EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

Brussels, 4 December 2017

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

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Executive summary

This is the fifth specific monitoring report under the Macroeconomic Imbalance Procedure (MIP) for France, which was identified as experiencing excessive imbalances in the 2017 European Semester. As pointed out in the 2017 Country Report, these imbalances relate to the large public debt and the deteriorated competiveness of the French economy. France being a large economy in the euro area, the vulnerabilities associated with its macroeconomic imbalances are of cross-border relevance. This report hence reviews the most recent developments in France's macroeconomic imbalances and the policy actions taken by the authorities to tackle them, as called for by the 2017 country-specific recommendations addressed to France. The cut-off date for this report is end-November 2017. Policy developments beyond this cut-off date are considered in the 2018 edition of the Country Report on France.

After three years of moderate growth, economic activity is forecast to accelerate sharply in 2017. GDP growth has gained momentum in recent quarters, driven by private investment and in particular by a strong recovery in the housing market. According to the 2017 autumn forecast, GDP growth is expected to reach 1.6% in 2017, 1.7% in 2018, and to slightly decelerate to 1.6% in 2019 as spare capacities in the economy are reabsorbed. As a result, unemployment in France is set to continue falling. Export market shares have stabilised since 2012 and the current account is forecast to improve after reaching a trough in 2017. Although at slower pace, the general government debt continued to increase to 96.5% of GDP in 2016 and is forecast to stabilise at 96.9% as of 2018, even though upside risks are substantial.

Reform efforts also are gaining momentum. Actions have been undertaken and are planned to further improve the functioning of the labour market. A new reform of the French labour law has been adopted on 22 September 2017. It redefines the relationship between legal provisions and collective agreements signed at firm or sector level, simplifies social dialogue institutions within firms, and revises some of the dismissal procedures. Reforms of the unemployment benefit and of the training and apprenticeship systems have been announced for 2018, while a reform of the pension system is planned in 2019.

Planned tax reforms are designed to lower the tax burden on companies and increase households' purchasing power, whereas a new strategy to contain public expenditure has been announced. The announced tax reforms are welcome since the high tax burden remains an obstacle to investment and firms' growth and weighs on households' purchasing power. These tax cuts call for an effective fulfilment by all public administrations of the planned expenditure retrenchment in order to reduce the public deficit. The new strategy to comprehensively review expenditure items planned for 2018 might contribute to the additional fiscal effort required to put public debt on a clear downward trend.

A number of initiatives have been announced to improve firms' business environment, but there is room to reduce regulatory and administrative requirements and procedures, increase competition in the services sector, and address inefficient innovation public support schemes. Together, the *Plan d'action pour l'investissement et la croissance des entreprises* and the *Grand plan d'investissement 2018-2022* seek to promote entrepreneurship, support firms' growth, and stimulate private initiative in France. Still, complex regulatory and administrative requirements remain and simplification needs to be enhanced. Higher competition in the services sector includes clarifying further the objectives and priorities of the French state as shareholder, including in the railway and energy sectors. Regarding research and innovation policies, the on-going evaluation of public funding schemes and programmes is promising and may increase their efficiency. New initiatives supporting innovation and collaborative research are also welcome, but their synergy with existing schemes has not been fully clarified yet.

Equally, the vocational education and training system's ability to increase employment opportunities of low-skilled workers and people with a migrant background remains low. The synergies between school and work-based trainings have not been reinforced yet, with a view to further increasing employment opportunities of pupils. Recent and announced reforms target the governance of the vocational education and training system, but do not link proposed training and firms' hiring procedures. Integration policies for people with migrant background are not closely linked to the actions for fostering the functioning of the labour market and training system.

Overall, since February 2017, actions have been undertaken in different policy fields, whereas their full implementation remains a crucial step, and further action continues to be warranted. A new reform of the labour law has been adopted. As a follow-up, revisions of the unemployment benefit, of the vocational education and training, and of the pension systems have been announced for 2018 and 2019. Actions have also been taken to decrease the tax burden for companies and to map innovation policy schemes. Similarly, a number of policies to improve the business environment, including some lifting of barriers to competition in the services sector, have been presented and are expected to be part of a draft law to be tabled in 2018. Yet, notwithstanding several measures to reduce labour costs for lower wages and a decelerated evolution of the minimum wage, the employment rate of low skilled workers has not improved. At the same time, the postponement of the planned withholding personal income tax reform to 2019, the existence of VAT reduced rates and exemptions with limited efficiency on certain items, as well as the increasing tax expenditures, are examples of the little improvement made in simplifying the tax system and broadening the tax base. Further action is as well warranted to ensure the sustainability of public finances over the medium term and to undertake a review of expenditure items that can effectively translate into expenditure savings. An additional decrease of unjustified regulatory barriers for firms and an improved collaboration between public research and companies remain key to improve the business environment in France.

Key findings on the implementation of economic policy reforms

On track	Wait-and-see	Action wanted
• Adoption of a new reform of the labour law. • Decrease of the statutory corporate income tax rate. • Evaluation of direct and indirect public funding to innovation.	• Reform of the vocational education and training system. • Reform of the unemployment benefit system. • Reform of the pension system. • Lifting barriers to competition in the services sector. • Optimise effect of labour cost reduction schemes. • Ensure consistency of minimum wage developments with job creation and competitiveness.	• Improve access to the labour market for jobseekers (less qualified workers, people having a migrant background). • Simplifying the tax system and broadening the tax base. • Sustainability of public finances. • Comprehensive public expenditure review. • Further reduce the regulatory burden. • Improve collaboration between public research and companies.

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

1. Introduction

On 16 November 2016, the European Commission presented, in the context of the Macroeconomic Imbalances Procedure (MIP), its sixth Alert Mechanism Report to underpin the selection of Member States requiring an in-depth investigation into the existence and extent of macroeconomic imbalances. The subsequent Country Report on France – published on 22 February 2017 − examined the nature, origin and severity of macroeconomic imbalances and risks in France.[1] In its accompanying communication,[2] the Commission concluded that France was experiencing excessive macroeconomic imbalances related to its high public debt and weak competitiveness. The Commission recognised the reform effort undertaken by France, while pointing out the need of further policy action in particular as regards the efficiency of public spending and taxation, the minimum wage and the unemployment benefit system, as well as the education system and the business environment.

On 22 May 2017, the Commission proposed a set of four country-specific recommendations (CSRs) for France, which were subsequently adopted by the Council on 11 July 2017. The CSRs stress the main policy gaps in France and propose policy actions that aim *inter alia* to comply with the provisions of the Stability and Growth Pact and to reinforce the spending reviews, to simplify and improve the efficiency of the tax system, to improve jobseekers' access to the labour market, while reforming the educational system to promote employment, and to improve the business environment by reducing unjustified regulatory barriers, improving competition in the services sector and fostering the efficiency of public support schemes for innovation.

This report presents the results of the specific monitoring by assessing the latest main policy measures taken by France since the publication of the 2017 Country Report and up to end-November.[3] In order to underpin the findings of this document, a specific monitoring mission took place on 6-8 November 2017. The content of this document also reflects the content of France's Draft Budgetary Plan (DBP) for 2018 as well as the Commission 2017 autumn forecast. In order to avoid an overlap of surveillance processes, this report does not provide an assessment of France's revised fiscal targets, as presented in the 2018 DBP, submitted to the Commission in October 2017. The latter assessment can be found in the Commission's opinion on France's Draft Budgetary Plan,[4] taking into account the outcome of the Commission's 2017 autumn forecast.

2. Outlook and recent developments on imbalances

Recent economic developments and outlook

The French economy expanded by 1.2% in 2016, after 1.1% in 2015 and 0.9% in 2014. Despite the strong acceleration in domestic demand, growth remained moderate as net exports

[1] European Commission (2017), Country Report, France 2017 – Including an In-Depth Review on the prevention and correction of macroeconomic imbalances, https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-france-en.pdf.

[2] 2016 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011. COM(2016) 95 final/2, http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017DC0090&from=EN.

[3] Details on the policy measures can be found in the overview table in the Annex. Policy developments beyond the end-November cut-off date are considered in the 2018 edition of the Country Report on France. See European Commission (2018), *Country Report, France 2018 – Including an In-Depth Review on the prevention and correction of macroeconomic imbalances*.

[4] See Commission Staff Working Document on the 2018 DBP, available at https://ec.europa.eu/info/sites/info/files/economy-finance/swd-2017-517_en.pdf.

represented a significant drag. In the third quarter of 2017, GDP grew by 0.5%, after 0.6% in the second quarter. In the first three quarters of 2017, economic activity was primarily driven by strong private investment growth and in particular a strong recovery in the housing market. Growth is expected to remain solid in the coming quarters, as economic sentiment has continued to improve in recent months, with some confidence indicators reaching their highest levels since the 2008 financial crisis. All in all, GDP is expected to grow by 1.6% in 2017, 1.7% in 2018, and to slightly decelerate to 1.6% in 2019 as spare capacities in the economy are reabsorbed.[5]

Import growth is expected to moderate slightly in 2017, after three years of strong growth. By contrast, exports are forecast to gradually recover, in a context of sustained global demand. As a result, the contribution of net exports is expected to gradually become less negative and the current account is forecast to improve after reaching a trough in 2017.

In line with the solid growth expected in France, the unemployment rate is forecast to decline to 9.5% in 2017, 9.3% in 2018, and 8.9% in 2019. At the same time, employment growth is forecast to moderate somewhat after strong growth in 2017, as the effect of past cuts to the labour tax wedge fades.

Developments as regards imbalances

In February 2017 France was found to be experiencing excessive macroeconomic imbalances. These imbalances related to a deteriorated competitiveness and a high and increasing public debt, in a context of low productivity growth.

<u>Competitiveness</u>

Export market shares have stabilised since 2012. In recent years, France has benefitted from a more favourable geographical positioning, as imports grew faster in France's main trading partners than on average in the world.

The Net International Investment Position (NIIP) remains contained at −16% of GDP in 2016. The current account balance deteriorated in 2016, reaching −0.9%[6] of GDP, and has deteriorated further in the beginning of 2017. However, according to the 2017 autumn forecast, the current account is expected to reach a trough in 2017 and to improve starting from 2018.

Nominal unit labour costs have decelerated markedly, growing by only 1.4% over the three years to 2016, due to moderate wage dynamics, in a context of continued labour market slack,[7] and measures to reduce the cost of labour. Minimum wages have been growing less than the average wage. As a result, cost-competitiveness is improving, although past losses have not been fully regained yet. Cost-competitiveness is set to continue improving gradually, as wage dynamics remain moderate. However, labour productivity growth remains below both long-term trends and the euro-area average, which prevents a faster recovery of cost-competitiveness.

[5] The GDP growth figures are non-calendar adjusted. In 2017, calendar adjusted GDP growth is forecast at 1.8%.
[6] Balance of payments data.
[7] ECB Bulletin 3/2017.

Public debt

Although at a reduced pace, general government debt continued to increase up to 96.5% of GDP in 2016 and is forecast to stabilise at 96.9% over the forecast horizon (2017-2019), which implies a growing divergence with respect to the euro area.

Positive factors reducing the risks linked to a high level of public debt are its maturity structure as well as the diversification of the investors' base. Notably, the average maturity of total outstanding debt has increased to almost 7.8 years in 2017 compared to 7.5 years in 2016 (average maturity is more than 8 years for medium- and long-term debt). Also, the French debt remains an investment sought for complying with capital and liquidity requirements as well as for diversification purposes, even if the share of non-resident holders of negotiable government debt continued to decrease over time to reach around 57%.

3. Policy implementation and assessment

3.1 Improving public finances and taxation

This section describes the latest policy measures taken by France to ensure the sustainability of its public finances and step up efforts to reduce the tax burden weighing on companies and labour. It also assesses the actions announced to implement efficiency gains through spending reviews and to simplify the tax system.

The budgetary consolidation strategy announced by the new government is mainly expenditure-based. According to the Draft Budgetary Plan (DBP) for 2018, the expenditure (excluding tax credit) to GDP ratio is set to decline by 0.7 pp. in 2018 compared to 2017 and by a total of more than 3 pp. until 2022. Overall, the targeted growth rate in the volume of expenditure (excluding tax credit) is of 0.4% per year on average until 2022. The objective is quite ambitious compared to the past track record (the average real growth rate of expenditure net of tax credits was of 0.8% over 2010-2016) and reflects the commitment by the authorities to reduce the deficit and to curb debt dynamics. Notably, to contain the State expenditure dynamics, the government has introduced a new State expenditure norm applicable to items under its control and with a ceiling defined over the programming period.[8] This norm will be complemented by a reduction in the number of State subsidised contracts and by a significant cut in housing allowances disbursed for social housing. Additional savings will be ensured on the State wage bill via the reintroduction of one unpaid day in case of illness, the wage freeze of civil servants and a reduction in the number of public sector employees. On the other hand, regarding social security, the growth norm of healthcare spending (ONDAM) was increased from 2.1% in 2017 to 2.3% in 2018 therefore making it less demanding. Nevertheless the ONDAM alert committee flagged that, despite allowing for a higher growth rate of healthcare spending, the dynamism of the costs related to innovative medical treatments and the uncertain nature of some savings call for additional buffers to accommodate in-year expenditure slippages.[9]

The framework of the relationship between the State and local authorities would be renewed. The consolidation effort of local authorities in previous years has been essentially

[8] 2018-2022 multiannual public finances programming bill.
[9] Comité d'alerte de l'ONDAM (2017) Avis du Comité d'alerte n° 2017-3 sur le respect de l'objectif national de dépenses d'assurance maladie.

driven by the cut in State transfers to local authorities. These cuts in transfers weighed heavily on local investment, although operational spending was significantly contained too. The indicative expenditure norm for local authorities (ODEDEL) has proved instrumental to control local spending dynamics despite the lack of correction mechanisms or alert committee in case of expenditure overruns. The multiannual programming law for 2018-2022 set the operational expenditure growth target to 1.2% over the period 2018-2022, while the cuts in transfers from the State to local authorities would be replaced by a contract agreement between the State and local authorities. As this new system is not anchored by any incentivising mechanism at this stage, this casts doubts about its effectiveness to maintain the same degree of expenditure control at local level.

The most recent approach followed on spending review will be discontinued and a new strategy to reap efficiency gains that translate into public expenditure savings will be launched. The annual spending reviews introduced in 2014 have produced limited results in terms of savings until 2017 despite being identified as a potentially powerful tool to support the budgetary strategy and to improve the efficiency of public policies. While they identified a small fraction (less than 2%) of the overall planned expenditure savings of EUR 50 billion over the period 2015-2017, only some EUR 700 million translated into actual savings. This was partly because more than 50% of the spending reviewed concerned local authorities, which are autonomous in managing their budgets. Therefore, despite the analysis of the spending reviews, their recommendations did not translate into effective measures at this administrative level, although the methodology seemed promising. The DBP envisages the launch of the broader "Public Action 2022" initiative, aimed at an ambitious and coordinated overhaul of public action's scope and methods at all levels of general government. To this aim, a new committee consisting of economists, qualified personalities, and high civil servants will be in charge of identifying long-lasting structural reforms and savings within the public administration. The different actions, parameters and methods have not been fully specified yet. The conclusions from this committee setting the roadmap for the transformation of French administration are expected before the end of the first quarter of 2018.

On the revenue side, the planned decrease of corporate taxation addresses the high tax burden faced by companies in France. The 2018 DBP continues the previous government's plan to reduce corporate tax. The corporate income tax will decrease and companies will benefit from a rate at 28% for the first EUR 500 000 of profits (the remaining profits are subject to the 33.33% standard rate). The reduced rate of 15% for SMEs will continue to apply. After 2018, the corporate income tax will continue to decrease further to reach 25% (for all size of companies) by 2022 and align with other EU economies. In total and by 2022, this measure would represent EUR 11 billion tax cuts in favour of companies. The decrease in corporate taxation will lower down the cost of capital and thus encourage companies to invest. According to authorities, this measure will generate an increase of 1.5 point of GDP by 2022.[10] On labour costs, the tax credit for employment and competitiveness (*crédit d'impôt pour la compétitivité et l'emploi or CICE),* which increased from 6% to 7% on 1 January 2017, would be lowered back down to 6% in 2018. As of 2019, the tax credit would be converted into permanent reductions in employers' social security contributions and accompanied with a further reduction of these latter for wages up to 1.6 times the minimum wage. While transforming the CICE will contribute to simplify measures reducing the cost of labour, its impact on employment is announced to be limited (see section 3.2).

[10] *Plan d'actions pour l'investissement et la croissance* (available at http://www.gouvernement.fr/sites/default/files/contenu/piece-jointe/2017/09/dossier_de_presse_-_plan_dactions_pour_linvestissement_et_la_croissance_-_11.09.2017.pdf)

Changes in capital taxation are designed to reinvigorate investment by reducing taxes on capital gains, dividends and interests. A flat rate of 30 % will apply on saving revenues and replace the current progressive system taxing capital income at a higher rate with targeted incentives or rebates related to the duration or the type of investments. Furthermore, the wealth tax (*impôt sur la fortune*) will be replaced by a tax exclusively on real estate assets (*impôt sur la fortune immobilière*). A new tax on cars and increased taxes on precious metals and yachts have been proposed together with the suppression of the wealth tax on financial assets. Overall, the reforms on capital taxation are aimed to make the French economy more attractive and to foster investments, while incentivizing less investment in real estate. The effects of the reform on efficiency and fairness would have to be closely monitored.

The 2018 DBP also foresees new tax cuts expected to increase households' purchasing power. It has been decided to gradually phase out the housing tax (*taxe d'habitation*) for 80% of households. The first step will be implemented in 2018 and is expected to save households a total of EUR 3 billion. In addition, employees' social contributions for health and unemployment insurance will also be gradually eliminated and offset by a 1.7% increase in the general social contribution (*contribution sociale généralisée*) payable by employees and retirees. In the end, this measure contributes to rebalance the tax burden away from workers to retirees.

Concerning the simplification of the tax system, the introduction of the withholding personal income tax has been postponed and tax expenditures keep increasing. The introduction of the withholding personal income tax reform (*prélèvement à la source*) initially scheduled by 2018 has been postponed to 1 January 2019. This one-year delay has enabled authorities to carry out tests with companies. In addition, the DBP does not plan the suppression of taxes identified as inefficient by the 2014 report of the General Inspection of Finances[11] and leaves inefficient VAT reduced rates and exemptions untouched. Furthermore, unlike the previous multiannual framework, this multiannual budgetary framework (2018-2022) does not provide a spending limit for tax expenditures and sets, instead, a non-binding target of 28% for the ratio of tax expenditures to the sum of net tax revenues and tax expenditures. Although the DBP 2018 falls below the target, this spending ratio has increased over the last two years (25.7% in 2018, 24.6% in 2017 and 23% in 2016). In sum, tax expenditures keep increasing in number and in value and are set to reach EUR 99.8 billion in 2018 (4.5% of GDP), compared to EUR 93 billion in 2017. The 2018 DPB plans the net creation of three tax expenditures (thirteen new ones will be introduced while only six are to be suppressed and four are phased out).

All in all, since February 2017, some reform efforts have been made in the areas of public finances and taxation. The Draft Budgetary Plan for 2018 puts forward an expenditure-based consolidation strategy, jointly with a wide set of tax cuts aimed at reducing taxes on companies, labour and most vulnerable households. The spending reviews will be discontinued and replaced by a new process, Public Action 2022, for which the framework and the roadmap remain to be specified. The efficiency of public spending has not been improved significantly although targeted measures seek to improve spending for State subsidized contracts and on social housing. The reduction of the tax burden on companies and labour is welcome as it might entail a positive impact on potential growth and employment. However, such tax cuts weigh on the fiscal adjustment. Accordingly, the effective fulfilment of the planned expenditure retrenchment is a precondition for the deficit

[11] Inspection Générale des Finances (2014), *Les taxes à faible rendement*.

reduction. However, the overall fiscal effort planned is still insufficient to put public debt on a downward trend. Finally, there is further room to improve and to simplify the tax system.

3.2 Strengthening the labour market

This section evaluates policy measures to improve the functioning of labour market in France. In particular, it highlights the need to improve the access to the labour market for jobseekers, including people having a migrant background. It also reports on the findings of the evaluations concerning the measures to decrease the cost of labour and on the latest minimum wage developments.

A work programme has been transmitted by the Prime Minister and the Minister of Labour to social partners on 6 June 2017. This work programme spells out the main actions to be undertaken by the government between 2017 and 2019. These actions include a reform of the labour law, a reform of the unemployment benefit system, a reform of the vocational training and apprenticeship system, followed by a reform of the pension system.

The first action of the work programme transmitted to social partners has been adopted. It consists of a new reform of the labour law, in continuity with the Labour Act of 8 August 2016 (see Box 1). A new labour market reform has been launched with the Enabling Act[12] adopted by the French Parliament on 2 August 2017. The Enabling Act allowed the government to take measures (the so-called '*ordonnances*') to enlarge the field of collective bargaining, to simplify social dialogue and to modify dismissal procedures. Following consultation with social partners, five '*ordonnances*' were officially adopted on 22 September 2017 by the Council of Ministers. To become operational, they need to be ratified by the Parliament by the end of the year and, in some cases, complemented by decree.

Box 1: Labour Act of 8 August 2016 (El Khomri law)

In September 2015, the 'Combrexelle Report' argued that a reform of the Labour Code could have revamped collective bargaining in France. Notably, this report suggested redrafting the French Labour Code to categorise norms for working time, wages, employment and working conditions into: (i) public order rules, (ii) norms to be fixed through collective bargaining at firm or at branch level, and (iii) norms that can be applied in the absence of a collective agreement. The report advised to implement this new structure, aimed at giving more space to company-level bargaining, on four subjects: employment, wages, working time and working conditions.

On 8 August 2016, the '*loi visant à instituer de nouvelles libertés et de nouvelles protections pour les entreprises et les actifs*' (the so-called El Khomri law) implemented the tripartite structure suggested by the Combrexelle Report in the domain of working time. Concerning the other domains mentioned by the Combrexelle Report (wages, employment and working conditions), the El Khomri law delegated a committee to apply the same tripartite structure to the remaining parts of the Labour Code by August 2018. The work of this committee has been replaced by the new reform of the labour law started with the Enabling Act adopted in August 2017.

[12] *Loi d'habilitation à prendre par ordonnances les mesures pour le renforcement du dialogue social*. The Constitutional Council declared this law constitutional to the French Constitution with the decision No. 751 DC of 7 September 2017.

The El Khomri law also introduced measures to increase the effectiveness of collective bargaining. Notably this law paved the way for a reduction in the number of branches, the introduction of the majority principle for the adoption of collective agreements, the reform of rules underpinning the denunciation and revision of collective agreements. The law introduces '*offensive agreements*' that firms can use to adjust working time arrangements provided monthly remuneration is maintained, while maintaining or increasing the level of employment. These agreements would prevail over individual contracts. Employees refusing such agreements would be subject to a specific individual dismissal on "real and serious" grounds.

The law also modified the definition of 'economic dismissal' and introduced measures to increase the effectiveness of collective bargaining and the promotion of employment in small and medium enterprises (SMEs) and very small enterprises (VSEs). The law specified the definition of 'economic dismissal', following the case-law of the French Court of Appeal. The new definition uses evolutions of the international turnover of a firm to assess the economic justification of a dismissal. Concerning the promotion of employment in SMEs and VSEs, the law allowed branches to set-up framework collective contracts to be used, and possibly adapted, by SMEs and VSEs.

Lastly, to counterbalance the flexibility given to firms, the El Khomri law strengthened training opportunities for workers. The law defined the features of the personal activity account (*compte personnel d'activité*). This account entered into force on 1 January 2017 and replaced the previously existing *compte personnel de formation,* with increased rights for non-qualified. Along the formulation of the personal activity account, the law contained also some measures intended to improve the safeguard of career paths, notably through the extension of the Youth Guarantee field of application, the development of teleworking and the rules underpinning the '*droit à la déconnexion'*.

The new reform of the labour law reinforces collective bargaining at firm and sector-level. First, the new reform of the labour law clarifies the competence of collective agreements bargained at sector or at firm-level. Sector-level agreements will continue to define employment and working conditions, including minimum wages for each category of workers.[13] Sector-level agreements will also define the framework conditions (e.g. maximum length) to use fixed-term contracts and to enlarge a more flexible type of permanent contract (*contrat à durée indéterminée de chantier*) used in the construction sector to the other sectors of the economy. On all other topics - such as working time and pay beyond the minimum wage for each category of workers - collective bargaining will mainly take place at firm-level. The reform hence transfers elements from the remit of the law to collective bargaining, while limiting branch-level capacity to introduce safeguard clauses.

Second, the reform reinforces the firm-level agreements to preserve or to maintain employment (*accords de compétitivité*). The Labour Act of 8 August 2016 created a new category of firm-level collective agreements, which can be bargained at firm level for maintaining or increasing employment in a firm. The new reform of the labour law allows these '*accords de compétitivité'* to review also employees' remuneration. Employees refusing such agreements may now be laid off on real and serious grounds, so that firms do not need to follow the procedures required in case of dismissal for economic reasons.

[13] In particular, some topics will remain in the competence of sector-level agreements, to avoid social dumping behaviour at firm level. These topics are: sector-level minimum wages, job classifications, complementary social protection, training, '*pénibilité*', and gender equality. Sectors' competence has also been extended to determine the guaranties and the rules for fixed-term contracts. For example, sector-level agreements will be able to introduce the more flexible type of permanent contracts ('*contrat à durée indéterminée de chantier*') used in the construction sector into other industrial sectors.

Third, the new reform of the labour law streamlines collective bargaining requirements for smaller firms, by reducing the role of the '*délégués syndicaux*'. In very small firms (up to 11 employees), employers will now be able to consult employees through a referendum on all topics subject to collective bargaining. In firms with up to 20 employees, a similar referendum can be used should there be no elected representative of employees. In firms employing between 20 and 50 employees, firm-level collective agreements can be negotiated on any company-relevant bargaining theme with a representative worker, who needs to be elected by the personnel of the firm, but does not need to have a '*mandat syndical'*.

The new 2017 reform of the labour law reduces the number of social dialogue instances for firms with more than 50 employees. In 2015, the Rebsamen law on social dialogue had extended, from companies with more than 50 and up to 200 employees to companies with up to 300 employees, the possibility to group via company agreement two or three of the following social dialogue committees in one single body: Works Council, Employee Delegates and Health, Safety and Work Conditions Committee. By default, the new reform of the labour law merges by default these 3 social dialogue committees in one single body, the '*Comité social et économique'* for all firms with more than 50 employees.[14] Following a company agreement, these entities could even be given the mandate to negotiate collective agreements and in such case be renamed '*Conseil d'entreprise'*. The composition and functioning of the *'Comité social et économique'* will be defined by a decree of the State Council taking into account the number of firms' employees.

The new reform of the labour law also amends some dismissal procedures. Compulsory floor and ceiling thresholds for compensation of unfair dismissal of an employee are introduced according to seniority. Both floor and ceiling thresholds are progressive. Floor thresholds range from 15 days to 3 months of salary, while ceiling thresholds range from 3 months (for employees having less than 2 years of seniority) to 20 months of salary (for employees with more than 30 years of seniority). The reform also restricts to the national level the assessment of economic difficulties triggering an economic dismissal. Hence, economic difficulties will no longer need to be appreciated at worldwide level in case of international groups. Only the economic situation of an international group's plant located in France will be relevant to evaluate the presence of economic difficulties justifying economic dismissals. In addition, economic difficulties of the company, evaluated solely at national level, can now also be invoked to launch a '*plan de sauvegarde de l'emploi*', although the threshold (dismissing more than 10 employees in a month) for launching this plan will remain unchanged. In parallel, commonly-agreed resignation procedures could now be introduced in a collective manner (the so-called *rupture conventionnelle collective*) based on an agreement to be validated by the French administration.

An additional reform of the unemployment benefit system has been announced for 2018. The organisation running the unemployment benefit system (*Unédic*) is managed by social partners in France. Social partners revise the rules underpinning the unemployment benefit system every three years. The last revision of these rules took place in March 2017, introducing savings for EUR 550 million in 2018 and then EUR 930 million per year. However, the last revision of the unemployment benefit system has not been sufficient to steadily put the *Unédic* debt on a decreasing trajectory.[15] The debt of this organisation,

[14] Only firms with more than 50 employees and operating in specific sectors (such as nuclear or chemical risks sites) or for the ones of more than 300 employees, the Safety and Work Conditions Committee will be compulsory.

[15] Measures include the postponement from 50 to 53 years for the entry into senior-specific benefit rules and modify calculation method to define daily rights, the latter being intended to reduce eligibility advantage of short-term contracts to disincentives these forms of contract.

indeed, has been constantly rising after 2008. It was at EUR 30.0 billion in 2016 and is expected to reach EUR 33.8 billion in 2017 and EUR 37.1 billion in 2018.[16] For this reason, an additional reform of the unemployment benefit system has been announced for 2018. This new reform is meant to extend the unemployment benefit system to independent workers, farmers and employees having resigned (once every five to seven years), to reinforce further controls upon jobseekers, to cancel the 12 month extension of the compensation period for senior workers having between 53 and 57 years, to limit the possibility of topping up unemployment allowances with the income from a reduced-time job to a period of 12 months, and to replace employees social security contributions with a tax-based financing system. According to first calculations made by Institut Montaigne,[17] the announced reform of the unemployment benefit system may imply an additional cost of EUR 4.8 billion per year, whilst substantial savings could be obtained only thanks to a deeper re-organisation of the unemployment benefit system accompanied by a decrease of the unemployment rate to 7%.

A reform of the pension system is also planned for 2019, with the aim to introduce a unique pension system for all categories of workers. At present, 37 different pension schemes co-exist. These 37 schemes concern different groups of workers and function according to different sets of rules. The reform of the pension system announced for 2019 intends to unify the rules of the different regimes co-existing at the moment, in order to introduce a universal and unique pension system. This reform is meant to improve the equity and the transparency of the current pension system. This reform is also expected to decrease the costs of the pension system, notwithstanding demographic dynamics are still favourable to France. However, no precise detail on the timing and measures contained in this reform is available at the moment.

A positive, but limited, impact on employment has been confirmed for the measures decreasing the cost of labour. The *crédit d'impôt pour la compétitivité et l'emploi (CICE)* has been adopted in 2012, for a cost of EUR 19.1 billion in 2017.[18] The *Comité de suivi du crédit d'impôt pour la compétitivité et l'emploi* published a new report in October 2017,[19] discussing the results of the most recent quantitative analysis of the effects of the CICE using firm-level data for the period 2013-2015 (Box 2). The new report confirmed that the CICE had a positive, but moderate, impact on employment, as it created or maintained about 100 000 jobs over the three years under analysis. With the aim to increase the impact of this tax credit, the government announced its transformation into permanent reductions in employers' social security contributions starting from 2019 (see Section 3.1). The impact of this transformation in terms of employment is, again, expected to be positive but limited, and equal to 35 000 jobs in 2019 and 70 000 jobs in 2020 according to government's projections.[20] These results are in line with the recent assessment of the reductions in employers' social security contributions granted in France since the 1990s, highlighting a higher effect for the

[16] *Prévisions financières de l'Unédic - octobre 2017*, available at https://www.unedic.org/publications/previsions-financieres-de-lunedic-octobre-2017.
[17] Institut Montaigne (2017), Réformer l'assurance chômage, Présidentielle 2017, Le Grand Décryptage.
[18] The cost of the CICE has been estimated between EUR 15.1 billion and EUR 19.1 billion, according to the dataset used as source of this information.
[19] France Stratégie, *Comité de suivi du Crédit d'impôt pour la compétitivité et l'emploi*, *Rapport 2017*. Available at: http://www.strategie.gouv.fr/publications/rapport-2017-comite-de-suivi-credit-dimpot-competitivite-lemploi
[20] *Plan d'actions pour l'investissement et la croissance* (available at http://www.gouvernement.fr/sites/default/files/contenu/piece-jointe/2017/09/dossier_de_presse_-_plan_dactions_pour_linvestissement_et_la_croissance_-_11.09.2017.pdf)

first wave of these reductions implemented at the beginning of the 1990s and a lower effect for those implemented between 2003 and 2005.[21]

Box 2: New assessment of the impact of the crédit d'impôt pour la compétitivité et l'emploi

Using firm-level data for the period 2013-2015, new analyses confirmed that the *crédit d'impôt pour la compétitivité et l'emploi* (CICE) had a positive effect on firms' profits. The new report of the *Comité de suivi du CICE*, published in October 2017, confirmed the positive effect of this credit on firms' profits. In particular, the CICE was found to have a positive effect on the profit margins of the third quartile of firms benefiting from this credit. It was also found to have a positive effect on the operating margins, but for smaller companies only. This was due to a diffusion of the effects of the CICE into the whole economy. Larger firms, which benefited the most from this credit, transmitted to their business clients part of their benefits by decreasing or limiting the increase in the price of their goods or services.

A positive but limited effect on employment was confirmed. The new report of the *Comité de suivi du CICE* confirmed the effect of this credit on employment. This effect is moderate and equal to 108 000 jobs created or preserved over the period 2013-2015, that is 20 000 jobs more than those found on the basis of 2013-2014 data. However, this result corresponds to the middle-point of a range of possible results going from 10 000 to 205 000 jobs created or preserved. At the same time, no significant effect on wages could be found. Even when looking at the wages by socio-professional categories, only a small positive effect could be found for those categories earning lower wages and a negative effect for the top executives of a quarter of the firms benefiting the most from the CICE.

Firm-level data continue not to reveal any significant effect on investment, R&D or exports. As for the period 2013-2014, no effect of the CICE could be detected on the basis of firm-level data as far as investment, R&D and exports are concerned. This absence of effect is not surprising, given the short-time horizon for which firm-level data are available.

A new committee has been appointed to monitor minimum wage developments. In August 2017, a new group of independent experts has been appointed to assess minimum wage developments on an annual basis. This group of experts also provides non-binding opinions on the adoption of ad-hoc increases in the value of the minimum wage. These opinions have been always respected so far and have played an important role in controlling the use of such ad-hoc hikes. No modification of the minimum wage indexation rule is planned and no change in the governance of the committee of experts has been announced. At the same time, in 2016 the employment rate of low skilled workers[22] remained lower than in the EU (38.8% in France against 44.5% in the EU).

Overall, the adoption and implementation of all the actions announced in the work programme transmitted to social partners in June 2017 could further improve the functioning of the labour market. The new reform of the labour law aims at strengthening collective bargaining at sector and firm levels, streamlining social dialogue, and reforming

[21] While the first two waves of these reductions (implemented between 1993 and 1997 and then between 1998 and 2002) allowed to create or save 300 000 jobs and 350 000 jobs respectively, no signification effect on employment has been found for the more recent wave of these reductions (2003 to 2005). See France Stratégie, *Comité de suivi des aides publiques aux entreprises et des engagements, Les exonérations générales de cotisations, Juillet 2017.* Available at: http://www.strategie.gouv.fr/publications/exonerations-generales-de-cotisations-rapport-2017-cosape.

[22] Low skilled workers are defined as 15-64 year workers having less than primary, primary and lower secondary education.

some dismissal procedures. It represents the first of a number of actions that the government plans to adopt in order to renovate the French social model over the next 18 months. It needs to be complemented with other policy measures announced for 2018 and 2019, such as the reform of the unemployment benefit system, the reform of the pension system, and the reform of the vocational education and training system. Besides, the transformation of the tax credit for competitiveness and employment has been announced for 2019, but its impact in terms of employment is expected to be modest. Notwithstanding a more contained evolution of the minimum wage over the recent past, the employment rate of low skilled workers continues to decrease.

3.3 Education, vocational training and social policies

This section assesses policy measures to improve the vocational education and training system, as a tool to improve the access to the labour market notably for low skilled workers. It also describes the actions announced or adopted over the last months to increase hiring and to better integrate people having a migrant background.

The initial system of vocational education and training does not lead to an optimal integration of young people in the labour market. In France, pupils with a disadvantaged background tend to be more often steered to vocational education paths. Moreover, in contrast with data for the majority of OECD countries,[23] pupils having a vocational education and training diploma have no better employment opportunities than those of the general education system. Employment outcomes are relatively better for apprenticeship or work-based initial vocational education, while they are particularly weak for secretarial training and for training related to the trade&sale sector, where the post-diploma employment rate is low and the unemployment rate measured three years later remains quite high (up to 31% for secretarial training and 25% for trade&sale). Over 500 additional initial vocational education and training specialties in sectors with good employment prospects were announced for the opening of the 2017 school year, along with the creation of 1 000 specific teaching posts. Recent initiatives have also tried to ease the entry into the apprenticeship system, thanks to the introduction of a low-qualified apprentice premium and access given to professional qualifications. Yet, the offer of work-based training remains constrained by its cost while the synergies between school and work-based training to improve educational pathways and to reduce drop-outs could be further developed, as foreseen by the March 2016 State-Regions platform.[24]

The access to the continuous vocational education and training system remains linked to the labour market status of a worker, and it is not systematically linked to labour market needs. The chance of receiving some training remains significantly lower for unemployed and certain types of workers: older, low-qualified or in the small-business segment.[25] In 2014, the latest reform of the vocational education and training system has established new national and regional vocational training and employment coordination bodies, with the task to identify training that is more in line with economic and employment needs. The same reform aimed also at increasing the entry into training for SME employees and unemployed workers. Then, increased means earmarked for non-qualified actives and the

[23] OECD (2017), Education at Glance.
[24] OECD (2017), Economic review; CNESCO (2016), Enseignement professionnel.
[25] European Commission (2017), Country Report, France 2017 – Including an In-Depth Review on the prevention and correction of macroeconomic imbalances, https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-france-en.pdf

plan '*500 000 formations'*, launched in January 2016 and strengthened in 2017 with 200 000 additional trainings, have continued to sustain the demand for training of those who need it the most. These actions, however, have not improved the quality of provided trainings in order to achieve better employment results and do not sufficiently benefit of complementary supporting actions for trained individuals as called upon by the '*grand plan d'investissement 2018-2022*' (see section 3.4). Actions to help professional branches and companies improve the identification of their skill needs and their recruitment practices would also be beneficial to the functioning of the vocational education and training system.[26]

A reform of the vocational education and training system has been announced for 2018, with the aim to increase training opportunities. This reform is expected to increase by EUR 14 billion the resources available for training, and notably those aiming at providing access to qualifying training and apprenticeship to 1 million low qualified unemployed and to 1 million early-school leavers on a 5 years period from 2018 to 2022. The reform of the vocational training system is under consultation with social partners. Information available at this stage indicates that the reform of continuous vocational training may reduce the current intermediation provided by social partners at the branch level and introduce a new system to provide trainings directly to individual beneficiaries. For apprenticeship, it plans to increase the role played by companies in defining their offer, while reviewing the '*taxe d'apprentissage*' financing mechanism. Although all these measures are meant to increase the efficiency of the training system, their impact may not cover the entire cost of the additional training resources.

Training and activation measures to overcome obstacles to employment for people with migrant background could be reinforced. The Law for equality and citizenship, promulgated at the end of January 2017, includes the right to French language training as part of continuous training. The implementation of this law is supported by the Interdepartmental Committee for Equality and Citizenship, which contributed to undertake several measures to fight against discriminatory practices (such as awareness and testing campaigns, lawsuits in case of alleged discriminatory practices). People with a migrant background can also benefit from measures targeted at deprived territories, such as the convention to support access to counselling and activation measures, agreed between the national employment agency (*Pôle Emploi*), the Ministry of Labour and the Ministry of Urban Affairs. Moreover, a reform of newcomers' integration policy has been announced in September 2017. Considering the large gaps in employment between native and non-EU born people, this reform will need to address a double challenge; improving the governance of the integration policy as well as shifting the focus on the labour market, with an improved coordination among authorities in charge of integration, *Pôle Emploi*, and other employment actors (social and economic partners).

Overall, the vocational education and training system is not fully effective in increasing the employment opportunities of low-skilled workers, while the degree of integration for people having a migrant background remains low. Notably, as far as the initial vocational education and training system is concerned, the employment outcomes of pupils are not better than for the general education system, also due to a lack of synergies between school and work-based trainings. Concerning the continuous vocational education and training system, recent reforms have sustained the demand for training, but not reinforced firms' ability to hire workers at the end of the training period. Policies for people with migrant background are not integrated in the set of actions aiming to foster the functioning of the labour market and

[26] France Stratégie (2017), *Réseau Emploi et Compétences – Renforcer la capacité des entreprises à recruter*, Report August 2017.

training system. Policies to overcome most of these shortcomings have been announced for 2018.

3.4 Measures to support the business environment and innovation

This section describes policy measures to improve the business environment and innovation

A number of initiatives have been announced since May 2017 to improve firms' business environment. Together, the Action Plan for Companies' Growth and Investment (*Plan d'action pour l'investissement et la croissance des entreprises*) and the Great Plan for Investment (*Grand plan d'investissement*) seek to promote entrepreneurship, support firms' growth, and empower private initiative in France. In particular, the first launches a process of assessment and discussion with relevant stakeholders on six thematic priorities: establishment, growth and transmission of firm ownership; financing; simplification of the regulatory and administrative environment; conquer the international scene; innovation and the digital economy; vocational and educational training. It would crystalize in a legislative proposal by spring 2018. The second ensures approximately EUR 57 billion of funding will be made available to firms and public authorities between 2018 and 2022 to (i) transit to a more environmentally friendly economy; (ii) develop skills; (iii) innovate; and (iv) support the construction of a digital state. The Great Plan does not focus on infrastructure and this is welcome: France already ranks highly in the EU, OECD and worldwide with regards to infrastructure[27]. Instead, it intends to promote a reorientation of the structure of the French economy to restore its competitiveness. There have also been a number of other proposals. For instance, Prime Minister's Circular (*Circulaire du Premier Ministre*) of 26 July 2017 (i) seeks to limit the use of European Union directives' transposition to regulate over and above what is in them (otherwise known as "Goldplating"), and (ii) requires the suppression of two norms for every new adopted norm.[28] Finally, the government has also submitted to Parliament a draft law to simplify the relationship between private citizens and firms with respect to public administrations, in particular by not sanctioning mistakes done in their exchanges with public administrations, if certain conditions are met.

An improved business environment, including for firms where the State has a stake, can help support the correction of France's macroeconomic imbalances. The French state in particular is characterised by having multiple and contradictory objectives with regards to the stakes it holds in commercial enterprises, including financial and non-financial corporations, according to the French Court of auditors.[29] More specifically, the situation in the railway and energy sectors, has determined the State had to book an EUR 10.1 billion loss via the Agency for state shareholdings (*Agence des participations de l'État*) in 2015[30]. That is, competitiveness losses have had a direct impact on State resources, as they arise in firms where the State has a stake. In this respect, the decision by the Prime Minister to launch a taskforce[31] to consider far-reaching reforms to the railway transportation services is welcome. Nevertheless, the willingness in the coming months to pursue its stated objectives will be crucial, including the need to: (i) overhaul their economic and financial model, comprising

[27] According to the latest Global Competitiveness Report, published by the World Economic Forum on September 26th 2017, France ranks 7th in infrastructure among 137 economies. This includes the quality of overall infrastructure (8th), quality of roads (7th), quality of railroad infrastructure (5th), quality of port infrastructure (27th), quality of air transport infrastructure (18th), and the quality of electricity supply (7th), among others.

[28] However, both measures are generally difficult to monitor and hold accountable for.

[29] Report of January 2017 available at *https://www.ccomptes.fr/en/publications/state-shareolder*

[30] Moreover, recapitalization in the energy sector could entail an additional cost for public finances for the full amount of EUR 4.5 billion (0.2% of GDP) of the operation related to AREVA, although its accounting treatment depends on the decision of EUROSTAT

[31] http://www.ecologique-solidaire.gouv.fr/sites/default/files/2017.10.16_lettre_de_mission_spinetta.pdf

legacy assets and unsound investments; (ii) open them up to further competition, including transposing the 4th Railway Directive; and (iii) defining a longer term strategy (for 2030), and reviewing the role of the state.[32]

Complex regulatory and administrative requirements are slowing down the benefits from adopting new technology. France has approved legislation that reins in the activities of services platforms in the digital and collaborative economy. For instance, in transport services, several laws[33] (led by the Law Grandguillaume) have established the principle that services' platforms' responsibilities extend beyond their immediate employees. That is, they are responsible to a wider perimeter of individuals: those who directly benefit from the use of the services they provide (i.e. chauffeur transport services). Unfortunately, the impact of measures designed to limit market entry and competition is difficult to balance and can be considerable. For instance, bottlenecks in the provision of passenger transport services may arise from 31 December 2017, as a large number of chauffeurs will lose the right to provide rides because of new minimum requirements.

The simplification programme has not been exhausted. One fifth of the measures adopted before 2016 to reduce red tape for businesses have not been implemented yet and no new measures have been adopted since May 2017, according to the Council for Simplification (*Conseil de Simplification*). In addition the progress which can be achieved under the current simplification programme is limited by the scope of the programme, which focuses mainly on administrative procedures. Moreover, further simplifying the regulatory burden faced by firms could help counterbalance threshold effects. These limit firms' growth and, hence, the possibility to improve their competitiveness, productivity, and internationalisation. As firms find it particularly cumbersome to overcome the 10 to 50 employee threshold level, the French economy is characterised by a disproportionately low number of companies above 50 employees, compared to other large EU Member States. Finally, recent reforms to introduce further flexibility for collective bargaining at the firm level can further increase firm thresholds (see section 3.2).

The implementation of previously adopted measures to increase competition in the services sector needs to be reinforced. Previous laws to open up and lift barriers to competition in the services sector, such as the Macron Law, have promoted jobs and growth (i.e. by liberalising public land transport services for passengers beyond 100 kilometres or by considering a proportionate and gradual increase in the number of new positions in some regulated legal professions). However, this kind of legislation is being watered down in the implementation phase. For instance, in the case of notaries, implementing acts have resulted in the nomination of about 611 notaries for 1002 offices while the French competition authority had recommended the opening of 1652 new notaries' offices. Moreover, about 13% of such new nominations refer to established notaries applying to establish a second office. Implementation risks are also present with regards to transport services: the local government of Paris (*Mairie de Paris*) is currently restricting to one firm the provision of bus passenger services to Beauvais-Tillé, the third airport in the area of Paris. This is contrary to the opinion of the Regulatory Authority of Railway and Motorway Activities (*Autorité de régulation des activités ferroviaires et routières*) regarding access to compete and provide passenger transport services and it represents a negative precedent for other sub-national governments trying to provide special arrangements to local initiatives. Similarly, the divergent

[32] A number of decisions have already been taken: for instance, deciding not to exercise an option to purchase capital of Alstom (http://www.gouvernement.fr/en/the-state-takes-a-stake-in-alstom-s-capital); and supporting the Alstom-Siemens merger (http://www.gouvernement.fr/en/alstom-siemens-merger-an-historic-rapprochement-between-two-major-industrial-groups).

[33] "*LOI n° 2016-1920 du 29 décembre 2016 relative à la régulation, à la responsabilisation et à la simplification dans le secteur du transport public particulier de personnes*". *https://www.legifrance.gouv.fr/eli/loi/2016/12/29/DEVX1617651L/jo*

implementation by local public authorities of the common authorisation regime for home-care services introduced by the law of 28 December 2015 on Ageing Society can raise risks of discrimination between existing and newly-authorised providers in some areas.

Evaluation of direct and indirect public funding to R&D&I is on-going and expected to be translated into concrete policy actions to increase their efficiency. A group of experts is currently reviewing the direct national funding to innovation (worth EUR 3 billion in 2015). This initiative is welcome to avoid that the future Disruptive Innovation Funds (*Fonds pour l'innovation de rupture*) overlaps with existing funding support. Furthermore, the R&D tax credit (*Crédit d'Impot Recherche),* the second largest tax expenditure worth EUR 5.8 billion in the 2018 Draft Budget Plan, is under evaluation by the Commission on Assessment of Innovation Policies (CNEPI). Based on the evaluation's outcomes, authorities may consider announcing in spring 2018 a scale up of the R&D tax credit by removing the current ceiling to eligible research expenses (30% of the volume of R&D expenses up to EUR 100 million). This possible change would benefit large companies and attract knowledge-based activities in France. While the option to expand the R&D tax credit shows commitment to continue to incentivise businesses to increase their R&D expenditure, the impact of this change on public finances is to be assessed.

A major weakness of the French R&D&I system lies in the suboptimal collaboration between public research and businesses. While several schemes are already in place to foster collaboration, there is room to strengthen their impact. Competiveness clusters (*pôles de compétitivité*) were designed to stimulate public research-business collaboration and technology transfer, major bottlenecks in the French innovation system. However, their recent evaluation showed mixed results:[34] it concluded that competitiveness clusters increased SMEs' R&D activities (e.g. R&D personnel, leverage effect on R&D expenditures), but found no evidence of significant impact on economic performance or on bringing new ideas to the market, since variables such as patent applications, turnover, productivity, added value and investment of companies had not increased. In this regard, and given that the current competitiveness clusters programme ends in 2018, there is a window of opportunity for improving the economic impact of the programme and target strategic and promising industrial sectors. Furthermore, the French Parliament has also highlighted the uneven success of the 14 Societies for Technological Transfer[35] (*Sociétés d'accelération du transfert de technologie*). These were set-up in 2012 under the Investment for the Future Programme (*Programme d'Investissements d'Avenir*) to improve deficiencies that render ineffective technology transfer between public research and industries.

Establishing new initiatives to support collaborative research, targeting leading industry sectors is welcomed. Still, further clarification regarding synergies with existing schemes is required. Together, the Disruptive Innovation Fund (*Fonds pour l'innovation de rupture*), the Great Plan for Investment (*Grand plan d'investissement*) and the Action Plan for Companies' Growth and Investment (*Plan d'action pour l'investissement et la croissance des entreprises*) aim to support innovation, collaboration between public research and companies, and provide dedicated support to leading industrial sectors (e.g. aeronautics). However, given the remaining complexity of the innovation system and the large number of schemes and structures, there is a risk to trigger further complexity for French and foreign companies and to render difficult the overall coordination between authorities.

[34] "Avis de la CNEPI sur la politique des pôles de compétitivité" (2017), France Stratégie http://www.strategie.gouv.fr/publications/avis-de-cnepi-politique-poles-de-competitivite

[35] " Rapport d'information fait au nom de la Commission des finances sur les sociétés d'accélération du transfert de technologies (SATT), (2017), Sénat https://www.senat.fr/rap/r16-683/r16-683.html

Success in providing competitive, project-based funding for research is yet to be proven. The National Agency for Research (*Agence Nationale de la Recherche*), set up in 2015, is tasked with providing funding to research projects on competitive terms. However, insufficient and decreasing funding has pre-determined low application and success rates. In this regard, the French Parliament recently called to increase its funding for improving the attractiveness of its calls and the capacity to fund valuable projects[36]. The 2018 DBP foresees a budget increase. This is a move in the right direction although it may not suffice to significantly increase success rates and motivate researchers to participate in competitive research funding.

Overall, despite the aforementioned reform efforts including ongoing evaluations to improve the innovation performance, a heavy regulatory burden continues to weigh on businesses. There is scope to clarify the objectives of the French state as shareholder, including in the railway and energy sectors. Administrative requirements also slow down the uptake of digital technology in the services sector. On innovation policy, the review of direct and indirect public funding to innovation is ongoing while the evaluation of public research-business collaboration programmes paved the way for reforms to improve its effectiveness. A number of new initiatives have also been announced to improve innovation performance, but it remains to be seen how they will fit with existing policies**.**

[36] "Rapport d'information fait au nom de la Commission des finances sur l'Agence nationale de la recherche et le financement de la recherche sur projets" (2017), Sénat https://www.senat.fr/rap/r16-684/r16-684.html

Annex I: Overview of MIP-relevant reforms

MIP objective: improving public finances			
Public finances			
Strategy to reduce the public expenditure			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected by end of 2018: the Projet de loi de Finance *(PLF)* 2018 and the Projet de loi de financement de la sécurité sociale *(PLFSS)* 2018 include tax cuts of around 0.3% of GDP, partly compensated by increases in environmental taxation and health taxes on tobacco. The draft finance bills for the State and for Social Security also announce a reduction by 0.6 pp. of the expenditure to GDP ratio between 2017 and 2018 which would translate into consolidation measures of EUR 15 billion to compensate the tax cuts and to ensure the deficit is brought to below 3% of GDP in 2018. For a more detailed description of the new initiatives and the compensatory measures, the reader is referred to the Staff Working Document of the Commission opinion on the Draft Budgetary Plan opinion. The 2018 PLF scales back the foreseen reduction by 1 pp. in the expenditure to GDP ratio compared to the July	**November 2017:** The amended finance bill for 2017 includes a new exceptional tax on companies with a turnover above EUR 1 billion to compensate for the reimbursement of claims stemming from the repeal of the 3% tax on dividends by the French Constitutional Court.	**2017**: Additional savings of EUR 4.2 billion were taken in 2017 to ensure that the deficit would be below 3% of GDP. The measures reflect the conclusions reached by the French Court of Auditors in the June audit report on public finances. **2018:** EUR 15 billion consolidation measures would be realised in 2018 according to the PLF for 2018 For more transparency, the savings are calculated with regards to the reduction in the expenditure to GDP ratio. The ONDAM was revised to 2.3% in 2018 from 2.1% and the local government expenditure growth target (ODEDEL) was set at 1.2%. More than EUR 5 billion savings will be achieved on the State as subsidised contracts will be significantly reduced in 2018, housing allowances for the social housing sector will be cut and the State wage bill will be reduced by delaying the implementation of the civil servants reform, wage freeze and the	CSR (1) – 2017: "… the need to strengthen the ongoing recovery and to ensure the sustainability of France's public finances."

preparatory document on public finances (Débat d'orientation des finances publiques). The multiannual public finances programming law for 2018-2022 announces a new contractual approach of the relationship between the State and local authorities regarding the reduction of growth in operational expenditure and in turn abandons the cut in State transfers to local authorities in place over 2014-2017.		reintroduction of one unpaid day in case of illness.	
Spending review			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected by end 2017: the spending reviews launched included in the draft finance bills for 2016 and 2017 have allowed to implement EUR 650 million savings in total over 2016 and 2017. **Action publique 2022:** A new approach to the transformation of public action is set forth in the multiannual public finances programming law for 2018-2022 through the Action Publique 2022 which is expected to materialise into a better use of public money and efficiency gains over the quinquennium but not before 2020.			CSR (1) – 2017: "… Comprehensively review expenditure items with the aim to make efficiency gains that translate into expenditure savings."

Taxation			
Reducing the cost of labour			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
As of 2018: As part of the 2018 DBP, the Competitiveness and Employment Tax Credit (CICE) will be lowered back down from 7% to 6% of payrolls for wages up to two and a half times the statutory minimum wage. **In 2019**: the CICE is to be changed into direct social security contributions on the same basis with additional 4% decrease at minimum wage level.	**In October 2017**: Publication of the annual report of the monitoring committee for the Competitiveness and Employment Tax Credit (CICE) assessing the impact of the Tax Credit notably on employment and investment.	**Since 2013**: Establishment of the monitoring committee for the Competitiveness and Employment Tax Credit (CICE) under the auspices of France Stratégie.	CSR (2) – 2017: "Consolidate the measures reducing the cost of labour to maximise their efficiency in a budget neutral manner and in order to scale up their effects on employment and investment."
Implement the decrease of the corporate income statutory rate			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
As of 2018: The DBP reduces to 28% the corporate income tax rate for the first EUR 500 000 of profits. The remaining profits are subject to the 33.33% standard rate By 2022, the aim is for the 25% rate to be extended to cover businesses of all size.			CSR (2) – 2017: "Take further action to implement the planned decrease in the corporate income statutory rate."
Broadening of the overall tax base and simplification of the tax system			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
The 2018 DBP does not plan the suppression of taxes identified as inefficient by the 2014 report of the General Inspection of Finances and			CSR (2) – 2017: "Broaden the overall tax base"

leaves inefficient VAT reduced rates and exemptions untouched.			
MIP objective: improving the functioning of the labour market			
Labour market			
Reform of the labour law			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
By the end of 2017: Ratification of the *ordonnances* adopted by the Council of Ministers and adoption of the complementing decrees required by the *ordonnances.*	**In 2017:** On 2 August, the French Parliament has adopted an Enabling Act allowing the government to take measures (*ordonnances*) to enlarge the field of collective bargaining, to simplify social dialogue, and to modify dismissal procedures. On 22 September, the Council of Ministers adopted five *ordonnances*.		Letter of the French Prime Minister sent to the President of the European Commission on 25 August 2017; CSR (2) – 2016: "Reform the labour law to provide more incentives for employers to hire on open-ended contracts."
Reform of unemployment benefit system			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected by 2018: A new reform of the unemployment benefit system has been announced for spring 2018. This new reform is meant to extend the unemployment benefit system to independent workers, farmers and employees having resigned (once every five to seven years), to reinforce further controls upon jobseekers, to cancel the 12 month extension of the compensation period for senior workers having between 53 and 57 years, to limit the possibility of topping up unemployment		**March 2017**: Social partners agreed upon a revision of the rules underpinning the unemployment benefit system, which is meant to save EUR 550 million in 2018 and then EUR 930 million per year. These new rules entered into force on 1 November 2017.	Letter of the French Prime Minister sent to the President of the European Commission on 25 August 2017; CSR (3) – 2016: "… By the end of 2016, take action to reform the unemployment benefit system in order to bring the system back to budgetary sustainability and to provide more incentives to return to work."

allowances with the income from a reduced-time job to a period of 12 months, and to replace employees social security contributions with a tax-based financing system.			
Reform of the pension system			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected in 2019: A reform of the pension system has been announced for 2019. This reform will aim to unify the 37 different pension schemes co-existing at present.			
Evolution of the minimum wage			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
In 2018: No extra rise (*coup de pouce*) has been announced yet for 2018, in addition to the increase in the minimum wage implied by the automatic mechanism of minimum wage revaluation.		**In 2017:** The minimum wage was increased by 0.93% in January 2017, offering no extra rise (*coup de pouce*) in addition to automatic mechanisms of minimum wage revaluation.	CSR (3) – 2017: "... Ensure that minimum wage developments are consistent with job creation and competitiveness."
MIP objective: improving the link between the education system and the labour market			
Education and social policies			
Vocational training and apprenticeship			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
In 2018: The '*grand plan d'investissement 2018-2022*' aims to provide training to 1 million of		**In 2017:** Opening of 500 new vocational training pathways towards sectors with better employment prospects;	CSR (3) – 2017 "Improve access to the labour market for jobseekers, in particular less-qualified workers and

unemployed workers and 1 million of young who dropped out from school. These trainings will consist of long-term courses, with a certificate or diploma released at the end of the training period, and will possibly provide personalised assistance. Also, a reform of the vocational education and training system has been announced for spring 2018. This reform may reduce the current intermediation provided by social partners at the branch level and introduce a new system to provide trainings directly to individual beneficiaries, merge different training contracts (*alternance*) into a unique framework contract while ensuring that the totality of the '*taxe d'apprentissage*' will be directly channelled to the financing of the merged training schemes.		implementation of the State-Regions platform including mixed school-apprenticeship pathways, experimental extension to 30 years of eligibility to apprenticeship; set up of the Personal Activity Account (CPA), established by Article 39 of the 2016 Labour Act and including the Personal Training Account, with increased rights for the non-qualified.	people with a migrant background, including by revising the system of vocational education and training. Ensure that minimum wage developments are consistent with job creation and competitiveness... "
Inclusion of people with migrant background			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
In 2018: A reform of newcomers' integration policy has been announced in September 2017, to answer to the need of improving the integration policy governance and shifting the focus of this policy on the labour market.	**In 2017:** The Law for equality and citizenship, promulgated at the end of January 2017, includes the right to French language training as part of continuous training.		CSR (3) – 2017 "Improve access to the labour market for jobseekers, in particular less-qualified workers and people with a migrant background, including by revising the system of vocational education and training. Ensure that minimum wage developments are consistent with job creation and competitiveness... "

MIP objective: improving the business environment			
Business environment			
Remove barriers to competition in the services sector			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
In 2018: Taskforce to consider far-reaching reforms of the railway transportation services, including overhauling its economic and financial model, open it up to competition and define a long term strategy (2030). It will result in proposals in spring 2018.			CSR (4) – "Continue to lift barriers to competition in the services sector, …"
	29 December 2017: Law regulating, making responsible and simplifying the private transport of individuals (Law Grandguillaume). Seeks to establish a level-playing field between the different chauffeur services (taxi license versus VTCs).		CSR (4) – "Continue to lift barriers to competition in the services sector, including in business services and regulated professions "
Simplification of business environment			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
In 2018: Action Plan for Companies' Growth and Investment (*Plan d'action pour l'investissement et la croissance des entreprises*) to result in a legislative proposal in spring 2018. It covers the establishment, growth and transmission of firm ownership; financing; simplification of the regulatory and administrative environment, conquer the international scene; innovation and the	**July 2017:** circulaire relative à la maîtrise du flux des textes réglementaires et de leur impact		CSR (4) – "Further reduce the regulatory burden for firms…"

digital economy; and vocational and educational training. **In 2018**: law to improve the relationship between the state and its private firms and citizens, including acknowledging the right to make mistakes, if certain conditions are met (draft law adopted by the government on 27.11.2017)			
	Since 2013: The Simplification Programme is ongoing, although one fifth of the measures adopted before 2016 to reduce red tape for businesses have not yet been implemented according to the Council for Simplification and no new measures have been adopted since May.		CSR (4) – "Further reduce the regulatory burden for firms, including by pursuing the simplification programme."
Innovation policy			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
By end 2017: The Minister of Economy and the Minister of Higher Education, Research and Innovation have appointed four experts to review public direct funding to innovation. Their report is expected by the end of 2017. **By January 2018:** Under the auspices of the National Commission on Evaluation of Innovation Policies (CNEPI), France Stratégie is conducting a study on the research tax credit (CIR). The final report is expected by January 2018. The Minister of Economy announced the	**In February 2017:** The final report of the National Commission on Investment of Innovation Policies (CNEPI) assessing the impact of the competitiveness clusters (*pôles de compétitivité*) was published **In July 2017:** the Parliament has published two reports assessing the efficiency of (i) the Societies for Technological Transfer (*Sociétés d'accélération du transfert de technologie*) and (ii) of the the National Agency for Research (*Agence Nationale de la Recherche*).	**Since 2014:** Establishment of the National Commission on Evaluation of Innovation Policies (CNEPI) tasked to evaluate innovation policies and identify their economic impact and provide recommendations for new policy initiatives.	CSR (4) – "'(…). Simplify and improve the efficiency of public support schemes for innovation."

launch of several new programmes that aim to support innovation: the Disruptive Innovation Fund (*Fonds pour l'innovation de rupture*), the Great Plan for Investment (*Grand plan d'investissemen*t) and the Action Plan for Companies' Growth and Investment (*Plan d'action pour l'investissement et la croissance des entreprises*).			