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From:	Étienne Oudot de Dainville, Permanent Representation of France to the EU
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To:	Mr Uwe CORSEPIUS, Secretary-General of the 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
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Delegations will find attached France's Draft Budgetary Plan for 2016 in English.

This document is aimed for discussion in the Eurogroup.



DRAFT BUDGETARY PLAN FOR

2016

ECONOMIC, SOCIAL AND FINANCIAL REPORT

EXTRACT

Introduction

The Government's economic policy has had only one objective since the President took office: promoting France's economic recovery. In the previous decade, and more particularly, during the economic and financial crisis of 2008, followed by the sovereign debt crisis in Europe, France's government debt soared, its economy became less competitive, its companies lost market share and unemployment surged. In 2012, France's general government deficit was about to exceed 5% of GDP, whereas Germany had achieved a balanced budget. The economic recovery strategy implemented since 2012 is built on three pillars:

- (i) fiscal consolidation,
- (ii) reforms to boost competitiveness, streamline our regulations and stimulate investment, growth and innovation, and
- (iii) lowering unemployment, particularly long-term unemployment, and improving the fluidity of the labour market.

The preliminary positive results of the recovery strategy are now being felt. Efforts to contain government expenditure have led to a significant reduction in the deficit, despite weak growth between 2012 and 2014. The deficit will stand at 3.3% of GDP in 2016, which is equivalent to its 2008 level. The cyclically-adjusted deficit shows an even more substantial improvement, returning to its 2000 level. In addition, economic conditions are improving and growth is expected to reach 1% this year and 1.5% in 2016 in the 2016 draft budgetary plan. This improvement has come with a stabilisation of export market shares, following a decade of steady losses, and an improvement in competitiveness and corporate margins. The latter have increased by nearly 2 pp from their low point in mid-2014 with the

support of the Tax Credit for Competitiveness and Employment and the Responsibility and Solidarity Pact, regaining two thirds of the ground lost since the crisis. Job creation in the private sector has resumed, halting the rise in the unemployment rate, although the rate is still too high.

The momentum of reform has been maintained and the Government will live up to its commitment to put the French economy back on track for sustainable growth that promotes employment and social inclusion.

The fiscal strategy, based on containment of government expenditure, will continue in 2016, with the implementation of the savings measures under the plan to save €50bn. Government expenditure growth is at its lowest level in decades. The savings will reduce the deficit to 3.3% of GDP in 2016, in line with our European commitments and we will still finance our priorities and live up to our promises to cut taxes and contributions for businesses and households. The Responsibility and Solidarity Pact will be rolled out as announced and, combined with the full effects of the Tax Credit for Competitiveness and Employment, it will continue the reduction of taxes and contributions borne by businesses by more than €40bn in 2017, and reduce personal income tax by a total of €5bn in 2016. Measures to boost non-cost competitiveness and reforms to streamline our economy and adapt to the changes brought about by the digital revolution will also be stepped up. Finally, action will continue to fight unemployment, with a targeted effort to support and train jobseekers and cross-cutting measures to make the labour market more fluid. This action will help ensure genuine professional social security that is better able to promote workers' careers and business development.

I. A positive economic outlook in Europe

The economic recovery has been under way since the start of the year and is now spreading to all economic sectors, including services, where growth had been lower up until now. Business confidence has improved sharply in the last year, rising by 8 points, and stood at its highest level since 2011 in the summer. Consumer confidence is at its highest level since 2007. Despite some quarterly ups and downs in the first semester, in large part due to exogenous factors, the underlying trend clearly shows an improvement. Growth has been boosted by a much more favourable external environment (oil prices, euro exchange rate, ECB monetary policy, higher growth for our partners) and by the policies implemented in France, which promote growth and competitiveness with increasingly palpable effects.

The growth forecasts for 2015 (1.0%) and 2016 (1.5%) are in line with the Consensus Forecasts, which all show substantially higher growth in 2016, and factor in the slowdown in emerging countries and its repercussions on the global economy.

II. The three major challenges facing the French economy

France's economy can rely on many structural advantages: the population growth rate is one of the highest in Europe; labour productivity ranks with the best in the world; French companies enjoy strong global positions in many sectors; the procedures for starting a business rank as some of the fastest and least expensive in Europe, ahead of Germany and the United Kingdom¹; the tax system is one of the most competitive on an international scale for R&D and the digital sector; and finally, France's infrastructure and heritage are world class and constitute a major factor in its attractiveness. France is at the forefront of European countries for business

start-ups², foreign investment in manufacturing³, international patent applications, foreign visitors⁴ and foreign students⁵. France's attractiveness is constantly promoted and renewed, as can be seen with the reopening of the Halle Freyssinet in Paris in 2016, which will become the largest new technology business incubator in the world.

Despite these considerable advantages, the French economy faced three major challenges in 2012: (i) a large government deficit, (ii) a loss of business competitiveness, (iii) rising unemployment.

(i) The first challenge for the French economy is reducing the government deficit. It was still at 5.1% of GDP in 2011, but it was reduced to 3.9% in 2014, despite unfavourable economic conditions. This was achieved through strict containment of government expenditure. The structural deficit was cut by more than half to its lowest level since the beginning of the century. Efforts will continue to bring the deficit down to less than 3% in 2017 and reduce the debt-to-GDP ratio, which grew by nearly 25 pp of GDP between 2007 and 2012 to stand at 95.6% of GDP at the end of 2014.

(ii) The second challenge facing the French economy is its competitiveness. The competitiveness of French companies declined between 2002 and 2011, along with their export performance. Several factors can be cited, including the arrival of emerging economies on certain markets, the rising exchange rate of the euro after 2000, labour costs that rose more rapidly than Germany's, and weak performance in terms of productivity and non-cost competition (less R&D, lack of training in certain sectors, etc.). But French companies were also lagging behind their European

(1) World Bank (2014), Doing business report

(2) Eurostat (2014)

(3) Ernst & Young (2015), Baromètre de l'attractivité du site France

(4) World Tourism Organization (2014)

(5) Campus France (2014)

competitors after 2000. Companies squeezed their profit margins to partly offset their competitiveness losses, which reduced their capacity for innovation. These changes contributed to France's rising trade deficit. Since 2012, developments have been much more favourable, with lower manufacturing wage costs than in Germany (in the first quarter of 2015, the hourly cost in France was €37.40, compared with €38.90 in Germany) and France's market shares in world trade held steady⁶. The trade deficit⁷ for the first half of 2015 stood at €21.7bn, significantly smaller than €25bn for the first time since 2009. After reaching a historic peak in the first half of 2011, the trade deficit, excluding energy and military equipment, was halved to €9bn in the first six months of 2015. At the same time, trade in services continued to post a large surplus, standing at €18bn in 2014. This offset a large proportion of the trade deficit on goods. Reforms to improve competitiveness by holding down production costs and reforms to boost productivity will continue in order to sustain France's economic recovery and raise its potential growth rate.

(iii) The third challenge facing the French economy is the way its labour market works and, more generally, the issue of social inclusion. The crisis led to a surge in unemployment in Europe. Even though this surge was contained in France, compared with countries such as Spain or Italy, the French unemployment rate rose from approximately 8% of the labour force after 2000 to some 10% after 2013. The fall of 0.1% for France as a whole at the start of 2015 was encouraging, but reforms must continue to achieve a bigger and more sustainable decrease in joblessness in order to give struggling youth better prospects and to prevent the long-term

unemployed from being shut out of the job market for good.

The Government's economic strategy to meet these challenges focuses on boosting growth and employment, while also achieving fiscal consolidation at a suitable pace, and on raising the potential growth rate.

The measures set out in the National Reform Programme of April 2015 are expected to add 4 pp of GDP to growth by 2020, with significant effects starting to be felt in 2015 and 2016⁸.

III. Economic strategy to achieve fiscal consolidation and boost competitiveness and employment

a) Keeping up efforts to achieve fiscal consolidation through vigorous containment of government expenditure, financing priorities and lowering taxes and contributions

The growth of nominal government expenditure slowed from 1.8% in 2013 to 0.9% in 2014 (excluding tax credits). Such a low growth rate is unprecedented and contrasts with the average growth rate of 3.2% between 2007 and 2012. At the same time the increase in the aggregate tax and social security contribution rate was very small at 0.2 pp of GDP in 2014, following years of steady rises totalling 3.4 pp of GDP between 2010 and 2013. The government deficit stood at 3.9% of GDP in 2014, which was less than the 4.4% deficit expected in the autumn. The objective is to reduce the deficit to 3.8% of GDP in 2015 and 3.3% in 2016, before dipping under the 3% mark in 2017 to 2.7%. Structural efforts of 0.5 pp of GDP each year and focusing entirely on expenditure will make this consolidation possible. Nominal expenditure growth for all general government sub-sectors will be limited to 1.0% in 2015 and 1.3% in 2016, which means that government expenditure as a share of GDP will fall from 56.4% to 55.1% between 2014 and 2016. These deficit targets are fully compliant with the new recommendation from the Council of the European Union. Given the economic

(6) At 3.1% of trade in goods (IMF, DOTS) and 3.6% of trade in goods and services (Eurostat).

(7) On goods

(8) 2015 National Reform Programme

situation and low inflation, the Council decided in March to give France another two years to reduce its deficit to less than 3% of GDP.

In the spring of 2014, the Government submitted a €50bn savings plan over three years (2015-2017). The Draft Budgetary Plans for 2016 reflect the continued rollout of this plan. This effort has slowed the growth trend of government expenditure. All government bodies are sharing in this effort. Appropriations to ministries and agencies have been cut by €1bn on a like-for-like basis in nominal terms compared with the appropriations in the Initial Budget Act. Local government expenditure is expected to grow by 1.2%, which is close to the inflation rate, testifying to stricter containment of administrative expenditure as capital expenditure picks up again. In the same vein, 1.3% growth of Social Security expenditure is consistent with an ageing population and greater healthcare expenditure needs. This growth rate is particularly restrained compared with the trend rate of 3.5% between 2007 and 2012.

Savings measures are based on lower nominal expenditure caps for central government expenditure, excluding debt and pensions, and for the national healthcare expenditure growth target (Ondam) and also rely on the efforts of central government agencies. Local governments will do their full part for fiscal consolidation as their operating grants are cut. In addition to savings on healthcare, social security funds have achieved savings on their administrative expenditure and their spending for pensions, family benefits and employment incentives. Building on the past reforms, current talks between management and labour representatives for the unemployment insurance scheme and supplementary pensions, will contribute to the effort as well. The plan was implemented in 2015 and stepped up by supplementary measures for 2015 and 2016 under the April 2015 Stability Programme to cope with the adverse impact of low inflation on France's public finances. More specifically, nominal caps were lowered by a rescission decree in June 2015 in order **to finance the Government's priorities: security, defence, justice, culture and education.** Furthermore, the cap on ministries'

expenditure was lowered for 2016, compared with the level planned during the public finance policy debate in July and a new national healthcare expenditure growth target was agreed to intensify the consolidation effort in 2016. The other sectors are also doing their part under the adjusted savings plan, which covers agencies' spending, social work expenditure, cross-cutting reform of benefits adjustments and a lower target for local government expenditure growth. Other sources of financing were savings on debt service and the high revenue yield of the Offshore Disclosure Unit's action.

This unprecedented effort is backed up by cross-cutting spending reviews. Under the provisions of the 2014-2019 Public Finance Planning Act, specific spending reviews covered housing benefits and legal expenses in 2015. The spending reviews identified nearly €500 million in savings, which were then incorporated in the 2016 Draft Budgetary Plan and Social Security Draft Budgetary Plan. The reviews will continue in 2016 on a selection of themes listed in the "yellow" appendix to the DBP. A series of government policy assessments and a review of central government functions are also under way. The latter is aimed at modernising government action and making it more effective, while redefining the position, functions, and means of action of the government. The central government information system, its procurement policy and its real estate policy are being modernised to make government expenditure more efficient.

Pension and local administration reforms that have already been passed will also help reduce the government deficit in the medium term. The 2014 pension reform implemented measures to balance the finances of the pension system by 2020. The Pension Steering Committee (*Comité de suivi des retraites*), which handed down its second opinion on 13 July 2015, deems that the outlook for the pension system is not significantly different from the objectives set by law, and, more especially, the financial sustainability objective. Therefore, the Committee does not propose any corrective measures for the current year. The Committee based its opinion on the projections of the Pensions Advisory Council

(Comité d'orientation des retraites, COR), which rely on INSEE's population forecasts. The COR projections show a return to financial equilibrium⁹ by 2030 and a decrease in pensions as a share of GDP by 2060. The European projections by the Ageing Working Group also foresee a sharp reduction of pension expenditure by 2.8 pp of GDP in France by 2060, in contrast to a steady average share in the euro area. This puts France in a more favourable overall position than its European partners when it comes to coping with an ageing population.

However, the finances of the Agirc and Arrco supplementary pension schemes still need to be consolidated to deal with the risk of depletion of their reserves. Labour and management should soon reach an agreement on a set of consolidation measures.

Local government reform will also be an opportunity to make government expenditure more effective. Local government reform continued, following the passage of the metropolitan areas Act in 2014. The final adoption of the Act on regional boundaries took place on 16 January 2015. This Act will reduce the number of regions from 22 to 13 (not including overseas France) on 1 January 2016. The Parliament also adopted the local administration reform act (NOTRe) on 7 August 2015. This act provides for an improved division of powers and an enhanced role for intermunicipal structures by raising the minimum population threshold from 5,000 to 15,000. Local government reform also provides an opportunity for sweeping modernisation of central government services at the local level (prefectures, school authorities, national health agencies, ministerial branches, etc.) and simplification of central government action at this level.

b) Improving businesses' cost competitiveness

The second challenge facing the French economy is the competitiveness of its businesses. Since the publication of the Gallois Report in 2012, the Government has made

unprecedented efforts to help businesses improve their competitiveness. Compared with our OECD competitors, cost competitiveness has improved in the last year and France's share of world trade has remained steady, but further reforms are needed to regain the competitiveness lost after 2000.

INSEE surveys of business leaders suggest that the Tax Credit for Competitiveness and Employment (CICE) has fulfilled its objectives in terms of boosting employment and corporate margins, thereby promoting investment.

The latest report by the CICE monitoring committee, published on 22 September 2015, stresses that the scheme is now fully matured. Very few companies have not asked for the tax credit, showing the businesses have taken ownership of this measure since it was first introduced at the start of 2013. The tax credit, equal to 6% of a company's gross payroll excluding wages above 2.5 times the minimum wage, represents a €17bn reduction in labour costs in return for the corresponding wages paid in 2014. This reduction will ultimately reduce labour costs by more than €20 billion.

The rollout of the Responsibility and Solidarity Pact is continuing in the Draft Budgetary Plans for 2016¹⁰.

In 2015, the Pact supplemented the Tax Credit for Competitiveness and Employment. The first phase was passed in 2014 and implemented on 1 January 2015, reducing further the cost of labour on wages up to 1.6 times the minimum wage and a full exemption from social security contributions on minimum-wage jobs ("zéro charges URSSAF" measure). This exemption totals €4.6bn and lowers labour costs on minimum-wage jobs to a level close to that of Germany. More specifically, labour costs in the manufacturing sector are now lower in France than in Germany. Self-employed workers' contributions for family benefits were also cut by nearly €1bn and business taxes were further reduced by €1bn with the elimination of a turnover tax (corporate social solidarity contribution - C3S) for the smallest businesses. As a result, the total

(9) COR baseline scenario (B)

(10) See Box on the Responsibility and Solidarity Pact

tax reduction induced by these measures represented a €24bn reduction in the cost of labour for businesses in 2015 compared with 2013.

The second phase of the Pact, which is written into the DBP and Social Security DBP for 2016, will bring further cuts in business taxes and contributions, including a 1.8-pp reduction in employers' contributions for family benefits on jobs paying between 1.6 times and 3.5 times the minimum wage. This cut will take effect on 1 April 2016 in return for the measures to support businesses in 2016 under the investment stimulus plan and the "Boosting employment in VSEs and SMEs" Programme, including the one-off enhanced depreciation and amortisation measure, measures to reduce threshold effects and subsidies for companies hiring their first employee. The second stage also implements further tax cuts for businesses, with a second cut in the corporate social solidarity contribution for SMEs and mid-tier companies and the elimination of the exceptional corporate income tax payment for large corporations. The reduction of business taxes will continue with a total of more than €40bn in cuts.

Taken together, these measures are expected to boost growth by 1.7 pp of GDP and create about 500,000 jobs by 2020 (see assessment in the April 2015 National Reform Programme). These estimates are in line with estimates from international organisations, such as the OECD and the IMF.

c) Simplifying and supporting investment and innovation

Cost competitiveness is only one of the components of competitiveness. Productivity and non-cost competitiveness also need to be improved to raise the potential growth rate. The Government's action to boost productivity, non-cost competitiveness and move our businesses upmarket is based on four pillars:

- **stimulating research and innovation** by maintaining and strengthening specific measures to support innovative companies (research tax credit [CIR], innovation tax credit [CII], innovative start-up status [JEI]), which current assessments show

to be effective overall, and sector-specific measures to support innovative industries: phase III of clusters (*pôles de compétitivité*), continuation of the first two Investments for the Future programmes and start of a third programme, rollout of a high-speed broadband network throughout France (Plan France très haut débit) to cover the whole French population by 2022, participation in the Juncker Investment Plan and the launch of the second phase of the "New Face of Industry in France" (Nouvelle France Industrielle) programme. The latter programme hinges on 9 industrial solutions to build positions in the major markets of the future (new resources, sustainable cities, eco-mobility, transport of tomorrow, medicine of the future, data economy, smart objects, digital trust, intelligent power management). The Industry of the Future project will also play a key role in the second phase. The objective is to have each company take steps to modernise its industrial assets and achieve the digital transformation of its business model. Manufacturers still run the New Face of Industry in France programme, with technical and financial support from the central government that is adapted to each sector. The combination of all of these measures increased corporate R&D expenditure from 1.27% of GDP in 2007 to an estimated 1.46% in 2014;

- **stimulating productive investment in industry** with a one-off enhanced depreciation and amortisation measure announced in April 2015 as part of the investment stimulus plan. For twelve months, starting on 1 April 2015, companies can book an additional 40% depreciation or amortisation of the cost price of certain investments. This major tax break allows companies to reduce their 2015 corporate income tax in proportion to the amount invested. The measure applies to industrial investments that are already eligible for the declining balance method of depreciation or amortisation. The corresponding

investment categories already exist and are familiar to businesses. In addition, tax documents and case law clearly describe these investments;

- **radical administrative streamlining measures (*choc de simplification*)** that have already given rise to major streamlining of business regulations, such as the "Tell Us Once" programme, the rollout of the "no answer means yes" principle and the development of online communication with government departments. The Administrative Streamlining Board (*Conseil de la simplification pour les entreprises*), set up in January 2014, has put forward a huge set of simplification measures. It came up with 100 measures in 2014 alone. Most of them have been tested or implemented since the enactment of the Business Simplification Act of 20 December 2014. The streamlining process is still moving forward with 52 new measures announced in June 2015 aimed at facilitating business in industry, hotels and catering, small-scale retail and agricultural enterprises. The latest assessments available suggest that the streamlining process has had a very positive impact on companies, with nearly €3.3bn in savings from the measures introduced between September 2013 and April 2015;
- **Supporting business financing**, including financing for SMEs and mid-tier companies, more specifically with the rollout of Bpifrance loans to meet their cash needs and raise long-term financing, along with action to facilitate the use of household savings to finance businesses.

d) Modernising the market for goods and services

Modernisation of the regulation of goods and services markets is a key instrument for promoting competitiveness, economic activity and equal opportunity. Over-regulation increases costs that reduce households' purchasing power, burdens businesses and prevents the reorganisation necessary to boost productivity

and focus on high-end products. Excessive restrictions on access to certain professions also undermine equal opportunity.

Following the many measures introduced from 2012 to 2014 on retail trade, taxis, gas and electricity prices, and certain regulated professions, the **Growth, Economic Activity and Equal Economic Opportunity Act** enacted on 6 August 2015, furthers the modernisation of France's economy. Its provisions ensure:

- freedom to open coach lines (in effect since August), with total freedom for routes over 100km and regulated access for shorter distances;
- a faster process for obtaining a driving licence;
- an extension of Sunday and evening trading with Sunday opening in certain railway stations, the creation of International Tourist Zones (in effect since September) and an increase in the number of Sundays local governments can designate as trading days ("Mayor's Sundays") from 5 to 9 per year in 2015 and to 12 per year in 2016;
- a reduction of fees charged by regulated professions (notaries, bailiffs, commercial court registrars, auctioneers, liquidators and receivers) and regulated freedom of establishment for new professionals.

The Government is implementing the Act rapidly. Many of the measures apply immediately. Most of the implementing decrees required for other measures will be published by the end of 2015.

The reforms will continue in the second half of 2015 and in 2016, with a Digital Act and a New Business Opportunities Act. The Digital Act is expected to promote the data economy, with new advances for open government data and knowledge, to stimulate innovation and create value. It will also lay the groundwork for adapting the regulations on the use of online services (data management, disclosure and transparency) with the aim of increasing confidence in this business sector. The New Business Opportunities Act will continue the modernisation of the regulatory

toolbox so that companies can take full advantage of the opportunities opened up by the transformation of the economy and new business activities can develop. Action to promote freer dissemination of data will be continued and stepped up. Cross-cutting measures to promote companies' transition to digital technology and innovation will also be implemented. At the same time, a bill to enhance business transparency will be tabled in the autumn, with the aim of making dealings between businesses and government more transparent and stepping up the fight against corruption.

e) Making the labour market more fluid

The measures to boost competitiveness (Tax Credit for Competitiveness and Employment, Responsibility and Solidarity Pact) and modernise France's economy will also boost employment. They will be supplemented by measures to promote education, training and a more fluid labour market. The Government's action is made up of several complementary components. It aims to help jobseekers entering the job market, especially those who are the farthest from finding a job. It also aims to make the job market more fluid, by making individuals' careers more secure and by making their entitlements portable when they change jobs. At the same time, employers will be more able to anticipate and adapt to changes.

The first thrust of the Government's policy is aimed at helping those who are the farthest from finding a job. This policy has been implemented through a series of specific measures since the start of the President's term and supplemented by the "Boosting employment in VSEs and SMEs" programme. More specifically, the Jobs for the Future initiative started in 2012 aims to provide solutions for unskilled or low-skilled young jobseekers to gain access to qualifications and lasting employment. Other types of subsidised employment contract schemes have been made permanent or stepped up (generation contracts, integration contracts [CUI], professionalisation contracts, starter contracts).

In addition, an action plan to fight long-term unemployment was launched on 9 February 2015

to enhance government action in favour of jobseekers. Additional resources were appropriated to jobseekers' personal training accounts (*comptes personnels de formation, CPF*) to promote access to vocational training. These accounts were introduced in January 2015. They give all members of the labour force (both employed and unemployed) an effective right to free vocational training from the age of 16. The account is portable, which means that it follows individuals when they lose or change jobs. To date, nearly 1,745,000 people have activated their personal training accounts. The 30,000 and 100,000 priority training plans adopted in 2013 and 2014 respectively have also increased jobseekers' access to training. According to France's public employment service agency (Pôle emploi), the number of people starting training programmes increased by more than 53,000 (13.6%) over the period to stand at 445,000 in 2014.

The central government, Pôle emploi and the unemployment insurance scheme (Unédic) have entered into a new four-year agreement (2015-2018) implementing cross-cutting measures to provide more personalised support for jobseekers, based on a better diagnosis of their situation, simplified procedures and a doubling of the number of people receiving intensive support.

The second thrust of the Government's policy is to make the labour market more fluid. This thrust was initiated at the start of the President's term by two major pieces of legislation: the Job Security Act of 2013 and the Act on the Vocational Training System of 2014. It has continued in 2015 with the reform of labour arbitration tribunals contained in the Growth, Economic Activity and Equal Economic Opportunity Act and the Act of 17 August 2015 on Social Dialogue and Employment.

This legislation introduced secure procedures for employers, giving them greater capacity to adapt to economic changes, while also enhancing labour-management dialogue and employees' individual rights.

For example, secure time limits have been set for procedures for mass redundancies on economic grounds and collective bargaining has

been given a greater role in the process. More than 60% of job preservation plans (*plans de sauvegarde de l'emploi, PSE*) are now subject to approval by union representatives and the number of procedures ending up in court has been greatly reduced. Similarly, the job protection agreements (*accords de maintien de l'emploi, AME*), introduced by the Job Security Act, have also enabled companies coping with temporary difficult economic circumstances to reach agreements with employees about modifying working hours and pay in exchange for commitments to protect jobs. The Growth, Economic Activity and Equal Economic Opportunity Act has improved this system and made its use more attractive by extending the maximum term of the agreements to 5 years.

A reform of labour arbitration tribunals was also adopted to ensure more predictable and faster justice. The new procedures speed

up rulings and make the outcome of cases more predictable for employees and employers.

Prior measures of the Job Security Act **enhanced labour-management dialogue** within companies by setting time limits for information-consultation procedures, making them more predictable for employers, and by introducing economic and social databases that provide labour representatives with more relevant compilations of information. The Act on Social Dialogue and Employment furthered the modernisation of the labour market by laying the groundwork for more effective labour-management dialogue within companies by combining mandatory bargaining and the information-consultation procedures. The Act promotes merging of labour representation bodies and introduces a system for labour representation in VSEs/SMEs that relies on joint commissions at the regional level.

Box 1: "Boosting employment in VSEs and SMEs" Programme

VSEs and SMEs are one of the largest sources of new jobs in France. The Government launched a specific plan to stimulate the smallest enterprises in June, alongside cross-cutting policies to support companies. The plan is aimed at promoting hiring and supporting employment by means of:

- a €4,000 subsidy for sole traders hiring their first employee;
- for enterprises with up to 50 employees, a three-year freeze on additional taxes and contributions that would be incurred when hiring a new employee. Furthermore, thresholds of 9 and 10 employees have been raised to 11 employees (with the exception of the thresholds for establishing labour representation institutions covered by specific provisions of the Act on Social Dialogue and Employment);
- an option to renew fixed-term contracts or interim contracts twice instead of just once, with no change to the maximum term;
- facilitation of the use of job protection agreements by extending the term of the agreements. If an employee rejects the agreement, the employer is no longer bound by redeployment requirements. In large firms, employers must offer a job security contract or redeployment leave to employees who are made redundant;
- an extension of probationary periods for apprenticeship contracts.

Some of these measures are included in the Growth, Economic Activity and Equal Economic Opportunity Act or in the Act on Social Dialogue and Employment. Other measures will be adopted as part of the budget acts at the end of the year.

The “Boosting employment in VSEs and SMEs” programme will supplement these measures with a series of provisions to facilitate hiring and the use of job protection agreements, as well as reducing the threshold effects for companies with up to 50 employees (see Box 1).

In order to implement more reforms aimed at a more fluid labour market, the Government commissioned Jean-Denis Combrexelle, former General Director of Labour, to come up with proposals for **giving labour-management dialogue a greater role at company and economic sector level**. The Government endorses the call for a sweeping review of the way standards are set under labour law contained in the report. Such an ambitious and exacting reform will take time. It will start with the drafting of a bill towards the start of 2016 to be enacted before the summer of 2016. The work will then continue after that. The purpose is to overhaul the labour code to make a clearer distinction between what is a matter of law and what can be decided through collective bargaining. This will enable employees and employers to adapt the rules to the individual circumstances of each business sector and each company.

Following up the personal training account introduced by the Job Security Act, the Government announced the **creation of a personal activity account (*compte personnel d'activité, CPA*) as of 1 January 2017**. This account coordinates and groups the individual benefits that each worker is entitled to, even when changing jobs: personal training account, personal account for employees exposed to harsh working conditions (*compte de prévention de la pénibilité*), rechargeable unemployment benefit entitlements, etc.

These benefits help providing security over workers' careers. The details of the account, such as defining entitlements that may be made fungible and requirements for using entitlements, will be hammered out with labour and management representatives at the upcoming social conference on 19 October.

f) Supporting households' purchasing power and creating incentives to return to the job market

As of 1 January 2016, **the in-work benefit (*prime d'activité*) will take the place of the earned income tax credit (*prime pour l'emploi, PPE*) paid after a one-year lag and the in-work income supplement (*RSA activité*)**, which is the minimum social benefit paid through the family benefit fund each month. The complexity of the latter benefit means that it has never been properly understood by the beneficiaries. By combining the strengths of the earned income tax credit (high take-up rate, individualisation and eligibility at age 18) and the in-work income supplement (rapid payment of cash benefits and targeting of the least well-off households), the in-work benefit will increase labour supply while sustaining the purchasing power of low-income workers. This benefit will also be available to young people taking their first steps in the labour market.

At the same time, an income tax cut for middle-class households will be implemented (see Box 2). This measure supplements the Government's previous action to boost the purchasing power of low-income and medium-income households. In 2014, an exceptional personal income tax cut of €1.5bn was passed in the first Supplementary Budget Act for 2014. The 2015 Budget Act included a reform and simplification of personal income tax, with the elimination of the first bracket of taxable income, which represents a further cut of €3bn in 2015. The Draft Budgetary Plan for 2016 proposes a further personal income tax cut of €2bn. **A total of 12 million households will benefit from €5bn in tax cuts over two years**. This means that the Government will live up to its commitment under the Responsibility and Solidarity Pact. This tax cut will make working more financially rewarding for the households concerned.

Box 2: Personal income tax reform

Alongside efforts to contain expenditure, a personal income tax cut has been implemented to help boost households' purchasing power.

The cut in 2016 will result from a bigger personal deduction for low income households ("décote") and will mean lower taxes for 8 million tax households, of which approximately three quarters are in the 4th to 7th living standard deciles. Three million of these households have not benefited from the elimination of the lowest income tax bracket in 2015. The personal income tax savings for two thirds of the single taxpayers concerned will range from €200 to €300, while the savings for two thirds of couples will range from €300 to €500, since the deduction will continue to apply to couples jointly, as it does in 2015.

Lower marginal tax rates for the lowest income tax brackets could increase the labour supply, boosting participation and employment.

Since 2012 some taxpayers, including middle-class taxpayers, saw their tax bills rise as a result of the fight to close tax loopholes, the end of the exemption on overtime pay, and the inclusion of pension supplements and employers' contributions to supplementary health insurance in taxable income, which expanded the income tax base. Income tax reform, which acts like a cut in the tax rates, will make the tax more effective by expanding its base and lowering its rate, while maintaining the principle of a progressive tax.

IV. Preparing for the future**a) Energy Transition Act**

The Energy Transition Act for Green Growth was enacted on 17 August 2015. The Act is the cornerstone for France's strategy to fight climate change. It initiates a positive dynamic in the run-up to the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) in Paris. With the upcoming conference in mind, France wanted to enshrine the climate and energy framework defined by the European Council of 23 and 24 October 2014, which sets the target of reducing greenhouse gas emissions by at least 40% below their 1990 level by 2030. The Act sets several medium-term and long-term objectives:

- the first energy policy objective is to reduce greenhouse gas emissions by 40% by 2030 and by 75% in 2050. More specifically, the Act defines a carbon tax path to achieve this reduction, with a target of €56 per tonne in 2020 and €100 per tonne in 2030;

- final energy consumption will have to decrease by 20% by 2030 and the consumption of fossil fuels by 30% by the same date. This will strengthen the resilience of the French economy to fossil fuel price shocks;
- renewable energy sources should account for 32% of energy consumption by 2030 and nuclear energy's share of electricity production should be cut to 50% by 2025 in order to diversify the latter.

Renewed governance based on the national low-carbon strategy and multiannual energy planning will facilitate attainment of these objectives. The Act also contains a set of sector-specific measures that will help attaining these objectives, including (i) enhanced incentives and financing for energy improvements, (ii) incentives to use more economical and less polluting transport, (iii) an improved support system for renewable energy and the elimination of obstacles to its development. The creation of an energy voucher for the lowest-income households will also be an effective means of fighting fuel poverty.

The Act also requires institutional investors (insurers, mutual insurance companies, Caisse des Dépôts, etc.) to publish information about how social, environmental and governance criteria affect their investment policy. More specifically, these investors must explain how they factor in exposure to climate risks and how they contribute to compliance with the international target for limiting global warming and attainment of energy transition objectives.

Box 3: Preparations for COP21

In view of its future presidency of the conference, France has been working with all countries transparently to lay out an ambitious course, meet all countries' expectations, especially the most vulnerable countries, and reach compromises that will produce a consensus of the 196 Parties in Paris.

France's objective is to build a "Paris Climate Alliance" to limit the increase in the average global temperature to less than 1.5°C or 2°C compared with the preindustrial levels and to adapt our societies to the existing disruptions.

b) Digital strategy

The Government unveiled its digital strategy on 18 June 2015. Its action plan is based on four pillars:

- "Freedom to innovate": support for French start-ups (including the French Tech label) and cooperation between start-ups and conventional companies, support for the digital transition of the economy (Industry of the Future plan), notion of data of general interest;
- "Equality of rights": enshrining net neutrality, data transferability, development of online government services (digital hospital, government benefits portal, online lodging of complaints), and regulation of online platforms at the European level to protect users, but without hampering innovation;

- Fraternity: high-speed broadband Internet coverage for the whole country, support for Internet use, education (Digital School plan), fighting unemployment (digital employment services platform: emploi-store.fr);
- Exemplarity: digital transformation of the government and data availability ("Tell us once" programme, open data policy).

Some of these measures will be introduced in the «Digital Republic» bill, which was opened for public consultation on 26 September 2015.

c) Education and vocational training reform

Under the terms of the Act of 8 July 2013 on the overhaul of public education, the reform of the compulsory education system will continue, with the creation of 60,000 additional jobs by 2017.

As part of this work, **a new common core of knowledge, skills and culture is now being developed** to redefine what pupils need to learn by the end of their compulsory schooling, along with a revision of pre-school curricula. Middle-school reform for the school year starting in 2016 will put the priority on learning the basics and changes to teaching practices to adapt them to the diversity of pupils' needs. The new teaching practices will account for 20% of teachers' time and the educational personnel will be responsible for organising this time according to pupils' needs.

Action to **renew priority education and fight dropping out**, which are key to reducing inequality in education and the labour market, will be stepped up. Resources will be stepped up from 2015 to 2017 to promote priority education, and specifically to create teaching positions, improve training and raise pay.

The **development of pre-schools** will be stepped up to fight social inequality. The Government has set an ambitious goal to increase the number of children under the age of three enrolled in pre-school by 15,000 each year until 2017.

Alongside the measures to promote education, an **ambitious plan to expand apprenticeships** is aimed at taking the necessary steps to reach the target of 500,000 apprentices by 2017. This plan

is based on the simplification of the procedures for companies, special support for very small enterprises and increased support for young people before they start apprenticeships.

To supplement the existing social inclusion arrangements, the Government has made the Youth Guarantee available across the board.

The experimental system was launched in 2013. It

pays a benefit to young people between the ages of 18 and 25 engaged in an intensive training and employment programme, with enhanced support and working experiences. The Youth Guarantee will be available in 72 *départements* by the end of 2015 and will be rolled out across the country in 2016. A total of 100,000 young people should benefit from the guarantee by the end of 2017.

Economic impact of the main reforms since 2012

REFORMS	LOCAL AND REGIONAL GOVERNMENT REFORM AND RATIONALISATION OF GOVERNMENT ACTION	MAIN MEASURES	ECONOMIC MECHANISM	TIMETABLE	IMPLEMENTATION
Local government	Act on modernising local government and strengthening metropolitan areas (MAPTAM)	Creation of metropolitan area status and elimination of the intermunicipal bodies for the 13 comarbons concerned (on 1 January 2016 for Paris and Aix-Marseille)	Productivity gains through reduced administrative fragmentation and potential increased density	Passed in January 2014	1 January 2015
	Act on Regional Boundaries, Regional level Elections and the Election Calendar	Number of regions reduced from 22 to 13 to adapt the administrative boundaries to the economic geography with regions that are large enough to define their own local economic strategies	Potential gains from regional specialisation of production and concentration of activities into more effective clusters	Passed in December 2014	1 January 2016
	Local Administration Reform Act (NOTRe)	New division of powers between local governments, with the elimination of the clause de compétence générale for départements and regions and transfer of powers from départements to regions	Enhanced effectiveness of decision-making that can boost the performance of the local economy	Passed on 2 July 2015	Starting in 2016
ASSESSMENT: +0.3 pp. of GDP by 2020					
REDUCING LABOUR COSTS AND IMPROVING COST COMPETITIVENESS					
Measures to promote competitiveness and employment	Tax Credit for Competitiveness and Employment (CICE)	Reduction of labour costs by €20bn targeting jobs paying between 1 and 2.5 times the minimum wage. Gradual build-up with a rate of 4% of total payrolls in 2013 and 6% as from 2014	Reduced labour costs and increased margins, export market shares and investment rates	Passed in December 2012	1 January 2013 (4% of total payrolls, then 6% on 1 January 2014)
	Responsibility and Solidarity Pact – measures in favour of companies	Further reduction of labour costs by €10bn (including €5.6bn in 2015) and tax cuts: phasing out of the corporate social solidarity contribution or "C3S" (€6bn) starting in 2015 and cut in corporate income tax (elimination of the exceptional corporate income tax payment for large corporations in 2016 and initial reduction of the standard tax rate in 2017 worth more than €4bn)	Reduced labour costs across a broad range of the wage distribution (up to 3.5 times the minimum wage) and reduced business taxes	1 st phase passed in July 2014 Next phases in 2015 and 2016	Starting in 2015
ASSESSMENT: +1.7 pp of GDP by 2020 / Jobs: + 500,000					

[1] OECD assessment: "Structural reforms in France: impact on growth and options for the future," OECD, 2014

REFORMS	MAIN MEASURES	ECONOMIC MECHANISM	IMPLEMENTATION
Administrative streamlining	Regulations and ordinances	<p>Implementation of Administrative Streamlining Board measures ("no answer means yes" principle, switch to a single staff reporting statement (DSN) that can be filed online)</p> <p>Many measures, including the extension of the simplified business employment scheme (<i>Titre Emploi Service Entreprise</i>) to establishments with between 9 and 20 employees, elimination of some tax reporting requirements</p>	<p>Presented in June 2014</p> <p>Passed in December 2014</p> <p>1 January 2015</p>
	Business Simplification Act		
Measures to boost competition	Consumption Act	<p>- Relaxing of regulatory constraints on optionals and insurers resulting in a purchasing power gain of €1.5bn</p> <p>- Introduction of class action suits</p> <p>- Phasing out of regulated prices for the sale of natural gas to business customers</p>	<p>Passed in March 2014</p> <p>March to June 2014</p>
	Growth, Economic Activity and Equal Opportunity Act	<p>- Reform of certain regulated professions (lower prices, new co-ownership opportunities for legal and accounting professionals, easing of restrictions on freedom of establishment for notaries)</p> <p>- Deregulation of coach transport</p> <p>- Retail trade (increased powers of the Competition Authority)</p> <p>- Adaptation of the laws on Sunday and evening working (trading allowed on 12 Sundays per year, instead of 5 now, creation of international tourist zones)</p>	<p>Passed in July 2015</p> <p>2015-2016</p>

ASSESSMENT: +0.4 pp of GDP by 2020 / Jobs: + 20,000

REFORMS		MAIN MEASURES		ENERGY TRANSITION		ECONOMIC MECHANISM		TIMETABLE		IMPLEMENTATION	
Energy policy reform	Act on Energy Transition for Green Growth	Setting targets for reducing greenhouse gas emissions, carbon pricing and resources for the emergence of a new energy model	Energy transition targets and carbon pricing result in forced obsolescence of capital equipment and promote new investment . The transmission channel is the impact on demand from investment	Passed in August 2015	Planned up to 2050	<p>ASSESSMENT: +0.8 pp of GDP by 2020/ Jobs: + 120,000²</p> <p>SUPPORT FOR INVESTMENT AND INNOVATION</p>					
	Creation and rollout of financing by the public investment bank	Bpifrance invested or lent more than €12bn in 2014	The public investment bank strives to focus on profitable investments that are not fully covered by the private sector, thus increasing investment	Launched in 2012							
Measures to boost investment	Invest for the Future Programme – 2 nd phase	Plan for €12bn in government investment targeting research and innovation in growth sectors	The programme's impact stems from: an increase in government investment, the leveraging of private investment and a productivity effect from channelling investment to R&D	Launched in 2013	2014-2024						
	One-off enhanced depreciation and amortisation measure for productive investment made between 15 April 2015 and 15 April 2016	All productive investment (except real-estate) may be depreciated or amortised by 40%	The measure makes a number of investments profitable and brings forward investment decisions, thereby supporting recovery in the short term	Passed in April 2015	2015-2020						
	High-speed Broadband Plan	Access to high-speed broadband Internet for the entire population by 2022	The plan supports local government projects to make high-speed broadband available and encourages private operators to coordinate their action to speed up the extension of the network. This plan represents an investment of €20bn	Launched in 2013	2013-2022						
<p>ASSESSMENT: +0.6 pp of GDP by 2020/ Jobs: + 80,000</p>											

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

REFORMS	MAIN MEASURES LABOUR MARKET AND SOCIAL DIALOGUE	ECONOMIC MECHANISM	TIMETABLE	IMPLEMENTATION
Flexibility and active labour market policies	Job Security Act (based on National Multi-Sector Agreement of January 2013)	Less litigious mass redundancy procedures (collective bargaining agreements in 75% of the cases, proportion of cases ending up in court reduced from 25% to 8%) Improved employment stability over the business cycle	Passed in May 2013	1 July 2013
	Unemployment insurance agreement based on the March 2014 agreement and new agreement in 2016	Enhanced incentives to return to work (simplification of part-time work and introduction of rechargeable entitlements) and major savings efforts (€400 million under the 2014 agreement and further savings expected under the 2016 agreement)	New agreement planned in 2016	1 July 2014, summer of 2016 for the new agreement
Effectiveness of labour arbitration tribunals	Act on Vocational Training, Employment and Workplace Representation	Fighting frictional and structural unemployment (improved access to training for the unemployed) and support for mobility with portable training entitlements (personal training account)	Passed in March 2014	1 January 2015
	Growth, Economic Activity and Equal Opportunity Act – labour arbitration tribunal reform	Faster results , more professional procedures and facilitation of labour arbitration tribunal proceedings	Passed in July 2015	2015-2016
Effective social dialogue	Act on social dialogue and employment	Rationalisation of information and consultation requirements, measures to enhance the quality of social dialogue and option to simplify the staff representative bodies (extension of combined labour representation, option of merging representative bodies)	Passed in July 2015	2015-2016

ASSESSMENT: +0.2 pp of GDP by 2020/ Jobs: + 80,000

REFORMS	MAIN MEASURES	ECONOMIC MECHANISM	TIMETABLE	IMPLEMENTATION
	SUPPORT FOR THOSE WHO ARE THE FARTHEST FROM FINDING A JOB			
Inclusion and improved employability	Implementation of Jobs for the Future initiative	Impact on France's economic potential by 2020, through the improvement or preservation of human capital	2013	2013-2017
	Implementation of the Youth Guarantee	The guarantee means that some policies for putting young people in education, employment or training can be financed in part by the EU. This is a policy for the activation of young people	Testing started in 2013 and the policy was fully implemented in 2015	2013-2017
	Enhanced resources for the public employment service agency (<i>Pôle emploi</i>)	Impact on economic potential by 2020 through a decrease in structural unemployment	Agreement between the central government, <i>Pôle emploi</i> and unemployment insurance scheme Unédic of 18 December 2014	2015-2017
	ASSESSMENT: +0.15 pp of GDP by 2020/ Jobs: + 70,000			
	BOOSTING THE PURCHASING POWER OF LOW-INCOME HOUSEHOLDS			
Tax and benefit reforms to help low-income households	Personal income tax cut - Responsibility and Solidarity Pact	Increased purchasing power for households	Passed in 2014 and coming up for a vote in 2015	2015 for the first phase and 2016 for the rest
	Anti-poverty Plan	Increased purchasing power for households	Announced in 2013	Ramping up started in 2013
	ASSESSMENT: +0.3 pp of GDP by 2020/ Jobs: + 40,000			
	EDUCATION			
Education reform	Increased resources for education	Productivity gains from improved qualifications	Passed in July 2013	2013-2017
	Targeting struggling pupils	Reduction of structural unemployment, especially as drop-out numbers fall	In progress	
TOTAL ASSESSMENT GDP in 2020		ASSESSMENT: +0.1 pp of GDP by 2020/ Jobs: + 20,000		Jobs
		4.6 pp		930,000

Economic outlook

Economic outlook: overview

The growth of France's economy should gradually gain momentum, rising from 0.2% in 2014 to 1.0% in 2015 and 1.5% in 2016. This growth scenario is globally unchanged since the Stability Programme, and close to the Consensus Forecasts of 1.2% in 2015 and 1.5% in 2016 (made in September 2015).

Economic activity accelerated in the first half of 2015

France's GDP posted strong growth of 0.7% in Q1. The rise in household consumption of manufactured goods was outstanding, especially since it came on the heels of very strong growth in the fourth quarter of 2014. Manufacturing output also showed a very large increase. The quarterly growth rate was the highest in two years. Colder than usual weather triggered a sharp rise in energy expenditure and output, contributing 0.2 points to GDP growth.

Growth in the second quarter flattened following the first-quarter surge. Two factors behind the activity slowdown were expected. First, the return to normal seasonal temperatures led to lower energy expenditure, which induced a negative contribution of approximately 0.1 points to GDP growth. Then, household consumption of manufactured goods sharply decelerated, but without undermining its brisk pace. The carry-over growth for 2015 at the end of the second quarter stood at 1.8%, and year-on-year growth stood at 2.1%. However, the surprising development was the drop in manufacturing output in the second quarter, which was primarily due to temporary shutdowns of refineries in May and June.

Over the first semester, exports surged, buoyed by the depreciation of the euro and the execution of major aerospace and military contracts. In the same vein, business investment excluding construction, posted two consecutive quarters of sustained growth. In contrast, the slump in the construction industry continued.

The carry-over growth for 2015 at the end of the second quarter totalled 0.8%⁽¹⁾. Recent economic data point to growth maintaining the same average quarterly rate as in the first half of the year, meaning 0.25 points in the third quarter and the same again in the fourth quarter.

A faster growth of the foreign demand for French goods and the depreciation of the euro are expected to offset the strong increase in imports

At a time of contrasting global economic developments, the growth of French export markets should rise from 3.1% in 2014 to 3.7% in 2015 and to 5.2% in 2016. French export markets should be supported by renewed growth in the euro area in 2015, but no clear surge is expected yet. It should grow at a higher rate in 2016 as emerging countries' imports pick up again.

The recovery in the euro area is gathering strength, but growth rates vary from one country to the next. Growth should be bolstered by a weaker euro, the big drop in interest rates encouraged by the ECB's quantitative easing programme and a slower pace of fiscal consolidation. Germany's growth could be driven by sound domestic factors, even though it was disappointing in the first half of the year. Spain's economy continued to expand at a faster-than-expected pace in the first half of the year, and should be sustained by domestic factors and an improving labour market. After shrinking for three years in a row, Italy's economy started growing again in the first quarter, driven by domestic demand.

(1) The forecast in the Economic, Social and Financial Report is based on the preliminary second quarter data published on 14 August 2015. The carry-over growth for 2015 was revised to 0.9% when the detailed data from the quarterly accounts were published on 23 September 2015.

Outside of the euro area, the United States and the United Kingdom should continue to enjoy sustained growth, and Japan should see a gradual rise in its growth rate.

In the United Kingdom and the United States, growth picked up again in the second quarter, after a temporary dip in the first quarter. This good performance confirms the scenario in which surging domestic demand boosts these economies and they continue to outstrip their potential growth rate. In Japan, growth rebounded in the first half of 2015, despite a stumble in the second quarter. Japan's growth should recover over the forecast period, after posting a negative rate in 2014.

Following the contraction of their economies in 2015, the leading emerging countries should gradually take off again in 2016, with the exception of China.

The slowdown was more marked than expected in China, while Brazil and Russia experienced major problems. India was the only BRIC country to post relatively resilient growth. Emerging economies should see a slight pick-up in growth in 2016, with less gloomy prospects in Brazil and Russia more than offsetting a continuing economic slowdown in China.

As foreign demand gradually recovers, French exports should grow much faster than in 2014, rising by 6.0%² in 2015 and by 4.8% in 2016.

This strong growth should stem from an improvement of the French economy's export performance in 2015, underpinned by the sharp depreciation of the euro since the summer of 2014 and the measures to cut labour costs and boost competitiveness (Tax Credit for Competitiveness and Employment and Responsibility and Solidarity Pact). There have also been an exceptional number of major export contracts in 2015 in the defence sector (with Egypt in particular) and in aerospace (with the delivery of satellites to the United States). Even though faster growth of world demand should sustain exports, the pattern of exports should

be more in line with their fundamentals in 2016, especially since the effect of the past depreciation of the euro on export growth should lessen.

Imports should also follow an uneven pattern, with growth of 6.1% in 2015 and 5.2% in 2016.

This pattern stems from the expected fall-off in energy and services imports in 2016, following an exceptional growth rate in 2015. However, imports of manufactured goods should accelerate steadily over the period, reflecting a robust recovery in domestic demand.

All in all, the contribution of net exports should be negative in 2015, at -0.1 points, and again in 2016, at -0.2 points, but less so than in 2014. The trade deficit should persist through 2016.

Market-sector employment should start expanding again at the end of 2015, sustained by government policies and the economic recovery.

The average annual growth of market sector employment should stabilise in 2015, but show an upward trend, with 60,000 more jobs at the end of 2015 compared to the end of 2014. This recovery should be confirmed in 2016 with an average annual increase of 98,000 jobs.

At the end of 2015, market sector employment should be increasing by 20,000 jobs quarterly, rising gradually to 30,000 more jobs per quarter in 2016, as economic growth picks up. The Tax Credit for Competitiveness and Employment and the Responsibility and Solidarity Pact should contribute to the creation of 130,000 jobs in 2015, followed by another 120,000 in 2016, thus playing a significant role in the gradual recovery in employment. Without these measures, employment would have continued to decline throughout 2015. In addition, employment in the non-market sector should be supported by the full implementation of the civic service jobs for youth programme and government-sponsored employment contracts. Some 545,000 government-sponsored contracts are expected to be signed in 2015 and 395,000 are expected in 2016.

(2) The detailed data from the quarterly accounts published on 23 September show even stronger export growth in the second quarter, since the integration of information related to tourism led to reclassification of a share of consumption as exports.

Household consumption should continue to be the main driver of growth

Consumption should be bolstered by continuing strong growth of purchasing power, which rose by 1.1% in 2014 and should rise by 1.5% in 2015, followed by a 1.3% increase in 2016. Wages and salaries should continue to sustain purchasing power growth with strong real wage growth in 2015 and a recovery in market sector employment in 2016. Purchasing power should also receive a boost from the unanticipated drop in inflation in 2015 stemming from falling oil prices, but its growth should decrease in 2016 as inflation picks up again. Nominal wage growth should accelerate, rising from 1.6% in 2015 to 2.1% in 2016.

Strong purchasing power growth should lead to a substantial rise in consumption growth, from 0.6% in 2014 to 1.8% in 2015, followed by 1.7% in 2016. This growth should be boosted by a fall in the savings rate from 14.8% in 2015 to 14.5% in 2016. In 2015, the additional purchasing power gained in 2014 should be spent on consumption, and in 2016 precautionary savings should decrease as the prospects for the labour market gradually improve.

Investment should see a sharp recovery as economic growth speeds up and corporate margins improve

The growth of business investment excluding construction, should increase from 1.6% in 2014 to 2.5% in 2015 and 4.9% in 2016. Investment growth should benefit from a brisk recovery in corporate margins, sustained by continuing low oil prices and measures to cut labour costs, including the Tax Credit for Competitiveness and Employment, and the Responsibility and Solidarity Pact. Investment in capital goods should also grow more quickly as a result of the one-off enhanced depreciation and amortisation measure, which corresponds to a temporary cut in business capital costs and could induce businesses to bring forward some investments in industrial capital goods.

Investment in construction should see only a slight pick up in growth over the forecast period

Sluggish construction investment should continue to hamper economic growth in 2015, but it should pick up again in 2016. After contracting by 4.2% in 2015, household investment in construction should recover gradually starting in the first quarter of 2016 to post a 1.6% increase for the year, following the clear rebound in building permit issuance. Business investment in construction should recover in 2016 as economic growth recovers (after contracting by 1.9% in 2015, it should grow by 0.5% in 2016).

Inflation should be held down by falling oil prices in 2015, but it could pick up again in 2016 as the economic situation improves

Average annual inflation should fall from 0.5% in 2014 to 0.1% in 2015, primarily as a result of the decrease in oil prices already observed.

The depreciation of the euro, along with the impact of higher wages on service prices, should help push inflation up to 1.0% in 2016.

This means that core inflation should be the main driver of higher inflation in 2016, rising from 0.5% in 2015 to 1.2% in 2016. The inflationary effects of a weaker euro should start to be felt in 2015 and intensify in 2016, leading to higher import prices, particularly for other manufactured goods. Higher wages in the service sector are also expected to drive inflation in 2016. If oil prices and exchange rates remain steady, fuel prices will stop falling and their negative contribution to inflation would end.

This growth scenario includes upside and downside risks that balance each other out

The international economic uncertainties surrounding the scenario balance each other out. There is great uncertainty about commodity prices, particularly oil prices, and exchange rates, which could potentially boost or hamper the growth of the advanced and emerging economies. The slack in Chinese demand, as China's economy finds a

new balance, could be more severe than expected. This could be offset by a more assertive response from the Chinese authorities to stimulate demand. Finally, a stronger-than-expected recovery in the euro area would greatly improve the prospects for global growth.

The forecast is based on a gradual return of confidence, which would underpin household consumption and business investment.

Business investment could be more vigorous if the impact of measures to reduce labour cost is felt sooner than expected or if more companies than expected make use of the one-off enhanced

depreciation and amortisation measure while it is available. On the other hand, businesses could just try to rebuild their margins sooner, in anticipation of a rise in interest rates. This would hamper investment growth, if these margins were used more for debt reduction than for new investment. The improvement in the most recent economic indicators could lead households to increase their investment in construction sooner. On the other hand, a resurgence of uncertainty could cause them to save more, thereby dampening consumption.

**Table 1: Economic Forecasts 2015-2016
(Real change in % unless otherwise stated)**

	2014	2015	2016
GDP - France	0.2	1.0	1.5
French export markets	3.1	3.7	5.2
Consumer Price index - France	0.5	0.1	1.0
World GDP	3.4	3.2	3.6
United States GDP	2.4	2.3	2.8
Euro Area GDP	0.8	1.5	1.8
Exchange Rate USD/EUR	1.33	1.11	1.10
Oil prices (Brent, USD/barrel)	100	57	55

Box 1: Review of the forecasts for 2015-2016

The overall macroeconomic scenario underlying the 2016 Draft Budgetary Plan is globally unchanged from the scenario underlying the April 2015 Stability Programme. The growth forecasts are still 1.0% for 2015, followed by 1.5% for 2016. The revisions concern only the components of growth, with a stronger domestic demand and a weaker contribution of net exports.

The revisions of the growth components in 2015 are the direct result of information published in the quarterly accounts covering the second quarter (preliminary data published on 14 August).

The main upward revisions stem from first-half consumption and investment that were brisker than forecast in the Stability Programme. Stronger consumption growth is consistent with higher purchasing power growth underpinned by total payroll growth that was higher than anticipated when drafting the Stability Programme. Both imports and exports are also more vigorous. The upward revision of exports, compared to the forecast in the Stability Programme stems from strong growth of major export contracts covering military and aeronautical equipment. The impact of various economic policy measures on competitiveness may also have been greater than expected, explaining a fraction of the revision.

The rate of growth should increase gradually in 2016, at the same pace as forecast in the Stability Programme

The main downward revision stems from weaker growth of French export markets, estimated at 3.7% in 2015 and 5.2% in 2016, compared to the forecasts of 4.5% and 5.7% growth in the Stability Programme. On the other hand, brisker domestic demand should provide more support for the economic recovery, especially investment, as businesses garner the full benefits of the one-off enhanced depreciation and amortisation measure for investment in capacity. Household consumption should receive a boost from the cut in income tax. Changes in inventories should also make a positive contribution as economic growth picks up.

The demand components in the second quarter of 2015 for the scenario used for the Draft Budgetary Plan were revised in the latest quarterly account data

The forecast in the Economic, Social and Financial Report is based on the preliminary second quarter data published on 14 August 2015. When the detailed data from the quarterly accounts were published on 23 September, the carry-over growth in 2015 at the end of the second quarter was revised to 0.9% (vs. 0.8% in August) and the components of final demand were revised to factor in stronger export growth in the second quarter. This revision followed the integration of information related to tourism, which led to reclassification of a share of consumption as exports. It could suggest a positive contribution of net exports to growth in 2015, and less dynamic domestic demand than expected.

Box 2: Authority responsible for producing forecasts and independence of the forecasting

The Directorate General of the Treasury prepares macroeconomic forecasts and compiles public finances 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 matters. This opinion is then attached to the draft budgetary plan submitted to the National Assembly and made public by the HCFP at the same time. The Constitutional Council upheld the principle that the opinions of the HCFP are among the items that it considers when assessing the accuracy of the legislation brought before it.

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

The draft budgetary plan forecast is similar to the latest forecasts by international organisations

The latest 2015 growth forecast from the IMF in July predicted growth of 1.2%. The European Commission forecast in May showed growth of 1.1%. These forecasts do not incorporate the second quarter national accounts data showing slower growth, with no change in GDP, following an increase of 0.7% in the first quarter. The scale of the slowdown was somewhat surprising, but growth was expected to dip because of exceptional and temporary factors that explained the strong growth in the first quarter, such as energy and manufactured goods consumption. Consequently, the IMF and European Commission forecasts show a comparable rebound of growth, but one that is slightly more sustained than the government forecast of 1.0%, following 0.2% growth in 2014 (see Table 2). On 16 September 2015, the OECD updated its forecast on the basis of the second quarter data and it now shows GDP growth of 1.0%, which is identical to the growth forecast in the Draft Budgetary Plan.

The Government expects a significantly higher growth rate of 1.5% in 2016. This forecast is close to the OECD forecast of 1.4% and the IMF forecast of 1.5%, but more conservative than the European Commission's unchanged policy forecast of 1.7% published in May.

The macroeconomic scenario used for the Draft Budgetary Plan is comparable to the most recent Consensus Forecasts regarding both international and domestic trends

For 2015, the Draft Budgetary Plan forecast of 1.0% growth and the September Consensus Forecasts of 1.2% growth are globally identical (see Table 3).

The macroeconomic scenario used for the Draft Budgetary Plan and the Consensus Forecasts both anticipate significantly higher growth of 1.5% in 2016.

The inflation expectations are also similar. The Consensus Forecasts from September show consumer prices rising by 0.2% in 2015 and by 1.1% in 2016. This is analogous to the Draft Budgetary Plan scenario showing 0.1% inflation in 2015 and 1.0% in 2016.

The assumptions regarding the international environment in the Draft Budgetary Plan are similar to those of the Consensus Forecasts. More specifically, the growth forecasts are comparable for the United States, the United Kingdom and the euro area, which are our leading economic partners.

Table 2: Forecasts for France - Draft Budgetary Plan, European Commission, OECD and IMF

	2016 Draft Budgetary Plan		OECD** - Sept. 2015 -		IMF - July 2015 -		OECD - June 2015 -		European Commission - May 2015 -	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
(Change in %)										
GDP	1.0	1.5	1.0	1.4	1.2	1.5	1.1	1.7	1.1	1.7
Hammonised Index of Consumer Prices (HICP)	0.1	1.1***	n.d.	n.d.	0.1	1.0	0.1	1.1	0.0	1.0
Net Lending (+) or Borrowing (-) of the General Government (in percentage points of GDP)*	-3.8	-3.3	n.d.	n.d.	-3.8	-3.4	-3.8	-3.2	-3.8	-3.5

* according to the Maastricht definition

** OECD September: interim forecasts

*** 1.0 in ICP terms

Table 3: Comparisons of the Draft Budgetary Plan forecasts and the Consensus Forecasts

<i>(Change in %)</i>	2016 Draft Budgetary Plan		Consensus Forecasts - September 2015 -	
	2015	2016	2015	2016
International environment				
GDP growth				
United States	2.3	2.8	2.5	2.7
Japan	0.6	1.0	0.7	1.5
United Kingdom	2.6	2.2	2.6	2.5
Euro area	1.5	1.8	1.4	1.7
France				
GDP	1.0	1.5	1.2	1.5
Households' consumption expenditure	1.8	1.7	1.7	1.4
Gross fixed capital formation - non-financial corporations	1.3	3.7	0.8	2.6
Consumer Price Index	0.1	1.0	0.2	1.1

Fiscal outlook

Fiscal overview and strategy

The Government's objective is to pursue fiscal consolidation in order to reduce the government deficit to less than 3% of gross domestic product (GDP) in 2017 and to achieve the medium-term objective (MTO) of structural fiscal balance.

This strategy will bolster the sustainability of our public finances by reducing government debt as a share of GDP, and create some new room for budgetary manoeuvre.

The consolidation efforts were implemented as soon as the President took office and they produced a cumulative improvement of 2.4 percentage points (pp) of GDP in the structural balance between 2012 and 2014: the structural deficit was reduced by more than half to its lowest level since the early 2000s. Fiscal consolidation efforts since 2014 have focused primarily on expenditure. The expenditure growth rate was at a historic low in 2014, standing at 0.9% in nominal terms, excluding tax credits, as opposed to average growth of 3.6% between 2002 and 2012. This enabled faster consolidation than foreseen when the Public Finance Planning Act was drafted, with a deficit at 3.9% of GDP instead of 4.4%. These efforts have been made in a difficult macroeconomic context since 2012, with growth falling short of its potential and hampering cyclical adjustment. At the same time, the macroeconomic environment has been generally unfavourable for revenue, which has affected the non-discretionary component of structural adjustment.

In 2015, the priority was on containing expenditure in the Initial Budget Act and the Social Security Budget Act, with provisions that applied to all general government sub-sectors. In order to offset the impact of lower inflation on public finances, the April 2015 Stability Programme included €4bn in supplementary measures that focused on the expenditure side. Ultimately, these measures should make it possible to reduce the government deficit to 3.8% of GDP in 2015, instead of the target of 4.1% set out in the Public Finance Planning Act.

Government expenditure should once again be contained in 2015, growing by 1.0% in nominal terms, excluding tax credits. Expenditure should contribute 0.75 pp of GDP to the deficit reduction effort. Furthermore, government expenditure as a share of GDP should fall to 55.8% in 2015 (excluding tax credits), compared to 56.4% in 2014.

Containing expenditure creates budgetary room for tax cuts. The aggregate tax and social security contribution rate should stand at 44.6% in 2015, compared to 44.9% in 2014. This lower rate reflects the entry into force of the Responsibility and Solidarity Pact. The Pact, combined with the Tax Credit for Competitiveness and Employment (CICE), should reduce corporate taxes by €24bn, along with a €3bn cut in personal income tax for low and middle-income households.

The aggregate structural adjustment should come to 0.4 pp of GDP. It would be part of continued deficit reduction efforts at a pace that is compatible with renewed growth. However, the structural improvement is expected to produce an improvement in the headline deficit of only 0.2 pp of GDP, as growth still fails to reach its potential level and one-off measures make a negative contribution.

Specifically, the Decree of 9 June 2015 lowered the central government expenditure cap by a further €0.7bn as part of the supplementary measures announced in the Stability Programme. Central government agencies were also affected by a lower cap on the earmarked taxes allocated to them and more restrictive cash management. Local governments should make their full contribution to containing expenditure. They will be encouraged to do so by cuts in central government transfers, amounting to €3.5bn in 2015, following cuts of €1.5bn in 2014, along with the introduction of a local government expenditure growth target (ODEDEL) in the Public Finance Planning Act for 2014-2019. In terms of social expenditure, the national healthcare expenditure growth target (Ondam) was set at 2.1% in the Social Security Budget Act and then lowered to 2.0%. This target

should also be achieved, as indicated in the early warning committee's opinion dated 26 May 2015. New savings measures affecting family benefits were included in the Social Security Budget Act. Management cost reductions by social security funds, along with the previous savings measures continuing to affect basic pensions, supplementary pensions (Agirc-Arrco agreement in 2013) and unemployment benefits (2014 Unédic agreement) should also help slow the growth of benefits expenditure.

The fiscal consolidation strategy is maintained in the Draft Budgetary Plans for 2016.

Compliance with the fiscal adjustment path set out in the Public Finance Planning Act is assured by the measures announced in the April 2015 Stability Programme. The government deficit is expected to stand at 3.3% of GDP in 2016, as opposed to the figure of 3.6% predicted in the Public Finance Planning Act.

Government expenditure (excluding tax credits) is expected to post a growth rate of 1.3% in 2016. The expenditure cuts equal to 0.5 or 0.6 pp of GDP should be partially offset by discretionary tax measures related to the Tax Credit for Competitiveness and Employment and the Responsibility and Solidarity Pact equal to 0.1 pp of GDP. The aggregate structural adjustment should come to 0.5 pp of GDP.

Containment of government expenditure in 2016 will occur as local government investment rises following municipal elections and debt service gradually increases, as yields return to normal. Under the circumstances all sub-sectors of general government will have to do their part. The cap on central government expenditure, excluding debt service pension payments and transfers to local government, will be cut by a further €1.2bn¹ compared to the cap in the Public Finance Planning Act. Central government agencies will also share in the effort to reduce expenditure.

(1) Supplementary cuts falling outside the scope of the expenditure cap (account for specific allocations for "Central government real estate assets"; account for special allocations for "Road traffic and parking control" and bank financing for the toxic asset defeasance structure), produced an aggregate additional effort of €0.1bn. Hence, compared to the figure in the Public Finance Planning Act the total effort is of €1.3bn.

The wider scope of the cap on earmarked taxes in 2016 and the €0.3bn reduction of this cap to €8.0bn go beyond the measures in the Public Finance Planning Act.

The path for Social Security expenditure growth will be shaped by a further reduction of the national healthcare expenditure growth target (Ondam) from 2.0% to 1.75%. The trend growth rate was 3.6%. Benefits growth should slow down as a result of measures already passed, such as the savings on family benefits included in the 2014 and 2015 Social Security Budget Acts, and the upcoming savings on management expenditure or from changes to the rules for adjusting benefits. The schemes managed by labour and management organisations are also expected to contribute to the consolidation of social security finances, with €1.0bn from the supplementary pension schemes (Agirc-Arrco) and €0.8bn from the unemployment insurance scheme (Unédic).

The further cut of €3.5bn in net central government transfers to local governments, combined with a lower local government expenditure growth target (ODEDEL) of 1.2% for aggregate expenditure and 1.6% for administrative expenditure, will encourage local governments to make greater efforts to contain their administrative expenditure. The Government intends to help local governments by submitting to Parliament a major reform of the general operating grant (DGF) for municipalities and intermunicipal entities. The reform will reduce the unjustified discrepancies between grants with regard to local governments' expenses and assets, ensuring greater fairness and transparency in the attribution of central government support.

Aggregate government expenditure as a percentage of GDP should post a further decline to 55.1% in 2016 (excluding tax credits).

In 2016, the aggregate tax and social security contribution rate should continue falling to stand at 44.5% of GDP. The effort to support low and middle-income households will continue. Cumulative personal income tax cuts since 2014 will come to €5bn and the number of households benefitting from these measures will reach 12 million, or two-thirds of all households. The

second stage of the Responsibility and Solidarity Pact will be implemented and increase the total support for businesses under various measures to €33bn in 2016. The phased elimination of the corporate social solidarity contribution (C3S) will continue and the exceptional corporate income tax payment for large corporations will end. Further cuts to social security contributions will be implemented, along with the one-off enhanced

depreciation and amortisation measure for investment and measures to avoid threshold effects for small businesses.

Debt growth should slow sharply from 2015 onwards. It should reach 96.3% of GDP in 2015 following 95.6% in 2014 and then stabilise at 96.5% in 2016 and 2017, before declining gradually.

Table 1: Government balance and breakdown by sub-sector

General government lending capacity (+) / borrowing requirement (-) (% of GDP)	2014	2015	2016
The State	-3.5	-3.4	-3.3
Other central government agencies	0.1	0.0	0.0
Local government	-0.2	0.0	0.0
Social security funds	-0.4	-0.3	0.1
General Government	-3.9	-3.8	-3.3

Table 2: Structural balance

% of GDP, unless otherwise mentioned	2014	2015	2016
Government balance	-3.9	-3.8	-3.3
of which, cyclical balance	-1.9	-2.0	-1.9
of which, structural balance (excluding one-off measures, % of potential GDP)	-2.0	-1.7	-1.2
of which, one-off measures (% of potential GDP)	0.0	-0.1	-0.1
Structural adjustment (excluding one-off measures, % of potential GDP)	0.6	0.4	0.5
of which, structural effort	0.5	0.6	0.5
discretionary tax measures	0.2	-0.1	-0.1
expenditure saving effort	0.4	0.7	0.5
of which, non discretionary component	0.1	-0.2	0.0
of which, tax credits difference between cash and accrual-based measure	-0.1	0.0	0.0

Table 3: Key figures

% of GDP, unless otherwise mentioned	2014	2015	2016
Government debt (excluding financial support to the euro area)	92.4	93.3	93.6
Government debt (Maastricht definition)	95.6	96.3	96.5
Real growth rate of government expenditure excluding tax credits (% change)	0.5	0.9	0.4
Nominal growth rate of government expenditure excluding tax credits (% change)	0.9	1.0	1.3
General government expenditure excluding tax credits	56.4	55.8	55.1
Aggregate tax and social security contribution rate	44.9	44.6	44.5

Box 1: The Responsibility and Solidarity Pact

The Responsibility and Solidarity Pact announced in January 2014 will help reduce taxes and social security contributions over the period from 2014 to 2017. The objectives include promoting jobs, bolstering the capacity for productive investment and the competitiveness of companies, as well as making personal taxes and contributions more progressive to help low and middle-income households. The first measures under the Pact were passed in 2014 and implemented in 2015. In addition to eliminating the exceptional corporate income tax payment for large corporations, the 2016 budget acts will continue the rollout of the Pact with a second round of cuts in social security contributions, a further cut in the corporate social solidarity contribution and a further cut in personal taxes. The cuts in taxes and contributions under the Responsibility and Solidarity Pact should come to nearly €26 billion in 2017, including some €19 billion in cuts in 2016.

a) Corporate taxes and contributions will be down by €41bn in 2017, and by €33bn as soon as 2016

The Pact and the Tax Credit for Competitiveness and Employment are boosting employment and restoring the competitiveness of French companies, after ten years of steady decline between 2002 and 2012, as shown in the Gallois Report published in November 2012. These measures are expected to create 500,000 new jobs and boost growth by 1.7 percentage points by 2020. **Combined with the plans to support investment and VSEs and SMEs, these measures will result in tax relief of more than €33bn for companies in 2016 and a reduction of approximately €41bn in 2017.**

Table 4: Measures benefiting businesses

Level in €bn	2014	2015	2016	2017
Tax reduction due to the Tax Credit for Competitiveness and Employment	-10	-17½	-18½	-19½
Measures benefiting businesses under the Pact		-6½	-13½	-20½
Cuts in social security contributions		-5½	-9	-10
Phasing out of the C3S		-1	-2	-5½
Elimination of the exceptional corporate income tax payment and cut in standard rate of corporate income tax			-2½	-4½
Plans to support investment and VSEs/SMEs		-0.5	-1	-1
Total measures benefiting businesses	-10	-24	-33	-41

NB: the figures are rounded. Consequently, the apparent sum of the rounded figures may be different from the rounded sum.

The Pact will expand the reduction of labour costs initiated with the Tax Credit for Competitiveness and Employment with the following exemptions:

- a full exemption from employers' social security and family benefits contributions on minimum-wage jobs (except for unemployment insurance contributions), and a 1.8-point cut in family benefits contributions on wages up to 1.6 times the minimum wage as of 1 January 2015, for a total cut of €4.6bn. This exemption was passed in 2015 along with a €1bn cut in self-employed workers' family benefits contributions;
- an extension of the 1.8-point exemption on employers' family benefits contributions to wages between 1.6 and 3.5 times the minimum wage will be implemented on 1st April 2016. It will cut contributions by €3.1bn in 2016 and by more than €4bn in 2017.

The Pact will streamline and reduce corporate taxes. The corporate social solidarity contribution, paid by some 300,000 companies, will be phased out by 2017, saving businesses a total of €5.5bn. A preliminary €1bn cut in the form of a deduction in 2015 will mean small and medium-sized enterprises, representing two-thirds of the companies subject to the contribution, will no longer pay it. A second deduction for an equivalent amount will be introduced in 2016, exempting another 80,000 companies. The exceptional corporate income tax payment for large corporations will also be eliminated in 2016, which will reduce their taxes by more than €2½ bn. Furthermore, the standard rate of corporate income tax will be lowered from the current 33.33% to 28% by 2020, with a preliminary reduction in 2017. Streamlining the business tax system will promote investment, thus boosting job creation and growth. Abolishing the corporate social solidarity contribution and avoiding multiple taxes on intermediate consumption should also lead to more efficient organisation of production.

b) Personal income tax cuts will come to approximately €5bn

Under the terms of the Responsibility and Solidarity Pact, several successive measures to boost the purchasing power of low and middle-income households will be implemented:

- A one-off €1.5bn cut in personal income tax was included in the first Supplementary Budget Act for 2014.
- The 2015 Initial Budget Act included a reform and simplification of personal income tax, with the elimination of the first bracket of taxable income, which represents a further cut of €1.5bn in 2015.
- The Draft Budgetary Plan for 2016 proposes a further personal income tax cut of €2bn. A total of 12 million households will benefit from these tax cuts.

a. Outturn in 2014

Overview of the year

Despite continuing macroeconomic difficulties, with sluggish growth and unexpectedly low inflation, the government deficit shrank from 4.1% of GDP in 2013 to 3.9% in 2014. The 2014 deficit was revised downward² from the figure given in the Budget Review Act (Loi de règlement) of May 2015, which was taken from the provisional general government accounts that INSEE published on 13 May 2015 (4.0% of GDP). A major structural effort of 0.5 pp of GDP was accomplished, mainly as a result of expenditure efforts (0.4 pp of GDP). Discretionary tax measures made a smaller contribution of 0.2 pp of GDP to the improvement. Structural adjustment stood at 0.6 pp of GDP, as spontaneous revenue growth was higher than GDP growth, testifying to the continuing fiscal consolidation effort in 2014.

⁽²⁾ Published on the INSEE website on 14 September 2015. The smaller deficit stems from the Social Security deficit revised downward by €0.6bn.

As growth continued to fall short of its potential, the cyclical circumstances contributed 0.5 pp of GDP to the government deficit, limiting its improvement.

Government expenditure in 2014

The outturn in 2014 testified to the containment of government expenditure and reflects the priority given to expenditure in fiscal consolidation efforts. Nominal expenditure growth stood at 0.9%, excluding tax credits, compared to 1.8% in 2013. This growth rate has been revised downward compared to the Public Finance Planning Act, which called for a nominal rate of 1.4%. The nominal growth of government expenditure is at a historically low rate, standing at 3.6% for the period from 2002 to 2012.

This result stems from a big drop in interest expense, but also from under-spending by all general government sub-sectors under the extremely ambitious objectives set out in the Initial Budget Act for 2014, which were then tightened even further pursuant to the Supplementary Budget Acts passed in the spring.

Central government expenditure under the nominal cap was down by €3.3bn compared to the 2013 outturn in the same format. This was the largest nominal year-to-year decline in discretionary central government expenditure in a decade.

Healthcare expenditure subject to the national healthcare expenditure growth target (Ondam) came in at €0.3bn under the target set in the 2014 Social Security Supplementary Budget Act.

Local governments contained the growth of their administrative expenditure better than expected, holding it to 2.3%, as opposed to the 2.8% growth figure in the Public Finance Planning Act. This result stems from the cut in central government transfers and investment patterns over the election cycle³.

Aggregate tax and social security contribution rates in 2014

In 2014, the aggregate tax and social security contribution rate stood at 44.9% of GDP, up by 0.2 points compared to 2013. The main reasons for this increase were the impact of discretionary measures, which contributed 0.2 pp of GDP and, to a lesser extent, spontaneous revenue growth that was slightly faster than GDP growth (elasticity of 1.1).

Discretionary measures added €3.3bn to taxes and social security contributions. These measures include taxes and contributions collected as part of pension reform, higher VAT rates and the opening of the Offshore Disclosure Unit (Service de traitement des déclarations rectificatives, STDR). They were partially offset by tax cuts under the Responsibility and Solidarity Pact and the Tax Credit for Competitiveness and Employment.

Excluding the effect of discretionary tax measures, taxes and social security contributions grew spontaneously at a rate of 0.8%, which resulted in an aggregate tax elasticity to GDP greater than unity (1.1). On the one hand, adverse macroeconomic conditions resulted in a spontaneous revenue decrease from both the VAT and the corporate

(3) Decline of 9.6% in terms of gross fixed capital formation and 6% in terms of investment as classified under the financial accounting rules used for the local government expenditure growth target (including capital expenditure subsidies).

income tax (IS) and more generally a decline in central government revenue. As a consequence, the aggregate elasticity of central government taxes to GDP was negative (-1.0). On the other hand, local government taxes spontaneously grew faster than GDP (aggregate elasticity: 2.7) as did Social Security taxes and contributions, which were driven by a nominal wage growth rate that was faster than that of GDP (aggregate elasticity: 2.1).

b. Mid-year outturn

Government expenditure in 2015

The 2015 central government expenditure growth target, excluding debt service and pension payments, should be met. In addition to the savings already passed in the Initial Budget Act, the Government committed to greater efforts under the 2015-2018 Stability Programme: the Decree of 9 June 2015 lowered the spending cap by an additional €0.7bn.

The cancelled appropriations primarily concerned discretionary central government expenditure so as to preserve non-discretionary expenditure, especially compensation and benefits paid by central government. At the same time, supplementary measures introduced since the start of the year to safeguard citizens' security (plan to fight terrorism) and to support employment were fully financed through further savings. These changes were implemented by the supplemental appropriation decree of 9 April 2015 where new appropriations were offset by cancellations, and a further €469 million was set aside from the appropriations for all ministries. The Government should thus be able to achieve the outturn target by the end of the year.

Interest payments on central government debt for the whole year in 2015 should amount to €37.9 billion on an accruals basis, compared to €39.3 billion in 2014. This projection is based on issuance since the beginning of the year and the updated yields and inflation forecasts. It assumes that inflation will remain low in 2015 and that yields will gradually rise.

The expenditure projections for other central government bodies and local government are

primarily based on initial budgets and supplementary budgets at this point in the year and are corroborated by the preliminary outturn data. The General Commission for Investment produces quarterly reports on investment for the future and submits them to Parliament. The latest available data at the end of the second quarter corroborate the target of annual disbursements of €2.5bn (national accounts standards).

In the Stability Programme, the Government committed to further savings of €0.4bn on expenditure covered by the national healthcare expenditure growth target (Ondam) compared to the target set out in the 2015 Social Security Budget Act. At this point in the year, the outturn is consistent with the national healthcare expenditure growth target of €181.9bn, up 2.0%, compared to 2.5% in 2014. The latest opinion of the Ondam early warning committee dated 26 May 2015 indicates that the target will be met.

Total government expenditure should post a further decline as a percentage of GDP, falling to 55.8%.

Government revenue in 2015

The revenue forecast for the current year is based on an analysis of revenue collection data in the early months of the year and the macroeconomic determinants of the tax base. Revisions to the revenue forecast compared to the Stability Programme are minor.

This forecast is based on the following items:

- Social contributions and levies account for approximately half of the tax burden⁴. They are based primarily on wages and salaries, which are now expected to grow by 1.7% in the non-farm private sector. The available second quarter wages and salaries data corroborate this forecast.
- The forecast of value added tax revenue is based on 0.8% growth of the tax base, in

accordance with revenue collection as of the end of August.

- The forecast for corporate income tax revenue is based on data available as of the end of August: The first two instalments and a large share of the remainder due have already been received. Furthermore, the forecast incorporates the latest available data about the Tax Credit for Competitiveness and Employment (CICE). Even though data about the revenue impact of the CICE tax credit are still incomplete, the data available as of the summer point to an increase in its cost compared to previous forecasts. The CICE tax credit claimed on eligible payrolls in 2014 is expected to be greater and its impact on the deficit will mainly affect the 2015 national accounts. In addition, the number of companies claiming the CICE tax credit (fiscal cost of the tax credit) has also been revised upward. This forecast also incorporates the latest available data on tax disputes.
- The forecast for personal income tax revenue is based on an analysis of the preliminary tax assessments.
- The revenue collection forecast for the contribution on business value added (CVAE) is based on the accounting data for May and the first instalment in mid-June.
- Forecasts for local direct taxes rely on the data available at this point in the year on changes made to tax bases and tax rates.
- Monthly collection data concerning stamp duty (DMTO) at the end of August were consistent with sluggish spontaneous growth owing to the weak recovery of the real estate market.

The tax collection data from the Offshore Disclosure Unit (STDR) corroborates the revenue forecast of €2.65 billion for the year as a whole.

(4) However, the growth of these contributions and levies may diverge from wages and salaries growth because of exemptions from payroll contributions and the fact that social levies are based in part on investment income.

Appendix

Appendix: Status of Council recommendations addressed to France on 14 July 2015

2015 recommendations	Action	Reference provisions and implementation	Status
<p>Ensure effective action under the excessive deficit procedure and a durable correction of the excessive deficit by 2017 by reinforcing the budgetary strategy, taking the necessary measures for all years and using all windfall gains for deficit and debt reduction</p> <p>1</p>	<p>Measures taken to reduce the deficit to under 3% in 2017:</p> <ul style="list-style-type: none"> €50bn savings plan for 2015-2017, affecting all general government sub-sectors Supplementary measures in 2015 contributing to compliance with the plan to counter the adverse impact of low inflation on public finances Supplementary measures in 2016. 	<ul style="list-style-type: none"> Public Finance Planning Act of 29 December 2014 Rescission Decree of 9 June 2015 Supplementary budget of the transport infrastructure agency (AFTF) dated 6 March 2015 2016 DBP and draft social security budget for 2016 Opinion of the national healthcare expenditure growth target early warning committee of 16 May Spending review (introduced by Article 22 of the Public Finance Planning Act for 2014 to 2019 and implemented in 2015 ahead of schedule). 	<p>In progress/ pending</p>

2015 recommendations	Action	Reference provisions and implementation	Status
<p>1</p> <p>Specify the expenditure cuts planned for these years and provide an independent evaluation of the impact of key measures</p>	<ul style="list-style-type: none"> All general government sub-sectors will ultimately be concerned: <ul style="list-style-type: none"> Central government and central government agencies will contribute total savings of €19bn between 2015 and 2017 Local government will contribute total savings of €10.7bn between 2015 and 2017, with cuts in central government transfers of €3.5bn in 2015, €3.5bn in 2016 and €3.7bn in 2017. Healthcare expenditure covered by the national healthcare expenditure growth target (Ondam) will contribute €10bn between 2015 and 2017, as the target is cut to 2.0% in 2015, 1.75% in 2016 and again in 2017. Other social expenditure will contribute €10.3bn, including savings of €4.1bn already passed, notably in the Social Security Budget Acts for 2014 and 2015; €2bn in savings on supplementary pension schemes (Agric and Aircol) managed by labour and management representatives by 2017, and €1.6bn in savings on the unemployment insurance scheme (on top of the savings from the 2014 agreement); savings on social security fund management, a measure to harmonise the pension adjustment procedures set out in the draft social security budget for 2016 (savings of €0.5bn in 2016), along with savings on social work and the fight against Social Security fraud. Details provided in this 2016 Draft Budgetary Plan (DBP) 		
		<ul style="list-style-type: none"> Report on effective action submitted by the Government on 10 June 2015. Report by the French Government Audit Office (Cour des comptes) dated 24 June 2015 on the public finance situation and outlook Report by the local finance monitoring centre dated 16 July 2015 and the minutes of the meetings of the Local Finance Committee Opinion of the High Council on Public Finances on the 2016 DBP and draft social security budget for 2016 	<p>In progress</p>

2015 recommendations	Action	Reference provisions and implementation	Status
<p>Step up efforts to make the spending review effective, continue public policy evaluations and identify savings opportunities across all sub-sectors of general government, including on social security and local government.</p>	<ul style="list-style-type: none"> Use of the spending review to draft the 2016 DBP, focusing on the following items: postage expenditure of the Public Finances Directorate General; legal fees; universities' financial situation; health insurance expenditure on medical devices; real estate assets of Social Security funds; housing benefits; reducing the compliance costs of local government; innovation support; public engineering schools; organising elections; audit of the strategic plan of the Permanent Assembly of Agricultural Business Chambers; sector-specific exemptions from Social Security contributions. Continuation of the review of central government functions Strengthening of Parliament's oversight and information about central government agencies and harmonisation of budgetary and accounting rules for agencies. Drawing up a new spending review list in the 2016 DBP. Rollout of the national healthcare strategy (efficiency of hospital spending, developing outpatient care, healthcare products, use of healthcare system). Setting the local government expenditure growth target (ODEDEL) at 1.2% in 2016 (see specific recommendation below) to contain local government expenditure. 	<ul style="list-style-type: none"> Report following the public finance policy debate from 1 to 4 July 2015 2016 DBP and draft social security budget for 2016 Health Bill 45 proposals regarding the review of central government functions presented on 22 July 2015 for implementation by the beginning of 2016 Implementation on 1 January 2016 of certain provisions of the Decree on government fiscal and accounting management of November 2012. 	<p>In progress</p>
<p>Take steps to limit the rise in local authorities' administrative expenditure.</p>	<ul style="list-style-type: none"> Update of the local government expenditure growth target and breakdown by sub-sector in the 2016 DBP. Administrative expenditure growth is capped at 1.6% in 2016. Continuing cuts in transfers to local government (following cuts of €3.5bn in 2015 and again in 2016, transfers will be cut by another €3.7bn in 2017), levy on other local government bodies (ODAL). Reform of the general operating grant (dotation globale de fonctionnement) in 2016 to promote equalisation and pooling between municipalities and to simplify grant procedures. Creation of metropolitan areas and reduction of the number of regions. Improved division and rationalisation of powers, pooling of services, enhanced cooperation between municipalities under the provisions of the local administration reform act (NOTRe) and the New Municipalities Act. 	<ul style="list-style-type: none"> 2016 DBP Act on region delimitation enacted on 16 January 2015 for entry into force on 1 January 2016 NOTRe Act enacted on 7 August 2015 Creation on 1 January 2015 of the metropolitan areas covered by the Act on modernising local government action and strengthening metropolitan areas ("MAPTAM"), and on 1 January 2016 for Aix-Marseille-Provence and the Greater Paris Area (with a phased transfer of powers in the latter case) 	<p>In progress/pending</p>
<p>Take additional measures to bring the pension system into balance, in particular ensuring by March 2016 that the financial situation of complementary pension schemes is sustainable over the long term.</p>	<ul style="list-style-type: none"> Opinion of the Pension Steering Committee (Comité de suivi des retraites COR) at its meeting on 13 July 2015: the Committee made no recommendation, deeming that the situation and outlook for the pension system have not deviated from the objectives defined by law. COR projections from June 2015: the financial position of the pension system will continue to improve and be balanced at the end of the 2020s (baseline scenario: B). 	<ul style="list-style-type: none"> Negotiations on supplementary pension schemes started between labour and management representatives in February 2015. 	<p>In progress</p>

2

2015 recommendations	Action	Reference provisions and implementation	Status
<p>Ensure that the labour cost reductions stemming from the tax credit for competitiveness and employment and from the responsibility and solidarity pact are sustained, in particular by implementing them as planned in 2016.</p>	<ul style="list-style-type: none"> The Tax Credit for Competitiveness and Employment (CICE) has been maintained and the tax savings since 2014 is equivalent to 6% of total payroll, excluding wages higher than 2.5 times the minimum wage. Second tranche of the Responsibility and Solidarity Pact to be passed in the autumn of 2015: cut in Social Security contributions on wages up to 3.5 times the minimum wage as of 1st April 2016. 	<ul style="list-style-type: none"> Third 2012 Supplementary Budget Act introducing the CICE 2016 budget acts 	<p>In preparation</p>
<p>Evaluate the effectiveness of these schemes in the light of labour and product market rigidities.</p>	<ul style="list-style-type: none"> Expansion of the CICE monitoring committee's remit to cover all government support for businesses. The fourth meeting was held on Wednesday, 10 June 2015. Publication of the latest report by the CICE monitoring committee on 22 September 2015, which highlighted the successful implementation of the CICE: businesses have taken to the CICE, as can be seen in the small number that have not yet taken it up. 	<ul style="list-style-type: none"> 2012 Supplementary Budget Act setting up the monitoring committee 	<p>In progress</p>
<p>Reform in consultation with the social partners and in accordance with national practices, the wage-setting process to ensure that wages evolve in line with productivity.</p>	<ul style="list-style-type: none"> Possibility of scheduling wage negotiations other than once a year. Expanding job protection agreements (Accords de maintien de l'emploi, AME): <ul style="list-style-type: none"> extending agreement terms up to five years possibility of dismissing employees whose refusal justifies terminating their contract with payment of statutory and contractual settlements only Proposals in the Combretelle Report to give company-specific collective bargaining agreements a larger role in four priority areas: working hours, wages, jobs and working conditions. 	<ul style="list-style-type: none"> Act 2015-994 of 17 August 2015 on labour relations and employment Act 2015-990 of 6 August 2015 on growth, economic activity and equal economic opportunity 2015 budget acts Bill in early 2016 to be passed before the summer 	<p>In progress</p>
<p>Ensure that minimum wage developments are consistent with the objectives of promoting employment and competitiveness.</p>	<ul style="list-style-type: none"> Strict compliance with the minimum-wage adjustment rule in force since 2012 (inflation plus half of the purchasing power increase of worker and employee wages). 	<ul style="list-style-type: none"> Decree 2013-123 of 7 February 2013 on minimum-wage adjustments 	<p>In progress</p>

2015 recommendations	Action	Reference provisions and implement	Status
<p>By the end of 2015, reduce regulatory impediments to companies' growth, in particular by reviewing the size-related criteria in regulations to avoid threshold effects.</p>	<p>Labour Relations and Employment Act reduces costs for companies with more than 50 employees:</p> <ul style="list-style-type: none"> – consolidation and rationalisation of disclosure and consultation requirements vis-à-vis employee representatives; – extension of the single employee representative (DUP) for companies with up to 300 employees. <p>Measures under the "Boosting employment in VSEs and SMEs" Programme</p> <ul style="list-style-type: none"> – freeze on new taxes and Social Security contributions related to the staff threshold being reached for the companies with less than 50 employees; – thresholds of 9 and 10 employees raised to 11 employees; – simplification of business transfers, particularly in relation to administrative formalities and the employees' right to prior information (DIP). 	<ul style="list-style-type: none"> • Act 2015-994 of 17 August 2015 on labour relations and employment • 2016 budget acts 	<p>Enacted/ In progress</p>
<p>Remove the restrictions on access to and the exercise of regulated professions, beyond the legal professions, in particular as regards the health professions as from 2015.</p>	<p>Entry into force of the Growth, Economic Activity and Equal Economic Opportunity Act: easier access to certain professions (notaries, bailiffs and auctioneers; barristers to the Conseil d'Etat and the Court of Cassation), more flexible rules about ownership and legal forms in the legal and accounting professions, revision of fee schedule for regulated professions.</p> <p>Continuing review of professional qualifications: submission of the national action plan for the first group of sectors (services, construction, real estate, transport, wholesale and retail trade).</p>	<ul style="list-style-type: none"> • Act of 6 August 2015 on growth, economic activity and equal economic opportunity 	<p>Enacted/ In progress</p>

4

2015 recommendations	Action	Reference provisions and implementation	Status
<p>Simplify and improve the efficiency of the tax system, in particular by removing inefficient tax expenditure.</p>	<ul style="list-style-type: none"> Inclusion of tax expenditure in the spending review. For example, one of the themes for the 2015 reviews is specific exemptions from Social Security contributions. The tax consultations (Conférences fiscales), first held in 2013, continued in 2014 in greater depth, and in 2015. They will be held again in 2016. The consultations led to the elimination of certain tax expenditures. Tax expenditures introduced or altered since 1 January 2015 must be assessed within the first three years and any renewal must be justified. 		
<p>To promote investment, take action to reduce the taxes on production and the corporate income statutory rate, while broadening the tax base on consumption.</p>	<ul style="list-style-type: none"> Phasing out the corporate social solidarity contribution (C3S): additional cut of €1bn in 2016, following a €1bn cut in 2015 and complete elimination in 2017. End of the exceptional corporate income tax payment for large corporations in 2016. Gradual lowering of the corporate income tax rate starting in 2017 to 28% by 2020. 40% additional depreciation for productive investments made between April 2015 and April 2016. 	<ul style="list-style-type: none"> 2014 Supplementary Budget Act, 2014 Supplementary Social Security Budget Act 2016 DBP Act of 6 August 2015 on growth, economic activity and equal economic opportunity 	<p>In progress/ pending</p>
<p>Take measures as from 2015 to abolish inefficient taxes that are yielding little or no revenue.</p>	<ul style="list-style-type: none"> Elimination of several low-yield taxes: tax on cosmetics, general tax on pollution-generating activities (TGAP) levied on installations classified on environmental protection grounds (CPE). 	<ul style="list-style-type: none"> 2015 Initial Budget Act 2016 DBP 	

2015 recommendations	Action	Reference provisions and implementation	Status
<p>Reform the labour law to provide more incentives for employers to hire on open-ended contracts.</p>	<ul style="list-style-type: none"> Labour tribunal reform (professionalisation of judges, faster procedures, limits on awards). Measure under the "Boosting employment in VSEs and SMEs" Programme: temporary scheme "assistance for recruiting the first employee" (open-ended contract or a fixed-term contract for more than 12 months) 	<ul style="list-style-type: none"> Act of 6 August 2015 on growth, economic activity and equal economic opportunity Work in progress to incorporate the Constitutional Council opinion on limits on labour tribunal awards in cases of wrongful dismissal Decree pending 	<p>Enacted/ In progress</p>
<p>Facilitate take up of derogations at company and branch level from general legal provisions, in particular as regards working time arrangements.</p>	<ul style="list-style-type: none"> Proposals in the Combrexelle Report to give company-specific collective bargaining agreements a larger role in four priority areas: working hours, wages, jobs and working conditions. 	<ul style="list-style-type: none"> Bill in early 2016 to be passed before the summer 	<p>In progress</p>
<p>Reform the law creating the accords de maintien de l'emploi by the end of 2015 in order to increase their take-up by companies.</p>	<ul style="list-style-type: none"> Reform of "job protection agreements" (Accords de maintien de l'emploi, AME): <ul style="list-style-type: none"> Extension of agreement terms Refusing the agreement is now legitimate grounds for individual dismissal for economic reasons 	<ul style="list-style-type: none"> Act of 6 August 2015 on growth, economic activity and equal economic opportunity 	<p>Enacted</p>
<p>Take action in consultation with the social partners and in accordance with national practices to reform the unemployment benefit system in order to bring the system back to budgetary sustainability and provide more incentives to return to work.</p>	<ul style="list-style-type: none"> The unemployment insurance union's report on the financial outlook for the unemployment benefit system from 2015 to 2018 was submitted to the Government on 16 June 2015. Labour and management representatives will hold talks before the end of this year to reach an agreement in the spring of 2016. 	<ul style="list-style-type: none"> The unemployment insurance union's report on the financial outlook for the unemployment benefit system from 2015 to 2018 was submitted to the Government on 16 June 2015. The Government's report on the unemployment insurance situation will be submitted by the end of 2015. 	<p>In progress/ Pending discussion</p>

6

Detailed forecast tables

Table 1: Resources and uses of goods and services - Nominal gross domestic product and components				
	2014	2015	2016	
NOMINAL GROSS DOMESTIC PRODUCT (GDP) - level in Bn€	2 132.4	2 175.3	2 229.6	
	Level in Bn€	Volume		
		Rate of change	Rate of change	Rate of change
RESOURCES				
Real gross domestic product	2 132.4	0.2	1.0	1.5
Imports	651.1	3.8	6.1	5.2
TOTAL RESOURCES	2 783.5	1.0	2.2	2.4
USES				
Private consumption expenditure	1 183.3	0.6	1.8	1.7
Government consumption expenditure	515.9	1.5	1.1	0.7
Gross fixed capital formation (GFCF).	462.5	-1.2	-0.3	2.3
Of which :				
- GFCF of Non-financial enterprises	258.1	2.0	1.3	3.7
- GFCF of Households excluding self-employed	105.2	-5.3	-4.2	1.6
- GFCF of General Government	78.6	-6.9	-0.2	-1.3
Exports	611.8	2.4	6.0	4.8
Changes in inventories and net acquisitions of valuables	10.0			
TOTAL USES	2 783.5	1.0	2.2	2.4
Contributions to real GDP growth				
Final domestic demand excluding inventories		0.5	1.2	1.6
Changes in inventories and net acquisitions of valuables		0.2	-0.1	0.1
Net foreign trade		-0.5	-0.1	-0.2

Table 2: Resources and uses of goods and services - price developments			
	2014	2015	2016
	Rate of change	Rate of change	Rate of change
RESOURCES			
Gross domestic product	0.6	1.0	1.0
Imports	-2.4	-1.9	0.3
TOTAL RESOURCES	-0.1	0.3	0.8
USES			
Private consumption expenditure	0.0	0.1	0.9
Government consumption expenditure	0.0	0.0	0.3
Gross fixed capital formation	0.0	0.3	0.9
Exports	-0.9	0.6	0.8
TOTAL USES	-0.1	0.3	0.8
OTHER PRICES INDICES - annual average			
Consumer Price Index (CPI)	0.5	0.1	1.0
Consumer Price Index excluding tobacco	0.4	0.1	1.0
Harmonized Index of Consumer Prices (HICP)	0.6	0.1	1.1

DETAILED FORECAST TABLES

Table 3: Sectoral balances - Net lending (+)/borrowing (-)				
	2013	2014	2015	2016
	pp of GDP	pp of GDP	pp of GDP	pp of GDP
NET LENDING (+)/ BORROWING (-) vis-à-vis the rest of the world	-2.6	-2.3	-1.6	-1.7
<i>Of which:</i>				
- Balance of goods and services	-1.9	-1.8	-1.2	-1.1
- Balance of primary incomes and transfers	-0.8	-0.5	-0.5	-0.5
- Capital account	0.0	0.0	0.0	0.0
NET LENDING (+)/ BORROWING (-) of the private sector	1.4	1.7	2.1	1.6
<i>Of which:</i>				
- Households	3.3	3.8	3.7	3.6
- Non financial corporations	-2.2	-2.4	-1.7	-2.2
NET LENDING (+)/ BORROWING (-) OF GENERAL GOVERNMENT*	-4.1	-3.9	-3.8	-3.3

(*) according to the Maastricht definition.

Table 4: French external trade				
	2013	2014	2015	2016
	Level in Bn€	Level in Bn€	Level in Bn€	Level in Bn€
TOTAL GROSS TRADE BALANCE CIF-FOB	-75.6	-71.8	-54.7	-54.5
<i>Of which:</i>				
- Manufacture of food products	11.2	9.1	9.8	10.4
- Energy	-65.7	-54.7	-41.7	-41.7
- Industry	-24.5	-29.0	-26.5	-27.9
Total trade balance FOB-FOB - in level	-61.5	-57.6	-40.5	-40.3
Total trade balance FOB-FOB - in pp of GDP	-2.9	-2.7	-1.9	-1.8
COMMERCIAL BALANCE EXCLUDING ENERGY AND MILITARY EQUIPMENT - in level CIF-FOB	-13.0	-20.4	-17.2	-18.1

Table 5: Non financial Corporations – Detailed data				
	2013	2014	2015	2016
	Level in Bn€	Rate of change	Rate of change	Rate of change
GROSS VALUE ADDED	1 070.3	0.3	2.4	3.0
Compensations of employees	709.6	1.7	15	2.6
Ratio: compensations of employees / Gross Value Added – level in %	66.3	67.2	66.6	66.4
Taxes on production	59.9	2.5	-0.1	0.4
Subsidies on production	-16.7	52.2	22.2	2.1
Gross operating surplus (GOS)	317.5	-0.6	6.7	4.2
Ratio - Gross operating surplus / Gross Value Added : margin rate of non-financial corporations – level in %	29.7	29.4	30.6	31.0
Property income paid	269.5	-2.2	0.4	7.4
Property income received	196.6	1.7	0.8	6.4
Taxes on income and wealth	40.1	2.4	2.3	2.4
GROSS SAVING	179.6	3.4	11.5	2.2
Ratio : Saving Rate (Gross Saving / Gross Value Added) – level in %	16.8	17.3	18.8	18.7
Gross fixed capital formation (GFCF)	243.8	1.7	1.7	4.8
Ratio : Self-financing rate (Saving / GFCF) – level in %	73.7	74.9	82.1	80.1
Ratio : Investment rate (GFCF / Gross Value Added) – level in %	22.8	23.1	22.9	23.3
Changes in inventories (1)	3.3	9.0	9.6	11.1
NET LENDING (+) / BORROWING (-) – in level, pp of Gross Value Added	-4.4	-4.8	-3.3	-4.2

(1) Changes in inventories - level in Bn€

Table 6: Households - Income Accounts				
	2013	2014	2015	2016
	Level in Bn€	Rate of change	Rate of change	Rate of change
RESOURCES				
Wages and salaries	819.8	1.6	1.7	2.4
- Employees' social contributions	113.5	3.3	3.0	3.0
Wages and salaries (net of employees' social contributions)	706.4	1.3	1.5	2.3
Mixed income (mainly self-employed)	121.1	-0.4	0.5	1.4
Gross operating surplus (excluding self-employed)	170.4	0.7	1.5	3.0
Social benefits in cash	457.6	2.3	1.8	1.3
Property incomes	133.3	-4.5	0.7	5.9
Other resources	66.9	1.8	2.0	2.5
USES				
Social contributions by self-employed and non-employed persons	30.2	2.1	0.0	2.6
Current taxes on income and wealth	207.9	1.4	1.9	1.6
Property income paid (paid interests)	20.3	-16.8	-8.1	10.3
Other uses	69.6	2.0	2.0	2.5
Gross Disposable Income (GDI)	1 327.6	1.1	1.5	2.3

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Table 7: Households - From disposable income to net lending				
	2013	2014	2015	2016
	Level in Bn€	Rate of change	Rate of change	Rate of change
GROSS DISPOSABLE INCOME (GDI)	1 327.6	1.1	1.5	2.3
Purchasing power of GDI	-0.1	1.1	1.5	1.3
Final consumption expenditure	1 132.7	0.6	1.9	2.7
GROSS SAVING	194.9	4.3	-0.5	-0.1
GLOBAL SAVING RATE (Gross saving / GDI) – in level	14.7	15.1	14.8	14.5
Gross fixed capital formation (GFCF)	119.6	-3.5	-3.0	2.9
Other net uses	4.8	28.2	47.1	-30.7
NET LENDING (in Bn€)	70.5	81.8	81.2	80.6
FINANCIAL SAVING RATE (Net lending / GDI) – in level	5.3	6.1	6.0	5.8

Table 8: International Environment - Basic assumptions			
	2014	2015	2016
Short-term interest rate (annual average)	0.2	0.0	0.3
Long-term interest rate (annual average)	1.6	0.9	1.9
USD/€ exchange rate (annual average)	1.33	1.11	1.10
Nominal effective exchange rate of the French economy	1.4	-4.5	0.0
World GDP growth (excluding EU)	3.8	3.4	4.0
Growth of relevant foreign markets	3.1	3.7	5.2
World imports (excluding EU)	2.6	1.6	5.0
Oil prices (Brent, USD / barrel)	100	57	55

Table 9: International Environment - Detailed forecasts of the GDP growth				
	2013	2014	2015	2016
	Level (Bn USD)	Rate of change	Rate of change	Rate of change
France	2 811	0.2	1.0	1.5
United Kingdom	2 680	3.0	2.6	2.2
European Union (27 countries)	17 955	1.4	1.8	2.0
Euro area	13 143	0.8	1.5	1.8
Euro area excluding France	10 332	0.9	1.6	1.9
United States	16 768	2.4	2.3	2.8
Japan	4 920	-0.1	0.6	1.0

(*) 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.

Table 10: International Environment - Consumer price Index				
	2013	2014	2015	2016
France	0.9	0.5	0.1	1.0
United Kingdom	2.6	1.5	0.0	1.1
Euro area	1.4	0.4	0.2	1.1
United States	1.5	1.6	0.0	1.4
Japan	0.4	2.7	1.1	1.0

Table 11: Labour market developments				
	2014	2014	2015	2016
	Level	Rate of change	Rate of change	Rate of change
Employment, persons¹ - Total economy - Annual average	27 278	0.3	0.3	0.6
Employment, persons - Metropolitan France, all sectors - Annual average, thousands of persons ²	26 403	68	87	152
Employment, persons - Metropolitan France, Non-farm market sector - Annual average ²	15 845	-0.3	0.0	0.6
Employment, persons - Metropolitan France, Non-farm market sector - YoY, thousands of persons ²	15 824	-63	58	132
Compensations of employees - Total economy	1 125.6	1.7	1.4	2.1
Wages and salaries per employee - Non-farm market sector		1.6	1.6	2.1
Labour productivity - Total economy³		-0.1	0.7	0.9

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

(2) Localized employment estimates (Estel data).

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

Table 12: Real and potential GDP growth			
	2014	2015	2016
	Rate of change	Rate of change	Rate of change
Actual GDP growth	0.2	1.0	1.5
Potential GDP growth	1.0	1.1	1.5
Contributions :			
- Labour (total hours worked)	0.2	0.2	0.3
- Capital	0.5	0.5	0.6
- Total Factor Productivity (TFP)	0.3	0.4	0.4
- Effect of structural reforms	0.0	0.0	0.2
Output gap (in pp of potential GDP)	-3.3	-3.4	-3.4

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Table 13: General government budgetary targets broken down by subsector				
	ESA Code	2014	2015	2016
		% GDP	% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector				
1. General government	S.13	-3.9	-3.8	-3.3
2. Central government	S.1311	-3.4	-3.5	-3.3
3. State government	S.1312	-	-	-
4. Local government	S.1313	-0.2	0.0	0.0
5. Social security funds	S.1314	-0.4	-0.3	0.1
6. Interest expenditure	EDP D.41	2.2	2.0	2.1
7. Primary balance (1 + 6)		-1.8	-1.7	-1.2
8. One-off and other temporary measures*		0.0	-0.1	-0.1
9. Real GDP growth (%)		0.2	1.0	1.5
10. Potential GDP growth (%)		1.0	1.1	1.5
11. Output gap (% of potential GDP)		-3.3	-3.4	-3.4
12. Cyclical budgetary component (% of potential GDP)		-1.9	-2.0	-1.9
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		-2.0	-1.8	-1.3
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		0.1	0.2	0.7
15. Structural balance (13 - 8) (% of potential GDP)		-2.0	-1.7	-1.2

(*) A plus sign means deficit-reducing one-off measures.

Table 14: General government debt developments				
	ESA Code	2014	2015	2016
		% GDP	% GDP	% GDP
1. Gross debt ¹		95.6	96.3	96.5
2. Change in gross debt ratio		3.3	0.7	0.2
Contributions to changes in gross debt				
3. Primary balance		-1.8	-1.7	-1.2
4. Interest expenditure	D41	2.2	2.0	2.1
5. Stock-flow adjustment		0.0	-1.1	-0.7
<i>of which:</i>				
- Differences between cash and accruals ²				
- Net accumulation of financial assets ³				
<i>of which:</i>				
- privatisation proceeds				
- Valuation effects and other ⁴				
p.m.: Implicit interest rate on debt ⁵		2.4	2.2	2.2
Other relevant variables				
6. Liquid financial assets ⁶				
7. Net financial debt (7=1-6)				
8. Debt amortization (existing bonds) since the end of the previous year				
9. Percentage of debt denominated in foreign currency				
10. Average maturity				

(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 quoted and non-quoted 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 AF1, AF2, AF3 (consolidated for general government, i.e. netting out financial positions between government entities), A.F511, A.F52 (only if quoted in stock exchange).

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Table 15: Contingent liabilities			
% GDP	2014	2015	2016
Public guarantees* <i>Of which: linked to the financial sector</i>	9.1 %		

* It corresponds to guarantees provided by the central government within financial laws, under clearly defined agreements as regards loans. It is worth noticing that the debt of the Unedic, which is a public administration, is already included into the Maastricht debt (its guaranteed debt, which is included here, represents around 0,5 pt of GDP). Moreover, following Eurostat's decision (27th of January 2011), the Member States' guarantees for the EFSF loans are already recorded as part of their Maastricht debt in proportion to their guarantee (it represents around 1,9 pt of GDP).

Table 16: General government expenditure and revenue projections in ESA 2010 at unchanged policies broken down by main components				
General government (S13)	ESA Code	2014	2015	2016
		% GDP	% GDP	% GDP
1. Total gross revenue at unchanged policies	TR	53.6	53.5	53.3
Of which				
1.1. Taxes on production and imports	D.2	15.8	15.9	15.8
1.2. Current taxes on income, wealth, etc	D.5	12.7	12.6	12.5
1.3. Capital taxes	D.91	0.5	0.5	0.5
1.4. Social contributions	D.61	19.2	19.0	18.9
1.5. Property income	D.4	0.7	0.7	0.7
1.6. Other		4.8	4.8	4.8
p.m.: Tax burden		44.9	44.6	44.5
2. Total expenditure at unchanged policies (including tax credits)	TE	57.5	57.2	56.5
Of which				
2.1. Compensation of employees	D.1	13.0	13.0	12.8
2.2. Intermediate consumption	P2	5.2	5.1	5.0
2.3. Social payments	D.62, D.63	26.2	26.1	25.8
of which Unemployment benefits	D.41	15	1.5	1.4
2.4. Interest expenditure	D.3	2.2	2.0	2.1
2.5. Subsidies	P51	2.2	2.5	2.5
2.6. Gross fixed capital formation	D.9	3.7	3.6	3.5
2.7. Capital transfers		1.1	1.0	0.9
2.8. Other		4.0	3.9	4.0

Table 17: General government expenditure and revenue targets, broken down by main components.

General government (S13)	ESA Code	2014	2015	2016
		% GDP	% GDP	% GDP
1. Total gross revenue target	TR	53.6	53.5	53.3
Of which				
1.1. Taxes on production and imports	D.2	15.8	15.9	15.8
1.2. Current taxes on income, wealth, etc.	D.5	12.7	12.6	12.5
1.3. Capital taxes	D.91	0.5	0.5	0.5
1.4. Social contributions	D.61	19.2	19.0	18.9
1.5. Property income	D.4	0.7	0.7	0.7
1.6. Other		4.8	4.8	4.8
p.m.: Tax burden		44.9	44.6	44.5
2. Total expenditure target (including tax credits)	TE	57.5	57.2	56.5
Of which				
2.1. Compensation of employees		13.0	13.0	12.8
2.2. Intermediate consumption	D.1	5.2	5.1	5.0
2.3. Social payments	P2	26.2	26.1	25.8
of which Unemployment benefits	D.62, D.63	1.5	1.5	1.4
2.4. Interest expenditure	D.41	2.2	2.0	2.1
2.5. Subsidies	D.3	2.2	2.5	2.5
2.6. Gross fixed capital formation	P51	3.7	3.6	3.5
2.7. Capital transfers	D.9	1.1	1.0	0.9
2.8. Other		4.0	3.9	4.0

Table 18: Amounts to be excluded from the expenditure benchmark

	2014	2014	2015	2016
	Level (Bn €)	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue				
2. Cyclical unemployment benefit expenditure	32.2	0.2	0.2	0.2
3. Effect of discretionary revenue measures	955.4	0.1	-0.2	-0.1
4. Revenue increases mandated by law				

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	% of GDP
1. General public services	6.8
2. Defense	1.8
3. Public order and safety	1.6
4. Economic affairs	4.9
5. Environmental protection	1.0
6. Housing and community amenities	1.4
7. Health	8.1
8. Recreation, culture and religion	1.5
9. Education	5.5
10. Social protection	24.5
11. Total Expenditure	57.0

Source: Eurostat, 2013.

General government (S13)	ESA Code	2014	2015	2016
		% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		-4.0	-3.8	-3.3
Draft Budgetary Plan		-3.9	-3.8	-3.3
Difference		0.0	0.0	0.0
General government net lending projection at unchanged policies	B.9			
Stability Programme		-4.0	-3.9	-3.6
Draft Budgetary Plan		-3.9	-3.8	-3.3
Difference ¹		0.0	0.1	0.4

(1) This difference can refer to both deviations stemming from changes in the macroeconomic scenario and those stemming from the effect of policy measures taken between the submission of the SP and the submission of the DBP. Differences are expected due to the fact that the no-policy change scenario is defined differently for the purpose of this Code of Conduct with respect to the Stability Programme.

Table 21: Methodological aspects

Estimation Technique	Step of the budgetary process for which it was used	Relevant features of the model/ technique used
MESANGE¹	Macroeconometric model, used for the analysis of the impact of measures on growth	Vector error correction model (VECM) estimated on the national accounts of INSEE
Opale²	Macroeconomic forecasts for 2015-2016, on which are based the public finance forecasts presented in the Draft Budgetary Plan	Vector error correction model (VECM) estimated on the national accounts of INSEE
Guyon-Sorbe³	Structural effort decomposed by general government subsector	Module of decomposition of the structural balance

(1) See « Le modèle MESANGE réestimé en base 2000 », mars 2010, document de travail de la DESE de l'Insee et de la DGTrésor.

(2) See « La maquette de prévision OPALÉ », décembre 2010, document de travail de la DG Trésor 2010/07.

(3) See « Solde structurel et effort structurel : vers une décomposition par sous-secteur des administrations publiques », décembre 2009, document de travail de la DGTrésor 2009/13.

Table 22: Multiyear public finance trajectory

(% of GDP)	2014	2015	2016	2017	2018	2019
General government balance (Maastricht definition)	-3.9	-3.8	-3.3	-2.7	-1.9	-1.3
<i>Of which State</i>	-3.5	-3.4	-3.3	-3.0		
<i>Of which Other central government bodies</i>	0.1	0.0	0.0	0.0		
<i>Of which Local governments</i>	-0.2	0.0	0.0	-0.1		
<i>Of which Social security funds</i>	-0.4	-0.3	0.1	0.4		
Cyclical balance	-1.9	-2.0	-1.9	-1.9	-1.7	-1.4
One-off and other temporary measures (% of potential GDP)	0.0	-0.1	-0.1	-0.1	0.0	0.0
Structural balance (% of potential GDP)	-2.0	-1.7	-1.2	-0.7	-0.2	0.0
Structural adjustment	0.6	0.4	0.5	0.5	0.5	0.3
Nominal growth rate of expenditures excluding tax credits (%)	0.9	1.0	1.3	1.6		
Real government expenditure rate excluding tax credits (%)	0.5	0.9	0.4	0.1		
General government expenditures excluding tax credits (% PIB)	56.4	55.8	55.1	54.5		
Tax burden excluding tax credits (% PIB)	44.9	44.6	44.5	44.3		
Government debt (Maastricht definition)	95.6	96.3	96.5	96.5	95.2	93.2
Government debt (excluding financial support for the euro area)	92.4	93.3	93.6	93.6	92.4	90.5

Table 23: In-Year quarterly budgetary execution on cash basis for the general government and its sub-sectors		
In Bn€ for 2015	Quarter 1	Semester 1
Overall balance by sub-sector		
General government		
Central government ⁽¹⁾	-26.3	-58.5
State government		
Local government	-12.5	-5.8
Social security funds	-2.4	-8.0
Total revenues / inflows		
Local government	43.3	122.6
Social security funds	89.5	185.6
Total expenditures / outflows		
Local government	58.2	128.3
Social security funds	91.8	193.6

(1) Situation mensuelle au 30 juin : <http://www.performance-publique.budget.gouv.fr/ressources-documentaires/documentation-budgetaire/situation-mensuelle-budget-etat-en-2015#.VgO695Xosei>

Table 24: In-Year quarterly budgetary execution in accordance with ESA standards for the general government and its sub-sectors			
<i>In Bn€</i>	ESA Code	2015	
		1st quarter	2nd quarter
Overall balance by sub-sector			
General government*	S.13	-20.5	-22.4
Central government	S.1311		
State government	S.1312		
Local government	S.1313		
Social security funds	S.1314		
For general government			
Total of revenues	TR	289.4	289.8
Total of expenses	TE	309.9	312.1

*CF http://www.insee.fr/fr/themes/theme.asp?theme=16&sous_theme=8&type=2&nivgeo=0&page=publications.html