COMPREHENSIVE GROWTH STRATEGY: FRANCE

NOVEMBER 14, 2014

A. ECONOMIC OBJECTIVE AND KEY POLICY COMMITMENTS

Economic Objective

Starting in 2012, France's economic policy has been geared towards the recovery of the economy. At the end of 2011, public finances were in poor shape – the debt had soared by almost €900bn since early 2002 and the government deficit stood at more than 5% of GDP – unemployment was rising sharply and there were confirmed structural weaknesses. The competitiveness of businesses had been in constant decline as had the balance of trade.

The strategy is based on: i) deficit reduction efforts and ii) reforms to restore the economy’s competitiveness and improve its potential to promote growth employment in a sustainable fashion.

The Government’s two-pronged strategy is designed (i) to strengthen our economy and its capacity to create jobs and to enhance our competitiveness, while making targeted efforts to increase the purchasing power of the least well-off and (ii) to further consolidate our public finances in order to regain fiscal room for manoeuvre and decrease government debt so as to assure our sovereignty while financing our priorities - education, justice and security. This strategy will therefore address the French economy's three primary gaps: an employment gap, a competitiveness gap and a public finances sustainability gap.

Our strategy hinges first on direct measures intended to lower production and employment costs as well as financing costs, one of the main measures being the implementation of the Responsibility and Solidarity Pact. The cost of labour has already been lowered as a result of the Competitiveness and Employment Tax Credit (CICE) and it will be cut further for a total reduction of €30bn. In addition, business taxes will be streamlined and reduced by €10bn. By restoring companies’ profits, bolstering their competitiveness and creating a positive confidence shock, it will enable businesses to export more, invest more and hire more. It will also enable households to spend more and support the economy through a decrease of the tax burden for households.

Our strategy also aims at increasing the labour market’s efficiency and at improving competition on the markets for goods and services. Such strategy is designed to modernize those markets in order to lower production costs and consumption prices. With respect to the markets for goods and services, the strategy will contribute to businesses’ competitiveness by reducing their costs and stimulating innovation while boosting households’ purchasing power. On the labour market side, several measures will make labour market institutions more job-friendly, providing those who have been out of work the longest with sustainable access to employment and reduce market segmentation while improving career security.

Lastly, as regards public finances, although in nominal terms, the improvement in the deficit has been slowed by flat growth and very low inflation - 4.4% in 2014 -, the structural (i.e. cyclically-adjusted) balance has been almost halved since 2011 and is now at its lowest level since the early 2000s, namely 2.4% of GDP. The public finances sustainability gap will be addressed with an unprecedented savings effort, achieved through a sweeping reform of government action combined with ambitious streamlining. Meanwhile, public support for public investment and innovation favourable to firms' competitiveness will be maintained. Compared to the natural growth rate of expenditure, €50bn in savings will be needed between 2015 and 2017 to bring government expenditure growth back into line with inflation. This effort will lead to further deficit reduction without raising taxes.

The 2014 GDP growth forecast rate was trimmed back to 0.4% in the most recent 2015 Budget Bill (compared with 1.0% in April 2014) to take into account the weaker-than-expected economic climate in Europe. The government's prospects for a gradual acceleration of activity (+1.0% in 2015) is consistent with the latest forecasts by the OECD, the Consensus Forecasts and the IMF. Growth should rise to 1.7% in 2016, 1.9% in 2017 and 2% in 2018-2019. This objective is higher than potential growth, reflecting a cyclical upswing and the expected results of our growth strategy.

Overall, these reforms will yield positive spill-overs for other countries by various channels. The French current account balance is expected to shrink. Efforts to reduce the public deficit and improve competition will narrow both internal and external imbalances. Moreover, even if France does not present an investment gap, improving investment quality with a strong focus on ecological transition will provide additional impetus for stronger, more sustainable and more balanced growth. The global economy will benefit from this momentum, which will be supplemented by significant measures in favour of employment.

Key Commitments

List top 5 commitments from the Growth Strategy here. Selection should be based on relevance to key gaps, impact on growth, ability to generate positive spillovers and facilitate domestic and external rebalancing).

Our strategy includes five key commitments:

(i) Lowering the cost of factors of production to stimulate employment and improve businesses' competitiveness

(ii) Lightening the tax burden of low-income households to boost purchasing power and increase incentives to take up a job

(iii) Modernising markets to allow for productivity gains, lower prices for consumers and boost companies' competitiveness gains

(iv) Supporting productive investment to increase long term growth

(v) Reducing red tape, which will in turn reduce production costs and help rein in public expenditures.

The stepping up of the competitiveness and employment tax credit in 2014, the Responsibility and Solidarity Pact, the streamlining agenda, together with new or recently-adopted pro-competition reforms are expected to add at least 1.5% to activity in the next five years. This assessment does not factor in (i) the reduction of red tape (ii) the territorial reforms (iii) lessening regulatory constraints on the housing supply or (iv) the upswing in confidence these reforms are expected to bring with them, and that should to expand the economic gains related to them.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

	Key Indicators (October 2014 forecasts)						
	2013***	2014	2015	2016	2017	2018	2019
Real GDP (% yoy)	0,3	0,4	1,0	1,7	1,9	2.0	2.0
Nominal GDP (% yoy)	1,1	1,2	1,9	3,1	3,6	NA	NA
Output Gap (% of GDP)*	-2.7	-3.3	-3.4	-3.1	-2.5	-1.7	-0.9
Inflation (%, yoy)	0,9	0,6	0,9	1,4	1,75	NA	NA
Fiscal Balance (% of GDP)**	-4,1	--4,4	--4,3	-3,8	-2,8	NA	NA
Unemployment (%)	9,8	NA	NA	NA	NA	NA	NA
Savings (% of GDP)	20.0	20.1	19.9	NA	NA	NA	NA
Investment (% of GDP)****	22,0	21.7	21.3	NA	NA	NA	NA
Net lending (+) / borrowing (-) (% of GDP) *****	-2,0	-1,6	-1,4	NA	NA	NA	N.A.
Current account balance (BPM6) **(% of GDP)**	-1,4	-1,0	-0,8	NA	NA	NA	NA

***A positive (negative) gap indicates an economy above (below) its potential.**

****A positive (negative) balance indicates a fiscal surplus (deficit).**
***** Indicators can be presented on a fiscal year basis, should they be unavailable for the calendar year.**
****** Gross fixed capital formation + Net capital transfers + Stock variations**
*******National accounts definition**

Key Drivers (based on September 2014 forecasts)

France's GDP grew by 0.3% in 2013 although activity was quite sluggish in the euro area as a whole. After a strong rebound in the second quarter (+0.6%), GDP growth decreased slightly in the third quarter (-0.1%), rising again by 0.2% in the fourth quarter.

GDP was unchanged in the first quarter of 2014, thanks to temporary effects (such as low energy consumption due to mild winter temperatures), and remained flat in the second quarter. Growth is expected to be around 0.4% in 2014 and should increase gradually to 1.0% in 2015 and reaching 2.0% by 2019. Inflation should rise very slowly, topping potential growth (1.2% on average in 2017-2019). These prospects for gradual ramping up of activity are consistent with the latest forecasts by the OECD and Consensus Forecasts. Business investment should recover thanks to rising demand prospects in a context of favourable financing conditions. Both the Competitiveness and Employment Tax Credit and the Responsibility and Solidarity Pact will scale up, lightening labour costs by €30bn and lowering corporation taxes by €10bn by 2017, which should encourage investment. Financing conditions will remain quite favourable, as fiscal consolidation continues in the medium term.

Household consumption should increase more markedly. Real disposable income should rise as the in line with the improvement in the labour market and the provisions of the Responsibility and Solidarity Pact. Precautionary saving should decrease as household confidence rebounds, in line with the labour market improvements.

Foreign trade should also contribute to growth, and foreign demand should ramp up gradually. Exports should increase as competitiveness policies roll out and in line with the recent depreciation of the euro. This should be moderate in the short term due to the effects of the euro's appreciation between 2012 and spring 2014 (+7% in nominal effective terms / +5 in real effective terms).

The planned reforms are expected to benefit both exports and consumption, mostly through pro-competition measures and lower production costs. Fiscal alleviation will also benefit investment.

The risks on future outlook seem to be balanced. The momentum of French exports will depend on our trading partners' growth, which in turn may be affected by several factors. These include the EU policy mix, particularly the effectiveness of monetary support and pace of fiscal consolidation, changes in lending terms for euro area businesses, the depreciation of the euro following the ECB's policy announcements in June and September, which could boost exports, as well as the recent fall in oil prices and the geopolitical situation.

With growth being unexpectedly weak recently in the euro area, both structural reforms and macroeconomic policy support are crucial.

Assessment of Obstacles and Challenges to Growth

France has identified three major gaps in line with the principal international organizations' diagnoses:

(i) **A large output gap** (around 3% in 2014). Low inflation (about 0.6% in 2014) and an unemployment rate (around 10%) that is higher than the NAIRU are clear signals of a **cyclical gap**. Unemployment has generally stabilised in recent quarters. This is primarily due to the reduction of youth unemployment that began in early 2013. Both trends are encouraging but as yet there has been no dramatic upturn. In this context, fiscal consolidation has to be carefully calibrated so as not to hamper recovery while restoring financial sustainability and bolstering confidence. Measures to increase the employment intensity of growth are also necessary. A close monitoring of the appropriateness of our policy mix is all the more important given that the current low rate of inflation makes fiscal consolidation more difficult and hampers structural adjustment.

(ii) **A competitiveness gap,** which resulted in a sharp loss of export market share prior to the 2008-2009 crisis and a negative current account balance. Between 2002 and 2011, France's trade deficit was trending upward, with a widening gap between imports and exports of goods since 2005. Nevertheless, the deterioration in both trade and the current account has reversed over the past two to three years. The trade deficit has narrowed continuously since 2011 – by nearly 20% thus far. It still stands at €61.4bn in 2013 but the energy deficit represents more than 80% of that figure. The non-energy deficit has been more than halved since 2011 (€13.0bn in 2013 vs. €29.3bn). France's share in world trade has been stabilizing since 2011. Several measures, such as the Competitiveness and Employment Tax Credit launched in 2013, the Research Tax Credit (CIR) and the Invest for the Future plan initiated in 2010, have played a role in this stabilisation. In 2013 the current deficit ceased to worsen; it has also been sharply revised downwards for the years 2011 to 2013 and now stands at –€30bn in 2013 (–1.4% of GDP), against €–32bn in 2012 (–1.5% of GDP, compared to an initial forecast of €-44bn or –2.2% of GDP). Further adjustments and a scaling-up of pro-competitive measures are required to address our remaining competitiveness gap. Therefore, efforts to reduce labour costs initiated in 2013 will be pursued through the Responsibility and Solidarity Pact.

(iii) France has also to address an **employment gap,** especially among young (15-24 years old) and senior (55-64 years old) workers, whose participation rates are too low (36.5% and 50.7% respectively, in September 2014). First steps toward the development of flexicurity have been made in close cooperation with social partners. Specific schemes to boost employment among these two groups (jobs for the future, generation contracts) initiated in recent years have been ramped up in 2014. Further measures to prevent human capital depreciation and avoiding hysteresis effects on the labour market are currently being designed and will be implemented to reduce the employment gap (vocational training reform, Youth Guarantee, agreement on unemployment insurance to further facilitate the return to the job market).

Investment rates have been stable in recent years and there is no sign of a global investment gap in France beyond what is explained by the cyclical output gap. Despite this commonly-agreed analysis, targeted measures are needed to foster investment in specific sectors where market failures exist (e.g. housing, R&D). French R&D expenditure have increased steadily since 2007 (+0.18 points over 5 years), reaching 2.26% of GDP in 2012 (13th among OECD countries) and gradually approaching the EU objective of 3%. Despite this upward dynamic, **business R&D expenditure** still trails those of R&D leaders among OECD countries. This is due to French sectoral specialisation: manufacturing firms that concentrate the majority of R&D account for a mere 10% of total value-added in France. If we factor this in, French firms appear to be just as R&D intensive as their foreign competitors, if not more. The French government therefore is attempting to foster industrial renewal and the development of new manufacturing firms in equal measure to boost R&D intensity among existing firms. France's investment strategy is designed to make the best use of public money to benefit future growth. Support for innovation and R&D has been maintained thanks to the extension and adjustment of the Competitiveness Cluster Program, the Innovation Tax Credit and subsidies for innovative start-ups (*Jeunes entreprises innovantes*). Maintaining a high-quality infrastructure, for which France is ranked fourth in the world by the World Economic Forum (see "The Global Competitiveness report 2013-2014"), is one of the government's top priorities. This requires selecting projects (development, modernisation or renewal) that deliver the best value for money. The decision-making process for **public investment projects** has been reformed: the procedure is better structured, the role of ex-ante socio-economic assessment has been strengthened and the process has been harmonised across government departments and agencies. In December 2012, a law was enacted to make these socio-economic assessments compulsory for public investment projects and to compel public bodies to use a second, independent expert opinion of these assessments for the largest projects. A decree published in December 2013 confirmed this process.

France is open to **international trade** as shown by (i) a degree of openness (29%) similar to that of other developed countries of comparable size and (ii) Foreign Direct Investment (FDI) inward stocks significantly higher than the OECD average (38.2% of GDP vs 32.1% in 2013). Moreover, global indices of FDI restrictiveness rank France as one of the most open countries in the world, while the OECD considers that France is the third least restrictive G20 country in terms of non-tariff barriers to trade in goods and services. Consequently, France does not exhibit a major trade or openness gap. Nevertheless, the aforementioned disappointing export performances call for further easing French companies' access to international markets.

C. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses (including Policy mix and Framework Reforms)

Given a negative output gap in the euro area that is putting a damper on the inflation rate, the ECB monetary policy remains accommodative: the main refinancing operations are conducted at fixed rate with full allotment, and the ECB introduced strong measures over the summer, including negative deposit rates, liquidity measures and transmission channel improvement. More conventionally, the refinancing rate was lowered to a record 0.05%, and a deposit rate in negative territory at -0.2%. In order to reach the longer end of the curve and make sure bank lending to the real economy is not squeezed, a series of Targeted Longer-Term Refinancing Operations (TLTROs) have been introduced. The ECB decided to stop SMP sterilisation, and announced asset purchases, which will support liquidity conditions. Finally, the announcement of ABS purchases will provide strong impetus for this market which can help restore credit transmission. The recent depreciation of the euro is partially due to these ECB announcements at a time when monetary policy discussions in other areas are more focused on tightening, reflecting the growing cyclical divide between the euro area and its partners. The risk of deflation seems to be limited from now on, but a prolonged period of low inflation makes macroeconomic and fiscal adjustments more difficult and could have long-lasting consequences. The ECB is closely monitoring prices developments and has clearly communicated its ability and readiness to act should the risk of an extensive period of low inflation warrant it. Other policy levers have to be mobilised in a coordinated fashion at the euro area level so as to strengthen investment, job creation and potential growth.

Moreover, strong oversight of the entire financial system is the key to strengthening financial stability. In France, domestic developments are monitored by the *Haut Conseil de Stabilité Financière* (HCSF - High Council for Financial Stability), whose powers of intervention have been reinforced, and now include binding recommendations.

On the budgetary side, the Government is committed to pursuing its efforts to balancing the public accounts in structural terms. The government deficit needs to be reduced to stabilise and then decrease the debt ratio. This is also a prerequisite for growth. Consolidation of our finances started in 2011[1] and will continue beyond the end of the five-year presidential term in 2017: the pace of rebalancing of our structural deficit will accelerate in 2015-2017, starting at 0.25pt reduction in 2015 and 2016 and 0.5 from 2017 onward. This effort should bring the deficit below the 3% target in 2017, a two-year postponement due to lower-than-expected growth and inflation. Thanks to an unprecedented €50bn savings plan between 2015 and 2017, growth in government expenditure will be at historically low rates. This will enable us to continue reducing the deficit while cutting taxes.

All efforts will be focused on reducing public spending from 2015, with at least €50bn of expenditure cuts, bringing the average growth rate of public expenditures down to 0.2% in volume over the period 2015-2017. This amount – unprecedented in France – will be reached thanks to the setting up of the Strategic Council on Public Expenditure in 2014 and the involvement of every public administration body. The Council is currently reviewing all fields of public expenditure – central government, local authorities and social security administration - to identify the least efficient expenditures and propose structural measures for public savings, while factoring in the impact on fairness, growth and employment. Chaired by the President, the Council will be able to make strategic decisions regarding public expenditure and to enforce them steadily.

With its policy framework reforms, the government is seeking to lower production costs for both public and private entities. The budgetary framework will be streamlined to reduce fiscal optimisation opportunities and increase efficiency. The territorial reform will improve public

[1] In 2012 and 2013, the French Government cut the structural deficit by 2.2 points. Due to an adverse economic environment (low growth and disappointing tax receipts), the massive efforts resulted however in a lower reduction of the public deficit, of 1.0 point of GDP.

spending by increasing inter-municipality and eliminating redundant hierarchies. The first local government reform bill was passed after a first reading by the National Assembly on 23 July. It reduces the number of metropolitan regions from 22 to 13 and introduces a new map that has already achieved parliamentary consensus and takes account of cooperative efforts by the regions. The second bill, which redraws France's regional boundaries, grants regions new powers. The reform means that local governments will be managed more efficiently; it goes hand-in-hand with a decentralised, legitimate and consistent government at regional level.

Enhancing tax efficiency is also part of the government fiscal consolidation strategy. In the 2014 Initial Budget Act, the government has committed to assessing the effectiveness and efficiency of fiscal expenditures in order to suggest reforms to reduce them. Recent reforms that contribute to this objective include:

- A reduction in the gap between the intermediate (raised from 7% to 10%) and standard (raised from 19.6% to 20%) VAT rates. The focus of some lower VAT rates, such as for personal services, is now placed on activities that help the most vulnerable individuals.
- Several tax and social security expenditure schemes have been changed or eliminated to make the system fairer, more straightforward and more efficient. In keeping with the recommendations of the Fragonard Report on family benefits, the 2014 Initial Budget Act capped the family deduction at €1,500 instead of €2,000 for each child in. Income tax exemptions for pension bonuses for parents with three or more children has been eliminated, along with a tax exemption on the share of supplementary group health insurance premiums paid by employers.

In addition, a carbon content was introduced in energy taxes introducing a three-year increase in the value of carbon (7€/ton in 2014, 14.5€/t in 2015 and 22€/t in 2016) which could eventually lead to an increase in energy taxes of about €4bn by 2016. In parallel, some non-ecological tax expenditures will also be reduced.

To narrow the output gap more quickly, the government has included in the Responsibility and Solidarity Pact measures to support the purchasing power of low-income households. One of these measures, an income tax reduction for households near the minimum wage, will be implemented in 2014, thus alleviating the tax burden for more than 3 million low-income households, which represents over €1bnbn in purchasing power gains this year. This tax cut will be extended in 2015, bringing the number of households affected to 9 million, and triggering substantial effects on consumption and employment (making the work pay better through a lower labour tax wedge)thus reducing the output gap.

Despite of tight expenditure control, France's public deficit will exceed the target set for 2014 due to lower-than-expected economic growth and inflation and changes to accounting standards. The public deficit will be above 4% (4.4 %) in 2014 and 2015 (4.3 %). *Reducing the deficit reduction is a prerequisite for stabilising and then reducing the share of the public debt in GDP. It will ensure ongoing favourable financing conditions for France, and therefore for businesses and households. Such efforts are also expected to trigger a positive confidence shock that will benefit the whole economy. Special attention will be paid to ensure that fiscal consolidation efforts do not hamper economic recovery. Our fiscal strategy is designed to restore the leeway needed to implement the structural reforms described below. Consequently,* *the French government remains strongly committed to restoring public finances. France will keep cutting public deficits at an appropriate pace and without resorting to tax hikes. Our objective is to get back below the 3% deficit threshold in 2017.) Further details are available in Appendix 1.*

New Structural Policy Responses

Investment and Infrastructure

Financing the French economy relies mainly on abundant and strong domestic (household) savings. These savings are largely intermediated through financial institutions (banks, life insurers, asset managers, etc.) with only 20% of households' financial assets being held directly.

Against this backdrop, financing long-term investment depends on the capacity of the financial system to effectively and efficiently channel household savings to the right investments. This can be carried out both by intermediaries (banks or insurers) and capital markets (in conjunction with insurers and asset managers). As such, French initiatives mainly focus on fostering private long-term financing and improving intermediation channels.

Investment in infrastructure will drive growth in the next decade in France, especially for the transport sector where new infrastructure projects as well as renewal and modernisation projects are currently on the table, the energy sector in order to meet the targets defined in the energy transition bill (renewables to represent 32% of energy consumption in 2030, 40% reduction in greenhouse gas emissions and 30% reduction in fossil energy consumption by 2030), and the ICT sector with the rollout of fibre optic networks.

France has taken tangible steps to encourage increased **private financing for long-term investment.** The economic environment will also benefit from EU initiatives, be it on long-term financing issues or the upcoming EU investment plan.

SME financing

Overall, French businesses report fairly good access to investment financing with over 90% of credit demand being satisfied. The main focus has been on facilitating SMEs' access to finance and fostering increased private financing for long-term investments.

As regards debt, we intend to think up and implement several initiatives aimed at:

(i) Revitalising mid-caps' access to debt markets, by providing a clear framework for private placement transactions between mid-caps and a small number of institutional investors (Euro PP), while enabling insurers to earmark more of their assets for loans to (unlisted) mid-caps (either directly provided they show that they can manage this credit exposure or through dedicated funds).

(ii) Enhancing financial intermediation through securitisation within a sound regulatory framework. SME securitisation could benefit from Banque de France's expertise and data. In addition, in September 2014, Bpifrance (public investment bank dedicated to SME financing) announced a pilot scheme through which its usual guarantees could be recognised in a securitization, enabling banks to securitise portfolios of loans originated under a risk sharing scheme.

(iii) Ensuring that the rule of law is effectively applied in intercompany (trade) credit, making it easier to control and levy fines on firms imposing excessively long payment terms on their suppliers.

As regards equity, providing a clear framework for crowdfunding, improving the schemes supporting venture capital and private equity, and launching EnterNext are examples of initiatives that are being implemented in order to improve mid-caps' access to equity markets. To this end, specific measures were announced last September:

(i) the framework governing pension funds' asset allocation will be reviewed – the revision could contribute to an extra €5bn being allocated to SME and mid-cap equity – and other similar reforms are under consideration

(ii) life insurance reform has now been fully implemented, and could increase funds dedicated to the financing of the economy by up to €200bn owing to the creation of new financial products

Government intervention is required when there is market failure, for instance when private returns are less than social returns or when there are asymmetric information problems. France has therefore introduced targeted public schemes to address these identified market failures and unlock private financing. Following the setting-up of Bpifrance in 2012, a range of new products has been developed to support and bolster policies aimed at increasing firms' competitiveness (National Pact for Growth, Competitiveness and Employment) and addressing possible tensions on short-term credit (in line with the renewed focus on trade credit). Examples include a scheme to finance the digital modernisation of SMEs or a scheme to prefund the Competitiveness and Employment Tax Credit (CICE) for SMEs facing cash constraints. Bpifrance will maintain its support to SMEs (€5bn of cash-flow support in 2015, guarantee for cash advances up to €50,000).

At the same time, complementary measures are being implemented in Europe in line with the Compact for Growth and Jobs, launched in June 2012. France actively supports these initiatives, in particular the measure to increase the capacity of the EIF, the EIB Group's specialist provider of risk finance to benefit SMEs across Europe. Recent partnership agreements between the EIB Group, on one hand, and the CDC and Bpifrance, on the other, are now bearing fruit, with the goal being to renew and broaden joint financing methods.

Infrastructure and innovation financing

The government is also working tirelessly to establish a pro-innovation economic framework:

(i) The Research Tax Credit has been maintained until 2017 and its framework will be simplified. This financing scheme has also been expanded through the introduction of the Innovation Tax Credit (CII). 20% of expenses for prototypes and for the introduction of new products by SMEs can now be deducted from taxes, up to €400,000. The aim is to encourage firms to industrialise their innovations by incorporating elements such as design or eco-design. This €300m effort is maintained in our fiscal consolidation strategy.

(ii) The Invest for the Future programme will be scaled up by €12bn over the next five years (for a total amount of €47bn), will target innovative projects by 2025 and will mostly focus on ecological transition. These new sources of funding will contribute to financing the winners of the Worldwide Innovation Challenge 2030, launched by the Innovation Commission chaired by Anne Lauvergeon and which awards prizes to projects that represent the future face of industry, with some winners having been chosen last summer. They will also contribute to financing a national fund for innovation to support global structural measures for the French innovation system.

(iii) The Competitiveness Cluster Programme enters phase 3 (2013-2018) and will focus on the economic spinoffs of clusters, while supporting mostly innovation-oriented crowdfunding, with the creation of new products and processes with significant market potential. Each cluster will have to set performance targets for technological transfers, helping SMEs access funding, internationalisation and access to skills. The government has also earmarked a total allocation of €100m of subsidised loans to help finance the industrialisation and marketing of R&D output.

(iv) The 2014 Budget Act provides for the reform of the innovative start-up programme which is intended to provide support for these firms and to extend the tax exemption for employers' social contributions to include those on the wages of employees working on innovative projects.

(v) The digital switchover will be ramped up with substantial investments to roll out very-high-speed broadband (€20bn of public and private investments in infrastructure), to support firms going digital (€30 m in loans) and to help high potential start-ups expand (French Tech Initiative).

(vi) Public investment has been maintained despite the fiscal consolidation efforts with large infrastructure projects being initiated. The Grand Paris Express is a flagship project in this respect. The project will build 200km of automatic metro lines to better connect the main business centres of the Paris area and it has been thoroughly reviewed. The Net Present Value of this €25bn investment has been estimated at €29bn which led the Prime Minister to launch this bold project in March 2013.

The French government has established a proactive and global policy framework in favour of innovation. Many governmental initiatives have been launched to establish a new systemic approach to the culture of innovation. The Entrepreneurship Conference (*Assises de l'entreprenariat*), the plan called "a New Deal for Innovation" ("*une nouvelle donne pour l'innovation*"), launched on 4 November 2013 and the French Tech Initiative are part of this strategy. These initiatives supplement the sector-based approach of t**he National Council for Industry** (*Conseil national de l'industrie*), which was set up on 5 February 2013, and which has enabled priorities for French industry to be set through 34 industrial plans (*Nouvelle France Industrielle*).

Housing

France is committed to increasing the supply of housing and has taken several measures to release public and private land (transferring local town planning schemes to inter-municipal structures, increasing the “cadastral rental value” for building land), reduce regulatory constraints on the housing supply (reducing timelines for obtaining building permits, easing town planning regulations, etc.), develop social housing and middle income public housing (*logement intermédiaire*) through reduced rates of VAT and the housing plan (construction of 25,000 new units of middle income public housing over five-years in densely-populated areas as announced last September) - and provide financial help to first-time buyers, targeting particular areas and sections of the population for whom such measures will act as a real incentive to buy.

Employment

The measures targeting the unemployment gap have various goals. These include reducing labour costs to create jobs, especially low paid jobs, making it easier for workers to return to, or join, the labour market, increasing the participation rate for older workers and reducing the gender gap.

- The measures intended to reduce labour costs and foster competitiveness will boost employment (see below).
- Second, the specific initiatives providing those who have been out of work the longest with **easier access to employment** – Jobs for the Future, Generation Contracts – have been maintained and bolstered in 2014. 80,000 additional subsidised contracts (*Contrats initiative emploi*) will be rolled out in 2015 targeting older workers, people with disabilities and long-term unemployed. As regards tackling youth unemployment, France is taking the lead in implementation of the EU’s Youth Guarantee. This is a new approach to tackling youth unemployment ensuring that all young people under 25 – whether registered with employment services or not – get a good-quality, concrete offer within 4 months of them leaving formal education or becoming unemployed. The good-quality offer should be for a job, apprenticeship, traineeship, or continued education and be adapted to each individual need and situation. Funds dedicated to vocational training will be increased by €0.2m as decided during the Social Conference for Employment last July. The goal is for 500,000 apprenticeship contracts to have been signed by 2017 by improving communication on the advantages of these contracts and their overhaul. In June 2014, the European Commission adopted the French national Operational Programme for the implementation of the Youth Employment Initiative (YEI). This was the first Operational Programme to be adopted as part of the €6bn YEI, with **resources totalling €620m being available to France**. The Youth Employment Initiative in France will support the implementation of the national Youth Guarantee to help those young people with worse chances in the labour market.

  Regarding unemployment benefits, the agreement reached in March provides the unemployed with more incentives in returning to the labour market. With this new agreement, unemployment benefits will become rechargeable (when workers return to work after a period of unemployment, their remaining unemployment benefit rights will not be cancelled). These measures will supplement the already wide range of measures implemented in the past years, notably with the Job Security Act. Reforms aimed at improving the vocational training system (adopted in March 2014) and heightening the effectiveness of the public service for unemployment will prevent human capital depreciation and hysteresis effects on the labour market. Overall, these reforms should contribute to reducing long-term unemployment and should therefore improve the growth potential of the French economy.

- Lastly, the recently adopted pension reform is designed to ensure the **sustainability of our pension system through** a short-term raising of the pension contribution rate – offset by a reduction of other social security contributions so that its impact on labour costs is zero – and, beginning in 2020, an increase in the effective retirement age with the extension of the contribution period (43 years' contributions for a full pension in 2035).This last aspect of the reform should have substantial positive impact on the participation rate for older workers and thus on growth, in addition to meaning that the government will not have to raise the pension contribution rate any further.
- The French government is committed to closing the employment gender gap by 2025. To achieve this objective, a comprehensive strategy has been introduced based on the early childhood services development plan, parental leave reform, pension reform and a thorough taxation review. In particular:
  - As part of pension reform, there are measures to narrow the pension gender gap by reducing the impact of part-time employment on pension levels, and by taking better account of maternity leave when calculating the number of quarters required for entitlement to a full pension.
  - A female entrepreneurship plan has been launched to foster female entrepreneurs' access to credit and support.
  - 275,000 additional childcare places including 100,000 in crèches are to be established by 2017 according to a government plan.
  - The act on real equality between men and women has come into force. It introduces more incentives for men to take paternity leave, grants access to public procurement only to firms respecting gender equality and contains measures to help single mothers who have not been paid child support.

As part of measures to help the most vulnerable population groups in the labour market, the government has included in the Responsibility and Solidarity Pact measures to support the purchasing power of the poorest workers, therefore increasing the benefits of returning to the labour market. The government has reduced income tax for low-wage workers in 2014. This tax cut will be extended in 2015, and 9 m households will be concerned. This measure will reduce the tax burden on the lowest income households, notably unskilled workers and thus contribute to making work pay more than inactivity. These tax cuts will be supplemented by a reform of both the in-work income supplement (*RSA activité*) and the earned income tax credit (*Prime pour l'emploi, PPE*) to make this system of working incentives more effective and to provide financial assistance to the working poor.

A strong boost for employment will come from measures to reduce labour costs for employers (see below). Moreover, the recent agreements on unemployment benefits and vocational training will have positive macroeconomic effects but are difficult to assess quantitatively. The *pension system reform should have a long-term effect with an increase in the working population (+1.2%) resulting in an equivalent rise in potential production, labour and capital stock. The "Solidarity" measures set out in the Pact encourage consumption as they will lead to an increase in gross disposable income for "low income-high propensity to consume" households. This will mean that GDP should rise by 0.1% with almost 20,000 jobs being created by 2019. This assessment does not factor in the effect of the reform of the "RSA Activité" and the "PPE", the conditions of which have not yet been determined, but which could have a significant impact on employment.*

Competitiveness and competition

Improving both cost and non-cost competitiveness is a top priority for the French government. The Responsibility and Solidarity Pact is designed to address this issue and will have a substantial positive impact on cost competitiveness.

The Pact will be rolled out in stages up until 2019. It will add about one percentage point to growth and create nearly 200,000 additional jobs. **Labour costs for businesses**, which have already fallen owing to the Competitiveness and Employment Tax Credit (CICE), will be cut further for a total reduction of €30bn. By 2016, there will no longer be any social security payroll contributions on minimum-wage jobs, other than unemployment insurance contributions. Family allowance contributions will be reduced on jobs paying up to three and a half times the minimum wage. Such jobs, paying up to €5,000 per month before deductions, represent 90% of payroll employment.

The Pact also includes corporate tax measures that will allow business taxes to be streamlined and reduced. The corporate social solidarity contribution (C3S), which is based on turnover and not on income, will be reduced starting in 2015 and phased out by 2017, the exceptional corporate income tax payment for large corporations will be phased out in 2016 and the standard rate of corporate income tax will decrease starting in 2017, bringing it down to 28% by 2020.

In addition, a wide-reaching programme to **cut red tape** was launched in July 2013. More than 200 measures were put forward, more than half of which are directly linked to daily business life. To increase the impact of the programme, the government has been authorised to speed up the process and has created an Administrative Streamlining Board, which set out 50 new measures in January 2014. The government has already presented an act containing 14 of the 50 measures (development of the advance tax ruling procedure, reduction of filing obligations, particularly for SMEs, etc.) that was adopted by the National Assembly last July. The remaining measures do not need to be written into law and are already being implemented (publication of tax rules on a particular day, non-retroactivity in tax matters, etc.). The Board is due to present a set of 50 new measures. Alongside these streamlining measures, the government has put special focus on the need to review staff thresholds in firms, which are thought to hamper their growth. Discussions between labour and management on this matter should produce results by the end of 2014. The Responsibility and Solidarity pact has paved the way for this threshold reduction process with the alignment of the employers' social contribution exemption for all companies, regardless of size.

A reform of local government, aimed at streamlining its organisation and thus generating financial leeway, has been launched. This reform includes halving the number of regions (from 22 to 13), strengthening inter-municipal structures and clarifying the division of powers by eliminating the *clause générale de compétence* (principle by which local authorities can act in areas for which they are not responsible as of right). Besides reducing public expenditure, this territorial reform is intended to foster coordination between local authorities and thus improve the effectiveness of public actions in favour of businesses. The new regions should be designed on the basis of the average size of European regions and therefore be capable of building regional strategies. They will be given new responsibilities and instruments to help local businesses grow. The first bill, outlining the new local government map, was adopted at the end of July 2014.

The second bill (to be presented to parliament by the end of the year), which redraws France's regional boundaries, grants regions new areas of competence that will help promote economic growth, boost their appeal and ensure balanced regional growth. New resources will be provided to support business growth. The regions will take over the running of certain services previously managed by the *départements* (secondary schools, intercity and school transport, and roads). In addition, they will be able to outline specifications for projects to ensure the consistency of the steps taken by the various layers of local government to stimulate economic growth and regional development. At the same time, the reform will strengthen inter-municipal structures that will be required to reach critical mass – 20,000 inhabitants by 1 January 2017 – and be based on community catchment areas to avoid duplicating or overlapping initiatives and to offer new local services.

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Fostering competition could enhance firms' competitiveness by reducing input prices, lowering barriers to entry, thus making it easier to set up SMEs, and increasing incentives for businesses to innovate. For these reasons, pro-competitive reforms are being implemented in the service sector and further reforms are being considered in the rail, coach travel, energy, regulated professions and financial services sectors. France's new commitments in favour of competition are intended to modernise markets and lift barriers to businesses' development through a large range of targeted measures. Ultimately, competitiveness will be boosted by improving effectiveness and reducing businesses' costs:

(i) In the legal and accounting regulated professions

The constraints regarding access to the profession of notary and the status of lawyer to the *Conseil d'Etat* (French Supreme Administrative Court) and the *Cour de Cassation* (French Supreme Court of Appeal) were eased by the Act of 2 January 2014. The rules surrounding access to accounting firms' capital were simplified. A new cost-based method to calculate the fees of regulated professions in the legal and accounting sector will be developed in the context of the Business Bill. More broadly, this new legislation will focus on modernising goods and services markets by lifting the barriers holding back development. These changes will make it easier to set up new businesses and reduce constraints on capital holding, especially in the regulated legal professions. Moreover, the "implementers of the law" professions, such as bailiff or legal auctioneer, are set to be merged into a single profession.

(ii) In the energy market

In addition to eliminating regulated gas tariffs for businesses and electricity tariffs for everyone except small users, hydroelectric infrastructure will be progressively renewed through the awarding of concession contracts. This renewal will increase competition in the sector.

(iii) Regarding land use and town planning

An act relating to crafts, trade and very small businesses makes it easier to open new shops by reducing the period between two applications when the first one was rejected. In addition, estate agencies will have to increase transparency regarding their activity in compliance with the "ALUR" Act (on access to housing and reformed town planning). Other changes are being studied in the context of the Business Bill. The aim is to reduce regulatory constraints on the housing supply in order to boost construction and free-up land.

(iv) In the pharmaceutical market

Pregnancy tests and cleansing products for contact lenses may now be sold outside pharmacies. This measure will be extended to other "fringe drugs". Prescriptions for glasses will now mention the interpupillary distance to facilitate online sales.

(v) In the transport market

The purpose of rail system reform is to bolster current governance by establishing a sole operator for infrastructure management, in a manner that is compatible with the deregulation of passenger transport. Competition should also be increased in the transport sector with the development of coach travel, thus allowing young people to be more mobile.

(vi) Other monopoly rents

French consumers are now allowed to bring class actions, particularly against anti-competitive practices under the Consumer Act adopted in March 2014. Insurance policies can now be terminated at any date.

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The pro-competition measures and tax cuts introduced will reduce the cost of factors of production and increase competitiveness.

The elasticity between labour demand and wages is particularly high for low salaries. The reduction in labour costs implemented by the Responsibility and Solidarity Pact, partially targeting low paid jobs, should therefore have a massive effect on employment. Labour cost reductions and business tax cuts introduced by the Pact will add 0.8% to GDP and create 200,000 jobs by 2019. This effect will be increased by the ramp-up of the CICE in 2014 (labour *cost reductions financed by public expenditure cuts, VAT and a carbon tax). In total, the medium-term macroeconomic impact of the CICE is expected to add 0.8% to GDP and create more than 300,000 jobs.*

The impact on growth and jobs of comprehensive measures such as administrative streamlining or the introduction of class actions is difficult to assess precisely. Nevertheless, these measures, together with the reforms designed to both improve the functioning of goods and services markets and reduce monopoly rents, could result in an increase in French GDP of several tenths of a percentage point. For example, pro-competition measures introduced by the Consumer Act passed in early 2014 targeting the optical goods, eyecare and insurance markets, two of the many being deregulated, will increase GDP by 0.05% and employment by 11,000 jobs during a five-year period, bringing about an improvement in purchasing power of some €1.5bn. The French Minister for the Economy and Finance announced on July 10 2014 that a new bill was in the pipeline. It would focus on growth and, more specifically, would aim to reduce prices, modernise regulated professions (including bailiffs, clerks of commercial courts, lawyers and some medical professions) and streamline regulations for Sunday trading and coach travel. The bill is set to include various proposals, but the draft has yet to be published. It is scheduled to be presented before the end of the year.

In the meantime, all of the other measures aimed at accelerating the capitalisation of new R&D output (see above) will also help to boost our non-cost competitiveness.

An increase in revenues and demand will have a positive spillover effect on our economic partners.

Table: Assessment of the overall impact of the Responsibility and Solidarity Pact (including solidarity measures)

	2015	2016	2017	2018	2019
GDP (%)	+0.2	+0.4	+0.6	+0.8	+0.9
Employment	50 000	130 000	190 000	210 000	210 000

Trade

France’s new commitments to boost trade, especially SME exports, are designed to:

(i) Promote an ambitious multilateral agenda

France considers that a rule-based, reciprocal market access is a policy objective with a substantial positive spillover effect on trade and growth.

The WTO Agreement on Trade Facilitation will make it easier for French companies, especially SMEs, to export. It will also reduce the cost of export operations and give wider access to export and import markets. To this end, France is implementing the EU Union Customs Code that entered into force on 30 October 2013.

Making progress in plurilateral negotiations on the Trade in Services Agreement, and launching negotiations on environmental goods, would help to increase the positive growth impact of trade.

Making progress in negotiations in relation to the Doha Development Agenda through a balanced post-Bali work programme is obviously a priority for France, although the benefit of doing so will only be visible in the medium term.

(ii) Finalise bilateral trade agreements

Finalising bilateral trade and/or investment agreements should help make it safer and easier for French companies, especially SMEs, to trade with partners with whom the EU has signed a free-trade agreement (FTA).

Bilateral agreements will bring about the deepest cuts in non-tariff barriers to trade, which in turn should help to substantially improve market access, and enable progress on sustainable development, export finance and competition, all key to promoting a credible rule-based multilateral trading system.

As a Member of the EU, France is committed to an ambitious timetable of bilateral negotiations. We recently concluded a FTA with Singapore. The Comprehensive Economic and Trade Agreement (CETA) was recently signed between Canada and EU leaders (September 2014). Once approved by the EU Council and the European Parliament, it should come into effect in 2016.

(iii) Carry out structural reforms

The government is working on helping French firms export by streamlining its export support system, including: (i) merging the Invest in France Agency (AFII) and Ubifrance, and; (ii) introducing a new export support system more in line with SMEs' needs.

In addition, structural reforms described in this document will have a positive impact on competitiveness and growth. Positive spillover effects on trade from these reforms are also expected.

(iv) Simplify trade & attract investors to France

The EU already has a very open trade and investment regime on a Most Favoured Nation (MFN) basis, and also based on the General Scheme of Preferences (GSP) for developing countries, and preferential Free Trade Agreements (FTAs).

The policy for attracting investors to France has been reinforced recently by measures aimed at streamlining administrative formalities for young professionals or supporting the development in France of foreign startups.

Domestic measures aimed at simplifying the customs procedures through the introduction of "Authorised Economic Operator (AEO)" status, the development of dedicated customs structures supporting SMEs and major groups, or the implementation of a single administrative window should also contribute towards improving the business environment in France.

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The economic impact of measures devoted to improving French companies' access to international markets is difficult to assess accurately. In contrast, the EU has produced estimates of the impact bilateral trade agreements have on growth and jobs. According to these estimates, the successful completion of the bilateral trade agenda could add 2.2% to the EU's GDP, or €275bn. In terms of employment, these agreements could generate 2.2 million new jobs or an additional 1% of the EU total workforce. On the whole, completing the current EU bilateral trade agenda could more than double the share of EU exports and imports which benefit from preferential trade.

APPENDIX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

1. **Update on Fiscal Strategy:** Please provide a summary of any changes to your fiscal strategy for achieving a sustainable debt-to-GDP ratio over the medium-term. If your projections for the debt-to-GDP ratio have changed, please explain whether this has been due to changes in economic assumptions, or other factors (please specify), referring to the information provided.

Our previous deficit targets had to be adjusted due to changes in our growth and inflation forecasts for 2014 onwards. Despite this setback, our long-term commitment to our strategy has been reaffirmed by the new government. We consider deficit reduction a prerequisite for growth and a way to ensure that the central government continues to enjoy favourable financing terms, which, in turn, means better terms for businesses that want to invest and create jobs, and for households.

The consolidation of public finances started two years ago and will continue beyond the end of the President's term in 2017: the pace of reducing our structural deficit will accelerate between 2015 and 2017. In 2015, it is expected to stand at 4.3% of GDP; low inflation and weak growth will stop it from falling further. As of 2016, an improvement is expected as a result of a more favourable macroeconomic climate: after contracting to 3.8% in 2016, it is forecast to fall to 2.8% in 2017. Government expenditure will grow by an average of only 1.6% a year in nominal terms compared to around 3% in nominal terms if the fiscal consolidation measures had not been taken. This represents an unprecedented effort (+3.7% a year between 2002 and 2011). It will enable us to continue reducing deficits while cutting taxes.

With the implementation of the Responsibility and Solidarity Pact, and the €50bn in savings, the share of public expenditure, taxes and social security contributions in GDP will diminish over 2014 -2017.

Thanks to the decisions made to support growth and jobs on the one hand, and to reduce the deficit on the other hand, the debt ratio, which should stand at 95.3% of GDP in 2014 (based on ESA 2010 standards, which means that figures are not comparable to our previous official forecasts), will start decreasing by the end of 2016.

2. Medium-term fiscal strategies (required for advanced economies – only if updated):
France's fiscal policy is framed within the European fiscal framework containing targets and budget rules that have now been incorporated into the domestic legal framework.

a. Debt-to-GDP ratio objective

Consistent with the European fiscal framework, France is aiming for a debt-to-GDP ratio below 60% over the long run.

b. Intermediate objectives

France has committed to reach a near zero-growth rate for public expenditure by 2017 and a budget in structural terms below 1% of GDP by 2018, ensuring that the debt-to-GDP ratio will start decreasing by 2017 and return below the 60% ceiling in less than 20 years.

c. Expenditure and revenue reforms

Thanks to expenditure savings of €50bn over 2015–2017, government expenditure growth will hit historically low rates, reducing public expenditure to 54.5% of GDP in 2017, which was the average level before the crisis. This choice is bold and unprecedented.

This effort will be shared equitably by all general government sectors, in proportion to their share of total government expenditure: this will enable us to continue reducing deficits without raising taxes.

- Central government and central government agencies' share of the savings (€19bn over three years) will be achieved by increasing efficiency, freezing the wage-index for civil servants and improving cost controls even more.
- Local governments will contribute savings of €11bn through organisational reform and cuts in central government transfers.
- The health insurance system will achieve savings of €10bn by deploying a national health strategy that ensures the quality of care and the level of coverage.
- The social protection system will achieve savings of €10bn (€6bn as early as 2015) through reforms that have already been adopted regarding pensions and family policy, and through future measures, such as efficiency gains and a one-year freeze on benefits in nominal terms, except for minimum social benefits.

The Responsibility and Solidarity Pact will boost the recovery and purchasing power, while pushing down the tax rate.

As part of the Pact, taxes will gradually be reduced up until 2017. This will add half a percentage point to growth and create nearly 200,000 additional jobs.

The cost of labour has already fallen as a result of the Competitiveness and Employment Tax Credit (CICE) and will be cut further, bringing the total reduction to €30bn. By 2016, there will no longer be any social security payroll contributions on minimum-wage jobs, other than unemployment insurance contributions. Family allowance contributions will be reduced on jobs paying up to three and a half times the minimum wage. Such jobs, paying up to €5,000 per month before deductions, represent 90% of payroll employment.

In addition, business taxes will be streamlined and reduced: the corporate social solidarity contribution (C3S), which is based on turnover and not income, will be reduced starting in 2015 and phased out by 2017; the exceptional corporate income tax payment for large corporations will be phased out in 2016 and the standard rate of corporate income tax will decrease starting in 2017, bringing it down to 28% by 2020.

The government has reduced income tax on low-wage workers in 2014. This tax cut will be extended in 2015, reaching 9m households in total. It will be complemented by the reform of both the in-work income supplement (*RSA activité*) and the income premium (*Prime pour l'emploi, PPE*) to make the system of working incentives more efficient.

d. Reforms to strengthen the fiscal framework

France’s fiscal governance framework is consistent with the European Fiscal Compact. It boasts:

- a structural medium-term fiscal objective enshrined in national legislation.
- an independent High Council on Public Finances, which gives a public opinion on the Government’s growth forecasts and the compliance of the adjustment path with the medium term objective in structural terms.
- a fiscal correction mechanism in case of deviation from the structural adjustment path voted in the multiannual budget act.

3. Medium-term projections, and changes since last submission *(required for all members)*:

All the figures below are taken from the October 2014 forecast. They will be updated in April 2015.

		Estimate	Projections				
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Gross Debt	92.2	95.3	97.2	98.0	97.3	95.6	92.9
ppt change compared to 2013 projection*	1.2	1	4.3	7.3	9.1	N.A.	N.A.
Net Debt	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
ppt change compared to 2013 projection*	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Deficit	-4.1	-4.4	-4.3	-3.8	-2.8	-1.8	-0.8
ppt change compared to 2013 projection*	-0.4	-1.5	-2.3	-2.6	-2.1	N.A.	N.A.
Primary Balance	-1.9	-2.2	-2.0	-1.4	-0.3	N.A.	N.A.
ppt change compared to 2013 projection*	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

		Estimate	Projections				
	2013	2014	2015	2016	2017	2018	2019
CAPB	-0.3	-0.3	0.0	0.3	1.0	N.A.	N.A.
ppt change compared to 2013 projection*	-0.6	-1.7	-2.3	-2.7	-2.3	N.A.	N.A.

* Figures can be presented on a fiscal year basis should they be unavailable for the calendar year.

**: Comparison with 2013 projection might lead to inconsistencies as many methodological changes have been made since then

4. Economic assumptions, and changes since last submission *(required for all members)*:

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth: *all the figures below are taken from the October 2014 forecast. They will be updated in April 2015.*

	Estimate (October 2014)	Projections (October 2014)					
	2013	2014	2015	2016	2017	2018	2019
Real GDP growth	0.3	0.4	1.0	1.7	1.9	2.0	2.0
ppt change*	+0.2	-0.5	-0.7	-0.3	-0.1.	N.A.	N.A.
Nominal GDP growth	1.1	1.2	1.9	3.1	3.6	3.7	3.7
ppt change*	-0.1	-0.9	-1.1	-0.6	-0.1	N.A.	N.A.
ST interest rate	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
ppt change	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
LT interest rate	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
ppt change	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

* Figures can be presented on a fiscal year basis should they be unavailable for the calendar year.

**: Comparison with 2013 projection might lead to inconsistencies as many methodological changes have been made since then

APPENDIX 2: NEW POLICY COMMITMENTS

	Reduction in the cost of factors of production
Implementation path and expected date of implementation	Our commitment to reduce production costs is threefold: • The ramp-up of the Competitiveness and Employment Tax Credit (CICE), which has increased from 4% to 6% of the total payroll in 2014 on wages up to 2.5 times the minimum wage, will reduce labour costs by up to €20bn from 2014 onwards. • Reduction of employer's social contributions on low and medium wages starting in 2015. The cost of minimum-wage labour will be cut by eliminating employers' social security contributions, other than unemployment insurance premiums, and by a review of the existing exemptions on jobs paying up to 1.6 times the minimum wage. Family allowance contributions on jobs paying between 1.6 times and 3.5 times the minimum wage will be cut by 1.8 percentage points. All in all, the new reductions in 2016 for jobs paying up to 1.6 times the minimum wage will come to €4.5bn, as will the reductions for jobs paying between 1.6 times and 3.5 times the minimum wage. Self-employed workers will see their family allowance contributions cut by €1bn as well. All in all, 90% of payroll employees will be affected by the measures, with a special focus on the lowest paid. • The streamlining and cutting of business taxes. The corporate social solidarity contribution (*contribution sociale de solidarité des sociétés* - C3S), which is paid by some 300,000 companies, will be cut by €1bn in the form of a deduction in 2015 and phased out entirely by 2017. Two-thirds of the companies currently paying this tax will be exempt in the first year. Abolishing this tax will save companies more than €6bn in gross terms. The exceptional corporate income tax payment for large corporations will be phased out in 2016 and the standard rate of corporate income tax will be lowered from the current 33.33% to 28% in 2020, with a preliminary cut in 2017. Lastly, the tax system will be streamlined by the elimination of dozens of complicated low-yield taxes.
What indicator(s) will be used to measure progress?	*Changes in labour costs, the tax wedge, and average business taxes will be good indicators for measuring progress in this area.*
Explanation of additionality (where relevant)	

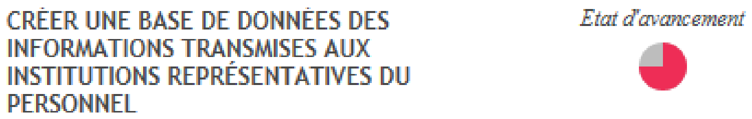
	Reduction in the tax burden on low-income households to support purchasing power
Implementation path and expected date of implementation	• A reduction in income taxes on low income households as early as September 2014, with the abolition of the first income tax bracket, meaning that households earning between €6,011 and €9,690 per year (around three million households) will no longer pay income tax. The purchasing power gain should represent over €1bn in 2014. The scheme will be extended in 2015. All in all, around 9 m households should benefit from this tax rebate. • An increase in social benefits for the lowest income households: the minimum income benefit (+2% in September 2014), specific benefits for isolated parents (+€60/year in April 2014) and poor and large families (+€216/year in April 2014). • This assessment does not take into account the impact of the "RSA Activité" and "PPE" reform, the outline of which has not been defined yet, but which could have a significant impact on employment.
What indicator(s) will be used to measure progress?	*Tax wedge on low-wage earners, inequality or poverty indicators.*
Explanation of additionality (where relevant)	

	The modernisation of markets to allow for productivity gains, lower prices for consumers and more competitive businesses

Implementation path and expected date of implementation	The French government is currently working on a comprehensive strategy aimed at creating a more pro-competition economic environment:
	• The Consumer Act of 13 February 2014 contains measures that promote competition and consumers' interests. It creates a class action procedure for consumer disputes under French law, particularly in the case of anti-competitive practices in services. The Act also reinforces the Directorate General for Competition Policy, Consumer Affairs and Fraud Control (DGCCRF) and the Competition Authority. The provisions of the Act enhance competition in services, particularly in the healthcare sector (opticians, chemists) and in the financial sector (banking and insurance). The measures under this Act will have a major impact on households' purchasing power, estimated at €1.5bn in all. These measures are likely to be enhanced, particularly in the healthcare sector, with further reform of the market for certain so-called “borderline” products, which are currently sold exclusively by chemists, and greater price transparency in the distribution of certain medical devices, such as prostheses and optical products.
	• Other measures will increase competition in services. The Act of 2 January 2014 eliminated restrictions in the legal and accounting professions in order to develop the business of notaries, lawyers and accountants. Other changes to legislation are being considered, such as a more cost-based approach to pricing in some of these professions. Consultations will be held with professionals that may also cover the organisation of certain services with a view to greater economic efficiency.
	• On October 15 2014, the French Minister for the Economy and Finance outlined the details of a new Economic Activity Bill that will focus on three areas:
	  ○ Modernising the goods and services markets by removing barriers that are stifling growth. This modernisation will come through facilitating the creation of new businesses, the reduction of constraints on shareholding and the development of a new cost-based fee structure for the legal regulated professions. Increasing the mobility of workers through reforms to coach travel (by reducing the regulations that govern the segment) and the freeing up of housing market, will help to remove the aforementioned barriers.
	  ○ Stimulating investment by reducing the red tape for industrial projects, and streamlining their legal framework and processes. Recent announcements regarding the channelling of household savings toward investment will also be developed as part of this bill.
	  ○ Higher employment and improved industrial relations by improving the functioning of the labour market. Legislation regarding Sunday trading will also be reviewed and the framework for industrial relations will be simplified.

What indicator(s) will be used to measure progress?	*Number of measures passed* *Mark-ups and Product Market Regulation Index (this last indicator could underestimate the impact because of the qualitative nature of the indicator that induces threshold effects)* *STRI (Services Trade Restrictiveness Index)*
Explanation of additionality (where relevant)	.

	Supporting productive investment
Implementation path and expected date of implementation	We intend to support productive investment through: • The Invest for the Future Programme, which will be scaled up by €12bn over the next five years (for a total of €47bn), • Implementation of the third phase of the clusters programme (2013-2018). It will help innovative ecosystems emerge and facilitate the link between scientific research and market applications • The expansion of tax incentives for R&D expenditure: The research tax credit (crédit d'impôt recherche - CIR) has been maintained for the rest of the President's term and the scope of eligible expenditure has been broadened with the innovation tax credit (crédit d'impôt innovation - CII), especially for SMEs. • The digital switchover will be accelerated with substantial investments to spread very high speed internet (€20bn of public and private investment in infrastructures), to help firms going digital (€30m of loans) and to help startups with strong growth potential develop their business (French Tech Initiative). • Public investment has been maintained despite the fiscal consolidation efforts, with large infrastructure projects being assessed. The Grand Paris Express is a flagship project. It aims to develop 200km of automatic subway lines to better connect the main business centres in the Paris area and has been thoroughly reviewed. The Net Present Value of this €25bn investment has been estimated at €29bn, leading the Prime Minister to launch this ambitious programme in March 2013. • Easing SMEs' access to finance and fostering greater private financing for long term investment (development of SME securitisation, ensuring the rule of law is applied to intercompany trade credit, increase in the capacity of insurers and pension funds to invest, life insurance reform). • As part of the housing stimulus plan unveiled by the Prime Minister on 29 August 2014, all of the policy levers available to government have been marshalled to boost the building of new homes. These levers include: (i) greater tax incentives to free up land for construction purposes; (ii) financial help for first-time buyers targeting particular areas and sections of the population for whom such measures will act as a real incentive to buy; (iii) development of social and mid-range housing; (iv) greater support for the energy renovation of existing homes; and (v) easing of regulatory constraints.
What indicator(s) will be used to measure progress?	*Investment spending , use of research tax credit (CIR) by SMEs*
Explanation of additionality (where relevant)	

	Reduction of the administrative burden and red tape
Implementation path and expected date of implementation	Parliament passed an enabling act on 2 January 2014 to empower the Government to use a fast-track procedure to cut red tape under this programme. At the same time, President Hollande acted to step up streamlining efforts by creating an Administrative Streamlining Board (*Conseil de la simplification pour les entreprises*) which outlined 50 new measures in January 2014. The Government has already presented a draft bill containing 14 of the 50 measures (development of the advance tax ruling procedure, reduction in tax filing requirements, particularly for SMEs, etc.). The act was recently passed by the Senate. Some of the remaining measures do not require legislation and are already being implemented (publication of tax rules on a particular day, non-retroactivity in tax matters, etc.). A new set of 50 measures is due to be presented by the Board in October 2014. The other task assigned to the Board, which is co-chaired by a Member of Parliament (Thierry Mandon) and a business executive (Guillaume Poitrinal), will be to monitor progress on the programme to cut red tape for businesses and to assess the results. In addition to these streamlining measures, the government has placed particular importance on the need to review staffing thresholds in firms, which are thought to have a negative impact on employment. This issue will be debated with labour and management representatives. The Responsibility and Solidarity Pact has launched the process for reducing these thresholds by granting all companies, regardless of their size, the same exemption from employers' social contributions.
What indicator(s) will be used to measure progress?	*PMR* *The website* *http://simplification.modernisation.gouv.fr/ladministration-se-simplifie-pour-tous/ gives an update on the status of each streamlining measure.* *For instance:*  *Means: "implementation of the measure is underway"*