A STRATEGY TO MEET OUR COMMITMENTS OVER TIME

2016-2019 STABILITY PROGRAMME

The 2015 budget outturn was better than expected. The government deficit continues to fall: it has been reduced to 3.5% of GDP, and halved since the peak of the crisis in 2009. , Government spending excluding tax credits increased by 0.9% in nominal terms, the lowest increase in decades. For the first time since 2009, aggregate taxes and social security contributions as a percentage of GDP fell. France has demonstrated its ability to achieve fiscal consolidation through tighter control of its expenditure – reducing it in proportion to GDP – while funding its priorities and lowering the tax burden.

France will carry these consolidation efforts forward in line with the projected fiscal adjustment path, to support the ongoing economic recovery while financing government priorities.

Firm foundations for growth were laid in 2015. Households saw their purchasing power increase strongly, thanks to tax moderation and to lower oil prices, allowing consumption to gain momentum. Tax measures improved businesses' margins. Combined with low interest rates, this creates a favourable environment for increased investment. The French economy once again began creating jobs in the private sector in 2015, at a pace that is set to accelerate as the recovery gathers pace and the emergency job creation plan is implemented.

The macroeconomic assumptions adopted last year are still current. After growth of 1.2% in 2015, the growth forecast underpinning the fiscal adjustment path is still 1.5% for both 2016 and 2017. The fresh fall in oil prices will, however, result in another year of close to zero inflation.

After compliance with the targets set in the Multiyear Public Finance Planning Act in 2014 and 2015, deficit targets have been maintained at 3.3% of GDP in 2016 and 2.7% in 2017. Government expenditure and aggregate taxes and social security contributions as a proportion of GDP will continue to decrease, while the debt-to-GDP ratio will stabilise.

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RÉPUBLIQUE FRANÇAISE
MINISTÈRE DES FINANCES
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STAYING THE COURSE:
SUPPORTING THE ECONOMIC RECOVERY

The Competitiveness and Employment Tax Credit (CICE) is now mature. A total of 1 million companies have earned €27.4 billion in credits since its establishment, of which €17.5 billion in the last year. At the end of 2015, 85% of these credits had actually been utilised by businesses, either as a reduction in their tax bill, as refunds by the tax authorities or as bank pre-financing.

The second phase of the Responsibility and Solidarity Pact is effective this year. Employers' contributions have been lowered for 90% of employees, thus covering all sectors exposed to international competition. And the corporate social solidarity contribution (C3S) has been phased out for 90% of businesses liable to the tax, including VSEs, SMEs and most mid-tier companies (ETI).

In total in 2016, companies will be eligible for €34 billion in tax and social security contribution relief, enabling them to restore their margins, invest and hire.

Low and middle-income households have also seen their income tax bills fall. After three successive years of income tax cuts, 12 million households – two-thirds of taxpayers – will see their tax bill fall in 2016, representing a total gain of €5 billion in purchasing power.

Reform efforts continue in all economic and social domains to consolidate the recovery, to continue making society fairer and to modernise the state. They are described and assessed in the National Reform Programme (NRP) submitted with the Stability Programme. The government is continuing its strategy of improving corporate competitiveness in order to stimulate investment and job creation. The reform of the labour market has entered a new phase aimed at fostering labour/management dialogue and enhancing career path security. New measures have been taken to streamline and modernise the economy. The government's action is also geared towards making the French economy more transparent, so as to promote confidence. This strategy is part of a broader vision aimed at building a fairer society capable of rising to the challenges of tomorrow, active in the fight against global warming, in line with the "Europe 2020" agenda.

What is a Stability Programme?

A Stability Programme is a public document that outlines a country's medium-term fiscal strategy. Each year, as part of the EU's annual cycle of economic and fiscal policy coordination, or "European Semester", every Member State draws up a Stability Programme along with a National Reform Programme (NRP).

STAYING THE COURSE:

FISCAL CONSOLIDATION

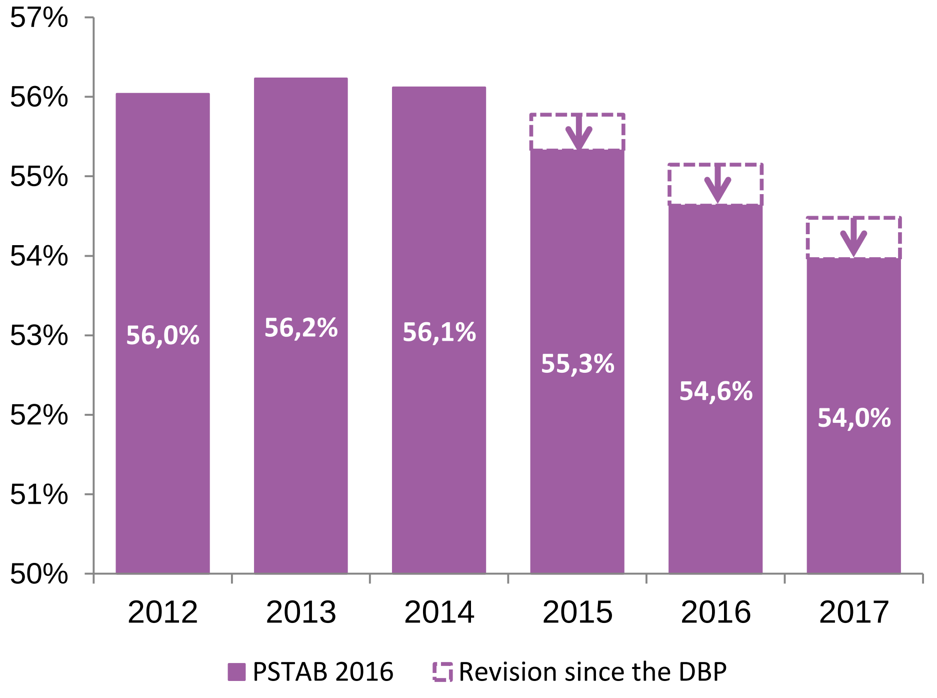
In keeping with our commitments, our fiscal consolidation strategy means keeping expenditure under control while continuing to fund our priorities, namely security, employment, education, justice and investments for the future. Overall government spending grew by only about 1% in 2014 and 2015, excluding tax credits, compared with an average of over 3% between 2007 and 2012. This muted pace of government spending growth will be maintained in 2016 and 2017. Expenditure as a percentage of GDP will thus decline at the anticipated pace.

At the same time, aggregate tax and social security contributions will continue to fall. After declining last year for the first time since 2009, they will ease steadily to 44% of GDP in 2017.

These targets are demanding but within reach. Weak inflation, mostly attributable to cheaper energy, is boosting the purchasing power of households and general government sub-sectors alike. However, it requires us to adjust our expenditure to make up for the impact of low inflation on public finances, so as to meet our deficit targets.

To meet the targets set in the Multiyear Public Finance Planning Act, the government plans to make an additional €3.8 billion in savings by implementing cuts in expenditure in 2016. In a similar vein, year-end budgetary legislation will include additional measures of €5 billion in 2017 across all general government sub-sectors in proportion to their share of government spending.

Government spending to GDP contracting as per autumn forecast



Key: government spending to GDP excluding tax credits revised down by 0.5 percentage points each year to reflect the 2015 outturn.

STAYING THE COURSE:
KEEPING OUR PROMISES

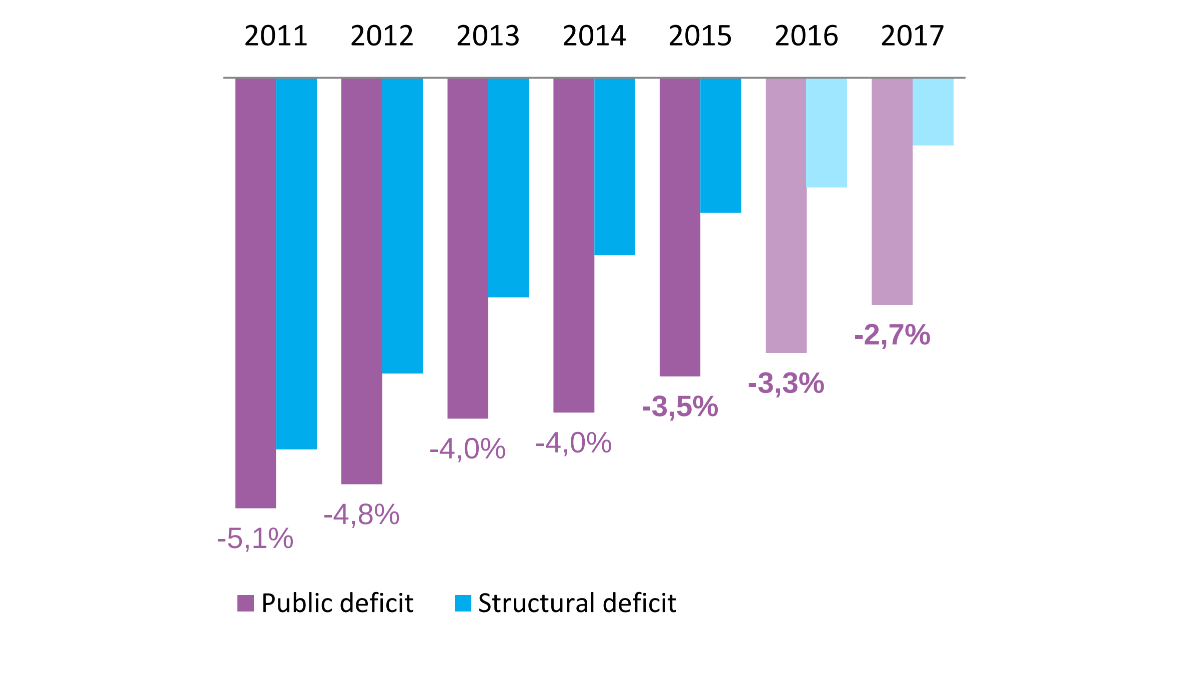
The goal of reducing the deficit to less than 3% of GDP by 2017 will be met. This target goes hand in hand with the goal of stabilising public debt at less than 100% of GDP and then reducing debt levels.

2015 showed that our economic and fiscal policy is paying off. The gradual pace of deficit reduction was compatible with the resumption of growth.

The imbalances in our public accounts adjusted for fluctuations in the business cycle, i.e. the structural deficit, are contracting: after having been reduced by nearly two-thirds since 2011, the pace is now consistent with a gradual return to balance without compromising growth.

All general government sub-sectors have contributed to this uninterrupted improvement:

- The central government deficit has been halved, from €148.8 billion in 2010 to €70.5 billion in 2015.
- The social security deficit has been reduced by nearly two-thirds in five years, dropping from €28 billion in 2010 to €10.7 billion in 2015.
- Local governments have brought their accounts back to balance for the first time since 2003.



KEY FIGURES

KEY MACROECONOMIC INDICATORS

		2014	2015	2016	2017
Growth	in real terms	0.2%	1.2%	1.5%	1.5%
Inflation	total CPI	0.5%	0.0%	0.1%	1.0%
Household consumption	growth in real terms	0.6%	1.4%	1.6%	1.6%
Household purchasing power	real GDI	1.1%	1.8%	1.6%	1.2%
Corporate investment	growth in real terms	2.0%	2.0%	3.2%	3.8%
Gross operating margins	Non-financials	29.4%	31.0%	31.8%	32.1%
Total employment	annual average	+105,000	+95,000	+190,000	+150,000

KEY PUBLIC FINANCE INDICATORS

		2014	2015	2016	2017
Government balance	% GDP	-4.0%	-3.5%	-3.3%	-2.7%
Public debt	% GDP	95.3%	95.7%	96.2%	96.5%
Growth of expenditure*	in nominal terms	1.0%	0.9%	1.1%	1.1%
Expenditure	% GDP	56.1%	55.3%	54.6%	54.0%
Aggregate taxes and social security contributions	% GDP	44.8%	44.5%	44.2%	44.0%

* excluding tax credits