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RÉPUBLIQUE FRANÇAISE

PREMIER MINISTRE

NATIONAL REFORM PROGRAMME

2019

APRIL 2019

I.
OVERVIEW

At the initiative of President Macron, the government organised a "Great National Debate" (Grand débat national) from 15 January to 15 March 2019 on key issues for French citizens, including the ecological transition, taxation, public expenditure and services, the organisation of central government and local authorities, democracy and citizenship.

The measures to be adopted as a result of this nationwide debate are due to be announced at the end of April 2019. Some of these measures are likely to affect the public policies presented herein.

Consequently, this version of the National Reform Programme (NRP) – last updated on 1 April 2019 – is subject to the government's response to the findings of the Great National Debate.

The French economic situation has improved over the past two years. **The performance of the French economy is proof that the reform programme launched in May 2017 is beginning to yield results.**

- **After particularly sustained growth in 2017 (2.3%), activity held up well in France** against a less buoyant international environment (slowdown in global demand, rise in oil prices and past appreciation of the euro). Growth thus reached 1.6% in 2018, in line with the euro area average.
- **The labour market situation is improving** with a gradual but steady decline in the unemployment rate, which stood at 8.5%[1] in the 4th quarter of 2018, the lowest since 2009. Job quality is also improving as the full-time employment rate continues to rise.
- **Competitiveness and the foreign trade situation have also recovered.** Export market shares have stabilised since 2012, the trade deficit excluding energy narrowed in 2018 and French exports performed well in a number of sectors. The services surplus has reached a satisfactory level for several years in a row and increased in both 2017 and 2018. Overall, foreign trade made a positive contribution to growth in 2017 and 2018. France is also experiencing renewed appeal, with inflows of foreign direct investment reaching a 10-year high in 2017 and expected to remain high in 2018.

However, despite these improvements, France continues to suffer from structural weaknesses. In terms of employment, the integration of young people and low-skilled workers into the labour market is still inadequate and the market remains highly segmented. As for innovation, despite the bold policy of supporting research and development, the spread of innovation within the manufacturing sector is still far too slow. With regards to public finances, the amount of aggregate tax and social security contributions weighs heavily on households and businesses and does not always mean better-quality services for users, despite funding public spending to a significant extent.

While our social model has succeeded in limiting financial inequality and the poverty rate by international standards, it has not succeeded in addressing inequality in terms of opportunity and outcome. In particular, socio-academic inequality is higher in France than in neighbouring countries, access to healthcare and housing remains too imbalanced, and some parts of the country, which are isolated from urban hubs of activity, are seeing their economic and social conditions decline.

Our economic and social model must also be transformed to meet the challenges of the 21st century. In particular, the ecological transition requires us to make fundamental changes to our production methods and consumption patterns, while ensuring that this transition is carried out in a manner that is both fair and socially acceptable. The ongoing digital revolution is also transforming all our economic and social structures. We must adapt as quickly as possible to seize the opportunities it presents and to ensure that no one is overlooked.

[1] Source: INSEE; Scope: Mainland France - 8.8% for the country as a whole.

To meet all these challenges, the government is pursuing an in-depth transformation strategy aimed at generating stronger, more inclusive and sustainable growth. The implementation of this strategy began in the summer of 2017 and will continue throughout 2019. This strategy is based on four key areas: recasting our social model to build a fairer society; unleashing the full potential of the French economy; fostering the growth model of tomorrow; and transforming government and balancing public finances.

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RECASTING OUR SOCIAL MODEL TO BUILD A FAIRER SOCIETY

In order to build a fair society, real social mobility opportunities must be provided to all by addressing the source of inequality. Guaranteeing access to employment for the largest number of people and making social protection universal are of particularly importance.

Employment must be the first form of protection provided to individuals. To this end, French labour law has been reformed to enable companies to better adapt to their environment and unemployment insurance has been conditionally extended to resigning employees and self-employed workers in order to make it more universal. The ongoing reform of unemployment insurance must also combat job insecurity. The vocational training system has been revamped to facilitate professional transition. This reform is completed by massive investment in skills development through the «Creating a skills-based society» arm of the Great Investment Plan (GPI), which is geared towards low-skilled workers, as well as by the reform of subsidised employment contracts, which focuses on training and the extension of the Youth Guarantee scheme.

The revaluation of work is also essential for a fairer society. The 'in-work benefit' (*prime d'activité*) was significantly increased on 1 January 2019, raising income at statutory minimum wage (Smic) level by €100. Since 1 January 2019, overtime wages have been exempt from all taxes and contributions. In addition, the measures to promote the development of profit-sharing and incentive schemes contained in the PACTE (Business Growth and Transformation Action Plan) Bill will make it possible to increase employee participation in company results and to distribute profit more effectively. The process to improve the distribution of value was initiated at the beginning of 2019 with the introduction of an exceptional purchasing power bonus (exempt from taxes and contributions up to an amount of €1,000). These measures complete the €20 billion reduction in employee social security contributions, which are to be partially replaced by the general social security contribution (CSG).

Our social model must reduce inequality in opportunities by helping all individuals, especially those least likely to find employment. Government action reduces inequality in access to healthcare by improving preventive measures (extension of the vaccination obligation, increase in the price of tobacco), encouraging people to avail of healthcare («100% health» agreement on «zero out-of-pocket costs») and promoting access to healthcare for all through the «My Health 2022» plan (reform of medical courses, creation of local hospitals). The introduction of the equality index will provide a concrete tool to address wage inequality between women and men. Similarly, the systemic reform of the pension system, which will be presented in 2019, aims to make the system fairer and easier to understand, by ensuring that each euro contributed guarantees the same rights for all.

Government action also aims to reduce the regional divide in terms of digital connectivity (High-Speed Broadband Plan), access to healthcare (plan to combat physician shortages in rural areas) and access to mobility solutions throughout the country (Mobility Reform Bill). Tailored action plans have been drawn up, targeting specific areas in decline: priority urban neighbourhoods (QPVs), which will benefit from the *Emplois francs* scheme to boost employment; medium-sized cities, which will be able to sign specific contracts to revive growth under the *Action cœur de ville* plan; and industrial areas under the *Territoires d'industrie* initiative.

In order to better protect the most vulnerable individuals, the national strategy for preventing and combating poverty focuses on the causes of poverty. The early childhood policy is being reinforced, namely in disadvantaged neighbourhoods, with particular emphasis being placed on reintegration through employment and skills development. In addition, a project to overhaul minimum social benefits has been launched with a view to creating a universal employment income that will replace the various existing measures. A public integration service has been set up to provide guidance and support to individuals who are least likely to find employment, by helping them return to the labour market.

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UNLEASHING THE FULL POTENTIAL OF THE FRENCH ECONOMY

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

Labour market reform has already started with the orders aimed at enhancing social dialogue, adopted in 2017, which granted a central place to collective bargaining at company level. They have provided greater certainty to labour relations, in particular by introducing a mandatory scale for labour tribunals for damages in the event of dismissal without real or serious cause. These reforms enable social dialogue to be more in tune with the reality of the workplace and of companies. In addition, unemployment insurance rules are currently being reformed, with several objectives: combating job insecurity and excessively short contracts, encouraging sustainable re-employment and providing better support for jobseekers.

Bearing in mind that investment is the key to prosperity, **capital taxation has been radically revised to prevent it from deterring productive investment** and, as a result, job creation. While marginal tax rates on capital exceeded 100%, a single flat-rate levy on capital income was introduced, as in most neighbouring countries. The wealth tax (ISF) has been replaced by a property wealth tax. In addition, the corporate income tax rate is gradually being lowered, in order to reach 25% by 2022. Similarly, from 2019 onwards, the Competitiveness and Employment Tax Credit (CICE) will be replaced by a permanent reduction in labour contributions, in order to increase clarity and encourage job creation. Other tax reforms, such as the phasing out of the residence tax, the implementation of the withholding at source system for income tax and the introduction of a tax on digital services, will make the tax system fairer and more transparent.

Freeing up activity implies improving and providing certainty for the corporate environment. The Business Growth and Transformation Action Plan (PACTE) represents a major step forward in raising barriers to company growth by increasing thresholds, facilitating financing (development of retirement savings), strengthening their innovation potential (support for partnership research) and reforming bankruptcy law to limit value destruction in the event of difficulties (cross-class cram down mechanism). In addition, the increase in thresholds for the certification of companies' accounts and the provisions facilitating supplementary health insurance changes will increase competition and therefore the competitiveness of our economy. In the services sector, other measures to strengthen competition are being implemented in order to support consumers' purchasing power (spare car parts, driving schools, co-ownership management agents, etc.).

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FOSTERING THE GROWTH MODEL OF TOMORROW

Faced with ecological and digital challenges, sustainable growth cannot be achieved unless a new model emerges that combines prosperity, social progress and ecology. This implies fundamental changes and massive investment by both public and private bodies.

To create a skills-based growth model, our entire public education and training system is being renewed to make it more efficient and more egalitarian. To this end, the halving of the number of pupils in first- and second-grade classes (CP and CE1) across the priority education network (REP/REP+) and the lowering of the compulsory school age from six to three will be particularly effective levers for reducing educational inequality from an early age. At upper secondary-school level, the reform of the baccalaureate examination will become effective in 2021. The vocational schools reform will provide better training for the professions of the future and the apprenticeship reform will enhance the appeal of this path to excellence. Lastly, the university entrance reform has made it possible to end the practice of random selection and should help combat the particularly high failure rates in bachelor degree programmes by reorganising the higher education system.

In order to build a sustainable growth model, a particularly bold programme has been set for an ecological and inclusive transition, which aims to achieve carbon neutrality by 2050. This programme will be underpinned by the National Low-Carbon Strategy (SNBC) and the Multi-Year Energy Programme (PPE). In particular, significant amounts of public funding have been allocated for this purpose, including €20 billion for the "Accelerating the energy transition" component of the GPI, of which €9 billion will be dedicated to improving energy efficiency in housing for low-income households and public buildings. The ecological transition also requires a huge commitment to helping citizens change their behaviour at all levels. As such, various support measures were significantly increased in 2019 (e.g., the energy voucher [*chèque énergie*], the car scrapping bonus [*prime à la conversion*], etc.).

Tomorrow's growth must also be driven by an innovative economy. To this end, significant public resources have been allocated to investment in research, innovation and development. Of the €57 billion earmarked for the GPI, €13 billion in public funding will be allocated to innovative projects, particularly in the agricultural sector. In addition, the Industry and Innovation Fund (F2I) has been set up to invest in disruptive innovation. A multi-year research programming law will finally give laboratories visibility over their funding and identify the country's major strategic research programmes.

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

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TRANSFORMING GOVERNMENT AND BALANCING PUBLIC FINANCES

The transformation of our economic model must also involve the public sector. The need for fiscal consolidation must encourage us to reduce the burden of public spending and increase its efficiency.

Improving the quality of public services requires, first and foremost, the streamlining of procedures and the regulatory environment for businesses. Thus, the "one-in/two-out" rule established by a circular of 26 July 2017 has made it possible to combat normative inflation. In addition, efforts are being pursued to achieve the objective of making all public services accessible online.

The ways in which the central government operates must also be radically transformed. To help the various ministries carry out their transformation plans, the Public Action Transformation Fund (FTAP), with a budget of €700m over five years, will support internal changes that improve the quality of services provided.

The Civil Service Transformation Bill, which was submitted on 27 March 2019, aims to improve human resources management in government departments, in particular by making social dialogue more effective, increasing the number of contract employees in the public service and facilitating employee mobility. Public servants will thus benefit from more structured and varied career paths, and the quality of public services will be improved. Public service managers will also be made more accountable through the revision of the decree on «Public Budgetary and Accounting Management», with a more efficient and integrated expenditure chain, improving the visibility and efficiency of the budgetary procedure.

The government will continue its fiscal consolidation efforts through the various public action reforms. After reaching 2.8% of GDP in 2017, and falling below 3% for the first time since 2007, the public deficit continued to improve in 2018, standing at 2.5% of GDP. The projected deficit for 2019 is expected to be 3.1%. However, this exceeding of the 3% threshold will be both temporary and exceptional, as the underlying deficit is set to reach 2.3% in 2019, excluding the exceptional effect of the transformation of the CICE into a reduction in employer contributions. The deficit is expected to be reduced to 2.0% in 2020 and then to decline further to 1.2% in 2022. Lastly, the public expenditure ratio is expected to fall by almost 3 percentage points over the President's five-year term and the aggregate tax and social security contribution ratio by 1.4 points (at constant scope, restated for the gradual integration of the 'France Compétences' skills agency).

II.

BACKGROUND AND MACROECONOMIC SCENARIO

1. MACROECONOMIC IMBALANCES

In 2018, France was removed from the category of countries with excessive macroeconomic imbalances as part of the European Commission's excessive imbalance procedure (EIP). The imbalances identified are in the process of being resolved, in particular as a result of the reforms carried out, which are beginning to yield results. However, at the end of 2018, the European Commission considered that France still presented macroeconomic imbalances. In particular, the Commission points to the high level of public debt, the moderate recovery in competitiveness and the slowdown in productivity gains. Reducing these imbalances is a priority for the French government, both for the benefit of France and for the stability of the euro area.

Signs are positive for the competitiveness of the French economy. France's export market share in world trade rose slightly in nominal terms to 3.1% for goods and 3.5% for goods and services.[2] Already, between 2016 and 2017,[3] France's worldwide export market shares increased in a number of key segments, including the automotive, perfumes and beverages segments. Foreign trade also performed well in 2018. Export figures are stable for France, while they are mostly down for other European countries.

Exports increased significantly in 2018 in France's strongest sectors, including aeronautics (+2.7%) and chemicals (+3.1%), but also in sectors where it does not have a comparative advantage, such as textiles (+8.2%) and IT products (+2.6%), in both cases narrowing the sectoral deficit. The services surplus has reached a satisfactory level for several years now. The contribution of foreign trade to growth thus rose by 0.6 percentage points in 2018 (compared to +0.1 points in 2017), following a four-year period during which it weighed down on growth.

Our current account deficit and trade deficit are moderate. After a slight improvement in 2017, the current account balance remained slightly negative at -0.7% of GDP in 2018, despite the increase in the energy bill. The current account deficit remains low by international standards; it has never been higher than -1.0% of GDP and has not shown any signs of deterioration in the past 10 years. Moreover, this current account deficit is mainly due to a trade deficit, which is itself mainly attributable to the energy bill. Excluding energy, the balance of trade in goods and services stood at approximately +0.9% of GDP in 2018.[4] Similarly, the net external position is slightly negative, quite sustainable (-20.1% of GDP in 2017) and remains contained by international standards.

The financial health of companies has improved significantly compared to during the crisis. The profit margins of non-financial corporations have remained stable since 2015 and stood at 31.8% in 2018 compared to 29.7% in 2013. Company borrowing requirements have improved steadily since 2014 and were close to balance in 2018 (-0.8% of value added).

France and its business environment have clearly regained their appeal. In particular, foreign direct investment (FDI) flows reached a 10-year high in 2017; according to preliminary estimates, they are expected to remain high in 2018. Significant progress has also been made in international rankings, particularly in the Global Competitiveness Report published by the World Economic Forum (or "Davos Forum"), which saw France climb 5 places to reach 17th place in 2018.

Labour costs were kept under control thanks to the contribution-cutting measures adopted. Since 2012, labour costs in France have risen less than in Germany, mainly thanks to mechanisms such as the CICE and the Responsibility and Solidarity Pact, which made it possible to reduce the differences accumulated before the crisis. In addition, the measures to significantly increase purchasing power for workers implemented at the end of 2018 and in 2019, in particular the reduction in employee contributions and the €100-increase in the statutory minimum wage, were achieved through lower contributions and the in-work benefit: therefore, they did not generate any additional cost for companies. Thus, in 2019, the hourly cost of labour at statutory minimum wage level in France will be lower than the equivalent cost in Germany (around €10.4 in France, compared to roughly €11.0 in Germany).

The government's measures also aim to improve businesses' non-cost competitiveness. The structural reforms implemented since 2017 aim to increase the innovation potential of our companies and strengthen the skills of the workforce (see Part III, below). Moreover, the business investment rate,

which reached 23.9% in 2018, is very high and should result in non-cost competitiveness gains.

[2] 2018 data available in Spring 2019

[3] Latest data available, ITC sources

[4] Source: INSEE, Banque de France, French Customs

With respect to public finances, after falling below the 3% threshold in 2017, the public deficit continued to improve in 2018, standing at 2.5% of GDP. The projected deficit for 2019 is expected to be 3.1% of GDP. However, this exceeding of the 3% threshold will be both temporary and exceptional, as the underlying deficit is set to reach 2.3%, excluding the exceptional effect of the transformation of the CICE into a reduction in employer contributions. The deficit will return to 1.2% of GDP in 2022.

The government's public finance trajectory forecasts a decline in the public expenditure ratio of nearly 3 percentage points over the President's five-year term and a decline in the aggregate tax and social security contribution ratio of 1.4 percentage points (at constant scope, restated for the gradual integration of the 'France Compétences' skills agency).

To support this goal, the government has initiated a major overhaul of management methods aimed at making stakeholder accountability the guiding principle of the entire budget sector. Thus, drawing lessons from the re-allocation of funds in 2017 following the public finances audit carried out by the Government Audit Office (*Cour des comptes*) on the grounds of weaknesses in the initial budget, the Budget Act for 2018 made it possible to budget compulsory expenditure at its proper level and to strengthen or establish provisions to cover risks in order to improve the accuracy of the budget. This improved structure was reinforced by an unprecedented reduction in the set-aside rate and the absence of regulation during the year, guaranteeing managers full visibility over their resources and increased room for manoeuvre. Moreover, for the first time in more than thirty years, the government did not open or cancel any appropriations by way of supplemental appropriation decree during the management process. Thus, for the first time since the entry into force of the Constitutional Bylaw on Budget Acts, all openings and cancellations of appropriations in the general budget were decided by Parliament, whether in the context of the Budget Bill or the Supplementary Budget Bill, the content of which was itself refocused solely on subjects affecting current management and whose enactment was significantly advanced.

At the same time, structural projects were launched to reform the budgetary and accounting management framework, leading to a revision of the decree on public budgetary and accounting management (GBCP) and the budgetary control procedures, as well as to an innovative contractual arrangement with public and central government bodies.

Although high, French public debt presents a low systemic risk with respect to its refinancing. Management expertise, diversity of maturities and holders, market liquidity and our banks' low exposure all help limit the risks of a negative impact on the rest of the economy. In addition, France has benefited from the fall in interest rates over the past few years, thus reducing interest on public debt to a historically low level. Lastly, the average maturity of the French government's negotiable debt, which was nearing eight years at the end of 2018, would constitute a resilience factor in the event of a rise in interest rates.

The debt of private non-financial agents has increased since the crisis amidst a sharp decline in rates since 2011. The prevalence of fixed rates in the French economy nevertheless protects households from the risk of a rate increase. In addition, the financial exposure of non-financial companies remains limited. Their equity has increased at the same rate as their debt, thus avoiding, on average, a deterioration in their gearing ratio, and companies have accumulated liquidity. While the consolidated debt of non-financial companies,[5] which stood at 74.9% of GDP in the third quarter of 2018, has increased by more than 20 percentage points since the first quarter of 2005, the net consolidated debt on short-term assets increased by only 11.9 percentage points over the same period, standing at 45.1% in the third quarter of 2018. The High Council for Financial Stability (HCSF) closely monitors the evolution of non-financial agents' debt and assesses the associated risks. As such, the HCSF took a series of preventive macroprudential measures, first in May 2018 to ensure that the exposure of banks to highly indebted companies remained limited, and then by activating the countercyclical capital buffer in June 2018 at a level of 0.25%, which was raised to 0.5% in March 2019.

Productivity growth has been weak since the Great Recession, as in other advanced economies. This situation is the result of a marked slowdown in technological progress since 2008 and is a common trend in all advanced economies. France is close to the median: for example, the cumulative increase in GDP per person employed between 2010 and 2017 reached

2.9% in France, compared to 2.2% in the United Kingdom and Spain and 2.8% in the United States[6]. In addition, total factor productivity increased by an average of 0.6% per year between 2010 and 2018, compared to an

[5] I.e., restated for inter-company debt.

[6] Sources: OECD, DG Trésor calculations.

estimate of about 0.7% for the EU-15.[7] Finally, measured in terms of level, French hourly labour productivity remains very high compared to other major advanced economies. Consequently, the low productivity gains in France must be analysed in relation to the situation in other comparable countries.

The government's economic reform strategy aims in particular to enhance the country's potential for economic growth and prosperity. Investment momentum and the implementation of structural reforms, such as those conducive to the development of skills and innovation, should lead to an increase in productivity gains. These reforms are focused on the long term and are part of a more comprehensive transformation plan to develop a robust, inclusive and sustainable growth model.

2. MACROECONOMIC PERSPECTIVES: ACTIVITY TO REMAIN ROBUST IN 2019 AND 2020

After +1.6% in 2018, growth is expected to continue at a steady rate of +1.4% in 2019 and 2020.

In 2018, exports and investment resisted very well to the slowdown in the international environment. However, household consumption was sluggish, penalised in particular by the rise in oil prices. The growth rate was lower than in 2017, when French activity was driven by a very favourable external environment and certain one-off events (sharp rise in the number of property transactions, recovery in tourism). Industrial action may have penalised growth in 2018. GDP growth was in line with the euro area average, and was higher than the estimated potential growth in 2017 (1.25%).

In 2019, household consumption is expected to be strongly supported by adjustment measures in the labour sector, in particular the increase in the in-work benefit and decrease in charges (lower employee contributions, exemption from paying contributions and taxes for overtime), as well as by earned income, which remains buoyant, driven by employment and wages. Business investment is expected to continue to grow at a fast pace. Exports should continue to rise at a steady pace, albeit below the 2018 level due to a less favourable international environment.

In 2019, household purchasing power is expected to increase significantly (+2.0% compared to +1.0% in 2018), driven in particular by new measures to lower aggregate tax and social security contributions, in addition to those already included in the financial legislation adopted at the end of 2018. In addition, earned income is expected to remain buoyant, driven by employment and wages, while oil prices are unlikely to penalise purchasing power as they did in 2018. In 2020, purchasing power is expected to increase at a rate closer to that of economic growth (+1.0%), driven by earned income in a context of both employment and wage growth.

In 2019 consumption is expected to pick up significantly (+1.7%, up from +0.8%), thanks to a sharp increase in purchasing power as a result of government measures. Faced with this sharp increase in purchasing power, households are expected to partially smooth their consumption: after a temporary rise in 2019, in 2020 the savings rate should return to the same level as in 2018 (14.4%). After slowing down in 2018 (+1.8% compared to +5.6% in 2017), household investment is expected to decline in 2019 (-0.5%) before recovering in 2020 (+1.0%). Housing starts are expected to recover in 2019, boosted by the expected increase in purchasing power.

Business investment is expected to thrive over the forecast horizon. Business investment remained very strong in 2018 (+3.9%), despite less momentum for activity in 2018, driven in particular by investment in services. It is expected to continue to underpin activity in 2019 and 2020 (+2.8% in 2019, then +2.5% in 2020). However, it should gradually normalise in line with the forecast increase in interest rates.

In 2018, the contribution of foreign trade to GDP growth reached a level not seen since 2012 (+0.6 percentage points). Exports are still expected to be buoyant in 2019 and 2020 (+2.4% in 2019, followed by +2.7% in 2020), albeit at a lower rate than in 2018 due to the slowdown in global demand. As for imports, growth is expected to be in line with the usual determinants

in 2019 and 2020 (+2.4% in 2019, followed by +2.3% in 2020, up from +1.3% in 2018). The acceleration in 2019 reflects the recovery in consumer-led final demand in 2019.

[7] Sources: data from the Autumn Forecasts for 2018; DG Trésor calculations.

Market job creation is expected to gradually return to a pace consistent with productivity gains, after having been particularly strong in 2017 and 2018 (+241,000 jobs on annual average in 2018). In 2019, market job creation is expected to remain significant (+145,000 jobs on annual average), but lower than in 2018, as productivity gains start to revert to their trend rate. In 2020, market employment is expected to increase by 125,000 jobs on average per year. Employment will be boosted by the effects of the reinforcement of general tax cuts and the "Plan for investment in job skills" (PIC).

Inflation is expected to fall to +1.3% in 2019 and 2020 as a result of less volatile prices. In 2019, core inflation is expected to increase to +1.1% (versus +0.8% in 2018), reflecting the increase of inflation in services in line with the recovery in wages. However, overall inflation is expected to fall from +1.8% in 2018 to +1.3% in 2019, mainly due to lower oil prices and the absence of an increase of energy taxation. In 2020, core inflation is expected to rise to +1.2%, driven in particular by the acceleration in the price of private services. Overall, inflation is projected to be stable at +1.3%: in particular, administered prices are expected to contribute less to price increases, in line with the 100% health reform (mainly due to the reduction in the price of glasses).

These forecasts are subject to significant uncertainties. The extent of the slowdown in the euro area and China, the trend towards protectionist measures in the United States, the terms of the United Kingdom's exit from the European Union, and the direction of economic policy in both advanced and emerging countries are all major uncertainties.

3. MACROECONOMIC IMPACT OF REFORMS

The following table details the macroeconomic impact of the main measures contained in the government's economic strategy to meet the challenges of the French economy and to continue to reduce its imbalances. It sets out the expected economic knock-on effects on the economy. This table is not exhaustive with respect to the government's reform efforts. Similarly, the economic mechanisms mentioned are not exhaustive in terms of the effects of the various actions undertaken.

REFORMS		MAIN MEASURES	TIMETABLE	ECONOMIC MECHANISMS AND ASSESSMENT TOOLS
RECASTING OUR SOCIAL MODEL TO BUILD A FAIRER SOCIETY				
Make work more rewarding by supporting the purchasing power of workers	**Measures to increase remuneration of labour**	Increase of the in-work benefit	October 2018: first increase February 2019: adjustment of the individual credit (bonification individuelle)	**Increased purchasing power for workers**, in particular low-income workers **Strengthening of business incentives**
		Partial replacement of employee social security contributions (CSS) by the general social security contribution (CSG).	2018 Initial Budget Act/Social Security Budget Act 1 January 2019: Increase in the CSG exemption threshold for pensioners	
		Exemption from social security contributions and taxes on overtime pay	Implemented on 1 January 2019	
		Removal of the flat-rate social contribution on profit-sharing and incentive schemes (PACTE Bill)	Bill presented in June 2018 Consideration of the bill by the joint committee in March-April 2019	
		Exceptional purchasing power bonus	Economic and Social Emergency Measures Act signed on 24 December 2018 Possibility of paying the bonus between 1 January and 31 March 2019	
		Limitation of bank charges and termination of mutual policies	Commitments made in December 2018 by professionals in both sectors for the year 2019	**Increased purchasing power for households, in** particular low-income households
Make employment the first pillar of protection	**Reform of subsidised employment contracts**	**Transformation of subsidised employment contracts into "employment and skills programmes" focused on a single objective: professional integration** (better selection of employers, improved training and support, strengthening the role of the decision-makers in terms of support, better targeting of the population).	11 January 2018: Circular on employment and skills programmes	**Better targeting** of the most disadvantaged populations **Better employability** **Increased productivity**

REFORMS		MAIN MEASURES	TIMETABLE	ECONOMIC MECHANISMS AND ASSESSMENT TOOLS
Supporting people and reducing inequality	**Preventive measures**	**Extension of the vaccination obligation** to 11 vaccines Introduction of a new sugar-based scale for the **tax on sweetened beverages** **Increase in the price of tobacco,** designed to reach €10 per packet of cigarettes in 2020.	Vaccination obligation: since 1 January 2018 Tax on sweetened beverages: 1 July 2018 Tobacco: successive increases between 2018 and 2020.	**Better vaccination coverage** of the population and better protection against diseases **Decrease in the consumption of tobacco and sweetened beverages** **Better pre-emptive control of diseases** linked to the consumption of these products Better productivity among the working population due to better health
	“My Health 2022” plan	Comprehensive reform of medical studies Creation of local hospitals Modification of the pricing of medical procedures in hospitals	Reform presented on 18 September 2018 Beginning of the examination of the bill: 5 March 2019	**Better access to healthcare** **Reduction in health care costs**
	“100% Health” agreement	Access to eye care, dental prostheses and hearing aids with zero out-of-pocket costs	Agreement signed on 13 June 2018 with health professionals Progressive implementation up to 2021	**Better access to healthcare** with the objective of lowering costs for the segment in question **Increased purchasing power**
	Gender equality	Plan to combat sexual and gender-based violence Equality index	Act signed on 3 August 2018 to increase efforts to combat sexual and gender-based violence 1 March 2019: implementation of the equality index	**Improved economic performance** due to the reduction of salary gaps
	Systemic reform of the pension system	**Gradual harmonisation of the rules for calculating the various pension schemes** One euro in contributions will confer the same rights to all.	Framework of the reform presented during 2019	**Improvement in the management of the system** and long-term financial viability **Better matching of labour supply and demand** by encouraging mobility

REFORMS		MAIN MEASURES	TIMETABLE	ECONOMIC MECHANISMS AND ASSESSMENT TOOLS
Bolstering regional ohesion	**High-speed Broadband Plan**	**Access to very high-speed broadband Internet for the entire population by 2022.** **High-quality mobile telephone coverage** by 2020	January 2018: agreement signed with operators 2020: widespread reliable broadband for all households and businesses 2022: very high-speed broadband for all households and businesses	**Increase in short-term demand** due to additional investment **Productivity gains** related to the bridging of the digital divide **Increase in potential growth**
	Plan for combating medical deserts	**A plan to combat medical deserts, especially in rural areas,** in connection with local authorities and healthcare stakeholders (specifically by increasing the number of multidisciplinary health centres – *maisons de santé pluridisciplinaires* – that serve rural areas) Deployment of 1,000 local health professional communities (CPTS) throughout the country ("My Health 2022" plan)	Presented in September 2017 Presentation of the "My Health" plan on 18 September 2018	**Better access to healthcare**
	Mobility Reform Act	Reduction in dependence on personal vehicles Coverage of the entire country by mobility management bodies Delegation of powers to local authorities Programming of investments in transport infrastructure: increase in investments; priority given to everyday transport	Presentation of the bill to the Cabinet on 26 November 2018	**Increased purchasing power for households** due to decreased dependence on personal vehicles **Increase in short-term demand** due to additional investment **Productivity gains** related to improved transport infrastructure and a better transport network for the whole country
	Support measures for disadvantaged neighbourhoods	**Trial and extension of the '*Emplois francs*' programme,** aimed at disadvantaged neighbourhoods	1 April 2018: launch of the trial in 7 areas comprising 194 priority urban neighbourhoods (QPVs) April 2019: extension of the programme (more than half of QPV inhabitants are now eligible)	**Better targeting** of the most disadvantaged populations **Better employability** due to lower labour costs for employers
	"Cœur de ville" (city centre) plan	**Implementation of specific contracts and "actions to revitalise urban areas" (ORT)** with 222 beneficiary towns/cities (rehabilitation of housing in the town/city centre, balanced commercial development favouring the maintenance or implementation of activities in the town/city centre, development of mobility solutions)	Autumn 2018: 222 "*Cœur de ville*" agreements signed between the towns/cities, partners and the government 2018-2019: diagnosis and project development phase	**Increased investment and activity** in medium-sized towns **Decrease in regional inequalities**

REFORMS		MAIN MEASURES	TIMETABLE	ECONOMIC MECHANISMS AND ASSESSMENT TOOLS
Protecting the most vulnerable individuals and ensuring their employment	**Strategy to prevent and combat poverty**	**Overhaul of the early childhood policy,** in favour of the most vulnerable areas Investment in youth training **Assistance in finding employment** Overhaul of the minimum social benefits with a view to the introduction of a universal income from employment (*revenu universel d'activité* or RUA)	Presentation of the strategy on 13 September 2018 March 2019: launch of a consultation with a view to developing a universal income from employment	**Increased purchasing power for low-income households** by simplifying the procedure for obtaining minimum social benefits **Improved integration of young workers into the labour market**
	Increase in minimum social benefits	Adjusting the solidarity allowance for the elderly (ASPA) and the adult disability allowance (AAH) in 2018.	2018 Initial Budget Act/Social Security Budget Act	**Increased purchasing power** for low-income households
UNLEASHING THE FULL POTENTIAL OF THE FRENCH ECONOMY				
Boosting activity and sustainable employment by reforming the labour market	**Orders relating to the strengthening of social dialogue**	**Priority given to company-level agreements** in areas not reserved for sector-level agreements, particularly in terms of wages, working hours and employee mobility, and streamlining via direct consultation in VSEs. Sector-level management of fixed-term contracts, interim contracts and project-specific contracts Non-automatic **extension of sector-level collective agreements,** subject to expert assessment **Streamlining and strengthening economic and labour-management** dialogue by merging the various employee representative bodies and recasting the occupational sectors Introduction of **mandatory floors and caps** for compensations awarded by labour tribunals **Reduction of the time-limit for appeals** in the event of litigation over the termination of employment contracts **Simplification of the rules governing layoffs for economic reasons** and introduction of negotiated contractual termination by mutual agreement.	Orders signed by the Prime Minister in September 2017 (ratifying act issued in March 2018)	**Better matching of labour supply and demand** resulting in productivity gains **Reduction of the cost of disputes,** improved and less costly representative bodies leading to lower labour costs and job creation **Making career paths more secure** allowing for professional reorientation and increased risk-taking
	Unemploy-ment benefits reform	**Extension of unemployment benefits to self-employed workers and those who resign from their positions** **Renegotiation of the unemployment benefits agreement** to tackle excessive recourse to temporary employment contracts (*permittence*), foster the recovery of sustainable employment and better assist individuals seeking employment	The Career Choice Act signed on 5 September 2018 November 2018 - February 2019: negotiations for a new unemployment benefits agreement with the social partners Summer 2019: implementation of new measures by the government following the failure of negotiations	**Development of sustainable employment instead of short-term contracts** resulting in productivity gains **Drop in unemployment, particularly long-term,** thanks to a better support network

REFORMS		MAIN MEASURES	TIMETABLE	ECONOMIC MECHANISMS AND ASSESSMENT TOOLS
Simplifying the tax system and lowering taxes to make them more effective and fairer	**Partial replacement of employee social security contributions (CSS) by the general social security contribution (CSG)**	**Elimination of employee healthcare and unemployment contributions for both public- and private-sphere employees** Offset by an increase in the CSG, whose base is larger so that the cost of social protection is not solely paid by labour Increase in the CSG exemption threshold to €2,000 (net monthly income) in order to maintain the purchasing power of low-income pensioners	2018 Social Security Budget Act 1 January 2019: Increase in the CSG exemption threshold	**Increased purchasing power for low-income and working households** encouraging people to enter the labour force by increasing wages **Stimulating hiring** by lowering labour costs, increasing competitiveness gains and making decreases in charges more transparent **Decrease in the cost of capital** and greater savings neutrality, allowing savings to be used to invest in businesses and encouraging risk-taking and greater investment. **Shifting** taxation to less distortionary tax bases
	Elimination of the residence tax	**Elimination of the residence tax -** for 80% of households by 2020 and ultimately for all households	2018 Initial Budget Act	
	Decrease in corporate income tax	**Lower the headline corporate income tax rate** to 25% by 2022, with a new stage starting in 2019 for companies with turnover of less than €250m.	2018 Initial Budget Act	
	Converting the CICE into social security contribution cuts	**Simplification of the existing provisions** of the Competitiveness and Employment Tax Credit (CICE) to encourage job creation **Increased focus on low-wage earners**	2018 Initial Budget Act/Social Security Budget Act	
	Introduction of the flat tax on investment income (PFU) and replacement of the ISF with the IFI	**A flat levy** of 30% (including social levies) on investment income **Replacing the wealth tax (ISF) with a property wealth tax (IFI)**	2018 Initial Budget Act/Social Security Budget Act	
	Withholding at source	Make the payment of income tax concurrent with the year in which income is earned	Entry into force on 1 January 2019	**Short-term: increase in the number of hours worked** due to the cancellation of the tax on non-recurring business income collected in 2018 **Medium-to-long term: Decrease in precautionary** savings and increase in consumption
	Tax on digital services	Creation of a turnover tax on certain digital services provided by major groups in the digital sector	Presentation of the bill to the Cabinet on 6 March 2019	**Increase in tax revenue** by making large digital companies contribute more equitably to the financing of public spending
	Combating tax avoidance and evasion	Reinforcement of controls against perpetrators of fraud Reinforcement of fraud detection measures	Anti-Tax Avoidance Act signed on 23 October 2018	**Increase in tax revenue**

REFORMS		MAIN MEASURES	TIMETABLE	ECONOMIC MECHANISMS AND ASSESSMENT TOOLS
Creating an appealing environment for businesses and strengthening competitiveness	**Business Growth and Transformation Action Plan (PACTE)**	**Encouraging the growth of businesses,** particularly VSEs and SMEs, by removing barriers to their growth as they progress. **Giving employees the chance to take a greater share of company profits** **Financing companies through equity capital and reform of retirement savings plans** **Bankruptcy laws made more effective** through the introduction of a cross-class cram down enforcement mechanism	Bill presented in June 2018 Consideration of the bill by the joint committee in March-April 2019	**Facilitating company creation, financing and growth,** and encouraging business initiative **Productivity gains** by giving employees the chance to take a greater share of company's profits and better allocation of resources due to more effective bankruptcy laws **Stimulating supply and investment.** **Increasing the appeal of France as a place to do business** **Promoting the French ecosystem**
	Streamlined procedures and support for the self-employed	Elimination of the social security scheme for the self-employed (RSI) by 2020. Graduated exemption from healthcare contributions and lower family allowance contributions. Exemption from the Business Premises Contribution (*cotisation foncière des entreprises or 'CFE'*). Expansion of the simplified VAT regime. Exemption from contributions for company founders during the first year	2018 Initial Budget Act/Social Security Budget Act	
	Increasing France's appeal	Elimination of the intraday financial transaction tax Elimination of the fourth bracket of the payroll tax	2018 Initial Budget Act/Social Security Budget Act	
	Support for exporters and bolstering competitiveness	Export support strategy One-stop shop Export financing reform	Export support strategy presented on 23 February 2018 by the Prime Minister	

REFORMS	MAIN MEASURES	TIMETABLE	ECONOMIC MECHANISMS AND ASSESSMENT TOOLS
Competition in the services sector	Raising the certification thresholds for company accounts at European level (PACTE Bill)	see PACTE, above	**Decrease in costs for companies** **Competitiveness gains**
	Facilitation of procedures for individuals and companies wishing to change their supplementary health insurance contract	Amendment submitted in January 2019 as part of the review of the PACTE Bill	**Increased competition** on the supplementary health insurance market **Increased purchasing power for households** **Decrease in costs for companies related to supplementary health insurance policies**
	Measures relating to spare car parts	Amendment during the examination of the bill on the Mobility Reform Act in the National Assembly: scheduled for June 2019	Increased competition in the markets in question Lower prices and purchasing power gains for households Increased competitiveness for companies in the sectors in question Increase in the quantities produced
	Measures concerning driving schools (offer comparison tool, standard contract for driving licence applicants, recognition of the national scope of driving school accreditations, non-discrimination between online driving schools and physical driving schools with regard to quality certification)		
	Measures relating to unions (greater transferability of contracts, introduction of standard contracts, better comparison of services)	By November 2019 by regulatory means	
	Measures relating to analytical laboratories	Amendment to the Healthcare Bill in March 2019 (see “My Health 2022”)	
	Measures relating to banks (easier access for Fintech companies to bank data)	Enacting the revised Payment Services Directive (PSD 2) in French law and follow-up to the IGF (Inspectorate General of Finance) report scheduled for March 2019	

REFORMS		MAIN MEASURES	TIMETABLE	ECONOMIC MECHANISMS AND ASSESSMENT TOOLS
FAIRE ÉMERGER LE MODÈLE DE CROISSANCE DE DEMAIN				
Investing in skills for a 21st-century economy	**"Schools that Build Confidence" initiative and downsizing classes across the priority education network**	**Halving the number of pupils in first- and second-grade classes (CP/CE1) across the priority education (REP/REP+) network** Increase in the annual bonus for teachers working in priority education areas Implementation of the "Help for homework" (*Devoirs faits*) programme	Beginning of the 2017 to 2019 academic years	**Investment in human capital** **Productivity gains** owing to improved qualifications and easier and more certain career changes Increase in the employment rate Moving the economy upmarke
	Baccalaureate reform	Overhaul of the baccalaureate examination, with greater emphasis on ongoing assessment tests and the introduction of an oral exam	Starting in 2021	
	Vocational schools reform	Establishment of "Campuses of Excellence" in the various regions Development of training courses focused on the professions of the future Organisation of the tenth grade vocational class by trade family, for a clearer, more progressive course	Roll-out of the transformation of the vocational path: 2019-2022	
	Reform of access to university	Reorganisation of the curricula and reform of access to university with the introduction of prerequisites	"Parcoursup" platform launched in January 2018. Student Guidance and Success Act signed on 8 March 2018	
	Vocational training and apprenticeship reform	Increased resources for vocational training (reform of the personal training account, improved quality of training courses, creation of "*France Compétences*" – a national skills agency) Apprenticeship reform (increase the appeal of the sector, enhance compatibility between apprenticeship programmes and companies' needs)	Career Choice Act signed on 5 September 2018	
Investing in the ecological transition	**French Energy and Climate Strategy (SNBC & PPE)**	Objective: achieve a carbon neutral economy by 2050 Cut the nuclear share of electricity generation to 50% by 2035 Deployment of renewable sources of electrical and thermal energy	27 November 2018: presentation of the SNBC and PPE 1st half of 2019: publication of the PPE decree	**Increase in investment-related activity** in the renewable energy sector Increase in the employment rate **Internalisation** of the social cost of the use of fossil fuels **Reduction of our greenhouse gas emissions** **Lower energy bills**
	Support measures for the ecological transition	Increase and extension of the energy voucher Reinforcement of the car scrapping bonus National Housing Agency's "Better housing" (*Habiter mieux*) programme	Implementation from 2019 of the energy voucher and car scrapping bonus "Better housing" programme: deployment over the 2018-2022 period	**Increased purchasing power for low-income households** **Internalisation** of benefits resulting from ecologically-efficient equipment Energy savings

REFORMS		MAIN MEASURES	TIMETABLE	ECONOMIC MECHANISMS AND ASSESSMENT TOOLS
Investing in innovation	**Great Investment Plan (GPI) - €57bn**	**Support for investment** in the skills sector (€15bn), the ecological transition (€20bn), competitiveness and innovation (€13bn), and the digital economy (€9bn)	2018 Initial Budget Act/2018-2022 Public Finance Planning Act	**Increasing potential GDP** by increasing productivity and the employment rate through measures aimed at helping individuals enter the labour market. **Achieve savings in public spending**
	Industry and Innovation Fund	**Creation of a €10bn Industry and Innovation Fund** to support innovation	Set up in January 2018.	**Knock-on effect as regards private spending,** and emergence of an ecosystem of innovative start-ups and SMEs. Productivity gains
Transformation of key sectors of the economy	**Housing strategy**	**Facilitate access to housing:** creation of a mobility lease, reorganisation of the social housing landlords sector **Boost spatial planning** by simplifying and streamlining procedures for the introduction of digital technology **Facilitate construction to increase the housing supply:** relax requirements in terms of technical standards in the construction industry, introduce measures to tackle unjustified appeals	Housing Reform and Digital Rollout Act (ELAN) signed on 23 November 2018	**Increase in the housing supply** in sensitive areas and increase in purchasing power
	Overhaul of the railway transport model	Implementation of a framework enabling the SNCF **to prepare for the opening up to competition** **New, more effective and unified organisation of the SNCF group,** while remaining a state-owned group **Introduction of a new employment status for new hires in the railway sector** **Improve the SNCF's performance** **Timetable for opening up passenger transport to competition**	The New Railway Pact Act signed on 27 June 2018.	**Improving the performance of the railway model** and the final stage before opening up to competition
	Agricultural Sector Modernisation Act (Egalim)	Renew the provisions relating to the agreement process for agricultural products	National Food Summit (EGA) completed in autumn 2017. Egalim Act signed on 30 October 2018	**Ensure better remuneration for farmers** and secure their markets. Reduce competitive distortions between food chain stakeholders
	Bold objectives for industry	Opening of the additional depreciation allowance (*dispositif de suramortissement*) of 40% on investments in robotics and digital transformation tools for 2019 and 2020 French Fab loans from BPI France to support investments in robotics and digital technology for SMEs Transformation of the National Industry Board (CNI) through the creation of new sectors	Meeting of the Executive Committee of the National Industry Board in May 2018.	**Productivity gains** linked to company investment in robotics and digital technology; increase in exports linked to the restructuring of sectors

RÉFORMES		PRÉSENTATION DES PRINCIPALES MESURES	CALENDRIER	MECANISMES ÉCONOMIQUES ET ÉLÉMENTS D'ÉVALUATION
TRANSFORMING CENTRAL GOVERNMENT AND BALANCING PUBLIC FINANCES				
Streamlining	**"Right to make a mistake" (*droit à l'erreur*)**	**Introduction of the "right to make a mistake"** for users of government services acting in good faith	Government Reform Act for a Trust-Based Society (ESSOC) signed on 10 August 2018	**Decrease in costs for companies** and productivity gains **Facilitation of company creation and encouragement of business initiative**
	Combating normative inflation	**Introduction of the "one in/two out" principle** (every new regulatory standard will be offset by the repeal or streamlining of at least two existing standards) and **combating the over-enactment of European standards.** **Obligation for future bills to contain a clause concerning streamlining measures**	Circular dated 26 July 2017 Circular dated 12 January 2018	
	Simplification of administrative procedures	Target: to make all public services accessible online	Target date: by 2022	**Decrease in the production cost of public services** **Productivity gains** by simplifying access to public services
Effective public spending	**Public Action 2022**	**Action and expenditure review** by the 2022 Public Action Committee. **Cross-cutting initiatives,** including the digital transformation by way of the €700 million Government Action Transformation Fund (FTAP) Implementation of ministerial transformation plans incorporating some of the proposals outlined in the Public Action 2022 report in various areas: audiovisual, health, tax administration, etc.	Launched in October 2017 29 October 2018: 2nd meeting of the Inter-ministerial Government Transformation Committee	**Productivity gains** related to more efficient public spending **Better public service** for users
	Agreements with local authorities	**Service-level contracts** with the largest local authorities (covering two-thirds of local expenditure)	2018-2022 Public Finance Planning Act	**Public-sector productivity gains,** particularly by increasing the efficiency of local expenditure
A government undergoing transformation	**Public service reform**	Overhaul of the human resources framework Wider use of contracts Enhanced support for staff with their career development	Introduction of the Civil Service Transformation Bill on 13 February 2019	**Productivity gains** owing to greater flexibility in the management of the State civil service

III.

APPENDICES

ANNEX 1
Follow-up on the implementation of Council country specific recommendations to France 2018

List of measures taken since the 2018 National Reform Programme

RECOM-MENDATION	SUB-RECOMMENDATION	MEASURES	DONE	IN PROGRESS/PENDING
CSR1	**Ensure that the nominal growth rate of net primary government expenditure does not exceed 1.4% in 2019, corresponding to an annual structural adjustment of 0.6% of GDP**	2018-2022 Public Finance Planning Act 2019 Initial Budget Act 2019 Social Security Budget Act Act signed on 24 December 2018 (economic and social emergency measures)	In 2018, the public deficit was reduced to 2.5% of GDP and the public debt to GDP ratio stabilised at 98.4%. For 2019, the deficit is expected to be 3.1%. However, this exceeding of the 3% threshold will be both temporary and exceptional, as the underlying deficit is set to reach 2.3%, excluding the exceptional effect of the transformation of the CICE into a reduction in employer contributions. Control of social spending: Social security funds contribute to efforts to control public spending, in particular through the controlled adjustment of 0.3% of certain social benefits – such as pensions this year – and by limiting the increase in health insurance expenditure to 2.5% this year and 2.3% thereafter in line with the national healthcare expenditure growth target (Ondam). Local authorities: Local authorities engaged in a financial agreement process with the government (the 322 authorities with the highest operating expenditure) are now required to respect a binding objective of +1.2% per year for the increase in their operating expenditure in accordance with Article 13 of the 2018-2022 Public Finance Planning Act.	As detailed in the Stability Programme, the deficit should fall to 2.0% in 2020, followed by 1.6% in 2021 and 1.2% in 2022. This forecast takes into account the emergency and compensation measures that have been announced. It also takes into account the downward revision of the growth environment since the Initial Budget Act. The public spending ratio is expected to fall by almost 3 percentage points over the President's five-year term and the ratio of aggregate tax and social security contributions by 1.4 points (at constant scope, restated for the gradual integration of the "France Compétences" skills agency). The public debt ratio is expected to decline by 1.7 percentage points after the stabilisation observed in 2018.
	Use windfall gains to accelerate the reduction of the general government debt ratio.	2018-2022 Public Finance Planning Act Initial Budget Act for 2019	La loi organique relative aux lois de finances (LOLF) et la LPFP prévoient, dans le cadre de la loi de finances initiale (LFI) de chaque année, l'affectation des recettes exceptionnelles à la réduction du déficit public et donc de la dette publique.	

RECOM-MENDATION	SUB-RECOMMENDATION	MEASURES	DONE	IN PROGRESS/PENDING
	Implement expenditure savings in 2018 and fully specify the objectives and new measures needed in the context of Public Action 2022, for them to translate into concrete expenditure savings and efficiency gains measures in the 2019 budget.	Public Action 2022	Discussions have already been completed with an eye to reforms in the following areas: civil service, public broadcasting, tax and customs authorities, education, employment and vocational training, government's network abroad, and the local organisation of public services. The strategy for the transformation of public action was presented at the 2nd meeting of the Inter-ministerial Government Transformation Committee (CITP) on 29 October 2018, and focuses on 4 main areas: more user-friendly public services, simpler and more accessible procedures, clearer and more effective public action, a government undergoing transformation: - Main cross-cutting announcements presented: transformation of central government departments, devolution, overhaul of the public management framework, new social agreement, implementation of high-level monitoring of implementation, review of the management of the government's property assets, new local public services country-wide; - Details of all the transformation plans of the ministries, which have been published by the government and group together the structural reforms over a multi-year timeline. The projects launched by the government represent 75% of the recommendations made by the Public Action 2022 Committee, whether in terms of public policies or the organisation of public services.	- Status of the transformation programme A full review cycle of all ministerial transformation plans is held each quarter. - Expected results The transformations resulting from the Public Action 2022 programme will notably result in reductions in the number of public jobs, already implemented by the Budget Acts for 2018 and 2019. The upcoming budget acts over the President's five-year term will continue to reflect this objective. - Dematerialisation of administrative procedures with the target of making all of public services accessible online. - Civil Service Transformation Bill: Presented to the Cabinet on 27 March 2019, this reform aims to give public managers more flexibility and room to adapt through: i) the improvement of the social dialogue framework, making it more effective ii) wider use of contract employees iii) changes in remuneration methods; and iv) the facilitation of employee mobility and better support with their career development
	Progressively unify the rules of the different pension regimes to enhance their fairness and sustainability.	Pension reform	This reform aims to make our pension system simpler and fairer. After an initial consultation phase involving the social partners, in October 2018 the government presented the main principles of the reform: a **universal system** will provide the same rules for calculating rights and the same solidarity mechanisms for all; a single contribution rate, around 28%, will be applied to income within the limit of three social security ceilings; the management of the pension system will aim to ensure its **long-term sustainability; the transition to the universal system will be gradual:** in particular, current pensioners and insured persons who will be less than five years from the retirement age when the law is adopted will not be affected and the rights acquired before the reform will be retained.	The pension reform bill must be presented to the Cabinet and tabled in Parliament before the end of 2019.

RECOM-MENDATION	SUB-RECOMMENDATION	MEASURES	DONE	IN PROGRESS/PENDING
CSR2	**Foster equal opportunities and access to the labour market, including for people with a migrant background and people living in deprived areas**	Heighten incentives to return to work by increasing purchasing power without higher labour costs for companies	**Increase of the in-work benefit** - October 2018: €20 increase in the fixed amount of the in-work benefit combined with a decrease in the cumulative rate (date of the first payments concerned); - February 2019: increase in the individual in-work bonus, raising the statutory minimum wage by €100 per month following the regulatory increase in the statutory minimum wage on 1 January (payment date).	
		Support for the most vulnerable and disadvantaged individuals and families	**Financial support for low-income families** September 2018: 25% increase in all scholarship levels for a portion of middle school families, voted on in 2017. The 2019 allocation for secondary school social funds and the social fund for canteens is stable (€58 million in the 2019 Initial Budget Act compared to €59.5 million in the 2018 Initial Budget Act). **Increase of the childcare supplement for single-parent families** October 2018: Exceptional increase of 30%. **Enrolment of pupils with disabilities** September 2018: creation of 100 new positions for special education teachers to provide better support to pupils' families, and 10,900 qualified assistant positions, in order to prevent disruptions in attendance through the hiring of professional assistants.	**Commitment No. 5 of the National Anti-Poverty Strategy (March 2019):** - Creation of a "Guidance Guarantee" (*Garantie d'orientation*) for 300,000 beneficiaries per year. - Increase in the number of employees welcomed into integration structures through economic activity. - Better support for the employment of Social Inclusion Benefit (RSA) beneficiaries.
		Measures to support disadvantaged neighbourhoods		**National mobilisation for residents of priority neighbourhoods on 18 July 2018** - Reinforcement of support for middle school pupils from 3 disadvantaged areas in their search for a professional internship. - Objective of creating 30,000 nursery places country-wide by 2022 and introduction of a bonus of €1,000 per nursery place created in priority neighbourhoods. - Increase the bonus for national education staff working in priority education (REP+) schools by €3,000 over three years, with a first increase of €1,000 from the start of the 2018 academic year. - Halving of the size of first- and second-grade classes within the REP/REP+ network - Within the "Plan for investment in job skills" (PIC), allocate more than €2 billion to training measures for the employment of unqualified young people and the long-term unemployed. - Grant jobs under the "*Emplois francs*" initiative to job seekers residing in priority urban neighbourhoods, regardless of their age and level of qualification. - Offer support to entrepreneurs from priority urban neighbourhoods in partnership with Bpi-France. - Create specific social clauses for the 2024 Olympic and Paralympic Games construction sites (percentage of hours worked on these sites reserved for the unemployed).

RECOM-MENDATION	SUB-RECOMMENDATION	MEASURES	DONE	IN PROGRESS/PENDING
	Pursue the reforms of the vocational education and training system, to strengthen its labour market relevance and improve access to training, in particular for low qualified workers and jobseekers	Reform of the entire education and training system	**Compulsory school age lowered to 3 years** September 2019: Implementation of the lowering of the mandatory school age to 3 years in order to promote good language proficiency before the age of 6 for all children (97% of pupils enrolled at the age of 3, but enrolment levels differ according to region and social background). **Halving of the size of first- and second-grade classes within the REP/REP+ network** From September 2017: halving of the size of first-grade classes within the REP+ network. In September 2018: halving of the size of first-grade classes within the REP network; start of halving of the size of second-grade classes within the REP/REP+ network, September 2019: halving of the size of all first- and second-grade classes within the REP/REP+ network, concerning 300,000 pupils. **Positioning test in tenth grade (*seconde*):** September 2018: these tests must enable teachers to better focus their efforts and provide tailored support to those students who need it most. **Student Guidance and Success Act of 8 March 2018:** elimination of random draws and introduction of prerequisites.	**Baccalaureate reform** 2021: first version of the new baccalaureate examination with extra support for upper secondary school students. **Transformation of the vocational path – roll-out from 2019 to 2022:** - enhance the appeal and transparency of the vocational path - more progressive guidance by organising the vocational baccalaureate examination by trade family in tenth grade (*seconde*) - development of advanced training courses that meet the needs of the labour market and prepare for tomorrow's professions, phasing out of specialities that are offer few employment opportunities - apprenticeship opportunities in all upper secondary schools, development of mixed programmes and school/apprenticeship gateways - development of 'Campuses of Excellence' and publication on 14 December 2018 of the Invest for the Future Programme (PIA 3) – "Promoting educational innovation country-wide"

RECOM-MENDATION	SUB-RECOMMENDATION	MEASURES	DONE	IN PROGRESS/PENDING
		Reform of vocational training, apprenticeship and the unemployment insurance system	**Career Choice Act signed on 5 September 2018:** Regarding the apprenticeship programme: - Wider access to apprenticeships: creation of a specific ninth grade class (3ème *prépa-métier*) to prepare students for professional orientation from middle school onwards, in particular through the vocational path and apprenticeship programme, raising the maximum age for starting an apprenticeship, extending the term of the contract, and providing support to apprentices via dedicated training centres. - Financing of apprenticeship training centres (CFAs) based on contracts. - Simplification and refocusing of support for employers: Creation of a single subsidy for companies with less than 250 employees employing apprentices and making their status more certain. - €500 subsidy to help young apprentices pass their driving test subject to means-tested conditions. Regarding vocational training: - Monetisation of the personal training account (CPF) with increased rights for the less qualified and creation of a digital application to consult, obtain information, register and pay for training. - Training certification - Training contributions will henceforth be collected by URSSAF branches, instead of the skills development agencies (*opérateurs de compétence*), which will now be focused on industry consulting and business services. - Creation of the "France Compétences" agency to distribute training funds. **The Act of 5 September 2018 took effect 1 January 2019.** The digital application allowing individuals to choose their training courses and register via their personal account will be available in autumn 2019. Accredited fund collection bodies will be transformed into skills development agencies in 2019. The collection of contributions by URSSAF branches will be effective in 2020.	

RECOM-MENDATION	SUB-RECOMMENDATION	MEASURES	DONE	IN PROGRESS/PENDING
		The “Creating a skill-based society” arm of the Great Investment Plan (GPI).		**The “Plan for investment in job skills” (PIC), which is part of the Great Investment Plan, aims to provide training to one million low-skilled unemployed individuals and one million low-skilled youths who have been unemployed for 5 years,** thus facilitating their access to the labour market. 2018 was the first year of implementation. 14 programmes were validated during the financial year, and 60 agreements were signed, representing €1.4 billion in commitments as at 31 December 2018, or 91% of available commitment appropriations. **Thus, 211,000 people enrolled in training programmes supported by the PIC in 2018 and approximately 21,000 people registered for support via the programmes funded by the plan (skills guarantee, life skills, localised inclusive support centres).** In addition, there were 91,500 admissions to the Youth Guarantee (Garantie jeunes) programme. The regions are also actively involved in the implementation process, formulating proposals within the framework of the regional skills investment agreements for the 2019-2022 period, which will take into account the specificities of each region and the nature of the local labour market. As part of the PIC (see above), specific measures are designed to provide support in the areas of employment and social inclusion, such as the "100% inclusion" call for proposals.
		Reform of unemployment benefits, to combat the sharp rise in short-term contracts and job insecurity, and to foster sustainable employment.	**Extension of unemployment benefits to self-employed persons subject to conditions and to resigning employees with a business creation or professional reconversion project.** Introduced by the Career Choice Act of 5 September 2018, this measure came into force on 1 January 2019..	A reform of the unemployment benefits system is currently being carried out in order to: i) define measures to combat excessive recourse to temporary employment contracts (permittence), while fostering the recovery of sustainable employment; ii) create the conditions needed to provide more effective and timely support for jobseekers; iii) examine ways to introduce a new benefits scheme for the long-term unemployed, subject to means testing; and iv) find a way of encouraging companies to reorganise the work environment through social dialogue rather than through the use of unemployment benefits. Negotiations began in November 2018 and ended on 19 February 2019 without any agreement being reached. **The government will therefore take measures of its own accord to ensure the implementation of these objectives in the summer of 2019.**

RECOM-MENDATION	SUB-RECOMMENDATION	MEASURES	DONE	IN PROGRESS/PENDING
	Ensure that minimum wage developments are consistent with job creation and competitiveness	Legal formula for the statutory minimum wage (Smic) Act of 24 December 2018	The adjustment of the statutory minimum wage (Smic) in France is based on an automatic formula featuring the following two parameters: (i) the increase in a price index, which secures the purchasing power of statutory minimum wage earners, and (ii) half of the increase in the purchasing power of the gross hourly wage of blue-collar and white-collar workers (SHBOE), which automatically ensures employees earning the statutory minimum wage benefit from part of the economy's productivity gains. This indexation allows the automatic increase of real wages, below that of productivity gains. On 1 January 2019, the statutory minimum wage was increased by 1.5%, strictly in application of the indexation formula, and without an additional hike (*coup de pouce*). All the increases that have occurred since 2012 have been carried out in the same way. This made it possible to moderate the increase in the statutory minimum wage in relation to the other main wage indices (SHBOE, average wage per capita, SMPT). Over this period, the statutory minimum wage has had far less momentum in France than among its main economic partners. Between the end of 2012 and the beginning of 2019, the French statutory minimum wage increased by a total of 6.7%; in Germany, the total increase between 2015 and 2018 was 8.1%, where in the United Kingdom, the total increase since 2012 came to almost 29%. These increases have been accompanied by good labour market performance since mid-2015. In particular, employment prospects have improved among those most likely to be paid the statutory minimum wage: since the beginning of 2016, youth unemployment has fallen by roughly four percentage points, while unemployment among those without qualifications, after peaking in 2016, registered a fall of 2.4 percentage points between 2016 and 2017.	
		Measures aimed at supporting the controlled rise in the statutory minimum wage by increasing the remuneration of labour	**Various measures have been taken to support the controlled rise in the statutory minimum wage by increasing the purchasing power of minimum wage earners:** - Measures included in the Economic and Social Emergency Measures Act of 24 December 2018: - Exceptional increase in the individual in-work bonus, allowing an €100 increase in the monthly disposable income of minimum wage earners, taking into account the regulatory increase in the statutory minimum wage on 1 January 2019 - Possibility for companies to pay an exceptional bonus of up to €1,000 exempt from social security contributions and income tax - Exemption from employee contributions and income tax on overtime wages - Employee social security contributions (CSS) were replaced by the general social security contribution (CSG) in 2018.	

RECOM-MENDATION	SUB-RECOMMENDATION	MEASURES	DONE	IN PROGRESS/PENDING
CSR 3	**Simplify the tax system, by limiting the use of tax expenditures, removing inefficient taxes and reducing taxes on production levied on companies.**	2018 Initial Budget Act 2019 Initial Budget Act 2018 Social Security Budget Act	**Measures to simplify and reduce capital taxes:** Measures included in the 2018 Initial Budget Act (in force since 1 January 2018, for reminder): - reduce the headline corporate income tax rate to 25% by 2022 with a first stage starting in 2018 - creation of the single flat-rate levy of 30% on capital income - replacement of the wealth tax (ISF) with a property wealth tax (IFI) Measures voted under the 2019 Initial Budget Act: - elimination of roughly 20 low-yield taxes (articles 26 and 83 of the 2019 Initial Budget Act); - elimination of inefficient tax expenditure (article 30 of the 2019 Initial Budget Act); - reform of the industrial property tax system, in accordance with the recommendations of the OECD and the EU (articles 37 and 38 of the 2019 Initial Budget Act); - adjustment of the rules for assessing the rental value of industrial premises in order to improve the transparency of both the general and accounting methods, and thus limit reclassifications to industrial premises (article 156 of the 2019 Initial Budget Act); - reform of corporate income tax with a view to increasing convergence with EU law: i) article 32 of the 2019 Initial Budget Act makes several changes to the tax consolidation regime in order to bring it into line with EU law. The distribution scheme for profit-sharing income is adjusted, regardless of whether such income is eligible for the parent-subsidiary regime. Under certain conditions, the advantages reserved for tax-consolidated groups may be extended to non-consolidated companies. ii) article 34 of the 2019 Initial Budget Act carries out a comprehensive reform of the tax deduction regime for the financial charges of companies subject to corporate income tax . In particular, it enacts article 4 of the Anti-Tax Avoidance Directive (ATAD) in French law. This article establishes a rule limiting the deduction of interest, based on the recommendations of the base erosion and profit shifting (BEPS) project carried out by the Organisation for Economic Co-operation and Development (OECD).	

RECOM-MENDATION	SUB-RECOMMENDATION	MEASURES	DONE	IN PROGRESS/PENDING
			By way of reminder: Transformation of the Competitiveness and Employment Tax Credit (CICE) into a reduction in employer contributions: Measure included in the Initial Budget Act and the Social Security Budget Act for 2018: - Since 1 January 2019, the CICE and Payroll Tax Credit (CITS) have been transformed into a 6-point reduction in employer contributions for wages up to 2.5 times the statutory minimum wage - This system is clearer for companies, which immediately benefit from the reduction in labour costs (as soon as the wages are paid) -- Reinforcement of the system as of 1 October 2019 for the lowest salaries (increase of approximately 4 points in the scale of reduced general contributions for employees earning the minimum wage (Smic), gradually decreasing up to 1.6 times the minimum wage). **Implementation of withholding at source on 1 January 2019** This new system, in addition to aligning France with international standards, is simpler for taxpayers and provides them with greater clarity.	
	Reduce the regulatory and administrative burden to increase competition in the services sector and to foster firms' growth.	Simplify the creation and growth of businesses	**The PACTE (Business Growth and Transformation Action Plan) Bill.** **Presented to the Cabinet on 18 June 2018 and adopted in April 2019.** The PACTE contains over 70 measures to foster growth and the financing of businesses whilst encouraging profit sharing with employees. Its flagship measures are: - creating an online one-stop shop to help with procedures relating to setting up and running a business - authorising the establishment of an online general company register - eliminating the requirement for craftspersons to complete an internship prior to setting up shop - upgrading the network of chambers of commerce and industry - reform of employee thresholds: regrouping of thresholds for companies employing 11, 50 and 250 people; harmonisation of the methods used to calculate workforce size and introduction of a five-year period to meet the related obligations (a threshold will only be considered as having been crossed if it has been reached for five consecutive years) - streamlining retirement savings - bolstering ties between public research and the corporate world - eliminating the reduced social security contribution (*forfait social*) on profit-sharing and incentive schemes for companies with less than 50 employees and on incentive schemes only for companies with between 50 and 250 employees - reform of the bankruptcy law with the introduction into French law of the "cross-class cram down" enforcement mechanism.	

RECOM-MENDATION	SUB-RECOMMENDATION	MEASURES	DONE	IN PROGRESS/PENDING
		Simplification of relations between users and the administration	**La loi du 10 août 2018 pour un État au service d'une société de confiance (ESSOC)** marque la création du « **The Government Reform Act for a Trust-Based Society (ESSOC Act) of 10 August 2018** marked the introduction of the "right to make a mistake" into relations between users and government agencies. The government will now have to establish that a user, who fails to comply with an obligation for the first time, was acting in bad faith. The Act also contains tangible streamlining provisions. For instance, mediation with URSSAF will be mainstreamed. **Tax simplification plan for companies:** Several measures supplementing the ESSOC Act and aimed at building a new trust-based relationship between businesses and the tax authorities will be implemented in 2019: i) a **tax partnership** with mid-tier companies and large enterprises now enables the major tax issues which they face to be handled as they arise, together with a special team of experts, instead of during ex-post audits. Twelve major groups and mid-tier companies have already signed up for this partnership. ii) **customised tax support** will be introduced throughout France, in the regional public finances directorates, for SMEs in which there are growth and innovation-related tax implications. iii) in a number of scenarios, such as acquiring a new company, a department which **processes compliance** requests will enable businesses to rectify their tax situation within a clear, transparent and standardised framework. iv) an **assessment of tax compliance by a trusted third party** will allow all businesses which so wish to be certain about commonplace tax matters for which tax legislation and accounting rules are aligned to a great extent.	
		Opening up of domestic passenger rail transport to competition	The **New Railway Pact Act** signed on 27 June 2018 specifies the timetable for opening up domestic passenger rail transport to competition: it will come into effect for the high-speed train (TGV) network in December 2020, with open access being granted (free access to infrastructure for any railway company); it will be optional for regions for the regional express train (TER) network from December 2019, and will become mandatory from December 2023, with calls for tenders being organised for all contracts awarded or renewed.	

RECOM-MENDATION	SUB-RECOMMENDATION	MEASURES	DONE	IN PROGRESS/PENDING
	Step up efforts to increase the performance of the innovation system notably by improving the efficiency of public support schemes and strengthening knowledge transfer between public research institutions and firms.		**Evaluation of innovation schemes:** The Lewiner-Stephan-Distinguin-Dubertret taskforce on grants for innovation has submitted its report and several of its recommendations were used in the PACTE Bill or in the context of the Innovation Board and the use of funds. The French Innovation Policy Assessment Commission (CNEPI) published its report on the impact of the research tax credit on 7 March 2019. **Strengthening knowledge transfer:** The PACTE Bill contains measures to foster moves between the public and private sector for researchers, with a relaxing of conditions for setting up a business or providing their expertise to companies. It also includes streamlined access for businesses to public research innovations with a heightened role for the sole agent for intellectual property resulting from public research. Moreover, the French Tech Seed fund, which has received €400 million in funding from the third phase of the Invest for the Future Programme (PIA 3), is looking to support startups set up from laboratories to conduct their initial fundraising. **Creation of the Innovation Board:** The Innovation Board held its inaugural meeting on 18 July 2018 and its second meeting on 13 December 2018. Co-chaired by the ministers responsible for the economy and research, the Board's objective is to help breakthrough innovation emerge, improve the management of innovation policy and make proposals regarding the main trends and priorities in the area of innovation policy. It is also tasked with deciding on the use of the Innovation and Industry Fund's annual credits (see below). Implementation of standard research contracts. **Innovation and Industry Fund** January 2018: creation of the Innovation and Industry Fund within Bpifrance (the government-funded industrial and commercial institution or 'EPIC'), initially endowed with €10 billion by the sale and contribution of shareholdings (EDF and Thalès shares). As stakes in other companies are sold off, Bpifrance will be allocated fresh cash appropriations funded by the proceeds of these sales. The provisional breakdown of the annual €250 million credit was presented when the Innovation Board was set up: - €150m for major challenges - €70m for the Deep Tech plan sera décidée dans le cadre du Conseil de l'innovation - €25m for the Nano 2022 plan - €5m as the Board sees fit The detailed allocation of the fund's resources will be decided within the framework of the Innovation Board.	

RECOM-MENDATION	SUB-RECOMMENDATION	MEASURES	DONE	IN PROGRESS/PENDING
				GPI actions in support of competitiveness and innovation The Great Investment Plan (GPI), which has a budget of €57 billion, including €10 billion dedicated to the third phase of the Invest for the Future Programme (PIA 3), was launched at the beginning of 2018. Its goal is to support innovation and research and to finance the main objectives of the energy transition, skills transformation, innovation and industry, and government transformation. The Secretariat General for Investment (SGPI) is tasked with cross-cutting monitoring of the entire Great Investment Plan. In addition, the PACTE Bill contains several provisions to bolster industrial property take up by economic stakeholders (enhancing the protection afforded by utility certificates, the right of opposition to invention patents, enacting the EU Trademark Package in French law, assessment of inventive steps, etc.).