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**Country Report France 2018  
Including an In-Depth Review on the prevention and correction of macroeconomic  
imbalances**

*Accompanying the document*

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK AND THE  
EUROGROUP**

**2018 European Semester: Assessment of progress on structural reforms, prevention and  
correction of macroeconomic imbalances, and results of in-depth reviews under  
Regulation (EU) No 1176/2011**

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## CONTENTS

Executive summary	1
1. Economic situation and outlook	4
2. Progress with country-specific recommendations	11
3. Summary of the main findings from the Macroeconomic Imbalance Procedure in-depth review	15
4. Reform priorities	22
4.1. Public finances and taxation	22
4.2. Labour market, education and social policies	31
4.3. Investment, competitiveness and business environment	40
4.4. Sectoral policies	49
Annex A: Overview table	56
Annex B: Macroeconomic Imbalance Procedure scoreboard	64
Annex C: Standard tables	65
References	71

## LIST OF TABLES

Table 1.1:	Key economic, financial and social indicators – France	10
Table 2.1:	Summary Table on 2017 country-specific recommendations assessment	13
Table 3.1:	MIP Assessment Matrix (*) – France 2018	20
Table 4.3.1:	Stock of FDI: residents abroad (assets) and non-residents in the economy (liabilities)	43
Table 4.4.1:	Modal share evolution - long distance	52
Table 4.4.2:	Financial soundness indicators - all banks in France	53
Table B.1:	The MIP scoreboard for France (AMR 2018)	64
Table C.1:	Financial market indicators	65
Table C.2:	Headline Social Scoreboard indicators	66
Table C.3:	Labour market and education indicators	67
Table C.4:	Social inclusion and health indicators	68
Table C.5:	Product market performance and policy indicators	69
Table C.6:	Green growth	70

## LIST OF GRAPHS

Graph 1.1:	Contributions to GDP growth (2010-2019)	4
Graph 1.2:	Potential GDP growth breakdown in France	5
Graph 1.3:	Potential total factor productivity growth in selected euro area countries	5
Graph 1.4:	Evolution of import penetration in selected euro area countries	6
Graph 1.5:	Trade balance – France	6
Graph 1.6:	Household and non-financial corporation indebtedness	7
Graph 1.7:	France – non-financial corporation debt: gaps relative to benchmarks	8
Graph 2.1:	Overall multiannual implementation of 2011-2017 CSRs to date	11
Graph 3.1:	Decomposition of unit labour cost rate of change	16
Graph 3.2:	Effects of the crédit d'impôt pour la compétitivité et l'emploi transformation	18
Graph 4.1.1:	Contributions to the change in the public debt ratio in France	22
Graph 4.1.2:	Projections of French public debt under alternative scenarios	22
Graph 4.1.3:	Trends in real estate	26
Graph 4.1.4:	Other taxes on production (2016) – Top 10	28
Graph 4.1.5:	Tax structure as % GDP, 2015	29
Graph 4.2.1:	Unemployment rate in France and the EU	31
Graph 4.2.2:	Minimum wage (level and evolution) and employment for low-skilled workers	31
Graph 4.2.3:	Unemployment rate and potential additional labour force	33
Graph 4.2.4:	Percentage of low-skilled in total employment (September 2017)	33
Graph 4.3.1:	Export of goods in value - by sector evolution	40
Graph 4.3.2:	Export of goods in volume - performance	40
Graph 4.3.3:	Export of goods in value - by quality rank (as % of total exports)	41
Graph 4.3.4:	Service exports - France	41
Graph 4.3.5:	Participation of the French SMEs in the internal and world markets compared to the EU average	42
Graph 4.3.6:	Investment in selected Euro area Member States -expressed as a percentage of GDP	43
Graph 4.3.7:	Number of employees and number of firms - French manufacturing industry	44
Graph 4.3.8:	Performance in the Small Business Act report for 2017	45
Graph 4.4.1:	R&D intensity (2015)	49
Graph 4.4.2:	Economic structure (% of value added)	50

## LIST OF BOXES

Box 2.1:	Tangible results delivered through EU support to structural change in France	14
Box 3.1:	Euro area spillovers	19
Box 4.2.1:	Monitoring performance in the light of the European Pillar of Social Rights	32
Box 4.3.1:	Investment challenges and reforms in France	48
Box 4.4.1:	Policy highlights on environment and climate	55

## EXECUTIVE SUMMARY

**The improved macroeconomic scenario is an asset for pursuing ambitious structural reforms, while improving the situation of public finances in France** <sup>(1)</sup>. After three years of moderate growth, economic activity in France has accelerated sharply in 2017. The government is undertaking important reform actions. A *Grand Plan d'Investissement* for the period 2018-2022 is on-going, as well as the implementation of adopted labour market reforms and additional measures to be launched, as regards the pension, unemployment benefit system, and vocational education and training. Meanwhile, challenges remain to improve public finances on a more sustainable basis, in particular while the high level of private debt is still a potential source of concern. These also include a comprehensive review of public finances, the simplification of the tax system and the increase in efficiency of the tax system. Improving access to the labour market for less qualified workers and people with a migrant background is also an issue. Reducing the administrative and regulatory burden and improving collaboration between public research and companies would contribute to increase the competitiveness of the French economy.

**Economic activity has accelerated and is forecast to remain strong in the near future.** GDP growth in France increased to 1.8 % in 2017 from 1.2 % in 2016. It was driven by strong private investment growth and in particular by a strong recovery in the housing market. According to the Commission 2018 winter forecast, GDP growth is expected to reach 2.0 % in 2018 and 1.8 % in 2019 as spare capacity in the economy is reabsorbed. Private consumption growth is set to recover somewhat, while investment growth is expected to remain strong. Moreover, the contribution of net exports is expected to improve in a context of sustained global demand.

**The performance of French exports has stopped deteriorating.** Export market shares have stabilised since 2012, led by more favourable developments in France's main trade partners. The trade deficit is expected to have reached a trough in 2017, as imports remained more vigorous than exports and oil prices rebounded. External sustainability is not a concern for France in the short term, whilst the weak export performance continues to weigh on growth prospects.

**In the long term, growth is expected to remain moderate.** In line with an EU-wide trend, France's potential growth has been eroded since the 2008 financial crisis. Yet, France's potential growth increased to 1.0 % in 2016 and is expected to further accelerate, up to 1.3 % in 2019. Structural reforms have been planned and some have already been undertaken. They seek to address the economic challenges that limit potential growth.

**Competitiveness is improving, although France has not fully regained previous losses.** The growth of unit labour costs has recently recovered, in line with increased economic activity. Productivity growth remains subdued and prevents French competitiveness from recovering more quickly. Labour market and tax reforms are on-going. Additional measures have been launched to improve the competitiveness of the French economy, including product market reforms. The positive effect of these actions is likely to become more prominent in the medium term.

**France's public indebtedness is high.** The general government deficit is expected to decline below the threshold value of 3 % of GDP in 2017. However, the adjustment of government spending is proving difficult despite the dampening effect of the low interest burden. Debt is expected to stabilise at 96.9 % of GDP over the forecast horizon (2017-2019). Despite the objective to reduce expenditure more than 3 pps of GDP by 2022, the identification and monitoring of structural savings are still unknown. In turn, targets for healthcare spending (ONDAM) and operational spending of local authorities (ODEDEL) are less demanding for 2018. As a result, it seems that France currently plans to 'back load' the envisaged consolidation effort by cutting spending in later years.

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<sup>(1)</sup> This report assesses France's economy in the light of the European Commission's Annual Growth Survey published on 22 November 2017. In the survey, the Commission calls on EU Member States to implement reforms to make the European economy more productive, resilient and inclusive. In so doing, Member States are encouraged to focus on the three elements of the virtuous triangle of economic policy — boosting investment, pursuing structural reforms, and ensuring responsible fiscal policies. At the same time, the Commission published the Alert Mechanism Report (AMR) that initiated the seventh round of the macroeconomic imbalance procedure. The AMR found that France warranted an in-depth review, which is presented in this report.

**Unemployment continues to fall.** The unemployment rate declined from 10.4 % in 2015 to 9.5 % in 2017 and is forecast to decrease further in the coming years, while the employment rate rose to 71 % in the third quarter 2017. Labour market conditions for younger, lower-skilled workers, and people with a migrant background (both first and second generations) remain more difficult.

**Its large economy and integration with the rest of the euro area make France a source of potentially significant cross-border spillovers.** Model simulations suggest that product and labour market reforms in France can yield positive long-term GDP effects for both France and the rest of the euro area.

**Overall, France has made some progress in addressing the 2017 country-specific recommendations.** Some progress has been made in improving access to the labour market for jobseekers, ensuring that minimum wage developments are consistent with job creation and competitiveness, and further reducing the regulatory burden for firms. Some progress has also been made on taxation by decreasing the statutory corporate income tax rate and reducing the cost of labour. Limited progress has been made in ensuring the sustainability of public finances and reviewing expenditure items. There has also been only limited progress in raising the efficiency of public support schemes for innovation and revising the system of vocational education and training. No progress has been made in continuing to lift barriers to competition in the services sector.

Regarding progress in reaching national targets under the Europe 2020 strategy, France is performing well in decreasing greenhouse gas emissions, improving energy efficiency, increasing tertiary education attainment and reducing early school leaving. More action is still needed to reduce poverty and increase the employment rate, R&D intensity, and the use of renewable energy.

**France performs relatively well on the indicators of the Social Scoreboard supporting the European Pillar of Social Rights.** Overall, the social protection system is effective and shows good results both in the fields of social protection and health. France also has a low gender employment gap, relatively low income inequality,

and a high share of children in formal childcare. Some issues in the areas of educational inequalities and labour market segmentation merit attention. Recently, the number of people at risk of poverty and social exclusion has also been rising, even if it remains at a relatively low level.

The main findings of the in-depth review contained in this report, and the related policy challenges, are as follows:

- **Cost competitiveness has improved in recent years.** Wage growth remains moderate. No ad-hoc hike in the minimum wage has been decided since 2013. The possibility of reforming the minimum wage automatic indexation mechanism is under discussion. Tax measures have reduced labour costs. However, the competitiveness gap accumulated in previous years has not been closed yet.
- **Other factors driving the competitiveness of French exports continue to be weak.** France's share of the global market has been more resilient for services than goods since 2008, especially for business services. The share of low-, middle- and top-quality goods in total French exports has slightly increased, while the share of high-quality goods has significantly decreased. The proportion of exporting SMEs is lower in France than in other Member States.
- **The labour market situation continues to improve, yet challenges remain to be tackled, especially for some categories.** The government has presented an ambitious reform agenda to the social partners. It includes the adopted reform of the labour law, as well as the announced reform of the systems for unemployment benefit, pensions, and vocational education and training, comprising apprenticeship. Remaining challenges concern the still high level of unemployment (especially for younger and lower-skilled people) and the segmentation of the labour market. The integration of disadvantaged groups in the labour market and their transition towards more stable forms of work can also be improved. This is particularly relevant for people with a migrant background.

- **The French business environment is middle-ranking in comparison to major competitors.** While investment remains dynamic with respect to the euro area, the government has announced measures to improve the business environment, as companies are still facing fast changing legislation, complex regulatory requirements and burdensome administrative procedures. Size-related regulatory thresholds continue to weigh on firms' growth. Competition is still weak in several service sectors, notably in professional and business services. Lack of clarity and prioritisation about the French state's objectives as shareholder in several large incumbent firms operating in sectors of major economic importance remains, including railways and energy. The new regulatory framework for the collaborative economy aims at taking into account the specificities of these services but holds back their development. France's low coverage with fast broadband also limits its ability to benefit from the digital economy.
  - **High public debt coupled with already high structural deficits could be a source of significant risk for public finances in the medium term.** Short-term sustainability risks remain low. Long-term risks are also contained, notably due to pension indexation rules and favourable demographics compared to the rest of the EU. Still, sustainability challenges in the medium term remain high and call for significant consolidation in the coming years to bring down public debt. The debt burden for the private sector continues to increase. The combination of high public and private debt is an additional risk factor.
  - **A new expenditure-based consolidation strategy has been announced.** The already very high tax burden leaves little margin for further tax increases, suggesting that further consolidation needs to be expenditure-based. A new spending review framework has been put forward, aiming to identify efficiency gains and to generate savings at all levels of the public administration. The concrete scope of this framework remains to be clarified and the framework has not yet been implemented. Reforms aiming at simplifying and improving the efficiency of spending are under consideration for pensions, healthcare, housing allowances and vocational training.
  - **The tax system has been reformed to address the high tax burden on companies and favour productive investment.** While these reforms aim to improve the business environment, the tax system continues to be complex. In addition, it is characterised by relatively low levels of consumption and environmental taxes and a high level of taxes on production.
- Other key structural issues analysed in this report, which point to particular challenges for France's economy, are the following:
- **Educational inequalities remain high and the vocational education and training system presents some weaknesses in matching labour market needs.** New measures have been adopted to reduce educational inequalities linked to socioeconomic background. The system of initial vocational education and training does not sufficiently foster access to employment, despite undertaken reforms. Access to the continuous vocational training system is uneven for different categories of employed workers and unemployed.
  - **Social conditions in France are good overall.** In general, the French social protection system appears effective in reducing poverty and exclusion and providing access to healthcare and childcare. Still, inequalities based on migration and socioeconomic background remain, especially in deprived urban areas. Some, mainly rural, areas face challenges in attracting physicians. Access to affordable housing can be challenging in urban areas.
  - **Innovation performance remains below that of EU innovation leaders.** The efficiency of public support schemes can be further improved. It is to be seen if the results of evaluations will lead to a sufficient policy response improving the overall performance of the system. In addition, knowledge transfer between public research and companies remains a challenge; there is room to further promote such collaboration.

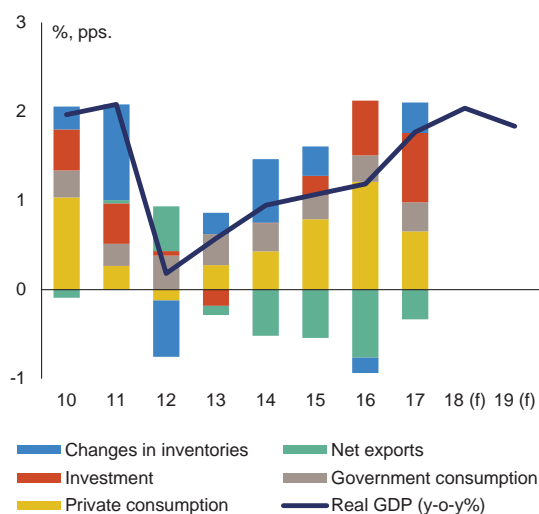


# 1. ECONOMIC SITUATION AND OUTLOOK

## GDP growth

**After three years of moderate growth, economic activity in France has accelerated sharply.** GDP growth increased to 1.8 % in 2017<sup>(2)</sup>, after registering 1.2 % in 2016. Economic activity has been driven by strong private investment. Household investment grew at a sustained pace, recovering strongly after several years of contraction. In addition, corporate investment held up remarkably well following the end of the over-amortisation scheme, a fiscal incentive for firms to invest. By contrast, private consumption slowed as higher inflation diminished the purchasing power of households. Moreover, net exports continued to weigh on growth, as exports were hampered by temporary factors while imports remained strong.

Graph 1.1: Contributions to GDP growth (2010-2019)



Source: Commission 2018 winter forecast

**Growth is set to remain strong in the near future.** Economic sentiment has continued to improve in recent months, with some confidence indicators approaching or even exceeding their pre-crisis peaks. Private consumption growth is set to recover somewhat in 2018, in line with increases in household purchasing power. Investment growth is expected to rise further in 2018 before cooling slightly in 2019. Household investment is set to remain strong, as indicated by the increase in new construction starts. Moreover, public investment is forecast to rebound in 2018

after several years of contraction. Finally, the contribution of net exports is expected to gradually improve in a context of sustained global demand. According to the 2018 winter forecast, GDP growth is expected to reach 2.0 % in 2018 and to slightly decelerate to 1.8 % in 2019 as spare capacity in the economy is reabsorbed (Graph 1.1).

**The labour market situation continues to improve.** The employment rate (for those aged between 20 and 64) gradually increased to 70 % in 2016, compared to the 71.1 % EU average, and continued to improve in 2017 in line with the EU trend. In parallel, the unemployment rate decreased from 10.4 % in 2015 to 10.1 % in 2016 and 9.5 % in 2017 (vs. 7.7 % in the EU and 9.1 % in the euro area) and it has continued to decrease in 2017. It is projected to decline further, supported by ongoing reforms. Youth unemployment has fallen from 24.6 % in 2016 to 22.6 % in 2017, but remained above the EU and euro area average (respectively 16.8 % and 18.9 % in 2016). The limited integration of young people into the labour market is also reflected in a stable NEET (not in education, employment or training) rate of 11.9 %. There is a decreasing number of school drop-outs in the 15-19 age group, while unemployment is still high in the 20-24 age group showing only first signs of improvement in 2017.

**Wage growth remains subdued, reflecting the labour market slack, low inflation and weak productivity gains.** Nominal compensation per employee increased by 1.0 % in 2016 and is set to accelerate only gradually. Minimum wage increases are expected to remain moderate. In line with wage developments, inflation is forecast to reach 1.5 % in 2018 and 2019, up from 1.2 % in 2017.

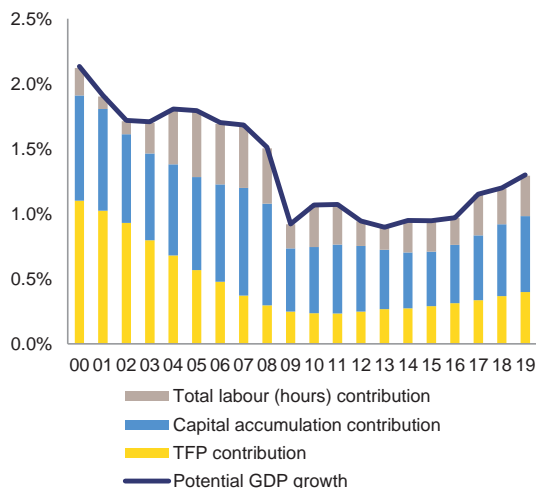
**Potential risks to French growth come from outside the country, while domestic risks do not appear to be a cause for concern.** Recent cost-competitiveness gains could help exporters to better absorb the euro's appreciation than in the past. Moreover, higher corporate investment could help boost potential growth, leading to self-fulfilling higher growth expectations.

<sup>(2)</sup> The GDP growth figures are non-calendar adjusted. In 2017, calendar adjusted GDP growth reached 1.9 %.

### Potential growth

In the long term, growth is expected to remain moderate as potential growth has declined since the 2008 financial crisis. While averaging 1.8 % from 2000 to 2008, the annualised growth rate of potential GDP amounted to just 1.0 % between 2009 and 2017. The rate of growth is projected to recover gradually and to reach 1.3 % in 2019. A slowdown of potential GDP has been observed in most major euro area economies. In the case of France, this slowdown is attributable to a significant reduction in the contribution of total factor productivity (TFP) to growth, while capital accumulation and total hours worked remained relatively robust (Graph 1.2). In annualised terms, the decline in France's TFP growth amounted to 0.4 pp. between the 2000-2008 period and the 2009-2017 period, and is more pronounced than that of Germany. As a result, potential TFP growth in France decoupled from Germany and is now lower than in Spain, although it remained higher than in Italy (Graph 1.3).

Graph 1.2: Potential GDP growth breakdown in France

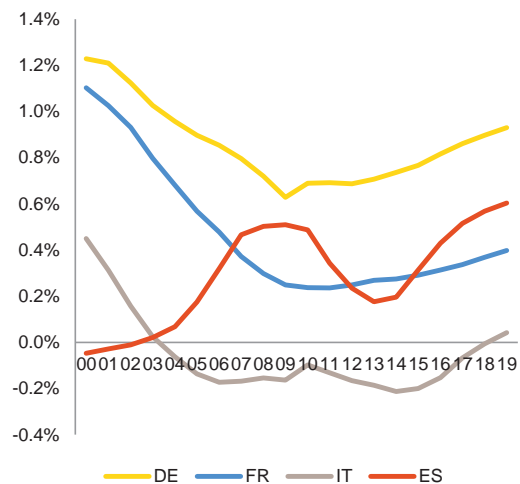


Source: Commission 2017 autumn forecast

The deceleration in TFP growth prevents a faster improvement in French competitiveness. Wage increases have been moderate in recent years. However, the slowdown of labour productivity, largely due to a decline in TFP growth despite a continued increase in capital intensity, prevents a faster recovery of cost competitiveness (see Section 3).

The decline in long-term growth prospects also exacerbates the challenges associated with the high public debt. The deceleration of potential GDP makes it more difficult for France to bring down its public debt without greater fiscal consolidation efforts (see Section 4.1).

Graph 1.3: Potential total factor productivity growth in selected euro area countries



Source: Commission 2017 autumn forecast

Structural reforms are key to reinforcing the growth potential, in particular because they help to spur TFP growth<sup>(3)</sup>. Increasing the quality of the labour input by helping the workforce acquire the right set of skills, adjusting the regulatory framework to encourage the growth of the relatively productive firms, and reducing the costs of firm exit by facilitating labour market transitions, contribute to productivity growth. The French labour market is characterised by limited mobility among sectors and regions, which may hamper resource reallocation and reduce TFP growth. Labour market segmentation may also have a negative effect on human capital accumulation (see Section 4.2). Inequality of opportunity, as evident through the strong dependence of educational outcomes on parental background, may be associated to suboptimal investment in human capital (see Section 4.2). TFP growth may also be hampered by burdensome regulations, including social and tax thresholds

<sup>(3)</sup> Thum-Thysen, A. and R. Raciborski (2017), *Determinants of trend TFP growth and key policies that influence it*, Quarterly Report on the Euro Area, Vol. 16, No 2, October 2017.

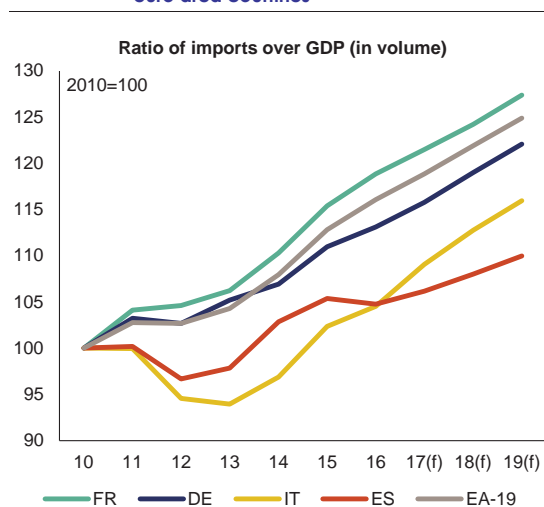


that are calculated on the basis of the number of employees a company has (see Section 4.4). The tax structure is not very growth-friendly (see Section 4.1).

### Trade balance and current account

**Export market shares have stabilised since 2012** (see Section 4.3). A number of temporary factors affected export growth in 2016. In particular, exports of refined petroleum products were hit by strikes in the refineries in the second quarter of 2016, while unfavourable weather conditions damaged agricultural crops, and the terrorist attacks hampered tourism exports. As a result, growth in French exports remained subdued in 2016 at 1.8 %, below both export market growth (2.8 %) and world trade (2.4 %). As these temporary factors fade, export growth is forecast to gradually recover.

Graph 1.4: Evolution of import penetration in selected euro area countries



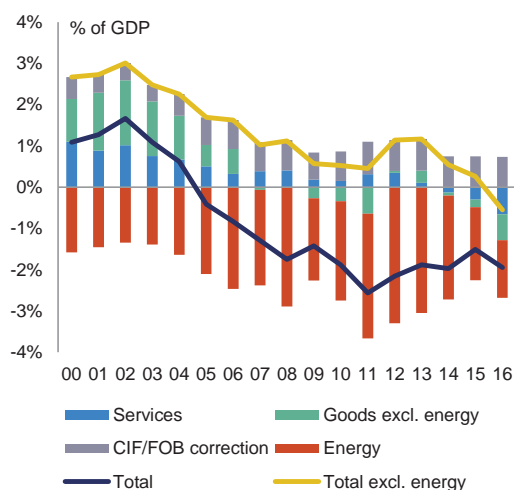
Source: Commission 2017 autumn forecast

**By contrast, import growth has proved robust.** Imports have accounted for a growing share of GDP in volume. Above all, the increase in import penetration reflects general trends in world trade as a result of globalisation. However, import penetration has increased faster in France than in other major euro-area economies since 2010 (Graph 1.4). The strong import growth in France reflects to some extent the composition of demand in recent years, characterised by the fast growth of

relatively import-intensive components of demand <sup>(4)</sup>.

**As a result of strong import growth, the trade balance started deteriorating again in 2016.** After reaching –1.5 % of GDP in 2015, the trade balance stood at –1.9 % of GDP in 2016, and is expected to reach a trough at –2.4 % of GDP in 2017, according to the 2017 autumn forecast. The trade balance in the services sector deteriorated continuously since 2012, becoming negative in 2014. In addition, the trade balance in goods started deteriorating again in 2016, despite lower oil prices. Excluding energy products, the trade balance in goods has been deteriorating since 2014 (Graph 1.5).

Graph 1.5: Trade balance – France



Source: Insee

**In line with developments in the trade balance, the current account deteriorated in 2016.** According to balance of payment statistics, the current account balance reached –0.9 % in 2016, after registering –0.4 % in 2015. In cyclically-adjusted terms, France retained a sizeable current account deficit <sup>(5)</sup>. The current account deficit is larger than the one required to stabilise the net international investment position (NIIP) over 10

<sup>(4)</sup> Focus – The sharp rise in manufacturing imports since 2014 reflects the composition of demand, except in transport equipment', *Conjoncture in France*, Insee, March 2017.

<sup>(5)</sup> The cyclically-adjusted current account deficit is worth 2.8 % of GDP. Due to strong statistical differences between balance of payments (BoP) and national accounts data, on a BoP basis the cyclically adjusted deficit is close to 1 %.

years (this latter standing at  $-0.5\%$  of GDP), and larger than the current account 'norm' <sup>(6)</sup> explained by fundamentals ( $+0.2\%$  of GDP).

**France's net borrowing has deteriorated as well to  $-2.5\%$  of GDP in 2016 and is expected to deteriorate further to  $-3.1\%$  in 2017.** Net lending by households remains insufficient to fully finance net borrowing by the general government and by non-financial corporations. France is the only major EU economy in which non-financial corporations are net borrowers, while the net borrowing of the public sector is higher than the euro area average.

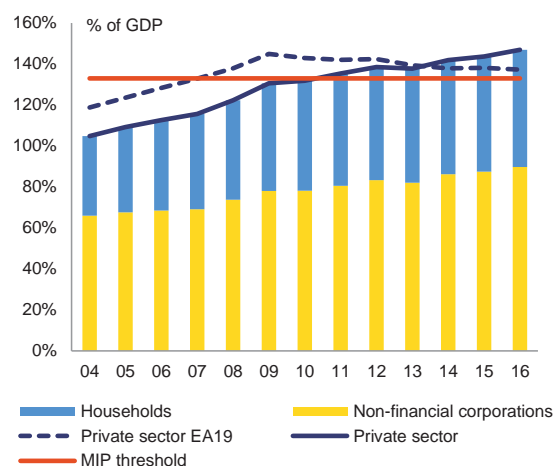
### Private indebtedness

**The level of consolidated private debt has steadily increased since 1998, reaching  $146.9\%$  of GDP in 2016.** Both household debt and non-financial corporation debt continued to grow at a relatively rapid pace throughout the crisis and in subsequent years (Graph 1.6). By contrast, in the rest of the euro area, private debt has been falling since 2009. While household debt is in line with the euro area average, the debt of French non-financial corporations exceeded the euro area average by 10.0 pps in 2016.

**Increasing household indebtedness does not seem a source of concern in the near future.** This is because of (i) the prevalence of fixed-rate loans, (ii) the particular French system of guarantees (granted by a bank or an insurer) that provides an additional safety net in case of default, (iii) the comparatively good credit profile of borrowers, (iv) the absence of any particular tax incentive to take up a housing loan, and (v) a history of low defaults even during the crisis (see Section 4.4).

**High non-financial corporation debt, combined with still low profitability, is a potential source of concern for France, should this trend persist.** This is underlined by the 15 December 2017 report

Graph 1.6: **Household and non-financial corporation indebtedness**



Source: Eurostat

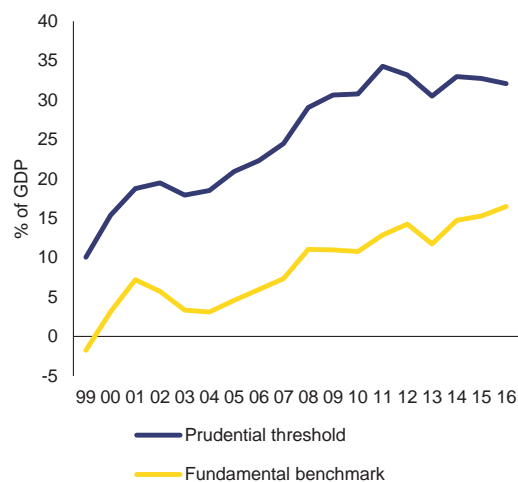
of the *Haut Conseil de stabilité financière* whereby the institution commits to take additional prudential measures in case vulnerabilities and risks related to private debt justify it. At  $89.7\%$  of GDP in 2016, non-financial corporation debt stood more than 10 pps above the fundamental benchmark obtained with regressions (Graph 1.7), and also above prudential threshold, and should be monitored <sup>(7)</sup>. Non-financial corporations are expected to continue to rely on external financing since the investment-over-gross-savings ratio stands at quite high levels, substantially higher than before the crisis ( $126.4\%$  in 2016, compared with approximately  $116\%$  in 2007 and 2008). However, risks tend to be mitigated by the fact that this growth in corporate debt seems to be mainly driven by the issuance of bonds by large corporations on the capital markets (INSEE, 2017b). As for the balance sheet structure of non-financial corporations in France, the proportion of short-term debt over total debt has decreased regularly since the start of the crisis, from  $34.3\%$  in 2007 to  $28.9\%$  in 2016, which limits the problem of short-term refinancing. At present, interest payments as a proportion of gross value

<sup>(6)</sup> The current account 'norm' benchmark is derived from regressions capturing the main fundamental determinants of the saving-investment balance (e.g. demographics, resources), as well as policy factors and global financial conditions. See also European Commission, 2017, 'Empirical current account benchmarks: modelling the impact of demographic variables', LIME Working Group, 24 April 2017.

<sup>(7)</sup> Fundamental-based benchmarks are derived from regressions capturing the main determinants of credit growth and taking into account a given initial stock of debt. Prudential thresholds represent the debt threshold beyond which the probability of a banking crisis is high, minimising the probability of missed crisis and that of false alerts. See also European Commission (2017), "Benchmarks for the assessment of private debt", Note for the Economic Policy Committee".

added are relatively low. In 2016, they stood at 4.6 %, which is less than half the peak value of 11.2 % reached in 2008. In spite of this decreasing trend in recent years, interest payments as a proportion of gross value added remain substantially above the average value of 2.6 % in the 19 countries of the euro area.

Graph 1.7: **France – non-financial corporation debt: gaps relative to benchmarks**



Source: European Commission

### Public finances

**The reduction of the deficit below the 3 % of GDP reference value seems durable, but the structural deficit is projected to increase.** According to the Commission 2017 autumn forecast, the general government deficit is expected to fall to 2.9 % of GDP in 2017, in part due to the additional consolidation measures of more than EUR 4 billion to offset previously detected state expenditure slippages. However, the final budgetary impact of AREVA's<sup>(8)</sup> recapitalisation and the repeal of the 3 % tax on dividends, both pending a final decision by Eurostat, might compromise the reduction of the excessive deficit below the 3 % reference value. Based on the measures presented in the draft budgetary plan, the government deficit is expected to remain at 2.9 % of GDP in 2018. The structural balance, however, is projected to deteriorate by 0.4 % of GDP, which contrasts with the improvement required by the provisions of the

<sup>(8)</sup> The French multinational group specialised in nuclear power and renewable energy.

preventive arm of the Stability and Growth Pact and the transitional debt rule. For 2019, at unchanged policies<sup>(9)</sup>, the deficit is projected to increase to 3.0 % of GDP, which implies a structural deterioration of 0.3 % of GDP.

### No reduction in the general government debt is foreseen over the forecast horizon.

The public debt-to-GDP ratio reached 96.5 % of GDP in 2016, compared with 91.1 % for the euro area on average. This difference between France and the euro area average is expected to widen further in the coming years (see Section 4.1) as the French debt ratio is forecast to keep rising in 2017 to 96.9 % of GDP and remain at this level until 2019. This is mainly due to the projected deterioration of the structural deficit. Despite the lack of progress in public debt reduction, sovereign yields remain very low, driven by the expansionary monetary policy of the European Central Bank, and no refinancing issues have been detected.

### Social developments

**Despite recent labour market improvements, some groups of the population are still disadvantaged.** Education levels are a determining factor for labour market performance. The unemployment rate of people without qualifications increased from 2015 to 2016 by 0.4 pp. to 18 %. It remained stable for graduates of upper-secondary education and decreased by 0.6 pp. to 5.7 % for graduates of higher education. Divergence in opportunities starts in school, as PISA results highlight a strong performance gap depending on socioeconomic background. People not born in the EU experience a large and increasing employment gap compared to those born in France (17.5 pps in 2016), and the children of those born outside the EU also struggle to overcome this gap.

### The French labour market is also marked by entrenched segmentation.

An increasing share of employees is on temporary contracts and is very unlikely to move to permanent contracts (the transition rate was at 13 % in 2016, one of the lowest in the EU). Compared to other countries,

<sup>(9)</sup> This also implies that the envisaged replacement of the Tax Credit for Competitiveness and Employment (*Crédit d'impôt pour la compétitivité et l'emploi* – CICE) by a permanent reduction in social contributions (see section 4.1) is not factored in Commission's projections.

women occupy a relatively good position in the labour market compared to men, although women are more likely to be in part-time work than men (22.2 %).

**Overall, France has relatively low levels of poverty, but the risk of social exclusion is increasing.** The poverty rate remained stable in 2016 at 13.6 %, at 3.6 pps below the EU and euro area averages. The impact of social transfers on poverty reduction was 42.4 % in 2016, 9 pps above the EU average, although these social transfers are being reduced. The percentage of people at risk of poverty or social exclusion increased to 18.2 % in 2016, from 17.7 % in 2015, but is still below the average EU level of 23.5 %.

**While income inequality in France is below the EU average, equality of opportunity deserves attention.** Income inequality measured through the Gini index of disposable income was relatively unchanged in 2016 compared to the previous year at 29.3 % in 2016, below the EU average of 31 % in 2015. In 2016, the ratio of the average income of the bottom quintile to that of the first quintile was unchanged at 4.3 in 2016, below the EU average of 5.2 <sup>(10)</sup>. This is the result of an effective tax and benefit system and comparatively low wage dispersion. However, educational outcomes are highly dependent on social background. Moreover, the risk of poverty for the children of low-skilled parents has been rising and is now above the EU average.

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<sup>(10)</sup> The Gini index considers the shape of the whole income distribution and takes values between 0 and 1 (or 100 %), with higher values indicating a higher degree of income inequality. The income quintile share ratio is the ratio of total income received by the 20 % of the population with the highest income to that received by the 20 % of the population with the lowest income.

Table 1.1: Key economic, financial and social indicators – France

	2004-07	2008-12	2013-14	2015	2016	forecast		
						2017	2018	2019
Real GDP (y-o-y)	2.3	0.3	0.8	1.1	1.2	1.8	2.0	1.8
Potential growth (y-o-y)	1.7	1.1	0.9	0.9	1.0	1.2	1.2	1.3
Private consumption (y-o-y)	2.3	0.5	0.6	1.4	2.2	.	.	.
Public consumption (y-o-y)	1.7	1.5	1.4	1.1	1.3	.	.	.
Gross fixed capital formation (y-o-y)	3.9	-0.9	-0.4	1.0	2.8	.	.	.
Exports of goods and services (y-o-y)	4.3	1.2	2.6	4.3	1.8	.	.	.
Imports of goods and services (y-o-y)	6.0	1.3	3.5	5.7	4.2	.	.	.
Contribution to GDP growth:								
Domestic demand (y-o-y)	2.5	0.5	0.6	1.3	2.1	.	.	.
Inventories (y-o-y)	0.2	-0.1	0.5	0.3	-0.2	.	.	.
Net exports (y-o-y)	-0.4	0.0	-0.3	-0.5	-0.8	.	.	.
Contribution to potential GDP growth:								
Total Labour (hours) (y-o-y)	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Capital accumulation (y-o-y)	0.8	0.6	0.4	0.4	0.5	0.5	0.6	0.6
Total factor productivity (y-o-y)	0.7	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Output gap	2.1	-0.8	-1.5	-1.4	-1.2	-0.8	-0.2	0.1
Unemployment rate	8.7	9.0	10.3	10.4	10.1	9.5	9.3	8.9
GDP deflator (y-o-y)	2.1	1.1	0.7	1.1	0.4	0.9	1.4	1.5
Harmonised index of consumer prices (HICP, y-o-y)	1.9	1.9	0.8	0.1	0.3	1.2	1.5	1.5
Nominal compensation per employee (y-o-y)	3.0	2.5	1.5	0.9	1.0	1.7	2.0	2.0
Labour productivity (real, person employed, y-o-y)	1.4	0.2	0.4	0.8	0.5	.	.	.
Unit labour costs (ULC, whole economy, y-o-y)	1.6	2.1	1.0	0.0	0.3	1.1	1.1	1.3
Real unit labour costs (y-o-y)	-0.5	1.0	0.3	-1.1	-0.1	0.2	-0.2	-0.2
Real effective exchange rate (ULC, y-o-y)	0.8	-0.3	1.9	-4.5	-0.2	1.7	1.8	-0.5
Real effective exchange rate (HICP, y-o-y)	0.0	-1.2	1.0	-4.5	1.3	0.3	1.7	.
Savings rate of households (net saving as percentage of net disposable income)	9.9	10.0	8.9	8.5	8.2	.	.	.
Private credit flow, consolidated (% of GDP)	8.6	5.7	2.7	4.9	6.2	.	.	.
Private sector debt, consolidated (% of GDP)	110.6	131.7	139.8	143.7	146.9	.	.	.
of which household debt, consolidated (% of GDP)	42.8	53.0	55.7	56.2	57.2	.	.	.
of which non-financial corporate debt, consolidated (% of GDP)	67.8	78.7	84.1	87.4	89.7	.	.	.
Gross non-performing debt (% of total debt instruments and total loans and advances) (2)	2.6	4.2	4.1	3.5	3.2	.	.	.
Corporations, net lending (+) or net borrowing (-) (% of GDP)	-0.3	-0.4	-2.2	-1.7	-1.9	-2.9	-2.5	-2.3
Corporations, gross operating surplus (% of GDP)	18.0	17.5	17.0	18.0	17.7	17.4	17.6	17.7
Households, net lending (+) or net borrowing (-) (% of GDP)	2.8	3.8	3.2	3.0	2.8	2.7	2.6	2.5
Deflated house price index (y-o-y)	9.7	-0.3	-2.1	-1.8	1.0	.	.	.
Residential investment (% of GDP)	6.3	6.4	6.1	5.9	6.0	.	.	.
Current account balance (% of GDP), balance of payments	0.0	-1.0	-1.0	-0.2	-0.9	-1.4	-1.2	-1.1
Trade balance (% of GDP), balance of payments	-0.1	-1.5	-1.1	-0.7	-1.2	.	.	.
Terms of trade of goods and services (y-o-y)	-0.6	-0.4	1.2	3.1	0.8	-0.6	0.6	0.4
Capital account balance (% of GDP)	0.1	0.1	0.1	0.1	0.0	.	.	.
Net international investment position (% of GDP)	-4.8	-11.9	-16.1	-15.7	-15.7	.	.	.
Net marketable external debt (% of GDP) (1)	.	-23.8	-29.0	-31.2	-32.1	.	.	.
Gross marketable external debt (% of GDP) (1)	.	238.9	237.5	238.7	243.1	.	.	.
Export performance vs. advanced countries (% change over 5 years)	-4.8	-8.8	-8.4	-4.2	-5.1	.	.	.
Export market share, goods and services (y-o-y)	-4.5	-3.9	1.3	-1.1	0.7	.	.	.
Net FDI flows (% of GDP)	1.7	1.5	0.6	-0.1	0.7	.	.	.
General government balance (% of GDP)	-2.9	-5.4	-4.0	-3.6	-3.4	-2.9	-2.9	-3.0
Structural budget balance (% of GDP)	.	-5.0	-3.2	-2.7	-2.6	-2.4	-2.7	-3.0
General government gross debt (% of GDP)	65.4	80.7	93.7	95.8	96.5	96.9	96.9	96.9
Tax-to-GDP ratio (%)	44.4	44.8	47.5	47.5	47.5	47.8	47.6	47.4
Tax rate for a single person earning the average wage (%)	28.6	27.9	28.5	28.9	29.1	.	.	.
Tax rate for a single person earning 50% of the average wage (%)	18.4	18.8	19.2	22.1	18.4	.	.	.

(1) Sum of portfolio debt instruments, other investment and reserve assets.

(2) Domestic banking groups and stand-alone banks, EU and non-EU foreign-controlled subsidiaries and EU and non-EU foreign-controlled branches.

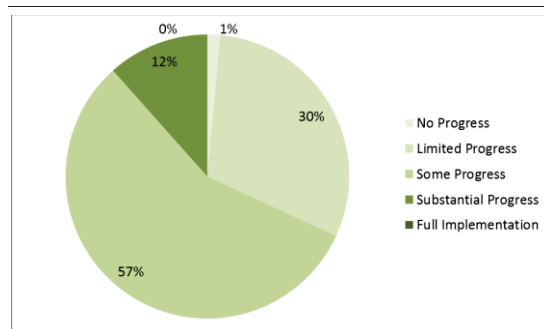
**Source:** Eurostat and ECB as of 30 Jan 2018, where available; European Commission for forecast figures (Winter forecast 2018 for real GDP and HICP, Autumn forecast 2017 otherwise)

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## 2. PROGRESS WITH COUNTRY-SPECIFIC RECOMMENDATIONS

**Progress in implementing the recommendations addressed to France in 2017 <sup>(11)</sup> has to be seen in a longer term perspective since the introduction of the European Semester in 2011.** Looking at the multi-annual assessment of the implementation of the CSRs since these were first adopted, 72 % of all the CSRs addressed to France have recorded at least 'some progress'. 28 % of these CSRs recorded 'limited progress' or 'no progress' (see Figure 2.1). Substantial progress has been achieved in decreasing the cost of labour and reforming the labour law. Other areas where progress in implementing CSRs is more visible in addressing challenges relate to the long-term sustainability of public finances, skills and life-long learning, as well as the business environment.

Graph 2.1: Overall multiannual implementation of 2011-2017 CSRs to date



\* The overall assessment of the country-specific recommendations related to fiscal policy exclude compliance with the Stability and Growth Pact.

\*\* 2011-2012: Different CSR assessment categories.

\*\*\*The multiannual CSR assessment looks at the implementation since the CSRs were first adopted until the February 2018 Country report.

Source: European Commission

**In terms of public finances, the general government deficit has decreased over time, while public debt is stabilising.** The general government deficit decreased by 1.7 pp. between 2011 and 2016, from 5.1 % to 3.4 % of GDP. While initially relying more on tax increases, the consolidation strategy became increasingly reliant on declining interest payments, thanks to the prevailing low interest rates, and public investment cuts. A more systematic evaluation of public policies was pursued and reinforced by the introduction of annual spending reviews since 2014. However, the resulting savings and

efficiency gains were limited due to a lack of appropriate follow-up and low political ownership. A ceiling to the growth rate of spending on healthcare and on operational spending at local authorities' level was introduced. While the former was systematically respected, the ceiling for local authorities is not binding and its respect has been ensured by cuts in local investment. Finally, the long-term financial sustainability of the complementary pension schemes was improved. Nonetheless, structural deficits remained high, hampering efforts to reduce public debt. Therefore, ensuring sound and sustainable public finances remains a challenge, especially in the medium term, given the age-related expenditure trajectory.

**Recent reforms are expected to improve the functioning of the labour market over time.** The labour law has been modified to encourage hiring on permanent contracts, notably by reducing legal uncertainty over individual dismissals. Flexibility has been increased at company level, thanks to the simplifications of rules on collective dismissals, the possibility to sign agreements at company level partially derogating from branch level provisions, and the creation of company-level agreements to modify wages and adapt working hours in case of economic difficulty. The most recent reforms aim to streamline social dialogue, simplifying its procedures and the entities involved. The training system has been reinforced and a *compte personnel d'activité* has been set up to allow all workers (including civil servants, unemployed and the self-employed) to access and manage all the rights acquired, both in terms of training and recognition of periods of hardship, throughout their career. The reforms that have been announced are expected to complement past policy actions. They will do this by reforming the unemployment benefit system and the vocational education and training system, and by harmonising the calculation rules for the different pension schemes.

**Since 2011, efforts have been made to improve the business environment.** A simplification programme was launched in 2013 to reduce red tape. New measures have recently been taken or announced to limit the proliferation of regulations and to improve relations between businesses and public authorities. An action plan is currently being drawn up to foster entrepreneurship and business growth. To develop activity in the

<sup>(11)</sup> For the assessment of other reforms implemented in the past, see in particular Section 4.



services sector, the ‘Macron law’ in 2015 lifted restrictions in a number of services sectors such as the legal professions. No substantial measures have been adopted since then, although regulatory and administrative requirements still hamper the uptake of digital technologies in the services sector (European Commission, 2018c). A clarification of the French state’s objectives as shareholder, including in the railway and energy sectors, would complement the policy actions undertaken in this area. Lastly, some initiatives have been launched to further support public and private R&D activities but the efficiency of such measures cannot be assessed yet.

**Some progress has been made to address the high tax burden faced by companies.** Since 2011, substantial efforts have been made to reduce the tax burden on companies and decrease the cost of labour through the Tax Credit for Competitiveness and Employment (*Crédit d’impôt pour la compétitivité et l’emploi* - CICE) and the Responsibility and Solidarity Pact (*Pacte de responsabilité et de solidarité*). However, efforts to broaden the tax base on consumption and simplify the tax system and improve its efficiency have been limited.

**Overall, France has made some progress<sup>(12)</sup> in addressing the 2017 country-specific recommendations.** Public debt continued to increase in 2017 and remains high, although it is expected to stabilise over the forecast horizon. The government has launched a new strategy to increase efficiency in public expenditure Public Action 2022 (*Action Publique 2022*). However details of the new approach are not yet known nor are the potentially associated public expenditure savings. The reduction of public expenditure is meant to contribute to achieving the objective to reduce the deficit and to counterbalance cuts in public revenues, due to the reduced tax burden on companies and the additional reductions in the cost of labour in 2019. France is also conducting an important reform of capital taxation that is expected to increase efficiency and restore attractiveness (CSR 2). A reform of the vocational education and training system will be unveiled in

2018. Its aim is to improve the quality of training and the governance of the overall system. However, little progress has been made to benefit people with a migrant background. Despite only moderate nominal increase in the minimum wage, which followed its indexation rule since 2013, the employment rate of lower-skilled people has continued to decline. This highlights the need for a comprehensive strategy to address this issue (CSR 3). On the reduction of the regulatory burden for firms (CSR 4), a circular was adopted to limit the proliferation of regulations, better assess their impact on businesses, and avoid the ‘over-transposition’ of EU directives into French law. The French government has also presented a bill including a ‘right to make a mistake’ for entrepreneurs acting in good faith in their dealings with public authorities. More progress in lifting barriers to competition in the services sector is warranted. Assessments are being carried out on the efficiency of public support schemes for innovation, but it remains to be seen how they will be translated into action. An industry and innovation fund will be set up to support breakthrough innovation.

**European Structural and Investment (ESI) Funds contribute in addressing key challenges to inclusive growth and convergence in France** (see Box 2.1), notably by improving labour market access, focusing on the less qualified and the most vulnerable by reinforcing counselling schemes and addressing early-school leaving. ESI Funds boost vocational education and training for both employed and unemployed and support apprenticeship and employment opportunities for people further away from the labour market. ESI Funds also contribute to improving cooperation and networking between enterprises and public research institutions.

<sup>(12)</sup> Information on the level of progress and actions taken to address the policy advice in each respective subpart of a CSR is presented in the Overview Table in the Annex. This overall assessment does not include an assessment of compliance with the Stability and Growth Pact.

Table 2.1: Summary Table on 2017 country-specific recommendations assessment

France	Overall assessment of progress with 2017 CSRs: Some
<b>CSR 1:</b> <i>Ensure compliance with the Council recommendation of 10 March 2015 under the excessive deficit procedure. Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of France's public finances. Comprehensively review expenditure items with the aim to make efficiency gains that translate into expenditure savings. (MIP relevant)</i>	<b>Limited progress<sup>(1)</sup></b> <ul style="list-style-type: none"> <li>• Limited progress in ensuring the sustainability of France's public finances.</li> <li>• Limited progress in reviewing expenditure items.</li> </ul>
<b>CSR 2:</b> <i>Consolidate the measures reducing the cost of labour to maximise their efficiency in a budget-neutral manner and in order to scale up their effects on employment and investment. Broaden the overall tax base and take further action to implement the planned decrease in the statutory corporate-income rate. (MIP relevant)</i>	<b>Some progress</b> <ul style="list-style-type: none"> <li>• Some progress in consolidating and maximising the efficiency of measures reducing the cost of labour.</li> <li>• Some progress in broadening the overall tax base and in decreasing the corporate income tax rate.</li> </ul>
<b>CSR 3:</b> <i>Improve access to the labour market for jobseekers, in particular less-qualified workers and people with a migrant background, including by revising the system of vocational education and training. Ensure that minimum wage developments are consistent with job creation and competitiveness. (MIP relevant)</i>	<b>Some progress</b> <ul style="list-style-type: none"> <li>• Some progress in improving access to the labour market for jobseekers.</li> <li>• Limited progress in revising the system of vocational education and training.</li> <li>• Some progress in ensuring minimum wage developments consistent with job creation and competitiveness.</li> </ul>
<b>CSR 4:</b> <i>Further reduce the regulatory burden for firms, including by pursuing the simplification programme. Continue to lift barriers to competition in the services sector, including in business services and regulated professions. Simplify and improve the efficiency of public support schemes for innovation. (MIP relevant)</i>	<b>Limited progress</b> <ul style="list-style-type: none"> <li>• Some progress in further reducing the regulatory burden for firms.</li> <li>• No progress in continuing to lift barriers to competition in the services sector.</li> <li>• Limited progress in simplifying and improving the efficiency of public support schemes for innovation.</li> </ul>

(1) This overall assessment of CSR1 does not include an assessment of compliance with the Stability and Growth Pact.

Source: European Commission

### Box 2.1: Tangible results delivered through EU support to structural change in France

**France is a beneficiary of significant European Structural and Investment Funds (ESI Funds) support and can receive up to EUR 26.8 billion until 2020.** This represents around 4 % of public investment <sup>(1)</sup> annually over the period 2014-2018. By 31 December 2017, an estimated EUR 11.4 billion (42 % <sup>(2)</sup>) of the total) was allocated to projects on the ground. This has paved the way for over 5 000 enterprises to cooperate with research institutions; over 100 firms are being supported to introduce new products to the markets they operate in; 2 000 households have received access to broadband and more than 350 000 persons have benefitted from integrated urban development strategies.

**ESI funds help address structural policy challenges and implement country specific recommendations.**

The European Social Fund (ESF) and the Youth Employment Initiative (YEI) support the improvement of labour market access, focusing on the less qualified and the most vulnerable, notably by co-financing reinforced counselling schemes, such as the '*Garantie jeunes*' or '*Accompagnement global*', by supporting measures to address early-school leaving. ESI Funds boost the offer of initial and continuous vocational education and training for both employees and for the unemployed, including by increasing support to apprenticeship or supporting measures which provide employment opportunities in specific social structures for people further away from the labour market. Over 1.5 million people had participated in actions financed by the ESF and the YEI within the national programmes, which include some 65 % of the available ESF/YEI funding for France, adding to the participants supported by the regional programmes. 62 % of youngsters so far supported by the YEI national programme were either employed (49 %) or in education or training (13 %) 6 months after their participation.

**Various reforms were undertaken already as precondition for ESI Funds support <sup>(3)</sup>.** Smart Specialisation Strategies for research and innovation were developed to focus efforts on product specialisation with strong market potential. This has also helped improve cooperation between enterprises and public research institutions. ESI funds also support research infrastructures, which enable the pursuit of both research excellence and the development of local ecosystems for research and innovation that in turn create growth and jobs.

**France is advancing the take up of the European Fund for Strategic Investments (EFSI).** As of December 2017, overall financing volume of operations approved under the EFSI amounted to EUR 8.6 billion, which is expected to trigger total private and public investment of EUR 39.6 billion. More specifically, 79 projects involving France have been approved so far under the Infrastructure and Innovation Window (including 27 multi-country projects), amounting to EUR 7 billion in EIB financing under the EFSI. This is expected to trigger about EUR 30.4 billion in investments. Under the SME Window, 32 agreements with financial intermediaries have been approved so far. European Investment Fund financing enabled by the EFSI amounts to EUR 1.6 billion, which is expected to mobilise approximatively EUR 9 billion in total investment. Over 82 000 smaller companies or start-ups will benefit from this support. SMEs rank first in terms of operations and volume approved, followed by RDI, energy and digital.

**Funding under Horizon 2020, the Connecting Europe Facility and other directly managed EU funds is additional to the ESI Funds.** By the end of 2017, France has signed agreements for EUR 2 billion for projects under the Connecting Europe Facility.

<https://cohesiondata.ec.europa.eu/countries/FR>

<sup>(1)</sup> Public investment is defined as gross fixed capital formation + investment grants + national expenditure on agriculture and fisheries.

<sup>(2)</sup> Update financial figures are available at beginning February 2018 and will be included in the final version by 9 February.

<sup>(3)</sup> Before programmes are adopted, Member States are required to comply with a number of so-called ex-ante conditionalities, which aim at improving conditions for the majority of public investments areas.

### 3. SUMMARY OF THE MAIN FINDINGS FROM THE MACROECONOMIC IMBALANCE PROCEDURE IN-DEPTH REVIEW

**The in-depth review for the French economy is presented in this report.** In spring 2017, France was identified as having excessive macroeconomic imbalances, in particular relating to weak competitiveness and high public debt, in a context of low productivity growth. The 2018 Alert Mechanism Report (European Commission, 2017h) concluded that a new in-depth review should be undertaken for France to assess developments relating to identified imbalances. Analyses relevant for the in-depth review can be found in following sections: sources of imbalances related to public debt are covered in Section 4.1; the situation of the labour market in Section 4.2 and the business environment in Section 4.3. Potential spillovers to the rest of the euro area are discussed in Box 3.1 (\*).

#### Imbalances and their gravity

**Competitiveness has stopped deteriorating, while the full impact of structural reforms has still to materialise.** As analysed in Sections 1 and 4.3, the export performance of France has stabilised compared to the decline observed in the past. However, in terms of trade balance, both the trade balance in goods and in services deteriorated in 2016. The current account deficit reached  $-0.9\%$  of GDP<sup>(13)</sup>, accompanied by a decrease in the cyclically adjusted current account balance by 0.3 pp.<sup>(14)</sup>. It remains larger the deficit required to keep the Net International Investment Position (NIIP) in balance ( $-0.5\%$  of GDP) or the one explained by fundamentals ( $+0.2\%$  of GDP)<sup>(15)</sup>. Labour cost growth continues to be moderate, but the decline in productivity growth prevents a faster

recovery of France's competitiveness. The effects of labour and product market reforms recently announced or undertaken will take some time to materialise. Considerable improvements in the competitiveness of the French economy may thus be expected only in the medium term.

**Growth in unit labour costs is recovering.** Unit labour costs in non-agricultural market sectors have been growing since the third quarter of 2016. This is the result of increased gross wages per person, driven by the cyclical upswing, weak productivity growth, and the end of the ramp-up of measures to decrease the cost of labour (Graph 3.1). In real terms, unit labour costs increased by 0.3 % in 2016, after a decrease of 0.8 % in 2015. The construction and market services sectors are contributing the most to the overall unit labour cost dynamics, with an average annual growth rate equal to 2.7 % for the former and 1.1 % for the latter between 2008 and 2016. More precisely, unit labour costs in the construction sector have been increasing more quickly than the average for the sector in the euro area (1.3 %) or in other comparable Member States of the EU, such as Germany (2.0 %) and Italy (2.0 %).

**Labour productivity growth remains subdued.** Productivity growth fell from 0.8 % in 2015 to 0.5 % in 2016, in line with the data for the EU and the euro area. It remained slower than in Germany (0.6 %) and Spain (0.7 %), but faster than in Italy ( $-0.3\%$ ). This deceleration is partially explained by the strong job creation observed over the year (Sections 1 and 4.2). It continued in 2017 as productivity growth is estimated to be only 0.3 %. In 2018 and beyond, labour productivity is forecast to progressively reach a growth level close to its trend rate due to a milder support from employment policies (e.g. reduction in the *crédit d'impôt pour la compétitivité et l'emploi* rate, end of the subsidy for new hires, and reduction in subsidised schemes). Nevertheless, the current trend productivity growth remains lower than prior to the crisis. The productivity gap between the most and the least productive companies has increased due to low levels of sectoral and geographical mobility in the factors of production

(\*) An asterisk indicates that the analysis in the section continues to the in-depth review under the macroeconomic imbalances procedure (MIP).

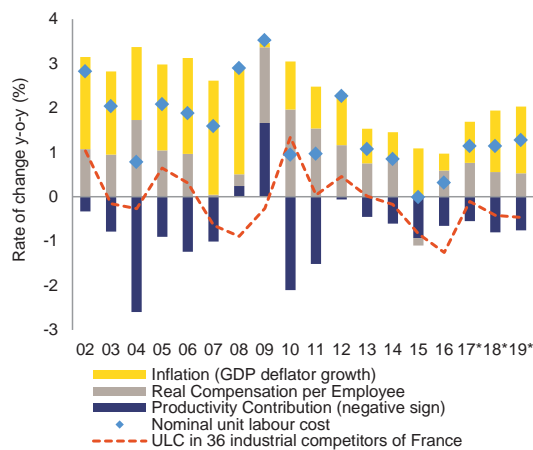
<sup>(13)</sup> Current account figures vary according to the data source used. The current account balance was equal to  $-0.9\%$  of GDP when measured using Balance of Payments data and equal to  $-1.5\%$  when measured using national accounts statistics.

<sup>(14)</sup> Cyclically adjusted current account is the current account adjusted for the domestic and foreign output gaps, taking into account trade openness.

<sup>(15)</sup> The average current account needed in order to stabilise the NIIP is based on T+10 European Commission projections. The current account explained by fundamentals refers to the expected current account given the level of its fundamentals with respect to world average.

(labour and capital) (Cette, Corde and Lecat, 2017; Berthou, 2016; Fontagné and Santoni, 2015).

Graph 3.1: **Decomposition of unit labour cost rate of change**



Source: European Commission

**The high public debt-to-GDP ratio in France remains a major source of vulnerability that compounds the risks of weak competitiveness.** Public debt grew further in 2017. High public debt weighs on growth prospects by crowding out productive public expenditure and requiring a high tax burden, also to service the interest on the debt. This is aggravated by the also high levels of private sector debt, in particular non-financial corporations' debt which stands above fundamental and prudential benchmarks (see Section 1), in a context of low productivity growth. High public indebtedness makes France vulnerable, as it limits its fiscal capacity to offset potential negative shocks to the economy. Moreover, in such a case, if the sustainability of public finances were put at stake, the depreciation of public debt portfolios held by financial institutions could also undermine their solvency ratios and their ability to give credit, thereby amplifying the negative effects of such shocks. Furthermore, high levels of public debt combined with projections of insufficient fiscal effort and the projected increase in pension and healthcare expenditure lead to high sustainability risks in the medium term. Given its size, such an imbalance might entail potentially negative effects on other EU countries.

**The strong economic and financial integration of the French economy with the rest of the euro area make it a potential source of spillovers for**

**several other Member States.** France shows particularly strong trade linkages with neighbouring euro area countries and the UK. Financial and banking linkages between France and the rest of euro area are likewise important. Box 3.1 illustrates how structural reform measures in France can carry both domestic and cross-border positive effects. The simulations presented therein follow the spirit of the euro area recommendations<sup>(16)</sup>, notably as for increasing productivity and growth potential.

### Evolution, prospects and policy responses

**Changes in the measures to reduce the cost of labour may have some effects in the short term and be relatively more favourable to lower-skilled workers.** The transformation of the Tax Credit for Competitiveness and Employment (*Crédit d'impôt pour la compétitivité et l'emploi - CICE*) into a permanent reduction in employers' social contributions, associated to further reductions in contribution for wages up to 1.6 times the minimum wage, is planned for 2019 (Section 4.1). This would have a positive impact on economic growth, investment and other macroeconomic variables over the short run, according to the combined simulations based on the European Commission's EUROMOD and QUEST models<sup>(17)</sup>. As shown in Figure 3.2, changes to this tax credit would increase GDP by 0.23 % in 2019 compared to the baseline. This rise in GDP would be accompanied by an equal increase in consumption and a smaller, but more persistent, increase in investment. The distributional effects of this reform, both in terms of wages and employment, would favour lower-skilled workers, because employers' social contributions would become more progressive, making it cheaper to hire these workers.

**Planned changes in corporate-income and capital taxation should lower the tax burden on companies and favour investment.** The finance law for 2018 continues the previous government's

<sup>(16)</sup> European Commission recommendation for a Council recommendation on the economic policy of the euro area (22.11.2017).

<sup>(17)</sup> According to the estimates provided by French authorities, this transformation is expected to have limited results in terms of employment, i.e. 35 000 jobs maintained or created in 2019 and 70 000 jobs maintained or created in 2020.



plan to reduce the corporate income tax rate. By 2022, this measure would represent a total of EUR 11 billion of tax cuts for companies and is expected to increase GDP by about 1.5 percentage points according to the authorities. In addition recent measures have also targeted capital taxation to reduce taxes on capital gains, dividends and interests to encourage investments in companies. A new flat rate of 30 % will apply on capital income and replace the current progressive system, which taxes capital income at a higher rate with targeted incentives or rebates related to the duration or the type of investment.

**Recently adopted labour market reforms may also contribute to the competitiveness of the French economy.** The new reform of the labour law began with the Enabling Act of August 2017. It strengthens the new type of collective agreement (*accords de compétitivité*), introduced by the Labour Act of 8 August 2016 to maintain or increase employment within a company. It allows to further review employees' remuneration beyond working time conditions, allowing companies to dismiss employees that refuse such agreements on real and serious grounds. Moreover, the 2017 reform introduces binding ceilings for compensations awarded by labour courts (called *prud'hommes* in France) and allows for company-level agreements to prevail in the definition of wage bonuses. Reforms of vocational education and training under discussion could lead to productivity improvements through a workforce upskilling (Section 4.2).

**New initiatives aim to improve the business environment for companies, but bottlenecks remain.** A number of measures have been taken to reduce the regulatory burden weighing on businesses and to facilitate their relations with the public administration. The *Plan d'action pour la croissance et la transformation des entreprises* (PACTE) seeks to promote entrepreneurship and support the growth of businesses. The *Grand plan d'investissement* aims at gearing investments towards identified priorities. As for R&D policies, the ongoing evaluation of public funding schemes and programmes could lead to the adoption of measures to increase the efficiency of these schemes and programmes. In particular, the evaluation of public research-business collaboration paved the way to improve the collaboration between public research and

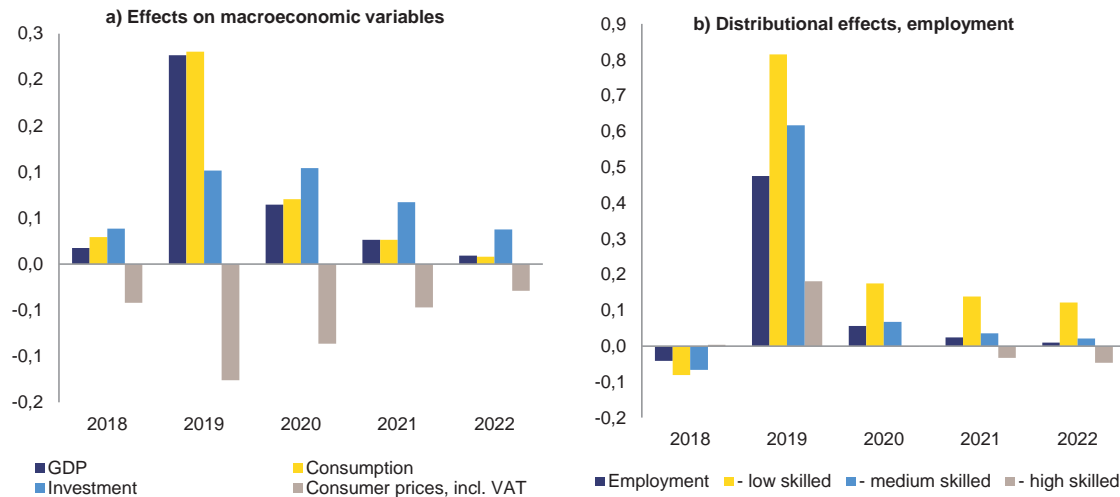
companies. New programmes have also been announced to support research and innovation activities (e.g. Industry and Innovation Fund, *Fonds pour l'industrie et l'innovation*). However, complex regulatory and administrative requirements are preventing the growth of the digital and collaborative economy. The reduction of the regulatory burden and the clarification of the objectives characterising the French state as shareholder, including in the railway and energy sectors, remain key to improve the business environment for companies (Sections 4.3 and 4.4).

**Public debt remains high, although it is set to stabilise in 2018.** General government debt continued to increase in 2016, reaching 96.5 % of GDP. It is forecast to peak at 96.9 % in 2017. This stands in contrast to the rest of the euro area, where average debt levels are already declining (Section 4.1). High and increasing structural deficits are set to prevent the public debt ratio from decreasing. In recent years, low inflation and low interest rates have reduced the interest burden, which became the main contributor to fiscal consolidation. However, these benefits are expected to end 2019 as a result of the expected normalisation of interest rates and higher inflation, which impacts the rates of return of inflation-indexed bonds.

**The current consolidation strategy puts the emphasis on containing public expenditure and on reaping efficiency gains.** In the multiannual programming law for 2018-2022 the expenditure-to-GDP ratio excluding tax credits is set to decline by over 3 pps between 2017 and 2022. The government targets a very ambitious deceleration of the rate of expenditure growth compared to previous attempts. A new expenditure ceiling for state expenditure items under the control of the government has been introduced. There have also been reductions in the number of state-subsidised contracts and in social housing allowances. Additional savings have been made on the state wage bill by the reintroduction of one unpaid day in case of illness, a wage freeze for civil servants, and a reduction in the number of public sector employees. The multiannual programming law for 2018-2022 sets an operational expenditure growth target of 1.2 % for local authorities (*Objectif d'évolution de la Dépense Locale*) over that period. This programming law also plans for cuts in transfers from the state to local authorities to be



Graph 3.2: Effects of the crédit d'impôt pour la compétitivité et l'emploi transformation



Source: European Commission

replaced by a contract agreement between the State and local authorities. However, the effectiveness and timeliness of the mechanism foreseen to correct expenditure slippages is still to be proven. The annual spending reviews introduced in 2014 will be replaced with a broader Public Action 2022 initiative (Action Publique 2022), aiming at an ambitious and coordinated overhaul of all public policies. The roadmap of this initiative, including policies and evaluation methods, is expected for the first quarter of 2018.

**There are sustainability risks in the medium term, mainly due to the high structural deficit and debt ratio.** Sustainability risks are low in the short term (see section 4.1). However, the high structural deficit and debt level create a significant sustainability gap in the medium term. This gap is aggravated by the projected increase in age-related expenditure over the next 15 years, as an ageing population requires more pension, health and social care expenditure. Public debt reduction is thus key to avert medium-term sustainability risks.

### Overall assessment

**French macroeconomic imbalances are due to high public debt and weak competitiveness in a context of low productivity growth.** Competitiveness indicators have stabilised, due to moderate wage increases and measures to reduce the cost of labour. Yet, labour productivity growth remains low, preventing a faster recovery of

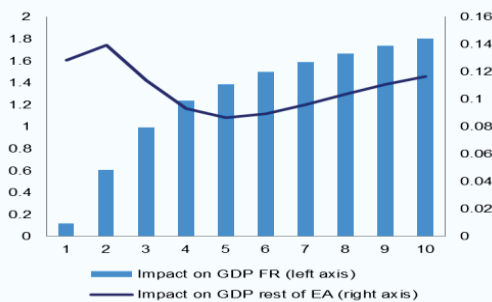
competitiveness and weighing on long-term growth prospects. The trade account still shows a moderate deficit although export market shares losses have stopped since 2012. The already-high level of general government debt is set to peak in 2017 and is projected to remain unchanged in 2018. The high public debt ratio remains a major source of vulnerability, as it weighs on growth prospects and limits the stabilisation capacity of fiscal policy in the event of a downturn.

**Reforms have gained momentum, but their full implementation remains crucial and further reforms are warranted to ensure a permanent reduction of macroeconomic imbalances.** Action has been taken to improve the functioning of the labour market, to decrease the tax burden on companies and capital, and to evaluate some public schemes for innovation. Measures have also been taken to reduce the cost of labour, while reforms have been announced for vocational education and training, unemployment benefit system, pensions, and to support the growth of companies. Still, the segmentation of the labour market continues to prevent some categories of employees from improving their working conditions. A review of expenditure items that effectively leads to future expenditure savings remains warranted, along with further decreases in the complexity of the tax system and in unjustified regulatory barriers. There is also scope to increase competition in the services sectors and to raise the efficiency of policy schemes to support innovation.

## Box 3.1: Euro area spillovers

**Structural reforms in France can have positive cross-border economic effects on the rest of the Euro area.** This box illustrates the implications of product and labour market reforms combined with a positive confidence shock using the Commission QUEST<sup>(1)</sup> model. The scenario does not reflect the impact of particular reform measures but the potential to close the gap with the three best EU performers in each reform area. Simulations suggest that structural reforms fostering competition, increasing competitiveness and improving allocative efficiency in the labour market stimulate domestic growth and lead to positive spillovers to the rest of the euro area<sup>(2)</sup>. The simulated reforms consider first the potential impact of measures fostering a competitive product market environment by bridging the gap with the three best EU performers according to the OECD Product Market Regulation indicator (Austria, the Netherlands, and the United Kingdom). In line with empirical estimates, this translates into a permanent economy-wide reduction of marks-up by 12 pps<sup>(3)</sup>. The second reform considers proposed changes in Employment Protection Legislation (EPL) that could improve the labour market responsiveness and spur productivity<sup>(4)</sup>. It reflects the impact of closing the gap with the three best EU performers (Finland, Ireland, and the United Kingdom) according to OECD EPL indicator. Since those structural reforms may positively affect economic confidence, the simulations also include a positive confidence shock, reflecting higher investor's confidence<sup>(5)</sup>.

Graph 1: Impact of the reform scenarios in France and in the rest of the euro area



**Model simulations indicate that these product and labour market reforms combined with a positive confidence shock stimulate domestic growth and lead to positive spillovers to the rest of the euro area<sup>(6)</sup>.** By bridging the gap with the three best EU performers in these reform areas, the French real GDP raises by 1.4% after 5 years and by 1.8% after 10 years compared to a baseline scenario. At the same time, spillovers effect would translate into an increase of the GDP in the rest of the euro area by 0.08% after 5 years and by 0.1% after 10 years.

**Source:** European Commission (based on Quest model)

- <sup>(1)</sup> QUEST is the global macroeconomic model DG ECFIN uses for macroeconomic policy analysis and research. It is a structural model in the New-Keynesian tradition with microeconomic foundations derived from utility and profit optimisation and including frictions in goods, labour and financial markets. Detailed information on the model and applications are available at: [http://ec.europa.eu/economy\\_finance/research/macroecomic\\_models\\_en.htm](http://ec.europa.eu/economy_finance/research/macroecomic_models_en.htm).
- <sup>(2)</sup> Varga J., in 't Veld J. (2014): 'The potential growth impact of structural reforms in the EU. A benchmarking exercise', *European Economy*, Economic Paper no 541
- <sup>(3)</sup> Thum-Thysen A. and E. Canton (2015): *Estimation of service sector mark-ups determined by structural reform indicators*. European Economy - Economic Papers 547, European Commission. [http://ec.europa.eu/economy\\_finance/publications/economic\\_paper/2015/pdf/ecp547\\_en.pdf](http://ec.europa.eu/economy_finance/publications/economic_paper/2015/pdf/ecp547_en.pdf)
- <sup>(4)</sup> See also, Bassanini, A., L. Nunziata and D. Venn (2009): 'Job protection legislation and productivity growth in OECD countries', *Economic Policy*, Vol. 24, Issue 58, 349-402. <http://dx.doi.org/10.1111/j.1468-0327.2009.00221.x>.
- <sup>(5)</sup> More specifically, the scenario illustrates the upgraded investor confidence through an elimination of the French-German bond spread which is currently around 30 basis points and assumes that half of the decrease in sovereign spreads is transmitted to firm lending rates. Moreover, the analysis takes into account the monetary policy environment and includes a binding zero-lower bound constraint on nominal interest rates for the first two years.
- <sup>(6)</sup> The simulation implies that the PMJR and EPL indicators for France will go down respectively from 1.47 to 1.06 (mean of Austria, the Netherlands and the United Kingdom) and from 2.82 to 1.94 (mean of Finland, Ireland and United Kingdom).

Table 3.1: MIP Assessment Matrix (\*) – France 2018

	Gravity of the challenge	Evolution and prospects	Policy response
Imbalances (unsustainable trends, vulnerabilities and associated risk)			
Competitiveness	<p>Export market shares have stabilised over the recent past, as France has benefited from its geographical positioning (see Section 4.3).</p> <p>Growth in nominal unit labour costs has decelerated markedly, growing by only 1.4 % in the three years to 2016. As a result, cost-competitiveness is improving, although past losses have not been fully regained yet. Low productivity growth reinforces the challenges associated with weak competitiveness.</p> <p>Some elements of the business environment remain a drag to the non-cost competitiveness of the French economy. Similarly, labour market segmentation and low responsiveness to macroeconomic changes (see Section 4.2) prevents faster productivity growth.</p> <p>The current account balance deteriorated in 2016, going in deficit by 0.9 % of GDP, but the Net International Investment Position (NIIP) remained contained at -16 % of GDP.</p>	<p>Export market shares are expected to remain broadly stable over the coming years. The current account is forecast to reach a trough in 2017 and start improving from 2018.</p> <p>Cost-competitiveness is also set to continue improving gradually, as wage and minimum wage dynamics remain moderate.</p> <p>However, labour productivity growth remains low, preventing a faster recovery of cost-competitiveness.</p> <p>Non-cost competitiveness is expected to improve over the medium-term, when the effects of the recently announced and undertaken policy actions will materialise.</p>	<p>The French authorities implemented the tax credit on competitiveness and employment (CICE) and the Responsibility and Solidarity Pact (RSP), to reduce the cost of labour and to decrease the tax pressure on firms. The credit rate of the CICE was further increased in 2017 from 6 % to 7 % after having increased from 4 % to 6 % in 2014. The transformation of the CICE into a permanent reduction in employers' social security contributions is now planned for 2019. It should be coupled with an additional reduction of employers' social contributions for employees below 1.6 times the minimum wage; the reduction should be incremental, up to a null contribution at minimum wage level.</p> <p>The El Khomri law of August 2016 was followed in 2017 by the revision of the labour law for improving social dialogue and strengthening collective bargaining within firms. This reform aims to improve firms' ability to adapt more swiftly to changes in the macroeconomic environment, aiming at improving productivity through an optimised allocation of the workforce through sectors and regions.</p> <p>A specific law for fostering firms' growth will be unveiled in spring 2018 following the launch of the Action plan for companies' growth and transformation (PACTE). At the same time, the <i>Grand plan d'investissement</i> will provide about EUR 57 billion for investments across different sectors of the economy for the period 2018-2022.</p>

(Continued on the next page)

Table (continued)

Public debt	<p>Already at a very high level, government debt is expected to increase to 96.9 % of GDP in 2017. Such a high debt level constitutes a vulnerability for the economy as it reduces the fiscal space available to respond to future shocks (see Section 4.1) and weighs on growth prospects, by crowding out productive public expenditure and requiring a higher tax burden.</p> <p>Although the financial sector does not face immediate risks, pressures from the combination of high public and private debt may increase in the future under adverse economic conditions.</p> <p>On the positive side, debt management is of good quality and the government has taken advantage of the low sovereign yields to lengthen the average maturity of sovereign debt, mitigating the risks associated with refinancing needs at higher interest rates. The investor base is diverse, both by type and geographically.</p>	<p>France's public debt is still growing mainly due to the high French primary deficit. Yet, in projection, public debt should stabilise at 96.9 % in 2018 and 2019.</p> <p>At current trends for age-related expenditures, the simulated debt trajectory at horizon 2032 points to high medium-term sustainability risks.</p> <p>The Commission 2017 autumn forecast projects the headline deficit target to be at 2.9 % of GDP in 2017 and 2018. Significant risks surround the timely and durable correction of the excessive deficit.</p>	<p>The budgetary strategy of France to meet the headline deficit target relies largely on cyclical factors and lower interest payments on government debt, which implies certain risks. The projected structural effort for 2017 falls short of the effort recommended by the Council. Moreover, the French authorities do not envisage further structural effort in 2018.</p> <p>The spending reviews have not been reinforced and no further savings and efficiency gains were identified. The process launched in 2014 will be abandoned. Policy evaluations of specific expenditure items have not always translated into concrete policy actions.</p> <p>The expenditure-based consolidation has seen a setback in 2017. Expenditure growth targets were loosened and the new government had to take additional measures to ensure that the deficit does not breach the 3 % of GDP threshold (spending cuts of EUR 5.0 billion an exceptional corporate income tax).</p> <p>The government plans to reduce the ratio of public expenditure over GDP (excluding tax credit) by 3.7 % over the next five years while increasing the efficiency of public expenditure. This is key to reduce public debt and mitigate medium-term sustainability challenges. However, some details of the composition of expenditure savings are missing. Moreover, between the draft and the adopted finance law, the real expenditure growth rate has been revised upwards. The consolidated effort was confirmed to be mostly achieved in later years.</p>
Conclusions from in-depth review analysis			
<ul style="list-style-type: none"> <li>France is characterised by weak competitiveness and high public debt, in a context of low productivity growth. Associated vulnerabilities have cross-border relevance.</li> <li>After falling for many years, export market shares have stabilised. The current account, close to balance in 2015, has slightly deteriorated in 2016 and should worsen further in 2017, but the stock of net foreign liabilities is moderate. Cost competitiveness is improving, gradually providing the basis for regaining past losses. Wage moderation continues, coupled with moderate productivity growth. Unemployment remains high and the labour market continues to be segmented. Some elements of the business environment weigh on the non-cost competitiveness. Public debt growth has been moderate and the debt/GDP ratio is projected to reach 96.9 % of GDP in 2017 and to remain stable in 2018 and 2019.</li> <li>Policy measures have been taken in recent years, in particular to reduce the labour cost and to reform the labour law. Reforms have been announced to improve further the functioning of the vocational education and training system, of the unemployment benefit system, and of the pension system. The possibility to reform the minimum wage automatic indexation rule is under discussion. The <i>Plan d'action pour l'investissement et la croissance des entreprises</i> has been launched to foster initiatives in the private sector in France. The <i>Grand plan d'investissement</i> aims at gearing public investment towards identified priorities. Regulatory impediments hamper firms' growth and the degree of competition in the services sector remains low. In addition, the spending review has not delivered the expected results to address the growing public debt-to-GDP ratio, improve public spending efficiency, and allow alleviating the tax burden. In this regard, the efficiency of public spending on housing and on vocational education and training deserves further attention.</li> </ul>			

(\*) The first column summarises 'gravity' issues which aim at providing an order of magnitude of the level of imbalances. The second column reports findings concerning the 'evolution and prospects' of imbalances. The third column reports recent and planned measures to address these. Findings are reported for each source of imbalance and adjustment issue. The final three paragraphs of the matrix summarise the overall challenges in terms of their gravity, developments and prospects and policy response.

**Source:** European Commission

## 4. REFORM PRIORITIES

### 4.1. PUBLIC FINANCES AND TAXATION

#### General government debt sustainability <sup>(18)\*</sup>

**General government debt continued to increase in 2016 and 2017 and it is projected to only stop rising in 2018 and 2019.** Public debt rose further to 96.5 % of GDP in 2016 and, according to the Commission 2017 autumn forecast, is projected to peak at 96.9 % of GDP in 2017 and to remain at this level in 2018 and 2019 (Graph 4.1.1). This trend implies a widening gap with respect to the euro area, where overall public debt is projected to decline by some 4 pps to 85.2 % of GDP between 2017 and 2019. The high projected French primary deficit explains most of this difference (see Section 1). The contribution of the declining interest burden to overall deficit reduction is projected to halt in 2019 as a result of higher inflation and expected normalisation of interest rates (see Section 3).

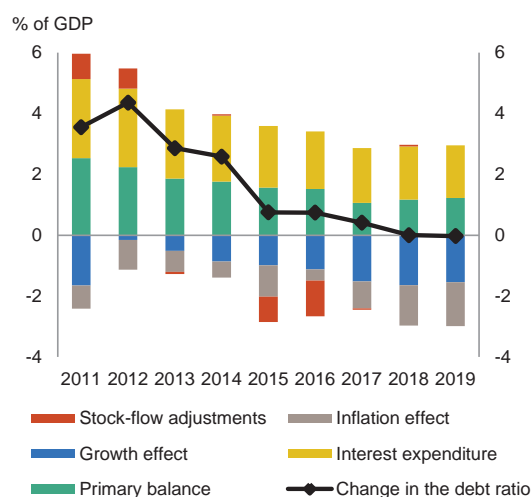
**The short-term sustainability does not seem to be a cause of concern in spite of the high public debt ratio.** Short-term sustainability is assessed by the indicator S0 <sup>(19)</sup>. The short-term fiscal sub-index indicates high risk due to the high level of gross financing needs, of the primary deficit and of public debt. However, as the overall S0 indicator does not flag any significant risk, the identified short-term fiscal challenges are not acute enough to generate overall risks of fiscal stress. This low short-term risk is confirmed by the 'AA stable' rating given by the three major rating agencies to French government debt.

<sup>(18)</sup> This section is based on the forthcoming 2018 Ageing Report (European Commission, 2018a) and the Debt Sustainability Monitor update — Autumn 2017 (European Commission, 2017a).

\* An asterisk indicates that the analysis in the section contributes to the in-depth review under the MIP (see section 3 for an overall summary of main findings).

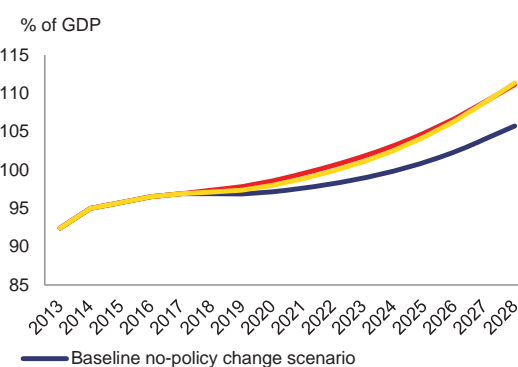
<sup>(19)</sup> S0 is a composite indicator aimed at evaluating the extent to which there might be a fiscal stress risk in the upcoming year, stemming from the fiscal, macro-financial and competitiveness sides of the economy. A set of 25 fiscal and financial-competitiveness variables proven to perform well in detecting fiscal stress in the past is used to construct the indicator. Countries are deemed to face potential high short-term risks of fiscal stress, whenever S0 is above an estimated critical threshold.

Graph 4.1.1: Contributions to the change in the public debt ratio in France



Source: European Commission 2017 autumn forecast

Graph 4.1.2: Projections of French public debt under alternative scenarios



Source: European Commission Debt Sustainability Monitor 2017

**Sound debt management and the high rating of French debt reduce short-term risks.** As French debt is denominated in euro there is no currency risk. Moreover, the average maturity of debt instruments was lengthened to more than 7.5 years in 2017 from 7 years in 2014, which has allowed France to secure low interest rates over the coming years. The investor base is diverse. Despite the

recent slight decline, the high share of holdings by foreign investors of French debt (at close to 60 %, which is broadly evenly distributed between euro area and other countries), could be a source of vulnerability. However, investor appetite for French debt remains high.

**Sustainability risks remain high in the medium term.** According to the baseline scenario in the debt sustainability analysis, at unchanged policies, the public debt ratio in France is projected to keep rising to reach some 105.7 % of GDP in 2028. This increase in public debt stems from the projected high primary deficits aggravated by the increase in age-related expenditure, namely on pensions, health and long-term care. Until 2026, these pressures are offset only in part by a favourable snow-ball effect (e.g. the difference between the implicit interest rate on government debt and the nominal growth rate of the economy). This effect then fades out and subsequently turns negative when the rising interest rate burden outweighs the effect stemming from nominal growth. Based on the updated projections in the forthcoming 2018 Ageing Report the Commission's services have recalculated the sustainability indicators. The S1 sustainability indicator, which measures sustainability risks at horizon 2032, indicates a high medium-term risk. This indicator implies that a cumulative gradual improvement in the French structural primary balance of 5.1 pps of GDP, relative to the baseline scenario, would be required over 5 years to reduce the debt ratio to 60 % of GDP by 2032. Specifically, 2.8 pps of the required fiscal adjustment would be due to the debt ratio's distance from the 60 % reference value, 1.9 pp. to the unfavourable initial budgetary position (defined as the gap to the debt-stabilising primary balance) and the remaining 0.4 pp. to the projected increase in age-related public spending. Public debt projections are especially sensitive to interest rate and growth developments. Higher interest rates or lower projected annual GDP growth would lead to significantly higher debt ratios after 10 years (Graph 4.1.2).

**However, sustainability risks appear contained in the long term as a result of the projected decline in age-related expenditure.** The S2 indicator measures fiscal sustainability challenges in the long term under a baseline no-policy change scenario. In the case of France, the S2 indicator points to a relatively small required fiscal

adjustment (0.7 pp. of GDP) to ensure that the debt ratio remains sustainable over the long term. This is primarily due to the projected fall in age-related spending as of the late 2030s (contribution of -1.6 pp. of GDP to S2), offset by the unfavourable initial budgetary position (2.3 pps of GDP). The projected decline in age-related expenditure is mostly driven by the envisaged decrease in public spending on pensions (-2.0 pps of GDP). This decline stems mainly from the indexation of public pensions to inflation as measured by consumer prices, which means that pensions would grow less quickly than wages on average. Notwithstanding the low S2 indicator, the implied fiscal adjustment might lead to debt stabilising at relatively high levels. This indicator should therefore be taken with some caution for high-debt countries, including France. Moreover, long-term risks could arise under more adverse scenarios involving lower total factor productivity growth or more dynamic healthcare and long-term care expenditures.

#### Improving the efficiency of spending on pensions, healthcare, housing and vocational training and apprenticeship

##### Pension system

**The financial situation of the pension system is worsening in the medium term.** At 14 % of GDP in 2016, pension expenditure in France is among the highest in the EU, where it stands at around 13 % of GDP. At 50.5 % in 2016, the benefit ratio, defined as the average pension as a share of the economy-wide average wage, is also above the EU average of 43.5 %. According to analysis carried out for the upcoming Pension Adequacy Report, the adequacy of the pension system is good, with a 40-year career at average wage replacement ratio of 0.68 (similar for women and men). Moreover, in 2016 the "at risk of poverty and social exclusion" (AROPE) of older people (aged 65 or over) was 10.0 % in France, while it averaged at 18.2 % in the EU. The average effective exit age from the labour market (expected at 61.8 years in 2017), which is low in an EU perspective, is projected to increase progressively to 64.5 in 2050 as a result of recent reforms. The French pension system is currently in a limited deficit amounting to around 0.2 % of GDP per year. According to the Ageing Working Group projections, pension expenditures are projected to increase slightly until 2032 and to



start to decline thereafter, thanks to an only moderate increase in the old-age dependency ratio (by around 15 pps). No specific financial sustainability issues are foreseen for the pension system. However, the new set of projections released by the *Conseil d'Orientation des Retraites* (2017) show that, according to the prevailing rules, the system is not projected to return to balance until the late 2030s, instead of 2025 according to previous projections. This is due to the projected decline in the average contribution rate over the next decade, which would entail a fall in resources of the system by around 1 % of GDP. This led the *Comité de Suivi des Retraites* (2017) to issue a recommendation to the government to take the necessary measures to bring the pension system back to balance.

**The reform that entered into force in July 2017 is a step towards simplification of the pension system.** In July 2017, the LURA (*Liquidation Unique de retraite de base des Régimes Alignés*) reform entered into force. This reform consolidated into a single calculation the pension benefits of private sector workers that contributed to several basic schemes. The reference wage for this calculation is now the average of the 25 best years of wages (indexed to inflation) of a whole career. Moreover, only four quarters a year can be taken into account, which implies that individuals that contributed to several schemes simultaneously will get a lower pension than before this reform.

**A comprehensive pension reform aimed at harmonising the calculation rules for the different pension schemes is on the agenda.** Despite the recent reforms, and in particular the LURA agreement, the pension system remains extremely complex, consisting of more than 30 schemes, which include basic and mandatory complementary schemes. The government is considering introducing a system strengthening the link between contributions and benefits, according to which the amount of the pension at the age of retirement would be gauged based on the accumulated contributions over the whole career and the expected years of life at retirement for the different age groups. This would apply to the different schemes, although they could maintain different contribution rates. The details of the reform have not been defined yet and implementation is not foreseen before 2019. However, it is not year clear whether the reform

will address the financial sustainability of pension regimes, as recommended by the *Comité de suivi des Retraites*.

## Healthcare

**Demographic changes, coupled with slowly increasing inflation and the cost of medical innovation require the well-performing French healthcare system to become more cost-effective.** France spent 11.0 % of its GDP on health in 2016. This makes it — together with Sweden — the EU's the second highest spender on health (OECD/European Observatory on Health Systems and Policies, 2017c).

**Recent reforms and reforms currently underway have promoted efficiency gains.** The share of generics in the pharmaceutical market has increased thanks to a series of measures implemented <sup>(20)</sup>. However, at 30 % (2015), it is still far below the share in other big economies of the EU. The purchase of expensive medicines that could be replaced with cheaper generics remains an important challenge. Recent reforms to enhance cooperation between hospitals, strengthen primary care and improve integration of care have yet to show results. The financial situation of hospitals has worsened in 2017, according to the *Fédération hospitalière de France* while restructuring of hospitals is at a standstill (Cour des Comptes, 2017e). Another challenge for future sustainability remains France's low levels of spending and activity on prevention (OECD, 2017d). Prevention has therefore become a priority in ongoing reforms.

## Housing policy

**Public spending on housing in France amounts to around 2.0 % of GDP and targets both housing supply and demand.** Resources allocated

<sup>(20)</sup> Since 2010, patients who refuse a generic substitution proposed by the pharmacist have to pay upfront for all prescribed medicines and seek reimbursement later from the SHI. A pay-for-performance (P4P) scheme was introduced in 2009 to reward physicians for generic prescriptions, and since 2015 International Non-proprietary Names (INN) prescribing is mandatory (although this obligation is not respected yet in practice in many cases). Pharmacists also have an incentive to propose generics since 2012, since they have remuneration on public health objectives (ROsP) if they reach a certain percentage of generics sold.

to housing policy have increased faster than GDP in the last two decades (+4.6 % annual average). Around EUR 19 billion — almost half of total annual spending on housing — is spent on rent subsidies in public housing or in the private sector. Housing policy also encompasses subsidised loans, tax incentives, rent control and regulation. The cost of providing housing benefits is expanding due to the indexation mechanism used to calculate these benefits and to the increase in the number of beneficiaries in the aftermath of the crisis. Indicators such as the number of new housing projects, the vacancy rate, the average size, age and condition of existing housing can be good indicators of the efficiency of the housing policy. Another good indicator of the efficiency of housing policy is the so-called ‘effort rate’ as measured by the ratio between housing expenditure minus allowances and net household income.

**Despite housing allowances, the ‘effort rate’ of households is moderately on the rise.** The efficiency of housing benefits has decreased over the last decade as shown by the increasing effort rate of households. This increasing effort rate can be explained by the indexation mechanism, the disconnection between the reference rent and real spending on housing or by the use of undifferentiated parameters for housing in the social and private sectors that are only partially reflective of the region/zone of location. Moreover, as housing benefits are proportionate with the level rents up to a certain ceiling and directly disbursed to the owners, they are believed to have an inflationary effect on rents (Fack, 2005 or Grislain-Letrémy and Trévien, 2014), thereby making access to housing more difficult. In an effort to limit the rise of rents in the private sector, the control of rents was introduced in 2015 in pilot cities of Paris and Lille but was abandoned in 2017 following an administrative justice ruling. The French government decided to appeal this decision in January 2018. The recent across the board cuts in housing benefits lower public spending on housing but do not address the increase in the effort rate for tenants. Nor do they address the discrepancy in the effort rates in the private and the social housing sectors. Finally, housing benefits do not address the main issue of the scarcity in housing supply.

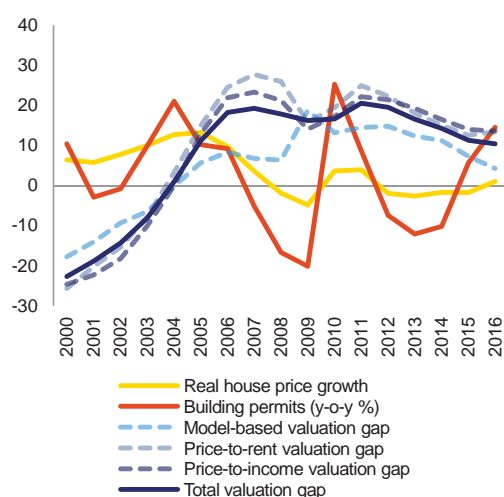
**The criteria for accessing social housing lead to suboptimal outcomes.** Turnover of tenants in the social housing sector is low at between 10 and 15 years, compared to around 3 years in the private rental sector. The financial situation of social housing tenants is not periodically reassessed to verify if the tenants still qualify to such lower-cost housing (Cour des Comptes, 2017f). Since 70 % of the population can claim access to social housing, waiting lists are long (1.7 million people in 2014) and only some particular situations lead to priority treatment of files (*Agence Nationale pour l'information sur le logement*). As a consequence, housing supply remains locked in the hands of insiders and access is not always granted to those most in need. Students can claim housing benefits irrespective of their parents' revenues while no preference is given to lower-income families with young children. This is especially concerning as the housing conditions of young children can have a long lasting impact into later life.

**The scarcity in housing supply is a challenge for housing policy.** The real-estate market did not experience any sudden or significant price correction in the aftermath of the 2008 crisis. For aspiring owners, access to housing is increasingly difficult despite strong credit growth for house purchases and a pick-up in the construction sector as real estate prices remain high and overvalued (Philipponnet and Turrini, 2017) (see graph 4.1.3). Moreover, the conditions for tax credit schemes to facilitate home ownership are not always well defined and no proper analysis of their effectiveness has been done. Administrative appeals and building regulations and landowners not developing constructible land into housing are obstacles to increasing housing supply, notably in tense areas. Finally, the owner-tenant relationship is unbalanced with more legal protection given to the tenants. This leads to high vacancy rates in private housing (INSEE, 2016a).

**Changes to the different elements of housing policy could help improve its efficiency.** Spending less on housing benefits and reallocating the resources to housing supply instead could improve the housing situation. This is particularly the case for new social housing in areas with strong housing demand and insufficient housing supply. In addition, regular and more comprehensive assessments of the economic situation of tenants in social housing to better

match housing need and existing supply could improve housing access for the most deprived at a lower cost.

Graph 4.1.3: Trends in real estate



Source: European Commission

### Vocational training and apprenticeship

**Vocational training and apprenticeship is a domain with a significant potential for contributing to long-lasting efficiency gains in public expenditure.** Public spending in this area reached around EUR 24 billion in 2015 or about 1.2 % of GDP (*Projet de loi de finances pour 2018*), excluding direct expenditure by companies<sup>(21)</sup> and individual expenditure by households. Companies continued spending the most in this area, accounting for 33 % of the total, followed by the regions, the central government and other public administrations (e.g. *Unedic*, *Pôle emploi*) which accounted for about 20 %, 15 % and 10 %, respectively. A quarter of the overall expenditure was dedicated to training civil servants both at the central and local levels as well as in hospitals. Between 2011 and 2015 regions increased their share in the overall amount of public spending, in line with the progressive decentralisation of

<sup>(21)</sup> This is the spending by companies on training (whether bought externally on the market or provided internally by themselves) outside the reimbursement scheme managed by the authorised collecting bodies (*Opcv*, *Organismes paritaires de collecte agréés*). In 2014 this spending was more than EUR 6 billion.

vocational training and apprenticeship policy completed by the reform of 2014<sup>(22)</sup>.

**A number of shortcomings currently reduce the efficiency of spending in the vocational training and apprenticeship system.** Access to training remains uneven for different categories of beneficiaries, namely young people, the unemployed, lower-qualified people and employees of small business. Despite recent overhauls the financing and governance of the system rest on complex collection mechanisms and a very high number of intermediaries and players<sup>(23)</sup>. This reduces transparency and hampers effective coordination. A relatively low level of regulation and control undermines the quality of the overall system while leading to risks in terms of irregularities and fraud (*Cour des comptes*, 2017a).

**Despite improvements associated with successive plans, the jobseekers' vocational training system still lacks a comprehensive strategy.** The main initiatives in this area field since 2013, including the latest *Plan 500 000 formations* (see also Section 4.2), focused on the training and employability of jobseekers in the aftermath of the economic crisis but were mostly of a short-term nature. The Court of auditors (*Cour des Comptes*, 2017b) found that the funding of successive one-off plans by the central government did not address the system's efficiency problems, including the coordination between the many actors responsible for financing and policy implementation.

**The government has announced for spring 2018 two comprehensive reforms of the vocational training and of the apprenticeship systems whose impact in terms of efficiency and effectiveness will need to be assessed.** Details of the reforms are not yet defined but negotiations and consultations with social partners started in autumn 2017 based on a guidance document and key principles put forward by the government. An additional EUR 14 billion over the next five years is also expected to be channelled to vocational training and apprenticeship via the so-called *Plan*

<sup>(22)</sup> Law 2014-288 of 5 March 2014 for vocational training.

<sup>(23)</sup> More than 76 000 training providers were operating on the market in 2014 according to DGEFP (*Délégation Générale à l'emploi et à la formation professionnelle*)

*d'Investissement Compétence* (PIC) as part of the broader EUR 57 billion *Grand Plan d'Investissement* (see Section 4.3). The PIC's objective is to train 1 million unemployed with low levels of qualification and 1 million young dropouts and to ensure the durable insertion in the labour market for 300 000 of them. The PIC would imply almost a 12 % average annual increase in public authorities' spending on vocational training and apprenticeship. Some observers estimate that this spending could generate positive impacts over five years in terms of GDP growth and savings for the public finances via reduced spending on unemployment benefits (Berger, 2017). Overall, it remains to be seen whether the design and implementation of the plan and of the systemic reforms will ensure as needed the improvement and enhanced monitoring of the efficiency of the national vocational training system.

### Fiscal frameworks

#### **The Action Publique 2022 aims to renew the approach to the evaluation of public policies.**

The budgetary trajectory for 2018 and 2019 includes the outcome of the previous spending reviews process launched in 2014. New savings will be delivered by *Action Publique 2022* (AP2022) from 2020 onwards. The roadmap for AP2022 will be defined in April 2018 by government on the basis of a report written by the the AP2022 Committee. The whole process seeks to build on past evaluations of French public policy (*Révision Générale des Politiques Publiques, Modernisation de l'Action Publique*) and new structures, such as the *Direction interministérielle de la transformation publique*. The public policy evaluations were in turn assessed in 2017 (KPMG, 2017) and part of the conclusions of this exercise seems to be reflected in the new approach, in that stronger political ownership would be provided by a periodical coverage in the Council of Ministers.

#### **The territorial reform is ongoing, but it has not yet simplified the layers of administration<sup>(24)</sup>.**

Changes to local authorities did not lead to simpler or more specialised services in specific areas of

competence. The number of regional and local administrative layers is unchanged despite a streamlining plan to create metropolitan areas and reduce the number of regions from 22 to 13 as of January 2016. Plans to clarify the role of each layer of regional or local administration have only partly been achieved. In the short term, the costs of this transformation might be higher than the benefits. Moreover, the rollout of this large scale transformation justified by the pursuit of efficiency gains will take time and in the long term, the savings that are achieved might be counterbalanced by the permanent surcharges in the merged administrative entities as compensation and working time arrangements could be harmonised at the highest level (Cour des Comptes, 2017c).

#### **The norms have been reinforced at the State level while the growth rates of healthcare spending and operational spending of local authorities have been loosened further.**

The 2018-2022 multiannual programming law for public finances introduced two new expenditure ceilings to improve the control of spending at the State level and set the growth rates of healthcare spending until 2020 and of operational spending by local authorities until 2022. The growth ceiling for healthcare expenditure, the ONDAM (*Objectif National de Dépenses d'Assurance Maladie*) covering a third of social security spending, has been increased for 2018 from 2.1 % to 2.3 %. This is to reflect the dynamism of spending for innovative treatments and pay-related measures. In recent years, the ONDAM has been respected with less ease and it made possible by the use of reserve credits<sup>(25)</sup>. Spending at local level is guided by the ODEDEL (*Objectif d'évolution de la Dépense Locale*), the growth targets of which are not binding. Contrary to the approach taken in 2014-2017 when State transfers to local authorities were cut, the authorities envisage a deepening of the dialogue with local authorities with respect to their contribution to the savings effort until 2022. Overall, the targets for the State, the ONDAM and the ODEDEL are less demanding for 2018 despite the objective to reduce expenditure by more than 3 pps by 2022. As a result, France currently plans to 'back load' the envisaged consolidation effort by making cutbacks in spending in later years.

<sup>(24)</sup> The territorial reform is deployed through the MAPTAM law (loi de modernisation de l'action publique territoriale et d'affirmation des métropoles, the law of regions and the NOTRe law (Nouvelle Organisation Territoriale de la République).

<sup>(25)</sup> Avis du Comité d'Alerte de l'ONDAM 2017



### General tax structure \*

France combines a high overall tax burden on labour and capital while energy taxes and other indirect taxes are relatively aligned with the EU average (Graph 4.1.5). The implicit tax rate on labour is one of the highest in the EU and exceeds the EU average (41.3 % compared to the EU-28 average of 35.9 % in 2015). Revenues from capital taxation are also above the EU average (10.8 % of GDP compared to the EU-28 average of 8.4 % in 2015). The implicit tax rate on consumption is slightly above the EU average (21.0 % compared to the EU-28 average of 20.5 % in 2015) and the implicit tax rate on energy is below the EU average (269 TOE compared to the EU-28 average of 271.3 TOE in 2015), but on an upward trend.

### Corporate taxation

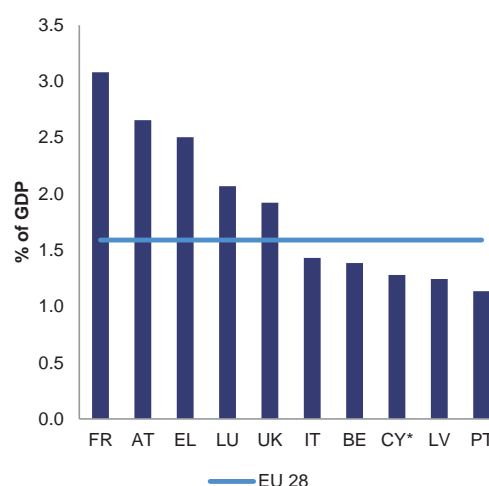
France is pursuing important reforms to transform the corporate tax system. The statutory rate corporate income tax rate will gradually decrease to 25 % for all companies by 2022. Although the high level of taxes on companies is still an obstacle to private investment and hampers companies' growth, recent reforms removing surcharges have started to bear fruits leading to a decrease in the statutory corporate income tax rate, including surcharges from 38 % in 2013 to 34.4 % in 2017.

However, the debt-equity tax bias in corporate financing remains the highest in the EU. In the French corporate tax system, interest payments are tax deductible while equity returns are not. Due to this favourable treatment, investments financed by debt need to earn 5 pps less in return than investments financed by equity to yield the same after-tax return. This debt-bias may lead to excessive leverage and make companies more vulnerable to economic shocks. Given the recent reforms in corporate taxation, the corporate debt bias is likely to decrease.

Other taxes continue to weigh on businesses. Taxes on production <sup>(26)</sup> stood at 3.1 % of GDP in 2016 <sup>(27)</sup> above Italy (1.4 %), Spain (1 %) or Germany (0.4 %) (Graph 4.1.4). Taxes such as the company value-added contribution (*Cotisation sur*

*la valeur ajoutée des entreprises*, worth EUR 17.5 billion in 2017) levied on companies' value added are particularly distortive since they disregard the economic performance of the firm and directly affect profit margins. The Action Plan for Companies' growth and transformation (*Plan d'Actions pour la Croissance et la Transformation des Entreprises - PACTE*), to be announced in spring 2018 is expected to review taxes on production. Finally, around 192 taxes yielding low revenue (less than EUR 150 million a year) have been identified, yet only a very limited number has been eliminated since 2014.

Graph 4.1.4: Other taxes on production (2016) – Top 10



\* Estimation is based on average growth 2010-2015  
Source: Eurostat

### Taxes on capital

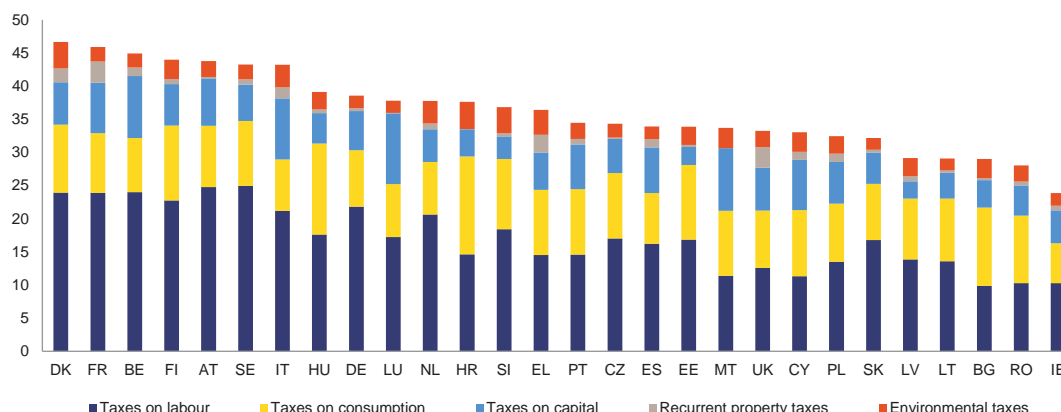
A reform of capital taxation is also underway to favour productive investment. It is an important step towards more neutrality in the allocation of investment. Capital taxation in France was the second highest in the EU in 2015 <sup>(28)</sup>. Until now, the capital taxation system has favoured investments in "lower-risk" products investments like housing and bank deposits over "riskier" investments like shares. To foster productive investment and attract capital, the wealth tax (*Impôt sur la Fortune*) has been narrowed down to a tax on real estate wealth (*Impôt sur la Fortune Immobilière*). In addition, sources of capital income (except real estate income) will be taxed at a flat rate of 30 %

<sup>(26)</sup> Other taxes on production include more than 40 taxes mainly on capital and on labour.

<sup>(27)</sup> This figure excludes producer households.

<sup>(28)</sup> This also includes capital income of corporations

Graph 4.1.5: Tax structure as % GDP, 2015



Source: European Commission

(*Prélèvement forfaitaire unique*). This flat tax will bring neutrality, transparency and simplicity and reduce distortions between savings instruments<sup>(29)</sup>. A monitoring committee established under the leadership of the prime minister will observe the impact of the reform on efficiency and fairness given that replacing a progressive system with a flat tax rate may lead to unintended effects. This reform will mainly benefit the highest decile of the income distribution. In addition, a lower taxation of capital income as compared to labour may generate distortions by creating opportunities for eroding the income tax base and converting labour income into capital gains. Establishing anti-abuse rules may help to limit such effects.

**The property tax structure in France is rather complex.** It includes the transaction tax (*Droits de mutation à titre onéreux*), the immovable property tax (*taxe foncière*), the housing tax (*taxe habitation*) and the tax on immovable property wealth (*Impôt sur la fortune immobilière*). The main reform in this field is the gradual elimination for 80 % households by 2020 which will mainly increase the standard of living of the first 8 deciles of the standard of living distribution (DG Trésor, 2017). Furthermore, France has a high level of transactions taxes which represent a third of revenue of property taxation hampering labour mobility. Moreover, France has not updated its immovable property tax base since 1970 creating

distortions. The housing supply is particularly tight in certain areas of France even though the number of vacant properties is increasing (INSEE, 2016a). This suggests there is a need to incentivise owners to rent or sell their properties.

**The base for the inheritance tax is expected to increase over the coming decades with an ageing society and relatively wealthy older cohorts.** In 2015, inheritance tax has generated in France around 0.55 % of the GDP. Indicators suggest a concentration of assets among the wealthier and older households. In 2015, the wealthiest 10 % of households held around half of total wealth, while the lowest 10 % of households held only around 0.1 % (INSEE, 2016b). At the same time, net assets held by households increase with age. In this context, the rules applicable to inheritance taxation could be reviewed to incentivise giving earlier to younger generations and to limit the perpetuations of inequalities (France Stratégie, 2017a).

#### Taxes on labour

**The tax wedge on labour remains high for those at average wage, while it keeps falling for those at the lower end of the income distribution.** Between 2012 and 2016, the tax wedge was reduced by around 2 pps for those at the average wage and by more than 6 pps for workers earning 50 % of the average wage. Moreover, the introduction of the Tax Credit for Competitiveness and Employment and the Responsibility and Solidarity Pact has further reduced the tax wedge

<sup>(29)</sup> Some life insurance contracts and savings accounts (e.g. *Livret A*, *Plan d'épargne en actions*) will continue to benefit from exemptions.



on labour. The tax wedge for very low income earners (50 % of the average wage), at 28.0 %, was well below the EU-28 average of 32.5 % in 2016. For income earners at the average wage, the tax wedge, at 48.1 %, remained well above the EU-28 average of 40.6 % and one of the highest in the EU.

**Although employers' social security contributions are falling, they are still relatively high.** France has the highest employers' social security contributions in the EU as a share of the tax wedge (26.8 % compared to the EU-28 average of 18.3 % in 2016). This explains the high tax burden on labour for average-income earners. These high levels partly stem from the social security system being financed largely through employer's contributions, which is only partially the case in other countries. In 2018, employees' social contributions for health and unemployment will be eliminated, meaning a decrease of 3.15 pps compensated for by a 1.7 pp. increase of the Generalised Social Contribution (CSG) to 9.2 %. Since the Generalised Social Contribution is levied on all kinds of incomes, including pension income, it rebalances part of the tax burden from those in active employment to retirees. As of 2019, the Tax Credit for Competitiveness and Employment will be transformed into a direct and permanent cut of employer's social security contributions, targeted at low-income earners and employer contributions will be set at zero for those earning the minimum wage (section 3). This change will bring predictability and simplicity and allow companies that are outside the scope of corporate income tax to benefit from the labour tax decrease (section 4.2).

**The withholding of personal income tax as of January 2019 will provide the option to individualise the personal income tax.** France is one of the very few EU countries levying personal income tax on total household income rather than on individual income. This does not create enough incentives for non-working partners and second earners to enter employment or to work longer.. Estimations show that applying individual taxation would increase the labour force by 5.2 % and economic growth by 9.4 % of GDP between 2010 and 2030 (Assemblée Nationale, 2014).

### Taxes on consumption and environment

**The VAT system is characterised by a middle-ranking standard rate and low reduced rates.** France applies a standard VAT rate (20 %) which is middle-ranking in comparison to neighbouring countries, above both Luxembourg (17 %) and Germany (19 %), but below Belgium (21 %), Italy (22 %) and Spain (21 %)). In addition, France has two reduced VAT rates (5.5 and 10 %), as well as a super-reduced rate (2.1 %) <sup>(30)</sup>. Furthermore, VAT compliance is worsening in France even though it has improved overall in the rest of the EU (CASE, 2016).

**France continues to have low levels of environmental taxation. Efforts are being made to increase revenue from transport fuel taxes.** Environmental taxation is set to continue to rise as the carbon tax will increase between now and 2030. In addition, and according to the 2018 finance law excise duties on diesel will increase by EUR 0.026 per litre per year from 2018 to 2021. As a result, the taxation gap between diesel and petrol will be closed by 2021. However, France does not apply an automatic indexation of environmental taxes. Indexing excise duty levels to inflation may prevent an erosion of tax revenues and would help to maintain the impact of the tax on people's behaviour. Overall, revenues from environmental taxes steadily increased from 2009 onwards to reach 2.2 % of GDP in 2015, but are still below the EU-28 average (2.4 %).

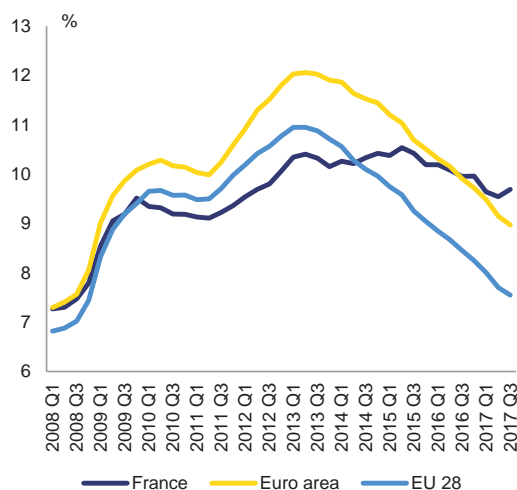
<sup>(30)</sup> Member States applying super reduced rates (rates below 5 %) before the creation of the Single Market in 1992 were allowed to continue to apply them as a transitional arrangement until the application of the definitive VAT system. Only Spain, France, Ireland, Italy and Luxembourg apply a super reduced rate.

## 4.2. LABOUR MARKET, EDUCATION AND SOCIAL POLICIES

### Labour market performance\*

**The labour market situation continues to improve, in line with more solid economic growth.** After hovering around 10 % in the initial years following the 2013 recovery, the unemployment rate started to decline in 2015 although less rapidly than in the rest of the EU. In the third quarter of 2017, it reached 9.5 % of the labour force, remaining above the EU and the euro area averages (respectively 7.7 % and 9.1 %), notwithstanding the 0.5 % (year-on-year) increase in employment.

Graph 4.2.1: Unemployment rate in France and the EU



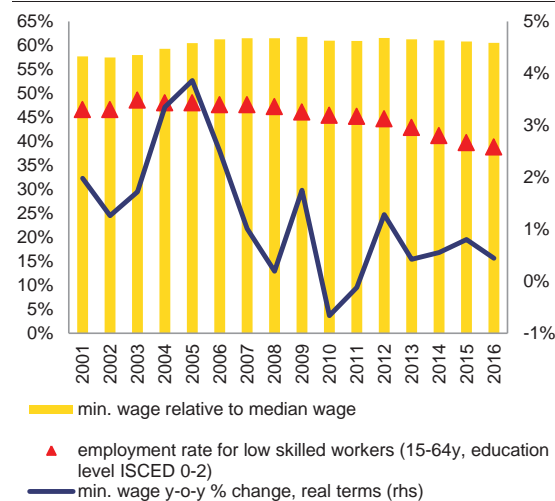
Source: Eurostat

**The recovery of the labour market has been accompanied by moderate wage growth.** Between 2008 and 2012 nominal wages responded slowly to the increase in unemployment and wages grew at an annual rate of around 2.5 %. Since 2013, the average growth rate for wages slowed to 1.2 %, reflecting mostly weak labour market conditions, the effect of labour market reforms, and slower productivity growth in the services sectors. In 2017, wage growth is expected to accelerate to 1.5 % as unemployment declined to 9.5 %.

**Increases to the minimum wage also remain limited.** The minimum wage has only seen moderate nominal increase since 2013 following

its indexation rule <sup>(31)</sup>, as no ad-hoc increase was adopted after 2012 (Graph 4.2.2). As already analysed in the 2016 Country Report (European Commission, 2016), an acceleration of the minimum wage evolution may have possible feedbacks on the overall wage growth <sup>(32)</sup> and on the cost-competitiveness of the French economy (Section 3). Moreover, it may further hamper employment opportunities for lower-skilled workers, whose employment rate remains lower than the EU average (38.8 % vs 44.5 % in 2016). Contrary to the trend in the rest of the EU, the employment rate of low-skilled workers in France has continued to decrease in recent years (–0.9 pp. from 2015 and –9.8 pps from its peak level in 2003). In their 2017 report, the group of independent experts assessing annually the minimum wage recommended not to introduce ad-hoc hikes and suggested a number of options for a reform of the indexation rule (*Ministère du Travail*, 2017).

Graph 4.2.2: Minimum wage (level and evolution) and employment for low-skilled workers



Source: OECD, Eurostat, European Commission

<sup>(31)</sup> In France, the hourly minimum wage yearly evolution is indexed based on the evolution of the consumer price index for those in the bottom 20 % of the income distribution plus half of the increase in the purchasing power of the wages for white and blue collar workers. Optional "*coup de pouce*" can be added by government discretionary decision.

<sup>(32)</sup> For more information on the impact of minimum wage increases in France on the overall wage distribution, see Arpaia and Van Heck (2017).

### Box 4.2.1: Monitoring performance in the light of the European Pillar of Social Rights

The European Pillar of Social Rights, proclaimed on 17 November 2017 by the European Parliament, the Council and the European Commission, sets out 20 key principles and rights to benefit citizens in the EU. In light of the legacy of the crisis and changes in our societies driven by population ageing, technological change and new ways of working, the Pillar serves as a compass for a renewed process of convergence towards better working and living conditions.

**France performs relatively well on the indicators of the Social Scoreboard <sup>(1)</sup> supporting the European Pillar of Social Rights.** However, some challenges remain in relation to equal opportunities and the functioning of the labour market.

FRANCE		
Equal opportunities and access to the labour market	Early leavers from education and training (% of population aged 18-24)	On average
	Gender employment gap	Better than average
	Income quintile ratio (S80/S20)	Better than average
	At risk of poverty or social exclusion (in %)	Good but to monitor
	Youth NEET (% of total population aged 15-24)	On average
Dynamic labour markets and fair working conditions	Employment rate (% population aged 20-64)	On average
	Unemployment rate (% population aged 15-74)	On average
	GDHI per capita growth	On average
Social protection and inclusion	Impact of social transfers (other than pensions) on poverty reduction	Better than average
	Children aged less than 3 years in formal childcare	Better than average
	Self-reported unmet need for medical care	Better than average
	Individuals' level of digital skills	On average

Member States are classified according to a statistical methodology agreed with the EMCO and SPC Committees. The methodology looks jointly at levels and changes of the indicators in comparison with the respective EU averages and classifies Member States in seven categories (from "best performers" to "critical situations"). For instance, a country can be flagged as "better than average" if the level of the indicator is close to EU average but it is improving fast. For methodological details, please consult the draft Joint Employment Report 2018, COM (2017) 674 final.

**The French educational system faces difficulties to ensure equal opportunities for new generations.** The variation in performance explained by student's socio-economic status (2015 OECD PISA results) is comparatively high, with young pupils with a migrant background being further penalised. Moreover, the rate of youth not in employment, education or training (NEET), remains stable at 11.9%. Segmentation, which also tends to be higher for younger generations, is entrenched in the labour market. The transition rate from temporary to permanent employment is low. The capacity of latest reforms of the labour law and of the upcoming reform of the unemployment benefit system to address this challenge is yet to be assessed.

**France has an effective social protection system, notably concerning the impact of social transfers on poverty reduction and access to quality healthcare.** The good performance of the healthcare system is confirmed by the low rate of unmet medical care needs (1.2 %) and by limited out of pocket expenditure. The new dedicated plan for access to care in the regions presented in October 2017 is aimed at progressively reducing the geographical disparities, for example by

promoting the recruitment of health workers in underserved regions, the creation of multidisciplinary medical homes and telemedicine.

<sup>(1)</sup> The Social Scoreboard includes 14 headline indicators, of which 12 are currently used to compare Member States performance. The indicators "participants in active labour market policies per 100 persons wanting to work" and "compensation of employees per hour worked (in EUR)" are not used due to technical concerns by Member States. Possible alternatives will be discussed in the relevant Committees. Abbreviation: GDHI – gross disposable household income.

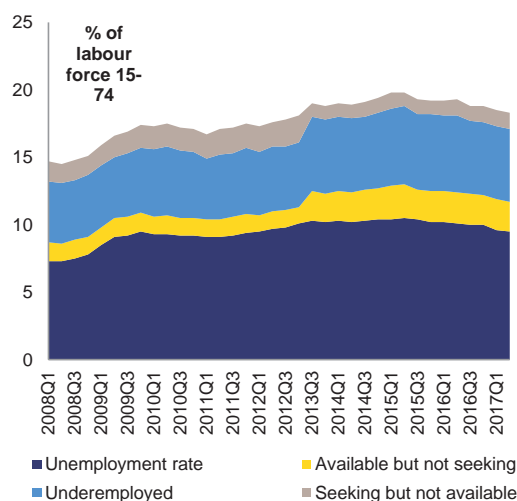
**However, the labour market slack remains considerable.** In France, there is still a high number of discouraged and underemployed part-time workers. The slack has continued to increase during the recovery (ECB, 2017). This reflects the

presence of underused capacities in the labour market (Graph 4.2.3).

**The improving situation has not reduced the high segmentation of the French labour market.**

There is a clear distinction between the labour market conditions of permanent, full-time contracts on the one hand and of temporary, part-time contracts or self-employment on the other. Temporary employment and self-employment without employees represented respectively 15.5 % and 6.7 % of the 15-64 years' workforce in the third quarter of 2017, compared to the EU average of 12.6 % and 9.7 %. Moreover, the transition rate from a fixed-term to an open-ended contract remains one of the lowest in the EU (13 % vs. an EU average of 23.2 % in 2016), while the average job tenure for permanent contracts is one of the longest in the EU (Box 4.2.1).

Graph 4.2.3: Unemployment rate and potential additional labour force

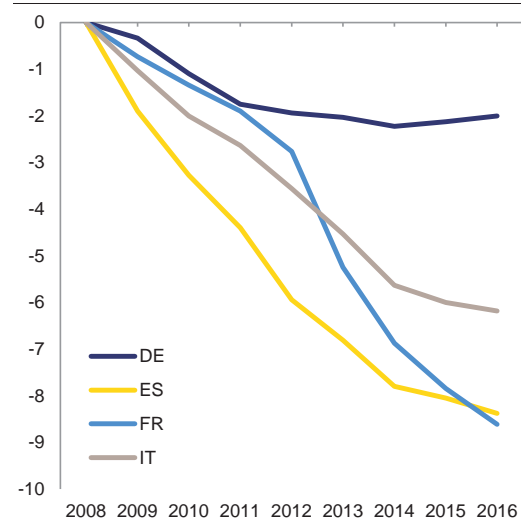


Source: Eurostat, Labour Force Survey

**Labour market improvements also hide important challenges for specific groups of the population.** There is high unemployment among the lower-skilled and young people (respectively, 17.3 % and 22.5 % in the third quarter of 2017). The lower employment rate for these groups (Graph 4.2.4) is a persistent feature of the French labour market (IMF, 2017). In particular, people with low qualification levels tends to lose jobs faster and are more likely to be in long-term unemployment, which remains high in France (46.7 % of total unemployment in the third quarter 2017). An increasing share of these long-term unemployed is in very-long term unemployment (24.6 % in 2016). Similarly, those who fall out of the education system face persistent difficulties in entering the workforce. Young people Not in

Employment nor in Education and Training (NEETs) rate (11.9 %) remains stable, even as the EU's average NEET rate declines. However, the number of newly employed people as a percentage of the total number employed (14.3 %) is increasing and catching up with the EU average (14.8 %). Approximately one third of 18-34 year old NEETs are foreign-born or have at least a foreign born parent (OECD, 2018).

Graph 4.2.4: Percentage of low-skilled in total employment (September 2017)



Source: Eurostat, Labour Force Survey

**Employment conditions for people with a migrant background, whether born in France or outside the EU, remain difficult with high unemployment rates that are only slowly decreasing.** Recent data on third-country nationals show an improvement in their employment rate from 46.2 % to 47.8 % and a decrease in their unemployment rate from 25.4 % to 23 % between the second quarter of 2016 and the second quarter of 2017. In the same vein, the unemployment rate of people born outside the EU stood at 18.8 % in 2016, down from 19.0 % in 2014. Nevertheless, the gap in the employment rate between people born in France and those born outside the EU is increasing (it was 17.5 pps in 2016, up from 16.5 pps in 2015). This indicates that structural barriers to the employment of those born outside the EU have not been tackled. The situation is particularly worrisome for women born outside the EU, whose activity rate decreased from 57.8 % in 2015 to 56.4 % in 2016, while the activity rate for women born in France increased from 75 % to 75.6 %

widening the gap with women born outside of the EU from 17.2 to 19.2 pps. People born in France who have two foreign-born parents have slightly less favourable education profiles <sup>(33)</sup> and are also more often in unemployment and, when employed, they have lower salaries than people with parents born in France. Analyses show that part of this employment gap remains even after controlling for individual characteristics (age, level of education, etc) (OECD, 2014a,b). The reasons for these unfavourable outcomes may be linked to the lack of social networks, weaknesses in the educational system, difficulty in accessing high-quality programmes, and discrimination in recruitment. Studies based on identical CVs with different names (one with a traditional ethnically French name and the other with a traditionally African or Arabic name) have shown that job applicants born in France to immigrants from North and sub-Saharan Africa have to send twice as many CVs to get a job interview as applicants with a French 'native' background. Consistency between self-reported and measured employment discrimination was confirmed by a recent analysis (Meurs, 2017).

**An insufficient link between integration, labour market and education policies contributes to the unfavourable socio-economic situation of people with a migrant background.** The low number of experienced teachers in schools in deprived areas and the insufficient support to teachers through continuous training to deal with children with a migrant background represent some of the obstacles to provide more opportunities for those born in France to foreign-born parents. For immigrants to France, a reform of the integration policy is expected to take place in 2018. French-language training for immigrants with no knowledge of French is low (200 hours maximum for one year) compared to similar integration schemes in other EU Member States. Career guidance at the end of this language training remains limited and coordination between those responsible for this career guidance is progressing slowly. Innovative and targeted schemes to foster the integration of immigrants to France have been put in place, although they reach only a limited number of beneficiaries.

<sup>(33)</sup> Among those aged 25-54, native-born with two foreign born parents were (in 2014) more likely to not having reached higher secondary education level (20.0 %) than native born with native background (15.2 %).

**The gender gap remained stable in 2016, at comparatively low levels.** The employment rate was at 7.5 pps lower for women than for men and the gender gap in pay was at 15.5 pps in 2016. The incidence of temporary contracts was 0.9 pps higher for women than for men and the part-time employment rate was 22.2 pps higher for women than men, which is higher than the EU average, although with a relatively high number of hours worked (22.9 per week vs 20.7 EU average). Since 2015, parental leave can be shared among the two parents.

**The new government is following an ambitious labour market reform agenda, beginning with a new reform of the labour law.** After the Enabling Act of August 2017, five *ordonnances* were adopted by the French Council of Ministers on 22 September and the sixth on 20 December 2017 (Section 3). They follow on from the Law on labour, social dialogue and securing professional pathways of August 2016, including measures to redefine economic dismissals and to introduce indicative compensation thresholds for unlawful dismissals (European Commission, 2017d, 2018c) <sup>(34)</sup>.

**The new reform of the labour law clarifies the structure of collective bargaining.** Based on existing legislation, the *ordonnances* specify which elements are defined by sector-level agreements, such as issues related to employment and working conditions (including minimum wages for each category of workers), while firm-level agreements will continue to regulate working time and pay beyond the minimum wage for each category of workers. The *ordonnances* also streamline collective bargaining (European Commission, 2017f), enabling sector level bargaining to prevail over the law for defining some conditions for using fixed-term and "project contracts"

**The rules on dismissal have also been revised.** Compulsory compensation ceilings have been introduced for unlawful dismissals (Section 3), along with a new mutually-agreed collective resignation procedure (*rupture conventionnelle collective*). At the same time, the timespan for

<sup>(34)</sup> While it is too early to assess the effective impact of the law, as far as recourse to judiciary is concerned, in 2016 new cases brought to labour courts decreased by 18.7 % in 2016 (Ministère de la Justice, Chiffres clés 2017).



introducing a lawsuit contesting a dismissal (except in cases of harassment and discrimination) has been reduced and the scope of the assessment of economic difficulties has been restricted from the international to the national level.

**The framework of social dialogue between employers and employees has been further modified.** In line with the reform of 2016, the majority principle for concluding agreements will become the rule as of 1 May 2018. The reduction in the number of sectors from 700 to 200 will be speeded up. The validity of sectoral agreements, currently applying to most of the branches and 98 % of employees, is now associated to new conditions. The capacity of concerned companies to adopt agreements without the presence of trade-union delegates will be expanded. The *ordonnances* also merge various social dialogue entities into a single one.

**The rules of the unemployment benefit system were recently changed by social partners, but the system continues to be in deficit and does not address the issue of labour market segmentation.** The French unemployment benefit system is characterised by a comparatively short minimum contribution period (17 weeks), high coverage of unemployment benefits for the short-term unemployed (53.7 % vs 32.4 % EU average), and by a long duration of benefits with a one-year work record (52 weeks), while the net replacement rate is around the EU average. Moreover, rules are still characterised by an extended eligibility for seniors and the features of the system can incentivise the use of shorter contracts <sup>(35)</sup>. New rules on the unemployment benefit system were agreed by social partners on 28 March 2017 and began to be implemented on 1 October 2017. The new rules postpone entry into senior-specific benefits from the age of 50 to 53 and modify the method for calculating daily rights to reduce the incentives for short-term contracts. These new rules aim to bring the annual deficit of the system down from EUR 4.3 billion in 2016 to EUR 3.8 billion in 2017 and EUR 3.25 billion in 2018. Notwithstanding this decrease in the deficit, the debt of the unemployment benefit system is

expected to grow to EUR 33.8 billion in 2017 and EUR 37.1 billion in 2018.

**The reform of the rules and governance of the unemployment benefit system may play an important role in addressing the debt of the system and the persistent segmentation of the labour market.** A further reform of the unemployment benefit system has been announced for 2018. The reform is expected to incentivise firms to use longer work contracts that are less costly for the unemployment benefit system, for example by introducing a new *bonus-malus* system, the parameters of which are still to be defined. Measures to extend access to unemployment benefits for employees that resign and for independent workers have also been announced, while the possibility to re-organise the system for achieving more substantial savings is under discussion. Another measure to be implemented is aligning rights to maternity leave for self-employed people with those of employees. In France, more than 10 % of people in employment are still at risk of not having access to unemployment benefits after losing their jobs. Self-employed workers do not have access to unemployment protection and have only partial access to paid parental leaves, while insurance against accidents at work is not compulsory.

**The government is also shifting public support away from subsidised employment contracts and towards increased training and counselling.** Contracts subsidised by the government, mainly found in the non-profit sector, have gradually decreased since 2016. They will decline further in 2018 from 310 000 to 200 000 and will be limited to the most vulnerable people in the non-profit sector, including young people and the long-term unemployed. This new type of contracts (*Parcours Emploi Compétence*, PEC) will be accompanied by increased counselling and training actions, in view of a more sustainable integration of beneficiaries in the labour market. An evaluation published by Dares (2017) showed that subsidised employment schemes in France are more effective in times of economic downturn. They are particularly effective in the non-profit sector, as they often target people who have difficulties finding employment, although these contracts do not improve their later employment prospects. In the for-profit sector subsidised contracts present a

<sup>(35)</sup> For comparative elements, see the draft Joint Employment Report 2018, which draws from the benchmarking exercise conducted in the EMCO committee. For a more detailed description of the flaws of the unemployment benefit system, please refer to European Commission (2017d).



higher risk of deadweight losses, increasing with the recovery of the labour market.

**Active labour market policies have been refocused to help young not in education, employment, or training (NEETs).** The programme *Garantie jeunes* – an intensive counselling framework associated with a minimum income grant for young NEETs without resources, which is partly financed by the Youth Employment Initiative – was made untargeted in 2017 and is to be further strengthened in 2018, with the goal of reaching 100 000 beneficiaries. First evaluations have shown that young people enrolled in the programme are more likely to subsequently find employment, especially in a more sustainable form. In 2016, more than two thirds (68.9 %) of NEETs aged under 25 were registered with the European Youth Guarantee schemes. The ability of public employment services to swiftly find employment for young NEETs remains a challenge; a high proportion of young NEETs are registered with the Youth Guarantee scheme, but almost 80 % of those registered did not receive any offer for more than 4 months (European Commission, 2017e). A new statistical tool for monitoring beneficiaries of different programmes for young people (TRAJAM) was launched in January 2018, together with a new outreach initiative for NEETs, financed by the new *Plan d'Investissement dans les Compétences* of the *Grand Plan d'Investissement 2018-2022* (Sections 4.1 and 4.3).

**Inhabitants of the most deprived urban areas (*quartiers prioritaires de la politique de la ville*) have been prioritised by different supporting schemes.** Inhabitants of these areas represent a significant share of enrolment in subsidised contracts (14 %), in the *Garantie jeunes* programme (23 %), and the so-called ‘second chance’ schools aimed at early school-leavers (30 %). An agreement was signed in October 2016 between the ministries in charge of labour and urban policy and the main public employment service (*Pôle emploi*) for the period 2016-2020. The objective of the agreement was to halve the employment gap affecting these areas by committing to further increase the share in subsidised contracts awarded their inhabitants. The agreement also aims to increase public employment service counselling and preparation for apprenticeships available to them. Although

this objective was set before the announcement of the general decrease in subsidised contracts, which might reduce the support to the most deprived urban areas, people living there may still benefit from a renewed targeted hiring premium called *Emplois francs*, to be tested in 2018 in ten of these neighbourhoods.

### Education and skills

**France performs well with respect to the Europe 2020 headline targets on education and skills.** A comprehensive reform mobilising all relevant actors and supported by the European Social Fund has reduced the early school-leaving rate to 8.8 % in 2016, below the 9.5 % Europe 2020 national target (European Commission, 2017b). The percentage of French people aged 30-34 with tertiary education was 43.6 % in 2016, well above the EU average of 39.1 %.

**Aggregate data hide considerable disparities given the strong correlation between the socioeconomic background and students’ educational performance.** There is a sizeable performance gap between the lower and upper socioeconomic quartiles in terms of educational achievement of 15 years-old students (OECD 2016b). This gap is 34.6 pps compared to an average EU gap of 26.2 pps. After correcting for socioeconomic conditions, the score of pupils with a migrant background remains 32 points below that of French pupils born to French parents, whose performance is in line with the OECD average. Vocational education and training pathways perform much worse than the OECD average, while students in general or technological education achieve much better results than OECD average (DEPP, 2016). Aside the intended higher allocation for priority education and disadvantaged schools (*éducation prioritaire*), the distribution of resources remains unequal. This difference in terms of resources holds true, both in terms of funding and teachers, across different types of schools and regions, as teaching posts tend to remain unfilled in certain fields and geographical areas.

**Measures have been taken to address these inequalities.** 2018 public funding for school education increased by 2.6 pps compared to 2017. This will help to give more public funding to

primary education <sup>(36)</sup>, in line with the French Court of Auditors' recommendation to reduce funding allocated to upper secondary education in favour of primary education (Cour des Comptes, 2017b). In turn, this will help reduce inequality, for example by further diminishing the maximum number of pupils per class in lower grades and raising teachers' salaries in the areas identified as *éducation prioritaire*. A new scheme has also been launched to allow lower secondary students to do their homework at school for free under qualified supervision.

**Student numbers in higher education are expected to further increase, creating a challenge for the government.** The parliament has adopted a law to support students' success notably through increased guidance to entry and support during higher education, as well as through the publication of expected competences prior to entry ('*attendus*') for different study areas. Overall costs linked to students' status and life will be reduced and quotas of beneficiaries of needs-based grants in selective tracks will be introduced. Together with comparatively low tuition fees and needs-based grants benefiting 35.8 % of the student population in 2014/2015 (Euridyce, 2016), these measures facilitate the access to higher education for people from low-income backgrounds. Demographic challenges are still likely in the future, as projections forecast a 14 % increase in the number of higher education students between 2015 and 2025 (MENESR-SIES, 2017 and European Commission, 2017b). This is why the 2017 White paper on higher education and research calls for an additional EUR 10 billion in public expenditure on higher education over the next 10 years to cope with this increase (+40 000 in 2017 only) (MENESR, 2017).

**The proportion of upper secondary students enrolled in vocational education and training (VET) has been decreasing, following the European trend.** Vocational education and training, either school-based or work-based, represented 41.5 % of total students in upper secondary education in 2015 against 43 % in 2013, below the EU average of 47.3 %. Apprenticeship

accounted for a quarter of secondary level vocational enrolment. Increases observed in the number of apprentices (+1.7 % between end 2015 and end 2016) are essentially due to a fast take-up of tertiary level apprenticeship, currently representing 37 % of all apprentices. The proportion of vocational upper secondary graduates entering bachelor degrees (*licence*) has more than doubled since 2000 (DEPP, 2017), but the rate at which they complete higher education is 6 %, well below the completion rate of nearly 50 % for those with a general upper secondary diploma.

**The integration of vocational upper secondary students into the labour market is improving along with the labour market recovery.** The stronger integration capacity of apprenticeship and the wide differences across sectors are also confirmed. The advantage given by work-based orientation is significant and can be observed at all levels from upper secondary education (ISCED 3) to short-cycle tertiary education (ISCED 5), as well as for nearly all specialties of both production and services pathways. This is particularly significant for the first level of qualification, where the difference in the employment rate is above 25 pps. However, for both school-based and work-based pathways, the relevance of the initial training offer and guidance of students is not completely in line with the labour market, as sectors attracting significant shares of student present lower post-diploma employment rates, notably retail and trade specialisations.

**Several measures have been developed to improve the employment prospects of students in vocational education and training and to encourage them to enter higher education.** These measures include creating new vocational courses for upper-secondary level students, focusing on areas of work experiencing strong growth, and the opening of additional *Campus des Métiers et des Qualifications*, to promote vocational training within a particular economic sector. Further measures have been announced for 2018. For example, the government intends to promote apprenticeships within initial vocational education and training, by revising its funding system and increasing the involvement of professional branches in the definition of curricula. The government also plans to encourage those with a vocational upper secondary diploma to enter

<sup>(36)</sup> Annual expenditure by educational institutions on primary students is 15 % lower than in OECD countries, whereas it is 37 % higher for upper-secondary students (OECD, 2017).

higher education courses where their likelihood to succeed is higher, like the 'section for superior technicians' where their graduation rate was more than 60 % in 2016.

**A strengthened continuous vocational education and training system would increase employment prospects and professional mobility of workers.** The shortage of appropriately skilled workforce is mentioned by companies as the first hindrance to hiring (INSEE, 2017c), notably for some sought-after profiles such as ICT specialists (in 2017, 42 % of companies that recruited or tried to recruit reported recruitment difficulties, below the EU average at 48 %). Upskilling through training may also help to tackle the acute difficulties for the low-skilled people to get employed, as part of implementing of the Upskilling Pathways Recommendation. In 2016, a plan was adopted to train 500 000 jobseekers (*Plan 500 000 formations*), followed up by 200 000 additional trainings in 2017. Even though this plan has reached its quantitative objective of doubling the number of trained jobseekers, it did not improve their ability to find work compared to former schemes; 50 % of those trained under the scheme were employed 6 months after the training and 25 % were on contracts with a duration of more than 6 months. The French *Cour des Comptes* (Cour des Comptes, 2017b) argued that the quick implementation schedule of this plan and its focus mainly on quantitative targets were responsible for the limited matching of trainings offered with locally identified needs. The new *Plan d'Investissement dans les Compétences* intends to overcome the shortcomings of the *Plan 500 000 formations*, proposing to spend EUR 7 billion on qualifying trainings for 1 million of young NEETs and another EUR 7 billion for 1 million of low-qualified jobseekers over 5 years (see also Section 4.1).

**A further improvement of the Personal Training Account may also increase access to training.** A new Personal Training Account (called the *Compte personnel de formation*, CPF) was introduced in 2015 and has now financed 1 million training sessions. So far, 4.3 million French people have opened these accounts, less than a fifth of those eligible. Assessments of the implementation of the CPF (IGAS, 2017 and CNEFOP, 2017) point to two ways in which the

programme could be further strengthened. The first is to improve the quality insurance of training, as provided for by the 2015 decree on quality of continuous vocational education and training actions. The second improvement would better identify training needs at sectoral and regional levels. This would require employers to redefine the skills they need (France Stratégie, 2017c). The vocational education and training reform announced for 2018 aims to address these challenges, by improving the monitoring of training outcomes and increasing people's access to training, while accompanying the most in need.

### Social protection

**France's social protection system performs overall well** (see Box 4.2.1). In 2016, the poverty rate remained unchanged at 13.6 %, 3.7 pps below the EU and euro area averages. The system of transfers helps reduce the intensity of poverty, yet France's poverty rate of 23.6 % before transfers was still below the EU average of 25.9 %. Although the impact of social transfers on poverty reduction has been decreasing to 42.4 % in 2016, in line with the EU trend, it remained 9 pps above the EU average. Moreover, income inequality — as expressed by the Gini index of disposable income — stabilised at 29.3 % in 2016 and remained below the EU average of 30.8 % in 2016. The ratio between the average income of the bottom quintile and that of the first quintile of income distribution also remained stable at 4.3, but this is still well above the pre-crisis level of 3.9 in 2007. The rate of those at-risk of poverty or social exclusion rate increased to 18.2 % in 2016, up from 17.7 % in 2015, but it remains below the EU level of 23.5 % in 2016.

**Although overall poverty rates are declining, specific groups face increased difficulties.** Even though poverty rates in France are below the EU average for all age groups, 35.2 % of single-parent families are at risk of poverty, followed by children (19.1 %) and young people aged 18 to 24 (21.9 % and up from 17.9 % in 2015). Employment status strongly impacts the risk of poverty although to a lesser extent than at EU level. 38.4 % of unemployed were at risk of poverty in 2016 (48.7 % in the EU), an increase of 1.2 pps in one year, while only 7.9 % of those in work were at risk of poverty (9.6 % for the EU). 13.5 % of part-time workers are at risk of

monetary poverty. 26.5 % of those born outside the EU are at risk of poverty, 2.5 times the rate of those born in France. The poverty rate in urban most deprived areas was estimated at 42 % (INSEE, 2016c).

**Measures taken to reduce poverty aim at increasing the existing minimum income support.** In line with the objectives set by the Multiannual antipoverty plan, the main minimum income scheme *Revenu de solidarité active (RSA)* was increased by 10 % in real terms, contributing to a decrease in the intensity of poverty. As of 2018, the specific minimum incomes for elderly and disabled adults will be gradually increased by EUR 100 per month. In the future, the government is also expected to raise the in-work income support (*Prime d'activité*) introduced in 2016. Currently, around 2.5 million households receive this support (one fifth are aged under 25 years, a larger number of people than under previously existing mechanisms). According to INSEE (2017a), the higher levels of income support have decreased the poverty rate, due to better targeting on households with low income. Increases in the *Revenu de solidarité active* compensated for a slight rise in inequalities before transfers.

**Access to healthcare is good, although the distribution of healthcare professionals is uneven across regions.** The percentage of people reporting unmet need for a medical examination is on average low, at 1.2 % of the population compared to the EU average of 3.2 % (OECD 2016a, 2017c). France has a slightly below average density of active physicians, and rural areas are more likely to have fewer physicians. 8 % of the population live in these underserved rural areas with fewer physicians (*déserts médicaux*) (Vergier and Chaput, 2017). Following two health plans in 2012 and 2015, a dedicated plan for access to care in the regions was released in 2017. It plans to continue promoting the recruitment of doctors and other health workers in underserved regions, the creation of multidisciplinary medical homes and telemedicine (Section 4.1).

**Access to housing remains nonetheless a matter of concern for people living in poverty.** The severe housing deprivation rate has been increasing since 2013 and stood at 2.7 % in 2016. This rate is below both the EU (4.8 %) and the

euro area (3.5 %) averages. Severe housing deprivation is affecting 9.8 % of households living under the poverty threshold, above the euro area average of 8.9 % (11.8 % in the EU). As in the rest of the EU, house ownership is an important factor, as 6.2 % of tenants were exposed to severe housing deprivation in 2016, compared to 1.7 % of owners (6.4 % and 1.6 % in the EU). By keeping rents low, social housing enables tenants to limit the share of income spent on accommodation, which in 2016 was equal to 27.3 % against 40.7 % in the market sector for people having income in the bottom quintile of the income distribution.

**Social housing is distributed unevenly on the territory and mostly concentrated in deprived urban areas.** 8 out of 10 households in areas covered by the *Politique de la ville* policy, which focuses on low-income areas, live in social housing. This is three times more than the proportion of people in social housing in other areas. Neighbourhoods focused on by this policy account for 30 % of all social housing, despite a rebalancing observed towards other neighbourhoods. In more attractive metropolitan zones, the supply of social housing offer is unable to cope with the demand, despite increased capacity built during the last 5 years. In 2015, the average waiting time for social housing was of 39 months in Paris and more than 19 months in different departments of Ile-de-France (Paris region), compared to the 12-month average in France (INSEE, 2017d). Movement out of social housing into private housing by some of its residents remains low (Section 4.1).

**New measures have been taken to improve the government's social housing policy.** The January 2017 law for equality and citizenship (*loi égalité citoyenneté*) encompasses measures to clarify the criteria for access to social housing. The new government also plans to foster mobility out of social housing as part of its housing strategy, to be partly translated into a draft law planned for March 2018. This strategy also promotes direct access to sustainable housing, notably social housing, for the estimated 143 000 homeless people. These include an increasing share of families. This public faces difficulties accessing emergency housing solutions, despite new emergency places being opened in the last 5 years.

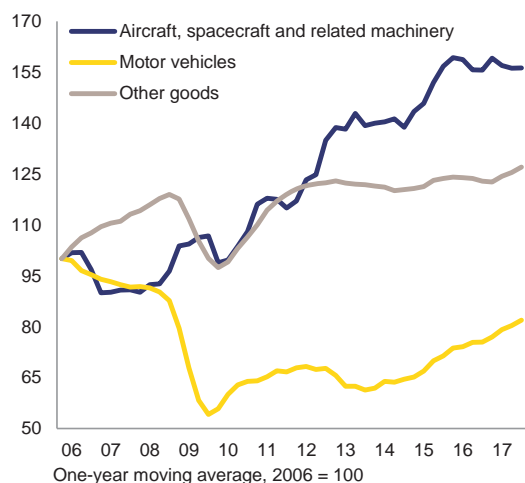


## 4.3. INVESTMENT, COMPETITIVENESS AND BUSINESS ENVIRONMENT

### Exports of goods\*

**In 2016, France was the world's seventh largest exporter of goods in terms of value, with a 3.1 % market share of the world total.** However, its position has deteriorated compared to ten years ago, when it was the fifth. The incorporation of emerging market economies is behind the change during this time span. However, other EU Member States have not experienced this negative development <sup>(37)</sup>.

Graph 4.3.1: Export of goods in value - by sector evolution



Source: European Commission, COMEXT

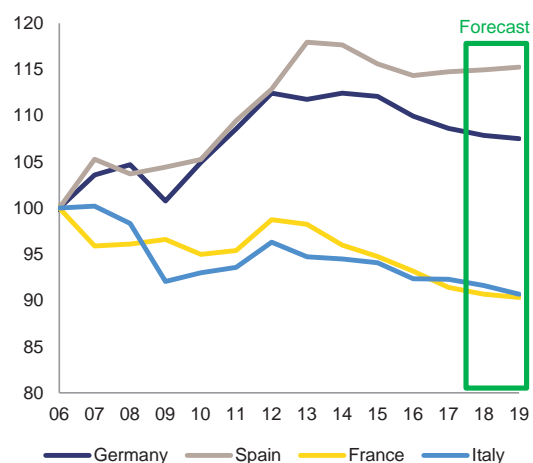
**France has managed to stop further deterioration in its goods exports since 2013.** Moreover, besides this evolution (see Section 1), the appreciation of the euro since the end of 2016 does not seem to have dented overall export performance. Overall, the total value of goods exports is now 13% above pre-crisis (2007) levels (since the second half of 2017). However, there are significant performance differences across sectors (see graph 4.3.1).

**Export performance of French goods has not significantly improved during 2017.** France's goods exports increased as a percentage of the world total, measured in value. However, this is not due to an increase in French export market shares across countries. Instead, the improved

<sup>(37)</sup> The cases of Spain and Germany (keeping world export ranking share and falling one spot, respectively) are well known. However, the Netherlands has risen to become the fifth largest exporter of goods in 2016, starting from sixth in 2006.

performance of French goods in world markets is driven by geographic specialisation: in countries where France exports most of its goods, imports have grown faster in value than the world total. In fact, France has experimented limited export market shares losses in such markets. However, the higher import growth experimented in them, relative to the world total, has more than compensated for such limited loss (see graph 4.3.2).

Graph 4.3.2: Export of goods in volume - performance



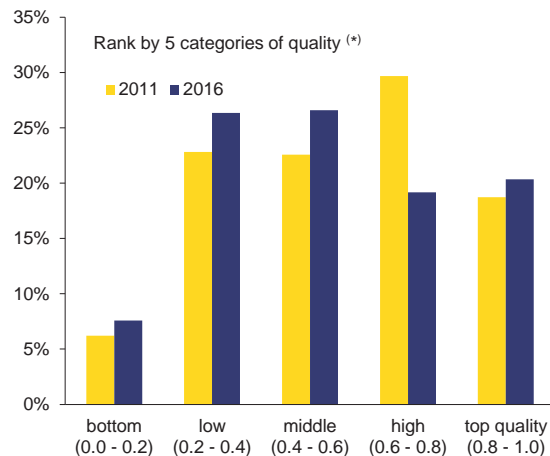
(1) Export performance is defined as the ratio between French exports of goods in volume and the size of export markets in volume.

Source: European Commission, 2017 autumn forecast

**The share of high-quality goods in total French exports has decreased significantly over the period 2011-2016, while the share of top quality goods has slightly increased (graph 4.3.3).** French export quality is very high in 'other transport equipment' (including aircraft) and 'leather and related products' (which includes luxury products) according to the Vandenbussche (2014) methodology. This is in line with the findings of an analysis by Bas, Fontagné, Martin and Mayer (2015), which identifies aeronautics and leather goods as the two best-ranking exporting sectors for France using a different methodology. However, the share of low and medium quality exports has also increased. As a result, the market structure of French exports of goods appears to be skewed towards the low to middle quality categories rather than the high quality category, while the average quality of exported goods is diminishing, albeit from high levels. For instance, the average quality of motor

vehicles manufactured in France and exported abroad has fallen from an average of 0.59 (out of 1) in 2006 according to the Vandebussche (2014) methodology, to 0.45 in 2016 <sup>(38)</sup>.

Graph 4.3.3: **Export of goods in value - by quality rank (as % of total exports)**



(\*) Quality rank index based on the Vandebussche (2014) method, where rank refers to the quality in the EU market of a particular 'country of origin-product' combination.  
**Source:** European Commission, Comext, ORBIS.

**France is not expected to regain goods export market shares in its destination markets during the forecast horizon (2018-2019).** The impact of the recent taxation and labour market reform initiatives is yet to feed into the French economy and impact its overall competitiveness. As a result, the economy is far from regaining past competitiveness losses. However, it is expected to slowly improve its position, compared to the negative evolution observed in the recent past.

#### Exports of services\*

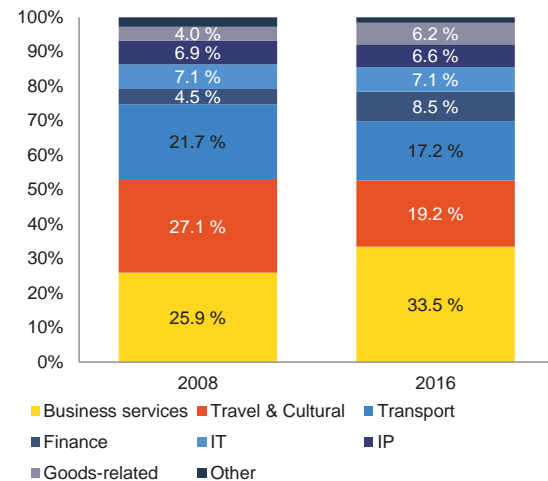
**France remains the world's fourth largest exporter of services in value, with a 4.8 % market share of the world total in 2016, keeping the same ranking it held a decade ago.** Moreover, from representing approximately 26 % of the total value of French exports in 1999, services represented 32 % in 2016 <sup>(39)</sup>. More

<sup>(38)</sup> This contrasts with exports of motor vehicles from the United Kingdom, where the quality and number of motor vehicles increased during this period: from 0.74 to 0.81 (in the Vandebussche scale) and by 10 %, respectively.

<sup>(39)</sup> A certain (mostly accounting) reallocation of export from the goods category to the services exports has taken place during this period. However, this is a common pattern

generally, French firms exporting services seem to have better weathered the crisis and its aftermath compared to manufacturing and construction peers by better reallocating resources to the most productive firms within the sector <sup>(40)</sup>.

Graph 4.3.4: **Service exports - France**



"Travel & Cultural": "Travel" and "Personal, cultural and recreational". "Finance": "Insurance and pensions" and "Financial". "Other": "Government" and "Construction".  
**Source:** UNCTAD, European Commission

**The business services category is the largest French services export.** Business services have surpassed travel, personal, cultural and recreational services as the main exporting service of France (graph 4.3.4). They are generally demanded as an intermediate input for other firms, including firms exporting goods: the complexity to access external markets requires purchasing them and, over time, firms that export goods to more countries also tend to purchase more business services (in value). Further emphasising its importance, French firms exporting goods also export business services <sup>(41)</sup>. Globalisation (search for new external markets) of the large French firms stands behind this phenomenon.

across advanced economies and should not mask the changes presented in graph 4.3.4.

<sup>(40)</sup> Ben Hassine (2017) compares reallocation patterns of French firms across sectors during the crisis.

<sup>(41)</sup> Berlingieri (2015) analyses an extensive dataset of French firms entering export markets and establishes a positive correlation between business services expenditures and external market presence. Berlingieri (2014) presents evidence regarding the origin of demand for business services (with United States data).



**Services exports tend to be concentrated within large firms.** As a result, the underlying distribution of firm size is relevant to understand services exports. Moreover, the environment firms face to grow also becomes important to explain the future evolution of French services export growth - see the Business Environment Section below and Crozet, Millet and Mirza (2016). Just as with exporting goods firms, exporting services firms tend to be larger and more productive, use more capital intensive production processes and employ a more highly skilled workforce – see Breinlich and Criscuolo (2011).

#### SME export performance\*

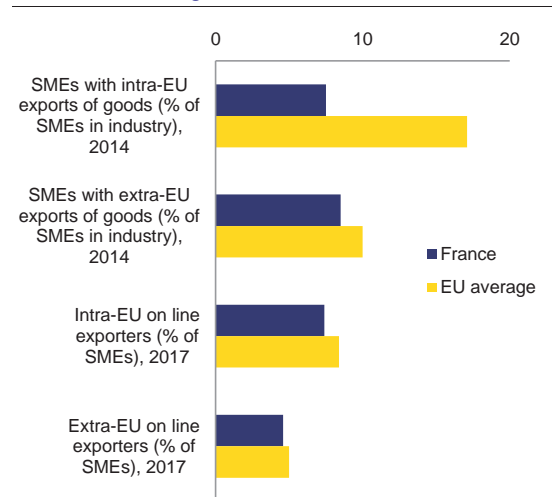
**The proportion of exporting SMEs is lower in France than in other EU Member States.** French SMEs (up to 250 employees) represent 95 % of French exporting businesses and 14 % of French export value. In 2016 they were more dynamic exporters than large enterprises. However, they participate less in the internal market than the SMEs of other EU Member States. They represent 16 % of EU SMEs but only 6 % of exporting SMEs – see Direction générale des entreprises (2017). Moreover, only 7.5 % of the French SMEs active in the industry sectors export goods to other Member States, with the EU average being 17.1 % – see Eurostat (2014). Their participation in world markets outside the EU is also lower than the EU average: 8.5 % of French SMEs active in the industry sectors export goods outside the EU (EU average: 10 %) – see Eurostat (2014).

**The share of French SMEs exporting online has decreased since 2015 and is now below the EU average.** According to 2017 EUROSTAT figures, in terms of online exports (covering both goods and services), French SMEs used to perform better than other EU SMEs, but they no longer do: 7.4 % of the French SMEs export online to other Member States (EU average: 8.4 %). Moreover, 4.6 % of the French SMEs export online to markets outside the EU (EU average: 5.0 %).

**Several factors explain the poor participation of French SMEs in trade.** Trading across borders is easy and inexpensive for French enterprises (see World Bank 2017). Instead, the main obstacles to export according to a survey of experts and SMEs exporting from France are (i) high production costs, (ii) unfavourable regulations and (iii) lack of

international openness and management capacities, including language and culture – see Business France/Kantar public (2016).

Graph 4.3.5: **Participation of the French SMEs in the internal and world markets compared to the EU average**



Source: Eurostat

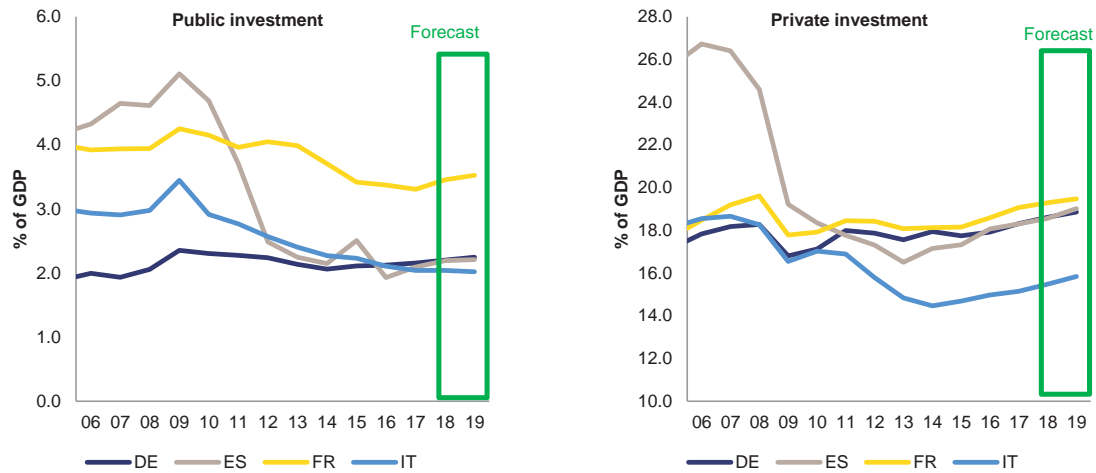
**The French administration offers support for businesses export, but the multiplicity of actors and schemes hampers access.** There is currently no single helpdesk to support firms when they expand abroad. A number of operators and public agencies offer support to export, but most schemes are not well known (with the exception of the *Volontariat International en Entreprise*).

#### FDI and investment

**France stands out as the largest origin and destination of foreign direct investment (FDI) among the large Euro area Member States.** In particular, the stock of FDI by French residents abroad is higher than that of German, Italian and Spanish ones and is equivalent to 67 % of its GDP. With the exception of Spain, a Member State traditionally benefitting from technology transfer from abroad, France also leads FDI entering the economy by non-residents (table 4.3.1).

**The high cost of supplying foreign markets from France seems to have caused French firms to opt to supply foreign markets by investing abroad.** The example of motor vehicle manufacturing is instructive: whilst manufacturing of motor vehicles in France decreased by about 35

Graph 4.3.6: Investment in selected Euro area Member States -expressed as a percentage of GDP



Source: European Commission, AMECO

% between 2006 and 2016, the two main firms headquartered in France produced more vehicles in 2016 than 2006 worldwide <sup>(42)</sup>.

**Public infrastructure in France is best in class among the EU Member States and worldwide.** France is characterised by a strong infrastructure and logistics base to supply foreign markets. France is ahead of almost all other EU Member States with regards to infrastructure supporting the competitiveness of the economy. According to the *Global Competitiveness Report 2017-18*, published by the World Economic Forum, public infrastructure in France is considered only 2<sup>nd</sup> to the Netherlands, among EU Member States, and 7<sup>th</sup> in the world. It is particularly well placed with respect to transport infrastructure <sup>(43)</sup>. That is, the cost of supplying foreign markets from France seem to lie elsewhere than in public infrastructure.

**Public investment in France is expected to remain above the other large Euro area Member States within the forecast horizon.** France's strong standing on infrastructure is

expected to remain in the forecast horizon. Since 2011, public investment in France is 1pp. of GDP above the average level of public investment in Germany, Italy, and Spain since the euro was adopted as currency. This divergence is expected to augment over the forecast horizon (see graph 4.3.5). That is, the government is allocating and is expected to continue to allocate more resources to investment than the other large Euro area Member States, in an economy with a constrained fiscal position and a best in class physical infrastructure to support its competitiveness – see World Economic Forum (2017).

Table 4.3.1: Stock of FDI: residents abroad (assets) and non-residents in the economy (liabilities)

	Assets		Liabilities	
	2017Q2	1999Q4	2017Q2	1999Q4
France	67.1	24.9	45.8	18.0
Germany	58.6	22.2	42.4	16.3
Spain	56.4	18.3	60.0	23.7
Italy	33.0	16.8	26.4	11.7

(1) Expressed as a percentage of GDP

Source: European Commission, EUROSTAT

<sup>(42)</sup> Together they manufactured 6.5mn vehicles in 2016, compared to 5.9 in 2006, an 11 % percent increase (excluding Nissan production from the Renault group). Source: OICA (2017).

<sup>(43)</sup> However, and although not accounted for as a public investment, there are some issues arising with respect to infrastructure investments that are to be made through state-owned enterprises (that compute as private investment). This is particular the case for railways, where there is a need to maintain and renew existing infrastructure. See Section 4.4 on sectoral policies.

**Private investment in France is above other EU Member States as a percentage of GDP.** Nevertheless, private investment patterns in France are suboptimal, resulting in poor performance – see European Commission (2017d). Investment in manufacturing is concentrated in subsectors of declining economic importance (as measured by their value added). Moreover, even if R&D

investment is high, some goods manufactured in France are falling behind in the world quality scale (see Exports of goods sub Section). Some sectors also seem less successful than before the crisis in spite of investments made (e.g. creative industries).

**France is taking measure to foster public and private investments to prepare the economy for future challenges.** Regarding public investment, under the Great Plan for Investment 2018-2022 (*Grand plan d'investissement 2018-2022*), France will allocate EUR 57 billion over five years to the following priorities: environmental transition (EUR 20 billion), skills development (EUR 15 billion), innovation (EUR 13 billion), and digitalisation of public services (EUR 9 billion). In addition, France is taking measures to boost private investment (see box 4.3.1 on investment challenges).

#### Business environment\*

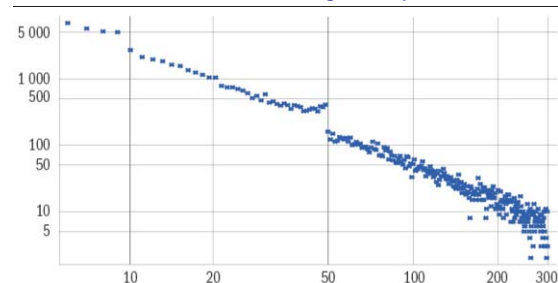
**Administrative and regulatory burden in France remains high and weighs on businesses.** The country ranks poorly in international comparisons with respect to the burden of its regulations. For instance, according to the *Global Competitiveness Report 2017-18*, France ranks 115 out of 137 countries with respect to the burden of its government regulations. More specifically, and with regards to the World Bank's *Doing Business 2018* report, France ranks relatively poor with regards to "registering property" (25<sup>th</sup> in the EU), "getting credit" (20<sup>th</sup> in the EU) and "paying taxes" (20<sup>th</sup> in the EU). Moreover, its position deteriorated the most with regards to "getting credit" (90<sup>th</sup> versus 82<sup>nd</sup>) and "resolving insolvency" (28<sup>th</sup> versus 24<sup>th</sup>).

**A clarification of the objectives pursued by the State with regards to the firms where it holds a stake can help improve the business environment and correct competitiveness losses.** In 2015 the State booked a EUR 10.1 billion loss via the Agency for state shareholdings because of its stakes in the incumbent railway and energy firms. These competitiveness losses directly impacted State resources. As a result, the French Court of auditors – see Cour des comptes (2017) concluded that the French state as shareholder is characterised by having multiple and contradictory objectives and is rarely best-adapted to contend

with the decline in competitiveness and shrinking industrial sector of the French economy (see Section 4.4).

**Regulatory threshold effects continue to hamper firms' growth.** Labour market reforms (see Section 4.2) will streamline the application of labour law, in particular for SMEs. This is because they include measures to simplify social dialogue (e.g. by merging companies' representative bodies into one). They also clarify the labour law, making it more predictable (e.g. compensation rates for unfair dismissal). Finally, they introduce more flexibility (e.g. extending the areas where small companies up to 50 employees can negotiate directly with their employees or their representative). However, their implementation might reinforce thresholds preventing firms from growing beyond a certain size. This is because they wish to avoid the regulatory burden associated with an increased number of employees – see Garicano, Lelarge and Van Reenen (2017). In this respect, the 50 employee cut-off seems particularly relevant, as shown in graph 4.3.7.

Graph 4.3.7: Number of employees and number of firms - French manufacturing industry



X axis: number of employees

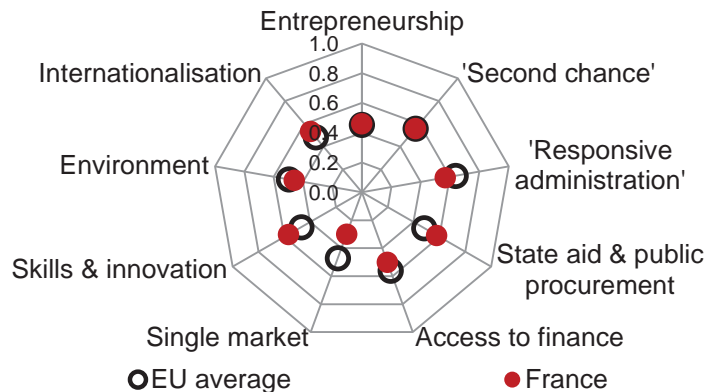
Y axis:  $\ln(\text{number of firms})$

Source: Garicano, L., C. Lelarge, and J. Van Reenen (2017)

**Regarding the business environment for SMEs, France performs broadly in line with the EU average.** According to the SBA factsheet (see graph 4.3.8), France scores below the average of other EU Member States with regards to the "EU single market" (in line with the above analysis of SME participation in the EU internal market) and with respect to having a "responsive administration" (see Section on administrative procedures hereafter).

**France continues to perform below the EU average on entrepreneurial activity.** France's

Graph 4.3.8: Performance in the Small Business Act report for 2017



Source: European Commission

early stage entrepreneurial activity (5.3 % vs. 7.8 % in the EU) and business ownership rate (4.3 % vs. 6.7 % in the EU) are among the lowest in the EU, according to the 2017 Small Business Act for Europe report ("SBA") – see European Commission (2017c). Only 14 % of those who want to set-up a business finally do so: one of the main reasons for this low proportion is the fear of failing – see *Direction générale des entreprises* (2017). Although the rate of businesses alive after five years is higher (49 %) than in Europe (44 %), the share of high-growth enterprises is slightly lower than in most other EU countries (8.5 % compared to an 9.2 % EU average in 2015 – see Eurostat (2017); this shows French businesses have difficulties to grow and create jobs (see graph 4.3.8).

**Difficulties to grow are rarely linked to difficulties in accessing bank finance.** Only 9 % of French SMEs did not manage to get the full bank loan they planned for during 2017 (EU: 17 %). Back in 2013, the rejection rate was above 20 %, according to the latest Commission survey on access to finance of enterprises.

**A number of specific measures have recently been taken or announced to support entrepreneurship and help firms grow.** The new government has adopted measures in favour of the self-employed, including: (i) the exemption of social security contributions for the first financial year for those setting up a business with turnover of less than EUR 40 000; (ii) the exemption for those liable for the minimum business premises contribution (CFE) who record annual turnover of

less than EUR 5 000; and (iii) the increase in the thresholds for taxation of micro-entrepreneurs. A law dedicated to companies' growth will be unveiled in spring 2018, following the launch of the PACTE (*Plan d'Action pour la Croissance et la Transformation des Entreprises*).

#### Fast changing legislation and burdensome administrative procedures

**The fast changing legislation and policies are considered a problem by French SMEs**<sup>(44)</sup>. This instability is considered to lead to legal insecurity and hinder investment. More generally, new laws and norms are also considered to have led to an increase in the number and length of legal rules – see Lamure and Cadic (2016).

**The impact of new policies and laws on SMEs is insufficiently assessed and/or taken into account at early stages of the policy making process.** SMEs claim that impact assessments are carried out too late in the adoption process, with insufficient quality controls, and with little business involvement – see *Conseil d'État* (2016). Moreover, policies might not exclusively target them (e.g. taxation or environment). However, they can burden them disproportionately. In this regard, an additional test has been introduced to complement impact assessments with information coming from SMEs. However, none was

<sup>(44)</sup> For 89 % of them compared to 64 % across the EU, according to the Commission SBA report.

conducted for legislation initiated in 2016 or the first quarter of 2017 <sup>(45)</sup>.

**The number and complexity of administrative procedures weigh on French SMEs.** A recent survey – see Plum (2017) – estimated time lost in administrative tasks amounted to 7.7 % of a firm's working time in France (average across 11 countries: 5 %). Similar conclusions arise in the SBA regarding cost and length of procedures that exceed the EU average: i.e. time to transfer property is estimated at 64 days compared to the 24 day EU average; standardisation requirements weighing on several sectors' competitiveness, including construction – see Autorité de la concurrence (2015); etc. Costs are not necessarily decreasing: registering property costs increased from 6.1 % to 7.3 % in 2017 (EU average: 4.8 %).

**The French government is trying to better assess the impact of regulation and limit the proliferation of norms.** The new government has issued a circular in July 2017<sup>(46)</sup> prescribing that any new regulatory norm should be counterbalanced by the withdrawal or, if duly justified, simplification of at least two existing norms. It also limits the capacity to "gold-plating" the transposition of EU legislation and requires better impact assessments of regulations, asking for quantitative evaluations of costs and savings to be embedded in regulations. In addition, under the housing plan, the government has committed to not adopt new standards in the construction sector except for security reasons <sup>(47)</sup>. A circular issued in January 2018 <sup>(48)</sup> prescribes that new laws should present simplification measures of the existing legislation. Last, but not least, the ordinances on labour law are expected to simplify, clarify, and make labour law more flexible (see Section 4.2).

**The government has moved beyond previous initiatives to simplify the business environment.** The Simplification Council established by the previous government has not been prolonged.

Although some measures adopted under the Simplification Programme seem to have provided to firms substantial savings – see Ernst & Young (2016) – overall the programme appears to have had moderate benefits. This is partly due to the fact that a substantive part of the measures have not yet been implemented (one third in October 2017) and, more importantly, its limited scope.

#### **Authorities are working to improve the relation between business and public administrations.**

The government has presented a draft law to simplify administrative procedures and promote the exchange of information between private firms and individuals and the public administration without automatically incurring into sanctions. In particular, following the introduction of a so-called "*Droit à l'erreur*", business and citizens will not be sanctioned automatically by the administration when making a mistake. This follows the positive experience of the *rescrit fiscal*. France has also launched a programme to reform the perimeter of the public administration and to improve the quality of public services by 2022 ("*Action Publique 2022*").

#### **Regulatory constraints in professions\***

**Competitive pressures have been restrained for many years in a number of services.** Together with the increase in labour costs, it partly explains why prices of services such as real estate, housing and food, professional services as well as administrative and support services, have increased significantly (about 40%) since 2000 – see France Stratégie (2017b). Such increases hamper overall competitiveness, as they represent costs for firms that demand services as inputs (see above). The latest available statistics show that churn rates are still lower in France than in the EU for all services (Eurostat, 2014 figures) and that gross operating rates are particularly high for real estate activities and for legal and accounting services (Eurostat, 2015 figures).

**Some ambitious measures to increase competition in the services sector have fallen short at the implementation stage.** The 2015 Macron law targeted restrictions in sectors where price levels increased most in previous years (i.e. legal professions). Unfortunately, its spirit has been diluted in implementing acts. For example, in the case of notaries, the competition authority

<sup>(45)</sup> Impact assessments are compulsory for draft laws, but not for amendments, which constitute a growing source of law and are not subject to explicit evaluation.

<sup>(46)</sup> Circulaire du 26 juillet 2017 relative à la maîtrise du flux des textes réglementaires et de leur impact

<sup>(47)</sup> <http://www.gouvernement.fr/argumentaire/logement-la-strategie-du-gouvernement>

<sup>(48)</sup> Circulaire du 12 janvier 2018 relative à la simplification du droit et des procédures en vigueur



recommended the nomination of 1 652 new notaries for 2016 and 2017, whilst only 633 have been nominated so far – see Autorité de la concurrence (2017).

**Regulatory barriers to activity were not reduced in 2017; in addition, administrative barriers remain high.** Regulatory barriers are still high (Autorité de la concurrence, 2016), regarding reserves of activity/exclusive rights for many professions, notably the professional services – see European Commission (2017i). Other types of restrictions include voting rights requirements, multidisciplinary restrictions and professional indemnity insurance requirements. These partly come into play at an early stage. For instance, a fixed maximum number of *entrants* has been applied for the past 30 years to study, train and obtain qualifications required for certain health professions (e.g. doctors, dentists). The resulting stagnation in the number of professionals <sup>(49)</sup>, depending on the profession considered, has persisted despite the existence of the EU single market and the mutual recognition of professional qualifications across the EU. As a result profitability from exercising in a significant number of these professions remains important – see Inspection générale des finances (2012). In addition to regulatory requirements, numerous and complex administrative procedures complicate the provision of services and contribute to their high cost in sectors such as accountancy and architecture – see Ecorys (2017), the construction sector <sup>(50)</sup>, etc.

**The new regulatory framework foreseen for the collaborative economy aims at taking into account the specificities of these services, but holds back their development.** The French State Council (*Conseil d'État*) has advocated a more innovation-friendly policy to encourage the development of digital services – see Conseil d'État (2017). Legislation regulating the online and digital industry has been adopted and authorities are revising legislation specific to collaborative economy providers and platforms. For instance, in the accommodation sector, the newly introduced "ALUR" and "Digital Republic" laws establish obligations with respect to the platforms and the

private individuals posting on them <sup>(51)</sup>. In the passenger transportation sector, the *Thévenoud* and *Grandguillaume* laws regulate services provided and offered by such platforms, <sup>(52)</sup>. In view of the limitations arising with respect to hired vehicles, the number of taxi licenses considered "appropriate" by the public authorities remains key to ensure a wider availability of services and competition.

<sup>(49)</sup> Health at a Glance, OECD (2011) and (2017).

<sup>(50)</sup> Broad insurance and certification requirements apply to foreign services providers in the construction sector.

<sup>(51)</sup> Individuals have to register when offering their primary home for short-term rentals and are subject to a prior authorisation by relevant municipalities when offering their secondary homes. If annual revenues from tourist rentals exceed EUR 23.000, services providers must affiliate at the "self-employed Social Register". Platforms are obliged to inform providers about their regulatory, social and tax obligations, including annual revenue; and must suspend online advertising if rentals exceed 120 days per year.

<sup>(52)</sup> Ridesharing intermediation for profit is not authorised.

### Box 4.3.1: Investment challenges and reforms in France

#### Section 1. Macroeconomic perspective

Gross fixed capital formation is high compared to the euro area; dynamic, with expected annual growth close to 3% for 2016-2019; and standing above pre-crisis levels. Despite high indebtedness, financing conditions remain favourable, with improved profit margins continuing to support corporate investment. In 2018 and 2019, the share of investment in GDP is expected to increase, with all components contributing. France is one of the main beneficiaries of the Juncker Plan with approved financing reaching EUR 8.7 billion.

#### Section 2. Assessment of barriers to investment and ongoing reforms <sup>(1)</sup>

Public administration/ Business environment	Regulatory/ administrative burden	CSR	Financial Sector / Taxation	Taxation	CSR
	Public administration			Access to finance	
	Public procurement / PPPs		R&D&I	Cooperation btw academia, research and business	
	Judicial system			Financing of R&D&I	
	Insolvency framework		Sector specific regulation	Business services / Regulated professions	CSR
	Competition and regulatory framework	CSR		Retail	
Labour market/ Education	EPL & framework for labour contracts			Construction	
	Wages & wage setting	CSR		Digital Economy / Telecom	
	Education	CSR		Energy	
				Transport	

Legend:

	No barrier to investment identified
CSR	Investment barriers that are also subject to a CSR
	No progress
	Limited progress
	Not assessed yet

	Some progress
	Substantial progress
	Fully addressed

Some progress has been made to reduce regulatory and administrative burdens on firms through the simplification programme and a circular adopted in 2017 to better assess the impact of regulation and limit the proliferation of norms. For 2018 the government has announced a number of initiatives, including:

- Measures to simplify and improve the exchange of information between firms and citizens and public administrations, by limiting sanctions if mistakes are made at an early stage ("*Droit à l'erreur*").
- The *Grand plan d'investissement 2018-2022* (see Section 4.3).
- The "*PACTE*", which aims to facilitate the establishment, growth and transmission of firms, simplify their regulatory and administrative environment and support their financing, innovation, digitalisation, and export performance abroad.

France has also made some progress to decrease the labour tax wedge and gradually reduce the corporate income tax. Further announced reforms, including the flat tax on capital income, might enhance incentives to channel savings towards productive investments, thereby reducing obstacles to corporate investment.

#### Main barriers to investment and priority actions underway

1. Regulatory and administrative requirements are the main barrier for private investment. Announced and adopted measures (see Sections 4.3 and 4.4) can limit burdens to invest, including in network industries.
2. Despite some progress achieved to reduce the labour tax wedge and corporate income taxation, other taxes on production remain, no taxes identified as inefficient by the 2014 report of the General Inspection of Finances have been suppressed and the tax system remains complex (see Section 4.1).
3. High speed broadband is not widely deployed. France lags behind the EU average in NGA coverage: only 52% of households were covered in 2017 (EU: 80%). This limits France's ability to fully exploit the benefits of the digital economy.

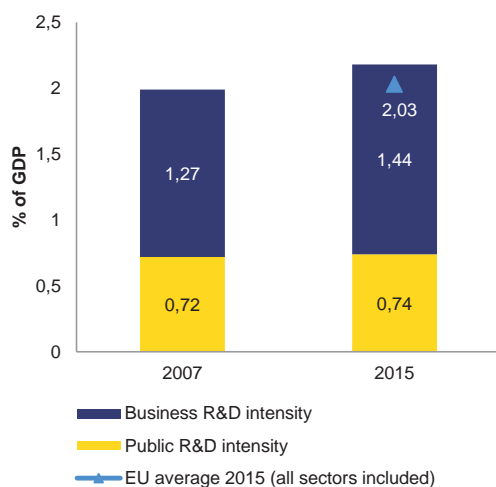
<sup>(1)</sup> 'Education' includes skills and labour shortage barriers, quality of education, vocational education and training, and apprenticeship systems - Commission Staff Working Document (2015) 400 final.

## 4.4. SECTORAL POLICIES

### Research and Innovation

**Despite an increase in R&D investment, France's innovation performance remains below that of EU innovation leaders<sup>(53)</sup>.** According to the 2017 European Innovation Scoreboard, France continues to rank 11<sup>th</sup> in the EU and made only limited progress since 2010. The Scoreboard shows that human capital and the attractiveness of the research system<sup>(54)</sup> are the relative strengths of France, although collaboration between innovation actors remains weak. Since 2007, France increased its overall R&D investment as a share of GDP, but is still not on par with the best EU performers and is stagnating since 2012. Overall and despite a level of public R&D intensity<sup>(55)</sup> higher than most EU countries, France is not on track to meet its national 2020 target which is for 3 % of the GDP to be invested in R&D (Graph 4.4.1).

Graph 4.4.1: R&D intensity (2015)



Source: European Commission

**There is a need for stronger and more efficient links between public research and firms.** France has difficulties in sustaining links between the academic world and industry. Structures exist to address the transfer of academic ideas to new

ventures<sup>(56)</sup> and to support companies in contracting research to public research institutions<sup>(57)</sup>. However, the efficiency of these structures could be improved (Sénat, 2017). The lack of cooperation between academia and business is notably visible in the low level of public R&D financed by business. French public R&D financed by business is only 67 % of the EU average. Finally, an increased support to project-based funding (*National Research Agency*) may contribute to promote public research topics that are closer the needs of business and thus more likely to be used by companies.

**Incentivising researchers to move to the private sector remains a challenge.** A group of independent experts (Beylat-Tambourin, 2017) has reviewed the Allegre Law<sup>(58)</sup> and suggested measures to ease the creation of companies by researchers and clarify the rules on profit sharing of intellectual property between researchers and companies. This has not yet been translated into policy measures.

**The share of value added produced by France's medium high-tech industry is significantly lower than the EU average.** The share of value added in medium high-tech (e.g. automotive) and high-tech industry (e.g. pharmaceuticals and electronics) has been decreasing since 2007 and is currently below the EU average. This trend affects France's innovation capacity, especially since business R&D intensity in these sectors is very high. French R&D intensity is the third highest in the EU in medium high-tech manufacturing, and the highest in the EU in high-tech manufacturing. A better scenario can be observed for the share of value added in high-tech knowledge-intensive services (e.g. computer programming, telecommunications) where France has a share above the EU average, ranking fifth in the EU. These trends suggest that increasing investment in knowledge-based sectors (industries and services) may be beneficial for increasing non-cost competitiveness and reducing the gap in business R&D expenditure with the leading EU economies (OECD, 2017), see Graph 4.4.2.

<sup>(53)</sup> The innovation leaders are Sweden, Denmark, Finland, the Netherlands, the United Kingdom and Germany

<sup>(54)</sup> The attractiveness of the research system is measured by the number of foreign doctorate students, being 170.6 % of the EU average in 2016

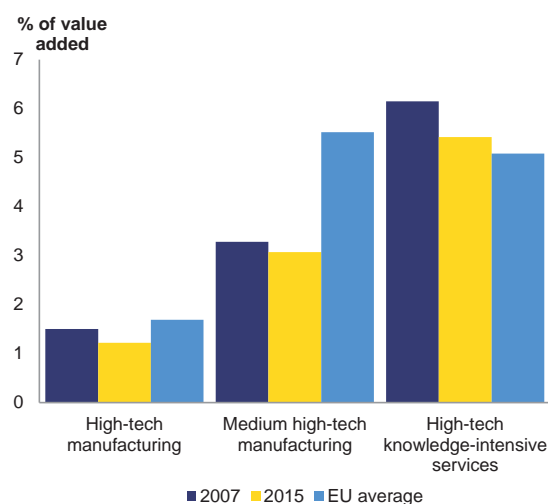
<sup>(55)</sup> R&D intensity is defined as R&D expenditure as a share of GDP.

<sup>(56)</sup> Sociétés d'Accélération du Transfert Technologique

<sup>(57)</sup> Institut Carnot, Institut de Recherche Technologique

<sup>(58)</sup> Loi 99-587 du 12 juillet 1999 sur l'innovation et la recherche

Graph 4.4.2: Economic structure (% of value added)



Source: European Commission

**In recent years, initiatives have been taken to improve the French industrial ecosystem.** The 2013 plan for a New Industrial France (*Nouvelle France Industrielle*) has identified nine key sectors<sup>(59)</sup> where there is potential to transform the industry through greater use of IT. According to the French Court of Auditors (Cour des Comptes, 2016), there is great potential in further linking the competitiveness clusters (*Pôles de Compétitivité*) with these nine key sectors. Since the current programme of the competitiveness clusters will expire in 2018, there is scope to enhance synergies between the nine key sectors and the next competitiveness clusters programme. In addition, in 2018 France will launch a new programme promoting disruptive innovation: the Breakthrough Innovation Fund (*Fonds pour l'innovation de rupture*). The funding of EUR 10 billion is coming gradually from selling stakes of state-backed companies. The focus for the fund is still to be clarified. An option would be to target promising sectors in which France has a relative favourable position such as artificial intelligence (OECD, 2017).

**France has very good human capital in the fields relevant for innovation and scientific production.** The proportion of French graduates in science, technology, engineering and mathematics, is above the EU average and keeps increasing.

Furthermore, entrepreneurship and innovation skills are part of the curricula of students of all fields (European Commission, 2017). The number of beneficiaries of the "students-entrepreneurs" statute has almost doubled from 2015 to 2016.

**The start-up scene is improving but scaling-up in France remains a challenge.** Several public and private-led initiatives have been put in place to boost the start-up scene. They include French Tech and the creation of the largest start-up hub in Europe, Station F. While the share of new companies in knowledge intensive sectors is rising, there is still not enough venture capital to allow fast-growing businesses to grow and remain in France. The amount of venture capital received by French companies, when divided by GDP, put France fourth in the EU ahead of Germany and the United Kingdom (European Commission, 2018). Public financing (mainly through BPI France) plays a large role in the French market, and there are not many funds that have sufficient capacity to invest in big projects. Finally, and in addition to tax reforms (Section 4.1), successful tax incentives remain in the 2018 Finance Law such as the Young Innovative Enterprises (*Jeunes Entreprises Innovantes*) and the "Madelin tax reduction" granted on investments in SMEs.

**Evaluations of R&D policies are on-going.** A Commission on Assessment of Innovation Policies (CNEPI) was established in 2014 to review the French innovation system. However, more clarity is needed on how the CNEPI's evaluations will be used to improve future policies. In particular, their comprehensive review of the French innovation system in 2016 has not led yet to any major changes. On research policy, an agency for the evaluation of the research system and higher education (*Agence d'évaluation de la recherche et de l'enseignement supérieur*) was established in 2006, and became in 2013 the High Council for the Evaluation of Research and Higher Education (*Haut Conseil de l'évaluation de la recherche et de l'enseignement supérieur*). However, research organisations are not obliged to take action on the basis of its evaluations which indicate there is possibly room to improve the system for evaluating public research (OECD, 2014).

<sup>(59)</sup> Smart food production, digital trust, smart objects, data economy, medicine of the future, transport of tomorrow, eco-mobility, sustainable cities, new resources

## Network industries

**France exhibits a high level of State ownership in the railway and energy sectors.** At the end of 2016, the French State had significant rights in companies that served 85 % and 76 % respectively of the total number of consumers of electricity and gas representing respectively 71 % and 45 % of the total electricity and gas consumption. With regards to the railway transportation sector, the French domestic rail passenger market remains a monopoly in the hands of a State-owned incumbent (*SNCF Mobilité*), despite its planned opening to competition in 2019. With regards to freight rail, the market is open to competition, but *SNCF Mobilité* holds a majority share of the market (i.e. approximately 70 %). Participation in the capital of public or private corporations can be beneficial for public finances. However, it can also come at a cost and represent a potential liability for the government.

## Energy

**State ownership in the energy sector in France differs from the other large EU Member States.** On average, about 50 % of the turnover in the energy sector in France is generated by companies with a state ownership above 50 %. Companies with a minority shareholding of the State (i.e. with 20 % to 50 % of their equity under State ownership) are responsible for another 40 % turnover. Only the Italian State's shareholding participations are similar in magnitude, if the minority shareholder participations are considered. Similarly, the size of the assets and liabilities of State-owned enterprises as a percentage of GDP are an order of magnitude higher in France than in the other Member States.

**Past policy choices weigh on the French energy sector.** For instance, with respect to the State-owned incumbent in the electricity sector, EDF, the State has (i) pursued a dividend policy not commensurate with EDF's cash flow capacity, (ii) limited taxes and levies (CSPE) dedicated to compensating the renewable electricity surcharge paid by EDF; (iii) supported EDF investment in the restructuring of the nuclear sector (reactors). As a consequence, the French State has had to subsequently adjust its policy choices; change EDF's dividend policy from 2015; agree to repay debt related to the renewable levy; and support the

sale of a large minority share (49.9 %) of the transmission operator (RTE) owned by EDF to two financial groups (*Groupe Caisse des dépôts*; *CNP Assurances*). The French State also provided external financing to EDF via capital injections in order to cope with strong capital expenditures (renewables, networks, existing and new nuclear).

**Wholesale electricity and natural gas prices are in principle freely determined by the market.** However, schemes exist that can potentially distort price formation at the (i) wholesale (through ARENH<sup>(60)</sup> which gives access to electricity from nuclear power to EDF's competitors, alternative suppliers, at a regulated price); or (ii) retail levels, such as the regulated segments for households and small firm (electricity and natural gas for industry were fully liberalised 1 January 2016). Regulated tariffs constitute by their very nature an obstacle to the achievement of a competitive energy market, as highlighted by the European Court of Justice with respect to natural gas in France (ECJ, 2016). However, so far, there is no deadline in the French Energy Code to end regulated tariffs for households and small enterprises<sup>(61)</sup>.

**Market competition, including via new entry, is having an impact on the State incumbents in the energy sector.** The gradual opening to competition of the European electricity and natural gas markets in the last decade is changing the role of the State in these sectors. Whilst still limited (about 2 % for electricity and 3 % for gas), the switching rate per quarter in the energy sector has been increasing recently in France: EDF remains heavily dominant but has lost approximately 100 000 customers per month (residential and non-residential) in the past twelve months. Furthermore, access to a deep pool of energy at the wholesale level remains limited due to the strong vertical integration of EDF, and its control of most generation capacity and strong position at the retail level. Moreover, the commitment to open up markets seems counterbalanced by some measures detrimental for competition (e.g. use of an investment derogation clause by the State that restricts competitive access to hydropower concessions operated by EDF).

<sup>(60)</sup> ARENH: accès régulé à l'électricité nucléaire historique)

<sup>(61)</sup> Following the ruling of the "Conseil d'Etat", changes might take place for regulated gas tariffs. It is not clear if, in the coming years, this will also concern the electricity market, following the appeal introduced by a leading market player.



**The legacy of previous investments versus new and evolving market structures raises the need to prioritise objectives and identify solutions with respect to France's energy policies.** Also, the State may have limited capacity to support expected investment needs of EUR 70-80 billion for EDF in the next five years. Addressing these issues is key to enable a functional electricity market, as highlighted by the French Court of auditors and the Competition authority.

### Railways

**The French State has some difficulty overcoming contradictions between its multiple objectives as shareholder, as pointed out by the French court of auditors.** For instance, despite a strengthened financial framework established in 2014, the debt of the railway infrastructure operator, *SNCF Réseau*, has continued to grow. As a result, in December 2016 net debt reached EUR 44.9 billion <sup>(62)</sup>. Moreover, it is expected to increase in the next decade in spite of the performance contract signed for 2017-2026 with the State in April 2017. In a less optimistic scenario than that considered by the government, loss of modal share for rail due to competition from other modes of transport (which was actively promoted by the State, notably with the reform of the coach sector) may have a negative impact on the evolution of the debt of SNCF. Moreover, according to the report issued by the French Court of auditors –see *Cour des Comptes* (2017d) – *SNCF Mobilités*'s main freight subsidiary *Fret SNCF* is also a source of concern because of its rising debt <sup>(63)</sup>.

**Market competition is having an impact on the railway incumbent (*SNCF Mobilité*), due to competition arising from different transport modes.** The recent liberalisation of the market for intercity coach services adopted with the Macron Law (in 2015 coach transportation was liberalised for distances beyond 100 kilometres) has been successfully implemented. In particular, it has had large effects on passenger mobility: in 2016 an estimated 20 % increase in additional journeys

took place compared to the counter-factual of not having implemented market liberalisation (see Table 4.4.1). Moreover, dynamics appear so swift that the market structure shows signs of maturing and becoming saturated: the number of operators with a nation-wide network has reduced from 5 to 3 and prices per km have increased by 25 % compared to 2015 — see ARAFER (2017).

Table 4.4.1: **Modal share evolution - long distance**

	2015	2016
Private car	68.3 %	67.5 %
Coach	2.4 %	3.8 %
Train	16.8 %	16.2 %
Plane	9.3 %	9.3 %
Other	3.2 %	3.2 %

Source: ARAFER

**Resource constraints and the prevalence of some objectives to the detriment of others raises concerns regarding the capacity to implement the announced railway reforms.** Examples as the above raise concerns regarding the capacity of *SNCF Réseau* to undertake future investments to maintain and renew the existing network, as underlined in the Spinetta Report of 15 February 2018. In the rail freight sector, resource constraints as regards the cost of maintaining the existing low-traffic network and competing objectives (improving competitiveness on the one hand, and preserving favourable social conditions on the other) raises concerns regarding the capacity to deliver an effective reform. As regards the forthcoming opening of the domestic rail passenger market, the Prime Minister launched a sector-wide consultation, which will feed into a framework law in spring 2018. The reform aims to reap the benefits of competition and make the sector more dynamic. This reform is meant to cover how to: (i) further open up the sector to competition; (ii) overhaul its economic and financial model, comprising legacy assets, high labour costs and unbalanced investments (with maintenance backlogs that need to be addressed to avoid potential safety concerns); (iii) address *SNCF Réseau* indebtedness; (iv) define a freight strategy to support a modal shift to promote the decarbonisation of transport in France; and (v) define a model for high speed lines to support sustainable

<sup>(62)</sup> According to the French transport regulator ARAFER, the net debt of the railway infrastructure operator might reach EUR 63 billion by 2026, a 40 % increase compared to 2016.

<sup>(63)</sup> Debt is expected to increase from EUR 4 billion to EUR 5.2 billion between 2015 and 2020, a 27 % increase.

Table 4.4.2: **Financial soundness indicators - all banks in France**

(%)	2010	2011	2012	2013	2014	2015	2016	2017Q2
<b>Non-performing debt</b>	4.5	4.6	4.5	4.6	3.6	3.5	3.2	3.0
<b>Non-performing loans</b>	-	-	-	-	4.2	4.0	3.6	3.4
<b>Non-performing loans NFC</b>	-	-	-	-	6.2	5.8	5.8	5.5
<b>Non-performing loans HH</b>	-	-	-	-	4.4	4.2	4.1	4.0
<b>Coverage ratio</b>	40.8	43.8	42.0	48.7	51.3	51.1	51.4	50.3
<b>Loan to deposit ratio*</b>	118.0	113.4	111.2	107.8	106.7	102.7	102.7	102.9
<b>Tier 1 ratio</b>	10.8	10.9	13.3	13.2	13.1	13.8	15.0	15.1
<b>Capital adequacy ratio</b>	12.6	12.2	14.0	15.0	15.2	16.4	17.6	17.7
<b>Return on equity**</b>	8.3	5.6	3.4	6.0	4.4	6.8	6.5	-
<b>Return on assets**</b>	0.4	0.3	0.2	0.3	0.2	0.4	0.4	-

\* ECB aggregated balance sheet: loans excluding to government and MFI deposits.

\*\* Only annual values are presented for comparability purposes.

Source: ECB CBD

intermodal competition (low-cost air, long-distance coaches and car-sharing).

### Financial sector

**The French banking sector, which is strongly based on the universal banking business model, presents good and steadily improving solvency, funding and credit quality ratios.** The four largest French banks are typical universal banks, with both strong geographical and activity diversification. They have developed significant cross-border activities (including via foreign subsidiaries, especially in the EU) and offer a large range of services to their customers, from deposits and loans to investment advice. With a return-on-equity of 6.5 % in 2016, their profitability is moderate but has remained quite stable over the years. Their capital adequacy ratio continuously rose from 14.6 % in June 2014 to 17.7 % in June 2017, and their non-performing loan ratio reached 3.4 % in June 2017. Significant progress has also been accomplished on the funding side with a loan-to-deposit ratio that now stands at 103.8 % in September 2017.

**French banks are exposed to risks that are also common to other banks in the Euro area.** An abrupt rise of interest rates could have an impact on French banks. This represents the most significant risk, together with possible international regulatory fragmentation, after the consistent drive to improve and strengthen regulation after the financial crisis. Moreover, and contrary to European peers (see Section 1), they are also confronted to growing private indebtedness of both non-financial corporations (especially large ones) and households. In the

insurance sector, the loss of the life insurance tax advantage for the new contracts above EUR 150 000 may have an impact, as high net worth investors might choose to opt for funds instead of life insurance contracts. With a view to attract financial sector activity from future third countries, payroll taxes on the highest salary band will be removed. Finally, other distortions remain, such as the tax on financial transactions and the exoneration of the *Livret A* (equity and bonds), which tend to penalise capital market intermediation to the benefit of banking intermediation (loans), while the non-deductibility of banks' contributions to the Single Resolution Fund has an opposite effect.

**Risks to an abrupt adjustment are limited.** In 2015 debt service to gross disposable income reached a trough (0.8 %) and the percentage of new mortgage generation at variable rates remains very low in recent vintages, falling from 8.9 % in 2012 to 2.3 % in 2016. Hence, even if interest rates were to increase, the impact should remain contained. Moreover, wealth effects have traditionally been very limited in France. Finally, banks non-performing loans (NPLs) as a percentage of loans to non-financial corporate (NFC) loans remain stable at low levels (around 6 %). However, this requires close monitoring, given the large share of loans at a variable rate and with shorter maturities. In this regard, the French High Council for Financial Stability (*Haut Conseil de stabilité financière*) has recently announced that it will restrict systemic banks' exposure to the most indebted NFCs at 5 % of own funds, subject to approval by European authorities in accordance with current regulations, and stands ready to take additional preventive measures at any time in

2018, should the cyclical risks be maintained at their current level (HCSF, 2017).

#### The agricultural and agri-food sectors

**The French agricultural and agri-food sectors are going through important challenges due to a lack of competitiveness.** Comext data highlight that the French trade balance decreased by more than 10 % in the last 10 years while EU agri-food trade balance expanded by more than EUR 20 billion over the same period, switching from a net-importer to a net-exporter position. France lost more than 2 percentage points in market share to reach 12 % of EU-28 (intra- and extra- exports in 2016), mainly due to a deterioration of the trade balance with EU partners. In 2017, the average income of French farmers increased by 6 % since 2010, while it increased by about 30 % on average in the EU.

**The drivers of this transformation are multiple.** Labour costs, additional taxes and regulations as well as a lack of innovation of production processes and training can explain this sector's trade balance losses. Other factors are specific to the agri-food sector; the difficult relationships in the food supply chain exacerbated in the food sectors where the processing industry is very atomised; a supply not always responding to the features of consumers' demand, overinvestment in agriculture and lack of independent advice.

**Measures to improve the performance of the agricultural and agri-food sectors are currently under discussion.** The *États Généraux de l'Alimentation* were launched in July 2017, involving a large number of stakeholders. Measures to improve the distribution of value along the chain between farmers, food processors, retailers and consumers and to search for better ways to deliver healthy, safe, sustainable and universally accessible food are currently under discussion.

#### **Box 4.4.1: Policy highlights on environment and climate**

##### **The single environmental permit: simplified approaches**

From 1 March 2017 the various procedures and decisions required for the authorisation of industrial projects and projects covered by the Water Act are merged. The reform of the environmental permit was undertaken in the context of the modernisation of environmental law and simplification of administrative procedures. It will simplify and streamline the procedures, by introducing a single permit without reducing the level of environmental protection, provide a better overview of all environmental issues and enhance legal certainty for the project promoter. For a project, a single file, a single contact person and a single environmental permit are needed, where before the reform a project could be subject simultaneously to a number of environmental permits. The reform will allow reduced timeframes and deadlines, i.e. 9 months, against 12-15 months before, while respecting the substantive rules and protecting the fundamental interests covered by the applicable legislation.

The concept of a single permit system also applies for renewable energy projects. Since January 2017, project operators have a single contact point within the administration and only need to apply for one permit. The Ministry for Ecology also issued a decree on 1 April 2016 requiring grid operators to connect new renewable projects to the grid within 18 months. If they fail to meet this obligation they will be subject to penalties (Decree No 2016-299).

##### **Shared responsibility in waste management**

The EU Waste Framework Directive (Directive 2008/98/EC) regulates the responsibility for waste management (Art. 15) and provides that Member States may specify the conditions of responsibility and decide in which cases the original producer is to retain responsibility for the whole treatment chain or in which cases the responsibility of the producer and the holder can be shared or delegated among the actors of the treatment chain.

In the case of France, the producer is responsible for the waste until the final treatment, even if there are intermediate actors (e.g. traders, dealers). The control of the waste management chain is followed via a consignment note covering all movements from the initial waste producer to the final operator of the treatment. Penalties are laid down, on the one hand for the producer and on the other hand for all other actors involved in the management chain of the waste, if the treatment is not achieved correctly. The French legislator has decided that until the final treatment of the waste, the responsibilities would be shared among all the actors in the management chain, which has proven very effective. This system provides more control over the fate of waste streams, which is of particular importance in the case of hazardous waste.

##### **The 2017 Climate Plan – focus on energy efficiency**

In July 2017 the newly elected government presented a Climate Plan setting the framework for France's climate change policies for the next five years at both domestic and international levels. Subsequently, several legal projects were launched to implement and concretise the Climate Plan's upgraded objective to achieve carbon neutrality by 2050. The key ones include: a bill to end the domestic exploitation of fossil fuels by 2040; a Climate Solidarity Package focusing on support for low-income households; and a plan for the energetic renovation of buildings.

A special effort is being made on energy efficiency, an area where France lags behind the EU average. There is still significant potential for energy savings in the building sector, which currently accounts for around 45 % of final energy consumption and 27 % of GHG emissions. On 24 November 2017, the French government presented a plan for the energetic renovation of buildings. The plan involves EUR 14 billion of investment over five years. It targets up to 500 000 homes renovated each year from 2018, including 250 000 specifically targeted to low-income households, notably with the help of tax credits and energy-saving certificates.

## ANNEX A: OVERVIEW TABLE

Commitments	Summary assessment <sup>(64)</sup>
<b>2017 country-specific recommendations (CSRs)</b>	
<p><b>CSR 1:</b> Ensure compliance with the Council recommendation of 10 March 2015 under the excessive deficit procedure. Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of France's public finances. Comprehensively review expenditure items with the aim to make efficiency gains that translate into expenditure savings.</p> <ul style="list-style-type: none"> <li>• Ensure compliance with the Council recommendation of 10 March 2015 under the excessive deficit procedure. Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact,</li> <li>• taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of France's public finances.</li> </ul>	<p>France has made <b>limited progress</b> in addressing CSR 1 (this overall assessment of CSR 1 does not include an assessment of compliance with the Stability and Growth Pact):</p> <ul style="list-style-type: none"> <li>• The compliance assessment with the Stability and Growth Pact will be included in spring when final data for 2017 will be available.</li> <li>• <b>Limited progress</b> has been made in ensuring the sustainability of France's public finances. According to the 2017 Commission autumn forecast, the headline deficit is projected to reach 2.9% of GDP in 2018 and the structural balance is</li> </ul>

<sup>(64)</sup> The following categories are used to assess progress in implementing the 2017 country-specific recommendations (CSRs):

**No progress:** The Member State has not credibly announced nor adopted any measures to address the CSR. This category covers a number of typical situations, to be interpreted on a case-by-case basis taking into account country-specific conditions. They include the following:

- no legal, administrative, or budgetary measures have been announced in the national reform programme, in any other official communication to the national Parliament/relevant parliamentary committees or the European Commission, publicly (e.g. in a press statement or on the government's website);
- no non-legislative acts have been presented by the governing or legislative body;
- the Member State has taken initial steps in addressing the CSR, such as commissioning a study or setting up a study group to analyse possible measures to be taken (unless the CSR explicitly asks for orientations or exploratory actions). However, it has not proposed any clearly-specified measure(s) to address the CSR.

**Limited progress:** The Member State has:

- announced certain measures but these address the CSR only to a limited extent; and/or
- presented legislative acts in the governing or legislative body but these have not been adopted yet and substantial further, non-legislative work is needed before the CSR is implemented;
- presented non-legislative acts, but has not followed these up with the implementation needed to address the CSR.

**Some progress:** The Member State has adopted measures

- that partly address the CSR; and/or
- that address the CSR, but a fair amount of work is still needed to address the CSR fully as only a few of the measures have been implemented. For instance, a measure or measures have been adopted by the national Parliament or by ministerial decision, but no implementing decisions are in place.

**Substantial progress:** The Member State has adopted measures that go a long way towards addressing the CSR and most of them have been implemented.

**Full implementation:** The Member State has implemented all measures needed to address the CSR appropriately.



<ul style="list-style-type: none"> <li>Comprehensively review expenditure items with the aim to make efficiency gains that translate into expenditure savings.</li> </ul>	<p>projected to deteriorate by 0.4% of GDP. The worsening of the structural balance increases sustainability gap. The fiscal impulse on the other hand may have a positive impact on economic performance.</p> <ul style="list-style-type: none"> <li><b>Limited progress</b> has been made in reviewing expenditure items. The 2018-2022 multiannual public finances programming law sets the principles of Public Action 2022. The process seeks to address this sub CSR, by commissioning the Comité Action Publique 2022 (CAP2022) to set the roadmap by April 2018 and to analyse possible measures that would need to be taken. Clearly-specified measures to address the CSR have not been proposed though. The spending reviews in place since 2014 will be discontinued.</li> </ul>
<p><b>CSR 2:</b> Consolidate the measures reducing the cost of labour to maximise their efficiency in a budget-neutral manner and in order to scale up their effects on employment and investment. Broaden the overall tax base and take further action to implement the planned decrease in the statutory corporate-income rate.</p> <ul style="list-style-type: none"> <li>Consolidate the measures reducing the cost of labour to maximise their efficiency in a budget-neutral manner and in order to scale up their effects on employment and investment.</li> <li>Broaden the overall tax base and take further action to implement the planned decrease in the statutory corporate-income rate.</li> </ul>	<p>France has made <b>some progress</b> in addressing CSR 2:</p> <ul style="list-style-type: none"> <li><b>Some progress</b> has been made in consolidating and maximising the efficiency of measures reducing the cost of labour. Some progress has been made to reduce the tax burden on labour. According to the 2018 Budget Plan, the tax credit for employment and competitiveness (<i>Crédit d'impôt pour la Compétitivité et l'Emploi</i> or CICE) would be converted as of 2019 into permanent reductions in employers' social security contributions and accompanied with a further reduction of these latter for wages up to 1.6 times the minimum wage. The impact of this transformation in terms of employment is expected to be positive but limited, and equal to 35 000 jobs in 2019 and 70 000 jobs in 2020 according to government's projections.</li> <li><b>Some progress</b> has been made in broadening the overall tax base and in decreasing the corporate income tax rate.</li> </ul>

	<p>Some progress has been made in the implementation of the decrease in the statutory corporate income rate. The 2018 finance law confirmed that it will reach 25% for all companies in 2022. No progress has been made on broadening the overall tax base on consumption as the 2018 finance law does not limit or remove the use of reduced rates on VAT. By contrast, employees' social contributions for health and unemployment insurance will be gradually eliminated and offset by a 1.7% increase in the general social contribution (<i>contribution sociale généralisée</i>) payable by employees and retirees. This measure contributes to rebalance part of the tax burden away from workers to retirees and broaden the tax base financing social security.</p>
<p><b>CSR 3:</b> Improve access to the labour market for jobseekers, in particular less-qualified workers and people with a migrant background, including by revising the system of vocational education and training. Ensure that minimum wage developments are consistent with job creation and competitiveness.</p> <ul style="list-style-type: none"> <li>• Improve access to the labour market for jobseekers, in particular less-qualified workers and people with a migrant background,</li> </ul>	<p>France has made <b>some progress</b> in addressing CSR 3:</p> <ul style="list-style-type: none"> <li>• <b>Some progress</b> has been made in improving access to the labour market for jobseekers. Launched in September 2017, the <i>Grand Plan d'Investissement 2018-2022</i> includes EUR 13.8 billion of investment in training and skills. This initiative, called Plan d'investissement compétences (PIC), targets low-qualified young people facing particular difficulties in finding a job and low-skilled long-term unemployed. It aims to fund 1 million trainings for job-seekers with low qualifications and 1 million early-school leavers over a time horizon of five years. It contains reinforced support measures for young (pursuit of the generalisation of the Youth Guarantee, increase of places in second-chance schools, and improvement in tracing and tracking of young not in education, employment or training (NEETs) beyond the support for young early-school leavers). Initiatives for a total amount of EUR 1.5 billion (including external financing) have been included in the finance law for 2018. A specific hiring premium for increasing hires of deprived territories inhabitants will be tested into 10</li> </ul>

<ul style="list-style-type: none"> <li>including by revising the system of vocational education and training.</li> <li>Ensure that minimum wage developments are consistent with job creation and competitiveness.</li> </ul>	<p>of these territories starting from April 2018.</p> <p>In December 2017, the Government has invited social partners to negotiate for a reform of unemployment insurance. The government has then set out a roadmap concerning a reform to ensure access to compensation for resigning and independent workers, to fight against precariousness and permanent intermittency (<i>permittance</i>). Negotiations among social partners are planned to end in February 2018.</p> <ul style="list-style-type: none"> <li>As regards persons with a migrant background, little progress has been made in 2017. A revision of the integration policy is planned for spring 2018. This revision is meant to focus on trainings to learn French (especially for professional purposes) and the mobilisation of economic actors to favour the access to the labour market for people with a migrant background (<i>inter alia</i> by closer monitoring and better recognition of qualifications and professional experiences).</li> <li><b>Limited progress</b> has been made in revising the system of vocational education and training. On 15 November, a policy orientation document prepared by the Government has been sent to social partners with a view to establishing a diagnosis of the challenges faced by the vocational education and training system as well as to formulate options for reform. Inter-professional negotiations started in November 2017 and should be completed by the end of February 2018. The Government has presented first measures to reform the apprenticeship system on 9 February 2018.</li> <li><b>Some progress</b> has been made in ensuring minimum wage developments consistent with job creation and competitiveness. No ad-hoc hike of the minimum wage has been adopted since 2012. On 1 January 2018, the minimum wage was increased by 1.23% on the basis of its automatic indexation formula (Decree 2017-1719 of</li> </ul>
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	<p>20 December 2017 on the increase of minimum wage growth). At the same time, the employment rate of low skilled workers continues to be lower than in the EU (in 2016 it was at 38.8% in France against 44.5% in the EU) and to decrease over time (-0.9 pp. from 2015 and -9.8 pps from its peak level in 2003). In their recent report, the group of experts appointed to monitor minimum wage developments shows the need to reform the minimum wage automatic indexation formula, beyond limiting ad-hoc hikes.</p>
<p><b>CSR 4:</b> Further reduce the regulatory burden for firms, including by pursuing the simplification programme. Continue to lift barriers to competition in the services sector, including in business services and regulated professions. Simplify and improve the efficiency of public support schemes for innovation.</p> <ul style="list-style-type: none"> <li>• Further reduce the regulatory burden for firms, including by pursuing the simplification programme.</li> <li>• Continue to lift barriers to competition in the services sector, including in business services and regulated professions.</li> </ul>	<p>France has made <b>limited progress</b> in addressing CSR 4:</p> <ul style="list-style-type: none"> <li>• <b>Some progress</b> has been made in further reducing the regulatory burden for firms. (i) In July 2017 the government has issued a <i>circulaire</i> to limit the proliferation of norms, but the real impact of this <i>circulaire</i> remains to be seen; (ii) simplification measures were adopted for the self-employed; (iii) the 2017 reform of the labour law includes measures to simplify the application of such law (covered under a separate heading); (iv) the government has presented a bill (<i>loi pour un Etat au service d'une société de confiance</i>) to simplify administrative procedures and promote the exchange of information with the administration; (v) France has announced simplification measures under the PACTE, but those measures are not yet defined.</li> <li>• <b>No progress</b> has been made in further lifting barriers to competition in the services sector. Since the Macron law (presented in October 2014, adopted in January 2015) there has been no change (increase or decrease) in the barriers to competition in the business services and regulated professions sectors. In this regard, the French Ministry of Finance has provided additional information of the impact that the changes undertaken by the Macron law will have in the next round of</li> </ul>

<ul style="list-style-type: none"> <li>• Simplify and improve the efficiency of public support schemes for innovation.</li> </ul>	<p>the OECD's Product Market Regulation indicators (2018 indicators to be published in 2019). This work was published in August 2017. However, the impact refers to the Macron law's implications and, hence, is not new.</p> <ul style="list-style-type: none"> <li>• <b>Limited progress</b> has been made in simplifying and improving the efficiency of public support schemes for innovation. Several evaluations of direct and indirect (e.g. R&amp;D tax credit, "CIR") public funding to innovation are ongoing under the leadership of the National Commission for the evaluation of Innovation Policies (CNEPI) and the Parliament. However, it remains to be seen how these evaluations will be translated into concrete policy actions to simplify and improve the overall performance of the public support to innovation. In parallel, a number of new initiatives have also been announced such as the "Breakthrough Innovation Fund" and the <i>Grand Plan d'Investissement</i>. Further clarification regarding their synergies with existing schemes is required.</li> </ul>
<b>Europe 2020 (national targets and progress)</b>	
<p>Employment rate target: 75 % of population aged 20 to 64</p>	<p>The employment rate for workers aged 20-64 was 70.0 % in 2016, a 0.5 pp. rise since 2015.</p> <p>Signs of improvement in job creation have been seen since the second half of 2015. Should this trend accelerate they could contribute to strengthening the employment rate. However, the 75 % target remains out of reach at this stage and could require further job-rich economic impetus.</p>
<p>R&amp;D target: 3.0 % of GDP</p>	<p>Although there has been some progress in recent years, France is not on track to meet its target of spending 3% GDP on R&amp;D by 2020.</p> <p>R&amp;D intensity in 2015 is at 2.22%, up from 2.02% in 2007, with an average annual growth rate of 1.6% in the period 2007-2015.</p> <p>- Public R&amp;D intensity has been rather stable over time, stabilising at 0.74% in 2015.</p>



	<p>- Private R&amp;D intensity has experienced a steady increase since 2008, and it stood at 1.44 % GDP in 2015.</p>
<p>National greenhouse gas (GHG) emissions target:</p> <p>-14 % in 2020 compared with 2005 (in sectors not included in the EU emissions trading scheme)</p>	<p>Based on the latest national projections and taking into account existing measures, non-ETS emissions will fall by 18 % between 2005 and 2020. The -14 % target is thus expected to be met, by a margin of less than five percentage points.</p> <p>Greenhouse gas emissions, however, increased in 2015 and the respective EU2020 indicator passed from being equal to 84.6% to being equal to 85.4% of the greenhouse gas emissions in 1990.</p>
<p>2020 renewable energy target: 23 %, with a share of renewable energy in all modes of transport equal to 10 %</p>	<p>With a renewable energy share of 16 % in 2016, 0.9 pp. higher than in 2014, France could reach its target for 2020 provided it taps into its renewable energy potential.</p> <p>The renewable energy share is getting closer to the 18% target set in its National Renewable Energy Plan for 2016. Increased efforts are however needed, in particular in the heating and cooling sector and in electricity. Renewable energy developments will also need to be significant in the medium term to comply with the ambitious objectives of the Energy Transition Act.</p>
<p>Energy efficiency target:</p> <p>France's 2020 energy efficiency target is 219.9 Mtoe expressed in primary energy consumption (131.4 Mtoe expressed in final energy consumption)</p>	<p>France increased its primary energy consumption from 239.2 Mtoe in 2015 to 235.4 Mtoe in 2016. Final energy consumption also increased from 145.3 Mtoe in 2015 to 147.2 Mtoe in 2015. Although France has reduced the gap towards its indicative national 2020 targets (- 8.1% for primary energy and -10.4% for final energy consumption between 2005 and 2015), it would need to reduce its primary and final energy consumption further in order to reach these targets.</p>
<p>Early school/training leaving target: 9.5 %</p>	<p>The French early school leaving rate remains under the Europe 2020 target. In 2016, it even decreased to 8.8% from 9.2% in 2015.</p> <p>Significant regional disparities remain. Young people, mainly among those with an immigrant background, tend to leave</p>

	education with at most a lower secondary level diploma in deprived areas, while the labour market prospects of this group have significantly deteriorated.
Tertiary education target: 50 % of population aged 17-33.	<p>In 2015, 49.2% of the population aged 17-33 had attained tertiary education.</p> <p>The French tertiary education attainment rate for the population aged 30-34 years was 43.6% in 2016 with women outperforming men (48.8 % against 38.1 %). This rate is above the EU tertiary education target of 40%.</p>
Target for reducing the number of people at risk of poverty or social exclusion target: -1 900 000 in cumulative terms since 2007.	<p>The number of people at risk of poverty or social exclusion increased in 2016, from 11 048 to 11 463 thousand, and is now above the 2007 reference figure (11 382 thousand).</p> <p>As for other Member States, the 2020 objective still remains out of reach.</p>

## ANNEX B: MACROECONOMIC IMBALANCE PROCEDURE SCOREBOARD

Table B.1: The MIP scoreboard for France (AMR 2018)

			Thresholds	2011	2012	2013	2014	2015	2016
External imbalances and competitiveness	Current account balance, % of GDP	3 year average	-4%/6%	-0.9	-1.0	-1.0	-1.1	-0.7	-0.7
	Net international investment position	% of GDP	-35%	-8.7	-12.8	-16.6	-15.6	-15.7	-15.7
	Real effective exchange rate - 42 trading partners, HICP deflator	3 year % change	±5% (EA) ±11% (Non-EA)	-4.4	-7.8	-2.2	-1.3	-2.8	-3.1
	Export market share - % of world exports	5 year % change	-6%	-15.3	-18.3	-14.6	-14.2	-5.6	-2.4
	Nominal unit labour cost index (2010=100)	3 year % change	9% (EA) 12% (Non-EA)	5.5	4.3	4.6	4.6	2.2p	1.4p
Internal imbalances	House price index (2015=100), deflated	1 year % change	6%	4.0	-1.9	-2.6	-1.7	-1.8	1.0
	Private sector credit flow, consolidated	% of GDP	14%	6.4	4.4	2.1	3.3	4.9p	6.2p
	Private sector debt, consolidated	% of GDP	133%	135.3	138.5	137.7	141.9	143.7p	146.9p
	General government gross debt	% of GDP	60%	85.2	89.6	92.4	95.0	95.8	96.5
	Unemployment rate	3 year average	10%	9.2	9.4	9.8	10.1	10.3	10.3
	Total financial sector liabilities, non-consolidated	1 year % change	16.5%	6.7	1.2	0.4	5.3	1.7	4.3
Employment indicators	Activity rate - % of total population aged 15-64	3 year change in pp	-0.2 pp	0.3	0.5	0.9	1.4	1.0	0.7
	Long-term unemployment rate - % of active population aged 15-74	3 year change in pp	0.5 pp	1.1e	0.8e	0.5e	0.5	0.5	0.2
	Youth unemployment rate - % of active population aged 15-24	3 year change in pp	2 pp	3.7	0.8	1.6	1.5	0.3	-0.3

Flags: e:Estimated. p:Provisional.

(1) This table provides data as published under the Alert Mechanism Report 2018, which reports data as of 24 Oct 2017. Please note that figures reported in this table may therefore differ from more recent data elsewhere in this document.

(2) Figures highlighted are those falling outside the threshold established in the European Commission's Alert Mechanism Report.

**Source:** European Commission 2017, Statistical Annex to the Alert Mechanism Report 2018, SWD(2017) 661.

## ANNEX C: STANDARD TABLES

Table C.1: **Financial market indicators**

	2012	2013	2014	2015	2016	2017
Total assets of the banking sector (% of GDP) <sup>(1)</sup>	387.0	372.6	380.7	371.4	373.8	374.5
Share of assets of the five largest banks (% of total assets)	44.6	46.7	47.6	47.2	46.0	-
Foreign ownership of banking system (% of total assets) <sup>(2)</sup>	3.3	3.0	5.9	5.4	5.0	5.0
Financial soundness indicators: <sup>(2)</sup>						
- non-performing loans (% of total loans) <sup>(3)</sup>	4.5	4.6	3.6	3.5	3.2	3.0
- capital adequacy ratio (%)	14.0	15.0	15.2	16.4	17.6	17.7
- return on equity (%) <sup>(4)</sup>	3.4	6.0	4.4	6.8	6.5	3.5
Bank loans to the private sector (year-on-year % change) <sup>(1)</sup>	2.0	0.9	0.5	2.0	4.9	5.0
Lending for house purchase (year-on-year % change) <sup>(1)</sup>	2.8	3.6	-2.8	3.2	4.9	4.9
Loan to deposit ratio <sup>(1)</sup>	111.2	107.8	106.7	102.7	102.7	103.8
Central Bank liquidity as % of liabilities	-	-	2.3	2.3	1.7	2.2
Private debt (% of GDP)	138.5	137.7	141.9	143.7	146.9	-
Gross external debt (% of GDP) <sup>(2)</sup> - public	54.6	57.2	62.5	60.4	59.0	57.1
- private	51.7	49.7	52.8	54.3	56.1	58.6
Long-term interest rate spread versus Bund (basis points)*	104.2	63.4	50.3	34.7	37.7	50.3
Credit default swap spreads for sovereign securities (5-year)*	85.7	38.9	31.0	24.4	22.7	14.4

(1) Latest data Q3 2017.

(2) Latest data Q2 2017.

(3) As per ECB definition of gross non-performing debt instruments

(4) Quarterly values are not annualised

\* Measured in basis points.

**Source:** European Commission (long-term interest rates); World Bank (gross external debt); Eurostat (private debt); ECB (all other indicators).

Table C.2: **Headline Social Scoreboard indicators**

	2012	2013	2014	2015	2016	2017 <sup>(5)</sup>
<b>Equal opportunities and access to the labour market</b>						
Early leavers from education and training (% of population aged 18-24)	11.8	9.7	9.0	9.2	8.8	:
Gender employment gap (pps)	8.8	8.1	7.6	7.2	7.5	8.0
Income inequality, measured as quintile share ratio (S80/S20)	4.5	4.5	4.3	4.3	4.3	:
At-risk-of-poverty or social exclusion rate <sup>(1)</sup> (AROPE)	19.1	18.1	18.5	17.7	18.2	:
Young people neither in employment nor in education and training (% of population aged 15-24)	12.5	11.2	11.4	12.0	11.9	:
<b>Dynamic labour markets and fair working conditions <sup>(*)</sup></b>						
Employment rate (20-64 years)	69.4	69.5	69.3	69.5	70.0	70.5
Unemployment rate <sup>(2)</sup> (15-74 years)	9.8	10.3	10.3	10.4	10.1	9.5
Gross disposable income of households in real terms per capita <sup>(3)</sup> (Index 2008=100)	:	:	100.1	100.5	101.9	:
<b>Public support / Social protection and inclusion</b>						
Impact of social transfers (excluding pensions) on poverty reduction <sup>(4)</sup>	40.8	43.9	44.6	43.1	42.4	:
Children aged less than 3 years in formal childcare	40.0	39.0	39.5	41.7	48.9	:
Self-reported unmet need for medical care	2.2	2.6	2.8	1.2	1.3	:
Individuals who have basic or above basic overall digital skills (% of population aged 16-74)	:	:	:	57.0	56.0	57.0

(\*) The Social Scoreboard includes 14 headline indicators, of which 12 are currently used to compare Member States performance. The indicators "participants in active labour market policies per 100 persons wanting to work" and "compensation of employees per hour worked (in EUR)" are not used due to technical concerns by Member States. Possible alternatives will be discussed in the relevant Committees.

(1) People at risk of poverty or social exclusion (AROPE): individuals who are at risk of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in households with zero or very low work intensity (LWI).

(2) Unemployed persons are all those who were not employed but had actively sought work and were ready to begin working immediately or within two weeks.

(3) Gross disposable household income is defined in unadjusted terms, according to the draft Joint Employment Report 2018.

(4) Reduction in percentage of the risk of poverty rate, due to social transfers (calculated comparing at-risk-of poverty rates before social transfers with those after transfers; pensions are not considered as social transfers in the calculation).

(5) Average of first three quarters of 2017 for the employment rate and gender employment gap.

Sources: Eurostat"



Table C.3: Labour market and education indicators

Labour market indicators	2012	2013	2014	2015	2016	2017 <sup>(5)</sup>
Activity rate (15-64)	70.7	71.1	71.1	71.3	71.4	:
Employment in current job by duration						
From 0 to 11 months	13.6	11.4	11.7	12.1	12.7	:
From 12 to 23 months	8.1	7.7	7.6	7.6	7.6	:
From 24 to 59 months	14.1	14.0	14.2	14.0	13.6	:
60 months or over	64.1	65.5	65.6	65.2	65.1	:
Employment growth(*)						
(% change from previous year)	0.3	0.2	0.4	0.2	0.6	1.0
Employment rate of women						
(% of female population aged 20-64)	65.1	65.5	65.6	66.0	66.3	66.6
Employment rate of men						
(% of male population aged 20-64)	73.9	73.6	73.2	73.2	73.8	74.6
Employment rate of older workers(*)						
(% of population aged 55-64)	44.5	45.6	46.9	48.7	49.8	51.1
Part-time employment(*)						
(% of total employment, aged 15-64)	:	:	18.6	18.4	18.3	:
Fixed-term employment(*)						
(% of employees with a fixed term contract, aged 15-64)	15.2	15.3	15.3	16.0	16.1	16.8
Transition rate from temporary to permanent employment (3-year average)	11.0	11.2	10.0	10.0	:	:
Long-term unemployment rate <sup>(1)</sup> (% of labour force)	4.1	4.4	4.5	4.6	4.6	4.3
Youth unemployment rate						
(% active population aged 15-24)	24.4	24.9	24.2	24.7	24.6	22.6
Gender gap in part-time employment						
(% of total employment, aged 15-64)	:	:	23.2	22.7	22.3	:
Gender pay gap <sup>(2)</sup> (in undadjusted form)	15.6	15.5	15.5	15.8	:	:
<b>Education and training indicators</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Adult participation in learning						
(% of people aged 25-64 participating in education and training)	5.7	17.8	18.4	18.6	18.8	:
Underachievement in education <sup>(3)</sup>	22.4	:	:	23.5	:	:
Tertiary educational attainment (% of population aged 30-34 having successfully completed tertiary education)	43.3	44.0	43.7	45.0	43.6	:
Variation in performance explained by students' socio-economic status <sup>(4)</sup>	22.5	:	:	20.3	:	:

(\*) Non-scoreboard indicator

(1) Long-term unemployed are people who have been unemployed for at least 12 months.

(2) Difference between the average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees. It is defined as "unadjusted", as it does not correct for the distribution of individual characteristics (and thus gives an overall picture of gender inequalities in terms of pay). All employees working in firms with ten or more employees, without restrictions for age and hours worked, are included.

(3) PISA (OECD) results for low achievement in mathematics for 15 year-olds.

(4) Impact of socio-economic and cultural status on PISA (OECD) scores. Values for 2012 and 2015 refer respectively to mathematics and science.

(5) Average of first three quarters of 2017, unless for the youth unemployment rate (annual figure).

Sources: Eurostat, OECD

Table C.4: Social inclusion and health indicators

	2012	2013	2014	2015	2016	2017
Expenditure on social protection benefits(*) (% of GDP)						
<i>Sickness/healthcare</i>	9.0	9.0	9.1	9.1	:	:
<i>Disability</i>	2.0	2.0	2.1	2.0	:	:
<i>Old age and survivors</i>	14.3	14.6	14.6	14.6	:	:
<i>Family/children</i>	2.5	2.5	2.5	2.5	:	:
<i>Unemployment</i>	2.0	2.0	2.0	2.0	:	:
<i>Housing</i>	0.8	0.8	0.8	0.8	:	:
<i>Social exclusion n.e.c.</i>	0.9	0.9	0.9	0.9	:	:
<i>Total</i>	31.5	31.9	32.1	32.0	:	:
<i>of which: means-tested benefits</i>	3.4	3.5	3.5	3.5	:	:
General government expenditure by function (% of GDP, COFOG)						
<i>Social protection</i>	24.2	24.5	24.5	24.4	24.4	:
<i>Health</i>	8.0	8.0	8.2	8.1	8.1	:
<i>Education</i>	5.5	5.5	5.5	5.5	5.4	:
Out-of-pocket expenditure on healthcare (% of total health expenditure)	7.4	7.1	6.9	6.8	:	:
Children at risk of poverty or social exclusion (% of people aged 0-17)(*)	23.2	20.8	21.6	21.2	22.6	:
At-risk-of-poverty rate <sup>(1)</sup> (% of total population)	14.1	13.7	13.3	13.6	13.6	:
In-work at-risk-of-poverty rate (% of persons employed)	8.0	7.8	8.0	7.5	7.9	:
Severe material deprivation rate <sup>(2)</sup> (% of total population)	5.3	4.9	4.8	4.5	4.4	:
Severe housing deprivation rate <sup>(3)</sup> , by tenure status						
<i>Owner, with mortgage or loan</i>	1.0	0.9	1.1	1.3	1.7	:
<i>Tenant, rent at market price</i>	7.5	5.2	6.3	4.6	6.2	:
Proportion of people living in low work intensity households <sup>(4)</sup> (% of people aged 0-59)	8.4	8.1	9.6	8.6	8.4	:
Poverty thresholds, expressed in national currency at constant prices(*)	11321	11248	11283	11330	11478	:
Healthy life years (at the age of 65)						
<i>Females</i>	10.4	10.7	10.7	10.7	:	:
<i>Males</i>	9.4	9.8	10.4	9.8	:	:
Aggregate replacement ratio for pensions <sup>(5)</sup> (at the age of 65)	0.7	0.7	0.7	0.7	0.7	:
Connectivity dimension of the Digital Economy and Society Index (DESI) <sup>(6)</sup>	:	:	49.1	51.2	52.6	55.2
GINI coefficient before taxes and transfers(*)	49.2	49.0	48.4	49.0	49.6	:
GINI coefficient after taxes and transfers(*)	30.5	30.1	29.2	29.2	29.3	:

(\*) Non-scoreboard indicator

(1) At-risk-of-poverty rate (AROP): proportion of people with an equivalised disposable income below 60 % of the national equivalised median income.

(2) Proportion of people who experience at least four of the following forms of deprivation: not being able to afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour TV, or ix) have a telephone.

(3) Percentage of total population living in overcrowded dwellings and exhibiting housing deprivation.

(4) People living in households with very low work intensity: proportion of people aged 0-59 living in households where the adults (excluding dependent children) worked less than 20 % of their total work-time potential in the previous 12 months.

(5) Ratio of the median individual gross pensions of people aged 65-74 relative to the median individual gross earnings of people aged 50-59.

(6) Fixed broadband take up (33%), mobile broadband take up (22%), speed (33%) and affordability (11%), from the Digital Scoreboard.

Sources: Eurostat, OECD

Table C.5: **Product market performance and policy indicators**

<b>Performance Indicators</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Labour productivity (real, per person employed, year-on-year % change)							
Labour productivity in Industry	4.15	2.71	1.32	2.59	1.07	1.75	2.73
Labour productivity in Construction	-0.95	-2.97	-4.50	1.96	-1.88	-0.04	1.91
Labour productivity in Market Services	1.12	1.46	0.28	0.85	1.38	0.35	0.61
Unit labour costs (ULC) (whole economy, year-on-year % change)							
ULC in Industry	-0.93	-0.82	1.11	-0.31	0.33	-1.25	-0.94
ULC in Construction	2.39	3.99	5.85	0.91	2.57	-0.74	-0.25
ULC in Market Services	0.63	-0.27	1.75	0.87	0.59	0.76	1.23
<b>Business Environment</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Time needed to enforce contracts <sup>(1)</sup> (days)	390.0	390.0	390.0	395.0	395.0	395.0	395.0
Time needed to start a business <sup>(1)</sup> (days)	6.5	6.5	6.5	6.5	4.5	4.0	3.5
Outcome of applications by SMEs for bank loans <sup>(2)</sup>	0.54	0.46	0.59	0.60	0.53	0.51	0.32
<b>Research and innovation</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
R&D intensity	2.18	2.19	2.23	2.24	2.23	2.22	:
General government expenditure on education as % of GDP	5.60	5.50	5.50	5.50	5.50	5.50	na
Persons with tertiary education and/or employed in science and technology as % of total employment	43	46	47	47	49	49	50
Population having completed tertiary education <sup>(3)</sup>	26	27	28	29	30	30	31
Young people with upper secondary level education <sup>(4)</sup>	83	84	84	86	88	87	88
Trade balance of high technology products as % of GDP	0.60	0.42	0.68	0.76	0.80	0.95	na
<b>Product and service markets and competition</b>					<b>2003</b>	<b>2008</b>	<b>2013</b>
OECD product market regulation (PMR) <sup>(5)</sup> , overall					1.77	1.52	1.47
OECD PMR5, retail					3.76	3.80	2.64
OECD PMR5, professional services					2.20	2.45	2.34
OECD PMR5, network industries <sup>(6)</sup>					3.37	2.77	2.51

(1) The methodologies, including the assumptions, for this indicator are shown in detail here:

<http://www.doingbusiness.org/methodology>.

(2) Average of the answer to question Q7B\_a. "[Bank loan]: If you applied and tried to negotiate for this type of financing over the past six months, what was the outcome?". Answers were codified as follows: zero if the SME received everything, one if it received most of it, two if it received a limited part of it, three if the application was refused or rejected and treated as missing values if the application is still pending or the outcome is not known.

(3) Percentage of the population aged 15-64 having completed tertiary education.

(4) Percentage of the population aged 20-24 having attained at least upper secondary education.

(5) Index: 0 = not regulated; 6 = most regulated. The methodologies of the OECD product market regulation indicators are shown in detail here: <http://www.oecd.org/competition/reform/indicatorsofproductmarketregulationhomepage.htm>

(6) Aggregate OECD indicators of regulation in energy, transport and communications.

**Source:** European Commission; World Bank — Doing Business (for enforcing contracts and time to start a business); OECD (for the product market regulation indicators); SAFE (for outcome of SMEs' applications for bank loans).

Table C.6: **Green growth**

<b>Green growth performance</b>		<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Macroeconomic</b>							
Energy intensity	kgoe / €	0.13	0.13	0.13	0.12	0.12	0.12
Carbon intensity	kg / €	0.24	0.24	0.23	0.22	0.22	-
Resource intensity (reciprocal of resource productivity)	kg / €	0.40	0.38	0.38	0.37	0.36	0.34
Waste intensity	kg / €	-	0.17	-	0.16	-	-
Energy balance of trade	% GDP	-3.0	-3.3	-3.1	-2.5	-1.8	-1.4
Weighting of energy in HICP	%	9.29	9.93	9.45	9.85	9.41	8.97
Difference between energy price change and inflation	%	8.0	3.3	2.9	1.3	-0.7	-1.8
Real unit of energy cost	% of value added	10.8	11.2	10.9	10.9	-	-
Ratio of environmental taxes to labour taxes	ratio	0.09	0.08	0.09	0.08	0.09	-
Environmental taxes	% GDP	1.9	2.0	2.0	2.0	2.2	2.2
<b>Sectoral</b>							
Industry energy intensity	kgoe / €	0.12	0.12	0.12	0.11	0.11	0.11
Real unit energy cost for manufacturing industry excl. refining	% of value added	16.3	16.3	15.9	16.0	-	-
Share of energy-intensive industries in the economy	% GDP	6.09	6.14	6.31	6.26	6.38	6.38
Electricity prices for medium-sized industrial users	€ / kWh	0.08	0.09	0.09	0.10	0.10	0.09
Gas prices for medium-sized industrial users	€ / kWh	0.04	0.04	0.04	0.04	0.04	0.04
Public R&D for energy	% GDP	0.05	0.05	0.05	0.04	0.05	0.04
Public R&D for environmental protection	% GDP	0.01	0.01	0.01	0.01	0.02	0.01
Municipal waste recycling rate	%	36.8	37.7	38.7	39.7	40.7	41.7
Share of GHG emissions covered by ETS*	%	24.3	23.7	23.8	22.1	21.2	21.9
Transport energy intensity	kgoe / €	0.56	0.55	0.56	0.56	0.58	0.56
Transport carbon intensity	kg / €	1.53	1.49	1.51	1.51	1.54	-
<b>Security of energy supply</b>							
Energy import dependency	%	48.6	48.1	47.9	45.9	45.7	47.1
Aggregated supplier concentration index	HHI	7.4	7.9	8.6	8.8	8.2	-
Diversification of energy mix	HHI	0.32	0.31	0.30	0.33	0.32	0.30

All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2010 prices)

Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)

Carbon intensity: greenhouse gas emissions (in kg CO<sub>2</sub> equivalents) divided by GDP (in EUR)

Resource intensity: domestic material consumption (in kg) divided by GDP (in EUR)

Waste intensity: waste (in kg) divided by GDP (in EUR)

Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP

Weighting of energy in HICP: the proportion of 'energy' items in the consumption basket used for the construction of the HICP

Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual % change)

Real unit energy cost: real energy costs as % of total value added for the economy

Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2010 EUR)

Real unit energy costs for manufacturing industry excluding refining: real costs as % of value added for manufacturing sectors

Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP

Electricity and gas prices for medium-sized industrial users: consumption band 500–20 000 MWh and 10 000–100 000 GJ; figures excl. VAT.

Recycling rate of municipal waste: ratio of recycled and composted municipal waste to total municipal waste

Public R&D for energy or for the environment: government spending on R&D for these categories as % of GDP

Proportion of GHG emissions covered by EU emissions trading system (ETS) (excluding aviation): based on GHG emissions (excl. land use, land use change and forestry) as reported by Member States to the European Environment Agency.

Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transport industry gross value added (in 2010 EUR)

Transport carbon intensity: GHG emissions in transport activity divided by gross value added of the transport sector

Energy import dependency: net energy imports divided by gross inland energy consumption incl. consumption of international bunker fuels

Aggregated supplier concentration index: covers oil, gas and coal. Smaller values indicate larger diversification and hence lower risk.

Diversification of the energy mix: Herfindahl index covering natural gas, total petrol products, nuclear heat, renewable energies and solid fuels

\* European Commission and European Environment Agency

**Source:** European Commission and European Environment Agency (Share of GHG emissions covered by ETS); European Commission (Environmental taxes over labour taxes and GDP); Eurostat (all other indicators)

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