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RÉPUBLIQUE FRANÇAISE

PREMIER MINISTRE

NATIONAL REFORM PROGRAMME 2016

Contents

1. OVERVIEW

The French economy features many strengths, including its institutional framework, nationwide, world-class infrastructure, financial system, well-educated workforce, positive demographic trends, and one of the highest hourly productivity rates in the world. These are all key factors that can contribute now and in the future to competitiveness and growth. **Nevertheless, significant economic challenges persist.** Convinced of the need to rise to these challenges, the French government has introduced bold reforms and intends to introduce more.

Business competitiveness has been in decline since 2000, leading to tighter profit margins and a reduced share of export markets. Over the same period, control over government expenditure has been insufficient. Consequently, it accounts for a very large portion of GDP, leaving the authorities little room for manoeuvre, and not much **leeway to turn all of these strengths to the economy's advantage**. Important efforts are therefore being made to restore the fiscal balance and set the stage for sustainable, inclusive economic growth to foster a high-employment economy fully in line with the economic and social targets outlined in the Europe 2020 Strategy. In addition, close coordination of economic policies within a monetary union is a necessity. This document outlines how France will work with its partners towards achieving this collective goal.

France has embarked upon a long-term reform programme in consultation with stakeholders, including unions and employers' associations, which has helped economic recovery both domestically and in the euro area. The aim is to get the economy moving again through the introduction of targeted, concerted and effective reforms with the sole focus of modernising, simplifying, and supporting the economy to return it to robust, sustainable growth. The French government's fiscal strategy, outlined in the Stability Programme, targets bringing the government deficit back below 3% in 2017. This National Reform Programme outlines past, current and future economic reforms introduced **to meet the following challenges: (i) guarantee sound and sustainable public finances; (ii) regain competitiveness, boost productivity and enhance the business environment; (iii) improve the functioning of the labour market; and (iv) promote equality, social inclusion and equal opportunities for all.**

A. 2015 PROVIDED THE OPPORTUNITY TO BUILD UPON THE MEASURES INTRODUCED SINCE 2012 TO MEET THE MAJOR CHALLENGES FACED BY THE FRENCH ECONOMY

1. Guarantee sound and sustainable public finances

First and foremost, the French government is pursuing significant fiscal consolidation efforts to ensure the sustainability of public finances (see Stability Programme). To comply with the deficit adjustment path in keeping with France's European commitments, the **€50 billion savings plan for 2015-2017 had to be supplemented by additional savings measures** to compensate for low inflation at the time of the Stability Programme in April 2015 and this year's Stability Programme.

This savings plan applies to all general government sub-sectors (central government and central government agencies, local government, social security funds) and is based on strict compliance with central government and social security spending rules. It also encourages tighter expenditure control by local authorities, and includes a local government expenditure growth target that is now voted for in Parliament on an annual basis. It also takes into account the systematic assessment of government policies based on criteria such as efficiency, effectiveness, simplicity and target audience impact. As a result, savings of €7 billion were included in the 2014-2016 Budget Acts. **This virtuous cycle is supported by** spending reviews and **far-reaching reforms**, such as the 2014 pension reform which is now being carried out, and reforms to supplementary pensions agreed with unions and employers' associations in the autumn of 2015 which will improve the balance by €6 billion in 2020 through, for example, incentives to retire at a later date.

Providing efficient public services while ensuring that tax and social security contributions do not hold back the economy means reforming government action. Specifically, this means **overhauling France's local government structures. This reform is currently on track.** As of 1 January 2016, the number of regions has been halved. Following the creation on 1 January 2015 of 12 new metropolitan areas, the Paris and Aix-Marseille-Provence areas have been in official existence since 1 January 2016. Lastly, **the Local Administration Reform Act (NOTRe) passed in 2015** provides for a new wave of intermunicipal mergers, reducing the number of councils by one-third by 2017. Similarly, it will clarify the division of power between the various layers of local and regional government, by abolishing the *clause de compétence générale* (legal concept allowing local authorities to act in areas for which they are not responsible as of right) for *départements* and regions. These measures will reduce overlap, streamline existing structures and have a positive knock-on effect for the entire economy. According to the OECD, the creation of new metropolitan areas alone will increase GDP by 1 pp.

Central government reform is another key priority. The goal is to generate significant efficiency gains and provide a better public service that will benefit every French citizen. Local government is therefore being overhauled as a result of the aforementioned reform, and the government is pressing ahead with the digital transition, in particular through the Invest for the Future Programme (programme d'investissements d'avenir). More modern and more efficient operating methods will be introduced (e.g. an interministerial procurement directorate was created at the beginning of 2016, to be followed during the year by the creation of a property directorate, new public service centres offering information and services, a one-stop-shop, paperless procedures, and improved coordination between government departments to help boost business creation, etc.).

2. Regain competitiveness, boost productivity and enhance the business environment

Second, measures taken to boost business competitiveness have helped keep production costs under control by having an impact on labour, capital and input costs. At the same time, several measures have been introduced to bolster general productivity.

- **Cost competitiveness** in France has gained ground on other euro area members in the last few years thanks to efforts to bring wages more into line with productivity and steps taken to reduce the cost of labour and taxation for businesses through the Competitiveness and Employment Tax Credit (CICE) and the Responsibility and Solidarity Pact. These measures have been rolled out: the CICE has proved popular with businesses (see 2015 report by the CICE Monitoring Committee), the exceptional corporate income tax payment for large corporations was withdrawn on 1 January 2016, the additional reductions in employers' contributions outlined in the Responsibility and Solidarity Pact took effect on 1 April 2016 and the corporate social solidarity contribution (C3S) is now only paid by 20,000 companies. These measures have resulted in a €33 billion decrease in the cost of labour and taxation for businesses and will rise to over €40 billion by 2017. The temporary scheme encouraging SMEs to recruit staff will help underpin these efforts by creating 60,000 additional jobs by the end of the year.
- To support **non-cost competitiveness** and help boost the productivity of French businesses, the government has taken several initiatives to raise investment and innovation. For example, the research tax credit (CIR) has been extended and stabilised. Industrial policy has been reviewed to give priority to nine industrial solutions; clusters are also undergoing change to bring them more into line with industrial priorities. To support recovery in investment, a higher depreciation allowance scheme was introduced in 2015 and extended by one year in 2016.

  Various surveys have already illustrated how effective these schemes are in boosting R&D expenditure. Similarly, encouraging innovative businesses is another government priority: over and above the Innovative Startup Scheme (JEI) which offers tax incentives to businesses getting off the ground, the French Tech initiative is designed to bolster the ecosystem that promotes the emergence and growth of startups via a range of approaches, including incubators, international promotion of French businesses, and schemes to attract the brightest talents to France. Investment in R&D grew by an average annual 2.2% in 2008-2014 (compared to 1.2% in the EU15 and 1.7% in Germany). Combined with the other economic policy measures introduced, these steps will help bring about a clear increase in corporate investment in 2016, with a forecast increase of 4.1% after 2.6% in 2015 (excluding construction).
- In an attempt to stimulate GDP, the market for goods and services is being modernised and the regulatory environment streamlined. Following the initiatives taken in 2014 to increase competition in various sectors (e.g. opticians), **the Growth, Economic Activity and Equal Economic Opportunity Act of August 2015** has helped reduce the fees charged by various regulated professions and lowered some of the barriers to entry. It will reduce the time taken to obtain a driving licence, which is important when seeking employment in rural or suburban areas. This Act has also liberalised the coach transport sector, which has been a resounding success so far (used by more than 1.5 million passengers in six months). Lastly, it has extended Sunday trading through the creation of international tourist zones where shops may open on a Sunday on condition that their employees are compensated accordingly. Many shops now open on Sundays, for example in train stations.
- Another government priority is to reduce the red tape faced by businesses. To this end, it is taking steps to improve legal certainty, streamline construction standards and assist the progress of major projects, streamline procedures and red tape for VSEs and SMEs, and improve import-export procedures. The latest information available indicates that these measures helped businesses make gross savings of €1.1 billion between August 2014 and September 2015.

3. Improving the functioning of the labour market

Step by step, the government is introducing a French version of flexicurity, giving businesses more leeway to adapt and change, and providing employees with greater protection during times of career change, particularly periods of unemployment. To do so, it is relying on labour/management dialogue to promote maximum ownership of these reforms by all stakeholders in the long term.

The 2013 Job Security Act provided businesses with more adaptability through the introduction of measures to streamline and harmonise mass redundancy procedures and by making it possible to negotiate job protection agreements with the unions. The initial results of these actions can already be seen – the percentage of mass redundancy procedures that end up in court has been reduced by two-thirds (from 25% to 8%). In addition, the Act makes it possible for companies to make internal adjustments, i.e. by introducing part-time hours or, in times of economic hardship, by reaching an agreement with employees to adjust wages and working hours to avoid redundancies.

The Act on Labour-Management Dialogue and Employment (August 2015) makes social dialogue more effective by streamlining regulations and adapting them to the size of the company. Dialogue between labour and management is now simpler and more effective, with fewer meetings and stakeholders involved (17 annual information and consultation sessions reduced to 3, and 3 annual collective bargaining meetings instead of 12). SMEs with up to 300 employees (compared to 200 before the Act was passed) can set up a single employee representative body *(délégation unique du personnel)* comprising the Health and Safety Committee *(Comité d'hygiène, de sécurité et des conditions de travail)* that will help improve their day-to-day running. In companies employing over 300 staff, the three employee representative bodies can be merged into one by majority vote. These measures are an extension of the Job Security Act which strengthens the role played by employee representative bodies in outlining corporate strategy and provides for employee representation at board level in major corporations.

The 2015 **Growth, Economic Activity and Equal Economic Opportunity Act introduced major reform for the labour tribunals** that rule on individual cases *(justice prud'homale)*. This is a key reform that will speed up tribunals, currently too lengthy, and will make the outcome less unpredictable for companies and employees alike. Other measures carry efforts to provide safeguards in cases of dismissals on economic grounds, in particular regarding obligations with respect to international outplacement for employees.

4. Promoting gender diversity, social inclusion and equal opportunity

Finally, efforts to combat poverty and social exclusion have softened the impact of the financial crisis on the most vulnerable individuals. To deal with the urgency of the situation, the government employed various policy means, particularly within the framework of the multiyear plan to fight poverty and social exclusion. These included an increase of minimum welfare benefits, measures to encourage financial inclusion, subsidies for access to housing, support for young people via the Youth Guarantee scheme, professional training contracts for older workers and the long-term unemployed, efforts to reduce school dropout rates and reforms for schools in underprivileged areas. **Thanks to these measures and the existing social welfare system, France was less hard-hit by the financial crisis than many other EU countries.** The number of citizens at risk of falling into poverty and social exclusion in 2014 was similar to that observed in 2007. The goal is to ensure that everyone benefits from economic recovery, particularly young people.

B. THE ECONOMIC POLICIES THAT WERE IMPLEMENTED HAVE ALREADY REDUCED THE MACROECONOMIC IMBALANCES OF THE FRENCH ECONOMY

Economic growth picked up speed in 2015, reaching 1.2% (instead of the 1.0% predicted in the year's Draft Budgetary Plan), compared with a mere 0.2% in 2014. The 2016 Draft Budgetary Plan and the Stability Programme have forecasted growth of 1.5% in 2016. This is in line with the latest figures from Insee, which in the first quarter of 2016 predicted annual growth pace of 1.6%. On the other hand, inflation will be much lower than expected, due to falling oil prices, and is predicted to be around zero in 2016.

Economic growth was driven by **households spending**, whose purchasing power grew 1.8% in 2015, the biggest one-year rise since 2007, and **corporate investment**, which increased by 2% in 2015. Margins leaped up 2.2 points to reach 31.4%, their highest point since 2011, making up two-thirds of the ground lost since the crisis. Industrial labour costs have increased 1.1% in France since the end of 2012, compared with 3% in the euro area. **Ongoing efforts to restore businesses' competitiveness have allowed us to stabilise France's share of export markets (exports grew by 6.1% in 2015) and to lower the country's trade deficit and balance the current account.**

Activity in the construction sector is picking up gradually thanks to an improved economic climate and more favourable borrowing conditions. Construction figures from the end of February 2016 show a sharp upswing for both building permits and housing starts (7.7% and 2.5% respectively year-on-year). Although these gains came mainly in the collective housing sector, the upswing in individual housing projects is expected to be underpinned by the renewed appeal of the zero interest loan scheme which came into effect on 1 January 2016. On top of this gradual recovery in the residential housing sector, the non-residential sector has also improved, including approvals for industrial premises which climbed 5.9%, and those for commercial premises which increased 34.3%. **The government's strategy to restart construction implemented for the past two years has begun to bear fruit and is set to continue to do so.**

In 2015, 102,000 net jobs were created in the private sector (including 82,000 in the commercial sector alone). This gradual recovery helped keep unemployment stable in 2015.

All of these figures underscore the scale of the efforts made to kickstart France's economic recovery and job creation.

In 2015, **the tax burden as a share of GDP shrank for the first time since 2009**; it was 44.5%, after levelling off at 44.8% in 2014. Nevertheless, the structural deficit continued to decrease, reaching 1.6% of GDP (against 4.4% in 2011). This was made possible by serious efforts to control public expenditure, growth of which was held to 0.9% in 2015 (in nominal terms, excluding tax credits), after 1.0% in 2014, and an average of 3.2% for the period 2007–2012. Government expenditure as a percentage of GDP excluding tax credits thus fell by nearly one point in 2015.

The combination of structural efforts and renewed growth brought the government deficit down to 3.5% of GDP (after 4% in 2014 and 5.1% in 2011) and contributed to a slower increase in government debt (at 95.7% of GDP, compared with 95.3% in 2014 and 92.4% in 2013). Government debt as a percentage of GDP will begin to decline in 2018. It is already sustainable in the long term, as indicated in the European Commission's 2015 "Fiscal Sustainability Report".

C. THE REFORMS WILL CONTINUE UP TO THE END OF PRESIDENT HOLLANDE'S FIVE-YEAR TERM TO FOSTER A ROBUST, SUSTAINABLE AND INCLUSIVE ECONOMIC RECOVERY

Staying on course with the reform programme is a response to the specific issues facing France, in line with the priorities pinpointed at EU level. Throughout 2016, the bold pace of reforms and the central focus on employment and competitiveness will continue.

These efforts, which are vital for underpinning a sustainable and inclusive recovery in France, essentially correspond to the growth strategy adopted by the EU's Heads of State and Government, on the basis of the Annual Growth Survey for 2016. This strategy is based on supporting investment, pursuing reforms and rolling out fiscal policies that promote growth and the sustainability of public finances. France's reforms also help address the Council Recommendation on the economic policy of the euro area which aims to coordinate the actions of Member States with an eye to fostering convergence and facilitating the correction of imbalances within the Monetary Union, to improve its functioning and make it more stable.

- **Continue to cut taxes and labour costs for businesses to boost investment and create jobs**

Following on from the second part of the Responsibility and Solidarity Pact, its third phase will be adopted in Autumn 2016 as part of the 2017 budget bill and social security budget bill. On one hand, this last part will provide for the **final phasing out of the corporate social solidarity contribution (C3S)** for the 20,000 businesses that still pay it and, on the other, an **initial lowering of the corporate income tax rate**, which is slated to be reduced from its current rate of 33.3% to 28% in 2020.

To bolster the CICE tax credit's contribution to cutting labour costs, it will be converted into a permanent reduction of social security contributions. This will streamline the arrangements and get rid of the time lag owing to the CICE functioning like a tax. The conditions for this changeover and the timeframe are currently being examined.

Household taxation will also be revamped with the **introduction of a withholding tax system for personal income tax**. This will provide for better correlation between the amount of tax and the taxpayer's circumstances whilst, at the same time, cutting red tape.

- **Restructure the Labour Code to modernise the functioning of the labour market, foster dialogue between labour and management and make career paths more secure**

The purpose of the reform is to put in place a **new structure for the Labour Code** that distinguishes general rules which apply to all and regulations negotiated between labour and management as part of collective bargaining efforts, in particular at company level, and regulations that apply in cases where labour and management cannot reach an agreement. These rules and regulations will be decided on at grassroots level to best reflect businesses' economic circumstances and needs whilst upholding employee protection.

The Bill aiming at introducing new opportunities and new safeguards for companies and employees (the Labour Bill) was presented at the Cabinet Meeting on 24 March 2016. Subject to legislation, setting the rules concerning how work is organised and working hours will now be the responsibility of labour and management, particularly at company level. To give **greater legitimacy to company-level agreements**, the majority agreement rule will be rolled out with unions having the option of initiating an employee consultation. Unions will be strengthened, at all levels, and collective bargaining rules will be reformed to make agreements more effective. The occupational sectors' contribution to regulating competition between businesses will be reasserted and their number will be reduced from 700 to 200 over four years.

The goal of the Bill is also to give **greater visibility to companies**, particularly VSEs and SMEs in order to encourage hiring people on permanent contracts. It identifies and spells out the economic difficulties faced by a company that can justify announcing economic layoffs. Ground-breaking measures will be introduced to support VSEs and SMEs. These include setting up special units throughout France and the option of directly applying standard agreements executed by the sectors. Alongside the Bill, a decree will introduce an indicative scale for compensations that labour tribunal judges can hand down for redundancies found to be without real and credible grounds, giving heightened visibility to both employers and employees.

Concomitantly, the Bill introduces **new safeguards, particularly for employees with little job security and young people**. The Personal Activity Account (CPA), that will take effect on 1 January 2017, will allow all workers to accumulate entitlements throughout their career, regardless of their status (salaried employee, self-employed worker, civil servant, jobseeker), particularly for training or support in setting up a business. A "training capital" (extra hours added to the CPA) for acquiring a profession or retraining will be available for young dropouts and low-skilled workers will be provided with improved training entitlements. Young jobseekers, who are not enrolled in a training programme and who have no source of income, can apply to the Youth Guarantee scheme for comprehensive assistance to pave the way to employment and financial support for one year.

- **Heighten economic transparency to build investor confidence and promote France's appeal**

The Transparency, Anti-Corruption and Economic Modernisation Bill, which was presented on 30 March 2016, is part of government action to improve the business environment. Initiatives to step up the fight against corruption have positive repercussions for the profitability of companies, risk assessment for investments and setting up businesses, and competitive intensity. In this regard, the Bill sets out to bolster the system for **fighting offences against probity** by, amongst other measures, inaugurating a National Corruption Prevention and Detection Agency and improving protection for corruption whistle-blowers. The Bill also aims for **increased transparency in the relationship between government authorities and the business world** by, inter alia, introducing a digital directory of interest group representatives.

- **Capitalise on new business opportunities**

The Transparency, Anti-Corruption and Economic Modernisation Bill also follows on from prior reforms that sought to adjust our economy to new activities and the digital sector. To this end, it contains provisions for the ongoing **improvement of the growth trajectories of VSEs and SMEs**, by staggering the effects of micro-enterprises exceeding turnover thresholds in terms of tax and social security contributions over time, by making it easier to change from sole trader (entrepreneur individuel) status to another status, and by introducing stiffer penalties for late payments which are highly detrimental for small companies. Moreover, rules for **setting up businesses will be streamlined** with the overhaul of the training course prior to business start-up and removal of the need for micro-entrepreneurs to have a specific bank account. The Bill also provides for a review of **professional qualifications required** to access certain self-employed professions depending on the risks these activities represent for the health and safety of consumers and will complete the implementation of the qualification directive. As regards **business funding**, the Bill authorises the government, by issuing an order, to allow part of the amounts held in companies' supplementary pension schemes to be invested in venture capital and, especially, in innovative startups. Lastly, the Bill aims to upgrade business law by **streamlining certain corporate reporting obligations**.

2016

Second quarter

Q2

Bill on the transparency and modernisation of the economy
first reading in Parliament

Justice for the 21st century Bill
final vote

Labor Bill
first reading in Parliament

New simplification mesures take effect (e.g.: the personal social declaration, which groups together all social declarations, for large companies at first)

Third quarter

Q3

Labor Bill
final vote

Entry into force of the new unemployment insurance convention on 1st July

Creation of a government purchasing directorate

Fourth quarter

Q4

Vote on the adoption of withholding taxation for personal income tax
(full implementation on 1st January 2018)

3rd phase of the €50 billion savings plan (Finance Bill and Social Security Funding Bill for 2017)

New simplification mesures take effect
(e.g.: implementation of centralized national customs clearance to speed up customs procedures)

Reform of contract law
entry into force on 1st October

3rd phase of the Responsibility and Solidarity Pact (Finance Bill and Social Security Funding Bill for 2017)

2. BACKGROUND AND MACROECONOMIC SCENARIO

A. THE MACROECONOMIC IMBALANCES IDENTIFIED BY THE COMMISSION ARE BEING CORRECTED

In its Country Report on France issued in February 2016, the Commission observed that France's primary macroeconomic imbalances are the sustainability of public finances and the competitiveness of the French economy. These imbalances are currently being corrected, specifically thanks to government-sponsored reforms. Implementing these reforms will allow France to combine fiscal consolidation with enhanced competitiveness for French companies in 2016 and 2017.

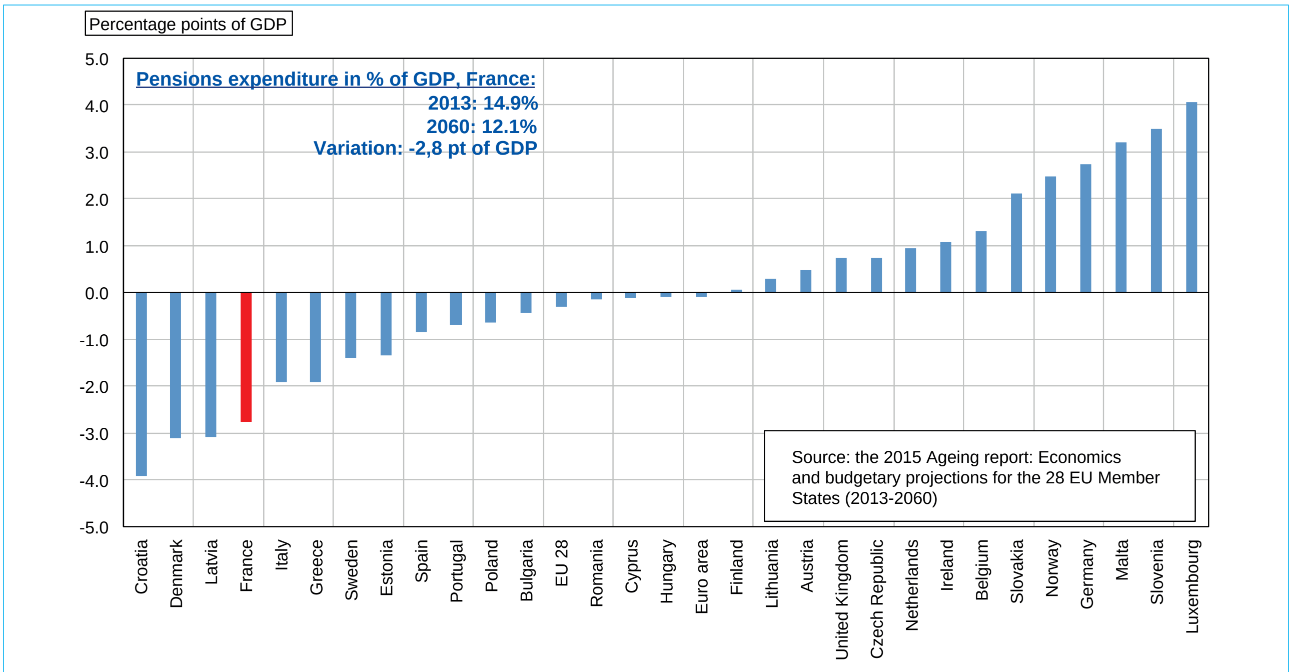
Fiscal consolidation efforts are ongoing, in compliance with France's European commitments and in line with an adjustment path that will bring the deficit back under 3% of GDP in 2017. For the period 2015-2017, these efforts will curb the growth of the debt-to-GDP ratio, which is expected to begin falling as from 2018 (see Stability Programme).

Fiscal consolidation is primarily a matter of addressing growth in government spending, which has been sharply curtailed in recent years. Not including tax credits, nominal growth in government spending was approximately 1% in 2014 and 2015, compared with an annual average of 3.2% between 2007 and 2012. The measures implemented after 2012 – particularly the €50 billion savings plan that began in 2015 and that will continue through 2016 and 2017 – are expected to bring the ratio of government expenditure to GDP, excluding tax credits, down to 54.0% in 2017, compared with 56.1% in 2014. By 2015, this ratio had already fallen to 55.3%. The government's actions have delivered a cumulative improvement in the structural balance of 2.8 percentage points of GDP between 2012 and 2015. The structural deficit was reduced from 4.4% of GDP in 2011 to 1.6% in 2015, and is now at its lowest level since the 2000s. Concurrent with the reduction of the government deficit, made possible by unprecedented efforts to rein in government expenditure, the aggregate tax and social security contribution rate also fell from 44.8% of GDP in 2014 to 44.5% in 2015. It is slated to continue on this downward path in 2016 and 2017, achieving an expected 44.0%.

As a result of efforts to curb spending, the debt-to-GDP ratio has stabilised (95.7% in 2015, after 95.3% in 2014 and 92.4% in 2013). It is expected to remain at this level in 2017 (96.5%), before beginning to fall starting in 2018, based on conservative interest rate assumptions.

In addition, factoring in age-related expenditure, France's long-term public finance sustainability is one of the best in the euro area. Over the long term, favourable demographic trends and limited costs relating to an ageing population will mean low risks. The EPC's Working Group on Ageing Populations and Sustainability (AWG) predicts that France's age-related spending will fall by 1.7 percentage points of GDP between 2013 and 2060. This decrease, one of the largest in the EU, does not take into account the positive effects of the 2013 agreement with the supplementary pension schemes, which was signed on 30 October 2015, and which is expected to generate €6 billion in savings between now and 2020. In the shorter term, the government's bond issuance and debt management policy, particularly as regards maturity, liquidity and investor diversification, eliminates risk.

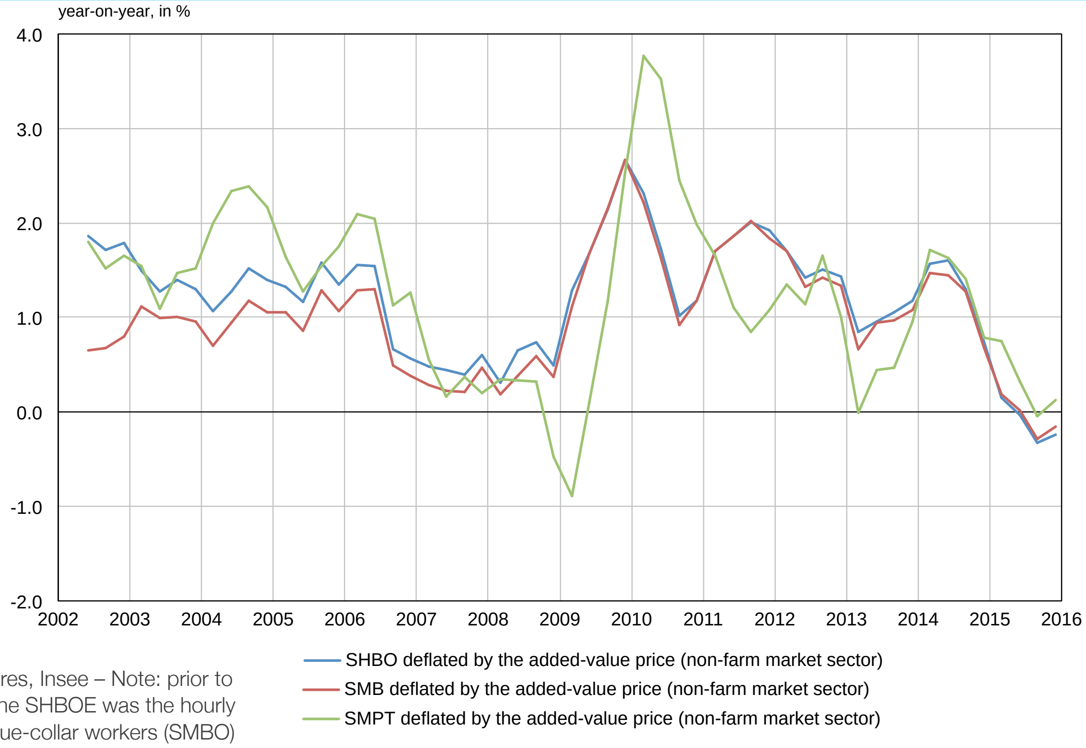
SHARE OF AGE-RELATED EXPENDITURE IN GDP (2013-2060)



The competitiveness of the French economy is improving. By managing wages and working to reduce labour costs, France's unit wage costs are rising more slowly than elsewhere in the euro area. This – added to the effect of falling oil prices and the depreciation of the euro in 2015 – helps to stabilise the country's export market shares and balance the current account. Measures to cut labour costs (Competitiveness and the Employment Tax Credit and Responsibility and Solidarity Pact) have also had a more lasting impact on business competitiveness than the depreciation of the euro. The sharp upturn in profit margins for businesses helps boost investment and thus improves the non-price competitiveness of the French economy.

Slowing wage rises and limiting minimum wage adjustments to index-linked increases have curbed labour costs. As a result, nominal wage increases have slowed from 3.2% per year for the period 2000-2007 to 1.9% per year between 2007 and 2014. Negotiated wages (the basic monthly wage (SMB) and the gross hourly wage for blue-collar and white-collar workers (SHBOE)) increased very little, by 1.2% and 1.1%[1], respectively, year-on-year in Q4 2015, in contrast to a GDP deflator that rose by 1.2% in 2015. Consequently, real wages are rising at a slower pace than they had prior to the crisis (see chart below), even if unexpectedly low inflation put a damper on the adjustment, particularly in 2014.

BASIC MONTHLY WAGE (SMB), HOURLY WAGE FOR BLUE-COLLAR AND WHITE-COLLAR WORKERS (SHBOE) AND AVERAGE PER CAPITA WAGE (SMPT) IN THE NON-FARM MARKET SECTOR (YEAR-ON-YEAR, IN %)



Source: Dares, Insee – Note: prior to Q4 2008, the SHBOE was the hourly wage for blue-collar workers (SMBO)

Since 2013, government-mandated growth in the statutory minimum wage (SMIC) has been in accordance with the recommendations of the Minimum Wage Experts Group. The 0.6% adjustment to the SMIC as of 1 January 2016, the result of the minimum-wage indexation mechanism, should be contrasted with the GDP deflator (+1.2% in 2015) and per capita productivity in non-farm market sectors, which rose by 1.1% in 2015.

Measures to cut labour costs (Competitiveness and Employment Tax Credit and Responsibility and Solidarity Pact) have bolstered the slowdown in unit wage costs.

Since 2012, France's unit wage costs (UWC), which measure the ratio of labour costs to added value, have risen more slowly than those of its euro area partners. Factoring in the Competitiveness and Employment Tax Credit (CICE), France's UWCs has systematically increased less quickly than in the euro area since 2012. Manufacturing wage costs are now lower than those in Germany.

1 - Purchasing power nevertheless grew strongly, as consumer price inflation was zero in 2015.

UNIT WAGE COSTS (FOR THE ENTIRE ECONOMY)

This boost in cost competitiveness has helped to improve France's current account deficit. Since 2012, the balance of trade and the current account balance have both improved. The current account balance has improved markedly since 2012 and was close to equilibrium in 2015 (-0.2% of GDP according to provisional data from the Banque de France), and France's net external position was very slightly negative (-17.4 points of GDP at the end of 2015 according to provisional data from the Banque de France). Export performance[2] improved noticeably, proof that the return to equilibrium was not simply due to the fall in energy prices: after a sharp fall-off between 2002 and 2008, they have been stable since 2010. In 2015, exports of goods grew more markedly than world demand for them, which noticeably improved export performance. In addition, France's share of world exports has been stable since 2012 and increased in real terms in 2015.

Measures to cut labour costs have improved businesses' cost competitiveness, and as a result have boosted their financial situation. Companies' margins increased sharply starting in late 2014, thanks in particular to measures to cut labour costs and lower energy prices. Between Q3 2014 and Q4 2015, profit margins of non-financial corporations (NFCs) improved by nearly 2 points, reaching 31.4% of added value (including the CICE tax credit), and thus very close to pre-crisis levels. This improvement in margins went hand-in-hand with a noticeable rise in non-financial corporations' savings rates since early 2014, which reached their pre-crisis levels by the end of 2015 (19.9% of added value).

Improved corporate finances encourages investment, and the levels of investment expected in 2016 should help buoy non-cost competitiveness and productivity. R&D spending by businesses has been growing since 2009, reaching 1.44% of GDP in 2013 (compared with 1.28% EU-wide). Despite the crisis, R&D spending climbed to 1.46% in 2014, against 1.3% in 2000. Moreover, industrial-sector investment is on the right track, with large-scale investments in capital goods (which have remained at a relatively high level: about 11% of the manufacturing industry's added value in 2014) and strong investments in R&D (9.5% of the manufacturing industry's added value in 2014, a significant rise since the crisis). This will have a positive effect on the French economy's non-cost competitiveness, and also on productivity gains.

2 - Ratio of exports of goods in real terms to world demand for French goods in real terms.

B. THE ECONOMIC RECOVERY WILL CONTINUE IN 2016

France's economic recovery is continuing: after 1.2% growth in 2015, the figures are projected to be 1.5% in 2016 and 2017 and 1.75% in 2018. Economic activity should be spurred by several factors helping growth reach and exceed its potential. These include economic policy initiatives, in particular support for businesses' competitiveness, low oil prices, stronger growth among our trading partners, fiscal consolidation efforts that, although vigorous, will be at a more relaxed pace than in the years prior to 2014, and the continuing accommodative monetary policy.

The international environment should be more favourable with the recovery of demand from emerging economies and with growth gradually picking up in the euro area. In 2016, international trade should be stronger than in 2015. Nevertheless, exports of French goods are set to slow in 2016 after the sharp rise in 2015. Their momentum will still be buoyed up by the currency impact but to a lesser extent than last year. That said, they are still expected to post healthy growth (+4.4% in 2016, followed by +4.8% in 2017, after +5.1% in 2015) as global demand progressively gathers pace (+3.8% in 2016, then +4.7%), and thanks to measures to cut labour costs. Furthermore, growth in imports of goods is forecast to slow noticeably in 2016 (+5.4% as against +5.8% in 2015) and less so in 2017 (+5.3%).

Domestic demand is set to improve on the back of household demand. The growth in households' purchasing power should remain strong in 2016 (+1.6% after +1.8% in 2015), before falling off in 2017 (+1.2%), owing to a real wage slowdown as prices recover. Despite a marked rise in 2015 (+1.4% after +0.6% in 2014), consumption did not keep pace with purchasing power owing to a poorer performance in Q4 connected with the terrorist attacks and higher-than-expected savings. Household consumption should continue to rise in both 2016 and 2017 (+1.6 each year) as the outlook on the labour market improves. Overall, the savings rate should be 15.4% for 2016 before declining to 15.0% in 2017. There should be an upswing in household investment over the forecast period. After a sharp 2.8% decrease in 2015, followed by an improved -1.5% in 2016, this investment is scheduled to substantially pick up in 2017 (+3.0%). After having fallen at the end of 2015, pending the extension of the zero-interest loan scheme on 1 January 2016, new-home sales should immediately benefit from its effects. Corporate investment outside the construction sector is set to turn around. In 2016, it should increase by 4.1% (+2.6% in 2015) driven by the robust recovery of profit margins and by economic policy measures, especially the higher depreciation allowance for productive investment. In 2017, investment outside the construction sector should continue to progress (+4.8%) under the impetus of the economic recovery.

The recovery in total employment was confirmed in 2015 (adding an average 95,000 jobs) and is expected to speed up in 2016 (+190,000 jobs) and to continue in 2017. After contracting for three years, market sector paid employment was steady in 2015 and should start to increase again in 2016 due to employment-oriented government policies (CICE tax credit, Responsibility and Solidarity Pact, the SME recruitment incentive programme (*Embauche PME*)). In 2017, market sector employment is set to improve further as the economic recovery takes over from employment policies. Non-market sector employment should slow down in 2016 (adding an average of 25,000 jobs as opposed to 55,000 in 2015).

Inflation is expected to be near zero in 2016 (+0.1%) mainly due to the further fall in oil prices up to March. It should rise to +1.0% in 2017. Core inflation is set to increase over the forecast period (+0.8% in 2016 and +1.1% in 2017, after +0.5% in 2015). This is projected to be especially marked in 2017 due to inflation in the services sector fuelled by rising salaries.

These forecasts are subject to both upside and downside risks. This recovery scenario is based on oil prices and the euro exchange rate staying close to recent levels. Moreover, the momentum of French exports will be dictated by our partners' growth which may be affected by two factors: (i) the economic situation in the emerging countries, particularly in Russia and Brazil, and (ii) the pace of recovery in the euro area. Lastly, the behaviour of French households and businesses is also uncertain. The recovery could have more drive if the gain in purchasing power generated by the dip in oil prices is used quickly or if the improvement in corporate margins and the higher depreciation allowance measure have a stronger-than-expected impact on investment. However, the impact could be lessened if households and businesses continue to adopt a wait-and-see attitude or if the need to improve their financial situations and to deleverage is more pressing than expected. In addition, the pace of the recovery of corporate and household investment could be compromised, particularly if businesses elect to earmark gains from labour cost cutting measures for increasing salaries or reducing debt, and if the surge in the building of new homes expected in 2017 were to be delayed.

C. ASSESSMENT OF THE IMPACT OF OUR REFORMS ON JOBS AND GROWTH

The table below sets out the macroeconomic impact up to 2020 of the main reforms rolled out by the government to address the major issues faced by the French economy and to continue correcting its imbalances. By the end of this period, some temporary business support initiatives, such as the higher depreciation allowance measure and the “Embauche PME” scheme, will no longer have marked effects. They are however essential in the current economic climate to hasten the recovery. Furthermore, these initiatives, in particular the Embauche PME” scheme, could also have a positive impact in the longer term by mitigating the hysteresis effects, that is to say the risk of losing human capital due to long-term unemployment. This impact has not been assessed here. **Overall, these measures are expected to boost GDP by around 4.8 pp and to create over a million jobs by 2020.**

RÉFORMS		MAIN MEASURES	ECONOMIC MECHANISM	TIMETABLE	IMPLEMEN-TATION
LOCAL AND REGIONAL GOVERNMENT REFORM AND RATIONALISATION OF GOVERNMENT ACTION					
Local government	**Act on modernising local government and strengthening metropolitan areas (MAPTAM)**	As from 2015, **creation of metropolitan area status** and elimination of the intermunicipal bodies for the 13 conurbations concerned (on 1 January 2016 for Paris and Aix-Marseilles)	**Productivity gains** through reduced administrative fragmentation and potential increased density	Passed in January 2014	1 January 2015
	Act on Regional Boundaries, Regional and *Département*-level Elections and the Election Calendar	**Number of regions reduced from 22 to 13** to adapt the administrative boundaries to the economic geography with regions that are large enough to define their own local economic strategies	**Potential gains from regional specialisation of production and concentration of activities** into more effective clusters	Passed in December 2014	1 January 2016
	Local administration reform Act (NOTRe)	New division of powers between local governments, with the **elimination of the *clause de compétence générale*** for départements and regions and transfer of powers from départements to regions	**Enhanced effectiveness of decision-making that** can boost the performance of the local economy	Passed on 2 July 2015	Starting in 2016
ASSESSMENT: +0.3 pp of GDP by 2020[3]					
REDUCING LABOUR COSTS AND IMPROVING COST COMPETITIVENESS					
Measures to promote competitiveness and employment	**Competitiveness and Employment Tax Credit (CICE)**	**Reduction of labour costs by €20bn** targeting jobs paying between 1 and 2.5 times the minimum wage. Gradual build-up with a rate of **4% of total payrolls in 2013 and 6% as from 2014**	Reduced labour costs and increased margins, export market shares and investment rates	Passed in December 2012	1 January 2013 (4% of total payrolls, then 6% on 1 January 2014)
	Responsibility and Solidarity Pact – measures in favour of companies	**Further reduction of labour costs by €10bn (including €5.6bn in 2015) and tax cuts:** phasing out of the corporate social solidarity contribution or “C3S” (€5.5bn) starting in 2015 and cut in corporate income tax (elimination of the exceptional corporate income tax payment for large corporations in 2016 and initial reduction of the standard tax rate in 2017 worth more than €4bn)	**Reduced labour costs across a broad range of the wage distribution (up to 3.5 times the minimum wage) and reduced business taxes**	First two phases passed (2014 and 2015) The 3rd phase will be passed in 2016	Starting in 2015

3 - OECD assessment: « Structural reforms in France: impact on growth and options for the future,» OECD, 2014.

RÉFORMS		MAIN MEASURES	ECONOMIC MECHANISM	TIMETABLE	IMPLEMEN-TATION
LOCAL AND REGIONAL GOVERNMENT REFORM AND RATIONALISATION OF GOVERNMENT ACTION					
Short-term support	**SME recruitment incentive programme**	**Fixed annual payment of** €2,000, paid quarterly for two years, to companies with fewer than 250 employees that **hire new employees under open-ended contracts or fixed-term contracts of more than six months** between 18 January and 31 December 2016	**In the short-term,** support for the economic recovery; in the long-term, **mitigation of the hysteresis effects and the depreciation of human capital** owing to unemployment	Decree of 26 January 2016	2016
ASSESSMENT: +1.7 pp of GDP by 2020/ Jobs: + 520,000					
SIMPLIFICATION OF REGULATIONS AND OPENING UP MARKETS FOR GOODS AND SERVICES					
Administrative streamlining	**Regulations and orders**	**Implementation of Business Simplification Council measures** (“no answer means yes” principle, switch to a single, streamlined and paperless system of staff reporting for businesses, introducing a hiring-cost simulator and subsidised employment contract schemes for SMEs). **Measures to streamline standards in the construction industry** and in the industrial, hotel-restaurant and tourism sectors.	**Savings of €1.1bn for businesses** between August 2014 and September 2015. This fosters productivity by more effective allotment of the factors of production.	Three series of measures since January 2014	On-going
	Business Simplification Act	Many measures, including the extension of the simplified business employment scheme (Titre Emploi Service Entreprise) to establishments with between 9 and 20 employees, elimination of some tax reporting requirements		Passed in December 2014	1 January 2015
	Transparency, Anti-Corruption and Economic Modernisation Bill – measures in favour of modernisation	**Many economic modernisation measures** including: - Staggering the effects of micro-enterprises exceeding turnover thresholds in terms of tax and social security contributions over time - Facilitating business funding - Reviewing professional qualification obligations - Streamlining business creation	Encouraging business initiative and improving the growth trajectories of businesses	Presented in March 2016	
Transparency of economic life	**Transparency, Anti-Corruption and Economic Modernisation Bill – Transparency and anti-corruption component**	**Enhanced means of fighting corruption to safeguard businesses** with the creation of a special national agency, **regulation of interest groups** with a mandatory directory, **legal protection for whistle-blowers** and a ban on the advertising of online trading	In the short term, the impact of these measures is hard to quantify. Over time, lessening corruption, if it were to lead to France having a similar ranking to Germany or the UK in the international corruption ratings, could substantially boost growth.	Presented in March 2016	
Measures to boost competition	**Consumption Act**	**Relaxing of regulatory constraints** on opticians and insurers resulting in a purchasing power gain of €1.5bn	**The relaxing of regulatory constraints results in a direct transfer of purchasing power to consumers.** Furthermore, class action suits may result in higher costs for some companies, but they are more efficient overall, since they are an incentive to comply with fair competition rules.	Passed in March 2014	March to June 2014
		Introduction of **class action suits**			
		Phasing out of regulated prices for the sale of natural gas to business customers			

RÉFORMS		MAIN MEASURES	ECONOMIC MECHANISM	TIMETABLE	IMPLEMEN-TATION
SIMPLIFICATION OF REGULATIONS AND OPENING UP MARKETS FOR GOODS AND SERVICES					
	Growth, Economic Activity and Equal Economic Opportunity Act	**Reform of certain regulated professions** (lower prices, new co-ownership opportunities for legal and accounting professionals, easing of restrictions on freedom of establishment for notaries)	**The Act results in a transfer of purchasing power to consumers** by lowering prices in protected professions and increasing employment. The opening up of the coach transport business and Sunday opening for certain traders are expected to boost demand.	Passed in July 2015	2015-2016
		Deregulation of coach transport			
		Adaptation of the laws on Sunday and evening opening of shops (trading allowed on 12 Sundays per year, instead of 5 now, creation of international tourist zones)			
ASSESSMENT: +0.4 pp of GDP by 2020/ Jobs: + 25,000					
ENERGY TRANSITION					
Energy policy reform	**Energy Transition and Green Growth Act**	Setting targets for reducing greenhouse gas emissions, carbon pricing and resources for the **emergence of a new energy model**	Energy transition targets and carbon pricing result in **forced obsolescence of capital equipment and promote new investment.** The transmission channel is the impact on demand from investment.	Passed in August 2015	2015 - 2050
ASSESSMENT: +0.8 pp of GDP by 2020/ Jobs: + 120,000[4]					
SUPPORT FOR INVESTMENT AND INNOVATION					
Measures to boost investment	**Creation and rollout of financing by the Public Investment Bank**	**Bpifrance invested or lent more than €12bn in 2014**	The Public Investment Bank strives to focus on profitable investments that are not fully covered by the private sector, thus increasing investment	Launched in 2012	
	Invest for the Future Programme – 2nd phase 3rd phase upcoming	**Plan for €12bn in government investment targeting research and innovation** in growth sectors. A 3rd phase of €10bn will be rolled out starting in 2018.	The programme's impact stems from: an increase in government investment, the leveraging of private investment and a productivity effect from channelling investment to R&D	Launched in 2013	2014-2024 for the 2nd phase, as from 2017 for the 3rd phase
	Higher depreciation allowance measure for productive investment made between 15 April 2015 and 15 April 2017	**All productive investment (except real-estate) may be depreciated or amortised by 40%**	**The measure** makes a number of investments profitable and brings forward investment decisions, thereby supporting recovery in the short term	Announced in April 2015	2015-2020
	High-speed Broadband Plan	**Access to high-speed broadband Internet for the entire population by 2022**	The plan supports local government projects to make high-speed broadband available and encourages private operators to coordinate their action to speed up the extension of the network. This plan represents an investment of €20bn.	Launched in 2013	2013-2022
ASSESSMENT: +0.6 pp of GDP by 2020/ Jobs: + 80,000					

4 - Assessment by the General Commission for Sustainable Development: "Étude d'impact du Projet de loi relatif à la transition énergétique pour la croissance verte", 2014.

RÉFORMS		MAIN MEASURES	ECONOMIC MECHANISM	TIMETABLE	IMPLEMEN-TATION
LABOUR MARKET AND SOCIAL DIALOGUE					
Flexicurity and active labour market policies	**Job Security Act (based on National Multi-Sector Agreement of January 2013**	More secure procedures for mass redundancies	**Less litigious mass redundancy procedures** (collective bargaining agreements in 75% of the cases, proportion of cases ending up in court reduced from 25% to 8%); productivity gains due to increased movement on the labour market leading to better matching of supply and demand	Passed in May 2013	1 July 2013
		Job protection agreements	**Improved employment stability over the business cycle**		
	Unemployment insurance agreement based on the March 2014 agreement and new agreement in 2016	Enhanced incentives to return to work (simplification of part-time work and introduction of rechargeable entitlements) and major savings efforts (€400 million under the 2014 agreement and further savings expected under the 2016 agreement)	Enhanced incentives to return to work; lower reservation wage	New agreement planned in 2016	1 July 2014, summer 2016 for the new agreement
	Act on Vocational Training, Employment and Workplace Representation	**Fighting frictional and structural unemployment** (improved access to training for the unemployed) and **support for mobility** with portable training entitlements (personal training account)	**Better matching of labour supply and demand and productivity gains** from higher qualifications	Passed in March 2014	1 January 2015
	Growth, Economic Activity and Equal Economic Opportunity Act – labour tribunal reform	**Faster results,** more professional procedures and facilitation of labour tribunal proceedings	Reduction of the cost and number of disputes is equivalent to lower labour costs across the board; productivity gains due to increased movement on the labour market leading to better matching of supply and demand	Passed in July 2015	2015 - 2016
	Bill aiming at introducing new opportunities and new safeguards for companies and employees – Decree on the indicative scale for awards that labour tribunal judges can hand down	**Giving a larger role to collective bargaining whilst protecting employees' basic rights,** reducing the number of occupational sectors, bolstering the legitimacy of company-level agreements, enhancing the role of labour and management in setting the rules concerning how work is organised and working hours, explaining the reasons for layoffs	Productivity gains due to increased movement on the labour market leading to better matching of supply and demand	Scheduled to be passed in summer 2016	2016
Effective labour-management dialogue	**Act on labour-management dialogue and employment**	**Rationalisation** of information and consultation requirements, measures to **enhance the quality of labour-management dialogue** and option to simplify the staff representative bodies (extension of scope of the single employee representative body, option of merging representative bodies)	Improved performance and lower costs for representative bodies	Passed in July 2015	2015-2016
ASSESSMENT: +0.3 pp of GDP by 2020/ Jobs: + 120,000					

RÉFORMS		MAIN MEASURES	ECONOMIC MECHANISM	TIMETABLE	IMPLEMEN-TATION
SUPPORT FOR THOSE WHO ARE THE FARTHEST FROM FINDING A JOB					
Inclusion and improved employability	**Implementation of Jobs for the Future initiative**	**Jobs for the future are subsidised jobs for young people. They come with a training requirement.**	Impact on France's economic potential by 2020, through an increase in or preservation of human capital	2013	2013-2017
	Implementation of the Youth Guarantee	**The Youth Guarantee provides enhanced support for vulnerable young people aged 18 to 25 (especially those who are neither employed nor in education or training) to help them find a job or training for a cost of approximately €200 million**	The guarantee means that some policies for putting young people in education, employment or training can be financed in part by the EU. This is an active employment policy aimed at young people.	Testing started in 2013 and fully implemented in 2017	2013-2017
	Enhanced resources for the public employment service agency (*Pôle emploi*)	**Enhanced resources for supporting those who are the farthest from finding a job**	Impact on economic potential by 2020 through a decrease in structural unemployment	Agreement between the central government, *Pôle emploi* and Unemploy-ment insurance union *Unédic* of 18 December 2014	2015-2017
	Increase in resources earmarked for training jobseekers	**Jobseekers will have access to 500,000 additional training courses in 2016**	Impact on France's economic potential through an increase in human capital	2016	
ASSESSMENT: +0.2 pp of GDP by 2020/ Jobs: + 110,000					
BOOSTING THE PURCHASING POWER OF LOW-INCOME HOUSEHOLDS					
Tax and benefit reforms to help low-income households	**Personal income tax cut - Responsibility and Solidarity Pact**	**Elimination of the lowest income tax bracket in 2015 and revision of income tax rates starting in 2016**	Increased purchasing power for households	Passed in 2015 and 2016	2015 for the first phase and 2016 for the rest
	Anti-poverty Plan	**A 10% increase in the Social Inclusion Benefit (RSA), increase in family income supplement by 50% and 25%-increase in the family support benefit for single parents**	Increased purchasing power for households	Announced in 2013	Ramping up started in 2013
ASSESSMENT: +0.3 pp of GDP by 2020/ Jobs: + 40,000					
EDUCATION					
Education reform	**Increased resources for education**	**Creation of 60,000 teaching positions**	Productivity gains from improved qualifications	Passed in July 2013	2013-2017
	Targeting struggling pupils	**Overhaul of priority education, middle-school reform, overhaul of curricula for all grades, starting with pre-school, etc.**	Reduction of structural unemployment, especially as drop-out numbers fall	In progress	
ASSESSMENT: +0.1 pp of GDP by 2020/ Jobs: + 20,000					
TOTAL ASSESSMENT		**GDP in 2020**	**4.8 pp**	**Jobs**	**1,030,000**

3. POLICY RESPONSES TO MAJOR ECONOMIC CHALLENGES

This part provides details about the economic and social reforms done, in progress or coming to meet the four key challenges facing the French economy: (i) guaranteeing sound and sustainable public finances; (ii) regaining competitiveness, boosting productivity and enhancing the business environment; (iii) improving the functioning of the labour market; and (iv) promoting gender equality, social inclusion and equal opportunities. These reforms help to modernise, simplify and unshackle the economy, intensifying the recovery, making it sustainable and beneficial to all. These reforms are fully in line with the European Union's growth strategy endorsed by the European Council and based on stepping up investment, continuing structural reform and implementing responsible fiscal policy. They also contribute to coordination of economic policies in the euro area (see box below).

France's implementation of the recommendation on the economic policy of the euro area

As one of the largest economies in the euro area, France participates in the coordination of European economic policies to strengthen the euro area and improve its functioning. The early adoption of the Council Recommendation on the economic policy of the euro area of 8 March 2016 marks a positive development for European economic governance and provides the different Member States with a common roadmap. France is fully committed to implementing the recommendations at the national level, as is shown by the measures presented in this NRP.

Restoring the balance and improving the functioning of the euro area requires **continuing work on restoring competitiveness and productivity in certain Member States,** including France, and more efficient markets for products, services and labour. The Council's first two recommendations address this work and have guided France's action for several years now. Therefore, France continues to implement reforms to boost the competitiveness of its businesses, including cuts in taxes and contributions on labour, and to promote increased non-cost competitiveness (support for R&D and innovation, including tax incentives). More generally speaking, the reforms implemented increase productivity by sustaining investment, modernising the markets for products and services and enhancing the business environment to stimulate business creation and growth (see Challenge 2, Headings 2 and 3).

Since 2013, France has also implemented a series of reforms aimed at **improving the functioning of its labour market** in order to combat unemployment and avoid a two-tier labour market. The reforms are based on making transitions more secure for both employees (measures to support jobseekers and training) and employers (more certainty regarding redundancy procedures), as well as relaxing certain rules so that companies can adapt more readily to changing economic conditions.

Fiscal policy coordination across the euro area is required to ensure that each Member State contributes to the sustainability of euro-area public finances in view of macroeconomic conditions in the area. This is the subject of the Council's third recommendation. France's action is fully in line with this recommendation. Its fiscal efforts have significantly reduced the structural deficit, from 4.4% of GDP in 2011 to 1.6% of GDP in 2015, and reduced the government deficit to 3.5% of GDP in 2015. This reduction was achieved while boosting growth and reducing the tax burden as a share of GDP (see Challenge 1). At the same time, the social protection system has seen several radical reforms, including pension reform in 2014, an agreement with labour and management on supplementary pension schemes in 2015, a new unemployment insurance agreement in 2014 and a future agreement in 2016. These reforms are aimed at making the system more effective and ensuring its sustainability (see Challenge 3).

Furthermore, the recent increase in **private debt** in the euro area calls for close monitoring of the quality of this debt and establishing an environment conducive to effective resolution of unviable debt. The Council's fourth recommendation addresses such reforms. France, where companies and households are financially sound on the whole, is contributing to this effort on behalf of the entire euro area. Recent reforms should improve the treatment of non-performing loans and promote orderly deleveraging of companies. Consequently, special efforts have been made to reform business laws dealing with financially distressed companies. The Order of 12 March 2014 to reform prevention of business distress and insolvency proceedings (i) facilitates access to amicable procedures and (ii) rebalances insolvency procedures in favour of creditors. In addition, the Growth, Economic Activity and Equal Economic Opportunity Act introduces a legal procedure for buying out shareholders in order to facilitate implementation of rescue plans for companies.

France broadly supports the Commission's initiatives stemming from the Five Presidents' Report "Completing Europe's Economic and Monetary Union", which should lead to bold projects for the euro area, as well as short-term economic governance measures.

1

CHALLENGE

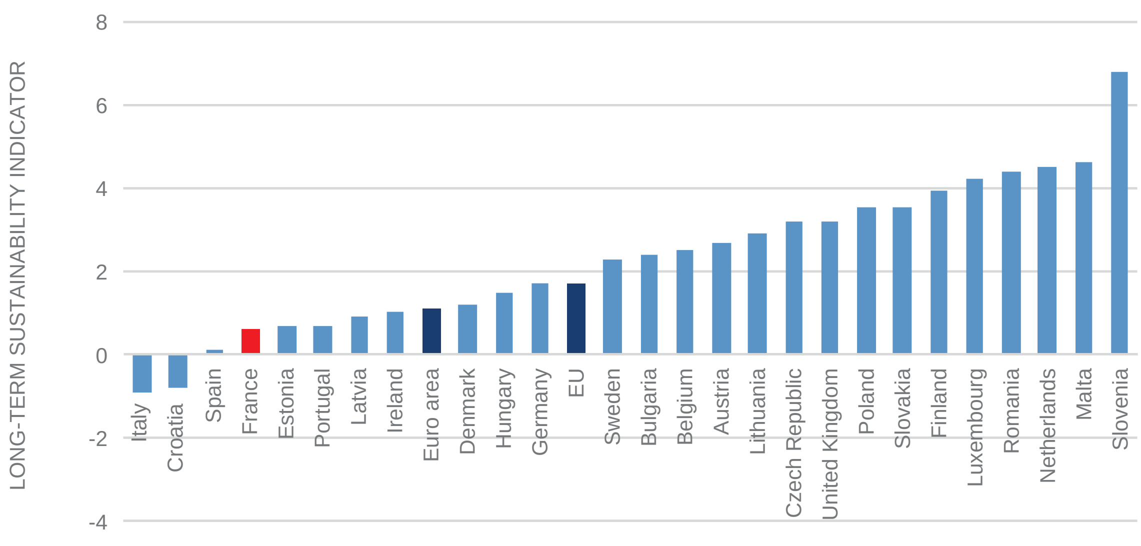
GUARANTEEING SOUND AND SUSTAINABLE PUBLIC FINANCES

The strategy to rebalance public accounts has continued with the aim of bringing the government deficit back below 3% of GDP and stabilising the debt-to-GDP ratio in 2017 and then reducing it gradually.

Fiscal sustainability must go hand-in-hand with an improvement in the quality of public finances to further the aim of boosting economic growth and reducing unemployment. For this purpose, expenditure and revenue are being reviewed to ensure that they are economically effective and to reduce the tax burden.

Result: Positive demographic trends and the pension reforms under way since 2010 mean that France's long-term fiscal sustainability is one of the best in the EU, according to the European Commission's analyses in the Fiscal Sustainability Report 2015.

LONG-TERM SUSTAINABILITY INDICATOR FOR GOVERNMENT DEBT



Source: European Commission

Key: A high long-term sustainability indicator means that the Member State will have to make a major effort to stabilise its general government debt ratio by 2060, in view of age-related expenditure.

Heading 1 : Ensuring the sustainability of public finances to regain room for manoeuvre

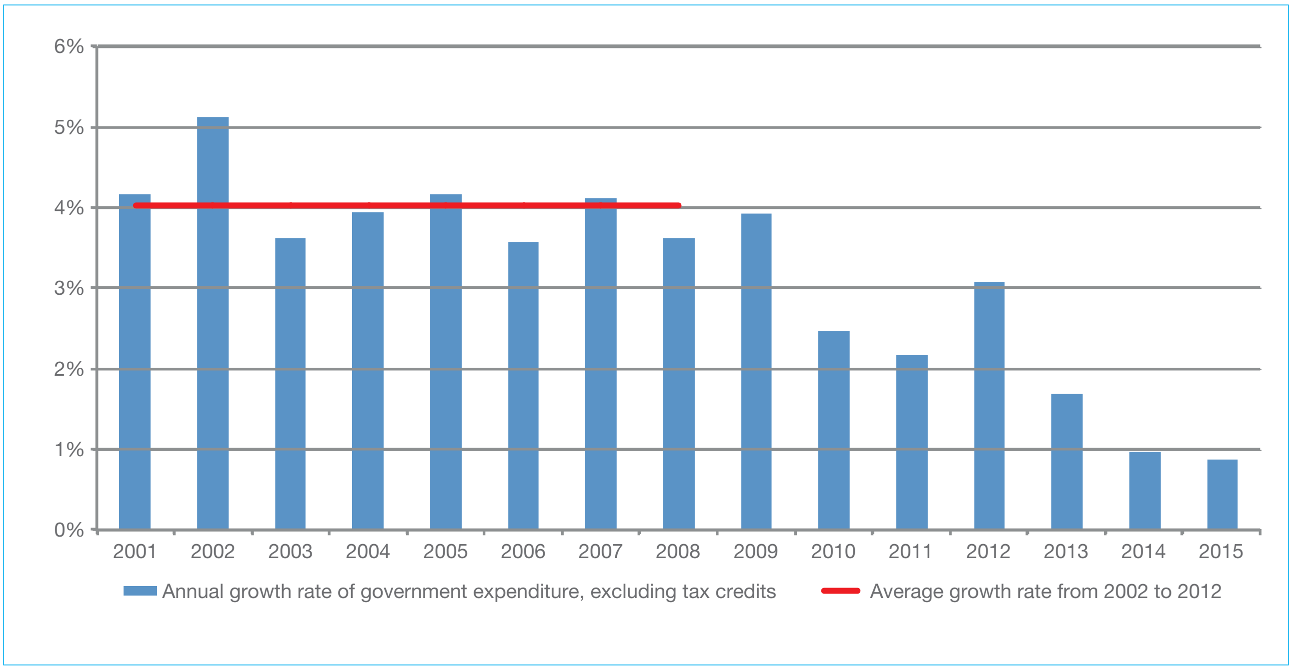
Going forward, the consolidation of public finances will rely exclusively on containing government expenditure. The €50-billion savings plan for 2015-2017 involves all general government sub-sectors: central government and central government agencies (€19.3 billion), local government (successive cuts in transfers totalling €10.5 billion) and social expenditure (healthcare expenditure under the national healthcare expenditure growth target (Ondam) and other social protection expenditure).

The actions taken help meet the following recommendations[5] made by the Council:

- *"Ensure effective action under the excessive deficit procedure and a durable correction of the excessive deficit by 2017 by reinforcing the budgetary strategy, taking the necessary measures for all years and using all windfall gains for deficit and debt reduction." (from the first recommendation)*
- *"Identify savings opportunities across all sub-sectors of general government, including on social security and local government. Take steps to limit the rise in local authorities' administrative expenditure. Take additional measures to bring the pension system into balance, in particular ensuring by March 2016 that the financial situation of complementary pension schemes is sustainable over the long term." (from the second recommendation)*
- *"Take action in consultation with the social partners and in accordance with national practices to reform the unemployment benefit system in order to bring the system back to budgetary sustainability" (from the sixth recommendation.*

Result: Public expenditure, excluding tax credits, contracted to 55.3% of GDP in 2015, compared to 56.1% in 2014, and will continue to shrink in 2016 towards the objective of 54.6% of GDP. The government deficit shrank from 5.1% of GDP in 2011 to 3.5% in 2015. This was achieved by reducing the structural deficit from 4.4% of GDP in 2011 to 1.6% of GDP in 2015, cutting it back to its level in the early 2000s.

ANNUAL GROWTH RATE OF NOMINAL GOVERNMENT EXPENDITURE, EXCLUDING TAX CREDITS



5 - Council Recommendation of 14 July 2015 on the 2015 National Reform Programme of France and delivering a Council opinion on the 2015 Stability Programme of France.

All general government sub-sectors: Achieve further savings in 2015 and 2016 to cope with lower-than-expected inflation

DONE

The government presented additional measures for savings of €4 billion in 2015 and €5 billion in 2016 in the April 2015 Stability Programme in order to offset the adverse effects of lower inflation on the planned savings and in keeping with the fiscal adjustment path.

The additional effort in 2015 led to the cancellation of €0.7 billion in appropriations in the central government budget, revisions to the budgets of some central government agencies, such as AFITF, the agency in charge of financing transport infrastructure, and lowering the national healthcare expenditure growth target (Ondam) from the figure given in the 2015 Social Security Budget Act. Low interest rates also made it possible to reduce debt service compared to the figure given in the 2015 Budget Act.

The draft budgetary plan and the draft social security budget for 2016 include additional efforts that had been set out in the 2015-2018 Stability Programme, published in April 2015.

The government included additional savings of €3.8 billion in the 2016 Stability Programme, on top of the measures needed to finance new expenditure. These savings concern the expenditure of central govenrment and central government agencies, debt service and Social Security. They will ensure that the target balance is met in 2016 despite the persistence of lower-than-expected inflation.

Result: The 2015 government deficit stood at 3.5%, which is much lower than the figure of 4.0% recommended by the Council in March 2015.

Central government: Continue the savings plan in 2017 (see Stability Programme)

IN PROGRESS

The savings plan will continue in 2017 for a total of €18.7 billion, including €6.2 billion for the central government and central government agencies. This also includes the additional measures announced in the Stability Programme to cope with the persistence of lower-than-expected inflation in 2017.

June 2016: preparatory report for the public finance policy debate 2017 DBP (autumn 2016)

Result: Central government expenditure reduced by €4.5 billion between 2012 and 2015.

Social Security: Curb the growth of health insurance expenditure

IN PROGRESS

The national healthcare expenditure growth target (Ondam) for the period from 2015 to 2017 sets a historically low growth rate target of 2% in 2015, followed by 1.75% in 2016 and 2017. This represents savings efforts of more than €10 billion and reduces expenditure growth to a rate that is much lower than the trend path without the measures, which would have been an estimated 3.6% in 2016.

This effort stems from the continued rollout of the national healthcare strategy and the savings plan built on four pillars:

- improving the efficiency of hospital expenditure through a national programme with adaptations at the regional level;
- developing outpatient care and ensuring appropriate inpatient care;
- lowering the price of healthcare products and promoting generic products;
- ensuring effective and reasonable use of treatments and drugs.

Result: The healthcare expenditure growth targets of 2.4% in 2014 and 2.0% in 2015 were achieved. These targets are much lower than the growth rate of the same expenditure without the measures, estimated at 3.8% and 3.9% respectively for the same two years.

Draft social security budget for 2017 (autumn 2016)

Retirement pensions: Ensuring the sustainability of supplementary pension schemes

DONE

In view of past reforms, the Pensions Advisory Council (Conseil d'orientation des retraites, COR) estimates that the basic pension schemes will be in balance soon after 2020 under three of five macroeconomic scenarios, according to the projections released in December 2014.

The sustainability problems now primarily concern the supplementary pension schemes Agirc and Arrco-, which, absent additional measures, would have exhausted their reserves in 2018 in the case of Agirc and in 2025, in the case of Arrco, according to the calculations of the French Government Audit Office (*Cour des comptes*). The management and labour representatives that manage the Agirc and Arrco supplementary pension schemes signed a national multi-industry agreement aimed at ensuring the sustainability of supplementary schemes. The agreement covers pension benefit amounts, retirement ages and contribution amounts.

In the short term (2016-2018), the measures primarily concern pension benefit amounts (slower adjustment of benefits and delayed adjustment dates).

Starting in 2019, a new unified supplementary pension scheme, based on the principles of contribution, transparency and solidarity, will change the benefit calculations to give employees an incentive to delay their retirement. A system of temporary benefit increases and reductions will be established for this purpose. Incentives to delay retirement should also have positive effects for the general pension scheme: contributors will wait longer to collect their benefits, which should reduce pension expenditure and increase the contributions received. Furthermore, the return on the scheme will be reduced by approximately 9%, leading to significantly slower benefit growth in the long term.

Finally, multiannual monitoring of supplementary pension schemes will be developed to define an equilibrium path for the unified scheme, and to set up strategic and early warning monitoring bodies.

Agirc and Arrco agreement on supplementary pension schemes

In terms of incentives, the agreement calls for a system of temporary bonuses and penalties (called solidarity coefficients and escalation coefficients) to be introduced in 2019 as an encouragement to work one year longer after meeting the requirements for receiving a full pension (minimum retirement age and years of contributions). This means that a person with the requisite years of contributions who retires at the legal age for a full pension under the general scheme will take a 10% cut in supplementary benefits for the first three years, or until the age of 67. On the other hand, the temporary penalty can be avoided by delaying retirements for one more year. Furthermore, delaying retirement beyond one year will not only eliminate the penalty, it will increase pension benefits by 10% during one year for each additional year worked, up to a maximum of 30%.

In terms of benefit amounts, annual benefits adjustments will be 1 percentage point lower than inflation as measured by the CPI during three years (from 2016 to 2018), but benefits will not be cut if inflation as measured by the CPI is lower than 1%. In addition, annual benefit adjustments will go into effect in November, instead of April, starting in 2016. Furthermore, contributions will be raised by 2 percentage points more than average wage increases, which will reduce the return on the retirement scheme by approximately 9%, from 6.56% in 2015 to approximately 6% in 2018. This means that, starting in 2019, an employee will receive benefits of €60 per year for each €1000 in contributions paid in, instead of the current annual return of €65.60.

Finally, in order to balance the schemes' finances, the call-up rate, which is the rate at which the contractual contributions generating benefit entitlements are collected, will rise by 2 percentage points to 127%, starting in 2019. With a view to the merger of Agirc and Arrco, the wage brackets will be aligned and the contractual employee contribution rates on earnings ranging from one to eight times the Social Security cap[6] will be raised on 1 January 2019. The agreement also calls for the contribution paid to the Association managing the Agirc and Arrco funds to be extended to wage bracket C (i.e. earnings ranging from 4 to 8 times the Social Security cap) starting in 2016.

In addition to these measures, a new unified supplementary pension scheme will be set up in 2019 and assume all of the entitlements and liabilities of the Agirc and Arrco supplementary pension schemes. Multiannual monitoring of the new scheme will define an equilibrium path for it.

Result: All in all, in addition to the savings achieved in the short and medium term (approximately €6 billion in 2020), the agreement will ensure the long-term equilibrium of the supplementary pension schemes by means of changes to benefit amounts and incentives to delay retirement.
In light of the measures set out in the agreement signed in 2015, the Agirc and Arrco supplementary pension schemes should post surpluses starting in the middle of the 2020s under four of five macroeconomic scenarios examined by the Pensions Advisory Council (COR).

Unemployment insurance scheme (*Unédic*): Following the 2014 agreement, sign a new agreement to ensure the sustainability of the unemployment insurance system

COMING

Management and labour representatives are now negotiating the next unemployment insurance agreement. It provides an opportunity to make unemployment insurance more effective, while maintaining its protective function. The system played its full part as an automatic stabiliser during the crisis, providing replacement income for people who lost their jobs involuntarily. The coming changes include:

- further adaptation of the unemployment insurance system to a changing labour market, more specifically, by providing employees greater protection when changing careers to promote mobility and provide better protection for people with non-linear career paths;
- support for members of the workforce re-entering the job market and encouraging all players to create high-quality jobs. The increasing number of very short-term employment contracts calls for a strong drive to promote stable employment;
- rebalancing the finances of the system to ensure its long-term sustainability. Unédic forecasts that, failing new measures and despite the measures included in the 2014 agreement, its structural deficit should persist for the next three years and stand at €1.6 billion in 2018.

Result: The measures adopted as part of the 2014 agreement made it possible to provide benefits to more people and still reduce the financial imbalance of the system by reducing the average benefit amount. All in all, the 2014 unemployment insurance agreement led to a smaller annual deficit of an estimated €830 million in 2015 (net impact). This preliminary financial effort should reduce growth of the net debt of the unemployment insurance system by approximately €3 billion in 2018.

Start of negotiations on 22 February; implementation of the new agreement on 1 July.

6 - In 2016, the monthly cap on earnings taken into account for calculating Social Security contributions was €3,218.

Local government: Containing expenditure

IN PROGRESS

The 2016 Initial Budget Act continues the efforts of recent years with further cuts of €3.5 billion in central government transfers to local government, following cuts of €3.3 billion in 2015 and €1.5 billion in 2014. The reduction in 2017 will come to €3.7 billion.

The government also continued deployment of the local government expenditure growth target (*objectif d'évolution de la dépense locale, ODEDEL*) introduced under the Public Finance Planning Act for 2014-2019. The target was broken down by level of local government (municipality, *département*, region) when the budgetary legislation for 2016 was presented. This means that each local government now has a tangible benchmark for comparing its budget growth to the overall target for local government expenditure growth. The target is also monitored over the course of the year and assessed annually.

This effort to contain local government expenditure is consistent with local government reform (see Heading 2).

Result: Nominal local government expenditure decreased by 1.3% in 2015 according to the national accounts data published by Insee on 25 Marc[7]. Administrative expenditure grew more slowly, at 0.9% in 2015, while total capital expenditure[8] dropped by 9.1%, largely as a result of the election calendar. This decrease comes on top of the slight decline seen in 2014 (0.4% according to local government accounts, Source: report by the *Observatoire des finances locales*).

Budget Act for 2017 presented in the fall of 2016: further cuts in transfers to local governments and reform of the general operating grant (*dotation globale de fonctionnement, DGF*) to municipalities and intermunicipal structures to make it more transparent and fairer.

Heading 2 : Improving the quality of government expenditure to combine deficit reduction, economic effectiveness and quality of service for users

As the ratio of government expenditure to GDP decreases, the objectives of quality, effectiveness and efficiency of government expenditure call for a rigorous review of the nature of central government expenditure and functions in order to reallocate expenditure to priority actions. In addition to the detailed analysis of the effectiveness of government expenditure appended to the draft budgetary plans, specific measures have been taken for spending review, government modernisation and local government reform. These measures contribute to the 2015-2017 savings plan.

These actions help meet the following recommendation made by the Council:

- *"Step up efforts to make the spending review effective, continue public policy evaluations and identify savings opportunities across all sub-sectors of general government, including on social security and local government. Take steps to limit the rise in local authorities' administrative expenditure." (from the second recommendation).*

7 - Local government expenditure growth calculated according to the national accounts standards will not be available until June 2016.

8 - Gross fixed capital formation, along with capital expenditure subsidies.

Central government: Continue spending reviews and government modernisation

Spending review – IN PROGRESS

Spending reviews were first introduced in 2015, before the scheduled start stipulated in the Public Finance Planning Act for 2014-2019. They were then stepped up in the draft budgetary plan for 2016. This innovative instrument is coordinated with the budget-making procedure in conjunction with Parliament. The reviews cover all general government sub-sectors and includes all of the instruments for financing public policies (tax expenditures, budget appropriations, earmarked taxes, etc.). The spending reviews that started in 2016 cover areas involving major spending, such as government agency payrolls, local government procurement and ambulance services, and they contribute to the savings plan.

Result: The first wave of spending reviews identified savings of nearly €500 million in the draft budgetary legislation for 2016. More savings are expected in 2017 (€600 million).

Submission of auditors' reports.
Autumn 2016: incorporation of the 2016 spending review findings in the draft budgetary plan and the social security draft budget for 2017.

Government modernisation (*Modernisation de l'action publique, MAP*) – IN PROGRESS

The government modernisation drive was launched in 2012 and is continuing apace. A further 15 public policy assessments (EPPs) were launched in 2015 and 6 have been completed. The 9 others relating to school health services, management of public roads and management of the European Social Fund will be completed by the second quarter of 2016. Some 20 further public policy assessments are in preparation on such subjects as gender diversity by occupation, training for primary school teachers and the development of organic farming. These assessments will be completed in 2016.

In addition, as part of the review of central government functions, 45 measures designed to make central government action more effective at the local level were announced at the cabinet meeting of 22 July 2015.

Result: The public policy assessments should lead to savings totalling €7.1 billion in the areas examined in 2014, 2015 and 2016. The 59 assessments completed since 2012 have produced savings of €5.4 billion and the budgetary legislation for 2016 provides for €1.7 billion in further savings in the areas assessed.

Launch of 20 public policy assessments in 2016 and implementation of the 45 measures stemming from the review of central government functions by the end of 2016.

Merger of central government services at the regional level and digital transformation of central government services at the local level - IN PROGRESS

The reorganisation of central government services at the regional level, which started on 1 January 2016, will enhance the central government's role at the local level for more effective allocation of resources and better coordination of central government and local government actions.

Two calls for projects to enhance use of digital technology in the operations of central government services at the local level and to promote local innovation in conjunction with all stakeholders will be launched in April 2016. The projects should start by the end of 2016.

Launch of two calls for projects in April 2016, projects to start by the end of 2016.

Central government: Pooling support departments (Public Procurement Directorate, France Domaine Department, IT departments)

Rationalisation of government procurement - IN PROGRESS

The creation of the Public Procurement Directorate by means of the Decree of 3 March 2016 promotes the professionalisation of the procurement function (pooling of procurement, professionalisation of procurement officers, implementation of effective policies for monitoring consumption). The Directorate, which replaces the Public Procurement Department, will have extended powers. This change will facilitate the identification of new savings on procurement that will provide the Ministries with budgetary headroom.

Result: Creation of the Public Procurement Directorate on 3 March 2016

Pooling of IT resources – IN PROGRESS

The pooling of IT resources will continue, with the rollout of the central government's interministerial network (two-thirds deployed versus one-quarter deployed one year ago). Furthermore, Decree 2014-879 of 1 August 2014 on the Secretariat-General for Government Modernisation reinforces the interministerial directorate in charge of digital technology and central government information and communication systems in order to rationalise the use of the central government's IT resources. The Directorate monitors the central government's 50 largest IT projects and relies on the responsive staff of the "central government innovative start-ups" with a focus on users' needs.

The large Directorates of the Ministry of Finance and Public Accounts with their nationwide branch networks will also make a major contribution to savings on operating expenditure through their on-going projects to computerise operations and make them paperless.

Reinforcing the government property policy – IN PROGRESS

The government property policy involves annual expenditure of approximately €10 billion, making it a major focus of government modernisation. After the cabinet meeting on 20 January 2016, the government announced several measures, some of which will go into effect in 2016. Governance will be overhauled, with the transformation of the France Domaine Department into a fully-fledged central government property directorate. This change will enhance professionalisation of management and the effort to pool the Ministries' property management capacities. Rationalisation of sites is also bound to continue, both at the central and local level. For this purpose, the regional property guidelines (*schémas directeurs immobiliers régionaux, SDIR*) will be extended to all regions and should generate savings as local government reform progresses. The principles of the government property policy will be applied to agencies.

The reforms also include a budgetary component calling for the implementation of "property consultations" in 2016 in preparation for the 2017 draft budget. The consultations will be incorporated into the budget-making procedure and provide an overview of property expenditure by the central government and central government agencies. The consultations will enhance the consideration of property issues in budgetary choices and improve oversight of such expenditure by making it more effective and increasing the focus on projects that will generate future savings.

In 2016: Implementation of the main measures under the plan of action on property policy

Improving the supply of healthcare

DONE

The Healthcare Modernisation Act of 26 January 2016 aims to adapt our healthcare system to new challenges by implementing tools for governance and organisation that improve healthcare delivery and modernise healthcare professionals' practices. The measures under the Act will contribute to overall control of health insurance expenditure, through better organisation of local healthcare delivery, enhanced coordination between healthcare professionals and greater prevention efforts.

- Local hospital clusters (*groupements hospitaliers territoriaux, GHT*) should enable healthcare institutions to create joint medical projects to improve the medical services provided to the public and to pool a number of support functions (purchasing, information systems, etc.) Between 150 and 200 local hospital clusters will be set up. Their boundaries will be defined on 1 July 2016.

- Breaking down barriers between private practice and hospital care and supporting integrated care pathways through the creation and promotion of primary care teams and local healthcare professional communities contributes to the primary aim of ensuring universal access to quality care but it also ensures better use of public resources. Implementing a single number to call for round-the-clock outpatient care will also facilitate access to the local doctor on call and prevent unnecessary visits to hospital emergency rooms.

Defining the boundaries of local hospital clusters on 1 July 2016.

Local government: Rationalising local government expenditure with the implementation of local government reform

IN PROGRESS

The Act on modernising local government and strengthening metropolitan areas of 27 January 2014 (MAPTAM Act) and the redrawn map of regions established by the Act of 16 January 2015 started the reform of local government, which has now been finalised by the adoption of the local administration reform Act of 7 August 2015 (NOTRe Act). This further step in the decentralisation process improves the effectiveness of public expenditure:

- the rationalisation of the division of powers between the different levels of government is based on the abolishment of the "*clause de compétence générale*" for *départements* and regions, along with the transfer of economic powers from *départements* to regions and to metropolitan areas in the relevant zones;
- regions have also been given a greater say in economic development, particularly assistance for businesses, planning and transportation, while the tasks of départements have been refocused on human and local services;
- the clarification of local administrative boundaries is based on the reduction of the number of regions from 22 to 13 on 1 January 2016, the establishment of the greater Paris and Aix-Marseilles metropolitan areas on 1 January 2016, the rationalisation of groups of municipalities, the expansion of intermunicipal structures, now with a minimum population of 15,000, instead of 5,000, in order to organise local public services more rationally and incentives for municipal mergers under the Act of 16 March 2015 on improving the new municipality system.

The government has also initiated a reform of the general operating grant for municipalities and intermunicipal structures.

Result: The number of Public Intermunicipal Cooperation Establishments (EPCI) with their own tax raising powers has continued to decrease, falling from 2,599 in 2011 to 2,133 in 2015 (for a reduction of 18%), whereas the population covered by such establishments has increased from 58.8 million to 62.9 million. Furthermore, the number of intermunicipal structures will be reduced by some 30% as of 1 January 2017.

Result: Mergers of 1,090 municipalities under the Act of 16 March 2015 produced 317 new municipalities, bringing the number of municipalities in France to fewer than 36,000 for the first time. The population of the new municipalities is greater than 1.1 million. In contrast, only 25 new municipalities, resulting from mergers of 70 former municipalities, were created between 2011 and 2015. The mergers went into effect on 1 January 2016.

2016: preparation and adoption of new intermunicipal cooperation plans by *département*. January 2017 reform of the general operating grant for municipalities (DGF) enters into force.

Division of powers between regional governments and metropolitan areas

Local government reform, including the Act on modernising local government and strengthening metropolitan areas (MAPTAM Act) and the local administration reform Act (NOTRe Act), along with the redrawn map of regions, has reinvented the way local governments work together. The new pairing of regional governments and metropolitan areas is part of this effort to rationalise and clarify local administration in France.

The law establishes an institutional division of powers that requires new instruments for cooperation between regional governments and metropolitan areas. The legislature has created the right conditions for constructive dialogue between the different levels of government. This is the purpose of the local government policy consultations (CTAP) that local governments use to organise the division of powers.

The new regions and metropolitan areas have complementary powers.

The pairing of regional governments and metropolitan areas gives rise to synergistic approaches to economic issues. Regional governments take the lead on economic development policy. The regional government now works with the metropolitan areas to define economic policies that all of the local governments in the region will have to follow. Given their economic influence, metropolitan areas that disagree with the regional government may develop their own strategies, as long as they are consistent with the aims of the regional policies. Regional development policies and those of the metropolitan areas need to be coordinated to enhance the effectiveness of the resources that the two levels of government allocate to economic development.

In addition, metropolitan areas are called upon to upgrade their economic functions, transport networks, university, research and innovation facilities in the spirit of regional and interregional cooperation, and with an eye to balanced local development.

In the same way, new relationships are being forged between regional governments and metropolitan areas to deal with transport. The MAPTAM Act transferred the mobility organisation authority (*autorité organisatrice de la mobilité, AOM*) to the metropolitan areas so that they can define the urban transport policies within their boundaries. This power is legally attributed to metropolitan areas in the same way as the power to build, improve and maintain roads and public land used for all modes of urban transport[9].

The NOTRe Act finalises the structure by specifying the powers of transport policy-making authorities according to their level of jurisdiction. The metropolitan areas are now mobility organisation authorities, which means that they have the power to manage urban and non-urban transport within their boundaries. The regional governments will be responsible for non-urban transport starting on 1 January 2017, unless the transport service in question operates entirely within the jurisdiction of a single mobility organisation authority. In this case, an agreement between the relevant authorities specifies the procedures for the transfer of powers to the mobility organisation authority and the financing arrangements for the transport services transferred.

Local government reform has also strengthened the policy-making capacities of metropolitan areas by creating a single authority for implementing transport policy within their boundaries (urban and non-urban roads, river transport, sustainable mobility, etc.). Meanwhile, the regional governments have taken over the powers previously held by the *départements* for non-urban transport, school buses, etc. and are given the task of working with the different local governments concerned to ensure the coherence of the regional transport policy, using the regional plan for land management, sustainable development and equalisation (SRADDET).

9 - In this capacity, they organise scheduled public passenger transport services (road, river, sea transport) within their jurisdictions and may organise on-demand transport services. They also contribute to the development of sustainable non-motorised mobility and car sharing schemes.

Heading 3 : Cutting taxes and improving the tax structure to promote growth and jobs

The public finance reform strategy aims to adapt the level and structure of taxation to stimulate employment and investment (see Challenge 2) by shifting away from some of the taxes on labour to environmental taxes and the VAT, in addition to cutting expenditure. The fight against tax fraud and tax avoidance is also part of the government's strategy.

These actions help meet the following recommendations by the Council:

- *"Ensure that the labour cost reductions stemming from the tax credit for competitiveness and employment and from the responsibility and solidarity pact are sustained, in particular by implementing them as planned in 2016. Evaluate the effectiveness of these schemes in the light of labour and product market rigidities." (from the third recommendation)*
- *"Simplify and improve the efficiency of the tax system, in particular by removing inefficient tax expenditure. To promote investment, take action to reduce the taxes on production and the corporate income statutory rate, while broadening the tax base on consumption. Take measures as from 2015 to abolish inefficient taxes that are yielding little or no revenue." (from the fifth recommendation).*

Abolishing the turnover tax (C3S)

IN PROGRESS

The corporate social solidarity contribution (C3S) creates economic distortions and is particularly burdensome for the manufacturing industry, since it is levied on turnover, regardless of businesses tax-paying capacities. The elimination of this tax slated for 2017 will reduce business taxation by a further €3.5 billion approximately.

Result: As part of the implementation of the Responsibility and Solidarity Pact, 200,000 small businesses were exempted from the turnover tax in 2015 at a cost of €1 billion. In 2016, an additional 80,000 SMEs and mid-sized enterprises were exempted from the tax at a cost of €1 billion.

Autumn 2016: the Social Security Draft Budget for 2017 will abolish the turnover tax for the 20,000 businesses still liable, reducing taxation by a total of €5.5 billion.

Reducing corporate income tax

Abolishing the exceptional corporate income tax payment for large corporations - DONE

The exceptional corporate income tax payment for large corporations has been abolished[10] for fiscal years ending after 31 December 2016 as part of the implementation of the Responsibility and Solidarity Pact. For the large corporations that paid the tax, the effect is equivalent to a 3.6 percentage-point cut in their corporate income tax rate.

Result: this measure represents a tax cut of nearly €3 billion.

10 - Technically speaking, this measure was not renewed under the Initial Budget Act for 2016, which meant it was abolished.

Cutting the statutory corporate income tax rate - COMING

The statutory rate of corporate income tax will be cut in stages starting in 2017, decreasing from 33.33% to 28% in 2020. This cut will help achieve the gradual harmonisation of corporate income tax rates across Europe and enhance the appeal of France as a place to do business, as well as promoting jobs and investment.

A preliminary and substantial cut will be made in the autumn of 2016, under the draft budgetary plan for 2017.

Abolishing taxes that yield little revenue

IN PROGRESS

The tax on cosmetics and the administrative tax paid by electronic communication operators were abolished under the Initial Budget Act for 2016. The process of abolishing taxes that yield little revenue will continue in the next draft budgetary plans, in part as a result of the tax consultations between the Ministry of Finance and the line Ministries that are held in May each year.

Improving the effectiveness of tax expenditures

IN PROGRESS

Three guiding principles set out in the 2014-2019 Public Finance Planning Act of 29 December 2014 underpin the effort to improve the effectiveness of tax expenditures: an annual cap on tax expenditures, a review of all new or extended tax expenditures introduced after 1 January 2015 within three years and the inclusion of tax expenditures in spending reviews.

Reducing personal income tax

DONE

A cut in personal income tax was introduced under the 2016 Budget Act to make paid work more attractive, boost households' purchasing power and increase the labour supply. The tax cut has been financed by savings on expenditure.

A succession of measures to boost the purchasing power of low- and medium-income households came into force as part of the Responsibility and Solidarity Pact. These measures also aim to make paid work more attractive and increase the labour supply:

- In 2014, a one-off cut of €1.5 billion in personal income tax was passed as part of the first Supplementary Budget Act for 2014.
- The Initial Budget Act for 2015 reformed personal income tax and simplified it by eliminating the lowest tax bracket. This meant that personal income tax was cut by a further €1.5 billion in 2015.
- The Initial Budget Act for 2016 included a further personal income tax cut of €2 billion.

Result: Twelve million tax households have seen their taxes reduced (see Challenge 3, Heading 3).

Introducing withholding at source of personal income tax

IN PROGRESS

Introducing withholding at source of personal income tax will eliminate the one-year lag between receiving taxable income and paying tax on it. This will reduce tax payment problems when taxpayers' income varies or when their situation changes. It means a simplification for taxpayers.

Withholding at source of personal income tax will not jeopardise the founding principles of the tax system, and, more specifically:

- the progressive nature of personal income tax, deductions for dependents and married couples and the application of tax reductions and tax credits will be maintained;
- the confidentiality of the information used to calculate withholding amounts and the simplicity of tax collection for the bodies responsible for withholding personal income tax will be ensured;
- the general income tax form will be maintained.

Details of the reform will be worked out by the third quarter of 2016, with a view to adopting the changes by the end of 2016 for entry into force on 1 Janaury 2018.

Ramping up ecological taxation

Climate-Energy Tax – IN PROGRESS

In 2014, France introduced a carbon tax, called the Climate-Energy Tax (CCE), into its taxes on energy (domestic taxes on the consumption of energy products, natural gas and coal). This tax will be ramped up over time. In 2014, the carbon tax stood at €7 per ton, and it doubled in 2015. In 2016, it stands at €22 per ton. The Energy Transition and Green Growth Act of 17 August 2015 set the targets for the tax in 2020 (€56) and 2030 (€100). The 2015 Supplementary Budget Act incorporated these targets in the tax rates applicable in 2017 (€30.50).

Result: The carbon tax is expected to generate €1.9 billion in net budget revenue in 2017.

The 2015 Supplementary Budget Act specifies the timetable for changes in the tax rates per ton of carbon, starting at €39 in 2018 and €47.50 in 2019. The rates for 2018, 2019 and 2020 will be set soon.

Unifying diesel oil and petrol taxes over five years - IN PROGRESS

In 2014, the differential between the domestic taxes on diesel oil and petrol stood at €0.15 per litre, in contrast to the average differential of €0.11 in the European Union. In order to improve air quality, the 2015 Supplementary Budget Act introduced a gradual unification of petrol and diesel oil taxes by raising the tax on diesel oil by €0.01 per litre on 1 January 2016 and cutting the tax on petrol by the same amount.

This policy should be extended under the 2017 draft budgetary plan.

Encouraging the use of biofuels - DONE

The Energy Transition and Green Growth Act sets a target of 15% for the share of renewables in fuel by 2030. Tax incentives, based primarily on a deterrent pollution tax (TGAP) for distributors of fuel blends with a renewable content below a given threshold (7% for petrol and 7.7% for biodiesel oil), are contributing to the development of biofuels. The 2016 Budget Act extended these measures to non-automotive diesel oil. In addition, the domestic consumption tax was modulated in 2016 to encourage blending bioethanol into petrol. The tax was cut by €0.01 per litre on petrol blends with 5% to 10% bioethanol content and increased by €0.01 per litre for blends with less than 5% bioethanol.

Ensuring financing for energy transition – IN PROGRESS

The levy to compensate electricity distributors for additional costs entailed by their public service obligations (*contribution au service public de l'électricité, CSPE*) was turned into a domestic excise tax on the final consumption of electricity *(taxe intérieure sur la consommation finale d'électricité, TICFE*) to ensure compliance with EU legislation, provide secure financing for electricity supplied as a public service and contribute to energy transition. This tax will not rise in 2017 from its 2016 level. The development of renewable electricity and biogas will be financed by the carbon tax. This reform will contain electricity price increases. It also ensures secure financing for the development of renewable energy sources through the carbon tax, which will be raised progressively in accordance with the path set out under the Energy Transition Act, reaching €56 per ton in 2020 and €100 per ton in 2030.

Reform of farm taxes - IN PROGRESS

Taxation relying on estimated assessments of smallholders' taxable income has been replaced by the agricultural micro-earnings system ("micro-BA"). The reform will be phased in starting with the 2016 tax year. Taxable income for 2016 and 2017 will be calculated on the basis of average earnings from the three previous years. The reform will put an end to a system where approximately 8,000 estimated tax assessments were published each year. These assessments were disconnected from reality and disproportionately expensive to manage. The Public Finances Directorate General will save €10 million per year on management costs. The savings will be put into a fund to finance the reform, which can then be implemented at no net cost.

The risk deduction (*déduction pour aléas, DPA*), an instrument for managing weather, health and business risks, has also be modified so that it is easier to use. The amount of savings that can be set aside has been increased and the definition of business risk has been simplified. The procedures for drawing on the funds set aside are now more flexible. In addition, if the funds are not used, the applicable interest rate will be the statutory interest rate, whereas the "penalty rate" previously applied to unused funds inhibited the use of the instrument. These changes should enable smallholders to manage year-to-year variations in income more effectively.

Reducing competitive distortions between operators located in France and operators in other EU countries

DONE

The threshold at which France collects VAT from vendors in other EU countries for intra-Community distance sales to French customers was lowered under the 2016 Initial Budget Act from €100,000 to €35,000 to eliminate the competitive distortions between operators located in France and operators in other EU countries.

Continuing the fight against tax fraud and tax avoidance

France has established a system for better detection and repression of new tax fraud patterns. The tax administration has invested in data mining techniques to detect tax fraud and implemented a general right of access to information that enables it to require operators to produce lists of taxpayers without first having to identify them. Fighting tax fraud relies on the tax police and the Circular of 22 May 2014 on fighting tax fraud reinforces cooperation between the tax administration and judicial authorities. Similarly, a task force that includes all of the bodies concerned by the fight against VAT fraud (tax and customs administrations, police, justice system, Financial Intelligence Unit) has been set up to enhance coordination of enforcement actions.

Reform of approved management organisations (OGA) - DONE

The 2015 Supplementary Budget Act broadened the auditing tasks of approved management organisations to prevent tax fraud and improve the accuracy of the tax returns of more than a million companies. In addition to the income tax and VAT returns, the organisations will now audit returns for the contribution on business value added (CVAE). The organisations will also conduct a periodic audit of each member's tax breaks and a sampling of vouchers to verify deductible expenses. They will also have the power to require the production of any documents needed for their annual audits if they find an anomaly. This structural reform of approved management organisations enhances their members' legal certainty and the accuracy of their tax returns.

Stepping up the fight against VAT fraud - DONE

Some companies use fraudulent software to hide some of their revenue. Consequently, the 2016 Budget Act imposes a fine of €7,500 for any person liable for VAT who does not provide proof as of 1 January 2018 that the cash register software used is secure, provides traceability for all transactions and makes it impossible to delete receipts. The software used must be certified by an accredited organisation or by an individual certificate from the publisher.

The 2015 Supplementary Budget Act upholds the European case law enabling the French tax authorities to reject deductions for the provision of services invoiced as part of a VAT fraud in order to fight "carrousel" fraud more effectively. Prior to the reform, French law stipulated that VAT deducted for delivery of goods could be contested if the company knew of or could not be unaware of the fraudulent nature of the transaction. The law now covers provision of services as well, which clears up any ambiguity.

Result: In 2015, the fight against tax fraud and tax avoidance resulted in the assessment of €21.2 billion in taxes and penalties (compared to €19.3 billion in 2014) and the collection of €12.2 billion in revenue, compared to €10.4 billion in 2014. The Offshore Disclosure Unit has registered nearly 45,000 applications for filing amended returns. This resulted in the collection of €1.9 billion in additional tax revenue in 2014 and 2.65 billion in 2015. The target yield being considered for 2016 is €2.4 billion.

France and the BEPS (Base Erosion and Profit Shifting) Project

France has played a very active role in the BEPS Project of the Organisation for Economic Cooperation and Development (OECD) and the G20. The purpose of the Project is to fight tax base erosion and profit shifting worldwide.

The government has insisted that the European Union's action to fight aggressive tax planning be a part of the international initiative, with due consideration of the particularities of the internal market. The point is to re-establish a link between the place where corporate profits are earned and the place where those profits are taxed, as well as to protect the European internal market against tax avoidance that undermines its functioning. This calls for a joint approach, including implementation of the BEPS Project conclusions, a response to non-cooperative tax jurisdictions and an enhancement of tax transparency.

A major step was accomplished on 8 December 2015, with the adoption of a Directive that ensures transparency of advance cross-border tax rulings between national administrations. Under the circumstances, the adoption of an effective minimum corporate income tax rule has become a priority for France. The proposal for a Directive aimed at fighting aggressive tax planning presented by the Commission on 28 January 2016 is a further step towards implementation of such a rule.

France will strive to promote rapid adoption of measures that are proportionate to the sums at stake. The transposition of the international standard for automatic exchange of country-by-country reports, implemented in France under the 2016 Budget Act, is a key component of this arrangement. In compliance with the international standard, parent companies of groups with annual sales of more than €750 million must file country-by-country reports. France will then forward the reports to the other countries where the group is located using the information exchange mechanism, subject to reciprocity. The reporting requirement now covers French subsidiaries of groups where the parent company is located in a country or territory that does not transmit country-by-country reports to France.

Finally, the French authorities welcome the Commission's announcement of a new proposal, to be made by the end of the year, to restart work on the Common Consolidated Corporate Tax Base (CCCTB). This will provide a comprehensive solution to the problem of aggressive tax planning and harmful tax competition, while promoting the growth of companies within the internal market.

2

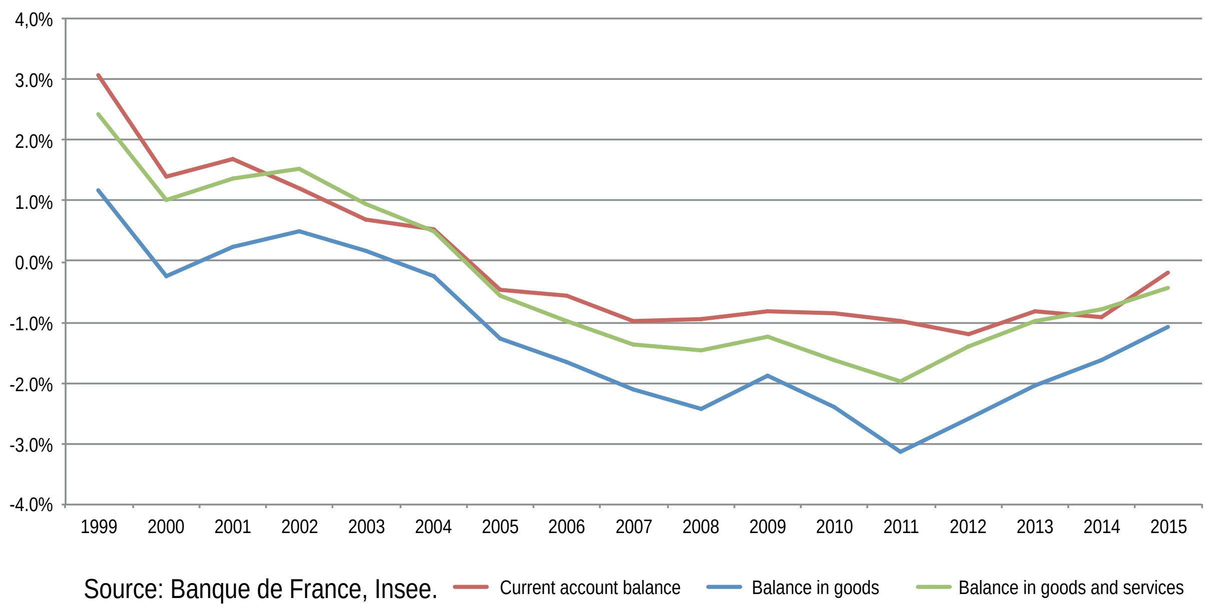
CHALLENGE

REGAINING COMPETITIVENESS, BOOSTING PRODUCTIVITY AND ENHANCING THE BUSINESS ENVIRONMENT

The continuing drive to boost the competitiveness and productivity of companies has stabilised France's share of export markets and helped to stabilise its unemployment rate in 2015. Improving competitiveness and productivity requires gains in cost competitiveness, modernisation of the business environment and development of non-cost competitiveness.

Result: France's export performance has been steady and its current account deficit has shrunk and is now nearly at equilibrium (see Part II on the macroeconomic context). Companies' profit margins rose two percentage points between the second quarter of 2014 and the fourth quarter of 2015 to 31.4% of value added. This gain fosters innovation and boosts non-cost competitiveness.

CURRENT ACCOUNT (% OF GDP)



Source: Banque de France, Insee.

Heading 1 : Continuing to boost companies' cost competitiveness

Cost competitiveness is critical for growth and jobs. It boosts exports (price competitiveness), business demand for labour and business investment (maintaining corporate margins). It requires containment of companies' labour, capital and input costs. To achieve these aim, government is working to reduce taxes, as described above, and on other improvements described in this part, such as: payroll costs and the wage formation process so that real wages growth keeps pace with productivity gains.

The actions taken help meet the following recommendation made by the Council:

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

Result: With the implementation of the Competitiveness and Employment Tax Credit (CICE), labour costs, as measured by unit labour costs (ULC) for the French economy as a whole, rose by only 1.1% between the fourth quarter of 2012 and the fourth quarter of 2015, compared to a 3% increase in the euro area. The ULC for the manufacturing sector fell by 3.4% in France over the same period, compared to a rise of 1.4% in the euro area.

UNIT LABOUR COSTS: WHOLE ECONOMY

UNIT LABOUR COSTS: MANUFACTURING SECTOR

Sources: Eurostat, DG Trésor calculations
Most recent data point: third quarter 2015

Implementing the reduction of labour costs under the Pact to complement the CICE

DONE

Competitiveness and Employment Tax Credit (CICE)

Since it was introduced on 1 January 2013, the tax credit was deployed as predicted. The tax credit rate is based on the gross payroll costs for jobs paying up to 2.5 times the statutory minimum wage. The reduction is equivalent to 6 percentage points of payrolls. It will result in savings of €20 billion on labour costs in 2017. Several research teams were selected as part of a call for projects to assess the impact of the tax credit on employment, investment, wages and exports.

Result: The tax credit reduced companies' labour costs, generating more than €18.5 billion in savings on wages paid in 2015. Insee surveys of business leaders suggest that the CICE tax credit has fulfilled its objectives in terms of boosting competitiveness, employment and corporate margins, thereby promoting investment (see 2015 NRP). In its September 2015 report, the business subsidy and employment performance monitoring committee (*Comité de suivi des aides publiques aux entreprises et des engagements, (CoSAPEE*), set up to monitor the effectiveness of the CICE, stresses that the tax credit has reached maturity. The number of companies that have not taken up the tax credit is now negligible, testifying to its success with businesses.

The results of the assessments of the CICE tax credit will be published in the next CoSAPEE annual report in September 2016.

Responsibility and Solidarity Pact

In 2015, the Responsibility and Solidarity Pact was introduced to complement the CICE by lowering payroll contributions on wages up to 3.5 times the statutory minimum wage. The first stage was implemented on 1 January 2015, bringing a further reduction in labour costs on wages up to 1.6 times the statutory minimum wage and a full exemption from social security contributions on minimum wage jobs (but not from contributions for unemployment insurance, supplementary pensions and other non-social security contributions). This measure is called the "zéro charge URSSAF" measure. Self-employed workers saw their family allowance contributions cut by nearly €1 billion as well. The second stage of the Pact extends the reduction in the payroll contributions paid by employers, with a 1.8 percentage point cut in employers' family allowance contributions on wages between 1.6 times and 3.5 times the statutory minimum wage. This cut took effect on 1 April 2016.

Result: These measures under the Pact will lower the cost of labour by approximately €10 billion in 2017. The total reduction in companies' taxes and contributions resulting from the Pact and the tax credit will come to more than €40 billion

Converting the CICE into permanent social security contribution cuts

COMING

The tax credit will be transformed into a lasting reduction in social security contributions to make it a permanent measure. It will also be simplified by reducing administrative formalities and eliminating the time lag inherent in tax measures.

The details of the reductions in contributions will be presented and discussed by the *Comité de suivi des aides publiques aux entreprises et des engagements* in the spring. The Committee includes Members of Parliament, labour and management representatives and the relevant government bodies.

Helping SMEs to hire new employees

DONE

The jobs plan announced by the President of the French Republic on 18 January 2016 includes a hiring bonus of €4,000 paid over two years for eligible new hires made before 31 December 2016. The objective is to lower labour costs on low-wage jobs further as an incentive for small and medium-sized enterprises to hire more employees. This financial subsidy, called "*Embauche PME*", is granted to companies and non-profit organisations with fewer than 250 employees that hire new employees under permanent contracts or fixed-term contracts lasting more than 6 months for wages up to 1.3 times the statutory minimum wage. The measure is enhanced for very small enterprises hiring their first employee. In this case the subsidy is available regardless of the wage offered. More than a million new hires could be concerned by the measure, resulting in labour cost savings of some €2 billion for the companies concerned. The subsidy can be combined with other general measures to reduce labour costs (general cuts, CICE tax credit, and Responsibility and Solidarity Pact).

Result : As of 10 April 2016, companies reported 180,000 eligible new hires.

Managing adjustments of the statutory minimum wage

DONE

The government opted to follow the recommendations made by the group of independent experts tasked with giving an opinion on adjusting the minimum wage. The adjustments have met the strict legal requirement since 2007, with no extra rises (coup de pouce), except for a one-off bonus increase of 0.6% in July 2012. In accordance with the index-linking rule in force since 2013, the statutory minimum wage is adjusted to match the inflation rate, plus half of the purchasing power gains of blue-collar and white-collar workers. Consequently, it was raised by 0.6% on 1 January 2016 (Decree 2015-1688 of 17 December 2015). This increase is consistent with changes in labour productivity, which rose by 2.1% in 2015 in nominal terms.

Result : The proportion of employees earning the statutory minimum wage was approximately 11.1% on 1 January 2015, as compared to the historic "peak" of 16.5% in the mid-2000s (in comparison, the estimated figure for Germany is 10.4% of total payroll employment).

Adapting wage-bargaining schedules with company-level agreements

DONE

The Act of 17 August 2015 on Labour/Management Dialogue and Employment allows labour and management representatives to reach a company-level agreement on their bargaining schedule. More specifically, this change concerns the frequency of mandatory wage bargaining, which can be extended up to once every three years, instead of the default frequency of once every year in the absence of an agreement. These provisions entered into force on 1 January 2016.

Giving companies more flexibility to define overtime pay rules

COMING

At present, company-level agreements (*accords d'entreprise*) cannot set overtime pay rates that are less favourable than any rates set by a sector-wide agreement (accord de branche). However, not all of the companies in the same sector are in the same economic situation. The sector-wide overtime pay rate may not be sustainable for some companies, especially SMEs. Therefore the bill aiming at introducing new opportunities and new safeguards for companies and employees known as "Labour bill" (see Challenge 3) will enable company-level agreements, without prejudice to the statutory 35 hour working week, to set overtime pay rates, which must be at least 10% higher than ordinary pay rates, as is the case today. These overtime rates cannot be overruled by provisions in a sector-wide agreement.

The "Labour bill" is slated for a vote in the summer of 2016

Heading 2 : Simplifying and modernising rules to boost growth

The complexity of France's regulatory environment carries costs for businesses, restricts competition, undermines households' purchasing power and limits productivity gains, ultimately causing negative impacts on jobs and growth. With this in mind, the government has launched a major drive to simplify the business environment and to ease the rigidities affecting markets for goods and services. The Growth, Activity and Equality of Economic Opportunity Act promulgated on 6 August 2015 included many measures to eliminate obstacles to growth, particularly regulatory obstacles. In addition to the provisions of the Act that are directly applicable (60% of the provisions), many implementing decrees have been issued (see Appendix 4 for progress on implementing decrees). Over 80% of the provisions are already in force.

The actions taken help meet the following recommendations made by the Council:

- *"By the end of 2015, reduce regulatory impediments to companies' growth, in particular by reviewing the size-related criteria in regulations to avoid threshold effects. Remove the restrictions on access to and the exercise of regulated professions, beyond the legal professions, in particular as regards the health professions as from 2015" (fourth recommendation).*
- *"Simplify and improve the efficiency of the tax system" (from the fifth recommendation)*

Simplifying business

Continuing the government simplification programme - IN PROGRESS

The Business Simplification Council (*Conseil de la simplification*) made up of Members of Parliament and business leaders was set up in January 2014. Every six months, the Council proposes a set of measures to the government that are aimed at easing the burden of regulations and standards on businesses, while ensuring that social and economic imperatives, such as security, health and environmental quality, are fully safeguarded.

These measures continue the drive initiated in 2013 to eliminate pointless administrative burdens. The drive is based on implementation of a one-in-one-out regulatory freeze and continuation of the "tell us just once" programme aimed at users. The measures provide greater legal certainty for businesses and remove obstacles to hiring.

The government announced 90 new measures focused on jobs and innovation on 3 February 2016. Examples of the new measures concern craft enterprises, which can be created more easily and are more accessible for microenterprises in particular (December 2016), simplification of applications for the Research Tax Credit (CIR) and introduction of advance rulings, with the possibility of revising the initial advance ruling (June 2016), introduction of a cost of hiring simulator, more flexible rules for access to or taking up several business activities in a wide range of sectors (craft industries, agriculture, tourism) and facilitation of construction of medium-height buildings (June 2016).

Result: More than 415 simplification measures have been announced and many have already taken effect (see table in the appendix for details).

Several measures that enhance legal certainty for companies have come into force: no retroactive taxes, publication of tax rules on set dates, extension of advanced ruling mechanisms to all matters relating to contributions and easier access to advanced rulings.

Other measures that simplify businesses' dealings with the administration have also come into force: the principle of "no answer means yes" was extended to local governments, social security bodies and bodies responsible for administrative public service at the end of 2015, the option of dealing with any central government administration online, the use of paperless administrative procedures and the single staff reporting statement, which is destined to replace all of the reporting statements that employers file with social protection bodies with a single paperless online filing once a month. The new reporting statement is being phased in and will be fully deployed in July 2017.

The latest assessments available suggest that the simplification process had a positive impact equivalent to nearly €1.1 billion in gross gains for companies between August 2014 and September 2015.

2016: further work on on-going projects and continuing implementation of the simplification measures already announced

Contract law reform - DONE

The Order of 10 February 2016 on the reform of contract law, of general provisions on obligations and of proof of obligations will simplify and clarify the law of contracts and obligations, making it more predictable and accessible.

It makes the rule of positive law easier to understand and more accessible, particularly for businesses, by codifying case law, and providing a more stable and more understandable legal framework to foster their development. Furthermore, the reform makes French law more attractive for foreign investors, with modernisation of the Civil Code, along with a more informative presentation, new terminology and plain language. The Order also marks a break with the isolation of French contract law by eliminating the notion of "cause", which gave rise to a wealth of unpredictable case law.

In substance, many provisions of the reform will benefit businesses, particularly the creation of new instruments that will enable the parties to a contract to avoid taking legal action to settle disputes. The reform upholds the option of unilateral price setting in master contracts or service contracts. It opens up the possibility of amending a contract to account for unforeseeable economic hardship for one of the parties, with the priority on negotiating such amendments. It facilitates unilateral extra-judicial remedies for breach of contractual obligations, more specifically through termination via notification, at the terminating party's risk, or requests for proportional price reductions. The reform also introduces examination tools called "actions interrogatoires" that enable a party on the point of entering a contract to question a third party to ensure that no pre-emption agreements exist and that the agent has the power to bind the principal.

The Order also enshrines and modernises legal mechanisms based on practice, such as assignment of claims and debts.

Result: The Order, which enters into force on 1 October 2016, will strengthen the French legal system and provide investors with a secure legal framework that is suited to a globalised and competitive economy.

The government will soon tackle civil liability law reform to complete the modernisation of the law of contracts and torts. A preliminary draft of the reform should soon be submitted for public consultation.

Commercial court reform - DONE

Commercial courts play a critical role in the security of business relationships, ensuring the sustainability of companies in distress and safeguarding jobs. Having certain commercial courts specialise in the biggest and most critical cases will help reduce delays in all commercial courts and enhance the quality of commercial justice, strengthening its capacity to deal with the challenges of increasingly complex laws and the internationalisation of business.

Under the Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015, certain commercial courts are designated to handle the most complex cases that require specific technical abilities and experience in view of the number of employees concerned, the size of the company or its position on the international market.

Result: Adoption of the decree specifying the list of the specialised commercial courts and their jurisdictions on 26 February 2016.

Reducing threshold effects for SMEs - DONE

As part of the June 2015 plan to boost employment in VSEs and SMEs, threshold effects have been reduced for companies with fewer than 50 employees by means of a three-year freeze on taxes and contributions triggered by reaching thresholds. A permanent measure raised the thresholds of 9 and 10 employees to 11 employees.

In addition, the Act of 17 August 2015 on Labour-Management Dialogue and Employment includes provisions to reduce the complexity of labour relations and the effects of the 50-employee threshold. These provisions extend the single employee representative body (*délégation unique du personnel, DUP*) option to all companies with fewer than 300 employees (in place of the previous limit of 200 employees) and merge the Health and Safety Committee (CHSCT) with the DUP. The functioning of the bodies representing staff is now much more fluid (e.g. regulation of notice periods, options of holding joint meetings or using videoconferencing technology) and mandatory consultations have been simplified so that employers will be less reluctant to grow beyond the threshold of 50 employees.

Furthermore, implementation of the first stage of the Responsibility and Solidarity Pact calls for alignment of the contribution rates of large and small enterprises on minimum-wage jobs thereby reducing the effect of the 20-employee threshold.

Result : Adoption of Decree 2016-345 of 23 March 2016 on the personnel and functioning of the single employee representative body, and Decree 2016-346 on the personnel and functioning of the body stipulated in Article L.2391-1 of the Labour Code that specifies the number of working hours credited to staff representatives.

Providing SMEs with stronger contract protections – IN PROGRESS

The bill aiming at introducing new opportunities and new safeguards for companies and employees calls for occupational groups to be allowed to sign special sector-wide agreements applying to small businesses and adapted to their needs. The employer makes the adaptations at the company level and notifies the employees by means of a unilateral document specifying the adaptations made.

The bill also calls for expanding bargaining with the employees designated by trade unions to all matters covered in the Labour Code.

Simplifying the sale of businesses - DONE

The June 2015 plan to boost employment in VSEs and SMEs simplifies the procedures for selling businesses and the employees' right to prior notice (*droit à l'information préalable*). The changes were implemented by the 2016 Supplementary Budget Act of 29 December 2015, a Decree of 28 December 2015 on notification of employees in the event of the sale of their employer (simplification of the employees' right to prior notice) and by a Decree of 4 January

2016 on the information to be disclosed to employees every three years (details about the content of general information about employee buyouts of companies, and the content of company specific information about general guidelines relating to ownership).

Facilitating the growth of VSEs and SMEs – COMING

Several provisions in the Transparency, Anti-Corruption and Economic Modernisation Bill will complement what has already been done to facilitate companies' growth. The turnover thresholds on micro-enterprises will be adjusted to enable them to continue to benefit from the special tax and social security scheme up to a turnover threshold that is twice as high as the current threshold and for a period of two years, versus one year at present. Furthermore, the switch from sole proprietorship to another legal form will be facilitated, especially when switching to a limited liability sole proprietorship (EIRL), which will result in a financial gain of approximately €500 for companies making the switch. The cap on administrative fines for late payments will be raised to make the fines a greater deterrent and provide greater security for SMEs in particular.

Promulgation of the Transparency, Anti-Corruption and Economic Modernisation Bill by the start of the third quarter.

Modernising business law – COMING

Several provisions in the Transparency, Anti-Corruption and Economic Modernisation Bill are intended to modernise business law. These measures will boost growth, attract foreign investment and adapt to changes, particularly changes in digital technology. The bill proposes reform under four headings:

- Simplification of financial reporting;
- Simplification of decision-making in companies and shareholder involvement;
- Simplification of transactions contributing to the growth of the company;
- Simplification of mismanagement rules.

Adoption of the Bill by the start of the third quarter

Facilitating business creation

COMING

The Transparency, Anti-Corruption and Economic Modernisation Bill will include measures to facilitate business creation. The training course prior to business start-up *(stage préalable à l'installation, SPI)*, which currently costs €200 and delays the start of business because of the limited space available, will be regulated. Henceforward, heads of craft enterprises will be allowed to take the course after registering their enterprise, if the course offered starts more than one month after the application for registration is filed. Furthermore, in view of the increasing diversity of their profiles and experience, craft enterprise creators may obtain a waiver from the course requirement if they have had support in creating their enterprise from one of the enterprise creation support networks or if they have already had sufficient training in management. In addition, the requirement that micro-entrepreneurs open a business bank account will be removed to eliminate a difference in treatment between them and self-employed workers, who are not subject to the same requirement.

Promulgation of the Transparency, Anti-Corruption and Economic Modernisation Bill by the start of the third quarter.

Fighting corruption and increasing business transparency

COMING

Corruption impedes economic growth in several ways. It affects business start-ups and investment decisions by increasing costs and risks, thereby reducing the return on projects. It may also have an impact on the perception of a country that makes it less attractive. Economic surveys have shown a link between corruption perception indices and economic growth. France ranked 23rd in the 2015 Transparency International ranking, leaving room for improvement. If France were to match the positions of Germany and the United Kingdom in international rankings, GDP growth could be increased by 0.2%, according to estimates covering the OECD countries only. Therefore, the Transparency, Anti-Corruption and Business Modernisation Bill will strengthen enforcement of probity and transparency in relationships between government and business.

With this in mind, the Bill, which was presented to the cabinet meeting of 30 March 2016:

- sets up a National Corruption Prevention and Detection Agency to prevent and penalise breaches of anti-corruption prevention obligations by businesses;
- improves the legal and material protection for whistle-blowers in corruption cases;
- strengthens penalties for breaches of probity (compliance and monitoring programme, influence peddling of foreign public officials, option of convicting foreigners who are resident in France);
- The Bill also establishes a digital directory of interest group representatives that will be accessible online. Any person seeking to influence the drafting of legislation or regulations will be required to register and comply with the ethical obligations, or face penalties imposed by the government. The Executive Branch of government will be required to refrain from communicating with unregistered interest group representatives.

Promulgation of the Transparency, Anti-Corruption and Economic Modernisation Bill by the start of the third quarter.

Reforming regulated professions

Easing requirements for setting up practices in certain legal professions - DONE

The Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015 establishes freedom of establishment for certain public officers and law officials, such as auctioneers, bailiffs, notaries and barristers before the *Conseil d'Etat* and the *Cour de Cassation* (French administrative and civil supreme courts) are free to establish their practices in areas where the establishment of practices seems useful for increasing local availability of services ("useful" areas). The map of "useful" areas will be drawn up jointly by the Ministry of the Economy and the Ministry of Justice, acting on a proposal from the Competition Authority. The practices will be established progressively, in consideration of the recommendations to be made by the Competition Authority.

Results: Publication on 26 February 2016 of the decrees defining the criteria for application of Article L. 462-4-2 of the Commercial Code and on drawing up the map instituted by Article 52 of the Act of 6 August 2016.
Publication on 29 February 2016 of two decrees defining the criteria for determining "useful" areas. The map of "useful" areas will then be drawn up jointly by the Ministry of the Economy and the Ministry of Justice, acting on a proposal from the Competition Authority.

2016: Adoption of two decrees defining the requirements for appointing auctioneers, bailiffs, notaries and barristers to the Conseil d'Etat and the *Cour de Cassation* in the "useful" areas.

Easing requirements for the practice of certain legal professions – DONE / IN PROGRESS

The Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015 allows certain legal professions to practice under other legal forms than professional practices or professional partnerships. They may now incorporate under any legal form except forms that would qualify them as traders.

This Act also gives the government the power to issue an order defining the procedures for enabling legal and accounting professions to set up a single company for the joint practice of their professions.

April 2016: publication of four draft decrees after consultation with the *Conseil d'Etat* altering the practice requirements for lawyers, barristers to the *Conseil d'Etat* and the *Cour de Cassation*, receivers, liquidators, auctioneers, bailiffs and notaries.

March 2016: publication of a draft order on incorporating a single company for the joint practice of certain legal professions.

Reforming fees charged by certain legal professionals - DONE/ IN PROGRESS

The Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015 introduced a new method of regulating the fees of certain legal professionals: the regulated fees of receivers, lawyers, auctioneers, clerks of the commercial courts, bailiffs, liquidators and notaries are now based on the principles of alignment on relevant costs and reasonable compensation.

Results: Publication on 26 February 2016 of the decree on the fees of certain legal professionals and the interprofessional fund for access to the law and justice. Publication on 28 February 2016 of the decree defining the method for setting regulated fees and five orders setting the fees of legal professionals (bailiffs, notaries, clerks of the commercial courts and auctioneers). The fees of clerks of the commercial courts have been cut by 5% overall and the fees of notaries and bailiffs have been cut by 2.5%. These fees will be reviewed again in two years. The fees for real-estate transactions involving small amounts have been cut by up to 70%.

August 2016: publication of a draft decree after consultation with the *Conseil d'Etat* defining the method for regulating lawyers' fees for attachment of real property, apportionment, licitation and judicial security; an order setting lawyers' fees for these services.

Easing ownership rules for certain professional corporations – DONE

The Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015 eased the ownership rules for certain technical professions (architects, surveyors), legal professions (public officers and law officials, lawyers, receivers and liquidators, patent attorneys) and accounting professions (chartered accountants, statutory auditors).

2016: publication of eight draft decrees after consultation with the *Conseil d'Etat*

Easing the establishment requirements and practice ownership rules for certain healthcare professionals:

The Healthcare System Modernisation Act of 26 January 2016 allows ownership of pharmacies by associate pharmacists (employees) and abolishes the 5% share ownership requirement, which facilitates the establishment of young pharmacists. A draft order will amend the rules on the location of retail pharmacies and simplify the authorisation rules to remove obstacles to mobility. It will also cut the red tape involved in sales and mergers of retail pharmacies and allow regional healthcare authorities to identify vulnerable areas and authorise the sale or merger of retail pharmacies. It will simplify some of the procedures relating to the examination of authorisation applications.

Results: Publication on 26 January 2016 of a decree allowing the incorporation of holding companies by medical testing professionals, which facilitates buyouts by young pharmacists. Publication of an order on the incorporation of group practices in several professions subject to specific laws or regulations or where professional titles are protected (Article 65 of the Act of 6 August 2015).

2016: Adoption of a decree on professional medical corporations (physicians, dentists and midwives) and of a decree on professional paramedical corporations (nurses, physiotherapists, chiropodists, speech therapists, orthoptists and dieticians). These decrees will harmonise the provisions on incorporated practices and the procedures for creating holding companies in these professions that facilitate buyouts by young professionals.

Furthermore, under the terms of the Healthcare System Modernisation Act of 26 January 2016, the scope of authorised activities of physiotherapists, speech therapists, radiological technicians and chiropodists will be revised. The activities of dispensing opticians and orthopists will be extended by opening up access to vision activities. The professions of dental assistant and physician's assistant will be recognised and the competences of midwives will be defined more clearly and comprehensively.

Ensuring fair competition between taxis and other modes of passenger transport – COMING

Changes in the passenger transport sector have raised concerns for all stakeholders. The government has responded with a commitment to reshape the sector in order to strike an economic balance between all of the stakeholders and to promote enhanced mobility for users. The objective is to ensure fair competition between taxis and other modes of passenger transport. In January 2016, the Prime Minister commissioned a Member of Parliament, Laurent Grandguillaume, to conduct a mediation, which was completed in March 2016.

Based on the mediator's proposals, the government submitted a roadmap and a timetable for work on four tasks to the stakeholders. The four tasks are:

i) Making regulation of the sector more effective;

ii) Creating a common core of training for taxi drivers and other drivers to harmonise the requirements for entering the profession and to increase the quality of service to users.

iii) Improving regulation and governance of the sector by strengthening the legal framework to enhance competition and taking progressive steps, in consultation with the stakeholders, to modernise and harmonise the rules and eliminate rules that are no longer relevant to the business or the quality of service.

iv) Ensuring job security for taxi drivers and making the market for licences more fluid with the creation of an industry-financed Guarantee Fund. The latter proposal will allow current holders of transferrable licences to sell them to the fund at a price based on the purchase price. These licences would then be withdrawn from the market. The licences withdrawn will then be replaced by non-transferrable temporary licences. All of the financing for the fund will be provided by the industry itself. Modernisation of the taxi business will be easier once the main barrier to change, the cost of licences and the recovery of investment in licences, has been removed.

2016: Implementation of the roadmap set out by the government

Reviewing professional qualifications and transposition of the Directive - DONE/COMING

As required by Directive 2013/55/EU amending Directive 2005/36/EC on the recognition of professional qualifications, the French authorities conducted a two year (2014-2015) comprehensive mapping exercise on regulated professions in France and a proportionality analysis of the regulatory framework. More specifically, the provisions of the Directive dealing with craft trades qualifications will be transposed into French law under the terms of the Transparency, Anti-Corruption and Business Modernisation Bill. In addition, qualification requirements for craft workers will be proportionate to the risks for workers and consumers. Consequently, the legal rules on professional qualifications will be made clearer and more secure.

Adoption of the Bill by the start of the third quarter.

Deregulating intercity coach lines and access to coach stations

Deregulating intercity coach lines - DONE

The Growth, Economic Activity and Equal Economic Opportunity Act deregulates intercity coach lines: service on routes longer than 100 km is now completely deregulated and possible on routes shorter than 100 km subject to an assessment by the Rail and Road Regulatory Authority (ARAFER) to ensure that the new service will not undermine the economic viability of existing rail (regional express service or intercity service) or coach service.

Reform of coach stations - IN PROGRESS

The implementing Order of 29 January 2016 for the Growth, Economic Activity and Equal Economic Opportunity Act dealing with coach stations and the recodification of the Transport Code provisions dealing with the Rail and Road Regulatory Authority (ARAFER) ensures non-discriminatory access to stations and stops for all carriers and makes ARAFER responsible for regulation, including access control and dispute settlement. The Order requires the coach station and stop operators to be included in a register published by 1 May 2016 at the latest that specifies the access requirements for their facilities. These measures make it easier for carriers to obtain information, which encourages the opening of new coach lines and increases competition.

Result: A survey by France Stratégie 6 months after the Act was passed estimated that passengers had made 1.5 million coach trips. Today, there are more than 2,500 daily departures and arrivals and 146 towns and cities are served by coach lines. In 6 months, 1,300 new direct jobs were created in the road transport sector.

1 May 2016: publication of the register of coach station operators.

Easing the requirements for Sunday and evening opening of shops

DONE

The Growth, Economic Activity and Equal Economic Opportunity Act increased the annual number of Sunday openings possible at mayors' discretion from 5 to 12. The Act also defines international tourist zones (ZTIs), tourist areas, retail zones and certain train stations where employers can have employees work on Sunday, subject to compliance with a number of rules: the business must be covered by a collective bargaining agreement, except in the case of businesses with fewer than 11 employees, where the employer may make a unilateral decision to have employees work on Sunday, after consulting with the employees, in which case the employees concerned must be volunteers and receive something in exchange, such as extra financial compensation. A decree dated 23 September 2015 stipulates the criteria for defining Sunday opening areas.

At this point, 12 orders issued on 25 September 2015 set the boundaries of International Tourist Zones in Paris. Orders issued on 5 February 2016 created six International Tourist Zones in the provinces and the Paris suburbs. These orders concerned Deauville, Cannes, Nice, Cagnes sur Mer, Saint-Laurent-du-Var and Serris. Furthermore, an order issued on 9 February 2016 authorised Sunday opening for shops in 12 train stations.

Result: Nearly half of the 70 largest cities have already increased the number of Sunday openings in 2016, compared to 2015. Nearly a quarter of these cities opted for the maximum number of 12 Sunday openings.
- Sunday opening and the creation of an International Tourist Zone for the four largest department stores in Paris led to 2,000 additional jobs (source: *Union du Commerce de Centre Ville*).

Releasing land for construction

DONE

Measures to release land for construction help to reduce land prices and facilitate the siting of businesses. The Order of 17 July 2014 on the integrated procedure for commercial property (PIIE) was issued under the terms of the Enabling Statute of 2 January 2014 and intended to speed up the completion of projects. It applies to commercial property projects that are in the interest of the general good because of their significant value for local or national economic activity and in view of the goal of sustainable development.

The procedure is used for joint decisions to amend various urban planning documents and the relevant standards, including higher-level planning and guidance documents. The procedure can involve a single environmental impact assessment based on a single public inquiry. The government entities empowered to implement the integrated procedure for commercial property are the central government and central government public institutions, local governments or the competent local government groups.

Furthermore, a Decree of 9 July 2015 reduces the time limit for issuing building permits and other urban planning authorisations to 5 months.

Draft orders and implementing decrees are designed to simplify urban planning law and promote construction and development projects.

The *Conseil d'Etat* is examining the draft implementing decree for the integrated procedure for commercial property.

Heading 3 : Stimulating investment and innovation to strengthen non-cost competitiveness and boost growth potential

Support for investment and innovation will boost companies' productivity and the quality of their products, thereby increasing their non-cost competitiveness. This will enable them to gain market share and make them less vulnerable to exchange rate fluctuations and changes in production costs. This support should also stimulate the creation of new companies and the development of new sectors.

In addition to its measures aimed at strengthening corporate margins, which are needed to attract investment, the government has undertaken a policy that relies on a wide range of instruments: improving the innovation ecosystem, providing financial support for innovation, stimulating productive investment, building the industries of the future, supporting financing for SMEs and supporting the international development of companies.

Local government reform also contributes to this broader drive to boost productivity and economic potential by coordinating the actions of the different local governments and by making decision-making more effective (see box below).

Result: Business expenditure on R&D increased from 1.3% of GDP in 2007 to 1.5% in 2014. SMEs have been particularly active in terms of R&D and innovation: they have spent 5.2% of their turnover on in-house R&D, and they accounted for 23% of patent applications filed in 2014.

Impact of local government reform on business competitiveness and productivity

Local government reform is part of an on-going effort to improve the effectiveness of our institutions, since adapting administrative geography to economic geography is a critical task.

The government clarified local governments' powers with regard to economic development and coordinated the action of each level of government to create the right conditions for more effective economic policy-making by local governments. The stakes are high, since local government budgets for economic development stood at nearly €4.5 billion in 2015. Regional governments and municipalities are key players in economic development.

More specifically, improving decision-making and increasing powers wielded at the level of urban areas should enhance the effectiveness of urban planning and transport policies, increasing population density in some urban areas and generating economic gains in several ways: access to a broader and more competitive range of intermediate good suppliers, better matching of labour demand and supply, more fluid exchanges and dissemination of information, a wider or better adapted supply of public goods (infrastructures, transport, etc.).

Recent empirical studies on the subject have shown that increasing the population density of an urban area may have a major positive impact on productivity[11].

In addition, a less fragmented administrative structure for urban areas (defined as the number of municipalities per capita) would, for a given density, have a positive effect on productivity, according to the OECD. For a given size of urban area, doubling the number of municipalities within the area is associated with a drop in productivity of as much as 6%. Furthermore, for a given number of municipalities, improved cooperation between the different layers of administration, along with supervision by a central authority, can reduce the negative impact of fragmentation on urban productivity.

Even though a quantitative assessment is difficult to produce, a preliminary partial assessment of the MAPTAM Act by the OECD shows that the potential gains from local government reform are very substantial: the OECD estimates a gain of 0.3 percentage points of GDP by 2020 resulting solely from the creation of the Paris and Aix-Marseilles metropolitan areas, with a gain of approximately 1 percentage point in the longer term.

Furthermore, a study by France Stratégie[12] highlighted the fact that the economic coherence of the regions has been strengthened by the new map of the regions resulting from the NOTRe Act.

11 - Trésor-Economics No. 154

12 - Amabile A., Bernard C. and Épaulard A. (2015), « Réforme territoriale et cohérence économique régionale », *France Stratégie.*

Enhancing the ecosystem that fosters innovation

Clusters: Third phase - IN PROGRESS

The third phase of clusters (*pôles de compétitivité*), with the objective of steering the results of the projects to market, was launched in 2013 and will be completed in 2018. Each cluster is bound by a performance contract based on forging closer links with technology transfer players, strengthening support for SMEs seeking access to financing, international development and access to expertise.

Two surveys in 2016 will measure the economic impact of clusters. The government will also continue its work on optimising financing for clusters. Financing will focus on the most active clusters in terms of collaborative research. Financing for the promotion structures focuses on the clusters with the highest ratios of private financing and the largest number of collaborative research projects. The Ministry of the Economy, Industry and Digital Affairs launched a general discussion about changes in France's cluster policy on 4 January 2016. The purpose of the discussion is to enhance the coordination of the cluster policy with industrial policy and to make the map of clusters more transparent.

Result: The preliminary findings of an ongoing survey by France Stratégie[13] show that companies in the clusters have increased the self-financing of their R&D activity and that self-financing now outstrips the government R&D funding that they receive (direct subsidies and Research Tax Credit). The survey also highlights the clusters' positive impact on R&D jobs and on the number of patents filed. In 2012, each company in a cluster added an average of 6.5 R&D jobs and filed an average of 2 patents.

Presentation of the reform, impact and financing of clusters in June 2016. End of the third phase of clusters in 2018.

Support for innovative start-ups

Several measures have been introduced to support innovative start-ups:

The central government, building on local government initiatives, wanted to stimulate the networking and concentration of players and companies in major French Tech Cities (*Métropoles French Tech*). The networks should bring local players together to develop start-ups and provide a showcase for France's appeal as a place to do business. A new series of French Tech Cities were officially certified on 25 June 2015: *Brest Tech+, French Tech Côte d'Azur, Lor'NTech* and *Normandy French Tech*. They were certified as part of the implementation of a plan of action to support start-ups. In addition to stimulating local ecosystems, the French Tech initiative has brought French start-ups together and raised their international profile (see below "International business development").

Bpifrance, the public investment bank, has continued to provide financial support for start-ups through customised products that support innovative entrepreneurs (*Bourse French Tech*, seed capital loans) and renewed support for the venture capital sector with funds of funds (national seed capital fund, "*multicap croissance*" fund of funds) and direct investment funds (*Ambition numérique, Innobio*).

The central government holds competitions to raise the profile of start-ups and attract financing, such as the World Innovation Competition, the Digital Innovation Competition and the i-Lab Competition. A campaign to promote innovative public procurement was launched to stimulate the demand for innovation. In addition to the existing tax measures (Research Tax Credit, Innovation Tax Credit, Innovative Start-Up Scheme), a new corporate venture incentive came into force in 2016 to encourage corporate groups to invest in start-ups (see below for other international actions of French Tech).

Campaigns to promote youth entrepreneurship and innovation were conducted: student innovation, technology transfer and entrepreneurship hubs (*pôles étudiants pour l'innovation, le transfert et l'entrepreneuriat, Pépite*) were set up on every higher education and research campus to raise awareness and support students interested in entrepreneurship; a student-entrepreneur scheme has been created; a call for projects worth €20 million was launched to support the dissemination of the innovation and entrepreneurship culture, particularly in schools.

13 - Résumé disponible en ligne : http://www.strategie.gouv.fr/publications/poles-de-competitivite-effets-depense-privee-de-rd.

Assessing and modernising support for innovation

Making the Research Tax Credit permanent - DONE

In January 2016, the President of the French Republic confirmed that the Research Tax Credit (*crédit d'impôt recherche, CIR*) would become a permanent measure. The permanence of the tax credit is critical for the effectiveness of the incentive system.

Result: According to several surveys, the Research Tax Credit (€5.34 billion in 2015) added to private sector R&D expenditure in the short term (L'Huillery, Marino & Parrotta, 2013[14]). Furthermore, the Research Tax Credit impact study published by the Ministry of Primary, Secondary and Higher Education and Research in 2015 shows that the 2004-2008 reforms had a positive impact on the hiring of young graduates for R&D jobs under open-ended employment contracts, and the 2008 reforms had a positive impact on the hiring of young PhDs[15].
In 2012, some 15,300 companies received the Research Tax Credit, including 13,600 SMEs.

Assessment of the Innovative Start-Up scheme (*jeune entreprise innovante, JEI*) - IN PROGRESS

The scheme was introduced in 2004 to reduce R&D and innovation costs for these start-ups through exemptions from taxes and social security contributions. It was targeted at SMEs in their first eight years where R&D expenditure accounted for more than 15% of total expenditure. It has benefited more than 7,300 companies since its launch in 2004.

A qualitative survey is under way and expected to publish its findings in 2016.

Continuing assessment of innovation support schemes as part of governance renovation - IN PROGRESS

The government decided to simplify governance of innovation policies and strengthen policy assessments. A section of the "New Deal for Innovation" plan presented in November 2013 addresses governance of the innovation policy and discusses impact assessment. The *Commission nationale d'évaluation des politiques d'innovation, NEPI*), in charge of innovation policy assessment was established on 27 June 2014 and published its first report in January 2016. The report[16] reviews 15 years of innovation policies in France and includes a comparative map of the various innovation support schemes between 2000 and 2015. At the same time, the interministerial coordination unit for innovation and technology transfer, which brings together the Ministries involved in innovation policies and the French Regions Association (ARF), produced a report in 2015 on a set of indicators showing France's international position in terms of innovation. The first edition of the report "*Innovation en France – Indicateurs de positionnement international*" is now being published.

Result: Some of the report's conclusions were implemented rapidly, such as the merger of Bourse French Tech and the Ministry of Primary, Secondary and Higher Education and Research start-up competition, or the renovation of the financing scheme for contract research organisations (CROs).

Encouraging founder shareholdings - DONE

Founders' warrants (*bons de souscription de parts de créateur d'entreprise, BSPCE*) were introduced in 1998 to encourage founders to acquire and retain shares in start-ups. The warrants create both financial and tax incentives. The Growth, Economic Activity and Equal Economic Opportunity Act expanded the scheme. In addition to start-up employees and managers taxed as employees, the scheme now applies to employees and managers of subsidiaries that are more than 75% owned by the start-up, subject to certain conditions. The scheme also applies to companies created out of a merger, restructuring, spin-off or takeover of pre-existing businesses, provided the companies that are parties to the transaction were eligible for the scheme. These improvements will promote the creation of subsidiaries and the reorganisation of start-ups by maintaining the tax incentives.

14 - Evaluation des aides directes et indirectes à la R&D en France, Lhuillery, Marino, Parotta, MESR
http://cache.media.enseignementsup-recherche.gouv.fr/file/RetD/88/0/2._Rapport_externe_final_CIR_2014_334880.pdf

15 - Évaluation de l'impact du dispositif « jeunes docteurs » du crédit d'impôt recherche,
http://cache.media.enseignementsup-recherche.gouv.fr/file/CIR/73/5/jeune_docteur_et_CIR_520735.pdf

16 - http://www.strategie.gouv.fr/publications/quinze-ans-de-politiques-dinnovation-france.

Developing a digital strategy

A vast digital strategy is now being deployed to increase the penetration and impact of digital technology in France's economy. Digital activities accounted for 4.3% of France's GDP in 2013. This figure is now close to those in other leading Western European countries (4.8% in Germany, 4.0% in Spain and 3.7% in Italy).

Digital Republic Bill – IN PROGRESS

The Digital Republic Bill proposes a new framework, combining support for innovation and new business models, and wider access to public and private sector data that are "common goods", to promote the circulation of knowledge, protect privacy (access to digital services, protection of personal data), enhance fair competition between platforms, network neutrality, data portability and greater access to digital technology. More specifically, promoting the use of open data, opening up the government decision-making algorithms, and the use of data-sciences should increase the participation of citizens, NGOs and other stakeholders in government policy-making and assessment through digital technology. The Digital Republic Bill will also create a framework for paperless procedures and transactions by guaranteeing and recognising digital identity procedures and digital vault models.

The bill is being considered under the fast-track procedure. It was passed by the National Assembly after the first reading on 26 January 2016. It will be considered by the Senate at the end of April and in early May 2016.

Deployment of the High-speed broadband plan - IN PROGRESS

The high-speed broadband plan (*Plan France très haut débit, PFTHD*) was launched in 2013 to provide high-speed broadband Internet connections (> 30 Mbit/s) to half of the country's inhabitants in 2017 and full coverage in 2022. The plan will also reduce the digital divide by providing rapid solutions for end users who do not have high quality broadband connections (3-4 Mbit/s) by modernising the existing land line networks and by mobilising land-based and satellite wireless technologies. With more than €2 billion invested at the end of 2015, the central government has made a strong commitment to local governments carrying out projects in their *départements* or in their regions. In 2016, this commitment will step up the high-speed broadband plan to achieve a million connections operated by public initiative networks by the end of the year.

Building on the work of the *Comité interministériel aux ruralités* meeting in March 2015, the Growth, Economic Activity and Equal Economic Opportunity Act carries out the government's commitment to speed up full mobile telephone and Internet coverage for all town centres and to connect 800 sites to ensure coverage in economic development areas and tourist areas that lack mobile services.

The government is continuing its action as part of the high-speed broadband plan: €30 million has been earmarked to finance the construction of infrastructures to host telecom operators' antennae in rural and mountainous areas that do not have mobile service coverage, and an impending call for projects will provide mobile telephone and internet service in economic development areas and tourist areas that lack mobile services.

Digital transformation of government - IN PROGRESS

Digital technology also enhances public services. New digital public services for everyone will be deployed in 2016. Online procedures have become the "default" channel for accomplishing nearly nine out of ten formalities with central government administrations. The government's key website, service-public.fr, has been improved and simplified. It now offers users the option of receiving, filling out and storing documents online. The on-going deployment of "France Connect" will make it possible to use a single identifier for all online public services, which will simplify procedures for individuals and businesses.

Digital plan for education - IN PROGRESS

As part of the progressive deployment of the Digital Plan announced by the President of the French Republic in May 2015, €1 billion will be earmarked over 3 years for secondary schools to provide pupils with digital hardware and digital learning resources for the start of the 2018-2019 school year, for a digital technology training plan, for a national bank of digital learning resources, for the deployment of a secure environment for access to digital resources, for support and promotion of teaching technology innovation, for partnerships with economic players, and for the development of the digital resources publishing industry. In addition, the teaching of computer science and digital technology has been stepped up in lower secondary schools, with new curricula for the autumn of 2016) and in general and technology upper secondary schools (since the autumn of 2015 for the first year of upper secondary school and starting in the autumn of 2016 for the second year of upper secondary school).

The National Higher Education Strategy launched in September 2015 has three headings that concern digital technology: diversifying the supply of international courses by developing massive online open courses (MOOCs); planning for systematic use of digital technology for teaching and assessing students; developing digital resources and content curation.

A new portal, sup-numerique.gouv.fr, has been set up for this purpose. To date, it has nearly 1.4 million registered users and offers more than 170 MOOCs produced by more than 60 institutions in France and other French-speaking countries. The portal has a new catalogue of MOOCs and a search engine offering more than 30,000 learning resources. The ultimate purpose of the portal is to present all of the online courses offered by higher education institutions. A Public Interest Group, GIP FUN-MOOC was created for this purpose in August 2015.

Using open data policies to unleash new opportunities for businesses - IN PROGRESS

The Free Use of Public Sector Information Act of 28 December 2015 introduces the principle of free access to public data as the default under French law. The Digital Bill, after an unprecedented round of public consultations, is now before the Parliament. The Bill aims to increase the volume of administrative documents accessible online under the open data policy in order to enhance government transparency, improve public services and stimulate use of the data that creates economic and social value.

Result: In January 2016, the government announced open data access to the national company register, SIRENE, operated by the national statistics institute, Insee, starting on 1 January 2017. France's national company register is one of the most comprehensive in the world. It contains key economic data on some 10 million companies and establishments. The economic impact of this change is expected to be huge because of the positive externalities associated with open data (access to more data, improved accuracy of market surveys and estimated market potential, enhanced effectiveness of government policies).

Stimulating productive investment and building the industries of the future

Despite the relatively good resilience of investment during the crisis, compared to some of our European partners, increased investment and modernisation of our companies' production tools remains critical for growth. Investment support must focus in particular on building the industries of the future, which means investing in digital technology (see above) and energy transition.

Local governments are the leading source of public investment. They devote 20% of their budget to capital expenditure, which amounted to €44 billion in 2015. In view of the rapid decline in such expenditure, the government wanted to support local public investment and it created a dedicated fund endowed with €1 billion in 2016.

The first allocation of €500 million is intended to support major investment priorities, such as energy efficiency retro-fits of buildings, energy transition, development of renewable energy, upgrades of public facilities and development of infrastructures promoting mobility.

A second allocation of €300 million is being used to support the development of town and city centres in medium-sized cities that provide a structure for the surrounding areas and host resources for rural residents.

A final allocation of €200 million is put into the infrastructure appropriation for rural development areas to support infrastructure projects initiated by small municipalities.

Accelerating the recovery in investment with a higher depreciation allowance measure - DONE

The Growth, Economic Activity and Equal Economic Opportunity Act introduced a tax measure that allows companies to claim a one-off 40% deduction on productive investment made between 15 April 2015 and 14 April 2016.

Result: According to the French national statistics institute (Insee)[17], "purchases of capital goods (eligible for the measure) rose fairly rapidly from the second quarter of 2015. This growth was the highest since the first quarter of 2011. The total effect of the higher depreciation allowance was an increase in investment in manufactured goods of some 0.2 to 0.4 percentage points per quarter."

17 - Business conditions report, December 2015.

Steering local government reform to enhance the business environment - DONE

Local government reform aims to adapt our institutions to the way the French economy works. It strengthens the coherence of the geographical boundaries of local governments and economic geography. For example, the metropolitan area and intermunicipal groups are the most appropriate level of government for exercising local powers to promote productivity, since it has the best grasp of the externalities stemming from a greater concentration of activity (e.g. transport). The OECD estimated the potential effect of creating the Paris and Aix Marseilles metropolitan areas at +0.3 percentage points of GDP in 5 years and approximately +1 percentage point in 10 years. Furthermore, the next highest level of government, the regions, is the right level for developing a local economic strategy and ensuring the best distribution of activity within their boundaries.

New Face of Industry in France and Industry of the Future - DONE

The second phase of the “New Face of Industry in France” programme (*Nouvelle France Industrielle*) announced by the President of the French Republic on 14 April 2015 focuses on nine industrial solutions (eco-mobility, data economy, mart ofjects, medicine of the future, sustainable cities, digital trust, new resources, transport of tomorrow, smart food production) and a cross-cutting initiative (Industry of the Future) for the modernisation and transformation of industrial enterprises. The “New Industrial France” solutions will receive government financing under the Invest for the Future programme (*programme d’investissements d’avenir, PIA*).

Promoting investment in green growth - IN PROGRESS

The Energy Transition and Green Growth Act (LTECV) stimulates the green economy and job creation in this sector. More specifically, the Act introduces new subsidies to promote the development of renewable energy, with a new support scheme for renewable electricity sources that allows for direct sale of electricity on the market while still receiving an additional subsidy. Measures under the Act also modernise the management of hydroelectric power concession contracts and simplify permitting procedures for renewable energy installations. Many of the measures implemented focus on energy-efficient buildings and the development of clean transport. The Act is also aimed at promoting the circular economy, with incentives for waste recycling and reclamation. In addition, planned obsolescence may now be subject to penalties. Several hundred calls for tender for “positive energy areas for green growth” enabled local governments to commit to reducing the energy needs of local residents, buildings, businesses, transport and recreational activities. The local governments selected receive a subsidy for rapid financing of projects that contribute to reducing local energy consumption, boosting renewable energy production and enhancing community action.

Crowdfunding should enhance local ownership of renewable energy installations and facilitate projects by supporting their feasibility at the local level. Under the terms of the Energy Transition and Green Growth Act, the government plans to facilitate local community ownership of the companies carrying out renewable energy projects. This will enable individuals and local governments to take ownership of energy issues by becoming energy transition stakeholders and thus contribute greatly to the success of the projects. The next rounds of calls for tenders will favour projects that involve crowdfunding solutions. In order to reconcile renewable energy development and air quality improvement, as was the case for the 4-year experiment started in 2013 on upgrading individual wood-burning heating systems under the Atmosphere Prevention Plan (PPA) in the Arve Valley, Haute Savoie, the “Air Fund” run by the Environment and Energy Management Agency (ADEME) aims to reduce particle emissions from individual wood-burning heating systems. A call for expressions of interest in the fourth quarter of 2015 selected 14 local government projects. The purpose is to provide support for local governments for the creation, management and operation of a special fund providing a subsidy of up to €1,000 for individuals to upgrade inefficient wood-burning heating systems. The plan is to renew the fund in 2016 and in 2017.

The biodiversity bill includes incentives for biodiversity solutions and measures to support the innovation capacities of SMEs in green industries, particularly in ecological engineering.

The Energy Transition and Green Growth Act requires government motor pools, car rental companies, taxis and limousine companies, bus and coach companies to buy low-emission vehicles when adding to or replacing their fleets. This means electric vehicles or vehicles with any type of engine burning any type of fuel that produce low levels of greenhouse gas emissions and atmospheric pollutants. Under the Act, at least 50% of the replacement vehicles purchased by the central government and central government agencies must be such vehicles and the proportion is set at 20% for local governments and national corporations.

Result: Since the beginning of 2015, 500 local governments in France representing 21,000 municipalities have taken part in the positive energy areas for green growth" scheme. Two thirds of the French population are concerned. To date, 862 financial agreements have been concluded for a total of €100 million.

The biodiversity bill was debated in January 2016 and the vote will take place in the third quarter of 2016.

Deploying the Invest for the Future Programme and preparing the third phase - IN PROGRESS

The Invest for the Future Programme (PIA) was endowed with €35 billion when it was launched in 2010 (PIA 1). A further €12 billion were allocated to the second phase (PIA 2) launched in 2013. The two phases are involved in all aspects of innovation: from education and research to technology transfer and corporate innovation. The Programme conducts national calls for future-oriented projects whenever appropriate. The projects are assessed by a panel of international experts or independent experts tasked with selecting innovative projects with the potential to boost growth. As soon as an action is launched under the Programme, independent assessments are planned as a matter of principle and a budget is provided for the assessments.

In the run-up to a third phase of the Programme with an endowment of €10 billion, which was announced by the President of the French Republic in September 2015, a preliminary review of the first and second phases seemed in order. Louis Schweitzer, the General Commissioner for Investment, asked France Stratégie to assemble and lead a committee of experts to produce an independent mid-term review of the impact of the Invest for the Future Programme. The committee, which is chaired by Philippe Maystadt, submitted its findings on 29 March 2016. These findings conclude that the overall impact of the Programmes has been positive, particularly in terms of research and technology transfer. The committee's work relied on monitoring reports and the first independent assessments conducted in 2015 for actions that are starting to bear fruit (technology transfer, eco-city innovation, energy efficiency retro-fits of residential buildings, support for development of new uses, innovative digital services and content, apprenticeships, social and solidarity economy). The report also emphasises that the Invest for the Future Programme has increased the potential for growth and that its positive effects are both quantitative and qualitative. It laid the groundwork for new projects and improved collaboration between different stakeholders. These efforts will be continued to improve the economic effectiveness of the Programme.

In addition, major government investment projects will be assessed.

Results: At the end of December 2015, some 2,500 projects had been selected and €37 billion invested, including €9.5 billion in companies and €6 billion invested directly in SMEs and mid-sized enterprises, which account for 65% of the 7,400 beneficiaries of the Programme. Virtually all of the €47 billion endowment of the Programme will be invested by the middle of 2017.

2016: the third phase of the Invest for the Future Programme will be submitted to Parliament for implementation in 2017.

The Juncker Plan and the action of the EIB in France

In order to address the investment gap that has been hampering the European recovery since 2009, the European Commission, in conjunction with the European Investment Bank, has launched an Investment Plan for Europe ("Juncker Plan"). The objectives include generating €315 billion in investments over three years by setting up a European Fund for Strategic Investments (EFSI) with €5 billion in resources from the EIB and a €16-billion guarantee from the European Union budget. The EIB manages the "infrastructures and innovation" activities of the EFSI (€16 billion), and its subsidiary for financing European SMEs, the European Investment Fund (EIF), manages the "SME" activities (€5 billion) of the EFSI.

France is the leading beneficiary of the Juncker Plan, with 28 projects approved between the launch and 8 April 2016 with total guarantees of €1.8 billion, triggering total investment of €11.3 billion. The EIB approved thirteen innovation and infrastructure projects, with a guarantee of €1.4 billion that could generate €6.1 billion in investment and create more than 20,000 jobs. In addition, the EIF signed fifteen SME financing agreements under the Plan for €420 million that could generate €5.2 billion in investments in more than 23,000 SMEs and innovative start-ups.

A wide range of innovation and infrastructure sectors and projects were approved in 2015. At least three projects will promote energy efficiency and renewable energy production. Some €400 million in EIB financing could back up third-party financing companies' investment in improving the energy efficiency of 40,000 private homes in France. The Capenergie fund could provide €1 billion for renewable energy projects in Europe and in France. In other sectors, EIB financing through the EFSI could go to small projects promoting the transition to a circular economy in the Nord-Pas-de-Calais region, pollution clean-up projects in urban areas, extending high-speed broadband networks in rural areas of northern France and diversion of traffic away from the Strasbourg city centre. In addition to providing capital for various funds, the support for SMEs under the Plan includes a transaction with the French public investment bank, Bpifrance, to guarantee Innovation loans and seed loans for innovative companies in France for a total of €420 million over the next two years.

More generally speaking, after the EIB's transaction volume in France virtually doubled between 2012 and 2014, the EIB group signed off on €8.7 billion in new financing in France in 2015, with nearly half going to action on climate change. In addition to providing support for such sectors as transport or renovating upper secondary schools and universities, the EIB continued its support of innovation and businesses in 2015. It supported such flagship projects as the French-German Qwant, an innovative start-up which aims to develop a European search engine, or the European synchrotron in Grenoble. It also provided €703 million in financing for French SMEs and mid-sized enterprises through Banque Fédérative Crédit du Crédit Mutuel, the Crédit Agricole Group, Crédit Mutuel Arkéa, and €785 million in equity stakes or guarantees through the EIF.

Facilitating financing for SMEs

Action is required to remedy market failures that impede access to business financing in specific sectors (innovative or high-growth companies).

Tapping household savings to finance SMEs: the SME share savings plan - DONE

The government used the 2014 Budget Act to introduce a share savings plan (PEA-PME) designed to finance SMEs and mid-sized enterprises. The purpose is to use households' savings for equity financing of businesses by requiring funds in PEA-PMEs to be invested in shares of SMEs and mid-sized enterprises. The government used the 2015 Supplementary Budget Act to adjust the scheme and make it more dynamic. The selection of eligible securities was broadened to include compound financial instruments, such as bonds that are convertible or exchangeable in shares. The eligibility criteria for companies were simplified as well. The Supplementary Budget Act also introduced an income tax exemption for capital gains arising from the sale of money market mutual funds (SICAVs and FCPs), if the proceeds of the sale are deposited in a PEA-PME. The changes should help channel "dormant" savings into financing for SMEs and mid-sized enterprises.

Reforming employee savings plans to provide financing for SMEs - DONE

The Growth, Economic Activity and Equal Economic Opportunity Act changed the way employees' retirement savings in a company retirement savings plan (PERCO) are managed. Such plans contained a total of approximately €12.2 billion at the end of 2015 and posted very rapid growth of 18% in one year.

These savings will no longer be invested primarily in money market funds by default. Instead, they will be actively managed with a long-term outlook, which will make it possible to channel the savings into financing the economy, while protecting employees' savings, since the diversification rules ensure that the savings of employees nearing retirement will be invested in very safe and liquid assets. This reform will also mobilise more employees' savings to finance SMEs: the "PERCO+" scheme includes an incentive in the form a reduced social security contribution rate on profit-sharing payments that are put into group retirement savings plans investing in SMEs and mid-sized enterprises.

The implementing legislation for this reform was published at the end of 2015. Most of the provisions took effect on 1 January 2016.

Facilitating SMEs' access to market financing - IN PROGRESS

The Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015 gives the government the power to issue an order changing the rules governing commercial paper. The government finalised a draft order to modernise the legal rules for commercial paper, which does not count as a financial instrument for the purposes of EU regulations, so that it can be sold through crowdfunding investment advisers (CIPs) and investment services providers (PSIs). Commercial paper consists of securities issued in exchange for a loan. Any commercial company may issue commercial paper. The order to be published by early May creates a sub-category of commercial paper, called mini-notes, which can be sold to the public through crowdfunding platforms. This new instrument is designed to promote access to market financing for SMEs, including those incorporated as private limited companies (SARL), which are unable to issue conventional bonds, or can only do so under very restrictive conditions. Private limited companies will be able to issue mini-notes that can be bought by legal entities or individuals, subject to an annual cap. The trading platforms will be subject to special requirements to warn investors against the specific risks of these instruments and solicitation will be banned.

The order will be published before 6 May 2016.

Developing a legal framework for crowdfunding for SMEs (particularly innovative start-ups) - DONE

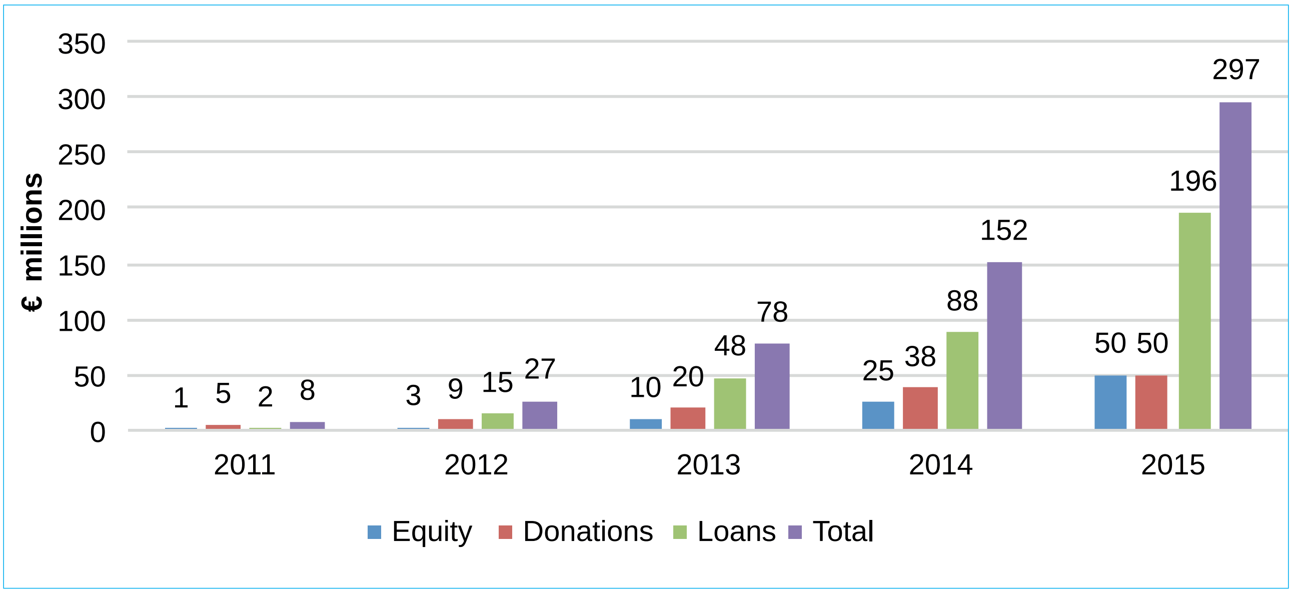
The French government wanted to address three issues regarding the development of crowdfunding. First, adapting to technological changes, fostering the development of crowdfunding platforms and improving their regulation. Secondly, enabling the rise of new financing sources for SMEs, mid-sized enterprises and innovative start-ups. And thirdly, protecting investors by regulating intermediation and crowdfunding platforms.

France's legal framework for crowdfunding is a recent development: it was introduced by the Order of 30 May 2014, which came into force on 1 October 2014. The Order creates two statuses: the status of crowdfunding investment advisers, for financing in the form of equity and debt securities, and the status of crowdfunding intermediaries, who enable individual lenders to participate in financing companies.

The results of these measures encouraged the government to announce new measures aimed at strengthening this new source of financing for the economy. The cap on offerings made through crowdfunding platforms will be raised from €1 million to €2.5 million (provided that the offerings between €1 million and €2.5 million do not represent more than 50% of the issuer's registered capital). The platforms will also be able to offer new types of securities: preferred shares, which are widely used for private equity deals, participating shares and, subject to certain requirements, convertible bonds. The enabling decrees will be published by the end of the third quarter.

Result: Crowdfunding has been growing very rapidly. Nearly 100 players were registered at the start of 2016, including 31 crowdfunding investment advisers and 61 crowdfunding intermediaries. The amounts raised by crowdfunding platforms doubled in 2015 for the second year in a row: according to industry figures, approximately €300 million was raised, breaking down into €50 million in equity financing, €196 in loans and debt securities and €50 million in donations.

FUNDING RAISED (€ MILLIONS)



Facilitating access to equity financing for innovative start-ups - IN PROGRESS

The ISF-PME scheme provides tax breaks for taxpayers liable for the wealth tax (ISF) who invest in SMEs, either directly or through investment funds. The 2015 Supplementary Budget Act introduced a reform of the scheme that came into force on 1 January 2016.

The new rules mark a major advance for France's venture capital system. The overall cap on investment by Innovation-Focused Mutual Funds (FCPIs) is now €15 million over the life of the enterprise, instead of the previous annual cap of €2.5 million. Investment in an innovative company is now possible for up to 10 years after its first commercial sale and the rules on follow-up investments (reinvesting following the initial investment) have been relaxed substantially. The new rules governing Local Investment Funds (FIPs) will channel investment more towards newer companies, which is a positive economic development for the stages prior to private equity deals.

The ISF-PME scheme accounts for €800 million in direct investment each year and nearly €400 million of the funds raised by Local Investment Funds and Innovation-Focused Mutual Funds each year.

The implementing decrees for the 2015 Supplementary Budget Act are being drafted and should be published in the coming months. They will place a cap on the fees that the funds charge.

Deploying Bpifrance's resources - DONE

Bpifrance's support for businesses has increased. The public investment bank was founded in 2013. It manages most of the business financing tools (*Oséo, Fonds stratégique d'investissement, CDC Entreprises*, etc.) and contributes to improving financing terms for SMEs by providing guarantees, innovation subsidies, cofinancing and co-investment in projects. In keeping with Bpifrance's strategic plan, the bank provides appropriate financing solutions for each stage in the life of a company, with a special emphasis on financing innovation and business growth, through the use of unsecured loans in particular.

Result: Total investment by Bpifrance Financement stood at around €17.5 billion in 2014, primarily in the form of medium and long-term cofinancing: €5.6 billion, short-term financing: €5.9 billion and guarantees for bank loans: €3.7 billion. This figure is expected to continue growing to somewhere in the region of €22 billion in 2018 to support the development and growth of French companies.

Improving the regulatory framework to facilitate business financing – COMING

The government is proposing a series of changes to the current regulatory framework to facilitate business financing as part of the Transparency, Anti-Corruption and Economic Modernisation Bill. These measures include a derogation to the banks' monopoly on lending, under the terms of the Monetary and Financial Code, to allow lending by European long-term investment funds (ELTIFs). This measure will diversify sources of financing for the economy and lower financing costs. Direct lending by a fund will enhance the alignment of interests with lenders, as is already the case in several European countries. In addition, the prudential framework for supplementary occupational pension schemes was adapted for the entry into force of "Solvency 2" on 1 January 2016. Such schemes appear to need a special prudential framework that is adapted to the long-term outlook of their management. The framework should strengthen the schemes' ability to finance the economy and provide better protection for savers as well. The points-based pension scheme will be reformed to channel the savings invested towards financing the economy and to boost the return on savings.

Adoption of the bill by the third quarter.

Supporting the international development of companies

Coordinating export sectors ensures better support for France's major exports. The central government has entered into partnerships with leading figures from the private sector to bring together "families" of exporting industries. These business leaders advise the government, represent France's exports abroad and coordinate the industries concerned to boost joint exports by several companies. This scheme has been applied in the healthcare, food, digital and sustainable cities sectors, followed by the tourism, cultural and creative sectors. In May 2015, it was extended to the renewable energy sector. The scheme is of particular benefit to SMEs.

Result : In France, SMEs and mid-sized enterprises with fewer than 250 employees account for 44% of export volume and 95% of exporting companies, compared to the European averages of 35% and 77% respectively. The number of exporting SMEs increased by 4.2% in France in 2015.

Rationalising export support schemes - DONE

Since 1 January 2015, the government has expanded the activities formerly handled by the French Agency for International Business Development (Ubifrance) and the Invest in France Agency (AFII) and merged them into Business France. The merger will make the scheme for supporting international business development more effective and more transparent. It will optimise the support for high-potential companies in the long run and promote the services offered to companies and local governments by combining the three strands: exports, attractiveness and the international business volunteers programme (VIE).

A one-stop financial support service for businesses has been established by bringing all of the existing government support schemes together under the "Bpifrance Export" banner.

In March 2015, an agreement between the two leading networks supporting French companies abroad (Business France and the Chamber of Commerce and Industry) was signed to improve coordination of their complementary actions in the field.

A plan of action for SMEs in export markets - IN PROGRESS

A plan of action for SMEs was launched in March 2015, with the Strategic Export Council (*Conseil stratégique de l'export*) at the helm. The objectives include increasing the number of International Business Volunteers (VIE) to 10,000 by 2017 and simplifying export formalities. Actions to have major corporate groups piggyback SMEs in international markets have also been promoted and work is under way to establish a more flexible format for groups of exporting companies.

Simplification of export procedures with one-stop service for customs clearance - IN PROGRESS

The government gave the General Directorate of Customs and Excise the task of overseeing the creation of a national one-stop service for customs clearance with the goal of paperless clearance, since the mandatory submission of paper documents (permits, certificates, etc.) to back up online customs declarations entails delays and costs for international business.

The shift to paperless mandatory documents will be achieved by establishing electronic links between the online customs clearance procedures of the various administrations. Such work is already under way. The government's objective is to put all 34 mandatory documents online by 2018.

French Tech – international action - IN PROGRESS

The French Tech initiative aims to raise the international profile of the start-up ecosystem. Three programmes have been implemented for this purpose. First, €15 million from the Invest in the Future Programme have been allocated to support the international attractiveness of French Tech. These funds have already financed four operations. Secondly, the objective of the French Tech Hubs programme is to federate communities of French start-ups abroad. Ten communities have been awarded the French Tech Hub label to date: San Francisco, New York, Tokyo, Israel, Moscow, Abidjan, Cape Town, London, Hong Kong and Montreal. Thirdly, the French Tech Ticket competition enables foreign start-ups to develop their projects in France by awarding winners a resident visa, €12,500 in prize money and access to a programme in business incubators working in partnership with French Tech. The first group of 50 winners of the worldwide competition arrived in Paris in early 2016.

Improving financial support for exports

The intensification of financial support for businesses' international development since 2013 is continuing. The Bpifrance group is the primary source of the increase:

DONE - Access to export credit has been facilitated through a relaxation of the eligibility and national share criteria. In addition, under the the Supplementary Budget Act of December 2015, the government export guarantees that Coface currently manages on behalf of the central government will be transferred to Bpifrance by the end of 2016. The transfer will simplify companies' access to export financing and contribute to the creation of a one-stop service to support SMEs at every stage of their development. The Supplementary Budget Act also introduces direct guarantees to accompany the transfer. Following the transfer, government export guarantees will be issued by a Bpifrance subsidiary directly in the name of the government to make the central government guarantees more transparent and to provide more diverse access to cash.

IN PROGRESS - Equity financing for innovative and/or exporting companies will continue to grow through the action of investment funds (Bpifrance's partner funds, CDC International Capital bilateral funds, CDC tourism investment funds, etc.).

End 2016: Transfer of government guarantees managed by Coface to Bpifrance.

3

CHALLENGE

IMPROVING THE FUNCTIONING OF THE LABOUR MARKET TO FIGHT UNEMPLOYMENT, FACILITATE WORKING AND PROMOTE HIGH-QUALITY JOBS

With 10% of its labour force unemployed, France needs to address the structural causes of unemployment by building a model that provides greater flexibility for employers and still guarantees a high level of protection for employees. In line with the legislation adopted since 2012 (Job Security Act of 2013, reform of continuing vocational training under the Act of 5 March 2014, unemployment insurance agreement, Act of 17 August 2015 on Labour-Management Dialogue and Employment) several important measures were adopted in 2015 to complement the measures aimed at reducing labour costs (Competitiveness and Employment Tax Credit and Responsibility and Solidarity Pact). The government's reforms cover three headings: adaptation to the employer's economic circumstances and specific characteristics, support and security for career transitions and improvement of job quality, and training for jobseekers to promote their return to the job market. The government will continue on this path in 2016. The Labour Bill was presented by the minister for labour to the cabinet at its meeting on 24 March 2016.

Heading 1 : Facilitating adaptation to the employer's economic circumstances and specific characteristics

In a rapidly changing world, companies need to have the ability to adapt rapidly to promote employment. This makes consideration of the specific characteristics of companies important, which means more decentralised labour relations and a greater emphasis on company-level labour agreements that still uphold fundamental principles. To preserve jobs, it is also important for company-level agreements accepted by a majority vote that, under certain conditions, may replace the clauses in the contracts of employment.

The actions taken help meet the following recommendation made by the Council:

- *Facilitate take up of derogations at company and branch level from general legal provisions, in particular as regards working time arrangements. Reform the law creating the accords de maintien de l'emploi by the end of 2015 in order to increase their take-up by companies (from the sixth recommendation).*

Allow companies to adjust their organisation in order to maintain or increase employment

Facilitating the signature of job protection agreements – DONE

Job protection agreements (*accords de maintien de l'emploi, AME*) were established by the Job Security Act of 14 June 2013. These agreements allow for temporary adjustment of working hours and pay in the event of serious short-term economic hardship in exchange for a commitment from the employer to preserve jobs. The requirements for invoking such agreements are regulated: the agreements are accepted by a majority vote with a commitment from the employer of no redundancies during the term of the agreement. Before the agreements are signed a diagnosis of the company's economic situation is carried out and the results are shared with the trade union organisations, which can refer to an expert appraisal conducted at the employer's expense.

The Growth, Economic Activity and Equal Economic Opportunity Act relaxed the requirements for entering such agreements: the term of the agreements was extended to five years and an agreement may contain a clause setting the requirements for suspending it in the event of an improvement or an exacerbation in the economic situation, without the need for a ruling from the Court of First Instance. The economic grounds for making an employee who rejects the Job Protection Agreement redundant have been clarified to address the employers' uncertainty mentioned above. The redundancy is deemed to be economically justified and based and real and credible grounds (with no obligation to provide outplacement offers).

Extending this option to meet the objective of more employment - COMING

The Bill aiming at introducing new opportunities and new safeguards for companies and employees called the "Labour Bill" will leave a lot more room for manuvre in company-level agreements to adapt working conditions with the aim of preserving or increasing employment. Under the terms of the Bill, when an agreement is reached by a majority vote in a company for this purpose, the provisions of the agreement may replace clauses to the contrary in contracts of employment, with the consent of the employees, but without reducing the monthly compensation of the employees. If an employee rejects the agreement, the employer will be able to start a dismissal procedure. The dismissal will be based on a *sui generis* reason related to the company's situation, rather than personal or economic.

Adoption of the Bill by the start of the third quarter.

Modernising collective bargaining at the company and sector levels

The Act of 17 August 2015 on Labour-Management Dialogue and Employment lays the groundwork for more effective labour-management dialogue within companies.

Combining and streamlining disclosures and mandatory consultations with the works council and mandatory collective bargaining topics - DONE

The Act abolishes the requirement for prior consultations with the works council about any proposed agreement and reduces the 17 annual consultation sessions to three: on business strategy, the economic and financial situation of the company, the company's social policy, working and employment conditions (changes in employment, equality at work, working hours). The existing twelve annual collecting bargaining meetings have been reduced to three on the following topics: pay, working hours and division of value added, quality of life at work, job and career management. The Act also makes it possible to adapt the structure and frequency of the bargaining sessions by means of an agreement accepted by a majority vote and subject to certain restrictions. The Act also relaxes the requirements for negotiating derogations.

Adapting the employee representation rules to the diversity of companies - DONE

The Act changes the framework for the single employee representative body (DUP), by raising the threshold for the application of this arrangement to 300 employees and by merging the Health and Safety Committee (CHSCT) with the DUP and by relaxing the relevant operating rules. The Act also allows for the merger of the employee representative bodies by means of an agreement accepted by a majority vote.

Enhancing the legitimacy of company-level agreements – IN PROGRESS

The Bill aiming at introducing new opportunities and new safeguards for companies and employees, called the "Labour Bill" will substantially strengthen the legitimacy of company-level agreements through the gradual extension of agreements accepted by majority votes. Company-level agreements will need to be signed by the trade unions that garnered the majority of the votes cast for representative unions. If no trade union obtained a majority in the elections, the company-level agreement will need to be signed by trade unions representing over 30% of the employees and approved by a majority of the employees in a direct vote. The trade unions' resources will be bolstered at all levels and collective bargaining rules will be reformed to make agreements more effective.

Increasing the leeway for company-level agreements through Labour Code reform

COMING

The main objective of the Labour Bil is to give collective bargaining a substantially greater role in developing labour law, as recommended in the Combrexelle report submitted to the Prime Minister on 9 September 2015, and to develop the culture of compromise and dialogue within companies.

The reform aims to establish a new architecture for the Labour Code that distinguishes between three types of provisions:

- Mandatory public policy provisions, which apply to all;
- Provisions determined through collective bargaining;
- Provision that apply in cases where labour and management cannot reach an agreement (*règles supplétives* or "default rules").

The objective is to strengthen the role of collective bargaining, particularly at the company level. This will be achieved by extending the scope of company-level agreements to allow businesses to adapt more readily to economic developments and be more competitive, while upholding important protections for employees.

The Labour Code will be entirely rewritten according to this new architecture. A commission of labour relations experts will be set up with the task of proposing a recast Labour Code to the government by 2019.The first step in this vast reform is the Bill aiming at introducing new opportunities and new safeguards for companies and employees, called the "Labour Bill". The Bill anticipates the recast Labour Code section dealing with working hours, rest and leave.

Company-level agreements will play a much greater role in determining working hours. More specifically, they will set overtime pay scales, where company-level agreements will now prevail over sector agreements.

The Bill strengthens the legal security of contracts based on the number of days worked per year (*forfait-jour*) by adopting the framework set by the case law of the *Cour de Cassation*.

The Bill opens up the possibility of modulating working hours over a period of more than one year under the terms of a company-level agreement, if the sector-wide agreement allows it. In this case, overtime pay is due on hours worked in excess of the 35-hour weekly limit and averaged over the reference period chosen in the agreement (and, under all circumstances, on the hours worked in excess of an "upper limit" set in the sector agreement; these hours are included in the paycheque for the month in question).

The Bill allows for collective bargaining to determine the rules and duration of leave for family events (marriage, maternity, bereavement), subject to a legal minimum amount of leave.

New Labour Code architecture applicable for the section dealing with working hours with the entry into force of the Labour Bill and then for the entire Labour Code in 2019.

Reducing the number of occupational sectors

COMING

Labour Code reform is expected to lead to a stronger role for occupational sectors (*branches professionnelles*). In accordance with the roadmap from the social conference of 19 October 2015, the government's objective is to reduce the number of occupational sectors from 700 at present to 200 in the next three years. The restructuring of occupational sectors will continue and accelerate to improve the quality of labour standards, provide better regulation of occupational sectors, create economic sectors and provide a sound set of minimum labour standards for VSEs and SMEs that are not covered by company-level agreements. Strengthening occupational sectors is critical so that they can play their key role under the terms of the Bill, which relies on collective bargaining to deal with a number of important issues.

In order to restructure collective bargaining agreements around 200 occupational sectors in the next three years, the Labour Bill has given new impetus to the drive to restructure occupational sectors that started with the Act on Vocational Training, Employment and Workplace Representation of 5 March 2014. The Labour Bill stipulates that the minister responsible for labour will have the power to merge occupational sectors with small numbers of employees in them, poor collective bargaining performances, as well as local occupational sectors and sectors where fewer than 5% of the employers belong to trade body representing employers. Mergers could also be carried out to strengthen the coherence of issues covered by collective bargaining agreements.

Time will be set aside for negotiations at sector level so that management and labour representatives can implement the mergers that they deem necessary.

If no mergers are accomplished, local occupational sectors and sectors that have not engaged in collective bargaining for more than 15 years will be merged by the end of 2016 and occupational sectors with fewer than 5,000 workers and sectors that have not engaged in collective bargaining for more than 10 years will be merged over the next three years. The “Labour Bill” is slated for a vote in the third quarter of 2016.

Heading 2 : Securing labour market transitions and improving the quality of jobs

Short-term economic developments may cause companies to adjust their workforce to adapt, along with other internal adjustments. Insecure labour market transitions are harmful for:

- jobs, because uncertainty about terminating contracts of employment makes some employers reluctant to recruit new employees, especially under open-ended contracts;
- employers, who could be weakened by legal proceedings, which can be very costly;
- employees, who need a secure framework that is adapted to their situation in order to find another job again easily.

Results: Termination of employment by mutual consent (more than 300,000 individual procedures each year) has helped reduce the caseload of labour tribunals. Furthermore, the number of legal proceedings stemming from job preservation plans is decreasing thanks to the increase in negotiated settlements: the percentage of plans ending up in court has fallen from 25% to 8% since the adoption of the Job Security Act of 2013.

These measures help meet the following recommendation by the Council:

- *Reform the labour law to provide more incentives for employers to hire on open-ended contracts (from the sixth recommendation).*

Making mass redundancy procedures for employees with open-ended contracts more secure

DONE

The Job Security Act of 14 June 2013 made mass redundancy procedures more secure for companies by introducing an administrative validation or homologation and by enabling management and labour representatives in companies to negotiate job preservation plans.

The Growth, Economic Activity and Equal Economic Opportunity Act simplified the outplacement procedure by stipulating that the employer shall provide employees facing redundancy international outplacement offers at the employee’s request and in consideration of any restrictions mentioned by the employee.

Making individual dismissal procedures more predictable

Organisation of labour tribunals – DONE / IN PROGRESS

The Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015 is designed to ensure more predictable and more rapid rulings from labour tribunals (justice prud'homale) on individual dismissals. On the one hand, the Act improves the training of labour tribunal members with regard to ethics and discipline, and, on the other hand, it speeds up, simplifies and rationalises the proceedings before labour tribunals.

The members of labour tribunals must now take an initial training course and a follow-up training course for each term of office. The initial training course is the same for management and labour members of the tribunals and it is provided by the central government.

2016: publication of several decrees on the proceedings before labour tribunals and on training for members of the tribunals, following consultations with management and labour representatives.

Regulating labour tribunal awards – COMING

The Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015 introduced an indicative scale of awards as a guide for labour tribunals in cases of redundancy "without real and serious cause", meaning when the judge deems that there were no valid grounds for the redundancy (e.g. an employer who mistakenly thought that the company was experiencing economic hardship).

The amount awarded will be added to the statutory and contractual severance payments, which are not affected. The award scale will not apply in the most serious cases, such as harassment or discrimination cases.

2016: publication of a decree after consultation with the Conseil d'Etat to specify the indicative scale of awards as a guide for labour tribunals.

Clarifying the redundancy procedure

The definition of the economic grounds for redundancy will be spelled out in the Bill aiming at introducing new opportunities and new safeguards for companies and employees, called the "Labour Bill", in order to clarify the rules that apply, especially in SMEs.

Economic hardships that could warrant redundancies are defined with reference to case law definitions: a decline in orders or sales over a specified period, operating losses, a major decline in cash holdings or anything that might establish the materiality of the hardships.

The scope for assessing economic hardship is also defined. The assessment is made at the company level if the company is not part of a group, or at the industry-wide level when the company is one of several in the same industry located in France and belonging to the same group.

These changes bring French legislation into line with that of its European neighbours. The Act also stipulates that artificially created economic hardships for the sole purpose of eliminating jobs cannot constitute valid grounds for redundancies.

The purpose of this codification of case law is to make the criteria for defining valid economic hardships accessible to all, particularly SMEs with no legal counsel or human resources departments. It also removes obstacles to hiring, particularly under open-ended contracts, when the head of an SME is reluctant to recruit new employees.

The Bill aiming at introducing new opportunities and new safeguards for companies and employees, called the "Labour Bill", is slated for a vote in the third quarter of 2016

Making career changes more secure and facilitating them

Personal training account – DONE / IN PROGRESS

The Personal Training Account (*compte personnel de formation, CPF*) came into force on 1 January 2015 under the Act of 5 March 2014 on Vocational Training, Employment and Workplace Representation. The accounts give workers rights to training at any point in their career, whether they are working or not, so that they can develop their skills and make career changes including changing to another sector of activity.

Results: To date, more than 2.7 million accounts have been opened and 322,000 training projects have been approved and financed. The number of workers signing up for accounts has picked up since an information campaign was launched in the fourth quarter of 2015.

Personal activity account - DONE /COMING

The principle of the Personal Activity Account (*compte personnel d'activité, CPA*) was set out in the Act of 17 August 2015 on Labour-Management Dialogue and Employment. The Personal Activity Account will be created by the Bill aiming at introducing new opportunities and new safeguards for companies and employees, called the "Labour Bill", and come into force on 1 January 2017. All workers will have personal accounts that bring together all of their individual rights that can be claimed at their own initiative and that follow them when they change jobs. This will ensure greater continuity in every worker's career.

The Labour Bill stipulates that the Personal Activity Account shall encompass the Personal Training Account, the arduous work account (compte personnel de prévention de la pénibilité) and the Civic Engagement Account (compte engagement citoyen). The Personal Activity Account will also be available for self-employed workers and civil servants to ensure the portability of their training rights if their occupational status changes. The Personal Activity Account will ease professional transitions and ensure a more fluid labour market.

One of the goals of the Personal Activity Account is to offer vocational training to workers with a low level of initial training:

- Workers under the age of 25 who left school without a diploma will be entitled to have their Personal Training Accounts credited with the number of hours of training necessary to complete vocational qualification courses for free. This entitlement will be financed by regional governments.
- Employees with no educational attainment will have their Personal Training Accounts credited with 40 hours per year, instead of 24 at present, and the maximum balance will be raised from 150 hours to 400 hours. Since a vocational qualification course lasts for at least 400 hours, these measures will enable such employees to finance such courses completely over 10 years.

The Civic Engagement Account Account included in the Personal Activity Account is designed to encourage volunteer work. People who do unpaid community service work, serve in the reserves, work as masters for apprentices or do unpaid work for non-profit volunteer organisations will be entitled to an additional 20 hours of training.

The vote on the "Labour Bill" is slated for the third quarter of 2016; 1 January 2017: entry into force of the Personal Activity Account for private-sector employees. Self-employed workers will obtain their Personal Activity Accounts on 1 January 2018. Civil servants will also obtain them following management and labour consultations to define the procedures for implementing the Personal Activity Account.

The "right to a second chance" for young dropouts - IN PROGRESS

The Public School Guidance and Planning Act of 8 July 2013 institutes a "right to a supplementary vocational qualification training period" for young people who left school without a diploma. This right may be claimed by returning to school, obtaining an apprenticeship or by taking continuing training.

The Bill aiming at introducing new opportunities and new safeguards for companies and employees, called the "Labour Bill", puts the finishing touches on this right by stipulating that young people using their rights for continuing education shall have their Personal Activity Account credited for the number of hours necessary to complete a vocational qualification course.

This right is organised as follows:

- The right to a supplementary period of vocational qualification training as a vocational training intern will take the form of hours credited to the Personal Activity Account;
- The hours credited are financed by the regional government as part of the regional public vocational training service;
- The hours credited by the regional government will be added to the hours already acquired by the account holder;
- The regional governments shall determine which training courses are eligible by virtue of their powers for defining regional public vocational training services and include them in the regional training programme.

Making career paths more secure and strengthening access to employment for volunteers completing civic service - IN PROGRESS

Access to training through the Personal Activity Account for volunteers completing a period of civic service meets the objective of making the careers of the young people concerned more secure (see Part III, Challenge 4, Heading 5).

The number of volunteers finding jobs after completing civic service is high, but 20 out of 100 are still jobless. Furthermore, given that the volunteers have low levels of qualifications, access to training hours will enable these young people to enter training courses more easily. This prevents gaps in career paths and enables the young people concerned to capitalise on their work experience rapidly, particularly by obtaining vocational qualification certificates (some certificates are based primarily on skills acquired through work, such as the qualification certificates delivered by the Ministry of Employment).

Heading 3 : Supporting and training jobseekers, promoting their participation in the labour market and improving the effectiveness of unemployment insurance

The government has implemented measures to support jobseekers, promote their return to work and make the labour market more fluid in order to improve the match between skills and labour market needs.

The President of the French Republic announced a jobs plan on 18 January that is based on a subsidy for new hires in SMEs and an array of new opportunities for young people, employees and jobseekers (rebooting apprenticeships, Personal Activity Account, 500,000 Trainees Programme).

The actions taken help meet the following recommendation made by the Council:

- *“Take action in consultation with the social partners and in accordance with national practices to reform the unemployment benefit system in order to bring the system back to budgetary sustainability and provide more incentives to return to work” (from the sixth recommendation).*

Reorienting and strengthening active training policies

Reforming the financing and governance of vocational training (2014) - DONE

The Act of 5 March 2014 on Vocational Training, Employment and Workplace Representation reconfigured financing from companies with a view to reducing their tax burden, while ensuring that the smallest enterprises maintained their training efforts. The Act marks a break with the former reasoning behind financing training, switching from an obligation to provide financing for training to an obligation to provide training. The Act also reforms the financing of apprenticeships.

The Act introduced sweeping changes in the governance rules for the national and regional vocational training system, allowing all of the stakeholders (central government, management, labour and regional governments) to start using new tools for concerted action.

The Act marks the end of the decentralisation cycle and transfers the residual powers relating to training still held by the central government to the regional governments.

Training plan announced by the President of the French Republic - IN PROGRESS

The President announced that training courses for an additional 500,000 jobseekers would be financed in 2016.

The purpose is to train jobseekers, particularly those with few or no skills or whose skills are obsolete. The other purpose is to meet the recruitment needs of companies in fields where skilled workers are scarce or fields of the future.

The training effort will be financed by the central government and management and labour bodies. The central government will pay €1 billion in 2016, and management and labour bodies will pay €130 million through the joint fund for securing career paths (*Fonds paritaire de sécurisation des parcours professionnels, FPSPP*). The plan will increase the percentage of jobseekers with access to training up to about the same level as in Germany.

The Act of 5 March 2014 on Vocational Training, Employment and Workplace Representation also enshrined the four-party approach (with management, labour, regional governments, central government) that has been incarnated in the National Vocational Training and Guidance Council (*Conseil national de l'emploi, de la formation et de l'orientation professionnelles, CNEFOP*), which was inaugurated in November 2014, and in the Regional Vocational Training and Guidance Councils (*Comités régionaux de emploi, de la formation et de l'orientation professionnelles, CREFOP*) in each region. The crucial measures under the Act are the Personal Training Account and career counsellors, which are now in place.

The objective is to double the number of jobseekers in training to 1 million in 2016.

New partnership between the central government and regional governments to fight unemployment and promote training - DONE

The government and the Regional Presidents have decided to establish a new partnership for joint action to fight unemployment with the signature of a joint platform on 31 March 2016. The platform details the two parties' commitments for jobs, training, economic development and apprenticeships.

In practical terms, this plan will require:

- closer coordination of employment, vocational training and economic development policies with renewed governance shared between central and regional governments at the local level;
- experiments with new types of contracts between *Pôle emploi*, the public employment service and regional governments to ensure actions to support jobseekers are more consistent with regional economic strategies.
- commitments from all parties to make apprenticeships a recognised training path for integrating young people into the work force and experimenting with a greater role for regional governments in regulating the allocation of financing;
- èa stronger role for regional governments in support for SMEs and mid-sized enterprises to create permanent jobs that cannot be moved offshore and the start of discussions on regional governments' tax autonomy.

Continuing the job subsidy policy

DONE

Subsidised contracts of employment give jobseekers an immediate source of income, prevent isolation from the labour market and facilitate integration of the long-term unemployed. Employers and public agencies must offer support and training to the beneficiaries to increase the percentage who are still employed at the end of the programme. In exchange, employers receive a hiring subsidy that varies, depending on the type of contract, the local context and the job and training actions implemented.

In 2016, the government's job subsidy policy will be supplemented with a hiring subsidy that will enable SMEs to hire new employees sooner or in greater numbers under open-ended contracts or contracts with fixed terms of six months or more – see Challenge 2.

Results: In December 2015, 437,000 people were employed under subsidised contracts. The number of subsidised contracts in the market sector was up by 70% at the end of 2015, compared to 2014, whereas the number of subsidised contracts in the non-market sector was stable over the year. The aggregate number of subsidised contracts rose by 16% between the end of 2014 and the end of 2015. Employers in the market sector plan to offer employees a new contract of employment after the subsidised contract expires in 35% of the cases[18].

Supporting jobseekers

Continuing personalised support for jobseekers - IN PROGRESS

The 2015-2018 three-party agreement between the central government, Pôle emploi and the Unemployment Insurance Agency (Unédic) provides for personalised support for jobseekers (see 2015 National Reform Programme for details about the schemes). The objective is to double the number of people receiving enhanced support or overall support by the end of 2017.

Results: The objective for 2015 was met: 396,000 jobseekers were receiving intensive support at the end of October 2015. The goal for 2016 is to have 400,000 jobseekers receiving enhanced support, followed by 460,000 in 2017.

Continuing implementation of follow-up of new recruits - IN PROGRESS

A "follow-up" service was introduced to provide security for employers hiring an employee who was not originally considered because of a period of long-term unemployment and to help such employers develop their capacity to provide stable jobs. The follow-up lasts for 3 months after the new employee's start date.

An experiment with 8,000 beneficiaries will be conducted from 1 November 2015 to 30 June 2016. The results will be assessed to determine whether the service should be extended.

Continuing deployment of Pôle emploi's digital strategy - IN PROGRESS

Pôle emploi's's digital strategy enhances the personalisation of services for jobseekers and for employers. It enables the most autonomous jobseekers to obtain immediate support, offers many additional job-search services and frees up *Pôle emploi* staff to focus on jobseekers needing more intensive support. For example, jobseekers have been able to register with *Pôle emploi* online since 1 March 2016. The online service platform "Job Store" at the heart of the digital strategy brings all of the main services for jobseekers together on one website and is destined to become the leading job-search platform for jobseekers and employers. The central government start-up "The Right Company" (*la bonne boîte*) was initiated after an innovation competition for *Pôle emploi* staff. The website guides jobseekers making spontaneous job applications to their most likely employers by using companies' economic data to determine with 80% accuracy which ones will hire a specific type of profile in the coming quarter. But *Pôle emploi* also ensures that jobseekers who are less familiar with digital technology or do not have easy access to the Internet are not left behind. For example, there are 2,200 civic service volunteers working in *Pôle emploi* branches to provide support for jobseekers with their online applications, particularly in the priority neighbourhoods designated under the government's urban policy.

Introducing adapted vocational training contracts for older workers and the long-term unemployed - DONE

Two new vocational training contracts have been developed for older workers and the long-term unemployed. The "new career" vocational training contract, which is designed especially for unemployed jobseekers over the age of 45, does not require any new legislation to take effect. The "new opportunity" vocational training contract was established by the Act of 17 August 2015. The term of this vocational training contract and the training periods are adapted to the needs of the long-term unemployed.

18 - Synthese.stat, Direction de l'animation de la recherche, des études et des statistiques (Dares), January 2016
http://dares.travail-emploi.gouv.fr/IMG/pdf/synthese.stat_no_18_-_le_recours_aux_contrats_aides._resultats_detailles_de_l_enquete_employeurs.pdf

Youth Guarantee

In accordance with the priority that the President of the French Republic has placed on youth, France launched experiments with its own youth employment programme, the Youth Guarantee, which is part of the French strand of the European Youth Guarantee, to provide young people who are neither employed nor in education or training (NEET) more rapid and more systematic access to jobs. The Youth Guarantee scheme for particularly vulnerable young people provides support through the local youth employment services (*missions locales*) and takes the job search as a starting point. The scheme is for vulnerable young people between the ages of 16 and 25 who are neither employed nor in education or training (NEET), whose income is less than the amount of the Social Inclusion Benefit (RSA) and who are at risk of social exclusion (young people living away from home or in a home with little family support, or who are in the justice system or homeless).

These young people receive intensive support in groups to help them find a job and they benefit from work experience opportunities. The support comes with financial assistance to facilitate their job search. The amount of assistance varies, depending on their earnings from work. The Youth Guarantee is also a way of addressing human resources issues in VSEs and SMEs. The scheme places the employer at the heart of the support strategy and makes employers beneficiaries, alongside the young people.

The scheme has been ramped up gradually. It started as an experiment in 10 *départements* in 2013 and was extended to another 62 *départements* in 2015. Nearly 53,000 young people have benefited from the scheme in two years. By the end of 2016, the Youth Guarantee will be deployed voluntarily by 91 *départements* and 80% of the local youth employment services for the benefit of more than 100,000 young people. The Bill aiming at introducing new opportunities and new safeguards for companies and employees, called the "Labour Bill" creates a right to the Youth Guarantee for all eligible young people that will take effect in 2017.

Some of the scheme may be cofinanced by European funds, such as the European Social Fund and the European Initiative for Youth Employment.

Promoting the return to work: combining the earned income tax credit and the in-work income supplement and merging them into the in-work benefit, and reforming personal income tax

DONE

In-work benefit

the Act of 17 August 2015 on on Labour-Management Dialogue and Employment created the in-work benefit *(prime d'activité*), which replaced the in-work income supplement (*RSA activité*) and the earned income tax credit (*prime pour l'emploi*) on 1 January 2016. The in-work benefit is a financial subsidy for low-wage workers that is available to young workers aged 18 or older. Previously, young workers aged 18 to 25 were only entitled to the two former schemes under certain conditions. Combining them into one benefit has made returning to full-time work more attractive. For example, switching from a part-time job to a full-time job paying the statutory minimum wage will result in a gain of €250 per month for a single adult following the reform, as opposed to €185 before the reform. For a couple with two children where only one of the adults has a job paying the statutory minimum wage, the return to full-time work at a minimum wage job by the other adult would result in a gain of €585 per month, as opposed to €540 before the reform.

Results: As of 5 February 2016, 1.5 million households had received the in-work benefit; this affects 2 million people, including 225,000 people under the age of 25. The take-up rate already stands at approximately 50%, which is higher than the take-up rate for the in-work income supplement.

Reforming personal income tax - IN PROGRESS

Personal income tax was cut to help boost households' purchasing power and the incentives for working (eliminating unemployment traps). This reform benefited approximately 8 million households. Nearly 99% of these households had base per person taxable income falling in the 5th to 8th income deciles.

Results: A total of more than 12 million tax households have seen their personal income tax cut since 2014.

Making the return to work more attractive with a new unemployment insurance agreement

COMING

Without anticipating the results of future talks and in consideration of the independence of the management and labour bodies that manage the unemployment insurance system (Unédic), a new agreement (see Challenge 1) should make returning to work more attractive for the unemployed, in keeping with the spirit of the measures already introduced in the 2014 agreement.

Start of negotiations on 22 February; implementation of the new agreement on 1 July.

Adapting initial training and renovating vocational training in secondary and higher education

Renovating vocational training - IN PROGRESS

The government has continued renovating and improving the image of the vocational track in education. This includes setting up internship placement centres in all school districts, initiating projects on changing vocational course offerings, teachers' training, assessment of the vocational qualifications system with a view to future changes, including skill sets in diploma requirements, setting up a "future career" scheme (*parcours Avenir*) to enhance guidance and career counselling for all secondary school pupils.

Diversifying training by opening up the Ministry of Labour vocational qualifications certificates to apprenticeship programmes - IN PROGRESS

This measure is a win-win response to a demand from occupational sectors. For employers, it diversifies the training available for skills that are regarded as more in demand. It also meets their needs to fill jobs rapidly, with a system where trainees can start their training at any time of the year. For young people who are not comfortable in the school system, it opens up new job prospects with shorter training periods. It also enables young people cutting short their apprenticeship contract to find a new direction immediately. The needs analysis was carried out and the occupational sectors identified 85 vocational qualifications that meet their needs.

Opening up vocational qualifications certificates to apprenticeship programmes is one of the commitments made as part of the joint central government-regional government platform.

Opening up the Ministry of Labour vocational qualifications certificates to apprenticeship programmes in June 2016.

Facilitating careers counselling for young people - COMING

The Bill aiming at introducing new opportunities and new safeguards for companies and employees, called the "Labour Bill", will make the data concerning employment of graduates of vocational schools and apprenticeship programmes public. The practical purpose of this measure is to make apprenticeships more attractive. It also promotes informed and relevant career choices since young people and their families have critical information about employment prospects in different occupations.

The Labour Bill is slated for adoption in the third quarter of 2016.

Supporting training in certain schools, such as factory schools, with revenue from the apprenticeship tax - IN PROGRESS

Teaching in these schools is based more on the principle of "learning by doing" and is aimed at young dropouts in many cases, ensuring their right to a second chance. The classes lead to public school diplomas (CAP, BAC PRO) or vocational qualifications certificates that are recognised in the National Register of Vocational Qualifications. The success rates of these schools are satisfactory. Given the objective of these schools, it was important to give them recognition. The government has also upheld its commitment, as well as its expectations, with regard to the "second chance" schools.

The objective is to provide training that facilitates employment for young people with no diplomas or skills. These schools are co-financed by central and local governments in partnership with employment stakeholders (public employment service, Ministry of Education, public careers counselling service, economic players).

Facilitating access to housing to promote access to employment

DONE

Geographical mobility is critical for a fluid labour market, but this mobility may be hampered by the fact that young people entering the job market for the first time often have a hard time finding housing because of the guarantees demanded by private landlords. Even young people with open-ended contracts of employment may have a hard time because they cannot provide the same guarantees as older tenants. To address this problem, management and labour bodies and the central government have implemented a rent guarantee scheme for these young workers. The Visale scheme is a free system that guarantees private landlords against non-payment of rent, subject to certain conditions, for the first three years of the lease, provided that the employment start date and the move-in date are close together.

Reforming driving licences to facilitate access to employment

DONE

Back in the third quarter of 2014, the Minister of the Interior introduced two emergency measures (adding one road test session per day and calling up reservists and public officials to give the written test whenever possible). These measures have substantially reduced the waiting period for retaking the road test after a failed attempt. The results have been very encouraging. And yet, the waiting period needs to be reduced further to attain the goal of 45 days stipulated by the Growth, Economic Activity and Equal Economic Opportunity Act.

Furthermore, the measures to reform the one-euro-a-day driving licence scheme are in preparation. This scheme enables people aged 15 to 25 years to spread the cost of their driver training over a period of up to 40 months by obtaining a loan from a credit institution. The central government pays the interest on the loan, making it interest-free for the future driver. This scheme promotes access to driving licences, which are often critical for social integration and finding a job. It also promotes improvement of the overall quality of driver training, thereby enhancing road safety. Discussions have started with Caisse des Dépôts to revive the government guarantee scheme, which has been in operation since September 2010. Under the scheme, the central government guarantees loans for young people in training or looking for work who cannot provide a guarantor.

In 2015, 105,000 young people obtained “one-euro-a-day” loans for driver training totalling €3.89 million, compared to 91,000 loans totalling €3.95 million in 2014. As of 30 September 2015, more than 843,000 young people had obtained such loans since the launch of the scheme.

Helping jobseekers start their own businesses

DONE

The NACRE scheme to provide new support for starting or taking over a business is aimed at the unemployed or people who have trouble holding a job and helps them create or take over a business. It is backed up by interest-free loans. The support component of NACRE will be transferred to the regional governments on 1 January 2017. This scheme strengthens the support for business creation provided by the France Entrepreneur Agency, which was incorporated on 15 December 2015. The new Agency has taken over and expanded all of the functions of the Business Start-Up Agency (APCE), with priority for vulnerable areas and the development of young enterprises (post-start-up phase).

4

CHALLENGE

PROMOTING GENDER EQUALITY, SOCIAL INCLUSION AND EQUAL OPPORTUNITIES

The government's action is aimed at increasing participation, both in the labour force and in society, by fighting exclusion and poverty, facilitating access to housing, promoting gender equality, guaranteeing quality education for all and introducing a civic service scheme that is open to all. These measures are aligned with the notion of "social investment".

These actions contribute to achieving the objectives of the Europe 2020 strategy, in terms of employment, combating poverty and education.

Heading 1 : Combatting exclusion and poverty

The government's action to reduce poverty was defined in the multiyear plan to fight poverty and social exclusion of 21 January 2013. The plan was updated with a 2015-2017 roadmap that the government adopted in March 2016. The roadmap covers 54 actions.

Results: The latest figures published by France's National Statistics Institute (Insee) on living standards in 2013 show an improvement in a series of poverty indicators. Income inequality between the richest 20% and the poorest 20% of the French population stood at 4.3 in 2013, compared to 4.6 in 2012. This gap is narrower than the European average. The poverty rate stood at 14.2% in 2014[19] and the at-risk-of-poverty rate stood at 18.5%, meaning that 11.2 million people are at risk.

Access to entitlements and minimum social benefits – DONE

The family allowance funds now offer "entitlements appointments" to facilitate access to entitlements and to raise the take-up rate. The government has put an entitlements simulator online at mes-aides.gouv.fr. The government has also continued its policy of exceptional increases in minimum social benefits and allowances for low-income families. On 30 October, the Prime Minister commissioned Christophe Sirugue to produce a report on simplifying the minimum social benefits, to be completed in April 2016.

Results: As part of the plan for an exceptional 10% increase in the Social Inclusion Benefit (RSA) over 5 years, a 2% adjustment was made on 1 September 2015. The monthly benefit payment for a recipient increased from €513.88 to €524.16. The family support allowance and the supplementary benefit were increased by 5% and 10% respectively on 1 April 2015.

19 - Source: Eurostat

An interministerial plan of action for social work and social development was submitted to the cabinet on 21 October 2015. The plan is the result of the national summit on social work opened by the President of the French Republic on 25 January 2013. It calls for streamlining access to entitlements by refocusing social workers' action on their core activity: providing support. Several measures have been adopted for this purpose: organising "primary social services provided unconditionally and locally" under the terms of the local administration reform Act (NOTRe Act) and the creation of "referring caseworkers", who will be able to coordinate solutions for the most complex situations. The project for a simplified single social case file will also be revived.

Banking inclusion - IN PROGRESS

The Decree of 30 June 2014 created an observatory on banking inclusion under the provisions of the Separation and Regulation of Banking Activities Act of 26 July 2013 and reflects the determination to improve banking inclusion for the financially vulnerable. The observatory's task is to conduct analyses of banking inclusion and publish an annual report. The report may contain the observatory's recommendations for improving banking inclusion and examples of best and worst practices.

Budget Advice Centres, a measure included in the 2013 Anti-Poverty Plan, will be opened as a year long pilot project in four regions (Ile-de-France, Midi-Pyrénées/Languedoc-Roussillon, Alsace-Lorraine-Champagne-Ardenne and Nord Pas-de-Calais/Picardie) in 2016. The experiment should prevent over-indebtedness by providing information, advice and support.

Youth Guarantee - DONE

The Youth Guarantee, which is part of the French strand of the European Youth Guarantee, aims to provide more rapid and more systematic access to jobs for young people who are neither employed nor in education or training (see box in Challenge 3, Heading 3). The experimental implementation of the Youth Guarantee in 91 *départements* in 2016 will be extended to the entire country in 2017.

Healthcare - DONE

In 2013, an exceptional measure raised the income eligibility limits for the supplementary health benefit (ACS) and the supplementary universal health insurance (CMU-C) by 7%. In addition, coverage was bolstered by extending the CMU-C to more types of care and by increasing the amounts paid by the ACS to recipients over the age of 60. The ACS reform improves the value for money of the contracts and raises the take-up rate. Access to healthcare has also been improved by creating mobile teams that provide new round-the-clock access to healthcare and psychiatric care (PASS) for the most deprived.

In addition to these actions, the Healthcare System Modernisation Act of 26 January 2016 introduces direct settlement of all bills covered by basic healthcare insurance starting on 1 January 2017, after a progressive rollout in 2016. Direct settlement avoids out-of-pocket advances for healthcare expenses and eliminates the problem of deferring care. Direct settlement has been available for ACS beneficiaries, as well as CMU-C beneficiaries, since 1 July 2015.

Combatting food insecurity - IN PROGRESS

The Plan also promotes the fight against food insecurity and waste, complementing actions to implement the Fund for European Aid to the Most Deprived (FEAD) in France. A large share of financing for food assistance (€82.2 million in 2016) comes from FEAD.

Results: Financing is expected to provide food assistance for more than 4 million people in 2016.

Emergency accommodation - IN PROGRESS

According to a 2012 estimate by France's National Statistics Institute (Insee), France had 140,000 people with no fixed abode, including approximately 12,000, or 9%, who were homeless. The 2015-2017 roadmap for the multiyear plan to fight poverty and social exclusion upholds the commitments given regarding respect for human dignity in housing the homeless: accommodation should always be available unconditionally.

Some specifically vulnerable groups receive special attention, particularly women in distress who are victims of violence, newly-released prisoners and vulnerable young people to ensure that they receive better access to housing with more effective and more rapid guidance.

The Housing and Accommodation Outreach Service (SIAO), which will centralise housing requests and offers, will be extended to all départements in 2016, in accordance with the Housing Access and Urban Renovation Act of 24 March 2014 (ALUR). The establishment of a single statute for all emergency accommodation centres is also being discussed.

Results: the stock of general-purpose emergency accommodation increased from 82,288 places at the end of 2012 to 103,866 places at the end of 2014.

To cope with the needs arising from the influx of migrants in Europe:

- The cabinet meeting of 17 June 2015 adopted a plan for 11,000 additional places in 2016: 4,000 places for asylum seekers, 500 places in temporary shelters, 5,000 places in housing for refugees or beneficiaries of subsidiary protection and 1,500 places in emergency accommodation;
- The Circular of 9 November 2015 provides for housing 30,700 asylum seekers in two years.

Combatting fuel poverty - IN PROGRESS

On 25 March 2016, the National Housing Agency increased its objective for renovation of housing from 50,000 units in 2015 to 70,000 in 2016. This is part of the "Better Living Programme" aimed especially at low-income owner-occupiers facing fuel poverty. The purpose is to improve the energy efficiency of housing by at least 25%.

In addition, the Energy Transition and Green Growth Act of 17 August 2015 created an "energy cheque" scheme,designed to provide support for more households suffering from fuel poverty. Approximately 4 million households are expected to benefit from the scheme, as opposed to the 3 million under the current subsidised prices system. The "energy cheque" scheme is available to all households suffering from fuel poverty, regardless of their heating fuel. The average amount of an "energy cheque" will vary depending on the household's base taxable income and the number of people in the household. The average amount will be approximately €150 per year. The cheques can be used to pay for home heating fuel (electricity, natural gas, LPG, heating oil, firewood, etc.), heating charges from a social housing landlord, charges for sheltered housing, or payments for expenses related to energy efficiency retro-fits of housing (if the work is eligible for the energy transition tax credit). The "energy cheque" scheme will be tested in four *départements* to assess how it is used with different heating systems and then rolled out to the entire country.

Housing

See details of the measures below.

Heading 2 :
Facilitating access to housing

The government's objective is to increase housing stock to facilitate access to housing for the significant number of people living in substandard housing. Several actions have been undertaken in the last year for this purpose:

- A support scheme was set up for municipalities building housing, finalised by the Decree of 24 June 2015 and the Order of 9 November 2015, and started operating in the second half of 2015
- On 10 September 2015, the Ministry of Finance and the Ministry of Housing commissioned a study to release private land in areas with housing shortages and step up the production of housing to supplement the actions already taken to release government land for housing (in 2015, the original objective was 60 transfers of land by the central government and central government agencies and the construction of 5,000 housing units; the actual outcome was 70 transfers intended to produce more than 7,900 housing units). The report was submitted in 2016 with a list of recommendations grouped under three headings: improving the transparency of real property markets, helping local governments strengthen their land management policies to promote housing construction (particularly social housing) and increasing the use of public-private partnerships for development projects.

- The National Fund for Housing Assistance (FNAP) created by the 2016 Budget Act clarifies the management of housing assistance
- The limits on discounts applied to land sales by the Ministry of Defence were eliminated by Article 55 of the 2016 Budget Act and the discount applied to sales of central government property for social housing was extended by the 2016 Budget Act and the General Code of Public Entities Property.

Enriching social housing stock and desegregating social housing

Enforcing obligations to build social housing - IN PROGRESS/COMING

An Instruction from the Prime Minister dated 30 June 2015 required Prefects to use all of the means at their disposal to promote the construction of social housing in municipalities subject to the obligation to build social housing under the provisions of the Solidarity and Urban Renewal Act (SRU). Furthermore, the Equality and Citizenship Bill should be presented to Parliament soon. The Bill aims to strengthen enforcement of the obligations to build social housing incumbent upon certain municipalities under the provisions of the Solidarity and Urban Renewal Act, with a new focus on areas with major housing shortages.

Second quarter 2016: presentation of the Equality and Citizenship Bill.

Promoting social diversity in social housing - COMING

An Equality and Citizenship bill should be submitted to Parliament soon to ensure more social diversity in the attribution of social housing.

Second quarter 2016: presentation of the Equality and Citizenship Bill.

Accelerating implementation of the New National Urban Renewal Programme (NPNRU), reconstituting the social housing stock demolished in other less diverse areas - IN PROGRESS

In June 2015, the rules of the National Housing Agency were amended to require reconstitution of the social housing stock that was demolished primarily outside the areas designated as priority neighbourhoods by urban policy.

Financing social housing - COMING

A decree concerning online applications for social housing financing will be issued in the first half of 2016 to make the central government financing process more efficient.

Decree in the first half of 2016.

Strengthening the weak links in the housing chain

Promoting the development of middle-income social housing stock - DONE

Implementation of a framework of laws and regulations, along with tax incentives for institutional investors strengthened the development of middle-income social housing, which is critical for the fluidity of the French housing market in areas with housing shortages. Three institutional investment funds have recently been set up for the purpose of building 35,000 middle-income housing units over the next five years.

Adaptation of interest-free loans - DONE

The means-tested interest-free loans scheme for first-time home-buyers (PTZ) was adapted and simplified on 1 January 2016 to enable more households, particularly young working households, to become homeowners. The scheme was extended to the entire country for the purchase of old housing units requiring major renovations.

Promoting intermediation to favour access to housing and prevent evictions

IN PROGRESS

Intermediation helps to adapt management of rental housing, particularly for the most vulnerable households. Several measures have been implemented:

- In September 2015, the National Agency for Housing Improvement (Anah) introduced a bonus of €1,000 per housing unit paid to an association that aims to house the most vulnerable households
- A "rent intermediation" decree was published on 20 December 2015 that allows municipalities subject to the provisions of the Solidarity and Urban Renewal Act (SRU) to deduct their contribution under the Act from their expenditure on rent intermediation for the most vulnerable households
- The Visale rent guarantee scheme (see Challenge 3 above) was extended to households covered by rent intermediation, whether or not they are employees

Strengthening policies to prevent evictions

IN PROGRESS

The decree of 30 October 2015 redefines the tasks, membership and operating procedures of the commissions coordinating action to prevent evictions under the provisions of the Housing Access and Urban Renovation Act of 24 March 2014.

The decree defines the tasks of the commissions coordinating action to prevent evictions in both of their capacities: on the one hand, coordination, assessment and guidance for public policies to prevent evictions and, on the other hand, dealing with individual cases of households facing eviction. The decree also redefines the membership of the commissions and their operating procedures, facilitating the creation of sub-commissions within *départements* when needed to ensure greater proximity to the households concerned.

The decree also defines the procedures for a Prefect's order setting the ages and amounts of rent arrears at which bailiffs deliver the landlords' orders to pay to the commissions to ensure that rent arrears are dealt with as soon as possible.

Heading 3 :
Promoting gender equality

Combatting gender inequality in schools and universities

IN PROGRESS

Actions have been implemented in schools and universities to combat sexist behaviour and violence more effectively and promote gender equality.

For this purpose, the third edition of the ministerial roadmap for gender equality fixed new guidelines for schools and universities in 2015-2016, included continued deployment of the action plan for gender equality in schools, which has be supplemented since the start of this school year with a new ethics and civics curriculum.

Promoting gender equality at work

The budget appropriations for "gender equality" stand at €27 million in 2016, representing an increase of 6.6% over the 2015 budget. These appropriations support associations working for gender equality at work, along with measures to promote gender parity or diversity in certain occupations, with the goal of one-third of desegregated occupations by 2025, compared to 12% today) and action to promote women's entrepreneurship, with the objective of increasing the proportion of women entrepreneurs in France by 10 percentage points by 2017.

Implementing gender diversity plans of action in ten priority sectors - IN PROGRESS

Ten priority sectors have been identified to implement gender diversity plans of action with 5-year objectives. Each of these sectors features a strong predominance of women or men and a substantial need for labour in the coming years (diversity plans for transportation in 2014, construction in 2015, personal services in 2015 and digital technology in 2016).

Supporting women's entrepreneurship - IN PROGRESS

The Women's Entrepreneurship plan launched in 2013 aims to facilitate access to credit and provide support for women creating businesses. The objective is to increase the proportion of new businesses created by women from 30% to 40% by 2017 with the participation of the ministries, the Banque publique d'investissement, the Banque de France, the Caisse des Dépôts et Consignations, the regional governments and the Chambers of Commerce and Industry. The guarantee fund for business creation, takeovers and development by women (FGIF) helps women gain access to bank loans. This scheme was originally aimed at micro-enterprises, with guarantees capped at €27,000, but the reform of the Solidarity Guarantee Fund for Women's Entrepreneurship and Integration, with the signature of a new agreement on 31 August 2015, increased this cap to €45,000, which diversifies the profiles of the women benefitting from the scheme. The government signed two agreements with the Caisse d'Epargne and BNP Paribas to increase financing for women entrepreneurs through their branch networks.

Promoting women's access to executive and management positions - DONE

Three pieces of legislation deal with gender parity in France to promote equal access for women and men to executive and management positions: the Copé-Zimmermann Act (2011) deals with executive and supervisory boards; the Sauvadet Act (2012) extends the scope of the previous Act to a greater number of private and public sector entities; the Real Gender Equality Act of 4 August 2014 increases the quotas from 40% to 50% for the second renewal of certain bodies and shortens the various deadlines for achieving the quotas.

Result: Since the adoption of the Real Gender Equality Act of 4 August 2014, France's female employment rate has continued to rise: the rate for women aged 20 to 64 stood at 66.2% in 2014. The employment rate gap between women and men stood at 8.1 points in France in 2013, compared to 11.6 points in the European Union.

Result: The gender pay gap is decreasing twice as fast in France as the average gender pay gap for the European Union: the gap decreased by 1.7 points to 15.2% in France between 2008 and 2013, compared to a 0.9-point decrease in Europe to 16.4%, according to Eurostat. The gender pay gap for the same jobs and ages fell to less than 10% in 2013.

Result: In CAC 40 and SBF 120 companies, the proportion of women board members has increased threefold since 2010, from 10% to 34% (averaging 32% for SBF 120 companies). France now ranks first among the European Union countries. In the listed and unlisted companies in which the central government owns shares, women make up 31% of the board members.

1 January 2017: legal requirement to have women make up 40% of the executive and supervisory boards in companies with more than 500 employees and turnover or assets of €50 million or more.

Heading 4 : Ensuring high-quality education for all

In keeping with the 2013 legislation on public school reform, higher education and research, the reform of the entire education system has intensified with the objective of strengthening teaching of the basics and reducing inequality. In 2016, implementation of this legislation, for which all of the implementing provisions have been completed, will be based on:

- A sustained budgetary effort: the education budget is still the largest item in the national budget in 2016. It increased by €517 million compared to 2015. Since 2012, the budget of the Ministry of Primary, Secondary and Higher Education and Research has increased by €5.3 billion, whereas central government spending has decreased over the same period.
- More faculty and staff (with 10,711 more jobs in schools and 1,000 more jobs in higher education, or 47,078 new jobs created since 2012, with the objective of creating a total of 60,000 new jobs between 2012 and 2017), better teacher training (with €72 million for in service training, representing an increase of 75% compared to 2012), and better pay (with €116 million for salary increases, totalling more than €400 million since 2012)

Combatting school dropouts

IN PROGRESS/COMING

The 2015-2016 school year has seen the continuation of the “General Mobilisation to End Dropping Out” plan of action started in November 2014 to meet the objective set by the President of the French Republic of halving the number of dropouts by 2017. A preliminary assessment shows positive results. Whereas, five years ago, 136,000 young people dropped out of school each year, the figure today is 110,000. At the same time, the number of young people aged 18 to 24 with no diplomas fell from 620,000 to 494,000[20].

Five measures have contributed to these results:

- Mobilisation of teaching teams in schools (establishing “dropout” contacts, a teacher training plan, deployment of the “stay-in-school week” in all school districts during the 2015-2016 school year)
- Forging links with families, especially the lowest-income families
- Strengthening partnerships at all levels to promote cooperation between schools, local governments, associations and businesses in teaching and employment. A national memorandum of understanding between central and regional governments was signed for this purpose in July 2015 and developed at the regional level in the form of “dropout agreements”.
- Implementing the right to go back to school: this right was established by the 2013 Act and concerns young people aged 16 to 25 who do not have diplomas or vocational qualifications. More than 38,400 young people have already been in contact about this right.
- Creating new support structures for dropouts throughout the country. This includes “back-to-school structures”, experiments with “customised basic education tracks” and “education alliances”. Following an assessment, these experiments are slated to be rolled out to all school districts during the 2016-2017 school year at the latest.

20 - The figure of 110,000 dropouts per year is to be compared to all school leavers (average of 700,000 per year between 2011 and 2013). The figure of 494,000 young people leaving school with no diplomas and not enrolled in training is to be compared to the population aged 18-24 (5.48 million).

Launching new priority education programmes

IN PROGRESS

Since the start of the 2015-2016 school year, 1,089 priority education networks cover 1,094 secondary schools and more than 6,500 elementary schools, representing 20% of the pupils in those grades. The priority education networks have benefited from the creation of new jobs to strengthen the "more teachers than classes" scheme and to improve the enrollment rate of children under the age of 3. This enrolment rate rose from 17.5% to 20.6% between 2012 and 2014 and should eventually reach 50% in the 350 priority education networks that teach the most vulnerable children (REP+).

Teacher training provisions have been enhanced, team teaching has been facilitated through working hours and pay conditions that compensate for the difficulties of teaching in these schools in order to attract more experienced teachers.

Start of the 2016-2017 school year: an excellence track to support pupils in the priority education network who volunteer in their last year of lower secondary school to continue their education and facilitate their access to higher education and finding a job.

Developing a new common core of basic knowledge, skills and culture

COMING

Preparations for the entry into force of the new curricula for elementary and secondary schools, based on a new common core of knowledge, skills and culture, have included training and education resources. The new common core covers everything pupils must know and understand at the end of their mandatory schooling.

Start of the 2016-2017 school year: entry into force of the new common core of knowledge, skills and culture.

Reforming the school system: "priority on early education"

DONE

The Public School Reform Act upholds the priority on early education. Each child starting school must be offered the best learning conditions. This priority has led to an exceptional budgetary effort over the last three years. At the start of the 2016-2017 school year, even though national demographic trends mean that the number of pupils has remained steady, nearly 4,000 new teaching jobs were created.

These resources will be used to step up the efforts to extend the "more teachers than classes" scheme and to expand enrolment of children under the age of 3 in the most socially deprived areas, as well as to strengthen replacement resources and in-service training for teachers.

Reforming lower secondary schools

IN PROGRESS/COMING

In addition to new curricula, the reform of lower secondary schools calls for enrichment of modern language instruction (a second language for all pupils starting in the first year of lower secondary school), working in small groups, time for individualised support for all pupils, interdisplinary classes in practical subjects and more leeway for schools to meet their pupils' needs more effectively. The purpose is to give new meaning to the republican ambition of the single lower secondary education track and the principle of equality in school by ensuring the same level of expectations so that all pupils learn the common core of knowledge, skills and culture.

Start of the 2016-2017 school year: entry into force of the reform of lower secondary school

Digital plan for lower secondary school

IN PROGRESS

Since the start of the 2015-2016 school year, 600 lower secondary schools and elementary schools have been part of an experimental digital education plan with the aim of expanding the use of digital technology to all lower secondary schools by 2018. This comprehensive plan combines curriculum reform with teacher training, the supply of teaching resources and the digital hardware needed to produce coherent and inclusive teaching and learning projects.

Gradual deployment of the digital education plan until 2018.

Strengthening the mobilisation of schools to promote the values of the Republic

DONE/IN PROGRESS

New ethics and civics lessons and a "citizenship track", combined with a training plan for 300,000 teachers and staff, new teaching resources, and the deployment of "citizenship reserves" (more than 6,000 volunteers working with pupils) have been put in place since the start of the 2015-2016 school year.

Strengthening social diversity

DONE/IN PROGRESS

Since the start of the 2015-2016 school year, 21 *départements* have joined forces with the Ministry of Education to strengthen social diversity in lower secondary schools. The areas for a pilot study were selected using social segregation diagnostic tools provided to local governments. In each of these areas, the local governments and the Ministry of Education are developing specific solutions to improve social diversity in lower secondary schools by working closely with the education community as a whole, and particularly with parents. Two major types of solutions are currently being promoted: work on districting, which may include creating districts with multiple lower secondary schools, and work on making schools more attractive through curriculum enrichment.

Heading 5 :
Establishing "universal" civic service

IN PROGRESS

Civic service contributes to the objective of developing innovative youth policies by promoting the integration of young people into their communities through participation, while also enabling them to develop their skills and to continue their education.

The selection of tasks offered to young people was greatly expanded in 2015, particularly with the implementation of major programmes by central government and central government agencies. The President of the French Republic made a commitment to "universal" civic service to enable any young person to participate in promoting national unity within the framework of a general interest task.

The budget for the programme will increase from €300 million to more than €1 billion to open it up to half of the age group. A High Commissioner for Civic Engagement reporting to the Prime Minister will be appointed with full powers to develop the programme.

Result: more than 120,000 volunteers have benefited from the programme since its launch in 2010. In 2016, the programme should mobilise 110,000 young people.

4 - APPENDIX

Appendix: Council recommendations

STATUS OF COUNCIL RECOMMENDATIONS ADDRESSED TO FRANCE ON 14 JULY 2015

CSR number	Country-specific recommendations (CSRs)	Measure	Done	Coming
1	*Ensure effective action under the excessive deficit procedure and a durable correction of the excessive deficit by 2017 by reinforcing the budgetary strategy, taking the necessary measures for all years and using all windfall gains for deficit and debt reduction.*	€50 billion savings plan to bring the government deficit back below 3% in 2017 (see below): the fiscal consolidation strategy focuses exclusively on spending cuts.	The 2016 Budget Act and 2016 Social Security Budget Act contain a raft of provisions that apply to all general government sub-sectors; they implement the measures outlined in the 2014-2019 Public Finance Planning Act. The structural adjustment focuses entirely on spending cuts. The government deficit in 2015 stood at 3.5% after 4.0% in 2014, confirming an improvement on the back of government efforts. Government expenditure grew by 0.9% in 2015 after 1.0% in 2014 (in nominal terms, stripping out tax credits, well below the average annual increase of 3.6% recorded between 2002 and 2012). The savings implemented in 2014, 2015 and 2016 will also feed through in 2017.	Continued structural adjustment in 2017 (0.5% of GDP). These measures will be outlined during the presentation to Parliament of the 2017 Budget Bill and 2017 Social Security Budget Bill. The main targets for the deficit reduction path in 2017-2019 are outlined in the Stability Programme published on 15 April 2016.
		If necessary, anticipate the introduction of additional measures to factor in the possibility of lower-than-expected inflation.	To offset the impact of lower inflation on the fiscal adjustment path, additional measures announced in the April 2015 Stability Programme have been added. Legal instruments: rescission decree of 9 June 2015, 2016 Budget Act and Social Security Budget Act, revisions to the budget of central government agency AFITF (6 March 2015).	The Stability Programme published on 15 April 2016 outlines the measures taken to compensate for low inflation levels in 2016 and 2017. These measures (€3.8 bn in 2016 and €5 bn in 2017) affect all central government sub-sectors.
		Devote all windfall revenue to deficit and debt reduction.	Art. 17 of the 2014-2019 Public Finance Planning Act, Art. 49 of the 2015 Initial Budget Act and Art. 23 of the 2016 Budget Act.	
	Specify the expenditure cuts planned for these years and provide an independent assessment of the impact of key measures.	Measures in the €50 billion savings plan relating to central government and central government agencies: ongoing reduction in staffing levels in non-priority ministries, reduction in the administrative expenditure and modernisation of the central government's property policy, reduction in ministries' intervention expenditure, cost-saving efforts by central government agencies through a targeted reduction in their operating grants and streamlining of agencies.	Measures planned in 2016 as part of the €50 billion savings plan approved (2016 Initial Budget Act). Additional savings of €4.6 billion in 2016 by central government and central government agencies.	Measures for 2017 will be presented to Parliament in the 2017 Draft Budgetary Plan.

CSR number	Country-specific recommendations (CSRs)	Measure	Done	Coming
1		Measures in the €50 billion savings plan relating to local government via a reduction in central government transfers.	2016 Budget Act includes an additional €3.3 billion reduction in government transfers (€3.5 billion in 2015 and €1.5 billion in 2014). In 2015, local governments' actual administrative expenditure growth slowed sharply (+0.9% compared to +2.2% in 2014) due in particular to cuts in their operating grants. The general government balance was in positive territory in 2015, reflecting a net lending/borrowing position of €0.7 billion (vs €-4.6 billion in 2014 and €-8.3 billion in 2013).	Additional savings of €3.7 billion in central government transfers programmed in 2017.
		Measures in the €50 billion savings plan relating to social security funds: reduction in healthcare expenditure and other social protection expenditure (consolidation of the financial position of supplementary pension schemes, improvement in the financial position of unemployment insurance scheme, slowdown in social protection agencies' management expenditure, measures to combat social security fraud, reform of family benefits, changes to the rules for adjusting benefits).	In 2015, €6.2 billion in Social Security savings. Efforts will continue in 2016, targeting cuts of €5.3 billion (second part of the €50 billion savings plan): - €3.4 billion savings in health insurance following vote to reduce the rate of growth of the national healthcare expenditure target (Ondam) (i.e. from 2% in 2015 to 1.75% in 2016, a record low, compared to a trend path of 3.6%). In its opinion published on 6 October 2015, the Ondam early warning committee stated that expenditure covered by the national healthcare expenditure growth target would increase by 2.0% in 2015 in line with the Government's target, and estimated that the 2016 target would be met; it did not have any reservations in this respect. - Expenditure on social protection excluding health insurance will contribute €1.9 billion in savings in 2016.	Target of 1.75% growth in Ondam in 2017 (to achieve total savings of €10 billion in 2015-2017 in expenditure covered by national healthcare expenditure target). These measures will be written into the 2017 budgetary legislation to be voted for in Parliament end-2016. Target savings of €5.4 billion in social protection expenditure excluding health insurance (partly corresponding to the impact in 2017 of measures already adopted as well as up to €2 billion in additional savings unveiled in the 2016 Stability Programme). The expected agreement in 2016 between unions and employers' federations regarding Unédic should generate savings of €1.6 billion in 2016-2017.
2	*Step up efforts to make the spending review effective, continue public policy evaluations and identify savings opportunities across all sub-sectors of general government, including on social security and local government.*	Ongoing spending reviews	Spending reviews introduced ahead of schedule in 2015: some of the recommendations made as a result of the initial reviews were included in the 2016 Budget Bill and draft Social Security budget, officially recording almost €500 million in savings. This figure will increase to approximately €600 million in 2017. Additional spending reviews in 2016 will be included as an appendix in the 2016 Budget Act.	Expenditure reviews on 12 new areas in 2016. These reviews will feed into the 2017 budget bills.
		Strengthening of Parliament's oversight and information about central government agencies and harmonisation of budgetary and accounting rules for agencies.	Implementation on 1 January 2016 of remaining provisions of the Decree on government fiscal and accounting management of November 2012.	

CSR number	Country-specific recommendations (CSRs)	Measure	Done	Coming
2		Initiative of a new wave of public policy assessments (EPPs) as part of the government modernisation drive (MAP).	74 assessments launched since 2012: - The 59 assessments launched in 2013-14 have all been completed. They have resulted in savings of €7.1 billion (€2.9 billion in 2014, €2.5 billion in 2015, €1.7 billion in 2016). 15 new assessments launched in 2015 (6 completed) and a dozen more on new areas remain to be approved for a launch scheduled in 2016.	New wave of assessments to be launched in 2016. The process for identifying new areas to be assessed has begun and is due for completion in May 2016
		Continue with the rollout of the 2015-2017 National Healthcare Strategy.	Improving the efficiency of hospital expenditure with the implementation of a national programme, with adaptations at the regional level, focusing on providing relevant treatments and harmonising medical practices. Three-year €3 billion savings plan. Adoption of the Act 2016-41 of 26 January 2016 on health service modernisation.	Implementation of Act 2016-41 of 26 January 2016 on health service modernisation: creation of primary care teams (Article 64) and local healthcare professional communities (Article 65) to improve organisation of local healthcare delivery; development of support functions for healthcare professionals to help coordinate complex treatment cycles (for the chronically ill) (Article 74); enactment of the regional healthcare pact (Article 67); development of advanced practices to improve coordination between healthcare professionals.
		Local government streamlining measures	Merger of central government services at the regional level on 1 January 2016 reducing the number of regions to 13 and the number of regional directors, as well as promoting intermunicipal services and the specialisation of regional sites.	Introduction of schemes at département level to improve access to public services: creation of 1,000 public service centres (*maisons de services au public*) on 1 January 2017, continuation of government centres (*maisons de l'État*) project and development of mobile public services.
	Take steps to limit the rise in local authorities' administrative expenditure.	Draw up and implement a local government expenditure growth target (ODEDEL), establishing a timeline that can be monitored.	Update and analyse ODEDEL (local government expenditure growth target) by sub-sector when the 2016 Budget Act is unveiled: ODEDEL has been lowered to 1.2% for total local government expenditure (local governments and local government groups) and to 1.6% for administrative expenditure (vs 1.9% and 2.2% respectively in the Public Finance Planning Act).	To factor in lower-than-expected inflation, the 2017 ODEDEL outlined in the budgetary legislation for 2017 will be reduced by €1 billion as compared to the figure outlined in the Public Finance Planning Act.
		Reduction and adjustments to central government transfers to local governments.	Further cuts in transfers: freeze in 2013, €1.5 billion reduction in 2014, €3.5 billion in 2015 and €3.3 billion in 2016. Reform of the general operating grant to municipalities and intermunicipal structures passed in the 2016 Budget Act, comes into effect on 1 January 2017 to offer greater transparency and fairness.	€3.7 billion reduction in 2017.

CSR number	Country-specific recommendations (CSRs)	Measure	Done	Coming
2		Local government reform (completion of the map of intermunicipal structures, increase in the population threshold for these structures, creation of new metropolitan areas, clarification and streamlining of the division of powers, abolition of the *clause générale de compétence* (giving them the power to carry out any policy of local interest which did not necessarily fall within their jurisdiction) for regions and *départements*, number of regions cut from 22 to 13, creation of new municipalities by encouraging smaller ones to merge).	Enactment of the local government reform Act of 7 August 2015 (NOTRe Act). Creation of the Greater Paris and Aix-Marseille-Provence metropolitan areas on 1 January 2016. Implementation of the new regional map containing 13 regions. Act of 16 March 2015 on improving the new municipality system. In 2015, 1090 municipalities merged to form 317 new municipalities (created on 1 January 2016). Abolition of the clause de *compétence générale for départements* and regions took effect on 1 January 2016.	Preparation and adoption of new intermunicipal cooperation plans by département to reflect the increase in the minimum population thresholds outlined in the NOTRe Act for public for intermunicipal cooperation establishments (EPCI). These new schemes must be adopted before 31 March 2016 and come into effect on 1 January 2017.
	Take additional measures to bring the pension system into balance, in particular ensuring by March 2016 that the financial situation of complementary pension schemes is sustainable over the long term.	Restore balance to the pension system.	The pensions arm of the general social security system will reach breakeven in 2016 for the first time in 10 years. The Pensions Advisory Council (COR) estimates that basic pension schemes will be in balance soon after 2020 in three out of the five macroeconomic scenarios put forward. Opinion of the Pension Steering Committee of 13 July 2015: based on COR's projections from June 2015 (the financial position of the pension system will continue to improve and be balanced at the end of the 2020s), the Committee made no recommendation, deeming that the situation and outlook for the pension system have not deviated from the objectives defined by law. Based on the European Commission's 2015 Ageing Report, pension expenditure as a percentage of GDP will contract by 2.8 pp by 2060.	Continued ramp-up of the pension reforms initiated in 2014: to qualify for a full pension, the number of quarters required will increase by one every three generations starting with those born in 1958 who will be 62 years of age in 2020
		National Multisector Agreement of 30 October 2015 relating to the Agirc-Arrco supplementary pension schemes to restore the financial balance (approximately €6 billion in savings in 2020 according to labour and management representatives).	Measures coming into force in 2016: - Annual benefits adjustments will be 1 percentage point lower than inflation as measured by the CPI during three years and annual benefits adjustments pushed back from 1 April to 1 November). Contributions will be raised by 2 percentage points more than average wage increases, which will reduce the return on the retirement scheme by approximately 9%, from 6.56% in 2015;this measure will be rolled out progressively until 2060; - AGFF contributions extended to salaries in the C bracket.	Measures coming into force in 2019: - Creation of a unified supplementary pension scheme that will result in management savings; - Introduction of a system of temporary bonuses or penalties, linked to the age at which retirees are eligible for a full basic pension. Incentives to delay retirement should also have a positive impact on the general scheme's funding: retirees will wait longer to collect their benefits, which will reduce pension expenditure and increase contributions received; - Increase of the call-up rate by 2 percentage points, from 125% to 127%; - introduction of a scheme to manage supplementary pension schemes over several years, establishing a balanced path for the unified scheme and creating strategic steering and warning committees;

CSR number	Country-specific recommendations (CSRs)	Measure	Done	Coming
3	*Ensure that the labour cost reductions stemming from the tax credit for competitiveness and employment and from the responsibility and solidarity pact are sustained, in particular by implementing them as planned in 2016.*	Since 2014, the tax break offered by the Competitiveness and Employment Tax Credit (CICE) corresponds to 6% of payroll excluding salaries paying over 2.5 times the statutory minimum wage.	The CICE will be maintained; businesses have taken to the CICE, as can be seen in the small number that have not yet taken it up (latest report of the *Comité de suivi des aides publiques aux entreprises et des engagements* dated 22 September 2015).	CICE to be converted by 2018 into permanent social security contribution cuts.
		SME recruitment incentive programme (*Embauche PME*)	SME recruitment incentive programme comprises an annual, lump sum bonus of €2,000 paid quarterly over a two-year period to companies with fewer than 250 employees that hire new employees on a permanent or fixed-term contract of more than 6 months between 18 January and 31 December 2016 for wages up to 1.3 times the statutory minimum wage. Implementing decree of 26 January 2016.	
		Part of the "Boosting employment in VSEs and SMEs Programme": bonus for recruiting the first employee	Boosting employment in VSEs and SMEs Programme of 9 June 2015. Decree 2015-806 of 3 July 2015 providing for the payment of an annual bonus of €2,000 paid quarterly over a two-year period for the first person recruited on a permanent or fixed-term contract of over 12 months, extended to fixed-term contracts of over 6 months until 31 December 2016. The initiative has been merged with the SME recruitment incentive programme unveiled on 18 January 2016.	
		Measures to reduce social security contributions outlined in the Responsibility and Solidarity Pact.	Implementation on 1 April 2016 of phase 2 of the Responsibility and Solidarity Pact passed in the 2016 Social Security Budget Act of 21 December 2015: reduction in social security contributions on wages paying up to 3.5 times the minimum wage, equivalent to €9 billion in 2016.	Phase 3 of the Responsibility and Solidarity Pact to be approved by Parliament in the autumn of 2016 as part of the 2017 Initial Budget Act and 2017 Social Security Budget Act: reduction in social security contributions bringing the total to €10 billion.
	Evaluate the effectiveness of these schemes in the light of labour and product market rigidities.	*France Stratégie* tasked with assessing the effectiveness of the CICE.	Expansion of the CICE monitoring committee's remit to cover all government support for businesses. Publication of the latest report by the CICE monitoring committee on 22 September 2015, which highlighted the successful implementation of the CICE: the number of businesses that have not taken up the tax credit is now small, testifying to its success.	Initial results from the four teams (TEPP-CNRS, Sciences-Po LIEPP, Sciences-Po/OFCE and Ires) currently assessing the CICE due in Spring 2016.
	Reform, in consultation with the social partners and in accordance with national practices, the wage-setting process to ensure that wages evolve in line with productivity.	Companies may be granted an exemption from compulsory annual wage negotiations if a company agreement is reached.	Act 2015-994 of 17 August 2015 on labour-management dialogue and employment	
		Measures to overhaul the Labour Code following publication of the Combrexelle Report which recommends a greater role for company-level agreements on certain subjects, particularly working hours.	Combrexelle Report published on 9 September 2015. Report by Robert Badinter on the principles underlying the labour code published on 25 January 2016. Labour bill presented to the cabinet on 24 March 2016	Labour bill to go before Parliament by the start of third quarter.

CSR number	Country-specific recommendations (CSRs)	Measure	Done	Coming
3	*Ensure that minimum wage developments are consistent with the objectives of promoting employment and competitiveness.*	Compliance with rules governing adjustments of the minimum wage to help boost employment and ensure wage increases are consistent with changes in productivity and purchasing power gains.	Strict compliance with rules governing adjustments of the minimum wage since 2012: the government raised the minimum wage by 0.6% in January 2016, offering no extra rise (coup de pouce), in keeping with the recommendations made by the specialised group of experts on 30 November 2015. This increase is in line with changes in labour productivity (2.1% increase in 2015 in nominal terms). Decree 2015-1688 of 17 December 2015.	
4	*By the end of 2015, reduce regulatory impediments to companies' growth, in particular by reviewing the size-related criteria in regulations to avoid threshold effects.*	Combining and streamlining disclosures and mandatory consultations with staff representatives; raising the threshold for the application of the single employee representative body (*délégation unique du personnel, DUP*) to 300 employees, and merging the Health and Safety Committee (CHSCT) with the DUP, thus reducing costs for companies with more than 50 employees.	Act 2015-994 of 17 August 2015 on labour-management dialogue and employment. Decree 2016-345 of 23 March 2016 on the personnel and functioning of the single employee representative body. Decree 2016-346 of 23 March 2016 on the personnel and functioning of the body stipulated in Article L. 2391-1 of the Labour Code.	
		Freeze on taxes and Social Security contributions triggered by reaching the 50-employee threshold.	Boosting employment in VSEs and SMEs Programme of 9 June 2015. Article 15 of the 2016 Budget Act No. 2015-1785 of 29 December 2015.	
		Thresholds of 9 and 10 employees raised to 11 employees.	Boosting employment in VSEs and SMEs Programme of 9 June 2015. Article 15 of the 2016 Budget Act No. 2015-1785 of 29 December 2015).	
		Simplification of the sale of businesses (particularly administrative procedures and employees' rights to prior notice) to help boost acquisitions and protect the long-term future of companies whose managing director is about to retire.	Boosting employment in VSEs and SMEs Programme of 9 June 2015. Article 97 of the 2015 Supplementary Budget Act No. 2015-1786 of 29 December 2015: streamline administrative procedures for the sale of businesses and reduction in the pre-sale blackout period. Introduction of new laws regarding employees' right to prior notice: - Act No. 2015-990 of 6 August 2015 on growth, economic activity and equal economic opportunity - Article 18 of Act 2014-856 of 31 July 2014 on the social and solidarity economy. - Decree 2015-1811 of 28 December 2015 on notification of employees in the event of the sale of their employer. - Decree 2016-2 of 4 January 2016 on the information to be disclosed to employees every three years.	

CSR number	Country-specific recommendations (CSRs)	Measure	Done	Coming
4		Legal option to open on a Sunday subject to collective agreement on condition that employees are compensated in return.	Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015 Orders of 25 September 2015 setting the boundaries of International Tourist Zones in Paris Orders of 5 February 2016 creating six International Tourist Zones in the Paris suburbs and provincial towns, including Deauville, Cannes, Nice, Cagnes sur Mer, Saint-Laurent-du-Var and Serris. Order of 9 February 2016 authorising Sunday opening for shops located in 12 train stations.	
		Ongoing efforts to ease the burden of regulations on businesses.	Measures already in place: no retroactive taxes, publication of tax rules on set dates, extension of advanced ruling mechanisms. Announcement of 90 new government initiatives on 3 February 2016 targeting employment and innovation.	Continued implementation of the simplification measures announced
		Adjustment of the turnover thresholds for micro-enterprises and transition from sole proprietorship to another legal form, particularly limited liability sole proprietorship (EIRL), made easier		Promulgation of the Transparency, Anti-Corruption and Economic Modernisation Bill by the start of the third quarter.
		Facilitating business creation by regulating the training course prior to business start-up and removing the requirement for micro-entrepreneurs to open a business bank account.		Promulgation of the Transparency, Anti-Corruption and Economic Modernisation Bill by the start of the third quarter.
	Remove the restrictions on access to and the exercise of regulated professions, beyond the legal professions, in particular as regards the health professions as from 2015.	Easing the practice requirements for lawyers, receivers, liquidators, notaries, bailiffs and auctioneers.	Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015 (Articles 63, 65(2), 67 and 68	The following bills have been submitted for consultation to experts and will soon go before the *Conseil d'Etat* . Article 63 (form of practice): 4 bills before the Conseil d'Etat regarding: - Barristers to the *Conseil d'Etat* and the *Cour de cassation* (French administrative and civil supreme courts); - Lawyers; - Receivers and liquidators; - Notaries, bailiffs and auctioneers. Publication: April 2016

CSR number	Country-specific recommendations (CSRs)	Measure	Done	Coming
4		Easing ownership rules for certain regulated professions (notaries, bailiffs, auctioneers, receivers, liquidators, commercial court clerks, statutory auditors, chartered accountants, architects, surveyors, patent attorneys, lawyers).	Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015	Article 67 (capital ownership): 8 draft decrees after consultation with the *Conseil d'Etat* on: - technical professions: architects and surveyors - financial professions: chartered accountants and statutory auditors - legal professions: commercial court clerks, receivers, liquidators, notaries, auctioneers, bailiffs, lawyers - patent attorneys Publication: April 2016
		Joint practice of several professions (notaries, bailiffs, auctioneers, lawyers, chartered accountants, statutory auditors, patent attorneys).	Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015	Article 65 (creation of a single company for the joint practice of several professions): one draft order on the joint practice within the same firm of lawyers, barristers to the Conseil d'Etat and Cour de cassation, auctioneers, bailiffs, notaries, receivers and liquidators, patent attorneys and chartered accountants. Publication: April 2016
		Review of fees charged by regulated professions.	Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015 (Article 50) Opinion 16-A-03 of the Competition Authority of 29 January 2016 Opinion 16-A-06 of the Competition Authority of 22 February 2016	Decree 2016-230 of 26 February 2016 establishes the list of services concerned and outlines the method for setting regulated fees, the criteria for evaluating relevant costs and reasonable levels of compensation, and price structures to realign prices with services rendered. Publication on 28 February 2016 of the orders setting the fees of notaries, bailiffs, auctioneers and commercial court clerks. According to the government, the fees of notaries and bailiffs have been cut by 2.5% on average and those of the commercial court clerks by 5 %. The fees will be reviewed in two years.
		Ongoing review of professional qualifications.	National action plan finalised in February 2016.	Greater transparency and consistency in the qualifications system for craft trades (Transparency, Anti-Corruption and Economic Modernisation Bill presented by the Cabinet end-March 2016).
		Removing barriers to entry for some professions (notaries, bailiffs and auctioneers, barristers to the *Conseil d'Etat* and *Cour de cassation*).	Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015 (Articles 52 to 55, 57, 59, 61, 63): relaxation of rules for starting a practice	Decree 2016-215 of 26 February 2016 outlines the criteria that will be used by the Competition Authority to identify the number of practices to be established by barristers to the *Conseil d'Etat* and *Cour de cassation* to ensure a satisfactory level of service. Decree 2016-216 of 26 February 2016 outlines the criteria used to draw up a detailed map of geographic areas based on a regional assessment of supply and demand of services offered by notaries, bailiffs and auctioneers and their growth prospects.

CSR number	Country-specific recommendations (CSRs)	Measure	Done	Coming
4		Easing ownership rules for medical testing laboratories.	*Professional practices (sociétés d'exercice libéral - SEL*) that operate the majority of pharmacies have been deregulated and are now open to pharmacists and pharmacies. Decree 2013-466 authorising the creation of holding companies in the pharmaceutical profession to make it easier for young pharmacists to facilitate buyouts by young professionals. Healthcare System Modernisation Act 2016-41 of 26 January 2016 (Article 139): allowing ownership of pharmacies by associate pharmacists (employees), abolition of the 5% share ownership requirement, which facilitates the establishment of young pharmacists	Implementing decree for Article 139 of Healthcare System Modernisation Act 2016-41 of 26 January 2016 being drawn up and due for publication in 2016 (rules allowing pharmacy staff members to own a stake in the pharmacy). Order currently being drawn up following promulgation of the Healthcare System Modernisation Act. - Adaptation of the rules on the location of retail pharmacies in France and simplification of the authorisation rules to remove obstacles to mobility and cut red tape involved in sales and mergers of retail pharmacies; - Regional health authorities will be authorised to identify vulnerable areas where there is a need for more pharmacies and will be able to authorise the sale or merger of retail pharmacies. Simplification of some of the procedures relating to the examination of authorisation applications.
		Easing ownership rules for medical testing laboratories.	Decree 2013-117 of 5 February 2013 on the operation of medical testing laboratories by an SEL (*société d'exercice libéral*) abolishing the cap on the number of companies with which biologists -whether private individuals and companies- may work. Publication of Decree 2016-44 of 26 January 2016 allowing the incorporation of holding companies by medical testing professionals, facilitating buyouts by young professionals.	
		Easing ownership rules for certain healthcare professions.		Publication of the draft decree on professional medical corporations (physicians, dentists and midwives) and draft decree on professional paramedical corporations (nurses, physiotherapists, chiropodists, speech therapists, orthoptists and dieticians) in 2016: - Harmonisation of provisions on incorporated practices; - Regulations for creating holding companies in these professions that facilitate buyouts by young professionals.

CSR number	Country-specific recommendations (CSRs)	Measure	Done	Coming
4		Revision of the scope of authorised activities for certain healthcare professionals.	The Healthcare System Modernisation Act contains provisions for: - Overhauling the scope of authorised activities of physiotherapists, speech therapists, radiological technicians and chiropodists; - The activities of dispensing opticians and orthoptists will be extended by opening up access to vision activities); - Defining more clearly and complementing midwives' skills; - Recognising the professions of dental assistant and physician's assistant.	No implementing regulation required. The first three points come into effect in the first half of 2016, and the last point in the second half of the year.
		Deregulating intercity coach lines (whilst protecting existing public services for routes shorter than 100 km).	Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015. Reform of coach stations (Order 2016-79 of 29 January 2016 dealing with coach stations and the recodification of the Transport Code provisions dealing with the Rail and Road Regulatory Authority (ARAFER)).	
5	*Simplify and improve the efficiency of the tax system, in particular by removing inefficient tax expenditure.*	Introducing a cap on tax expenditure, review of all new or extended tax expenditures introduced after 1 January 2015 within three years and inclusion of tax expenditure in spending reviews	2014-2019 Public Finance Planning Act of 29 December 2014 establishes a cap on tax expenditure and tax credits and provides for tax expenditure to be reviewed within three years of being introduced. Inclusion of tax expenditure in the spending review. The 2016 spending review includes an assessment of free trade zones.	
		Merger of the in-work income supplement and the earned income tax credit on 1 January 2016 with the aim of encouraging low-paid workers (employees and self-employed) to work and to offer greater transparency regarding tax expenditure.	Act of 17 August 2015 on Labour-Management Dialogue and Employment, Articles 57 to 62.	
		Removal of inefficient tax expenditure	Article 118 of Act No. 2015-1785 of 29 December 2015 (2016 Initial Budget Act) removes tax expenditure deemed "inefficient". The so-called "old Malraux" scheme provision will be abolished on 1 January 2018. This provision made it possible to deduce from total revenue any deficits arising from expenditure (excluding interest on loans) on renovations of buildings in protected areas. Its removal should result in savings of €3 million as of 2018	
		Introducing withholding at source of personal income tax to better synchronise taxes paid with income earned.	Article 76 of the 2016 Initial Budget Act of 29 December 2015 stipulates that the government will present to Parliament by 1 October 2016 the details of the measure for entry into force in 2018.	The plans for the withholding at source of personal income tax starting in 2018 will be presented to Parliament by 1 October 2016.

CSR number	Country-specific recommendations (CSRs)	Measure	Done	Coming
5		Adoption of country-by-country reporting for major corporations to limit base erosion and profit shifting.	Article 121 of 2016 Budget Act no 2015-1785 of 29 December 2015.	
		Increased measures to combat VAT fraud.	Article 88 of 2016 Budget Act no 2015-1785 of 29 December 2015 to combat fraudulent cash register software. Article 91 of 2015 Supplementary Budget Act no 2015-1786 of 29 December 2015 enabling tax authorities to reject deductions for the provision of services invoiced as part as carrousel fraud.	
		Reduction in personal income tax to boost incentives for working.	2016 Budget Act.	
	To promote investment, take action to reduce the taxes on production and the corporate income statutory rate, while broadening the tax base on consumption.	Gradual phasing out of the corporate social solidarity contribution (C3S) which holds back production.	Gradual phasing out of C3S: additional cut of €1 billion in 2016, following a €1 billion cut in 2015 (2015 and 2016 Budget Acts).	Total removal of C3S under the 2017 Social Security Budget Act to be passed in December 2016).
		End of the exceptional corporate income tax payment for large corporations in 2016..	Article 15 of 2014 Supplementary Budget Act no. 2014-891 of 8 August 2014 (€2.4 billion tax cuts).	
		Reduction in the statutory corporate income tax rate.		Gradual lowering of the corporate income tax rate to 28% by 2020 (first significant reduction voted as part of the 2017 draft budget)
		One-off measure aimed at boosting productive investment made by companies between 15 April 2015 and 14 April 2016 authorising them to claim a 40% deduction.	Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015 Articles 23, 25 and 26 of the 2016 Budget Act. Article 32 of the 2015 Supplementary Budget Act.	Extended until 15 April 2017.
		Reduction in the threshold from €100,000 to €35,000 for intra-Community distance sales free of VAT to French customers).	Article 9 of 2016 Budget Act no 2015-1785 of 29 December 2015.	
		Ramping up ecological taxation (Climate-Energy Tax).	Introduction of a carbon component in 2014 energy taxation. 2015 Supplementary Budget Act specifies the timetable for changes in the tax rates per ton of carbon, starting at €39 in 2018 and €47.50 in 2019. The Energy Transition and Green Growth Act of 17 August 2015 set the target for tax in 2020 (€56) and 2030 (€100).	The rates for 2018, 2019 and 2020 will be set in Budget Acts.
6	*Take measures as from 2015 to abolish inefficient taxes that are yielding little or no revenue.*	Abolishing taxes that yield little revenue.	Article 27 of the 2016 Initial Budget Act abolishes the tax on initial sales of cosmetics and the administrative tax paid by electronic communication operators in 2016 (€12 million).	

CSR number	Country-specific recommendations (CSRs)	Measure	Done	Coming
6	*Reform the labour law to provide more incentives for employers to hire on permanent contracts.*	Indicative scale of compensations as a guide for labour tribunals and related reforms (better training for labour tribunal members, faster procedures).	Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015	Publication of a decree specifying the indicative scale of compensations.
		Economic grounds for redundancy to be clearly defined in the Labour Bill to offer greater clarity in relation to the rules applicable, particularly as regards SMEs.		Vote on the Labour Bill by the third quarter.
	Facilitate take up of derogations at company and branch level from general legal provisions, in particular as regards working time arrangements.	Labour Code to be updated following publication of the Combrexelle Report which recommends more company-level agreements on certain subjects, particularly working hours and payment of overtime.	Combrexelle report submitted on 9 September 2015. Report by Robert Badinter on the principles underlying the labour code published on 25 January 2016.	Vote before the summer on the Labour Bill resulting from talks between labour and management representatives based on recommendations in the Combrexelle Report.
	Reform the law creating the accords de maintien dans l'emploi *by the end of 2015 in order to increase their take-up by companies.*	Extension of *accords de maintien dans l'emploi* (job protection agreements) allowing employers experiencing severe economic difficulties to protect employees' jobs in return for changes to their working hours and compensation (through a company agreement): – extending agreement terms up to five years – possibility of dismissing employees whose refusal justifies terminating their contract with payment of statutory and contractual settlements only – possibility of suspending the agreement if the company's economic situation changes significantly.	Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015 modifying the job protection agreements introduced by the Job Security Act of 14 June 2013.	
		Make it possible to reach company-level agreements to maintain and develop employment that would replace, with the agreement of staff, employment contracts, particularly regarding salary and working hours, without having a negative impact on monthly salaries.		Vote on the Labour Bill by the third quarte.
	Take action in consultation with the social partners and in accordance with national practices to reform the unemployment benefit system in order to bring the system back to budgetary sustainability and provide more incentives to return to work.	Negotiations between unions and employers' federations on a new unemployment benefit system.	Unédic, the body managing the unemployment insurance system, submitted its report on the financial outlook for the 2015-2018 period to the government on 16 June 2015. The report was updated on 6 November 2015. The government's own report on the financial situation of the system was submitted to Parliament on 20 January 2016. Negotiations between unions and employers' federations began on 22 February 2016.	Agreement expected in the Spring of 2016 for a new system to come into effect on 1 July 2016.