France’s economy posted weak growth of 0.3% for the year in 2013. However, there were encouraging signs towards the end of the year, when private sector employment and investment picked up for the first time in two years. After 5 years of subdued economic activity, France’s GDP at the end of 2013 was back at its pre-crisis levels.

Annual growth now stands at around 1%. But unemployment remains high, particularly for young people. And our economy still lags behind our partners on competitiveness.

**The priority for the Government is to achieve faster growth and a sustainable increase in private sector jobs.**

This is the best way of enhancing the purchasing power of households, especially those that have been the hardest hit by a sluggish economy.

**The Government’s two-pronged strategy is designed to strengthen our economy and its capacity to create jobs, while making targeted efforts to increase the purchasing power of the least well-off and to continue to consolidate our public finances to regain fiscal room for manoeuvre and decrease government debt to reclaim our sovereignty, while financing our priorities - education, justice and security.**

This is the purpose of our policies, which are set out in the Stability Programme and in the accompanying National Reform Programme that all Member States submit to the European Commission each year.

**This strategy hinges on the implementation of the Responsibility and Solidarity Pact, combined with an effort to reduce spending and achieve savings of €50 billion between 2015 and 2017.**

By restoring companies’ profits, bolstering their competitiveness and creating a positive confidence shock, it will enable businesses to export more, invest more and hire more. It will also enable households to spend more and support the economy. Overall the growth rate is expected to stand at 1% in 2014 and then rise to 1.7% in 2015 and 2.25% in 2016-2017, with the Responsibility and Solidarity Pact adding 0.5% to growth over that period.
The Responsibility and Solidarity Pact will boost the recovery and purchasing power

The Pact will be deployed in stages up until 2017. It will add half a percentage point to growth and create nearly 200,000 additional jobs.

The cost of labour has already fallen as a result the Competitiveness and Employment Tax Credit (CICE) and it will be cut further for a total reduction of €30 billion. By 2016, there will no longer be any social security payroll contributions on minimum-wage jobs, other than unemployment insurance contributions. Family allowance contributions will be reduced on jobs paying up to three and a half times the minimum wage. Such jobs, paying up to €5,000 per month before deductions, represent 90% of payroll employment.

In addition, business taxes will be streamlined and reduced: the corporate social solidarity contribution (C3S), which is based on turnover and not on income, will be reduced starting in 2015 and phased out by 2017; the exceptional corporate income tax payment for large corporations will be phased out in 2016 and the standard rate of corporate income tax will decrease starting in 2017, bringing it down to 28% by 2020.

At the same time, taxes on low-income households will be reduced, starting in 2014. In 2015, smaller deductions on payslips will increase wage-earners’ purchasing power. The gain will be €500 per year for workers earning the minimum wage. Measures aimed at low-income households will total €5 billion by 2017.

An unprecedented savings effort, through sweeping reform of government action

Compared to the natural rate of growth of expenditure, savings of €50 billion will be needed between 2015 and 2017 to bring government expenditure growth back into line with inflation. This will enable us to continue cutting deficits without raising taxes.

This effort will be shared equitably by all general government sectors, in proportion to their share of total government expenditure; it will also be shared by the different generations:

- Central government and central government agencies’ share of the savings (€18 billion over three years) will be achieved by increasing efficiency and by improving cost control even more;
- Local governments, whose expenditure growth will be brought back into line with inflation, will contribute savings of €11 billion through organisational reform;
- The health insurance system will achieve savings of €10 billion by deploying a national health strategy that ensures the quality of care and the level of coverage;
- The social protection system will achieve savings of €11 billion through reforms that have already been adopted regarding pensions and family policy, and through future measures, such as efficiency gains and a stabilization of benefits in nominal terms, except for minimum social benefits, for one year.
Reducing deficits while maintaining our commitments

The 3% target for the deficit in 2015 remains unchanged. The government deficit needs to be reduced to stabilise and then decrease debt as a share of GDP.

It is also the prerequisite for growth.

Reducing the deficit will ensure that the central government continues to enjoy favourable financing terms, which, in turn, means better terms for businesses that want to invest and create jobs, and for households.

Reducing the deficit will also ensure that France continues to have its say in Europe, and that the most vulnerable countries can count on France to stand by their side.

The consolidation of our finances started two years ago and will continue until the end of the President’s term in 2017: the structural fiscal balance will be brought close to equilibrium by 2017 by means of an adjustment of 0.8 points per year in 2014 and 2015, followed by an adjustment of 0.5 points per year after that.

What is the difference between the government deficit and the structural deficit?

The government deficit corresponds to the share of general government spending (central government, local government and social security funds, including debt service) that is not covered by revenue, which comes mainly from taxes and social security contributions. It is expressed as a percentage of GDP, which means as a share of national wealth.

The structural deficit is the government deficit, adjusted for cyclical effects. When growth is weak, certain public expenditures increase, while certain tax revenues (from personal and corporate income taxes) decrease. By correcting for these cyclical effects, we can assess the structural position of public finances. Monitoring the structural deficit provides a more accurate picture of the underlying budgetary situation.
With spending under control, taxes will start to come down

With the implementation of the Responsibility and Solidarity Pact, and the €50 billion in savings, the share of public expenditure and taxes and social security contributions in GDP will diminish over 2014-2017.

Slowing government spending growth to match inflation will reduce public expenditure to 53.5% of GDP in 2017, which was the average level before the crisis.

This choice is challenging and unprecedented. But it will enable us to continue cutting the deficit without raising taxes. The tax burden will be reduced by 0.6 percentage points between 2014 and 2017.

Reducing debt by the end of the President’s term in 2017

Between 2007 and 2012, debt increased from 65% of GDP to more than 90%. And the deficits that we inherited in 2012 were leading inexorably to even greater indebtedness. Thanks to the decisions made to support growth and jobs on the one hand, and to reduce the deficit on the other hand, debt, which stood at 93.5% of GDP in 2013, will start to come down in 2016. This reduction, along with smaller deficits, is a strong signal that France is taking control of its future again and reclaiming its financial sovereignty.