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FRANCE– REVIEW OF PROGRESS ON POLICY MEASURES RELEVANT FOR THE CORRECTION OF MACROECONOMIC IMBALANCES

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Executive summary

This is the sixth specific monitoring report under the Macroeconomic Imbalance Procedure (MIP) for France, which was identified as experiencing imbalances in the 2018 European Semester. As pointed out in the 2018 Country Report, these imbalances relate to the large public debt and the deteriorated competitiveness of the French economy, in a context of low productivity growth. France being a large economy in the euro area, the vulnerabilities associated with its macroeconomic imbalances are of cross-border relevance. This report hence reviews the most recent developments in France's macroeconomic imbalances and the policy actions taken by the authorities to tackle them, as called for by the 2018 country-specific recommendations addressed to France. The cut-off date for this report is end-November 2018. Policy developments beyond this cut-off date are considered in the 2019 edition of the Country Report on France.

GDP growth is expected to remain robust at 1.7% in 2018. After a slowdown in the first six months of 2018, notably due to temporary factors, economic activity is forecast to accelerate in the second half of the year. Private consumption and investment would remain the main growth drivers up to 2020, while net trade would support GDP growth in 2018 and turn neutral afterwards. Unemployment is projected to decrease over the next two years. The public deficit is expected to reach 2.6 % in 2018 and is then forecast to fall below 2% of GDP in 2020. In turn, public debt is set to rise from 98.5% of GDP in 2017 to 98.7% in 2018. In 2019, the public debt ratio is forecast to decline to the 2017 level, whereas in 2020 it is expected to decline to 97.2%. This public debt trajectory implies a growing divergence with respect to the evolution in the euro area.

Imbalances related to high indebtedness and weak competitiveness continue to exist in a context of low productivity growth. In 2017, net exports positively contributed to GDP growth and the current account deficit slightly improved. The export market share improved by 2.7% compared to five years before, but decreased on a year-on-year basis. The net international investment position went on deteriorating in 2017. The unit labour cost increase was contained due to a moderation of wage developments, including minimum wage. Meanwhile the effect of cuts in the labour tax wedge is fading. The transformation of the tax credit for competitiveness and employment (CICE) into a permanent cut in employers' social contributions should leave the labour cost broadly unchanged. Labour productivity growth continues to be subdued; it increased in 2017, but is set to stand below pre-crisis trend over the forecast horizon (2018-2020). Public debt has been broadly stable at a high level. A comparatively high stock of corporate debt is on the rise.

Since March 2018, measures have been undertaken in the areas of public finances and taxation. The governments' budgetary consolidation strategy remains focused on the expenditure side. Planned fiscal efforts are too small though. The full implementation of announced reforms to improve the efficiency of public expenditure and to transform public action remains a crucial step. Moreover, efforts to reduce the tax burden on companies continue, although little has been done to cut taxes on production. Measures to simplify the tax system are mixed. While the draft budget law for 2019 plans to discontinue six inefficient tax expenditures and some taxes yielding low revenues, it also introduces four new tax expenditures worth EUR 1 billion in 2019.

Further initiatives are necessary to improve the integration of most vulnerable groups into the labour market. A revision of the governance and financing of the vocational education and training system has been adopted, while actions to increase the performance of the school-based, initial vocational education and training system are planned to be presented by the end of 2018. Yet, challenges remain in terms of the labour market integration of students enrolled into an initial vocational education and training path, as well as of the unemployed and the most vulnerable categories of workers such as the low-qualified.

Some efforts have been made to improve the business environment and support to innovation. A revision of the existing framework conditions affecting firms' transformation over time is under discussion in the parliament, with the ultimate goal to overhaul burdens that curtail private initiative. Notably, the draft action plan for business growth and transformation (*projet de loi relatif à la croissance et la transformation des entreprises, so-called "projet de loi PACTE"*) reduces the number of firm size-related thresholds and introduces a five-year transition period to adjust when reaching a threshold. Nonetheless, the measure also risks concentrating thresholds' negative effects on firms' growth, particularly for firms reaching 50 employees. On innovation, there is scope to continue efforts towards a more efficient public support system, while the measures aimed at facilitating the mobility of researchers to the private sector are encouraging.

Overall, since March 2018, French authorities have continued to implement their reform agenda. These reforms should contribute to enhance potential growth and improve competitiveness. Therefore, the full implementation of planned and announced reforms continues to be key. Further action remains warranted (see table below). Efforts have been made to improve the links between the education and training system and the labour market. Minimum wage developments continue to follow the automatic indexation mechanism, with no ad-hoc increases. A reduction in the regulatory and administrative burden could be achieved through the adoption and implementation of the draft law PACTE. Incentives for public researchers to work in the private sector are being strengthened. Some measures to simplify the tax system are ongoing, including the introduction of withholding personal income taxation. A systemic reform of the pension system has been announced for 2019. At the same time, further action is needed to implement planned expenditure savings. Concrete measures falling into the perimeter of the new spending review launched in October 2017 (*Action Publique 2022*) need still to be fully identified and defined, while their quantification and close monitoring is essential to ensure that the objectives in terms of public expenditures reduction can be met. Obstacles to firms' growth and high taxes on production remain, calling for additional efforts to improve the business environment in France. While an ambitious reform of the railway system was undertaken in spring, remaining barriers to competition in the services sector continue to hamper its performance. The efficiency of public support to innovation could be further improved and partnership research simplified.

Key findings on the implementation of economic policy reforms

On track	Wait-and-see	Action wanted
• Reform of the apprenticeship and continuous vocational education and training system • Reform and open up to competition the railway system • Facilitate mobility of researchers to the private sector	• Limit the use of tax expenditures and remove inefficient taxes • Reform of the school-based, initial vocational education and training system • Ensure consistency of minimum wage developments with job creation and competitiveness • Reduce regulatory and administrative burden • Foster firm growth, by removing threshold effects linked to firm-size	• Pension reform • Implementation of expenditure savings and *Action Publique 2022* • Reduce taxes on production • Improve competition in services • Improve the efficiency of public support schemes for innovation

Note: The table classifies reforms under review on the basis of their respective adoption and implementation process, uncertainty and level of detail. “On track” are measures for which the legislative or implementation process has been completed or is progressing well according to the foreseen timeline, and which are expected to be sufficiently effective. “Wait and see” are measures for which the legislative process is on-going, but is still in a relatively early phase, or measures for which there is still uncertainty on the complete implementation and effectiveness. “Action wanted” are measures for which limited or no action has been taken, or measures that have been announced but which are not sufficiently detailed yet to be assessed.

1. Introduction

On 22 November 2017, the European Commission presented, in the context of the Macroeconomic Imbalances Procedure (MIP), its seventh Alert Mechanism Report to underpin the selection of Member States requiring an in-depth investigation into the existence and extent of macroeconomic imbalances. The subsequent Country Report on France – published on 7 March 2018 − examined the nature, origin and severity of macroeconomic imbalances and risks in France[1]. In its accompanying Communication[2], the Commission concluded that France was no longer experiencing excessive macroeconomic imbalances. At the same time, the Commission found that vulnerabilities stemming from high public debt and weak competitiveness dynamics remained, in a context of low productivity growth. Possible positive effects of announced and undertaken measures were recognised, while further action was warranted notably for reviewing government spending to ensure the sustainability of public finances in the medium term and to enhance France's growth potential.

On 23 May 2018, the Commission proposed a set of three country-specific recommendations (CSRs) for France, which was subsequently adopted by the Council on 13 July 2018. The CSRs stress the main policy gaps in France and propose policy actions aiming, *inter alia*, at complying with the provisions of the Stability and Growth Pact, reinforcing the spending review and reforming the pension system, as well as at pursuing the revision of the vocational education and training system, simplifying the efficiency of the tax system, and fostering the business environment and the performance of public support schemes for innovation.

This report presents the results of the specific monitoring by assessing the latest main policy measures taken by France since the publication of the 2018 Country Report and up to end-November[3]. In order to underpin the findings of this document, a specific monitoring mission took place on 7-9 November 2018. The content of this document also reflects the content of France's Draft Budgetary Plan (DBP) for 2019 as well as the Commission 2018 autumn forecast. In order to avoid an overlap of surveillance processes, this report does not provide an assessment of France's revised fiscal targets, as presented in the 2019 DBP, submitted to the Commission in October 2018. The latter assessment can be found in the Commission's opinion on France's DBP[4], taking into account the Commission's 2018 autumn forecast.

2. Outlook and recent developments on imbalances

Recent economic developments and outlook

Economic activity in France accelerated sharply in 2017, driven by strong private investment. GDP growth increased to 2.2 % in 2017[5], after registering 1.2 % in 2016 and 1.1 % in 2015. However, economic activity slowed markedly in the first half of 2018. Temporary factors, such as unusually warm weather, school holiday calendar and strikes in the transport sector,

[1] European Commission (2018), Country Report, France 2018 – Including an In-Depth Review on the prevention and correction of macroeconomic imbalances, https://ec.europa.eu/info/publications/2018-european-semester-country-reports_en.

[2] 2018 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011. COM(2018)120 final, https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-communication_en.pdf.

[3] Details on the policy measures can be found in the overview table in the Annex. Policy developments beyond the end-November cut-off date are considered in the 2019 edition of the Country Report on France. See European Commission (2019), *Country Report, France 2019 – Including an In-Depth Review on the prevention and correction of macroeconomic imbalances, forthcoming*.

[4] See Commission Staff Working Document on the 2019 DBP, https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2019_en#france.

[5] The GDP growth figures are non-calendar adjusted. In 2017, calendar adjusted GDP growth accelerated to 2.3%.

partly explain this slowdown. Growth is set to gain momentum as of the second half of 2018, as these factors fade away and several fiscal measures favourable to purchasing power come into pace. All in all, GDP is expected to grow by 1.7 % in 2018 and to slightly decelerate to 1.6 % both in 2019 and 2020, as spare capacities in the economy are slowly reabsorbed and the external environment becomes less supportive.

In 2017, net trade contributed to growth for the first time since 2012, following a slight depreciation of the real exchange rate over the period 2015-2017[6]. Import growth is expected to moderate sharply in 2018. Exports are instead forecast to remain robust, albeit less dynamic than in 2017. As a result, the contribution of net exports should increase to 0.5 percentage points in 2018, before becoming neutral in 2019 and 2020, as global demand growth loses momentum, external uncertainty rises, and euro appreciation makes itself felt.

The unemployment rate is set to remain on a downward trend, albeit less pronounced than in 2017. It would reach 9.0 % in 2018, 8.8 % in 2019 and 8.4 % in 2020. Employment growth is expected to moderate after a strong increase in 2017, as the activity slows down and the effect of past cuts to the labour tax wedge fades.

Developments as regards imbalances

In March 2018 France was found to be experiencing macroeconomic imbalances. These imbalances related to high indebtedness and weak competitiveness, in a context of low productivity growth.

Competitiveness

Export market shares increased in 2017 compared to 2012. Indeed, in recent years, France has benefitted from a more favourable geographical positioning, as imports grew faster in France's main trading partners than on average in the world. Nevertheless, on a year-on-year basis, export market shares deteriorated by 3.2 % (−0.8 % in volume) in 2017, despite a pick-up in export growth.

The Net International Investment Position (NIIP) went on deteriorating, though it was still at −20.1 % of GDP in 2017, well below the precautionary threshold indicated in the MIP procedure.

The current account balance decreased on average by 0.6 % over three years. In 2017, it slightly improved, reaching −0.6 %[7] of GDP (against −0.8 % in 2016). According to the last autumn forecast, after having deteriorated in the first half of the year, the current account is expected to rebound so as to remain broadly at the same level in 2018. It is set to deteriorate slightly in 2019, before improving in 2020 in line with the evolution of energy prices.

Cost-competitiveness improved up to 2017. Nominal unit labour costs have decelerated markedly, growing by only 1.3 % over the three years to 2017[8]. This deceleration was due to moderate wage dynamics, in a context of continued labour market slack[9] and measures to reduce the cost of labour. Minimum wages have also been growing less than the average wage. However, nominal wages are set to pick up in the following years, as slack in the labour market decreases. Labour productivity growth picked up to 1.1 % in 2017, as economic activity was buoyant during the whole year, while job creations progressed in the second part

[6] This holds true when looking at the real effective exchange rate measured in terms of both GDP deflator and unit labour cost.
[7] The INSEE's rebasing of the French national accounts in May 2018 led to a strong revision of current account figures, and narrow the differences between the balance of payment and the national account data.
[8] Based on provisional data.
[9] ECB bulletin Issue 3 / 2018, Box 3 and the technical background note by Commission Staff on "Wage dynamics in the EMU" discussed at the Eurogroup of 27 April 2018, https://www.consilium.europa.eu/en/meetings/eurogroup/2018/04/27/

of 2017[10]. It is set to decrease only slightly between 2018 and 2020, and remain below its pre-crisis trend. In turn, faster wage increase and slower labour productivity growth would prevent a faster recovery of cost-competitiveness up to the end of the forecast horizon in 2020. Market services also play an important role in cost competitiveness. Indeed, domestic market services contribute for 20 % of value added in French manufactured exported goods[11]. This share is high compared to other EU countries, meaning that the performance of services may have a significant impact on the cost of exported goods.

In terms of non-cost competitiveness, in-house and literature studies[12] depict France as a good quality exporter across most manufacturing sectors, but which is surpassed by main global competitors such as Germany, USA and Japan and is challenged more recently by the rising quality of Chinese exported goods. France maintains the highest quality in its specialisation sectors such as aeronautics, cosmetics, beverages, cheese, luxury leather articles, locomotives and nuclear reactors. However, the non-cost components of exported French goods in high-revenue sectors (mechanical machinery, vehicles, electrical equipment, and pharmaceutical products) are weaker than its main competitors, leaving a margin for quality upgrade.

Public debt

The reclassification of part of the national railway company (*SNCF Réseau*) under general government and the deceleration in economic growth after 2017 imply that the public debt-to-GDP ratio will keep increasing in 2018 and decline only slightly in 2019, to 98.5 % of GDP. Indeed, the reclassification of *SNCF Réseau*[13] from 2016 has entailed a significant upward revision in the level of general government debt, by EUR 35.8 billion (1.6 % of GDP) at the end of 2016 and EUR 39.4 billion (1.7 % of GDP) at the end of 2017. Moreover, the reclassification of *SNCF Réseau* implies a higher deficit by EUR 3.2 billion in 2016 and EUR 2.2 billion in 2017 (0.1 % of GDP in both years), as well as deficits at around EUR 2 billion for the forthcoming years. According to the Commission 2018 autumn forecast, only is the public debt-to-GDP ratio expected to start declining as of 2019, due to GDP growth and under the customary no policy change assumption.

Positive factors reducing the risks linked to a high level of public debt are its maturity structure as well as the diversification of the investors' base. Notably, the average maturity of total outstanding debt has increased to almost 7.9 years in 2018 compared to 7.8 years in 2017, while the average maturity is above 8 years for medium and long-term debt. The share of non-resident holders of negotiable government debt has continued to decrease over time, up to reach around 54 % in 2018. The French debt remains an investment sought for complying with capital and liquidity requirements as well as for diversification purposes.

Risks stemming from the high public debt are, however, compounded by the also high and increasing private debt, at almost 150 % of GDP in 2017. While household debt is in line with the euro area average, the debt of French non-financial corporations has continued to increase, from 51.1 % of GDP in 2005 to 71.6 % in 2017[14]. Should this trend persist, it may become a source of concern for France. That is why the French *Haut Conseil de Stabilité Financière*

[10] Furthermore, some labour policies (e.g. *crédit d'impôt pour la compétitivité et l'emploi* (CICE), subsidy for new hires etc.) have supported employment and hence weighted on labour productivity during this period. Their support should be milder starting 2018 (decrease in the rate of CICE, and phasing out of the temporary subsidy to SMEs for new hires etc.).

[11] Based on World Input-Output Tables, latest available data point refers to 2014.

[12] Bas, M., Fontagné L., Martin P. and Mayer T. (2015), *A la recherche des parts de marché perdues*, Les Notes du Conseil d'Analyse Economique, n^{0}23; Coe-Rexecode (2018), *La compétitivité en 2017*, Document de travail n^{0}66; Bas, M., Martin P. and Mayer T. (2014), *Report on main directions of research towards better assessment of competitiveness*, Mapcompete – Mapping European Competitiveness.

[13] *SNCF Réseau* is the railway infrastructure manager, as established in the French law 2014-872 of 4 august 2014.

[14] *Banque de France, Taux d'endettement (titres de dette, crédits, dépôts au passif des APU) des Sociétés non financières en France (en pourcentage du PIB).*

adopted a macro-prudential measure to limit French banks' large exposure to highly indebted corporates as of 1 July 2018[15].

3. Policy implementation and assessment

3.1 Improving public finances and taxation

This section describes the latest policy measures taken by France to ensure the sustainability of its public finances and step up efforts to simplify the tax system and reduce taxes on production in line with the related country specific-recommendations (CSR 1 and CSR 3). It also assesses the actions announced to implement efficiency gains through spending reviews and to reform the pension system.

The budgetary consolidation sketched in the Draft Budgetary Plan for 2019 is mainly expenditure-based, although the planned fiscal effort is small. According to the last Draft Budgetary Plan, the headline deficit is expected to increase to 2.8 % of GDP, from 2.6 % in 2018, mainly due to the one-off deficit-increasing impact of 0.9 % of GDP stemming from the replacement of the tax credit for competitiveness and employment (*crédit d'impôt pour la compétitivité et l'emploi*, CICE) by a permanent cut in employers' social contributions. The planned fiscal efforts as measured by the improvement in the structural balance remain small, null in 2018 and 0.2 % of GDP in 2019[16]. Such efforts are insufficient to put public debt on a steady downward trend. While the expenditure-to-GDP ratio is set to decline by 0.7 percentage points in 2019 compared to 2018, the bulk of the budgetary adjustment on the expenditure side (of some three GDP percentage points by 2022) remains planned for the final years of the current government's term, entailing a risk for the overall consolidation and debt-reduction strategy.

A reform of the pension system has been announced for 2019. This reform intends to introduce a universal point-based system, replacing the 42 pension regimes co-existing at present. On 10 October 2018, the High Commissioner for the pension reform unveiled the ten principles of the upcoming reform. According to the announcement, the new system will require the calculation of pension rights over the whole career, instead of the best 25 years, for all groups of workers. It will also introduce a single definition for the labour revenues to be used as basis for calculating pension contributions. Such basis will include bonuses for the public sector and have a higher cap for the private sector. Measures are meant to kick-in gradually, starting from 2025, and they will not apply to workers planning to retire over the next five years. While the retirement age (*âge légal*) will not be changed by the reforms, a reference age will ensure the adequacy of pension entitlements with respect to living conditions and control rules will avoid eventual transfers of the system's debt across generations. Negotiations with social partners are currently on-going. A draft law defining all details of the future pension system is expected to be presented by the government in June 2019, to be adopted before the end of the year.

A healthcare reform was presented in September 2018. Healthcare spending in France amounts to 11.7 % of GDP, namely about EUR 200 billion[17]. The Plan "*Ma Santé*" represents a major health reform transforming the overall organisation of care, and in particular hospital

[15] The measure is adopted under article 458 of the Capital Requirements Regulation (EU) No. 575/2013.
[16] Figures of the French Draft Budgetary Plan for 2019 recalculated by the Commission on the basis of the commonly agreed methodology.
[17] See "*Ma santé 2022 : un engagement collectif*", https://solidarites-sante.gouv.fr/actualites/presse/dossiers-de-presse/article/ma-sante-2022-un-engagement-collectif

care, through five main projects aiming at: (i) de-compartmentalizing healthcare funding, (ii) ensuring care quality and relevance, (iii) improving the digitization of the healthcare sector, (iv) providing human resources and training appropriate to the needs of the sector, and (v) reforming its territorial organization. Meanwhile, the growth ceiling for healthcare expenditure, the ONDAM (*Objectif National de Dépenses d'Assurance Maladie*), has been further raised and made less demanding for the period 2018-2020, from an initial target of 2.1 %, to a revised target of 2.3 % in the budget law for 2018, which is now further increased up to 2.5 % in the draft budget law for 2019 to generate investment margins for kick-starting the healthcare reform. The Plan "*Ma Santé*" is expected to be transformed into law in 2019. The benefits of this healthcare transformation strategy are expected to be perceived over the longer term, but have not been quantified yet.

Progress made in implementing the spending review under the programme "Public Action 2022" is unclear. The programme "Public Action 2022" was officially launched by the government on 13 October 2017, with the objective to accompany the planned fall in the share of public expenditure in GDP by three percentage points by 2022. On that same day, the Prime Minister nominated the Public Action Committee 2022 (CAP 22), including thirty-four personalities mixing economists, personalities from the public and private sector, and elected politicians. This Committee handed in a report to the Prime Minister in the first half of 2018. According to the programming budgetary law for 2018-2022, the conclusions of this report would serve as basis for government's decisions to reform the public sector and to transform some ministries. The Economic, social and financial report[18] - annexed to draft budget law for 2019 presented in September 2018 - points to initiatives for digitizing public services, revising public broadcasting, and decreasing in the number of civil servants. The works of an Inter-ministerial Committee in October 2018 have then shed further light on the strategy to transform public action, including across ministries and levels of government[19]. However, concrete government measures to reach Public Action 2022's goals remain unclear and insufficiently documented, in terms of timing, expected results and monitoring methods chosen for each reform falling under the perimeter of this spending review programme[20].

Local spending exceeded the planned target for the first time in 2017, highlighting the link between local investments and the electoral cycle as well as the limited reduction in the number of municipalities. Spending at local level in France is guided by the ODEDEL (*Objectif d'évolution de la Dépense Locale*), which is an expenditure norm indicating yearly non-binding growth targets for both operating public expenditure and financing needs at local level. Cuts in state transfers to local authorities were able to ensure the respect of ODEDEL targets between 2014 and 2016. Municipalities' investments were more dynamic than expected in 2017, in preparation to the local elections planned in 2020. Hence, electoral cycle considerations made the local public expenditure grew at a faster pace than planned. Starting from 2018, cuts in state transfers are replaced by a series of contract agreements between the central and local authorities, valid for the overall 2018-2022 period. This contractual approach might help to better plan both operational and investment spending, thereby smoothening undesired consequences of local electoral cycles. Still, the concrete and timely implementation of the correction mechanism foreseen in case of slippages in operating expenditure remains to be seen. At the same time, the number of municipalities decreased

[18] Rapport Economique Social et Financier 2019, https://www.tresor.economie.gouv.fr/Articles/2018/10/02/publication-du-rapport-economique-social-et-financier-plf-pour-2019

[19] See "*Action Publique 2022 - Notre stratégie pour la transformation de l'action publique - 29 octobre 2018*", https://www.gouvernement.fr/partage/10613-action-publique-2022-notre-strategie-pour-la-transformation-de-l-action-publique

[20] See the Note for the attention of the Eurogroup titled "Quality of public finance. Spending reviews for smarter expenditure allocation in the euro area", http://www.consilium.europa.eu/media/23664/spending-reviews_commission_note.pdf

only by 1 324 between 2014 and 2018. It remains higher than 35 000, notwithstanding the incentives to merge communes introduced by the territorial reform of 2014-2016[21].

Previously adopted tax reductions for firms will become effective in 2019. Companies will benefit from a rate of corporate income tax at 31 % (compared to 33.33 % in 2018). The reduced rate of 15 % for small and medium enterprises (SMEs) and of 28 % for the first EUR 500 000 of profits will continue to apply. In addition, the tax credit for competiveness and employment (CICE) is to be transformed into a permanent reduction of employers' social contributions with, as of October 2019, a reinforced reduction for low-income and minimum wage earners (see section 3.2).

Little has been done to reduce taxes on production weighing on companies. Only one tax ("*forfait social*") is planned to be cut in the draft budget law for 2019. As of 2019, the tax payable on incentives and profit-sharing schemes in companies ("*forfait social*") will be removed for companies with fewer than 50 employees and decreased for companies with up to 250 employees (see section 3.3). This tax is payable by employers and contributes to social security financing. According to the authorities[22], this measure is expected to cost EUR 660 million per year once fully implemented in 2020 and to generate an increase in productivity leading to additional 0.2 points of GDP by 2025. In addition, the draft law on business growth and transformation (*projet de loi relatif à la croissance et la transformation des entreprises, PACTE*) proposes to exempt very small firms with maximum 20 employees to contribute to the *Fonds National d'Aide au Logement* and introduces a five-year transition period for firms that have surpassed the 11 employee threshold before paying the transport compensation (see also section 3.3). Other taxes on production (worth 3.1 % of GDP in 2016) remain untouched.

Tax cuts benefiting households' purchasing power will continue to be implemented in 2019. The phasing out of the housing tax (*taxe d'habitation*) for 80 % of households is continuing in 2019 and will be extended to the whole population by 2022. The full elimination of employees' social security contributions for health and unemployment insurance will take effect in 2019. In addition, employees' purchasing power will also benefit from the reintroduction of the exemption from the payments of social security contributions on extra worked hours. Finally, social minima benefitting specific categories of job seekers, elderly people and disabled will continue to gradually increase in 2019.

Actions to simplify the tax system are limited and their impact is unclear. The withholding personal income tax reform (*prélèvement à la source*) initially scheduled in 2018 will be introduced in 2019 and in 2020 for households' employers. A total of 17 inefficient taxes worth EUR 7.5 million will be discontinued according to the draft budget law for 2019, out of which 8 were already identified in the 2014 report of the General Inspection of Finances[23]. Only 9 taxes generating low revenues included in this report have been ceased (out of the 192 identified) since its publication. On tax expenditures, six inefficient tax expenditures[24] are planned to be supressed, while four new ones (worth EUR 1 billion) to be introduced. While the budget law for 2018 planned a tax spending ratio[25] below the target

[21] DG Trésor (2018), *Une approche économique de la réforme territoriale*, Lettre Trésor-Eco n° 154, October 2015. See also the annual report by the Court of Auditors on local public finances in 2018, https://www.ccomptes.fr/fr/publications/les-finances-publiques-locales-2018

[22] DG Trésor (2018), *Quel effet macroéconomique du PACTE?*, Trésor-Eco n° 226, Septembre 2018, https://www.tresor.economie.gouv.fr/Articles/2018/09/05/tresor-eco-n-226-quel-effet-macroeconomique-du-pacte-premiers-elements-de-reponse

[23] Inspection Générale des Finances (2014), *Les taxes à faible rendement*, https://www.ladocumentationfrancaise.fr/rapports-publics/174000418/index.shtml

[24] The impact assessment of the draft budget law for 2019 does not provide figures on the budgetary impact of the measure (Article 11 of the draft budget law).

[25] Ratio of tax expenditures to the sum of net tax revenues and tax expenditures

(28 %) set in the 2018-2022 multiannual budgetary framework, this ratio is set to increase in the future (25.5 % at the end of 2018 and 26 % in 2019). Finally, the tax base on consumption has not been broadened. The draft budget law for 2019 does not introduce any major proposal in this respect, leaving inefficient VAT reduced rates and exemptions unchanged.

Overall, actions have been undertaken in the areas of public finances and taxation, but the effective fulfilment of the planned expenditure retrenchment remains a precondition to put public debt on a steady downward trend. While the tax burden on companies continues to be reduced, taxes on production remain high and the results of measures to simplify the tax system are mixed. A reform of the pension and of the healthcare system is expected to take place in 2019. Yet, the identification, quantification and close monitoring of actions to be undertaken under the new spending review (*Public Action 2022*) at all level of government are not fully specified yet[26].

3.2 Strengthening the labour market, improving education, vocational training and social policies

This section assesses policy measures to improve the functioning of the labour market and the link with the vocational education and training system as suggested by CSR2.

After one year of implementation, some effects of the 2017 labour law reform start to materialise. The *Comité d'évaluation des ordonnances Travail*[27] had its first meeting in June 2018. They confirmed that the general provisions of the reform are known by employers, but not in detail, and that the awareness is higher in large enterprises than in small businesses. First administrative data[28] show initial quantitative results: 66 firms have negotiated the new mutually-agreed collective dismissal procedure (*rupture conventionnelle collective*) and that the number of Labour Court disputes (*Prud'hommes*) to solve abusive dismissal of employees has decreased by 15 %, in line with the general trend taking place since 2009. Social dialogue is also being reinforced. On 31 August 2018, 8 814 new social and economic committees were created merging the three previously existing information and consultation bodies into one. In addition, 15 collective performance agreements were signed, on top of 364 agreements signed in enterprises with fewer than 20 employees per direct consultation, and 582 agreements in companies with fewer than 50 employees. Finally, the flexible type of permanent contracts (*contrats à durée indéterminée de chantier*) currently used in the construction sector has been introduced in only one new economic sector (metal industries). In the third quarter of 2018, firms intending to hire on permanent contracts increased by 10 % compared to last year[29].

Evaluation studies continue to confirm the positive, but limited, impact on employment of the tax credit for competitiveness and employment (CICE) and its future transformation in 2019. The *Comité de suivi du crédit d'impôt pour la compétitivité et l'emploi* published a new report[30] in October 2018. The report confirmed that the CICE had a positive, but moderate, impact on employment. It created or maintained about 100 000 jobs

[26] See the Note for the attention of the Eurogroup of 5 September 2016, titled "Quality of public finance. Spending reviews for smarter expenditure allocation in the euro area", https://www.consilium.europa.eu/media/23664/spending-reviews_commission_note.pdf
[27] Comité d'évaluation des ordonnances Travail (France Stratégie), http://www.strategie.gouv.fr/chantiers/evaluation-ordonnances-travail
[28] Data communicated by French authorities during the fact-finding mission.
[29] Acoss data, https://www.acoss.fr/home/observatoire-economique/publications/acoss-stat/2018/acoss-stat-n276.html.
[30] Rapport 2018 du comité de suivi du Crédit d'impôt pour la compétitivité et l'emploi (France Stratégie), https://www.strategie.gouv.fr/publications/rapport-2018-comite-de-suivi-credit-dimpot-competitivite-lemploi

over the three years under analysis (2013-2015), at an average yearly cost of EUR 15.9 billion. The report also concluded that there was no significant effect on firms' investment. In addition, if the transformation of CICE into permanent reductions in employers' social security contributions in 2019 is also expected to be positive, its estimated impact largely differs across studies. According to the authorities[31], 100 000 jobs will be created by 2021 while independent studies[32] estimate that only between 40 000 and 50 000 jobs will be created by 2023. Another study shows that specific low-wage sectors (e.g. food and accommodation sector, non-market services sectors)[33] will be the main beneficiaries of the CICE transformation.

No ad-hoc increase in the minimum wage level and no modification of its indexation rule and governance have taken place. On 1 January 2018, the value of the minimum wage was raised by 1.24 % (against 0.93 % on 1 January 2017), on the basis of its automatic indexation mechanism. No ad-hoc increase (*coup de pouce*) was decided by the government, and the minimum wage growth rate resulted to be slightly below the average wage growth rate. The recommendations of the group of experts in December 2017 following minimum wage developments have, however, not been followed as regards a possible modification of the automatic minimum wage indexation rule[34].

The 2018 reform addresses some of the challenges of the vocational education and training (VET) system. The reform adopted in July 2018, to be implemented as of January 2019, simplifies the funding mechanisms and overall governance of the VET. The previous three organisations responsible for the national governance will be merged into one single body (*France Compétences*). Information on the integration of initial VET students into the labour market and salary range will be made more transparent and apprenticeship training centres will be financed based on their number of apprentices. It remains to be seen if this is sufficient to promote apprenticeships pathways, which present higher employment prospects. A parallel reform of the school-based vocational education has also been announced. All these measures aim at improving labour market integration through a closer connection of the VET offer to the labour market needs as well as at increasing take-up rates, since France continues to rank below the EU average (49.3 %) with 40.5 %[35] of total students in upper secondary education enrolled in either school-based or work-based VET. On continuous VET, the new personal training account credited in euros and increased rights for low-qualified intends to better accompany labour market (upward) mobility in easing access to labelled training. Effects of the reform will fully materialise in the medium- and long-term.

Important challenges in terms of access to the labour market remain for specific groups of the population. In parallel to the above mentioned reforms, a plan to improve access to training for young people and lower-skilled is underway. A EUR 15 billion investment plan for skills (*Plan d'investissement dans les Compétences)* has been devised to train 1 million of young people and 1 million of low qualified job seekers by 2022. This plan is a step in the right direction as France is characterised by high unemployment among the lower-skilled and young people (respectively 16.2 % and 20.6 %, compared to EU average of

[31] Rapport Economique Social et Financier 2019, https://www.tresor.economie.gouv.fr/Articles/2018/10/02/publication-du-rapport-economique-social-et-financier-plf-pour-2019
[32] Ducoudré, B., Heyer, E. (2018), *Transformation du CICE. Des effets faibles attendus sur l'emploi, nuls sur l'activité économique*, OFCE Policy Brief N° 40, 18 October 2018, https://www.ofce.sciences-po.fr/pdf/pbrief/2018/OFCEpbrief40.pdf
[33] Institut des Politiques Publiques (2018), *Quels effets attendre de la transformation du CICE en réductions de cotisations employeurs ?*, https://www.ipp.eu/wp-content/uploads/2018/10/n36-notesIPP-octobre2018.pdf
[34] Ministère du Travail (2017), *Rapports annuels du groupe d'experts SMIC*, http://travail-emploi.gouv.fr/ministere/documentation-et-publications-officielles/rapports/article/smic-rapport-du-groupe-d-experts-2017.
[35] Eurostat, 2016

13.5 % and 15.1 %[36]). The plan is being gradually implemented, with 2019 accelerating the implementation through agreements on jobseekers trainings between the state and the regions. In the meantime, the challenge of jobseekers access to training remains, as the number of jobseekers following training has decreased in 2018 compared to 2017[37].

The reform of the unemployment benefit system is underway. The *Loi pour la liberté de choisir son avenir professionne*l, adopted in September 2018, reinforced the role of the state during the negotiation of social partners. Authorities can now provide some guiding rules (*note de cadrage*), setting a base for the agreement between social partners. Under this new setting, the negotiations have started at the beginning of September 2018, with guiding rules provided by the government notably aiming at (i) cutting expenditures by EUR 1.0 – 1.3 billion annually over the next three years, (ii) enlarging unemployment rights to self-employed and resigning workers (under certain conditions), and (iii) creating a long-term unemployment allowance financed by the system (beyond the current two years). If social partners fail to reach an agreement within four months, the government has the right to take the necessary measures to achieve those economies and enforce the new eligibility measures.

In a nutshell, the reform of the vocation and education system as well as the reform of the unemployment benefit system are going to complement the recent labour market reforms. Measures reviewing the labour law undertaken over the last two years are starting to bear their fruits. Reforms adopted and announced in 2018 are meant to address the challenges faced by the initial and the continuous vocational education and training systems. A reform of the unemployment benefit system is under discussion.

3.3 Measures to support the business environment and innovation

This section describes policy measures to improve the business environment in France in line with the related country-specific recommendation (CSR 3). This recommendation notably calls to reduce the regulatory and administrative burden to increase competition in the services sector and to foster firms' growth. France is also invited to step up efforts to increase the performance of the innovation system in particular by improving the efficiency of public support schemes and strengthening knowledge transfer between public research institutions and firms.

France is implementing an ambitious reform of its railway system. This reform aims to improve the performance and financial viability of the railway system. SNCF *Réseau* (the railway infrastructure manager) has been reclassified as part of general government[38]. To get a grip on labour costs, working conditions have been revised for new employees joining SNCF after 1st January 2020. The reform also opens up to competition the market for domestic passenger travel as required by the EU's Fourth Railway package. EU railway undertakings will be granted access to high speed lines (TGV) to offer commercial services in competition with the incumbent operator (SNCF *Mobilité*). Some French regions are also keen to start competitive tendering of regional rail services. The public-law firms SNCF *Mobilité* and SNCF *Réseau* are set to become state-owned joint-stock companies. Finally, the powers of the railway regulator (*Autorité de Régulation des Activités Ferroviaires*, Arafer) to oversee infrastructure charges have been restated.

[36] Second quarter of 2018, Eurostat (Unemployment by sex and age).
[37] DARES – http://poem.travail-emploi.gouv.fr/
[38] See section 2.

In July 2018, the French authorities adopted a law to improve the interaction between the private sector and public administrations. The *loi pour un Etat au service d'une société de confiance* (so-called "*loi sur le droit à l'erreur*") has three objectives: (i) to improve tolerance for private firms and individuals that make mistakes when providing information to public administrations, without automatically concluding they are made in bad faith, which triggers sanctions; (ii) to provide individuals or firms with the possibility to request ex-ante checks of documents by public administrations to make sure that they are in conformity with the law, giving legal value to such ex-ante checks; and (iii) to further simplify procedures and the interaction with public administrations, including transitioning to one that generates, interacts and relies on electronic documentation, granting full equivalence to e-versions.

An ambitious law to overhaul burdens that curtail private initiative and to improve the business environment more generally is currently under discussion in the national Parliament. Firms' growth in France is hampered by a number of administrative and regulatory requirements kicking-in at different size-related thresholds. As a result, firms' distribution is characterised by a lower proportion of medium-sized firms in France and shows a marked discontinuity in size at 50 employees[39]. To support firms' growth, the draft law on business growth and transformation (*projet de loi relatif à la croissance et la transformation des entreprises*, PACTE) reduces the number of thresholds related to size-dependent regulations based on the number of employees that firms face as they grow, and introduces a five-year transitional period to give firms time to adjust when they cross these thresholds. In fact, requirements are not entirely eliminated but grouped around the remaining thresholds (11, 50 and 250 employees) so that, despite the transitional period, the reform also risks concentrating thresholds' negative effects on firms' growth, particularly when they reach 50 employees. To further support SME growth, the draft law promotes employees' incentives linked to firm performance by removing the so-called *forfait social* for firms with less than 50 employees (section 3.1). According to DG Trésor's own estimates[40], the potential economic impact of the draft law is expected to increase GDP by 0.32 % by 2025 and by 1% in the longer term. This economic impact is expected to materialise through various channels, namely reduced labour costs, higher labour productivity and increased allocative efficiency.

Additionally, the draft law PACTE plans to sell shares in some State Owned Enterprises, strengthens sectoral regulation and State control instruments, and establishes new tools to channel household savings to productive uses. The draft law PACTE allows the French state to sell shares in *Groupe Aéroport de Paris, Française des Jeux* and *Engie* by reducing current shareholding minimum requirements. In parallel, the French state will reinforce the regulatory framework in which these companies (*Groupe Aéroport de Paris* and *Française des Jeux*) operate to ensure that they achieve the objectives foreseen as when they were public. In addition, the draft law changes the issuance of golden shares in strategic sectors; notably, it opens the possibility for the State to issue golden shares in an extended number of sectors[41]. The draft law also proposes a reform to reinforce the French mechanism to screen foreign investment in strategic sectors, motivated by the need to protect strategic interests[42]. Finally, the draft law establishes new instruments to channel household savings, as France has one of the highest households savings rate in the EU (13.8 % in 2017, compared to 11.8 % in the Euro area) of which only 11 % is invested in

[39] Garicano L., Lelarge C., and Van Reenen J. (2016), *Firm Size Distortions and the Productivity Distribution: Evidence from France,* American Economic Review 2016, 106(11): 3439–3479

[40] De Williencourt, C., Faci, A., and S. Ray (2018), *Quel effet macroéconomique du PACTE ?*, Lettre Trésor-Éco n° 226, Septembre.

[41] The Commission will be officially notified by the French authorities.

[42] The draft law PACTE introduces changes similar to the Commission's proposal on the screening of investment presented in September 2017, currently being finalised by the co-legislators.

companies' shares, reflecting a preference for low-risk products (life insurance, regulated savings accounts)[43].

More incentives for researchers in the public sector to collaborate with industry have been proposed. The provisions of the *Allegre* law (1999), which allows researchers employed in the public sector to create companies, collaborate with the private sector and join companies' management board, are underused and complex. The draft law PACTE (see above) proposes to relax these rules and increase the working time researchers can spend in companies (from 20 % up to 50 %). It also provides additional career incentives for researchers to collaborate with the private sector.

Further details on how the Innovation and industry fund will operate have been announced. This fund has been officially launched in January 2018. EUR 70 million will be allocated to support start-ups and EUR 150 million to collaborative research projects in promising research areas such as artificial intelligence where France has good results (patents) and a strong human capital base. It remains to be seen how the fund will coordinate its actions with other existing public support schemes as, according to the OECD[44], public intervention in innovation is already very fragmented in France. A new governing council (*Conseil de l'Innovation*) has been set up in July 2018 and tasked to define priorities of national innovation policy and to identify measures to achieve more consistency and rationalisation of public support schemes.

The 4th Phase (2019-2022) of the competitiveness poles has been announced. The call for proposals published in July 2018 suggests that some of the design weaknesses identified in a previous evaluation[45] have been addressed. In particular, the new phase calls for a higher degree of concentration of public money into poles of strategic and promising industrial sectors. It also introduces performance criteria (success rate in national and European call for proposals) against which additional budget will be allocated and strengthens the share of financing from the private sector.

Evaluations of the R&D Tax Credit (CIR) are still ongoing. In 2016, the commission working on the assessment of innovation policies (CNEPI) has commissioned three micro-econometric evaluations of the CIR looking at the impact on innovation, recruitment of doctorates, and synergies with others existing public support schemes. The publication of results has been delayed at several occasions. The report by CNEPI is now expected in early 2019. Other studies on the CIR will be launched in 2019 to assess its macroeconomic impact.

A report on the direct national funding to innovation (worth EUR 3.1 billion in 2017) has been published in 2018. It contains 55 proposals to improve public support to innovation. Some of these measures are being implemented. Four experts were asked to review public support to innovation[46]. They concluded that the economic impact of R&D is suboptimal in France, despite a significant amount of public investment allocated to research and innovation. A number of barriers are identified, notably insufficient cooperation between public research and firms, potential to improve the investment friendliness of the tax system, and the funding available for disruptive technologies to bring them to the commercial stage.

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[43] See the presentation of the draft PACTE law, https://www.economie.gouv.fr/files/files/ESPACE-EVENEMENTIEL/PACTE/bro-a4-pacte-web.pdf

[44] OECD (2014), *Reviews of Innovation Policy: France 2014*, http://www.oecd.org/publications/oecd-reviews-of-innovation-policy-france-2014-9789264214026-en.htm

[45] Cour des Comptes (2016), *La politique des pôles de compétitivité*, https://www.ccomptes.fr/fr/publications/la-politique-des-poles-de-competitivite

[46] Distinguin, S., Dubertret, J., Lewiner, J., Stéphan, R. (2018), *Rapport sur les aides à l'innovation*, https://cache.media.enseignementsup-recherche.gouv.fr/file/Innovation/16/0/Rappport_sur_les_aides_a_l_innovation_985160.pdf

All in all, while adopted and announced measures may improve the business environment in France, there is still room to enhance the efficiency of public support schemes for research, development, and innovation activities. After the 2018 law to improve the interaction between private sector and public administration, the draft law aiming to revise the most important aspects regulating a firm's life (PACTE law) aims at smoothening regulatory thresholds linked to the size of a firm and reducing the stakes of the state. Public support schemes to innovation continue to be evaluated, but it is not clear yet how evaluation results will be reflected in subsequent policy initiatives.

Annex I: Overview of MIP-relevant reforms

MIP objective: improving public finances			
Public finances			
Strategy to reduce the public expenditure			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected by end of 2019: On the expenditure side, the Draft Budgetary Plan (DBP) envisages new consolidation measures on the State and on healthcare expenditure while confirming the contractual approach already defined at the level of local authorities in order to contain growth of operational expenditure. The main measure concerns the moderation of the indexation of retirement pensions and other social benefits, with savings estimated at EUR 3.5 billion. Despite the increase of the healthcare spending norm (ONDAM), savings compared to trend are credibly estimated at EUR 3.8 billion. Other saving measures concern the update of means testing for housing benefits, associate with EUR 0.9 billion savings; the continued reduction of subsidised employment contracts (*contrats aidés*) which would imply savings for EUR 0.8 billion; the reduction of production subsidies for EUR 0.3 billion and, on the State wage	**2018:** The growth target for healthcare spending (ONDAM) was revised to 2.3% in 2018 from 2.1% and the local government expenditure growth target (ODEDEL) was set at 1.2%. Subsidised contracts were significantly reduced, housing allowances for the social housing sector cut and the State wage bill reduced by delaying the implementation of the civil servants reform, wage freeze and the reintroduction of one unpaid day in case of illness.		CSR (1) – 2018: "Ensure that the nominal growth rate of net primary government expenditure does not exceed 1.4 % in 2019, corresponding to an annual structural adjustment of 0.6 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio."

bill, the continued reduction in the number of public sector employees with net cuts of 4 164 central government jobs.			
Spending review			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Action publique 2022: A new approach to the transformation of public action was set forth in the multiannual public finances programming law for 2018-2022. The new spending review programme, called *"Action Publique 2022"*, is expected to materialise into a better use of public money and efficiency gains over the quinquennium, starting from 2020. Initiatives proposed up to now include, for example, digitalizing public services and revising public broadcasting.			CSR (1) – 2018: "Implement expenditure savings in 2018 and fully specify the objectives and new measures needed in the context of Public Action 2022, for them to translate into concrete expenditure savings and efficiency gains measures in the 2019 budget."
Reform of the pension system			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected in 2019: A reform of the pension system has been announced for 2019. This reform aims to unify the 42 different pension schemes co-existing at present.			CSR (1) – 2018: "Progressively unify the rules of the different pension regimes to enhance their fairness and sustainability."

Taxation			
Reducing the cost of labour			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
In 2019: the CICE is to be transformed into a permanent reduction in direct social security contributions on the same basis with additional 4% decrease at minimum wage level (degressive up to 1.3 times the minimum wage). In October 2018, the annual report of the monitoring committee for the Competitiveness and Employment Tax Credit (CICE) assessing the impact of the Tax Credit has been published. The report confirms previous findings on the effects of the measure in terms of employment and investment.		**In 2018:** The Competitiveness and Employment Tax Credit (CICE) has been lowered back down from 7% to 6% of payrolls for wages up to two and a half times the statutory minimum wage. **Since 2013**: Establishment of the monitoring committee for the Competitiveness and Employment Tax Credit (CICE).	CSR (2) – 2017: "Consolidate the measures reducing the cost of labour to maximise their efficiency in a budget-neutral manner and in order to scale up their effects on employment and investment."
Implement the decrease of the corporate income statutory rate			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
As of 2019: the draft budget law for 2019 reduces the corporate income tax to 31% (compared to 33.33% in 2018). The reduced rate of 15% for SMEs and of 28% for the first EUR 500 000 of profits will continue to apply.	**As of 2018:** The corporate income tax rate for the first EUR 500 000 of profits was reduced from 33.33% to 28%.		CSR (2) – 2017: "Take further action to implement the planned decrease in the corporate income statutory rate."

Simplify the tax system			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
In 2019: The 2019 DBP plans the suppression of 17 taxes yielding low revenues (out of which 8 were identified as inefficient by the 2014 report of the General Inspection of Finances). On tax expenditures, six inefficient tax expenditures are planned to be supressed, while four new ones (worth EUR 1 billion) to be introduced.			CSR (3) – 2018: "Simplify the tax system, by limiting the use of tax expenditures, removing inefficient taxes."
Reduce taxes on production weighing on companies			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected in 2019: As of 2019, the draft budget law plans to remove the tax payable on incentives and profit-sharing schemes in companies ("*forfait social*") for SMEs (below 50 employees). **Expected in 2019**: the draft law PACTE (*Projet de loi relatif à la croissance et la transformation des entreprises - PACTE*) introduces new thresholds exemptions for two taxes on production ("*versement transport*" and "*Fonds National d'Aide au Logement*", FNAL). Others taxes on production (worth 3.1% of GDP in 2016) remain untouched in the DBP 2019. A report reviewing taxes on production by the National Council for Industry was published in October 2018.			CSR (3) – 2018: "[…] reducing taxes on production levied on companies".

MIP objective: improving the functioning of the labour market			
Labour market			
Reform of the labour law			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
		In 2017: On 2 August, the French Parliament has adopted an Enabling Act allowing the government to take measures (*ordonnances*) to enlarge the field of collective bargaining, to simplify social dialogue, and to modify dismissal procedures. Ratification of the *ordonnances* adopted by the Council of Ministers and adoption of the complementing decrees required by the *ordonnances.*	
Reform of unemployment benefit system			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
In 2018: A new reform of the unemployment benefit system has been announced in September 2018			
Evolution of the minimum wage			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
		In 2018: No extra rise (*coup de pouce*) has been announced for 2018, in addition to the increase in the minimum wage implied by the automatic indexation rule.	CSR (2) – 2018: "Ensure that minimum wage developments are consistent with job creation and competitiveness."

MIP objective: improving the link between the education system and the labour market			
Education and social policies			
Vocational training and apprenticeship			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
	In 2018: The "*Plan d'investissement dans les compétence*s *2018-2022*" aims to provide training to 1 million of unemployed workers and 1 million of young who dropped out from school. A reform of the vocational education and training system has been adopted in 2018 to improve the governance and financing of the system and increase the attractiveness of initial vocational education and training and of continuous training.		CSR (2) – 2018: "Pursue the reforms of the vocational education and training system to strengthen its labour market relevance and improve access to training, in particular for low-qualified workers and jobseekers."
MIP objective: improving the business environment			
Business environment			
Reduce the administrative and regulatory burden to increase competition in the services sector			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected at the beginning of 2019: The law establishing an action plan to support firm growth *(Projet de loi relatif à la croissance et la transformation des entreprises - PACTE)* will improve new firm market entry and exit. First, it will simplify the procedures to start and register a new business. Second, it will also reduce the time and costs of			CSR (4) – 2017 "Further reduce the regulatory burden for firms, [...]"

insolvency procedures.			
Expected in 2019: The law establishing an action plan to support firm growth *(Projet de loi relatif à la croissance et la transformation des entreprises - PACTE)* is to reduce the number of employee thresholds for firms by suppressing the 10, 25, 100, 150 and 200 thresholds (to regroup at the 11, 50 and 250) and by lifting where requirements apply (e.g. from the 20 to 50 threshold). It also provides for a five-year transition period when reaching a threshold before it is considered relevant.			CSR (3) – 2018: "Reduce the regulatory and administrative burden […] to foster firms' growth."
	In 2018: The railway reform law (*Loi pour un nouveau pacte ferroviaire)* which implements the EU's Fourth Railway package, allows for competitive entry of new railway operators,and reforms the governance of the French National Railway Company (*Société nationale des chemins de fer français, SNCF*).)		CSR (4) – 2017: "Continue to lift barriers to competition in the services sector, […]"
Increase the performance of the innovation system			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
In March 2018: a report by the General Inspection of Finances assessing public support to innovation was published. Some of the measures highlighted in the report are part of the draft law PACTE (see above). **Since 2016:** three evaluations of the	**In July 2018:** An Innovation Council (*Conseil de l'innovation*) has been set up. **In January 2018:** the Innovation and Disruptive Fund has been launched. .		CSR (3) – 2018: "Step up efforts to increase the performance of the innovation system in particular by improving the efficiency of public support schemes."

R&D tax credit (CIR) have been commissioned by the National Commission on Investment of Innovation Policies. Results have not been published yet.			
Strengthen knowledge transfer between public research institutions and firms			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected in 2019: The law establishing an action plan to support firm growth *(Projet de loi relatif à la croissance et la transformation des entreprises)* will facilitate the mobility of researchers to the private sector			CSR (3) – 2018: "[…] strengthening knowledge transfer between public research institutions and firms."