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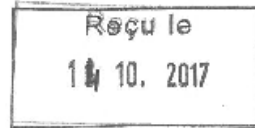
To: Mr Carsten PILLATH, Director General, Council of the European Union

Subject: France:
Draft Budgetary Plan of France as laid down in Article 6(1) of Reg. (EU) 473/2013 on Common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the member states in the euro area

Delegations will find attached the Draft Budgetary Plan for 2018 of France **in English**. This document is aimed for discussion in the Eurogroup.

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REPRÉSENTATION PERMANENTE DE LA FRANCE
AUPRÈS DE L'UNION EUROPÉENNE

**Le Ministre Conseiller pour les
Affaires financières et monétaires**

ABT/cf
CAD-2017-

Bruxelles, le 13 octobre 2017

Monsieur le Directeur Général,

Je vous prie de bien vouloir trouver ci-joint le projet de plan budgétaire de la France pour 2018, en vue de sa transmission à l'Eurogroupe, en application de l'article 6 du règlement n°473/2013 du Parlement européen et du Conseil du 21 mai 2013 établissant des dispositions communes pour le suivi et l'évaluation des projets de plans budgétaires et pour la correction des déficits excessifs dans les Etats membres de la zone euro.

Je vous prie d'agréer, Monsieur le Directeur Général, l'assurance de ma haute considération.

Anne Blondy-Touret

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RÉPUBLIQUE FRANÇAISE

DRAFT BUDGETARY PLAN FOR

2018

ECONOMIC, SOCIAL AND FINANCIAL REPORT

EXTRACT

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France's economic policy strategy

Introduction

With restored confidence, which is affirmed month after month in France and with our main partners, the current economic conditions are positive. This situation means that the government can act in a more enabling and conducive environment for reforms.

After the two-year downturn in the European economy in 2012 and 2013 during the sovereign debt crisis, the recovery of activity since 2014 is now well established. Following growth of 1.8% in 2016, euro area activity should pick up slightly this year to 2% before falling back to 1.8% in 2018. These figures are in part related to robust global growth which is expected to reach 3.6% in 2017 and 2018 after 3.2% in 2016. In France, activity grew slightly in 2016 with a growth rate of 1.1%⁽¹⁾, after 1.0% in 2015, with the recovery suffering from poor exports and the repercussions of the terrorist attacks. 2017 has been punctuated by a more marked recovery and renewed confidence. Against this background, the economic outlook of 1.7% growth both this year and next year represents a credible assumption for our economic strategy and public finances.

There are however risks, which do not currently have a high probability of occurrence, but which could put a drag on growth. One source of uncertainty in Europe is the progress on EU exit talks with the UK. Internationally, the American economic policy is also causing uncertainty. The risk of protectionism and the rapid rise in Chinese debt could undermine the global economic recovery. Conversely, bolstering the euro area's economic and financial architecture could generate positive economic momentum.

The ongoing economic recovery in France should not gloss over the structural weaknesses of the French economy and the accumulated delays. The unemployment rate is still higher than its pre-crisis level (9.5% of the workforce in Q2 2017⁽²⁾). France is beset by extraordinarily high structural unemployment. Our country is lagging behind in terms of innovation and competitiveness which means

that potential growth has fallen over the last decade from 2% prior to the crisis to a current level of around 1¼%. France's trade deficit (€62.5bn on a rolling 12-month basis in July 2017) can be principally explained by the lack of innovative investments to move our manufacturing facilities up-market. Lastly, the public deficit and high levels of government expenditure (55%⁽³⁾ of GDP compared with an OECD average of 48% and 43% in Germany) weigh on activity, businesses and households due to the taxation required to finance them.

In addition to these structural shortcomings, our economy faces medium- and long-term imperatives: undertaking the digital transition, fostering more innovative and less carbon-intensive growth by speeding up the ecological transition to build a new growth model.

In light of the foregoing, it is vital to take advantage of the coming period to overhaul our economy and restore its winning spirit.

Given the favourable European and international economic conditions, the aim of the reforms undertaken is to start recasting our economic model to instil the missing momentum and to thoroughly overhaul our economy's structures to put us on a stronger, more inclusive and more sustainable growth path. The priority is to upgrade and bolster our labour model to make it more resilient and more conducive to an entrepreneurial culture, especially by reforming labour-management dialogue and the labour market. Reforming vocational training will allow for better investment in skills which represent the most-lasting guarantee for securing employment. Reducing the tax burden will free up initiatives, job-creation and purchasing power for businesses and households. The reduction of aggregate tax and social security contributions will benefit purchasing power, business activity and employment, as well as investment and innovation to provide the conditions for long-term growth. Streamlining initiatives will establish a more appealing environment for entrepreneurs, innovators and those looking to invest

(1) All the growth figures are in working-day adjusted data.
(2) All of France.

(3) Excluding tax credits.

in our country. The French economy needs to simultaneously invest in means to leverage the emergence of a new growth model, in particular in terms of skillsets and the ecological transition that draws on the ongoing major technological changes and reconciles economic development with protection of the environment. Besides tax measures to boost innovative private investment, the government is set to roll out the €57bn Great Investment Plan (*Grand Plan d'Investissement public*) to speed up the ecological transition, create a skills-based society, embed competitiveness into innovation and build a government for the digital age. This investment plan will go hand-in-hand with structural reform of sectors such as housing and transport in which supply and public action are neither adequately effective nor adjusted to current issues. As a result, the reform of the government's housing policy is strongly focused on supply to tailor housing to requirements and make it more affordable for all French households. The new growth model will need to be more inclusive. Aside from freeing up drive and initiative, the government's economic policy involves coming up with new forms of protection, that are adapted to the challenges faced by the contemporary economy, to sustainably reduce all types of inequality and the regional divide. Structural reforms must also concentrate on reducing inequality as, currently, the shortcomings of the labour market essentially penalise young people and low-skilled workers. Lastly, fiscal consolidation is required to ensure the sustainability of our economic model. Besides a substantial reduction in the tax burden, our fiscal and public spending

strategy will allow a lasting return of the public deficit to under 3% of GDP as from this year and a gradual and durable lessening of general government debt as from 2020.

Our reform programme in conjunction with fiscal consolidation will enable France to restore its credibility vis-à-vis our European partners to reform Europe and bolster the euro area's architecture to boost growth and jobs.

Heightening the economic and financial integration of the euro area is a government priority. This is manifesting itself through the setting up of a fiscal capacity able to provide macroeconomic stabilisation in the event of shocks and fund investments that foster economic and labour convergence. The continued financial integration of the euro area is also a priority to improve our businesses financing terms and mitigate the risks of a financial crisis. This involves, inter alia, completing the banking union and fast-tracking the implementation of the Capital Markets Union project. Strengthening the euro area's architecture must also include consolidating its democratic legitimacy. This means adjusting governance to allow for tighter steering backed up by true political accountability.

Lastly, our growth model needs to promote regulated globalisation to benefit from openness whilst helping raise international standards: reciprocal access to markets and investments, compliance with labour and environmental standards, fighting tax planning, especially in the digital sector.

The French economy's strengths and weaknesses: an analysis for action over the next five years.

Although France's strengths lie in qualifications and productivity, its labour market remains undermined by high levels of segmentation causing particularly high unemployment among young people and low-skilled workers.

France has top-level skills and talents. This represents a significant advantage in terms of turning the country into a high-performance innovation economy. With 34% of the population having a higher education degree, France is within the OECD average despite the late mainstreaming

of higher education. France has now caught up and, today, it has particularly well-qualified young workers with 44.7% of 25-34 year olds having a higher education degree, compared to 29.6% in Germany and 25.1% in Italy⁴.

Whilst the French population's education levels help put its economy in the top half of OECD countries in terms of hourly labour productivity (eighth place above the other major European economies⁵ and slightly behind the US), France is experiencing a downtrend in its productivity gains (see Box 1). France has a major problem regarding acquiring basic skills in primary school. If nothing is done to correct this, it subsequently represents a barrier to employment for a large proportion of the population.

Box 1: Productivity at the centre of economic policy issues

The pace of the trend path for generated wealth is crucial not only for macroeconomic activity but also for public finances as it dictates the sustainability of general government debt and, more broadly, the labour model. France's potential growth has experienced a sharp fall. Whereas it was estimated at around 2% prior to the crisis, potential growth is now projected at approximately 1¼% per year.

Weak productivity gains are the main reason for the downturn in potential growth. Low productivity weighs on cost competitiveness, which is a key determinant of our businesses' export performance levels (see section 3). Cost competitiveness, as measured by unit labour costs, is dictated by both the cost of labour, inclusive of wages and contributions, and labour productivity.

Whilst all developed countries have witnessed a slowdown in productivity gains over the last few decades, the weak growth in French productivity is due to the fact that the French workforce's qualifications are inconsistent with the goal of high-end positioning (according to the OECD's Programme for the International Assessment of Adult Competencies (PIAAC), an international comparison shows that 15 to 64 year olds are lacking in skills) and to the fact that qualifications gained and those sought by employers are mismatched (according to the OECD's Skills for Jobs database, almost 34% of employees are either over-qualified or underqualified in France).

In respect of hourly productivity, France is again one of the leaders, on level pegging with Germany but, since the crisis, slightly behind the US.

⁽⁴⁾ Sources: [OECD, Education at a Glance 2016 – France](#).

⁽⁵⁾ Sources: OECD data.

The large increase in unemployment following the crisis in 2008-2009 has still not been offset owing to the labour market's structural weaknesses. From 7.2% in Q1 2008, the unemployment rate as defined by the International Labour Office (ILO) had jumped to 10.5% by Q2 of 2015⁶, its highest level since 1997. Since then, unemployment has been constantly - but too slowly - falling, and stood at 9.5% in Q2 2017. This means that France has the seventh worst level in the EU 28 for which the average unemployment rate was 7.7% in Q2.

Between 2014 and 2016, long-term unemployment was still very high following a substantial increase in the wake of the crisis (4.3% in 2016 in France after 4.2% in 2014 and 2.6% in 2008) whilst it fell in the EU 28 (4.0% in 2016 after 5.0% in 2014 and 2.6% in 2008). As a result, 1.2 million unemployed in France have been out of work for at least a year.

Young people are most affected by unemployment. In Q2 2017, the rate was 23.2% for under 25 year olds after an unprecedented high of 26.1% in Q4 2012. It also very strongly affects those with no, or few, qualifications. For the latter category, the average unemployment rate was 17.9% in 2016 compared to 5.7% for those with at least two years' higher education, as against 11.0% in Germany and 9.6% in the UK in 2015.

The French labour market is also highly segmented between workers on open-ended contracts (CDI), representing around 85% of total salaried employment in 2016, and those hired on short contracts which very often offer little job security⁷. Whilst these contracts only accounted for around 15% of salaried jobs in 2016, approximately 85% of hiring is under fixed-term contracts (CDD) or through temp agencies, often for very short periods (around 70% of new hires in 2014 were with contracts of less than a month⁸). Very few fixed-term contracts are converted into open-ended contracts: only 20% of workers with fixed-

term contracts are offered an open-ended contract one year later⁹. This is one of the lowest rates in Europe¹⁰. This lends credence to the analysis of a labour market that does not provide permanent jobs for a large proportion of the population

The state of our public finances and the extent of the tax burden means that we have to take action

Over the last decade, our public accounts have worsened significantly. The public deficit was already fairly high in 2008 (3.2% of GDP) but it mushroomed following the crisis in 2008-2009 to 7.2% of GDP in 2009. In 2011, after two years of recovery, the situation was still very unfavourable, with the public deficit standing at 5.1% of GDP and the structural deficit at 4.4%. Since 2012, the public deficit has gradually fallen from 4.8% of GDP to 3.4% in 2016. In 2016, the structural balance was thought to have been -2.5% of potential GDP¹¹, more than two percentage points below the medium-term structural equilibrium goal of -0.4% set out in the Public Finance Planning Act of December 2014 and confirmed by the Public Finance Planning Bill for 2018 to 2022.

There is no doubt that progress has been made in our public finance governance, in particular owing to the introduction of legal measures to improve its steering. Since 2008, the Public Finance Planning Acts have been setting the multi-annual financial outlook for all general government subsectors. Since 2012, consistent with the European rules contained in the Stability and Growth Pact (SGP) and the Treaty on Stability, Coordination and Governance (TSCG), these acts have also been setting the adjustment path for the structural balance in terms of converging towards the goal of structural equilibrium, known as the medium-term objective (MTO). The High Council on Public Finance (HCFP), which was set up in 2012, decides on the credibility and realistic nature of the macro-economic assumptions underlying the various

(6) Scope - all of France.

(7) Beck S. and Vidalenc J., *Une photographie du marché du travail en 2016*, Insee Première, no. 1648, May 2017.

(8) Cahuc P. and Prot C. (2015), *Améliorer l'assurance chômage pour limiter l'instabilité de l'emploi*, Economic Analysis Council memorandum no. 24.

(9) *Les transitions professionnelles révélatrices d'un marché du travail à deux vitesses*, France Stratégie analysis memorandum 2016.

(10) Sources: OECD Employment Outlook, 2014

(11) This estimate is based on an output gap in 2016 of -1.5% of potential GDP.

pieces of financial legislation. Steering central government expenditure has been bolstered by the introduction of expenditure standards in terms of volume and value which help better contain public expenditure. Upgrading the means of steering health insurance expenditure (through the national healthcare expenditure growth target, *Ordam*) has enabled increases in these expenses to be reined in and stabilised since 2010.

However, since the final forecasts made by the outgoing administration in the spring, the French Court of Auditors (Cour des comptes) has audited public finances and brought to light the risk of a major discrepancy: whilst the Stability Programme projected a public deficit of 2.8% in 2017, the French Court of Auditors considered that it would reach 3.2% of GDP if no remedial action was taken¹². This prompted the government to introduce bold fiscal consolidation measures during the summer to return the public deficit to under 3% in 2017.

Together with Spain, France is one of the two euro area countries still subject to an Excessive Deficit Procedure in 2017. The return of the deficit to under 3% is now expected in 2017, with France having already been granted three successive postponements in 2009, 2013 and 2015.

These substantial and recurrent deficits have increased the debt-to-GDP ratio from 64.3% at the end of 2007 to 89.5% at the end of 2012 and 96.3% at the end of 2016. This debt level is much higher than the euro area average which has remained broadly stable overall during the last five years (89.2% in 2016 vs 89.5% in 2012). Over this timespan, the scenario was the opposite in Germany with a marked fall (68.3% of GDP in 2016 compared to 79.9% in 2012).

This unprecedented level of French government debt is a burden for future generations due to the significant amounts required for debt servicing. Up to the present time, the continued fall in interest rates, with the 10-year yield standing at 0.75% at the end of 2016, has enabled the relative burden of debt servicing costs to be reined in. However, these circumstances cannot detract from

two major vulnerabilities. First, although the debt servicing cost continued to fall, owing to historically-low yields, to 2.1% of GDP in 2016 compared to 2.5% in 2012, the interest paid still represents a substantial nominal amount (€42.0bn in 2016). As a comparison, this amounts to more than all government defence expenditure, over a third of all government teaching expenditure and three times the budget for higher education. Debt servicing costs narrow fiscal headroom to invest in future growth, to reduce taxation levels or even to be able to support the economy in the event of a temporary downturn. Furthermore, low interest rates also point to a potential and lasting weak growth outlook. If structural reforms are not emphatically undertaken to boost potential growth levels, France's structural deficit will not be able to be reduced.

Current public deficit and general government debt figures are due to extremely high government expenditure. At 55% of GDP, not including tax credits, France had the second highest public expenditure figure in Europe behind Finland in 2016. This has no direct correlation with the standard of public services. After having been on the rise for three decades, the ratio of government expenditure to GDP jumped during the 2008-2009 crisis by around four percentage points of GDP compared to its 2007 level. Both the value and volume of the increase in government expenditure has nevertheless slowed in recent years leading to a lower public expenditure burden in GDP. However, as GDP growth was weak during this period, the reduction has remained marginal. After average growth in nominal terms, excluding tax credits, of 3.7% between 2000 and 2012, government expenditure rose by 1.7% in 2013, followed by 1.0% in 2014, 0.9% in 2015 and 1.2% in 2016. As a result, the ratio of government expenditure to GDP fell from 56% of wealth generated in 2012 to 55% in 2016.

All general government subsectors have been involved in efforts to contain public expenditure. Central government has complied with the nominal target for expenditure since it was introduced

(12) *La situation et les perspectives des finances publiques – audit*, June 2017.

in 2011. Operating expenditure of local governments fell thus putting the local government balance into the black in 2016 for the first time since 2003. In terms of social expenditure, the national healthcare expenditure growth target (Ondam) increased in 2015 and 2016 by its lowest levels since 1997 (2.0% and 1.8% respectively).

Such a high level of government expenditure leads to a high level of aggregate tax and social security contributions. At 44.4% of GDP in 2016, aggregate tax and social security contributions in France are the highest in the European Union after Denmark. An adequate level of contributions is required and must be applied to ensure the proper functioning of public services and sufficient redistribution. However, the way in which these contributions is structured no longer fully matches the changes occurring in our economy. They put a drag on growth, investment and purchasing power. Relatively speaking, compared to other European countries, the factors of production, namely labour and capital, are more highly taxed than consumption in France. In 2015, in proportion to total revenue, France had the sixth highest taxes on labour in the EU and it taxed capital at 25% more than the EU average. Conversely, France is second from last in respect of environmental taxation and taxes on consumption in general¹³.

The excellence of a number of industrial sectors cannot compensate for a lack of innovation and competitiveness, and deteriorated appeal for investors

The French economic fabric still has solid strengths both in industry and the services with sectors that perform very well in terms of exports. In 2016, France was the world's seventh largest exporter of goods and the fourth largest exporter of commercial services¹⁴. It has managed to compound its comparative advantages in cutting edge sectors such as aeronautics which, with 13% of exports in 2016, was still the leading export item with total value of €57.9bn and a trade surplus of €18.3bn. Exports of pharmaceuticals continued to

rise to €29.4bn, their highest level since 2013. Although the agri-food industry experienced cyclical issues, it is still one of the drivers of French foreign trade with exports of €44.5bn in 2016. Lastly, the luxury goods sector carried on displaying its rude health by posting exports that were up to €45.3bn in 2016. In respect of exports of services, over half of the sharp downturn in the trade surplus from €8.9bn in 2015 to €0.03bn in 2016 was due to lower tourist footfall following the terrorist attacks and should not have a lasting impact on France's advantage in this area.

As regards appeal, international investors are starting to see France in a more favourable light but the country is still suffering from a poor image. In three years, France climbed one place in the Davos World Economic Forum's Global Competitiveness Report rankings (22nd out of 138 countries in the 2017 report) and nine places in the World Bank's Ease of Doing Business Index (29th out of 190). The number of investment projects in France (up 34% to 779 in 2016 compared to 540 in 2007, after numbers levelled off in 2015) and related job creation (16,980 jobs created, 24% more than in 2015), as compiled by Ernst and Young, are rising sharply. In 2016, investment decisions by foreign companies rose 16% compared to 2015, according to a survey of foreign investment in France conducted by Business France. 20% more new sites were established in France and these account for the majority (51%) of the investments decided on in 2016. 13% more jobs were created by the arrival of these new sites.

Nevertheless, good performance levels for exports and in terms of appeal are still too random and mask worsening competitiveness and lack of investment in high-risk and innovative projects. The permanent decline of the trade balance in the 2000s - with it going into the red in 2005 and a record deficit of €64.5bn in 2011¹⁵ - which lasted until 2017 (€62.5bn on a rolling 12-month basis in July 2017, over and above cyclical factors that harmed tourism and agriculture in 2016) can be mostly explained by inadequate competitiveness compared to our European partners, especially

(13) Rankings from Taxation trends in the European Union, Eurostat, 2017 edition.

(14) Source: [World Trade Statistical Review 2017](#).

(15) Only for goods.

Germany. Against a backdrop of the growing influence of emerging economies in international trade, our loss of competitiveness has led to a progressive fall in export market shares. In terms of volume, France lost 25% of its market shares between 2000 and 2012 compared to 14% for the euro area as a whole. Over the same timespan, German market shares remained almost stable.

The deterioration of our cost competitiveness goes some way to explaining this loss of competitiveness. Between 2000 and 2008, the increase in unit labour costs across the entire economy was 3 percentage points higher in France than in the euro area as a whole. It was 19 percentage points higher than in Germany where these costs even fell slightly. The increase was nevertheless smaller in the manufacturing sector. In France, unit labour costs have had less momentum than in the euro area as a whole but more than in Germany where unit labour costs in the manufacturing sector also fell during this period.

That said, the French economy's cost competitiveness has been improving since 2012 due to initiatives to lower labour costs such as the Competitiveness and Employment Tax Credit (CICE) and the Responsibility and Solidarity Pact. This is borne out by stable market shares since that date. Between 2012 and 2016, French unit labour costs for the entire economy and for the manufacturing sector alone, measured by including the CICE tax credit, had less momentum than in Germany and in the euro area as a whole.

Furthermore, France's non-cost competitiveness has slumped compared to that of our main trading partners and competitors. Our economy underinvests in moving upmarket in spite of the fact that we are now facing stiff global competition from highly-innovative countries and those with lower

labour costs: the value for money (quality-price ratio) of goods manufactured in France is still too mediocre. Overall, France's sector-based structure does not adequately focus on medium/high-technology. This is materialised by high export price-sensitivity¹⁶. As French businesses operate in sectors which are less technology- and R&D-intensive, France is permanently lagging behind in terms of innovation. In 2014, R&D expenditure amounted to 2.2% of GDP which was less than the OECD average (2.3%), particularly that of Germany (2.9%). Moreover, over the last fifteen years, the gap between France and Germany has widened (0.7 percentage points today as against 0.2 percentage points fifteen years ago). Lastly, our lack of competitiveness reflects the fact that our production capacities are less robust. Although France is one of the EU countries in which the most businesses are set up, only very few manage lasting development and newly-created companies rarely experience strong growth¹⁷. What is more, the French production system counts a higher proportion of very small enterprises¹⁸ (less than 10 employees) which account for a larger proportion of employment. In 2015, they represented 95% of enterprises, as against 82% in Germany¹⁹, and employed 29% of the market sector's workforce, compared to 19% in Germany²⁰. There are fewer mid-tier companies and large enterprises (more than 250 employees). In 2015, they represented 0.2% of French businesses compared to 0.5% in Germany but they are larger and account for a similar proportion of market sector employment (37% in both France and Germany). There are also fewer small and medium-sized enterprises (between 10 and 250 employees). These represent 5% of French businesses compared to 17% in Germany and ac-

(16) The different studies estimate price elasticity at between -0.6 and -0.9 whilst this figure is between -0.15 and -0.6 for Germany, see Héricourt, Martin and Orélice, CEPII, 2014.

(17) Substantial growth is a rare occurrence: 3.6% of enterprises set up in 2006, and still in business in 2011, employed between 10 and 250 people, with a negligible proportion employing more than 250 people.

(18) This is the notion of "legal unit" and not of "enterprise" within the meaning of the Economic Modernisation Act of 2008.

(19) Source: European Commission, SBA Fact Sheet 2016, Eurostat, DIW.

(20) Source: European Commission, SBA Fact Sheet 2016, Eurostat, DIW.

count for a lower proportion of activity and employment in the market sector (34% in France compared to 43% in Germany).

As a result, we need to underpin and continue with the efforts made as regards cost competitiveness. However, most importantly, we need to help our businesses move upmarket and grow with an eye to significantly improving non-cost competitiveness.

Despite an historically protective social model, France has been unable to tackle new forms of exclusion and precariousness

France has established a social model that covers a vast array of risks and offers a high level of benefits. This social model protects our citizens from the ups and downs of life, while combating inequality. In 2014, the poverty rate²¹ stood at 14.1% in France, vs. 16.9% in the European Union. Over the past 20 years, the full range of taxes and social security contributions, combined with welfare benefits, has ensured a steady ratio between the first and ninth income deciles.²² Thus, the Gini index (which measures income inequality) for France came to 0.29 in 2014, i.e. lower than the OECD average of 0.32.²³ However, our social model has failed to resolve widespread unemployment, and has proven unable to invent forms of protection suited to the changing economy. Young people and unskilled or low-skilled workers are especially affected by a high rate of long-term unemployment. These groups struggle to enter the labour market which, due to its segmentation, confines them to unstable working contracts.

Compounding this situation is an educational and training system that is unable to correct for unequal opportunities, as noted in the OECD's most recent Programme for International Student As-

essment (PISA) report, published in 2015. Educational achievement in France is also heavily determined by the parents' social origins.²⁴ A high proportion of young people lack qualifications: in 2015, 20.9% of French youth between the ages of 20 and 24 were not in employment, education or training (NEET). However, some progress has been achieved, with the number of school dropouts declining from 140,000 in 2010 to less than 100,000 in 2016. In addition to young people, the qualification level and skillset of the entire labour force is lacking, as noted in the Survey of Adult Skills performed by the OECD's Programme for the International Assessment of Adult Competencies (PIAAC). The high unemployment rate for less-skilled workers is attributable to this low qualification level.

Housing policy offers one example of the inefficiency of certain public policies conducted under the French social model. France provides a relatively high level of public support for housing, totalling €41.7bn in 2016, i.e. 1.9% of GDP²⁵ – twice the OECD average. Supply rigidity on the French housing market curbs the market's ability to adjust to fluctuations in household housing demand. This imbalance is especially strong in certain areas with tight housing markets, where housing supply is restricted due to low available land, and demand is buoyant thanks to socio-demographic trends. Hence housing prices have risen rapidly (by 144% in France and 271% in Paris between 1997 and 2016²⁶). These high costs, combined with dysfunction in how housing is allocated on the rental markets (both private landlords and social housing), cause difficulties in matching supply and demand. Lower-income households are gradually being pushed out of the areas with the tightest housing markets, and housing conditions for the poor have worsened compared to the general

(21) Defined as the portion of the population whose income, including welfare benefits, is less than 60% of the median income.

(22) Source: INSEE (<https://www.insee.fr/fr/statistiques/2121597>)

(23) The Gini index enables income inequality to be measured within a given population. An index of 0 indicates a perfectly equal distribution of income among individuals, whereas an index of 1 would refer to a situation in which a single individual received all the income.

(24) J. Anne-Braun, K. Lemoine, E. Saillard and P. Taillepié (2016): "Initial and continuous training: the implications for a knowledge-based economy", Trésor-Economics no. 165.

(25) Source: Housing satellite accounts for 2016, SOeS, CGDD.

(26) Based on "Notaires-INSEE" index readings for the fourth quarter of 1997 and the fourth quarter of 2016, seasonally adjusted. The "Notaires-INSEE" indices track prices of existing homes only.

population (with overcrowded accommodation and excessive housing costs).

Our social model fails to correct geographic inequality. While metropolitan areas have seen an improvement in their situation over the past 15 years, some regions have suffered a decline in their relative position, such as the regions undergoing deindustrialisation. Geographic divides are not merely economic. They are also reflected in sizeable gaps in terms of unemployment rates, job opportunities for young people, access to healthcare and public services – sometimes within a single region.

In the wake of ongoing technological change, the worsening digital divide between individuals and between regions is a special source of concern. Although 83% of French households had Internet access in 2015, and the use of digital technologies (Internet, smartphones, etc.) is quickly spreading through the French population, parts of the country appear to be sidelined in these transfor-

mations. Indeed, some areas are still not connected to broadband – notably the most rural areas. Moreover, French businesses are far from fully connected to digital – this is one reason for France's weak potential growth. In 2017, only 63% of French businesses have a website, compared to more than 75% of businesses in most advanced economies and 90% in the Nordic countries. Likewise, only 17% of French businesses use social networks for customer relationship purposes, vs. an average of 25% in the OECD.

France has been unable to address the structural weaknesses of its economy, and since the early 2000s, it has suffered an unsettling deterioration in its performances in terms of economic growth, fiscal position and employment. The country now must leverage its strengths in order to transform its economic model thoroughly and successfully and to bring about a new model of sustainable growth that protects both the environment and the most fragile segments of society.

Our economic policy strategy: four pillars to rekindle France's conquering spirit

In order to take advantage of the favourable economic recovery under way, the Government intends to implement a programme to transform our economic and social model. Applying the method described in Box 2, this programme is designed around four major pillars:

- free up activity through structural reform of the labour market, a reduction in the tax burden that hampers our economy, and streamlining the business environment
- invest in both private-sector innovation and in the public sector, via an investment plan for future growth aimed at transforming our industrial fabric and creating a new growth model
- protect our citizens and share opportunities in order to strengthen social inclusion and to

tackle the geographic divide, by revamping our social model and forging new kinds of social protection adapted to today's economy

- return our public finances to a sound footing and modernise government action

The strategy we are implementing is consistent with the recommendations of international organisations, notably the IMF in the report on its 2017 Article IV Consultation, and the OECD in its most recent Economic Survey of France²⁷ published on 14 September. It is also consistent with France's commitments to the EU, helping to make the European Union and the euro area more resilient and prosperous.

(27) From the OECD's Economic and Development Review Committee (EDRC).

Box 2: Reform method

While ambitious reforms are required to transform our economic and social model, these reforms must also be facilitated by a governmental method based on coherence, clarity, visibility and coordination with all stakeholders.

In the Government's policy statement on 4 July, the timetable for the priority reforms for the next five years was presented so that economic stakeholders could have the visibility they need. Thus, virtually all tax measures for the five-year period are included in the 2018 budget bill, for implementation within the next two years. By setting a firm tax trajectory, we provide economic stakeholders with security for their decisions. With regard to the labour market reform, the roadmap was laid out on 6 June in order to launch a series of very comprehensive talks with the relevant stakeholders. More generally, this approach will apply to all ministries: in June, Government ministers submitted a roadmap to the Prime Minister describing their ministries' actions for the next five years. Each minister will give an update on this roadmap every six months. Lastly, the President of the Republic will convene the two houses of the French Parliament jointly each year to report on the executive branch's achievements.

The initial reforms of the five-year term have already been launched. On 28 June, an enabling bill was presented that would give the Government authorisation to present measures by orders to promote labour-management dialogue. Parliament passed the final version of this bill in early August, and the related orders were made public on 31 August, then presented to the Council of Ministers on 22 September. The other reforms that make up the presidential programme to transform our economic and social model will be launched this autumn: to secure career paths, a reform of unemployment insurance, a reform of the vocational training and apprenticeship system, and a reform of the retirement system; to drive economic activity, a law promoting business growth, along with sector-based structural reforms in the housing and transport sectors.

One essential success factor for the Government's reform programme is close consultation with all stakeholders. The labour market reform is testimony to this approach, with labour and employer representatives starting meetings back in June. The same approach will be used for: the reforms of unemployment insurance and of the vocational training and apprenticeship system, with consultations set to begin in October; local government involvement in the public finance trajectory via the National Territorial Conference to be held twice a year; and the implementation of the Climate Plan presented on 6 July by the Minister for the Ecological and Inclusive Transition. Contributing to this same determination to consult stakeholders, the Mobility Convention was launched in late September, bringing together local authorities, transport providers and users in order to focus transport investment on daily transportation needs. Lastly, the Government's housing strategy, presented on 20 September, was drafted following a coordination process with contributions from civil society.

The implementation of the transformation plan will involve a stricter, more systematic evaluation of public policies by both the executive and legislative branches. The President of the Republic, addressing the French Parliament's joint session on 3 July, called for the Act on Labour-Management Dialogue and the Anti-Terrorism Act to be evaluated in two years' time.

Lastly, this method will be adapted to governmental reform as part of the "Public Action 2022" process, aimed at increasing the accountability of all governmental entities involved in reforms: ministries, administrations and public managers (see Box "Public Action 2022").

1. Free up activity and leverage the creative forces of our economy

The first pillar of the Government's action consists of leveraging the creative forces of the French economy in order to achieve a higher, more sustainable level of growth and employment. This is a prerequisite for boosting our growth model and ensuring a sustainable, renewed social model.

a) Making the labour market more agile

The labour market reform is a priority to tackle widespread unemployment on a structural level. By improving how the labour market functions, more people should be able to join the labour market on a lasting basis – notably young people and those with low skills. This will enable businesses to adapt more easily to a constantly-changing environment, thus leading to job growth in the long term.

Our labour market reform has three main priority areas, as described in the working programme that the Government submitted to social partners on 6 June.

The first priority is the reform of labour-management dialogue and the Labour Code; this includes three main sections. Firstly, the order of precedence for company-level and branch-wide bargaining agreements has been changed. This broadens the scope of collective bargaining in a secure way and allows for agreements that fit each company's situation as closely as possible. Secondly, economic and labour-management dialogue is streamlined and strengthened, notably by merging the various staff representative bodies and restructuring the professional branches. Lastly, the rules governing labour relations now provide greater visibility and security, notably with a cap and a floor on compensation awarded by labour tribunals,²⁹ shorter periods for filing labour tribunal claims, incentives for amicable settlements between employers and employees, a redefined scope for redundancies for economic reasons, and corporate restructuring made easier through

termination by mutual consent for groups of employees. All of these measures will enable businesses to adapt more rapidly according to their specific needs, notably for very small enterprises and SMEs. As such, these measures will drive economic activity. Securing labour relations, i.e. dispelling uncertainty about employment contract terminations, will reduce the two-speed nature of the French labour market, encouraging companies to hire under open-ended contracts (CDI) and reduce the obstacles to hiring that contribute to France's unusually high level of structural unemployment.

The second priority for labour market reform will involve unemployment insurance. Unemployment insurance benefits will be extended to cover employees who resign from their jobs, as well as self-employed workers. By securing professional moves from one job or one status to another, this reform will boost mobility towards high-quality jobs and will encourage entrepreneurial risk-taking. In exchange for these new rights, the job-seeking process will be monitored more closely to encourage the unemployed to retrain and actually find work. Moreover, a bonus/penalty system for employers' unemployment contributions will prompt employers to internalise the social and financial costs incurred by their human resource and skills management policies, whereas these costs are currently borne by society (and notably the unemployment insurance regime).

The reform of the vocational training and apprenticeship system is the third priority area for labour market reform. Strengthening our vocational training system will make it easier for employees to move into the sectors that offer the best prospects, are more productive and create more jobs. This in turn will favour the upmarket shift in our economy. This reform will enable the unemployed to find new jobs more effectively and more rapidly. A bill aimed at securing career paths will be voted on in 2018.

These are structural reforms aimed at opening up employment opportunities to the population seg-

²⁹ This new compensation scale will not apply to cases where the employer is guilty of serious wrongdoing, including notably cases of harassment or discrimination.

ments that currently struggle the most on the labour market – notably low-skilled workers and young people.

b) Reducing the tax burden to reward work and to encourage investment and risk-taking

Alongside these structural reforms, the tax burden for individuals and businesses will be reduced in order to kindle demand and private initiative. This reduction in aggregate tax and social security contributions aims to increase household purchasing power and to boost business investment and job creation. Furthermore, the aim is to encourage work and an entrepreneurial spirit.

Aggregate tax and social security contributions, as a percentage of GDP, will decline by one point by 2022, including a reduction of more than €10 billion at end 2018.

The first goal is for work to be fairly compensated. To achieve this, the employee social security contributions for healthcare and unemployment will be eliminated for private-sector employees. This measure will be offset by an increase in the general social security contribution (CSG), which has a broader assessment base, in keeping with recommendations for broadening the tax base, notably so that the social safety net is not financed solely by taxes on labour. This will mark a significant rise in purchasing power, equivalent to a €260 net p.a. increase for an employee earning the minimum wage. It will also boost employment by lowering the aggregate labour factor taxation. Self-employed workers will also see a reduction in their social security contributions. The in-work benefit will be increased.

The second goal is to support business investment and the attractiveness of our economy. The headline corporate income tax rate will gradually be lowered to 25% by 2022, with an initial reduction in 2018. This rate cut will bring France's corporate tax rate down to the European average and will lower the total tax burden on businesses, thus stimulating economic activity and job growth. The capital tax reform – with the current wealth tax (ISF) being replaced with a real estate wealth tax (impôt sur la fortune immobilière) and a new 30%

flat-rate levy being created for investment income – will drive investment in businesses by drastically streamlining savings allocation decisions. Our new approach will be more similar to that of neighbouring countries, and excessive marginal tax rates will be repealed. Moreover, the Competitiveness and Employment Tax Credit (CICE) will be transformed into a permanent reduction in employers' social contributions as from 2019. This date has been chosen so as not to jeopardise the objective of bringing the public deficit back under 3% on a lasting basis. This measure will streamline the current system and will support French companies' cost competitiveness and employment in the longer term. The reduction in employers' social contributions will be skewed towards the minimum wage, thereby bolstering demand for lower-skilled workers.

The third goal is to make our tax system fairer. Between now and 2020, 80% of households will gradually be exonerated from housing tax, which tends to exacerbate regional inequality. An initial €3bn reduction in housing tax will be implemented in 2018.

Under the Government's 2018 budget bill, the bulk of these measures will be implemented in the next two years. They will broaden the tax base for financing the social safety net, streamline labour cost reduction efforts, and lower the corporate income tax burden for businesses.

c) Streamlining the business environment to promote initiative and activity

In the past few years, France's business environment has become more attractive. The Government intends to strengthen this trend in order to thoroughly streamline and modernise the business environment. The labour market reform will provide greater flexibility for companies by allowing them to reorganise more effectively through company-level or branch-wide agreements. In addition, businesses will enjoy greater visibility and security thanks to more secure labour relations and the announced tax roadmap.

Legislation will aim to improve relations between companies and the administration: firstly by establishing a "right to make mistakes" for entrepreneurs acting in good faith in their dealings with the

administration, and secondly by streamlining a large number of regulations.

The Government will step up efforts to streamline administrative standards and procedures for companies. The Circular of 26 July 2017 issued by the Prime Minister provides that any new regulatory standard must be offset by the repeal or streamlining of at least two existing standards in the same field.

To curb the risks of standards diverging between France and its main European partners, with possible adverse effects on French companies' competitiveness compared to rival firms, the Government intends to tackle the issue of French company law "over-transposing" EU Directives (i.e. expanding their scope or introducing new provisions when these Directives are implemented in French law). Thus, the aforementioned Circular of 26 July 2017 provides that any implementation that goes beyond the minimal standards laid out in the Directive is prohibited, and that an inventory will be made of existing implementations. For example, in the field of finance, the Government will exempt small businesses from publishing a management report, in compliance with EU law.

The social security scheme for the self-employed (RSI) will gradually be merged with the general social security regime beginning on 1 January 2018, with the RSI being fully dismantled by 31 December 2019. This new organisation will coincide with rapid, visible improvements in the quality of services provided to self-employed workers.

Procedures will also be streamlined for the construction of new housing, especially in the most dynamic job markets. This streamlining will reduce construction costs, boosting the supply of new housing.

Additional markets will be opened up to competition, notably with the passing of a "Mobility Act" whose provisions will include the implementation of the Fourth Railway Package. This opening up to competition is set to spark productivity gains, sector growth and job creations.

To boost the attractiveness of Paris and make it one of the top financial marketplaces in Europe, the intraday financial transaction tax and the fourth income tax bracket will be abolished in 2018. New

international high schools and bilingual classes will also open to make it easier for international executives to move to Paris with their families.

Transform our economic apparatus and invest in future growth

Future growth depends on our economy shifting upmarket, and on our ability to face the major challenges of the 21st century. Innovation by French companies must be encouraged and must spread throughout our industrial fabric.

a) Accelerating the transformation of companies – especially SMEs

Special efforts will be made to improve the business environment for companies. An action plan for business growth will be presented in 2018.

This project will follow an in-depth coordination process, and will include measures to eliminate the growth obstacles facing French businesses at each stage of their existence: from creation to growth, entering new markets, or even selling a company or passing it on to one's heirs. The sources of leverage are numerous, including: business creation, managing growth in statutory and regulatory terms, and ceding ownership; financing companies via equity, long-term debt or cash; digitalisation and innovation in companies; relations between businesses and the administration; entering new export markets.

b) Boosting private-sector investment in innovation and pro-growth projects

France suffers from a chronic investment shortfall in terms of quality, not quantity. To tackle this shortfall, French savings must be redirected towards investments in companies that take risks, innovate and create the jobs of the future. Taxation of these investments will therefore be reduced.

To boost productive investment, the wealth tax (ISF) will be transformed into a real estate wealth tax (IFI) in 2018. All savings invested in financial assets will be removed from the wealth tax base because these investments are the most directly

useful for the economy and do not feed into economic rents or fuel property price inflation.

Moreover, a 30% flat-rate levy on investment income will be implemented in 2018; this flat-rate levy will include social levies. This reform will also introduce more neutral tax treatment for savings, reducing the tax advantages accorded to certain low-risk investments and redirecting savings towards corporate financing.

These various measures are consistent with European convergence, as capital taxes are particularly high in France compared to our European partners. These reforms will thus drive a reduction in the cost of capital and will promote investment in French companies.

c) Investing for future growth and to accelerate the ecological transition

In parallel, public-sector investment will be focused on the key sectors for the successful transition of the French economy. Investment, especially in human capital, holds a central place in our economic policy strategy.

A Great Investment Plan (GPI, see Box 3) totalling €57bn will be implemented to support investment in vocational training (€15bn), the ecological transition, agriculture, healthcare, and e-government initiatives. The GPI, which is already included in the Government's public finance trajectory, will not only raise our potential growth and employment, but also generate medium-term savings. This plan will be backed by structural reforms in some fields, notably vocational training, to increase the efficiency of the funds invested (see Box 3).

Box 3: The Great Investment Plan (GPI)

A major initiative for the next five years, the Great Investment Plan (GPI) is a response to four challenges facing the country: accelerating the ecological transition, creating a skills-based society, embedding competitiveness into innovation, and building a government for the digital age. This plan will include investments in a broad sense (specifically in training and the ecological transition) and will bolster our economic and social performances. It will help unleash the full potential of the structural reforms implemented in parallel, including fiscal reforms. The Prime Minister appointed Jean Pisani-Ferry to lead a task force that would lay the groundwork for the GPI. This task force published its conclusions in September.

The GPI will finance measures to achieve the following priorities: accelerate France's ecological transition to a carbon-neutral economy; redefine transport policy, with an emphasis on daily transportation needs; develop the working population's skillset to facilitate access to jobs, notably for the long-term unemployed and for young people who lack qualifications; spark an upscale shift in agricultural markets; transform public action by developing e-government services; modernise our healthcare system. The GPI will also include projects to transform local government and Overseas France. The third part of the "Investments in the Future" Programme will be one component of the GPI. In keeping with its objectives, it will promote higher education and research, and will boost innovation and modernisation in companies.

The amounts allocated to each investment project are indicative and fungible. These amounts will be set according to the GPI's objectives, as well as the maturity and quality of the proposed projects. A strict form of governance will be defined, with emphasis on initiative, efficiency and coherent public action. The plan's overall coherence will be monitored by the Prime Minister's office to ensure that the GPI's guiding

principles and priority objectives are respected. The ministers responsible for the plan will be asked to select investments that are truly transformative in nature and that meet these objectives and fit with their reform strategy. These ministers will then be tasked with implementing the investments. Beginning with their selection and throughout their implementation, projects will be strictly evaluated so that financing can be redirected if necessary. Ex post evaluations will be planned to assess the effectiveness of the projects. The Public Finance Planning Bill includes financing for this plan, which will be implemented gradually over the next five years. The first measures will be included in the 2018 budget bill and will notably involve the vocational training aspects.

These investments are being carried out in line with tax and regulatory reforms in a bid to transform the economy on a sector-by-sector basis.

The transformation of our manufacturing facilities must also combine economic and energy efficiency so that its environmental footprint is constrained. This aspect is at the centre of our economic strategy – a key part of efforts to transform our manufacturing capacity and to protect our citizens and future generations, and it will also create a tax system that is more geared towards economic efficiency.

To step up our economy's ecological transition, the rise in carbon tax will be accelerated and the tax rates for diesel and petrol will be identical by 2022. Similarly, the tax on company cars will be 'greenified'. Economic stakeholders will be thus encouraged to modify their actions based on a growing awareness of the social cost of the use of fossil fuels. These measures will also boost the share of environmental taxation in public revenue. Environmental taxation is particularly desirable as it represents a 'double dividend' – it encourages behavioural changes while generating resources that allow the government to lower other taxes that are a drag on the economy.

Tax measures will also be adopted to reduce risky behaviours whose effect on health, early death and spending on curative care is undeniable. As part of this, the price of a packet of cigarettes will be increased to €10 by 2020.

Moreover, a €10bn Industry and Innovation Fund will be set up. With monies derived from sale or transfer of public assets, the fund is intended to generate revenue to support innovation, particularly breakthrough innovations. It will have a

knock-on effect as regards private spending, and will encourage the emergence of an ecosystem of innovative startups and SMEs. The creation of the Industry and Innovation Fund will also provide an opportunity to streamline and simplify the number and the complexity of existing innovation support schemes.

Both the GPI and the Industry and Innovation Fund will coordinate with existing European investment mechanisms. Investments under the GPI will be carried out in parallel to those by the European structural funds, the European Investment Bank (EIB) and the European Fund for Strategic Investments (EFSI) (the so-called 'Juncker Plan'). The Industry and Innovation Fund will enhance its actions by taking into account the EU Framework Programmes for Research and Innovation – Horizon 2020 and its successor, the 9th Framework Programme, as well as the future European Innovation Council. In both cases, the various stakeholders will seek out complementarity and additionality and will provide mutual support.

d) Investing in education

Investment in human capital will also be based on structural efforts to support educational investment, beginning in the autumn of 2017. With respect to primary and secondary education, these measures will bolster the literacy skill acquisition, support for students and institutional autonomy. As part of this, the number of first-grade classes will be doubled within those priority education networks (REP) that teach the most vulnerable children (a subset known as REP+), with the goal of doubling the number of first- and second-grade classes in both the REP and REP+ networks by

2019. Furthermore, the annual bonus given to teachers in priority education areas will be adjusted and the 'Help for Homework' (*Devoirs Faits*) programme will be launched. Schools will be able to adjust timetables and teaching teams will be given more latitude. The connection between secondary and higher education will be reassessed by improving how students are steered

towards higher education. In particular, this will involve a reform of the baccalaureate. Lastly, in October 2017, talks will be launched with employer and employee representatives relative to the reform of vocational training and the apprenticeship system. This will bolster the ties between vocational high schools and the private sector via apprenticeships. A bill will be submitted in the spring of 2018.

Box 4: The Climate Plan

To ensure implementation of the Paris Agreement in order to keep global temperature rises below 2 degrees Celsius above pre-industrial levels, the goal of the Climate Plan that was unveiled on 6 July 2017 by the Minister for the Ecological and Inclusive Transition is to step up efforts in favour of the energetic and climate transition. The plan involves achieving carbon neutrality by 2050, eradicating energy poverty, in particular by eliminating energy-inefficient buildings over the next ten years, stopping the sale of diesel and petrol vehicles by 2040 and shutting down France's final coal-fired electrical plants by 2022.

To accomplish this, diesel and petrol taxes will converge by 2022 and the rise in the carbon tax will be stepped up. The energy transition tax credit (CITE) will be refocused on the most efficient measures. A significant portion of the Great Investment Plan (GPI) will be devoted to the ecological transition. To improve how thermal renovation subsidies are managed and spent, a roadmap was published in September. Public research efforts devoted to the energy transition will be doubled by 2020. In addition, there will be no new exploitation of oil and gas reserves in France. Measures will encourage the expansion of the circular economy and green financing. The renewable energy deployment framework will also be streamlined.

Compensation measures will be rolled out to avoid penalising the most vulnerable households (an increase in the energy voucher, in particular). By including all stakeholders, ecological transition contracts will help optimise outplacement efforts for employees whose positions are most directly threatened by the transition in the medium term. In addition, since small firms are particularly vulnerable to upheavals brought on by the energy transition, they will be offered support by the Environment and Energy Management Agency (ADEME) free of charge.

Protecting our citizens and more equitably sharing opportunities

The reforms underway form a basis on which the government can ensure social inclusion and reduce the regional divide, while responding to the need for sustainable development (see Box 4).

a) Better access to jobs and training and heightened social protection for the most disadvantaged.

Measures to improve the fluidity of the labour market, reform of unemployment benefits and efforts in favour of training will help foster social inclusion – particularly for those farthest removed from the job market – and will safeguard career paths. Tax measures will also be introduced in support of fairness, in particular targeted exemptions to the housing tax, the transfer of a portion of employee contributions to the General Social

Security Contribution (CSG) and the transformation and refocusing of the Competitiveness and Employment Tax Credit (CICE) on the lowest wage-earners. By reducing the tax wedge on low wage-earners, these measures will help integrate low- and unskilled workers in to the job market.

b) New protections for the most vulnerable

Specific measures will be introduced to encourage the inclusion of the most vulnerable populations.

We will increase the in-work benefit for low-wage earners (to nearly €100 per month by 2022 for those earning the minimum wage, factoring in the partial transfer of employee contributions to the CSG), which is an 'active' social expenditure, i.e. it encourages a return to work.

The solidarity allowance for the elderly (ASPA) and the adult disability allowance (AAH) will be adjusted in 2018. Concurrently, we will make it easier for beneficiaries to claim what is due to them.

The gradual increase in energy taxation will be offset for low-income households by a decrease in the housing tax and by energy vouchers. The transition to clean transport will be brought about by improving daily transport infrastructures as well as by the introduction of a 'conversion bonus' to boost sales of clean vehicles.

c) A sustainable pension system and modernised healthcare

Over the next five years, the government will enact a sweeping reform of the country's pension system. In an opinion issued in July 2017, the Pension Steering Committee called for 'improved transparency, clarity and governance' of the system, and for inequalities to be reduced.

The goal of this overhaul is to ensure that one euro in contributions confers the same rights to all, which will make the system simpler, fairer and more predictable and will help secure professional mobility. The new system will factor in increased life expectancy across the generations, which will make the system easier to manage and ensure its long-term financial viability. The framework of the reform will set out how the various pension

schemes will gradually be brought in to line. It will be presented by the end of 2018, and will take in to account requirements connected with fiscal consolidation.

Lastly, the next five years will allow us to correct a healthcare system that is not sufficiently focused on prevention. Several measures relative to behavioural taxation and the creation of a 'Service Sanitaire' (a mandatory three-month internship for medical students to lead prevention programmes) are designed to reduce spending on curative care. More generally speaking, preventing risky behaviours and the transmission of debilitating diseases (by widening the scope of vaccinations) can help reduce premature death.

d) Housing and regional development

A housing bill is being drafted for submission in the autumn. It focuses on the following themes: (i) creating a supply policy in areas with housing shortages to meet the regionally-differentiated needs of households, (ii) fostering access to housing for the most vulnerable populations and (iii) providing support for the energy, digital and regional transitions. The government's housing strategy, which was unveiled on 20 September, was drawn up based on consultations and a call for contributions from civil society.

To prevent gaps forming between urban, suburban and rural zones, local authorities will be given support to make the digital transition, to ensure Internet access and high-speed broadband is available throughout France via complementary technologies. A plan to combat the rural exodus of physicians will also be presented in the autumn, in connection with local authorities and healthcare stakeholders (specifically by increasing the number of multidisciplinary surgeries that serve rural areas (*maisons de santé pluridisciplinaires*). A series of symposia on mobility issues (*Assises de la mobilité*) was launched in September in a bid to clarify mobility policy, with priority given to daily transport and to maintaining and modernising existing networks.

e) Gender equality

Measures in favour of gender equality have been announced, including random checks of company wage and human resource policies and 'equality best practices training' for companies who are not complying with their commitments in this area. A plan to develop diversity in professions will also be introduced, along with actions to help the parents of young children return to work through increased support for job searches and access to training. Lastly, greater compliance with parity objectives by the National Assembly and the government will help advance gender equality.

f) A Europe that protects

Finally, the government's actions should be carried out within the context of a Europe that protects. Strengthening the architecture of the euro area, and economic and financial integration in particular, will buoy growth and help cushion it against economic shocks and thereby limit the impact on employment and the most vulnerable households. Furthermore, in an effort to combat distortion of competition and market abuse, France supports a thorough overhaul of the Posted Workers Directive by reaffirming the principle of 'equal pay for equal work' and by adding to the instruments used to combat fraud in this area. The goal of a measure to screen strategic investments, which was proposed by the European Commission and supported by France, is to restore economic sovereignty at EU level, in line with our efforts in favour of investing domestic savings in businesses.

Putting public finances on a sound footing

Fiscal consolidation is a priority, as well as a critical framework for full execution of our economic strategy.

a) Far-reaching objectives to achieve fiscal consolidation

To avoid the risks of budgetary deterioration revealed in the French Court of Auditor's recent audit, the government put in place consolidation

measures in the summer of 2017. €4.2bn in additional savings will be achieved through a supplementary appropriation decree and a rescission decree relative to more than €3.3bn in allocations, as well as through corrective measures worth some €1bn. These measures will keep the deficit below the threshold of 3% of GDP.

Fiscal consolidation is needed to safeguard against the risk that interest rates may rise and to significantly lower the tax burden. Moreover, regaining fiscal headroom is vital for financing the government's priorities over the next five years in the areas of education, investment and security, and to bring military spending up to 2% of GDP by 2025, all of which will have positive knock-on effects for the French economy.

Achieving fiscal consolidation is based on an ambitious public finances path that was set up in the 2018–2022 Public Finance Planning Bill. The bill calls for reducing the deficit by more than 2 points, essentially through lowering public expenditure as a share of GDP by more than 3 points over the next five years. Doing so will allow us to concurrently lower aggregate tax and social security contributions by 1 point of GDP by 2022. Taken as a whole, this path will lower general government debt by some 5 points of GDP at the end of five years. The fiscal stance we have chosen will help us achieve fiscal consolidation while remaining compatible with the economic recovery that has been observed for the past several quarters.

Growth of the public sector wage bill will be reined in, particularly thanks to a civil service pay scale freeze in 2018, reinstatement of the *jour de carence* (day without paid benefits for civil servants who take sick leave) and staff reductions.

b) Assessment of the scope and the methods of public action

To reduce public spending without lowering the quality of services provided, efforts will be made to improve efficiency. Every general government department will be expected to contribute.

As part of the 'Public Action 2022' initiative, every area in which the public sphere is involved will be examined with an eye to streamlining it.

This overhaul of public action will involve users, public officials and MPs.

As part of the Government Investment Plan (GPI), a five-year, €700m Government Reform Fund will

be set up. It will finance the cost of investments required to implement general government structural reforms in order to create lasting savings.

ECONOMIC TARGETS OF REFORMS

REFORMS	MAIN MEASURES	TIME TABLE	ECONOMIC MECHANISMS AND ASSESSMENT FACTORS
Labour market	<p>Specific provisions in sector-level agreements for VSEs, streamlined procedures for negotiating company-level agreements for VSEs and SMEs</p> <p>Priority given to company-level agreements in areas not reserved for sector-level agreements, particularly in terms of wages, working hours and employee mobility</p> <p>Sector-level management of fixed-term contracts, interim contracts and project-specific contracts</p> <p>Streamlining and strengthening economic and labour-management dialogue by merging the various employees representative bodies</p> <p>Introduction of mandatory floors and caps for compensations awarded by labour tribunals</p> <p>Reduction of the time-limit for appeals in the event of litigation over termination of employment contracts</p> <p>Simplification of rules governing layoffs for economic reasons, safeguarding termination of an employment contract by mutual agreement within the framework of a collective agreement</p>	<p>Orders signed by the Prime Minister and the President on 22 September 2017</p>	<p>Better matching of labour supply and demand resulting in productivity gains, higher predictability, improved and less costly representative bodies leading to lower labour costs</p> <p>Making career paths more secure allowing for increased risk-taking</p>
	Unemployment benefits reform	Spring 2018	

REFORMS	MAIN MEASURES	TIMETABLE	ECONOMIC MECHANISMS AND ASSESSMENT FACTORS
FREE UP CREATIVE POTENTIAL			
Tax reform	Partial transfer of employee contributions (CSS) to the General Social Security Contribution (CSG)	2018 Social Security Budget Bill	<p>Increased purchasing power for households, particularly for low-income and working households and encouraging people to enter the labour force by increasing wages</p> <p>Stimulating hiring by lowering labour costs</p> <p>Decrease in the cost of capital and greater savings neutrality allowing savings to be used to invest in businesses and encouraging risk-taking, greater investment</p> <p>Shifting taxation to less distortionary tax bases</p> <p>Competitiveness gains and increased demand for low-skilled labour</p> <p>In all, fiscal measures are expected to increase growth by nearly 3 points of GDP in the long run, excluding the cost of financing the measures</p>
	Elimination of employee health care and unemployment contributions for both public- and private-sphere employees Offset by an increase in the CSG, whose base is larger so that the cost of social protection is not solely paid by labour		
	Residence tax relief for 80% of the most vulnerable households	Gradual rollout starting in 2018	
	Lower the headline corporation tax rate to 25% by 2022, with a new stage starting in 2018	2018 Budget Bill	
	Simplification of the CICE's existing provisions to maintain its long-term viability and refocusing it on minimum wage-earners	2018 Budget Bill and 2018 Social Security Budget Bill	
Introduction of the Single Flat-Rate Levy (PFU) and replacing the wealth tax with a property wealth tax	A single flat-rate levy of 30% on interest income, including social levies Replacing the wealth tax (ISF) with a property wealth tax (IFI)	2018 Budget Bill	

REFORMS		MAIN MEASURES	TIMETABLE	ECONOMIC MECHANISMS AND ASSESSMENT FACTORS
FREE UP CREATIVE POTENTIAL				
Business environment	The "right to make a mistake"	Introduction of a "right to make a mistake" for entrepreneurs of good faith in their relations with the government	End of year 2017	Lower costs for businesses , a return of confidence and productivity gains Increased appeal of France as a place to do business Easier business setup and encouraging risk-taking
	Simplification of the regulatory framework	Simplification of standards and government procedures applicable to businesses Combating over-enactment of European standards Every new regulatory standard will be offset by the repeal or streamlining of at least two existing standards (the "one in / two out" principle)	Circular dated 26 July 2017	
	Increasing France attractiveness	Elimination of the intraday financial transaction tax Elimination of the fourth income tax bracket Action plan to create international sections in French high schools and international schools	2018 Budget Bill	

REFORMS		MAIN MEASURES	TIME TABLE	ECONOMIC MECHANISMS AND ASSESSMENT FACTORS
PROTECTING OUR CITIZENS AND SHARING OPPORTUNITIES				
Purchasing power of low-income households	Adjusting welfare benefits	The solidarity allowance for the elderly (ASPA), the adult disability allowance (AAH) and the work benefit will be raised in 2018. Introduction of an energy voucher and a bonus for switching away from polluting vehicles to help the most vulnerable households make the ecological transition	2018 Budget Bill	Increased purchasing power for low-income households, greater incentives to return to work and support for the ecological transition
Housing	Housing action plan	Build more, better and more cheaply: tax deduction on capital gains, no new technical construction standards, combat against abusive appeals Meeting the needs of all: reform of housing benefits, creation of a "mobility lease", construction of 80,000 housing units for students and young workers, increased ability to move within social housing, helping the most vulnerable household find affordable housing Improving living conditions: doubling resources for urban renewal programme, renovation of the most energy-consuming housing units, renovation of housing in mid-sized urban centres	2018 Budget Bill and presentation of a Housing Bill by the end of 2018	Improving the housing supply Increased purchasing power for households made possible by lowering rents and construction costs Lower government spending on housing

REFORMS	MAJOR MEASURES	TIME TABLE	ECONOMIC MECHANISMS AND ASSESSMENT FACTORS
PROTECTING OUR CITIZENS AND SHARING OPPORTUNITIES			
Regional equality	High-Speed Broadband Plan	Launched in 2013 Stepped-up timetable announced in July 2017	
	Plan for combating "medical deserts"	Presented in September 2017	Reducing regional divides , improving the quality of public services and daily life for citizens
Pension reform	Symposia on mobility issues	Fall 2017 for the symposia	
	Unification of pension schemes	Framework of the reform will be presented at the end of 2018	Making the system easier to manage and ensuring its long-term financial viability. Better matching of labour supply and demand through encouragement of mobility

REFORMS		MAIN MEASURES	TIME TABLE	ECONOMIC MECHANISMS AND ASSESSMENT FACTORS
TRANSFORMATION AND INVESTMENT				
Transformation of our manufacturing capacity	Action plan to encourage the growth trajectories of businesses	Encouraging the growth trajectories of businesses , particularly VSEs and SMEs, by removing roadblocks to their growth as they progress	Bill to be submitted in 2018	<p>Encouraging businesses to invest and productivity gains</p> <p>Knock-on effect as regards private spending, and emergence of an ecosystem of innovative startups and SMEs</p> <p>Acceleration of the ecological transition through a growing awareness of the social cost of the use of fossil fuels, which will lower our greenhouse gas emissions</p>
	Industry and Innovation Fund	Introduction of a €106 bn Industry and Innovation Fund to support innovation		
	Climate Plan	Stepped-up increase in the carbon tax Diesel and petrol taxes to be brought into line	Presented on 6 July 2017 2018 Budget Bill for the carbon tax and diesel/petrol tax convergence	
Investment	A €57bn Government Investment Plan	Investment support in the ecological transition (€20bn), skill-building (€15bn), innovation and agriculture (€13bn), transformation of public action and healthcare through the digital rollout (€9bn).	2018 Budget Bill	<p>Transformation of the model and stepping up the ecological transition through public investment</p> <p>Increasing potential growth</p> <p>Modernising public action and making it more effective</p>
	"Schools that Build Confidence" initiative and halving the size of primary school classes	Doubling the number of first-grade classes within priority education networks (REP+) Adjusting the annual bonus paid to teachers working in priority education areas Introduction of the "Help for Homework" (Devoirs Fair) programme	Starting in September 2017 and 2018 Budget Bill	
Bolstering the training system	Vocational training and apprenticeship reform	Increased resources for vocational training	Bill aimed at securing career paths to be voted on in 2018.	<p>Increase of the employment rate, accelerated move upmarket by the economy and productivity gains brought about by higher qualifications</p>

REFORMS	MAIN MEASURES	TIME TABLE	ECONOMIC MECHANISMS AND ASSESSMENT FACTORS
Reforming public action	Public action 2022 Upgrading public services and adapting them to the needs of citizens in a bid to make public action more efficient	Process launched in September 2017	Better service for citizens and better use of public resources

MODERNISING PUBLIC ACTION

Economic outlook

ECONOMIC OUTLOOK

Economic outlook: overview

After reaching +1.1 % in 2016, growth is expected to increase markedly to +1.7%¹ in both 2017 and 2018.

The ongoing recovery in the euro area and, more generally, the upswing in world demand for French exports should help boost economic activity in France. Given the disappointing export figures from the first half of the year – and the rise of the euro which reduces the competitiveness of French companies – the effects would be felt only gradually. The ECB's monetary policy is expected to remain accommodative, which would support both household and business investment.

Positive developments on the labour market, with nearly 300,000 new jobs created over the last year, the upswing in corporate margins since 2013 and renewed optimism amongst households and businesses are expected to support private domestic demand. After regaining momentum in 2016, household investment in construction is expected to continue on its upward path over the forecast period, with building permits reaching levels close to those recorded in 2010 and 2011.

Economic conditions are marked by the sluggish increase in prices, which should rise by +1.0 % in 2017 and +1.1 % in 2018, after +0.2 % in 2016.

This deliberately cautious growth scenario² is close to recent projections by other forecasters. In its *Article IV report for France* issued on 21 September, the IMF predicts growth of +1.6 %³ in 2017 and +1.8 % in 2018, and the OECD's *Interim Outlook* of 20 September calls for +1.7 % growth in 2017 and +1.6% in 2018. The September 2017 Consensus Forecasts project +1.6 % growth in both 2017 and 2018. In July, the Banque de France also predicted growth of +1.6 % for both years, and Insee is expecting +1.6 % growth for 2017 in the June 2017 issue of *Conjoncture in France*. The European Commission has yet to revise its forecast of last spring, which

projected growth of +1.4 % in 2017 and +1.7 % in 2018.

The French economy has enjoyed robust growth since late 2016, and this trend is set to continue in Q3 2017

In Q2 2017, growth reached +0.5% for the third straight quarter. GDP grew by +1.7 % year-on-year, the fastest pace since 2011. This momentum is consistent with business surveys, which indicate that business confidence is at its highest point in six years.

However, stable growth across three quarters masks uneven changes in certain areas. Thus, while manufacturing output was supported by the refinery sector in Q4 2016, its growth was stunted in Q1 2017 by the closure of two refineries (Provence-La Mède for reconversion and Fos-sur-Mer for maintenance). The reopening of the Fos refinery in March subsequently lifted manufacturing output in Q2. The quarterly profile of household consumption was also impacted by lower-than-normal temperatures in the autumn followed by milder ones in the winter. Energy spending thus rose sharply in Q4 2016, then fell off in Q1 2017. There was a sharp increase in business investment early in the year, prior to the phasing out of the higher depreciation allowance measure on 15 April. It then slowed significantly in the spring, due to the anticipation effect that this type of measure produces. Lastly, foreign trade was a drag on GDP growth in Q1, and then picked up sharply in Q2: exports were boosted in the spring by strong growth in Airbus sales, the delivery of the cruise ship *Meraviglia* and the launch of four satellites.

In Q3 2017, growth is expected to remain strong. The most recent business surveys in the industrial sector suggest that manufacturing output will be very robust: according to INSEE, business climate in August reached a level that had not been recorded since December 2007. The

(1) Seasonally and working day-adjusted data.

(2) The forecast in the Economic, Social and Financial Report is based on the second estimation for Q2 2017, published on 29 August 2017. Carry-over growth has since been raised to

1.4 % following the publication of detailed results for Q2 2017 on 22 September 2017.

(3) The IMF's figures are not adjusted for working days.

ECONOMIC OUTLOOK

marked turnaround in consumer spending in July – although partially attributable to the late start of the summer sales – appears to point to higher consumption growth in Q3. Business investment could also accelerate. Survey balances related to capital expenditure are positive, both in the manufacturing (Insee's Quarterly Business Outlook Survey on Investment in Industry and Bi-Monthly Business Outlook Survey on Wholesaling, both from July 2017) and service sector (Insee's Monthly Business Outlook Survey for August 2017). Household investment is also expected to remain strong, in connection with the increase in housing starts over the past several quarters. Conversely, exports should slow in the summer, after strong deliveries of transport equipment in the spring.

Economic activity should be shored up by stronger growth in advanced and emerging countries and significant growth in world demand for French exports

In advanced countries, the economic turnaround in the US stands in contrast to the slowdown in the UK. In the United States, economic growth is set to gradually strengthen over the forecast horizon due to a marked upswing in private investment in 2017 and, in 2018, under the assumption of a fiscal stimulus. In Japan, economic activity should speed up in 2017 – in connection with robust consumption and increased investment growth, which will receive a boost from the organisation of the Olympic Games and the government's recovery plan – and then slow in 2018. In the UK, growth is expected to fall off: rising inflation and sluggish wage growth should dampen consumption, whereas the positive effect of a weaker pound on exports will be limited.

In the euro area, the economic recovery is set to continue at a sustained pace. The ECB's continued monetary support and favourable financing conditions should boost the recovery in lending and business investment. Moreover, increased world demand is expected to promote export growth despite the recent appreciation of the euro. As far as the leading euro area countries are concerned, growth is expected to increase in Germany and Italy. Economic activity should keep expanding in Spain, but at a slower pace.

Growth prospects for emerging economies are uneven. Stable oil prices are expected to help pull Russia out of recession, while political uncertainties are likely to delay this process in Brazil. In Turkey, stronger growth is expected in 2017 due to waning political uncertainties, but should subside in 2018 under the effect of a deteriorating business environment. In China, the expected fall-off in government support for the economy and the anticipated slowdown in lending growth are expected to dampen economic growth in 2018. Growth should bounce back in India in 2018, as the negative effects of demonetisation begin to fade.

World demand for French exports should pick up sharply in 2017 (+4.0 %, against +2.6 % in 2016), and then grow at the same pace in 2018.

Since the 2017-2020 Stability Programme, this figure was revised upward due to an upswing in trade in both advanced economies and the leading emerging economies. This acceleration can be only very partially attributed to the acceleration of global growth, which is far weaker. It is primarily due to a turnaround in the elasticity of imports of our trading partners to economic activity. This turnaround is especially evident in emerging economies (particularly China, India and Russia). World demand for French exports should also be supported by a turnaround in private investment in the US and an acceleration in OPEC trade, reflecting higher oil prices.

After levelling off in 2016, total exports are expected to gradually achieve higher growth (+2.5 % in 2017 and +3.9 % in 2018), buoyed by increased world demand and a return to normal for tourism. After a disappointed first half-year in 2017, French exporters should belatedly benefit from the upswing in global growth. Exports will likely suffer, however, from the recent rise in the value of the euro. After falling off in 2017, export performance should stabilise over the forecast horizon.

Imports should slow in 2017 (+3.6 %, against +4.2 % in 2016), and grow at the same pace in 2018, broadly in line with final demand.

All in all, foreign trade should slowly stop being a drag on GDP growth (net contribution of

0.0 percentage points in 2018, after –0.8 p.p. in 2016 and –0.4 p.p. in 2017).

Purchasing power is expected to remain robust through 2018

After a sharp increase in 2016 (+1.8 %, compared with +0.8 % in 2015), purchasing power should continue its upward thrust in 2017 (+1.7 %), due in particular to strong job growth in the market sector and despite the slowdown in real wage growth. **Purchasing power in 2018 is expected to stay on an upward path, but should slow to +1.4 %, primarily because of the slowdown in employment.**

After a marked uptick in 2016 (+2.3 %, after +1.4 % the previous year), household consumption should slow in 2017 (+1.3 %), which can be partly attributed to a disappointing first quarter owing to weak spending on energy. In 2018, consumption should track changes in purchasing power (+1.4 %). **In all, after the low point reached in 2016 (+13.9 %), the savings rate should rise to +14.2 % in 2017, and remain at this level in 2018.**

After rising in 2016 for the first time since 2011, household investment is set to continue supporting economic growth

In 2017, household investment is expected to grow by +4.2 % (considerably higher than +2.4 % in 2016), before slowing slightly to +3.4 % in 2018, as suggested by weaker housing starts in the past few months. The macroeconomic environment is set to remain buoyant for household investment, thanks to a dynamic purchasing power trend, strong job creations and higher housing prices⁴. Moreover, financing conditions are likely to remain favourable.

Business investment is set to grow at a firm +3.7 % in 2017, and at the same pace in 2018

Investment excluding construction by non-financial corporations is expected to grow by a strong +4.2 % in 2017 (after +3.9 % in 2016), in line with a strong carry-over at the end of the first half-year and upbeat company surveys, with the phasing out of the higher depreciation allowance

measure on 15 April apparently having a fairly modest effect. In 2018, in a buoyant macroeconomic context, investment excluding construction is expected to remain dynamic, growing by +4.1 %, driven by strong domestic and external demand and financing conditions that should remain favourable.

Moreover, construction investment by corporations is likely to continue to grow in 2017 (+2.3 %) and 2018 (+2.5 %). In particular, the steady rise in non-residential building permits since 2015 is set to drive this trend.

Despite a lessened impact from job promoting policies, employment in the market sector is expected to improve sharply in 2017 and 2018, thanks to an uptick in economic activity

Total employment should post strong growth in 2017 (increase of 270,000 jobs on an average annual basis), thanks to the dynamic market sector. Total employment is expected to continue to grow in 2018 (with 135,000 new jobs).

Employment in the market sector experienced a strong recovery in 2016, with job creations at the highest level since 2007 (nearly 170,000 net new jobs on an average annual basis), thanks to the combined effects of the Competitiveness and Employment Tax Credit (CICE), the Responsibility Pact and the "SME Hiring Bonus" measure. Momentum should amplify in 2017 with the creation of 235,000 jobs. Job creations, which were particularly high in the first half of 2017, are expected to rise at a more moderate pace in the second half, as the "SME Hiring Bonus" measure ended on 30 June. In 2018, market-sector employment is expected to continue to grow (with 160,000 new jobs on an average annual basis), supported by dynamic economic activity.

Non-market employment is set to grow more slowly in 2017 (35,000 new jobs on an average annual basis, after 40,000 in 2016), before potentially contracting in 2018 (–45,000 jobs).

(4) See "Will the recovery in French residential real-estate investment last?", Trésor-Economics no. 201, July 2017.

ECONOMIC OUTLOOK

Inflation is expected to come to +1.0 % in 2017 due to higher energy prices, followed by a slight hike in 2018

Inflation is set to rise to +1.0 % in 2017, after +0.2 % in 2016, mainly due to the acceleration in energy prices and regulated tariffs. **Core inflation should decrease to +0.4 % after +0.6 % in 2016**: higher services sector inflation, driven by a gradual recovery in nominal wages, should be offset by a significant decline in telecommunication prices.

Inflation is set to pick up slightly in 2018 (to +1.1 %), underpinned by new tax measures for energy and tobacco (with an approximate +0.3 point impact on the CPI, all else being equal). **Core inflation is expected to strengthen to +0.8 %**: prices of manufactured goods will accelerate slightly following the past rebound in industrial commodity prices, partially offset by the recent strengthening of the euro; inflation is expected to continue to recover in the services sector under the impetus of a pick-up in nominal wages.

Many uncertainties surround this economic outlook

There is an even balance of positive and negative uncertainties.

This recovery scenario assumes that oil prices remain at recent levels, with the euro strengthening only slightly against the dollar (EUR1=USD1.18 in 2018 vs. USD1.13 in 2017).

The momentum in French exports will depend on the economic growth of our trading partners, which may be impacted by the Brexit negotiations, and by the economic situation of emerging markets, notably China. It will also depend on the US fiscal policy stance.

The behaviour of French households and businesses is also uncertain. More specifically, the behaviour of households and businesses is a source of uncertainty: on the upside, if the cyclical recovery is stronger than anticipated and if the trend in job creations and renewed household confidence drive consumer spending; on the downside, if businesses decide to continue cleaning up their balance sheets and use the margin recovery to deleverage, or if the current slowdown in housing starts worsens. Moreover, the impact of severe frost in spring 2017 on wine production is still uncertain.

Table 1: Economic forecasts for 2017-2018
(rate of change in volume in %, unless otherwise stated)

	2016	2017	2018
GDP - France *	1.1	1.7	1.7
World demand for French exports	2.6	4.0	4.0
Consumer price index - France	0.2	1.0	1.1
World GDP	3.2	3.6	3.6
United States GDP	1.5	2.0	2.4
Euro area GDP	1.8	2.0	1.8
Exchange rate USD/EUR (annual average)	1.11	1.13	1.18
Oil prices (Brent, USD/barrel, annual average)	44	52	52

* Data adjusted for working days

Box 1: Review of the forecasts for 2017-2018

Compared to the Stability Programme of April 2017, the growth forecasts for 2017 and 2018 have been revised up to +1.7 % for each year, vs. +1.5 % previously. This revision is attributable both to stronger-than-expected economic activity in the first half of 2017, and to the very upbeat economic surveys that suggest continued strong growth in Q3 2017.

The positive effect of corporate investment (excluding construction) has been revised up since the spring. Such investment was stronger than expected in the first half-year, with a relatively limited negative Q2 impact from the end of the higher depreciation allowance measure, while economic surveys point to robust investment in Q3. Household investment was also more dynamic than expected. Conversely, household consumption fell short of expectations in Q1. The household consumption forecast is unchanged despite more dynamic purchasing power, supported by job creations in late 2016 and early 2017 that outstripped Stability Programme forecasts.

Despite global demand being stronger in 2017 than anticipated back in April, exports were softer than expected in the first half-year (due largely to deliveries of transport equipment). Imports remained upbeat in Q1, despite a slowdown in domestic demand excluding inventory changes, but then slowed considerably in Q2. For the full year, the contribution of foreign trade to growth is now expected to be more negative than in the Stability Programme's forecasts. Output was nevertheless very strong in the first half of the year, with businesses building up inventories more than expected.

For 2018, the revision to the growth forecast is mainly attributable to knock-on effects: the stronger growth momentum in 2017 is expected to drive higher investments, particularly by businesses. The upward revision to global demand is set to be offset by a stronger euro, leading to exports growing at the same pace.

Compared to the Stability Programme's forecasts, inflation is now expected to be slightly lower for 2017: the GDP deflator is seen at +0.8 %, vs. +0.9 % previously, with the consumer price index (CPI) at +1.0 %, vs. +1.2 % previously, mainly due to weaker demand prices early in the year, also leading to a downward revision to the core inflation forecast. For 2018, the GDP deflator forecast has been revised up slightly to +1.1 % (vs. +1.0 % previously), in particular because of indirect taxation measures (higher excise taxes on tobacco products, aligning the diesel tax with the petrol tax, and accelerating the carbon tax trajectory). The CPI forecast for 2018 is unchanged at +1.1 %. However, core inflation was revised down, notably due to the strengthening euro and a downward adjustment to the inflation forecast for the services sector.

Table 2: Comparison of forecasts in the Draft Budgetary Plan for 2018 and in the Stability Programme of April 2017

<i>Average annual growth rate (in %), unless otherwise stated</i>	Stability Programme April 2017		2018 Draft Budgetary Plan	
	2017	2018	2017	2018
International environment				
Oil prices (Brent, USD/barrel, annual average)	54	53	52	52
Exchange rate USD/EUR (annual average)	1.06	1.06	1.13	1.18
World demand for French exports	3.4	3.6	4.0	4.0
France				
GDP	1.5	1.5	1.7	1.7
Imports	3.6	3.6	3.6	3.6
Private consumption expenditure	1.2	1.5	1.3	1.4
Gross fixed capital formation (GFCF)	2.7	2.7	3.0	3.9
<i>a/w Non-financial corporations</i>	3.2	3.0	3.7	3.7
Exports	3.4	3.7	2.5	3.9
Contribution of foreign trade to growth (in p.p. of GDP)	-0.1	0.0	-0.4	0.0
Contribution of inventory changes to growth (in p.p. of GDP)	0.1	0.0	0.4	0.1
CPI	1.2	1.1	1.0	1.1

Sources: Stability programme 2017-2020, DBP forecasts.

Box 2: Authority responsible for producing forecasts and statement of the independent nature of the forecasts

The Directorate General of the Treasury prepares macroeconomic forecasts and compiles public finance forecasts. It works with the Budget Directorate, which is responsible for central government fiscal policy and preparing budget acts, and with the Social Security Directorate, which oversees the financing of social security funds and prepares the social security draft budgetary plan. The Directorate General of the Treasury relies on information produced by other government departments, such as the Public Finances Directorate General and the Directorate General of Customs and Excise for interim financial reporting. These forecasts were submitted to the High Council on Public Finances ("Haut Conseil des finances publiques", HCFP) for its opinion. The HCFP is an independent body, set up by Constitutional Bylaw no. 2012-1403 of 17 December 2012. Its task is to give its opinion on the macroeconomic forecasts used as a basis for draft budgetary plans and on the consistency of the introductory article of the draft budgetary plan with the multiyear structural balance path set out in the Public Finance Planning Act.

The HCFP issues an opinion on all of these components. This opinion is attached to the draft budgetary plan submitted to Parliament, and made public by the HCFP at the same time. The Constitutional Council has ruled that opinions issued by the HCFP shall be taken into consideration when assessing whether the texts submitted for its review are sincere.

Box 3: Comparison with forecasts by the European Commission, international organisations and the Consensus Forecasts

The Draft Budgetary Plan forecast is close to the latest forecasts from international organisations

The government's 2017 growth forecast of +1.7 % is in line with the OECD's +1.7 % forecast published in its Interim Outlook on 20 September, and close to the IMF's +1.6 % forecast given in its Article IV report for France, published on 21 September. This forecast is stronger than the European Commission's +1.4 % forecast, published in early May (see Table 3).

For 2018, the DBP projects a stable GDP growth rate of +1.7 %, while the IMF sees an increase to +1.8 %. The OECD expects a slightly less dynamic scenario, with growth of +1.6 % in 2018. In its forecast published in May, the European Commission expected growth of +1.7 % assuming no change to policies.

The macroeconomic scenario underpinning the Draft Budgetary Plan is similar to that of the most recent Consensus Forecasts

For 2017, the forecasts in the DBP are similar to the Consensus Forecasts as at September, namely, GDP growth of +1.7 % and +1.6 %, respectively (see Table 4).

For 2018, both the DBP and the Consensus Forecasts point to stable GDP growth.

The household consumption forecasts are similar, whereas the DBP is more optimistic than the Consensus on business investment.

The Consensus Forecasts as at September point to consumer prices rising by +1.0 % in 2017 and +1.1 % in 2018, identical to the DBP scenario.

The DBP's international growth assumptions are similar to those of the Consensus, with comparable growth forecasts for our main trading partners: the US, the UK and the euro area.

**Table 3: Forecasts for France
Draft Budgetary Plan, OECD, IMF and European Commission**

	DBP for 2018		IMF *** - Sept. 2017		OECD*** - Sept. 2017 -		European Commission - May 2017 -	
	2017	2018	2017	2018	2017	2018	2017	2018
<i>Average annual growth rate (in %)</i>								
GDP	1.7	1.7	1.6	1.8	1.7	1.6	1.4	1.7
Harmonised Consumer Price Index*	1.1	1.2	1.2	1.3	1.1	1.0	1.4	1.3
Net Lending (+) or Borrowing (-) of the General Government (in percentage points of GDP)	-2.9	-2.6	-3.0	-3.0	-3.0	-2.9	-3.0	-3.2
**								

* This forecast corresponds to CPI inflation of +1.0 % in 2017 and +1.1 % in 2018.

** According to the Maastricht definition

*** IMF: Article IV report for France, 21 September 2017 ; OECD: Interim Outlook, 20 September 2017

ECONOMIC OUTLOOK

Table 4: Comparison of the economic outlook of the Draft Budgetary Plan and the Consensus Forecasts

	Underlying economic scenario in the DBP for 2018		Consensus Forecasts - September 2017 -	
	2017	2018	2017	2018
<i>Average annual growth rate (in %)</i>				
International				
GDP growth				
United States	2.0	2.4	2.2	2.4
Japan	2.0	1.3	1.6	1.2
UK	1.6	1.4	1.6	1.4
Euro area	2.0	1.8	2.1	1.8
France				
GDP	1.7	1.7	1.6	1.6
Household consumption expenditure	1.3	1.4	1.2	1.6
Gross fixed capital formation - non-financial corporations	3.7	3.7	3.3	3.0
Consumer price index	1.0	1.1	1.0	1.1

Fiscal outlook

Fiscal overview and strategy

The government intends to ensure fiscal sustainability and live up to its European commitments, with a deficit of less than 3% of GDP in 2017 and shrinking gradually after that until 2022. Efforts by all general government sub-sectors will ensure that public expenditure growth slows down starting in 2018. Containment of expenditure will make tax cuts possible to boost employment, purchasing power, investment and the competitiveness of French businesses, thereby raising the long-term growth rate of our economy.

The government's forceful consolidation measures in 2017 should bring the deficit down to less than 3% of GDP. The headline deficit is expected to fall from 3.4% of GDP in 2016 to 2.9% in 2017. Meanwhile, the structural deficit is expected to continue to shrink to 2.2% of potential GDP, an improvement of 0.2 percentage points of potential GDP over 2016, when it stood at 2.5%.

The economic outlook is brighter, with growth expected to beat its potential, to reach 1.7% in 2017. This should contribute another 0.2 percentage points of GDP to the reduction of the headline deficit. One-off and other temporary measures are expected to make a slightly negative contribution to the deficit in 2017.

Public expenditure, excluding tax credits, should grow by 0.8% in real terms in 2017, which means that the expenditure savings effort will stand at 0.1 percentage points of GDP. This will reflect the foreseen initial increase in ministries' appropriations, on the one hand, and, on the other hand, the overruns on several budget items in the first half of the year.

(1) The recapitalisation of Areva, the State-owned nuclear company, also contributes to the expenditure growth in 2017.

The increase also stems from pay rises under the agreement on civil service career and compensation reform (PPCR) and the local authority investment cycle¹.

The government introduced several measures to meet the risks of overruns revealed in the French Court of Auditors' audit of public finances. These measures include 3.3 billion in cancelled appropriations in July 2017, smaller numbers of subsidised jobs and a cut in housing benefits to achieve total savings of 4.2 billion.

Discretionary tax measures for 2017, including the first year in which unused Competitiveness and Employment Tax Credit claims from 2013 are refunded and the final measures of the Responsibility and Solidarity Pact, are expected to make a negative contribution of 0.1 percentage points of GDP. However, as economic activity and employment pick up, tax revenue and social contributions should grow briskly. The GDP elasticity of taxes and social security contributions should be greater than unity at 1.3. This brisk growth would explain why the aggregate tax and social security contribution rate is rising from 44.4% of GDP in 2016 to 44.7% in 2017 and the improvement of 0.3 percentage points of GDP in the general government balance.

In 2018, the headline deficit is expected to shrink to 2.6% of GDP, as economic conditions continue to brighten. Measures to reduce taxes and social security contributions from 44.7% of GDP to 44.3% should be more than offset by efforts to contain expenditure. The structural deficit is expected to improve by 0.1 percentage points of GDP to 2.1%.

Slower growth of public expenditure, excluding tax credits, at 0.5% in real terms, would represent a major effort to contain expenditure, in line with the government's commitments

The impact of this operation on the Maastricht deficit was not included in the April 2017 Stability Programme.

FISCAL OUTLOOK

to reduce public expenditure by more than 3 percentage points of GDP over its five-year term. This growth rate is much lower than the average of 0.8% seen since the financial crisis, between 2010 and 2016. As a result, public expenditure will be reduced by 0.7 percentage points of GDP in 2018.

All general government sub-sectors will contribute to this slower expenditure growth. After particularly brisk growth in 2017, the absence of wage increases will primarily contribute to slower growth of the government wage bill in all sub-sectors in 2018, even though growth will still be substantial at 1.4% in 2018, coming after 2.0% in 2017.

The moderate increase in general budget appropriations will be much smaller than the 2017 increase, both as a result of fair estimation of traditionally underbudgeted expenditure and more efficient public expenditure. Structural reforms in housing and employment will transform government policies in these areas to make them more effective. The budget will finance measures to boost households' purchasing power, particularly for working people and those with the lowest incomes, stimulate green investment, promote a more highly skilled and competitive economy, spur innovation and contribute to the digital conversion of the administration.

The 2017 Initial Budget Act increased ministries' appropriations in 2017 by 8.0 billion compared to the 2016 Initial Budget Act. These appropriations will go up by 4.4 billion in the 2018 Draft Budgetary Plan, compared to their level in the 2017 Initial Budget Act. This increase in general budget appropriations remedies the underbudgeting identified in the French Court of Auditors' audit of public finances. The underbudgeted expenditure items, such as emergency housing or the adult disability allowance, were increased to the outturn levels forecast for 2018, including the planned increases in benefits. Thus, much of this increase stems from the government's determination to end underbudgeting.

In order to make expenditure more efficient and provide new protections, housing benefits, which

stood at more than 40 billion and produced disappointing results, will be cut in 2018. This cut will be offset by lower rents. Subsidised employment contracts will focus on priorities. The savings generated will finance increases in the main in-work benefit (prime d'activité), the solidarity allowance for the elderly (ASPA) and the adult disability allowance (AAH). Finally, additional appropriations of 2.2 billion will be made to strategic security, defence and justice missions in order to enhance the security of our fellow citizens.

Local government bodies will continue their efforts to contain operating expenditure, in line with the trajectory for savings of 13 billion by 2022 set out in the Public Finance Planning Bill.

Social security funds will also contribute to efforts to contain expenditure in 2018. Expenditure on old age pensions and family benefits will be contained through cost-savings measures, such as the containment of National Social Action Fund expenditure and harmonisation of the schedule for raising pensions. Savings will also be made on management expenditure of social security funds. Finally, savings on health insurance expenditure will reach unprecedented levels, thanks to moderate growth of 2.3% of expenditure subject to the national healthcare expenditure growth target (Ondam), despite the upward pressure from the implementation of the agreement with healthcare professionals that raised their fees.

In parallel to these efforts to contain expenditure, the tax cuts of more than 10 billion by the end of 2018 will make it possible to address three of the government's strategic choices. The first is to provide immediate support for growth, promote employment and boost purchasing power by providing greater rewards for work. The second is to boost competitiveness and cut red tape for businesses. The third is to boost private-sector investment in businesses that take risks, innovate and create the jobs of tomorrow.

Tax cuts for households will primarily benefit middle-class workers and low-income households. To achieve this, employees' contributions for health and unemployment insurance will be eliminated in the private sector and self-employed workers' contributions for family benefits and health insurance will be reduced. These cuts will be financed

by an increase in the General Social Security Contribution (CSG). However, this increase will be smaller than the cuts since the CSG applies to a broader base that includes replacement income, capital income and gambling winnings. The impact of this reform on private sector workers' purchasing power will be felt as early as January 2018. In 2018, this reform will result in a net annual pay increase of 132 for a minimum-wage worker, even after accounting for the 1.7-percentage-point increase in CSG. The increase will stand at 263 in 2019, when the reform takes full effect. Furthermore, the housing tax will be phased out for 80% of households, with a first cut of 3 billion in 2018. This will provide another boost for purchasing power.

Taxes on investment in France are particularly high compared to our European partners. Today, taxes on capital income are a strong deterrent to investment, with high marginal rates that penalise investment in French companies. The maximum marginal tax rate on interest income in France is 62.0% (compared to 26.0% in Italy, 26.4% in Germany, 27.0% in Belgium and 30.0% in Finland and Sweden) and France's maximum marginal tax rate on dividend income is 44.0% (compared to 26.0% in Italy, 26.4% in Germany and 27.0% in Belgium). Similarly, France's marginal corporate income tax rate stands at 33.3% (or 34.4% with the addition of the social contribution on corporate profits). This is much higher than the marginal rates of

many of France's partners (30.2% in Germany, 27.8% in Italy, 22.0% in Sweden and 19.0% in the United Kingdom).

Therefore, it seems crucial to lower and simplify the tax system in order to ensure that our economy is competitive and attractive. Consequently, the headline corporate income tax rate will be cut in stages, lowering it to 25% by 2022, which is the current average rate in Europe. The wealth tax (ISF), which applies to all assets, including securities, will be eliminated and replaced by a real estate wealth tax (IFI). Furthermore, a single flat-rate levy of 30% on capital income will be introduced in 2018 that includes both income tax and social contributions. These measures should channel domestic savings into financing for businesses, particularly equity financing.

Carbon tax increases will be stepped up to accelerate the ecological conversion of our economy. The convergence of taxes on diesel fuel and petrol will be completed over the next four years. This will internalise the social cost of economic agents' use of fossil fuels, thereby reducing our CO₂ emissions. Environmental taxes will account for a greater share of public revenue, helping France to make up for some of its lag behind its European partners in this area. Support measures will benefit the most vulnerable households. These will include mainstreaming the energy voucher and the introduction of a bonus for switching away from polluting vehicles.

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Table 1 Government balance by sub-sector

Lending capacity (+) or borrowing requirement (-) as a % of GDP	2016	2017	2018
Central government	-3.3	-3.2	-3.2
Other central government agencies	-0.1	-0.1	0.0
Local government	0.1	0.1	0.1
Social security funds	-0.1	0.2	0.5
General government balance	-3.4	-2.9	-2.6

Table 2: Structural balance

As a % of GDP, unless otherwise noted	2016	2017	2018
General government balance	-3.4	-2.9	-2.6
of which, cyclical balance	-0.8	-0.6	-0.4
of which structural balance (as % of potential GDP)	-2.5	-2.2	-2.1
of which, one-offs (as a % of potential GDP)	-0.1	-0.1	-0.1
Structural adjustment*	0.2	0.2	0.1
of which, structural effort	0.2	0.1	0.2
<i>discretionary tax measures</i>	-0.1	-0.1	-0.3
<i>expenditure effort</i>	0.2	0.1	0.4
<i>correction for accrual-based measurement of tax credits</i>	0.1	0.1	0.0
of which, non-discretionary component	0.1	0.1	-0.1

Table 3. Key figures

As a % of GDP, unless otherwise specified	2016	2017	2018
Total government debt	96.3	96.8	96.8
Government debt, excluding financial support for the euro area	93.4	93.9	94.0
General government expenditure excluding tax credits	55.0	54.6	53.9
<i>Real growth rate of expenditure excluding tax credits (%)</i>	<i>1.0</i>	<i>0.8</i>	<i>0.5</i>
<i>Nominal growth rate of expenditure excluding tax credits (%)</i>	<i>1.2</i>	<i>1.8</i>	<i>1.5</i>
Tax burden excluding tax credits	44.4	44.7	44.3

Box 1 Main measures

1. Discretionary tax measures

The cut in aggregate taxes and social security contributions, starting on 1 January 2018 will amount to approximately 1 percentage point of GDP by the end of the government's five-year term. This cut stems from three of the government's strategic choices. The first is to provide immediate support for growth, promote employment and boost purchasing power by providing greater rewards for work. The second is to boost competitiveness and cut red tape for businesses. The third is to boost private-sector investment in businesses that take risks, innovate and create the jobs of tomorrow. The cut of one percentage point of GDP in the tax burden will be distributed fairly between support for households' purchasing power and business competitiveness. It will be partially offset by increases in behavioural taxation, particularly eco-taxes that provide incentives for responsible behaviour and accelerate the ecological conversion of our economy.

Table 4. Main discretionary tax measures in the multiyear public finance trajectory

	2018-2022
Purchasing power	-14.9
Housing tax elimination for 80% of households	-10.1
Transfer of a portion of employee contributions to the CSG*	0.0
Exemption from social contributions on overtime pay	-3.5
Individualisation of personal income tax	-1.3
Competitiveness, attractiveness, labour cost	-13.8
Cut in corporate income tax rate from 33% to 25%	-11.1
Conversion of CICE into social security contribution cuts**	-0.2
Elimination of the 3% tax on dividends	-1.9
Elimination of the 4th bracket of the payroll tax	-0.1
Micro-enterprise measures	-0.4
Investment	-6.5
Creation of the property wealth tax (IFI)	-3.2
Introduction of a single flat-rate levy on capital income	-1.9
Extension of energy transition tax credit, "Pinel" tax incentive for buy-to-let investments and interest-free loans	-1.4
Behavioural taxes	14.0
Energy tax increase	12.5
"Greenification" of the tax on company cars	0.1
Tobacco taxes	1.4
Total	-21.2

* The switch from social contributions to the Generalized Social Contribution (CSG) is neutral when fully implemented.

** The Competitiveness and Employment Tax Credit (CICE) is presented here through usage of the credits. The CICE is extinguished as these credits are applied to tax owed or refunded.

Boosting households' purchasing power and stimulating investment

Tax cuts for households will primarily benefit middle-class workers and low-income households. Exemptions from housing tax for 80% of households will be phased in and boost their purchasing power,

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with the first €3-billion cut in 2018. The government would also like to improve **compensation for work by increasing employees net earnings through a cut in employees' contributions for health and unemployment insurance (-3.15 percentage points), to be financed by a 1.7-percentage-point increase in the Generalized Social Contribution**. This measure will be phased in during 2018, with a 2.2 percentage point cut in the contributions rate on 1 January 2018, followed by another 0.95-percentage-point cut on 1 October 2018. A substantial proportion of self-employed workers will also see their net income rise, as contributions for family benefits and health insurance are cut in 2018. These cuts will target those with the lowest incomes. In addition, these cuts will reduce the tax wedge on wages, thereby stimulating labour demand and supply. This switch is fiscally neutral in aggregate. It will broaden the tax base financing social security so that its cost does not fall solely on labour.

In the midst of sweeping technological change, the demand for capital is even greater than before and cutting taxes on capital is now crucial. **The wealth tax (ISF) will be eliminated to stimulate productive investment. It will be replaced by a real property wealth tax (IFI)**. In addition, **starting in 2018, social contributions and taxes on investment income** (interest, dividends, capital gains on real estate) **assessed at personal income tax rates will be replaced by a single flat-rate 30% levy (PFU)**. This reform will **simplify the French tax system and make it clearer**, bringing it into line with the European average, since France's taxes on capital are particularly high compared to those of our European partners. The reform will also make **taxation more neutral**. Applying the same tax rate to dividend income and capital gains on securities will remove the existing arbitraging opportunities in the current system and make the choice of method to compensate shareholders tax neutral. By channelling domestic savings into financing businesses, **the flat-rate levy will boost growth, investment and jobs**. Lower-income households will have the option of paying tax at their more favourable personal income tax rate and the favourable treatment of regulated savings accounts (Livret A, sustainable development and popular savings accounts) and life insurance policies (up to €150,000) will be maintained.

Supporting economic activity and jobs, enhancing our country's attractiveness and the competitiveness of our businesses

Business taxes will be reduced and simplified to **make France's businesses more competitive** and to make France's economy more attractive. The government intends to continue and step up the efforts made since 2014 to benefit businesses with the Responsibility and Solidarity Pact and the Competitiveness and Employment Tax Credit (CICE). **Businesses will benefit from lower capital costs, with the cutting of the corporate income tax rate to 25% by 2022**. This cut will favour long-term investment in French businesses, since the corporate income tax rate is a major consideration when businesses make location decisions.

The corporate income tax rate will be cut in stages. The first cut occurred in 2017, in accordance with the 2017 Budget Act.

- In 2017, SMEs will pay a rate of 28% on their first €75,000 in profits.
- In 2018, the 28% rate will apply to profits up to €500,000 for all businesses.
- In 2019, the headline rate for all businesses will be lowered to 31% and the reduced 28% rate will be maintained on profits up to the ceiling.
- Between 2020 and 2022, the headline rate will be cut to 28%, then 26.5% and then 25%.

This cut in the corporate income tax rate will bring France's taxes on corporate profits into line with the European average and bring down the highest marginal rate starting in 2019.

The transformation of the CICE tax credit into a lasting cut in employers' social security contributions will greatly simplify the taxation of labour and provide a lasting boost for jobs and the competitiveness of

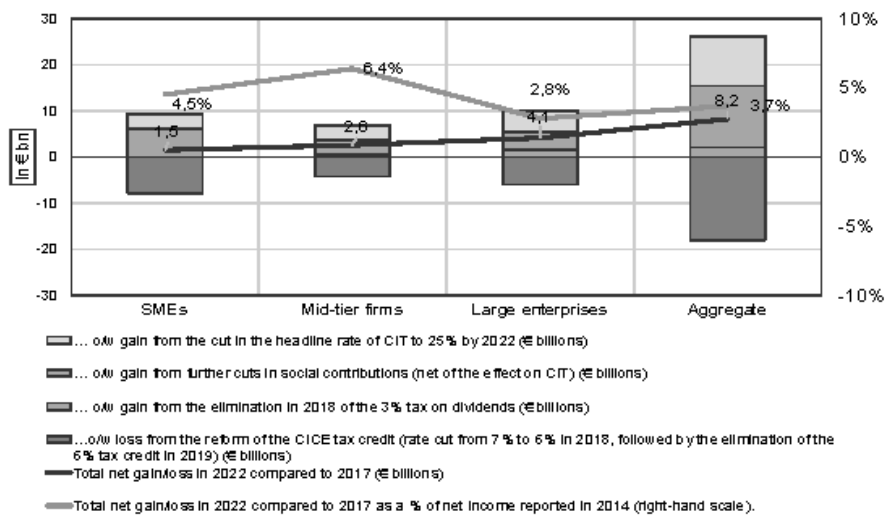
French businesses. The streamlining of the CICE tax credit by turning it into a cut in employers' social security contributions was primarily done to simplify taxes. The cut in contributions will have an immediate impact on cash holdings, in contrast to the CICE, where claims could be reimbursed over a couple of years. To optimise the impact on jobs, **the cut in contributions will be greater on low wages**, which will boost demand for low-skilled workers earning close to the minimum wage. Turning the tax credit into a cut in contributions will also benefit the non-profit sector and the social economy sector, which did not benefit from the CICE tax credit. The transformation of the tax credit will be backed up by the elimination of the payroll tax credit (CITS). This tax credit had been introduced to help sectors that did not benefit from the CICE tax credit because they do not pay corporate income tax. These sectors will now benefit from the general cuts.

The 3% tax on dividends will also be eliminated. This will enhance risk returns and compensate private initiative. The elimination of this contribution will favour diversification of financing sources in France by promoting equity financing in areas where bank financing is still predominant.

How tax cuts affect businesses liable for the standard rate of corporate income tax

The aggregate effect of the planned reforms should result in clear net gains on average for businesses by the end of the government's five-year term. The cuts in taxes and social security contributions mentioned above will come to €8.2 billion in 2022 for businesses liable for the standard rate of corporate income tax². This cut will be especially beneficial in proportion to earnings for mid-tier companies and manufacturing companies, which are most likely to have to contend with international competition. The cuts will support their export sales.

Chart 1: How tax cuts affect businesses liable for the standard rate of corporate income tax



Accelerating the ecological conversion of France's economy

The Energy Transition and Green Growth Act introduced the **trajectory for the carbon component of energy taxes. This will be stepped up in 2018 to reach €86.20 per ton of CO₂ in 2022**, in order to promote ecologically responsible behaviour. Raising the price of carbon will help contain emissions at a level that is compatible with implementation of the Paris Climate Agreement. **At the same time, the tax treatment of diesel**

oil will be gradually brought into line with that of petrol, continuing the ongoing convergence to eliminate the current tax incentive to use diesel oil. This incentive is unwarranted given the air pollution issues that France must address. The annual increases will be €0.026 per litre over the next four years. In addition to their environmental benefits, these measures will help finance the cuts in taxes on labour and capital to promote employment and growth. France, which was ranked as one of the last European Union countries in terms of eco-taxes as a share of GDP, will be more in line with the average tax structure of the other Member States. **Targeted support actions will prevent these measures from burdening households, especially those with the lowest incomes.** These actions will include mainstreaming the heating benefit, a scrapping bonus for old vehicles, extending the energy transition tax credit in 2018 and transforming it into a bonus in 2019.

Finally, to prevent the massive number of early deaths linked to tobacco, taxes on all tobacco products will be raised. In particular, excise taxes on cigarettes will be raised with the goal of reaching a price of €10 per pack in 2020. Taxes on other tobacco products, such as roll-your-own tobacco, cigars and cigarillos, will also be raised to bring them into line with cigarette prices.

2. Expenditure measures

The public expenditure trajectory makes it possible to **finance the priorities for the government's five-year term and invest in the future, while contributing to fiscal consolidation** with the goal of reducing the public expenditure ratio by more than 3 percentage points of GDP by 2022.

The first aim is to **boost purchasing power** for workers to complete the switch from payroll contributions to the General Social Security Contribution and provide more incentive to accept minimum-wage employment by means of an **increase in the in-work benefit**. The budget also provides resources to protect those who are the most fragile, the most vulnerable and who have the lowest income. The **adult disability allowance will see a big increase** in 2018 and 2019. In the same vein, the **solidarity allowance for the elderly** (formerly called the "minimum old age pension") paid to pensioners with the lowest incomes will be raised substantially over the next three years for a gain of €100 per month in 2020. At the same time, the schedule of **pension adjustments** will be simplified. Basic retirement pensions are usually adjusted on 1 October each year for inflation over the last twelve months for which data is available. The new adjustment date will be 1 January, starting on 1 January 2019.

Fighting unemployment is another of the government's main objectives. This fight will include **a plan for investment in job skills**, which is an integral part of the Great Investment Plan (GPI) to match labour supply to demand and to enable wage-earners to make the most of job opportunities. Alongside this ambitious training plan, the number of subsidised employment contracts will be reduced in 2018 and 2019. Furthermore, **unemployment insurance will gradually become universal starting in 2018** to make the labour market more fluid. All workers (wage-earners and self-employed) will be covered to facilitate transitions between payroll jobs and self-employment and vice versa. As a counterpart to these new entitlements, verification of job search efforts will be stepped up with the hiring of one thousand unemployment insurance inspectors. In the fall of 2017, the government will consult with the labour and management representatives managing the unemployment insurance system about all of these measures, which should also guarantee the financial sustainability of the system.

In accordance with the presidential programme, **defence, security and justice** will be major focuses of the president's five-year term. The armed forces budget will be increased to reach the objective of 2% of GDP in 2025, with a first increase of €1.8 billion in 2018. More police officers and gendarmes are also to be hired, along with more personnel for the justice system. The creation of these new jobs is consistent with the overall

reduction of central government and central government agency payrolls over the government's five-year term.

Housing policy will see sweeping changes over the government's five-year term, starting with a structural reform of housing expenditure in 2018 as part of the strategy to lower housing prices.

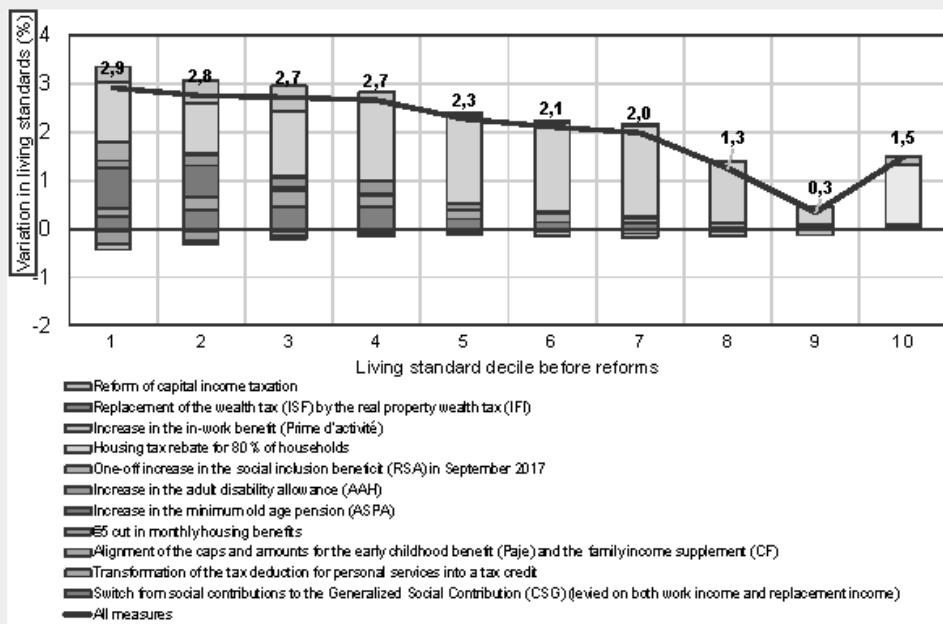
The trajectory also covers financing for the policies under the **Great Investment Plan** (see the box on the Great Investment Plan in the section on France's Economic Policy Strategy) to accelerate ecological transition, build a society of skills, innovation-based competitiveness and government for the digital age.

The new expenditure must not jeopardise the **planned containment of public expenditure**. All general government sub-sectors will contribute to reducing public expenditure. In addition a policy and expenditure review to identify areas for savings and efficiency gains will be conducted as part of the "Public Action 2022" initiative.

Box 2: Redistribution effects of measures to support households' purchasing power

The government's measures to support purchasing power will improve households' living standards by 1.7% by 2022. The aggregate living standard for households in the bottom three living standard deciles, meaning the 30% of households with the lowest income, will improve by 2.9% for the bottom decile, 2.8% for the second decile and 2.7% for the third decile (see Chart 2). This improvement stems from the adjustment of means-tested benefits (in-work benefit and minimum benefits: adult disability allowance (AAH), minimum old age pension (ASPA) and social inclusion benefit (RSA)). This adjustment more than offsets the €5 cut in monthly housing benefits. The housing tax elimination for 80% of households and the switch from social contributions to the Generalized Social Contribution also lift living standards. Households in the middle living standard deciles (4th to 7th deciles) will also benefit from the housing tax elimination for 80% of households, the switch from payroll contributions to the Generalized Social Contribution and the transformation of the personal services tax deduction into a tax credit. The improvement in living standards for the upper deciles will be a bit less substantial than that for other households. In these deciles income will be boosted by the measures aimed at promoting productive investment, including the elimination of the wealth tax (ISF) and introduction of the real property wealth tax (IFI) and the reform of taxes on investment income. But these households are less likely to benefit from the housing tax elimination than the rest of the population.

Chart 2: How the measures affect households' living standards, by living standard decile – for the usual scope of monetary redistribution



At the same time, the government is implementing measures to improve the environment and health (tobacco taxes and energy taxes). These measures do not fall within the scope of monetary redistribution that is usually defined in the publications of Insee and international organisations. The main objective of these measures is

to influence behaviour in order to promote ecological transition and public health. However, for the purposes of illustration, Chart 3 shows how these measures affect purchasing power. In aggregate, when these measures² are included, households' living standards improve by an average of 1.1 % in 2022. The two bottom deciles will benefit from the mainstreaming of the energy voucher, followed by the increase in the benefit to offset the impact of higher energy taxes.

Chart 3: How the measures - including eco-taxes and public health taxes - affect households' living standards, by living standard decile

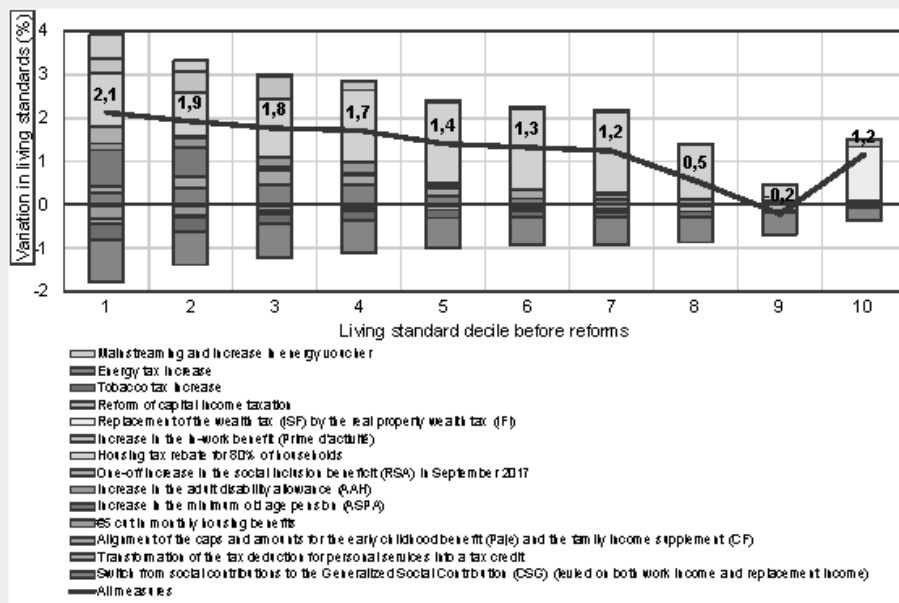


Table 32. Measures assessed

Introduced by the current government

- Switch from social contributions to the Generalized Social Contribution (CSG)
- Housing tax rebate for 80% of households
- Increase in the minimum old age pension (ASPA)
- Increase in the adult disability allowance (AAH)
- Increase in the in-work benefit (Prime d'activité)
- €5 cut in monthly housing benefits
- Alignment of the caps and amounts for the early childhood benefit (Paje) with the family income supplement (CF)
- Replacement of the wealth tax (ISF) by a real property wealth tax (IFI)
- Reform of taxes on capital income (increase in the General Social Security Contribution (CSG) on capital income and introduction of the single flat-rate levy).

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Introduced by the previous government and implemented by the current government

One-off increase in the social inclusion benefit (RSA) in September 2017

Transformation of the tax deduction for personal services into a tax credit

Measures outside of the usual scope of monetary redistribution

Public health taxes on tobacco

Eco-taxes

Mainstreaming and increase in energy voucher

(a) The assessment includes the behavioural effects of higher tobacco prices (elasticity assumption based on prior assessment of measures relating to tobacco taxes under the Social Security Budget Act) and energy taxes (short-term behavioural effect according to X. Labandeira, J. M. Labega, X. Lopez-Otero "A meta-analysis on the price elasticity of energy demand," Energy Policy, 2017).

2016 outturn and 2017 mid-year outturn

a) Outturn in 2016

Overview of the year

In a macroeconomic context featuring slower growth and persistently weak inflation, the government deficit shrank slightly between 2015 and 2016, falling from 3.6% of GDP to 3.4%. The latest Insee estimates of the 2016 social security balance⁽²⁾ show virtually no change in the deficit compared to the estimates underlying the Budget Review Act of July 2017 (*loi de règlement*) and based on the provisional general government accounts that Insee published on 30 May 2017.

A structural effort of 0.2 percentage points of GDP was achieved in 2016⁽³⁾. It resulted primarily from an expenditure effort of 0.2 percentage points, which reflects a public expenditure growth rate of 1.2% in nominal terms, excluding tax credits. However, discretionary tax measures that reduced taxes and social security contributions made a negative contribution to the structural effort of 0.1 percentage points of GDP, which corresponds in part to personal income tax cuts and tax cuts for businesses under the Responsibility and Solidarity Pact. Furthermore, the impact of re-statement of tax credits in the national system of accounts contributed 0.1 percentage points to structural adjustment (disbursements for existing claims related to the CICE tax credit are increasing more rapidly, while acquisition of new claims is increasing more slowly). Structural adjustment stood at 0.2 percentage points of GDP.

This structural adjustment alone explains the improvement in general government balance. The cyclical variation in the general government balance was nil in 2016, as actual economic growth was equal to potential growth, estimated at 1.2%⁽⁴⁾, in the 2018-2022 Public Finance Planning Bill.

Government expenditure in 2016

Nominal growth of government expenditure, excluding tax credits stood at 1.2% in 2016, following growth of 0.9% in 2015. The increase stems primarily from central government and the social security funds.

Nominal growth of central government expenditure, excluding tax credits, stood at 3.6%. The nominal and real reduction in expenditure subject to the expenditure growth rule compared to 2015 on a like-for-like basis was offset by a change in the scope of expenditure due to the reallocation of the expenditure on the levy to compensate electricity distributors for additional costs entailed by public service obligations and the expenditure on the family housing benefit to the central government budget. It was also affected by major upward revisions in the system of national accounts, particularly as a result of deliveries of military equipment that were much greater than the corresponding budget disbursements.

Social security expenditure growth stood at 0.9%, following growth of 0.6% in 2015. More expenditure on unemployment benefits because of the poor job market explains some of this higher growth, despite the lowering of the national healthcare expenditure growth target from 2.0% in 2015 to 1.8% in 2016. This target was met both years.

As in 2015, local government expenditure helped to slow the growth of aggregate government expenditure with a nominal decrease of 0.8%, following a decrease of 0.9% in 2015. This reduction can be attributed to a combination of two factors: i) containment of operating expenditure by local government, as transfers from central government are cut; and ii) the dip in local government investment that is usual at the current stage in the local election cycle.

Aggregate tax and social security contribution rate in 2016

In 2016, the aggregate tax and social security contribution rate was stable at 44.4% of GDP, unchanged from 2015. Discretionary tax measures

(2) Publication on the INSEE website dated 5 September 2017.

(3) See methodological annex.

(4) The 1.2% real growth in 2016 is unadjusted. This corresponds to growth of 1.1% when adjusted for working days.

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contributed to a reduction of 0.2 percentage points of GDP in revenue, but this was offset by the brisk spontaneous growth of taxes and social security contributions, which outstripped economic growth.

Discretionary measures reduced taxes and social security contributions by €3.4 billion. This reduction was mainly the effect of measures under the Responsibility and Solidarity Pact, including a cut in personal income tax for middle- and low-income households, the elimination of the exceptional corporate income tax payment for large corporations and further cuts in social security contributions and the corporate social solidarity contribution. Some of these cuts were offset by the elimination of the earned-income tax credit and increases in eco-taxes, especially as the climate-energy tax is scaled up and the alignment of the tax treatment of diesel oil with that of petrol continues.

The spontaneous growth of taxes and social security contributions, i.e. growth after discretionary tax measures are excluded, reached 1.9%, which is higher than the nominal GDP growth of 1.6%. This gives spontaneous tax elasticity to GDP of 1.2. The most dynamic growth was that of local government revenue, driven by the strong rises in revenue from registration duties on property sales (DMTO) and the contribution on business value added (CVAE). Social Security revenue also posted strong growth, driven by brisk payroll growth. Central government revenue benefitted from strong growth of personal income tax revenue, but this was attenuated by declines in other tax revenue.

b) 2017 Mid-year outturn

Government expenditure in 2017

The following presentation is based on the most recent information available at this point in the year.

The government introduced aggressive fiscal consolidation measures that addressed only public expenditure in order to ensure that the deficit is lower than 3% of GDP in 2017. The main overrun on the expenditure side since the Stability Pro-

gramme can be attributed to the recognition of future public expenditure linked to the recapitalisation of AREVA, which was not included by the previous government. On the other hand, two decrees on supplemental appropriations and rescission handed down in July led to savings of €3.3 billion. Other measures were introduced dealing with subsidised employment contracts and housing benefits, leading to aggregate savings of €4.2 billion. The fiscal consolidation measures concerned all ministries, with a review of discretionary expenditure that had not been committed at this point in the year. Despite the substantial savings, given the scale of budget overdrafts found by the French Court of Auditors in its audit report, the ministries' expenditure subject to the expenditure growth rule, excluding debt service and pensions, is still approximately €2.4 billion over the levels set in the Initial Budget Act.

The accrued interest expense on central government debt should reach €34.3 billion in 2017, compared to €35.5 billion in 2016. This projection is based on issuance since the beginning of the year and the updated yield and inflation forecasts. It assumes that 10-year yields will gradually rise to reach 1.10% at the end of the year and that inflation will stand at 1.0%.

The initial and supplementary budgets of other central government agencies do not diverge from the expenditure growth forecasts. It should be noted however, that the overrun of the appropriation for subsidised contracts of employment in the first half of the year resulted in an increase in the expenditure of the Services and Payments Agency (ASP).

The preliminary outturn data show that local government expenditure has come in under the local government expenditure growth target (ODEDEL) set at 2.0% in the explanatory statement for the 2017 draft budgetary plan, in accordance with the 2014-2019 Public Finance Planning Act. The forecast is for local expenditure to grow by 1.8%. Operating expenditure is also expected to be under the operating expenditure growth target, which was lowered to 1.7% in the explanatory statement. This underspending stems from local governments' efforts to contain operating expenditure. These efforts partially offset the faster

growth of investment expenditure in the run-up to municipal elections and the scaling up of the Société du Grand Paris (SGP), which is part of the local government sector.

The Social Security funds' expenditure subject to the national healthcare expenditure growth target (Ondam) is expected to grow by 2.1%. However, it should be noted that the Social Security Accounting Commission report in September 2017 showed growth of 2.2%. These two growth rates are consistent, since the discrepancy stems solely from a slight downward revision of 2016 expenditure, which does not affect the target set for 2017 (€190.7 billion). In its Opinion 2017-2 of 31 May 2017, the early warning committee on health insurance expenditure stated that the national healthcare expenditure growth target set in the 2017 Social Security Budget Act should be met.

Government revenue in 2017

The revenue forecast for the current year is based on data about tax revenue collection in the early months of the year and the macroeconomic determinants of the tax base.

The estimates are based on the following items:

- Social contributions and levies account for approximately half of the aggregate tax and social security contributions. They are based primarily on wages and salaries, which are now expected to grow by 3.3% in the non-farm private sector. Social contributions and levies have also been lifted by the 4.7% growth of investment income, driven by rising securities prices.
- The revenue forecast for Value Added Tax (VAT) is based on a forecast of 3.5% spontaneous growth of the tax base. This is a fairly conservative forecast in view of accounting data that point to a year-on-year increase of 5% at the end of July.
- The forecast for corporate income tax revenue shows brisk spontaneous growth with a surge in taxable earnings seen in the balance collected in May (6 ½ % growth in 2016). However, corporate income tax revenue is expected to decline from its 2016 level as a result of the CICE tax credit. Refunds of unused tax credits will start in 2017, with claims

of some €3 billion relating to the 2013 financial year.

- The forecast for personal income tax revenue is based on an analysis of preliminary tax assessments. The strong spontaneous increase in revenue is driven by 1.7% growth of salaries and wages and 1.9% growth of retirement pensions in 2016. Furthermore, weak inflation in 2016 means that virtually no adjustment of the income tax brackets took place. This amplified the progressive nature of the tax.
- The forecast revenue collection from the contribution on business value added (CVAE) shows a decline, despite faster growth of non-financial corporations' value added (macroeconomic aggregate underlying the contribution), standing at 2.7% in 2017. Following the decision of the Constitutional Council on 19 May 2017, the application of new effective tax rates for businesses that belong to a tax-integrated group will lead to a decline of some €0.3 billion in advance payments collected in 2017.
- Forecasts for local direct tax revenue in 2017 rely mainly on the partial data available on changes in tax bases and decisions on tax rates.
- The forecast of registration duties on property sales revenue is consistent with accounting data showing strong third-quarter increases and current real estate market signals. Transactions posted a record level in May and prices have been rising steadily since the third quarter of 2016.

Outlook and multiyear strategy

The government wishes to achieve fiscal balance. The Medium-Term Objective (MTO) is a structural deficit at 0.4% of potential GDP, as defined in the 2018-2022 Public Finance Planning Bill and in compliance with the provisions of the Treaty on Stability, Coordination and Governance (TSCG). The 2018-2022 Public Finance Planning Bill sets out the multiyear trajectory for headline balances and structural balances in order to achieve the MTO. It makes it possible to achieve

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the government's four major fiscal objectives: cutting the deficit by more than 2 percentage points of GDP, reducing government expenditure by more than 3 percentage points, cutting aggregate taxes and social security contributions by 1 percentage point of GDP and reducing debt by 5 percentage points. This multiyear fiscal trajectory ultimately makes it possible to achieve the MTO in 2023.

The multiyear trajectory illustrates the determination to achieve significant reductions of the deficit and the debt ratio, and to put an end to the Excessive Deficit Procedure initiated for France in 2009. Following a deficit of 3.4% of GDP in 2016, the deficit should stand at 2.9% of GDP in 2017 and then 2.6% in 2018. In 2019, despite the temporary additional cost of converting the CICE tax credit into social security contribution cuts, the headline deficit should be less than 3.0% of GDP, which would provide the assurance that the correction of the excessive deficit is a durable one. The deficit would then contract rapidly after 2020 to reach 0.2% of GDP in 2022. Debt would be stable until 2019 and then start falling rapidly in 2020. This trajectory will enable France to comply with the recommendation made by the European Council in March 2015 to put an end to its excessive deficit in 2017 at the latest.

The effort to contain expenditure will continue throughout the period covered by the planning, with real public expenditure growth of 0.4%⁽⁵⁾ per year on average between 2017 and 2022, versus an average of 0.8% after the financial crisis between 2010 and 2016. This will correspond to an expenditure effort of 0.5 percentage points of potential GDP per year on average over the period. The public expenditure ratio (excluding tax credits) is expected to decline by more than 3 percentage points by 2022, dropping by 0.7 percentage points between 2017 and 2018.

The fiscal headroom achieved should make it possible to finance a cut of approximately 1 percentage point of GDP in aggregate taxes and social security contributions for households and businesses between 2017 and 2022,

in addition to accomplishing fiscal consolidation. In 2018, sweeping changes to taxes and social security contributions will be made to unleash initiatives, promote productive investment and growth and boost purchasing power. The elimination of private-sector employees' contributions for health and unemployment insurance in return for a 1.7-percentage-point increase in the General Social Contribution will boost workers' purchasing power and make working more rewarding. The transformation of the CICE tax credit into a lasting cut in employers' payroll contributions will give businesses latitude to invest and grow by making labour costs more transparent. The future trajectory for cutting the corporate income tax rate from 28% to 25% by 2022 is part of this same movement. The government intends to stimulate productive investment to the detriment of economic rents by replacing the wealth tax with a real estate wealth tax and a single flat-rate levy of 30% on investment income. This means that the aggregate tax and social security contribution rate will fall from 44.7% in 2017 to 43.6% in 2022.

The resulting structural adjustment in 2018 should stand at 0.1 percentage points of GDP. The structural effort to contain public expenditure growth at 0.4 percentage points of GDP will make it possible to cut taxes in 2018. Lower taxes will unleash initiatives and stimulate investment, with the benefits for France's economy emerging gradually, while at the same time ensuring structural adjustment of 0.1 percentage points of GDP. **Structural adjustment will be greater after that, averaging 0.35 percentage points between 2019 and 2022,** since the decline in the aggregate tax and social security contribution rate will be smaller than in 2018.

Brighter economic conditions will also play a part in the improvement in the headline deficit. Actual growth should be faster than potential growth, which will help close the output gap, which has been negative since 2012. Consequently, the cyclical balance should improve by 0.9 percentage points of GDP between 2018 and 2022 to stand at 0.6% of GDP.

(5) Excluding tax credits.

The temporary additional cost incurred by the transformation of the CICE tax credit and the Energy Transition tax credit, along with the costs of settling tax disputes will be classified as one-offs, in line with the rationale on one-offs in the Public Finance Planning Bill. The effects of these measures are expected to increase the headline deficit by 1 percentage point of GDP in 2019 and then by 0.1 percentage points in 2020 and 2021, before tapering off in 2022.

These structural and cyclical effects mean that the headline deficit will be 3.0% of GDP in

2019, after 2.6% in 2018, and then stand at 0.2% in 2022. Continued efforts to reduce the deficit, combined with stronger economic growth should reduce the debt ratio by approximately 5 percentage points by 2022. However, the ratio will not start to decline until 2020 because of the temporary additional cost of ending the CICE tax credit and replacing it with cuts in payroll contributions in 2019. The debt ratio should stand at 96.1% of GDP at the end of 2020, compared to 97.1% in 2019, then fall to 91.4% of GDP in 2022.

Table 5 : Multiyear public finance trajectory

% of GDP unless otherwise specified	2016	2017	2018	2019	2020	2021	2022
General government balance	-3.4	-2.9	-2.6	-3.0	-1.5	-0.9	-0.2
of which Central government	-3.3	-3.2	-3.2				
of which Other central government bodies	-0.1	-0.1	0.0				
of which Local government	0.1	0.1	0.1				
of which Social Security Funds	-0.1	0.2	0.5				
Cyclical balance	-0.8	-0.6	-0.4	-0.1	0.1	0.3	0.6
One-off and other temporary measures*	-0.1	-0.1	-0.1	-1.0	-0.1	-0.1	0.0
Structural balance*	-2.5	-2.2	-2.1	-1.8	-1.6	-1.2	-0.8
Structural adjustment	0.2	0.2	0.1	0.3	0.3	0.4	0.4
General government expenditure, excluding tax credits	55.0	54.6	53.9	53.3	52.5	51.8	50.9
Nominal growth rate of expenditure excluding tax credits (%)	1.2	1.8	1.5	1.7	1.8	2.0	1.9
Real growth rate of expenditure excluding tax credits (%)	1.0	0.8	0.5	0.6	0.4	0.2	0.1
Tax burden excluding tax credits	44.4	44.7	44.3	43.3	43.6	43.6	43.6
Government debt	96.3	96.8	96.8	97.1	96.1	94.2	91.4
... excluding financial support for the euro area	93.4	93.9	94.0	94.4	93.4	91.6	88.9

* % of potential GDP

Scenario with no changes to legislation or practices

This ambitious strategy should be compared to the fiscal path that would be followed if no changes were made to legislation and policies. If that were the case, the deficit would take much

longer to eliminate and the debt would not diminish at all during the government's five-year term (see Table 6).

The trajectory of the deficit with no changes to legislation and practices presented here is taken from the 2018-2022 Public Finance Planning Bill, in accordance with the Constitutional Bylaw of

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2012 on Public Finance Planning and Governance. The “no-policy-change” trajectory is based on the results obtained in recent years in terms of containing public expenditure and it assumes that expenditure growth will be equal to the average real public expenditure growth over the last ten years, excluding tax credits, or 1.3% per year. The assumption with regard to revenue is that no discretionary tax measures were introduced since the start of the new legislature in the third quarter of 2017. If that were the case, the deficit would be eliminated slowly. It would still stand at 2.3% of GDP in 2022, as opposed to 0.2% in the multiyear trajectory chosen. This would mean

much greater change in the ratio of government debt to GDP. Debt would peak at 98.2% of GDP in 2020, and then start to descend slowly, reaching 97.3% of GDP in 2022. This means that debt would increase slightly over the government’s five-year term. On the other hand, in the multi-year trajectory chosen, debt will peak at 97.1% of GDP in 2019 and then decline, reaching 91.4% in 2022, which is approximately 5 percentage points lower than its level at the end of 2017.

Table 6. Scenario with no changes to legislation or practices

% GDP	2017	2018	2019	2020	2021	2022
Deficit with no changes to legislation or practices	-3.2	-3.3	-3.0	-2.6	-2.6	-2.3
Government debt with no changes to legislation or practices	97.1	97.8	98.1	98.2	98.0	97.3
Effect of discretionary expenditure and tax measures on the deficit	0.3	0.7	0.0	1.1	1.7	2.1
Deficit in the Public Finance Planning Act	-2.9	-2.6	-3.0	-1.5	-0.9	-0.2
Government debt in the Public Finance Planning Act	96.8	96.8	97.1	96.1	94.2	91.4

Appendix

Status of country-specific recommendations 2017¹
List of measures taken since the April 2017 National Reform Programme

Recommendation	Sub-recommendation	Measure	Done	In progress/pending
CSR 1	Ensure compliance with the Council recommendation of 10 March 2015 under the excessive deficit procedure. Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact.	Lasting return of the deficit to under 3% of GDP as from 2017 Provisions in the 2018 Draft Budgetary Plan (DBP) and the 2018 Draft Social Security Budget	Supplemental appropriation decree and appropriation rescission decree on the central government budget of 20 July 2017 and other savings measures	Following the audit of public accounts commissioned by the government from the French Court of Auditors (Cour des comptes), emergency measures were rolled out in summer 2017 to guarantee the return of the deficit to under 3% of GDP: a supplemental appropriation decree and appropriation rescission decree led to savings of over €3.3bn and regulations measures generated around €1bn in further savings.
	Taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of France's public finances.	Fiscal consolidation adjustment path in the 2018-2022 Public Finance Planning Bill Great Investment Plan (GPI)		The 2018-2022 Public Finance Planning Act will ensure a lasting return to under 3%: the deficit will be 2.6% of GDP in 2018 and despite the double cost of changing the CICE tax credit into across-the-board reductions of expenses, the deficit is expected to remain below the 3% threshold in 2019. The public finance adjustment path adopted by the government for the President's five-year term is based on gradually introducing expenditure savings measures and rapidly implementing tax cuts. This scaling up will enable both the goal of fiscal consolidation to be met and the ongoing recovery of growth to be supported. Over and above the pace of fiscal consolidation, the composition and standard of government expenditure will improve the sustainability of expenditure: besides bufferring activity in the medium run, the Great Investment Plan provides for upgrading public action to achieve productivity gains and lasting savings. Funding for the plan is included in the fiscal adjustment path of the Public Finance Planning Act.

¹ <http://data.consilium.europa.eu/doc/document/ST-9295-2017-INIT/en/pdf>

Recommendation	Sub-recommendation	Measure	Done	In progress/pending
CSR 1	Comprehensively review expenditure items with the aim to make efficiency gains that translate into expenditure savings.	Spending review Efficient government expenditure arm of the Government Investment Plan	"Public Action 2022" initiative	<p>The Government intends to conduct a strategic analysis of the scope of public action. Using a mission and government expenditure review approach for each public policy, the "Public Action 2022" initiative will focus on determining and implementing the structural reforms to be rolled out during the President's five-year term and which are expected to generate substantial savings during the second half of this term.</p> <p>On the basis of calls for projects, a €700m fund will finance the investment costs required to implement the structural reforms. The projects will have to provide a substantial return on investment in terms of lasting operating savings. A project selection committee will single out the most relevant projects in terms of leverage and monitor those selected. Following the selection stage, transformation agreements will be executed between the Minister for Government Action and Public Accounts and the beneficiaries. The Great Investment Plan will also be used to speed up the introduction of paperless procedures in general government subsectors and in the healthcare and social cohesion system (digitalisation of hospitals, heightened ties between hospitals and general practitioners). These investments will make public services more flexible whilst improving their standard and accessibility, and will enable government expenditure to be sustainably contained.</p>
CSR 2	Consolidate the measures reducing labour costs to maximise their efficiency in a budget-neutral manner and in order to scale up their effects on employment and investment.	Transformation of the CICE tax credit into a reduction of employers' contributions on 1 January 2019, as provided for in the 2018 DGP	Extension of the scope of sectors subject to introduction of the payroll tax credit (CITS) to include the social and solidarity economy	<p>As from 1 January 2019, the CICE tax credit will be changed into a last-coming reduction of employers' contributions. This will streamline the current labour cost-reduction system and therefore make it more effective. In 2017, the CICE provides entitlement to a tax credit (corporate income tax or personal income tax) equal to 7% of the payroll for salaries of less than 2.5 times the statutory minimum wage (Smic). This rate will be cut to 6% in 2018 and the arrangements will be replaced in 2019 by a reduction of social security contributions with immediate effect (and not with a one year time-lag in relation to the operative event). This new scheme corresponds to a standard 6 percentage point reduction of social security contributions for salaries of between one and two and a half times the statutory</p>

Recommendation	Sub-recommendation	Measure	Done	In progress/pending
CSR 2	Broaden the overall tax base and take further action to implement the planned decrease in the statutory corporate-income rate.	Transfer of employee contributions to the general social security contribution (CSG) in the 2018 Draft Social Security Budget		Minimum wage in conjunction with a further reduction in labour costs at statutory minimum wage level. A larger number of businesses and sectors will be eligible for the new reduction arrangements, in particular the social and solidarity economy which is currently subject to a specific scheme, the payroll tax credit (CTS).
	Reduction of the statutory rate of corporate income tax in the 2018 DBP	Reduction of the statutory rate of corporate income tax in the 2017 Initial Budget Act on 2017 profits	1 st phase implemented by the 2017 Initial Budget Act on 2017 profits	The 2018 Draft Social Security Budget provides for a transfer of employee contributions to the general social security contribution (CSG) with a significant reduction of labour costs in the private sector (3.15 percentage points of contributions eliminated by a 1.7 percentage point increase in the CSG) and increased financing of social protection through levies on savings and pensions, which will have a less distorting impact. Consistent with the adjustment path set out in the 2018 DBP, the statutory rate of corporate income tax will be cut to 25% between now and 2022, i.e. more than the reduction to 28% provided for in the previous Budget Act.
CSR 3	Improve access to the labour market for jobseekers, in particular less-qualified workers and people with a migrant background, including by revising the system of vocational education and training.	Investments in the skills plan as part of the Great Investment Plan and reform of vocational training and apprenticeship	500 new sandwich courses for the professions of the future have been introduced for the start of the 2017 academic year in vocational high schools (yées professionnels). Implementation of three decrees in June 2016 introducing skills into vocational qualifications.	Training and skills sets arm of the Great Investment Plan that primarily targets less-qualified young people who are far removed from the job market and less-qualified/long-term jobseekers, and heightened support measures for young people (help for young dropouts, continued mainstreaming of the Youth Guarantee scheme, more places in "second chance" schools and better identification of NEETs). The bill for the reform of vocational training and apprenticeship will be presented in 2018.

Recommendation	Sub-recommendation	Measure	Done	In progress/pending
CSR 3	Ensure that minimum wage developments are consistent with job creation and competitiveness.	Legal formula for the statutory minimum wage and opinion of the Smic group	Consistent with the recommendation made by the expert group on the Smic, the government adjusted the statutory minimum wage by +0.9% in January 2017 in strict compliance with the indexation rule, without granting a hike (coup de pouce) over and above legal arrangements (Decree no. 2016-1818 of 22 December 2016).	The adjustment rule allows for increases in the statutory minimum wage which are consistent with achieving cost competitiveness gains at minimum wage level whilst guaranteeing the purchasing power of its recipients. In particular, the indexation formula provides that the minimum wage increases less rapidly than the average salaries of blue-collar and white-collar workers, with only half the latter's increased purchasing power being passed on to the minimum wage, in the absence of a hike, thus leaving significant headroom for wage talks to factor in the productivity gaps between sectors, entities or employees. The statutory minimum wage has not been adjusted in excess of its regulatory determinants since 2007 (except for the July 2012 hike which was essentially intended to take account of the change in the inflation rate recorded during the first half of 2012), in accordance with successive opinions from the independent expert group on the Smic.
CSR 4	Further reduce the regulatory burden for firms, including by pursuing the simplification programme.	Continued simplification, in particular with the "one in, two out" rule Fight against the "over-transposition" of European Directives into French law	So-called "one in, two out" circular of 26 July 2017 Measures provided for in the "choc de simplification" radical administrative streamlining programme implemented to date. Individuals: 158/302 (i.e. 58%); Businesses: 336/485 (i.e. 65%); Local authorities: 48/75 (i.e. 64%)	The circular of 26 July 2017 stipulates that all new regulatory standards must be offset by the repeal or streamlining of at least two existing standards. The administration intends to tackle the over-transposition of European Directives into French law. Any enactment over and above the minimum standard set in the directive is forbidden and a review of the inventory of existing enactments will be undertaken. A bill is set to introduce the right to make a mistake for entrepreneurs acting in good faith in their dealings with government with an eye to improving relations. The bill will also include simplification measures for businesses. Lastly, it will contain initiatives to fight against the over-transposition of European Directives into French law.

Recommendation	Sub-recommendation	Measure	Done	In progress/pending
<p>CSR 4</p>		<p>Action plan in favour of business growth</p> <p>Measures for the self-employed</p>	<p>Orders of 22 September to bolster labour-management dialogue</p>	<p>Action plan built around a bill scheduled for the first half of 2018. Its measures will be geared towards removing the obstacles preventing the expansion of French businesses throughout their lifespan from set up to sale/transfer, by improving access to appropriate financing, by streamlining relations with government, by fostering digitalisation innovation and the opening up of new markets, and by bolstering skills. Discussions will begin in the autumn, in the following forms: working parties with the stakeholders, co-chaired by a politician or local elected representative and a company manager, interviews with experts, online public consultations to gather open contributions, consultations with parliamentary groups and trade federations.</p> <p>Measures in favour of the self-employed:</p> <ul style="list-style-type: none"> - elimination of the social security scheme for the self-employed (RSI) as from 1 January 2018 - social security contribution exemption for the first financial year for those setting up or taking over a business with turnover of less than €40,000 - as from 2019, exemption for those liable for the minimum business premises contribution (CFE) who record annual turnover of less than €5,000 - increase of the thresholds for taxation of micro-entrepreneurs as from 2018 to €170,000 for sales activities and €70,000 for service activities and non-commercial activities to provide access to these simplified arrangements for as many self-employed workers as possible <p>Simplification measures for businesses:</p> <ul style="list-style-type: none"> - streamlining and bolstering economic discussions and labour-management dialogue by merging staff representation bodies (works council, health and safety committee (CHSCT), staff delegates) and recasting the occupational sectors - streamlining the rules for mass redundancies on economic grounds with, inter alia, the scope of the economic rationale being assessed at national level - introducing negotiated contractual termination by mutual agreement for groups of employees as part of an autonomous voluntary

Recommendation	Sub-recommendation	Measure	Done	In progress/pending
<p>CSR 4</p>	<p>Continue to lift barriers to competition in the services sector, including in business services and regulated professions. Simplify and improve the efficiency of public support schemes for innovation.</p>	<p>Housing strategy</p>		<p>redundancy plan which is unrelated to the Job Preservation Plan (PSE) dismissal</p> <ul style="list-style-type: none"> - rolling out a binding scale for labour tribunal awards for cases of unfair dismissal - reducing the time-limit for taking action in the event of disputes over the termination of employment contracts - precedence of company-level agreements in areas not reserved for the sector - special provisions for very small enterprises in the sector agreements. <p>The housing strategy has three main strands:</p> <ul style="list-style-type: none"> (i) Build more, better and cheaper: tax allowance on capital gains, no new technical standards in the construction industry, measures to tackle improper appeals (ii) Career for everyone: housing benefit reform, introduction of a "bail mobilité" (lease for students, apprentices and people undertaking vocational training or moving for professional reasons), construction of 80,000 housing units for students and young workers, bolstering mobility in the social housing stock, helping the poorest households find affordable housing (iii) Improve living conditions: doubling the urban renewal programme, refurbishing the most energy-consuming housing units, renovating the housing stock in the centre of medium-sized towns/cities <p>An assignment on government strategy in the rail sector was entrusted to Jean-Cyril Spinnetta to analyse the conditions for successfully opening up the passenger transport sector to competition. The conclusions should be submitted during Q1 2018 and will be used to determine how the provisions of the Fourth Railway Package should be written into French law the same year.</p>

Recommendation	Sub-recommendation	Measure	Done	In progress/pending
<p>CSR 4</p>		<p>Assessment of innovation support mechanisms</p> <p>Great Investment Plan measures in favour of competitiveness and innovation</p> <p>Industry and innovation fund</p>	<p>A France Stratégie study on clusters, which was published in February 2017, flags up a leverage effect as for each euro of public aid received, they invest an additional two euros in their R&D projects from their own funds</p>	<p>Assessments of innovation support mechanisms are carried out on a regular basis within the framework of the French Innovation Policy Assessment Commission (CNERP). Certain assessments are ongoing such as that of the research tax credit.</p> <p>The Great Investment Plan will finance the third phase of the Invest for the Future Programme (PIA 3), the priorities of which were determined but which had not been allocated appropriations, for a total of €10bn. These appropriations will continue to be overseen by the General Commission for investment. As a result, there will be no additional complexity.</p> <p>An industry and innovation fund will be set up. This fund will be allocated €10bn from disposals or transfers of public assets and will generate income to support innovation, in particular breakthrough innovation.</p>

**Detailed forecast
tables**

DETAILED FORECAST TABLES

Table 1 : Resources and uses of goods and services - Nominal gross domestic product and components				
	2016	2017	2018	
NOMINAL GROSS DOMESTIC PRODUCT (GDP) - level in billions	2 228.9	2 283.6	2 349.0	
	Level in €bn	Volume		
		Rate of change	Rate of change	Rate of change
RESOURCES				
Real gross domestic product*	2 228.9	1.1	1.7	1.7
Imports	695.6	4.2	3.6	3.6
TOTAL RESOURCES	2 924.4	1.9	2.1	2.2
USES				
Private consumption expenditure	1 232.9	2.2	1.3	1.3
Government consumption expenditure	526.7	1.3	1.2	0.0
Gross fixed capital formation (GFCF)	489.4	2.8	3.0	3.9
<i>Of which :</i>				
- GFCF of Non-financial corporations	276.7	3.6	3.7	3.7
- GFCF of Households excluding self-employed	111.6	2.4	4.2	3.4
- GFCF of General Government	76.1	- 0.1	- 1.1	5.4
Exports	652.2	1.8	2.5	3.9
Changes in inventories and net acquisitions of valuables	23.3			
TOTAL USES	2 924.4	1.9	2.1	2.2
Contributions to real GDP growth				
Final domestic demand excluding inventories		2.1	1.6	1.6
Changes in inventories and net acquisitions of valuables		- 0.2	0.4	0.1
Net foreign trade		- 0.8	- 0.4	0.0

(*) Growth rate adjusted for working days.

DETAILED FORECAST TABLES

Table 2: Resources and uses of goods and services - price developments			
	2016	2017	2018
	Rate of change	Rate of change	Rate of change
RESOURCES			
Gross domestic product	0.4	0.8	1.1
Imports	- 2.4	1.8	0.3
TOTAL RESOURCES	-0.3	1.0	0.9
USES			
Private consumption expenditure	0.0	0.9	1.1
Government consumption expenditure	- 0.1	0.8	0.8
Gross fixed capital formation	0.5	1.2	1.3
Exports	- 1.7	1.3	0.5
TOTAL USES	-0.3	1.0	0.9
OTHER PRICE INDICES - annual average			
Consumer Price Index (CPI)	0.2	1.0	1.1
Consumer Price Index excluding tobacco	0.2	1.0	1.0
Harmonised Index of Consumer Prices (HICP)	0.3	1.1	1.2

DETAILED FORECAST TABLES

Table 3 : Sectoral balances – Net lending (+)/ borrowing (-)				
	2015	2016	2017	2018
	pp of GDP	pp of GDP	pp of GDP	pp of GDP
NET LENDING (+)/ BORROWING (-) vis-à-vis the rest of the world	- 2.3	- 2.5	- 2.9	- 2.9
Of which:				
- Balance of goods and services	- 1.5	- 1.9	- 2.5	- 2.4
- Balance of primary incomes and transfers	- 0.7	- 0.6	- 0.5	- 0.5
- Capital account	- 0.1	0.1	0.1	0.1
NET LENDING (+)/ BORROWING (-) of the private sector	1.3	0.9	0.1	- 0.3
Of which:				
- Households	3.1	2.9	2.8	2.7
- Non-financial corporations	- 2.1	- 2.0	- 2.9	- 3.3
NET LENDING (+)/ BORROWING (-) OF GENERAL GOVERNMENT*	- 3.6	- 3.4	- 2.9	- 2.6

(*) according to the Maastricht definition.

Table 4: French external trade				
	2015	2016	2017	2018
	Level in €bn	Level in €bn	Level in €bn	Level in €bn
TOTAL GROSS TRADE BALANCE CIF-FOB	- 59.6	- 61.5	- 75.9	- 76.0
Of which:				
- Manufacture of food products	2.6	0.2	- 0.9	- 0.1
- Energy	- 39.8	- 31.5	- 36.0	- 32.7
- Industry	- 25.9	- 35.3	- 43.9	- 48.2
Total trade balance FOB-FOB - in level	- 45.1	- 48.3	- 62.7	- 62.8
Total trade balance FOB-FOB - in pp of GDP	- 2.1	- 2.2	- 2.7	- 2.7
COMMERCIAL BALANCE EXCLUDING ENERGY AND MILITARY EQUIPMENT - in level CIF-FOB	- 23.5	- 34.7	- 44.4	- 48.0

DETAILED FORECAST TABLES

Table 5 : Non-financial Corporations – Detailed data				
	2015	2016	2017	2018
	Level in €bn	Rate of change	Rate of change	Rate of change
GROSS VALUE ADDED	1 118.2	2.2	2.7	3.2
Compensation of employees	733.0	2.3	3.5	3.3
Ratio: compensation of employees / Gross Value Added – level in %	65.6	65.6	66.1	66.2
Taxes on production	60.0	- 0.2	3.3	3.3
Subsidies on production	- 31.8	- 0.2	5.6	10.3
Gross operating surplus (GOS)	357.0	2.2	1.3	3.5
Ratio : Margin rate of non-financial corporations (Gross operating surplus / Gross Value Added) – level in %	31.9	31.9	31.5	31.6
Property income paid	263.6	0.4	3.4	7.0
Property income received	185.6	1.7	1.9	7.5
Taxes on income and wealth	38.1	4.4	3.0	1.5
GROSS SAVINGS	216.2	4.5	- 1.1	3.2
Ratio : Saving Rate (Gross Savings / Gross Value Added) – level in %	19.3	19.8	19.0	19.0
Gross fixed capital formation (GFCF)	255.6	4.4	4.7	4.8
Ratio : Self-financing rate (Savings / GFCF) – level in %	84.6	84.7	80.0	78.8
Ratio : Investment rate (GFCF / Gross Value Added) – level in %	22.9	23.3	23.8	24.2
Changes in inventories ⁽¹⁾	25.2	23.2	32.9	35.6
NET LENDING (+) / BORROWING (-) – in level. pp of Gross Value Added	- 4.1	- 3.9	- 5.6	- 6.4

(1) Changes in inventories - level in billions.

Table 6: Households - Income Accounts				
	2015	2016	2017	2018
	Level in €bn	Rate of change	Rate of change	Rate of change
RESOURCES				
Wages and salaries	845.1	2.0	3.1	2.8
- <i>Employees' social contributions</i>	120.4	3.0	3.5	- 8.7
Wages and salaries (net of employees' social contributions)	724.7	1.9	3.0	4.7
Mixed income (mainly self-employed)	119.8	1.8	2.0	2.4
Gross operating surplus (excluding self-employed)	176.0	2.1	2.3	2.7
Social benefits in cash	476.0	1.8	1.9	1.8
Property income	124.4	- 3.8	0.6	3.2
Other resources	67.1	3.6	2.5	2.9
USES				
Social contributions by self-employed and non-employed persons	30.6	- 0.6	- 0.6	- 4.8
Current taxes on income and wealth	216.4	1.1	1.2	9.2
Property income paid (paid interests)	17.0	- 7.4	1.7	15.4
Other uses	70.8	1.8	2.5	2.9
Gross Disposable Income (GDI)	1 353.3	1.7	2.6	2.5

Table 7: Households - From disposable income to net lending				
	2015	2016	2017	2018
	Level in €bn	Rate of change	Rate of change	Rate of change
GROSS DISPOSABLE INCOME (GDI)	1 353.3	1.7	2.6	2.5
Purchasing power of GDI	0.8	1.8	1.7	1.4
Final consumption expenditure	1 160.6	2.2	2.2	2.5
GROSS SAVINGS	192.7	- 1.0	5.2	2.3
GLOBAL SAVING RATE (Gross savings / GDI) – in level	14.2	13.9	14.2	14.2
Gross fixed capital formation (GFCF)	117.9	3.1	5.9	5.0
Other net uses	7.3	- 23.8	28.9	5.1
NET LENDING (€ billions)	67.5	63.7	64.9	62.7
FINANCIAL SAVING RATE (Net lending / GDI) – in level	5.0	4.6	4.6	4.3

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Table 8: International Environment - Basic assumptions			
	2016	2017	2018
Short-term interest rate (annual average)	- 0.3	- 0.3	0.1
Long-term interest rate (annual average)	0.5	0.9	1.5
USD/€ exchange rate (annual average)	1.11	1.13	1.18
Nominal effective exchange rate of the French economy	1.4	1.0	1.5
World GDP growth (excluding EU)	3.5	3.8	3.9
Growth of relevant foreign markets	2.6	4.0	4.0
World imports (excluding EU)	- 0.1	3.6	3.6
Oil prices (Brent, USD / barrel)	44	52	52

Table 9: International Environment - Detailed forecasts of GDP growth				
	2015	2016	2017	2018
	Level* (USDbn)	Rate of change	Rate of change	Rate of change
France**	2 433	1.1	1.7	1.7
United Kingdom	2 863	1.8	1.6	1.4
European Union (28 countries)	16 326	2.0	2.2	2.0
Euro area	11 606	1.8	2.0	1.8
Euro area excluding France	9 173	1.9	2.1	1.9
United States	18 037	1.5	2.0	2.4
Japan	4 382	1.0	2.0	1.3

(*) System of National Accounts 2008 (2008 SNA) for the United States; 2008 SNA / European System of Accounts (ESA 2010) for France, United Kingdom, the euro area and the EU while those of Japan are in 1993 SNA.

(**) Growth rate adjusted for working days.

Table 10: International Environment - Consumer price Index				
	2015	2016	2017	2018
France	0.0	0.2	1.0	1.1
United Kingdom	0.0	0.7	2.7	2.7
Euro area	0.0	0.2	1.5	1.2
United States	0.1	1.3	2.1	2.2
Japan	0.8	- 0.1	0.3	0.5

Table 11: Labour market developments				
	2016	2016	2017	2018
	Level	Rate of change	Rate of change	Rate of change
Employment, persons¹ - Total economy - Annual average	27 631	0.8	1.0	0.5
Employment, persons - France, all sectors - Annual average, thousands of persons ²	27 524	210	271	134
Employment, persons - France, Non-farm market sector - Annual average ²	16 377	1.1	1.4	1.0
Employment, persons - France, Non-farm market sector - YoY, thousands of persons ²	16 499	221	210	119
Compensation of employees - Total economy	1 159.7	1.7	3.1	2.8
Wages and salaries per employee - Non-farm market sector		1.2	1.7	2.1
Labour productivity - Total economy³		0.3	0.7	1.2

(1) Occupied population, domestic concept according to the national accounts definition.

(2) Localised employment estimates (Estel data).

(3) Productivity per person employed (Real GDP / total employment).

Table 12: Real and potential GDP growth			
	2016	2017	2018
	Rate of change	Rate of change	Rate of change
Actual GDP growth*	1.1	1.7	1.7
Potential GDP growth	1.2	1.25	1.25
Contributions:			
- Labour (total hours worked)	0.2	0.1/0.2	0.1/0.2
- Capital	0.4	0.4/0.5	0.4/0.5
- Total Factor Productivity (TFP)	0.6	0.6/0.7	0.6/0.7
Output gap (in pp of potential GDP)	- 1.5	- 1.1	- 0.7

(*) Growth rate adjusted for working days.

DETAILED FORECAST TABLES

Table 13: General government budgetary targets broken down by subsector				
Net lending (+) / net borrowing (-) (B.9) by sub-sector	ESA Code	2016	2017	2018
		% GDP	% GDP	% GDP
1. General government	S.13	-3.4	-2.9	-2.6
2. Central government	S.1311	-3.4	-3.3	-3.3
3. State government	S.1312	-	-	-
4. Local government	S.1313	0.1	0.1	0.1
5. Social security funds	S.1314	-0.1	0.2	0.5
6. Interest expenditure	EDP D.41	1.9	1.8	1.7
7. Primary balance (1 + 6)		-1.5	-1.1	-0.8
8. One-off and temporary measures*		-0.1	-0.1	-0.1
9. Real GDP growth (%)		1.2	1.7	1.7
10. Potential GDP growth (%)		1.2	1.25	1.25
11. Output gap (% of potential GDP)		-1.5	-1.1	-0.7
12. Cyclical budgetary component		-0.8	-0.6	-0.4
13. Cyclically- adjusted balance (1 - 12)		-2.6	-2.3	-2.2
14. Cyclically-adjusted primary balance (13 + 6)		-0.7	-0.5	-0.5
15. Structural balance (13 - 8) (% of potential GDP)		-2.5	-2.2	-2.1

* A plus sign means deficit-reducing one-off measures

Table 14: General government debt developments				
	ESA Code	2016	2017	2018
		% GDP	% GDP	% GDP
1. Gross debt ¹		96.3	96.8	96.8
2. Change in gross debt ratio		0.7	0.5	0.0
Contributions to changes in gross debt				
3. Primary balance		-1.5	-1.1	-0.8
4. Interest expenditure	D.41	1.9	1.8	1.7
5. Stock-flow adjustment		-1.2	-0.1	0.1
<i>Of which</i>				
<i>Differences between cash and accruals²</i>				
<i>Net accumulation of financial assets³</i>				
<i>Of which</i>				
<i>privatisation proceeds</i>				
<i>Valuation effects and other⁴</i>				
for the record.: Implicit interest rate on debt ⁵		2.0	1.9	1.8
Liquid financial assets ⁶				
Net financial debt				
Debt amortisation (existing bonds) since the end of the previous year				
Percentage of debt denominated in foreign currency				
Average maturity				
Debt ratio, excluding support for the euro area		93.4	93.9	94.0

(1) As defined in Regulation 479/2009.

(2) The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

(3) Liquid assets (currency), government securities, assets on third countries, government-controlled enterprises and the difference between listed and non-listed assets could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

(4) Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

(5) Proxied by interest expenditure divided by the debt level of the previous year.

(6) Liquid assets are here defined as AF.1, AF.2, AF.3 (consolidated for general government, i.e. netting out financial positions between government entities), A.F511, AF.52 (only if listed on the stock exchange).

DETAILED FORECAST TABLES

Table 15: Contingent liabilities			
	2016	2017	2018
	% GDP	% GDP	% GDP
Public guarantees*	8.7		
Of which: linked to the financial sector			

* It corresponds to guarantees provided by the central government as provided for by financial laws, under clearly defined agreements as regards loans. It is worth noting that the debt of the Unedic, which is a public administration, is already included in the Maastricht debt (its guaranteed debt, which is included here, represents around 1.5 p.p. of GDP). Moreover, following Eurostat's decision (27th January 2011), the Member States' guarantees for the ERSF loans are already recorded as part of their Maastricht debt in proportion to their guarantee (it represents around 1.7 p.p. of GDP).

Table 16: General government expenditure and revenue projections in ESA 2010 with no policy change broken down by main components				
General government (S.13)	ESA 2010	2016	2017	2018
		% GDP	% GDP	% GDP
1. Total gross revenue with no policy change	TR	53.0	53.1	53.0
Of which				
1.1. Taxes on production and imports	D.2	16.0	16.2	16.1
1.2. Current taxes on income, wealth, etc	D.5	12.5	12.4	12.3
1.3. Capital taxes	D.91	0.6	0.6	0.5
1.4. Social contributions	D.61	18.8	18.9	18.9
1.5. Property income	D.4	0.7	0.7	0.6
1.6. Other		4.6	4.5	4.5
for the record: Tax burden		44.4	44.7	44.4
2. Total expenditure with no policy change (including tax credits)	TE	56.4	56.3	56.3
Of which				
2.1. Compensation of employees	D.1	12.7	12.7	12.6
2.2. Intermediate consumption	P.2	5.0	5.0	4.9
2.3. Social payments	D.62. D.63	25.9	25.9	25.7
Of which Unemployment benefits		1.4	1.4	1.5
2.4. Interest expenditure	EDP D.41	1.9	1.8	1.8
2.5. Subsidies	D.3	2.6	2.6	2.8
2.6. Gross fixed capital formation	P.51	3.4	3.4	3.5
2.7. Capital transfers	D.9	1.0	1.1	1.0
2.8 Other		4.0	3.9	3.9

Table 17: General government expenditure and revenue targets				
General government (S.13)	Esa code	2016	2017	2018
		% GDP	% GDP	% GDP
1. Total gross revenue target	TR	53.0	53.1	53.0
Of which				
1.1. Taxes on production and imports	D.2	16.0	16.2	16.3
1.2. Current taxes on income, Wealth, Etc.	D.5	12.5	12.4	12.9
1.3. Capital taxes	D.91	0.6	0.6	0.5
1.4. Social contributions	D.61	18.8	18.9	18.2
1.5. Property income	D.4	0.7	0.7	0.6
1.6. Other		4.6	4.5	4.5
for the record: Tax burden		44.4	44.7	44.3
2. Total expenditure target (including tax credits)	TE	56.4	56.1	55.5
Of which				
2.1. Compensation of employees	D.1	12.7	12.7	12.5
2.2. Intermediate consumption	P.2	5.0	5.0	4.9
2.3. Social payments	D.62, D.63	25.9	25.7	25.4
Of which Unemployment benefits		1.4	1.4	1.5
2.4. Interest expenditure	D.41	1.9	1.8	1.7
2.5. Subsidies	D.3	2.6	2.6	2.8
2.6. Gross fixed capital formation	P.51	3.4	3.3	3.5
2.7. Capital transfers	D.9	1.0	1.1	1.0
2.8. Other		4.0	3.9	3.8

Table 18: Amounts to be excluded from the expenditure benchmark				
	2016	2016	2017	2018
	€bn	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue				
2. Cyclical unemployment benefit expenditure	1.6	0.1	0.1	0.0
3. Effect of discretionary revenue measures	-2.9	-0.1	-0.1	-0.3
4. Revenue increases mandated by law				

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Table 19: General government expenditure by function	
	% of GDP
- General public services	6.3
- Defence	1.8
- Public order and safety	1.6
- Economic affairs	5.7
- Environmental protection	1.0
- Housing and community amenities	1.1
- Health	8.2
- Recreation, culture and religion	1.3
- Education	5.5
- Social protection	24.6
Total Expenditure	57.0

Source: Eurostat, 2015

Table 20: Divergence from latest SP				
	ESA Code	2016 % GDP	2017 % GDP	2018 % GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		-3.4	-2.8	-2.3
Draft Budgetary Plan		-3.4	-2.9	-2.6
Difference		0.0	-0.1	-0.3
General government net lending projection at unchanged policies	B.9			
Stability Programme		-3.4	-3.0	-2.4
Draft Budgetary Plan		-3.4	-3.2	-3.3
Difference*		0.0	-0.2	-0.8

The changes between the Stability Programme and the DBP are mainly due to a revision of the unchanged policy methodology on the expenditure side. The new projection methodology for expenditures (excluding tax credits) is based on the observed real growth in the past 10 years. This new approach is simpler and closer to the methodology used by the Commission.

Table 21: Methodological aspects

	Step of the budgetary process for which it was used	Relevant features of the model/ technique used
MESANGE ¹	Macroeconometric model, used for the analysis of the impact of measures on	Vector error correction model (VECM) estimated on the national accounts of
Opale ²	Macroeconomic forecasts for 2016-2017, on which are based the public finance forecasts presented in the Draft Budget-	Vector error correction model (VECM) estimated on the national accounts of
Guyon-Sorbe ³	Structural effort decomposed by general government subsector	Module of decomposition of the structural balance

(1) See « Le modèle MESANGE réestimé en base 2000 », March 2010, DESE, Insee and DG Trésor working paper.
 (2) See « La maquette de prévision OPALÉ », December 2010, DG Trésor working paper no. 2010/07.
 (3) See « Solde structurel et effort structurel : vers une décomposition par sous-secteur des administrations publiques », December 2009, DG Trésor working paper no. 2009/13.

Table 22. Multiyear public finance trajectory

(% of GDP)	2016	2017	2018	2019	2020	2021	2022
General government balance (Maastricht definition)	-3.4	-2.9	-2.6	-3.0	-1.5	-0.9	-0.2
Of which State	-3.3	-3.2	-3.2				
Of which Other central government bodies	-0.1	-0.1	0.0				
Of which Local government	0.1	0.1	0.1				
Of which Social security funds	-0.1	0.2	0.5				
Cyclical balance	-0.8	-0.6	-0.4	-0.1	0.1	0.3	0.6
One-off and other temporary measures (% of potential GDP)	-0.1	-0.1	-0.1	-1.0	-0.1	-0.1	0.0
Structural balance (% of potential GDP)	-2.5	-2.2	-2.1	-1.8	-1.6	-1.2	-0.8
Structural adjustment	0.2	0.2	0.1	0.3	0.3	0.4	0.4
General government expenditures excluding tax credits	55.0	54.6	53.9	53.3	52.5	51.8	50.9
Real government expenditure rate excluding tax credits (%)	1.2	1.8	1.5	1.7	1.8	2.0	1.9
Nominal growth rate of expenditures excluding tax credits (%)	1.0	0.8	0.5	0.6	0.4	0.2	0.1
Tax burden excluding tax credits (% PIB)	44.4	44.7	44.3	43.3	43.6	43.6	43.6
Government debt (Maastricht definition)	96.3	96.8	96.8	97.1	96.1	94.2	91.4
Government debt (excluding financial support for the euro area)	93.4	93.9	94.0	94.4	93.4	91.6	88.9

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Table 23: In-year quarterly outturn on cash basis for the general government and its sub-sectors		
In €bn for 2016	1 st quarter	1 st semester
Overall balance by sub-sector		
General government		
Central government	-29.6	-62.3
State government		
Local government	-10.7	1.6
Social security funds	-5.7	-6.1
Total revenue / inflows		
Local government	42.8	125.5
Social security funds	90.6	187.0
Total expenditure / outflows		
Local government	53.5	123.9
Social security funds	96.3	193.0

Tableau 24 : In-year quarterly outturn in accordance with ESA standards for the general government and its sub-sectors			
In €bn for 2016	ESA Code	2017	
		1 st quarter	2 nd quarter
Overall balance by sub-sector			
General government	S. 13	-17.9	-16.1
Central government	S. 1311		
State government	S. 1312		
Local government	S. 1313		
Social security funds	S. 1314		
For general government			
Total revenue	TR	299.1	301.8
Total expenditure	TE	316.9	317.9

Table 11: Labour market developments				
	2016	2016	2017	2018
	Level	Rate of change	Rate of change	Rate of change
Employment, persons¹ - Total economy - Annual average	27 631	0.8	1.0	0.5
Employment, persons - France, all sectors - Annual average, thousands of persons ²	27 524	210	271	134
Employment, persons - France, Non-farm market sector - Annual average ²	16 377	1.1	1.4	1.0
Employment, persons - France, Non-farm market sector - YoY, thousands of persons ²	16 499	221	210	119
Compensation of employees - Total economy	1 159.7	1.7	3.1	2.8
Wages and salaries per employee - Non-farm market sector		1.2	1.7	2.1
Labour productivity - Total economy³		0.3	0.7	1.2

(1) Occupied population, domestic concept according to the national accounts definition.

(2) Localised employment estimates (Estel data).

(3) Productivity per person employed (Real GDP / total employment).

Table 12: Real and potential GDP growth			
	2016	2017	2018
	Rate of change	Rate of change	Rate of change
Actual GDP growth*	1.1	1.7	1.7
Potential GDP growth	1.2	1.25	1.25
Contributions:			
- Labour (total hours worked)	0.2	0.1/0.2	0.1/0.2
- Capital	0.4	0.4/0.5	0.4/0.5
- Total Factor Productivity (TFP)	0.6	0.6/0.7	0.6/0.7
Output gap (in pp of potential GDP)	- 1.5	- 1.1	- 0.7

(* Growth rate adjusted for working days.

DETAILED FORECAST TABLES

Table 13: General government budgetary targets broken down by subsector				
Net lending (+) / net borrowing (-) (B.9) by sub-sector	ESA Code	2016	2017	2018
		% GDP	% GDP	% GDP
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2. Central government	S.1311	-3.4	-3.3	-3.3
3. State government	S.1312	-	-	-
4. Local government	S.1313	0.1	0.1	0.1
5. Social security funds	S.1314	-0.1	0.2	0.5
6. Interest expenditure	EDP D.41	1.9	1.8	1.7
7. Primary balance (1 + 6)		-1.5	-1.1	-0.8
8. One-off and temporary measures*		-0.1	-0.1	-0.1
9. Real GDP growth (%)		1.2	1.7	1.7
10. Potential GDP growth (%)		1.2	1.25	1.25
11. Output gap (% of potential GDP)		-1.5	-1.1	-0.7
12. Cyclical budgetary component		-0.8	-0.6	-0.4
13. Cyclically-adjusted balance (1 - 12)		-2.6	-2.3	-2.2
14. Cyclically-adjusted primary balance (13 + 6)		-0.7	-0.5	-0.5
15. Structural balance (13 - 8) (% of potential GDP)		-2.5	-2.2	-2.1

* A plus sign means deficit-reducing one-off measures

Table 14: General government debt developments				
	ESA Code	2016	2017	2018
		% GDP	% GDP	% GDP
1. Gross debt ¹		96.3	96.8	96.8
2. Change in gross debt ratio		0.7	0.5	0.0
Contributions to changes in gross debt				
3. Primary balance		-1.5	-1.1	-0.8
4. Interest expenditure	D.41	1.9	1.8	1.7
5. Stock-flow adjustment		-1.2	-0.1	0.1
<i>Of which</i>				
<i>Differences between cash and accruals²</i>				
<i>Net accumulation of financial assets³</i>				
<i>Of which</i>				
<i>privatisation proceeds</i>				
<i>Valuation effects and other⁴</i>				
for the record.: Implicit interest rate on debt ⁵		2.0	1.9	1.8
Liquid financial assets ⁶				
Net financial debt				
Debt amortisation (existing bonds) since the end of the previous year				
Percentage of debt denominated in foreign currency				
Average maturity				
Debt ratio, excluding support for the euro area		93.4	93.9	94.0

(1) As defined in Regulation 479/2009.

(2) The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

(3) Liquid assets (currency), government securities, assets on third countries, government-controlled enterprises and the difference between listed and non-listed assets could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

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(5) Proxied by interest expenditure divided by the debt level of the previous year.

(6) Liquid assets are here defined as AF.1, AF.2, AF.3 (consolidated for general government, i.e. netting out financial positions between government entities), A.F511, AF.52 (only if listed on the stock exchange).

DETAILED FORECAST TABLES

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	2016	2017	2018
	% GDP	% GDP	% GDP
Public guarantees*	8.7		
Of which: linked to the financial sector			

* It corresponds to guarantees provided by the central government as provided for by financial laws, under clearly defined agreements as regards loans. It is worth noting that the debt of the Unedic, which is a public administration, is already included in the Maastricht debt (it represents around 1.5 p.p. of GDP). Moreover, following Eurostat's decision (27th January 2011), the Member States' guarantees for the ERSF loans are already recorded as part of their Maastricht debt in proportion to their guarantee (it represents around 1.7 p.p. of GDP).

Table 16: General government expenditure and revenue projections in ESA 2010 with no policy change broken down by main components				
	ESA 2010	2016	2017	2018
General government (S.13)		% GDP	% GDP	% GDP
1. Total gross revenue with no policy change	TR	53.0	53.1	53.0
Of which				
1.1. Taxes on production and imports	D.2	16.0	16.2	16.1
1.2. Current taxes on income, wealth, etc	D.5	12.5	12.4	12.3
1.3. Capital taxes	D.91	0.6	0.6	0.5
1.4. Social contributions	D.61	18.8	18.9	18.9
1.5. Property income	D.4	0.7	0.7	0.6
1.6. Other		4.6	4.5	4.5
for the record: Tax burden		44.4	44.7	44.4
2. Total expenditure with no policy change (including tax credits)	TE	56.4	56.3	56.3
Of which				
2.1. Compensation of employees	D.1	12.7	12.7	12.6
2.2. Intermediate consumption	P.2	5.0	5.0	4.9
2.3. Social payments	D.62. D.63	25.9	25.9	25.7
Of which Unemployment benefits		1.4	1.4	1.5
2.4. Interest expenditure	EDP D.41	1.9	1.8	1.8
2.5. Subsidies	D.3	2.6	2.6	2.8
2.6. Gross fixed capital formation	P.51	3.4	3.4	3.5
2.7. Capital transfers	D.9	1.0	1.1	1.0
2.8 Other		4.0	3.9	3.9

Table 17: General government expenditure and revenue targets				
General government (S.13)	Esa code	2016	2017	2018
		% GDP	% GDP	% GDP
1. Total gross revenue target	TR	53.0	53.1	53.0
Of which				
1.1. Taxes on production and imports	D.2	16.0	16.2	16.3
1.2. Current taxes on income, Wealth, Etc.	D.5	12.5	12.4	12.9
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1.4. Social contributions	D.61	18.8	18.9	18.2
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Table 18: Amounts to be excluded from the expenditure benchmark				
	2016	2016	2017	2018
	€bn	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue				
2. Cyclical unemployment benefit expenditure	1.6	0.1	0.1	0.0
3. Effect of discretionary revenue measures	-2.9	-0.1	-0.1	-0.3
4. Revenue increases mandated by law				

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Table 19: General government expenditure by function	
	% of GDP
3- General public services	6.3
4- Defence	1.8
5- Public order and safety	1.6
6- Economic affairs	5.7
7- Environmental protection	1.0
8- Housing and community amenities	1.1
9- Health	8.2
10 - Recreation, culture and religion	1.3
12 - Education	5.5
13- Social protection	24.6
14 Total Expenditure	57.0

Source: Eurostat, 2015

Table 20: Divergence from latest SP				
	ESA Code	2016 % GDP	2017 % GDP	2018 % GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		-3.4	-2.8	-2.3
Draft Budgetary Plan		-3.4	-2.9	-2.6
Difference		0.0	-0.1	-0.3
General government net lending projection at unchanged policies	B.9			
Stability Programme		-3.4	-3.0	-2.4
Draft Budgetary Plan		-3.4	-3.2	-3.3
Difference*		0.0	-0.2	-0.8

The changes between the Stability Programme and the DBP are mainly due to a revision of the unchanged policy methodology on the expenditure side. The new projection methodology for expenditures (excluding tax credits) is based on the observed real growth in the past 10 years. This new approach is simpler and closer to the methodology used by the Commission.

Table 21: Methodological aspects		
	Step of the budgetary process for which it was used	Relevant features of the model/ technique used
MESANGE ¹	Macroeconometric model, used for the analysis of the impact of measures on	Vector error correction model (VECM) estimated on the national accounts of
Opale ²	Macroeconomic forecasts for 2016-2017, on which are based the public finance forecasts presented in the Draft Budget-	Vector error correction model (VECM) estimated on the national accounts of
Guyon-Sorbe ³	Structural effort decomposed by general government subsector	Module of decomposition of the structural balance

(1) See « Le modèle MESANGE réestimé en base 2000 », March 2010, DESE, Insee and DG Trésor working paper.
 (2) See « La maquette de prévision OPALÉ », December 2010, DG Trésor working paper no. 2010/07.
 (3) See « Solde structurel et effort structurel : vers une décomposition par sous-secteur des administrations publiques », December 2009, DG Trésor working paper no. 2009/13.

Table 22. Multiyear public finance trajectory							
(% of GDP)	2016	2017	2018	2019	2020	2021	2022
General government balance (Maastricht definition)	-3.4	-2.9	-2.6	-3.0	-1.5	-0.9	-0.2
Of which State	-3.3	-3.2	-3.2				
Of which Other central government bodies	-0.1	-0.1	0.0				
Of which Local government	0.1	0.1	0.1				
Of which Social security funds	-0.1	0.2	0.5				
Cyclical balance	-0.8	-0.6	-0.4	-0.1	0.1	0.3	0.6
One-off and other temporary measures (% of potential GDP)	-0.1	-0.1	-0.1	-1.0	-0.1	-0.1	0.0
Structural balance (% of potential GDP)	-2.5	-2.2	-2.1	-1.8	-1.6	-1.2	-0.8
Structural adjustment	0.2	0.2	0.1	0.3	0.3	0.4	0.4
General government expenditures excluding tax credits	55.0	54.6	53.9	53.3	52.5	51.8	50.9
Real government expenditure rate excluding tax credits (%)	1.2	1.8	1.5	1.7	1.8	2.0	1.9
Nominal growth rate of expenditures excluding tax credits (%)	1.0	0.8	0.5	0.6	0.4	0.2	0.1
Tax burden excluding tax credits (% PIB)	44.4	44.7	44.3	43.3	43.6	43.6	43.6
Government debt (Maastricht definition)	96.3	96.8	96.8	97.1	96.1	94.2	91.4
Government debt (excluding financial support for the euro area)	93.4	93.9	94.0	94.4	93.4	91.6	88.9

Table 23: In-year quarterly outturn on cash basis for the general government and its sub-sectors		
In €bn for 2016	1 st quarter	1 st semester
Overall balance by sub-sector		
General government		
Central government	-29.6	-62.3
State government		
Local government	-10.7	1.6
Social security funds	-5.7	-6.1
Total revenue / inflows		
Local government	42.8	125.5
Social security funds	90.6	187.0
Total expenditure / outflows		
Local government	53.5	123.9
Social security funds	96.3	193.0

Tableau 24 : In-year quarterly outturn in accordance with ESA standards for the general government and its sub-sectors			
In €bn for 2016	ESA Code	2017	
		1 st quarter	2 nd quarter
Overall balance by sub-sector			
General government	S. 13	-17.9	-16.1
Central government	S. 1311		
State government	S. 1312		
Local government	S. 1313		
Social security funds	S. 1314		
For general government			
Total revenue	TR	299.1	301.8
Total expenditure	TE	316.9	317.9

