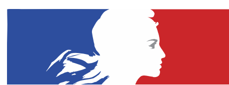



PREMIER MINISTRE

# NATIONAL REFORM PROGRAMME

APRIL 2018

# Contents

1. OVERVIEW . . . . . . . . 7

2. BACKGROUND AND MACROECONOMIC SCENARIO . . . . . 15

1. France's macroeconomic imbalances are no longer "excessive" . . . . . 17
2. Growth set to continue at a dynamic pace in 2018 and 2019 . . . . . 20
3. Macroeconomic impact of reforms . . . . . 22

3. ANNEXES . . . . . . . . 27

ANNEXE : Follow-up on the implementation of Council country specific recommendations to France . . . . . 29

# 1. OVERVIEW

The French economy has great innovative potential and enjoys many assets, which have enabled it to weather the various recent crises without coming to an abrupt halt. And yet, for nearly three decades, the French economy has repeatedly lagged behind and suffered from inaction due to a lack of reform, with the most obvious consequence being the persistence of mass unemployment. The French economic and social model – the legacy of the postwar economic boom – has ground to a halt, and can no longer ensure either prosperity or social justice.

France has not yet shifted from playing «economic catch-up» to an economic model of innovation, able to take full advantage of new opportunities.

Accordingly, the country is suffering from a three-fold economic deficit:

- **An employment deficit** – whereas most similarly-developed countries enjoy full employment, France is handicapped by a high unemployment rate, which only a year ago stood at 10%. For 30 years, the youth unemployment rate has never been less than 15%.
- **An innovation deficit** – France's potential annual GDP growth is currently estimated at 1.25%, which is also lower than in similar countries. France has not invested enough in innovative technologies, companies lag behind in making the digital changeover and economic stakeholders are still too risk-averse. Our education and training systems have also become less effective over the years.
- **A public deficit** – the ratio of public spending to GDP is the highest of all the OECD countries (55.1% in 2017, excluding tax credits). The result is one of the highest aggregate tax and social security contribution rates in the OECD (45.4% of GDP in 2017, excluding tax credits), which acts as a damper on both businesses and households. However, despite the resources the country has deployed, public services do not always meet expectations, nor have they kept pace with changes in lifestyles.

This triple structural deficit has prevented the French economy from fully benefiting from global growth and new technologies. It has also slowed the country's recovery following the 2008 economic and financial crisis.

**Socially**, French society has become increasingly fragmented. The founding principles of the country's postwar social contract have crumbled away:

- **Merit is no longer sufficiently rewarded**, both in school and in professional life. Work does not pay enough and no longer offers real prospects.
- **National solidarity is struggling to adapt to the needs of our times**. Our welfare state no longer offers fair and just protection for citizens.
- **Cohesion, regional cohesion in particular, is being called into question**: the growth gaps between prosperous urban areas and less well-connected regions are widening.

In addition to these inherited social and economic challenges, there are new ones, which are shared by all countries. The **digital revolution** is upending our ways of producing, consuming and living together. At the same time, **climate change** is a reality that makes it imperative that we change our society and bring about the ecological transition.

The programme that President Macron submitted to the vote of the French people during the May 2017 presidential campaign is a coherent, far-reaching and balanced plan to **transform the French model** in keeping with France's strong European ambitions. The parliamentary majority was built around this project, and the cabinet began implementing it as soon as it was appointed in June 2017.

The National Reform Programme is built around four key areas of change detailed below.

## 1. UNLEASHING THE FULL POTENTIAL OF THE FRENCH ECONOMY

The government's priority has been to lay the groundwork for a new economic model to unlock growth and create jobs.

First, there can be no lasting reduction in unemployment without **thoroughly reforming the labour market**. The government has decided to **overhaul company/employee relations** by assigning a central role to collective bargaining, particularly at company level. This is the core idea behind the orders on strengthening labour relations, in order to adapt them to the realities of both companies and sectors. Labour relations are also more secure through the introduction of mandatory compensation scales for cases of unlawful dismissal or dismissal without real and serious cause. By improving how the labour market functions and relations within companies, this reform represents a key step in reducing the French economy's structural unemployment rate.

Adaptation and flexibility in the labour market go hand-in-hand with **job security and the freedom to choose one's career path**, through training, apprenticeship and unemployment insurance. Unemployment benefits will thus be available to the self-employed as well as to employees who have resigned and have a professional project.

Secondly, competitiveness cannot be restored **without ambitious action in favour of investment in production and the upscaling of our economy**. Our industry is not competitive enough and its positioning strategy is inadequate, and as a result the sector has only experienced net job losses for 15 years until 2017. Our competitiveness suffers from misdirected investments, financed too much by debt and not enough by equity. **We have undertaken a major tax reform to remedy this situation**: we have cut the corporate tax rate to 25%, transformed the wealth tax into the property wealth tax, introduced a 30% flat-rate levy on investment income and, in 2019, the CICE tax credit will be changed into a lasting reduction of employers' contributions. All of these measures were included in the autumn 2017 budget bills to give the economic stakeholders the necessary visibility.

Finally, the government seeks to strengthen France's appeal in terms of business activity and innovation by creating **an environment that is propitious for the growth of both entrepreneurs and companies**. The framework governing self-employed workers was streamlined in autumn 2017. The Business Growth and Transformation Action Plan (*Plan d'action pour la croissance et la transformation des entreprises)* will not only enable enterprises to expand and modernise, it will also help them to rethink their role in society and how their employees can take a greater share of profits.

## 2. FOSTERING THE GROWTH MODEL OF TOMORROW

The government is seeking to radically transform France's economic model in order to face the challenges of tomorrow's economy. In each sector, this transformation involves structural reforms and a far-reaching investment policy.

Our first priority is **education and training**. Our current system is a spent force that is a source of social misery: 100,000 young people leave the school system without a diploma, and the undergraduate failure rate is 60%. These failings also fuel systemic economic difficulties, since the skillsets of our workforce are not sufficient for promising sectors and do not match job offers. The government is taking action at every levels of the training cycle:

- **In primary and secondary education and for preparing entry to university**, to successfully get every young person on the right track. The entire education system is being reviewed, from primary school to university admission ;
- **In apprenticeship and vocational training**. By transforming the way the system works, the reforms will make it possible to meet the needs of both employees and companies. Moreover, €14bn will be invested in vocational training under the Skills Investment Plan (*Plan d'investissement dans les compétences*), particularly for the furthest removed from the job market, namely young people and low-skilled jobseekers.

The new economic model must also include a **thoroughgoing ecological shift**. The government's priorities are clear: reducing the carbon-intensity of our economy and protecting the health of French citizens. Very ambitious targets have been set. These include the elimination of internal-combustion vehicles by 2040, the end of exploitation of oil and gas reserves, shutdown of the last coal-fired power stations by 2022 and the gradual elimination of pesticides. To achieve this, a climate plan has been presented that makes use of all the leverage available to the government for effectively combating global warming and successfully making the ecological transition. The path to achieve our objectives is a realistic one, and was decided upon following consultation with the various stakeholders (in particular via the Multi-Year Energy Plan, and the National Food Summit (*États généraux de l'alimentation,* EGA) for the transformation of France's agricultural model). It is supported by **large-**

**scale public investment**: more than €20bn will be devoted to the ecological transition over the current five-year term. Citizens will be involved and supported. Taxes on polluting energy products will be raised in an attempt to change consumers' habits. To facilitate this, **households will receive financial support** (a car scrapping bonus, energy vouchers for the most disadvantaged households).

At the same time, massive efforts will be directed towards **enhancing our country's research and innovation potential**. France wishes to be at the leading edge of coming technological breakthroughs, such as the field of artificial intelligence. The challenge is to foster appealing innovations and to introduce an appropriate regulatory framework capable of responding to the issues and risks that these innovations bring in their wake. €13bn in public investment will be directed to research and innovation. A €10bn Innovation and Industry Fund (*Fonds pour l'innovation et l'industrie*) will support the development of breakthrough innovations.

In addition to these cross-cutting measures, most of which have been approved and launched, the government is currently carrying out several far-reaching reforms in key French economic sectors:

- In **agriculture**, public action can no longer simply respond to crises. Central government will provide support to help agricultural sectors move upmarket via a €5 billion investment plan. Only by focusing on high value-added products will French agriculture be able to successfully face global competition.
- In **housing**, the key goal is to bring down prices in areas with tight housing markets, because high property prices slow mobility, fuel social injustices and dampen competitiveness. To this end, the government is seeking to gradually shift from a policy that supports demand, which contributes to ballooning property prices, to a one that supports supply, in both the private sector (streamlined procedures, fewer norms, a more structured appeals process and the freeing-up of land) and in the social sector (restructuring the social housing sector, new agreements with social housing landlords).
- In the **transport** sector, the government's priority is to improve everyday mobility for citizens, who currently spend too much time in transit. Improving transport quality for users involves ambitious reforms to shift the economic model; this is the goal of the new Railway Pact (including the opening up of rail transport to competition, changing the SNCF's organisational structure, and eliminating the special employment status of railway worker for new hires), which was drawn up in consultation with stakeholders.

In each of these economic areas, we must act quickly, since these far-reaching reforms are critical to the success of the country's long-term economic model.

## 3. RECASTING THE SOCIAL MODEL TO BUILD A FAIRER AND MORE MOBILE SOCIETY

The government's transformation plan is not merely economic in nature; it brings with it more social justice. Too often, the economic and social aspects of government action have been set against each other: wealth creation on the one hand and redistribution on the other were seen as distinct and – to a large extent – irreconcilable objectives. By contrast, the government's plan is to create a **fairer society**, one in which the rules are meaningful and the same for everyone. **All of the government's transformation efforts have a twofold goal: to achieve gains in efficiency and gains in justice**.

**Better rewarding merit and encouraging work** are priorities in this respect.

In education, **putting merit at the heart of school reform** is the best way to combat both social reproduction and egalitarianism. The path to real equality involves more than the redistribution of wealth; it also means guaranteeing equal access to opportunities.

In the professional world, **employment is the best protection** against precariousness. An economy with mass unemployment is a particularly unequal one, because unemployment affects the disadvantaged most of all. In addition to training efforts, the government aims to **better reward work** by boosting the purchasing power of employees: the €20 billion cut in employee contributions in 2018 will be financed by an increase in the General Social Security Contribution (CSG), which has a broader base. The in-work benefit (*prime d'activité*) will also be increased to encourage people to return to work. In addition, efforts are underway to boost employment in specific areas («*emplois francs*», in which employers are given financial incentive to hire individuals from disadvantaged neighbourhoods) and among vulnerable populations such as those from immigrant backgrounds.

The goal of rebuilding France's welfare state is to achieve greater equity, primarily by universal provision of social protections which every citizen needs:

- **Expansion of unemployment insurance** will offer coverage to populations which currently are falling through the social safety net
- **Vocational training reforms** are changing the way the system operates; the government is setting up a public reclassification scheme, based on a nationwide agency, France-Compétences, that will be adapted to citizens' expectations and to tomorrow's challenges.
- Similarly, the goal of the future **systemic pension reform** will be to enable the transition to a system in which each euro contributed provides the same entitlements for each worker. Adopting a simple, transparent and predictable system will not only allow for better steering of the system, but it will also bring increased fairness to social protection.

The government is also focused on combating latent inequalities in our social and tax system:

- **Elimination of the residence tax** will free French citizens from an unfair tax that weighs most heavily on the middle classes.
- **Transformation of our healthcare system**, particularly through increasing preventive efforts, will make it possible to fight social and geographical inequalities upstream. The strategy is wide-ranging to make our healthcare system fairer and more efficient, from the expansion of immunisation coverage to the implementation of zero out-of-pocket costs for essential care elements (eye care, dental work, hearing aids).
- The government's action in favour of **gender equality** establishes an obligation to achieve substantive equality, particularly in terms of wages.

Overhauling the French welfare state also requires determined action to strengthen regional cohesion. **Universal access to basic goods** must be guaranteed, both in terms of **health** (a plan to combat physician shortages in rural areas) and **public services** (establishment of public service centres).

The regions must also be **better connected**. Genuine equality requires access to opportunities where they exist:

- for **transport**, the main priority of the Mobility Reform Act (*loi d'orientation des mobilités*) will be to facilitate daily mobility in sparsely-populated areas, with a plan to make regions more accessible;
- In terms of **digital coverage**, a €20 billion investment programme was agreed between the public authorities and private operators in early 2018. With it, the entire territory of France will benefit from quality broadband starting in 2020, and high-speed broadband as from 2022, thus bridging the digital divide.

Some regions also require additional attention due to their specific characteristics and an urgent need to strengthen national cohesion. Urban areas designated as **priority neighbourhoods** will benefit from a plan to improve the daily lives of inhabitants, encourage successful career paths, and engage vital energies to bolster social ties. In parallel, the aim of the **«Cœurs de Ville»** plan is to revitalise medium-sized towns by encouraging housing and urban planning stakeholders to reinvest in their city centres. **Overseas France** is the subject of a conference that will result in a plan, which will decide on the use of the €1bn earmarked for Overseas France under the present administration's Great Investment Plan (GPI).

A fully-functioning mobile society also requires **effective and credible safety nets** for people in difficulty and the most vulnerable. The government's efforts in this direction are twofold:

- **Raising minimum social benefits** for those who need them most. The minimum old age pension and the adult disability allowance will be gradually increased by €100 per month. Support for single-parent families will also be increased.
- **Preventing inequality through social investment**. Combating poverty is not simply about money. The government aims to intervene at an earlier stage, targeting investment efforts at children and young people, and preventing students from dropping out of school.

These transformations of the French welfare state will take place over time, with consultation phases required to fine-tune them and foster their ownership.

## 4. TRANSFORMING CENTRAL GOVERNMENT AND BALANCING PUBLIC FINANCES

Public services and the social protection system are at the heart of the Republican Pact and are one of our country's strengths. All too often, however, public spending has been primarily used to **alleviate economic inefficiencies and social injustices, while failing to address their root causes**. The result is a level of public expenditure that is disproportionate to the country's level of activity, a stock of debt that makes the country vulnerable to future economic shocks, and taxes that undermine activity and initiative.

The government's strategy for public action seeks to break with the ingrained habit of responding to the country's problems with more public spending and more standards. The idea is to thoroughly transform public action, to **ensure that central government plays a more supportive, advisory role** with respect to citizens and is less focused on checks and sanctions. By giving citizens the «right to make a mistake», the future **Government Reform Act for a Trust-Based Society** will represent another decisive step in this direction.

With regard to public finances, the government has two clear objectives:

- **Substituting structural reforms for public expenditure** to address social injustices and economic inefficiencies;
- **Prioritising capital expenditure over operating expenditure**. Public investment makes it possible both to prepare the economy of tomorrow and to make public action more effective and more appropriate.

These two objectives have already steered budget choices for 2018, particularly with respect to **employment policy**, where the government has decided to shift from funding employment through subsidised contracts towards a far-reaching plan to invest in skills, together with major vocational training and apprenticeship reforms. Similarly, in **housing policy**, subsidies to recipients have been reduced in the social housing stock in return for commitments by owners to reduce rents by the same amount. The rent cuts are already being felt, thus breaking the inflationary real estate spiral.

These choices made it possible to set in motion a **long-term trend towards a lower public expenditure burden as a percentage of GDP**, starting with the first budget. Reducing public expenditure by 0.7 percentage points (excluding tax credits) will, in 2018, cut back both taxes (net of tax credits) by 0.4 percentage points of GDP and the deficit by 0.3 percentage points of GDP.

The **«Public Action 2022» programme** will carry forward this in-depth public policy review, with a constant emphasis on linking public spending with structural reforms. **Human resources management in the civil service** will be thoroughly reformed to make it more adaptable (contract recruitment, merit-based pay, modernisation of labour relations) and efficient (particularly through digitisation and assessment). Modernising public expenditure management also concerns social security funds and local government. As far as local government is concerned, a genuine transformation of the approach to central/local government relations, based on trust and responsibility, is underway. The central government contracts with local authorities, who agree to keep operating expenditure down in return for fewer constraints, whether in terms of standards, the freedom to manage human resources or the distribution of powers at local level. The goal is to promote an adapted, efficient organisation of local authorities to ensure greater efficiency of public action and support for regional investment.

**
*

France's economic and social performance has improved markedly one year after the presidential elections. This beginning of a turnaround must not be a pretext for postponing reforms; on the contrary, it is a chance to step them up. The in-depth transformation of the country's economic and social model will therefore be intensified in 2018, and will continue throughout the current five-year term.

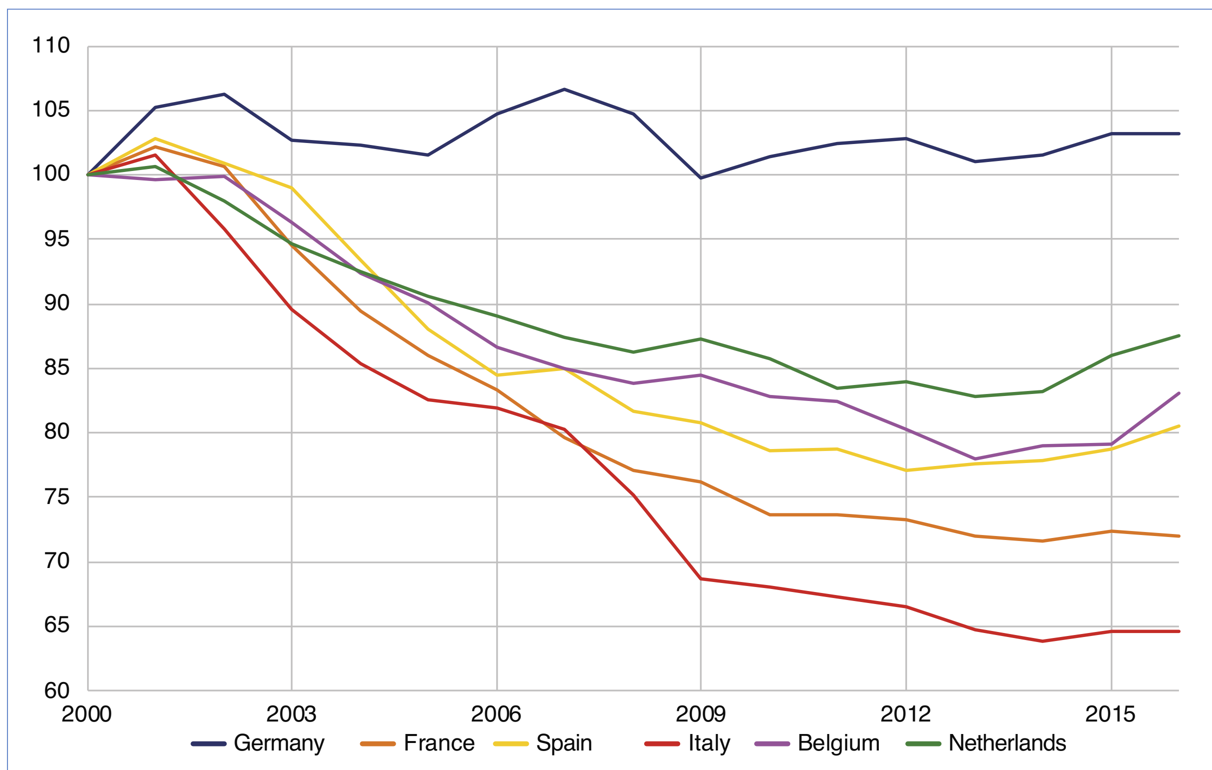
# 2. BACKGROUND AND MACROECONOMIC SCENARIO

# 1. FRANCE'S MACROECONOMIC IMBALANCES ARE NO LONGER "EXCESSIVE"

**In its March 2018 report on France, the European Commission notes that the imbalances affecting the French economy can no longer be regarded as "excessive".** These imbalances were the product of continuous deterioration over several years with regard to both external competitiveness, which has lagged since the mid-2000s, and public finances, with public debt rising virtually non-stop over the same period. The 2008-09 financial crisis further exacerbated these imbalances. Thanks to reform efforts and an improving economic context, the main imbalances have been corrected. Going forward, the outlook is upbeat given the reforms under way. The European Commission considers the high public debt and weak productivity growth to be the main macroeconomic imbalances that France must tackle. These imbalances put France in the same category as seven other European countries, including Germany, the Netherlands, Sweden and Spain.

**The competitiveness of the French economy is improving**: the modest rise in unit labour costs has allowed the country to stabilise its export market share at 3.5% (in nominal terms) since 2012. In addition, significant export growth is expected in 2018. Lastly, companies' margins are recovering thanks to streamlined measures to lower labour costs and the reduction of the tax burden on businesses. This margin recovery is favourable for investment and thus for an improvement in non-price competitiveness.

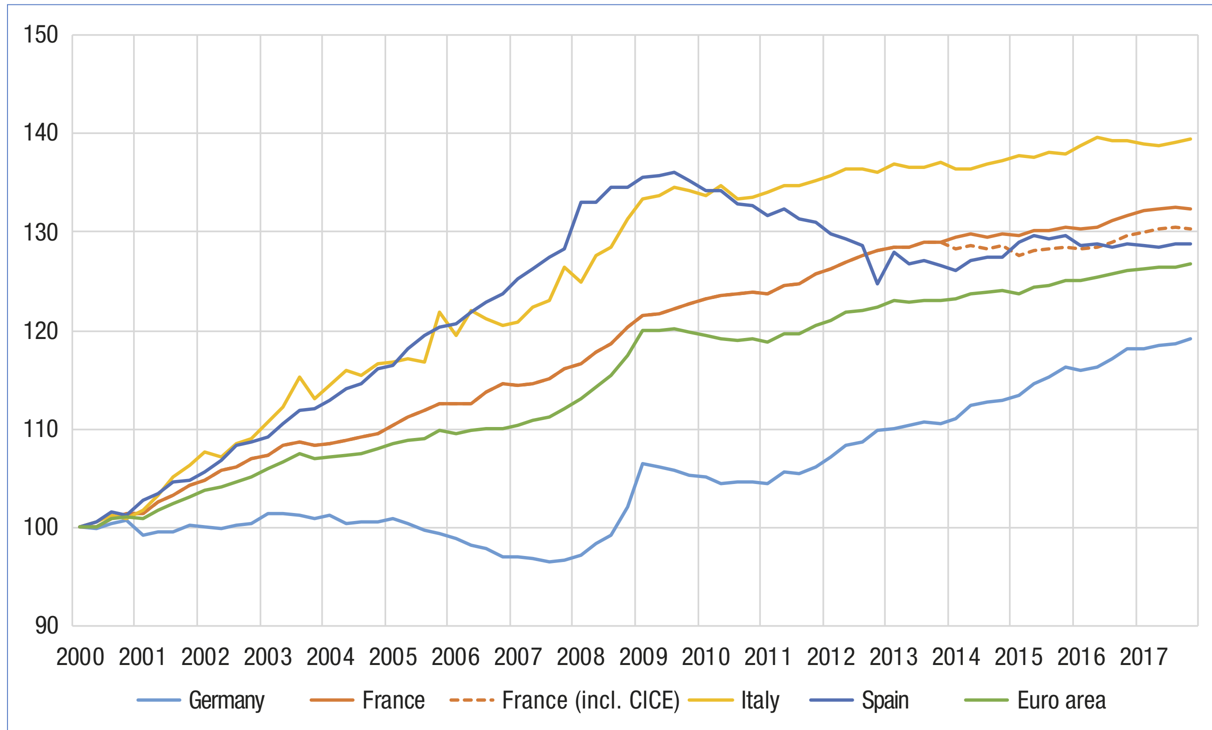
**EXPORT MARKET SHARE IN WORLD TRADE (GOODS AND SERVICES IN REAL TERMS)**




Base: 2000 = 100
Source: OECD, DGTrésor

**After integrating the impact of the Competitiveness and Employment Tax Credit (CICE), unit labour costs have grown at a much slower pace in France than in the euro area as a whole since 2014.** Over the past few years, unit labour costs in France have risen less than in Germany and many other euro area countries. These diverging trends for unit labour costs contribute to the rebalancing of labour cost trajectories within the euro area and the correction of internal imbalances.

**RELATIVE ECONOMY-WIDE UNIT LABOUR COSTS (BASE 100 IN 2000)**




Sources: Eurostat, DG Trésor calculations. Latest data points: 2017 Q4

The profit margins of non-financial corporations (NFCs) have recovered since 2014, rising from 29.9% in 2013 to 31.7% of value added in 2017, close to the pre-crisis level of 32.7% (i.e. the average over 1995-2007). Profit margins are set to continue to rebound as the economy grows.

Driven by the favourable economic environment and pro-investment measures (notably tax measures), investment by non-financial corporations increased by 4.4% in real terms in 2017, following on a 3.4% increase in 2016. This momentum continued in the first part of 2018. The proportion of French business investment earmarked for R&D has increased by 13 percentage points since 2007, supporting both innovation and the non-price competitiveness of the French economy.

**For 2018, all forecasters expect a recovery in French exports**: +4.0% according to the European Commission, +4.3% according to the OECD and +3.9% according to the IMF. A majority of forecasters expect the contribution of foreign trade to growth to improve and no longer to weigh on the GDP trend in 2018 (with imports remaining dynamic, in keeping with economic growth forecast). According to the forecast published in the Stability Programme, exports are expected to increase by 4.9%, with foreign trade making a positive 0.1-point contribution to growth in 2018.

**With regard to public finances, France's public deficit came to 2.6% of GDP in 2017, well below the 3% threshold.** Efforts will continue in order to cut public spending by more than 3 percentage points from the current 55% of GDP, excluding the effect of tax credits. This will lower the tax burden and drive a reduction in the public debt ratio beginning in 2018, with public debt set to decline from 97% of GDP at present to less than 90% in 2022.

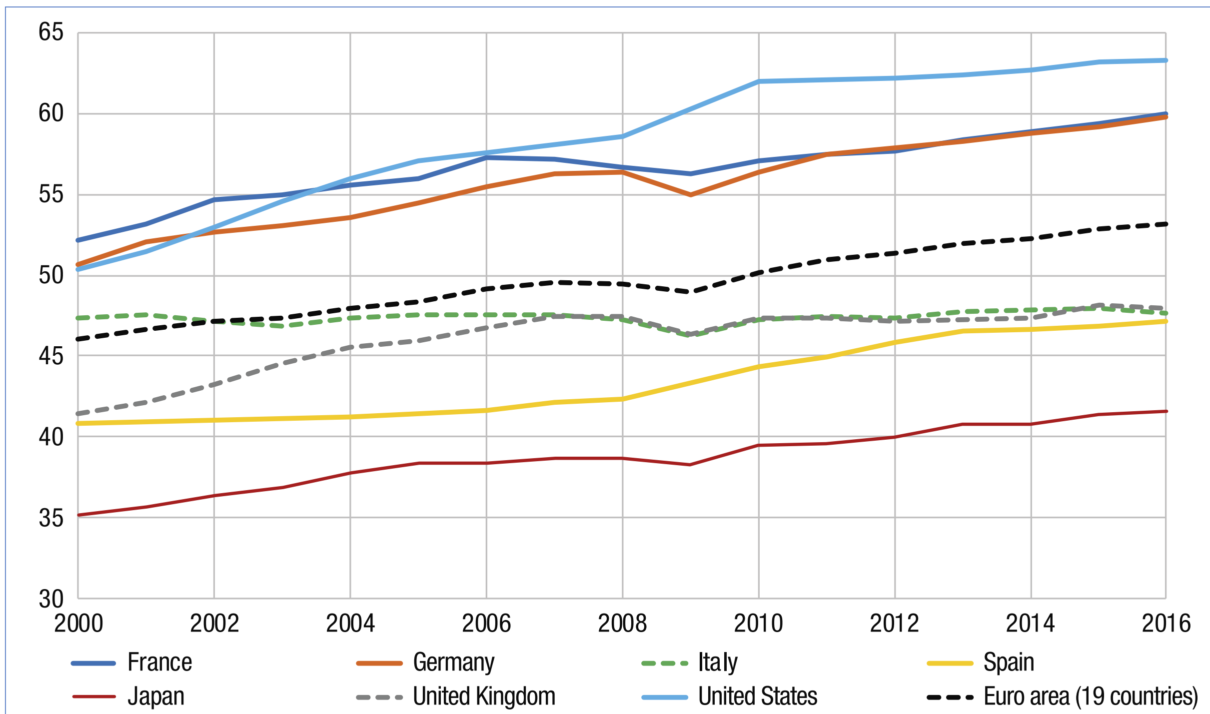
The fiscal adjustment path for 2018-2022 is based on the tax and public spending strategy laid out in the 2018-2022 Public Finance Planning Act, which was passed in late 2017. Strong control of public spending will enable both: i) a pro-growth economic environment to be established (with the tax burden reduced by one percentage point of GDP), and ii) a sustainable reduction in the public deficit. The fiscal adjustment path was enacted in the 2018 Budget Act. It now provides the necessary visibility for economic agents. In addition, the 2018 Budget Act contains decisive measures for reorienting public action, notably with regard to employment policy (shifting from a policy based on employment subsidies to one focused on investing in skills training) and housing (shifting from a demand-side policy that has fuelled higher housing prices to a supply-side one). The comprehensive overhaul of public policies will continue, with a constant emphasis on linking public spending with structural reforms. The ongoing reviews and consultations, especially in the "Public Action 2022" framework, will help guide the government's choices.

**The risks related to the financing of France's public debt remain limited.** French public debt is diversified both in geographic terms and with regard to the investor base, adding to its resilience. Moreover, investors recognise the fundamental technical characteristics that make French public debt an attractive asset, namely liquidity across the entire yield curve and a virtually nil risk of default as reflected in France's sovereign debt ratings. Lastly, since 2009, the average maturity of French debt has gradually lengthened to 7.8 years as at February 2018; this is an additional factor of resilience should interest rates rise.

**French productivity is only increasing at a slow pace, but the structural reforms under way will accelerate productivity gains going forward.**

A portion of the slowdown in productivity gains observed since 2008 has been a general trend affecting all developed economies. This trend has multiple causes (including a slowdown in technical progress, weaker growth in global trade and the aftermath of the crisis). In France, after a sharp drop during the crisis, total factor productivity has risen at an underlying rate of 0.6-0.7% p.a. since 2013, below the pre-crisis level but similar to the other major European countries. Since the 2000s, French hourly labour productivity has followed similar trends to the euro area as a whole, and remains at a high level (in 2016, $60 per hour worked in 2010 dollars in PPP – the same as for Germany). Thus, hourly labour productivity rose by around 15% over 2000-2015, i.e. almost as much as in Germany or the euro area as a whole.

**HOURLY LABOUR PRODUCTIVITY (IN LEVEL, IN 2010 $ IN PPP)**




Source : OECD, DG Trésor calculations

The **pro-employment policies** implemented in France over the past several years (including the CICE, the Responsibility Pact and the hiring bonus for SMEs) have had a negative impact on French productivity by bringing low-skilled workers back into employment. For example, in 2017, actual productivity per person employed grew by 0.3%, vs. 0.8% adjusted for these pro-employment policies.

**Efforts to achieve a lasting acceleration in productivity growth are at the centre of the government's reform strategy.** Labour market reforms will not only boost employment, but also improve the matching of workers' skills and businesses' requirements. Strengthening workers' skillsets will also drive productivity; this will be achieved through reforms of the school system, apprenticeship programmes and vocational training. Investments in research and innovation, such as the Great Investment Plan, will also bolster productivity and long-term growth. The scenario laid out in the 2018-2022 Public Finance Planning Act calls for potential growth of 1.25% p.a. out to 2020, rising to 1.35% in 2022 thanks to the reforms being implemented. This is a cautious, conservative estimate of the impact of reforms on potential growth.

## 2. GROWTH SET TO CONTINUE AT A DYNAMIC PACE IN 2018 AND 2019

**After reaching 2.0% in 2017[1], GDP growth is expected at 2.0% again in 2018, followed by a slight slowdown to 1.9% in 2019**. The recovery under way since autumn 2016 is set to continue apace in 2018 and 2019, buoyed notably by an upbeat international environment, especially in the euro area. Dynamic household purchasing power, backed by favourable trends on the employment market, is expected to have a positive effect on private domestic demand. In 2019, growth is set to slow to a small extent due to slightly less robust global demand and a gradual rise in interest rates, resulting in a weaker export trend and a slowdown in business investment, respectively.

**After dampening GDP growth again in 2017, foreign trade is no longer expected to weigh on growth in 2018 and 2019**. Thanks to the continued euro area recovery, a pick-up in activity in the US and stable growth in emerging markets, world demand for French exports is expected to remain dynamic in 2018 (up 5.0% after a 5.1% increase in 2017) before a slight slowdown in 2019 (up 4.7%). Exports should be buoyant in 2018 and in 2019 (with 4.9% growth expected in 2018 followed by 4.6% in 2019), driven by global demand and the delivery of a large number of major export contracts (including Rafale fighter jets and cruise ships), as both tourism and farm exports return to normal. Imports are set to continue to grow at the same pace in 2018 and 2019 (by 4.1% p.a., as in 2017), despite a slight slowing of domestic demand (up 1.8% p.a. in 2018 and 2019 after a 2.2% increase in 2017).

**Household consumption expenditure is expected to grow at the same pace as household purchasing power in both 2018 (1.6%) and 2019 (1.9%), underpinning growth**. Household purchasing power is forecast up 1.6% in 2018, similar to the 1.5% increase posted in 2017. In 2019, household purchasing power should accelerate noticeably, rising 1.9% as the job creation trend remains strong. It will also be driven by measures to lower the tax burden (reducing the residence tax, lowering social security contributions, etc.) and by stronger growth in property income (thanks to the improved financial position of companies and the rise in interest rates), as well as lower inflation than in 2018. Household investment grew at a stronger pace in 2017 (5.3% after a 2.4% increase in 2016), supported by both residential investment and the very high number of property transactions. It is set to slow to 2.5% in 2018, then remain steady at 2.5% in 2019, supported by higher purchasing power and improved employment, but dampened by the anticipated rise in interest rates.

**After accelerating constantly from 2014 to 2017, business investment is expected to grow at a steady pace in 2018 (up 4.4% in 2018, the same as in 2017), then to slow in 2019 (up 3.5%)**. This continued rise in business investment should be driven by capacity utilisation rates above their historical average, still-low interest rates, upbeat domestic and international demand, and the reduction in employers' contributions that will replace the CICE tax credit. However, business investment is set to slow in 2019 due to the gradual rise in interest rates, dampened prospects for export demand and companies returning to their normal investment behaviour.

**In 2018, employment in the market sector is projected to post another sharp increase** (with 250,000 jobs added on an average annual basis, after 240,000 in 2017), underpinned by economic activity despite less support from employment policies (knock-on effect of the end of the hiring bonus scheme, the end of the ramp-up of the CICE and the Responsibility Pact, and the trimming of the CICE from 7% to 6% of payroll expense). In 2019, employment in the market sector is set to continue at a similar pace (an additional 225,000 jobs on an average annual basis): economic activity is likely to be a touch less dynamic, but the CICE will be transformed into a reduction in employers' social security contributions, which will probably have a stronger positive effect on employment than in 2018. Non-market employment is set to contract in 2018 and 2019 (by 25,000 jobs p.a. on an average annual basis) due to the reduction in funds earmarked for subsidised employment contracts.

**Headline inflation is forecast at 1.4% in 2018, after 1.0% in 2017**, chiefly due to higher tobacco taxes (a +0.3-point impact on the CPI). Higher oil prices and energy taxes are expected to have a positive 0.5-point effect on the CPI – the same as in 2017. **In 2019, despite higher core inflation, headline inflation is forecast at a slightly lower 1.2%**, with energy and tobacco prices making a much smaller contribution to inflation than in 2018.

**These forecasts are subject to both upside and downside risks**. If our trading partners in the euro area enjoy a stronger-than-expected economic recovery, this will drive French exports upwards. Conversely, if political tensions arise within Europe, this could dampen growth. The ECB might decide to extend its non-conventional

1 - Growth was 1.8% within the meaning of gross annual accounts, i.e. not adjusted for business days.

monetary policy if core inflation remains weak in the euro area. If protectionist measures were to be implemented around the globe, the world economy could slow down. **In addition, there are upside and downside risks pertaining specifically to France.** Export performance could improve on the back of the reforms implemented over the past few years and the high level of French business investment. The measures taken to support investment (corporate income tax cuts, flat 30% tax on investment income, wealth tax reform) could pay off more rapidly than expected. Conversely, business investment could revert to its normal level sooner than anticipated. Companies in many industries have reported difficulties hiring staff. If these difficulties were to continue, a tight labour market could result in a slowdown in economic activity. Or, on the upside, if the reform of vocational training and the effects of labour market reforms start to produce their effects quickly, this could have a positive impact on growth.

# 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 |
|---|---|---|---|---|
| **UNLEASHING THE FULL POTENTIAL OF THE FRENCH ECONOMY** | | | | |
| Labour market | Orders for bolstering labour relations | **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 SMEs.<br>Sector-level management of fixed-term contracts, interim contracts and project-specific contracts.<br>**Extension of sector-level collective agreements** that is non-automatic and subject to expert assessment<br>**Streamlining and strengthening economic and labour-management dialogue** by merging the various employee representative bodies and recasting the occupational sectors.<br>**Introduction of mandatory floors and caps** for compensations awarded by labour tribunals.<br>Reduction of the time-limit for appeals in the event of litigation over termination of employment contracts.<br>Simplification of the rules governing layoff for economic reasons and introduction of negotiated contractual termination by mutual agreement. | Orders signed by the Prime Minister and the President in September 2017 (ratifying act issued in March 2018) | **Better matching of labour supply** and demand resulting in productivity gains<br>**Reduction of the cost of disputes,** improved and less costly representative bodies leading to lower labour costs and job creation<br>**Making career paths** more secure allowing for professional reorientation and increased risk-taking |
| | Unemployment benefits reform | **Extending unemployment benefits to self-employed workers and those who resign their positions** | Spring 2018 | |

| REFORMS | | MAIN MEASURES | TIMETABLE | ECONOMIC MECHANISMS |
|---|---|---|---|---|
| **Tax reform** | **Partial transfer of employee contributions (CSS) to 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 | 2018 Social Security Budget Act | **Increased purchasing power for low-income and working households** and encouraging people to enter the labour force by increasing wages<br>**Stimulating hiring by lowering labour costs and increasing productivity.**<br>**Decrease in the cost of capital** and greater savings neutrality allowing savings to be used to invest in businesses and encouraging risk-taking, greater investment.<br>**Shifting** taxation to less distortionary tax bases. |
| | **Residence tax exemption** | **Residence tax exemption** for 80% of the most vulnerable households. | 2018 Initial Budget Act | |
| | **Decrease in corporation tax** | **Lower the headline corporation tax rate to** 25% by 2022, with a new stage starting in 2018. | 2018 Initial Budget Act | |
| | **Converting the Competitiveness and Employment Tax Credit (CICE) into social security contribution cuts** | **Simplification of the CICE's existing provisions** to maintain its long-term viability and refocusing it on minimum wage-earners. | 2018 Initial Budget Act / Social Security Budget Act | |
| | **Introduction of the flat tax on investment income (PFU) and replacing the wealth tax with a real estate wealth tax** | **A flat 30% levy** (including social levies).on investment income,<br>**Replacing the wealth tax (ISF) with a property wealth tax (IFI).** | 2018 Initial Budget Act / Social Security Budget Act | |
| **Business environment and competitiveness** | **The Business Growth and Transformation Action Plan** | **Encouraging the growth trajectories of businesses,** particularly VSEs and SMEs, by removing roadblocks to their growth as they progress.<br>**Giving employees a chance to take a greater share of a company's profits.**<br>**Financing companies through equity capital and reform of retirement savings plans.** | Bill to be submitted in 2018 | **Facilitating company creation, financing and growth,** and encouraging business initiative.<br>**Productivity gains** through giving employees a chance to take a greater share of a company's profits.<br>Stimulating supply and investment.<br>Increasing the appeal of France as a place to do business.<br>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. | 2018 Initial Budget Act / Social Security Budget Act | |
| | **Increasing France's appeal** | Degressive exemption from healthcare contributions and lower family allowance contributions Exemption from the Business Premises<br>Contribution (*cotisation foncière des entreprises*, CFE). | 2018 Initial Budget Act / Social Security Budget Act | |
| | **Support for exporters and bolstering competitiveness** | Expansion of the simplified VAT regime.<br>Social security contribution exemption for the first year for those starting businesses.<br>Social security contribution exemption for the first financial year for those setting up a business | Export support strategy presented on 23 February 2018 by the Prime Minister | |

| REFORMS | | MAIN MEASURES | TIMETABLE | ECONOMIC MECHANISMS |
|---|---|---|---|---|
| **FOSTERING THE GROWTH MODEL OF TOMORROW** | | | | |
| **Transformation of our manufacturing capacity** | **Overhaul the railway transport model** | Transform the SNCF into a more effective and more unified organisation while maintaining the group in the public sphere<br>Introduce a new employment status for new hires<br>Improve the SNCF's performance, particularly via a new company-wide strategic plan. | Bill for a new Railway Pact submitted in March 2018.<br>Mobility Reform Bill submitted in April 2018 | Improving the performance of the railway model and the final stage before opening up to competition<br>Improving the housing supply and increase of purchasing power.<br>Better earnings for farmers and keeping their markets secure. Reducing competitive distortions between food chain stakeholders. Investments to improve farm sector productivity. |
| | **Housing strategy** | **Build more, better and more cheaply:** tax allowance on capital gains, no new technical standards in the construction industry, measures to tackle improper appeals<br>**Meeting the needs of all:** reform of housing benefits, creation of a "mobility lease", construction of 80,000 housing units for students and young workers, overhaul of social housing<br>**Improved living conditions:** doubling resources for urban renewal programme, renovation of the most energy-consuming housing units, renovation of housing in mid-sized urban centres. | 2018 Initial Budget Act<br>Housing Reform and Digital Rollout Bill submitted in April 2018. | |
| | **National Food Summit (EGA)** | Overhaul provisions concerning the agreement process for agricultural products<br>Great Agricultural Investment Plan | EGA completed in autumn 2017.<br>Bill submitted in January 2018 | |
| | **Goals for industry** | Transformation of industry with French Fab.<br>Overhaul of the National Council for Industry with the creation of new sectors. | Meeting of the Executive Committee of the National Council for Industry in May 2018 | |
| **Investment** | **A €57bn Great Investment Plan** | **Support investment in skills** (€15bn), the ecological transition (€20bn), competitiveness and innovation (€13bn) and digital affairs (9bn). | 2018 Initial Budget Act / 2018–2022 Public Finance Planning Act | **Increasing potential GDP** through increasing productivity and the employment rate by helping people to access the labour market.<br>Achieve savings in public expenditure.<br>**Knock-on effect as regards private spending,** and emergence of an ecosystem of innovative startups and SMEs.<br>**Productivity gains.** |
| | **Industry and Innovation Fund** | **Introduction of a €10bn Industry and Innovation Fund** to support innovation. | Set up in January 2018, funded by asset disposals p in late 2017 and by contributions in securities | |

| REFORMS | | MAIN MEASURES | TIMETABLE | ECONOMIC MECHANISMS |
|---|---|---|---|---|
| **Bolstering the training system** | **Schools that Build Confidence" initiative and halving the size of first- and second-grade classes in both the REP and REP+ networks** | **Halving the size of first- and second-grade classes within priority education networks (REP/REP+).** Adjustment of the annual bonus paid to teachers working in priority education areas. | Beginning of the 2017 to 2019 school years | **Productivity gains** from improved qualifications and by easier and more secure career changes<br>**Increased employment rate**<br>**Moving the economy upmarket** |
| | **Baccalaureate reform** | Introduction of the "Help for Homework" (*Devoirs Faits*) programme. | Starting in 2021 | |
| | **Reform of access to university** | Overhaul of the baccalaureate examination, with greater emphasis on rolling tests and the introduction of an oral exam. | Parcoursup platform launched in January 2018 | |
| | **Vocational training and apprenticeship reform** | Reorganisation of the curricula and reform of access to university with the introduction of prerequisites. | Career Path Bill in April 2018 | |
| **Bolstering regional cohesion** | **Climate Plan** | Increased resources for vocational training (reform of the Personal Training Account, improving training quality, creation of "France Compétences", a national skills agency). | Submitted on 6 July 2017.<br>2018 Budget Bill for the carbon tax and diesel/petrol tax convergence.<br>Multi-year energy plan and national low-carbon strategy (Q2 2018) | Broadening the tax base and increasing tax incentives.<br>Growing awareness of the social cost of the use of fossil fuels and lowering our greenhouse gas emissions. |
| **RECASTING THE SOCIAL MODEL TO BUILD A FAIRER AND MORE MOBILE SOCIETY** | | | | |
| **Providing support for individuals regardless of their situation** | **Tax measures to support purchasing power** | Stepped-up increase in the carbon tax and bringing diesel and petrol taxes into line.<br>Support for renewable energies. | 2018 Initial Budget Act / Social Security Budget Act | **Increased purchasing power** for low-income households and greater incentives to return to work.<br>Better access to healthcare with the goal of lower costs for the segment in question.<br>Better economic performance in connection with a reduction in wage gaps.<br>**Making the system easier to manage** and ensure its long-term financial viability.<br>**Better matching of labour supply** and demand through encouragement of mobility. |
| | **National Healthcare Strategy** | | 2018 Initial Budget Act / Social security Budget Act.<br>Roadmap by summer 2018. | |
| | **Gender equality** | Residence tax measures and transfer of employee contributions to the general social security contribution (CSG). | Announcements of 8 March 2018 | |
| | **Systemic pension reform** | Access to healthcare.<br>Prevention.<br>Zero out-of-pocket costs. | Framework of the reform will be presented in early 2019 | |
| **Bolstering regional cohesion** | **High-Speed Broadband Plan** | Reduced wage gaps. | Stepping up of the plan launched in 2018.<br>January 2018 agreement with operators. | Increasing short-term demand through additional investments.<br>Closing the digital divide. |
| | **Plan for combating physician shortages in rural areas** | **Gradually bringing the rules for calculating the various pension schemes into line.**<br>One euro in contributions will confer the same rights to all. | Presented in September 2017 | |

| REFORMS | | MAIN MEASURES | TIMETABLE | ECONOMIC MECHANISMS |
|---|---|---|---|---|
| **Protecting the most vulnerable individuals** | **Adjusting welfare benefits**<br>**Measures to support the ecological transition** | Adjusting the solidarity allowance for the elderly (ASPA), the adult disability allowance (AAH) and the in-work benefit in 2018.<br>Energy vouchers for the most vulnerable households. | 2018 Initial Budget Act / Social Security Budget Act | **Increased purchasing power for low-income households** and greater incentives to return to work |
| **TRANSFORMING CENTRAL GOVERNMENT AND BALANCING PUBLIC FINANCES** | | | | |
| **Streamlining** | **The "right to make a mistake"** | **Introduction of a "right to make a mistake"** for entrepreneurs of good faith in their relations with the government. | Trust-Based Society Bill submitted on 27 November. | Lower costs for businesses and productivity gains.<br>Easier business setup and encouraging risk-taking |
| | **Combating normative inflation** | **Introducing 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 over-enactment of European standards.<br>**Obligation for future bills to contain a clause concerning streamlining measures.** | Circular dated 26 July 2017<br>Circular dated 12 January 2018. | |
| **Effectiveness of public expenditure** | **Public Action 2022** | Action and expenditure review by the 2022 Public Action Committee.<br>Cross-cutting initiatives, including the digital transformation. | Launched in October 2017 | Effectiveness of public expenditure<br>Public-sector productivity gains, particularly by curtailing administrative fragmentation and increasing the efficiency of local expenditure. |
| | **Agreements with regional authorities** | **Service-level contracts** with the largest local authorities (covering two-thirds of local expenditure).<br>Goal of two local government levels beneath regional level where possible. | 2018–2022 Public Finance Planning Act | |

# 3. ANNEXE

# ANNEXE

## Follow-up on the implementation of Council country specific recommendations to France

| RECOM-MANDATION | SUB-RECOMMENDATION | MEASURE | DONE | IN PROGRESS/PENDING |
|---|---|---|---|---|
| CSR1 | **Ensure compliance with the Council recommendation of 10 March 2015 under the excessive deficit procedure.** | Lasting return of the deficit to under 3% of GDP as from 2017:<br>- First and second 2017 Supplementary Budget Acts | Following the audit of public accounts commissioned by the government from the Government Audit Office (*Cour des comptes*), emergency measures were rolled out in summer 2017 to guarantee the return of the deficit to under 3% of GDP: a supplemental appropriation decree and appropriation rescission decree led to savings of over €3.3bn and regulation measures generated around €1bn in further savings.<br>After standing at 3.4% in 2016, the deficit was brought down to 2.6% in 2017. | As outlined in the Stability Programme, after a public deficit of 2.6% of GDP in 2017, the figure is expected to be 2.3% in 2018 with a surplus of 0.3% in 2022, on the strength of an average structural adjustment of 0.35 percentage points per annum as from 2019. |
| | **Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact.** | -- 2018 Initial Budget Act<br>- 2018 Social Security Budget Act<br>- 2018-2022 Public Finance Planning Act<br>- 2018-2022 Stability Programme | | The 2018 Social Security Budget Act provides for savings of €4bn on the national healthcare expenditure growth target compared to the expenditure trend path estimate used in the 2017 Social Security Budget Act. The Public Finance Planning Act sets out to contain local expenditure by means of contracts between central government and local authorities whose actual operating expenses exceed €60m. Those contracts will include a correction mechanism in the event of performance discrepancies each year as from 2018 which will be applied on central government transfers or local authorities' tax revenue. |
| | **Take into account the need to strengthen the ongoing recovery and to ensure the sustainability of France's public finances.** | Fiscal consolidation adjustment path<br>2018-2022 Stability Programme | Article 17 of the 2014-2019 Public Finance Planning Act. The balanced budget article in the 2017 Budget Act implemented this principle for 2017. | The fiscal adjustment path set out in the Stability Programme is based on gradually introducing expenditure savings measures and rapidly implementing tax cuts. This scaling up will enable both the goal of fiscal consolidation to be met and the ongoing recovery of growth to be supported. Thus, nominal public expenditure growth, excluding tax credits, will slow during the President's five-year term from 1.5% in 2017 to 0.1% in 2022. Between 2018 and 2022, public expenditure, excluding tax credits, will fall from 55.1% of GDP to 51.1%, with aggregate tax and social security contributions coming down from 45.4% to 44.3%. |

| RECOM-MANDATION | SUB-RECOMMENDATION | MEASURE | DONE | IN PROGRESS/PENDING |
|---|---|---|---|---|
| | **Comprehensively review expenditure items with the aim to make efficiency gains that translate into expenditure savings** | Spending review<br>“Public Action 2022” programme | The first meeting of the Inter-Ministerial Government Transformation Committee (CITP) was held on 1 February 2018 and it tabled a battery of measures originating from cross-cutting projects covering the following topics: entering into a "new social contract" with civil servants, granting greater freedom and more responsibility to managers, bolstering transparency in terms of the effectiveness and standard of user-oriented public services, speeding up the digital transformation and supporting the overhaul of general government subsectors. | Poursuite de la rationalisation des dépenses de fonctionnement de l’État, des efforts de maîtrise de dépenses des agences, des efforts sur la masse salariale hors ministères prioritaires.<br>(PSTAB) |
| | | Government Action Transformation Fund | Setting up a Government Action Transformation Fund by the 2018 Initial Budget Act on 1 February 2018: 1st call for projects from this fund. On the basis of calls for projects, this €700m fund will finance the investment costs required to implement the structural reforms. The projects will have to provide a substantial return on investment in terms of lasting operating savings. A project selection committee will single out the most relevant projects in terms of leverage and monitor those selected. Following the selection stage, transformation agreements will be executed between the Minister for Government Action and Public Accounts and the beneficiaries. | |
| | | Efficient government expenditure arm of the Great Investment Plan. | | The Great Investment Plan will also be used to speed up the introduction of paperless procedures in general government subsectors and in the healthcare and social cohesion system (digitisation of hospitals, heightened ties between hospitals and general practitioners). These investments will make public services more flexible whilst improving their standard and accessibility, and will enable government expenditure to be sustainably contained. |

| RECOM-MANDATION | SUB-RECOMMENDATION | MEASURE | DONE | IN PROGRESS/PENDING |
|---|---|---|---|---|
| **CSR2** | **Consolidate the measures reducing labour costs to maximise their efficiency in a budget-neutral manner and in order to scale up their effects on employment and investment.** | CICE tax credit changed into a reduction of employer contributions | Measure contained in the 2018 Initial Budget Act and the Social Security Budget Act:<br>As from 1 January 2019, the CICE tax credit will be changed into a lasting reduction of employer contributions. This will streamline the current labour cost-reduction system and therefore make it more effective. In 2017, the CICE provided entitlement to a tax credit (corporate income tax or personal income tax) equal to 7% of the payroll for salaries of less than 2.5 times the statutory minimum wage (Smic). This rate will be cut to 6% in 2018 and the arrangements will be replaced in 2019 by a reduction of social security contributions with immediate effect (and not with a one year time-lag in relation to the operative event). This new scheme corresponds to a standard six percentage point reduction of social security contributions for salaries of between one and two and a half times the statutory minimum wage in conjunction with a further reduction in labour costs at statutory minimum wage level. A larger number of businesses and sectors will be eligible for the new reduction arrangements, in particular the social and solidarity economy which is currently subject to a specific scheme, the payroll tax credit (CITS). | |
| | | Transfer of employee contributions to the General Social Security Contribution (CSG) | Measure contained in the 2018 Social Security Budget Act:<br>In its Article 8, the 2018 Social Security Budget Act provides for a transfer of employee contributions to the General Social Security Contribution (CSG) with an increase in net salaries for private sector workers (3.15 percentage points of contributions eliminated by a 1.7 percentage point increase in the CSG) and increased financing of social protection through levies on savings and pensions, which will have a less distorting impact. | |

| RECOM-MANDATION | SUB-RECOMMENDATION | MEASURE | DONE | IN PROGRESS/PENDING |
|---|---|---|---|---|
| | **Broaden the overall tax base and take further action to implement the planned decrease in the statutory corporate-income rate.** | Reduction of the statutory rate of corporate income tax in the 2018 Initial Budget Act | 1st phase implemented by the 2018 Initial Budget Act on 2017 profits. Consistent with the adjustment path set out in the 2018 Initial Budget Act, the statutory rate of corporate income tax will be cut to 25% between now and 2022, i.e. more than the reduction to 28% provided for in the previous Budget Act: The top marginal rate will be gradually reduced: 31% in 2019, 28% in 2020, 26.5% in 2021 and 25% in 2022. | |
| | | Ramping up ecological taxation | Measure contained in the 2018 Initial Budget Act:<br>Ecological taxation will ramp up during the President's five-year term. By 2022, taxes on diesel and petrol will have converged and the carbon component of the domestic consumption tax on energy products (TICPE) will increase in stages to €86.20/tC02 in 2022. | |
| CSR3 | **Improve access to the labour market for jobseekers, in particular low-skilled workers and people with a migrant background, including by overhauling the system of vocational education and training** | "Plan for investment in job skills" (PIC) as part of the Great Investment Plan | | Training and skillsets arm of the Great Investment Plan that primarily targets low-skilled young people who are far removed from the job market and low-skilled long-term jobseekers, and heightened support measures for young people (help for young dropouts, continued mainstreaming of the Youth Guarantee scheme, more places in "second chance" schools and better identification of NEETs). |
| | | Reform of the baccalaureate and guidance in high schools and for university entrance | Act no. 2018-166 of 8 March 2018 on the guidance and success of students which reforms the first cycle of university education. At the start of the 2018/2019 academic year, the organisation of university courses will be reviewed (elimination of random draws, introduction of an "educational success contract" highlighting the required skills for courses of study). A new website called Parcoursup was launched in January 2018. | |

| RECOM-MANDATION | SUB-RECOMMENDATION | MEASURE | DONE | IN PROGRESS/PENDING |
| --- | --- | --- | --- | --- |
| | | Reform of apprenticeship and vocational training | On 14 February 2018, the reform of the general and technological baccalaureates was the subject of a communication to the Cabinet. The end result in 2021 should be an overhaul of the baccalaureate system (more importance attached to ongoing assessment, introduction of a major oral examination at the end of the final year of high school, upgraded guidance in high school).<br>Overhaul of vocational teaching in schools in conjunction with the reform of apprenticeship and that of the baccalaureate: the report from Ms Calvez and Mr Marcon was submitted to the Minister for Primary and Secondary Education on 22 February 2018<br>There will be three goals for the reform following on from these discussions and the ongoing consultation:<br>- Bolster the appeal of this course of study<br>- Increase the effectiveness of training<br>- Extend vocational teaching to other career paths | April 2018: presentation at a Cabinet meeting of the Career Path Bill aimed at reforming unemployment insurance and apprenticeship, and overhauling vocational training. |
| | | Initiatives for the benefit of priority urban neighbourhoods (QPV) | | Using the “Plan for investment in job skills” (PIC) for the benefit of priority urban neighbourhoods (QPV).<br>Heightened targets for job support schemes (subsidised employment contracts, Youth Guarantee, etc.) in priority urban neighbourhoods.<br>Trial run in seven areas of “*Emplois francs*”: support for the permanent hiring of inhabitants of priority urban neighbourhoods. |
| | | Fighting discrimination when hiring and in the workplace | *Label Diversité*, requirement for anti-discrimination training | |

| RECOM-MANDATION | SUB-RECOMMENDATION | MEASURE | DONE | IN PROGRESS/PENDING |
|---|---|---|---|---|
| | **Ensure that minimum wage developments are consistent with job creation and competitiveness.** | Legal formula for the statutory minimum wage and opinion of the Smic group | The statutory minimum wage (Smic) was adjusted by +1.23% on 1 January 2018 (Decree no. 2017-1719 of 20 December 2017 on the increase in the guaranteed minimum wage), in strict compliance with the indexation formula, without granting a hike (*coup de pouce*). The adjustment rule allows for increases in the statutory minimum wage which are consistent with achieving cost competitiveness gains at minimum wage level whilst guaranteeing the purchasing power of its recipients. In particular, the indexation formula provides that the minimum wage increases less rapidly than the average salaries of blue-collar and white-collar workers, with only half the latter's increased purchasing power being passed on to the minimum wage, in the absence of a hike, thus leaving significant headroom for wage talks to factor in the productivity gaps between sectors, entities or employees. The statutory minimum wage has not been adjusted in excess of its regulatory determinants since 2007 (except for the July 2012 hike which was essentially intended to take account of the change in the inflation rate recorded during the first half of 2012), in accordance with successive opinions from the independent expert group on the Smic. | Labour-management talks resumed on 7 March 2018: two meetings were held on 7 and 14 March. The agreed schedule was for four negotiation meetings in March. |

| RECOM-MANDATION | SUB-RECOMMENDATION | MEASURE | DONE | IN PROGRESS/PENDING |
|---|---|---|---|---|
| **CSR4** | **Further reduce the regulatory burden for firms, including by pursuing the simplification programme.** | Continued simplification, in particular with the “one in, two out” | The circular of 26 July 2017 on limiting new regulations and their impact stipulates that all new regulatory standards must be offset by the repeal or streamlining of at least two existing standards (the circular of 31 August 2017 specifies that the “one in, two out” rule takes effect on 1 September 2017). All draft decrees submitted to the Government’s General Secretariat (SGG) must now include a factsheet concerning limiting new regulations which has to be attached to the general impact factsheet. The Prime Minister's circular of 12 January 2018 on the simplification of law and effective procedures stipulates that, in the future, all bills shall include a chapter devoted to legislative streamlining. | |
| | | Combating over-enactment of European directives | The aforementioned circular of 26 July 2017 provides that any measure over and above the minimum requirements set out in a directive is prohibited, unless there is a duly justified rationale.<br>An inspection task force was commissioned to draw up an inventory of all current unjustified over-enactments in order to comply with requirements under EU law. This inventory was presented to the Prime Minister in April 2018. | |

| RECOM-MANDATION | SUB-RECOMMENDATION | MEASURE | DONE | IN PROGRESS/PENDING |
|---|---|---|---|---|
| | | Introduction of the “right to make a mistake” into relations between government agencies and users | | The Government Reform Act for a Trust-Based Society (ESSOC), which is under debate before Parliament, contains two cornerstones for upgrading government action. First, it is set to introduce the "right to make a mistake" for users acting in good faith in their dealings with government by reversing the burden of proof: the government will now have to establish that the user was acting in bad faith. This right could extend to all public policies with the exception of mistakes compromising public health, the safety of people and property, and those causing damage to the environment. The bill also provides for a number of trials with an eye to streamlining administrative procedures. For instance, at local level, experiments will focus on opening hours to better suit users' lifestyles. The “Tell Us Once” programme will also be tested to foster paperless exchanges and mitigate unnecessary requests for information being made to users by government agencies.<br>In March 2018, Parliament passed the ESSOC Bill on first reading. |
| CSR4 | | Business Growth and Transformation Action Plan (PACTE) | Discussions in autumn 2017 with the setting up of working groups co-chaired by a politician and a business leader. The proposals put forward by these groups were subject to an online public consultation between 15 January and 5 February 2018. | Initial presentation of the forthcoming Business Growth and Transformation Action Plan (PACTE) to the Cabinet on 16 May 2018. The PACTE has two goals:<br>- To help French businesses expand to allow them to innovate, export and hire, especially by removing obstacles to growth<br>- To review the position of businesses within society and forge closer links between workers and corporate results |

| RECOM-MANDATION | SUB-RECOMMENDATION | MEASURE | DONE | IN PROGRESS/PENDING |
|---|---|---|---|---|
| | | Measures in favour of the self-employed | The 2018 Initial Budget Act contains the following measures:<br>- Elimination of the social security scheme for the self-employed (RSI) on 1 January 2018<br>- Increase of the thresholds for taxation of micro-entrepreneurs as from 1 January 2018 to €170,000 for sales activities and €70,000 for service activities and non commercial activities to provide access to these simplified arrangements for as many self-employed workers as possible<br>- As from 2019, exemption for those liable for the minimum business premises contribution (CFE) who record annual turnover of less than €5,000<br>- As from 2019, social security contribution exemption for the first financial year for those setting up or taking over a business with turnover of less than €40,000 | |

| RECOM-MANDATION | SUB-RECOMMENDATION | MEASURE | DONE | IN PROGRESS/PENDING |
|---|---|---|---|---|
| | | Simplification measures for businesses | Orders of 22 September 2017 to bolster labour-management dialogue, ratified by the Act of 29 March 2018. Simplification measures for businesses:<br>- Streamlining and bolstering economic discussions and labour-management dialogue by setting up the Social and Economic Council (CSE), which merges staff representation bodies (works council, health and safety committee (CHSCT), staff delegates) and recasting the occupational sectors- Streamlining the rules for mass redundancies on economic grounds with, inter alia, the scope of the economic rationale being assessed at national level<br>- Introducing negotiated contractual termination by mutual agreement for groups of employees as part of an autonomous voluntary redundancy plan which is unrelated to the Job Preservation Plan (PSE)<br>- Rolling out a binding scale for labour tribunal awards for cases of unfair dismissal<br>- Reducing the time-limit for taking action in the event of disputes over the termination of employment contracts<br>- Precedence of company-level agreements in areas not reserved for the sector<br>- Special provisions for very small enterprises in the sector agreements | |

| RECOM-MANDATION | SUB-RECOMMENDATION | MEASURE | DONE | IN PROGRESS/PENDING |
|---|---|---|---|---|
| CSR4 | | Housing strategy | September 2017: launch of the housing strategy.<br>2018 Initial Budget Act (Article 126): a bold reform of the social housing sector grounded in two concepts:<br>- A reduction, over three years, of the rent of the poorest social housing tenants, with rollout of a decrease in the additional rent charged to higher-income tenants<br>- Underlying this initial measure, a decline in government expenditure with housing benefits (APL) | Ongoing discussion of the Bill on the Reform of Housing, Planning and Digital Technology (ELAN) adopted by the Cabinet on 4 April 2018.<br>The housing strategy has three main strands:<br>i) Build more, better and cheaper: tax allowance on capital gains, no new technical standards in the construction industry, measures to tackle improper appeals<br>ii) Cater for everyone: housing benefit reform, introduction of a “bail mobilité” (lease for students, apprentices, and people undertaking vocational training or moving for professional reasons), construction of 80,000 housing units for students and young workers, bolstering mobility in the social housing stock, helping the poorest households find affordable housing<br>iii) Improve living conditions: doubling resources for the urban renewal programme, refurbishing the most energy-consuming housing units, renovating the housing stock in the centre of medium-sized towns/cities |

| RECOM-MANDATION | SUB-RECOMMENDATION | MEASURE | DONE | IN PROGRESS/PENDING |
|---|---|---|---|---|
| | **Continue to lift barriers to competition in the services sector, including in business services and regulated professions. Simplify and improve the efficiency of public support schemes for innovation.** | Rail Package | | On 26 February 2018, the Prime Minister presented the new Rail Package which aims to overhaul the French railway system in four ways:<br>- Recasting the organisational structure of the government-owned railway operator to instil heightened efficiency and flexibility, and to create a truly integrated group<br>- Reforming labour arrangements in the rail sector<br>- Increasing the performance levels of the SNCF to improve its industrial effectiveness and cut costs<br>- Successfully opening up the rail passenger transport sector to competition<br>The Bill for a new Rail Package was submitted to Parliament on 14 March 2018. The government is aiming to have the main elements of the reform passed before the summer. Consultation on the various issues surrounding the reform has been ongoing since early March. The bill will obviously be discussed in Parliament. As the consultation advances, the government will be looking, insofar as possible, to replace the enabling articles with legislative provisions that will be discussed in Parliament so that the orders will only have technical content. |

| RECOM-MANDATION | SUB-RECOMMENDATION | MEASURE | DONE | IN PROGRESS/PENDING |
|---|---|---|---|---|
| **CSR4** | | Assessments of innovation support mechanisms | A new assessment task force on innovation support was set up in autumn 2017. | The task force will submit its conclusions during the first half of 2018 and they will inform the government's choices of the most effective support schemes. |
| | | Innovation and Industry Fund | January 2018: creation of the Innovation and Industry Fund within Bpifrance (the government-funded industrial and commercial institution, EPIC), with initial credits coming from proceeds of the sale of shareholdings at the end of 2017 and EDF and Thalès equity interests. As stakes in other companies are sold off, Bpifrance will be allocated fresh cash appropriations funded by the proceeds of these sales. | |
| | | Great Investment Plan measures in favour of competitiveness and innovation | | The Great Investment Plan will finance the third phase of the Invest for the Future Programme (PIA 3), the priorities of which were determined but which had not been allocated appropriations, for a total of €10bn. These appropriations will be overseen by the Secretariat General for Investment (SGPI), which is tasked with cross-cutting monitoring of the entire Great Investment Plan. |