DRAFT BUDGETARY PLAN FOR 2020

ECONOMIC, SOCIAL AND FINANCIAL REPORT

EXTRACT

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France's Economic Policy Strategy

Introduction

Activity held up well in France in 2018 against a less buoyant international environment. The government's ambitious structural reforms since the start of the five-year Presidential term are boosting economic activity and employment. The French economy is expected to sustain robust growth in 2019 and 2020 despite a downturn in the international environment. We are pressing ahead with efforts to recast our economic model in the wake of the Great National Debate (*Grand débat national*), and we are even fast-tracking some measures – especially on making work more rewarding – to deliver faster results.

After particularly sustained growth in 2017 (2.4%), activity held up well in France in 2018 (1.7%) against a less favourable international environment (slowdown in global demand linked to the stepping up of protectionist measures, rise in oil prices and past appreciation of the euro). Household consumption was sluggish in 2018, but growth held firm thanks to **resilient exports and vibrant business investment.**

Despite a slowdown in activity, due in large part to the international environment, France's economic situation has improved on a number of fronts:

- In terms of employment, job creation was especially strong in 2018 and the first half of 2019 (500,000 jobs added in total over two years, since Q3 2017), echoing the upturn in activity and investment seen since the second half of 2017. Despite an increase in the working-age population, the **unemployment rate** for France as a whole fell to 8.5% in Q2 2019, its **lowest level since 2009**. **Other employment metrics** are moving in the right direction: **youth unemployment** stood at 19.4% in Q2 2019, while the **long-term unemployment** rate was 3.2% for mainland France. **Job quality** is also maintaining its upward trajectory. In mainland France, the proportion of workers on open-ended contracts (CDIs) stands at 49.7% (up from 49.2% two years ago), and 54.7% of workers are now in full-time employment (compared with 53.4% two years ago).
- France is also continuing to **strengthen its appeal** as a **place to invest and do business**, with inward **foreign direct investment (FDI)** hitting an **all-time high** of €48 billion in 2018. Significant progress has also been made in international rankings, particularly in the Global Competitiveness Report published by the World Economic Forum (or "Davos Forum"), which saw France climb five places to 17th in 2018.
- France maintained its **fiscal consolidation path** in 2018. The public deficit fell again to 2.5% of GDP, down from 2.8% in 2017, reflecting a **record 0.3% real-terms drop in public expenditure** – a virtually unprecedented achievement. However, this exceeding of the 3% threshold will be both temporary and exceptional, with the deficit expected to climb back to 3.1% of GDP in 2019 due to the conversion of the Competitiveness and Employment Tax Credit (CICE) into a reduction in employer contributions. The deficit will then return to 2.2% of GDP in 2020, falling further to 1.5% in 2022. Public expenditure containment efforts will continue throughout the Presidential term through a series of structural reforms geared towards achieving efficiency gains in public action and raising public service standards.

Growth is expected to remain sturdy at 1.4% in 2019 and 1.3% in 2020 under the effect of dynamic household consumption which, in 2019 and beyond, will be strongly supported by robust job creation, as well as by labour and purchasing power adjustment measures (increase in the in-work benefit, and cuts to social security contributions, the residence tax and income tax). Other supporting factors include ongoing high levels of business investment and the ability of French firms to cater to external demand.

In a less buoyant international environment, growth is expected to hold up better in France than in major neighbouring economies (see Table 1).

Table 1: Euro area growth forecasts (average over the year, in %)			
	2018	**2019**	**2020**
		Forecast	
Euro area*	1.9	1.2	1.2
France	**1.7**	**1.4**	**1.3**
Germany	1.5	0.6	0.9
Italy	0.9	0.0	0.5
Spain	2.6	2.3	1.9

**Euro area growth is based on DG Trésor forecasts for four countries (France, German, Italy and Spain), plus European Commission projections for other countries.*

Note: growth corrected for working days; Source: Eurostat and Economic, Social and Financial Report (RESF) forecasts

Persistent uncertainties in the international environment could, however, drag on France's economy and impact the forecast growth path. Going forward, major unknowns include escalating trade tensions, the scale of the slowdown in China, oil price volatility, the threat of a currency war, and financial risks in the United States. Likewise, Europe is awash with uncertainty, including political instability in Italy, a sluggish German economy, and the United Kingdom's as-yet unresolved exit from the EU. Conversely, the structural reforms carried out in France could produce their full effects more quickly than expected.

In the first two years of Presidential term, the government focused on adopting and **implementing priority structural reforms to boost activity and employment** as part of a **root-and-branch overhaul of France's economy** – a move intended to foster stronger, more inclusive and more sustainable growth. One of the major highlights of 2019 so far has been the adoption of the Business Growth and Transformation Action Plan (PACTE) Act, a new piece of legislation that includes a series of measures to support business growth. The government has also overhauled the unemployment insurance system in an effort to combat job insecurity and excessively short contracts, to encourage sustainable re-employment, and to provide better support for job-seekers. Civil service reforms will improve human resources management in government departments and raise the standard of public services. And last but not least, the government has embarked on a reform of the pension system to make it clearer and fairer, by ensuring that each euro contributed guarantees the same rights for all.

Since December 2018, the government has taken a series of steps to make work more rewarding (see Box 1). These include permanently raising the maximum in-work bonus by €90, exempting overtime and additional pay from income tax and social security contributions, and allowing companies to pay employees an exceptional bonus exempt from income tax, employer and employee social security contributions, and social charges (general social security contribution (CSG) and social security debt repayment contribution (CRDS)). Taken together, these measures will **make returning to work more rewarding** and, at a time of dynamic job creation, **boost household purchasing power** by 2.0% in 2019 (following a 1.2% increase in 2018).

Box 1: New measures to make work more rewarding

*The government has taken steps to **make work more rewarding**, by **reducing the tax and social security contribution burden** and **encouraging people to return to work**, especially through benefits that give an incentive to do so – particularly for low-income households:*

- *The maximum **individual in-work bonus was permanently raised by €90 in 2019**. This move, coupled with 1.5% increase in the statutory minimum wage (SMIC) on 1 January, means that a **single minimum wage-earner** receiving the benefit now has an **extra €100 in monthly disposable income**, while the **exit point has increased from 1.3 to 1.5 times the minimum wage** – all at no additional cost to employers.*
- *The government will introduce a **€5 billion income tax cut for the middle class** on 1 January 2020, leaving 17 million taxpaying households in the first two tax bands an average of €300 a year better off.*
- *Under a scheme introduced towards the end of 2018, companies were able to pay employees an **exceptional bonus** of up to €1,000 **exempt from income tax, employer and employee social security contributions, and social charges (CSG & CRDS).** Under the special arrangement, which ended in March 2019, employers paid upward of €2 billion in bonuses to around 5 million employees. The scheme will be repeated in 2020, for companies that have an existing profit-sharing agreement, or that set one up before 30 June 2020.*
- *Since 1 January 2019, **overtime and additional pay have been exempt from income tax and social security contributions**, up to a cap of €5,000 per year.*
- *The **measures to promote the development of profit-sharing and incentive schemes** contained in the PACTE Act will make it possible to increase employee participation in company results and to distribute profit more effectively.*
- *These measures come on top of **cuts in social security contributions totalling €20 billion for employed workers and over €2 billion for self-employed workers**. These cuts are offset by an increase in the CSG, which has a larger base.*

At the initiative of President Macron, the government organised a **Great National Debate** from 15 January to 15 March 2019 on four key issues: the ecological transition; taxation, public expenditure and public services; the organisation of central government and local authorities; and democracy and citizenship. Upon conclusion of the debate, **the President announced a series of new measures to bolster incentives to work and boost household purchasing power, as well as changes in the way the government operates**. On 1 January 2020, a €5 billion income tax cut will come into force as part of a reformed system that eases the transition for workers paying income tax for the first time. Pensions of less than €2,000 will be re-indexed to inflation and, in 2020, the government will reintroduce the scheme under which employees are entitled to an exceptional bonus exempt from income tax and social security contributions, provided their employer has a profit-sharing agreement in place. The government has also begun working on a new Productive Pact 2025 (see special report entitled "*Pacte Productif 2025 : anticiper les évolutions pour transformer le tissu productif français*") with a view to achieving full employment by 2025 and getting the French economy and its manufacturing base ready for the transformative trends and challenges that lie ahead. The aim of this work is to identify opportunities in the medium and long terms, and to determine what adjustments are needed to fully capture those opportunities. Work has also begun on a multi-year research programming law for 2020.

Aside from furthering its domestic agenda, the French government also endorses the idea of a Euro Area Growth Pact. France firmly believes that such a pact would **strengthen euro area governance and architecture**, boost resilience, ensure better coordination on economic policy, and foster investment to deliver sustainable, long-term growth. France also advocates tax harmonisation at both European and international levels. It backs ongoing work on corporate tax base harmonisation in Europe, as well as calling for

closer international coordination and supporting OECD-level discussions on the taxation of multinational firms, with a particular emphasis on intangible assets and digital activities.

Diagnosis and preliminary results

1. The French labour market is dynamic but more needs to be done to achieve full employment and better integrate the most vulnerable members of society

The labour market situation is improving. **Unemployment is falling steadily** and the employment and labour participation rates are rising under the influence of robust job creation.

- On a year-on-year basis, the French economy added 180,000 jobs in 2018 and a further 160,000 in the first half of 2019, despite activity being more sluggish than in 2017.
- The unemployment rate maintained its downward path, falling to 8.5% for France as a whole in Q2 2019 – the same level as in early 2009. Youth unemployment fell sharply to 19.4% (a 1.5 percentage-point reduction compared with the same date the previous year), while long-term unemployment dipped for the second year running (to 3.2%, down 0.4 percentage points on the previous year).
- At the same time, the employment and labour participation rates for mainland France remained at record high levels – albeit below European benchmarks – at 72.0% and 66.0% respectively.

Job quality is also improving, although the French job market remains highly segmented.

- In Q2 2019, the proportion of workers on CDIs in mainland France stood at 49.7% (a rise of 0.5 percentage points in two years), while the full-time employment rate was 54.7% (up 1.3 percentage points on the previous year).
- Despite these promising figures, job market segmentation remains a major issue: discounting temporary contracts, fixed-term contracts (CDDs) still accounted for 84% of new hires in 2018 (and 52% of new contracts of employment exceeding one month in length).

However, there is still significant **potential to reduce unemployment further**, especially among the most vulnerable groups.

- Unemployment remains structurally high, and at levels above the EU and euro area averages (which stood at 6.4% and 7.6% respectively in Q2 2019).
- Unemployment continues to affect certain vulnerable population categories disproportionately, especially young people and low-skilled workers. At 19.4% for France as a whole, the unemployment rate among 15-24 year-olds remains particularly high when compared with other age groups (7.9% among 25-49 year-olds). Likewise, 16.2% of unskilled workers were unemployed in 2018, compared with just 5.4% of workers with at least one higher-level qualification.

The government is tackling structural unemployment by addressing both demand and supply. The orders relating to the strengthening of social dialogue are intended to better match labour supply with demand and make it easier for employers to hire workers. Meanwhile, by **reforming and investing in training**, the government is aiming to help vulnerable population groups back into work.

2. Public expenditure containment efforts have helped to shrink the public deficit and stabilise the public debt trajectory

The **public deficit fell** to 2.5% of GDP in 2018, driven by a strong economy and ongoing public expenditure containment efforts. The deficit remained below the 3% threshold for the second year running, also reflecting better performance than anticipated when the 2019 Initial Budget Act (LFI) was passed.

- A **social security surplus** was recorded for the second consecutive year, increasing from €5.3 billion in 2017 to €10.6 billion in 2018. The national healthcare expenditure growth target (Ondam) was also met for the ninth year in a row.
- **Local government expenditure** was once again in surplus, up from €1.6 billion in 2017 to €2.3 billion in 2018, as a result of a major effort to slow operating expenditure growth across all levels of local government. The figures show that the government was right to change the way it operates, preferring to sign contracts with key local authorities instead of reducing the value of central transfers.

Nominal growth of **public expenditure**, excluding tax credits, stood at 1.4% in 2018, compared with 2.4% in 2017 (a 0.3% contraction in real terms in 2018). Ongoing containment efforts will enable the government to finance its priorities, cut aggregate tax and social security contributions, and put the public finances back on a sustainable path.

- This strategy was borne out in the financial legislation for 2018 and 2019, which included a series of **tax cuts** for households and businesses, along with structural reforms across all areas of government. The government will go even further in 2020, with an income tax cut that will reduce aggregate tax and social security contributions by an additional 0.2 percentage points of GDP. The move will be funded through cuts in public expenditure and reduced tax and social security contribution breaks. The government will also continue abolishing low-yield taxes and will press ahead with already-announced structural reforms in housing, subsidised employment contracts, public broadcasting and other sectors.
- France's public debt ratio remained stable in 2018. Debt is expected to increase in 2019 as a result of the dual cost of the CICE conversion before resuming its downward path from 2020 onwards. The historically low cost of debt reflects France's excellent credit rating amid a wider low-interest-rate environment. However, the country once again has one of the highest levels of public debt among developed economies. This limits the headroom in the event of another economic crisis and means that public accounts are at risk from a rise in interest rates (see Box 2).

Box 2: Medium-term debt, interest-rate and debt-burden outlook

Interest rates are currently at all-time lows*, largely as a result of accommodative monetary policy. Since June 2019, for instance, France has been borrowing at negative 10-year rates.*

This situation raises two questions:

- *Does the reduced debt burden arising from a persistent low-interest-rate environment create unexpected fiscal headroom?*
- *And should low rates encourage governments to spend more?*

The first question should be treated with a healthy dose of caution. Central banks cut interest rates when growth and inflation are weaker than anticipated. Yet weak growth and inflation reduce aggregate tax and social security revenues – a situation that produces counteracting effects.

The fiscal headroom created by low interest rates *(rates at less-than-forecast levels)* ***is almost entirely offset by lower tax revenues in a less buoyant macroeconomic environment****.*

The second question cannot be answered without understanding the underlying causes of weak growth and low inflation in Europe (the very conditions that have prompted accommodative monetary policy and low rates). These causes are linked in particular to two factors: ***low productivity gains*** *and* ***weak demand****. According to leading economists such as Olivier Blanchard, in circumstances where nominal interest rates are lower than nominal economic growth, governments should capitalise on the low-rate environment to temporarily increase public capital expenditure without causing a long-term rise in public debt.*

Here, the term "capital expenditure" should not be understood merely as gross fixed capital formation (GFCF) in the accounting sense. It also refers to expenditure that benefits the economy as a whole and fills a private-sector investment gap (resulting from positive externalities, information or coordination deficiencies, heightened risk, or long-term market unreliability). For instance, governments could invest in productivity to foster medium-term growth (building up skilled human capital through education or supporting public and private research and innovation), or they could focus spending on socially desirable priorities such as the ecological transition. The French government has prioritised spending in these areas as part of its strategy, supported by sound governance to ensure that every euro of public money it invests delivers socio-economic returns.

From the taxpayer's perspective, any investment that delivers "socio-economic returns" – in other words, whose discounted monetary and non-monetary benefits outweigh its discounted costs – is worth making. These investments will require a ***concerted effort from government and the private sector****.* ***Public investment must not take the place of private investment. Ideally, the former should stimulate the latter****. That is why every proposed investment must be assessed on its merits – to ensure it delivers adequate socio-economic returns, and to select the appropriate financing arrangements (public/private, debt/equity).*

Moreover, this ***capital expenditure could be funded through efficiency savings in current government expenditure****. There is plenty of scope for efficiency savings in France, where public expenditure is particularly high, and where public debt has bucked the euro area trend by continuing its upward path in recent years (rising from 64.5% of GDP in 2007 to 98.4% of GDP in 2017).* ***Against this backdrop of high government spending and high public debt, France could also release extra funds for capital investment by rethinking how it allocates public expenditure, and by spending that money more efficiently****.*

There is no consensus among economists as to the "optimal" level of public debt. Yet France's debt, which stems from policy choices made by successive governments, poses a risk to future generations who will be asked to service that debt, especially if interest rates rise again. At present, France is able to borrow at extremely low rates on account of its sterling reputation among creditors. The pledges the government has made – to modernise France's economy, to stimulate growth by cutting aggregate tax and social security contributions, and to contain public expenditure –

will only consolidate that reputation. The situation in other European countries, which are borrowing at higher rates on account of high debt levels and structurally weaker growth, serves as a stark reminder of the importance of achieving fiscal balance through rigorous management.

3. France's economy is more competitive, but stimulating an upmarket shift and growing the manufacturing sector will require further effort

Signs are positive for the competitiveness of the French economy and the foreign trade situation. Since 2013, the French government has channelled substantial public funds into mechanisms such as the CICE and the Responsibility and Solidarity Pact in an effort to **contain rising labour costs** and **make our manufacturing base more cost competitive**. Yet the fact that France's trade balance remains in negative territory (-0.8% of GDP in 2018) points to further room for competitiveness-improvement measures. Labour costs fell in 2018 thanks to cuts in employee social security contributions. In 2019, the government made overtime and additional pay exempt from income tax and social security contributions, and raised the in-work benefit, while the CICE was converted into a permanent reduction in employer contributions to make the system more effective.

- The French **share of global trade** has remained **largely unchanged in nominal terms** since 2012, at 3.1% for goods and 3.5% for goods and services combined.
- France's **trade deficit** excluding energy[1] fell sharply, from €32.6 billion in 2017 to €28.6 billion in 2018, as French exports performed well across a number of sectors including cars (up 7.9% to €35.5 billion), chemicals, fragrances and cosmetics (up 3.1% to €58.3 billion), and agrifood (up 2.0% to €62.4 billion). France's **trade surplus in services** widened again in 2018 to €28 billion, thanks in large part to a vast €16.5 billion surplus in the tourism sector, which posted record revenues of €57 billion in 2018 (€3.3 billion higher than the previous year). The business services sector also moved further into positive territory, recording a €13 billion trade surplus. Exports jumped to €392.2 billion in the first half of 2019 (6.1% higher than the first half of 2018), including record half-yearly figures in chemicals (€7.5 billion) and agrifood (€4.1 billion). As a result, France's half-yearly trade deficit fell sharply from €15.8 billion to €9.4 billion.
- The current account balance remained slightly negative on account of strong performance by French foreign investments, and remains contained by international standards.

Investment by non-financial corporations remained strong in 2018 and, in the long term, should result in **non-cost competitiveness gains** for French businesses (see Box 3). Further such gains are expected as France's economy **shifts upmarket**. This will be achieved by:

- **Investing more in research and development** in order to catch up with countries such as the United States, Germany and Sweden, which lead the way on R&D investment worldwide. In 2017, French domestic expenditure on R&D stood at 2.19% of GDP, short of the 3% target set in the Lisbon Strategy and in the Europe 2020 strategy.
- **Doing more to develop the manufacturing sector**, which is growing slowly and exporting little despite a high business creation rate by international standards. France has a relatively small number of mid-tier firms (5,800,[2] whereas Germany has twice as many)[3] and exporting firms (125,000 exporting SMEs, compared with 320,000 in Germany)[4]. Potential manufacturing

[1] In 2018, the trade deficit in goods and services widened to €25.6 billion (from €21.7 billion in 2017) as rising oil prices pushed energy prices higher (up €6.7 billion to €46 billion).

[2] Source: INSEE, *Tableaux de l'Économie Française*, 2019. Number of companies in 2016 as defined in the Economic Modernisation Act.

[3] The figures for Germany cover a different scope with no turnover limit. According to Destatis, the Federal Statistical Office, there were close to 18,000 companies with more than 250 employees and turnover in excess of €50 million in 2016.

[4] Source: Destatis, data for 2017.

growth hurdles include a **lag in equity financing**, **high taxes** (such as taxes on production), and **stiffer regulatory constraints** that those that apply in partner jurisdictions.

Box 3: Vibrant business investment

*A **sharp rise in business investment over the past two years** has been one of the main driving forces behind France's buoyant economy. On average, it contributed 0.6 percentage points to GDP growth in 2017 and 2018, compared with just 0.2 percentage points in the five previous years. After growing by 2.7% in 2016, business investment grew by 5.0% in 2017 – the highest growth rate in a decade. This dynamic trend continued into 2018, when growth stood at 3.9% despite a sharp downturn in global demand for French goods and services. The investment rate of non-financial corporations reached a record-high 24.1% of value added in 2018. Data for the first two quarters of 2019 (quarterly gains of 0.6% and 0.9% respectively) confirms that businesses are continuing to invest intensively – and that business investment remains a major growth driver. In the longer term, sustained investment **enables companies to modernise their capital stock, achieve productivity gains and create more jobs**.*

*Business investment is particularly vibrant in the **high-potential information and communications technology sector**, which accounted for close to half of investment growth in 2017 and 2018 – a trend that has carried over into 2019. Businesses have also stepped up investment in **manufactured products** such as consumer goods and transport equipment in the past two years.*

*The tax measures that the government has announced since 2017, and which it began implementing in 2018, are intended to support business investment. The **gradual cut in the corporate income tax rate**, from 33.3% in 2017 to 25% by 2022, is reducing the cost of capital and encouraging businesses to invest in France. The government's **reforms to taxes on household savings** – including replacing the wealth tax (ISF) with a property wealth tax (IFI) and introducing the single flat-rate levy (PSU) – are also designed to encourage households to invest in the productive economy by taking an equity stake in French companies. An independent committee was set up in 2018 to look at the capital taxation reforms. The committee will publish its initial report in October 2019.*

France is also **broadening its appeal to foreign investors**, as evidenced by its climb up various global rankings (see Box 4).

***Box 4: Broader appeal: the state of play one year on from the* "France is back : un regain d'attractivité pour l'économie française" *report*[5]**

France continued to broaden its appeal to foreign investors in 2018, thanks to the measures taken by the government and at a time of growing uncertainty in neighbouring European economies:

*According to the latest OECD report,[6] **FDI inward flows hit an all-time high** of €48 billion in 2018 (up from €44 billion in 2017), placing France top of the list of the euro area's most appealing economies to foreign investors.*

[5] Special section of the Economic, Social and Financial Report, appended to the 2019 Draft Budgetary Plan (DBP).

[6] http://www.oecd.org/investment/FDI-in-Figures-April-2019.pdf - April 2019

- *The **number of foreign investment projects in France is rising steadily**, from 1,116 in 2016, to 1,298 in 2017 and to 1,323 in 2018. The most recent Ernst & Young barometer ranks France second behind the United Kingdom by number of investment projects, ahead of Germany for the first time in a decade. In the same barometer, Paris beats London and Berlin as Europe's most attractive city for investors.*
- *The latest **Global Competitiveness Report** published by the World Economic Forum, which uses a revised methodology that better reflects economic reality, saw **France climb five places** from 22nd to 17th on the strength of the government's reforms, ahead of New Zealand and Luxembourg.*
- *France ranks fifth globally in the 2019 A.T. Kearney Foreign Direct Investment Confidence Index thanks to pro-business reforms such as the gradual cut in the corporate income tax rate.*

France occupies 32nd place in the World Bank's Doing Business report, signalling that it still has leeway for further boosting its appeal. France's low ranking can, however, be attributed to the report's methodology, which is inspired by common law systems.

4. France's social model is highly redistributive but does not do enough to tackle inequalities of opportunity and outcome

France's highly redistributive tax and welfare system helps to **reduce financial inequality** and **tackle poverty**.

- France's post-distribution Gini coefficient, a measure of income inequality, stood at 29.3 in 2017, comparing favourably with the EU-wide average of 30.7. The figures were 35.7 and 36.0 respectively before factoring in the effect of welfare benefits.[7]
- The percentage of people at risk of poverty or social exclusion in France fell to a record low of 17.1% in 2017, compared with an EU-wide average of 22.4%. The poverty rate, meanwhile, was 13.3% in 2017, again below the EU-wide average of 16.9%. The exceptional increase in the in-work benefit in 2019 is expected to help bring the poverty rate down by around 0.5 percentage points.

Nevertheless, France's social model has failed to address **persistent inequalities of outcome** between individuals in access to the labour market and to healthcare, housing and other basic services. Likewise, social and educational inequalities remain entrenched.

- Although social mobility is on the rise in France (see Box 5), the country comes in the bottom half of the OECD rankings for this metric.
- France's education system replicates inequality and does very little to foster upward mobility. In particular, social background is still a determining factor – even more so than elsewhere in the world – in explaining academic results or the lack of social integration. This is borne out by figures from the OECD's PISA tests and data on access to higher education courses.

France is also beset by **major geographical divides**: economic growth and social mobility prospects differ markedly from region to region, as do access to healthcare, transport, decent housing and high-speed broadband (see special report entitled "*Les politiques pour la convergence des territoires*").

Box 5: Outlook for social mobility in France

France comes in the bottom half of the OECD rankings for social mobility, which has slowed in recent years. *In 2015, 65% of people belonged to a different socio-professional category than their parents. Of these, close to half (28% of all movers) held a higher social position that their parents.*[8] *Looking at longer-term trends, over 36% of French people were socially immobile in 1977. This figure has fallen slightly since then, for the most part as a consequence of greater vertical mobility*[9] ***stemming chiefly from structural and socio-demographic changes*** *in French society (the shift to paid employment, followed by the shift to a service economy).*

Despite an overall increase in social mobility, certain population groups – executives, young people and those in intermediate occupations in particular – are now at ***greater risk of downward mobility*** *than they were 40 years ago. In 1977, there were 3.3 upward trajectories for every downward trajectory. In 2015, that same ratio had fallen to 1.8 to 1.*

[7] Eurostat excludes pensions from welfare benefits when calculating this indicator. The OECD also calculates a Gini coefficient without the effect of non-pension welfare benefits and taxes. By this metric, France's Gini coefficient for 2016 fell from 51.6 to 29.1 when the effect of taxes and welfare benefits was factored in (compared with 50.5 to 29.4 in Germany, and 50.6 to 35.1 in the United Kingdom).

[8] INSEE (February 2019). *In 40 years, women's social mobility has increased, men's has remained almost stable.* INSEE Première No. 1739

[9] Vertical mobility (upward and downward trajectories) differs from horizontal and status mobility. The latter two types of mobility, which describe shifts between paid employment and self employment (such as employee to sole trader) or movements within non-salaried groups (such as farmer to shopkeeper), are harder to categorise.

Nevertheless, the **odds ratio has closed***, especially between the highest and lowest socio-professional categories. Today, the gap between the relative likelihood of the son of an executive and the son of a blue-collar worker becoming an executive is three times narrower than it was four decades ago.*[10]

The wave of **mass school enrolment** *that occurred in the second half of the 20th century means that educational inequality is now significantly less likely to pass from one generation to the next. This is especially true for girls and for children born to parents with low levels of education. Yet inequalities in years of schooling and level of education are gradually giving way to gaps in qualification and occupation.*[11] *The evidence suggests that a person's initial training does not determine their social position. Rather, social class is dependent on professional experience.*[12]

France sits in the bottom half of the OECD rankings **for both absolute and relative mobility** *(once structural changes linked to urbanisation and shifts to paid employment and a service economy are factored in). However some comparative metrics, such as intergenerational income elasticity, should be interpreted with caution since figures from different countries rely on markedly different data sources, specifications and methodologies.*

[10] Vallet, L. A. (2014). "Mobilité observée et fluidité sociale en France de 1977 à 2003". *Idées économiques et sociales*, 175(1), 6-17. doi:10.3917/idee.175.0006.
[11] Peugny, C. (2013). *Le destin au berceau. Inégalités et reproduction sociale*. Seuil, "La république des idées" collection. 111 p.
[12] Vallet, L. A. (2017). "Mobilité entre générations et fluidité sociale en France". *Revue de l'OFCE*, (1), 27-67.

Economic policy strategy

The aim of the current strategy is to **give free rein to business activity and initiatives**, to invest in a **growth model based on knowledge, innovation and technology**, and to **better protect citizens** by transforming social protection into a system fit for the 21st century. Efforts to shape modern, more effective government are helping to contain public expenditure.

The strategy **aligns with recommendations made by international organisations** such as the IMF (in the conclusions to its Article IV Consultation and in the corresponding report published in July) and the OECD (in its latest *Economic Survey of France*, published on 9 April 2019) (see Box 6).

It is also **consistent with France's European commitments** (see Council recommendation tracking table in the appendices) and is helping to consolidate the resilience and prosperity of the EU and the euro area.

Box 6: Review of France's economic policy strategy by international organisations: IMF Article IV Consultation, European Commission Country Report and OECD Economic Survey

*In April 2019, the OECD published the **latest Economic Survey of France**. The findings – a summary of the organisation's biennial Economic and Development Review exercise – are broadly consistent with the French government's own analysis. The report, which took a team of OECD economists over 12 months to compile, underscores the many areas in which France excels, such as high health-adjusted life expectancy and infrastructure quality. The authors also take a positive view of the government's current reform agenda, concluding that **initiatives such as labour market reforms, tax measures and the PACTE Act could increase GDP per capita by 3.2 percentage points after 10 years, benefiting lower- and middle-income households in particular**.*

The report also contains two thematic chapters: one on the labour market and one on public investment. The first points to recent improvements in the labour market situation, including a decline in the unemployment rate, while the second stresses the quality of France's infrastructure.

*In July this year, the IMF published its **annual Article IV Consultation report for France**, restating its support for the government's reform agenda. The report calls for additional fiscal consolidation effort to secure a long-term reduction in fiscal pressure, while acknowledging that some ongoing reform measures – such as pension and civil service reforms – are ambitious in scope. The IMF notes that **these efforts are helping to keep growth particularly resilient** amid a general slowdown.*

*In its **Country Report for France**, the **European Commission** highlighted how labour market and other reforms have gone some way to correcting macroeconomic imbalances (unemployment and competitiveness), while singling out the forthcoming pension reform for special praise. The authors also point to areas where France needs to go further: stepping up the pace of fiscal consolidation measures, reviewing expenditure, improving labour market integration for people with a migrant background, addressing the skills mismatch, simplifying the tax system and easing regulatory restrictions. In addition, the report sets out recommended investment priorities for France going forward (see Council recommendation tracking table in the appendices).*

1. Recasting our social model to build a fairer society

In order to build a fair society, **real social mobility opportunities** must be provided to all by addressing inequality at source, while at the same time **protecting the most vulnerable members of society as new risks emerge**. The government's strategy therefore revolves around two priorities: guaranteeing access to fairly paid employment for all, and making social protection universal.

a. Make employment the first pillar of protection for all

Since creating jobs is the most effective way to tackle poverty, transforming our benefit system will necessarily require proactive labour market reform, with a strong focus on **helping people far removed from the job market make the transition back into work**. Our benefit system will also need to **adapt to the changing face of work**, not least the rise of casual employment, to ensure that it provides adequate protection at a time of great social and economic upheaval and adheres to the principles of the European Pillar of Social Rights.

The government's strategy to boost employment has four components:

Under the first component, the government has **reformed French labour law** through the 22 September 2017 orders relating to the strengthening of social dialogue. The orders make it easier for employers and employees to tailor working arrangements to the situation on the ground by streamlining collective bargaining at company level, providing greater certainty for labour relations, and capping damages for dismissal without real or serious grounds.

The second component concerns skills. The **vocational training** system has been revamped to facilitate professional transition. The government is **investing a full €15 billion** in skills through the "Creating a skills-based society" arm of the Great Investment Plan (GPI), with training geared towards low-skilled workers and people far removed from the job market. **Apprenticeships** have been made more appealing and now represent a successful route into employment. These measures are already yielding results. On 30 June 2019, there were **458,000 young people on apprenticeship schemes**. New starts in the first half-year were up 8.4% on the same period in 2018 following a 7.4% year-on-year increase since 2017. The number of ninth-grade students opting for the apprenticeship route has jumped 45% in the space of two years, and 554 applications for new apprenticeship training centre (CFA) have been filed. If all of these applications were carried through to completion, the number of CFAs would increase by 50%.

The third component, the **poverty reduction strategy**, is divided into two sub-priorities: social investment and integration through work.

- On **social investment**, the government is focusing its efforts on early childhood, with a new subsidy programme that cuts the amount local authorities have to pay towards new childcare provision in deprived areas to less than 10% of the total cost. Some 160 applications for new subsidised centres have been filed since the scheme was introduced, and 300 employability support nurseries (AVIPs) will open between now and 2020. In addition, the government is rolling out a new early years curriculum to support development and language acquisition among pre-primary age children, with in-service training for childcare practitioners. The strategy also includes measures to ensure children's fundamental rights are respected, and that their basic needs are met. Initiatives to promote healthy eating will include serving breakfast at schools in deprived areas, making school meals more affordable for low-income families, and introducing new baby food programmes. As of the current academic year, 100,000 children identified as being in the greatest need are eating breakfast at school, and 4,000 authorities and municipal groupings in rural areas are now eligible for subsidies to cover the cost of discounted school meals. The government will make expanding accommodation and housing provision, and ensuring homes are tailored to the needs of families with children, one of the components of its poverty reduction strategy.
- The government is prioritising **integration through work** by scaling up the **integration through economic activity** programme. The sector will hire an additional 100,000 people by 2022, thereby helping the most vulnerable members of society make the transition back into work. Subsidised employment contracts are being phased out and replaced with new **Employment and Skills Programmes** as part of efforts to secure long-term employment opportunities for people far removed from the job market. In

addition, the government has increased funding for the **Contract-Based Employment and Independent Living Support Programme** (PACEA) to €48 million, providing support for an additional 100,000 young people and supplementing the existing Youth Guarantee scheme.[13] Starting this year, there will be an **additional 50,000 back-to-work solutions for recipients of the social inclusion benefit (RSA)** through the comprehensive support provided by the Pôle Emploi employment service agency (which will serve an extra 100,000 people by end-2019, and an extra 200,000 by 2022), the signature of new Activity Guarantee contracts with *départements*, and the integration through economic activity programme.

– The government is also doing more to help RSA recipients back into work through poverty reduction and labour-market access agreements. The aim is to have all recipients referred for support within one month by 2022, and for every recipient to sign a formal contract with the body responsible for supporting them.

Under fourth component, the government is reforming **unemployment insurance** to better protect citizens and combat job insecurity. Unemployment insurance has been conditionally extended to resigning employees and self-employed workers in order to make it more universal. In parallel, the government has revised the payout rules and extended the remit of the Pôle Emploi employment service agency in a move designed to help job-seekers transition back into work and to disincentivise insecure employment (see Box 10). The additional resources allocated to Pôle Emploi will be used to provide **comprehensive** back-to-work support, with more funds channelled to poverty reduction through labour force integration.

b. Make work more rewarding

In a fair society, every citizen should be able to **earn a decent living through work**.

The government has taken steps to make work more rewarding, by **reducing the tax and social security contribution burden** and **encouraging people to return to work**, especially through benefits that give an incentive to do so – particularly for low-income households (see Box 7).

– A **one-off increase of up to €90 in the individual in-work bonus**, which is paid to recipients earning more than half the statutory minimum wage, came into effect at the start of 2019. This change meant that total payouts of the benefit were an estimated 50% higher in Q1 2019 than in Q4 2018. This move, coupled with 1.5% increase in the statutory minimum wage on 1 January 2019, means that a minimum wage-earner receiving the benefit now has an **extra €100 in monthly disposable income**, at no additional cost to employers. In March 2019, some 4.1 million households were in receipt of the in-work benefit, representing a 50% increase on autumn 2018.

– Since 1 January 2019, **overtime pay** has been exempt from income tax and social security contributions, up to a cap of €5,000 per year. Similarly, the **PACTE** Act contains a series of measures to promote the **development of profit-sharing and incentive schemes**, including abolition of the *forfait social* (a reduced social security contribution) on employee savings scheme payments for companies with fewer than 50 employees, and on profit-sharing scheme payments for companies with fewer than 250 employees. Taken together, these measures will make it possible to increase employee participation in company results and to distribute profit more effectively.

– This process of redistributing the proceeds of growth began in 2019 with the introduction of an **exceptional purchasing power bonus** for employees earning up to three times the statutory minimum wage. The bonus, capped at €1,000, is exempt from income tax, social security contributions and social charges (CSG & CRDS). In statements made on 25 April and 12 June 2019, both the President of the Republic and the Prime Minister said they intended to extend the scheme. The bonus is included in the 2020 DBP, subject to the same tax and social security contribution exemptions and with the same cap of €1,000 per recipient. For sustainability reasons, companies will only be able to pay the exceptional bonus if

[13] The Youth Guarantee is a scheme for vulnerable young people aged 16-25 years who are not in employment, education or training. There will be an additional 100,000 admissions to the scheme each year between 2018 and 2022.

they have set up an employee profit-sharing scheme by end-June 2020 at the latest.

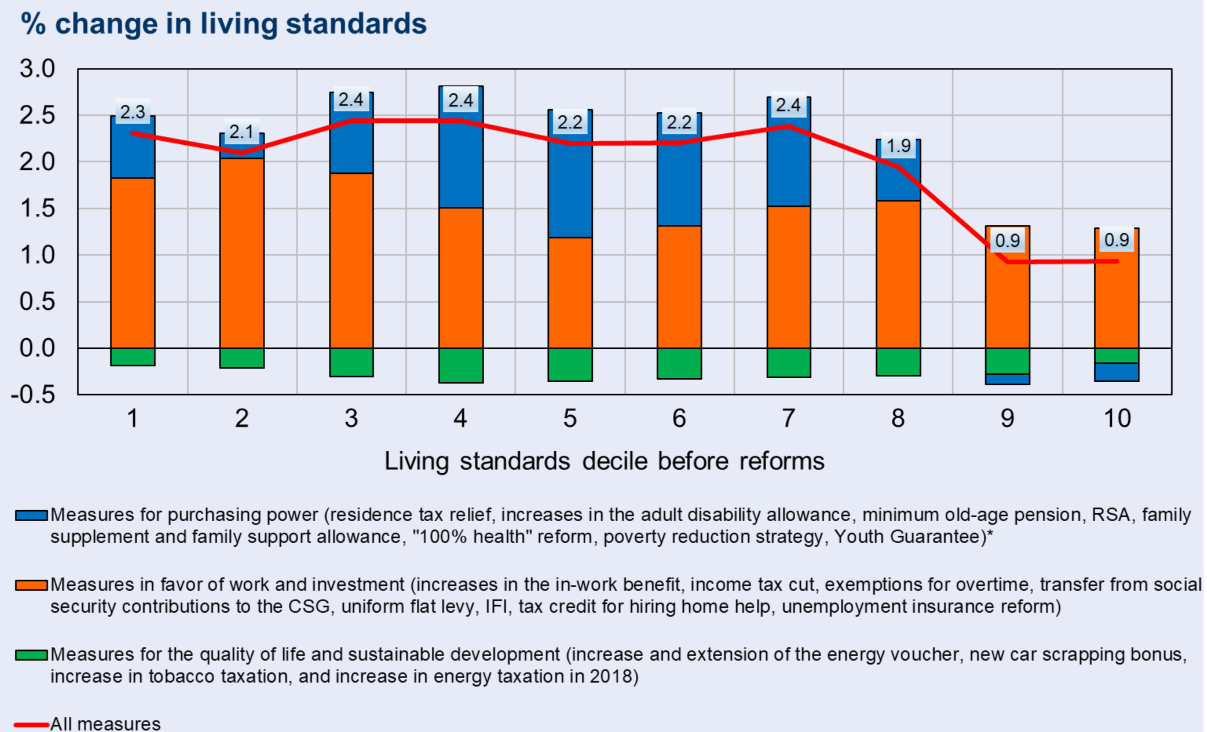
- The government has announced a **€5 billion income tax cut** for households in the first two tax bands, in a move designed to ease the transition for workers paying income tax for the first time and to make the system fairer for employees who receive pay rises. At present, the existence of a discount mechanism means that the marginal tax rate for first-time payers can be as high as 40%. Under the reformed system, as set out in the 2020 DBP, the discount will be moderated and the marginal rate for the first tax band will be lowered from 14% to 11%, delivering an average annual tax cut of €350 for households in this band. Taxpayers in the 30% band will also benefit from the changes, although to a lesser extent, receiving an annual tax cut of €180. The reforms, which come into effect in January 2020, will leave 17 million taxpaying households better off.
- These measures come on top of **€20 billion of cuts in employee social security contributions** (abolition of employee healthcare and unemployment contributions) amounting to a reduction of 3.15 percentage points. The government has also introduced **€2 billion of social security contribution cuts for self-employed workers**. These cuts are offset by a 1.7 percentage point increase in the CSG, which has a larger base.

These reforms, which are designed to make work more rewarding while keeping the cost to business to a minimum, are consistent with ongoing efforts to **contain rising labour costs** and **make France's manufacturing base more competitive**. By abolishing the CICE and replacing it with a permanent reduction in social security contributions, the government is making a clear statement of its resolve to **contain costs in the long term and build a system that works for all**.

Box 7: Redistributive impact of transfers to households and certain structural reforms

As a result of the current government's main measures of transfers to households, introduced up to 2020, household living standards will increase by 1.7% compared with a non-reform baseline[14]. The reforms benefit households in all income deciles, and their impact is relatively higher on those in the bottom eight deciles (average 2.2% increase in aggregate standard of living) than those in the top two deciles (0.9% on average) (see Figure 1). *The permanent increase in the individual in-work bonus (which, coupled with the rise in the statutory minimum wage, will leave minimum-wage earners with an extra €100 in monthly disposable income) and the social security contribution cuts will raise the aggregate standard of living of households situated mostly in the bottom half of the income distribution. The income tax cut will increase take-home pay for taxpaying households. Meanwhile, households in the bottom 80% of the income distribution will feel the greatest effects of cross-cutting measures to boost household purchasing power, such as residence tax relief and exceptional increases in minimum social benefits (adult disability allowance, minimum old-age pension and RSA). The highest-earning households will also enjoy a better standard of living, albeit to a lesser extent, as a result of measures to promote productive investment (capital taxation reforms and replacement of the ISF with the IFI) and income tax cuts.*

Figure 1: Redistributive impact of the current government's measures, introduced up to 2020, excluding indirect effects on employment and productivity



**net of controlled adjustment of benefits, and of cost-efficiency measures on housing and family benefits.*
Note: behavioural effects are factored into the calculated impacts of tobacco, energy and capital income taxation reforms.

In addition, many measures – both the transfers included in Figure 1 and other reforms not included in the chart – will have positive effects on employment or productivity. By acting through these two macroeconomic channels, these reforms will ultimately help to push up living standards, especially among the poorest

[14] This increase in living standards reflects changes to legislation only. It does not factor in household income and property ownership trends, benefit and aggregate tax and social security contribution trends, or consumer price trends. As such, it concerns only one of several factors affecting annual variations in household purchasing power.

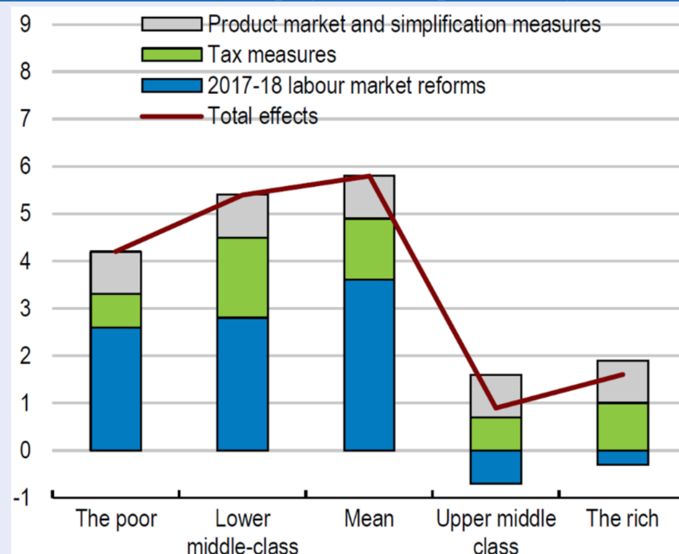
households. Examples include the Plan for Investment in Job Skills, the conversion of the CICE into a permanent reduction in social security contributions, and household and business capital taxation reforms.

*In its 2019 Economic Survey of France, the OECD evaluates the **macroeconomic and redistributive effects** of the French government's flagship structural reforms since 2017.[15]*

*The report looks at the impact of various provisions of the **PACTE Act** (especially simplification measures), **reforms to aggregate tax and social security contributions** (income and wealth taxes, social security contributions, as well as the increase in the in-work benefit), and a number of **labour market reforms** (see Figure 2).*

*According to the OECD, these measures, when taken together, could **increase GDP per capita after 10 years by around 3.2%** due the combined effect of rising employment (which would push up GDP per capita after 10 years by 2.1%) and higher labour productivity (which would push up GDP per capita after 10 years by 1.1%). Given that rising unemployment has a relatively higher impact on the income of the poorest households, while the proceeds of increased labour productivity tend to flow to higher-earning households, the authors conclude that **lower- and middle-income households are likely to benefit most from these reforms** (see Figure 2).*

Figure 2: Redistributive impact of certain structural reforms on household income, including indirect effects on employment and productivity



Source: OECD (2019), OECD Economic Surveys: France 2019, OECD Publishing, Paris.
Note: the measures covered by the study generate a 5.8% increase in mean long-term real disposable income:

- *Product market and simplification measures: simplification of bankruptcy procedures, smoothing of firm-size related thresholds and incentives for employee-participation schemes.*
- *Tax measures: reduction of social security contributions and increase in the CSG, reduction of the corporate income tax rate and transformation of the wealth tax, increase in the in-work benefit.*
- *2017-18 labour market reforms: higher targeted spending on lifelong training, lower administrative extension of branch-level agreements, reduced uncertainty around dismissal costs.*

*Notably, the **OECD methodology excludes some measures that boost household purchasing power**, such as abolition of the residence tax. As a result, these macroeconomic effects supplement the direct effects of transfers to households analysed in Figure 1.*

Box 8: In review: economic and social emergency measures and conclusions of the Great National Debate

[15] OECD (2019), *OECD Economic Surveys: France 2019*, OECD Publishing, Paris.

The nationwide protests in late 2018 and feedback from French citizens in the Great National Debate show that France is in the grip of an economic and social emergency. The government has taken a series of measures in response to this situation.

Proposed tax rises on fuel and heating, which were initially scheduled to come into force in 2019, were abolished before the 2019 DBP came into law. At the same time, the government increased the value of the energy voucher by €50 and extended the scheme to an extra 2.2 million households.

The government has taken feedback from French citizens on board, introducing additional measures to make work more rewarding and to boost household purchasing power. The in-work benefit has been increased in order to put an extra €100 in the pockets of minimum-wage earners each month. In Q1 2019, around 400,000 businesses paid out a total of €2 billion to some 5 million employees in the form of an exceptional bonus exempt from income tax, employer and employee social security contributions, and social charges. In addition, overtime pay is now exempt from income tax and social security contributions, while the increase in the CSG no longer applies to people drawing a pension of less than €2,000.

In spring this year, following the conclusion of the Great National Debate, the President of the Republic restated his resolve to press ahead with cuts to aggregate tax and social security contributions as part of the government's agenda to make work more rewarding. He announced a series of new measures in this regard, including a €5 billion income tax cut for the middle class that lowers the marginal rate for those workers paying income tax for the first time. He also announced that pensions of less than €2,000 will be indexed to inflation and confirmed that, in 2020, the government will reintroduce the scheme under which employees are entitled to an exceptional bonus exempt from income tax and social security contributions, provided their employer has a profit-sharing agreement in place.

The static fiscal impact of these measures has been offset in a number of ways: by creating a new tax on digital services, by abolishing the reduced-rate domestic tax on consumption of energy products (TICPE) for off-road diesel (see Box 12), and by achieving efficiency savings in the management of government expenditure. France will also spend less servicing its debt burden and will contribute less to the EU budget. Lastly, the corporate income tax rate for companies with turnover of €250 million or more – a measure enshrined in the act of 24 July 2019 – will now be reduced at a slower pace, although the 25% target for 2022 remains in place.

c. Support people and reduce inequality of opportunity and outcome

The government is working to transform France's social model in an **inclusive manner**, by supporting **those who have benefited the least** from economic and social changes in recent decades on account of their age, gender or personal circumstances.

- **Initial education** is the first plank of the agenda to reduce inequality of opportunity. Since the start of the Presidential term, the government has been working to **halve first- and second-grade class sizes**. All classes at these grades in priority education network (REP) and priority education network plus (REP+) schools have now been halved in size, benefiting around 300,000 pupils. The **compulsory school age has been lowered from six to three**, and **second-grade class sizes** will be limited to 24 pupils in order to reduce educational inequality from an early age. A further 2,300 primary teachers will be hired. Fostering equal opportunity also means ensuring that **all children with disabilities are enrolled in school**. An extra 4,500 specialist disability teaching assistants were hired for the 2019 academic year, catering to the needs of an additional 24,500 pupils with disabilities. On 19 September, the President of the Republic set up a commission of experts on the **first 1,000 days of the child** to bridge the gap between scientific evidence and parents' lived experience. The aim of this process is to consider the needs of the whole family – parents and child – by: (i) shaping public policy that addresses real needs, to counter over-reliance on the private sector and bias in favour of informed parents; and (ii) bringing about a social and educational paradigm shift in our approach to this phase of early childhood, which is all-too-often treated as a healthcare issue.
- Moreover, the government is determined to empower all French citizens by reducing inequality in **access to healthcare**. It is doing so by improving preventive measures (extension of the vaccination obligation, increase in the price of tobacco), encouraging greater take-up of healthcare services ("100% health" agreement on "zero out-of-pocket costs"), and promoting access to healthcare for all through the "My Health 2022" plan (reform of medical courses, creation of local hospitals). The government will also respond to the findings of the Libault report, which sets out the conclusions of a wide-ranging consultation exercise between autumn 2018 and spring 2019, by introducing an "Old Age and Independent Living" bill. The bill will include measures to guarantee high-quality care and support for people who become dependent, while at the same time cutting out-of-pocket costs for those who can least afford them.
- The new equality index, introduced in 2019, is a practical tool to **address the gender pay gap** – an issue that has dominated the national debate since 2017. The Career Choice Act of 5 September 2018 requires companies with more than 50 employees to publish an annual "gender equality index". The index, which ranges from 0-100, measures indicators such as pay, pay rises, promotions, the proportion of women in high-paid positions, and measures taken to reduce inequalities. Firms scoring less than 75 on 1 March 2022 could face a fine of up to 1% their wage bill. The fine will come into force for companies with 50-250 employees on 1 March 2023. The new measure enshrines the "equal work for equal pay" principle in practice.
- Last but not least, the government has embarked on **root-and-branch reform of the pension system** to make it fairer and easier to understand, by ensuring that each euro contributed guarantees the same rights for all (see Box 9).

Box 9: Pension reform

France's fragmented, complex and inefficient pension system requires comprehensive reform. There are currently 42 separate pension schemes. This fragmented model causes a great deal of uncertainty, hampers career mobility and leaves many people saving for retirement with a strong sense of injustice. Moreover, the fact that the system requires regular adjustment to contain expenditure has eroded French citizens' confidence in its long-term viability, potentially leading to sub-optimal saving practices.

On 18 July 2019, following completion of the initial consultation phases, the High Commissioner for Pension Reform, Jean-Paul Delevoye, published his recommendations for a reformed, pay-as-you-go, universal pension system that:

- ***has common rules for all French citizens**, irrespective of their occupational status, with harmonised contribution rates and bases for the public and private sectors: a rate of 28.12% on pensionable earnings (capped at €120,000 gross per year, compared with a current private-sector limit of €320,000), including for civil servants*
- ***is clearer and fairer**, with each euro in contributions guaranteeing the same rights for all, irrespective of the type of pensionable income*
- ***includes solidarity mechanisms** to support those who take forced career breaks (due to unemployment, illness, debilitating injury or parental leave), give up work to care for their children (starting from the first child) or dependent relatives, lose their spouse (widow's/widower's pension), or spend their entire careers working part-time or on low pay (minimum pension)*
- ***recognises that some people have specific circumstances** (long careers, hazardous or strenuous occupations, disabilities, etc.) that are objectively different from others*
- ***keeps the minimum retirement age at 62 years** to allow people the freedom to choose when to retire, and makes the full pension entitlement age the same for all contributors within a given age bracket to take account of changes in life expectancy over time; as an alternative solution, the report suggests maintaining the existing system whereby the full pension entitlement age is calculated separately for each person according to how long they have worked*
- ***is designed to be financially sustainable**, with clear rules on changes to criteria according to demographic and macroeconomic trends, and a new pension reserve fund; in order to be sustainable, the system will need to achieve balance by 2025, which will require additional rebalancing measures*
- ***is phased in gradually** over 15 years to take account of citizens' specific career paths and personal circumstances, while safeguarding entitlement earned under the old system; the reformed system will have no impact on existing retirees.*

These recommendations will be discussed in a further consultation round, and the bill is expected to come before Parliament next year.

d. Narrow the geographical divide[16]

Narrowing the geographical divide is high on the government's agenda, as it seeks to foster economic growth and social development in every region of France. All French citizens should enjoy the public services they need, no matter where they live.

- In its effort to bolster regional cohesion, the government will work to **close the digital divide** by rolling out fixed and mobile internet nationwide under the **High-Speed Broadband Plan** launched in 2013. By 2020, all parts of France will enjoy high-quality mobile network coverage and high-speed fixed broadband with speeds of at least 8 Mbps. And by 2022, every business and household in the country will have a very high-speed fixed broadband connection.
- France is also divided along **access to healthcare** lines. In 2017, 8% of French local authority territories were classed as "under-served areas", meaning people living there were limited to less than 2.5 medical appointments per year. The **"My Health 2022" plan** includes a series of measures to address the shortage of doctors in rural areas. Some of these measures were enshrined in the Healthcare System Organisation and Transformation Act, which was enacted on 24 July 2019. By 2022, some 1,000 local health professional communities (CPTS) will be deployed nationwide to bring healthcare closer to communities.
- Bolstering regional cohesion also implies ensuring that all French citizens, no matter where they live, have **access to cleaner mobility solutions**. The **Mobility Reform Bill (LOM), which will shortly be adopted by Parliament**, overhauls France's mobility policy with an emphasis on reducing dependency on private cars. The bill aims to cut the environmental footprint of transport by stimulating a five-fold increase in low-emission car sales between 2017 and 2022. It also includes a programme of investment in transport infrastructure, and in everyday transport in particular, with €13.4 billion earmarked for 2018-2022, followed by €14.3 billion for 2023-2027.
- Tailored action plans have been drawn up, targeting **specific areas in decline**: priority urban neighbourhoods (QPVs), which will benefit from the "*Emplois francs*" scheme to boost employment; medium-sized cities, which will be able to sign specific contracts to revive growth under the "*Action cœur de ville*" plan; and industrial areas under the "*Territoires d'industrie*" initiative.

e. Protect the most vulnerable individuals

The **national strategy for preventing and combating poverty**, which the President of the Republic unveiled in September 2018, reflects the government's resolve to do more to **reduce poverty**. The strategy includes €5 billion of investment over the life of the plan (until 2022) – excluding the increase in the in-work benefit – in **addressing the causes of poverty**. With prevention at its heart, the strategy tackles two priorities: **early childhood**, and helping vulnerable people make the transition **back into work**.

- The government's revamped **early childhood policy** is designed to give all children opportunities to socialise with their peers, to encourage diversity, and to raise educational standards in childcare settings, especially in disadvantaged areas. At the start of the 2019 academic year, the government launched a new early years curriculum, with in-service training for childcare practitioners, on a pilot basis. The new arrangements will be rolled out nationwide in 2020.
- The government has embarked on **reform of minimum social benefits**, launching a consultation exercise in June 2019 on its plans to replacing various existing benefits with a new **universal employment income** to guarantee a decent standard of living for all and to encourage people back into work. The benefit system will be simplified to raise take-up rates and eliminate inequitable situations, while promoting returns to the job market. Under the reformed system, every euro earned through work will translate into an increase in disposable income. The **increase in the in-work benefit** follows similar lines.

[16] See special report entitled "*Les politiques pour la convergence des territoires*".

- A **public integration service** will be set up to provide guidance and support to help people far removed from the job market make the transition into work, supplementing existing return-to-work measures for the poorest members of society. A new "Activity Guarantee" scheme will be set up to coordinate social support and labour force integration provision. Some 300,000 job-seekers are expected to benefit from the scheme by 2022.
- Lastly, the government is determined to **provide training to all young people**. With the compulsory school leaving age set to be raised to 18 in September 2020, all young people will receive local support or be referred for further training, employment or civic service.

2. Unleashing the full potential of the French economy

To create a more prosperous society, we must **unleash the full potential** of the French economy by reforming the labour market, taxation and the business environment.

a. Boost growth and employment by reforming the labour market

Labour market reform has already started with the orders relating to the strengthening of social dialogue. Adopted in 2017, these orders grant a central place to collective bargaining at company level and provide greater certainty for labour relations by introducing: (i) negotiated contractual termination by mutual agreement for groups of employees (RCC), which provide a majority-backed framework for voluntary redundancies and ease the restructuring process for businesses of all sizes; (ii) collective performance agreements (APCs), which allow companies to plan ahead and avoid getting into financial difficulty when market conditions fluctuate by fast-tracking changes to employees' pay, working hours, and career and geographical mobility arrangements; and (iii) a scale for labour tribunal damages for dismissal without real and credible grounds. Many companies have already taken advantage of these new arrangements. At 1 April 2019, 142 APCs had been signed and 120 firms had negotiated an RCC, with 78 agreements signed off by Regional Directorates for Enterprises, Competition Policy, Consumer Affairs, Labour and Employment (DIRECCTEs). Feedback from business has been positive, with firms stressing how quick and flexible the process is, and highlighting how it has improved social dialogue and eased the restructuring process.

Having already implemented reforms to social dialogue, apprenticeships, vocational training and integration through work programmes, the government embarked on an **overhaul of unemployment insurance**, the fourth component of its labour market reform package. The reforms aim to combat job insecurity and excessively short contracts, to encourage sustainable re-employment, and to provide better support for job-seekers (see Box 10).

Box 10: Unemployment insurance reform

The government has overhauled the unemployment insurance system, the fourth component of its labour market reform package, to make it fairer and more universal, and to combat job insecurity. The reform has two sub-components: introducing new support arrangements that allow all job-seekers to secure sustainable employment of their choosing, and placing greater responsibility on individuals and businesses to combat job insecurity. In practical terms, the reform comprises four measures:

- *Unemployment insurance will be **conditionally extended to employees who resign** to pursue other career goals, **and to self-employed workers**, who will receive it for six months without having to make further contributions. Employees who resign will be entitled to free support to help them pursue their plans.*
- *The **Pôle Emploi employment service agency will offer additional support** to job-seekers to help them secure sustainable employment, while businesses looking to hire employees will benefit from a new package of services.*
- ***Unemployment insurance payout rules will be revised** as part of efforts to incentivise long-term employment and to help put the unemployment insurance scheme (Unedic) back on a sustainable financial footing. The government will tighten the unemployment insurance eligibility creiteria and top-up rules, change how the benefit is calculated so that unemployment can never pay more than work, and reduce the benefit entitlement of job-seekers who earned more than €4,500 gross a month when in work.*
- *The government will also introduce **financial incentives for businesses to hire more employees on CDIs and extend the term of CDDs**. Companies with 11 or more employees in sectors and industries with high separation rates will come under an adjusted unemployment contribution system that disincentivises job insecurity and discourages them from hiring workers on successive CDDs or temporary contracts of employment.*

The proposed reforms to unemployment insurance and support arrangements will have a dual benefit. First, they will promote more secure forms of employment. And second, they will place Unedic on a more sustainable financial footing by generating total cost savings of around €3.4 billion in 2019-2021. The reforms are consistent with the guidance issued to labour and management representatives.

b. Reform taxation to stimulate investment and foster an upmarket shift in our economy

The **reduction in household capital taxation**, which began in 2018, is designed to correct a situation whereby marginal tax rates in excess of 100% discouraged savers from taking risks. In 2018, the government introduced the SFU and replaced the ISF with a new IFI in an effort to channel more household savings towards productive investment.

Corporate taxation has been reworked to **encourage investment and job creation**, to make French businesses more **competitive**, and to boost France's **appeal**.

- The **gradual cut in the standard corporate income tax rate**, which will be in line with the European average at 25% by 2022, is reducing the cost of capital, stimulating long-term investment and making France a more appealing place to do business.
- The **CICE** has been abolished and replaced with a permanent cut in employer social security contributions, simplifying the existing system and bolstering job creation and business competitiveness.

Other **tax reforms** are designed to make the system **clearer** and **fairer**.

- **A withholding-at-source system for personal income tax** came into effect on 1 January 2019. This major reform, under which workers now pay income tax in the same year as they earn the taxable income, is shaping a fairer tax and social security regime.
- In 2020, some 80% of French citizens who currently pay the **residence tax** will become exempt. The tax will be **abolished** altogether, for all French taxpayers, by 2023. The residence tax

is especially unfair due to geographical disparities. Its abolition, at a cost of €20 billion, represents a bold step towards building a simpler and fairer tax system and boosting household purchasing power.

- The new **tax on digital services**, adopted in July 2019, is a necessary measure to make the tax system fairer. The tax is levied on large tech firms earning a significant share of their targeted advertising and online platform revenue from digital service users located in France.

c. Improve the business environment

The government is seeking to stimulate activity and boost business competitiveness by **improving and streamlining the business environment and providing greater certainty for firms**.

The **PACTE** Act, adopted in 2019, eases the constraints on businesses at every stage of their development, freeing up the resources they need to innovate, transform, grow and create jobs.

- A new one-stop shop will be created to help with administrative procedures relating to **setting up and running a business**. The government is also streamlining the legal environment to encourage SME growth and job creation, slimming employee thresholds down to levels of 11, 50 and 250 employees. In addition, companies that cross the thresholds will now have five years to comply with the new obligations. Bankruptcy law has also been reformed, with the introduction of the "cross-class clam down" enforcement mechanism to limit the extent to which businesses can destroy value when they restructure.
- The PACTE Act includes reforms to the retirement savings system to **make it easier for businesses to access finance**, with measures designed to foster long-term investment by improving how resources are allocated, build greater flexibility into the use of savings during retirement, and introduce transferability between different products.
- The law also contains measures to foster moves between the public and private sectors for researchers, in an effort to **stimulate innovation**.
- By expanding employee profit-sharing and incentive schemes, the PACTE Act contributes to the process of **redistributing the proceeds of growth**. The *forfait social* (reduced social security contribution) has been abolished on employee savings scheme payments for companies with fewer than 50 employees, and on profit-sharing scheme payments for companies with fewer than 250 employees.

The PACTE Act **strengthens competition** by easing the constraints on small businesses, with the certification threshold for company accounts now raised to European levels. Going forward, small businesses will not need to have their accounts certified by an auditor unless they meet two of the three following conditions: balance sheet of €4 million or more, pre-tax turnover of €8 million or more, and headcount of 50 employees or more.

Stronger competition has a dual benefit: as well as boosting competitiveness and injecting fresh impetus into the economy, it also increases household purchasing power. Other competition-strengthening measures include making it easier to switch supplementary health insurance policies, plus those announced by the Prime Minister in his address on 5 March 2019 marking the 10th anniversary of the Competition Authority (measures relating to **spare car parts**, **driving schools**, **co-ownership management agents** and **medical laboratories**).

Lastly, the government has stepped up its work on streamlining the regulatory environment for businesses.

- Ongoing efforts to roll out the "**tell us once**" principle across government are helping to cut red tape and curb information redundancy, especially for businesses.
- Pillar 2 ("keep it simple") of the **Government Reform Act for a Trust-Based Society (ESSOC Act) of 10 August 2018** also contains measures to ease the administrative burden.
- The "**one in, two out**" rule, which aims to combat normative inflation, was enshrined in the circular of 26 July 2017.
- The government has also **eliminated over-enactments of European directives** – through the PACTE Act in particular – in a further effort to streamline the regulatory environment.

3. Fostering the growth model of tomorrow

If France is to achieve sustainable growth, it must adopt a **new model** that combines economic prosperity, social progress and ecology.

a. Shape sustainable low-carbon growth

In his keynote policy address on 12 June 2019, the Prime Minister made clear that the **ecological transition would be a key priority** of the government's agenda for the second half of the five-year Presidential term. France has committed to achieving carbon neutrality by 2050, at which point all man-made emissions of greenhouse gases will need to be offset by man-made carbon sinks. This target is enshrined in the Energy and Climate Act. France published a draft version of its **National Low-Carbon Strategy (SNBC)** in December 2018, outlining how it will achieve carbon neutrality across all sectors of the economy. The strategy sets out carbon budgets, which cap per-sector greenhouse gas emissions over a period of five years.

As it pursues this strategy, the government is introducing a **new governance structure** that places the ecological transition at the very heart of its agenda:

- In November 2018, the President of the Republic created the **High Council for Climate Action**, a body that will provide independent oversight of climate policy implementation.
- The government is holding regular **Climate Cabinet** meetings to coordinate environmental policy-making.
- The **Citizens' Climate Convention**, a newly created assembly of 150 randomly selected French citizens, will be tasked with recommending climate policy measures. The recommendations, set to be published in early 2020, will be brought before Parliament, which will either put them to the people in a referendum or transpose them directly into law.

The ecological transition also involves **redirecting public and private investment** on an unprecedented scale:

- The €57 billion **Great Investment Plan** includes €20 billion of investment in accelerating the ecological transition, with €9 billion earmarked for energy efficiency improvements to low-income housing and public buildings.
- **In February 2019, the Quinet Commission published a report, entitled *The Value for Climate Action*, to inform public and private investment decisions.** The report sets the shadow price of carbon at €250 per tCO_2eq in 2030. This new benchmark value will be used in socio-economic evaluations of public investment projects to ensure that investment decisions factor in the project's impact on greenhouse gas emissions.

Government measures to achieve the ecological transition are **affecting every sector of France's economy**.

The draft Multi-Year Energy Programme (PPE), published in January 2019, sets out how France will transition to a low-carbon **energy mix** over the next 10 years, with staggered targets to bring fossil fuel consumption down by 40% between 2012 and 2030 – including the closure of the last remaining coal-fired power stations by 2022. In addition, it includes plans for a large-scale roll-out of renewable electric and thermal power and a target of increasing the share of in France's final energy consumption to 32% by 2030. Public investment will rise from €5 billion in 2019 to €8 billion in 2028 to support this ambitious trajectory. The PPE also sets a phased timetable for cutting the nuclear share of electricity generation to 50% by 2035.

On **housing**, the Housing, Planning and Digital Technology Reform (ELAN) Act lays the foundations for more heat-efficient buildings. Meanwhile, the Energy and Climate Act requires all energy-inefficient homes (i.e. those rated F or G) to undergo energy efficiency retrofits by 2028. In addition, from 2022, anyone offering a home for sale or let will be required to provide information about energy costs, as well as the cost of efficiency retrofits.

On **transport**, the Mobility Reform Bill (LOM) will support the development of new mobility solutions such as car-sharing, carpooling and active mobility. The bill also upholds the planned ban on the sale of fossil fuel-powered cars by 2040. The government has also introduced other measures to accelerate the transition to a low-carbon transport sector, including a multi-year trajectory for the electric vehicle bonus, the joint French-German battery cell initiative, the eco-contribution tax on air travel, and a reduction in the level of TICPE relief for road transport.

The **Anti-Waste and Circular Economy Bill**, presented to Cabinet on 10 July 2019, focuses on four

priorities: ending waste, transforming France's production methods, strengthening consumer information, and improving waste management.

The government recognises that the ecological transition can only be a success, and will only be socially accepted, if **all households – especially those on low incomes – get the support they need**.

– In 2019, the government increased the value of the energy voucher by an average of €50 and extended the scheme to an extra 2.2 million households, reaching the 20% lowest-income households.

– In 2020, the **energy transition tax credit (CITE)** will be converted into a bonus for low- and very low-income households and will be merged with the National Housing Agency's (ANAH) "*Habiter mieux agilité*" housing improvement scheme. As a result of the change, the bonus will be paid in the same year as retrofit work is carried out. Other households will receive a bonus in place of the CITE in 2021.

– The government has doubled its target for the **car scrapping bonus** from 500,000 to 1 million households over the Presidential term. It has also doubled the value of the bonus for low-income households and for the heaviest road users.

Box 11: Other climate initiatives

Towards a green budget

From 2019 onwards, budgetary documentation will be condensed into a single report in the interest of better monitoring of climate and environment tax and fiscal policy measures. More generally, the government is transitioning towards a greener budget as it looks to ***assess the environmental impact of all tax and fiscal policy measures*** *and make government action on the environment more consistent and transparent.*

Green finance

Financing practices by banks, insurance companies and financial markets must be consistent with the transition to a low-carbon economy*. With this in mind, the focus is on encouraging private-sector investors to divest from fossil fuels.*

- *Paris' financial services industry has recently committed to doing more to tackle climate change.*
- *France has also led the way on climate risk transparency, introducing tougher carbon disclosure requirements by way of Art. 173 of the Energy Transition and Green Growth Act, adopted on 17 August 2015. The European Union has now followed suit, with the forthcoming publication of a proposal for a regulation on disclosures relating to sustainable investments and sustainability risks.*
- *The PACTE Act also contains a series of measures to allow all French citizens to invest in the ecological transition. For instance, insurance companies are now required to offer customers unit-linked life insurance policies certified to SRI (socially responsible investing), Greenfin (climate) and solidarity standards.*
- *On 2 July 2019, industry federations signed an investment pledge at a ceremony attended by the Minister for the Economy and Finance, agreeing to encourage their members to publish individual coal divestment strategies beginning in 2020. Under the pledge, the* Autorité des Marchés Financiers *(AMF) and the Prudential Supervisory and Resolution Authority (ACPR) will set up special advisory committees to monitor strategy implementation.*

Green bonds

In January 2017, France issued the €7 billion, 22-year Green OAT, the largest and longest-dated green bond ever issued. ***Green OAT issuance*** *is* ***matched to eligible green expenditure that contributes to climate change mitigation*** *and adaptation, biodiversity conservation and pollution reduction. The outstanding amount currently stands at €20 billion. The Green Bond Evaluation Council, comprising seven members and two observers, sets the terms of reference for retrospective evaluation reports and supervises evaluation standards,*

European initiatives

France is also ***heavily involved in international initiatives*** *to combat climate change. At European level, France endorses the idea of transforming the European Investment Bank into a European Climate Bank with a more ambitious remit and additional resources. France also backs proposals for a European aviation tax and has offered to open international talks on a finding a way forward.*

Box 12: Abolition of the reduced-rate domestic tax on consumption of energy products (TICPE) for off-road diesel

Off-road diesel is a fuel used for off-road vehicles such as construction machinery, locomotives and farming equipment. The domestic tax on consumption of energy products (TICPE) is currently levied at a reduced rate of €18.82 per hectolitre for off-road diesel (compared with €59.40 for diesel for road use).

This tax break encourages businesses to use diesel-powered vehicles instead of switching to cleaner vehicles with lower CO_2 and pollutant emissions. The government will gradually phase out the reduced rate between 2020 and 2022 as part of efforts to accelerate the energy transition.

The rate for off-road diesel will increase in three stages, bringing it into line with the rate levied on diesel for road use in 2022. The reduced rate will, however, remain in place for the farming and rail industries, where there is less scope to pass on additional costs to customers – or to switch to alternative technologies – than in other sectors. The government will also introduce a compensatory mechanism to mitigate potential cash-flow problems among farmers.

This measure will produce a net gain for the public finances of €215 million in 2020, and €900 million each year from 2023 onwards.

b. Build a skills-based growth model

The government's aim is to turn France into an **innovation and knowledge economy**. Achieving that ambition will require investment in high-quality education for all and a highly skilled workforce. That is why the government is overhauling the entire public education and training system to make it more efficient and more egalitarian.

If efforts to reduce educational inequality are to yield maximum results, they must begin in **early childhood**. Likewise, the best way to maximise expenditure efficiency and reduce social inequality is to focus resources where they are needed most: on the most disadvantaged pupils. The government has taken a number of steps in this direction, including halving class sizes in REP and REP+ schools, lowering the compulsory school age from six to three, and limiting second-grade class sizes to 24 pupils in order to reduce educational inequality from an early age.

At upper secondary-school level, the **reform of the baccalaureate** will become effective in 2021. The revised general and technical baccalaureates will see pupils sit both core and options papers. The simplified examination, with greater weight given to pupils' work throughout the year, will serve as a more effective springboard to higher education.

The **vocational school reforms** will provide better training for the professions of the future while making vocational provision more appealing and easier to understand. For instance, vocational baccalaureates will be categorised into groups of professions, local excellence campuses will be set up, and there will be a greater emphasis on the professions of tomorrow.

The government is also overhauling **vocational training and apprenticeships** to bring sustainable employment opportunities to all.

- The **apprenticeship reforms** aim to make this route more appealing by increasing pay, protecting apprentices whose contracts are terminated, and raising the age limit to 30. The reforms also reduce the burden and stress on host companies, with simpler registration and end-of-contract rules and per-apprentice (rather than per-establishment) funding to ensure the system better caters to business needs.
- The **vocational training reforms** are designed to provide greater career certainty, support sustainable employment and ease transitions. The personal training account (CPF) scheme has been credited with funds, and provision for low-qualified workers had been bolstered. The government has set up **France Compétences**, a

new public body responsible for vocational training and work-study programmes. Its remit includes allocating resources and supervising costs and standards. By 2021, the new agency will manage and redistribute funds in excess of €9 billion, most of which will come from the single contribution to vocational training and work-study programmes.

As well as reforming vocational training and apprenticeships, the government is also **investing heavily in skills**, especially among the most disadvantaged groups. Under the "Create a skilled-based society" arm of the Great Investment Plan, €15 billion is earmarked over the five-year Presidential term for long courses and programmes leading to qualifications.

– The **Plan for Investment in Job Skills** (PIC) sets a target of training one million low-skilled or unskilled job-seekers and a further one million young people far removed from the job market. The plan will address the needs of professions experiencing recruitment difficulties, while building a workforce with sought-after skills in disciplines such as the environment and digital technology.

– At end-May 2019, 16 of France's 18 regional authorities had signed a **multi-year skills investment agreement** with central government, covering the period 2019-2022. In 2018, some 211,000 people enrolled on PIC-supported training courses and a further 21,000 registered for support via PIC-backed programmes. Total spending on the plan amounted to €1.4 billion in 2018. This figure is set to rise to around €3 billion in 2019, half of which will come from France Compétences cost-sharing contributions.

Lastly, the **university entrance reform** measures contained in the Student Guidance and Success Act of 8 March 2018 have made it possible to end the practice of random selection and should help combat the particularly high failure rates in bachelor degree programmes by reorganising the higher education system.

c. Foster sustainable innovation-driven growth

Tomorrow's economic growth must be driven by **innovation**. To this end, significant public resources have been allocated to investment in research and innovation and in shifting France's economy upmarket.

– The €57 billion Great Investment Plan includes **€13 billion** for the "**Strengthen innovation and competitiveness**" component. Of that amount, €3.5 billion will be allocated to supporting excellence in scientific research, further enhancing the reputation of French universities on the world stage, and revitalising France's entire higher education and research system. A further €4.6 billion will be invested in stimulating private-sector innovation and encouraging risk-taking in tomorrow's key industries. The remaining €5 billion is earmarked for modernising equipment and practices in the farming, fishing, agrifood, and forest and wood products sectors.

– In addition, a new **Industry and Innovation Fund** (FII) has been set up with an initial injection of €10 billion in assets. The fund is expected to generate annual revenues of around €255 million from its assets, to be reinvested in disruptive innovation. The funding is divided into three separate budgets. The first, amounting to €150 million, will be invested in "major challenges" around disruptive innovation. The second budget, of €70 million, will be directed to high-tech start-ups under the Deep Tech plan, while the third, totalling €25 million, is earmarked for the Nano 2022 plan.

On 29 March 2018, the President of the Republic unveiled the **National Artificial Intelligence Strategy**, which aims to make France an AI champion on the European and global stages. The strategy, which runs until 2022, will be funded by the government to the tune of €1.5 billion.

The **Defence Innovation Agency** was created on 1 September 2018 with a budget of €1.2 billion. The new agency, whose remit covers all aspects of innovation within the Ministry of the Armed Forces, was set up with three aims in mind: to oversee long-term programmes that will prepare France's armed forces for the future, to capture shorter-term opportunities, and to stimulate innovation.

The **PACTE Act**, adopted in 2019, also includes provisions to promote knowledge and technology transfer by making it easier for public-sector researchers to move into private-sector roles. In

addition, the act sets out a series of measures to encourage businesses, especially SMEs, to use existing mechanisms to protect their intellectual property (enhancing the protection afforded by utility certificates, transposing the EU Trademark Package into French law, assessing inventiveness).

On 1 February 2019, the Prime Minister announced a new **multi-year research programming law**. The law will bolster research capability, give laboratories greater visibility, and help to identify and stimulate France's major strategic research programmes. The new multi-year law:

- accounts for the long timescales that are an inherent part of research and restores laboratories' leeway on scientific steering
- provides a stable, consistent framework for ongoing reforms designed to maximise the impact of public investment in research
- lays the groundwork for alignment with the new Horizon Europe programme, which will come into force in 2021.

In 2020, the government intends to introduce a bill inspired by the aims and objectives of the Productive Pact 2025, and in particular with the ambition to keep France at the forefront of technological innovation (see special report entitled "*Pacte Productif 2025 : anticiper les évolutions pour transformer le tissu productif français*"). The bill, which should be adopted in 2020, will enter into force in 2021.

d. These cross-cutting measures are supported by key sector-specific reforms

Changes to key sectors of our economy were successfully carried out in 2018 to strengthen our growth model, particularly in the rail (New Railway Pact Act), housing (ELAN Act) and agricultural sectors (Egalim Act).

The New Railway Pact Act of 27 June 2018 introduces sweeping reforms of the **rail** sector in an effort to raise public service standards, shore up the sector's business model and prepare the ground for the opening up of passenger rail transport to competition. The act sets out a phased deregulation timetable starting in 2019, with markets opening to competition in late 2020 for high-speed trains (TGV), and in late 2023 for regional express trains (TER) and intercity trains (TET).

The Housing, Planning and Digital Technology Reform (ELAN) Act of 23 November 2018 includes provisions to improve access to **housing** (boosting mobility in private housing stock and restructuring social housing), as well as simplification measures to stimulate supply. The government is also pressing ahead with housing benefit efficiency improvements. Benefits paid to social housing tenants have been reduced in return for lower rents, and an update of means-testing will come into effect in the coming months.

The Balanced Trade Relations in Agriculture and Food and Healthy, Sustainable and Affordable Food Act of 30 October 2018 is shaping an **agrifood and retail sector** fit for the future. The act aims to ensure that farmers are paid a fair price for their produce, to improve trade relations and value-sharing all along the production chain, and to guarantee healthy, sustainable and affordable food for all.

4. Transforming government and balancing public finances

The transformation of French society must also extend to the **public sector**. The objectives of these reforms are twofold: to raise standards in public service delivery, and to maintain sustainable public finances.

a. Spend less, spend better

The aim of the **Public Action 2022** programme – a systematic review of every area of government activity – is to equip France with a **more modern government**

that delivers the high-quality public services that its citizens expect. The programme has given rise to structural and organisational reforms, as well as shifts in HR management practices. On each occasion, these changes have been announced at meetings of the Interministerial Committee on Government Transformation (CITP).

Improving the quality of public services requires the **streamlining of administrative procedures and the regulatory environment**. As well as combating over-enactment of European standards and tackling normative inflation, the government is pressing ahead with reforms to build the Digital State. Eventually, citizens and businesses should be able to access the full range of public services online – from registering to vote, to making civil applications and tracking court cases. This digital shift will generate a dual benefit: raising service standards and delivering cost savings.

The overhaul of the public sector also involves a **radical shake-up of central and local government**.

- The prime ministerial **circular of 5 June 2019** on government transformation, sent to departmental ministers and ministers of state, sets out a seven-point plan to **reorganise central government departments and reform working practices**. The proposals, aimed at greater flexibility and efficiency, include reducing the number of grade levels and reassigning resources from repetitive tasks to priority projects and programmes. In addition, the structure of government will be simplified by closing down many central government bodies and committees – a move that will focus resources and centralise decision-making. Some central government units and functions will also be moved outside Paris in an effort to bring public services closer to citizens and rebalance France's economic and institutional landscape. Changes to working practices will include closer cooperation between government bodies and departments and greater restraint in the use of circulars, while the government will do more to evaluate the impact of its reforms.
- The prime ministerial **circular of 12 June 2019** on local government reform sets out four objectives for **transforming the local organisation of public services**. The first priority is to clarify the respective roles and powers of central government, local authorities and non-public bodies and operators, in order to strengthen the effectiveness of government action. The network of devolved central government departments will be reorganised, and cost savings will be achieved by pooling resources and increasing cooperation between departments. Lastly, the way local government services are governed will be overhauled, with senior officials in devolved authorities – especially *département* authorities – given extra powers. Steps will also be taken to ensure that government action is consistent across all parts of France.

To help the various ministries carry out their transformation plans, the **Public Action Transformation Fund** (FTAP), with a budget of €700m over five years, will support internal changes to raise service standards.

The **Civil Service Transformation Act** aims to improve human resources management in government departments, in particular by making social dialogue more effective, increasing the number of contract employees in the public service and facilitating employee mobility (see Box 13).

Box 13: Civil service reform: a new social contract

The Civil Service Transformation Act 2019-828 of 6 August 2019 makes comprehensive changes to France's civil service, while remaining true to its core values and principles. The major reform, introduced after a year-long

consultation exercise, aims to shape a 21st-century civil service – one that is more agile, more open and more appealing, delivering better public services close to where they are needed. The reform comprises five measures:

***Strengthening the governance of social dialogue**: merging two staff representation bodies (technical committees (CTs) and health, safety and working conditions committees (CHSCTs)) into a new, single body to foster an integrated view of human resources policy and provide better support to individuals with complex circumstances.*

***Revitalising HR management to make the civil service more efficient and responsive**: hiring the majority of civil servants on extended contracts and creating a new "project-based" fixed-term contract (CDD) to make it easier to bring in external resources. The act also introduces a severance bonus for civil servants on fixed-term contracts of less than 1 year, as well as introducing more modern management practices (replacing the scoring system with an individual performance review, and giving greater recognition to individual merit in promotion and progression procedures).*

***Treating all civil servants equitably**: making background checks and recruitment procedures more transparent, harmonising working time arrangements and modernising health protection rules, and increasing transparency around high pay in the civil service.*

***Doing more to support mobility and career transition**: allowing civil servants to transfer training entitlement and open-ended contracts (CDIs), and introducing new restructuring and posting support arrangements.*

***Improving equality in the workplace:** introducing measures to prevent and close gender pay gaps, including maintaining bonus entitlement during maternity leave, and bringing in stricter requirements for public-sector employers (fines of up to 1% of the wage bill). The act also provides new guarantees for employees with disabilities.*

The civil service reform is part of a wider fiscal consolidation effort that includes measures to **contain public expenditure** and **reform local government**.

- **The national healthcare expenditure growth target** (Ondam) was 2.3% for 2018. Actual growth came in at 2.2%. The target has been set higher for 2019, at 2.5%, to leave sufficient room for implementation of the "My Health 2022" plan for universal healthcare access. The Ondam 2018-2022 plan, which sets out a roadmap towards a more efficient, financially viable healthcare system, will enter its third year in 2020.
- Under new arrangements, **central government signs contracts with the largest local authorities** to ensure they contain actual operating expenditures. Of the 322 largest authorities covered by the scheme, 229 have signalled their intent to take part, along with a further 17 authorities that have agreed to sign up voluntarily. Actual operating expenditures increased by a modest 0.7% in 2018, showing that the system is yielding results.

b. Public finance path

In 2019, the **deficit** is expected to climb back to 3.1% of GDP, with only temporary, one-off dips below the 3% threshold, due to the exceptional impact of the conversion of the CICE into a reduction in employer contributions. The deficit is forecast to shrink to 2.2% in 2020, before falling further to 1.8% in 2021 and 1.5% in 2022.

The deficit is therefore predicted to be 1.3 percentage points lower in 2022 than in 2017, driven by a **fall in the public expenditure ratio** of close to 3 percentage points of GDP. The **ratio of aggregate tax and social security contributions is expected to fall** by more than 1 percentage point over the same period.

- Sustained **expenditure effort** will enable the government to finance its commitments and free up fiscal headroom, following unprecedented containment in 2018 (nominal growth rate of -0.3%) The nominal growth rate of public expenditure will stand at a modest 0.7% in both 2019 and 2020 (excluding the impact of creating France Compétences), as the government presses ahead with already-announced structural reforms in housing, subsidised employment contracts, public broadcasting and other sectors. Local

government spending containment efforts will continue under the new contract-based arrangement with central government, and the reformed pension system will achieve balance by 2025.

- Fiscal consolidation measures will be accompanied by a cut in **aggregate tax and social security contributions**, although the rate will rise temporarily between 2019 and 2020 as the effects of converting the CICE into a permanent reduction in social security contributions take hold. Government expenditure (excluding tax credits) as a share of GDP is expected to fall by 0.5 percentage points (after cancelling out the impact of creating France Compétences). France's structural deficit is predicted to shrink by 0.1 percentage points of GDP in 2019, and remain flat in 2020.

The **public debt ratio** is expected to increase in 2019 as a result of the one-off dual cost of the CICE conversion before resuming its downward path from 2020 onwards, shedding 0.7 percentage points of GDP between 2017 and 2022.

5. A new Euro Area Growth Pact

The architecture of the euro area has **strengthened substantially in the aftermath the 2008 financial crisis and the subsequent European sovereign debt crisis**. The European Stability Mechanism (ESM) provides financial assistance to euro area countries, the first two pillars of the banking union are in place, and budgetary and economic surveillance has been reformed, including the creation of the Macroeconomic Imbalance Procedure (MIP).

Yet **structural weaknesses continue to handicap the euro area and its architecture is far from complete**. Member countries' current account balances are highly divergent, and while a substantial euro area-wide trade surplus is an indicator of competitiveness, it also points to **weak domestic demand**. These persistent weaknesses are undermining **euro area stability and resilience**, leaving the bloc increasingly vulnerable to asymmetric shocks and causing member countries to pursue inconsistent economic policy objectives. Inflation remains low at this stage of the cycle despite unprecedented accommodative monetary policy, and more countries are borrowing at negative interest rates and over ever longer maturities. The euro area is therefore still **vulnerable to external shocks**, while those economies worst affected by past crises lack the fiscal headroom to absorb new threats.

As well as completing the euro area architecture, member countries should **act quickly to coordinate economic policy** – a move that would redress persistent domestic imbalances and have a supportive effect on our economies, should the need arise.

France therefore endorses the idea of a **Euro Area Growth Pact**, founded in three pillars:

(i) **Pursue structural reforms and public expenditure containment efforts**. This first pillar is a priority for some countries, including France. The President of the Republic has resolved to do whatever it takes to build a fairer economy that works for everyone.

(ii) **Step up investment**. Those countries with fiscal headroom should invest more. There is still a major unmet need for investment in the euro area, especially in innovation and infrastructure.

(iii) **Continue strengthening the euro area**. The first priority is to implement the proposed euro area budget as agreed at the Euro Summit on 21 June 2019. Further integration is also needed through the banking union and the capital markets union, both of which should realise their full potential. In the longer term, the euro area will need to include a stabilisation function.

This Euro Area Growth Pact supplements, and is consistent with, the French government's national strategy. **Closer coordination** between member countries lies at its heart. Indeed, coordination is essential to making the euro area more resilient and to maximising the bloc's growth potential in a way that works for all citizens. Meanwhile, the euro area **architecture must be completed** in order to redress inconsistencies, boost competitiveness and improve risk-sharing.

Macroeconomic impact of the reforms

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<tr><th colspan="2">REFORMS</th><th>MAIN MEASURES</th><th>TIMETABLE</th><th>ECONOMIC MECHANISMS AND ASSESSMENT TOOLS</th></tr>
<tr><th colspan="5">RECASTING OUR SOCIAL MODEL TO BUILD A FAIRER SOCIETY</th></tr>
<tr><td rowspan="6">Make work more rewarding by supporting the purchasing power of workers</td><td rowspan="6">Measures to increase remuneration of labour</td><td>Increase of the in-work benefit</td><td>October 2018: exceptional increase in fixed benefit (date of first affected payments)
February 2019: exceptional increase in individual in-work bonus (payment date)</td><td rowspan="6">Increased purchasing power for workers, in particular low-income workers
Strengthening of business incentives</td></tr>
<tr><td>Partial replacement of employee social security contributions (CSS) by the general social security contribution (CSG).</td><td>2018 Initial Budget Act/Social Security Budget Act</td></tr>
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<tr><td>Removal of the flat-rate social contribution on profit-sharing and incentive schemes (2019 Social Security Budget Act)</td><td>2019 Social Security Budget Act 2018-1203 of 22 December 2018</td></tr>
<tr><td>Exceptional purchasing power bonus renewed for an extra year</td><td>Economic and Social Emergency Measures Act signed on 24 December 2018
President announces that system is extended for another year on 25 April 2019</td></tr>
<tr><td>Cut in income tax for middle classes by smoothing the effect of the discount mechanism , reducing the rate on the first tax band from 14% to 11% and reducing the income threshold at which the 30% and 41% income tax brackets apply</td><td>2020 Initial Budget Act</td></tr>
</table>

	Reform of subsidised employment contracts and integration via economic activity	**Transformation of subsidised employment contracts into "employment and skills programmes" with the aim of integrating on a long-term basis all workers who have been left out of the labour market** (better selection of employers, improved training and support, strengthening the role of the decision-makers in terms of support, better targeting of the population).	11 January 2018: Circular on employment and skills programmes	**Better targeting** of the most disadvantaged populations **Better employability** **Increased productivity**
Supporting people and reducing inequality	Preventive measures	**Extension of the vaccination obligation** to 11 vaccines Introduction of a new sugar-based scale for the **tax on sweetened beverages** **Increase in the price of tobacco**, designed to reach €10 per packet of cigarettes in 2020	Vaccination obligation: since 1 January 2018 Tax on sweetened beverages: 1 July 2018 Tobacco: successive increases between 2018 and 2020	**Better vaccination coverage** of the population and better protection against diseases **Decrease in the consumption of tobacco and sweetened beverages** **Better pre-emptive control of diseases** linked to the consumption of these products **Better productivity** among the working population due to better health
	"My Health 2022" plan	Comprehensive reform of medical studies Creation of local hospitals Modification of the pricing of medical procedures in hospitals	Act on the "organisation and transformation of the healthcare system" signed on 24 July 2019	**Better access to healthcare** **Improved health care cost efficiency**
	"100% Health" agreement	Access to eye care, dental prostheses and hearing aids with zero out-of-pocket costs	Agreement signed on 13 June 2018 with health professionals Progressive implementation up to 2021	**Better access to healthcare** with the objective of lowering costs for the segment in question **Increased purchasing power**

	Gender equality	Plan to combat sexual and gender-based violence Equality index	Act signed on 3 August 2018 to increase efforts to combat sexual and gender-based violence 1 March 2019: implementation of the equality index Since 3 September 2019: roundtable on domestic violence	**Improved economic performance** due to the reduction of salary gaps
	Systemic reform of the pension system	**Gradual harmonisation of the rules for calculating the various pension schemes** One euro in contributions will confer the same rights to all.	Delevoye report in July 2019 outlining the guidelines for pension reform	**Improvement in the management of the system** and long-term financial viability **Better matching of labour supply and demand** by encouraging mobility **Improving attractiveness** by reducing employees' contribution base from 8 to 3 times the social security annual maximum
Bolstering regional cohesion	High-speed Broadband Plan	**Access to high-speed broadband Internet** for the entire population by 2022 **High-quality mobile telephone coverage** by 2020	January 2018: agreement signed with operators 2020: widespread reliable broadband for all households and businesses 2022: high-speed broadband for all households and businesses	**Increase in short-term demand** due to additional investment **Productivity gains** related to the bridging of the digital divide **Increase in potential growth**
	Plan for combating physician shortages in rural areas	**A plan to combat physician shortages in rural areas**, in connection with local authorities and healthcare stakeholders (specifically by increasing the number of multidisciplinary health centres – *maisons de santé pluridisciplinaires* – that serve rural areas) Deployment of 1,000 local health professional communities (CPTS) throughout the country ("My Health 2022" plan)	Act on the "organisation and transformation of the healthcare system" signed on 24 July 2019	**Better access to healthcare**

	Mobility Reform Act	Reduction in dependence on personal vehicles Coverage of the entire country by mobility management bodies Delegation of powers to local authorities Programming of investments in transport infrastructure: increase in investments; priority given to everyday transport	Presentation of the bill to the Cabinet on 26 November 2018 Adopted at its first reading, with changes, by the French National Assembly on 18 June 2019 Adopted definitively by the National Assembly on 17 September 2019	**Increased purchasing power for households** due to decreased dependence on personal vehicles **Increase in short-term demand** due to additional investment **Productivity gains** related to improved transport infrastructure and a better transport network for the whole country
	Support measures for disadvantaged neighbourhoods	**Trial and extension of the '*Emplois francs*' programme**, aimed at disadvantaged neighbourhoods	April 2018: launch of the trial in 7 areas comprising 194 priority urban neighbourhoods (QPVs) April 2019: extension of the programme (more than half of QPV inhabitants are now eligible)	**Better targeting** of the most disadvantaged populations **Better employability** due to lower labour costs for employers
	"Cœur de ville" (city centre) plan	**Implementation of specific contracts and "actions to revitalise urban areas" (ORT)** with 222 beneficiary towns/cities (rehabilitation of housing in the town/city centre, balanced commercial development favouring the maintenance or implementation of activities in the town/city centre, development of mobility solutions)	Autumn 2018: 222 "*Cœur de ville*" agreements signed between the towns/cities, partners and the government 2018-2019: diagnosis and project development phase	**Increased investment and activity** in medium-sized towns **Decrease in regional inequalities**
Protecting the most vulnerable individuals and ensuring their employment	Strategy to prevent and combat poverty	**Overhaul of the early childhood policy**, in favour of the most vulnerable areas **Schooling to be compulsory until the age of 18** **Assistance in finding employment** Overhaul of the minimum social benefits with a view to the introduction of a **universal employment income (*revenu universel d'activité* or RUA)**	Presentation of the strategy on 13 September 2018 June 2019: launch of consultation with a view to develop a universal employment income (*revenu universel d'activité*) that will group together the various social benefits	**Increased purchasing power for low-income households** by simplifying the procedure for obtaining minimum social benefits **Improved integration of young workers into the labour market**

	Limitation of bank charges	**Limitation on banking incident fees** for financially vulnerable clients	Pledges made in December 2018 by sector professionals for 2019 Cap on banking incident fees for financially vulnerable clients on 1 February 2019	**Increased purchasing power for households**, in particular low-income households
	Increase in minimum social benefits	Increase in the solidarity allowance for the elderly (ASPA) and the adult disability allowance (AAH) in 2018.	2018 Initial Budget Act/Social Security Budget Act	**Increased purchasing power** for low income households
	Pensions below €2,000 to be indexed to inflation	Pensions below €2,000 to be indexed to inflation	2020 Initial Budget Act/Social Security Budget Act	

UNLEASHING THE FULL POTENTIAL OF THE FRENCH ECONOMY				
Boosting activity and sustainable employment by reforming the labour market	Orders relating to the strengthening of social dialogue	**Priority given to company-level agreements** in areas not reserved for sector-level agreements, particularly in terms of wages, working hours and employee mobility, and streamlining via direct consultation in VSEs. Sector-level management of fixed-term contracts, interim contracts and project-specific contracts Non-automatic **extension of sector-level collective agreements**, subject to expert assessment **Streamlining and strengthening economic and labour-management** dialogue by merging the various employee representative bodies and recasting the occupational sectors Introduction of **mandatory floors and caps** for compensations awarded by labour tribunals **Reduction of the time-limit for appeals** in the event of litigation over the termination of employment contracts **Simplification of the rules governing collective layoffs for economic reasons** and introduction of negotiated collective contractual termination by mutual agreement.	Orders signed by the Prime Minister in September 2017 (ratifying act issued in March 2018)	**Better matching of labour supply and demand** resulting in productivity gains **Reduction of the cost of disputes**, improved and less costly representative bodies leading to lower labour costs and job creation **Making career paths more secure** allowing for professional reorientation and increased risk-taking

<table>
<tr>
<td></td>
<td>Unemployment benefits reform</td>
<td>Extension of unemployment benefits to self-employed workers and those who resign from their positions

Reforming unemployment benefits agreement to tackle excessive recourse to temporary employment contracts (permittence), foster the recovery of sustainable employment [change conditions for unemployment benefit eligibility, and decreasing rate for unemployment benefit for highest earners], and better assist individuals seeking employment and companies encountering recruitment difficulties.

Implementation of a reward-penalty scheme for companies that use short-term contracts</td>
<td>The Career Choice Act signed on 5 September 2018

November 2018 - February 2019: negotiations for a new unemployment benefits agreement with the social partners

18 June 2019: implementation of new measures by the government following the failure of negotiations

26 July 2019: two decrees published on new benefit rights to and unemployment insurance system</td>
<td>Development of sustainable employment instead of short-term contracts resulting in productivity gains

Drop in unemployment, particularly long-term, with better support</td>
</tr>
<tr>
<td rowspan="3">Simplifying the tax system and lowering taxes to make them more effective and fairer</td>
<td>Partial replacement of employee social security contributions (CSS) by the general social security contribution (CSG)</td>
<td>Elimination of employee healthcare and unemployment contributions for both public- and private-sphere employees offset by an increase in the CSG, whose base is larger so that the cost of social protection is not solely paid by labour

Increase in the CSG exemption threshold to €2,000 (net monthly income) in order to maintain the purchasing power of low-income pensioners</td>
<td>2018 Social Security Budget Act
1 January 2018: 2.2-point decrease in social security contributions and 1.7-point increase in the general social security contribution (CSG)
1 October 2018: 0.95-point decrease in social security contributions
Emergency Economic and Social Measures Act
1 January 2019: increase in CSG exemption threshold</td>
<td rowspan="3">Increased purchasing power for low-income and working households encouraging people to enter the labour force by increasing wages

Encouraging hiring by lowering labour costs, increasing competitiveness gains and making decreases in charges more transparent

Decrease in the cost of capital and greater savings neutrality, allowing savings to be used to invest in businesses and encouraging risk-taking and greater investment.

Shifting taxation to less distortionary tax bases, greater incentive to work and invest</td>
</tr>
<tr>
<td>Elimination of the residence tax</td>
<td>Elimination of the residence tax for 80% of households by 2020 and by 2023 for all households</td>
<td>2018 Initial Budget Act</td>
</tr>
<tr>
<td>Decrease in corporate income tax</td>
<td>Lower the headline corporate income tax rate to 25% by 2022</td>
<td>2018 Initial Budget Act
Law of 24 July 2019
2020 Draft Budgetary Plan</td>
</tr>
</table>

	Converting the CICE into social security contribution cuts	Simplification of the existing provisions of the Competitiveness and Employment Tax Credit (CICE) to encourage job creation Increased focus on low-wage earners	2018 Initial Budget Act/Social Security Budget Act	
	Introduction of the flat tax on investment income (PFU) and replacement of the ISF with the IFI	**A flat levy** of 30% (including social levies) on investment income **Replacing the wealth tax (ISF) with a property wealth tax (IFI)**	2018 Initial Budget Act/Social Security Budget Act	
	Withholding at source	Make the payment of income tax concurrent with the year in which income is earned	Entry into force on 1 January 2019	**Short-term: increase in the number of hours worked** due to the cancellation of the tax on recurring income collected in 2018 **Medium-to-long term: Decrease in precautionary savings** and increase in consumption
	Tax on digital services	Creation of a turnover tax on certain digital services provided by major groups in the digital sector	Law of 24 July 2019	**Increase in tax revenue** by making large digital companies contribute more equitably to the financing of public spending
	Combating tax avoidance and evasion	Reinforcement of controls against perpetrators of fraud Reinforcement of fraud detection measures	Anti-Tax Avoidance Act signed on 23 October 2018	**Increase in tax revenue**
Creating an appealing environment for businesses and strengthening competitiveness	Business Growth and Transformation Action Plan (PACTE)	**Encouraging the growth of businesses,** particularly VSEs and SMEs, by removing barriers to their growth as they progress. **Giving employees the chance to take a greater share of company profits** **Financing companies through equity capital and reform of retirement savings plans**	PACTE Act enacted on 22 May 2019	**Facilitating company creation, financing and growth,** and encouraging business initiative **Productivity gains** by giving employees the chance to take a greater share of company's profits and better

	Bankruptcy laws made more effective through the introduction of a cross-class cram down enforcement mechanism		allocation of resources due to more effective bankruptcy laws **Stimulating supply and investment** **Increasing the appeal of France as a place to do business** **Promoting the French ecosystem**
Streamlined procedures and support for the self-employed	Elimination of the social security scheme for the self-employed (RSI) by 2020. Graduated exemption from healthcare contributions and lower family allowance contributions. Exemption from the Business Premises Contribution (*cotisation foncière des entreprises* or 'CFE'). Expansion of the simplified VAT regime. Exemption from contributions for company founders during the first year	2018 Initial Budget Act/Social Security Budget Act	
Increasing France's appeal	Elimination of the intraday financial transaction tax Elimination of the fourth bracket of the payroll tax	2018 Initial Budget Act/Social Security Budget Act	
Support for exporters and bolstering competitiveness	Export support strategy One-stop shop Export financing reform	Export support strategy presented on 23 February 2018 by the Prime Minister	
Competition in the services sector	Raising the certification thresholds for company accounts at European level (PACTE Act)	See PACTE, above	**Decrease in costs for companies** **Competitiveness gains**

		Facilitation of procedures for individuals and companies wishing to change their supplementary health insurance contract	Law creating a right to terminate supplementary health insurance policies with no additional fees enacted on 14 July 2019	**Increased competition** on the supplementary health insurance market **Increased purchasing power for households** **Decrease in costs for companies related to supplementary health insurance policies**
		Measures relating to spare car parts	Adopted definitively by the French National Assembly on 17 September 2019	Increased competition in the markets in question Lower prices and purchasing power gains for households Increased competitiveness for companies in the sectors in question Increase in the quantities produced
		Driving licence reform Measures concerning driving schools (offer comparison tool, standard contract for driving licence applicants, recognition of the national scope of driving school accreditations, non-discrimination between online driving schools and physical driving schools with regard to quality certification)	Driving licence reform presented in May 2019 First measures came into force in July 2019	
		Measures relating to building management companies (greater transferability of contracts, introduction of standard contracts, better comparison of services)	By November 2019 by regulatory means	
		Measures relating to medical analysis laboratories	Amendment to the Healthcare Bill in March 2019 (see "My Health 2022")	
		Measures relating to banks (easier access for Fintech companies to bank data)	Enacting the revised Payment Services Directive (PSD 2) in French law and follow-up to the IGF (Inspectorate General of Finance) report scheduled for March 2019	
FOSTERING THE GROWTH MODEL OF TOMORROW				
Investing in skills for a 21st-century economy	"Schools that Build Confidence" initiative and downsizing classes in kindergarten, first- and second-grade classes	**Halving the size of first- and second-grade classes (CP/CE1) across the priority education (REP/REP+) network** **Keeping kindergarten, first- and second-grade (Grande Section/CP/CE1) class numbers at 24 across the country**	Beginning of the 2017 to 2022 academic years	**Investment in human capital** **Productivity gains** owing to improved qualifications and easier and more certain career changes **Increase in the employment rate**

		Increase in the annual bonus for teachers working in priority education areas Implementation of the "Help for homework" (*Devoirs faits*) programme		**Moving the economy upmarket**
	Baccalaureate reform	Overhaul of the baccalaureate examination, with greater emphasis on ongoing assessment tests and the introduction of an oral exam	Starting in 2021	
	Vocational schools reform	Establishment of "Campuses of Excellence" in the various regions Development of training courses focused on the professions of the future Organisation of the tenth-grade vocational class by trade family, for a clearer, more progressive course	Roll-out of the transformation of the vocational path: 2019-2022	
	Reform of access to university	Reorganisation of the curricula and reform of access to university with the introduction of prerequisites	"Parcoursup" platform launched in January 2018 Student Guidance and Success Act signed on 4 March 2018	
	Vocational training and apprenticeship reform	Increased resources for vocational training (reform of the personal training account and professional development support services, improved quality of training courses, creation of "France Compétences" – a national skills agency) Apprenticeship reform (increase the appeal of the sector, enhance compatibility between apprenticeship programmes and companies' needs)	Career Choice Act signed on 5 September 2018	

Investing in the ecological transition	French Energy and Climate Strategy (SNBC & PPE)	Objective: achieve a carbon-neutral economy by 2050 Cut the nuclear share of electricity generation to 50% by 2035 Deployment of renewable sources of electrical and thermal energy	27 November 2018: presentation of the SNBC and PPE 5 March 2019: publication of the PPE draft decree	**Increase in investment-related activity** in the renewable energy sector Increase in the employment rate **Internalisation** of the social cost of the use of fossil fuels **Reduction of our greenhouse gas emissions** **Lower energy bills**
	Support measures for the ecological transition	Increase and extension of the energy voucher Change the energy transition tax credit (CITE) into an incentive scheme and merge with the National Housing Agency's "*Habiter mieux agilité*" scheme. Reinforcement of the car scrapping bonus National Housing Agency's "Better housing" (*Habiter mieux*) programme	Implementation from 2019 of the energy voucher and car scrapping bonus Transformation of energy transition tax credit (CITE) into an incentive scheme for low- and very low-income households in 2020, and for others in 2021 "Better housing" programme: deployment over the 2018-2022 period	**Increased purchasing power for low-income households** **Internalisation** of benefits resulting from ecologically efficient equipment Energy savings
Investing in innovation	Great Investment Plan (GPI) - €57bn	**Support for investment** in the skills sector (€15bn), the ecological transition (€20bn), competitiveness and innovation (€13bn), and the Digital State (€9bn)	2018 Initial Budget Act/2018-2022 Public Finance Planning Act	**Accelerating ecological transition** via investment in energy efficiency for housing, transport and renewable energy **Enhance skills and jobs** via training and support **Strengthen innovation and competitiveness** **Build a Digital State**
	Industry and Innovation Fund	**Creation of a €10bn Industry and Innovation Fund** to support innovation	Set-up began in January 2018.	**Knock-on effect on private spending**, and emergence of an ecosystem of innovative start-ups and SMEs. **Productivity gains**

Transformation of key sectors of the economy	Housing strategy	**Facilitate access to housing:** creation of a mobility lease, reorganisation of the social housing landlords sector **Boost spatial planning** by simplifying and streamlining procedures for the introduction of digital technology **Facilitate construction to increase the housing supply:** relax requirements in terms of technical standards in the construction industry, introduce measures to tackle unjustified appeals	Housing Reform and Digital Rollout Act (ELAN) signed on 23 November 2018	**Increase in the housing supply** in sensitive areas and increase in purchasing power
	Overhaul of the railway transport model	Implementation of a framework enabling the SNCF **to prepare for the opening-up to competition** **New, more effective and unified organisation of the SNCF group**, while remaining a state-owned group **Introduction of a new employment status for new hires** in the railway sector **Improve the SNCF's performance** **Timetable for opening up passenger transport to competition**	The New Railway Pact Act signed on 27 June 2018.	**Improving the performance of public service railway** and the final stage before opening up to competition
	Agricultural Sector Modernisation Act (Egalim)	Renew the provisions relating to the agreement process for agricultural products	National Food Summit (EGA) completed in autumn 2017. Egalim Act signed on 30 October 2018	**Ensure better remuneration for farmers** and secure their markets. Ensure that value is spread more evenly among agricultural sector stakeholders
	Bold objectives for industry	Opening of the additional depreciation allowance (*dispositif de suramortissement*) of 40% for SMEs on investments in robotics and digital transformation tools for 2019 and 2020 French Fab loans from BPI France to support investments in robotics and digital technology for SMEs Transformation of the National Industry Board (CNI) through the creation of new sectors	Meeting of the Executive Committee of the National Industry Board in May 2018.	**Productivity gains** linked to company investment in robotics and digital technology; increase in exports linked to the restructuring of sectors

TRANSFORMING CENTRAL GOVERNMENT AND BALANCING PUBLIC FINANCES				
Streamlining	"Right to make a mistake" (*droit à l'erreur*)	**Introduction of the "right to make a mistake"** for users of government services acting in good faith	Government Reform Act for a Trust-Based Society (ESSOC) signed on 10 August 2018	**Decrease in costs for companies** and productivity gains **Facilitation of company creation and encouragement of business initiative**
	Combating normative inflation	**Introduction of the "one in/two out" principle** (every new regulatory standard will be offset by the repeal or streamlining of at least two existing standards) and **combating the over-enactment of European standards**. **Obligation for future bills to contain a clause concerning streamlining measures**	Circular dated 26 July 2017 Circular dated 12 January 2018	
	Simplification of administrative procedures	Target: to make all public services accessible online	Target date: by 2022	**Decrease in the production cost of public services** **Productivity gains** by simplifying access to public services
Effective public spending	Public Action 2022	Action and expenditure review by the 2022 Public Action Committee Cross-cutting initiatives, including the digital transformation by way of the €700 million Government Action Transformation Fund (FTAP) Implementation of ministerial transformation plans incorporating some of the proposals outlined in the Public Action 2022 report in various areas: audio-visual, health, tax administration, etc.	Launched in October 2017 20 June 2019: 3rd meeting of the Inter-ministerial Government Transformation Committee	**Productivity gains** related to more efficient public spending **Better public service** for users

	Agreements with local authorities	**Service-level contracts** with the largest local authorities (covering two-thirds of local expenditure)	2018-2022 Public Finance Planning Act	**Public-sector productivity gains**, particularly by increasing the efficiency of local expenditure
A government undergoing transformation	Public service reform	Strengthen gender equality in the workplace in civil service Overhaul of the human resources framework Wider use of contracts Enhanced support for staff with their career development	Civil Service Transformation Bill approved by the French Constitutional Council on 1 August 2019	**Productivity gains** owing to greater flexibility in the management of the State civil service

Economic outlook

Economic outlook: overview

The French economy is expected to post growth of 1.4%[17] in 2019 and 1.3% in 2020, outperforming the euro area (1.2% in both years).

In growth terms, France is proving more resilient to the current global slowdown than some of its European partners. After increasing at a rapid pace since 2017, investment is expected to remain buoyant against a background of low interest rates, but should gradually return to normal. From 2019 onwards, household consumption is likely to be supported by government measures to boost purchasing power and a strong jobs market. In 2019, purchasing power is expected to grow by 2.0%, double the annual rate of increase between 2007 and 2016. Household consumption should accelerate in 2020 as consumers gradually raise spending in line with their higher purchasing power. Inflation is likely to be lower in 2019, after being strongly supported by oil prices in 2018. It is expected to fall to 1.2% this year and remain stable in 2020.

This growth scenario[18] is close to the most recent predictions made by other forecasters.

In its September publication, the Banque de France forecast growth of 1.3% in both 2019 and 2020. The September Consensus Forecasts project growth of 1.3% in 2019 and 1.2% in 2020. In September, the OECD also forecast growth of 1.3% in 2019 and 1.2% in 2020. In July, the European Commission predicted French growth of 1.3% in both 2019 and 2020. In its July publication, the IMF, whose forecasts are not adjusted for working days, forecast growth of 1.3% in 2019 and 1.4% in 2020. In its June "Conjoncture in France" report, INSEE projected growth of 1.3% in 2019.

The French economy is expected to post robust growth in the third quarter of 2019, continuing the trend set in the first two quarters of the year.

The economy grew 0.3% sequentially in each quarter.

Since the end of 2018, economic growth has stabilised at a level close to its potential rate, at between 1.2% and 1.4% year-on-year.

Business investment has remained strong, driven by buoyant expenditure on services.

Household investment should improve, in line with the jump in property transactions in the last few months. In the first half of 2019, household real purchasing power was strongly supported by the firm jobs market and government policies including economic and social emergency measures and a cut in residence tax.

First-half 2019 exports held out well against the global economic slowdown, after robust growth in late 2018. The slower growth in foreign trade in the second quarter was driven mainly by a hangover effect following inventory-building on both sides of the English Channel ahead of the initial Brexit deadline of 31 March.

Growth should remain solid in the third quarter.

In summer 2019, business survey readings suggested that third-quarter growth would remain in line with that seen in early 2019.

The most recent business surveys have also been positive: in August, INSEE and the Banque de France's business sentiment indices rose in manufacturing, as did the PMI, and remained firm in services.

Household consumption growth should accelerate, driven gradually by measures to increase purchasing power announced in late 2018. This is confirmed by the first figures available on this subject: at the end of July, the carry-over effect on third-quarter growth caused by household consumption of manufactured goods was positive (+0.4%). Investment is likely to continue growing at a decent pace, particularly business investment, whereas household investment is expected to be subdued, related to the decline in housing starts. Export growth should be significantly faster in the second half of 2019, supported by large-scale deliveries in the aerospace sector. Despite the industrial production index (IPI) showing that manufacturing had

[17] Data adjusted for working days.

[18] The forecast in the Economic, Social and Financial Report is based on detailed figures for Q2 2019, published by INSEE on 29 August 2019. The forecast was finalised before the High Council of Public Finance (HCFP) was notified on 13 September 2019.

a negative carry-over effect on Q3 growth (- 0.6%), business surveys sent positive signals at the end of the quarter.

Global demand for French goods is set to slow in 2019 before recovering in 2020

Among advanced countries, US and Japanese growth should remain firm in 2019 before slowing in 2020, while UK growth is likely to remain weaker. In the United States, growth should remain buoyant in 2019, but the end of fiscal stimulus and the impact of protectionist measures are expected to produce a sharp slowdown in 2020. In the UK, growth is likely to remain moderate in 2019 and 2020 because of Brexit uncertainties, assuming that the UK leaves the EU with a deal on 31 October. In Japan, growth should hold up in 2019, supported by domestic demand, before slowing in 2020.

In the euro area, growth is likely to slow in 2019 and 2020 because of commercial and political uncertainty. However, it should remain underpinned by firm household consumption and a robust jobs market. Among major euro area countries, Germany and Italy are likely to see a sharp slowdown in growth in 2019 followed by a slight recovery in 2020, while growth is expected to fall in both years in Spain.

In emerging economies, growth is expected to decrease overall in 2019, before rebounding in 2020. China is expected to see a gradual slowdown because of the secular decline in the economy's overall debt levels as well as trade tensions.

Global demand for French goods is set to slow in 2019 (+2.0% in after +3.8% in 2018) before recovering in 2020 (+2.6%). That growth figure has been downgraded by comparison with the 2019 Stability Programme scenario, particularly regarding 2019 because of weaker trade caused by greater protectionism and slower euro area growth.

In 2019, exports should grow at a slower rate than in 2018 but remain fairly firm (+2.3% after +3.5%) despite the slowdown in global demand. Goods exports were resilient in the first half of 2019, with a carry-over effect of +3.0% after the second quarter of 2019, although this should be compared with the forecast increase in global demand in full-year 2019 (+2.0%). The improvement in France's cost-competitiveness, driven by a weaker euro and slower wage cost growth than in rival countries, has probably played a part in the country's good export performance in 2019. Goods exports are likely to remain firm in the second half of the year, particularly due to large-scale aerospace deliveries during that period.

In 2020, exports should accelerate to 2.5%, against a backdrop of stronger global demand. Exports are likely to continue benefiting from the decline in the euro exchange rate in 2019.

French imports are set to grow in line with their usual determinants in 2019 and 2020 (2.2% in 2019 and 2.5% in 2020, after 1.2% in 2018), reflecting buoyant domestic demand in 2019 driven by household consumption and business investment.

Overall, imports and exports are expected to grow at a similar rate in the next two years, and so foreign trade should make a neutral contribution to growth.

Household consumption growth is expected to strengthen over the forecast period, driven by positive momentum in purchasing power.

Purchasing power growth should accelerate significantly to 2.0% in 2019, the strongest rate since 2007, driven by government tax cuts (second phase of residence tax relief, full-year effect of lower social-security contributions) and by economic and social emergency measures. It should also be supported by positive trends in employment and wages.

After the exceptional level of growth seen in 2019, purchasing power is expected to rise by 1.2%, similar to the GDP growth rate, in 2020. Measures announced on 25 April 2019 (an income tax cut and the reintroduction of inflation-linking for pensions of less than €2,000 per month), along with measures adopted at the start of President Macron's term of office (increased residence tax relief), should give purchasing power a further boost. Employment and wages remain on a positive trend and should continue to support household incomes.

Household consumption is likely to accelerate in 2019 (+1.2% versus +0.9% in 2018) but grow less than purchasing power (+2.0%), with households showing a delayed response to their particularly strong income boost in 2019. In 2020, household consumption should gradually strengthen and grow by 1.5%: most of any increase in purchasing power generally feeds through to household consumption within two years.

Household investment set to slow

Household investment is expected to rise by 0.8% in 2019 and 2020, as opposed to 2.0% in 2018. In 2019, households' construction investment is likely to remain

hampered by the downtrend in new housing starts in the last few quarters. However, it should be supported by firm growth in home maintenance and improvement work and spending on services, reflecting the recent increase in property transactions. In 2020, construction investment is expected to recover due to positive economic fundamentals – rising purchasing power and employment, very low interest rates – while spending on services should return to normal.

Business investment likely to remain robust

Investment by non-financial companies in non-construction items rose strongly in 2018 (+4.0%) and should remain very resilient in 2019 (+3.5%) by comparison with weaker economic growth. In 2020, investment in non-construction projects should start gradually returning to normal and slow to 3.1%, against the background of very low interest rates. The business investment rate (investment divided by value added) should increase to 24.7% in 2020.

After strong job creation in 2018, total employment is expected to continue rising in 2019 and 2020.

Total employment is expected to grow strongly again in 2019 (250,000 more jobs on an annual average basis), thanks to firm momentum in the market sector. It should continue to rise in 2020, with net job creation totalling 180,000.

After total employment accelerated significantly in 2017, job creation remained very strong in 2018 with 245,000 more jobs on an annual average basis, driven by a buoyant economy. Job creation is expected to continue at a similar pace in 2019, with the creation of 250,000 jobs on an annual average basis. Government employment policies – particularly the replacement of the Competitiveness and Employment Tax Credit and the skills investment plan – should make up for slower growth and allow the rapid pace of job creation to continue in 2019.

In 2020, total employment in the market sector is likely to slow, but job creation in the market sector should remain firm at 160,000 as opposed to an average of 25,000 per year in 2007-2017, driven by decent economic growth and ongoing reform of the labour market.

After decreasing in 2018 (-15,000 jobs), employment in the non-market sector is expected to be stable in 2019 and 2020. The reduction in subsidised employment contracts will have its final effects and will be less severe in 2019. The non-market private sector has been buoyant in the last few years and should continue to create jobs.

Inflation is expected to fall from 1.8% in 2018, when it was boosted by higher oil prices, to 1.2% in 2019 and then remain unchanged in 2020.

Inflation is set to fall to 1.2% in 2019 from 1.8% in 2018, a year that saw a sharp increase in oil prices. **Core inflation should rise slightly to 0.9% as opposed to 0.8% in 2018.** Non-fresh food prices are likely to increase because of the impact of higher agricultural commodity prices. The other components of core inflation should remain stable.

Inflation is expected to be unchanged at 1.2% in 2020, assuming that oil prices remain around their recent level[19] of €53 per barrel. New measures concerning tobacco are likely to be a little more inflationary than in 2019, but should be offset by the impact of the "100% Santé" healthcare reform and the introduction of full coverage for certain medical expenses, limiting the price of optical products. **Core inflation is also expected to be stable at 0.9%.** Prices of manufactured products are likely to rise slightly in connection with the weak euro in 2019, while inflation in services – in the non-administered component of the price index – should remain stable because of the trend in per-capita wages.

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

The strength of French exports will depend on our partners' economic growth, in an international context in which uncertainty has increased in the last few months. The sources of that uncertainty include protectionism, the risk of a no-deal Brexit, the direction of the Fed's monetary policy and euro area economic policy, the extent of China's economic slowdown, rising tension in the Middle East and its effect on the oil price, and global geopolitical tensions.

The behaviour of French households and businesses is also uncertain. The momentum in business investment could be more robust than expected, and increases in household purchasing power in 2018 and 2019 could more strongly support consumption over the forecast horizon. The government's measures could take effect more quickly than had been anticipated

[19] Recent oil prices are the best indicator of future prices, see Trésor-Economics no. 198 "An examination of inflation forecasts in budget bills" DG Trésor, May 2017. The sharp increase on Monday 16 September after the attacks on Saudi oil facilities was partly corrected that same week, and the episode seems unlikely to lead to any major change in our inflation forecasts.

when this forecast was finalised (investment support, labour market reforms, etc.). The improvement in export performance since the start of 2019 could show that reforms are having an effect and could be repeated in 2020. On the other hand, growing uncertainty at the global level could damage propensity to invest, employment and households' consumption.

Table 1: Economic forecasts for 2019-2020 (real changes in %, unless otherwise stated)

	2018	2019	2020
GDP - France*	1.7	1.4	1.3
World demand for French goods	3.8	2.0	2.6
Consumer price index - France	1.8	1.2	1.2
World GDP*	3.6	3.1	3.3
United States GDP*	2.9	2.4	1.5
Euro area GDP*	1.9	1.2	1.2
Exchange rate USD/EUR	1.18	1.12	1.12
Oil prices (Brent, USD/barrel)	71	63	59

** Data adjusted for working days.*

Box 1: Review of the forecasts for 2019-2020

In comparison to the April 2019 Stability Programme, the growth forecast for 2019 is unchanged at 1.4% and the growth forecast for 2020 has been adjusted downwards from 1.4% to 1.3%. For 2020, this adjustment is due to expected slower growth in world demand for French goods.

In 2019, the sharp acceleration in households' disposable income is not expected to show through in household consumption as quickly as originally thought, and so household consumption growth has been revised down from 1.7% in the Stability Programme to 1.2%. Exports have been slightly less robust than predicted in the Stability Programme due to weaker global demand. However, export performance has improved in 2019, as shown by first-half figures, reducing the impact of the downgraded forecast for world demand in 2019. However, business investment excluding construction is expected to be a little more robust than projected in the Stability Programme, partly as a result of lower interest rates. Household investment is also likely to beat the Stability Programme forecast in 2019, driven by increased spending on services.

For 2020, export forecasts have been downgraded in line with projections for world demand for French goods. The household investment forecast has been reduced slightly because of the ongoing downtrend in new housing starts, which began in early 2018. However, the household consumption forecast for 2020 has been increased slightly, from 1.4% in the Stability Programme to 1.5%, with the 2019 increase in purchasing power continuing to translate into spending, while further measures to support purchasing power will be implemented in 2020. Investment is expected to be a little more robust than projected in the Stability Programme, as a result of the recent fall in interest rates. The upgrade in the domestic demand forecast should also cause the import forecast to be revised higher. Overall, however, the domestic demand upgrade is unlikely to make up for the export downgrade.

Inflation forecasts have been cut to 1.2% for 2019 and 2020 compared with 1.3% in the Stability Programme. The downgrade is the result of weaker-than-expected service inflation, partly offset by higher forecast food inflation based on recent trends. The GDP deflator is now +1.3% for 2019 in the DPB, compared with +1.2% as previously stated in the Stability Programme, and is unchanged for 2020 (+1.2%). The increase in the deflator for 2019, despite downgraded inflation, is due to the fact that import prices rose less than expected in early 2019 and French companies have not passed on the increase in their own selling prices.

Table 2: Comparison of forecasts in the Draft Budgetary Plan for 2020 and in the April 2019 Stability Programme

Annual growth rate (in %)	Stability Programme - April 2019		DBP 2020	
	2019	2020	2019	2020
International environment				
World demand for French exports	2.7	2.9	2.0	2.6
Exchange rate USD/EUR	1.13	1.13	1.12	1.12
Oil prices (Brent, USD/barrel)	64	65	63	59
France				
GDP	1.4	1.4	1.4	1.3
Imports	2.4	2.3	2.2	2.5
Private consumption expenditure	1.7	1.4	1.2	1.5
Gross fixed capital formation (GFCF)	2.1	1.4	2.9	2.0
o.w. non-financial corporations	*2.8*	*2.5*	*3.3*	*2.7*
Exports	2.4	2.7	2.3	2.5
Contribution of external trade to growth (in percentage pts of GDP)	0.0	0.1	0.0	0.0
Contribution of inventory changes to growth (in percentage pts of GDP)	-0.1	0.0	-0.2	0.0
CPI	1.3	1.3	1.2	1.2

Sources: Stability Programme 2019-2022, DBP 2020 forecasts.

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

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

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

In its opinion on the draft budgetary plan and draft social security budget plan for 2020, which was issued on 27 September, the HCFP considered the macroeconomic forecast for 2019 to be "attainable" and that for 2020 to be "plausible".

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

The Draft Budgetary Plan forecast for 2020 is identical to that of the European Commission and very close to the latest forecasts from the other international organisations.

The Government's growth forecast for 2019, which stands at +1.4%, is close to that issued by the European Commission in early July (see Table 3), as well as being close to the estimates of the OECD and the IMF in its Article IV France Report issued on 22 July, which all forecast growth of +1.3%.

The 2020 draft budgetary plan assumes GDP growth of +1.3%, adjusted for working days, a scenario identical to that of the European Commission and close to that of the OECD, which expects growth of +1.2%. In its July publication, the IMF forecast growth of +1.4% in 2020 unadjusted for working days, which corresponds to +1.3% adjusted for working days.

The macroeconomic scenario underpinning the Draft Budgetary Plan is close to that of the most recent Consensus Forecasts

For 2019, the forecasts in the DBP (GDP growth of +1.4%) are close to the September Consensus Forecasts (growth of +1.3%, see Table 4).

In 2020, the figures are +1.3% in the DBP and +1.2% in the September Consensus Forecasts. The DBP and Consensus Forecasts scenarios both show growth in France being more resilient to the global slowdown than in certain other European countries.

In the scenario for France, the outlook for household consumption and business investment is similar for 2019. For 2020, the DBP predicts a more robust trend in household consumption and business investment than the Consensus Forecast.

The September Consensus Forecasts point to consumer prices rising by 1.2% in 2019 and 1.3% in 2020, identical to the DBP scenario for 2019 and similar to it for 2020.

International forecasts concerning the Draft Budgetary Plan appear to be similar to those of the Consensus. Growth forecasts are similar for the euro area and the United Kingdom in both years. For 2020, the DBP scenario is less optimistic than the Consensus regarding the economic slowdown in the United States, and more optimistic regarding Japan.

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

	DBP for 2020		OECD*** Sept. 2019		IMF*** July 2019		European Commission*** July 2019	
Average annual growth rate (in %)	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**
GDP	1.4	1.3	1.3	1.2	1.3	1.4	1.3	1.3
Harmonised Consumer Price Index*	1.3	1.3	n.a.	n.a.	1.3	1.5	1.3	1.4
Net Lending (+) or Borrowing (-) of the General Government (in percentage points of GDP)**	-3.1	-2.2	n.a.	n.a.	-3.2	-2.3	n.a.	n.a.

** This forecast corresponds to CPI inflation of +1.2% in 2019 and 2020.*

*** According to the Maastricht definition.*

**** OECD: Interim Outlook, 19 September 2019; IMF: Art. IV France Report, 22 July 2019, forecast unadjusted for working days; European Commission: Summer Interim Forecast, 10 July 2019.*

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

	DBP 2020 core economic scenario		Consensus Forecasts September 2019	
Average annual growth rate (in %)	**2019**	**2020**	**2019**	**2020**
International – GDP growth				
United States	2.4	1.5	2.3	1.8
Japan	1.2	0.6	1.0	0.2
United Kingdom	1.2	1.3	1.2	1.1
Euro area	1.2	1.2	1.1	1.1
France				
GDP	1.4	1.3	1.3	1.2
Household consumption	1.2	1.5	1.2	1.3
Business investment	3.3	2.7	3.2	2.0
Consumer price index	1.2	1.2	1.2	1.3

Fiscal outlook

Fiscal overview and strategy

Overview

As soon as it took office, the Government made concrete progress on fiscal consolidation, starting with France's exit from the Excessive Deficit Procedure in 2018. It will continue its strategy, which relies on reducing government expenditure to finance tax cuts and reduce deficits, throughout the five-year Presidential term. The Government's responses to the ecological, economic and social emergency in December 2018 and in April 2019, following the Great National Debate, are fully in line with this strategy.

The forecast for the 2019 general government deficit stands at 3.1% of GDP, stemming primarily from the conversion of the Competitiveness and Employment Tax Credit (CICE) into a permanent cut in social security contributions. Without the one-off effect of the dual cost of this conversion, the deficit would have been 0.8 percentage points of GDP smaller.

Following the historic decrease of 0.3% in real government expenditure in 2018, which was unprecedented in France's recent fiscal history, reductions in government expenditure as a percentage of GDP will continue, with a cut of 0.6 percentage points compared to 2018, bringing the figure to 53.8% of GDP after restatement of the expenditure related to the national vocational training authority (France Compétences[20]). This reduction testifies to the continuing efforts to contain government expenditure, which is expected to rise by 0.7% in real terms and by 1.7% in nominal terms, following a decrease of 0.3% in real terms and an increase of 1.4% in nominal terms in 2018[21]. Contracts with local governments made it possible to continue containment of their operating expenditure, with growth of 1.2% in the expenditure covered by the contracts. On the other hand, their investment expenditure increased in keeping with the local election cycle, rising by 8.1% as measured by the gross fixed capital formation of local governments, excluding Société du Grand Paris. Meanwhile, aggregate local government expenditure increased by 3.2% in nominal terms. The expenditure of social security funds is expected to increase by 2.2% in nominal terms, with a moderate 0.3% increase in the main benefits. This will offset the raising of the national healthcare expenditure growth target to 2.5% in 2019, compared to the 2.2% growth outturn in 2018. The target was raised to finance the healthcare system transformation strategy. Central government held its expenditure growth down to only 0.1% in nominal terms, excluding transfers[22]. This was achieved by lowering the discretionary expenditure growth cap by €1.5 billion, compared to the amount stipulated in the 2019 Initial Budget Act, as the Government announced in December 2018, and by a reduction of approximately €4 billion in central government interest expense compared to 2018.

On the revenue side, aggregate taxes and social security contributions continued to shrink to stand at 43.8% of GDP[23], as opposed to 45.0% in 2018. The reduction resulted from the effects of discretionary tax measures and, more specifically, the conversion of the Competitiveness and Employment Tax Credit into lower contributions for employers. If we strip out these effects, tax and contributions would have been nearly €9 billion less in 2019, with the revenue measures introduced at the end of 2018 to boost households' purchasing power. These measures included exempting overtime pay from taxes and social security contributions, reversing the increase in the general social security contribution on retirement pensions under €2,000 and phasing out the residence tax. Meanwhile, businesses saw continuing cuts in the corporate income tax rate. Furthermore, the spontaneous elasticity of aggregate

[20] The government expenditure ratio, aggregate tax and social security contribution ratio and other indicators mentioned in this section do not include the national vocational training authority (France Compétences), which accounts for €4.6 billion in government expenditure and aggregate tax and social security contributions in 2019 and an increment of €1.5 billion in 2020. If France Compétences were included, the government expenditure ratio would be reduced by 0.4 percentage points to 54.0% of GDP.

[21] With the inclusion of France Compétences, the figures are rises of 1.1% and 2.1% respectively.

[22] Or 1.2% if France Compétences is included.

[23] Or 44.0% if France Compétences is included.

taxes and social security contributions to GDP should be equal to one in 2019.

Economic growth should be slightly higher than the potential growth rate in 2019, leading to a slight cyclical improvement in the general government deficit. Structural adjustment is expected to be 0.1 percentage points of GDP, stemming completely from a 0.3-percentage-point expenditure effort (after stripping out the impact of France Compétences). This containment of expenditure is expected to make it possible to reduce aggregate taxes and social security contributions: discretionary tax measures, excluding the conversion of the competitiveness and employment tax credit, are expected to reduce structural adjustment by 0.2 percentage points[24].

In 2020, the deficit is expected to be well under the 3% threshold, standing at 2.2% of GDP and to shrink by more than €20 billion. The Government's strategy to contain expenditure (see Box 4) will make further cuts in taxes and social security contributions possible, except for the impact of converting the Competitiveness and Employment Tax Credit into a permanent cut in social security contributions.

Government expenditure growth is expected to be held down to less than 1% in real terms (0.7% in real terms and 1.7% in nominal terms)[25], bringing the government expenditure ratio down to 53.4% of GDP[26]. This containment of growth relies on moderate growth of social security expenditure in the broadest sense, with the national healthcare expenditure growth target (Ondam) set at 2.3%, containment of benefits growth, targeted increases in basic pensions and the expected effects of unemployment insurance reforms announced by the Government on 18 June 2019. Local government expenditure will see much slower growth of investment expenditure, in keeping with the usual pattern in local election years. Central government expenditure will benefit from a further decrease in interest expense, which is expected to be €2 billion less than in 2019, and an increase of €6.6 billion in the cap on discretionary expenditure compared to the outturn forecast for 2019. This will enable the Government to finance its priorities.

Continuing containment of government expenditure will make it possible to finance the massive cuts in taxes and social security contributions announced by the President of the French Republic after the Great National Debate. The aggregate tax and social security contribution ratio will rise back up to 44.0% of GDP in 2020[27], due to the impact of the dual cost of converting the Competitiveness and Employment Tax Credit into permanent social security contribution cuts in 2019. If this impact were stripped out, aggregate taxes and social security contributions would decrease by a further €10 billion in 2020 (excluding France Compétences) as a result of tax cuts for households (next phase in the elimination of the residence tax and a €5-billion cut in personal income tax) and further cuts in the corporate income tax rate. Some of the cost of the measures announced after the Great National Debate will be financed by limiting these tax cuts. The anti-ecological tax break on off-road diesel oil will be phased out and the amounts of occupation-specific tax deductions will be capped. Without these discretionary tax measures, aggregate taxes and social security contributions would naturally rise and fall in line with GDP growth.

Despite the scale of the Government's response to the ecological, economic and social emergency, the structural effort will remain positive at 0.1 percentage points. As is the case in 2019, this will be achieved solely through expenditure efforts of 0.4 percentage points, once the impact of creating France Compétences has been neutralised. On the other hand, discretionary tax measures will reduce the structural effort by 0.3 percentage points[28]. However, the effort will also be slightly diminished by the non-discretionary component of revenue, losing 0.1 percentage points and resulting in zero structural adjustment[29]. GDP growth in 2020 is expected to stand at 1.3%, which is slightly higher than the potential growth rate

[24] This measurement has been restated for the creation of France Compétences and includes a positive correction of 0.1 percentage-points of GDP for the accrual-based measurement of tax credits. This correction shows that the Competitiveness and Employment Tax Credit has a smaller impact on the balance than on aggregate taxes and social security contributions in 2019, as a result of the fact that the rate on wages in 2018 was reduced from 7% to 6%. Without this correction, discretionary tax measures would reduce the structural effort by 0.3 percentage points.

[25] Or 0.8 percentage points in real terms and 1.8% in nominal terms if France Compétences is included.

[26] Or 53.6% if France Compétences is included.

[27] Or 44.3% if France Compétences is included.

[28] This measurement has been restated for the creation of France Compétences and includes a positive correction of 0.3 percentage-points of GDP for the accrual-based measurement of tax credits. This correction stems from the lag between the virtual disappearance of Competitiveness and Employment Tax Credit claims from the national accounts in 2020 and the more gradual decrease in actual disbursements.

[29] This effect is the result of a drop in non-tax revenue as a percentage of GDP. This decrease stems from the current low returns on financial assets, slow growth of government sales, particularly in the local government sector, and the impact of one-offs that halted the decrease in revenue in 2019, such as fines for violations of competition regulations and legal settlements.

of 1.25%. This should provide a very slight positive cyclical variation in the general government balance.

Table 1: Government balance by sub-sector

Lending capacity (+) or borrowing requirement (-) as a % of GDP	2018	2019	2020
Central government	-3.0	-3.5	-4.0*
Central government agencies	-0.1	-0.1	0.9*
Local government	0.1	0.1	0.2
Social security funds	0.5	0.5	0.7
General government balance	**-2.5**	**-3.1**	**-2.2**

** 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 3.0% of GDP and the central government agencies deficit would be equal to 0.1% of GDP.*

Table 2: Structural balance

As a % of potential GDP (except*: as a % of GDP)	2018	2019	2020
General government balance*	**-2.5**	**-3.1**	**-2.2**
of which, cyclical balance*	0.0	0.0	0.1
of which structural balance	-2.3	-2.2	-2.2
of which one-offs	-0.2	-0.9	-0.1
Change in the structural balance	**0.1**	**0.1**	**0.0**
of which, structural effort	0.1	0.1	0.1
discretionary tax measures	-0.2	-0.1**	-0.5**
expenditure effort	0.3	0.1**	0.3**
correction for accrual-based measurement of tax credits	0.0	0.1	0.3
of which, non-discretionary component	0.0	0.0	-0.1

*** Absent the impact of creating France Compétences on expenditure and revenue, with increases of €4.6 billion in 2019 and €1.5 billion in 2020, the expenditure efforts would stand at **0.3 percentage points of GDP in 2019 and 0.4 percentage points of GDP in 2020**. The revenue efforts, including discretionary tax measures and the correction for the accrual-based measurement of tax credits, are expected to result in decreases of **0.2 percentage points of GDP** in 2019 and **0.3 percentage points of GDP** in 2020.*

Table 3: Key figures

As a % of GDP, unless otherwise noted	2018	2019	2020
Total government debt	98.4	98.8	98.7
Government debt, excluding financial support for the euro area	95.6	96.1	96.1
General government expenditure, excluding tax credits	54.4	54.0	53.6
Real growth (%)	-0.3	1.1	0.8
Nominal growth (%)	1.4	2.1	1.8
Tax burden	45.0	44.0	44.3
Memo items:* figures without the creation of France Compétences			
General government expenditure, excluding tax credits	54.4	53.8	53.4
Real growth (%)	-0.3	0.7	0.7
Nominal growth (%)	1.4	1.7	1.7

Tax burden**	45.0	43.8	44.0

** Absent the impact of creating France Compétences on expenditure and revenue, with increases of €4.6 billion in 2019 and €1.5 billion in 2020.*

*** Absent the impact of creating France Compétences and the conversion of the Competitiveness and Employment Tax Credit into a permanent cut in social security contributions: 44.7% in 2019 and 44.3% in 2020.*

Box 1: Implementation of the measures introduced by the Government after the Great National Debate

After the Great National Debate, held between January and March 2019, the President of the French Republic announced a series of measures in response to expectations regarding fair taxation and social justice on 25 April 2019. The scale of these measures is unprecedented and they are designed to encourage work and support the most vulnerable:

- *The first measure is intended to respond to the need for fair taxation of working people by lowering income tax for the middle class by €5 billion. Withholding at source will reflect the tax cut starting on 1 January 2020. In all, nearly 17 million tax-paying households in the two lowest income tax brackets will see their tax bill cut by an average of approximately €300 per year. The 12 million households in the lowest income tax bracket (paying a marginal rate of 14%) will see the biggest benefits of the reform, with an average tax cut of €350 per household. The 5 million households in the second lowest income tax bracket (paying a marginal rate of 30%) will also benefit, with a tax cut capped at €125 per dependent, for an average cut of €180 per household. This measure will have no impact on other taxpayers in the other brackets paying marginal rates of 41% and 45%.*
- *With the aim of boosting households' purchasing power and giving employees a larger share of companies' earnings, the President of the French Republic wished to extend the exceptional bonus introduced by the Emergency Economic and Social Measures Act 2018-1213 of 24 December 2018. The bonus is exempt from social security contribution and income tax for amounts up to €1000. To promote employee savings, this exemption requires the employer to have or to set up an employee profit-sharing agreement before 30 June 2020. This requirement ensures that, in the long run, employees will receive a profit-sharing bonus every year, when warranted by the company's earnings. Profit-sharing agreements can run for a term of less than three years under an exception introduced to facilitate the signature of such agreements.*
- *Finally, to support the purchasing power of the most vulnerable, the President of the French Republic announced that pensions of less than 2000 euros per month would be adjusted to keep pace with inflation. This measure confirms the Government's choice, in 2020 to make targeted adjustments to social benefits, with the priority going to the benefits provided to the most vulnerable: small pensions and minimum social benefits, in particular the earned income supplement, will not be affected by the 0.3% cap on adjustments and will keep pace with inflation in 2020. This targeted effort for small pensions will increase pensioners' purchasing power by €1 billion.*

In order to finance these measures, which total €6 billion and were introduced after the Stability Programme was submitted, the Government presented financing ideas during the budget policy debate that will be translated into concrete measures in the financial legislation put before Parliament. This includes a revision of the timing for cuts in the corporate income tax rate for the largest companies and limits on tax expenditure and social expenditure, including the occupation-specific tax deduction and the tax break on off-road diesel oil. Furthermore, in addition to containment of the line ministries' expenditure growth, savings have been found on the levies on revenue paid to the European Union (€1 billion in savings, in addition to the savings in 2019) and on debt service (€2 billion in addition to the savings posted in 2019 compared to the projected savings in the Stability Programme).

2018 outturn and 2019 mid-year outturn

Outturn in 2018

Overview of the year

The general government deficit stood at €59.5 billion in 2018, or 2.5% of gross domestic product (GDP), posting a further decline from 2.8% in 2017 (versus the forecast of 3.4% by the French Government Audit Office in July 2017) and from 3.5% in 2016. The balance improved by €4.1 billion compared to 2017, when the deficit was already €16 billion smaller than the 2016 deficit. All in all, the general government deficit improved by nearly €20 billion compared to the 2016 deficit. It should be noted that the 2018 government deficit was updated in early September, but there was no change from the data published last May[30].

The improvement in the 2018 deficit stems from containment of expenditure growth at 1.4% in nominal terms, excluding tax credits, compared to growth of 2.4% in 2017. Real expenditure shrank for the first time in several decades, contracting by 0.3%. Furthermore, it was possible to lower the aggregate tax and social security contribution ratio to 45.0% of GDP in 2018, down from 45.2% in 2017, as a result of the first cuts introduced at the start of the President's five-year term.

Structural adjustment stood at 0.1 percentage points of GDP in 2018, primarily as a result of the expenditure effort of 0.3 percentage points. On the other hand, discretionary tax measures made a negative contribution of 0.2 percentage points of GDP. A slight decrease in non-tax revenue by some 0.1 percentage points of GDP was offset by trend growth of tax revenue, which was slightly greater than GDP growth, given the strength of the latter. Real GDP growth stood at 1.7%, outstripping the potential growth rate. The cyclical component of the general government deficit contributed 0.3 percentage points of GDP compared to 2017, while one-offs made a negative contribution of 0.2 percentage points.

Government expenditure in 2018

Expenditure growth was contained at 1.4% in nominal terms, excluding tax credits, compared to 2.4% in 2017. efficient expenditure execution by central government, slow growth of social security expenditure and containment of local government expenditure despite strong investment spending growth helped to reduce government expenditure as a share of GDP from 55.0% in 2017 to 54.4% in 2018, excluding tax credits.

The nominal central government expenditure growth rate, excluding tax credits, stood at 0.2%, for a decrease of 1.4% in real terms, compared to nominal growth of 3.1% in 2017 (2.1% in real terms). This was achieved by containing payroll growth and making changes to labour and housing policies, along with good compliance with the central government expenditure rules during the year. The slower growth of central government expenditure shown in the national accounts can also be linked to the recapitalisation of AREVA nuclear power group recognised as an expense of €4.5 billion in 2017 and, to a lesser extent, to smaller losses on refunds of the disputed 3% dividend tax, which came to €3.7 billion in 2018, compared to €4.7 billion in 2017.

Expenditure of central government agencies was down by 3.3% compared to 2017, mainly as a result of the elimination of the Unemployment Solidarity Fund (FSCH) and the transfer of the related expenditure of €2.5 billion to the central government in 2018. On a like-for-like basis, central government agencies' expenditure was down by 0.2%. This slight decrease stems in part from the impact of the large provisions set aside in the guarantee fund for victims of terrorism and other criminal acts (FGTI) in 2017.

Nominal local government expenditure growth was brisk at 2.4%, compared to 2.2% in 2017. The faster growth stems from local investment expenditure growth (excluding Société du Grand Paris), which was sustained in 2018 at 8.1%, compared to 4.4% in 2017, as measured by gross fixed capital formation. This is consistent with the usual pattern over the local election cycle. However,

[30] Source: Insee, September 2019 : https://insee.fr/fr/statistiques/4131399?sommaire=4131436

this growth was contained thanks to the success of the finance contracts between central and local government. This meant that operating expenditure growth stood at 0.7% on average, once it had been restated for the expenditure related to the Skills Investment Plan and the cap on expenditure on individual solidarity benefits over 2%.

Social security funds' nominal expenditure growth, excluding tax credits, slowed slightly in 2018 to stand at 1.8%, compared to 2.0% in 2017. On a like-for-like basis, which mainly means stripping out the effects of the 2017 transfer of the funding for vocational rehabilitation centres for disabled adults (ESAT) from central government to social security funds, and excluding tax credits, the social security funds' expenditure growth was slightly higher, at 1.8%, compared to 1.7% in 2017. The faster growth can be attributed to an increase in expenditure on benefits, which rose by 2.1% in 2018, compared to growth of 1.8% in 2017. This was partially offset by slower growth of payroll expenditure, following across-the-board pay raises in 2017. Expenditure growth under the National Healthcare Expenditure Growth Target ultimately stood at 2.2%, making it possible to redeploy €300 million to hospitals.

Aggregate tax and social security contribution rates in 2018

In 2018, the aggregate tax and social security contribution rate stood at 45.0% of GDP, down by 0.2 points compared to 2017. This decline stems from discretionary tax measures, such as the first phase of the elimination of the residence tax, an extension of the tax credit for hiring home help by converting the former tax reduction into a tax credit, the introduction of the uniform flat rate levy on investment income (PFU) and the conversion of the wealth tax (ISF) into the property wealth tax (IFI). Business taxes will continue to shrink with the expansion of the Competitiveness and Employment Tax Credit[31] and the cut in the corporate income tax rate.

Without discretionary tax measures, trend growth of aggregate taxes and social security contributions stood at 2.9%, outstripping the nominal GDP growth rate of 2.5%. This corresponds to spontaneous tax elasticity to GDP of 1.1. The strongest revenue growth came from personal and corporate income tax, with trend growth rates that outstripped GDP growth owing to a persistently favourable macroeconomic environment, with GDP beating its potential growth rate thanks to the Government's reforms to unleash growth.

Non-tax revenue also decreased as a share of GDP. The ratio of non-tax revenue fell from 7.3% of GDP in 2017 to 7.2% in 2018. 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.

2019 mid-year outturn

Government expenditure in 2019

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

The 2019 Budget Act adheres to the accounting probity approach adopted by the Government when it took office. Therefore, special attention was given to the inherent risks and hazards of budget management: the exceptionally low 3% ratio for setting aside budget appropriations to reserves was renewed to make government managers more accountable. The Government also extended the €200-million provision for rejected Common Agricultural Policy subsidy settlements for the second year in a row and increased the provision for the foreign operations and domestic

[31] Payment of the claims acquired in 2014 and an increase in the rate from 6% to 7% on eligible wages in 2017. Plus the creation of the tax credit for the tax on wages.

missions of the Ministry of Defence from €650 million to €850 million.

The counterpart is greater accountability for expenditure management and compliance with the limits passed by Parliament, in keeping with the idea of greater self-sufficiency for the ministries. These two approaches are built into the budget and contribute to compliance with the central government expenditure target. The initial contingency reserve, which was subjected to a probity exercise at the start of the budget year, was untouched at the end of the first half of the year.

The interest expense on central government debt in 2019 should come to €31.4 billion in the national accounts, compared to €35.2 billion in 2018. This projection includes issuance since the beginning of the year and incorporates updated yield and inflation forecasts, under the assumption that ten-year yields will decline from their level at the beginning of the year to reach 0.20% at the end of the year, and that annual average inflation, as measured by the HICP[32], will be 1.0%. This is a conservative assumption in view of the current yields.

The initial and supplementary budgets of central government agencies provided at this stage do not alter the expenditure projections.

The latest reporting from local governments shows that, for the second year in a row, they are in compliance with the real operating expenditure growth target of 1.2% set out in the 2018-2022 Public Finance Planning Act[33]. This figure reflects local governments' efforts to contain operating expenditure, particularly the largest ones that have signed contracts with central government.

Furthermore, notwithstanding the uncertainty persisting at this point in the year, the latest outturn data seem to confirm the brisk growth of local governments' investment expenditure in keeping with the usual pattern for local election years, where major investments are made at the beginning of the year and then taper off as election day approaches.

The social security funds expenditure covered by the National Healthcare Expenditure Growth Target (Ondam) is expected to increase by 2.5%. The opinion of the early warning committee handed down at the end of May and based on the preliminary outturn data states that the target should be met for the eleventh year in a row, especially since appropriations of €601 million were set aside for any risk of faster-than-expected growth in expenditure for outpatient care.

Aggregate tax and social security contribution rates in 2019

The aggregate tax and social security contribution projections for 2019 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 components:

- Revenue from social security contributions, the general social security contribution and other social security levies account for approximately half of the aggregate taxes and contributions. The main determinant of this revenue is wage growth, excluding the one-off bonus, which is projected to stand at 3.0%[34] in the non-farm private sector, as employment levels remain high. This figure has been confirmed by the social security collection agency's wages report for the second quarter, with carry-over growth of 2.4%. Other determinants are replacement income and investment income, such as dividends.
- The projected net revenue from Value Added Tax (VAT) shown in the national accounts is sustained by growth of investment (4.7%), intermediate consumption (2.8%) and, to a lesser extent,

[32] France's inflation-linked Treasury bonds are linked either to the French consumer price index, excluding tobacco (OATi), or to the euro area Harmonised Index of Consumer Prices, excluding tobacco (OAT€i).

[33] After adjusting for changes to the scope of local government operating expenditure, such as the recentralisation of expenditure on the earned income supplement in Mayotte and French Guyana, and other restatements stipulated under the terms of the contracts (expenditure related to the Skills Investment Plan and the cap on expenditure on individual solidarity benefits), this expenditure is expected to increase by 1.5% in 2019. This is very similar to the growth rate seen in the outturn at the end of August 2019, compared to the same period in 2018.

[34] When the one-off bonus paid at the end of 2018 and in early 2019 is included, wage growth in this sector stands at 3.3%.

household consumption (2.5%). The monthly reporting data are consistent with these determinants.

The projected revenue from corporate income tax will be boosted by a 13.7% increase in taxable profits in 2019, and a favourable base effect stemming from the new cut in employers' social security contributions that has replaced the Competition and Employment Tax Credit.

The personal income tax revenue projection is based primarily on reporting on withholding at source, combined with the first two tax assessments issued for 2018 income, which cover approximately 95% of households. Strong wage growth in 2018 and dividends paid at the end of 2018 have boosted the trend growth of revenue from personal income tax. The introduction of withholding at source has improved the personal income tax collection rate from 95% in 2018 to 98.5% in 2019, beating the initial projection of 97%. This means that the collection rate target for 2020 will already be met in 2019. On the other hand, fiscal revenue from personal income tax will be slightly lower than in 2018, because the withholding at source will be carried out over 11 months in 2019, instead of 12. Furthermore, revenue from personal income tax will be diminished by the deployment of the uniform flat levy on investment income and the exemption for overtime pay.

The projected revenue from local direct taxes in 2019 is based mainly on reporting on tax bases and the tax rates passed into law. Transfer tax revenue is projected to increase by 7% compared to 2018. This projection is consistent with the accounting data from the third quarter and current property market data, with record numbers of transactions and continuing price rises.

Outlook and multiyear strategy

The 2020 Draft Budgetary Plan enables the Government to maintain its goal of fiscal consolidation The Medium-Term Objective (MTO) is a structural deficit at 0.4% of potential GDP, as defined in the 2018-2022 Public Finance Planning Act and in compliance with the provisions of constitutional bylaws enacted following ratification of the Treaty on Stability, Coordination and Governance (TSCG). The multiyear trajectory sustains the Government's major objectives over the President's five-year term: significant cuts in the fiscal deficit and the government expenditure ratio (by nearly 3 points), along with a decrease in the aggregate taxes and social security contributions of more than one percentage point of GDP and a reduction in the government debt ratio starting in 2020, which has not been achieved in more than 10 years. Progress towards the MTO has been more gradual than initially planned because of the emergency economic and social measures announced on 25 April, after the Great National Debate and the change in the pace of fiscal consolidation required by a less favourable international macroeconomic climate.

The multiyear trajectory underlying the 2020 Draft Budgetary Plan reflects the determination to achieve a significant reduction in the general government deficit. After reaching 2.8% of GDP in 2017 and 2.5% of GDP in 2018, the general government deficit should stand at 3.1% of GDP in 2019 and then 2.2% in 2020: the headline deficit should exceed the 3% threshold only temporarily because of the conversion of the Competitiveness and Employment Tax Credit, which generates a dual cost of 0.8 percentage points of GDP in the fiscal accounts. The deficit should then shrink to 1.5% of GDP in 2022. After staying stable in 2018 and rebounding in 2019 as a result of the dual cost of converting the Competitiveness and Employment Tax Credit, government debt should start to contract gradually in 2020, from 98.8% of GDP in 2019 to 98.7% in 2020 and then 97.7% by 2022.

Expenditure efforts will be maintained throughout the President's five-year term. Containment of government expenditure should produce an average expenditure effort of 0.4 percentage points of potential GDP between 2019 and 2022. The ratio of government expenditure, excluding tax credits, is expected to decrease by nearly three percentage points over the President's five-year term.

The reduction of government expenditure will make it possible to finance a cut of more than one

percentage point of GDP in the aggregate taxes and social security contributions paid by households and businesses between 2017 and 2022. This means that households' tax and social security contribution payments will see a historic cut of approximately €27 billion and those of businesses will see a cut of approximately €13 billion. Since 2017, the Government has chosen to make massive cuts in taxes and social security contributions to make work more rewarding, boost French households' purchasing power, unleash initiatives and promote productive investment and growth. The complete elimination of the residence tax on primary residences by 2023 will boost households' purchasing power. The tax and contribution exemption on overtime pay testifies to the Government's determination to make work pay is another step in the same direction, as is the €5-billion cut in personal income tax announced in April and implemented in the 2020 Draft Budgetary Plan. In fact, the second act of the Government's economic, fiscal and tax policy upholds and intensifies this movement. The conversion of the Competitiveness and Employment Tax Credit into a permanent cut in employers' social security contributions will give businesses more money for investment and development by making labour costs more transparent. The extension of the trajectory for cutting the corporate income tax from 331/3% to 25% by 2022 is also in line with this objective. A tax on certain digital services has been introduced to make taxation fairer. Ultimately, the aggregate tax and social security contribution rate will decline from 45.2% in 2017 to 44.1% in 2022, after eliminating the effect of creating France Compétences.

This means that the fiscal trajectory will continue to post structural improvement, with an adjustment of 0.1 percentage points of GDP in 2019 and no adjustment in 2020. The expenditure efforts of 0.3 percentage points of GDP on a like-for-like basis in 2019 (after eliminating the effect of creating France Compétences) and 0.4 percentage points of GDP in 2020 will provide further significant tax cuts, while ensuring continuing improvements in the structural balance.

After 2020, the objective is to achieve structural adjustment of 0.3 percentage points of GDP each year from 2021 to 2023. Actual growth will be close to potential growth, with an output gap that is close to equilibrium and a stable cyclical balance between 2019 and 2022.

In accordance with the Public Finance Planning Act, the costs incurred in 2019 for the conversion of the Competitiveness and Employment Tax Credit, the apprenticeship tax credit, the tax credit on the wage tax, and the Energy Transition Tax Credit, along with the settlements in a series of tax disputes, will be classified as one-offs. The effects of these measures will increase the headline deficit by 0.9 percentage points of GDP in 2019 and by 0.1 points in 2020, before starting to taper off in 2021.

Table 4: Multiyear public finance trajectory							
% of GDP, unless otherwise noted	2017	2018	2019	2020	2021	2022	2023
General government balance	**-2.8**	**-2.5**	**-3.1**	**-2.2**	**-1.8**	**-1.5**	**-1.1**
of which Central government	-2.9	-3.0	-3.5	-4.0*+			
of which Other central government bodies	-0.2	-0.1	-0.1	0.9*+			
of which Local government	0.1	0.1	0.1	0.2			
of which Social Security Funds	0.2	0.5	0.5	0.7			
Cyclical balance	-0.3	0.0	0.0	0.1	0.1	0.1	0.1
One-off and other temporary measures*	-0.1	-0.2	-0.9	-0.1	-0.1	0.0	0.0
Structural balance*	-2.4	-2.3	-2.2	-2.2	-1.8	-1.5	-1.2
Structural adjustment	**0.2**	**0.1**	**0.1**	**0.0**	**0.3**	**0.3**	**0.3**
Data without the creation of France Compétences							
General government expenditure, excluding tax credits	55.0	54.4	53.8	53.4	52.9	52.3	51.9
Real growth (%)	1.4	-0.3	0.7	0.7	0.5	0.2	0.4
Aggregate taxes and social security contributions, excluding tax credits	45.2	45.0	43.8	44.0	44.0	43.9	43.9
Aggregate taxes and social security contributions, excluding tax credits, France Compétences and the conversion of the Competitiveness and Employment Tax Credit.	45.2	45.0	44.7	44.3	44.2	44.0	43.9
Data including France Compétences							
General government expenditure, excluding tax credits**	55.0	54.4	54.0	53.6	53.2	52.6	52.1
Nominal growth (%)**	2.4	1.4	2.1	1.8	1.8	1.8	2.1
Real growth (%)**	1.4	-0.3	1.1	0.8	0.5	0.2	0.4
Aggregate taxes and social security contributions, excluding tax credits**	45.2	45.0	44.0	44.3	44.2	44.1	44.1
Government debt	**98.4**	**98.4**	**98.8**	**98.7**	**98.6**	**97.7**	**96.2**
…excluding financial assistance for the euro area***	95.5	95.6	96.1	96.1	96.0	95.3	93.8

[*] *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 3.0% of GDP and the central government agencies deficit would be equal to 0.1% of GDP.*

** as a % of potential GDP*

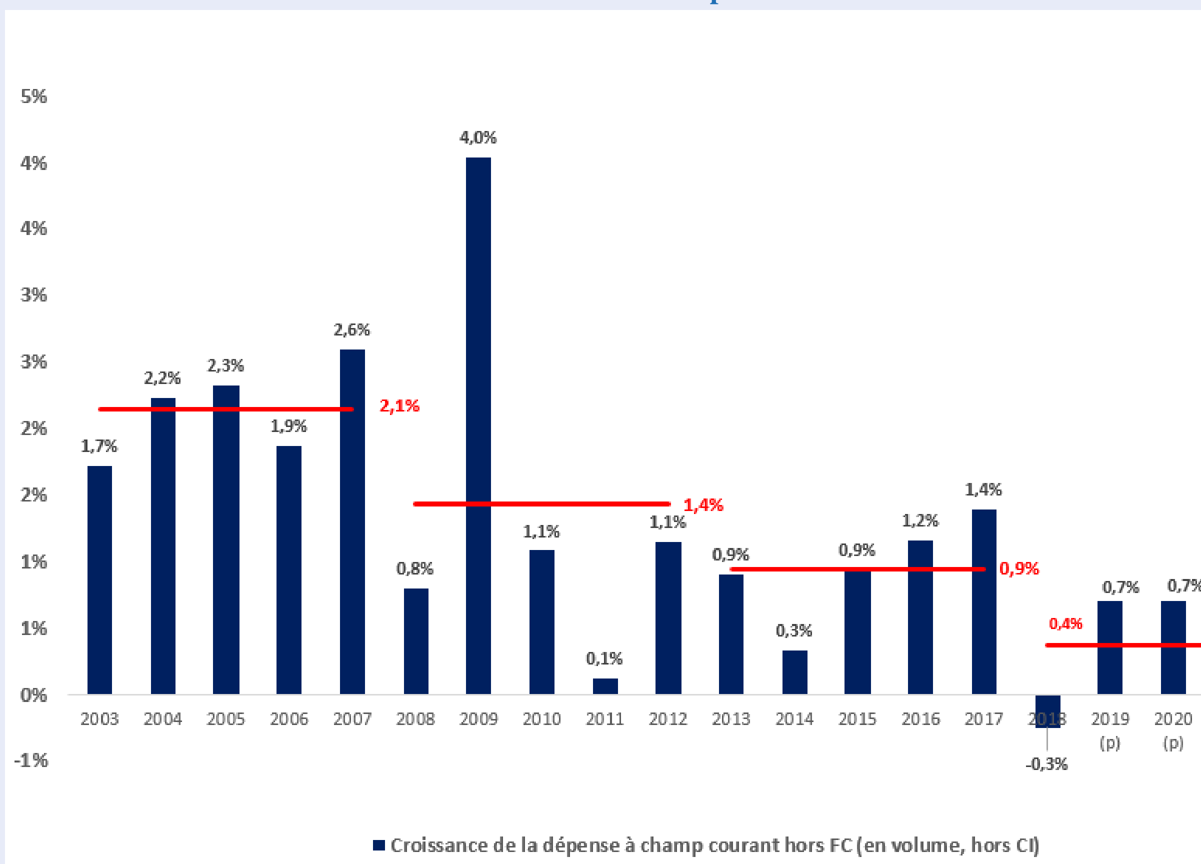
*** On a like-for-like basis. More specifically, the impact of the creation of France Compétences on government expenditure and aggregate taxes and social security contribution are not eliminated. If the impact of the creation of France Compétences is eliminated, expenditure growth in 2019 and 2020 would be slower: nominal growth would be 1.7% in 2019 and 2020 and real growth would be 0.7% in both years.*

**** 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 2: Government expenditure in the long term

Real growth of government expenditure has slowed considerably since 2000. On a like-for-like basis, it grew by 2.1% per year before the 2008-2009 crisis. Going forward, it should be limited to 0.4% on average between 2018 and 2020 after restatement for the creation of France Compétences. Expenditure growth has slowed every year, but to a greater or lesser degree from one Government to the next (see chart).

Annual real growth of government expenditure, excluding tax credits and restated for the creation of France Compétences



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 elasticities to tax bases), the usual pattern for local tax rates (driven by the local election cycle) and index-linked taxes. Discretionary measures under legislation passed before the 2017 Supplementary Budget Act of 1 December 2017 are also taken into account, but not the discretionary tax measures that came afterwards. This means that measures under the first 2017 Supplementary Budget Act, including the corporate income tax surcharge, the 2018 and 2019 Initial Budget Acts and Social Security Budget Acts and other legislation in 2018 and 2019, such as the economic and social emergency measures and the provisions of the 2020 Draft Budgetary Plan and Draft Social Security Budget Plan);

– 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 in 2017, 2018 and 2019.

– All in all, without the measures passed since the first 2017 Supplementary Budget Act, the general government deficit would have stood at 3.1% of GDP in 2017 and 3.0% 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 0.3 percentage points of GDP. The trend improvement over the previous year is significant and reflects a slight cyclical improvement, and the end of the cost stemming from the 3% dividend tax dispute. In 2020, the trend deficit would have been 2.5% of GDP, marking a slight improvement over 2019.

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 2019, but then deviates from this trajectory in 2020:

– The scenario follows the same conventions as the trend path for revenue, but incorporates all of the discretionary tax measures announced before the 2020 Draft Budgetary Plan and Draft Social Security Budget. These include the conversion of the Competitiveness and Employment Tax Credit and the economic and social emergency measures, but do not include the €5-billion cut in personal income tax announced by the President of the French Republic at the end of April, the new timeline for reducing the corporate income tax rate or the savings achieved on certain tax expenditures;

– This scenario calls for 1.2% real growth of government expenditure in 2020, excluding tax credits, which is the same as the trend path, as opposed to the 0.7% real growth under this Draft Budgetary Plan (excluding the impact of France Compétences).

Under this set of assumptions, the deficit would have been 2.3% of GDP in 2020 with no policy changes, as opposed to 2.2% of GDP under this Draft Budgetary Plan.

Table 5: Scenario with no changes to legislation or practices

As a % of GDP	2017	2018	2019	2020

Trend path (excluding changes passed since the first 2017 Supplementary Budget Act)	-3.1	-3.0	-2.6	-2.5
Effect of discretionary expenditure and tax measures on the deficit*	0.3	0.5	0.3	0.2
Conversion of the Competiveness and Employment Tax Credit			-0.8	
Trajectory with no changes to legislation or practices (excludes measures in the 2020 Draft Budgetary Plan and Draft Social Security Budget)	-2.8	-2.5	-3.1	-2.3
Effect of discretionary expenditure and tax measures on the deficit				0.1
Target trajectory under the 2020 Draft Budgetary Plan	-2.8	-2.5	-3.1	-2.2

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

Appendix

Follow-up of the 2019 country-specific recommendations
List of measures taken since the April 2019 National Reform Programme

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
CSR 1	*Ensure that the nominal growth rate of net primary government expenditure does not surpass 1.2% in 2020, corresponding to an annual structural adjustment of 0.6% of GDP;*	*2020 Draft Budget Act* *2020 Draft Social Security Budget Act (PLFSS)* *2018-2022* *Public Finance Planning Act (LPFP)*		***Public expenditure growth rate:*** *The work to control expenditure will continue throughout the five-year presidential term, with volume growth in public expenditure to be reduced to an average annual rate of 0.4% between 2018 and 2022 on a like-for-like basis (after restatement for the impact on public spending from the creation of the France Compétences skills agency), which is much lower than the rates seen during previous five-year presidential terms (e.g. 0.9% between 2013 and 2017).* *This measured growth should enable financing of the economic and social emergency measures decided by the government, alongside the implementation of the structural reforms necessary to finance priority areas. It should give rise to a reduction in the public expenditure ratio of nearly three points of GDP over the full five-year presidential term.* ***Control of health spending:*** *The national objective for health insurance expenditure is 2.3% for 2020 compared with 2.5% in 2019.* ***Local authorities:*** *The nominal growth target for real operating expenditure by local authorities will be maintained at an average of 1.2% over the five-year presidential term, in line with Article 13 of the 2018-2022 Public Finance Planning Act (LPFP).*

				Local authorities that have entered into financial contracts with the State (the 322 local authorities with the highest operating expenditure) are now obliged to meet this target. In 2018, this target was surpassed, with average growth in operating expenditure of 0.7% for all local authorities under financial contracts with the State.
	Use windfall gains to accelerate the reduction of the general government debt ratio;	*Paragraph 10, section I, Article 34 of the LOLF detailed in the Initial Budget Act (LFI)* *Article 7 of the 2018-2022 LPFP*	*The Constitutional Bylaw on Budget Acts (LOLF) set out every year in the Initial Budget Act (LFI) and the Public Finance Planning Act (LPFP) provide for the appropriation of windfall gains to help reduce the public deficit and therefore general government debt.*	
	Reduce expenditure and achieve efficiency gains in all sub-sectors of public administrations, notably by indicating in detail the concrete measures needed in the context of the 2022 Public Action Transformation Programme and by closely monitoring the implementation of these measures;	*2022 Public Action Transformation Programme*	*During the* ***Third Interministerial Committee on Government Transformation*** *(CITP)* ***of 20 June 2019,*** *an overview was drawn up of the public action transformation programme implemented to achieve a more close-knitted, streamlined and efficient government, notably:* *- Most of the major public services have published the results of their performance and satisfaction ratings. This work is to continue, with a transparency target for government services of 100% between now and the end of 2020;* *- The Administration is evolving towards an approach that involves support and advice before the implementation of sanctions (the website www.oups.gouv.fr to prevent errors; a channel for adjustment or to request the*	***The Third Interministerial Committee on Government Transformation (CITP) also launched Act II of the government's transformation****: a more operational local organisation, an agile central administration and the roll-out of versatile, local general government services.* *The framework for this second leg of transformation is defined in two circulars from the Prime Minister: that of 5 June 2019 on the central administrations and that of 12 June on the government's regional administration.* ***Concerning the central administrations****, the following are to be announced at the end of October 2019: the elimination of around one hundred advisory councils out of a list of 390, the relocation of 4,000 agents from Paris to the regions, and the removal or merger of 40 central administration structures.*

			right to make a mistake will be implemented at each administration between now and the start of 2020, training of agents in the right to make a mistake); *- The simplification of standards is ongoing.* *- After the relaunch of France Expérimentation (see below) in 2018, testing has been underway since summer 2019 of around a dozen exceptional arrangements that will be exempt from the regulations in response to requests by companies.* *- The government's digital transformation is accelerating (ramp-up of FranceConnect, new public services accessible online, ramp-up of Dites Le Nous Une Fois).* *- Investment is ongoing for the transformation of general government services. With 63 winning projects since February 2018, the Public Action Transformation Fund (FTAP) has raised nearly €350 million for the transformation of public administration and to improve the quality of general government services.* *- The HR framework has been adapted for the requirements of a 21st century administration (Law of 6 August 2019 on the Transformation of the Civil Service).* *- The public management framework has been transformed to give more freedom and responsibility to managers (fewer procedures, testing of a single financial account, testing of a financial management centre).*	***For the decentralised administrations**, each prefect will propose a regional government organisation project at the end of October 2019.* *Moreover, following on from the Great National Debate, the CITP wants to place the user at the centre of the public service:* *- roll-out of the France Service network. The network centres or hubs serve as a single access point for the different government services, operators and local authorities to answer questions from users on their different approaches;* *- broad roll-out of the Marianne portal to all general government services, as well as an extension of the system for new uses (measures to help people with disabilities, etc.);* *- launch of a telephone access project, to keep this medium as an important means of accessing the administration;* *- launch of a project to simplify administrative language. An online platform (FormLab) will be used to flag documents that cause problems.* *Finally, the government is forging ahead with its **goal to simplify** the everyday lives of French citizens by making its most important administrative processes accessible online, ensuring the quality of these processes and strengthening digital inclusion for those most in need of it.*

	Reform the pension system by gradually standardising the rules of the different pension schemes with a view to making them more equitable and sustainable;	*Pension system reform*	*The goal of this reform is to* ***create a simpler and more equitable system****. After the initial phases of consultation, on 18 July 2019 the High Commissioner, Jean-Paul Delevoye, unveiled his recommendations for reform for a universal system:* *- the same rules for all French citizens, regardless of their professional status, with harmonised public and private contribution rates and bases: a rate of 28.12% up to a limit of €120,000 gross per annum (versus €320,000 per annum at present in the private sector), including civil servant premiums;* *- a system that is fairer and easier to understand, in which everyone receives the same benefits for each euro contributed, regardless of their revenue;* *- solidarity mechanisms that take into account involuntary breaks in employment (unemployment benefit, sickness, disability, maternity leave), career limitations due to the cost of educating children (from the first child), support for family members who lose their independence and for widowhood (survivor's pension), and a guaranteed minimum pension for French citizens who worked part time all their life or who earned a modest income;* *- acknowledgement of the specific nature of certain situations (long careers, strenuous and dangerous types of work, disability, etc.) taking objective criteria into account;*	*Phase II aims to advance from the report stage to a draft law by the end of the parliamentary session in summer 2020.* *A* ***new phase of multi-annual consultations*** *announced by the Prime Minister to the Economic, Social and Environmental Council on 12 September 2019 has been organised based on the recommendations of the Delevoye report.* *A new cycle of discussions with the social partners has been organised and will take place until the start of December 2019 around four themes:* *- the solidarity mechanisms;* *- the conditions for retirement;* *- the conditions for achieving equilibrium in 2025 and the methods for steering and governing the future system;* *- the methods for transitioning from the 42 existing systems to the future system and the guarantees we can offer people in return.* *In parallel, the High Commissioner has organised discussions on the categories impacted by the reform with each of the ministers concerned starting from 15 October 2019.* *Finally, there will be direct consultation with the nation, in the spirit of the Great National Debate, on the principle of a digital platform and public meetings will be held with local elected officials or associations. These consultations with citizens will be completed before the end of 2019.*

			- retirement age maintained at 62 to allow greater freedom of choice around retirement and the same full pension age for all beneficiaries in the same generation, which will take into account life expectancy gains across generations; *- achievement of financial sustainability through the establishment of clear rules around changes in parameters for factoring in demographic and macroeconomic changes and the creation of a reserve fund; the system's sustainability hinges on it reaching equilibrium in 2025, which will require financial rebalancing measures;* *- a phase-in over fifteen years taking into account specific professional requirements and situations and guaranteeing that the rights acquired during periods worked before the application of the new system will be conserved; current pensioners will not be concerned by the reform.*	*After these consultations, the draft law should comprise three main sections:* *- a definition of the future pension system;* *- details of the conditions for a return to equilibrium by 2025;* *- details of the main principles governing the transition of the different regimes.*

CSR 2	*Foster access to the labour market for all job seekers*	*Reform of the subsidised employment contract policy*	*Since January 2018**, subsidised employment contracts have been transformed into schemes** to promote the sustainable inclusion through employment of those most excluded from the labour market.* ***The Skills Investment Plan (PIC), which is included in the Great Investment Plan (GPI), aims to provide training for one million unskilled jobseekers and one million***	*In 2019, around €3 billion will be allocated, of which €1.5 billion from the support fund contributed to by the France Compétences agency.*

		"Create a skills-based society" component of the Great Investment Plan (GPI).	***poorly qualified young people who have been jobless for five years*** *and facilitate their access to the labour market. At the end of May 2019, 16 regions (out of 18) had signed a multi-annual skills investment pact with the government (2019-2022). At the end of 2018, 211,000 new trainees and 21,000 candidates on support schemes were accounted for under the Skills Investment Plan. €1.4 billion was pledged in this regard in 2018.*	***The Youth Guarantee (Garantie jeunes) programme,*** *open to unemployed and unskilled young people not enrolled in any form of training or study, will see 100,000 additional beneficiaries per year between 2019 and 2022 (91,500 in 2018).*
		Strengthen incentives to return to work by increasing the purchasing power of employees without increasing the cost of labour for companies	***Increase in the in-work benefit (prime d'activité)*** *October 2018: €20 increase in the fixed amount of the in-work benefit combined with a decrease in the cumulative rate (date of the first payments concerned);* *February 2019: increase in the individual in-work bonus, in order to raise the remuneration of minimum wage workers by €100 per month, including the regulatory increase in the statutory minimum wage on 1 January (payment date), representing +€3.9 billion in 2020. Between January and March 2019, the increase in the in-work bonus led to an increase of +1.25 million in households receiving the bonus. This measure is expected to help reduce the poverty rate by 0.5 of a point.* ***Exceptional bonus to boost purchasing power****, which is exempt from tax and social security payments up to €1,000. Under this measure, more than €2 billion in bonuses was*	*A project to* ***overhaul minimum social benefits*** *was launched in mid-March with a view to creating a universal employment income that will replace the various existing measures in order to guarantee a minimum standard of living and incentivise employment. The goal is to simplify the social security system so as to weed out undue access and inequity, while fostering the resumption of work, where each euro earned through employment gives rise to an increase in disposable income.* ***The exceptional bonus to improve purchasing power has been extended to 2020.*** *In 2020, the exemption of the bonus from tax and social security contributions (up*

			paid to around five million employees between the end of 2018 and the end of March 2019. *Exemption of* ***overtime work*** *from social security contributions and income tax from 1 January 2019, up to an annual limit of €5,000.* ***Measures to boost the development of incentive schemes and profit-sharing*** *contained in the Business Growth and Transformation Bill (PACTE): elimination of the reduced social security contribution on employee profit-sharing for companies with less than 50 employees and on incentive schemes for companies with less than 250 employees.*	*to €1,000) will be conditional on the existence or implementation by the company of an incentive bonus agreement before 30 June 2020.* *A* ***significant reduction in income tax for middle income categories*** *of up to €5 billion. The reform set out in the draft budget for 2020 will entail a reduction in the marginal income tax rate in respect of the first bracket from 14% to 11%, as a result of which 17 million households will see a reduction in their income tax from January 2020.*
		Reform unemployment insurance to combat the surge in short-term contracts, job insecurity and foster sustainable employment	*Under the last pillar of the labour market reform,* ***the unemployment insurance system was overhauled*** *to make it more universal, fairer and to combat job insecurity. This reform is in two parts: support redesigned to help each individual secure employment of their choice under a long-term contract, and greater responsibility on the part of individuals and companies alike to reduce job insecurity. There are four main axes to this reform:* *(i) Extension of unemployment benefits to resigning employees with a business creation or professional reconversion project, subject to conditions, and to self-employed individuals, for a period of six months and*	

			without supplementary contributions. Support will be provided free-of-charge to help resigning employees with their career plans. *(ii) Job seekers will also be able to receive additional support from Pôle Emploi to help improve their prospects of finding long-term employment while companies will benefit from a new range of services to ensure more effective aid with their recruitment difficulties.* *(iii) The rules around unemployment benefit will be reviewed to strengthen incentives to resume long-term employment and improve the financial situation of Unédic. This will entail stricter conditions for eligibility and reloading of unemployment benefit entitlements, a change in the benefit calculation method to ensure that unemployment is not better paid than work, and a reduction in the level of compensation for jobseekers whose gross monthly income exceeded €4,500.* *(iv) Lastly, companies will receive financial incentives to offer more open-end employment contracts and lengthen their fixed-term contracts. To combat job insecurity and excessive use of fixed-term employment contracts or temporary work, a bonus/penalty system will be implemented for companies with 11 or more employees in activity sectors with a very high separation rate.*	
	Foster equal opportunity, with particular emphasis on vulnerable categories, in	*Support for the most vulnerable and*	***Financial support for the most disadvantaged families***	***National anti-poverty strategy (March 2019):***

	particular people with a migrant background	*disadvantaged individuals and families*	*September 2018: a 25% increase in all scholarship levels for middle school families, voted on in 2017. The 2019 allocation for secondary school social funds and the social fund for canteens is stable (€58 million in the 2019 Initial Budget Act compared to €59.5 million in the 2018 Initial Budget Act).* ***Increase in the childcare supplement for single-parent families*** *October 2018: One-off increase of 30%.*	***In the context of the creation of the government's inclusion service:*** *- Creation of an "Activity Guarantee" for 300,000 beneficiaries per year by 2022 and roll-out of a comprehensive support mechanism.* *- Better support for the employment of Social Inclusion Benefit (RSA) beneficiaries, notably through quicker guidance.* *- Increase in the number of employees included in integration structures through economic activity (100,000 additional employees by 2022).* *Certification of 400 budget advisory centres by 2020, of which 150 as of 2019.*
		Measures to support people living in disadvantaged areas	***Since October 2017, "Devoirs faits"*** *has been offering a free service to all students giving them the option of doing their homework at school. In 2019, the ministry set aside nearly 340,000 hours of overtime and funds of nearly €1.2 million to bolster "Devoirs faits".* ***National mobilisation for residents of priority neighbourhoods on 18 July 2018*** *- Introduction of a bonus of €1,000 per nursery place created in priority neighbourhoods;* *- Increase of €3,000 in the bonus for national education staff working in priority education (REP+) schools over three*	***"Petits déjeuners" service in support of the most disadvantaged families*** *In 2019-2020, the MENJ will organise the provision of 100,000 breakfasts each day;* ***Measures in progress or pending in support of inhabitants of priority neighbourhoods*** *- Goal to create 30,000 nursery places across the country by 2022;* *- Under the plan for investment in job skills (PIC), more than €2 billion has been earmarked to help provide training and support for young people and jobseekers living in priority neighbourhoods;*

			years, with a first increase of €1,000 from the start of the 2018 academic year; - *Between 2017 and 2019: halving of the size of first- and second-grade classes within the REP/REP+ network (300,000 students concerned);* - *Enhanced support for disadvantaged third-year secondary school students in finding work experience, 30,000 work placements (public and private sector) listed on the "Mon stage de 3e" service specifically for students from the most disadvantaged schools.* - *Calls for projects under the plan for investment in job skills (PIC) targeting priority urban neighbourhoods;* - *Roll-out of real jobs for jobseekers living in priority neighbourhoods, regardless of their age or qualification level (740 priority urban areas concerned as part of a pilot scheme);* - *Support for entrepreneurs in priority urban neighbourhoods in partnership with Bpifrance (the programme has been defined and is in roll-out phase).*	- *The creation of specific social clauses for the 2024 Olympic and Paralympic Games construction sites (percentage of hours worked on these sites reserved for the unemployed);*
	and improve access to training, in particular for unskilled workers	*Reform of the entire education and training system*	***Compulsory school age lowered to 3 years*** *September 2019: Implementation of the lowering of the mandatory school age to 3 years in order to promote good language proficiency before the age of 6 for all children (97% of pupils enrolled at the age of*	- *Limit on the number of children in lower grade classes.* - *The halving of classes has been extended to include nursery classes in high priority areas from the start of the 2021 academic year.*

			3, but enrolment levels differ according to region and social background). ***Evaluations in first- and second-grade classes*** *Since September 2018: implementation of evaluations at the start of and mid-way through first grade, in second grade and in sixth grade. Following on from this, resources for teachers to provide tailored support to those students who need it most.* ***Positioning tests in tenth grade*** *To be able to provide tailored support to those students who need it most.* ***Compulsory schooling until the age of 18 (French law to ensure confidence in the school system)*** *Article 15 of the law, which will come into force at the start of the 2020 academic year, crystallises a* ***government*** *commitment to the strategy of combating poverty. It extends the compulsory educational requirement with the addition of compulsory training for all young people aged 16 to 18.* ***Improved accommodation of children with disabilities.*** *From September 2019, improved methods of accommodating children with disabilities and their families will be in place: all*	- *Outside of priority areas, nursery and first- and second-grade classes will be gradually limited to 24 children starting from the 2020 academic year.* ***Baccalaureate reform*** *2021: first version of the new baccalaureate examination with extra support for upper secondary school students.* *School as an outpost for the ecological transition* *From September 2019, eight concrete measures formulated by elected student representatives will be put into action and amplified with a view to making schools and educational establishments a place for engagement to achieve sustainable development and combat climate change.*

			départements *will run a service aiming to improve inclusion in schools. Nearly a third of schools and establishments have been organised around centres for inclusive and personalised support (PIAL). Support staff will see improvements in their working conditions and status.* *Since 2018, the Ministry of Culture and the Ministry of Primary and Secondary Education and Youth Affairs have been working on the implementation of dedicated initiatives to improve and develop the cultural and artistic education of children from nursery to secondary school level.* ***Student Guidance and Success Act of 8 March 2018****: elimination of random draws as a method to select students that are allowed to enter universities and introduction of prerequisites.*	
		Reform of vocational training and apprenticeship	***Career Choice Act of 5 September 2018:*** *Regarding the apprenticeship programme:* - *Broaden access to apprenticeships (creation of a specific ninth grade class (“3ème prépa-métier”); publication of success and inclusion rates on leaving apprenticeship training centres and secondary schools for vocational training).* - *Easier access to training for young people: maximum age raised to 30; guarantee of*	***Transformation of the vocational path – roll-out from 2019 to 2022:*** - *enhance the appeal and transparency of the vocational path;* - *more progressive guidance by organising the vocational baccalaureate examination by trade family in tenth grade (seconde);* - *development of advanced training courses that meet the needs of the labour market and prepare for tomorrow's professions, phasing out of specialities that offer few employment opportunities;*

			training even in the event of a contract break; €500 subsidy to help young apprentices pass their test. - *Simplification of the apprenticeship process for employers: easier management of contract breaks; option of creating their own apprenticeship training and a more streamlined process; creation of specific aid for companies with less than 250 employees that take on apprentices at a lower level than or equal to the baccalaureate (secondary school diploma).* - *Financing of apprenticeship training centres (CFAs) based on contracts.* *Regarding vocational training:* - *Monetisation of the personal training account (CPF) with increased rights for the less qualified and creation of a digital application to consult, obtain information, register and pay for training.* - *Overhaul and simplification of the training certification system.* - *Training contributions to be collected by URSSAF branches, instead of the skills development agencies (opérateurs de compétence), which will now be focused on industry consulting and business services, and financing of apprenticeship contracts and the VSE-SME training plan.* - *Creation of the "France Compétences" agency to distribute training and apprenticeship funds; regulation of the quality of training; management of the*	- *apprenticeship opportunities in all upper secondary schools, development of mixed programmes and school/apprenticeship gateways;* - *development of "campuses of excellence" and publication on 13 December 2018 of the Invest for the Future Programme (PIA 3) – "Promoting educational innovation country-wide" as well as the certification specifications with two categories: "professions and qualifications campus" and "Excellence".*

			certification and cost of apprenticeship contracts. - *Revitalisation of Career Change Guidance with dedicated financing through new operators from 2020.* ***The Act of 5 September 2018 took effect on 1 January 2019****. The digital application allowing individuals to choose their training courses and register via their personal account will be available in December 2019. Accredited fund collection bodies began to be transformed into skills development agencies in April 2019. The collection of contributions by URSSAF branches will be effective from 1 January 2021.*	
CSR 3	*Focus economic investment policy on innovation (while improving the efficiency of public support schemes and strengthening knowledge transfer),*	*Research tax credit*	*The research tax credit is a core element of the innovation development policy. At €6.1 billion in 2017, this tax credit alone represented nearly two thirds of public expenditure on innovation.*	
		Assessment of mechanisms to promote innovation	*The Lewiner-Stephan-Distinguin-Dubertret taskforce on grants for innovation has submitted its report and several of its recommendations were used in the PACTE Bill or in the context of the Innovation Board and the use of the Innovation and Industry Fund (FII) (see below).* *The French Innovation Policy Assessment Commission (CNEPI) published its report on the impact of the research tax credit on 7 March 2019.*	***A second wave of assessments of the research tax credit was launched by the CNEPI, the results of which are expected in the second half of 2020.*** *The research, development and innovation (SA.40391) support scheme is also under assessment as part of the exemption of certain support categories. The assessment plan was approved on 1 July 2015 and an intermediate report is to be sent to the European Commission in October 2019.*

		The PACTE Law: Strengthening of knowledge transfer component	*The PACTE Law covers measures to facilitate mobility for researchers between the public and private sector, as well as more relaxed conditions for business creation and for the provision of support to companies. It also includes streamlined access for businesses to public research innovation, with a heightened role for the sole agent for intellectual property resulting from public research. The French Tech Seed fund, which has received €400 million in funding from the third phase of the Invest for the Future Programme (PIA 3), is looking to help start-ups set up from laboratories to conduct their initial fundraising.* *In addition, the PACTE Law contains several provisions to bolster industrial property take-up by economic stakeholders (enhancing the protection afforded by utility certificates, the right of opposition to invention patents, enactment of the EU Trademark Package in French law, assessment of inventive steps, etc.).*	
		Creation of the Innovation Board	*The Innovation Board held its inaugural meeting on 18 July 2018 and meets three times a year. Co-chaired by the ministers responsible for the economy and research, the Board's objective is to help breakthrough innovation emerge, improve the management of innovation policy and make proposals regarding the main trends and priorities in the area of innovation policy. It is also tasked with deciding on the use of the Innovation*	

			and Industry Fund's annual credits (see below).	
		GPI measures in support of competitiveness and innovation		*The Great Investment Plan (GPI), which has a budget of €57 billion, including €10 billion dedicated to the third phase of the Invest for the Future Programme (PIA 3), was launched at the beginning of 2018. Its goal is to support innovation and research and to finance the main objectives of the energy transition, skills transformation, innovation and industry, and government transformation. The Secretariat General for Investment (SGPI) is tasked with cross-cutting monitoring of the entire Great Investment Plan.*
		Innovation and Industry Fund	***Innovation and Industry Fund*** *January 2018: creation of the Innovation and Industry Fund within Bpifrance (the government-funded industrial and commercial institution or "EPIC"), initially endowed with €10 billion by the sale and contribution of shareholdings (EDF and Thalès shares). As stakes in other companies are sold off, Bpifrance will be allocated fresh cash appropriations funded by the proceeds of these sales.* *The annual €250 million credit will be used in line with a number of priorities, in accordance with the guidelines set out when the Innovation Board was set up: major challenges, the Deep Tech plan, the Nano 2022 plan in particular.*	

			The detailed allocation of the fund's resources is decided each year within the framework of the Innovation Board.	
		Creation of the Innovation for Defence Agency	*The* ***Innovation for Defence Agency****, which was created on 1 September 2018, is allocated a budget of €1.2 billion, and covers all innovation-related measures by the Ministry for the Armed Forces, with the goal of preparing for the future through long-term programmes but also seizing opportunities that arise in the shorter term and playing a role as a catalyst for innovation.*	
		National Artificial Intelligence Strategy		*The* ***national artificial intelligence (AI) strategy*** *aims to make France a leader in the field of AI in Europe and worldwide. The government has allocated €1.5 billion between now and 2022 to finance the strategy.*
		Multi-year research programme		*Announced by the Prime Minister on 1 February 2019, the* ***multi-year research programme law*** *will cover the following:* *1) project-based research - competitive financing and laboratory financing;* *2) improvement in science career and employment prospects;* *3) search for partnerships and innovation. It aims to meet the following objectives:* *- take a long-term approach to research to give laboratories greater visibility;* *- establish a coherent and sustainable framework for the reforms underway in order to multiply the effects of public research investment;*

				- *establish a coherent framework under the Horizon Europe programme which will take effect in 2021;* - *identify research programmes to be implemented to meet the country's needs.* *This bill is to be presented at the end of 2019 for adoption sometime during 2020 and application in early 2021.*
	on renewable energies, energy efficiency and interconnection with the rest of the EU	*"Speed up the ecological transition" component of the GPI* *&* *Support for households in the ecological transition*	***The energy voucher** was increased in 2019 by an average of €50. It was also extended to an additional 2.2 million households, reaching a total of 20% of low-income households.* *The target of the **car scrapping bonus** was doubled from 500,000 to 1 million beneficiary households over the five-year presidential term. In addition, the bonus was doubled for lowest-income households and those who need to make heavy use of their car.*	*The **Great Investment Plan** (GPI) allocated more than €20 billion (out of a total of €57 billion) to investment to speed up the ecological transition. Under this, €9 billion was allocated to improving the energy efficiency of homes among low-income households and of public buildings. With this plan, the government is actively supporting renovation to make homes more energy efficient. An annual rate of 500,000 home renovations to improve energy efficiency is expected, of which 150,000 low-income households. Thanks to the "Habiter mieux" programme introduced by the French national housing agency, "Agence nationale de l'habitat (ANAH), and financed by the Great Investment Plan, the carbon quotas and the energy transition tax credit (CITE), which will be transformed into a bonus for low-income households from 2020, 30 to 80% of the work will be subsidised, based on revenue. The zero-interest rate eco loan will also help ease the cost burden for households. Finally, the energy performance certificates (EPC) put an onus on energy suppliers to offer consumers energy savings services, for which low-income households receive a voucher.* ***The mobility guidelines bill** radically reforms France's mobility policy framework by reducing dependency on individual cars. It also proposes giving new powers to local authorities to organise services such as car sharing and car-pooling and bolstering support for*

				bicycle use, as well as enhancing the leadership role of the regions in this area. The mobility plans will replace the current urban travel plans with the goal of including access for the smallest of intercommunity links as well as to cover all forms of mobility. To reduce the environmental impact of transport, the bill aims to achieve a five-fold increase in sales of low emission cars between 2017 and 2022, as part of the Climate Plan objective to completely eliminate sales of passenger cars that emit greenhouse gases by 2040. The bill also provides for incremental investment in transport infrastructures, with priority on everyday transport: €13.4 billion will be invested in the period 2018-2022, followed by €14.3 billion in 2023-2027.
	and on digital infrastructure, taking into account territorial discrepancies;	*France Broadband plan*	*The government committed to increasing the current 4G broadband access under the New Deal Mobile plan initiated at the start of 2018.* *Following the publication of France's 5G roadmap in July 2018, ARCEP, the French telecommunications sector regulator, commenced work on awarding the 5G spectrum bands of 3.5 GHz and 26 GHz, and in October 2018 launched a public consultation inviting economic agents to submit their expressions of needs.*	*By 2020, France plans to have widespread quality mobile phone coverage and high-speed fixed broadband (8mb/s) access, and by 2022 access to ultra-high speed fixed broadband for all households and businesses.* *France aims to become a leader in 5G roll-out.* *The procedure for awarding frequencies is expected to begin before the end of autumn 2019, with a view to ARCEP adopting the decisions in early 2020.*
CSR 4	*Continue streamlining the taxation system, notably by limiting the use of tax expenditures, continuing to eliminate inefficient taxes and reducing tax on production;*	*2018 Initial Budget Act (LFI)* *2019 Initial Budget Act (LFI)*	***Measures to simplify and reduce capital taxes:*** *<u>Measures included in the 2018 Initial Budget Act (LFI)</u> (in force since 1 January 2018) (reminder):*	*Simplification measures* *In the context of the 2020 Draft Budget Act, the plan to reduce the number of low-yield taxes which commenced in 2018 will be continued with the goal of **streamlining the fiscal system and gradually reducing the level of compulsory deductions**.*

		2018 Social Security Budget Act (LFSS) *2020 Draft Budget Act (PLF)*	*- reduce the headline corporate income tax rate to 25% by 2022 with a first stage starting in 2018;* *- creation of the single flat-rate levy of 30% on capital income (of which 12.8% income tax and 17.2% social security contributions);* *- replacement of the wealth tax (ISF) with a property wealth tax (IFI);* *- elimination of the 3% tax on dividends.* *<u>Measures voted under the 2019 Initial Budget Act (LFI):</u>* *- elimination of roughly 20 low-yield taxes (Articles 26 and 83 of the 2019 Initial Budget Act);* *- elimination of inefficient tax expenditure (Article 30 of the 2019 Initial Budget Act);* *- reform of the industrial property patent box tax regime, in accordance with the recommendations of the OECD and the EU (Articles 37 and 38 of the 2019 Initial Budget Act);* *- adjustment of the rules for assessing the rental value of industrial premises in order to improve the transparency of both the general and accounting methods, and thus limit reclassifications to industrial premises (Article 156 of the 2019 Initial Budget Act);* *- reform of corporate income tax with a view to increasing convergence with EU law:* *i) Article 32 of the 2019 Initial Budget Act makes several changes to the tax consolidation regime. The distribution scheme for profit-sharing income is adjusted,*	*The **elimination of the local residence tax** on the primary residence will impact 80% of French citizens subject to this tax from 2020 and will take full effect for everyone concerned in 2023. This capital measure, amounting to nearly €20 billion, will boost purchasing power as well as significantly streamline the taxation system.* *In the 2020 Draft Budget Act, the government is proposing a review of certain niche tax expenditures and social security benefits, namely a reduction in the special standard deduction and the lower energy tax on diesel fuel not used for road transport. Also, the scope of the research tax credit and of the reduction in tax related to corporate sponsorship will be refocused slightly, with a positive impact on the public balance in 2021.*

			regardless of whether such income is eligible for the parent-subsidiary regime. Under certain conditions, the advantages reserved for tax-consolidated groups may be extended to non-consolidated companies. *ii) Article 34 of the 2019 Initial Budget Act carries out a comprehensive reform of the tax deduction regime for the financial charges of companies subject to corporate income tax. In particular, it enacts Article 4 of the Anti-Tax Avoidance Directive* ***(ATAD)*** *which establishes a rule limiting the deduction of interest, based on the recommendations of the base erosion and profit shifting (****BEPS****) project carried out by the OECD.* ***As a reminder: Transformation of the Competitiveness and Employment Tax Credit (CICE) into a reduction in employer contributions:*** <u>*Measure included in the Initial Budget Act and the Social Security Budget Act for 2018:*</u> *Since 1 January 2019, the CICE and Payroll Tax Credit (CITS) have been transformed into a 6-point reduction in employer contributions for wages up to 2.5 times the statutory minimum wage. This system is clearer for companies, which immediately benefit, as soon as the wages are paid, from the reduction in labour costs.* *From 1 October 2019, reinforcement of the system for the lowest salaries (increase of approximately 4 points in the scale of reduced general contributions for employees earning the minimum wage, gradually*	

			decreasing up to 1.6 times the minimum wage). ***Implementation of withholding at source on 1 January 2019*** *This new system, in addition to aligning France with international standards, is simpler for taxpayers and provides them with greater clarity.*	
	Relax regulatory restrictions, particularly in the services sector,	*Continue the simplification process, notably based on the "one in/two out" principle*	*The Circular of 26 July 2017 on the* ***management of regulatory texts*** *and their impact provides that every new regulatory standard will be offset by the repeal or streamlining of at least two existing standards (the Circular of 31 August 2017 specifies that this rule is applicable from 1 September 2017). All draft decrees addressed to the government's general secretariat must henceforth include a regulatory text management form appended to the general impact form. The circular from the Prime Minister dated 12 January 2018 on the simplification of the law and procedures in force provides that all draft laws must henceforth include a section covering simplification measures.* *The aforementioned* ***circular of 26 July 2017*** *prohibits all measures that go beyond the minimum requirements of a directive barring exceptional cases that can be duly justified. An audit was set up to establish an inventory of all cases of overenactment in force that*	*Although in the past some one hundred independent decrees were made each year, only 18 regulatory standards were adopted between September 2017 and September 2018, which were offset by the elimination of 41 texts. Moreover, the number of circulars published was reduced by two thirds, from 30,000 to 10,000.* ***The main measures to combat overenactment*** *should include the elimination of certain restrictions imposed*

		Combat the overenactment of European standards	*could not be justified to bring standards into line with EU restrictions. This inventory was submitted to the Prime Minister in April 2018. The Prime Minister's office requested that the ministries send it, during summer 2018, their measures to halt the overenactments observed in their fields as well as the justifications for maintaining certain overenactments.*	*on advertising announcers, the elimination of overenactment in corporate law and finance, in the environmental sphere, notably in the waste management and water management sectors, as well as in agriculture and cultivation.*
		The France Expérimentation programme	*The* ***France Expérimentation*** *programme aims to simplify process for businesses seeking to implementing innovative projects by allowing them to specify to the government the regulatory or legislative provisions that impede their development. The government can then implement exceptions on a test basis and simplify the standards.* *This programme was relaunched in May 2018 as part of a call for projects to carry out legislative tests. 127 projects were submitted and reviewed by end-March 2019.*	
			The PACTE Law of 22 May 2019 *contains over 70 measures to foster growth and the financing of businesses whilst encouraging profit sharing with employees. Its flagship measures are:* *- the creation of an online one-stop shop to help with procedures relating to setting up and running a business;*	

		Simplify company creation and growth	*- authorisation of the establishment of an online general company register;* *- elimination of the requirement for craftspersons to complete an internship prior to setting up shop;* *- upgrading of the network of chambers of commerce and industry;* *- the reform of employee thresholds: regrouping of thresholds for companies employing 11, 50 and 250 people; harmonisation of the methods used to calculate workforce size and introduction of a five-year period to meet the related obligations (a threshold will only be considered as having been crossed if it has been reached for five consecutive years);* *- streamlining of retirement savings;* *- bolstering of ties between public research and the corporate world;* *- eliminating the reduced social security contribution (forfait social) on profit-sharing and incentive schemes for companies with less than 50 employees and on incentive schemes only for companies with between 50 and 250 employees;* *- reform of the bankruptcy law with the introduction into French law of the "cross-class cram down" enforcement mechanism.* ***The New Railway Pact Act*** *of 27 June 2018 specifies the timetable for opening up domestic passenger rail transport to competition: it will come into effect for the high-speed train (TGV) network in December*	

		Open up domestic passenger rail transport to competition	*2020, with open access being granted (free access to infrastructure for any railway company; it will be optional for regions for the regional express train (TER) network from December 2019, and will become mandatory from December 2023, with calls for tenders being organised for all contracts awarded or renewed.*	
		Open up services to competition	***The Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015*** *has helped to boost competition and bolster activity in the sectors concerned. In particular:* - *Legally regulated employment status: The Act of 6 August 2015 facilitated the set-up of notary offices across France, with a 53% increase in the number of private notary offices planned between now and 2020 in relation to 1 January 2016. The number of bailiffs and judicial auctioneers is set to increase by 6.5% and 10.7% respectively by the end of 2019. Moreover, the regulatory fee rates in the legal professions have been revised down.* - *Opening of retail stores: The aforementioned Act of 6 August 2015 liberalised the opening of retail stores on Sundays, particularly in tourist and international tourist areas. In the international tourist areas in Paris, the rate of retail outlets opening on Sundays increased from 17.6% in September 2015 to 32.3% in February 2018 (+83.5%).*	***On 5 March 2019, the Prime Minister announced a raft of new measures*** *to boost competition in the services sector. These concern seven areas:* - *Spare car parts: The market for visible spare parts (headlights, windows, rear-view mirrors, bodywork) will be gradually opened up to competition through elimination of the monopoly in place as a result of the protection of manufacturers' designs and models (mobility guidelines bill - PJLOM).* - *Driving schools: Availability of an online comparison tool to ensure transparency of driving school services; in particular, it will provide information on success rates, training costs and the services proposed. In parallel, a standard contract will become mandatory to ensure the consumer is better informed and to provide greater legal certainty for sector professionals; it will be used to feed data into the comparison tool (measure in the mobility guidelines bill - PJLOM). Continuation of the elimination of discrimination between driving schools based on their economic model (physical and online driving schools).*

			- *<u>Passenger transport by road:</u> The aforementioned Act of 6 August 2015 opened up domestic passenger bus travel to competition. At the end of 2018, the sector, which today employs a headcount of 2,500 full-time equivalent employees, generated revenue of €130 million (+24% versus 2017). A total of 8.9 million passengers travelled by bus in 2018 (+26% versus 2017).* *Reminder: Order* ***No. 2018-361 of 16 May 2018 on the distribution of insurance*** *and the related implementing decrees transposing Directive 2016/97 of 20 January 2016 on the distribution of insurance promote better competition in insurance business practices.*	- *<u>Property management agents:</u> The option to re-open the competitive process on expiry of contracts will take effect thanks to the improvements in the transferability of contracts, with better information for co-owners; mandatory standard contracts to facilitate comparison of services.* - ***The Law of 14 July 2019 on the right to cancel supplementary health insurance contracts without paying a fee*** *allows for the cancellation of health insurance contracts at any time after the first year and fosters improved comparison of contracts. The new law on cancellation will take effect at a date set by decree of the Council of State, at the latest by 1 December 2020.* - *<u>Medical analysis laboratories:</u> The restrictions limiting outsourcing and banning rebates will be relaxed and the prudential capital rules will be reviewed.* - *<u>Online sale of medical drugs:</u> A consultation process is underway with healthcare professions to facilitate online sales (notably authorising the storage of drugs outside of pharmacies, giving pharmacists the right to organise with a view to opening a shared portal, relaxing the rules around revenue and the recruitment of assistant pharmacists, and moving from an authorisation-based regime to one involving the declaration of online activity).* - *<u>Banks:</u> The enacted revised Payment Services Directive opens up the possibility for fintechs accredited by the ACPR to access the payment account data of customers who agree to it with the aim of offering new information aggregation or payment initiation services. In this context, all of the players concerned (authorities, banks, fintechs, traders) are contributing to the work under the aegis*

				of the Banque de France and the ACPR to finalise a secure shared marketplace API solution.
	and fully implement the measures aimed at stimulating company growth.	*The PACTE Law:*		*The PACTE Law was enacted on 22 May 2019. Some of the most important measures took effect on that date (e.g. workforce thresholds, supplementary pension savings, statutory auditory thresholds). All of the other measures will enter into force gradually between June and December 2019. An additional period of around six months had to be added to the initial timeframe to allow for parliamentary discussion, which resulted in a law containing a little over 220 articles.*

Detailed forecast tables

Table 1 : Resources and uses of goods and services - Nominal gross domestic product and components				
	2018*		2019	2020
NOMINAL GROSS DOMESTIC PRODUCT (GDP) - level in billions	**2353,1**		**2416,9**	**2479,4**
	Nominal	**Volume**		
	Level in €bn	Rate of change	Rate of change	Rate of change
RESOURCES				
Real gross domestic product	2 353,1	1,7	1,4	1,3
Imports	755,6	1,2	2,2	2,5
TOTAL OF RESOURCES	**3 108,7**	**1,6**	**1,6**	**1,6**
USES				
Private consumption expenditure	1 268,5	0,9	1,2	1,4
Government consumption expenditure	550,9	0,8	0,8	0,8
Gross fixed capital formation (GFCF)	537,9	2,8	2,9	2,0
- *of which Non-financial corporations*	303,5	3,8	3,3	2,7
- *of which Households excluding self-employed*	126,4	2,0	0,8	0,8
-*of which General Government*	79,9	2,4	5,3	1,4
Exports	737,4	3,5	2,3	2,5
Changes in inventories and net acquisitions of valuables	14,0			
TOTAL USES	**3 108,7**	**1,6**	**1,6**	**1,6**
Contributions to real GDP growth				
Final domestic demand excluding inventories		1,3	1,5	1,4
Changes in inventories and net acquisitions of valuables		- 0,3	- 0,2	-0,0
Net foreign trade		0,7	0,0	0,0

(*) Non working-day adjusted data.

Table 2 : Resources and uses of goods and services - price developments			
	2018	2019	2020
	Rate of change	Rate of change	Rate of change
RESOURCES			
Gross domestic product	0,8	1,3	1,2
Imports	2,0	0,6	1,1
TOTAL RESOURCES	**1,1**	**1,2**	**1,2**
USES			
Private consumption expenditure	1,4	1,2	1,2
Government consumption expenditure	0,5	0,7	0,7
Gross fixed capital formation	1,4	1,7	1,7
Exports	0,8	1,0	1,2
TOTAL USES	**1,1**	**1,2**	**1,2**
OTHER PRICE INDICES			
Consumer Price Index (CPI)	1,8	1,2	1,2
Consumer Price Index excluding tobacco	1,6	1,0	1,0
Harmonised Index of Consumer Prices (HICP)	2,1	1,3	1,3

Table 3 : Sectoral balances – Net lending (+)/ borrowing (-)	2017 pp of GDP	2018 pp of GDP	2019 pp of GDP	2020 pp of GDP
NET LENDING (+)/ BORROWING (-) vis-à-vis the rest of the world	**- 0,5**	**- 0,5**	**- 0,4**	**- 0,3**
Of which:				
- Balance of goods and services	- 1,1	- 0,8	- 0,6	- 0,6
- Balance of primary incomes and transfers	0,5	0,2	0,1	0,1
- Capital account	0,0	0,1	0,1	0,1
NET LENDING (+)/ BORROWING (-) of the private sector	**2,2**	**2,0**	**2,7**	**1,8**
Of which:				
- Households	2,3	2,4	2,8	2,6
- Non-financial corporations	0,1	- 0,4	0,2	- 0,6
NET LENDING (+)/ BORROWING (-) OF GENERAL GOVERNMENT*	**- 2,8**	**- 2,5**	**- 3,1**	**- 2,2**

(*) According to the Maastricht definition.

Table 4 : French external trade	2017 Level in €bn	2018 Level in €bn	2019 Level in €bn	2020 Level in €bn
TOTAL GROSS TRADE BALANCE CIF-FOB	**- 72,0**	**- 73,7**	**- 70,8**	**- 71,1**
Of which:				
- Manufacture of food products	-0,6	0,8	1,4	1,6
- Energy	- 39,2	- 45,6	- 47,0	- 47,6
- Industry	- 35,9	- 32,9	- 29,3	- 29,5
Total trade balance FOB-FOB - in level	- 58,0	- 59,1	- 56,0	- 56,3
Total trade balance FOB-FOB - in pp of GDP	- 2,5	- 2,5	- 2,3	- 2,3
COMMERCIAL BALANCE EXCLUDING ENERGY AND MILITARY EQUIPMENT - in level CIF-FOB	**- 36,5**	**- 32,0**	**- 27,9**	**- 27,9**

Table 5 : Non-financial Corporations – Detailed data

	2017	2018	2019	2020
	Level in €bn	Rate of change	Rate of change	Rate of change
GROSS VALUE ADDED	**1 181,5**	**3,0**	**3,5**	**3,4**
Compensation of employees	778,4	3,8	0,9	2,8
Ratio: compensation of employees / Gross Value Added – level in %	65,9	66,4	64,8	64,4
Taxes on production	61,5	3,9	12,2	4,7
Subsidies on production	- 32,9	5,9	5,9	- 38,1
Gross operating surplus (GOS)	374,4	1,3	7,6	0,6
Ratio -: Margin rate of non-financial corporations (Gross operating surplus / Gross Value Added) – level in %	31,7	31,2	32,4	31,6
Property income paid	236,8	3,4	- 3,3	4,7
Property income received	206,3	0,2	- 3,3	4,8
Taxes on income and wealth	47,6	- 5,6	8,8	7,1
GROSS SAVINGS	**273,5**	**0,3**	**9,2**	**- 1,0**
Ratio : Saving Rate (Gross Savings / Gross Value Added) – level in %	23,1	22,6	23,8	22,8
Gross fixed capital formation (GFCF)	279,5	5,1	4,9	4,5
Ratio : Self-financing rate (Savings / GFCF) – level in %	97,9	93,4	97,3	92,1
Ratio : Investment rate (GFCF / Gross Value Added) – level in %	23,7	24,1	24,5	24,7
Changes in inventories (1))	18,7	13,3	9,3	8,3
NET LENDING (+) / BORROWING (-) – in level. pp of Gross Value Added	**0,2**	**- 0,8**	**0,3**	**- 1,1**

(1) Changes in inventories - level in billions.

Table 6 : Households - Income Accounts

	2017	2018	2019	2020
	Level in €bn	Rate of change	Rate of change	Rate of change
RESSOURCES				
Wages and salaries	892,9	2,9	2,9	2,4
- Employees' social contributions	129,0	-8,3	-1,2	2,6
Wages and salaries (net of employees' social contributions)	763,9	4,7	3,5	2,3
Mixed income (mainly self-employed)	121,6	-0,3	1,1	0,8
Gross operating surplus (excluding self-employed)	184,3	2,5	2,6	2,4
Social benefits in cash	493,7	2,3	2,7	1,8
Property income received	92,4	6,4	-3,7	2,2
Other resources	69,7	0,6	2,7	2,5
USES				
Social contributions by self-employed and non-employed persons	30,0	-5,0	2,3	1,2
Current taxes on income and wealth	226,6	9,6	0,1	-0,5
Property income paid (paid interests)	16,7	- 2,3	-20,0	7,9
Other uses	69,1	0,3	2,7	2,6
Gross Disposable Income (GDI)	**1 383,4**	**2,7**	**3,3**	**2,5**

Table 7 : Households - From disposable income to net lending

	2017	2018	2019	2020

	Level in €bn	Rate of change	Rate of change	Rate of change
GROSS DISPOSABLE INCOME (GDI)	**1 383,4**	**2,7**	**3,3**	**2,5**
Purchasing power of GDI		1,2	2,0	1,2
Final consumption expenditure	1 191,5	2,4	2,5	2,7
GROSS SAVINGS	**191,9**	**5,0**	**8,0**	**1,0**
GLOBAL SAVING RATE (Gross savings/ GDI) – in level	**13,9**	**14,2**	**14,8**	**14,6**
Gross fixed capital formation (GFCF)	131,3	3,8	3,4	2,7
Other net uses	8,0	2,3	22,2	- 5,1
NET LENDING (€ billions)	**52,6**	**57,0**	**66,6**	**65,6**
SAVING RATE (Net lending / GDI) – in level	**3,8**	**4,0**	**4,5**	**4,4**

Table 8 : International Environment - Basic assumptions	2018	2019	2020
Short-term interest rate (annual average)	-0,3	-0,3	-0,3
Long-term interest rate (annual average)	0,8	0,2	0,5
USD/€ exchange rate (annual average)	1,18	1,12	1,12
Nominal effective exchange rate of the French economy	2,7	-0,9	0,1
World GDP growth (excluding EU)	3,9	3,5	3,7
Growth of relevant foreign markets	3,8	2,0	2,6
World imports (excluding EU)	5,2	1,2	2,9
Oil prices (Brent. USD / barrel))	71	63	59

Table 9 : International Environment - Detailed forecasts of GDP growth	2017	2018	2019	2020
	Level* (USDbn)	Rate of change	Rate of change	Rate of change
France**	2 593	1,7	1,4	1,3
United Kingdom	2 641	1,4	1,2	1,3
European Union (28 countries)	17 353	2,1	1,5	1,5
Euro area **	12 634	1,9	1,2	1,2
Euro area excluding France **	10 042	1,9	1,2	1,1
United States	19 519	2,9	2,4	1,5
Japan	4 860	0,8	1,2	0,6

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

Table 10 : International Environment - Consumer price Index	2017	2018	2019	2020
France	1,0	1,8	1,2	1,2
United Kingdom	2,7	2,5	1,9	2,0
Euro area	1,5	1,8	1,3	1,4
United States	2,1	2,4	2,1	2,5
Japan	0,5	1,0	0,6	1,3

Table 11 : Labour market developments

	2018	2018	2019	2020
	Level	Rate of change	Rate of change	Rate of change
Employment, persons (1) - Total economy - Annual average	28 114	0,9	0,9	0,6
Employment, persons - France. all sectors - Annual average, thousands of persons[2]	28 019	245	248	179
Employment, persons - France. Non-farm market sector – Annual average[2]	16 804	1,5	1,4	0,9
Employment, persons - France. Non-farm market sector – YoY, thousands of persons[2]	16 896	167	238	112
Compensation of employees - Total economy	1 231,9	2,8	0,8	2,3
Wages and salaries per employee - Non-farm market sector		1,7	1,8	1,8
Labour productivity - Total economy[3]		0,8	0,5	0,7

(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

	2018	2019	2020
	Rate of change	Rate of change	Rate of change
Actual GDP growth*	1,7	1,4	1,3
Potential GDP growth	1,25	1,25	1,25
Contributions:			
- Labour (total hours worked)	0,1 / 0,2	0,1 / 0,2	0,1 / 0,2
- Capital	0,4 / 0,5	0,4 / 0,5	0,4 / 0,5
- Total Factor Productivity (TFP)	0,6 / 0,7	0,6 / 0,7	0,6 / 0,7
Output gap (in pp of potential GDP)	- 0,1	0,0	0,1

(*)Growth rate adjusted for working days.

Table 13. General government budgetary targets broken down by subsector

	ESA Code	2018	2019	2020
		% GDP	% GDP	% GDP
1. General government	S.13	-2,5	-3,1	-2,2
2. Central government	S.1311	-3,1	-3,6	-3,1
3. State government	S.1312	-	-	-
4. Local government	S.1313	0,1	0,1	0,2
5. Social security funds	S.1314	0,5	0,5	0,7
6. Interest expenditure	EDP D.41	1,7	1,5	1,4
7. Primary balance (1 + 6)		-0,8	-1,6	-0,8
8. One-off and temporary measures*		-0,2	-0,9	-0,1
9. Real GDP growth (%)		1,7	1,4	1,3
10. Potential GDP growth (%)		1,25	1,25	1,25
11. Output gap (% of potential GDP)		-0,1	0,0	0,1
12. Cyclical budgetary component		0,0	0,0	0,1
13. Cyclically- adjusted balance (1 - 12)		-2,5	-3,1	-2,2
14. Cyclically-adjusted primary balance (13 + 6)		-0,8	-1,6	-0,9
15. Structural balance (13 - 8) (% of potential GDP)		-2,3	-2,2	-2,2

Table 14 : General government debt developments

	ESA Code	2018	2019	2020
		% GDP	% GDP	% GDP
1. Gross debt		98,4	98,8	98,7
2. Change in gross debt ratio		0,0	0,4	-0,1
Contributions to changes in gross debt				
3. Primary balance		-0,8	-1,6	-0,8
4. Interest expenditure	D.41	1,7	1,5	1,4
5. Stock-flow adjustment		-0,1	0,0	0,2
For the record : Implicit intrest rate on debt		1,8	1,6	1,4
Debt ratio, excluding support for the euro area		95,6	96,1	96,1

Table 15 : Contingent liabilities

	ESA Code	2018	2019	2020
		% GDP	% GDP	% GDP
Public guarantees		8,9		

Table 16 : Structural balance broken down by subsector				
Central government				
As a % of potential GDP (except* : as a % of GDP)		**2018**	**2019**	**2020**
General balance*		**-3,1**	**-3,6**	**-3,1**
Structural balance		-2,8	-2,7	-3,0
Change in the structural balance		0,1	0,1	-0,3
Of which, structural effort		*-0,1*	*1,4*	*0,0*
*Of which neutral operations on the general government balance***		*0,0*	*-1,4*	*-0,2*
Local government				
		2018	**2019**	**2020**
General balance*		**0,1**	**0,1**	**0,2**
Structural balance		0,1	0,1	0,2
Change in the structural balance		0,0	0,0	0,1
Of which, structural effort		*-0,1*	*-0,2*	*0,0*
*Of which neutral operations on the general government balance***		*0,2*	*0,2*	*0,1*
Social security funds				
		2018	**2019**	**2020**
General balance*		**0,5**	**0,5**	**0,7**
Structural balance		0,5	0,5	0,7
Change in the structural balance		0,1	0,0	0,2
Of which, structural effort		*0,3*	*-1,1*	*0,1*
*Of which neutral operations on the general government balance***		*-0,2*	*1,2*	*0,1*

**Transferts between sub-sectors*

Table 17 : Structural balance and structural effort breakdown				
As a % of potential GDP (except* : as a % of GDP)		**2018**	**2019**	**2020**
General government balance*		**-2,5**	**-3,1**	**-2,2**
Cyclical balance		0,0	0,0	0,1
One-offs		-0,2	-0,9	-0,1
Structural balance		-2,3	-2,2	-2,2
Change in the structural balance		0,1	0,1	0,0
Of which structural effort		0,1	0,1	0,1
Discretionary tax measures		*-0,2*	*-0,1*	*-0,5*
Expenditure effort		*0,3*	*0,1*	*0,3*
Correction for accrual-based measurement of tax credits		*0,0*	*0,1*	*0,3*
Of which non-discretionary component		0,0	0,0	-0,1

Table 18 : General government expenditure and revenue projections in ESA 2010 with no policy change broken down by main components				
	ESA Code	**2018**	**2019**	**2020**
General government (S.13)		% GDP	% GDP	% GDP
1. Total gross revenue with no policy change		**53,5**	**52,5**	**52,4**
Of which				
1.1. Taxes on production and imports	D.2	16,5	16,8	16,8
1.2. Current taxes on income, wealth, etc	D.5	13,3	13,2	13,2
1.3. Capital taxes	D.91	0,6	0,6	0,6
1.4. Social contributions	D.61	18,0	16,8	16,7
1.5. Property income	D.4	0,6	0,7	0,7
1.6. Other		4,4	4,5	4,4
for the record: Tax burden		44,8	43,8	44,2
2. Total expenditure with no policy change (including tax credits)		**56,0**	**55,6**	**54,7**
Of which				
2.1. Compensation of employees	D.1	12,5	12,3	12,2
2.2. Intermediate consumption	P.2	4,9	4,9	5,0
2.3. Social payments	D.62, D.63	25,5	25,5	25,3
Of which Unemployment benefits		1,4	1,4	1,3
2.4. Interest expenditure	EDP D.41	1,7	1,5	1,4
2.5. Subsidies	D.3	2,7	2,7	2,1
2.6. Gross fixed capital formation	P.51	3,4	3,5	3,6
2.7. Capital transfers	D.9	1,2	1,0	1,0
2.8. Others		4,1	4,1	4,0

Table 19 : General government expenditure and revenue targets				
	ESA Code	**2018**	**2019**	**2020**
General government (S.13)		% GDP	% GDP	% GDP
1. Total gross revenue with no policy change		**53,5**	**52,5**	**52,2**
Of which				
1.1. Taxes on production and imports	D.2	16,5	16,8	16,8
1.2. Current taxes on income, wealth, etc	D.5	13,3	13,2	13,0
1.3. Capital taxes	D.91	0,6	0,6	0,6
1.4. Social contributions	D.61	18,0	16,8	16,7
1.5. Property income	D.4	0,6	0,7	0,7
1.6. Other		4,4	4,5	4,4
for the record: Tax burden		44,8	43,8	44,1
2. Total expenditure with no policy change (including tax credits)		**56,0**	**55,6**	**54,4**
Of which				
2.1. Compensation of employees	D.1	12,5	12,3	12,2
2.2. Intermediate consumption	P.2	4,9	4,9	4,9
2.3. Social payments	D.62, D.63	25,5	25,5	25,3
Of which Unemployment benefits		1,4	1,4	1,3
2.4. Interest expenditure	D.41	1,7	1,5	1,4
2.5. Subsidies	D.3	2,7	2,7	2,0

2.6. Gross fixed capital formation	P.51	3,4	3,5	3,5
2.7. Capital transfers	D.9	1,2	1,0	1,0
2.8. Others		4,1	4,1	4,0

Table 20 : Amounts to be excluded from the expenditure benchmark				
	2018	**2018**	**2019**	**2020**
	€bn	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue	2,4	0,1	0,1	0,1
2. Cyclical unemployment benefit expenditure	0,1	0,0	0,0	0,0
3. Effect of discretionary revenue measures	-4,6	-0,2	-0,1	-0,6
4. Revenue increases mandated by law				

Table 21 : General government expenditure by function		
	COFOG Code	**2017**
1. General public services	1	6,0
2. Defence	2	1,8
3. Public order and safety	3	1,6
4. Economic affairs	4	5,9
5. Environmental protection	5	0,9
6. Housing and community amenities	6	1,0
7. Health	7	8,0
8. Recreation, culture and religion	8	1,4
9. Education	9	5,4
10. Social protection	10	24,3
Total expenditure	TE	56,5

Source : Eurostat for France

Table 22 : Divergence from latest SP				
	ESA Code	**2018**	**2019**	**2020**
Target general government net borrowing		**% GDP**	**% GDP**	**% GDP**
Stability Programme	B.9	-2,5	-3,1	-2,0
Draft Budgetary Plan		-2,5	-3,1	-2,2
Difference		0,0	0,0	-0,1
General government net lending projection at unchanged policies				
Stability Programme	B.9	-3,0	-2,7	-2,6
Draft Budgetary Plan		-2,5	-3,1	-2,3
Difference		0,5	-0,4	0,3

Table 24 : In-year quarterly outturn on cash basis for the general government and its sub-sector

In bn€	1st quarter	1st semester
Overall balance by sub-sector		
General government		
Central government	-40,7	-77,3
State government		
Local government	-10	-3
Social security funds	-1,8	-3,1
Total revenue / inflows		
Local government	47,2	134,5
Social security funds	98,6	199,7
Total expenditure / outflows		
Local government	57,2	137,5
Social security funds	100,4	202,9

Table 25 : In-year quarterly outturn in accordance with ESA standards for the general government and its sub-sectors

In bn€	ESA Code	2019	
		1st quarter	2nd quarter
Overall balance by sub-sector			
General government	S. 13	-20,9	-20,3
Central government	S. 1311		
State government	S. 1312		
Local government	S. 1313		
Social security funds	S. 1314		
For general government			
Total revenue	TR	312,3	314
Total expenditure	TE	333,3	334,4