	Level in €bn	Rate of change	Rate of change	Rate of change
RESOURCES				
Wages and salaries	919,8	2,9	-5,7	5,2
- Employees' social contributions	116,9	0,0	-4,5	6,1
Wages and salaries (net of employees' social contributions)	802,8	3,3	-5,9	5,1
Mixed income (mainly self-employed)	123,5	0,8	-4,5	4,3
Gross operating surplus (excluding self-employed)	187,7	0,0	0,1	2,5
Social benefits in cash	504,5	3,1	9,5	-3,1
Property income received	102,6	3,2	-13,7	5,9
Other resources	71,5	3,3	-3,9	8,3
USES				
Social contributions by self-employed and non-employed persons	28,7	6,5	-5,8	2,9
Current taxes on income and wealth	248,4	0,3	-5,6	1,2
Property income paid (paid interests)	16,4	- 0,3	-3,6	5,4
Other uses	69,5	3,5	-8,4	8,3
Gross Disposable Income (GDI)	**1 429,7**	**3,1**	**0,0**	**2,3**

Table 7 : Households - From disposable income to net lending

	2018	2019	2020	2021
	Level in €bn	Rate of change	Rate of change	Rate of change
GROSS DISPOSABLE INCOME (GDI)	**1 429,7**	**3,1**	**0,0**	**2,3**
Purchasing power of GDI		2,1	- 0,5	1,5
Final consumption expenditure	1 223,2	2,5	- 7,6	7,0
GROSS SAVINGS	**206,5**	**6,8**	**43,2**	**- 15,1**
GLOBAL SAVING RATE (Gross savings/ GDI) – in level	**14,4**	**15,0**	**21,4**	**17,8**
Gross fixed capital formation (GFCF)	135,0	3,8	- 13,5	14,5
Other net uses	9,6	34,6	- 43,4	0,7
NET LENDING (€ billions)	**61,9**	**67,4**	**187,1**	**121,7**
SAVING RATE (Net lending / GDI) – in level	**4,3**	**4,6**	**12,7**	**8,1**

Table 8 : International Environment - Basic assumptions

	2019	2020	2021
Short-term interest rate (annual average))	0,0	0,0	0,0
Long-term interest rate (annual average)	0,1	0,0	0,5
USD/€ exchange rate (annual average)	1,12	1,13	1,16
Nominal effective exchange rate of the French economy	-1,1	2,2	1,3
World GDP growth (excluding EU)	3,1	-3,3	5,0
Growth of relevant foreign markets	1,1	-11,0	6,5
World imports (excluding EU)	-0,3	-10,1	4,7
Oil prices (Brent. USD / barrel))	64	42	44

Table 9 : International Environment - Detailed forecasts of GDP growth

	2019	2019	2020	2021	2021/2019
	Level* (USDbn)	Rate of change	Rate of change	Rate of change	Rate of change
France	2 788	1,5	-10,0	8,0	-2,7
United Kingdom	2 862	1,5	-10,5	7,2	-4,1
European Union (27 countries)	15 621	1,8	-8,1	6,0	-2,6
Euro area	13 680	1,3	-7,9	6,3	-2,1
Euro area excluding France	10 892	1,3	-7,4	5,9	-1,9
United States	20 612	2,2	-5,2	3,0	-2,3
Japan	4 955	0,7	-5,3	2,7	-2,8

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

Table 10 : International Environment - Consumer price Index

	2018	2019	2020	2021
France (consumer price Index)	1,8	1,1	0,5	0,7
United Kingdom	2,5	1,8	0,6	1,0
Euro area	1,8	1,1	0,3	0,8
United States	2,4	1,8	1,0	1,8
Japan	1,0	0,5	0,1	0,1

Table 11 : Labour market developments

	2019	2019	2020	2021
	Level	Rate of change	Rate of change	Rate of change
Employment, persons (1) - Total economy - Annual average	**28 480**	**1,1**	**- 1,7**	**- 0,4**
Employment, persons - France. all sectors - Annual average, thousands of persons2	28 367	295	-480	-120
Employment, persons - France. Non-farm market sector – Annual average2	17 059	1,3	-2,3	-0,8
Employment, persons - France. Non-farm market sector – YoY, thousands of persons2	17 189	260	- 750	325
Compensation of employees - Total economy	**1 242,9**	**0,8**	**- 6,4**	**6,0**
Wages and salaries per employee - Non-farm market sector		1,9	-5,7	7,3
Labour productivity - Total economy3		**0,4**	**- 8,3**	**8,4**

(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

	2019	2020	2021	2021 /2019
	Rate of change	Rate of change	Rate of change	Rate of change
Actual GDP growth	1,5	-10,0	8,0	-2,7
Potential GDP growth	1,25	1,25	1,3	2,55
Contributions :				
- Labour (total hours worked)	0,1 / 0,2	0,1 / 0,2	0,1 / 0,2	0,3
- Capital	0,4 / 0,5	0,4 / 0,5	0,4 / 0,5	0,9
- Total Factor Productivity (TFP)	0,6 / 0,7	0,6 / 0,7	0,6 / 0,7	1,3
- Effect of reforms	/	/	0,0 / 0,1	0,0 / 0,1
Output gap (in pp of potential GDP)	0,3	-10,8	-4,9	

Table 13. General government budgetary targets broken down by subsector				
	ESA Code	2019	2020	2021
		% of GDP	% of GDP	% of GDP
1. General government	S.13	-3.0	-10.2	-6.7
2. Central government	S.1311	-3.6	-7.6	-5.6
3. State government	S.1312			
4. Local government	S.1313	0.0	-0.1	0.0
5. Social security funds	S.1314	0.6	-2.6	-1.0
6. Interest expenditure	EDP D.41	1.5	1.3	1.3
7. Primary balance (1 + 6)		-1.6	-8.9	-5.4
8. One-off and temporary measures		-1.0	-2.6	-0.2
9. Ratio of real GDP growth (%)		1.5	-10.0	8.0
10. Potential GDP growth (%)		1.2	1.2	1.3
11. Output gap (as a % of potential GDP)		0.3	-10.8	-4.9
12. Cyclical budgetary component		0.2	-6.5	-2.8
13. Cyclically- adjusted balance (1 - 12)		-3.2	-3.8	-3.8
14. Cyclically-adjusted primary balance (13 + 6)		-1,7	-2,4	-2.6
15. Structural balance (13 - 8) (% of potential GDP)		-2.2	-1.2	-3.6

Table 14. General government debt developments				
	ESA Code	2019	2020	2021
		% of GDP	% of GDP	% of GDP
1. Gross debt		98.1	117.5	116.2
2. Change in gross debt ratio		0.1	19.4	-1.3
Contributions to changes in gross debt ratio				
3. Primary balance		-1.6	-8.9	-5.4
4. Interest expenditure	D.41	1.5	1.3	1.3
5. Stock-flow adjustment		-0.3	0.2	1.0
Memo: Implicit interest rate on debt		1.5	1.1	1.1
Debt ratio, excluding support for the euro area		95.4	114.6	113.5

Table 15. Contingent liabilities				
	ESA Code	2019	2020	2021
		% of GDP	% of GDP	% of GDP
Public guarantees		8.5		

Table 16. Structural effort broken down by subsector

Central government			
	2019	**2020**	**2021**
General government balance	**-3.6**	**-7.6**	**-5.6**
Structural balance (as a % of potential GDP)	-2.7	-3.4	-4.3
Structural adjustment	0.1	-0.7	-0.8
of which, structural effort	*1.3*	*-0.3*	*-1.0*
*of which neutral operations on the general government balance**	*-1.3*	*-0.3*	*-0.6*
Local government			
	2019	**2020**	**2021**
General government balance	**0.0**	**-0.1**	**0.0**
Structural balance (as a % of potential GDP)	-0.1	0.6	0.3
Structural adjustment	-0.2	0.7	-0.3
of which, structural effort	*-0.4*	*0.3*	*-0.5*
*of which neutral operations on the general government balance**	*0.2*	*0.1*	*0.4*
Social security funds			
	2019	**2020**	**2021**
General government balance	**0.6**	**-2.6**	**-1.0**
Structural balance (as a % of potential GDP)	0.5	1.6	0.3
Structural adjustment	0.1	1.1	-1.3
of which, structural effort	*-1.1*	*0.8*	*-1.3*
*Of which neutral operations on the general government balance**	*1.1*	*0.2*	*0.2*

**Restatements and transfers between subsectors*

Table 17. Structural adjustment and structural effort breakdown

	2019	**2020**	**2021**
General government net lending (% of GDP)	**-3.0**	**-10.2**	**-6.7**
Cyclical balance	0.2	-6.5	-2.8
One-off and temporary measures (as a % of potential GDP)	-1.0	-2.6	-0.2
Structural balance (as a % of potential GDP)	-2.2	-1.2	-3.6
Structural adjustment	0.0	1.1	-2.5
of which, structural effort	-0.2	0.8	-2.7
new revenue measures (net of tax credits) and excluding one-off and temporary measures	*-0.1*	*-0.6*	*-0.4*
expenditure effort	*-0.1*	*1.1*	*-2.3*
correction for accrual-based measurement of tax credits	*0.0*	*0.4*	*0.0*
of which, non-discretionary component	0.2	0.2	0.3
revenue excluding aggregate taxes and social security contributions	*-0.1*	*-0.4*	*1.0*
effect of tax elasticity	*0.3*	*0.6*	*-0.7*

Table 18.
General government expenditure and revenue projections in ESA 2010 with no policy change broken down by main components

General government (S.13)	ESA Code	2019	2020	2021
		% of GDP	% of GDP	% of GDP
1. Total revenue (gross of tax credits)		52.6	53.4	52.1
Of which				
1.1. Taxes and duties on production	D.2	16.8	17.3	17.0
1.2. Current taxes on income, wealth, etc.	D.5	13.1	13.2	12.4
1.3. Capital taxes	D.91	0.6	0.7	0.6
1.4. Social contributions	D.61	16.8	16.9	16.9
1.5. Property income	D.4	0.7	0.6	0.6
1.6. Other		4.5	4.8	4.6
Memo: Aggregate taxes and social security contributions (excluding EU)*		43.9	44.6	44
2. Total expenditure (including tax credits)		55.6	63.6	57.1
Of which				
2.1. Compensation of employees	D.1	12.3	13.7	12.4
2.2. Intermediate consumption	P.2	4.9	5.8	5.1
2.3. Social payments	D.62, D.63	25.4	30.0	26.4
of which unemployment benefits		1.4	2.1	1.5
2.4. Interest expenditure	D.41	1.5	1.3	1.2
2.5. Subsidies	D.3	2.8	2.8	2.3
2.6. Gross fixed capital formation (GFCF)	P.51	3.7	3.9	4.1
2.7. Capital transfers	D.9	1.0	1.2	1.3
2.8 Other		4.1	4.8	4.3

NB: Expenditure and revenue in ESA 2010 (including tax credits for gross expenditure and revenue).
**Aggregate taxes and social security contributions net of tax credits and not gross.*

Table 19. General government expenditure and revenue targets

General government (S.13)	ESA Code	2019	2020	2021
		% of GDP	% of GDP	% of GDP
1. Total revenue (gross of tax credits)		**52.6**	**53.4**	**52.5**
Of which				
1.1. Taxes and duties on production	D.2	16.8	17.3	16.6
1.2. Current taxes on income, wealth, etc.	D.5	13.1	13.2	12.5
1.3. Capital taxes	D.91	0.6	0.7	0.6
1.4. Social contributions	D.61	16.8	16.9	16.9
1.5. Property income	D.4	0.7	0.6	0.6
1.6. Other		4.5	4.8	5.3
Memo: Aggregate taxes and social security contributions (excluding EU)*		43.9	44.6	43.6
2. Total expenditure (including tax credits)		**55.6**	**63.6**	**59.2**
Of which				
2.1. Compensation of employees	D.1	12.3	13.7	12.9
2.2 Intermediate consumption	P.2	4.9	5.8	5.3
2.3. Social payments	D.62, D.63	25.4	30.0	27.4
of which unemployment benefits		1,4	2.1	1,5
2.4. Interest expenditure	D.41	1.5	1.3	1.3
2.5. Subsidies	D.3	2.8	2.8	2,3
2.6. Gross fixed capital formation (GFCF)	P.51	3.7	3.9	4.2
2.7. Capital transfers	D.9	1.0	1.2	1.4
2.8 Other		4.1	4.8	4.5

NB: Expenditure and revenue in ESA 2010 (including tax credits for gross expenditure and revenue).
**Aggregate taxes and social security contributions net of tax credits and not gross.*

Table 20. Calculation of the aggregate of the expenditure benchmark	2019	2019	2020	2021
	level in €bn	% of GDP	% of GDP	% of GDP
1. Total expenditure (including tax credits)	**1,347.9**	**55.6**	**63.6**	**59.2**
2. One-off and temporary expenditure measures	23.3	1.0	2.7	0.1
3. Interest expenditure	35.3	1.5	1.3	1.3
4. Expenditure on EU programmes fully matched by EU funds revenue	2.0	0.1	0.1	0.1
5. Current investment expenditure	88.7	3.7	3.9	4.2
6. Investment expenditure smoothed over 4 years	80.1	3.3	3.7	3.7
7. Cyclical unemployment benefit expenditure	-0.3	0.0	0.6	0.3
8. Aggregate expenditure benchmark (=1-2-3-4-[5-6]-7)	**1,279.2**	**52.7**	**58.6**	**57.0**
9. Effect of discretionary revenue measures (gross of tax credits and excluding one-off and temporary measures)	-26.0	-1.1	-0.3	-0.5
10. Revenue increases mandated by law	0.0	0.0	0.0	0.0
11. Net aggregate expenditure benchmark (= 8-9-10)	**1,305.2**	**53.8**	**58.9**	**57.5**

NB: The preventive arm of the Stability and Growth Pact provides that the real growth in general government expenditure, net of new revenue measures, should, depending on the country's position with regard to its Medium-Term Budgetary Objectives (MTOs), "not exceed a benchmark rate [or a lower rate for countries that have not achieved their MTOs] for potential medium-term GDP growth, unless this is matched by discretionary revenue measures" (Council Regulation (EC) No 1466/97, amended). This rule, which is part of an overall assessment using the structural balance as a benchmark, allows for focus on the components that can be steered directly by lawmakers within the structural adjustment. The field examined is general government expenditure, excluding interest and cyclical unemployment benefit expenditure, and net of new revenue measures.

Table 21: General government expenditure by function*	COFOG Code	2018
1. General public services	**1**	**6.2**
2. Defence	**2**	**1.8**
3. Public order and safety	**3**	**1.7**
4. Economic affairs	**4**	**5.8**
5. Environmental protection	**5**	**1.0**
6. Housing and community amenities	**6**	**1.1**
7. Health	**7**	**8.1**
8. Recreation, culture and religion	**8**	**1.4**
9. Education	**9**	**5.1**
10. Social protection	**10**	**23.9**
Total expenditure	**TE**	**56.0**

** Eurostat, latest available COFOG data*

Table 22: Divergence from latest SP				
	ESA Code	2019	2020	2021
		% GDP	% GDP	% GDP
Target general government net borrowing				
Stability Programme	B.9	-3.0	-9.0	NA
Draft Budgetary Plan		-3.0	-10.2	-6.7
Difference		0.0	-1.2	NA
General government net lending projection at unchanged policies				
Stability Programme	B.9	NA	NA	NA
Draft Budgetary Plan		-3.0	-10.2	-5.0
Difference		NA	NA	NA

Table 23. All new aggregate tax and social security contribution measures for the period 2019-2021			
	2019	2020	2021
Central government	**-31.4**	**-0.3**	**-14.8**
Sub-total measures 2021 Initial Budget Act / Social Security Budget Act			*2.3*
Feedback effect on corporation tax, Recovery Plan (reduced taxes on production)			1.4
Housing Action Contribution to the FNAL (National Housing Assistance Fund)			1.0
Impact of the revision of rental values on the TA (Property Development Tax)-CFE (Business Premises Contribution)			-0.1
Other 2020 measures		*-0.3*	*0.3*
R&D advance for road transport companies		-0,3	0.3
2020 Third Supplementary Budget Act		*-0.6*	*-0.9*
Deficit carry-back		-0.4	-0.7
Postponement of the measure eliminating the TICPE (domestic tax on consumption of energy products) tax break on GNR (off-road diesel)		-0.2	-0.2
Other measures			-0.0
Sub-total measures 2020 Initial Budget Act / Social Security Budget Act		*-2.1*	*-4.3*
Reform of the income tax scale		-5.0	
Smoothing of the corporation tax reduction scenario from 33⅓% to 25%		2.2	-1.4
Housing Action Contribution to the FNAL		0.5	-0.5
Elimination of residence tax (TH) – Central government			-2.4
Elimination of the TICPE tax break on off-road diesel		0.2	0.5
Reduction of a TICPE R&D tax break for road transport companies		0.1	0.1
Prolongation of the CITE (energy transition tax credit)			-0.5
Other measures		-0.1	-0.0
Act of 24 July 2019	*1.9*	*-1.5*	*-0.1*
Postponement of the reduction of the corporation tax rate from 33⅓% to 31% for companies with turnover of more than €250m	1.7	-1.6	-0.1
Introduction of the tax on certain digital services	0.3	0.1	
Emergency Economic and Social Measures	*-1.0*	*-0.8*	*-0.3*
Exemption of overtime pay from taxes and contributions	-1.1	-1.0	-0.4
Feedback effect on income tax of the CSG (general social security contribution) measure for pensioners (6.6% rate restored)	0.1	0.1	0.0
Other measures	-0.0	0.0	
Sub-total measures 2019 Initial Budget Act / Social Security Budget Act	*2.0*	*-2.0*	*1.2*
Bolstering the 5th corporation tax instalment	1.5	-1.5	
Prolongation of the CITE		-1.1	1.1
Feedback effect on income tax of the exemption of employee contributions on overtime pay	0.1	0.2	0.2
Tax integration measures (including taxation at zero for long-term gross capital gains on disposals of equity securities)	0.3	0.2	-0.1
Re-budgeting the corporation tax credit for apprenticeship		0.2	
Other measures	0.1	0.1	0.1

Table 23. All new aggregate tax and social security contribution measures for the period 2019-2021			
Sub-total measures 2018 Initial Budget Act / Social Security Budget Act	*-1.1*	*15.9*	*-1.2*
Feedback effect on income tax and corporation tax of conversion of the CICE (Competitiveness and Employment Tax Credit) / contributions	2.0	5.8	-2.3
Lowering the corporation tax rate from 33% to 25%	-2.4	-3.1	-2.2
Introduction of withholding at source for income tax	-0.2	1.5	0.3
Introduction of a uniform flat-rate levy	-0.3	-0.1	
Prolongation of the CITE	-1.1	1.1	
Extension of the “Pinel” tax incentive	-0.1	-0.1	-0.2
Extension and refocusing of the zero-interest loan (PTZ) scheme	-0.2	-0.2	-0.2
Feedback effect on income tax of the contributions / CSG conversion	0.1	-0.3	0.6
Financing the Plan for Investment in Job Skills	-0.3		
Reduction of the rate from 7% to 6% and elimination of the CICE	1.6	11.2	2.8
Other measures	-0.3	-0.1	0.1
Other measures	*-0.7*	*-1.0*	*-1.0*
Previous extensions of the CITE	2.0		
Accrual basis correction of income tax	-0.9	0.7	0.2
Ramping up of the CICE (measures adopted up to the 2017 Initial Budget Act)	-0.5	-0.1	-1.3
Reduction in the rate of the tax on systemic risks and introduction of a tax on toxic loan funds	-0.3	0.0	0.0
Offshore Disclosure Unit, STDR (fighting tax evasion)	-0.5	-0.2	
Agirc-Arrco: increase in the “premium” rare and the contribution rate – feedback effect on income tax	-0.1	-0.1	-0.0
Disputed claims	-0.2	-1.2	0.0
Other measures	-0.2	-0.1	0.2
Revenue transfers	*-32.5*	*-7.8*	*-11.0*
Local government revenue transfers	-3.5	-4.3	-10.8
Social security fund revenue transfers	-28.8	-2.9	-0.7
Other central government body revenue transfers	-0.2	-0.5	0.5
SOCIAL SECURITY FUNDS	**-1.0**	**-1.2**	**8.7**
Sub-total measures 2021 Initial Budget Act / Social Security Budget Act		*1.0*	*-0.5*
One-off surtax on supplementary pension bodies		1.0	-0.5
2020 Third Supplementary Budget Act		*-5.2*	*5.2*
Exemption from contributions for companies most-affected by COVID-19		-4.4	4.4
Exemption from contributions for self-employed workers		-0.8	0.8
Sub-total measures 2020 Initial Budget Act / Social Security Budget Act	*-0.1*	*0.4*	*0.1*
Limitation of the occupation-specific tax deduction (DFS) in the calculation of general reductions		0.4	
Streamlining measure for micro-enterprises – exemption from ACRE (grant for those setting up or taking over a business) contributions		0.1	0.1
Elimination of the tax on tobacco suppliers	-0.1		
Other measures		-0.1	-0.0
Emergency Economic and Social Measures	*-2.8*	*1.3*	
Early application of the exemption of overtime pay from contributions	-1.3	1.3	
CSG measure for pensioners (6.6% rate restored)	-1.5		

Table 23. All new aggregate tax and social security contribution measures for the period 2019-2021			
Sub-total measures 2019 Initial Budget Act / Social Security Budget Act	***-1.9***	***-1.5***	***-0.0***
Cancellation of the CSG increase for low-income pensioners	-0.2		
Elimination of small taxes	-0.1	-0.1	
Lowering the reduced social security contribution (*forfait social*)	-0.4	-0.1	
Transformation of specific exemptions into general reductions	-0.4		
Exemption of overtime pay from contributions	-0.6	-1.3	
Other measures	-0.1	-0.0	-0.0
Sub-total measures 2018 Initial Budget Act / Social Security Budget Act	***-26.2***	***-0.6***	***0.8***
Conversion of the CICE / contributions	-23.6	-2.2	
Conversion of contributions / CSG	-4.1		
Measures in favour of micro-enterprises	-0.2	-0.3	-0.3
Taxes on tobacco (gross excluding behavioural effects)	1.4	2.0	0.9
Other measures	0.3	-0.1	0.1
Other measures	***1.5***	***0.5***	***-0.4***
Tax credit for the payroll tax	-0.0	0.6	
Agirc-Arrco: increase in the “premium” rare and the contribution rate	1.9		
Offshore Disclosure Unit, STDR (fighting tax evasion)	-0.1	-0.1	
One-off employer’s contribution – Unédic agreement March 2017 and prolongation in 2019	-0.0	-0.1	-0.3
Prolongation of the Unédic “over”-contribution until 2022		0.1	0.3
Disputed claims	-0.0	-0.0	0.0
Other measures	-0.2	0.0	-0.4
Revenue transfers	***28.4***	***2.9***	***3.6***
Central government revenue transfers	28.8	2.9	0.7
Other central government body revenue transfers	-0.4	-0.0	2.9
LOCAL GOVERNMENT	**-0.1**	**-1.1**	**2.1**
Reduction of taxes on production			-10.0
One-off two-thirds relief on the CFE (decision from local authorities)		-0.1	0.1
Elimination of the residence tax for 80% of households	-3.6	-3.8	
Measures in favour of micro-enterprises	-0.2		
Increase in the rates of local direct taxes	0.1	0.2	1.2
Other measures	0.2	0.0	0.0
Revenue transfers	***3.5***	***2.5***	***10.8***
Central government revenue transfers	3.5	4.3	10.8
Other central government body revenue transfers		-1,8	
OTHER CENTRAL GOVERNMENT BODIES	**8.5**	**2.4**	**-3.4**
Restatement - France Compétences	6.3		
Increase of the rate of the TSBA (solidarity tax on airline tickets) to finance the French Transportation Infrastructure Financing Agency (AFITF)		0.2	
Elimination of small taxes	-0.1	-0.1	
Financing the Plan for Investment in Job Skills	1.5		
Other measures	0.1		
Revenue transfers	***0.7***	***2.3***	***-3.4***
Central government revenue transfers	0.2	0.5	-0.5
Social security fund revenue transfers	0.4	0.0	-2.9
Local government revenue transfers		1.8	
TOTAL	**-24.0**	**-0.2**	**-7.4**

Box 1: Publication of in-year accounting data

Article 10, paragraph 3, of Regulation (EU) No 473/2013, which is an integral part of the "two-pack", and which is also referred to as the "Ferreira Regulation" provides that:

"The Member State shall report regularly to the Commission and to the Economic and Financial Committee, for the general government and its subsectors, the in-year budgetary execution, the budgetary impact of discretionary measures taken on both the expenditure and the revenue side, targets for the government expenditure and revenues, and information on the measures adopted and the nature of those envisaged to achieve the targets. The report shall be made public".

Delegated Regulation (EU) No 877/2013 of the European Commission of 27 June 2013 specified the format for publications,[a] in table form presented in the Annex. The underlying data has been published by the relevant general government subsectors pursuant to Article 3.2[b] of Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States, a Directive included in the "six-pack".

*The tables below set out the main available data, in cash basis accounting (**Table 22**) or in national accounting (**Table 23**), details of which are provided in the Annex.*

The available data must be analysed conservatively. The data per subsector is shown in cash basis accounting (except for social security funds): it does not enable the general government account to be consolidated. Lastly, booking expenditure and revenue is not regular during the year. This means that the balance level achieved at a given moment in the year only provides very partial indications of the level that will be noted at the year-end.

Table 24. Subsectors balance in cash basis accounting

in €bn	1st quarter	1st half year
Central government[c]	**-52.5**	**-124.9**
Local government[d]	**-12.3**	**-8.1**
of which revenue	50.4	127.2
of which expenditure	62.7	135.3
Social security funds (healthcare (Universal Healthcare Protection, PUMA), old age provisions of aligned schemes, family, accidents at work-occupational diseases (AT-MP), Old-Age Solidarity Fund, FSV)[e]	**-1.1**	**-14.9**
of which revenue	101.6	189.2
of which expenditure	102.7	204.1

Table 25. Quarterly data in national accounting

in €bn	1st quarter	1st half year
General government balance[f]	**-30.0**	**-89.7**
of which revenue	*306.3*	*584.3*
of which expenditure	*336.3*	*673.9*

(a) https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32013R0877&from=GA
(b) Article 3.2 of Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States "Member States shall ensure timely and regular public availability of fiscal data for all sub-sectors of general government as defined by Regulation (EC) No 2223/96. In particular Member States shall publish: (a) cash-based fiscal data (or the equivalent figure from public accounting if cash-based data are not available) at the following frequencies:
- monthly for central government, state government and social security sub-sectors, before the end of the following month, and
- quarterly, for the local government sub-sector, before the end of the following quarter;
(b) a detailed reconciliation table showing the methodology of transition between cash-based data (or the equivalent figures from public accounting if cash-based data are not available) and data based on the ESA 95 standard".
(c) https://www.performance-publique.budget.gouv.fr/sites/performance_publique/files/files/documents/ressources_documentaires/SMB/2020/Situation_mensuelle_Budget_Etat_3103020.pdf
https://www.budget.gouv.fr/files/files/publications%20direction/SMB/SMB%202020/situation_mensuelle_budget_Etat_30_juin_2020.pdf
(d) https://www.collectivites-locales.gouv.fr/etudes-et-statistiques-locales
(e) https://www.securite-sociale.fr/la-secu-en-detail/comptes-de-la-securite-sociale/comptes-mensuels (f)
(f) https://www.insee.fr/fr/statistiques/4648097?sommaire=4639532

Table 26. In-year quarterly budgetary execution for the general government and its subsectors

in €bn	1st quarter	1st half year
Overall balance by sub-sector		
General government		
Central government	**-52.5**	**-124.9**
State government		
Local government	-12.3	-8.1
Social security funds **(**healthcare (PUMA), old age provisions of aligned schemes, family, AT-MP, FSV)	-1.1	-14.9
Total revenue/inflows		
Local government	50.4	127.2
Social security funds **(**healthcare (PUMA), old age provisions of aligned schemes, family, AT-MP, FSV)	101.6	189.2
Total expenditure/outflows		
Local government	62.7	135.3
Social security funds **(**healthcare (PUMA), old age provisions of aligned schemes, family, AT-MP, FSV)	102.7	204.1

Table 27. In-year quarterly budgetary execution and prospects in accordance with ESA standards and seasonally non-adjusted for the general government and its subsectors

in €bn	ESA Code	2019	
		1st quarter	2nd quarter
Net lending(+)/Net borrowing(-)			
General government	S. 13	-30.0	-59.7
Central government	S. 1311		
State government	S. 1312		
Local government	S. 1313		
Social security funds (general scheme and FSV)	S. 1314		
For the general government			
Total revenue	TR	306.3	278.0
Total expenditure	TE	336.3	337.6