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

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Executive summary

This is the seventh monitoring report under the Macroeconomic Imbalance Procedure (MIP) for France, reflecting the strengthened monitoring of all Member States with imbalances. France was found to have macroeconomic imbalances in February 2019, as well as in previous years. This report reviews the most recent developments in France's macroeconomic imbalances and the policy actions taken by authorities to address them, taking also into account the 2019 country-specific recommendations. These imbalances essentially relate to the high public debt and weak competitiveness dynamics, in a context of low productivity growth. The cut-off date for this report is end-November 2019. Policy developments after this date are considered in the 2020 edition of the Country Report on France.

The French economy is expected to slow down slightly in 2019. According to the Commission 2019 autumn forecast, real GDP growth is estimated at 1.3% in 2019, supported by a resilient domestic demand and a relatively dynamic investment. Net trade is not expected to contribute any longer to GDP growth in 2019, given that imports are expected to increase in line with domestic demand, while exports are set to slow down in line with external demand. The current account is expected to remain close to balance over the coming years. In parallel, the unemployment rate is set to decrease steadily over the next two years, reaching 8% in 2021, coming from 9% in 2018. Long-term and youth unemployment have kept improving too. France's public debt is forecast to increase to 98.9% of GDP in 2019 and to increase further by 2021. At the same time, both households and non-financial corporations (NFCs) are contributing to the high and increasing private sector debt ratio, which reached nearly 149% of GDP in 2018 and does not seem to be declining. The overall competitiveness situation has not changed fundamentally. Export market shares remained flat in 2018, but France decreased slightly its export market shares over the last five years compared to other advanced economies. Unit labour costs have grown more moderately than in other euro area and EU countries, with wage developments remaining contained in a context of sluggish productivity growth. Meanwhile, in terms of non-price competitiveness, France ranks just below the world top exporters with exceptions in specialisation products.

More efforts are needed to contain public expenditure and put public debt on a firm downward path. As regards public finances, fiscal consolidation efforts have been put on hold and the current budgetary strategy does not guarantee a long-lasting correction of public finances. The 2020 Draft Budgetary Plan does not outline any progress in terms of fiscal consolidation in 2020. The contribution of "Public Action 2022" to fiscal consolidation in terms of concrete expenditure savings and efficiency gains across all sub-sectors of the government has not yet been specified. Public consultations are still ongoing on the planned reform of the pension systems, originally announced for 2019, and which has been postponed until mid-2020. The introduction of the withholding personal income tax can help modernise the tax system. In terms of private debt, macro prudential instruments were introduced to limit banks' exposure to highly indebted large NFCs and to increase capital buffers of banks in order to make them more resilient to periods of stress.

Despite some delays, France has taken other ambitious reforms, notably in the areas of business environment, labour market and apprenticeship and vocational education, of which swift implementation is important. The government has taken some measures, such as the PACTE law, to improve the business environment and the competitiveness of firms. However, the taxation system continues to be characterised by high complexity and taxes on production continue weighing on firms. Further efforts are needed to increase the efficiency of public R&D support schemes and the performance of the innovation ecosystem and to remove barriers for competition, especially in services, beyond the recently announced measures in a few services sectors. Finally, concerning the labour market, adopted or announced reforms, improve the responsiveness and performance of the labour market, such as the reform of apprenticeship, continuous vocational education and training system, as well as the reform of the unemployment benefit system. However, these will take time to fully materialise. In parallel, measures to reduce labour costs for lower wages and a contained evolution of the minimum wage have not improved the unemployment rate of low skilled workers.[1]

Overall, since February 2019, ambitious reforms have been adopted which will take time to fully materialise and implementation will be closely monitored. Progress has been observed in certain policy areas, but further action is warranted to address France's economic imbalances, especially regarding the fiscal consolidation agenda.

Key findings on the implementation of economic policy reforms and measures

On track	Wait-and-see	Action wanted
• Reform of the apprenticeship and continuous VET system. • Reform of the unemployment benefit system. • Further decrease of the statutory corporate income tax rate. • Implementation of the PACTE law to enhance business environment and foster firms' growth. • Activation of instrument to limit banks' exposure to highly indebted large NFCs.	• Limitation of the use of tax expenditures and removal of inefficient taxes. • Consistency of minimum wage developments with job creation and competitiveness. • Improvement of the efficiency of R&D public support schemes and the collaboration between public research and companies. • Lifting of barriers to competition in the services sector.	• Reduction of taxes on production • Reform of the pension system. • Sustainability of public finances. • Implementation of expenditure savings under Public action 2022 programme.

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

[1] The unemployment level of people with less than primary education, primary and lower secondary education increased from 13.6% in 2009 to 16.2% in 2018. This contrasts with the decrease observed in the unemployment rate in groups with higher level of education. (source: Eurostat).

1. Introduction

On 21 November 2018, the European Commission presented, in the context of the Macroeconomic Imbalances Procedure (MIP), its eighth Alert Mechanism Report to underpin the selection of Member States requiring an in-depth investigation into the existence and extent of macroeconomic imbalances. The subsequent In-Depth Review (IDR) in the 2019 Country Report on France – published on 27 February 2019 − examined the nature, origin and severity of macroeconomic imbalances and risks in France.[2] In its accompanying Communication, the Commission concluded that France was experiencing macroeconomic imbalances.[3] The Commission found that vulnerabilities stem from high public debt and weak competitiveness dynamics, in a context of low productivity growth. Possible positive effects of announced and undertaken policy actions were recognised, while further action was warranted notably for reviewing government spending in order to ensure the sustainability of public finances and to enhance France's growth potential.

On 5 June 2019, the Commission proposed a set of four country-specific recommendations (CSRs) for France, which were subsequently adopted by the Council on 9 July 2019. The CSRs considered to be MIP relevant focus on four broad policy areas: (i) public finance and pensions; (ii) labour market and skills; (iii) investment priorities; (iv) business environment, including the simplification of the tax system and competition in services.

This report presents the results of the specific monitoring by assessing the latest main policy measures taken by France since the publication of the 2019 Country Report and up to end-November.[4] In order to underpin the findings of this document, a specific monitoring mission took place on 5-8 November 2019. The content of this document also reflects the content of France's Draft Budgetary Plan (DBP) for 2020, as well as the Commission 2019 autumn forecast. In order to avoid an overlap of surveillance processes, this report does not provide an assessment of France’s revised fiscal targets, as presented in the 2020 DBP, submitted to the Commission in October 2019. The latter assessment can be found in the Commission’s opinion and analysis on France’s Draft Budgetary Plan,[5] published on 20 November 2019, taking into account the outcome of the Commission’s 2019 autumn forecast.

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[2] European Commission (2019), Country Report, France 2019 – Including an In-Depth Review on the prevention and correction of macroeconomic imbalances, https://ec.europa.eu/info/publications/2019-european-semester-country-reports_en.

[3] 2019 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011. COM(2019)150 final, https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-communication-country-reports_en_0.pdf.

[4] Details on the policy measures can be found in the overview table in the Annex. Policy developments beyond the end-November cut-off date are considered in the 2020 edition of the Country Report on France. See European Commission (2020), Country Report, France 2020 – Including an In-Depth Review on the prevention and correction of macroeconomic imbalances.

[5] See Commission Opinion and Commission Staff Working Document. Analysis of the 2020 Draft Budgetary Plan of France, https://ec.europa.eu/info/sites/info/files/economy-finance/c-2019-9108_en_act_part1_v3.pdf
https://ec.europa.eu/info/sites/info/files/economy-finance/swd-2019-918_en_autre_document_travail_service_part1_v3.pdf .

2. Outlook and recent developments on imbalances

Recent economic developments and outlook

GDP growth in France reached 1.7% in 2018, after 2.3% in 2017[6] and 1.1% in 2016. While private consumption slowed down, investment remained dynamic overall, although less buoyant than in 2017. Net exports made a strong contribution to GDP growth as imports weakened in 2018.

Economic activity is set to slow down further. GDP growth is expected to reach 1.3% in 2019, and to remain broadly stable and close to its potential afterwards, reaching 1.3% in 2020 and 1.2% in 2021. GDP growth is forecast to be supported by a resilient domestic demand. In this regard, private consumption is set to pick up progressively, supported by significant gains in purchasing power in 2019 as a result of recent fiscal measures and low inflation. Investment is set to slow down gradually, while remaining still more dynamic than the general economic activity. Finally, net exports are not expected to support any longer GDP growth. Indeed, imports are projected to accelerate in line with domestic demand, while exports growth, after slowing down in 2019, is expected to remain stable as external demand loses strength.

The unemployment rate is set to remain on a mild downward trend but above euro area and EU averages. It is expected to reach 8.5% in 2019, 8.2% in 2020 and 8.0% in 2021. Employment growth reached 1% in 2018, and it is forecast to keep broadly the same pace in 2019, before cooling down by the end of the forecast horizon.

Developments as regards imbalances

On February 2019, France was found to be experiencing macroeconomic imbalances related to high public debt and weak competitiveness, in a context of low productivity growth.

Competitiveness

The evolution of French competitiveness presents a mixed-picture. The growth of total export market shares remained flat in 2018. Across sectors, over the last year the gain in export market shares in the services sector was compensated by a loss in the goods sector. Comparing the export performance against other advanced economies,[7] France decreased slightly its total export market shares over the last five years. The current account balance has been around -0.6% of GDP in latest years, yet remaining below values implied by fundamentals. The Net International Investment Position (NIIP) marginally improved, reaching -16.4% of GDP in 2018.

Growth in nominal unit labour costs in recent years has been more contained in France than in the most of the euro area or the EU. In 2018 alone, unit labour costs increased by 1%, resulting from the combined effect of a moderate increase in real wages and the low productivity growth. According to the recent report of the French National Productivity Board (NPB), low productivity growth in France was due to factors common to other developed economies, such as

[6] The GDP growth figures are non-calendar adjusted. In 2017, calendar-adjusted GDP growth reached 2.4%. The calendar-adjustment correction is not significant in 2016 and 2018.
[7] It includes 34 OECD countries (21 EU MSs and 13 non-EU countries).

the increasing role of services in the economy, the lower ICT contribution to growth, and the high between-firms productivity dispersion, as well as country-specific factors.[8] These include notably the relatively low level of skills and labour skills mismatches, the lower ICT adoption among firms and relatively lower innovation performance than in other advanced economies. The Real Effective Exchange Rate (REER) appreciated by 4.5% between 2015 and 2018, reflecting much the euro appreciation after the marked 2015 depreciation; in 2019, however, some depreciation has been observed again.

In terms of non-cost competitiveness of goods, France ranks just below the world top exporters, remaining strong in its specialisation markets. In-house[9] and literature studies[10] depict France as a medium-high quality exporter of goods across most manufacturing sectors despite being expensive. However, it is surpassed by traditional competitors such as Germany, USA and Japan and is challenged more recently by the rising quality of Chinese goods. In sectors representing high export revenues for France (i.e. mechanical machinery, vehicles, electrical equipment, and pharmaceutical products) the non-cost components of exported goods is weaker than its main competitors. However, France maintains the highest quality in its specialisation sectors, including aeronautics, cosmetics, beverages, cheese, luxury leather goods, locomotives and nuclear reactors.

Public and private debt

In 2018, France's general government debt remained stable at a high level of 98.4% of GDP but, according to the Commission 2019 autumn forecast, it is set to rise to 98.9% of GDP in 2019 and further in the next two years. Although the headline deficit declined to 2.5% of GDP in 2018 against 2.8% in 2017, it is expected to rise to 3.1% in 2019. The foreseen increase in the 2019 deficit is mainly due to the one-off impact of 0.9% of GDP stemming from the replacement of the tax credit for competitiveness and employment (*crédit d'impôt pour la compétitivité et l'emploi*, CICE) by a permanent cut in employers' social contributions. On the other hand, measures mainly on the revenue side, aimed to enhance the purchasing power of households following the "yellow vests" movement, entail a net deficit-increasing impact of around 0.3% of GDP in 2019. For 2020, the Commission forecasts the public deficit to reach 2.2% of GDP, which is fully in line with the official plans unveiled in the 2020 draft budgetary plan. This forecast factors in the effect of the additional measures to further enhance households' purchasing power proposed by the government following the broad national debate (*Grand Debat National)* in April. These measures include a reduction in the personal income tax, amounting to 0.2% of GDP, the re-indexation to inflation of pensions below EUR 2000 per month and the increase in minimum pensions, both adding up to 0.1% of GDP. Their effect on the budget is expected to be only partially offset by the sizeable decline in the debt service due to record-low interest rates.

[8] National Productivity Council (2019), Productivity and competitiveness: where does France stand in the Euro zone?, https://ec.europa.eu/info/sites/info/files/economy-finance/en_1errapportcnp-10july-final.pdf.

[9] See Burton and Kizior, forthcoming 2020 "Measuring exports' quality – the case of France". This study uses a strategy based on gravity equations to model bilateral trade flows in goods to assess the quality of exports via residual sales at fixed price.

[10] See COE-Rexecoe, 2019 "La competitivité française en 2018".

Risks stemming from the high public debt are compounded by the also high and increasing private debt. In France, both households and NFCs contribute to the large and increasing private sector debt ratios, which has been increasing since the early 2000s and reached 148.9% of GDP in 2018. This growing trend is expected to continue in 2019. Referring more specifically to French NFCs, these have been leveraging further,[11] reaching 88.9% in 2018, compared to 86.9% of GDP in 2017. These are ratios appear to be above the level suggested by country-specific fundamentals. Households' indebtedness went on deteriorating in 2018 to reach one of the highest rates in the EU, driven mainly by additional borrowing. However, in this respect households' debt levels are not far from the level suggested by the country's fundamentals; on the contrary, prudential considerations would suggest a lower debt ratio.

3. Policy implementation and assessment

3.1 Measures improving public finances

This section describes policy measures to address the high level of public debt (relevant to the Country-Specific Recommendation (CSR) 1).

Fiscal consolidation has been put on hold. The consolidation strategy over the current presidential term was outlined in the multiannual public finances programming law for 2018-2022. However, consolidation targets have been progressively back-loaded since their initial definition in 2018. Thus, while the objective to reduce the tax burden by one percentage point (p.p.) by the end of the presidential term in 2022 is almost achieved, the reduction of government expenditure is proving much slower. As a result, the original objectives of cutting the deficit by more than 2 pps. and reducing debt by more than 5 pps. by 2022 have been progressively scaled down. The 2020 Draft Budgetary Plan does not outline any progress in terms of fiscal consolidation in 2020, which is confirmed by the 2019 autumn Commission forecast. The expected reduction of the public deficit is mainly explained by the fading of the one-off deficit-increasing impact of the transformation of the CICE in 2019 into a permanent reduction in social contributions. At the same time, according to the Commission, the expected public expenditure reduction is mainly due to the expected decline in public debt servicing costs due to low interest rates: interest expenditure is forecast to decline from 1.7 % of GDP in 2017 to 1.1% in 2021. Overall, the Commission projects a slight improvement of 0.1 pps. in the structural balance in 2020, whereas no structural effort is envisaged for 2021. This implies that public debt rises further over the next two years.

The pension reform, originally announced for 2019, has been postponed until mid-2020. This reform intends to introduce a universal points-based system, replacing the current co-existing 42 pension regimes. In July 2019, the High Commissioner for the pension reform unveiled his recommendations for the upcoming reform. According to the announcement, the new system will require the calculation of pension outlay rights over the whole career, instead of the best 25 years. It also introduces a single definition of labour revenues to be used as basis for calculating pension contributions. Such basis will include bonuses for the public sector and special regimes. As the perspective of pension reform has raised some concerns, the government

[11] For further evidence, see the Bulleting de la Banque de France 226/4, https://www.banque-france.fr/sites/default/files/medias/documents/bdf226-4_endettement-grands-groupes-francais_fr.pdf

has engaged in a broad consultation with social partners and stakeholders in order to gather the broadest consensus. At this stage, there remain uncertainties regarding the timing of the reform, and its modalities of implementation, including possible transition periods.

Expenditure savings and efficiency gains across all sub-sectors of the government within specific spending review actions under the broader 'Public Action 2022' programme cannot be assessed. The programme "Public Action 2022" was officially launched by the government on 13 October 2017, with three objectives, namely to increase the quality of public services provided, to improve the working environment and performance of public officers, and to contribute to the decrease in public spending. While the first two objectives are being addressed, the third objective cannot be assessed. The reason is that the programme is indeed mainly process-driven, focusing on the transformation of the public administration via the implementation of a broad range of reforms and plans at the ministerial level. However, it does not foresee any actual quantification of overall savings and macroeconomic impacts. Thus, it is not possible at present to assess how the programme will structurally contribute to the established objective of reducing public spending by more than 3 pps. of GDP over the presidential term.

The new programme to improve the financial situation of hospitals will imply an upward revision to the *"Dépenses d'Assurance Maladie*" (ONDAM) and higher hospital investment. The government announced in November 2019 a new programme aimed to improve the financial situation of public hospitals. This plan would entail an additional expenditure increase by EUR 1.5 bn over three years, EUR 300 million of which would correspond to 2020. This should be included in the PLFSS ("*Projet de Loi de Finances de la Securité Social*") currently under discussion. In case of adoption, the healthcare expenditure standard ONDAM would accordingly increase to 2.45%, instead of the previously envisaged 2.3%. This plan also entails an additional investment effort amounting to EUR 150 million on new material and light renovation of buildings. Finally, a third of the hospital debt, amounting to EUR 30 bn, would be taken over by the State over 3 years as of 2020.

3.2 Measures monitoring the high private debt

This section describes policy measures to address the high and increasing level of private debt and the measures to limit potential macroeconomic vulnerabilities and risks originating from this trend.

Macro-prudential instruments continue to limit banks' exposure to highly indebted large NFCs. To reduce the risks associated with the high private debt of NFCs, the *Haut Conseil de Stabilité Financière* (HCSF) introduced a macro-prudential instrument to limit to 5% the exposure of banks to highly indebted large NFCs or group of connected NFCs that are resident in France.[12] The objective of this measure is to improve the resilience of the French banking system to potential corporate defaults by limiting the risk concentration of the six systemically important institutions (SIIs), which are the most likely institutions to create spillover risks to the rest of the French financial system. The measure applies from 1 July 2018 with an initial duration of two years, which could be extended following an evaluation planned in the first half of 2020.

[12] A NFC is considered highly indebted if it has, at its highest level of consolidation, a leverage ratio greater than 100% and a financial charges coverage ratio below 3.

Concerning the high private debt of households, the important rise in property loans received special attention of the HCSF.[13] The increasing household indebtedness in France is largely linked to mortgage debt.[14] In this regards, the ESRB[15] has identified medium-term vulnerabilities in the residential real estate sector in France as a source of systemic risk to financial stability, which can have negative effects on the real economy. While the HCSF does not find any evidence of overvaluation in the aggregate French housing market,[16] nor potential risks associated with a potential fall in property prices, it finds evidence of an easing of lending practices and weak margins of banks that call for close monitoring.

Following the acceleration in the financial cycle, showed in particular by the rise in private debt, the HCSF decided to raise the ratio of the counter-cyclical capital buffer (CCyB). This macro-prudential instrument required banks to hold more capital against their French assets (risk weighted), reaching 0.25 % as of 1 July 2019 and 0.5 % starting on 2 April 2020.[17] These measures are designed to create buffers with the objective of increasing the resilience of the banking sector during periods of stress if potential losses materialise. This instrument aims to help maintaining the supply of credit and dampening the downswing of the financial cycle.

3.3 Measures supporting competitiveness

This section assesses policy measures to improve the business environment and innovation and support firms' competitiveness in line with the CSRs 3 and 4. These recommendations call for productivity-enhancing measures notably to foster firms' growth, increase competition in the services sector and continue to simplify the tax system, as well as to increase the performance of the innovation system, in particular by improving the efficiency of public support schemes.

Recently adopted measures are expected to help foster firms' growth. The creation of businesses is dynamic, but businesses have difficulties to scale up. To support firms' growth the PACTE law ("*Loi relative à la croissance et la transformation des entreprises*") was adopted in April 2019.[18] The important measures include, among others, provisions targeting business creations and growth, corporate financing and insolvency procedures, innovation, and profit-sharing. In particular, the number of regulatory size-related thresholds that may have impeded firms to grow in the past has been reduced and a five-year transitional period to give firms time to adjust when they cross the thresholds has been introduced. While most of the measures of PACTE entered into force in 2019, the measures regarding regulatory size-related thresholds will enter into force on 1 January 2020. By the end of 2019, additional measures focused on

[13] Diagnostic des risques dans le secteur de l'immobilier résidentiel, https://www.economie.gouv.fr/files/files/directions_services/hcsf/HCSF_2019-10_-_Diagnostic_risques_immobilier.pdf.

[14] Rapport Annuel (2019), https://www.economie.gouv.fr/files/files/directions_services/hcsf/Rapport-annuel-2019.pdf).

[15] Warning of the European systemic risk board (2019), https://www.esrb.europa.eu/pub/pdf/warnings/esrb.warning190923_fr_warning~48c2ad6df4.en.pdf.

[16] Lack of sign of housing price overvaluation is also confirmed by the IMF French Country report No.19/321: Financial Sector Assessment Program, https://www.imf.org/en/Publications/CR/Issues/2019/10/28/France-Financial-Sector-Assessment-Program-Technical-Note-Nonfinancial-Corporations-and-48757.

[17] Countercyclical capital buffers (ESRB), https://www.esrb.europa.eu/national_policy/ccb/html/index.en.html.

[18] As of November 2019, 46% of the 137 measures included in the PACTE law have been implemented.

employment and competitiveness of businesses, in particular in the industry, are expected to be announced under the so-called "*Pacte productif*".

Barriers to competition in services remain, although reforms in some specific services sectors are expected. The 2018 OECD's overall Product Market Regulation (PMR) indicator shows that France is the 6th most restrictive country in a set of 34 advanced economies. According to the sectoral PMR indicators, high restrictions were identified in retail and in some regulated professions, such as accountants. The regulatory environment applicable to retail has become even more restrictive following the adoption of the ELAN[19], EGALIM[20] and PACTE laws. The ELAN law has introduced restrictions on the opening of large retail shops in France. The EGALIM law has limited the retailers' freedom on promotions of food products. The French Competition Authority expressed reserves regarding the suitability of the EGALIM Law measures. In addition, the PACTE law has restricted the period of sales. However, more recently, measures were announced in some specific sectors to increase competition and moderate prices. The services included notably the sale of automotive spare parts, driving schools (both adopted on November 2019 through the "*Loi d'Orientation des Mobilités*"), and property management ("*syndics*"). Finally, the measures of the French rail reform ("*Loi pour un nouveau pacte ferroviaire*") adopted in 2018, aimed at opening competition in the regional passenger transport, will enter into force at the end of 2019.

First evaluations of the efficiency of the French R&D tax credit (about EUR 6 bn of public expenditure) were published in March 2019.[21] The evaluations of the R&D tax credit ("*Crédit Impot Recherche"*) point to a multiplier effect around one, meaning that one euro spent in fiscal incentives leads to an additional euro spent in business R&D. Meanwhile, the impact in terms of innovation and economic impact appears to be either limited or uncertain, also considering the short period covered by the current studies. However, further analyses will be launched to assess the overall macroeconomic impact of the R&D tax credit. Concerning public-private cooperation, the PACTE law sets further incentives for researchers in the public sector to collaborate and transfer to the private industry.

The Innovation and Industry Fund decided in 2017 was set up with some delay due to a complex funding mechanism. The fund aims at supporting breakthrough innovation and is endowed with EUR 10 bn, generating EUR 250 mn per year. The Court of Auditors nevertheless pointed out that the funding mechanism, originating from state participation in EDF and Thalès, is complex and the option of an unincorporated entity (outside the State budget) is unjustified. According to the Court, the heavy procedural requirements slowed down the setting-up process and consequently the fund could not support any project in 2018. Nevertheless, the Innovation Council has been set up and it has identified the big challenges that will be supported by the fund. As part of this fund, the Nano2022 programme was launched in 2019 and several applications for funding were submitted by deeptech start-ups to BpiFrance. The funds raised by

[19] Law of 23 November 2018 on the evolution of housing, planning and digitalisation.

[20] Law of 30 October 2018 for balancing commercial relationships in the agricultural and food sectors and for healthy, sustainable and affordable food.

[21] Commission nationale d'évaluation des politiques d'innovation (March 2019): "L'impact du crédit d'impôt recherché". (https://www.strategie.gouv.fr/sites/strategie.gouv.fr/files/atoms/files/fs-cnepi-avis-impact-cir-06032019-final-web.pdf).

the Initial Public Offering of "*Française Des Jeux*" in November 2019 will be used to back the Fund.

Public and private investments in the digital sector are dynamic in France. In 2019, the Government launched projects to roll out the ultra-fast broadband throughout the national territory ("*Plan France Très Haut Débit*"), as part of the EUR 3.3 bn budget to support additional private investments. This plan is expected to improve connectivity in the regions and foster adoption by businesses, two dimensions of the 2019 Digital Economy and Society Index (DESI) in which France's performance is equal to or below the EU average. The French start-up ecosystem has benefited from record private investments for some years, including in venture capital and market assets by institutional investors. High growth enterprises are however still relatively few compared to the EU average, except in the Paris area.

Taxes on labour and corporations are being reduced. Since October 2019, employer's social contributions at minimum wage level have been set at zero. Consequently and according to the French authorities, the total labour cost at the minimum wage level is now comparable to that in the neighbouring countries. In 2020, all firms will benefit from a reduction of the corporate income tax. Reduced rates of 15% for Small and Medium-sized Enterprises (SMEs) and of 28% for the first EUR 500 000 of profits will continue to apply. The statutory rate will decrease from 31% to 28% for firms with a turnover below EUR 250 mn and from 33.3% to 31% for the remaining firms. Moreover, for companies and households, the introduction of the withholding personal income tax can help modernise the tax system.

Taxes on production remain high in France and weigh on firms' competiveness. In 2017, taxes on production stood at 3.4 % of GDP, higher than in the other EU countries. Little has been done in 2019. However, it is expected that the "Productive Pact" should help identify cuts of taxes on production for the 2021 Budgetary Plan. A study by the French Council of Economic analysis ("*Conseil d'analyse économique"*) suggests cutting in first priority the so-called "C3S" tax, i.e. tax on production based on companies' turnover, which amounts to EUR 3.8 bn in 2019.

Efforts to streamline the tax system are ongoing. The ESSOC law ("*Loi pour un Etat au service d'une société de confiance*") started to be implemented. For example, 21 tax partnerships between the French tax administration and large and medium-sized enterprises have been agreed, with the objective to reduce tax compliance costs. Furthermore, 18 taxes yielding low revenues will be discontinued in 2020 according to the 2020 DBP. Although tax expenditures (tax credits, exemptions, reduction) also contribute to the complexity of the tax system through additional compliance costs for businesses, 14 new tax expenditures were created in 2019, while only 10 tax expenditures will be cut in 2020.

3.4 Measures fostering labour market performance

This section assesses policy measures to improve the functioning of the labour market and to address skills mismatches as suggested by CSR 2.

Increases in the minimum wage continued to be moderate in 2019, with no discretionary hikes by the government, however wage compression at the bottom of the wage scale and its impact on employment outcomes for the low skilled remains an issue. On 1 January 2019, the value of the minimum wage was raised by 1.5% (against 1.24% on 1 January 2018), based on the automatic indexation mechanism. In addition, the income of workers earning close to the minimum wage has been supported by a significant increase of the in-work benefit, called "*Prime d'activité"*. This revaluation of the complementary income did not affect the cost of labour for companies, and therefore had no impact on their competitiveness. A new report from the expert group analysing the development of the minimum wage (SMIC) is expected by the end of 2019.[22]

First results of the vocational education reforms are encouraging. The number of apprentices has increased (+7.4% in 2018, +8.4% in Q1 2019).[23] The link between training, labour market and firms' needs has also been improved, as firms are able to have their own apprenticeships' learning centres.

The unemployment benefit reform adopted a "*bonus-malus"* system expected to reduce excessive reliance on temporary jobs in some sectors, and changed the eligibility criteria and compensation rules to make them more conducive to employment. The unemployment benefit reform, implemented since November 2019, extends the length of time at work required in order to qualify for unemployment benefits and it reduces the eligible benefits of wealthier workers. As of 2021, it will also introduce a system of incentives and disincentives ("*bonus-malus"*) in specific sectors to encourage people to take-up work and to discourage employers from hiring workers on very short-term contracts. By 2022, the French authorities expect as a result to decrease unemployment by a number ranging from 150 000 to 250 000 people.

The government is planning to merge different income benefits and to include new employment incentives to enter the labour market. The French authorities have launched a public consultation on the future design of the universal activity income ("*Revenu universel d'activité*"), merging different existing income benefits (housing benefits, complementary income, RSA) into a single one. The objective is to promote effective access to social benefits (and decrease the existing take-up gap) and to incentivise beneficiaries to take-up work.

Reforms in the labour market aim to increase the labour participation and the overall quality of the labour force. These reforms continue to be implemented[24] but they will take time to fully materialise and have an effect on the overall quality of human capital.

[22] The 2018 report of the group of experts appointed to monitor minimum wage developments repeated the need to reform the minimum wage automatic indexation formula, beyond limiting to ad-hoc hikes as it was recommended already in the 2017 report.

[23] Press release Ministry of Labour, https://travail-emploi.gouv.fr/actualites/presse/dossiers-de-presse/article/dossier-de-presse-rentree-de-l-apprentissage-2019 .

[24] Reforms which relaxed requirements for dismissal of workers on permanent contracts had an impact on the EPL index. Source: OECD working paper 227 (2019), "Assessing recent reforms and policy directions in France".

Annex I: Overview of MIP-relevant reforms

MIP objective: addressing the high level of public and private debt			
Public debt			
Strategy to reduce the public expenditure			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Nov 2019: The healthcare expenditure standard ONDAM was set to 2.3% for 2020 compared to 2.5% in 2019. However, in November 2019, the announced new program for hospitals, currently under discussion in Parliament, might imply an upward revision of the ONDAM to 2.45%.		**2018**: Contractual approach with largest municipalities to control operational expenditure.	**CSR (1) – 2019**: "Achieve expenditure savings and efficiency gains across all sub-sectors of the government"
Spending review			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Transformation of the public administration via the implementation of reforms and plans at the ministerial level.	"*Public Action 2022*" programme launched in October 2017	**2018:** Follow up of transformation plans at the ministerial level. However, no actual quantification of overall savings and macroeconomic impacts available. Projects financed by dedicated fund ("*Fond de Tranformation de l'Action Publique*") are ongoing.	**CSR (1) – 2019**: "Achieve expenditure savings and efficiency gains across all sub-sectors of the government, including by fully specifying and monitoring the implementation of the concrete measures needed in the context of Public Action 2022."
Reform the pension system			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected 2020: Universal point-based system to unify the 42 existing regimes. Calculation of pension rights over the whole career. Single definition of labour revenues to be used as basis for calculating pension contributions. Reform postponed until around mid-2020.		**October 2019**: New broad consultation with social partners and stakeholders.	**CSR (1) – 2019**: "Reform the pension system to progressively unify the rules of the different pension regimes, with the view to enhance their fairness and sustainability."
Private debt			

Private indebtedness			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
		July 2018: Macroprudential instrument introduced by HCSF to limit to 5% the exposure of banks to highly indebted large Non-financial Corporations (NFCs) **October 2019:** Evaluation by the HCSF on the increasing household indebtedness **In 2019 and 2020:** Macroprudential instrument introduced by the HCSF required banks to hold more capital against their French assets (risk weighted), reaching 0.25 % as of 1 July 2019 and 0.5 % starting on 2 April 2020	
MIP objective: improving competitiveness			
Business environment			
Remove barriers to competition in the services sector			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
In 2019: competition-increasing measures in service sectors, i.e. driving schools, automotive parts, property management ("*syndics*"), health insurances, medical analysis laboratories, online sale of medicines and access to data by FinTechs.	**In 2019**: Competition-increasing measures in driving schools, the sale of automotive spare parts *("Loi d'Orientation des Mobilités*") and health insurances.	**In 2018**, the ELAN law introduced restrictions on the opening of large retail shops in France and the Egalim law limited the retailers' freedom on promotion of food products.	**CSR (4) - 2019** "Reduce regulatory restrictions, in particular in the services sector, and fully implement the measures to foster the growth of firms""
Reducing the cost of labour			
Implemented measures	*Sources of commitment*	*Implemented measures*	*Sources of commitment*
		In 2019: the CICE has been transformed into a permanent reduction in direct social security contributions on the same basis with additional 4 points decrease at minimum wage level (degressive up to 1.6 times the minimum wage).	**CSR (2) - 2017** "Consolidate the measures reducing the cost of labour to maximise their efficiency in a budget neutral manner and in order to scale up their effects on employment and investment."
Simplify the tax system			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*

In 2020: the 2020 DBP plans the suppression of 18 taxes yielding low revenues. On tax expenditures, 10 tax expenditures are planned to be supressed, while 14 new ones to be introduced.		**In 2019**: withholding of the personal income tax. **In 2019**: The ESSOC law (adopted in July 2018) aims at improving the relations between firms and administration, at further simplifying administrative procedures and at reducing tax compliance cost. **In 2019**: The 2019 DBP suppressed 17 taxes yielding low revenues (out of which 8 were identified as inefficient by the 2014 report of the General Inspection of Finances). On tax expenditures, six inefficient tax expenditures have been cut, while four new ones (worth EUR 1 billion) have been introduced.	**CSR (4) - 2019** "Continue to simplify the tax system, in particular by limiting the use of tax expenditures, further removing inefficient taxes and reducing taxes on production."
Reduce taxes on production weighing on companies			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
In 2020: the 2020 DBP plans to remove three taxes on production (worth around EUR 25 million).		**In 2019**: the law PACTE (*Projet de loi relatif à la croissance et la transformation des entreprises - PACTE*) introduces new threshold exemptions for two taxes on production ("*versement transport" and "Fonds National d'Aide au Logement*", FNAL).	**CSR (4) - 2019** "Continue to simplify the tax system, in particular by limiting the use of tax expenditures, further removing inefficient taxes and reducing taxes on production."
Implement the decrease of the corporate income statutory rate			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
	As of 2020: the draft budget law reduces the corporate income tax to 28% (compared to 31% in 2019). The reduced rate of 15% for SMEs and of 28% for the first EUR 500 000 of profits will continue to apply. Since July 2019, the pace of reduction to the objective of 25% has been updated for firms with higher than 250 million EUR turnover.		**CSR (2)- 2017**: "Take further action to implement the planned decrease in the corporate income statutory rate."
Foster the growth of firms			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
In 2019: the "*pacte productif*" was announced.	**In 2019**, most measures of the PACTE law entered into force. Some measures will enter in force later (e.g. the		**CSR (4) - 2019** "Reduce regulatory restrictions, in particular in the services sector, and fully implement the measures to foster the growth of

	provisions limiting the number of size-related thresholds and introducing a 5-year transition period will enter into force on 1rst January 2021)		firms.”
Efficiency of the Innovation system			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
		In 2019: publication of the evaluation of the “*Crédit d’Impôt Recherche”* Fund for industry and innovation: complex mechanism leading to delays in funding projects. The Nano2022 programme was launched in 2019. The liquidities generated by the stock market introduction of the Française Des Jeux that occurred in November 2019 will be used to fuel the Fund. PACTE law: simplification of public-private researchers’ mobility	**CSR (3) – 2019** “Focus investment-related economic policy on research and innovation (while improving the efficiency of public support schemes, including knowledge transfer schemes).”
MIP objective: improving the functioning of the labour market			
Labour market: skills			
Active labour market policies			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
		Since 2018: The "*Plan d'investissement dans les compétences 2018-2022 (PIC)*” aims to provide training to 1 million of unemployed workers and 1 million of young who dropped out from school.	**CSR (2) – 2019:** “Foster labour market integration for all job seekers, ensure equal opportunities with a particular focus on vulnerable groups including people with a migrant background and address skills shortages and mismatches.”
Vocational training and apprenticeship			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
		Since 2018: Reform of the vocational education, initial and continuous training system which simplifies the funding mechanisms and overall governance of the VET, increase the attractiveness of apprenticeship and increase access to training (“*Compte Personnel de formation*”).	**CSR (2) – 2019**- “Foster labour market integration for all job seekers, ensure equal opportunities with a particular focus on vulnerable groups including people with a migrant background and address skills shortages and mismatches.”

		A parallel reform of the school-based vocational education is also being implemented.	
Evolution of the minimum wage			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected in 2019: report of the group of independent experts assessing annually the minimum wage.		**In 2019:** No extra rise ("*coup de pouce"*) in 2019. The minimum wage increased further to the automatic indexation rule.	**CSR (2) – 2018:** "Ensure that minimum wage developments are consistent with job creation and competitiveness."
Unemployment benefit system			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
		In 2019: A new reform of the unemployment benefit system to be implemented as of November 2019. It extends unemployment insurance to new categories of workers (self-employed, employees who resigned), reduce benefits for wealthier workers, introduce incentives for unemployed to take up work and disincentives for employers not to excessively use short-term contracts.	