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RÉPUBLIQUE FRANÇAISE

PREMIER MINISTRE

NATIONAL REFORM PROGRAMME

2016

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

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

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

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

1. Guarantee sound and sustainable public finances

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

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

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

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

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

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

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

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

3. Improving the functioning of the labour market

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

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

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

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

4. Promoting gender diversity, social inclusion and equal opportunity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

◗ Capitalise on new business opportunities

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

2016

Second quarter

Q2

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

Justice for the 21st century Bill
final vote

Labor Bill
first reading in Parliament

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

Third quarter

Q3

Labor Bill
final vote

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

Creation of a government purchasing directorate

Fourth quarter

Q4

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

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

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

Reform of contract law
entry into force on 1st october

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