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FRANCE – MONITORING OF POLICY PROGRESS UNDER THE MACROECONOMIC  
IMBALANCES PROCEDURE

## France - Monitoring of Policy Progress under the MIP - Executive Summary

**This report is the first one on France under the Macroeconomic Imbalances Procedure (MIP) for countries experiencing macroeconomic imbalances which require specific monitoring and decisive policy action.** It reviews the latest macroeconomic and policy developments in France since the June 2014 assessment of progress made on the implementation of Council recommendations<sup>1</sup> and reviews in particular progress to correct the imbalances identified in the March 2014 In-Depth Review (weak external competitiveness and high public indebtedness). The report includes information up until the end of October, including the government's presentation of the first elements of the Draft Law on Economic Activity. Overall, the undertaken and announced reforms can boost economic growth provided that they are ambitious in content and are promptly implemented. However, decisive action on a broader reform agenda as called for in the Council recommendations would allow reaping more substantial benefits.

**Growth in France has been flat since mid-2011. According to the Commission's 2014 Autumn forecast, it is set to remain weak in 2014 and 2015 and to accelerate moderately in 2016.** Growth will be mainly driven by private consumption. Export market shares have declined over the last five years (-13%) and are expected to fall further in 2014, making it unlikely that economic activity will benefit fully from the projected pick-up in international trade. Also, investment is not expected to gain momentum before 2016. The 2015 Draft Budgetary Plan postpones the correction of the excessive deficit to 2017, while the Draft Programming Law for Public Finances for 2014-2017 puts back the achievement of the medium-term objective to 2019. The increase in the headline deficit and low nominal GDP growth are expected to lead to a continuous increase in the government debt ratio to just below 100% of GDP in 2016.

**In some policy areas reforms are progressing, but there remains uncertainty on their expected outcomes and their effectiveness. Therefore, continued decisive implementation and, where appropriate, adaptation remain necessary but also further reform efforts are needed.** The tax rebate for competitiveness and employment (CICE) has become operational in 2014 and the social security contribution reduction measures of the Responsibility and Solidarity Pact (RSP) for 2015 have been adopted. Other measures of the RSP, which target higher wages, will enter into force in 2016 and will be adopted in future budgets. Overall, the impact of these labour cost reductions is uncertain, especially in terms of the size and timing of the impact on competitiveness but also as regards their effect on employment. In particular, the initial take-up of the CICE in 2014 has been significantly below expectations and there is some concern that the labour cost reductions of the CICE and the RSP will be at least partly offset by dynamic wage developments. Some progress has been made on the simplification of the administrative burden for firms, although a more comprehensive and systematic approach is necessary to simplify taxation and labour regulations and to improve the business environment. Similarly, progress has been made on the authorization procedures for the opening of trade outlets and on the regulatory framework in the railway sector. For all these reforms, continued prompt implementation and, where appropriate, an adaptation of reforms

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<sup>1</sup> Council (2014a).

to increase their effectiveness remain necessary, but also the degree of ambition needs to be stepped up to fully address the respective Council recommendations.

**For a number of reforms, it is premature to assess progress made so far, as the exact content of the measures is still under consideration or in the process of adoption, implying that outcomes remain uncertain.** A reform of local administration is ongoing. A first bill creating metropolitan areas has already been adopted; two further territorial reform bills are currently being discussed in Parliament and are due to be adopted by the end of the year. This reform of local governments can potentially generate significant benefits in the medium term through economies of scale, efficiency gains and agglomeration effects, but this will crucially hinge on the final design and implementation of the reform. In this regard, there is a risk that the reform gets watered down during the adoption and implementation process limiting its overall benefits, or even leading to negative effects, in case it results in a more complex jigsaw if new layers are added without old layers being wound down. For example, the final number of regions as well as the eventual role of departments remain uncertain at this stage. In the context of a broader social dialogue, negotiations have started between social partners on size-related criteria in regulations. These negotiations are an opportunity to remove impediments to firms' growth. Moreover, the government has presented the first elements of a Draft Law on Economic Activity aiming to increase economic efficiency and whose adoption by Parliament is foreseen before Spring. The law would include a reform of regulated professions, of Sunday opening hours and of the Justice Prud'homale, a dispute settlement system for individual labour contract disputes. These reform plans can generate an impulse to economic activity in the medium term provided that the government broadens the scope of the reform in terms of professions – the reform currently only covers a subset of the regulated professions where economic rents have been observed – and type of regulations covered – e.g. narrowing down the monopoly of certain professions. Also, an ambitious approach should be followed to make sure that tariffs reflect the costs of services provided and, where appropriate, to abolish tariffs. The reform of the Sunday opening hours should lead to less complex rules that can ensure a level playing field on opening hours for retail outlets. Finally, a comprehensive reform of the Justice Prud'homale is necessary given the observed malfunctioning of the system.

**In other areas, efforts need to be stepped up with the identification and adoption of additional measures.** Overall, the strategy to improve the sustainability of public finances is lagging behind. The '*Modernisation de l'Action Publique (MAP)*' spending review has not translated into significant savings up to now. First steps have been taken to reinforce the governance of local finances, but the process is at a very early stage and the spending norm for local authorities is only indicative and might not be effective in curbing the growth in local expenditure. Little has been done to improve the long-term sustainability of public finances and efforts are in particular needed to improve the sustainability of the healthcare system. Also, progress on the simplification of the taxation system in the 2015 Draft Budget Law is limited. Adapting the '*Crédit d'Impôt Recherche (CIR)*', taking into account the recent evaluation done would contribute to enhancing the efficiency of innovation and R&D policies. Last but not least, adapting the conditions of the '*Accords de Maintien de l'Emploi*' and reviewing the incentives for older workers to stay in or return to work, as called for in the Council recommendations, would be instrumental in reducing the rigidities in the labour market. Additional structural measures are needed to ensure the financial sustainability of the unemployment benefit system. Finally, taking additional measures to reduce the labour cost at

the lower end of the wage scale, in a budget neutral way, would enhance the job prospects of low-wage earners such as youth and low-skilled.

## 1. Introduction

On 13 November 2013, the European Commission presented, as part of the Macroeconomic Imbalances Procedure (MIP), its third Alert Mechanism Report to underpin the selection of Member States requiring an in-depth investigation into whether macroeconomic imbalances exist. The subsequent third In-Depth Review for France – published on 5 March 2014<sup>2</sup> – examined the nature, origin and severity of macroeconomic imbalances and risks in France. The Commission concluded that France is experiencing macroeconomic imbalances which require specific monitoring and decisive policy action. In particular, the Commission emphasised risks related to the deterioration in the trade balance and in competitiveness as well as the implications of the high level of public sector indebtedness.

In April 2014, France submitted its Stability Programme and National Reform Programme (NRP), respectively outlining updated fiscal targets and planned policy measures to restore economic growth and help unwind imbalances. On the basis of an assessment of these plans, the Commission proposed a set of seven country-specific recommendations (CSRs) on 2 June 2014, which were subsequently adopted by the Council on 8 July 2014<sup>3</sup>. The six CSRs addressed to France to reduce risks from imbalances concern a wide range of policy domains: public finances; reducing the cost of labour; the business environment, simplification and promoting innovation; competition in services; taxation and the labour market.

Moreover, the first CSR addressed to euro-area Member States<sup>4</sup> called to assess and stimulate progress in reform implementation by euro-area Member States with imbalances requiring decisive action. The Commission therefore put in motion a specific monitoring of policy measures that could contribute to the unwinding of imbalances.

This report by the Commission services presents the results of such specific monitoring by reviewing the main measures taken by France since the assessment of policy implementation in the Staff Working Document of 2 June 2014<sup>5</sup>. In order to underpin the analysis a fact-finding mission took place on 9-10 October 2014. The foreseen date for the publication of a second report is February 2015.

The present report reflects the content of France's Draft Budgetary Plan, transmitted on 15 October, as well as the Commission's 2014 Autumn Forecast. In order to avoid an overlap of surveillance processes, it does not provide an assessment of the revised fiscal targets. It includes information up until the end of October.

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<sup>2</sup> European Commission (2014a)

<sup>3</sup> Council (2014a)

<sup>4</sup> Council (2014b)

<sup>5</sup> European Commission (2014 b)

## 2. Recent macroeconomic developments

France's economy has been stagnating for the last three years, with a quarterly GDP growth of 0.1% on average between mid-2011 and mid-2014. The sluggish economy has translated into a rapid increase in the unemployment rate, which reached 10.5% in August 2014 against 9.1% in mid-2011. Consolidated private indebtedness, driven in particular by the weak financial situation of non-financial corporations, stabilised at 138% of GDP in 2013. The large general government deficit has translated into a further increase in public debt to above 92% of GDP in 2013 from 89.2% one year earlier.

According to the Commission's 2014 Autumn Forecast,<sup>6</sup> France's economic growth is projected to remain low in 2014 and 2015 at 0.3% and 0.7% respectively, as a result of restrained domestic demand and a still subdued export performance, and to accelerate moderately to 1.5% in 2016, with private consumption being the main driver. Private consumption, the traditional growth driver of the French economy, is expected to gradually pick up over the forecast horizon, supported by rather dynamic real wage growth, especially in the private sector, a slight increase in employment, low inflation and tax cuts for low income households. Investment is not expected to gain momentum before 2016, while French firms will continue to experience losses in export markets, albeit at a slower pace, and hence will not fully benefit from the expected rebound in foreign demand. The risks to the forecast are tilted to the downside. A further drop in economic confidence could postpone the expected pick-up in private consumption and in investment and act as a drag on France's already fragile recovery. On the other hand, a more forceful implementation of structural reforms could boost further activity.

The continuous deterioration of France's export competitiveness is expected to weigh on the recovery. Although France has avoided a prolonged recession, growth will remain fragile as limited impetus for growth exists. Notwithstanding the temporary positive contribution of net exports to growth in 2012 and 2013, export market shares have declined over the last five years (-13.0%) and are expected to fall further in 2014. This deterioration is rooted in both the low cost and non-cost competitiveness of French exports. Despite policy efforts and the depreciation of the euro, this development will not be corrected in the short term according to the Autumn Forecast. Indeed, the EUR 20 billion tax credit for competitiveness and employment (CICE) and the EUR 10 billion additional cuts in employers' social security contributions planned under the Responsibility and Solidarity Pact (RSP) will improve firms' profit margins, but at least part of this improvement is expected to be absorbed by higher wage growth, hence limiting the positive effect of the labour cost reductions on investment and competitiveness (see Section 3.2).

France's recent price developments reflect external factors but also weak aggregate demand. HICP inflation has gradually fallen since the last quarter of 2012 to 0.4% in September 2014, driven by lower domestic demand and energy prices. Meanwhile, core inflation did not fall and remained above 0.6%. These price developments in France are not likely to represent an immediate deflationary risk, against the background of rather dynamic wages and the recent euro depreciation.

As regards public finances, the general government deficit in 2013 stood at 4.1% of GDP. However, the headline deficit is expected to increase to 4.4% of GDP in 2014. This

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<sup>6</sup> European Commission (2014c)

compares with 3.9% in the Commission's Spring Forecast, on the back of downward revisions in nominal growth and limited expenditure cuts. The government balance is expected to continue deteriorating in 2015 to 4.5% of GDP. This is largely due to still modest GDP growth and to discretionary measures. Under a no-policy-change assumption, the deficit in 2016 would amount to 4.7% of GDP, as discretionary measures for that year remain mostly unspecified. Based on the Autumn Forecast, the increase in the headline deficit and low nominal GDP growth are expected to lead to a continuous increase in the government debt ratio, to just below 100% of GDP in 2016.

### 3. State of play with MIP-relevant reforms

**This report looks at progress in implementing the MIP-relevant CSRs since the latest assessment in the SWD published on 2 June 2014.** It includes in the analysis the written replies of the French authorities following the monitoring mission of 9-10 October, the reforms identified in the Draft Budgetary Plan, as well as the reforms announced by Economy Minister Macron on 15 October 2014.

#### 3.1. Measures to support the sustainability of public finances and the quality of public expenditure and taxation (CSRs 1 and 5)

**France has consistently recorded high general government deficits, which have led to a build-up in public debt.** The general government deficit has remained above 3 % of GDP for most of the last 25 years.<sup>7</sup> Importantly, the cyclically-adjusted balance has also been systematically negative over the last few decades (-3.3% of GDP on average over 1978-2013), meaning that cyclical conditions only explain part of the deteriorated public finances in France. As a consequence of the high headline deficits, the general government debt has increased almost continuously since 1990. Since the start of the crisis, the upward trend in public indebtedness has accelerated significantly. While public debt represented 63.3 % of GDP in 2007, the sharp increase in the government deficit to 7.2 % of GDP in 2009 and the only gradual decrease since then has brought the debt ratio to 92.2% in 2013. In this context, the Council recommendations stressed inter alia the need to reinforce the budgetary strategy to ensure the correction of the excessive deficit in a sustainable manner by 2015 and accompany this with a credible implementation of ambitious structural reforms to increase the adjustment capacity and boost growth and employment. In particular, France was recommended to step up efforts to achieve efficiency gains across all sub-sectors of general government, including by redefining, where relevant, the scope of government action. More specifically, the Council also called on France to reduce significantly the increase in social security spending and to pursue the ongoing decentralisation process to streamline local government expenditure.

**The Draft Budgetary Plan and the Draft Programming Law for Public Finances for 2014-2017 postpone the correction of the excessive deficit to 2017 and the achievement of the MTO is now only foreseen by 2019.** The Draft Budgetary Plan, which was submitted on 15 October 2014, expects that the general government deficit will stand at 4.4 % of GDP in 2014 and 4.3 % of GDP in 2015, the year when France was expected to correct its excessive deficit according to the Council Recommendation of 21 June 2013. In the Draft Programming Law for Public Finances for 2014-19, presented at the same time as the Draft Budgetary Plan, the government expects that the general government deficit would only be brought down below 3 % of GDP in 2017. The MTO, which was changed from a structural balance to a structural deficit of 0.5 % of GDP, would only be reached by 2019. Due to the slow reduction in the general government deficit, the Draft Programming Law for Public Finances expects that public debt would continue to increase up to 98 % of GDP in 2016 and would decrease to 92.9 % in 2019. In its opinions on the Draft Budgetary Plan and on the Draft Programming Law for Public Finances, the High Council for Public Finances (HCPF) considered that the macroeconomic scenario of the government for the years 2015 and after was somewhat

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<sup>7</sup> Between 1989 and 2013, the general government deficit has been above 3 % of GDP during 16 years. Only in four years it was below 2% of GDP (1989, 1999, 2000 and 2001) and in 8 years, it was above 4% of GDP.



optimistic and that, in light of the measures presented at this stage, there were downside risks to the budgetary strategy.

**Public expenditure, which represented 57 % of GDP in 2013, has proved difficult to reduce.** When looking at public expenditure dynamics, the main driver behind the overall increase in spending over the last decades has undoubtedly been social benefits, which amounted to 26% of GDP in 2013. In its 2015 Draft Budgetary Plan, the French government has started to implement its plan to reduce public expenditure by EUR 50 billion by 2017. Expenditure savings planned in 2015 amount to EUR 21 billion (1.0 % of GDP) split between the State (EUR 7.7 billion), social security (EUR 9.6 billion) and local government (EUR 3.7 billion). On social security, the main savings measures include a lower objective for healthcare costs (EUR 3.2 billion) and the effect of the 2013 pension reform (EUR 1.5 billion). Despite these savings, public expenditures would still increase in 2015, although the planned 1.1 % increase in nominal terms (excluding tax credits) represents a historical low. According to the government, increasing social security expenditures would contribute 0.7 pp to the growth in public expenditures, with the central state and public agencies both contributing an additional 0.2 pp. By contrast, local government would not contribute to the increase in public expenditure in 2015. In order to support the efforts to curb the increase in public expenditures, spending reviews have been initiated.

**Most recently, the 'Modernisation de l'Action Publique' (MAP) aims at identifying expenditure measures in a longer term perspective. However, the savings generated by this spending review remain limited so far.** The MAP was strengthened at the end of 2013 and saving targets were set up. Specific issues are under investigation (ambulatory surgery, generic medicines, housing, subsidies to enterprises and the role of the chambers of commerce, and a possible joint purchasing scheme for local authorities) on which reports will be made public in the upcoming months. In general, the ability of the MAP process to deliver clear and operational recommendations and actions for modernising the administration remains unclear as limited initiatives have been undertaken following the conclusion of previous exercises. As a result, the savings related to this exercise remain limited and will only contribute marginally to the EUR 50 billion expenditure cuts planned over 2015-2017.<sup>8</sup> Expenditure cuts planned for 2015-17 were specified as part of the Draft Budgetary Plan and of the draft programming law, with in particular ambitious healthcare spending targets and measures to streamline family benefits as recommended by the Council. Still, the recommendation made by the Council in July 2014 to step up efforts to achieve long-term efficiency gains for all sub-sectors of general government, notably through the MAP, does not seem to have been implemented at this stage. In addition to the MAP, the Draft Programming Law for Public Finances introduces a spending review in the budgetary cycle. The review would identify potential expenditure cuts and the findings of the review and related proposals would be submitted to Parliament by 1<sup>st</sup> March each year. Details are not available yet on the results that could be expected from this new procedure. The government also expects the draft law on healthcare, which is planned to be adopted in the first half of 2015, to contribute to healthcare cost control in the long term. The expected impact of the draft law – which primarily seeks to increase information of the public on health, extend the access to social tariffs and support innovation of the system – on the dynamics of expenditures appears modest at this stage.

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<sup>8</sup> The Inter-ministerial Committee on the MAP considered in its latest report available (18 December 2013) that the MAP could yield EUR 5-7 billion over 2015-2017 with an additional EUR 3-4 billion possibly coming from upcoming reviews.

**The reform of local administrations is necessary.** France has a large number of communes or municipalities. French communes accounted for nearly 41% of all municipalities in the European Union in 2012. Also, the degree of municipal fragmentation is one of the highest in the OECD. This fragmentation tends to segment local labour markets and reduces the effectiveness of public policies. Moreover, France has a number of additional layers of local government (*'intercommunalités'*, *'départements'*, *'régions'*) with overlapping competences and territories. Against this background, the intention of the government to pursue an ambitious reform of local administrations is welcome.

**Potential gains from the creation of metropolitan areas are sizeable, but will crucially hinge on the final design and implementation of the reform.** A first bill on the reform of local administration was adopted in January 2014. This bill foresees the creation of metropolitan areas around 14 major French cities. The first metropolitan area would be that of Lyon as of 2015, with Marseille following in 2016 and Paris in 2017. The metropolitan area would replace less integrated inter-communal structures. The goal of the reform is to create more efficient structures. The economies of scale and agglomeration effects of such a reform, if implemented correctly, can be sizeable. Based on Ahrend et al (2014)<sup>9</sup>, the governance reforms in the metropolitan areas of Paris and Marseille alone could increase GDP by about 4% in the long term<sup>10</sup> if the new governance model leads to better spatial planning, including that of the transportation network, and to better co-ordination of local public policies. The eventual benefits reaped will depend, however, on how the reforms are implemented, on the homogeneity of the competence packages attributed to the metropolitan areas – with the Paris and Marseille metropolitan areas foreseen to have different competencies over transport –, on how the new metropolitan authorities exercise their powers, on the appropriateness of their administrative boundaries and on the capacity to organise urban economic development in an integrated manner, which notably depends on the role of the newly created territorial councils within the metropolitan areas and on the co-operation between the future *'métropoles'* and the other layers of local government (e.g. *'départements'* and *'régions'*).<sup>11</sup>

**A rationalisation of the administrative organisation of the local authorities could enhance the efficiency of local expenditure in the medium-term depending on the final design and implementation of the planned territorial reform.** Two other bills are currently being discussed in Parliament, one on reducing the number of regions and another on rationalizing the breakdown of competencies among the various layers of local administration. The objective of the government is to have the full package adopted by the end of the year, in line with the deadline included in the CSR and before the elections at the *'département'* level planned in March 2015. The bill on reducing the number of regions has recently been voted in second reading in the Senate, with the current agreement being that the number of regions will be reduced from 22 to 15, while the objective of the government was to reduce the number of regions by half. For the other bill a first reading in the Senate is expected in December. Proposed measures include a further reduction in the number of *'intercommunalités'*, the scrapping of the general competences clause for *'régions'* and *'départements'*, which allowed these authorities to take initiatives beyond specifically

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<sup>9</sup> Ahrend et al (2014) estimate agglomeration benefits based on city productivity differentials across five OECD countries (Germany, Mexico, Spain, United Kingdom, and United States). It highlights the relationship between cities' governmental fragmentation and productivity.

<sup>10</sup> Marseille and Paris represent 33% of total French GDP and therefore the results are not necessarily representative of the economic impact of creating metropolitan areas for smaller cities.

<sup>11</sup> For Lyon, the competences of the *département* will be taken over by the *métropole* on its territory. Although the government has indicated that such mergers could also be implemented for other metropolitan areas, this is not the case at this stage.

attributed competences, and a rationalisation of the competences of the '*départements*', which would go to the '*régions*' and the '*intercommunalités*'. The planned measures can have a beneficial impact. However, this crucially depends on the extent to which the finally adopted and implemented reforms succeed in reducing the overlapping of powers and responsibilities, cutting costs, and enhancing the efficiency of public expenditure. A risk exists that the reforms are watered down in the adoption and implementation phase. For example, the final number of regions remains uncertain at this stage, as well as the eventual role of departments. This could limit the overall benefits of the reform, or even be counterproductive, in case it results in a more complex jigsaw as new layers are added without old layers being wound down.

**Some steps have been taken to reinforce the governance of public finances by local authorities.** As a result of a reduction in central government's grants, local authorities are expected to contribute EUR 3.7 billion to the expenditure cuts in 2015 and EUR 11 billion by 2017. However, as pointed out by the High Council on Public Finances in its opinion on the 2015 Draft Budget Law,<sup>12</sup> local authorities have the possibility to increase revenues to partly compensate for lower grants received from the central state. As recommended by the Council, capping the annual increase in local government tax revenue could be envisaged to increase the incentives to contain local expenditure. To support expenditure cuts at the local level, the Draft Programming Law for Public Finances for 2014-2017 introduces a spending norm for local governments (ODEDEL). This spending norm, which is purely indicative at this stage, is differentiated for the various layers of local authorities. The objective of the government is to help local authorities in benchmarking their financial performance compared to peers. However, this process is at a very early stage and the spending norm is less ambitious than the cap on local government tax revenue recommended by the Council.

**Little has been done since June 2014 to improve the long-term sustainability of public finances.** When taking a longer-term perspective and based on the most recent vintage of debt sustainability indicators released by the Commission<sup>13</sup>, France appears at medium to high risk in the medium run and at low to medium risk in the long run. The increasing healthcare costs, as well as the cost of ageing are expected to represent an increasing burden in the medium term. In that respect, the Council had recommended to take active measures. Regarding healthcare, the costs of which are expected to be contained as part of the plan to cut expenditures by 2017, no mechanism has been set up to effectively improve the long-term sustainability of the system. Regarding pensions, no measures are planned beyond the 2013 reform, which was a step in the right direction but which has done little to adapt the scheme for state government officials and other special schemes and is expected to only halve the deficit of the system by 2020.

**France has a high and rising overall tax burden.** In 2013, the tax-to-GDP ratio stood at 45.9%, one of the highest in the Union and up by 3.3 percentage points since fiscal consolidation started in 2010. The French tax system is characterised by high statutory rates of personal and corporate income taxes combined with a number of tax expenditures and exemptions. Likewise, VAT efficiency is low as is the share of environmental taxation in GDP.

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<sup>12</sup> High Council on Public Finances (2014)

<sup>13</sup> European Commission (2012)

**The Draft Budgetary Plan for 2015 contains some small first steps towards simplification of the tax system but also creates new tax expenditures contrary to the Council recommendation to simplify and increase the efficiency of the tax system.** The Draft Budgetary Plan proposes to abolish 7 taxes which have no or only a low yield, for a total budgetary impact of EUR 29 million. However, discussions on the 2015 Draft Budget Law at the National Assembly have further reduced the number of taxes that will be removed. As announced in the RSP the C3S – a tax on turnover above 760 000 EUR – has been abolished as part of the budget 2015 for SMEs in 2015 at a cost of EUR 1 billion. Also, the Draft Budgetary Plan reiterates the announcements of the RSP that the C3S tax will be gradually phased out for all companies between now and 2017 and that the corporate tax rate will be reduced by 2020. Moreover, the suppression of the exceptional corporate tax contribution for very large companies is confirmed for 2016. However, new exemptions and a broadening of existing exemptions are proposed for the construction sector, access to housing and the energy transition. This amounts to an erosion of the fiscal base by EUR 2 billion (0.1% of GDP). No new measures have been taken to correct the corporate debt bias<sup>14</sup> or to improve the efficiency of the VAT since the increase of the standard and reduced rates entered into force on 1 January 2014. On the contrary, the 2015 Draft Budget Law extends the field of application of the reduced tariff of 5.5% to social housing measures in 1 300 new priority districts. Also, there was no evaluation of the 2014 VAT expenditure measures although the systematic review of tax expenditures is presented as a key efficiency tool by the government in the Draft Programming Law for Public Finances for 2012-2017 and the current Draft Programming Law for Public Finances for 2014-2017. In line with the recommendation, measures should be implemented to remove inefficient personal and corporate income tax expenditures on the basis of recent assessments and the ‘*Assises de la fiscalité*’ initiative<sup>15</sup> while reducing the statutory rates. Also, additional measures to remove the debt bias in corporate taxation and a broadening of the tax base, in particular on consumption should be envisaged.

**There has been little progress in the area of environmental taxation.** The project for an ‘*eco-tax poids lourds*’, after having been transformed into a contribution ‘*transit poids-lourds*’ with restricted perimeter (4 000 km covered instead of 15 000 km as initially planned) was due to enter in force in 2015. However, it was suspended *sine die* on 9 October, potentially exposing the French State to litigation costs. The Draft Budgetary Plan proposes to increase by EUR 0.02 the excise duties on diesel (all types of use) to reduce the difference in taxation among fuel types. This reform complements the introduction of a carbon tax adopted as part of the initial finance law for 2014, which is expected to yield revenues of EUR 4 billion by 2016. While these latter measures go in the right direction, a more ambitious strategy could be pursued to phase out environmentally-harmful subsidies, notably in the form of tax exemptions for certain sectors, and to increase the share of environmental taxes in overall taxation.

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<sup>14</sup> Measures to reduce corporate income tax will reduce the incentives for firms to use debt rather than equity as this reduces the tax differential linked to the existing tax deductions on net loan interests. Still, no new measure has been announced since June 2014 to effectively address these deductions.

<sup>15</sup> A special committee (the ‘*Assises de la fiscalité*’) has provided avenues for reform of the tax system within the current government term.

**Overall, and without prejudice to the Commission assessment of the Draft Budgetary Plan, there is limited progress on public finances and taxation reform.** The correction of the excessive deficit and the achievement of the MTO have been postponed. Progress on improving the long-term sustainability of public finances has been limited. Public expenditures, which represented 57% of GDP in 2013, have proved difficult to reduce despite efforts and the ability of the MAP process to deliver clear and operational recommendations and actions for modernising the administration and cutting public expenditure remains uncertain. The reform of local administrations is necessary with potential gains from the creation of metropolitan areas. Also a rationalisation of the administrative organisation of the local authorities could enhance the efficiency of the local expenditure in the medium term. However, these gains depend heavily on the way those reforms are designed and carried out. Also, an effective control of local expenditure is not yet in place. The Draft Budgetary Plan for 2015 contains some first steps towards simplification of the tax system but also creates new tax expenditures although the recommendation was to simplify and increase the efficiency of the tax system. The overall effect of the measures will be to erode the tax base. Also, there has been little progress in the area of environmental taxation.

### **3.2. Measures to reduce the cost of labour (CSR 2)**

**France is among the Member States where the cost of labour is the highest.** In particular, the high tax burden on labour impacts on firms' competitiveness and weighs on employment. While the measures taken by the government have reduced the tax burden on labour, the latter nevertheless still remains high: the CICE and the RSP will bridge only half of the gap between France and the euro area average in terms of the social security contribution costs for the employer, although their impact on the tax wedge for the median wage would be higher.<sup>16</sup> This higher cost of labour impacts on the profitability of French companies hurting their competitiveness.

**An ambitious package to reduce the cost of labour is being rolled out.** A tax rebate for competitiveness and employment (CICE), equivalent to a decrease of 6% in the cost of labour for wages up to 2.5 times the minimum wage, was adopted in December 2012. A further EUR 10 billion cut in the cost of labour was announced as part of the RSP in January 2014. The two measures will account for EUR 30 billion or 1.5 % of GDP. Measures of the RSP that need to enter into force in 2015 were adopted by the Parliament in June 2014. In 2015, employers' social security contributions will be reduced for low wages (between 1 and 1.6 times the minimum wage) at a cost of EUR 4.5 billion and independent workers' contributions will be decreased for a cost of EUR 1 billion. The part of the RSP that targets a reduction in the cost of labour for higher wages (up to 3.5 times the minimum wage) is expected to enter into force in 2016. Moreover, it is only to be proposed formally in future Finance Bills, introducing an element of uncertainty on its final approval. Overall, implementation risks are related to i) a potential setback in the expenditure-based public finance consolidation – as without the planned expenditure cuts, financing the further roll-out of the RSP would become

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<sup>16</sup> The CICE alone will reduce by half the gap with the OECD average for the tax wedge at the median wage.

more precarious - and ii) the fact that the CICE is not a social security contribution but a corporate tax credit and the associated complexity thereof (see below).

**The reforms implemented to reduce the cost of labour (see Section 3.1) are expected to have a positive impact on competitiveness, although its magnitude is uncertain.** The labour cost reductions will mechanically improve the profit margins of the firms. Firms can then decide to allocate this additional income to maintain these higher profit margins, increase investment, increase employment, increase wages or decrease prices. As also pointed out in the first evaluation report on the CICE,<sup>17</sup> exporting firms, which tend to pay higher wages, will benefit less from the CICE than non-exporting firms, thus reducing the impact of the measure on competitiveness.<sup>18</sup> As a consequence, the size and timing of the impact on competitiveness appears uncertain. In particular, assuming that lower labour costs for companies in the non-tradable sector will result in a significant reduction in the cost of intermediary goods for exporting firms could prove an optimistic assumption at the current juncture. Indeed, a survey conducted by the INSEE statistical office<sup>19</sup> indicates that only a minority of companies in the services sector intend to use the CICE to reduce prices, with more companies intending to use the CICE to increase salaries.<sup>20</sup> This is a matter of concern as wage developments in the non-tradable sector have not been contained in the past and wage developments in the private sector have been dynamic in the recent year despite high unemployment and low inflation.<sup>21</sup> Going forward, as a sizeable percentage of CICE goes to the non-tradable sector, there is a clear risk that the effects of the CICE on competitiveness and employment may be smaller than anticipated due to more dynamic wage developments. These preliminary findings point to the complementarity between the different Council recommendations: increasing competition in services and reducing the rigidities in the labour market would enhance the effectiveness of the labour cost reductions.

**Simulations carried out suggest that the benefits of this package in terms of employment creation could be substantial.** A study by the IMF<sup>22</sup> suggests that the package could create around 200 000 jobs in the short run and 600 000 jobs in the long run. However, a number of observations suggest that the actual numbers would be lower. These estimates make abstraction from the weak external and domestic demand, which could dampen the immediate job creation effect. As the tax cuts come into effect at a time where profit margins are at their lowest, some firms might use the CICE and RSP to improve their financial situation as these measures only offset the overall increase in corporate taxation in the period 2010-2013. The eventual job creation also depends on the ability of firms to contain wages. Prevailing rigidities in the French labour market and poor competition in the non-tradable sector could imply that dynamic wages reduce the employment impact (see above). Finally, the above results assume that the package of labour cost reductions is not financed ex ante and hence deteriorates the general government deficit. In this regard, the different simulations carried out by the *'Haut Conseil du Financement de la Protection Sociale'* in March 2014 are illustrative and demonstrate that a tax cut of EUR 10 billion could generate between 134 000

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<sup>17</sup> 46% of the labour force of companies exporting more than 35% of their turnover will be eligible to the CICE, compared to 79% for non-exporting firms. For details see *Comité de suivi du CICE (2013)*.

<sup>18</sup> For further analysis see European Commission (2014 a)

<sup>19</sup> INSEE (2014a)

<sup>20</sup> The INSEE surveyed companies on the intended use of the CICE in July. In the industrial sector, 58% of respondents would use it to invest, 34% to increase employment, 30% to lower prices and 26% to increase salaries. In services, 52% of respondents would use it for investment, 48% for employment, 41% for increasing salaries and 32% for lower prices.

<sup>21</sup> INSEE (2014b)

<sup>22</sup> Espinoza and Pérez Ruiz (2014)

and 214 000 jobs in 5 years, if not funded ex ante.<sup>23</sup> However, if funded ex ante, the same tax cut would only generate between 43 000 and 81 000 jobs.

**However, the second evaluation report of the CICE shows a lower immediate take-up than initially envisaged.**<sup>24</sup> The second evaluation report on the CICE was issued in September 2014. It showed that the first phase of the CICE corresponded primarily to a discovery and learning period for all actors. Initially it was foreseen that the CICE would result in a lowering of the tax bill of EUR 9.9 billion in 2014 and EUR 3.1 billion of delayed claims over the period 2015-2017. However, based on currently available information, the overall effect of the CICE would be lower. Up until September, the corporate tax bill has only been reduced by EUR 5.2 billion and, if the take-up rate does not improve, the overall tax bill reduction in 2014 would be up to 20 or 30% lower than initially envisaged. The lower impact on 2014 could be due to several factors, such as corporate profit margins below expectations due to the weaker than foreseen economic activity, other tax credits (such as the research tax credit) being imputed first on the corporate tax, sometimes leading to no further scope for corporate tax deductions for the CICE, and the effects of intra-group consolidation. The fact that taxes are reduced less than initially envisaged implies that the benefits for the economy and employment creation in the short run will also be lower.

**Moreover, the cost of labour at the minimum wage remains high.** A review of the two main schemes to favour the return to activity and avoid inactivity traps for low wage earners - the '*Prime Pour l'Emploi*' (PPE) and of the '*Revenu de Solidarité Active*' (RSA) - is ongoing. This should lead to a reform operational before 1 January 2016, with the aim of giving more incentives to work for low-income earners. Moreover, no reform of the minimum wage is currently foreseen although the level of the minimum wage in France remains high compared to other Member States having a national minimum wage. In this regard, France has only few exemptions from the statutory minimum wage when compared to other Member States. Taking additional measures to reduce the labour cost at the lower end of the wage scale, in a budget neutral way, would enhance the job prospects of low-wage earners such as youth and low-skilled.

**In sum, further action has been taken to lower employer social security contributions in line with commitments under the RSP.** The CICE and RSP can potentially lead to substantial job creation, but the size and timing of the impact on competitiveness remains uncertain. Also, even with these new measures, the cost of labour at the lower end of the wage scale remains high. Moreover, the take-up of the CICE is slower than anticipated, which limits its short-term impact on the economy. Finally, there are some concerns regarding wage developments, which could partly offset the labour cost reductions.

### 3.3. Measures to promote growth and competitiveness (CSRs 3 and 4)

**France has experienced significant losses in its export market shares since 2000 and is not regaining competitiveness at a sufficient pace.** The business environment in France

<sup>23</sup> Haut Conseil du financement de la protection sociale (2014)

<sup>24</sup> Comité de suivi du CICE (2014)

constitutes a drag on the competitiveness of French companies and limits their growth. France is characterised by both small companies and a low profitability of firms compared to the EU average or Germany. This may represent an obstacle to engaging in export activities, with a negative impact on aggregate export performance. Results of international surveys suggest that some aspects of the business environment may constitute a barrier to SMEs' potential for growth. Generally, the administrative burden continues to represent a limitation to the growth potential of companies, with a negative impact on their propensity to export. Also, several regulations are associated with specific size thresholds, a feature that may hamper the growth of French companies. The efficiency of the innovation policy also needs to be enhanced, as the effectiveness of the existing tools is low with a relatively small multiplier effect on private R&D expenditures. Finally, the low level of competition in services and network industries increases the cost of intermediary consumption, hurting the export competitiveness of the manufacturing sector, and distorts the incentive structure between the tradable and non-tradable sectors.

**A simplification programme has started aiming at reducing the administrative burden and procedures for firms, but its scope should be broadened with a view to reducing more decisively the burden stemming from taxation and labour regulations.** A simplification plan with a view to reducing the administrative burden for firms was launched in Spring 2013. In this context, a Simplification Council proposed 50 simplification measures in April 2014 and the goal is to identify each semester 50 additional measures (until 2016). The government has promised to adopt 10 simplification measures per month. Moreover, the total benefits of the already taken measures since the start of the simplification programme are estimated at EUR 2.4 billion by the government. Another package of 50 simplification measures was proposed at the end of October 2014. Moreover, the government will set up an independent Committee who will assess the impact on administrative burden of key new legislations in 2015. The first assessment of the simplification plan is welcome.<sup>25</sup> It demonstrates that for 75% of the measures proposed by the Council in April 2014, some action has already been taken. These measures do simplify procedures and other administrative burdens in different sectors. However, based on this assessment, it is not yet possible to conclude that the adopted simplification measures improve the business environment significantly, in particular for SMEs. Indeed, most measures seem relatively small in scope and it is not clear if they sufficiently diminish the overall regulatory burden, in particular in the areas of taxation and labour regulations. In this context the government's projected savings of EUR 11.7 billion by 2017 require further efforts.<sup>26</sup> Current simplification measures are sometimes piecemeal whereas a comprehensive approach in some areas would generate more sizeable benefits. Based on international surveys, labour and taxation regulations are seen as creating most of the regulatory burden. Therefore, in these two areas a comprehensive review should be undertaken with a view to identifying a package of simplification measures. Also, the SME test, which has only been partially implemented as a pilot exercise, should be systematically applied to limit the additional burden created for SMEs. In particular, such a test would have contributed to simplifying the current CICE tax credit as the administrative procedures necessary to benefit from it and its deferred disbursement have made it less effective for the smallest enterprises.

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<sup>25</sup> Secretariat d'état chargé de la réforme de l'état et de la simplification (2014)

<sup>26</sup> The OECD (2014) quantifies the impact of the simplification drive and other measures at 0.2% of GDP through productivity gains on a five year horizon.



**Social partners are negotiating to improve the quality and effectiveness of the social dialogue, which encompasses the recommended review of firm-size related social thresholds.** A particular feature of French firm demography is the lack of medium-sized companies. Several regulations are associated with specific size thresholds that may hamper the growth of French firms and play a role in the difficulties of SMEs to reach the size that would allow them to engage and fully exploit the opportunities in exports and innovation. In this context, it was recommended to review size-related criteria in regulations to avoid thresholds effects. Social partners started in October 2014 negotiations on the quality and effectiveness of the social dialogue with conclusions foreseen before the end of the year. In the context of these negotiations, the issue of size-related criteria related to employee representation will be addressed. Notably, the government has suggested merging the different employee representation bodies into one single representative body for SMEs. As the creation of these different bodies is foreseen once a company has 50 employees, the merger of the different bodies could reduce that particular threshold effect if the merger would lead to efficiency gains for the SMEs. It is unclear whether other size-related thresholds stemming from labour regulations or accounting rules – including concerning the 10 employee threshold, which is the other main size threshold with that of 50 employees – are considered during the negotiations. As called for by the Council recommendations, all regulations from the labour code or to accounting rules linked to specific size thresholds that hamper the growth of French firms should be reviewed and, if necessary, adapted as part of the social dialogue process.

**A report of the ‘*Inspection Générale des Finances*’ (IGF) informs the ongoing government plans as regards the reform of regulated professions and highlights the potential benefits of the reform.** The IGF issued a report with an economic analysis on 37 regulated professions and activities (out of a total of 253 regulated professions) in September 2014.<sup>27</sup> These professions and activities represent 6.4% of GDP in 2010 and employ 1.1 million people. One of the findings of the report is that these professions have higher profitability and revenue levels than the rest of the economy, which can only be explained by the existence of a monopoly or restrictive regulation creating barriers to entry. For each profession, the IGF report analyses the impact of five types of regulations related to minimal required qualification, regulated tariffs, supply restrictions (*numerus clausus*, limited number of enterprises), restrictions on capital participation for non-professionals and reserved activities (monopoly on activities). While in most cases, some degree of regulation could be justified, in certain cases existing regulations go well beyond what could be justified by the objectives of general interest and economic efficiency. Therefore, the IGF report identifies, for each of the 37 professions, options to relax or remove unjustified regulatory provisions. Based on simulations by the Treasury, the IGF has concluded that the full implementation of the identified options would add 0.5% of GDP and create 120 000 additional jobs over a five year horizon.

**Based on the report of the IGF, the government is preparing a reform of regulated professions and other economic activities, though with a much more limited scope both in terms of professions and types of regulations covered.** On 15 October 2014, the government outlined the first orientations of the Draft Law on Economic Activity. Other measures will be identified by mid-November, the adoption by the Council of Ministers is foreseen for mid-December, the parliamentary discussion would start in mid-January and the

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<sup>27</sup> IGF (2014)

vote would take place before Spring. The objective of the reform is to facilitate entry to certain regulated professions for young professionals (e.g. notaries), to simplify the rules of establishment (e.g. for pharmacies<sup>28</sup>), to increase transparency, to relax restrictions on corporate capital, to merge three professions of judiciary execution into one and to align tariffs better with their real costs. These reform plans are more comprehensive than the isolated measures taken since March 2013 (on e.g. accountants, notaries and pharmacies) and can generate sizeable benefits as demonstrated by the IGF report (2014). Based on the available information and given that consultations with the regulated professions are still ongoing, a detailed assessment of the potential impact of the planned reforms is not possible at the current juncture. For example, it is not clear by how much tariffs will be reduced although this is probably the most direct channel of economic gains from this reform. In its deliberations, the government should consider an approach that aims at a removal of all or most economic rents for all or most of the regulated professions, unless there is a clear justification. In particular, the announced reform could encompass all 37 regulated professions investigated by the IGF, instead of the current subset. As the number of regulated professions in France is higher than the EU average, the government should consider limiting the number of regulated professions or covering more than the 37 regulated professions investigated by the IGF. Also, in some regulated professions, the conditions of establishment could be reformed or the monopoly of the regulated profession could be narrowed down (e.g. limiting the monopoly of notaries to the authentication of documents but not the drafting thereof). Moreover, the corporate capital ownership restrictions could be relaxed further to enable a re-grouping of professionals, which could generate economies of scale. Finally, the tariffs should be amended to reflect the costs of services provided, following the forthcoming advice of the Competition Authority expected by the end of December and, where appropriate, tariffs should be abolished.

**The government has also announced a liberalisation of bus lines and a reform of Sunday opening hours.** Today, the intra and inter-regional transport by bus is subject to very strict prior authorisation schemes and it has been suggested replacing this by a declaratory scheme for long-distance bus lines in line with the recommendations made by the Competition Authority. Finally, it was also announced that the regulations of the concession schemes for highway operating companies would be enhanced as the Competition Authority had identified monopoly rents. With regard to Sunday opening hours, the current system is rather complex: retailers outside specifically designed zones can open up to five Sundays on the proposal of the mayor or the President of the *'intercommunalité'* and upon approval of the local communal council. Specific rules also exist for certain areas such as touristic zones. Under the new proposal, the different rules would be simplified but the different rules per zone would remain in place. Making Sunday opening hours more flexible in France would be a step in the right direction to reduce the regulatory burden affecting the functioning of the retail sector. However, the agreement of the social partners and local authorities would still be required on a case-by-case basis. This creates a rather complex system that could lead to distorted competition among retail shops. A more horizontal and less complex approach could lead to larger benefits.

**The recent simplification of authorization procedures for the opening of trade outlets is a step in the right direction, but its impact will crucially depend on how it is implemented.** On 18 June 2014, the parliament adopted the *'Loi relative à l'artisanat, au*

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<sup>28</sup> The provisions covering medical professions, including pharmacies, will be presented as part of the *"loi santé"*.

*commerce et aux très petites entreprises*' (ACTPE) which simplifies the authorizations of the opening of trade outlets. These measures go in the right direction but they remain general with a broad margin of interpretation. For example the criteria on the promotion of local products could contain a risk of discrimination. In addition, the impact will depend on the way the ACTPE law is implemented. An implementation decree is in the pipeline and should be ambitious to maximise the impact of the ACTPE law.

**The reform of the rail network infrastructure management is a step in the right direction.** A reform of the rail network infrastructure management has been approved by the Parliament on 23 July 2014. This reform abolishes the division between '*Réseau ferré de France*' and SNCF and, in particular, merges under the same organization the management of the rail network. The law creates a new public group, which will be constituted by a public firm (the new SNCF) and two controlled enterprises: one exploiting the rail network ('*SNCF Mobilité*') and one managing the rail infrastructure ('*SNCF Réseau*'). The objective of the law is to stabilize the debt of the rail sector and to open this sector to competition by 2022 at the latest. Further actions were taken to create a deontology commission and to strengthen the power of the '*Autorité de régulation des activités ferroviaires*' (ARAF).

**Some further progress has been made to open up competition in the retail market for electricity and to increase interconnection capacity.** A new decree was published on 28 October 2014 to reform the regulatory tariffs for electricity in anticipation of the convergence of tariffs. While a detailed assessment of the decree will be necessary, the objective is welcome given the high market concentration both at wholesale and retail level and on the electricity generation side. Further measures, such as the renewing of hydroconcessions through open tenders are being considered within the framework of the '*Loi de transition énergétique*'. Regarding interconnectivity, a meeting was held between the French and Spanish directors general for energy, but based on on-going projects the transmission capacity between the two countries would, however, still remain below the 10 % minimum which was recently confirmed by the European Council.<sup>29</sup> On-going interconnection projects in gas infrastructure are expected to almost triple transmission capacity with neighbouring countries by 2015. Increasing capacity would allow a better integration of the Iberian and the other Western European markets.

**Since June 2014 an evaluation of the '*Crédit Impôt Recherche*' (CIR) has been carried out but no adaptation of the CIR is currently envisaged.** The decreasing weight of the industrial sector in the French private sector translates into stagnating R&D spending by private companies despite significant efforts at the firm level. As a consequence, a large proportion of R&D spending remains financed by public money either directly through public research or indirectly through subsidies. However, the effectiveness of the existing policy instruments can be further improved, as there is a relatively limited success in leveraging R&D expenditures by private firms and innovation in the private sector. This should be seen against the context of a slide in potential growth and the contribution of TFP thereto in recent years. So far, progress on the Council recommendation in this area is rather limited. An evaluation of the CIR, based on data after the 2008 reform, was published by the Ministry for Higher Education and Research (Lhuillery, Marino and Parrotta, 2014). Although the evaluation reports the overall positive impact of the CIR with an overall leverage above 1, it suggests that the effectiveness of this measure is different depending on the amount of the tax

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<sup>29</sup> European Council (2014)

credit received. In particular, the CIR is effective for smaller and bigger amounts of subsidies but not for intermediate amounts. A recent report from the French Council of Economic Analysis<sup>30</sup> suggests improving the efficiency of the CIR system by continuing efforts to simplify the procedure and secure expenditure for SMEs and intermediary size enterprises. A new '*Commission Indépendante d'Evaluation des Politiques d'Innovation*' was created to evaluate innovation policy. It held its first meeting in June but has not yet established its work programme. In line with the Council recommendations, an adaptation of the CIR to take account of the results of the above-mentioned study should be envisaged to improve the efficiency of innovation and R&D policies.

**There has been some progress on improving competition in services and network industries and there is a certain reform momentum, although current reform plans should be further strengthened. Progress on improving the overall business climate is limited.** There has been some progress on the reform of the rail network. Some progress has been made on retail trade. Finally, some further progress has been made to open up competition in the retail market for electricity and to increase interconnection capacity. In the coming half year, important progress is expected with the adoption of the Law on Economic Activity, although the envisaged reform of regulated professions could be more comprehensive both in terms of professions and type of regulations covered. Also, the reform of Sunday opening hours should consider a more horizontal, less complex approach. There is progress on simplification and a reform of firm-size related thresholds is currently under discussion between social partners. Finally, the impact of the '*Crédit Impôt Recherche*' (CIR) has been evaluated but an adaptation of this measure is still needed to enhance its effect on private R&D spending and innovation.

### 3.4. Measures to reduce the rigidity of the labour market (CSR 6)

**The situation on the labour market continues to deteriorate.** Unemployment continued to increase to 10.5 % in August 2014 (against 10.3% in 2013 and 7.5 % in 2008).<sup>31</sup> France's labour market remains segmented with very low levels of transition from temporary to permanent contracts. While the share of permanent contracts remained stable between 2002 and 2012 at around 87% of total contracts, the percentage of temporary contracts in total new contracts reached 84% in Q1 2014. Likewise, the end of temporary contracts represented 79% of all job separations in Q1 2014.<sup>32</sup> Both rates have gone up by more than 10 percentage points since 2004. A somewhat more positive assessment derives from the 2014 World Economic Forum report, where the rank for flexibility improves by 9 positions, but the ranking is still quite bad (107<sup>th</sup>). France's score on hiring and firing practices also remains very weak (134<sup>th</sup> out of 144). Finally, the employment rate among older workers in France (45.6% in 2013) remains well below the average in the Union and only 55% of older workers in France retire directly after employment (2008-2011). As a result, the unemployment rate for this group has increased strongly over the last few years. To improve the functioning of the labour market, the Council recommendations highlighted the need to take further action to

<sup>30</sup> French Council of Economic Analysis (2014)

<sup>31</sup> Eurostat (2014)

<sup>32</sup> DARES (2014)

combat labour market rigidity, to take additional measures to reform the unemployment benefit system and to improve the situation of older workers on the labour market.

**Despite a number of measures taken, policy action regarding the labour market remains incomplete. A reform of the conditions of the ‘*accords de maintien de l’emploi*’ to further reduce rigidity of open-ended contracts is not considered at this stage.** The inter-professional agreement on securing employment was translated into a law adopted in July 2013. This agreement eased rules applying to collective dismissals, which, combined with the introduction of the conventional termination of the open-ended contract in 2008, has led to some reduction in rigidity of open-ended contracts. In particular, negotiated collective dismissals have increased following the implementation of the law. But very few companies (only 6) have made use of the arrangements for company-level agreements created by the law to increase the flexibility of work conditions in the event of temporary economic difficulties. A first assessment of the law is foreseen before the end of 2014. Nonetheless, the recommended reform of the conditions of the ‘*accords de maintien de l’emploi*’ to increase their take-up by companies facing difficulties is not considered at this stage. The French authorities are reviewing the use of specific very short-term contracts (‘*CDD d’usage*’), with a view to limiting their scope depending on the sector. In this context, it is also important to ensure that making short-term contracts less attractive does not lead to a reduction of employment opportunities for the most fragile, notably the young and the low-skilled. Moreover, it is necessary to look further at the disincentives to hire on permanent contracts, given the high dismissal costs. The protection provided to workers with permanent contracts creates incentives for employers to use alternative forms of contracts. Overall, it is essential to take further action to combat labour market rigidity, in particular to take measures to reform the conditions of the ‘*accords de maintien de l’emploi*’ to increase their take-up by companies facing difficulties.

**Government plans to reform the Justice Prud’homale are welcome to reduce the cost and uncertainty related to long dismissal dispute procedures and, given the observed malfunctioning of the system, an ambitious approach is required.** The government has announced that it will consult social partners and the judiciary in the coming weeks with a view to reforming the system of Justice Prud’homale, an out-of-court system of conciliation between social partners on individual labour contract disputes, e.g. on individual dismissal. The reform would be introduced through the Law on Economic Activity. The intention of the reform would be to improve the conciliation phase, to shorten the long delays and to professionalise the Prud’hommes. The malfunctions of the Justice Prud’homale were described in a recent report of the ‘*Président de la Cour de Cassation*’.<sup>33</sup> They include a low conciliation rate (5.5%), long delays before the outcome of the conciliation of up to 4 years for Paris, a high number of appeals (62%) and a high number of reversals on appeal (71%). The uncertainty and the duration of the resolution of conflicts on employment protection legislation is indeed an important problem in France. Details of the reform and its planned timing are sparse at this stage. To address the root-causes of the malfunctioning of the system, the recommendations of the Marshall report, which advocated the integration of the system of Justice Prud’homale in the court system, could be considered.<sup>34</sup>

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<sup>33</sup> Lacabarts (2014)

<sup>34</sup> Marshall (2013)

**There remains an important cumulated deficit in the unemployment benefit system and the measures that have been adopted or planned so far do not close the gap.** The unemployment rate in France stands at 10.5% in August 2014, with an important share of long-term unemployment. The unemployment trap, measured through the extent to which the gains from moving from unemployment to work are reduced as a result of the tax and benefit system, remains relatively high in France although the gap with the EU average has been reduced in the last few years. Also, the low progressivity of the unemployment benefit replacement rate and the generosity of benefits for the most highly paid workers reduce incentives to return to work. While negotiations took place in 2014 between social partners to reform the unemployment benefit system, the new agreement is not expected to substantially reduce the deficit of the system. The cumulated deficit of the unemployment benefit system is expected to be close to 1% of GDP in 2014 with a deficit of about 0.2% in 2014 itself. Given the high share of long-term unemployment, and the presence of labour market rigidities, an important part of the deficit of the unemployment system can be considered to be structural in nature. Therefore, additional structural measures are warranted to ensure the sustainability of the unemployment insurance scheme. In particular, some elements, such as the eligibility conditions, the degressivity of benefits over time or the replacement rates for workers with the highest wages were only marginally modified following the last agreement between social partners in March 2014. However, a new round of negotiations is normally foreseen only in 2016. To induce social partners to already start reflections on ways to reduce the deficit of the scheme, the Draft Programming Law for Public Finances sets a savings target of EUR 1.1 billion by 2016 (0.05% of GDP). Therefore, in order to guarantee the sustainability of the unemployment benefit system and to provide for adequate incentives to return to work, additional reforms should be identified in association with social partners.

**France has taken some limited additional steps to increase the employment rate of older workers but a more comprehensive approach is needed.** Thanks to successive pension reforms, the employment rate of workers between 55 and 64 years of age has seen a constant increase in the past few years. However, the employment rate among older workers in France (45.6% in 2013) remains well (4.5 percentage points) below the average in the Union and only 55 % of older workers in France retire directly after employment (2008-2011). Also, the unemployment rate for this group has increased strongly over the last few years. In July a “Plan for Seniors” was announced and the Draft Budgetary Plan foresees financing for the measures in this plan. The emphasis of this plan would be to keep older workers in employment, by facilitating the access to training, to reinforce the budget for a better counselling to allow older workers to find work and also include a further targeting of subsidised contracts in the private sector on older workers and long-term unemployed. The measures of the plan for seniors” could address the part of the Council recommendations that asked the authorities to ensure that older workers benefit from adequate counselling and training. But the authorities should also be reviewing incentives for older workers to stay in or return to work and in particular assess the relevant specific unemployment benefit arrangements with respect to their situation on the labour market. The inter-professional agreement of March 2014 did not significantly change the incentives to work for older workers. Unemployed people over 50 will continue to be eligible for a longer duration of benefit payments (36 months compared to 24 months in the general case, even rising to seven

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<sup>35</sup> The benefit payments are not withdrawn for people over 61 until they reach the age for a full pension. Based on the March agreement on unemployment between the social partners, the age of 61 will be gradually increased to 62.

years after the age of 58).<sup>35</sup> It is the best-paid older workers who benefit the most from this provision, because of the generosity of benefits for the most highly paid workers, which are not reduced during the duration of the unemployment spell. On the other hand, the decision of March to restrict unemployment benefits for workers who have obtained a large severance package from their employers reduce the incentives to use agreed dismissals as a form of early retirement.<sup>36</sup>

**Overall, limited progress has been made to reduce rigidities in the labour market and a more ambitious approach seems warranted.** A reform of the conditions of the *'accords de maintien de l'emploi'* to further reduce the rigidity of open-ended contracts is not considered at this stage. Also, disincentives to hire on permanent contracts should be further addressed. Announcements regarding the reform of the justice prud'homale are welcome to reduce the cost and uncertainty related to long dispute procedures, but details are lacking and there is uncertainty on the implementation calendar. The 2014 reform of the unemployment benefit system will be insufficient to ensure the financial sustainability of the system, and further structural measures are needed. In particular, some elements, such as the eligibility conditions, the degressivity of benefits over time or the replacement rates for workers with the highest wages have only been marginally modified so far. Finally, France has only taken limited additional steps to increase the employment rate of older workers but a more comprehensive approach is needed.

### 3.5. Some reflections on the overall impact of the reforms

**Overall, the undertaken and announced reforms could provide a stimulus to economic activity provided that they are ambitious in content, properly designed and promptly implemented. Decisive action on a broader reform agenda would allow reaping more substantial benefits.** In a recent study<sup>37</sup> the OECD estimates that the reforms undertaken and announced by the French authorities could increase GDP by 1.6% over a horizon of 5 years and by 3.7% over a horizon of 10 years. The reduction in labour cost from the CICE and the RSP (1.1% over a 10 year horizon), the reform of the metropolitan areas (1.0%) and the announced reforms of network industries and regulated services (0.7%) would contribute most to the increase in GDP. However, it is not always clear which methodology is used and which elements of the reforms have been considered by the OECD, in particular for announced reforms such as that of regulated professions. Moreover, the ex-ante financing of the labour cost reductions has not been taken into account in the simulations. Overall, the numbers of the OECD are on the high side. Using a different approach, simulations run by Varga and In't Veld using the QUEST III model (2014) suggest that a comprehensive structural reform agenda for France, closing half of the gap with the 3 best EU performers, could add 3.7% to GDP in 10 years. Despite these qualifications, as also underlined by the

<sup>35</sup> The benefit payments are not withdrawn for people over 61 until they reach the age for a full pension. Based on the March agreement on unemployment between the social partners, the age of 61 will be gradually increased to 62.

<sup>36</sup> The "rupture conventionnelle" represented 25% of the reason to end an open-ended contract for workers above 58 in 2012 compared to 16% on average.

<sup>37</sup> OECD (2014)

OECD, to achieve such an increase in growth will require prompt implementation of the measures contained in the RSP, as well as effective implementation of the reform of local authorities. For the latter reform, its benefits will depend heavily on the way it is designed and put into practice. It will also be important for the government to move forward with its proposals concerning regulated professions and the energy sector. Finally, there remains ample scope for further structural reforms, such as the improvement of the functioning of the labour market or a reduction of the distortions stemming from the tax system. Going beyond the remit of the announced reforms in the service sector would further support growth. The OECD estimates that the overall GDP per capita gains for France from broad reforms of product and labour market regulations as well as benefit, tax and retirement systems over a 10 year horizon could be as high as 15%.<sup>38</sup> Overall, these studies show that while the ongoing reforms are positive first steps that need to be implemented fully, decisive action on a broader reform agenda would allow reaping more substantial benefits.

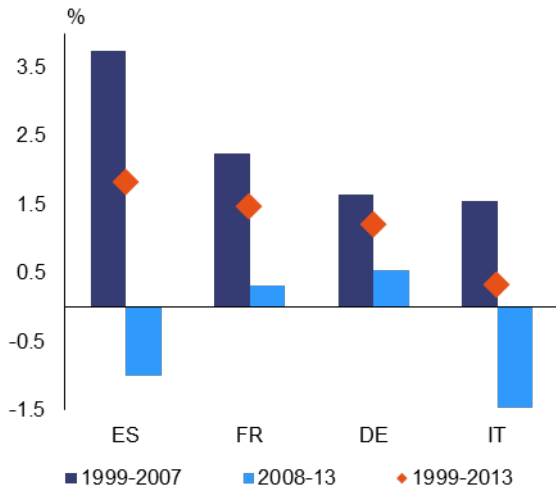
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<sup>38</sup> Bouis and Duval (2011)

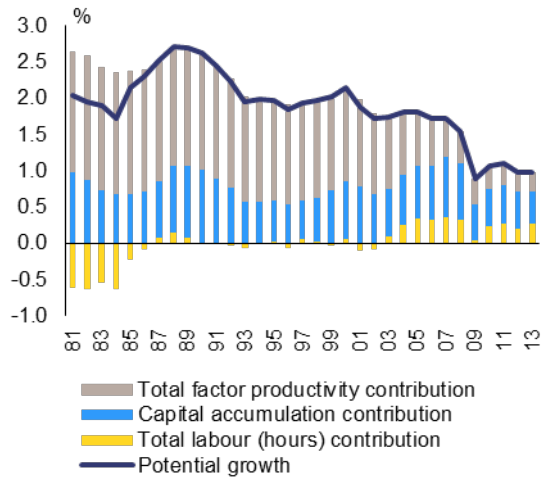


## Annex I Graphs

Graph 1: Average real GDP growth in selected euro-area countries

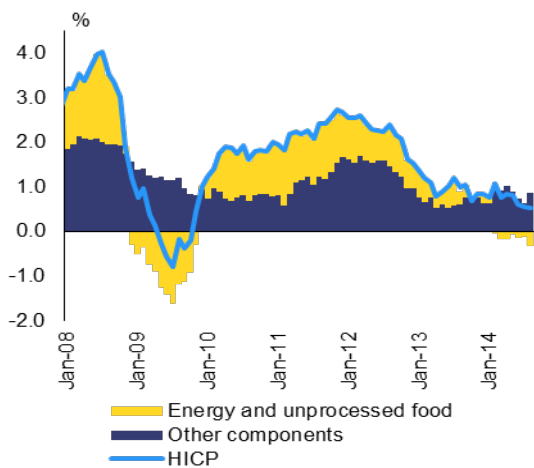


Graph 2: Potential growth and components

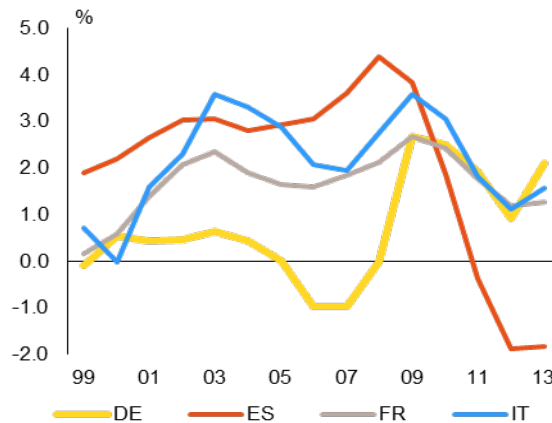


Note: Data are based on ESA 2010.

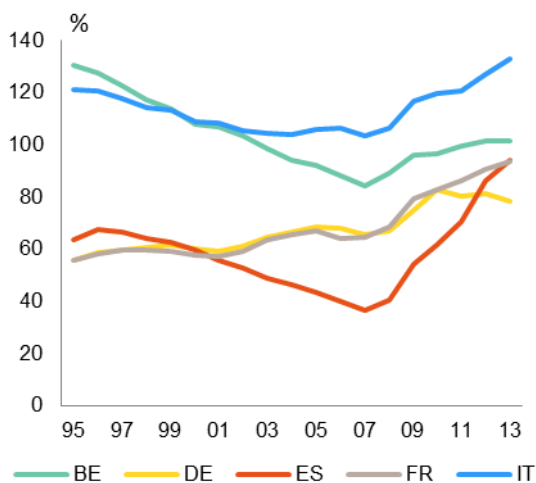
Graph 3: HICP and its components



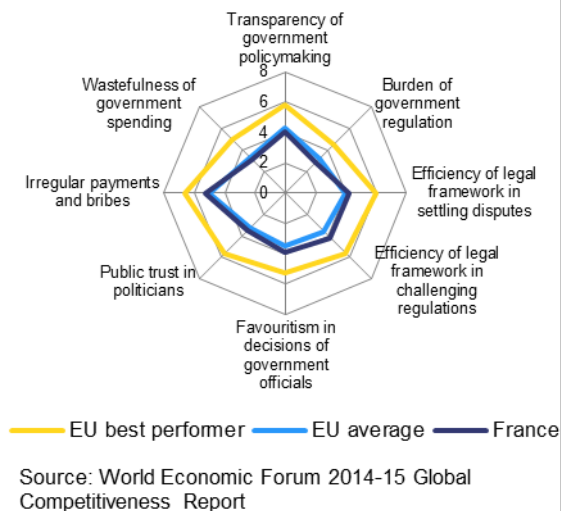
Graph 4: Annual growth in nominal unit labour costs in selected euro-area countries (3-year moving average)



Graph 5: Public debt-to-GDP ratio in selected euro-area countries



Graph 6: Selected perception indicators regarding institutional environment



## Annex II – State of play of MIP relevant Council Recommendations

Main components of CSR	Measures announced in NRP or SP	Ddl in NRP	Progress
<b>I. Measures to support sustainability of public finances and the quality of public expenditure and taxation</b>			
Reinforce the budgetary strategy, including by further specifying the underlying measures, for the year 2014 and beyond to ensure the correction of the excessive deficit in a sustainable manner by 2015 through achieving the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure. A durable correction of the fiscal imbalances requires a credible implementation of ambitious structural reforms to increase the adjustment capacity and boost growth and employment. After the correction of the excessive deficit, pursue a structural adjustment towards the medium-term objective of at least 0,5 % of GDP each year, and more in good economic conditions or if needed to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path.	The Stability Programme foresaw a correction of the excessive deficit by 2015 and the attainment of the MTO by 2017.		The 2015 Draft Budget Law and the Draft Programming Law for Public Finances postpone the correction of the excessive deficit to 2017 and the achievement of the MTO is now foreseen by 2019.
Step up efforts to achieve efficiency gains across all sub-sectors of general government, including by redefining, where relevant, the scope of government action.	The « Modernisation de l'Action Publique (MAP) ». The MAP intends to evaluate all public policies during the presidential mandate in line with the Council recommendations in order to assess expenditure in all public administrations.	Until 2017	The inter-ministerial committee for the MAP was last convened in December 2013. In 2015, EUR 2.1 bn of savings are foreseen on the operational expenditure of the government. For the period 2015-2017 foreseen actions in the social security sector would enable EUR 1.25 bn additional savings.

Main components of CSR	Measures announced in NRP or SP	Ddl in NRP	Progress
			Reports on ambulatory surgery, generic medicines, housing, subsidies to enterprises and the role of the chambers of commerce, and a possible joint purchasing scheme for local authorities will be made public in the following months. The Draft Budgetary Plan proposes to introduce an annual spending review as part of the budgetary cycle.
<p>In particular, take steps to reduce significantly the increase in social security spending as from 2015 as planned, by setting more ambitious annual healthcare spending targets, containing pension costs, and streamlining family benefits and housing allowances. Beyond the need for short-term savings, take steps to tackle the increase in public expenditure on health projected over the medium and long term, including in the area of pharmaceutical spending, and take additional measures when and where needed to bring the pension system into balance by 2020 in a sustainable manner covering all schemes, with a special focus on existing special schemes and complementary schemes.</p>	<p>Health insurance savings of EUR 10 billion will be achieved through the implementation of the national healthcare strategy, by promoting more efficient expenditure via structural reforms, such as the streamlining of treatments, greater use of outpatient care and increasing the share of generic drugs consumed.</p> <p>Other social protection expenditure will contribute EUR 11 bn in savings. Decisions made in 2013 concerning the reform of basic and supplementary pensions and family benefits will produce savings of EUR 2.9 bn. The one-year stabilisation of social benefits, except for minimum social benefits, will produce additional savings of EUR 2 bn, including EUR 1.3 bn on basic pension benefits and EUR 0.7 bn on other social benefits. Continuing labour and management discussions to restore supplementary pension schemes to equilibrium and similar efforts in relation to other pension schemes should produce an additional EUR 2 bn in savings.</p>		<p>Based on the draft budget law: It confirms the planned health insurance savings of €10 bn for the period 2015-2017, of which EUR 3.2 bn in 2015: reinforcement of efficiency of hospital expenditure EUR 0.5 bn; move towards ambulatory care EUR 0.4 bn; price of pharmaceuticals and move towards generics (EUR 1.1 bn); diverse efficiency measures (EUR 1.2 bn). Other social protection expenditure will contribute EUR 10 bn in savings, with EUR 6 bn in 2015: efficiency of social security administration (EUR 1.3 bn horizon 2017); family allowances (EUR 0.7 bn in 2015), unemployment insurance (EUR 2 bn in 2017).</p>

Main components of CSR	Measures announced in NRP or SP	Ddl in NRP	Progress
Set a clear timetable for the ongoing decentralisation process and take first steps by December 2014, with a view to eliminating administrative duplication, facilitating mergers between local governments and clarifying the responsibilities of each layer of local government. Reinforce incentives to streamline local government expenditure, by capping the annual increase in local government tax revenue while reducing grants from the central government as planned.	The objective to rationalise the expenditure of local authorities will be reinforced by the following objectives: halve the number of regions before 2017; reinforce the intercommunalities; clarify the competences of local authorities by scrapping the general competence clause and scrap the general councils of the departments by 2021.		Two bills on the reform of local authorities were presented in June. One on the grouping of region is currently under discussion in Parliament (2 <sup>nd</sup> reading voted in Senate on 30 October 2014 with a reduction of the 23 regions to 15) while 1st reading in Senate is foreseen in December 2014 for the other bill, on the organisation of competencies between the various layers of local administration. The objective of the government is to have the full package adopted by the end of the year, in line with the deadline included in the CSR and before the elections at department level planned in March 2015.
Reduce the tax burden on labour and step up efforts to simplify and increase the efficiency of the tax system. To this end, starting in the 2015 budget, take measures to: remove inefficient personal and corporate income tax expenditures on the basis of recent assessments and the ‘Assises de la fiscalité’ initiative while reducing the statutory rates; take additional measures to remove the debt bias in corporate taxation; broaden the tax base, in particular on consumption; phase out environmentally-harmful subsidies.	The surtax of the corporate income tax will be scrapped in 2016 and the standard corporate income tax rate will be reduced from the current 33.33% to 28% by 2020 with a first reduction foreseen in 2017. On top of the scraping of the C3S – a turnover tax – by 2017, about ten small inefficient taxes will also be abolished as part of the RSP.		<ul style="list-style-type: none"> <li>- See “II Measures to reduce labour cost”</li> <li>- The C3S for SMEs is deleted as part of the budget 2015 at a cost of EUR 1 bn (0.05% of GDP).</li> <li>- To simplify the tax code by abolishing charges whose effect is zero or whose performance is low with high management costs, the 2015 Draft Budget Law proposes to repeal a set of 7 taxes. The overall yield of these taxes is about EUR 29 m.</li> <li>- New fiscal measures proposed in the 2015 Draft Budget Law erode the tax base by EUR 2 bn.</li> <li>- The other measures on C3S and corporate income tax will be adopted in future budgetary plans.</li> </ul>
<b>II. Measures to reduce labour cost</b>			
Ensure that the labour cost reduction resulting from the ‘crédit d’impôt compétitivité emploi’ is sustained. Take	The impact of the CICE will strengthen. Moreover, the government has ensured that no new measures would lead to an increase		The RSP, whose measures were passed as part of the supplementary Finance Bill for 2014, amplifies the decrease in labour costs from 2015 with: the

Main components of CSR	Measures announced in NRP or SP	Ddl in NRP	Progress
<p>action to further lower employer social security contributions in line with commitments under the Responsibility and Solidarity Pact, making sure that no other measures offset its effect and that the targeting currently envisaged is maintained. Further evaluate the economic impact of social security contribution exemptions, putting the emphasis on employment, wage developments and competitiveness and take appropriate measures if necessary.</p>	<p>in the cost of labour. The RSP foresees several measures to further reduce the cost of labour, with an additional impact of EUR 10 bn. to be added to the EUR 20 bn. already foreseen by the CICE, representing EUR 30 bn. of tax reduction by 2016.</p>		<p>full relief at the minimum wage of the contributions paid by employers to URSSAF, through the strengthening of existing concessions, and a decrease of 1.8 percentage points of family contributions for salaries up to 1.6 times the minimum wage, for a total of EUR 4.6 bn. Family contributions will also be reduced up to EUR 1 bn for self-employed. The measures for 2016 and 2017 will be adopted in future budgetary plans.</p>
<p>Further reduce the cost of labour in a budget neutral way, namely at the lower end of the wage scale in particular through targeted reductions in employer social security contributions taking into account the various wage support schemes.</p>			<p>A review of the two main schemes to reduce labour cost for low wage earners - the "Prime Pour l'Emploi (PPE)" and the "Revenu de Solidarité Active (RSA)" - is ongoing. This should lead to a reform, which is expected to be operational before 1/1/2016, with the aim of giving more incentives to work for low-income earners.</p>
<p><b>III. Measures to promote growth and competitiveness</b></p>			
<p>Simplify companies' administrative, fiscal and accounting rules and take concrete measures to implement the Government's ongoing 'simplification plan' by December 2014.</p>	<p>The government will present, before the Summer, a draft law enabling it to take by <i>ordonnance</i> the measures presented by the Simplification Council. From May onwards, each month, 10 new simplification measures will be adopted.</p>		<p>A draft law with 30 measures, out of the package of the first 50 measures from the announced "choc de simplification", was adopted by the government on 25 June, by the National Assembly on 22 July and is currently under discussion in the Senate. 30/10/2014: A first assessment of the "choc de simplification" was published by the Simplification Council, including a proposal for 50 additional measures.</p>

Main components of CSR	Measures announced in NRP or SP	Ddl in NRP	Progress
Eliminate regulatory impediments to companies' growth, in particular by reviewing size-related criteria in regulations to avoid thresholds effects.			Negotiations among social partners are ongoing with a conclusion foreseen before the end of the year. These negotiations cover the evolution of the social dialogue, also including the issue of size-related criteria that have threshold effects for a firm's growth.
Take steps to simplify and improve the efficiency of innovation policy, in particular through evaluations taking into account latest reforms and if necessary an adaptation of the 'crédit d'impôt recherche'. Ensure that resources are focused on the most effective competitiveness poles and further promote the economic impact of innovation developed in the poles.	The « Crédit d'impôt recherche (CIR) » is maintained until 2017		An evaluation of the ' <i>Crédit d'Impôt Recherche</i> ' (CIR) by Lhuillery, Marino and Parrotta was published in June 2014 by the Ministry for Higher Education and Research. A 'Commission Nationale d'Evaluation des Politiques d'Innovation (CNEPI)' was set up on 27 June and will approve its work programme by the end of 2014. 30/10/2014: The Simplification Council proposed to clarify which social security contributions should be eligible for CIR.
Remove unjustified restrictions on the access to and exercise of regulated professions and reduce entry costs and promote competition in services.	The reforms on regulated professions could be reinforced, notably by defining a method that better aligns tariffs and the real cost of their associated services for certain regulated professions, based on a report of the Competition Authority. A dialogue with the professions shall be pursued on the organisation of certain activities. Before the end of the year, the Simplification Council will assess and propose changes with regard to the required prior approval of access to certain professions. Also, a review of the legislation on transport by bus is under preparation.	Adoption by end 2014	The government plans the adoption of a Law on Economic Activity , aiming at increasing the efficiency of the economy through the development of the supply side and by including various sectoral measures, particularly in the markets for goods and services. It will reform a number of regulated professions and activities by reducing the existing entry barriers for some professions and by better regulating the exercise of the activities involved. Also tariffs will be better aligned with the level and evolution of costs. The envisaged bill will be adopted by the government in December and submitted to Parliament in January 2014.

<b>Main components of CSR</b>	<b>Measures announced in NRP or SP</b>	<b>Ddl in NRP</b>	<b>Progress</b>
<p>Take further action to reduce the regulatory burden affecting the functioning of the retail sector, in particular by simplifying authorisations for the opening of trade outlets and removing the ban on sales at a loss.</p>	<p>The government has introduced in Parliament a draft law on commercial handcrafts and very small companies (ACTPE), which proposes to simplify legal procedures for new commercial projects. In dialogue with social partners, the government will propose to Parliament in 2014 an evolution of the legislation concerning the regulation of Sunday work, based on the Bailly report.</p>		<p>The ACTPE was approved by Parliament on 18 June 2014. The new rules need to be implemented in an ambitious way, in order to ensure that the objectives pursued are effectively attained in practice.</p> <p>The envisaged bill on Economic Activity will include measures that will help clarify the rules for Sunday work, based on the Bailly report. In addition, the law includes a strengthening of the liberalisation of the bus sector.</p>
<p>While maintaining affordable conditions for vulnerable groups, ensure that regulated gas and electricity tariffs for household customers are set at an appropriate level which does not represent an obstacle to competition. Strengthen electricity and gas interconnection capacity with Spain; in particular, increase the gas interconnections capacity to fully integrate the Iberian gas market with the European market.</p>	<p>Electricity : Regulated tariffs will disappear before the end of 2015 with the exception of “blue” regulated tariffs for certain consumers with little consumption.</p> <p>Gas: End 2013, end of tariff for professionals connected to the transport network ; end 2014, end of tariffs for professionals consuming more than 200 MWh per year; end 2015, end of tariffs for all other professional users.</p>		<p>Electricity: A new decree was published at the end of October to reform the regulatory tariffs, which has as objective to guarantee the contestability of the market for alternative suppliers that don't have proper production capacity. The phase-out of gas tariffs is proceeding as planned.</p> <p>A meeting between the director general for energy of France and Spain took place on 24 July. It was proposed to set up a working group on energy and climate change.</p>
<p>In the railway sector, ensure the independence of the new unified infrastructure manager from the incumbent operator and take steps to open domestic passenger transport to competition in line with the provisions of, and the calendar that will be decided by, the forthcoming directives.</p>	<p>The draft law on the reform of the railway system, presented in October 2013 in the Council of Ministers, will be discussed in June 2014 in Parliament.</p>		<p>The Law adopted on 4 August 2014 on the reform of the railway system, reorganized it with the aim to improve industrial efficiency by implementing a unified infrastructure manager.</p>

Main components of CSR	Measures announced in NRP or SP	Ddl in NRP	Progress
<b>IV. Measures to reduce the rigidity in the labour market</b>			
Take further action to combat labour-market rigidity, in particular take measures to reform the conditions of the ' <i>accords de maintien de l'emploi</i> ' to increase their take up by companies facing difficulties.	-	-	The envisaged bill on Economic Activity would also include a reform of the system of Justice Prud'homale – a system of conciliation for individual labour contract disputes. The French authorities are reviewing the use of specific very short-term contracts ( <i>CDD d'usage</i> ), with a view to limiting their scope depending on the sector.
Take additional measures to reform the unemployment benefit system in association with social partners, in order to guarantee its sustainability while ensuring that it provides adequate incentives to return to work.	Social partners reached an agreement on the unemployment insurance convention on 22 March 2014. This agreement will enter into force in July 2014 with a time limit of 2 years.	July 2014	The Renewal of the unemployment insurance Convention, following the agreement of 22 March 2014, was approved by the Minister of Labour on 26 June and entered into force on 1 July 2014. Draft Budgetary Plan: A new convention unemployment insurance will be subject to negotiations among the social partners before the end of 2016. One of the objectives of this renegotiation will be to improve the financial stability of the system.
Ensure that older workers benefit from adequate counselling and training and re-assess the relevant specific unemployment benefit arrangements with respect to their situation on the labour market.	The governments will increase the resources for the least skilled, youth and seniors, notably with additional resources for generation contracts, with a view to ensuring the smooth transfer of skills between seniors and youth (EUR 0.4 bn.).		In July social partners announced a “Plan for Seniors” and the Draft Budgetary Plan allocates additional resources in 2015 for that purpose (e.g. rollout of 80 000 job integration contracts in 2015).



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