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

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France - Monitoring of Policy Progress under the MIP

Executive Summary

This report is the third one on France under the Macroeconomic Imbalance Procedure (MIP) for countries experiencing excessive macroeconomic imbalances, which require decisive policy action and specific monitoring. It reviews the latest macroeconomic and policy developments in France since the February 2015 assessment of progress made on the implementation of Council recommendations.¹ This report includes information up until the end of October. Overall, France has made some progress in the implementation of structural reforms tackling the imbalances highlighted in the 2015 Country Report and responding to the Council Country-Specific Recommendations (CSRs) addressed to France on 14 July 2015.² Indeed, the French authorities have announced, adopted or implemented measures that address a large part of the 2015 CSRs. However, while ongoing reform efforts are clearly going in the right direction, the reform strategy of the French authorities appears piecemeal, as proposed actions often lack ambition and their implementation is not certain in all cases. This may generate a general feeling of a constant reform process with limited tangible results.

According to the Commission's 2015 Autumn forecast, after three years of very low growth, economic activity is projected to moderately accelerate in 2015, 2016 and 2017. Initially, growth is expected to be driven by strong private consumption, boosted by lower energy prices, low inflation and sustained wage growth. Only from 2017 is investment projected to recover. The contribution of net exports to growth is expected to remain negligible, even though the negative trend observed over the last five years for export market shares is expected to reverse in 2015, temporarily supported by the euro's depreciation. The need for deleveraging is expected to remain contained for the private sector and the increase in the level of private debt seems to have come to a halt. On the contrary, the persisting excessive deficit is projected to translate into a further increase in public debt up to 2017, highlighting the need for additional efforts in the next years to put the debt on a downward path. The labour market is set to remain weak and a decrease in the unemployment rate is unlikely to occur before 2017.

In some policy areas, progress has been made, but decisive reform implementation remains key for delivering the expected results. As regards the sustainability of public finances, a recent agreement between social partners improves significantly the sustainability of the complementary pension schemes, while enhancing incentives to work longer. Further progress has also been made in enhancing the fiscal framework for local authorities, with the

¹ European Commission (2015), Macroeconomic imbalances - Country Report – France 2015, European Economy, Occasional Papers No. 217, June 2015.

http://ec.europa.eu/economy_finance/publications/occasional_paper/2015/pdf/ocp217_en.pdf

² European Council (2015), Council recommendation of 14 July 2015 on the 2015 National Reform Programme of France and delivering a Council opinion on the 2015 Stability Programme of France (2015/C 272/14), http://ec.europa.eu/europe2020/pdf/csr2015/csr2015_council_france_en.pdf

completion of the legislative process related to the territorial reform and improvements in the indicative spending norm for local governments introduced in the Draft Budgetary Plan for 2016. Moreover, the fiscal measures to reduce the tax wedge on labour are ongoing as planned. The 2016 Draft Budgetary Plan leaves unchanged the *crédit d'impôt pour la compétitivité et l'emploi* (CICE) and confirms the implementation of the second phase of the Responsibility and Solidarity Pact, consisting of reductions in employers' social security contributions for wages comprised between 1.6 and 3.5 times the minimum wage, albeit with a three months' delay compared to earlier plans. The third annual evaluation of the CICE was published in September 2015 and an evaluation of the partial exonerations of social security contributions in place since the 1990s is expected by the end of the year. However, as these measures have a one-off impact, a sustained improvement in competitiveness will only be possible if developments in the cost of labour are durably contained, which will require an accompanying package of labour market reforms. As regards corporate taxation, the 2016 draft budget confirms the tax reductions previously announced.

Progress has also been recorded in other policy areas where, nonetheless, further action would be needed to fully address the relevant policy challenges. The first round of spending reviews linked to the budgetary procedure has shown that these reviews can potentially lead to substantial savings, although the savings generated so far have been limited. The law on economic activity, growth and equal opportunities (the so-called “Macron law”) of 6 August 2015 reduces the regulatory barriers to the exercise of and access to some regulated legal professions. However, most of the decrees implementing the law have not been published yet and some crucial aspects of the reform remain to be set up by decree. At the same time, unjustified regulatory restrictions remain in place for a large number of regulated professions. In addition, the Macron law introduced two measures to reform the *accords de maintien de l'emploi*, which allow firms facing severe economic difficulties to renegotiate wage, employment and working time arrangements, but further changes may be necessary to increase their take-up by companies, which has remained very limited so far.

In the remaining policy areas, reform efforts need to be stepped up with the identification and adoption of additional measures. In this last category three groups of measures can be distinguished: those announced but not yet specified in sufficient detail to be assessed, those that represent only very limited progress in addressing the relevant policy challenge, and those for which no action has been taken nor seems to be planned.

- Under the first group of measures, the authorities plan to present a draft law reforming the collective bargaining system in early 2016. The report of the working group chaired by Jean-Denis Combrexelle, the so-called 'Combrexelle report', provides the government with a set of proposals to improve the functioning of the collective bargaining system, by giving priority to company-level agreements in establishing the rules governing working time, wages, working conditions and employment. However, these recommendations are not binding for the government and, at this stage, it remains unclear which ones will be reflected in the draft law and to what extent the new legislation will contribute to ensuring that real wages evolve more in line with

productivity. Similarly, a reform of the unemployment benefit system is due to be adopted by 1 July 2016, but negotiations with social partners have not started yet.

- Second, the budgetary strategy has only been marginally reinforced in the draft budget for 2016 through the further specification of the additional measures for 2016 announced in the Stability Programme. Similarly, the measures taken or proposed with a view to reducing regulatory impediments to companies' growth have a limited degree of ambition or a temporary nature. Little effort has also been made to simplify the tax system, which continues to suffer from a lack of clarity and predictability weighing on the effectiveness of fiscal measures. As regards labour market segmentation, higher social contributions for very short-term contracts have failed to provide more incentives for employers to hire on longer-term contracts, while the overall effect of the measures contained in the French Small Business Act is *a priori* unclear. By contrast, the reform of the *justice prud'homale* introduced by the Macron law could reduce employers' costs associated with the choice to hire an employee with a permanent rather than a fixed-term contract, provided it is finally validated by the Constitutional Court.
- Finally, at this stage, the authorities do not envisage a reform of the minimum wage indexation mechanism, although it is a necessary component of a policy package to better align wages with productivity.

The impact of recent reforms on economic activity could be amplified by further reforms. According to the French authorities, the main reforms undertaken in France would increase GDP by 4.6% in 2020. However, this estimate does not take into account the financing of the measures. For all the reforms quantified, the impact on GDP and employment would be much smaller if considered *ex ante* budgetary neutral. By comparison, the OECD evaluates that the same structural reforms would increase GDP by 1.5% in 2020, when taking into account their financing. The measures having the largest effect on GDP are the *crédit d'impôt pour la compétitivité et l'emploi* (CICE) and the Responsibility and Solidarity Pact. According to DG ECFIN's simulations, these two measures alone would increase GDP by 0.4% in 2020 and could deliver up to 150 000 additional jobs, especially for low-income earners. The impact of these measures would be stronger if they were accompanied by other reforms, such as a labour market reform or product market reforms in the non-tradable sector.

Table 1: Key findings on the implementation of economic policy reforms

On track	Wait-and-see	Action wanted
<ul style="list-style-type: none"> • Reform of complementary pension schemes • Improvement in the fiscal framework for local authorities • Reduction in the cost of labour • Evaluation of fiscal measures to reduce the cost of labour • Phasing-out of a tax on production (C3S) and abolition of the exceptional levy on corporate benefits 	<ul style="list-style-type: none"> • Annual spending reviews • Reform of regulated professions • Reform of the <i>accords de maintien de l'emploi</i> 	<ul style="list-style-type: none"> • Increasing scope for derogations at company and branch level from general legal provisions for working time arrangements • Reform of the wage-setting process • Reform of the unemployment benefit system • Reinforcing the budgetary strategy • Removing regulatory impediments to companies' growth • Increasing the efficiency of the tax system • Reducing the segmentation of the labour market • Reform of the minimum wage indexation mechanism

Note: The table classifies reforms under review on the basis of their respective adoption and implementation process and their credibility 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 28 November 2014, the European Commission presented, in the context of the Macroeconomic Imbalance Procedure (MIP), its fourth Alert Mechanism Report³ 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 25 February 2015 – examined the nature, origin and severity of macroeconomic imbalances and risks in France. In its accompanying communication,⁴ the Commission concluded that "*France is experiencing excessive macroeconomic imbalances, requiring decisive policy action and specific monitoring.*" In particular, in a context of low growth and low inflation, the risks stemming from the deterioration in both cost and non-cost competitiveness and from the high level of indebtedness and rising public debt were judged to have significantly increased. Therefore, the need for action to reduce the risk of adverse effects on the French economy and, given its size, of negative spillovers to the economic and monetary union, was identified as particularly urgent.

For France, the Commission's conclusions of the 2015 in-depth review represented a stepping-up of its status under the MIP compared to 2014. However, there was no immediate activation of the MIP corrective arm, as the Commission decided to reassess the situation of France in May 2015, on the basis of the National Reform Programme. Indeed, the decision to categorise the macroeconomic imbalances of France as excessive was based on the nature of the imbalances and the insufficient policy response given by France at the time of the Country Report publication. In May 2015, on the basis of the policy commitments announced by France in the National Reform Programme, notably those concerning the intensification of the policy measures in the labour market, the Commission put on hold the decision to trigger the Excessive Imbalance Procedure (EIP).

On 13 May 2015, the Commission proposed a set of six country-specific recommendations (CSRs) for France, which were subsequently adopted by the Council on 14 July 2015. The CSRs stress the main policy gaps in France and propose policy actions that aim inter alia to ensure the sustainability of public finances and to favour competitiveness and growth, including measures to improve investment and employment prospects through labour and product market reforms.

This report presents the results of the specific monitoring by assessing the latest main policy measures taken by France since the publication of the 2015 Country Report. The report also discusses the estimated impact of recent reforms on economic activity provided by the French authorities, comparing it with the figures published in the latest report of the OECD and the analysis carried out by DG ECFIN. In order to underpin the findings of this document, a specific monitoring mission took place on 12-13 October 2015.

³ http://ec.europa.eu/europe2020/pdf/2015/amr2015_en.pdf

⁴ http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_comm_en.pdf

The present report reflects the content of France's 2016 Draft Budgetary Plan, transmitted on 15 October, as well as the Commission's 2015 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 to end-October.

2. Recent macroeconomic developments

According to the Commission's 2015 Autumn forecast, France's economic growth is projected to gradually accelerate to 1.1% in 2015, 1.4% in 2016 and 1.7% in 2017, after having stagnated for the last three years. The slow economic recovery is set to be firstly driven by private consumption, as the reduction in the price of energy, low inflation and sustained wage growth should support consumer spending from 2015. The fall in oil prices, 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 have contributed to improve firms' profit margins in the first half of 2015. However, this is unlikely to be enough to boost equipment investment before 2017, once aggregate demand will grow more rapidly and business confidence will improve more significantly. France's recent price developments do not suggest any deflation risk, because they reflect external factors. Indeed, the new deceleration in the harmonised consumer price index (HICP), observed over the summer, has been caused by declining energy prices, while core inflation remains well above zero. Inflation is therefore expected to slowly increase again from 2016 onwards, as soon as energy prices will stop falling and the domestic demand will rebound putting upward pressure on consumer prices. If long-term inflation expectations are affected by these short-term developments though, inflation could remain more durably subdued.

Export competitiveness is expected to improve substantially in 2015 and then to worsen in 2016, so that net exports would weigh again on the recovery in 2017. The current account deficit narrowed down to -0.9% of GDP in 2014, from -1.2% in 2012. Also, a marginal gain in export market shares was observed in both 2013 and 2014. This improvement is projected to continue in 2015, following the recent euro's depreciation, which has improved the price competitiveness of French firms. However, in terms of cost competitiveness the growth rate of productivity is not yet sufficient to compensate for labour cost developments, making it more difficult for firms' profit margins to return to pre-crisis levels.⁵ In particular, in 2014 French unit labour costs were still more dynamic in France than in the rest of the euro area. As the measures to lower labour costs recently undertaken by the French authorities are expected to have a one-off impact, a sustained improvement in competitiveness will only be possible if developments in the cost of labour are durably contained.

Deleveraging needs in the private sector remain moderate, while public indebtedness continues to increase. Consolidated private indebtedness, driven in particular by the weak financial situation of non-financial corporations, stabilised at 143.2% of GDP in 2014. The significant improvement in profit margins projected in 2015 should contribute to containing private indebtedness. On the contrary, the remaining large general government deficit is

⁵ Profit margins of the non-financial corporations increased from 29.1% in the second quarter of 2014 to 31.1% in the second quarter of 2015. However, they stood at 33.7% in the first quarter of 2008, prior to the crisis.

projected to translate into a further increase in public debt, which will reach 97.4% of GDP in 2017 from 95.6% in 2014.

The labour market remains weak. The unemployment rate is projected to remain at 10.4% in 2016 and to only slightly decline in 2017, notwithstanding the implementation of measures to reduce the cost of labour. These are indeed likely to have only a limited and lagged impact on the labour market, as employers' priority is to restore lost productivity before creating jobs. Besides, the labour market remains segmented with constant difficulties to move from temporary to permanent contracts and a further reduction in the length of temporary contracts. Firms continue to face some difficulties in adapting their productive resources, demand for labour included, for promptly answering to the challenges stemming from a sudden change in the macroeconomic scenario in which they operate.

3. State of play of MIP relevant reforms

This section provides an assessment of the policy actions announced, adopted or implemented by the French authorities since the publication of the 2015 Country Report on 25 February 2015. It evaluates the degree of implementation of the six CSRs addressed by the Council to France in July 2015, given that all the CSRs are relevant for the macroeconomic imbalance procedure. It is followed by a section quantifying the impact of recent reforms on the economic activity.

3.1. Measures to reinforce the budgetary strategy

CSR 1: *Ensure effective action under the excessive deficit procedure and a durable correction of the excessive deficit by 2017 by reinforcing the budgetary strategy, taking the necessary measures for all years and using all windfall gains for deficit and debt reduction. Specify the expenditure cuts planned for these years and provide an independent evaluation of the impact of key measures.*

France has had an excessive deficit since 2008 and its correction has proceeded more slowly than in the rest of the euro area. France started the crisis with a higher general government deficit than the rest of the euro area and experienced a similar deterioration in 2009, resulting in a deficit peak of 7% of GDP versus 6% in the rest of the euro area (see Figure 1). However, overall the deficit correction has been slower in France than in the rest of the euro area, with a reduction of the deficit being on aggregate 1 percentage point lower since 2009. Only in 2010 and 2013, the deficit reduction was higher in France than in the euro area. In 2014 the deficit in France was at 3.9% of GDP compared to 2.2% in the rest of the euro area. Against this context, France was recommended by the Council on 10 March 2015 to correct its excessive deficit by 2017 at the latest. France should reach a headline deficit of 4.0% of GDP in 2015, 3.4% in 2016 and 2.8% in 2017, which was deemed consistent with delivering an improvement in the structural balance of 0.5% of GDP in 2015, 0.8% in 2016 and 0.9% in 2017.

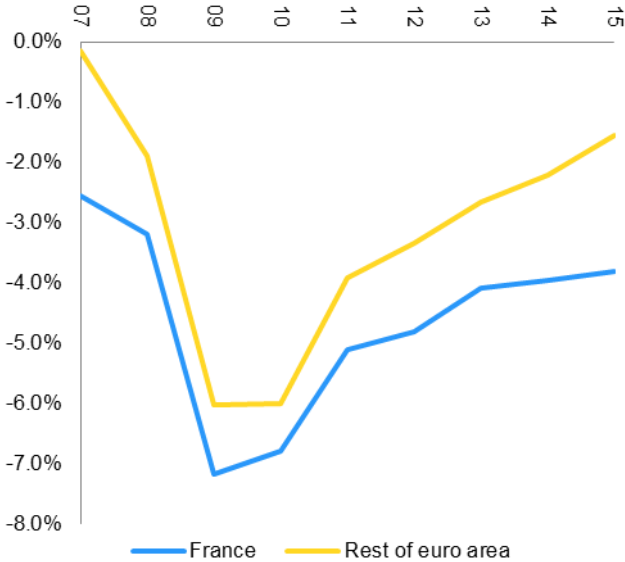
In July 2015 the Council recommended France to reinforce its budgetary strategy. The Commission 2015 Spring forecast, updated to take into account the report on action taken submitted by France on 10 June 2015,⁶ projected an improvement in the headline deficit from 3.8% of GDP in 2015 to 3.4% in 2016.⁷ At the same time, the structural improvement amounting to 0.3% of GDP in 2015 and 0.1% in 2016 fell clearly short of the effort of 0.5% and 0.8% of GDP recommended by the Council in March 2015. For these reasons it was concluded that the consolidation strategy pursued by France relied primarily on the better-

⁶ Rapport de la France sur la mise en œuvre des actions suivies d'effet consécutives à la recommandation du Conseil de l'Union Européenne de Mars 2015, 10 Juin 2015.

⁷ The updated Commission Spring forecast for 2016 was used in the Communication on action taken of 1 July 2015.

than-expected deficit in 2014, the improved cyclical conditions, and a continuation of the low interest rate environment and was therefore subject to risks. The Council hence recommended that in order to ensure a durable correction of the excessive deficit by 2017, the budgetary strategy would need to be reinforced.

Figure 1: Deficit developments in France and the rest of the euro area



Source: European Commission, 2015 Autumn forecast.

France's consolidation strategy is mainly expenditure-based. On the expenditure side, the government's strategy consists of a consolidation package of EUR 50 billion (about 2.3% of GDP) over the period 2015-2017, adopted in the multi-annual programming law for public finances for the period 2014-2019. This package on the expenditure side came after an uninterrupted period of increase in the tax burden, which peaked at 44.9% of GDP in 2014 from 41% in 2009. The EUR 50 billion savings are calculated against a trend expenditure growth estimated by the authorities. The overall expenditure trend would be 2.5% in nominal terms and 1.8% in real terms over 2012-2017.⁸ For each expenditure category, a specific trend is calculated, allowing deriving the amount of savings to be achieved. The mildly frontloaded plan spans the general government with the state and social security both contributing for 40% of the total savings and the local authorities for 20% (see Table 2). In the 2015 Stability Programme, additional savings of EUR 4 billion in 2015 and EUR 5 billion in 2016 were announced to offset the impact of the lower-than-expected inflation on the yield of certain measures. In total, for 2016, the Draft Budgetary Plan plans a reduction in expenditure by EUR 16 billion compared to trend growth, with the majority of savings stemming from social security followed by savings at the state and local government level (see Table 2).

⁸ Rapport économique, social et financier 2016.

Table 2: Updated EUR 50 billion expenditure package

	2015	2016	2017	2015-2017
State and its agencies	8.7	5.1	5.1	18.9
Local authorities	3.5	3.5	3.7	10.7
Social security	6.4	7.4	6.5	20.3
<i>of which health care expenditure</i>	3.2	3.4	3.4	10
<i>of which other</i>	3.2	4	3.1	10.3
Total	18.6	16	15.4	50

Source: Rapport économique, social et financier 2016.

On the revenue side, the main developments consist in reductions in taxes and employers' social security contributions in order to reduce the tax burden on labour and improve competitiveness. Announced in January 2014, the Responsibility and Solidarity Pact (RSP) contributes to a reduction in the tax burden and aims to increase employment, to improve competitiveness and to support the purchasing power of households. In total, the Responsibility and Solidarity Pact and the tax credit on competitiveness and employment (CICE) will reduce the tax burden for companies and households by about EUR 46 billion by 2017 (see Table 3).

Table 3: Tax and social security contribution cuts (EUR bn)

Tax and social security contribution cuts (EUR bn)	2014	2015	2016	2017
p.m. CICE tax credit	-10	-17.5	-18.5	-19.5
Measures of the Pact in favour of enterprises		-6.5	-13.5	-20.5
<i>Reductions in social security contributions</i>		-5.5	-9	-10
<i>Progressive abolishment of the C3S</i>		-1	-2	-5.5
<i>Corporate taxes</i>			-2.5	-4.5
Measures of the RSP in Favour of Households	-1.5	-3	-5	-5
Total	-11.5	-27	-38	-46

Source: Rapport économique, social et financier 2016.

The Commission's assessment is that the 2016 Draft Budgetary Plan is broadly compliant with the Stability and Growth Pact provisions, based on the headline deficit target despite the significant shortfall of the fiscal effort with respect to the recommended level. The Commission's Opinion on the Draft Budgetary Plan adopted on 16 November 2015⁹ summarises the Commission's assessment of the DBP and its compliance with the Stability and Growth Pact (SGP) and the Council Recommendation of 10 March 2015 on the correction of the Excessive Deficit. This assessment is based on the Commission's autumn 2015 forecast. Overall, the Commission is of the opinion that the Draft Budgetary Plan is broadly compliant with the SGP provisions as the recommended headline

⁹ Commission opinion of 16 November 2015 on the Draft Budgetary Plan of France.

deficit target is projected to be met in 2016. However, the DBP carries risks as regards compliance with the Council recommendation of 10 March 2015 as the fiscal effort is projected to fall significantly short of the recommended level, according to all metrics. The Commission has therefore invited the authorities to take the necessary measures within the national budgetary process to ensure that the 2016 budget will be compliant with the SGP.

Table 4: New consolidation measures announced in the Stability Programme

New measures announced in the Stability Programme	2016
State	1
<i>state spending</i>	0.6
<i>investment in the future programme</i>	0.4
local authorities	1.2
social security	2.2
<i>health care (ONDAM)</i>	0.5
<i>New unemployment agreement (2015-2016)</i>	0.5
<i>Modalities of indexation</i>	0.5
<i>Other social security</i>	0.7
Fiscal regularisations	0.6
Total	5

Source: Rapport économique, social et financier 2016.

Debt dynamics between France and the rest of the euro area are diverging, mainly due to the higher French primary deficit. At the outset of the crisis, France and the euro area had a similar government debt-to-GDP ratio (see Figure 2). Until 2013, the evolution of public indebtedness was similar in France and in the euro area, although general government indebtedness in the euro area was somewhat higher. However, since 2014 the debt ratio in the euro area has reached a peak, whereas in France public indebtedness has continued growing, albeit at a decelerating pace. Based on the 2015 Autumn forecast, the general government debt in France will reach 97.4% of GDP by 2017, i.e. about 8 percentage points above the level in the rest of the euro area. A comparison of the debt dynamics in France and the euro area as a whole for the period 2011-17 shows that the slower deficit adjustment in France explains most of the differences, whereas real economic growth, interest expenditure and stock-flow adjustments partly compensated for the higher primary deficits for the period as a whole (see Figure 3).

The authorities did not provide an independent evaluation of the impact of the key measures included in the Draft Budgetary Plan for 2016, as called for by the Council, but stressed that they are already subject to numerous evaluations. To further improve fiscal governance and to dispel doubts that key budgetary measures may not yield the envisaged results, the Council had recommended France to provide an independent evaluation of their impact. However, during the MIP specific monitoring mission, the authorities pointed out that the Council of State and other independent bodies review *ex-ante* the impact of the measures included in the budget. For example, the *Comité des finances locales* is consulted on

measures related to local finances, e.g. the reform of the *dotation globale de fonctionnement* and the norm for local authorities (ODEDEL) for 2016. The *Comité d'Alerte de l'ONDAM* provides an opinion on the national objective for healthcare spending (ONDAM) and the measures taken to achieve it. Also, the Court of Auditors publishes each year a report on the situation and prospects of public finances and has a general mission to evaluate and control public policies. Concerning the macro-economic scenario underlying the draft budget, the High Council of Public Finances (HCPF) reviews the macro-economic scenario underlying the draft budget. Finally, the Court of Auditors submits a report, which is annexed to the adopted budget, analysing *ex post* the implementation of the budget and in particular the usage of credits per mission and programme.

Figure 2: Public debt-to-GDP ratio

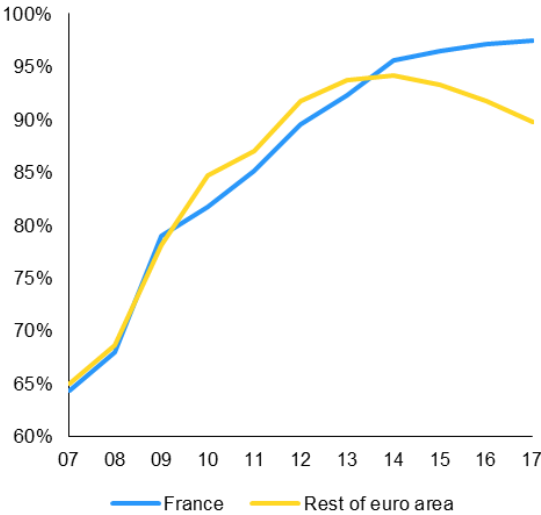
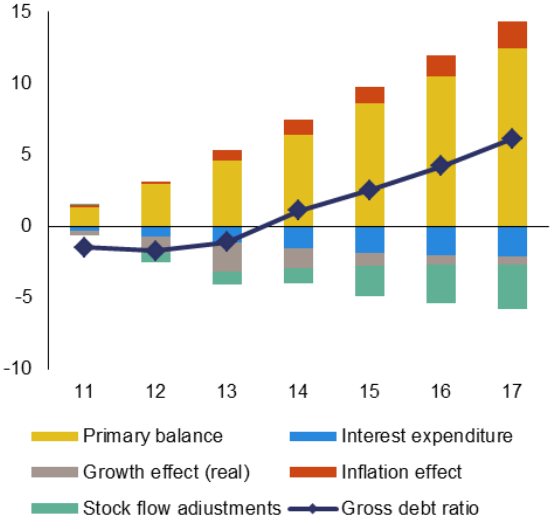


Figure 3: Difference in debt dynamics between France and the euro area



Source: European Commission, 2015 Autumn forecast.

3.2. Measures to improve the sustainability of public finances

CSR 2: Step up efforts to make the spending review effective, continue public policy evaluations and identify savings opportunities across all sub-sectors of general government, including on social security and local government. Take steps to limit the rise in local authorities' administrative expenditure. Take additional measures to bring the pension system into balance, in particular ensuring by March 2016 that the financial situation of complementary pension schemes is sustainable over the long term.

Total public expenditure rose faster in France than in the rest of the euro area over the last 10 years, but this trend is expected to reverse. Over the period 2006-2015, real primary expenditures rose by 17% in France versus 9% in the rest of the euro area, although the

expenditure-to-GDP ratio was already higher than in the rest of the euro area at the beginning of the period. With the aforementioned EUR 50 billion consolidation package, the government is attempting to change this trend and control expenditure growth. To be able to reduce the level of expenditure in a sustainable manner, the Council recommended France to step up efforts to make the spending review effective, take steps to limit the rise in local authorities' administrative expenditure and take additional measures to bring the pension system into balance, in particular ensuring by March 2016 that the financial situation of complementary pension schemes is sustainable over the long term.

Figure 4: Growth of real primary expenditure

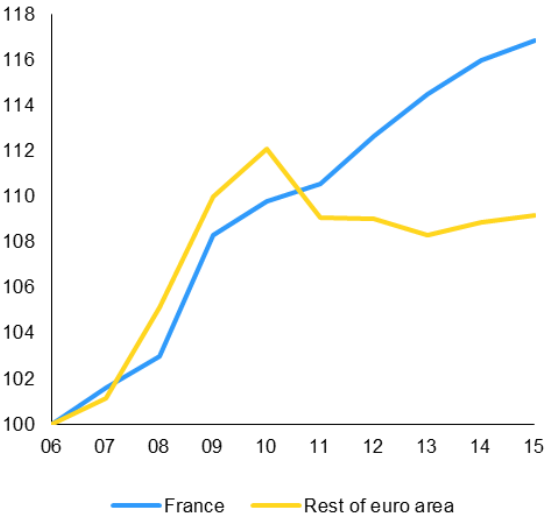
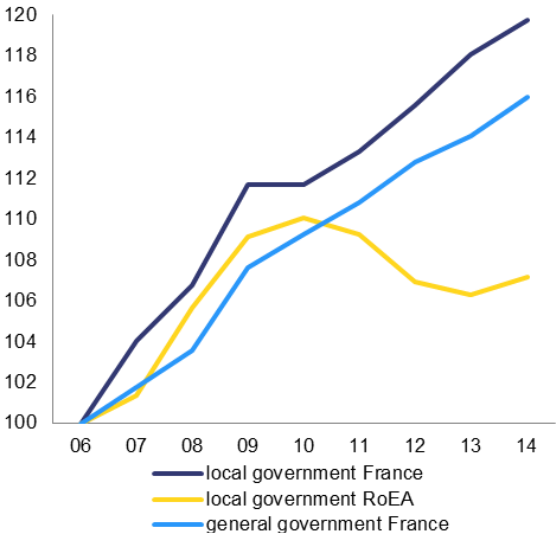


Figure 5: Growth of operational expenditure in real terms¹⁰



Source: European Commission, 2015 Autumn forecast, and Eurostat.

The spending reviews may become an important tool to identify efficiency gains in public expenditure, despite the limited amount of savings generated by the first round of reviews and included in the draft budget for 2016. The spending reviews, which were initiated this year, aim at proposing concrete measures to help the achievement of the budgetary targets of the following year (see Box 1). The first round of spending reviews conducted in 2015 with a view to underpinning the spending targets of the budget for 2016 eventually resulted in the identification of about EUR 500 million savings. This amount is small compared to the overall expenditure savings target of EUR 16 billion for 2016, but also in light of the savings potential in the domains that were analysed. Nonetheless, the spending reviews have a number of positive features, suggesting that they could deliver more savings in the future. They are fully embedded in the budgetary cycle, concern all the sub-sectors of the general government and financing instruments of public policies, and have a stronger focus on

¹⁰ Operational expenditure is defined here as total expenditure minus gross fixed capital formation. Deflated by the GDP deflator.

generating savings compared to the other existing spending review exercise, the *modernisation de l'action publique* (MAP). The planned improvements of the process for next year, and in particular the *ex-ante* specification of a savings target for each topic reviewed, should also increase the amount of savings that can eventually be integrated in the budget. However, the degree of transparency of the spending reviews could be increased. Currently, the spending reviews reports are fully submitted to the parliament, but the publicly available information only focuses on the decisions taken following the spending reviews. It is therefore not possible to assess the quality of the spending reviews, nor the total amount of savings proposed. If more information was made public, the budget could justify why certain savings proposed by the spending reviews have not been taken up.

Box 1: The spending reviews

The multi-annual programming law for the period 2014-2019 introduced the concept of spending reviews. The spending reviews are independent assessments carried out by the *Inspection Générale des Finances* (IGF) or other inspection bodies¹¹ to identify savings that can contribute to the achievement of the budgetary targets. In principle, any government related expenditure can be covered by a spending review. So the exercise can cover expenditures at local, state, social security or agency level.

A typical cycle of the spending review would start in October of the year preceding the budget with an agreement between the Minister of Finance and the other Ministers in the Government on the policy areas to be subject to a spending review and on the amount of savings to be targeted. Based on this agreement the Minister of Finance sends a mission letter for the spending reviews to the IGF or other inspection bodies specifying the sector and amount needed for the spending review giving them a clear mandate. The IGF then carries out its autonomous review, which is delivered by February to the Minister of Finance and the Parliament. Based on the assessment of their technical feasibility and their political opportunity, the proposals of spending reviews would then be included in the first draft of the budget. Together with the transmission of the budget to the Parliament, a summary of the savings generated by the spending reviews is made public. As the Parliament has access to the whole information contained in the spending review, its democratic control over the budget process is enhanced.

For the 2016 Draft Budgetary Plan, the first round of spending reviews yielded savings of nearly EUR 500 million in the following areas: charges for postage and the judiciary, sickness insurance, healthcare for medical devices, personal housing allowances, subsidies for innovation and sectoral exemptions of social contributions. Although the expenditure reviewed in 2015 amounted to EUR 57.6 billion, the final savings from this exercise represent less than 1% of the total amount under review. At this stage, it is unclear which arbitrages were made by the authorities on the measures initially put forward by the reports of the inspection bodies, as these reports have not been made public.

In 2017, the amount of expenditure under review is more important (EUR 73 billion) than in the first exercise, but it is not yet clear which savings targets are put forward or how the savings proposed for local administration will be realised.

¹¹ Other inspection bodies such as IGAS (Inspection Générale des Affaires Sociales) or IGA (Inspection Générale de l'Administration).

1st Spending review for the 2016 budget		Overall expenditure amounts (bn €)	Savings included in PLF/PLFSS 2016 (bn €)
State	Charges for postage	0.2	0.02
State	Charges for the judiciary	0.5	0.02
State	Elections	0.2	-
State	Personal housing allowances	17.0	0.23
State+APU	Subsidies for innovation	0.7	0.02
APUL	Cost reduction of local administrations norms	-	-
ASSO	Real estate assets of ASSO	1.0	-
ASSO	Healthcare expenditure for medical devices	9.8	0.07
ASSO	Sectoral exemptions of social contributions	15.0	0.10
ODAC	Financial situation of universities	11.0	-
ODAC	Engineer schools	2.0	-
ODAC	Audit of the strategy of the permanent assembly of chambers of agriculture	0.3	0.01
TOTAL		57.6	0.453
* ASSO- Social Security Administrations, APUL- Local administrations, ODAC- Various central			
<i>Source: Annexe au projet de loi de finances pour 2016.</i>			
2nd Spending review for the 2017 budget		Overall expenditure amounts (bn €)	
All administrations	Initial education of civil servants		0.3
All administrations	Public intervention for sports		13.0
APUL	The annexed budgets of local authorities and labour unions		22.0
APUL	The management of the compensation fund for VAT		6.0
APUL	Public procurement at local level		9.0
APUL	Patrimony of APUL		N/A
ASSO	Medical transport		4.2
ASSO	Healthcare insurance outside France		1.0
ODAC	The payroll of agencies and operators		17.0
State+ODAC	Management of agricultural aid from the CAP		0.3
State+ODAC	Mutualisation of helicopter capacity		0.2
State+ODAC	Usage tax free areas		0.1
TOTAL			73.0
* ASSO- Social Security Administrations, APUL- Local administrations, ODAC- Various central administration organisms			
N/A= non available			
<i>Source: Annexe au projet de loi de finances pour 2016.</i>			

The indicative expenditure norm for local authorities has been further specified in the Draft Budgetary Plan for 2016. In the 2015 budget an indicative expenditure norm (ODEDEL) for local authorities was introduced. It consists of two norms, one for operational expenditures and one for total expenditures. For 2016 the growth target for operational expenditure at local level has been set at 1.6%, whereas the overall expenditure target is at 1.2%. This implies that the government has set the target for local investment at a lower level than that for operational expenditures and that the differentiation of the spending targets is not used to ensure a more balanced adjustment between operational and investment expenditure. This year the ODEDEL has been improved as the expenditure targets are now set for the different types of local authorities, taking into account their competences and the dynamism of the associated expenditures. While respecting the constitutional division of competences,¹² possible further steps to improve the functioning of the ODEDEL would be to monitor in-year the execution of the budget and to create an Alert Committee (*Comité d'alerte*), to monitor its respect, similar to the committee existing for healthcare spending. The latter, in fact, has proven its usefulness in ensuring the respect of the healthcare norm.

Table 5: Recent trends in expenditure of local authorities

	Total (%)	2014 y-o-y change (%)	2015 y-o-y change (%)	2016 (f) y-o-y change (%)
Total expenditure	100	-0.3	-0.6	1.2
Operational expenditure	82	2	1.1	1.5
...of which intermediary consumption	19	0.3	-1	0
...of which compensation of employees	31	3.9	2.4	2.1
...of which social transfers	10	4.2	4.2	3.9
Gross fixed capital formation	18	-9.6	-8.5	-0.2

Source: *Rapport économique, social et financier 2016*. (f) = forecast.

The combination of the indicative expenditure target for local authorities and the reduction in state transfers to local authorities is containing operational expenditures, but also local investment. In the short term, the ODEDEL is backed up by a decrease in the transfers of the state to local authorities by over EUR 11 billion over 2015-2017. This is a major factor to curb expenditures at local level, along with the golden rule limiting local authorities' decisions for the operational part of their budget. Based on the latest information, it can be observed that the increase in operational expenditures in nominal terms is expected to slow down, also due to subdued inflation developments. This trend is confirmed by surveys of the temporary-work agency Randstad showing that local authorities are more reluctant to

¹² Article 72 of the French Constitution.

hire.¹³ Moreover, as the cut in state transfers reduces the gross saving rate of local authorities, it also reduces their repayment capacity to borrow for investment purposes. The cut in state transfers can hence lead to the postponement of investment decisions until operational expenditures are sufficiently reduced to restore the gross saving rate. Indeed, local investment is contracting strongly and more than what could be expected from the effects of the electoral cycle alone (see Table 5).

All the laws related to the territorial reform have now been approved and provide a toolbox to improve the efficiency of local spending, but implementation on the ground will be crucial. On 16 July 2015, the Parliament adopted a new legislation underpinning the ongoing local government reform (the so-called “*loi NOTRe*”). Following the adoption of the law on the territorial organisation and on metropolitan areas (MAPTAM) on 27 January 2014, of the law reducing the number of regions and reforming the agenda of local elections on 16 January 2015, and of the law promoting the merger of urban municipalities on 16 March 2015, the *loi NOTRe* reorganises the competences of the executive powers of the different administrative levels and reduces the number of inter-communalities (a type of local entities) by increasing the minimum number of represented inhabitants. All legal building blocks of the territorial reform are hence in place, but the most important phase of the reform is starting now, with its implementation on the ground. Indeed, the framework laws only provide a toolbox that can be used by the different local authorities to reform their territories and reap efficiency gains. In the context of the MAPTAM law, it can be seen that local authorities have seized these opportunities to different degrees.¹⁴

A recent agreement between social partners improves significantly the sustainability of the complementary pension schemes, while enhancing incentives to work longer. On 30 October 2015 social partners agreed on a package of measures for the complementary pension schemes (AGIRC-ARRCO) that would yield EUR 8.6 billion¹⁵ (0.4% of current GDP, 0.2% of 2030 GDP based on the 2015 Ageing Report GDP projections) savings by 2030. 70% of these savings will come from containing pension expenditures by continuing the current under-indexation of supplementary pensions until 2018, by delaying the timing of the annual revaluation of pensions from April to November, and by improving incentives to work longer. Increases in social security contributions would correspond to 25% and other measures for 5% of the savings. As a result, from 2019 onwards and in the general case, a full complementary pension could only be taken up from the age of 63, while currently employees can take up their full complementary pension at the age of 62, in line with the conditions for taking up the legal pension.¹⁶ In addition, employees retiring earlier would get a *malus* of 10% for at least 2 years, while employees working longer than needed would receive a bonus of 10% to 30%. The agreement thus represents substantial progress in response to this CSR. However, the

¹³ Randstad (2015), Baromètre Ressources Humaines des collectivités locales 2015. Baisse des effectifs en vue dans les collectivités locales en 2015.

¹⁴ Association des Maires de France et des Présidents d'intercommunalité, Métropole Aix-Marseille: les maires veulent modifier la loi, Maire Info, Edition du 27 Octobre 2014.

¹⁵ According to AGIRC-ARRCO estimation.

¹⁶ Employees can retire at the age of 62 and receive the full pension rate under the basic scheme only if they have worked a sufficient amount of years for being entitled to claim the pension rights accumulated.

agreed savings would not be sufficient to fully restore the financial balance of the complementary pension schemes, with a remaining gap of up EUR 4 billion (0.1% of GDP) by 2030 under the less favourable economic scenario considered by the *Conseil d'Orientation des Retraites*.¹⁷ Therefore, additional measures would be needed to guarantee the sustainability of the complementary pension schemes.

3.3. Measures to improve cost competitiveness through labour cost adjustments

CSR 3: *Ensure that the labour cost reductions stemming from the tax credit for competitiveness and employment and from the responsibility and solidarity pact are sustained, in particular by implementing them as planned in 2016. Evaluate the effectiveness of these schemes in the light of labour and product market rigidities. Reform, in consultation with the social partners and in accordance with national practices, the wage-setting process to ensure that wages evolve in line with productivity. Ensure that minimum wage developments are consistent with the objectives of promoting employment and competitiveness.*

The French government has set up two flagship measures to reduce the cost of labour for firms. These are the tax credit for employment and competitiveness or *crédit d'impôt pour la compétitivité et l'emploi* (CICE), implemented since 2014, and the exemptions of employers' social security contributions contained in the Responsibility and Solidarity Pact, at play since 2015. Their total estimated cost would be EUR 30 billion in 2017 (1.5% of GDP).¹⁸ The labour cost reductions provided by these two measures complement the partial exoneration of social security contributions paid by employers (the so-called *allègements généraux des cotisations sociales patronales*) in place since the 1990s, which represented a cost of EUR 19.9 billion in 2014.¹⁹

The 2016 Draft Budgetary Plan leaves the CICE unchanged and confirms the implementation of the second phase of reductions in employers' social security contributions planned in the Responsibility and Solidarity Pact. In 2016, the CICE will continue to provide a reduction in the labour cost paid by a firm equal to 6% of the total payroll of the company, excluding wages higher than 2.5 times the minimum wage. Moreover, the Responsibility and Solidarity Pact will lower employers' family contributions for employees earning salaries included between 1.6 and 3.5 times the minimum wage,

¹⁷ December 2014 COR estimations, Document No.4, p. 32 (<http://www.cor-retraites.fr/article444.html>).

¹⁸ See the 2015 French National Reform Programme, p. 39, http://ec.europa.eu/europe2020/pdf/csr2015/nrp2015_france_fr.pdf.

¹⁹ See Cour des Comptes (2015), *Référé sur le pilotage et le suivi des allègements généraux de cotisations sociales patronales sur les bas salaires*, en tant qu'instruments de la politique de l'emploi of 21 April 2015, <https://www.ccomptes.fr/Publications/Publications/Le-pilotage-et-le-suivi-des-allègements-generaux-de-cotisations-sociales-patronales-sur-les-bas-salaires>. See also the joint answer by the Minister of Finance, the Minister of Labour, Employment, Professional Training and Social Dialogue and the Minister of Health and Solidarity, <https://www.ccomptes.fr/Publications/Publications/Le-pilotage-et-le-suivi-des-allègements-generaux-de-cotisations-sociales-patronales-sur-les-bas-salaires>. Finally, for data concerning the cost of the allègements généraux des cotisations sociales patronales, see Acoff (2014), *Conjoncture et Financement*, Rapport d'Activité Thématique 2014.

following what was implemented already in 2015 for employees earning salaries of up to 1.6 times the minimum wage.²⁰ Contrary to what was expected, the second phase of the Responsibility and Solidarity Pact will be implemented with a three months' delay with respect to the original timing, *i.e.* starting from April 2016 instead of January 2016, in order to finance other measures in favour of companies included in the 2016 draft finance law.

The evaluation of the measures to reduce the cost of labour is on-going. First, the third report on the CICE was published on 22 September 2015 by the *Comité de suivi du crédit d'impôt pour la compétitivité et l'emploi*, which is in charge of performing a yearly evaluation of this tax credit (see Box 2).²¹ The 2015 annual report highlighted for the first time a full ownership of the CICE by French firms, which have familiarized themselves with this new fiscal measure. The report also points out that, according to the annual survey conducted by INSEE, in 2015 French firms operating both in the manufacturing and services sectors intend to use the CICE more to increase their profit margins and employment than to increase salaries. However, a first *ex-post* evaluation measuring the effects of the CICE will only be available in 2016, due to the time needed for collecting firm-level data. Second, the field of action of the *Comité de suivi du Crédit d'impôt pour la compétitivité et l'emploi* has been extended to all public subsidies targeting firms, thanks to the creation of the *Comité de suivi des aides publiques aux entreprises et des engagements*. As it is too early to work on an assessment of the reductions in employers' social security contributions contained in the Responsibility and Solidarity Pact, the *Comité de suivi des aides publiques aux entreprises et des engagements* is currently evaluating the *allègements généraux des cotisations sociales patronales* and the results of this assessment are expected for the end of 2015.²²

Box 2: Third annual report on the *crédit d'impôt pour la compétitivité et l'emploi* (CICE)

On 22 September 2015, the *Comité de suivi du crédit d'impôt pour la compétitivité et l'emploi* published the third annual report on the CICE. For the first time, the 2015 report shows a significant take-up of the tax credit by companies, contrary to what was observed in the past two years. Indeed, for 2015, the gap between estimated and actual claims is expected to be very small if not negligible; on 31 July 2015 firms had already claimed EUR 14.2 billion out of the total EUR 18.2 billion expected for 2015.²³ With respect to 2014, this represents an

²⁰ The implementation of the Responsibility and Solidarity Pact implies that employers' family contributions are lowered from 5.25% to 3.45% (1.8 points less) for employees earning salaries of up to 1.6 times the minimum wage from 2015 onwards and for employees earning salaries of up to 3.5 times the minimum wage from 2016 onwards. In addition, self-employed workers and artisans benefit from a drop of more than three points in social security family contributions from 2015 onwards.

²¹ *Comité de suivi du crédit d'impôt pour la compétitivité et l'emploi* (2015), "Rapport 2015 du Comité de suivi du crédit d'impôt pour la compétitivité et l'emploi," France Stratégie.

²² This work will add to the report published by the *Haut Conseil du financement de la protection sociale* on 16 July 2015, analysing the pros and cons of transforming the *allègements généraux des cotisations sociales patronales* into permanent reductions of social security contributions. Also, Nouveau C. et B. Ourliac (2012), "Les allègements de cotisations sociales patronales sur les bas salaires en France de 1993 à 2009," Trésor éco n°97, DG-Trésor and Garsaa, A. (2014), "Impact des allègements de cotisations sociales patronales sur la croissance des entreprises et des établissements," Institut de Recherche Economiques et Sociales (IRES), Septembre 2014 provide a review of the literature on the cost and benefit of social security exemptions up to 2009.

²³ In the draft finance law 2016, the estimated claims amount to EUR 17.9 billion. This amount is calculated on the basis of 2014 wages, claimed made and actual credit disbursed in 2014. It thus slightly differs from the amount of EUR 18.2 billion estimated on the basis of 2014 wages only.

increase of 30% in the number of firms that have claimed the CICE over the first seven months of the year. This suggests that firms have passed through a learning phase and are now fully familiar with the functioning of the new fiscal measure.

The 2015 report also shows that the CICE would contribute, along with the decrease in the oil price, to the increase in French firms' profit margins that has been taking place since the second half of 2014 and confirmed in the first half of 2015. Using INSEE data, the report argues that in 2014 profit margins decreased only by 0.3 percentage points on average over the whole year (from 29.7% in 2013 to 29.4% in 2014), because the CICE has compensated by +0.9 percentage points the combined negative effect of increasing real wages (-1.3 percentage points) and low productivity growth (+0.1 points) on profit margins. The positive effect of the CICE on profit margins seems also to be confirmed by the last survey conducted by INSEE in July 2015, in which about 50% of firms (both in the manufacturing and services sectors) have declared to use the CICE for increasing their profit margins in 2015 and about 30% of firms indicated to be willing to transform the increase in their profit margins into higher investments.

Finally, the report seems to indicate a low correlation between the CICE and salary increases, because the sectors having benefitted most from the CICE (i.e. the sectors employing low-qualified workers) are the ones having recorded lower wage increases. As additional evidence of this claim, the report highlights that representatives of employees do not systematically use the CICE as a bargaining tool for asking higher salaries. In fact, work council consultations about the CICE are often considered as a pure formality imposed by the law, because they take place after the decision on how to use the CICE is made, or because the revenues coming from the CICE go directly into firms' cash-flows and cannot be distinguished from other resources, or even because the persons involved in the process of communicating how the CICE is used are not the same persons involved in the decision of how to use the CICE. However, the July 2015 INSEE survey highlighted that 46% of firms in the services sector and 31% in the manufacturing industry declared to use the CICE for increasing wages.²⁴ As a result, the effect of the CICE on wages requires *ex-post* analysis, but a proper impact evaluation of the CICE will not be feasible before September 2016 due to the time needed for collecting firm-level data.

While the CICE and the Responsibility and Solidarity Pact helped contain unit labour cost increases over the past few years, the total hourly labour cost in France is still among the highest in the euro area. Between 2008 and 2011, the unit cost of labour in France has grown on average at 2.1% per year, with the nominal unit wage cost increasing at a pace of 0.8% in the manufacturing industry and 1.6% in the market services sector. From 2012 to 2014, the unit cost of labour increased less rapidly, at an average of 1.6% per year: while the average annual growth rate of the nominal unit wage cost slightly accelerated at 1.2% in the manufacturing industry, it slowed down to 1.1% in the market services sector. For the manufacturing industry, such an increase was smaller than what was observed in other countries of the euro area, such as Germany (3.0%) and Italy (2.2%), but it contrasted with the decrease in the nominal unit wage cost observed in Spain (-0.8%). Similarly, for the market services sector, the increase was lower than in other countries of the euro area, like Germany (3.0%) and Italy (1.3%), but higher than the strong decrease observed in Spain (-2.7%). Notwithstanding the slowdown of unit labour cost indicators, in 2014 in France still ranked at

²⁴ Increasing employment (54% in services and 35% in industry) or decreasing their sale prices (25% in services and 35% in industry) are the other two main uses of the CICE appearing in the July 2015 INSEE survey.

the third place for the total hourly cost of labour among the euro area countries, both in the manufacturing industry and the services sector.²⁵

For the beginning of 2016, the French authorities have announced the presentation of a draft law to reform the labour code, which could impact the wage-setting process. No action to reform the minimum wage indexation mechanism seems instead envisaged at this stage. The Combrexelle report issued on 9 September 2015 (see CSR 6) provides policy proposals with a view to modernizing the collective bargaining framework. These proposals would extend the possibilities to adapt wages to firms' specific conditions. Such an extension could hence increase the flexibility of wages and their capacity to adapt following a productivity shock. However, the recommendations in the Combrexelle report are not binding for the government and it remains to be seen which of them will be reflected in future legislation. Moreover, to be complete, the reform of the wage-setting process would require a revision of the minimum wage yearly automatic indexation mechanism, which is currently anchored to both real wage growth and inflation. Such indexation may lead the minimum wage to grow even in a situation of zero or negative inflation and may be in contrast with the efforts made by the French government to reduce the cost of labour at the lower end of the wage scale. Indeed, the effect of policies to reduce the cost of labour has proved to be smaller if the minimum wage is indexed to changes in the level of wages rather than other possible macroeconomic variables (e.g. prices or labour productivity).²⁶

3.4. Measures to improve the business environment and to foster competition in the services sector

CSR 4: *By the end of 2015, reduce regulatory impediments to companies' growth, in particular by reviewing the size-related criteria in regulations to avoid threshold effects. Remove the restrictions on access to and the exercise of regulated professions, beyond the legal professions, in particular as regards the health professions as from 2015.*

The business environment in France constitutes a drag on the competitiveness of French companies and limits their growth. France is characterised by a lack of medium-sized companies: the average French firm employed 5.8 people in France in 2012, compared to 6.4 in the EU and 12.2 in Germany.²⁷ This may represent an obstacle to engaging in export activities, with a negative impact on aggregate export performance. Data shows a break in the

²⁵ Borey, G., Coudin, E. and A. Luciani (2015), "Une comparaison du coût de la main-d'œuvre en Europe: quelle évolution depuis la crise?," Dossier INSEE Références, édition 2015.

²⁶ Pissarides, C. (1998), "The impact of employment tax cuts on unemployment and wages; the role of unemployment benefits and tax structure," European Economic Review, Volume 42, Issue 1, January 1998, Pages 155–183.

²⁷ European Commission (2014), "Macroeconomic Imbalances, France 2014", European Economy, Occasional Paper n°178, March

distribution of companies around the threshold of 50 employees,²⁸ suggesting that regulatory obligations linked with exceeding this threshold may constitute a barrier to SMEs' potential for growth, with a negative impact on their propensity to export.

Some measures to make the social dialogue more flexible (in particular in medium-sized enterprises) have been taken, but their ambition is limited, and their impact will also crucially depend on the implementing decrees to be published in the coming weeks and months. Size-related obligations relating to social regulations have been somewhat addressed through the law on social dialogue and employment of 17 August 2015 (*loi Rebsamen*), which reduces importantly the number of annual information, consultation and negotiation obligations of employee representatives in companies with over 50 employees. In addition, the law extends the possibility for employers to put in place a "single staff delegation" to firms employing up to 300 employees (from 200 employees until then). This possibility is also granted to larger firms but subject to a majority agreement. In practical terms, the single staff delegation means that the 3 main staff representation bodies (the works council, the staff representatives and the health, safety and working conditions committee),²⁹ all of which have increasing and sometimes overlapping competences, are pooled together, *i.e.* have common meetings with a shared agenda and possibly shared experts. However, the law does not provide for merging these bodies, each of them maintaining their respective prerogatives and competences, thus limiting the simplification potential to be reaped from this measure. In addition, the impact cannot be assessed yet as important decrees (for example as regards the minimum number of single staff delegation members) still need to be adopted.

Smaller businesses (up to 50 employees) will also benefit from a timid relaxation of size-related obligations in the context of the Small Business Act (*Tout pour l'emploi dans les TPE et les PME*) presented by Prime Minister Manuel Valls on 9 June 2015. This Act has now been translated into a concrete legislative proposal in the context of the 2016 draft finance law and draft finance law for social security. This plan provides that all size-related obligations currently applying to firms of 9 or 10 employees will from now on apply only to those with 11 employees or more. This may provide an incentive for the companies that are just below these two thresholds to hire an extra one or two employees, but it does not reduce the burden associated with exceeding this size-related threshold. Besides, the 2016 draft finance law also provides for a three-year grace period (until end 2018) from all social and fiscal obligations that are associated with exceeding the 50-employee threshold. Relaxing the burden associated with exceeding this threshold is particularly important as it is often depicted as the most burdensome of all size-related thresholds. In particular, the creation of a works council and of a health, safety and working conditions committee are mandatory from 50 employees on and, consequently, there are many more companies with 49 employees than with 50 in France. While a grace period may smooth the tipping effect for companies reaching

²⁸ Gourio F. and Roys N.A. (2014), "Size-dependent regulations, firm size distribution and reallocation," *Quantitative economics*, Volume 5, Issue 2, July.

²⁹ The agreement may provide for a variable scale and composition for the single staff delegation in companies over 300 employees: it may include either 3 bodies, or leave one of the three outside of its scope. The degree of flexibility is therefore important.

a threshold, the temporary nature of this measure will not alleviate the burdens in the long term. As a consequence, French companies may still continue to avoid the 50-employee threshold by creating legally distinct and smaller entities, with related risks of company fragmentation. There are also other threshold effects (linked to e.g. accounting or environmental requirements) that might have an impact on growth of SMEs and could be further analysed.

A more comprehensive reform of regulatory barriers to competition in the services sector would benefit the whole cost competitiveness of the French economy. High prices in the non-tradable sector (including the services sector) are passed on to the tradable sector through high input costs and can compromise overall competitiveness and have spill-over effects on the rest of the euro area.

As regards legal professions, some positive steps have been taken since the adoption of the CSRs. The law on economic activity, growth and equal opportunities (“Macron law”) of 6 August 2015 indeed provides for a relaxation of regulatory constraints for certain legal professions. Notaries, court bailiffs and legal auctioneers will no longer limit the number of practices and the prior authorisation regime for starting an activity will be replaced by a relative freedom of establishment.³⁰ Hiring employees will also be made easier. The professional qualifications required to exercise two legal professions (*administrateur judiciaire* and *mandataire judiciaire*) will be relaxed. This should favour more dynamism in these professions and ease conditions for young professionals to join the profession, even more so as the Constitutional Court annulled a measure providing for the financial compensation of established practitioners, which would have recreated barriers to entry. Lawyers are now allowed to appear in front of all courts of the region where they are registered, as opposed to only the court of one city previously. This brings more flexibility and the possibility for a company with several offices in the same region to be represented by only one law firm.

Even more importantly, the law aims to reduce tariffs in seven legal professions by bringing them more in line with the actual production costs. A decree fixing the calculation method for the legal ceilings applying on these tariffs (and also optional discounted tariffs for certain transactions) is expected to be adopted in November and the old tariffs will be phased out as of February 2016. This immediate reduction in tariffs could have a positive impact on the competitiveness of downstream sectors of the economy where such tariffs are factored in as an input cost. The impact of this measure will, however, depend on the level at which the tariffs will be fixed. The law also provides for more transparency by making tariff display mandatory, including on the internet. Lawyers will now have the obligation to conclude a written fee agreement with their clients. This is positive as it strengthens competition and limits asymmetry of information between the professional and the customer.

³⁰ Freedom of establishment will still be framed and the Ministry of Justice will retain the right to prevent a professional from practicing if the place of establishment foreseen is at odds with the recommendations of the Competition Authority.

Restrictions related to shareholding and voting rights have been relaxed in most regulated professions, which should favour investments and cross-profession practices.

Regulated professions are predominantly exercised through one specific legal form of company, a limited liability company formed by persons carrying on the same professional activity (*société d'exercice libéral*). This specific company type has traditionally been associated with strict legal restrictions as regards shareholding and voting rights preventing professionals practicing outside of the company to acquire majority shares, while shareholding by persons or entities having no link with the profession in question is often totally prohibited. The Macron law modernises this regime by allowing, for all *sociétés d'exercice libéral* with the exception of health professions, majority shareholding and voting rights by professionals (including corporate entities) practicing the same profession, but outside of the company in question, and established anywhere within the EU. As regards legal professions, the law goes even further as majority shareholding and voting rights will now be open to professionals practicing any other legal profession than the one of the company concerned. This should considerably reinforce the potential for practices bringing together different legal specialities, with a possibility to pool resources and offer a wider range of services to customers. In health professions, majority voting rights must continue to be held by professionals practicing in the *société d'exercice libéral* in question.

Nevertheless, most of the decrees to implement the Macron law have not been published yet and further effort is necessary to complete the removal of unjustified regulatory restrictions.

Only about a tenth of the decrees implementing the Macron law have been published so far, as the publication of most of the decrees will span until the first quarter of 2016.³¹ Moreover, some of the adopted reforms fall short of the initial ambition: as regards territorial freedom of establishment and practice, the initial bill tabled by the government would have entirely suppressed the legal obligation for lawyers representing clients in front of another Court than the one related to the bar where they are registered to work with a local lawyer for the follow-up of the procedure. The final version only suppresses this obligation at regional level. The rules in place are sometimes inconsistent: for instance the majority shareholding requirement for professionals has been abolished for accountants in 2014,³² but professional accountants still need to have two-thirds of the voting rights, while the Macron law brings both shareholding and voting rights requirements to 51% for professionals (regardless of whether they practice in the company in question). It is difficult to see a justification for these diverging requirements across professions who equally share a need of independence. Finally, further actions should be envisaged for some professions such as that of *avocat aux Conseils*, which remain strictly constrained, with heavy impediments placed on cross-border service provision and joint exercise of the profession with lawyers from other Member States. The Macron law II, to be tabled in the first semester of 2016, may provide for

³¹ It should be noted that only about a third of the measures included in the Macron law requires an implementing decree, while the remaining measures have already entered into force..

³² Ordonnance n°2014-344 du 30 avril 2014 modifiant l'ordonnance n°45-2138 du 19 septembre 1945 portant institution de l'ordre des experts-comptables et règlementant le titre et la profession d'expert-comptable.

a further relaxation of regulatory constraints for certain regulated professions, but it is not clear yet which professions would be targeted.

The draft law on healthcare (*loi santé*) currently under discussion in the Parliament does little to remove restrictions in the health sector as recommended by the Council. This recommendation is justified for certain health professions on the basis of the disproportionate regulations not in the public health interest and significant market restrictions still affecting this sector. The draft law on healthcare provides grounds for a future relaxation of installation rules of pharmacies,³³ and extends the competences of certain professions, such as midwife, orthoptist and optician. It also creates an intermediate profession between nurse and general practitioner (clinical nurse specialist) entrusted with the power to perform some screening tests, to prescribe complementary exams or renew prescriptions. However, it does not undertake a review of the quotas imposed on students in certain health-related professions, the so-called ‘*numerus clausus*,’ and of further quotas imposed for the practice of some of these professions. Further efforts are also needed to eliminate other regulatory restrictions, in particular those allowing the sale of certain drugs by pharmacists only, so that other actors can enter the market. Also, a provision included in the draft law allowing pharmacists to perform vaccinations has been rejected by the Parliament in first reading. Finally, the restrictiveness of the framework for home-care services, which could lead to significant job creation in an ageing society, is not addressed by the legislation.

Beyond the scope of the 2015 CSRs, 92 new measures were announced on 1 June 2015 in the context of the simplification shock, 52 of which are targeted at companies. Industry, construction, small retail and the hotel and catering sector should be the main beneficiaries of these measures. More specifically, industries involved in polluting activities will benefit from reduced environmental constraints through a simplification of declaration obligations, while the deadline for appeal against authorisations granted to potentially dangerous plants will be reduced. In construction, some prior authorisation obligations are replaced by prior notification. The sector should also benefit from a relaxation of working time ceilings of apprentices. Finally, small retail shops, hotels and restaurants will benefit from a relaxation of regulatory obligations related in particular to public display or prior authorisation (for instance as regards the sale of alcohol for on-site consumption, i.e. Licence IV).

While about 40% of the measures announced since the beginning of 2013 are already in force, the reduction of administrative costs for companies has been limited. Until now, the simplification shock would have generated EUR 1.6 billion of net gains for the total economy according to government figures. However, for firms additional administrative costs created in the meantime in other sectors would have offset the savings generated by the simplification shock (resulting in a net cost of about EUR 39 million).³⁴

³³ The draft law empowers the government to simplify these rules through an executive measure. The authorities envisage relaxing the demography criterion in order to allow the establishment of pharmacies in isolated areas.

³⁴ R. Lorencki (2015), « Les chiffres du “choc de simplification” », IFRAP, 11 June. <http://www.ifrap.org/etat-et-collectivites/les-chiffres-du-choc-de-simplification>

3.5. Measures to improve the tax efficiency

CSR 5: *Simplify and improve the efficiency of the tax system, in particular by removing inefficient tax expenditures. To promote investment, take action to reduce the taxes on production and the corporate income statutory rate, while broadening the tax base on consumption. Take measures as from 2015 to abolish inefficient taxes that are yielding little or no revenue.*

The tax burden remains high in France. Based on the 2016 draft finance law, the tax-to-GDP ratio would stand at 44.5% in 2016, compared to 44.6% in 2015.

The 2016 Draft Budgetary Plan contains some measures for companies and households as part of the implementation of the Responsibility and Solidarity Pact. Initiated in 2015 to the exclusive benefit of SMEs, the phase-out of the C3S (a tax on turnover initially affecting 300 000 companies)³⁵ will be extended to medium-large companies in 2016. Companies up to EUR 19 million of turnover will be de facto exempted from this tax, at a total cost of EUR 2 billion.³⁶ As approved in 2014,³⁷ corporate taxation will be further reduced by the elimination of the exceptional levy on benefits, at a cost of about EUR 2.5 billion. Low-income households (up to 1.6 times the minimum wage for a single person) will benefit from a new reduction of personal income taxation for an amount of EUR 2 billion.

However, little effort is being made to simplify the tax system and improve its efficiency. In 2014, the *Inspection Générale des Finances* identified more than one hundred inefficient taxes, which have no or only a low yield. The 2016 draft budget provides for deleting only 3 (for a total amount of EUR 36 million), which is less than in 2015, but also creates 3 new ones assigned to the funding of industrial research centres. Moreover, the elimination of tax expenditures is just as slow as in 2015, despite the commitment in the 2014-2019 public finance programming bills to regularly assess them: only 3 were phased out in 2015, and the 2016 draft budget envisages eradicating only another 3 (for a total amount of EUR 7 million). While it does not create new tax expenditures, it broadens some existing ones, such as the tax expenditure for the cinema industry, with the consequence of further eroding the tax base.

The fiscal system continues to suffer from a lack of clarity and predictability, which weighs on the efficiency of fiscal measures. For instance, the exceptional authorisation granted to French firms to amortise at a higher rate the investments undertaken between 15 April 2015 and 14 April 2016 (*suramortissement*) is likely to have a very limited impact on investments as firms have only one year to finalise their investment in order to benefit from it. The CICE, while a welcome tool for reducing labour costs, is also a tax expenditure, which implies that companies have to claim it and which adds to the complexity of the tax system. Therefore, reflection is warranted on the future form that this instrument should have to make it easier for companies to benefit from it.

³⁵ This tax was designed to fund the social security scheme of independent workers.

³⁶ The total cost of EUR 2 billion is the sum of the first step of the C3S phase out, which already took place in 2015, and the second step that will be implemented from 1 January 2016 onwards.

³⁷ Loi n° 2014-891 du 8 août 2014 de finances rectificative pour 2014.

Finally, there is no indication that steps will be taken to further shift the tax burden from production towards consumption as recommended by CSR 5. While the draft amending budget law for 2016 is not yet tabled and additional tax measures could still be adopted by the Parliament, there are currently no announced measures to further reform the consumption taxes.

3.6. Measures to improve the functioning of the labour market

CSR 6: *Reform the labour law to provide more incentives for employers to hire on open-ended contracts. Facilitate take up of derogations at company and branch level from general legal provisions, in particular as regards working time arrangements. Reform the law creating the accords de maintien de l'emploi by the end of 2015 in order to increase their take-up by companies. Take action in consultation with the social partners and in accordance with national practices to reform the unemployment benefit system in order to bring the system back to budgetary sustainability and provide more incentives to return to work.*

The French unemployment rate is projected to increase in 2015. In a time of weak job creation, the overall unemployment rate in France is expected to increase from 10.3% in 2014 to 10.4% in 2015 and to fall to 10.2% only in 2017, while in the rest of the euro area it is expected to decrease from 11.3% to 10.7% in 2015 and then to 9.8% in 2017. Also long-term unemployment has risen as a percentage of total unemployment, passing from 43.2% in the first quarter to 45.3% in the second quarter of 2015. At the same time, the labour market has remained segmented, with a limited transition rate from fixed-term to permanent contracts. A number of rigidities continue to reduce firms' adaptability to changes in the macroeconomic scenario.

Recent reforms have not been sufficient to reduce the segmentation of the labour market in France. Labour market duality is reflected in the increasing share of fixed-term contracts in total hires (accounting for 84% of total hires in the second quarter of 2014) and the very low transition rates to move from a fixed term contract to an open-ended contract. According to a recent note of the *Conseil d'Analyse Economique* (Economic advisory body of the Prime Minister),³⁸ the rise of very short-term contracts (less than one month) would be particularly significant in those sectors allowed to use by default short-term contracts (the so-called *contrats d'usage*), in derogation to general contract rules. The use of very short-term contracts in these sectors would be reinforced by the very low premium on unemployment contributions paid by the *contrats d'usage* and by the design of the unemployment benefits that provides incentives to engage in multiple successive short-term contracts.³⁹

³⁸ Cahuc, P. and C. Prost (2015), "Améliorer l'assurance chômage pour limiter l'instabilité de l'emploi," Note du Conseil d'Analyse Economique No. 24, September 2015, <http://www.cae-eco.fr/IMG/pdf/cae-note024.pdf>

³⁹ According to Cahuc and Prost (2015), the design of the unemployment benefits gives firms incentives to use, for the same job, 15 short-term contracts of one day during a month, rather than a half-time open-ended contract.

Targeted efforts to reduce the labour market segmentation through higher social contributions for very short-term contracts have failed to provide more incentives for employers to hire on longer short-term or open-ended contracts. Indeed, the so-called *loi de sécurisation de l'emploi* of July 2013 does not significantly increase social security contributions for more instable contracts; the increase is only of 0.5 points for the *contrats d'usage* of less than three months, instead of the 3 points required for the standard very short-term contracts of less than a month and 1.5 points for the standard short-term contracts having a length included between one and three months. Moreover, seasonal and temporary (*intérim*) jobs are totally exempted from the increase in contributions. The *loi de sécurisation de l'emploi* hence provides firms with an incentive to declare new short-term contracts as seasonal employment or temporary replacement, in order to avoid the higher social security contributions. As a result, since the implementation of this law, the revenues collected from the increase in social security contributions for shorter-term contracts were twice lower than expected. In addition, there has been no reduction in the share of very short-term contracts to total short-term contracts or permanent contracts. Very short-term contracts (less than 1 month) represented 70% of total hires in 2014, against 69% in 2013, while the proportion of very short-term contracts (less than 1 month) over temporary contracts (very short-term and short-term contracts) remained broadly stable at 80% in 2014.⁴⁰

The overall effect of the measures announced in the French Small Business Act on the segmentation of the labour market is *a priori* unclear. On the negative side, the French Small Business Act grants companies the possibility to renew a fixed-term contract twice instead of once, while keeping the overall default duration of a fixed-term contract set at 18 months. The effect of this measure on the decision to hire on fixed-term or open-ended contracts needs to be carefully assessed, because this policy may shorten the duration of temporary employment and hence it may increase the turnover of short-term contracts within a firm. On the positive side, following the announcements contained in the French Small Business Act, the decree No. 2015-806 of 3 July 2015 introduced a subsidy for firms hiring an employee with an open-ended or a longer short-term contract. As this subsidy is linked to the duration of the contract, it might encourage companies to hire workers using more stable forms of contract in order to receive the maximum amount envisaged by the decree of 3 July 2015 (*i.e.* EUR 4 000).⁴¹

The reform of the *justice prud'homale* introduced by the Macron law could reduce employers' costs associated with the choice to hire an employee with a permanent rather than a fixed-term contract. The Macron law improved the efficiency of the *Conseil des*

⁴⁰ See the Bilan de la loi de sécurisation de l'emploi du 14 juin 2013, http://travail-emploi.gouv.fr/img/pdf/conference_thematique_du_3_avril_2015_-_bilan_de_la_loi_de_securisation_de_l_emploi.pdf

⁴¹ This subsidy has been designed for very small companies and consists in a maximum transfer of EUR 4 000 paid to a company hiring for the first time an employee with a contract having the starting date included between 9 June 2015 and 8 June 2016. The transfer is subject to two conditions: the contract is concluded for an indefinite period or for a fixed term of more than twelve months; the employer did not hire the employee qualifying as "new employee" during the twelve months preceding the signature of the contract. For 2016, 61 000 firms are expected to benefit from this subsidy, for an estimated budgetary cost of EUR 84.80 million.

Prud'hommes for individual dismissals, whose procedures were lengthy and uncertain. To address these flaws, the Macron law aims at improving the initial and continuous training of the *Prud'hommes*, introducing a trade-union defender to assist workers in defending their case and making compulsory the conciliation phase so as to promote arranged settlements. In particular, to reduce the length of procedures, simpler cases will have to be judged in a three months' time and complex cases will be directly sent to a panel chaired by a professional judge. To reduce the uncertainties linked to the financial compensations, the law introduced compensations ceilings differing according to the size of a firm. The Constitutional Court, however, judged this distinction to be unlawful and therefore the government needs to introduce an alternative proposal by the end of 2015. Provided it is finally validated by the Constitutional Court, the Macron law would reduce the average indemnity paid in case of unjustified dismissal as well as the uncertainty related to the amount of the indemnity to be paid. By better defining the degree of protection for employees having a permanent contract, this law may stimulate employers to use more open-ended contracts.

A series of policy proposals to change the collective bargaining system in France with a view to better adapting labour law provisions to companies' needs has been put forward by the report of the working group chaired by Jean-Denis Combrexelle. On 9 September 2015, the working group chaired by Jean-Denis Combrexelle, the President of the State Council's social section, submitted a report to the Prime Minister Manuel Valls. This report highlights a number of issues affecting the French collective bargaining system, which mostly concern the overlapping and apparent lack of coherence among the rules established by different levels of regulation or of collective agreements. It also provides a number of recommendations to improve the functioning of the collective bargaining system, giving priority to company-level agreements in establishing the set of rules governing four main areas of the employment relationship, *i.e.* working conditions, working time, employment and wages (see Box 3). The proposals of the Combrexelle report are currently being discussed with social partners and a draft law is scheduled for the beginning of 2016.

Box 3: The Combrexelle report on collective bargaining, labour and employment

The so-called "Combrexelle report" on collective bargaining, labour and employment provides the French government with a set of 44 proposals on improving social dialogue and collective bargaining and its framing by law. Overall, the report calls for increasing the scope of company-level agreements over branch-level agreements and the law, and for promoting social dialogue, on the basis of a two phases' agenda. These proposals nourished the social conference organised on 19 and 20 October 2015 with the social partners and will constitute the background for a draft law to be tabled in the first months of 2016. They appear broadly in line with CSR 6, which invites the authorities to "*facilitate the take-up of derogations at company and branch level from general legal provisions.*"

The main thrust of the short-term proposals is to reinforce collective bargaining at company level. On four main topics (working conditions, working time, employment and wages) company-level agreement should normally prime, while respecting the general principles established by the law (public order) and professional branches (conventional order). To enable this shift, the report suggests the modification of the labour law and of branch agreements to leave more space to company level agreement on these four priority topics as of 2016. In this revised framework the report evokes the possibility for company-level agreements to negotiate the modalities for the provisions of extra hours or to experiment new forms of labour contract. The report does not venture into detailing the specific elements to be regulated by law or included in the collective bargaining at branch or

company level. It, however, suggests the principle of collective agreements priority over individual work contracts and reaffirms the national minimum wage as a non-negotiable element. To reduce the complexity of the labour law, it proposes that any new legislative or regulatory measure is based on a predefined yearly social agenda and that any new provision introduced in the Labour Code needs to be balanced by abrogating a corresponding provision.

To complement these short-term measures, the report invites in a four years' time (*i.e.* by 2020) to fully review the Labour Code architecture, with a view to clarifying the interactions among the different levels affecting the collective bargaining.

This orientation towards a reinforcement of decisions made through collective bargaining requires a strengthening of the social dialogue, which would be obtained through generalising majority agreements⁴² signed at branch and company level, through limiting the duration of agreements to four years and through the decrease in the number of branches. At the same time, the stability of agreements would also be increased, by limiting the timespan allowed to introduce recourse against newly signed decisions.

The adoption of the proposals contained in the Combrexelle report could reduce the costs associated with the implementation of regulations concerning working time arrangements, beyond contributing to better align wages with productivity (see CSR 3).

After their implementation in 2000, the laws establishing the 35-hour work-week have been gradually modified over time to better reflect firms' needs (see Box 4). By law, firms have to remunerate employees working beyond 35 hours per week with a negotiable extra payment at least equal to 25% percent of the normal salary. In addition, overtime work exceeding 8 hours per week (from the 44th worked hour onwards) has to be paid 50% above the normal salary. Nonetheless, firms have the possibility to derogate from working time provisions through a company-level agreement, even if the latter is less favourable to the workers. For example, firms can pay extra hours at 10% instead of 25% if a company-level agreement to reduce the cost of the extra payment exists. Equally, they can modify the timeframe of the working week so that working time may be measured in terms of days per year or hours per month instead of hours per week. Yet, the possibility to derogate from the remuneration of extra-hours set in the law appears to have been seldom used. The average additional cost per extra-hour of work is at about 26% and, hence, does not substantially differ from the law-based reference for additional costs from 36 to 43 hours (which is 25%). Moreover, from 2008 to 2010, only 34% of companies above 20 workers have entered in a negotiation on working time arrangements. Out of this 34%, 55% of companies have actually concluded an agreement, whilst only 18% had discussions on a higher collective working time and 16% on a higher quota of extra-hours. Therefore, notwithstanding the flexibility already introduced in regulations concerning working time arrangements, there seems to be further constraints to remove for granting companies more room to decide, on a case-by-case basis and following negotiations with social partners, if they wish to depart from the 35-hour legal restriction.

⁴² A majority agreement is an agreement signed by trade unions representing more than 50% of the employees. At present, an agreement needs to be signed by trade unions representing at least 30% of the employees in order to be valid.

Box 4: Existing possibilities to derogate through firm-level agreements from law and branch-level agreements

In 1998 and 2000, the adoption of the two "Aubry laws" reduced France's statutory working week from 39 to 35 hours. The 35-hour work-week principle was, however, made more flexible already in 2003, thanks to the law No. 2003-47 of 17 January 2003. This law gave priority to branch agreements regarding compensation and number of overtime hours over regulatory requirements. In particular, this law provided to branches for the possibility to abandon the principle of 35 hours of work per week and to annualize the count of working time, fixing to 1'600 hours per year the limit to the annual working time. It also prioritized salary increases over compensatory rest for remunerating overtime work and introduced the possibility to calculate executives' working time in terms of days, so to better reflect executives' autonomy in organizing their working time.

Through the laws of 4 May 2004 and of 20 August 2008, the Parliament has then changed the relationship between branch and company agreements by reversing, under certain conditions and only for certain aspects of working time provisions, the principle of branch-level agreement priority over a firm-level agreement.

First, the law No. 2004-391 of 4 May 2004 opened the possibility of negotiating, at company level, collective agreements derogating *in pejus* professional agreements signed by branches or inter-professional agreements, provided that these latter did not prohibit this type of derogation. However, between 2004 and 2007, the number of signed derogating agreements was insignificant. The main reasons put forward for the non-use of the possibility to sign derogation agreements at company level were: the excessive complexity of the new legal framework, the existence of a strong legal uncertainty around the notion of exemption, the inadequacy of the device in terms of practices and issues of collective bargaining in enterprises, the prohibition of derogatory company level agreements contained in branch level agreements, and the fact that social partners fear that the law would have weakened the role played by branches.⁴³

Second, the law No. 2008-789 of 20 August 2008 allowed a company agreement to waive a branch agreement, even if the latter contains a lock clause. This unconditional overthrow of the priority principle has been made possible in six areas related to working time, in order to give to company-level negotiations more room for taking into account the economic, employment and organisational needs of companies given their constraints and their activities. These six areas are: the overtime maximum quota, the introduction of a compensatory rest replacement in case of overtime, the development of working time agreements in terms of hours or days over a year, the modification of working time patterns, the establishment of a working time account and the choice of the date of the solidarity day. However, seven years after the entry into force of this reform, it is difficult to conclude that companies have effectively used the higher flexibility granted them by the 2008 law. The level of company ownership as regards the provisions introduced by the 2008 reform remains very low. Companies, especially large and medium ones, do not seem to be willing to challenge the collective agreements concluded just after the adoption of the two Aubry laws. Most often, they prefer to renew existing agreements, provided to having the possibility of adjusting the organization of working time at a later stage and if necessary.

The Macron law has introduced two main measures to reform the jobs preservation agreements or *accords de maintien de l'emploi*, but it did not allow the automatic applicability of this type of collective agreements to the individual contract of the employees of a firm. Legal provisions introduced in 2013 to allow companies facing severe economic difficulties to renegotiate wage, employment and working-time arrangements through the *accords de maintien de l'emploi* have been used by few companies. Only about 10 of these agreements have been signed so far; about 30 when including into the count the so-

⁴³ Kerbourc'h J.-Y., Meriaux, O. and C. Seiler (2008), "Evaluation de la loi du 4 Mai 2004 sur la négociation d'accords dérogatoires dans les entreprises," DARES, Document d'études No. 140, Août 2008, http://travail-emploi.gouv.fr/IMG/pdf/DE140_accord_derogatoire_revise2bonpdf.pdf

called competitiveness agreements, which are agreements similar to the *accords de maintien de l'emploi*. The Macron law has introduced two main measures to reform the *accords de maintien de l'emploi* with a view to increasing their take-up by companies. First, it has extended the duration of this type of collective agreements from 2 to 5 years, while granting the possibility to suspend the agreement signed if the situation of an enterprise significantly improves or deteriorates. Second, it has clarified that employees' refusal to apply the conditions of an *accord de maintien de l'emploi* to their individual contract can be considered as a reason for dismissal on economic grounds, based on a real and serious cause. In this case, employers are not obliged to comply with the redeployment obligations normally required by the procedure of dismissal on economic grounds. Still, employers must propose to the employees refusing an *accord de maintien de l'emploi* a redeployment leave corresponding to a period of maximum twelve months paid at 75% of their wage.⁴⁴ As a result, the Macron law has not strongly reduced the incentives that individual employees have to refuse adhering to an *accord de maintien de l'emploi* bargained collectively.

A reform of the unemployment benefit system is announced for July 2016, but the content of this reform is not yet known. The long-lasting deterioration in the labour market has affected the unemployment benefit system, calling into question its sustainability and the incentives to return to work provided to unemployed workers. On 1 July 2014, a new convention regulating the unemployment benefit system⁴⁵ entered into force and on 18 December 2014 the State, *Unedic*⁴⁶ and *Pôle Emploi*⁴⁷ signed a tripartite convention on the measures to accompany and support job seekers.⁴⁸ However, parts of the ministerial decree implementing the former were invalidated by the State Council on 5 October 2015; thus, a new version of this convention needs to be implemented by 1 March 2016 at the latest. In any case, the convention of July 2014 was insufficient to reduce the deficit of the unemployment benefit system, as the long-lasting deterioration in the labour market has affected the unemployment benefit system calling into question its sustainability. While the measures introduced in 2014 were expected to yield EUR 0.3 billion in savings in 2014 and a further EUR 0.8 billion in 2015, they were not sufficient to improve the financial situation of the unemployment benefit system. Indeed, in October 2015 the deficit of the unemployment benefit system was still projected to rise from EUR 3.7 billion in 2014 to EUR 4.4 billion in 2015, leading to a further increase in the system's debt from EUR 21.3 billion in 2014 to EUR 25.8 billion in 2015 and to EUR 29.4 billion in 2016.⁴⁹ The 2015 National Reform

⁴⁴ In the case of firms with less than 1000 employees, employers must propose a *contrat de sécurisation professionnelle* rather than a redeployment leave. The maximum length of this contract is always twelve months and employees having a *contrat de sécurisation professionnelle* are equally paid at 75% of their wage.

⁴⁵ *Convention du 14 mai 2014 relative à l'indemnisation du chômage*, <http://www.unedic.org/nouvelle-convention/connaitre-les-nouvelles-regles>

⁴⁶ Unedic is an independent agency run by social partners in charge of setting the amount of social contributions and unemployment benefits.

⁴⁷ Pôle Emploi is a French governmental agency, which registers unemployed people, helps them to find jobs and provides them with financial aid.

⁴⁸ *Convention tripartite Etat-Unedic-Pôle Emploi, 2015-2018*, http://www.unedic.org/sites/default/files/20150127_convention_tripartite_2015-2018.pdf

⁴⁹ Unedic (2015), "Situation financière de l'assurance chômage : prévision 2015-2016," October 2015, <http://www.unedic.org/actualite/situation-financiere-de-l-assurance-chomage-prevision-2015-2016-8140>

Programme announced that a new round of negotiations among social partners will start in January 2016, in order to implement a reform of the unemployment benefit system by 1 July 2016. However, no detail of the envisaged reforms has been already released, while future negotiations should ideally aim at addressing both the financial situation of the unemployment benefit system and its efficiency in reinserting unemployed workers into the labour market.⁵⁰

Box 5: Main reforms beyond the CSRs

The French government is willing to foster the further digitalisation of the French economy. A first draft law, prepared through an open consultation, aims at generalising the access to data of public administrations under an 'open data' format, enshrining 'net neutrality' and at ensuring data portability. A second draft law, the so-called "loi Macron II" or "nouvelle loi Macron," is currently under preparation and would apparently increase the adaptability of the French industry and services to the digital economy. There are indications that it will support the digitalisation of taxis, legal and health professions and that it could also further reform regulated professions (not clear yet which ones would be targeted).

Energy markets are also undergoing important reforms. The government will be adopting in the months to come all the decrees of the recently adopted law on energy transition, which prioritises building renovation, development of clean transport, waste management, promotion of renewables, strengthening of nuclear safety and simplification of administrative procedures. The government is also expected to reform the Contribution to the Public Service of Electricity that finances support to renewables, support to co-generation, equalization of tariffs with overseas territories, and social measures for vulnerable consumers. This reform could contribute to offsetting the current electricity tariff deficit.

Lastly, the government is pursuing reforms of the education and justice systems. The reform of *collèges* (first years of secondary schools) will allow to devote more resources into primary schools, in line with previous EU and OECD recommendations. The draft law on Justice in the 21st century (*projet de loi Justice du 21^{ème} siècle*) is currently being assessed by the Parliament and should ultimately lead to a modernisation of trade courts. The law on the transparency of the economic activity is expected also to improve the business climate through the increase of transparency of interest groups and the clarification of existing rules to counter corruption.

4. Quantification of reforms

The French authorities estimate that recently adopted measures would boost GDP by +4.6% and create from 800 000 to 900 000 jobs in 2020 (see Table 6). A section of the 2015 National Reform Programme is entirely dedicated to the quantification of the macroeconomic impact of recent reforms. Updated estimates have been transmitted during the MIP specific monitoring mission. The measures having the largest effect on GDP are the CICE and the tax reform and reduction in social security contributions included in the Responsibility and Solidarity Pact, whose overall estimated impact is equal to +1.7% in 2020 and +2.8% in the long run. The reform of local administration comes in second place, with only +0.3% of GDP in 2020 and +1.0% in the long run. The other measures falling in the field

⁵⁰ In July 2015, the French Court of Auditors put into question the efficiency in reinserting unemployed workers into the labour market and the operating costs associated to Pôle Emploi. See Cour des Comptes (2015), "Pôle emploi à l'épreuve du chômage de masse," Rapport public thématique, Juillet 2015.

of the 2015 CSRs and having a significant impact on GDP are those undertaken to decrease unjustified regulatory burden and to increase competition in the services sector (+0.4% in 2020 and +0.8% in the long run) and the labour market reforms (+0.2% of GDP both in 2020 and in the long run). In terms of employment, the CICE and the Responsibility and Solidarity Pact remain the measures having the largest effect, creating 500 000 jobs in 2020 and 600 000 in the long run, while the other aforementioned reforms would create altogether 100 000 jobs in 2020 and 140 000 in the long run.

In the authorities' estimates, the quantified reforms are not *ex ante* budgetary neutral.

The negative effects on growth and employment of the spending cuts associated with the financing of the CICE and the Responsibility and Solidarity Pact are thus not taken into account. During the MIP specific monitoring mission, the French authorities indicated that the short- and medium-term impact of those two measures on GDP would be much lower if the financing of these reforms had been taken into account. Their long-term impact would, however, remain relatively unchanged, as the recessionary effects of the spending cuts fade away in the long run. By the same token, the French authorities admitted that the effects associated with the financing of a measure are not taken into account for a number of other reforms, like the over-amortization scheme for fixed investments, the reduction of income tax for households, or the energy transition law. For all these reforms, the effects on GDP and employment would be substantially reduced if considered at the net of their financing costs.

Performing a similar exercise, the OECD estimates that the total impact of adopted measures would boost GDP only by +1.5% in 2020 and by +3.5% in 2025 (see Table 7).⁵¹

The main reason for this difference is that the OECD estimates are computed on an *ex-ante* budgetary neutral basis. As a result, the effect of the CICE and of the reduction in social security contributions included in the Responsibility and Solidarity Pact is reduced to +0.5% in 2020 and +1.1% by 2025. The quantified impact of the other reforms is instead still smaller, but closer, to what is estimated by the French authorities. Decreasing unjustified regulatory burden and fostering competition in the services sector is estimated to increase GDP by +0.4% in 2020 and +0.7% in 2025, while labour market reforms would increase GDP by +0.1% in 2020 and +0.2% in 2025. Concerning the quantification of the territorial reform, there is no difference between the estimates obtained by the OECD and those of the French authorities, because the latter replicate the results obtained by the OECD as such in their own quantification. The impact of the territorial reform calculated by the OECD, however, appears to be on the high side, since it is based on the analysis of existing metropolitan areas extrapolated to the case of France with little adjustment. Indeed, a more careful transposition of the results of previous studies to the case of the new metropolitan areas created in France could, for example, take into account that the number of municipalities in Paris is higher than in any city contained in the sample used by the OECD.

⁵¹ OECD (2014), France, structural reforms: impact on growth and options for the future http://www.oecd.org/newsroom/france_structuralreforms.pdf, updated using the new information concerning the quantification of the Macron law published by the OECD (<http://www.oecd.org/france/the-positive-effects-expected-from-the-macron-law-show-that-france-must-pursue-its-structural-reform-initiatives.htm>).

DG ECFIN's estimates of the effects of the CICE and Responsibility and Solidarity Pact show that these measures would increase GDP by +0.4% in 2020 and could deliver up to 150 000 additional jobs, especially for low-income earners.⁵² These reforms would also improve the profitability of firms and the external balance of the French economy in the short run, resulting therefore in a very first step towards the restoration of French firms' competitiveness. Nonetheless, the improvement in competitiveness is estimated to remain relatively minor compared to the losses in export market shares observed in the last few years, while the effect on firms' profitability would decrease over time so that firms' profitability would not reach the levels observed before the crisis.⁵³ The effects of these measures on private consumption would instead build gradually over time, thanks to higher wages and better employment opportunities, especially for lower income households. The positive effects of the CICE and the Responsibility and Solidarity Pact on consumption, in fact, is estimated to take place only once the financing of these measures weighing on household's budgets are compensated by their positive effects on economic activity.

The results of DG ECFIN's simulations appear in line with the existing literature on the subject. Indeed, the results obtained on the basis of the QUEST III model are similar to those of the OECD discussed above. Moreover, they are comparable with those published by the *Haut conseil de financement de la protection sociale* in 2014 using two different general equilibrium models similar to DG ECFIN's QUEST III, namely e-mod.fr and Nemesis.⁵⁴ According to the *Haut conseil de financement de la protection sociale*, if financed *ex-ante* as supposed in DG ECFIN's simulations, the CICE and the reduction in social security contributions of the Responsibility and Solidarity Pact would not increase GDP but create 117 000 jobs in 2020 using the Nemesis model, while they would increase GDP by 0.6% and create 215 000 jobs in 2020 using the e-mod.fr model. As a result, the QUEST III model provides results that are in the middle of the range, with the results of the Nemesis model as lower bound and the results of the e-mod.fr model as upper bound.

Finally, DG ECFIN's simulations show that the impact of the CICE and Responsibility and Solidarity Pact would be stronger if accompanied by other structural reforms. For example, increasing the labour supply elasticity would increase the number of jobs created up to 230 000.⁵⁵ This result would correspond to the impact of the CICE and the Responsibility

⁵² The simulation of these measures was performed with the QUEST III model. The CICE and the reduction in social security contributions of the Responsibility and Solidarity Pact have been supposed to differently affect the labour cost of the three categories (low, medium and high) of income earners existing in the model, with the bulk of the tax credit and cuts in social security contributions going to reduce the labour cost of medium-income earners as this group represents 47% of the whole supply of labour. The simulations also include the reductions in corporate taxation. The measures are supposed to be fully financed *ex ante* in cash terms by a VAT increase (1/3) and by cuts in public expenditures (2/3), where expenditure cuts affect final consumption and transfers to a major extent and public investments to a minor extent.

⁵³ The CICE and the labour tax cuts included in the Responsibility and Solidarity Pact would increase profitability by 2.5% and exports by 0.5% after 5 years. However, the gross operating surplus as a percentage of gross value added of non-financial corporations declined by 10% from 2008 to 2013 to reach 29.7% while export market shares declined by 13%.

⁵⁴ Haut conseil de financement de la protection sociale (2014), "Point d'étape sur les évolutions du financement de la protection sociale."

⁵⁵ Specifically, the average labour supply elasticity across income categories has been raised from 0.3 to 0.5.

and Solidarity Pact with a better performing labour market, characterised by a supply of labour responding more strongly to the increase in the demand of labour induced by the decrease in the cost of this factor of production. In the same vein, product market reforms for the non-tradable sector could enhance the effect of these measures for the competitiveness of the French economy. Although this effect has not been quantified yet in our simulations, more competition in services could strengthen the benefits of the labour cost reductions for the tradable sector in the form of lower intermediate good prices.

Table 6: Macroeconomic impact of main reforms in France, according to the French authorities

<u>Reform</u>	<u>Effect on GDP</u>		<u>Effect on employment</u>	
	2020	long run	2020	long run
<u>Local administration reform</u> - creation of metropolitan areas as from 2015 - reduction in the number of local government regions (from 22 to 13) - plans to reduce the number of inter-municipalities and to clarify the responsibilities of the different levels of local government (NOTRe)	0.3	1.0	-	-
<u>Tax reform: social security contributions and corporate taxes</u> - Competitiveness and Employment Tax Credit (CICE) - Responsibility and Solidarity Pact	1.7	2.8	500 000	600 000
<u>Market regulation and market competition</u> - 'simplification shock' - Consumption Law - Macron Law (regulated professions, coach travel, retail)	0.4	0.8	20 000	40 000
<u>Energy transition</u> - Energy Transition Law	0.8	-	120 000	-
<u>R&D measures</u> - setup of the <i>Banque Publique d'Investissement</i> (BPI) - second phase of the Investments for the Future Programme (PIA2) - fixed investment over-amortization	0.6	0.2	60 000	20 000
<u>Labour market reforms</u> - 'loi de sécurisation de l'emploi' - 2014 and 2016 unemployment convention - Macron Law (employment tribunals' reform, Sunday and evening openings, collective redundancy procedures' simplification) - Law on Social Dialogue	0.2	0.2	80 000	80 000
<u>Active labour market policies</u> - <i>Emplois d'avenir</i> - Youth Guarantee Scheme	0.15	-	70 000	-
<u>Education</u> - creation of 60 000 additional works over five years (up to 2017) - plan for gender equality at school - reform of the primary education system - reform of the upper education system (<i>college</i>) - reform of study programmes	0.1	1.0	20 000	100 000
<u>Support to low-income households' purchasing power</u> - Reduction of income tax - Anti-poverty Act	0.3	-	-	-

Source: 2015 National Reform Programme, France, updated with new information transmitted during the MIP specific monitoring mission.

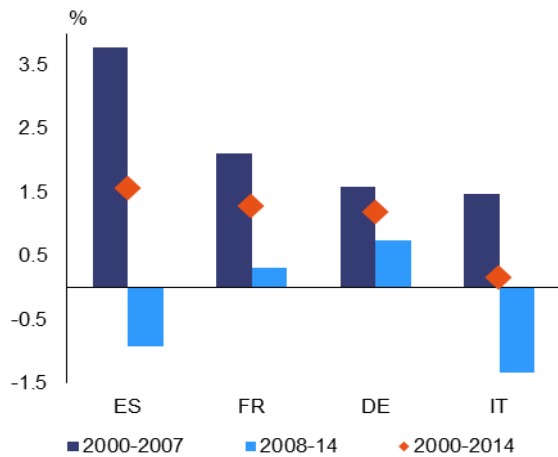
Table 7: Macroeconomic impact of main reforms in France, according to the OECD

<u>Reform</u>	<u>Effect on GDP</u>		<u>Effect on employment</u>	
	2020	2025	2020	2025
<u>Local administration reform</u> - creation of metropolitan areas as from 2015 - reduction in the number of local government regions (from 22 to 13) - plans to reduce the number of inter-municipalities and to clarify the responsibilities of the different levels of local government (NOTRe)	0.3	1.0	-	-
<u>Tax reform: social security contributions</u> - Competitiveness and Employment Tax Credit (CICE) - reduction in social security contributions included in the Responsibility and Solidarity Pact	0.5	1.1	0.8	1.6
<u>Market regulation and market competition</u> - 'simplification shock' - Consumption Law - Macron Law (regulated professions, coach travel, retail)	0.4	0.7	-	-
<u>Labour market reforms</u> - 'loi de sécurisation de l'emploi' - 2014 and 2016 unemployment convention - Macron Law (employment tribunals' reform, Sunday and evening openings, collective redundancy procedures' simplification)	0.1	0.2	-	0.1
<u>Active labour market policies</u> - <i>Emplois d'avenir</i> - Youth Guarantee Scheme	0.1	0.1	0.1	0.1
<u>Improving taxation structure</u> - corporate taxation (Responsibility and Solidarity Pact) - carbon tax - VAT increase - income tax relief	0.1	0.4	-	-

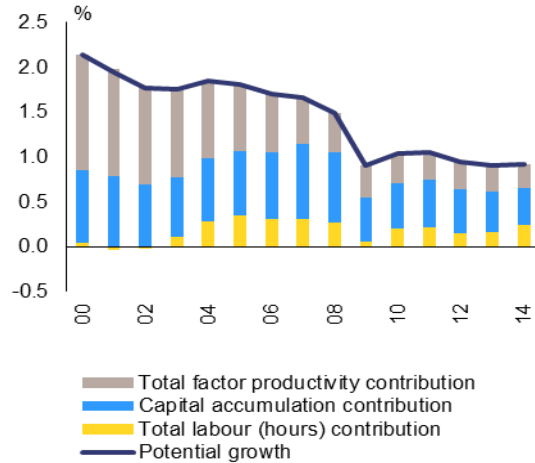
Source: OECD (2014), *France, structural reforms: impact on growth and options for the future*, updated estimates.

Annex I: Graphs illustrating macroeconomic developments in France

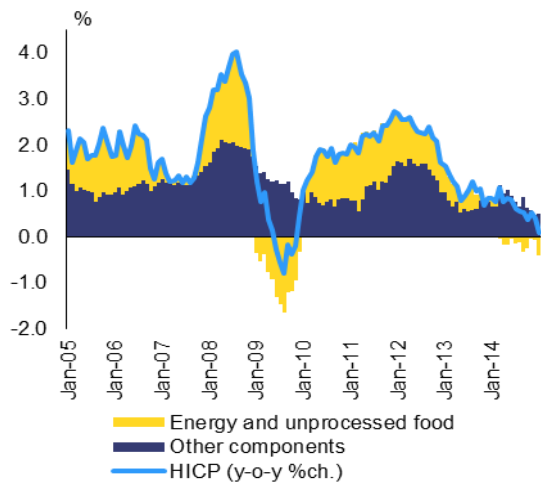
Graph 1: Average real GDP growth in selected euro-area countries



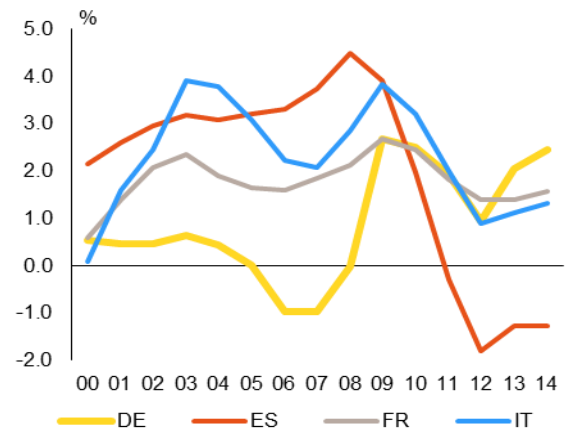
Graph 2: Potential growth and components



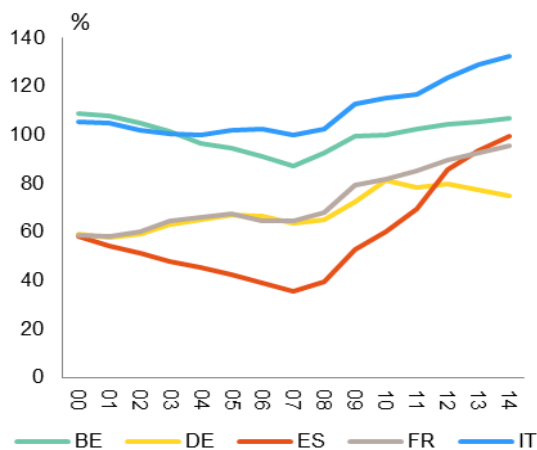
Graph 3: HICP and its components



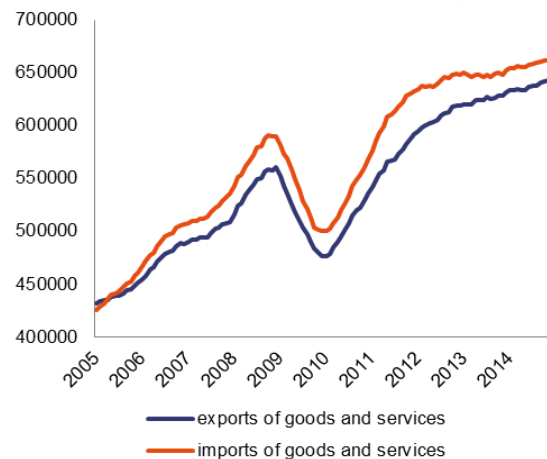
Graph 4: Annual growth in nominal unit labour costs in selected euro-area countries (3-year moving average)



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



Graph 6: Exports and Imports of goods and services (EUR mio - 12-month moving sum)



Source: European Commission and Eurostat.

Annex II: Overview of MIP-relevant reforms

Ensuring stable public finances			
Fiscal policy and fiscal governance			
<i>Fiscal policy and fiscal governance</i>			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Source of commitment</i>
<ul style="list-style-type: none"> The <i>Projet de loi de finance</i> (PLF) for 2016 and the <i>Projet de loi de financement de la sécurité sociale</i> (PLFSS) for 2016 are under discussion in the Parliament. EUR 16 billion savings are planned, compared to an increasing trend in public expenses of EUR 30 billion. Supplementary measures for 2016 (EUR 5 billion) have been announced in the 2015 Stability Programme published on 30 April 2015 and in the French Report on Action Taken of 10 June 2015. The measures were undertaken in order to counter the adverse impact of low inflation on public finances. 	<ul style="list-style-type: none"> The <i>Loi de Programmation des Finances Publiques</i> (LPPF) for the period 2014-2019 introduced a EUR 50 billion savings plan for 2015-2017. Among the EUR 50 billion savings plan for 2015-2017, central government and central government agencies will contribute with EUR 19 billion; local government with EUR 10.7 billion; the healthcare sector with EUR 10 billion; other social security expenditure with EUR 10.3 billion. 		<p>CSR 1: <i>Ensure effective action under the excessive deficit procedure and a durable correction of the excessive deficit by 2017 by reinforcing the budgetary strategy, taking the necessary measures for all years and using all windfall gains for deficit and debt reduction.</i></p>
<i>Fiscal policy and fiscal governance</i>			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Source of commitment</i>
<ul style="list-style-type: none"> The 2016 Draft Budgetary Plan (DBP) and draft finance law provide some details for 2016: EUR 5.1 billion savings from central administration, EUR 3.5 billion savings from local administrations and EUR 7.4 billion savings from social security expenses. No additional action to independently assess the impact of most important measures in the budget is currently envisaged. 			<p>CSR 1: <i>Specify the expenditure cuts planned for these years and provide an independent evaluation of the impact of key measures.</i></p>

Long term sustainability of public finances

Spending review

<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Source of commitment</i>
<ul style="list-style-type: none"> The first spending review exercise was done in 2015. A total amount of public expenses of EUR 57 billion was under review and resulted into EUR 453 million savings included in the PLF 2016. Largest savings proposed are in the following sectors: housing expenditures (EUR 225 million savings out of EUR 17 billion of total expenditures reviewed); sector-specific exemptions from social security contributions (EUR 95 million savings out of EUR 15 billion); health insurance expenditure on medical devices (EUR 70 million savings out of EUR 9.8 billion). Drawing up a new spending review list, whose result will be incorporated in the PLF 2017. Health care expenses target (Ondam) from 2.05% in 2015 to 1.75% in 2016. 			<p>CSR 2: <i>Step up efforts to make the spending review effective, continue public policy evaluations and identify savings opportunities across all sub-sectors of general government, including on social security and local government.</i></p>

Territorial reform

<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Source of commitment</i>
<ul style="list-style-type: none"> Update of the local government expenditure growth target and breakdown by sub-sector in the 2016 DBP. Administrative expenditure growth is capped at 1.2% in 2016. Reform of the general operating grant (<i>dotation globale de fonctionnement</i>) in 2016 to promote equalisation and pooling between municipalities and to simplify grant procedures. 	<ul style="list-style-type: none"> The LPPF for the period 2014-2019 introduced cuts in transfers to local government by EUR 3.5 billion in 2015, EUR 3.5 billion in 2016 and EUR 3.7 billion in 2017. Creation of metropolitan areas (MAPTAM). Reduction of the number of regions and reform of the local elections agenda. Improved division and rationalisation of powers, pooling of services, enhanced 		<p>CSR 2: <i>Take steps to limit the rise in local authorities' administrative expenditure.</i></p>

	<p>cooperation between municipalities under the provisions of the local administration reform act (NOTRe).</p> <ul style="list-style-type: none"> New Municipalities Act. 		
Financial sustainability of the pension system			
Announced measures	Adopted measures	Implemented measures	Source of commitment
	<ul style="list-style-type: none"> An agreement on supplementary pension schemes, negotiated between employees and employers representatives, was agreed on 16 October 2015 and definitively adopted on 30 October. 		<p>CSR 2: Take additional measures to bring the pension system into balance, in particular ensuring by March 2016 that the financial situation of complementary pension schemes is sustainable over the long term.</p>
Enhancing competitiveness			
Improving cost competitiveness			
Implementation of policies to reduce the cost of labour			
Announced measures	Adopted measures	Implemented measures	Source of commitment
<ul style="list-style-type: none"> The implementation of the second phase of the Responsibility and Solidarity Pact will start from 1 April 2016, implying a decrease in employers' social security contributions for wages included between 1.6 and 3.5 times the minimum wage. 		<ul style="list-style-type: none"> The Tax Credit for Competitiveness and Employment (CICE) is maintained, with a tax credit equivalent to 6% of total payroll, excluding wages higher than 2.5 times the minimum wage. 	<p>CSR 3: Ensure that the labour cost reductions stemming from the tax credit for competitiveness and employment and from the responsibility and solidarity pact are sustained, in particular by implementing them as planned in 2016.</p>
Evaluation of policies to reduce the cost of labour			
Announced measures	Adopted measures	Implemented measures	Source of commitment
<ul style="list-style-type: none"> An evaluation of the <i>allègements généraux des cotisations sociales patronales</i> is announced for the end of 2015. 	<ul style="list-style-type: none"> Expansion of the CICE monitoring committee's remit to cover all government support for businesses. 	<ul style="list-style-type: none"> Publication of the latest report by the CICE monitoring committee on 22 September 2015. 	<p>CSR 3: Evaluate the effectiveness of these schemes in the light of labour and product market rigidities.</p>
Reform of the wage-setting process			
Announced measures	Adopted measures	Implemented measures	Source of commitment
<ul style="list-style-type: none"> The Combrexelle Report proposes to give company-specific collective bargaining agreements a larger role in four priority areas: working 	<ul style="list-style-type: none"> Possibility of scheduling wage negotiations other than once a year (law on social dialogue). 		<p>CSR 3: Reform in consultation with the social partners and in accordance with national practices, the wage-setting process to ensure that wages evolve in line with productivity.</p>

hours, wages, jobs and working conditions.			
Reform of the minimum wage indexation mechanism			
Announced measures	Adopted measures	Implemented measures	Source of commitment
<ul style="list-style-type: none"> No modification of the minimum wage indexation mechanism has been announced. 		<ul style="list-style-type: none"> Compliance with the minimum-wage adjustment rule in force since 2012. 	CSR 3: <i>Ensure that minimum wage developments are consistent with the objectives of promoting employment and competitiveness.</i>
Improving business environment			
Reducing the regulatory burden			
Reduction of regulatory impediments to companies' growth			
Announced measures	Adopted measures	Implemented measures	Source of commitment
<ul style="list-style-type: none"> The French Small Business Act freezes for three years the new taxes and social security contributions for companies reaching the 50-employees threshold. It also raises thresholds of 9 and 10 employees to 11 employees (to be implemented through the 2016 budgetary law). 		<ul style="list-style-type: none"> The law on social dialogue consolidates and rationalises consultation requirements <i>vis-à-vis</i> employee representatives. It extends the single employee representation (DUP) for companies with up to 300 employees. 	CSR 4: <i>By the end of 2015, reduce regulatory impediments to companies' growth, in particular by reviewing the size-related criteria in regulations to avoid threshold effects.</i>
Competition in the services sector			
Removal of unjustified restrictions on access to and the exercise of regulated professions			
Announced measures	Adopted measures	Implemented measures	Source of commitment
<ul style="list-style-type: none"> The <i>loi santé</i> does not ease the access to health professions (i.e. <i>numerous clausus</i>), beyond giving the possibility to the French government to adopt a decree easing the installation rules of pharmacies. The <i>loi santé</i> eases the flexible rules about ownership and legal forms in the health practices. The <i>Grande conférence de santé</i> is taking place till January 2016 and might lead to additional reforms in the exercise of regulated professions (it covers the 	<ul style="list-style-type: none"> Principle of downwards revision of fees for regulated legal professions (Growth, Economic Activity and Equal Economic Opportunity Act). The implementing decree is expected for February 2016. 	<ul style="list-style-type: none"> Entry into force of the Growth, Economic Activity and Equal Economic Opportunity Act: easier access to certain professions (notaries, bailiffs and legal auctioneers, barristers to the <i>Conseil d'État</i> and the Court of Cassation), more flexible rules about ownership and legal forms in the legal and accounting professions. 	CSR 4: <i>Remove the restrictions on access to and the exercise of regulated professions, beyond the legal professions, in particular as regards the health professions as from 2015.</i>

competences of each of the professions, but it is unclear whether it will reform the <i>numerus clausus</i>).			
Taxation			
Enhancing tax efficiency			
<i>Simplification of the taxation system</i>			
Announced measures	Adopted measures	Implemented measures	Source of commitment
<ul style="list-style-type: none"> Inclusion of tax expenditure in the spending review. The <i>Conférences fiscales</i> (tax consultations), already held in 2013, in 2014 and in 2015, will be held again in 2016. Implementation of direct income taxation (<i>prélèvement à la source</i>) for 2018. 	<ul style="list-style-type: none"> Tax expenditures introduced or altered since 1 January 2015 need to be assessed within the first three years and any renewal must be justified. Creation of <i>Prime d'activité</i> to replace the <i>Prime pour l'emploi</i> and the <i>RSA activité</i>. 		CSR 5: <i>Simplify and improve the efficiency of the tax system, in particular by removing inefficient tax expenditure.</i>
Abolition of inefficient taxes			
Announced measures	Adopted measures	Implemented measures	Source of commitment
<ul style="list-style-type: none"> Elimination of three low-yield taxes: tax on cosmetics, general tax on pollution-generating activities (TGAP) levied on installations classified on environmental protection grounds (ICPE). 			CSR 5: <i>Take measures as from 2015 to abolish inefficient taxes that are yielding little or no revenue.</i>
Shifting taxation from production to consumption			
<i>Reduction of taxation on production</i>			
Announced measures	Adopted measures	Implemented measures	Source of commitment
<ul style="list-style-type: none"> Following phases of the corporate social solidarity contribution (C3S) phasing out: cut by EUR 1 billion in 2016 and complete elimination of this contribution in 2017. End of the exceptional corporate income tax payment for large corporations in 2016. Gradual lowering of the corporate income tax rate to 28% over the 	<ul style="list-style-type: none"> 40% additional depreciation for productive investments made between 15 April 2015 and 14 April 2016. 	<ul style="list-style-type: none"> First phase of the corporate social solidarity contribution (C3S) phasing out, at the cost of EUR 1 billion in 2015. 	CSR 5: <i>To promote investment, take action to reduce the taxes on production and the corporate income statutory rate, [...].</i>

period 2017-2020.			
Broadening the tax base on consumption			
Announced measures	Adopted measures	Implemented measures	Source of commitment
<ul style="list-style-type: none"> Reform of the <i>contribution au service public de l'électricité</i> (CSPE) by rebalancing taxation on electricity and fossil fuels. The Energy transition law fixes the carbon tax level for 2020. The PLF 2016 raises taxes on diesel. No measure has been announced to enlarge the number of goods taxed at the standard, instead of reduced, VAT rate. 			CSR 5: [...], while broadening the tax base on consumption.
Improving the functioning of the labour market			
Segmentation of the labour market			
Increasing incentives to hire on longer-term contracts			
Announced measures	Adopted measures	Implemented measures	Source of commitment
	<ul style="list-style-type: none"> Labour tribunal reform (limits on awards, faster procedures, professionalization of judges). Temporary scheme "assistance for recruiting the first employee" with an open-ended contract or a fixed-term contract for more than 12 months (French Small Business Act). 		CSR 6: Reform the labour law to provide more incentives for employers to hire on open-ended contracts.
Labour market policies			
Derogations at company and branch level from general legal provisions			
Announced measures	Adopted measures	Implemented measures	Source of commitment
<ul style="list-style-type: none"> The Combrexelle Report proposes to give company-specific collective bargaining agreements a larger role. 			CSR 6: Facilitate take up of derogations at company and branch level from general legal provisions, in particular as regards working time arrangements.
Reform of the accords de maintien de l'emploi			
Announced measures	Adopted measures	Implemented measures	Source of commitment
		<ul style="list-style-type: none"> Reform of "job protection agreements" or <i>accords de maintien</i> 	CSR 6: Reform the law creating the <i>accords de maintien de l'emploi</i> by the end of 2015 in order to increase their take-up by companies.

		<i>de l'emploi</i> , to extend the length of the agreement and to reduce employees' incentives to refuse the agreement.	
Unemployment benefit system			
<i>Increasing incentives to return to work</i>			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	Source of commitment
<ul style="list-style-type: none"> • The unemployment insurance union's report on the financial outlook for the unemployment benefit system from 2015 to 2018 was submitted to the Government on 16 June 2015. • The 2015 National Reform Programme indicates that a reform of the unemployment benefit system will be implemented at the latest by 1 July 2016. 			CSR 6: <i>Take action in consultation with the social partners and in accordance with national practices to reform the unemployment benefit system in order to bring the system back to budgetary sustainability and provide more incentives to return to work.</i>