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RÉPUBLIQUE FRANÇAISE

DRAFT BUDGETARY PLAN 2015

Extract of the Economic, social and financial report

France's economic policy strategy

France's economic policy has been geared towards the recovery of the economy since 2012. At the end of 2011, public finances were in poor shape – the debt had soared by almost €900bn since early 2002 and the government deficit stood at more than 5% of GDP – unemployment was rising sharply and there were confirmed structural weaknesses. The competitiveness of businesses had been in constant decline as had the balance of trade. These facts were highlighted in the Gallois report of November 2012.

The recovery is based on: i) deficit reduction efforts, focused initially on increases in tax and social security contributions and, in 2013 and 2014, on significant government expenditure containment. The draft budgetary plans presented this autumn step up and detail these expenditure measures, with €50bn in savings planned between 2015 and 2017, €21bn of which will be made in 2015, **ii) reforms to restore the economy's competitiveness and improve its potential to promote growth and employment in a sustainable fashion.**

In spite of the gloomy economic climate, this policy is beginning to produce results.

As regards public finances, although in nominal terms, the improvement in the deficit has been slowed by flat growth and very low inflation - 4.4% in 2014 -, the structural (i.e. cyclically-adjusted) balance has been almost halved since 2011 and is now at its lowest level since the early 2000s, namely 2.4% of GDP. Pension reform in 2013 also contributed to the long-term sustainability of France's public finances.

The government has rolled out measures to boost growth. The Competitiveness and Employment Tax Credit (CICE) and the Responsibility and Solidarity Pact have provided French firms with the margins they need to invest, hire and export, thanks to cuts in taxes and social security contributions that will total €40bn by 2017, €30bn of which involve labour-related taxes. Concurrently, the efficiency of our economy has been boosted by the introduction of the Job Security Act, the reform of vocational training and the 2014 Consumer Act. Lastly, investments for the future have been maintained (education, research, investment). Because of this, France currently enjoys the confidence of investors, with yields at historically low levels and a spread with Germany that is back to its 2010 level (see Chart 1).

Nevertheless, the economic climate in Europe is weaker than expected, which constrains the conduct of economic policy. After a disappointing first half-year and a morose business climate for most of our trading partners, growth forecasts for Europe have been trimmed back. Downward adjustments for 2014 and 2015 were issued by the IMF, OECD and the European Commission, which were surprised by the weak growth in Europe and in the rest of the world. It is thus highly likely that, for the third year in a row, growth in the euro area will fall far short of its potential in 2014, thereby widening the output gap, which the Commission estimates to be nearly 3 percentage points of GDP. In France, the growth forecast for 2014 was cut back to 0.4% (compared with 1.0% in April 2014). Inflation is very low despite the measures introduced by the ECB, whose key rates are at their lowest level. This constrains the conduct of economic policy in the euro area. Closing the competitiveness gaps between countries is made more difficult and deleveraging by economic agents is hampered. In the same way, deficit reduction becomes harder, as weak inflation curtails revenue and thereby lessens gains linked to efforts to contain expenditure, such as the freezing measures.

This economic situation has very negative social repercussions and creates risks. Unemployment is at a record high in several euro area countries. The European Commission expects unemployment to reach 11.8% in 2014 for the euro area as a whole, and exceed 25% in Spain and Greece. In seven euro area countries, unemployment is higher than it has ever been. Youth unemployment is higher still, despite targeted initiatives at both domestic and European levels. As the IMF recently pointed out, current unemployment levels are a reflection of slack economic activity and therefore will not come down unless there is a significant surge in growth. A protracted period of sluggish growth, coupled with abnormally low inflation, generates risks, including an increase in the structural unemployment rate and a decrease in economies' growth potential.

Economic policies must, therefore, be adjusted to these circumstances. Monetary policy must remain geared towards supporting growth and returning inflation to levels that are closer to the ECB's target. The pace at which euro area governments are reducing their deficits must be adjusted, reforms to foster growth must be stepped up and the €300bn EU investment package must become a reality.

Under the circumstances, the government will hold to its fiscal strategy. Fiscal consolidation will continue and the level of savings will be maintained. The government will implement all the actions set out in the Stability Programme this spring. The rollout of the Responsibility and Solidarity Pact to restore the competitiveness of businesses will mean lower tax and social security contributions. The deficit reduction relies exclusively on expenditure savings.

Growth forecasts are conservative. Growth is set to gradually increase to 1.0% in 2015, a figure in line with the OECD interim forecast of 15 September 2014 and lower than the Consensus Forecasts. GDP should subsequently begin to climb again with growth reaching 2.0% by 2018 - which is not sufficient for the output gap to be closed. The recovery of the French economy should be consistent with the recovery of the euro area with businesses benefitting more from foreign demand as their competitiveness improves. This should be fuelled by ongoing reforms to improve the functioning of the economy, which include local government reform, cutting red tape for businesses, a thoroughgoing reform of the goods and services markets, adjusting staff thresholds in businesses and labour-management dialogue reform, reform of industrial tribunals and a plan to stimulate residential construction.

All policy levers must be used to promote growth and employment, at domestic, European and even global level, given the G20's goal of boosting output by 2 percentage points by 2018 – an ambition that France supports and to which it actively contributes. Thanks to a favourable monetary policy, to a fiscal strategy geared to the current macroeconomic situation and to support for low to middle-income households, the groundwork has been laid for a return to growth, and reforms to improve the functioning of the economy can therefore bear fruit.

1. Starting in 2012, the government rolled out a bold strategy to cushion the impact of the crisis and respond to the challenges facing the French economy

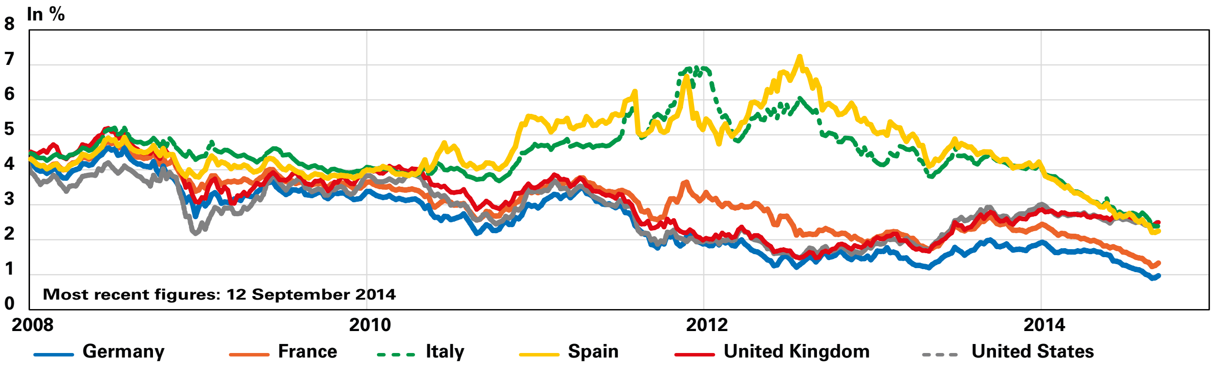
France enjoys significant structural advantages (institutional stability, demographic growth, an expanding and highly educated workforce, excellent infrastructure throughout the country, a sound banking industry, etc.). Nevertheless, since 2012, its economic policy has had to contend with three challenges: (i) restoring the sustainability of public finances; (ii) boosting competitiveness to close a gap which has persisted since the 2000s; and finally (iii) addressing unemployment.

a. The three challenges facing the French economy

- **Fiscal consolidation**

At the end of 2011, public finances were still in poor shape. In spite of two years of growth at more than 2%, the government deficit stood at over 5%, the bulk of it being structural (structural deficit of 4.4%). What is more, government debt had increased by €600bn in five years (+25% of GDP) and had doubled in a decade, representing over 85% of GDP.

Chart 1: Sovereign yields (10 years)



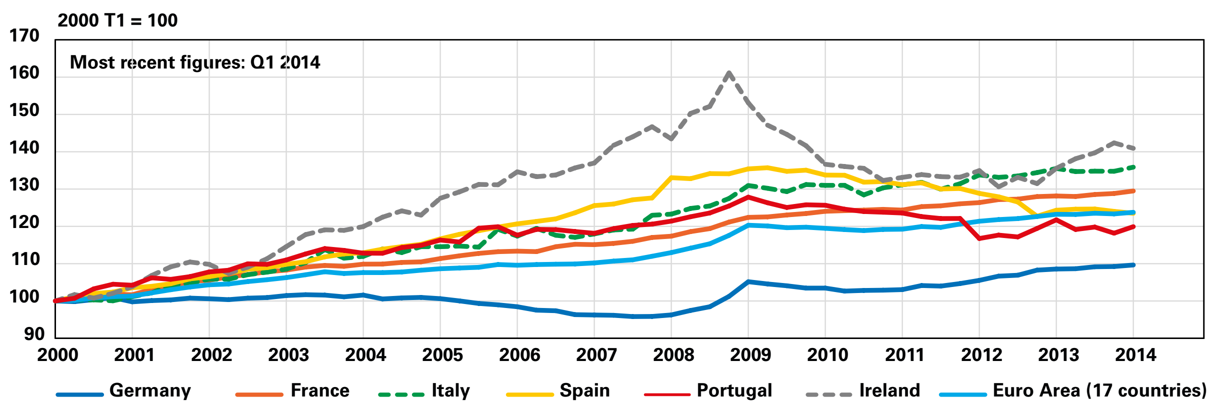
Source: Global Insight

- **Restore our businesses' competitiveness and improve the functioning of goods and services markets to be able to benefit from global growth**

Between 2002 and 2012, the French economy suffered from an increasing loss of competitiveness and a declining export market share. Reasons for this include the appreciation of the euro and rapidly rising labour costs in relative terms (see Chart 2), average performance levels for non-cost competitiveness, particularly less R&D, a skills gap in some professions, ineffective organisation in some cases and rigidities in the goods and services markets. This weaker competitiveness has forced French businesses to cut their margins (see Chart 3) to mitigate loss of market share. In some cases, this has also meant less investment and a lower capacity for innovation.

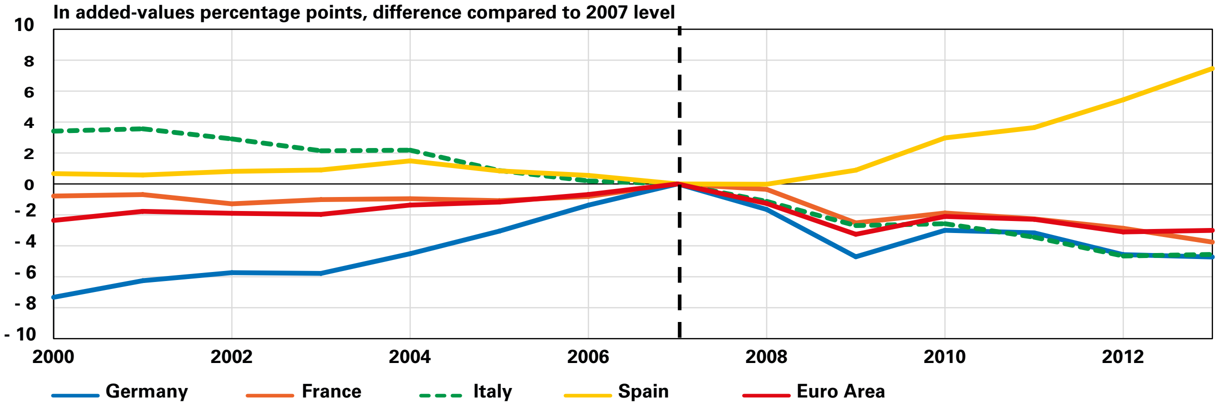
We need to step up measures to foster competitiveness so that the French economy is able to fully benefit from global growth in the coming years.

Chart 2: Change in unit labour costs since 2000 – entire economy –



Source: Eurostat, DG Trésor calculations

Chart 3: Change in the profit margins of non-financial corporations (SNF)



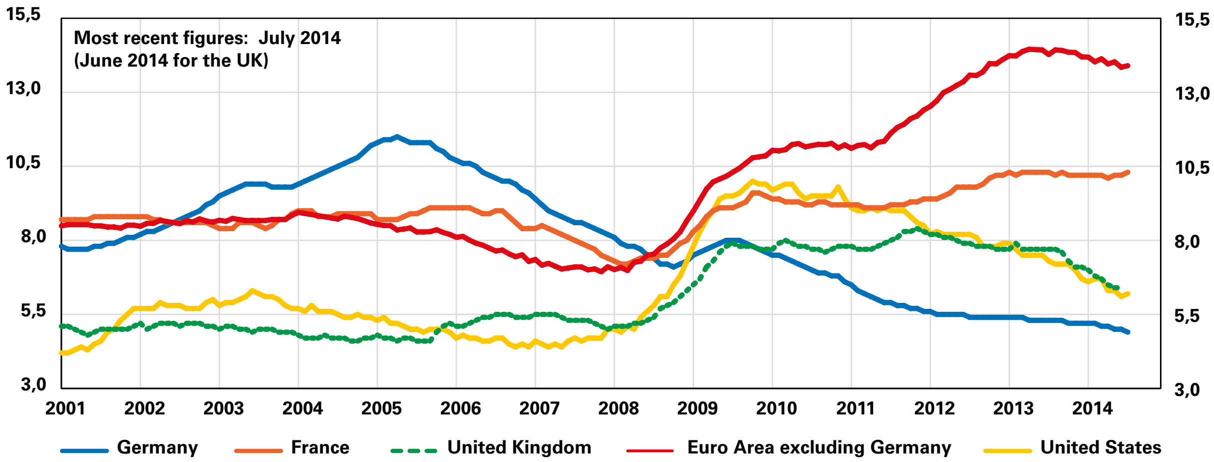
Source: Eurostat, Destatis, Insee, INE

- **Cutting unemployment is a key social issue and a prerequisite for future growth**

The crisis had an extremely negative impact on the labour market in France and throughout the euro area. Although unemployment has been stable at around 10% since 2013, it had previously risen sharply compared to 2008, with long-term unemployment representing a significant share of the total.

Improving the functioning of the labour market and the training system was a social necessity and is also essential to build the human capital needed to bolster growth and employment.

Chart 4: Harmonised unemployment rates (ILO definition) - in % of the labour force, monthly data, seasonally adjusted -



Source: Eurostat

b. Substantial efforts have been made since 2012 and these have been ramped up in 2014 to tackle these three challenges

i. Unprecedented fiscal consolidation measures from the government

The government balance improved to -4,1% in 2013 compared to -5.1% in 2011 and the structural deficit has almost been halved compared to 2011, and is now close to its level in the early 2000s. These efforts were initially focused on revenue measures enshrined in the Supplementary Budget Acts adopted in the summer of 2012. This fiscal policy was also underpinned by the 2013 pension reform which, by extending the contribution period among other measures, improved the long-term sustainability of public finances. During the same period, expenditure was tightly controlled with a growth rate of only 2% in nominal terms in 2013 (not

Box 1: Impact of low inflation on public finances

Both in France and the euro area as a whole, inflation has plummeted since summer 2012 and is now at a very low level. The increase in the consumer price index, not including tobacco products (IPCHT), is estimated at 0.5% in 2014 and 0.9% in 2015.

In all euro area countries, inflation is lower than the ECB's inflation target ("less than but close to 2%"). This is even the case in Germany (+0.8% in September) where unemployment is low (4.9% in August). The inflation rate is especially low in the euro area's Southern countries which have pursued the most stringent fiscal adjustment policies since the crisis. As an example, in September 2014, inflation in Spain stood at -0.3%. This fall in inflation in the euro area since summer 2012 can be partly explained by the dip, and subsequent stabilisation, of commodity prices (energy and agri-foodstuffs), and by the appreciation of the single currency in the wake of the easing of financial tension in the euro area. Besides these recent developments, inflation is on a downward trend. Core inflation (which excludes energy and certain items that are exposed to volatile price movements) has also fallen since last summer and stood at 0.7% in September. Moreover, prices are falling for an increasing number of products. Low core inflation is the result of economic activity which is well below its potential level, but it also results from economic policies (debt reduction and competitiveness policies).

Low inflation makes fiscal consolidation more difficult and hampers structural adjustment. Tax bases shrink in nominal terms and so government revenue is lower. By way of example, lower inflation reduces household consumption in nominal terms and this impacts on VAT revenue, on the taxable profits of businesses and therefore, ultimately, on corporation tax revenue. On the other hand, public spending does not adapt as automatically to falling inflation. The effects are both partial and delayed. Lower inflation does not impact on social benefits which were frozen in the Supplementary Budget Act. Civil servants' compensation is also unaffected owing to the stabilising of the civil service pay scale. These two items account for almost half of public spending. Whilst some other expenditure items are falling (i.e. interest expense on index-linked bonds), projects which are part of multi-year programmes, some purchases outside the scope of the retail price index or some benefits for which the inflation-linked increase occurs on a deferred basis, do not move in line with the price index (e.g. the price of medicinal products). This means that, with all other things being equal, when inflation is low, fiscal consolidation is more difficult. A 1% fall in inflation is estimated to lead to an increase in the deficit ratio of 0.5 percentage points of GDP, under the assumption that many expenditure items are not fully or immediately impacted by inflation and that tax revenue elasticity is one. In accounting terms, low inflation lessens expenditure saving efforts, as a lower-than-expected improvement in the headline deficit is recognised as structural. Falling inflation also makes public- and private-sector deleveraging more difficult.

including tax credits). This was the lowest rate since 1998. However, sluggish growth for two years running slowed down the improvement in the government balance.

From 2014, deficit reduction efforts are being focused on expenditure savings. In nominal terms, expenditure growth should fall to 1.4% in 2014, a record low. These savings are based on containing central government expenditure, in particular via a reduction of spending by ministries in nominal terms. The €1.5bn dip in transfers to local government will encourage better containment of expenditure. Lastly, social security funds are also involved in these consolidation efforts in respect of healthcare expenditure with the growth target (so-called Ondam) having been capped at 2.4%. Efforts were subsequently stepped up with the adoption of the supplementary budget acts in the summer and the approval of a number of further savings, representing a significant effort, during the year. In parallel, the aggregate tax and social security contribution rate has been stable at 44.7% in 2014, with the ramping up of the CICE in particular.

The total structural effort for 2014 should be 0.4 percentage point of GDP, a figure undermined by low inflation. As in 2013, this effort was reduced in accounting terms to reflect low inflation which constrains the expenditure component. Despite this structural effort, the government deficit is set to rise slightly in 2014 (4.4% of GDP), due to low growth driving down revenue.

ii. A comprehensive strategy to bolster competitiveness and streamline administrative procedures with significant benefits for businesses in 2014

In late 2012, following on from the Gallois report on the competitiveness of the French economy, the government introduced the National Pact for Growth, Competitiveness and Employment containing 35 initiatives to boost the competitiveness of the French economy. The main measure is the CICE which significantly reduces labour costs, representing 6 percentage points of social security contributions, on salaries up to two and a half times the minimum wage (SMIC). Initial findings show that the CICE will foster investment and job creation for around two thirds of companies[1]. Overall, and based on the Mésange model, the CICE should allow a total of 280,000 jobs to be created by 2017.

Other initiatives are geared towards improving non-cost competitiveness and marshal drivers of public action. These include:

- **easier corporate financing**, particularly for SMEs and mid-tier companies, to meet their cash flow requirements, provide access to long-term funding and, more broadly, foster use of household savings to finance businesses (setting up of Bpifrance, introduction of an SME share savings plan [PEA-PME], improvement of the private equity framework, life insurance reform, etc.).
- **boosting research and innovation** firstly by keeping and heightening specific advantages for innovative companies (Research Tax Credit [CIR], Innovation Tax Credit [CII], Innovative start-up status [JEI]), with assessments conducted up to now[2] underscoring the overall effectiveness of these schemes, and, secondly, by sector-based initiatives for industries with innovation potential (start of phase III for clusters [Pôles de compétitivité] and launch of the 34 plans making up the "New Face of Industry in France" programme).
- **radical administrative streamlining measures ("*choc de simplification*")**, have already produced several tangible results for businesses (the "*Dites-le nous une fois*" (Tell us once) programme, rollout of the "silence vaut acceptation" (Silence equals acceptance) and "*confiance a priori*" (A priori trust) guiding principles for the administration. In addition, the

(1) Insee Focus no. 10 - September 2014.

(2) Lhuillery et al. "Evaluation de l'impact des aides directes et indirectes à la R&D en France", 2013.

Administrative Streamlining Board, which was established in January 2014 to increase the scope of this strategy, put forward an initial series of 50 measures that were partly written into law in an act adopted by the National Assembly in late July. Concurrently, the government has tabled orders to streamline corporate obligations. One example is for labour law where red tape has been cut in respect of displaying documents and sending them to the authorities.

Several reforms have helped improve the functioning of the goods and services market. First, the Consumer Act of 17 March 2014 introduces group actions into French law to heighten consumer protection and encourage competition. Second, the Act of 4 August 2014 on railway reform reorganises the rail system to step up industrial efficiency whilst expanding the powers of the regulator. Lastly, in Spring 2013, the government announced the **High Speed Broadband Plan** with the goal of covering the whole of France by 2022.

iii. A more efficient labour market in 2014 conducive to job creation and support for jobseekers with the least chance of finding jobs

Since 2012, the government has also been concentrating its efforts on addressing the issue of unemployment, with initiatives to cut taxes on labour, including the landmark CICE, to enhance the employment content of growth and three major reforms which have improved the functioning of the labour market.

The **National Multisector Agreement (ANI) of 11 January 2013**, written into law by the Job Security Act of 14 June 2013, contains a battery of measures to reduce labour market segmentation (the Act introduces tax incentives to rein in hiring under fixed-term contracts [CDD]) and to improve its efficiency for businesses. At the same time, employees are given greater career security through new rights and by better quality industrial relations. In the event of mass redundancies, the Act sets out provisions for negotiations between labour and management. This means that, today, only around 7% of job preservation plans are being challenged compared to almost 30% previously. Moreover, job preservation agreements allow companies to adjust working hours or salaries in exchange for preserving jobs.

In the immediate aftermath, the **ANI of 14 December 2013**, written into law by the Act of 5 March 2014, overhauled vocational training in France by streamlining financing for businesses, reducing labour costs and directing training to those most in need, in particular the unemployed. The Act also contains measures for better workplace representation such as defining employer representation arrangements, mechanisms for restructuring the branches professionnelles (industry sectors), clearer funding for the joint representation system, and provides the basis for the introduction of the personal training account (CPF) on 1 January 2015. Unlike the individual training entitlement (DIF) which it supersedes, the CPF will be used for training courses leading to qualifications and will be able to be transferred, giving jobseekers better access to training.

More recently, the **new unemployment insurance agreement, which originated from the agreement of 22 March 2014**, gives long-term sustainability to the benefit system and increases back-to-work incentives (such as droits rechargeables [renewable unemployment benefit entitlements] and a longer waiting period for unemployment benefits for workers having received a negotiated redundancy package). This does not affect entitlement to benefits for jobseekers with the least chance of finding jobs.

These cross-cutting measures have been supplemented by special initiatives geared towards young and older workers which have taken full effect in 2014. Resources earmarked for government-sponsored contracts (CAEs) and for the Jobs for the Future scheme have been increased to buttress youth employment. In 2014, 350,000 CAEs and 95,000 Jobs for the Future contracts should be signed. The latter figure includes 45,000 additional contracts during the second half of the year that were decided on in June. As a result, at the end of 2014, 195,000 Jobs for the Future contracts will have been signed since the start of the scheme compared to the 150,000 initially planned. These schemes provide initial professional experience for young people with little or no qualifications or enable them to stay in the job market pending the offer of more permanent employment. Other measures such as generation contracts support older worker employment at a time when increasing numbers of these workers remain in the labour force as a result of the various pension reforms. The participation rate of this age category rose from around 40% in early 2009 to over 50% in mid-2014.

2. This policy will be taken further in 2015 to boost France's growth potential and create a climate conducive to sustained economic recovery

In late 2013, President Hollande confirmed that the economic policy rolled out since the start of his five-year term of office would stay on course and would be taken further between 2015 and 2017, with the implementation of the Responsibility and Solidarity Pact being a cornerstone. The Pact, together with the CICE, provides €40bn in savings for businesses, along with expenditure savings of €50bn between 2015 and 2017 that will gradually reduce the government deficit (see Box 2) and fund the reduction of tax and social security contributions.

These targets have been maintained in spite of a gloomier-than-predicted economic climate.

Box 2: Changes to the structural adjustment

The structural adjustment is set to stand at 0.1 percentage point of GDP in 2014, followed by 0.2 percentage point of GDP in 2015. *However, since the publication of the Stability Programme in April, the yardstick used to measure structural adjustment has changed. This automatically diminishes the structural adjustment estimate although there has been no change in economic policy.* ***If we strip out the effects of changes in accounting conventions since the Stability Programme was published, the structural adjustment achieved would be 0.5 percentage point of GDP in 2014 and 0.6 percentage point of GDP in 2015.*** *This is the result of:*

- The change in European accounting standards (ESA 2010 replaced ESA 1995) reduces the structural adjustment achieved in 2014 and 2015 by 0.1 percentage point of GDP each year in view of the new treatment of tax credits, as the Competitiveness and Employment Tax Credit takes effect. In other words, if we had applied ESA 1995 instead of ESA 2010, the government deficit would have stood at 4.3% and 4.1% of GDP in 2014 and 2015 instead of 4.4% and 4.3% of GDP respectively;

- The more conservative potential growth rate estimate, aligned with the one published by the European Commission. This diminishes the structural adjustment achieved in 2014 and in 2015 by 0.25 percentage point of GDP compared to what would have happened if we had maintained the potential growth rate used in the 2012-2017 Public Finance Planning Act.

Furthermore, and although there has been no change in economic policy, the lower-than-expected inflation rate will deepen the headline balance and reduce structural adjustment *by 0.2 percentage point of GDP in 2014 and 0.3 percentage point of GDP in 2015. Only a small part of the adverse effects can be offset, in view of the measures already in force to freeze the civil service pay scale and certain social benefits.*

Table 1: Measures of structural balance

Structural adjustment (as a % of GDP)	2014	2015
DBP 2015 / PFPA 2014-2019 methodology	0.1	0.2
Former methodology*	0.5	0.6
Including impact of a lower inflation	-0.2	-0.3

*Accounting standards and potential growth rate used for the 2012-2017 Public Finance Planning Act.

a. Contained and more efficient government spending

Fiscal consolidation will continue between 2015 and 2017 with a €50bn savings plan that was announced in the Stability Programme presented this spring, with €21bn of savings being made in 2015. Steps to streamline government spending are being steered by the Government Expenditure Strategy Council, under the aegis of President Hollande. This enabled the decisions framing this savings plan to be taken.

These savings efforts will apply to all general government sub-sectors. Central government and central government agencies will contribute total savings of €19bn, €7.7bn of which will be made the first year, allowing the reduction in current euros of ministries' budget appropriations to continue. Local government will contribute €11bn through a cut in central government transfers between 2015 and 2017. Structural reforms and governance initiatives will be introduced alongside these cuts (see Box 3). The rollout of the National Healthcare Strategy encouraging more efficient spending will contribute savings of over €10bn for the period. The final €10bn in savings will be made on social protection expenditure, with the figure for 2015 being slightly over €6bn. A large part of these savings originates from the reforms already undertaken or negotiated (new unemployment insurance agreement, the 2013 pension reform and the agreement between labour and management representatives on supplementary pension schemes, reform of family benefits, implementation of the Agreements on Objectives and Management).

The 2014-2019 Public Finance Planning Act will include a spending review to ensure both compliance with the fiscal adjustment path and sustained savings efforts. The review will be conducted on an annual basis before the end of February; Parliament will be consulted beforehand, and the result of the review will be used to draw up the annual budget.

Under the €50bn savings plan, the expenditure effort will be stepped up to reach an annual average of 0.5 percentage point of GDP in 2015-2017 and government expenditure as a percentage of GDP will be 54.5% in 2017 (excluding tax credits), down from 56.5% in 2014. Overall, government expenditure will grow by an average of only 1.6% a year in nominal terms and by 0.3% in real terms compared to around 3% in nominal terms if the fiscal consolidation measures had not been taken. This represents an unprecedented effort (+3.7% a year between 2002 and 2011).

As a result, the deficit is set to gradually decline and fall below the 3% threshold in 2017. In 2015, it is expected to stand at 4.3% of GDP; low inflation and weak growth will stop it from falling further. As of 2016, an improvement is expected as a result of a more favourable macroeconomic climate: after contracting to 3.8% in 2016, it is forecast to fall to 2.8% in 2017.

Box 3: Local government reform for more efficient government services and a more competitive economy

On 18 June, the government presented two bills to the cabinet ministers outlining local government reform.

The first bill was passed after a first reading by the National Assembly on 23 July. It reduces the number of metropolitan regions from 22 to 13 and introduces a new map that has already achieved parliamentary consensus and factors in the cooperative efforts made by the regions. The new regions will be equivalent in size to other European regions, enabling them to forge new regional strategies. They will be governed by assemblies of a manageable size.

The second bill, which redraws France's regional boundaries, grants regions new areas of competence that will help promote economic growth, boost their appeal and ensure balanced regional growth. New resources will be provided to support business growth. The regions will take over the running of certain services previously managed by the départements (secondary schools, intercity and school transport, and roads). In addition, they will be able to outline specifications for projects to ensure the consistency of the steps taken by the various layers of local government to stimulate economic growth and regional development. At the *same time, the reform will strengthen intermunicipal structures that will be required to reach critical mass – 20,000 inhabitants by 1 January 2017 – and be based on community catchment areas to avoid duplicating or overlapping initiatives and to offer new local services.*

This reform means that local governments will be managed more efficiently, and goes hand in hand with a decentralised, legitimate and consistent government at regional level.

b. Greater measures to improve our economic competitiveness...

The Responsibility and Solidarity Pact was unveiled by President Hollande on 14 January 2014 and presented by the Prime Minister on 8 April 2014. The Pact's key measures were adopted by the National Assembly on 1 and 23 July 2014 and will come into effect on 1 January 2015. The Pact is structured around three main pillars: (i) reducing labour costs for businesses. This measure is aimed at boosting employment, in particular through the "zero employers' social security contributions" scheme for workers earning the minimum wage, and a reduction in such contributions for workers earning up to 3.5 times the minimum wage. This will complement the measures taken to reduce labour costs which started with the introduction of the CICE tax credit, bringing total reductions to almost €30 billion by 2016. (ii) modernising and streamlining the business tax system through the phasing-out of the corporate social solidarity contribution (C3S) starting in 2015, the abolition of the exceptional corporate income tax payment for large corporations starting in 2016 and a gradual reduction in the rate of corporation tax as of 2017; (iii) a third series of solidarity-based measures to enhance workers' and low and middle-income households' purchasing power (see below).

According to the Mésange model, the Pact is expected to add 0.50 percentage point to GDP and create 190,000 jobs in 2017[3]. Prolonging and enhancing these reductions and savings is expected to have a positive multiplier effect on the economy as a whole by improving business confidence.

On the non-cost competitiveness front, the measures introduced in 2013 and 2014 will continue into 2015, particularly in terms of improving access to funding, supporting innovation and streamlining administrative procedures. Regarding access to funding, a national conference on finance and investment (*Assises du financement et de l'investissement*) was held on 15 September 2014 to improve short- and long-term funding for all types of businesses (extending Bpifrance guarantees to funding for SMEs, greater compliance with payment deadlines, development of long-term financing instruments, etc.) as well as funding for major programmes, such as energy transition (see below). The conference was attended by businesses and investors. The government continues to support innovation by maintaining all of the measures designed to encourage research and development, especially the research tax credit (CIR). Similarly, it is pursuing its cross-cutting reform of the market for goods and services to help businesses make efficiency gains and to stimulate innovation (see below). Along the same lines, the government will step up its efforts to reduce red tape through the adoption of the bill to streamline procedures for businesses (greater use of the advance ruling procedure, particularly

(3) In line with the figures mentioned in an IMF report which estimates the impact of a €30 billion reduction in labour costs on employment at around 200,000 jobs added within 2-3 years and 600,000 in the longer term. Espinoza R. and Pérez Ruiz E., "Tax Wedge Cuts and Employment: A General Equilibrium Approach for France", IMF working paper, July 2014.

regarding the Labour Code and the Consumer Code, extension of the simplified recruitment procedures (titre emploi simplifié entreprises – TESE) to companies with 9-20 employees, or the abolition of numerous reporting requirements for taxation purposes). New bills will be presented in the autumn based on new recommendations of the Administrative Streamlining Board, notably concerning urban planning regulations.

c. …and lay the foundations for more inclusive growth

The Responsibility and Solidarity Pact has introduced measures to help the low to middle-income households, focusing on two main thrusts: a cut in income tax as of 2014 for over 3 million low-income households. This will be extended in 2015 to a total of 9 million households. The government is also working on a reform, to be introduced on 1 January 2016, of the earned income tax credit (PPE) and the in-work income supplement (RSA) for the lowest-paid workers.

The government is also fully committed to fighting unemployment and getting people back to work, an essential building block for sustainable growth. During the Social Conference held on 7-8 July 2014, labour and management representatives and the government decided to step up their efforts to boost employment for young people, older workers and the long-term unemployed.

d. Underpin medium and long-term growth potential through structural reforms to improve the functioning of the economy

i. Increase the economy's efficiency and encourage innovation on the goods and services market

Unveiled by President Hollande in August, a bill will be submitted to Parliament before the end of the year. It will contain sector-specific initiatives aimed at boosting the economy's efficiency, particularly through supply side measures, with a focus on the goods and services markets. The bill has two main targets, namely to overhaul regulations that lead to economic inefficiency, and to lower the prices paid by consumers (private individuals and businesses alike). The bill's main provisions will help to lower the barriers to entry that exist in certain professions and improve regulation of the professions in question. Whether these measures are cross-cutting or sector-specific, they will stimulate competition between companies. The direct result will be lower prices and improved quality. Indirectly, these measures will prompt businesses to restructure, leading to productivity gains. These measures are expected to be of benefit, in the form of lower prices, to consumers of these services but also to the companies that use them. The latter will enjoy positive knock-on effects on their competitiveness (lower input prices, productivity gains) and on employment. The bill will also contain measures to clarify existing Sunday trading regulations, drawing inspiration from the Bailly report.

ii. Introduce further labour market reforms and guarantee the quality of industrial relations within companies

Alongside the measures taken to reduce the cost of labour, 2013 and 2014 helped improve the functioning of the labour market (see above) and provided evidence of labour and management representatives' ability to reach majority-backed agreements and tackle the crisis together. Some of these measures will be introduced in 2015, including, for example, the personal training account or the personal account for employees exposed to harsh working conditionscreated as part of 2013 pension reforms.

The Minister for Labour has asked labour and management representatives to enter into multi-sector discussions in the autumn with a view to introducing new regulations in 2015 aimed at improving the quality and effectiveness of industrial relations within companies, and staff representation, especially at SME-VSE level. The aim is also to tackle the issue of staff thresholds in businesses. These must be adjusted to lower impediments to corporate growth and to improve the quality of industrial relations within small companies.

Lastly, the legal reforms instigated by the Minister of Justice will pay particular attention to industrial tribunals, which currently satisfy neither employers nor employees (waiting times are too long, too many appeals).

iii. Improve the functioning of the property market

Housing policy will be high on the government's list of priorities in 2015. High property prices, especially in certain areas, is putting a drag on both household purchasing power and economic competitiveness in general by exercising upward pressure on salaries, hampering residential and therefore professional mobility. It is now essential to introduce a policy that will increase the supply of housing in areas where it is most needed.

As part of the housing stimulus plan unveiled by the Prime Minister on 29 August 2014, all of the policy levers available to government have been marshalled to boost the building of new homes. These levers include: (i) greater tax incentives to free up land for construction purposes; (ii) financial help for first-time buyers targeting particular areas and sections of the population for whom such measures will act as a real incentive to buy; (iii) development of social and mid-range housing; (iv) greater support for the energy renovation of existing homes; and (v) easing of regulatory constraints.

iv. Laying the groundwork for green growth and paving the way for energy transition

The return to growth must be accompanied by efforts to fight climate change and reduce our dependence on fossil fuels by changing France's existing energy consumption model. France is fully committed to achieving this goal. Since 2012, the government has taken several measures to help meet this objective, including a more environmentally-friendly taxation system with the introduction of a carbon component in the current fuel tax base and the implementation in early 2015 of a toll for heavy goods vehicles. In addition, it is giving greater support to innovative green technologies through the second Invest for the Future Programme (PIA2). All of these measures are designed to encourage innovative technologies that will help to reduce our CO2 emissions and contribute to creating new, environmentally-friendly industrial activities.

A new milestone was reached on 30 July 2014 with the presentation to the Cabinet of an energy transition bill for green growth. This bill outlines the main targets for French energy policy, with the priority being to reduce greenhouse gas emissions by 40% by 2030 from their 1990 levels. It also establishes precise targets for the development of renewable energies (the cost of which could be reduced through the introduction of administrative simplification measures), and the reduction in both final energy and fossil fuel consumption, rendering our economic growth less sensitive to swings in the price of imported oil and gas. These long-term goals will provide businesses with the visibility they need to make investment decisions.

In the shorter term, streamlining the interest-free energy-efficiency loan and introducing the energy transition tax credit to replace and expand the current tax credit (CIDD) designed to encourage householders to undertake home improvements to enhance energy efficiency and promote sustainable development as part of the housing energy efficiency improvement plan (PREH) will help to underpin investments in energy efficiency.

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In response to the challenging economic situation in the euro area and in France, the government is sticking to the targets it has set: pursue fiscal consolidation through expenditure containment, restore the French economy's competitiveness to see a return to growth and lower unemployment, and continue to improve the functioning of the French economy to boost its growth potential.

Economic outlook

Economic outlook: overview

GDP growth is expected to gradually recover to reach 1.0% in 2015 after 0.4% in 2014. This scenario is fully in line with the OECD's interim forecasts and slightly lower than the Consensus Forecasts of 0.5% in 2014 and 1.1 % in 2015 (both September 2014).

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After remaining flat in Q1 and Q2, economic growth is expected to record only a very modest improvement in Q3

Stagnation in Q1-2014 was expected, particularly as a result of the measures which underpinned household consumption in Q4-2013 (toughening of the bonus/penalty system for car fuel consumption on 1 January, and an end to the early withdrawal of funds from company savings). In addition, spending on energy plunged at the start of the year due to mild weather conditions, which also put a drag on consumption.

Stagnation in Q2, however, surprised most forecasters, who were expecting GDP to recover. Stagnation in this quarter was caused by a dip in corporate investment, ongoing problems in the construction sector and disappointing exports on the back of weak euro area growth.

Recent economic indicators point towards a very moderate recovery, but not before Q3-2014.

GDP growth is therefore expected to reach 0.4% in 2014 before gathering pace in 2015 to stand at 1.0%.

At the end of 2014 and in 2015, exports are expected to benefit from the very gradual recovery in euro area growth and a more buoyant economic climate elsewhere

Growth in foreign demand for French exports is forecast to reach 3.8% in 2014 before climbing to 5.1% in 2015, although it is unlikely to see a return to pre-crisis levels within this timeframe. This improvement would be largely driven by the gradual pick-up in demand from France's European trade partners who account for more than 50% of France's foreign trade.

Downside risks persist in the euro area, and the recovery that began in 2013 has struggled to gain traction. GDP should nevertheless rally in line with the improvement in domestic demand as financial tensions and fiscal consolidation efforts ease. In Spain, private demand is expected to gradually take over from foreign demand as the main growth driver, although exports should remain strong. Corporate investment outside the construction sector is forecast to continue outstripping the euro area average, particularly as a result of the revival in final demand and strong corporate profit margins. In Germany, GDP is expected to improve, driven by private consumption and an upturn in corporate investment levels on the back of a buoyant job market. Nevertheless, external uncertainties, such as the Ukraine crisis, appear to be putting a drag on German business confidence. The situation in Italy should remain gloomy, however, with GDP driven above all else by foreign demand in 2014 despite a deterioration in export performance; domestic demand is expected to pick up only gradually, as corporate investment sees a moderate improvement.

Outside the euro area, the United States and the United Kingdom will see the strongest growth among advanced economies. Thanks to an accommodative policy mix, both countries are expected to enjoy strong growth levels driven by private consumption. In Japan, economic activity should experience some heavy knocks in line with the VAT increases scheduled for Q2-2014 and Q4-2015.

Lastly, after slowing in 2014 (apart from in India), **the main emerging economies should see a gradual return to growth in 2015** (apart from China, which continues to slow). Nevertheless, growth levels will be sustainably weaker than they were pre-crisis, particularly in China, Brazil and Russia as a result of the dip in potential growth levels due to less favourable demographic growth, a lack of investment and a slowdown in productivity gains as emerging economies gradually catch up with their advanced peers.

Given these circumstances, French exports are expected to pick up in 2014 and 2015 (+2.8% followed by +4.6% respectively). The downward trends in market share are set to be weaker than during the 2000s: emerging economies' share of global trade is no longer growing as fast as before, as domestic demand is gaining strength as a growth driver. Given the time taken for forex changes to feed through to the economy at large, France should continue to be penalised in the short term by the euro's appreciation between the summer of 2012 and the spring of 2014 (the effective nominal exchange rate in France gained 7% between Q3-2012 and Q1-2014). However, by the end of 2015, France's economic competitiveness should be bolstered by the labour cost cuts achieved through the introduction of the Competitiveness and Employment Tax Credit (CICE) and the Responsibility and Solidarity Pact, as well as the euro's recent depreciation following the ECB's policy announcements in June and September.

Imports are set to grow in 2014 and 2015 at a slower pace than exports (2.6% followed by 3.6% respectively). Overall, foreign trade's contribution to growth in 2014 is expected to be neutral and then positive in 2015 (+0.3 percentage points).

The measures to promote employment should help to bolster purchasing power, and household consumption levels are expected to pick up in 2015

Purchasing power is forecast to gradually improve (+0.7% in 2014 then +0.9% in 2015 after remaining flat in 2013 following a downturn in 2012). Social security benefits are set to grow at a slower pace in 2014 and 2015 due to weak inflation rates, but purchasing power will be supported by earned income which in turn will be underpinned by the measures taken to promote employment and the Responsibility and Solidarity Pact steps aimed at boosting household's purchasing power.

Household consumption should more or less grow in line with purchasing power (+0.3% in 2014 then +1.3% in 2015), although it is likely to be still penalised in 2014 by gloomy Q1 figures. The rate of savings is expected to remain flat between 2013 and 2015 at 15.1% after temporarily peaking in 2014 at 15.4%.

Difficulties encountered by the construction sector are set to weigh considerably on investment, but businesses should invest more as economic activity levels gradually recover

The difficulties encountered by the construction sector are expected to place a considerable strain on household investment, which is likely to contract in 2014 and 2015 (-8.6% in 2014 and -3.6% in 2015 after -3.1% in 2013). Building permits and housing starts data at the end of 2013 and the beginning of 2014 do not point towards an improvement before the end of 2014 at the earliest. Apart from weak purchasing power and the difficult labour market situation, private investment in housing is probably suffering as a result of the wait-and-see attitude being adopted due to uncertainty over future price levels, although they have levelled off recently. At the same time, the measures taken to increase the housing supply (for example, freeing-up public land for house building, tax breaks to promote rental investment, and streamlining of administrative procedures) have not yet fed through to the sector. For this reason, the Prime Minister announced additional measures on 29 August designed to encourage the building of new homes (tax breaks designed to encourage the freeing-up of private land for construction purposes and the acquisition of new homes, overhaul of the tax breaks aimed at promoting rental investment, etc.). The forecast for private investment in housing in 2015 is based on a general improvement in housing starts as a result of the specific provisions that came into effect on 1 September 2014, and a recovery in spending in the residential renovations sector.

Corporate investment is expected to retreat once more in 2014 (-0.6% after -0.9% in 2013) before staging a very limited recovery in 2015 (+0.9%). It too will be penalised by the ongoing dip in construction sector investment (-2.5% in 2014 and -2.0% in 2015 after -2.6% in 2013).

Stripping out the construction sector, investment should nevertheless grow in line with the recovery in economic activity (+0.1% in 2014 and +1.9% in 2015 after +0.2% in 2013). This upturn in investment is likely to be driven by the maintenance of favourable borrowing conditions and the positive impact on corporate margins of the CICE tax credit and the Responsibility and Solidarity Pact.

Although private sector employment is unlikely to recover before 2015, total employment should improve as of 2014 thanks to government policies

Private sector employment is expected to continue to contract in 2014 before picking up again in 2015 thanks to the recovery in GDP and the combined effects of the CICE and the Responsibility and Solidarity Pact. Private sector employment is set to fall in 2014 (35,000 job losses) due to an insufficiently buoyant economic climate and despite the impact of the CICE gradually feeding through. In 2015, private sector employment should recover (+15,000 jobs) thanks to an upturn in GDP and government policies to promote employment. Total employment is likely to grow in 2014 and 2015 (+50,000 jobs in 2014 and +85,000 in 2015), thanks in particular to strong growth in the non-private sector (+75,000 jobs in 2014 and +60,000 in 2015) due to the rollout of government-sponsored employment contracts.

With growth below its potential and the euro remaining strong until the spring of 2014, inflation is likely to remain weak

Inflation is set to contract in 2014 (+0.6% after +0.9% in 2013; +0.5% excluding tobacco) due to low import prices, a contraction in volatile prices (food, gas, etc.) and weak demand.

It should rise slightly in 2015 (+0.9%) based on the assumption that volatile price components will be flat: oil prices in euros are expected to be stable after contracting in the last few quarters and fresh produce prices are expected to record more moderate increases.

Stripping out the volatile components, very few factors are likely to push inflation higher. Exogenous factors should continue to push inflation down, particularly weak commodity prices, excluding energy. The impact of the euro's depreciation against the dollar since the spring of 2014 should be felt only gradually given the length of time it normally takes for forex changes to feed through to prices. Similarly, domestic factors are unlikely to push inflation higher, as the reforms to promote business competitiveness as well as future reforms on the goods and services markets should keep prices under control vis-à-vis our trading partners. The VAT hike that came into effect on 1 January 2014 and the new climate energy tax should nevertheless push inflation higher.

Many uncertainties surround this growth scenario

There are both positive and negative uncertainties.

The momentum of French exports will be dictated by our partners' growth which may be impacted by several factors: (i) the EU policy mix, especially the effectiveness of monetary support and pace of fiscal consolidation, and changes in borrowing terms for businesses in the euro area; (ii) the depreciation of the euro following the ECB's policy announcements in June and September, which could boost exports, as well as the recent drop in oil prices; (iii) the geopolitical situation in Ukraine, Russia and the Middle East; (iv) the robust US recovery and the Fed's reaction to a faster-than-expected rebound; and (v) the still uncertain success of Japanese economic policy. The growth forecast is based on exchange rate and oil price forecasts frozen by convention at a slightly higher level than the end-of-September levels (see Table 1).

The forecast is also based on an assumption of gradually renewed confidence which is conducive to corporate investment and household consumption. On the other hand, in an adverse scenario, households could decide to save more if the climate remains uncertain and businesses may choose to consolidate their balance sheets in preparation for a rise in interest rates in the medium term, thus limiting the rebound in corporate investment.

That said, there is potential for GDP to recover faster. Business and household investment could be driven by a more pronounced renewal of confidence. In addition, businesses looking for new opportunities could decide to focus on export markets to improve their positions. Lastly, after a very sharp drop in 2014, household investment could recover faster in 2015 under the impetus, in particular, of the housing stimulus plan announced by Prime Minister Valls on 29 August 2014.

Moreover, the near-constant fall in inflation since November 2011 and the recent lowering of medium-term inflation expectations are

driving down the 2014-2015 inflation forecast. Beyond the effects of the volatile components of inflation, core inflation (as defined by Insee) has also been falling since summer 2012, down to +0.1% year-on-year in July before rising to +0.4% in August, suggesting that assumptions of lower inflation cannot be totally ruled out. In fact, given the time it takes for exchange rates and commodity prices to feed through to the consumer price index, exogenous factors should continue having a negative impact on inflation, in spite of the recent depreciation of the euro.

Table 1: Economic Forecasts 2014-2015
(Rate of change in volume in p.p. unless otherwise stated)

	2013	2014	2015
GDP - France	0.3	0.4	1.0
Growth of relevant foreign markets	2.0	3.8	5.1
France Consumer Price Index	0.9	0.6	0.9
World GDP	3.0	3.2	3.8
United States GDP	2.2	2.1	3.0
Euro Area GDP	-0.4	0.8	1.4
USD/EUR exchange rate*	1.33	1.36	1.34
Oil prices (Brent, USD / barrel)	109	108	106

* The forecasted exchange rate is by convention assumed to be stable at its average level between 15 July and 15 August 2014. Since then, the USD/EUR exchange rate has again fallen and was $1.27/€ on 29 September 2014. At the same date, the Brent oil price had also dropped to USD 97.

Box 1: Review of the forecasts for 2014-2015

In the 2015 Draft Budgetary Plan (DBP), growth forecasts have been revised downwards for both 2014 and 2015 in relation to April 2014's figures contained in the Stability Programme. The forecasts are now +0.4% for 2014 and +1.0% for 2015 as opposed to the Stability Programme's figures of +1.0% and +1.7% respectively. The figures were revised in light of the more sluggish than expected international economy and low business and household investment.

The growth forecast for 2014 has been trimmed in light of the economic figures published since last Spring

The downward revision of the 2014 growth forecast was primarily based on the economic figures published in the quarterly national accounts since the Stability Programme was released, particularly the preliminary figures for Q2 2014 showing flat growth that was not anticipated in April. At that time, the growth forecast was in line with that of international organisations and the Consensus Forecasts.

Firstly, exports have been less robust than the projections in the Stability Programme as global demand has recovered more slowly than predicted, in tandem with the poor performance of our trading partners in Q2 2014 when growth was flat in the euro area. Secondly, household consumption was slacker in late 2013 and early 2014 than forecast in the Stability Programme. On one hand, the national accounts were retrospectively revised and, on the other, Q1 2014 was gloomier than expected with lower energy consumption owing to the clement weather. Lastly, corporate investment fell during the first six months of 2014.

GDP should recover in 2015 but not to the extent set out in the Stability Programme

The reason behind the downward revision of the 2015 growth forecast from +1.7% to +1.0% is the slower than expected pickup in global demand for French exports. It is estimated that this demand will increase less than provided for in the Stability Programme (+5.1% vs +6.5%). GDP recovery is weaker than estimated in the euro area and GDP growth is slower in the emerging countries.

There has also been a downward revision for domestic demand in 2015 owing to two factors. First, the household investment forecast has been cut owing to problems in the housing construction sector. Second, corporate investment was lower than expected in the Spring due to a delayed recovery. All in all, the contribution of domestic demand to growth, net of changes in inventories, should be less than previously thought, standing at 0.7 percentage point of GDP, instead of 1.5 pp.

Table 2: Comparisons of forecasts in the Draft Budgetary Plan for 2015 and in the Stability Programme of April 2014

	Stability Programme April 2014		Draft Budgetary Plan 2015	
Rate of change in p.p., otherwise stated	**2014**	**2015**	**2014**	**2015**
International Environment				
Oil prices (Brent, USD / barrel)	107	107	108	106
Exchange Rate USD/EUR (in level)	1.36	1.36	1.36	1.34
Growth of relevant foreign markets (goods)	4.8	6.5	3.8	5.1
France				
GDP	1.0	1.7	0.4	1.0
Imports	3.1	4.1	2.6	3.6
Households' Consumption Expenditure	0.8	1.6	0.3	1.3
Total GFCF	0.2	1.3	-2.4	-1.1
of which non-financial corporations and unincorporated enterprises	1.8	5.2	-0.6	0.9
Exports	3.4	4.7	2.8	4.6
Contributions of Net Foreign Trade to Growth (in p.p. of GDP)	0.0	0.1	0.0	0.3
Contributions of Changes in Inventories to Growth (in p.p. of GDP)	0.3	0.2	0.4	0.0
Consumer Price Index	1.2	1.5	0.6	0.9

Box 2: Authority responsible for producing forecasts and statement of the independent nature of the forecasts

The Directorate General of the Treasury prepares macroeconomic forecasts and compiles public finance forecasts. It works with the Budget Directorate, which is responsible for central government fiscal policy and preparing budget acts, and with the Social Security Directorate, which oversees the financing of social security funds and prepares the social security draft budgetary plan. The Directorate General of the Treasury relies on information produced by other government departments, such as the Public Finances Directorate General and the Directorate General of Customs and Excise for interim financial reporting. These forecasts were referred for opinion to the High Council on Public Finances (HCFP).

As an independent body, set up by Constitutional Bylaw no. 2012-1403 of 17 December 2012, the HCFP is notably tasked with giving an opinion on the macroeconomic forecasts associated with draft budgetary plans and their consistency with the multiyear structural balance figures set out in the Public Finance Planning Act. This opinion is then attached to the draft budgetary plan submitted to the National Assembly and made public by the HCFP at the same time. The Constitutional Council upheld the principle that the opinions of the HCFP are among the items that it considers when assessing the accuracy of the legislation brought before it.

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

The forecast set out in the Draft Budgetary Plan is the same as that of the international organisations which took account of the quarterly national accounts for Q2 (OECD) and more conservative than that of organisations which have not yet revised their forecast (IMF and European Commission)

For 2014, the most recent growth forecasts from the IMF (July) and the European Commission (May) do not include national accounts figures for Q2, which showed flat growth in the euro area and in France (stable GDP for the second consecutive quarter, which brings cumulative growth to +0.3% for 2014). These figures are higher than French government forecasts (see Table 3). For its part, the OECD updated its 2014 forecasts on 15 September to reflect Q2 figures. It now forecasts GDP growth of +0.4%, the same figure as in the Draft Budgetary Plan.

For 2015, the Draft Budgetary Plan is based on a growth rate of +1.0%, the same as the OECD's forecast. As for 2014, this figure is significantly lower that the forecasts from the European Commission (May) and the IMF (July), namely +1.5 % and +1.4% respectively.

The macroeconomic scenario underpinning the Draft Budgetary Plan is similar to that of the most recent Consensus Forecasts, both internationally and domestically (marginally more conservative as regards France)

For 2014, the Draft Budgetary Plan forecasts and the September Consensus Forecasts are very close, predicting GDP growth of +0.4% and +0.5% respectively.

For 2015, the same is true for the macroeconomic scenario underpinning the Draft Budgetary Plan (+1.0%) and the Consensus Forecasts' average (+1.1%).

International growth forecasts set out in the Draft Budgetary Plan are also very similar to the Consensus Forecasts, particularly for our main trading partners, the United States, the United Kingdom and the euro area.

Domestic demand forecasts are on a par. The Draft Budgetary Plan is slightly more optimistic than the Consensus Forecasts in relation to households' consumption expenditure and more conservative for corporate investment, whilst inflation expectations are similar. The September Consensus Forecasts predict that consumer prices will rise by +0.7% in 2014 and by +1.0 % in 2015, figures which are comparable to those of the Draft Budgetary Plan (+0.6% in 2014 and +0.9% in 2015).

Table 3: Forecasts for France:
Draft Budgetary Plan, European Commission, OECD and IMF

	Draft budgetary Plan for 2015		OECD** Sept. 2014		IMF July 2014		OECD May 2014		European Commission May 2014	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
GDP	0.4	1.0	0.4	1.0	0.7	1.4	0.9	1.5	1.0	1.5
Harmonized Index Consumer Prices (HICP)	0.7	1.1	n.d.	n.d.	1.0	1.2	0.9	1.1	1.0	1.1
Net Lending (+) or Borrowing (-) of the General Government (in GDP percentage points)*	-4.4	-4.3	n.d.	n.d.	-4.0	-3.4	-3.8	-3.1	-3.9	-3.4

* According to the Maastricht definition

** OECD September: interim forecasts.

Table 4: Comparisons of the Economic Outlook of the Draft Budgetary Plan and the Consensus Forecasts

	Economic Outlook Draft Budgetary Plan for 2015		Consensus Forecasts September 2014	
	2014	2015	2014	2015
International Environment				
GDP Growth				
United States	2.1	3.0	2.1	3.1
Japan	1.0	0.7	1.2	1.3
United Kingdom	3.0	2.7	3.1	2.6
Euro Area	0.8	1.4	0.9	1.4
France				
GDP	0.4	1.0	0.5	1.1
Households' consumption expenditure	0.3	1.3	0.2	1.0
Gross fixed capital formation – non financial corporations	-0.6	0.9	-0.6	1.4
Consumer Price Index	0.6	0.9	0.7	1.0

Fiscal outlook

Fiscal overview and strategy

The government's objective is to pursue the fiscal consolidation started in 2012 which aims at bringing public finances into structural balance in the medium term and reducing government debt as a share of GDP.

Fiscal consolidation measures introduced by the Government have resulted in an unprecedented reduction of the structural deficit, by approximately 2 percentage points of GDP (pp of GDP) over 2012-2013. The structural deficit now stands at its lowest level since the early 2000s. However, due to weak growth and low inflation, this improvement was not fully reflected in the adjustment of the headline budget balance. General government balance improved from -5.1% of GDP in 2011 to -4.1% in 2013. The weak economic recovery hampered the headline balance adjustment, with a deepening of the cyclical component of the deficit. Growth in 2012 and 2013 stood at only 0.3%, falling far short of its potential rates of 1.1% in 2012 and 1.0% in 2013[1]. Structural adjustment was also hampered by a spontaneous revenue growth rate which failed to keep pace with GDP growth rate, owing to a composition of GDP less favourable to revenue. Low inflation also reduced the measurement of the expenditure savings effort, despite historically low expenditure growth rate in nominal terms, especially in 2013, when government expenditure grew by only 2.0% (excluding tax credits).

In 2014, fiscal adjustment primarily relied on the expenditure side. It was reinforced further by the supplementary budget acts passed in July, which have increased the fiscal effort compared to the initial targets set out in the 2012-2017 Public Finances Planning Act. However, despite a low expenditure growth rate, government balance should stand at -4.4% of GDP in 2014 because of a weak growth environment.

(1) The 2014-2019 Public Finance Planning Bill is based on a new potential growth estimate that is in line with that of the European Commission.

Government expenditure should grow by only 1.4% in nominal terms (excluding tax credits). However, in spite of this unprecedented low expenditure growth rate, low inflation reduces its contribution to the fiscal adjustment in real terms (0.2 pp of GDP). Discretionary tax measures should make a minor contribution of 0.1 pp of GDP to the adjustment effort. Spontaneous revenue growth will not match GDP growth, which means that the adjustment effort will be reduced by an additional 0.1 pp of GDP. The new accounting treatment of tax credits will also weigh on the deficit by 0.1 pp of GDP as the Competitiveness and Employment Tax Credit (CICE) is expanded. The aggregate structural adjustment is set to stand at 0.1 pp of GDP. This figure also reflects the methodological changes made since April. Excluding these changes, the structural adjustment would stand at 0.5 pp of GDP (see Box 1). This would not allow to improve government balance, since economic growth would still fall short of its potential, leading to a deepening of the cyclical component of the deficit by 0.4 pp of GDP.

Expenditure containment in 2014 will be part of an increased effort to reduce all government expenditures. The nominal central government expenditure target is €1.6 billion lower than the target for 2013[2] and it will be fully met. The national healthcare expenditure target (Ondam), which was cut by €0.8 billion in the 2014 Supplementary Social Security Budget Act, will also be met. Local governments are expected to make efforts to curb their operating expenditures as central government transfers have been cut by €1.5 billion in 2014 and as further cuts are planned in 2015, 2016 and 2017. Furthermore, local government investment should also spontaneously decline, as this is the usual pattern in a municipal election year. Apart from healthcare expenditure, the reform of the basic state pensions system, the agreement on

(2) This includes underspending of €0.8 billion in the 2013 budget outturn stemming from the exceptional income-based payment to the European Union made in 2013 but assessed at the end of 2012 and booked in the national accounts in 2012. Parliament had accepted an €0.8 billion upward adjustment of the nominal expenditure ceiling for 2013, on the understanding that equivalent savings would be made.

supplementary occupational pensions and the agreement on unemployment insurance should curb the growth of social expenditure.

The aggregate tax and social security contribution rate should be stable at 44.7% of GDP in 2014. The impact of the adjustment measures taken in the 2014 Budget Act should be partially offset by solidarity measures introduced in the 2014 Supplementary Budget Act, including the income tax cut for low- and medium-income households, and a spontaneous tax elasticity below unity (0.7).

The 2015 draft budgetary plan and the 2015 Social Security Draft Budgetary Plan maintain the fiscal consolidation strategy. They reflect the implementation of the €50 billion savings plan in 2015, 2016 and 2017, with a first package of €21 billion for 2015 alone (see Box 3). These savings will fund the expansion of the CICE tax credit and the Responsibility and Solidarity Pact. All sub-sectors will contribute to this effort: central government, central government agencies, local government and social security funds will all make contributions to the fiscal consolidation effort in a balanced way and without compromising the effectiveness of government action. These savings will preserve investment in our country's future, ensuring its long-term growth. The reduction of the tax burden under the Responsibility and Solidarity Pact is at the very hearth of the government's economic strategy. Tax cuts will approximately reach €25 billion by 2017, including nearly €10 billion for 2015 alone. By 2017, the CICE and the Responsibility and Solidarity Pact will save companies some €40 billion. The underlying reduction in labour costs is equivalent to the earnings that companies have lost since the beginning of the crisis. Tax and social security contributions cuts will be backed by solidarity measures aimed at preserving households' purchasing power. Income tax rates will be completely recast in 2015 to extend and expand the tax cuts for low- and medium-income households introduced in 2014.

In 2015, the government balance should improve to -4.3% of GDP on the back of increased expenditure savings amounting to 0.5 pp of GDP.

Expenditure growth should, again, slow to 1.1% in nominal terms in 2015, which would be the lowest growth rate ever achieved. Higher inflation will enhance the expenditure savings effort, which will be twice as large as the one measured in 2014. However, spontaneous revenue growth will still fail to match economic growth. This revenue shortfall, combined with an increased impact of the "CICE" on the measure of deficit in national accounts, compared to its budgetary cost (ESA 2010), will hamper structural adjustment. Structural adjustment should stand at 0.2 pp of GDP, or 0.6 pp if we strip out the accounting changes made since April (see Box 1). As growth continues to fall short of its potential, the cyclical component of the deficit should continue to weigh slightly on the budget balance, and the cost of tax disputes recognised as one-off measures will also reduce the total adjustment achieved. The government balance should improve by a total of 0.1 percentage point (pp) to stand at -4.3% of GDP.

Expenditure savings efforts will be stepped up compared to 2014 and will require contributions from all stakeholders. Central government and central government agencies will play their full part, cutting spending by €1.8 billion in nominal terms compared to the 2014 Initial Budget Act. Local government will also continue to contribute to the adjustment effort, as central government transfers will be cut by a further €3.7 billion. Measures to contain healthcare expenditure will be pursued and even expanded for health insurance, with a lower national healthcare expenditure growth target at 2.1%. The rationalisation of the social security system will continue, in addition to the family and retirement measures already introduced, the delay in pensions indexation and the freeze on certain social benefits (except for minimum social benefits). All these measures mean that government expenditure will drop by 0.4 pp compared to 2014 to stand at 56.1% of GDP.

The aggregate tax and social security contribution rate should decrease by 0.1 pp compared to 2014 to stand at 44.6% of GDP. The decrease will stem primarily from the first round of social security contribution cuts under the Responsibility and Solidarity Pact, the expansion of the "CICE" tax credit and a tax elasticity coefficient still below unity.

Government debt should stand at 97.2% of GDP in 2015 and this figure should start to

decline in 2017. Government debt according to the Maastricht definition stood at 92.2% of GDP in 2013, with financial support for the euro area accounting for 3.0 pp. The government balance will still fall short of the debt-stabilising balance in 2014, which means that debt will increase to 95.3% of GDP (or 92.1% without the financial support for the euro area), followed by a further increase to 97.2% of GDP in 2015 (or 94.0% without the financial support for the euro area).

Table 1: Government balance and breakdown by sub-sector

General government lending capacity (+) / borrowing requirement (-) (% of GDP)	2013	2014	2015
Central government	-3.3	-3.6	-3.6
Other central government agencies	0.1	0.0	-0.1
Local government	-0.4	-0.3	-0.3
Social security funds	-0.5	-0.5	-0.3
Government balance	**-4.1**	**-4.4**	**-4.3**

Table 2: Structural balance

% of GDP, unless otherwise mentioned	2013	2014	2015
Government balance	**-4.1**	**-4.4**	**-4.3**
of which, cyclical balance	-1.6	-1.9	-2.0
of which, structural balance (excluding one-off measures, % of potential GDP)	-2.5	-2.4	-2.2
of which, one-off measures (% of potential GDP)	0.0	0.0	-0.1
Structural adjustment (excluding one-off measures, % of potential GDP)	**1.1**	**0.1**	**0.2**
of which, structural effort	1.2	0.4	0.5
discretionary tax measures	1.4	0.1	0.0
expenditure saving effort	-0.2	0.2	0.5
of which, non discretionary component	-0.2	-0.1	-0.1
of which, tax credits difference between cash and accrual-based measure	0.0	-0.1	-0.1

Table 3: Key figures			
% of GDP, unless otherwise mentioned	2013	2014	2015
Government debt (excluding financial support to the euro area)	89.2	92.1	94.0
Government debt (Maaastricht definition)	92.2	95.3	97.2
Real growth rate of government expenditure excluding tax credits (% change)	1.3	0.9	0.2
Nominal growth rate of government expenditure excluding tax credits (% change)	2.0	1.4	1.1
General government expenditure excluding tax credits	56.4	56.5	56.1
Aggregate tax and social security contribution rate	44.7	44.7	44.6

Box 1: Impact of methodology changes on structural adjustment

The structural adjustment achieved should stand at 0.1 pp of GDP in 2014, and 0.2 pp in 2015. However, since the Stability Programme was published, the methodology used to measure structural adjustment has changed. New accounting conventions have diminished the reported impact of the efforts achieved, particularly in terms of structural adjustment. The new fiscal adjustment path has been drawn up in accordance with the concepts of the new European System of Accounts (ESA 2010), which comes into force in the autumn. Furthermore, the potential growth rate used for the 2014-2019 Public Finance Planning Act has been revised downwards, since the government decided to align its figure on the potential growth rate published by the European Commission in May 2014. This automatically diminishes the structural adjustment achieved, particularly in terms of expenditure savings efforts. If we strip out the effects of changes in accounting conventions since the publication of the Stability Programme, the structural adjustment achieved would be 0.5 pp of GDP in 2014 and 0.6 pp in 2015. This is the result of two changes:

- *The change in European accounting standards reduces the structural adjustment achieved in 2014 and 2015 by 0.1 pp each year. If we strip out this change, and apply ESA 1995 instead of ESA 2010, the change in the structural balance would be 0.2 pp in 2014 and 0.3 pp in 2015 because of the new treatment of tax credits, owing in particular to the expansion of the CICE tax credit;*
- *The more conservative potential growth rate estimate diminishes the structural adjustment in 2014 and 2015. The structural adjustment reported is diminished if a potential growth rate in line with the one published by the European Commission is used. If the potential growth rate used in the 2012-2017 Public Finance Planning Act had been maintained, the average structural adjustment achieved each year in 2014 and 2015 would have been 1/4 pp greater.*

Furthermore, the low inflation rate compared to the spring estimate will lead to a worse-than-expected headline balance and reduce structural adjustment by 0.2 pp in 2014 and 0.3 pp in 2015. Only a small part of the adverse effects can be offset, especially since measures to stabilise certain social benefits or freeze the civil service pay scale have already been taken. Without the drop in inflation, structural adjustment would have been greater by an average of ¼ pp each year in 2014 and 2015, even with no change in economic policy and, more particularly, no change in government expenditure growth rate since last Spring.

Table 4: Measures of structural balance		
Structural adjustment (as a % of GDP)	2014	2015
DBP 2015 / PFPA 2014-2019 methodology	0.1	0.2
Former methodology*	0.5	0.6
Including impact of a lower inflation	-0.2	-0.3

*Accounting standards and potential growth rate used for the 2012-2017 Public Finance Planning Act.

Box 2: The Responsibility and Solidarity Pact

The Responsibility and Solidarity Pact announced by the President of the French Republic on 14 January 2014 will contribute to reducing taxes and social security contributions between 2014 and 2017. The measures introduced in 2014 and 2015 were passed as part of the Supplementary Budget Act and the Supplementary Social Security Budget Act in the summer. The measures introduced under the Pact will be rolled out progressively with the aim of promoting employment, supporting capital formation and business competitiveness and to make households' taxes and social security contributions more progressive for the benefit of low- and medium-income households. Cuts in taxes and social security contributions under the Responsibility and Solidarity Pact will total approximately €25 billion by 2017, including a reduction of nearly €10 billion in 2015 alone. By 2017, the CICE tax credit and the Pact will save businesses approximately €40 billion.

The objective of the Pact and the CICE is to promote employment and revive the competitiveness of French companies, after ten years of steady decline (see Gallois Report, November 2012), while starting to cut personal taxes and social security contributions and overhauling the measures to support low-wage jobs.

Expanding the reduction of labour costs initiated with the CICE. *In 2015, labor costs for low-wage jobs will be reduced by introducing a full exemption from employers' contributions for social security and family benefits, as part of a move to enhance the existing cuts, along with a 1.8-pp cut in contributions for family benefits on jobs paying up to 1.6 times the minimum wage. These cuts will also be harmonised for companies of all sizes. Starting on 1st January 2016, the reduction in contributions for family benefits will be extended to jobs paying between 1.6 times and 3.5 times the minimum wage. Self-employed workers' contributions will also be reduced. These cuts will total more than €10 billion by 2017, in order to meet two objectives: promoting job creation and enhancing competitiveness.*

Streamlining and cutting business taxes. *The corporate social solidarity contribution (C3S), which is paid by some 300,000 companies, will be phased out by 2017, with a preliminary cut of €1 billion in 2015 in the form of a deduction, which means that two thirds of the companies currently paying this tax will be exempt in the first year. This exemption will primarily affect small and medium-sized enterprises. Abolishing this tax will save companies more than €6 billion by 2017. The exceptional corporate income tax payment for large corporations will also be phased out starting in 2016, which will reduce their taxes by more than €2½ billion. Furthermore, the standard rate of corporate income tax will be lowered from the current 33.33% to 28% by 2020, with a preliminary reduction in 2017. Streamlining the business tax system will promote investment, thus boosting job creation and growth. Abolishing the corporate social solidarity contribution and avoiding multiple taxes on intermediate consumption should also lead to a more efficient organisation of production.*

Measures to benefit low and medium-income households. *The Pact includes measures to support the purchasing power of those with the lowest incomes. An income tax reduction that targets the households living on or near the minimum wage was introduced in 2014. It has been stepped up and will represent a gain of €3.2 billion for households starting in 2015. These measures will be backed by a reform of the earned-income tax credit (PPE) and the in-work income supplement (*RSA activité*).*

Box 3: Plan for €50 billion in expenditure savings

The €50-billion savings plan that the Prime Minister presented last April as part of the Stability Programme will be implemented between 2015 and 2017. The savings will be the result of a sharp reduction in expenditure growth, which should be on average 1.6% per year in nominal terms, compared to an underlying trend rate estimated at about 3% per year on average for this period. The slower expenditure growth is even more remarkable in historical terms, compared to average expenditure growth of 3.7% per year from 2002 to 2011.

Savings of €21 billion are planned for in 2015 alone. They will reduce the nominal government expenditure growth rate to 1.1% (excluding tax credits, which are now treated as expenditure in the accounts). The savings will continue in 2016 and 2017, with a further €14½ billion in savings each year. These efforts should mean that nominal government expenditure growth averages 1.9% in 2016 and 2017, which is much lower than the nominal GDP growth rate for the period, which should average 3.4%.

Central government and central government agencies will contribute total net savings of nearly €19 billion, including savings of €7.7 billion under the 2015 draft budgetary plan. This effort, which is explained in detail in the section of this report on the central government, will offset the natural expenditure growth trend and uphold the reductions in real terms of Ministries' budget appropriations and the taxes appropriated to agencies, which will be cut by €1.8 billion in 2015 and by €2.2 billion in 2017, reversing the trend seen before 2012. Government agencies will participate fully in adjustment efforts, focusing on better management of the revenues appropriated to them. The use of these funds will be subject to stricter control under the rules contained in the Public Finance Planning Bill and total funding will be cut by €1.1 billion in 2015.

Central government transfers to local government will be cut by €11 billion in real terms by 2017, with regular reductions of €3.7 billion per year. This will bring the growth of local government funding into line with inflation over the next three years. This means that local government budget revenue and expenditure will continue to grow, albeit at a slower rate than that of the last three years. As part of the decentralisation reform, this effort will be backed up by structural reforms, including reform of the general operating grant, strengthening of intermunicipal structures, abolishing the clause de compétence générale *(principle by which local authorities can act in areas for which they are not responsible as of right) for* départements *and regions, and reducing the number of regions.*

The growth of the expenditure covered by the national healthcare expenditure target (Ondam) will also be curbed to an unprecedented level of 2% on average over the 2015-2017 period. The total effort of €10 billion will be made possible by the savings plan under the National Healthcare Strategy. This savings plan, which will guide the rollout of the National Healthcare Strategy, is based on making hospital expenditure more effective, shifting the focus to out-patient care, expanding the use of generic drugs and ensuring more appropriate use of all components of our healthcare system. In 2015, the growth of expenditure covered by Ondam will be limited to 2.1% compared to the 2014 target. The savings effort required to meet this target will be €3.2 billion, given the estimated 3.9% trend rate for expenditure growth in 2015 (see Box 17).

Savings on other social expenditure will contribute €10 billion to this effort, including more than €6 billion in 2015 alone. Two thirds of the latter sum, or €4 billion, will be achieved through measures already decided by the government and labour and management representatives. These measures include pension reform and, more specifically, the deferment to 1st October of the cost-of-living adjustment, the unemployment insurance agreement reached in the first half of 2014 and reform of family policies. This effort will be stepped up in 2015, with reductions in the management costs of social security funds, expenditure containment measures in jointly-administered bodies and further reform of family policies. This will entail new measures in the draft social security budgetary plan to achieve savings of €0.7 billion in 2015, with savings of €0.4 billion on the child-rearing allowance (PAJE) and €0.3 billion on other social benefits. These measures will reinforce the redistributive nature of the benefits by enhancing the targeting of low-income families.

Box 4: Impact of the changeover to ESA 2010

As of September 2014, the national accounts have been compiled in accordance with the European System of Accounts ESA 2010, which has replaced ESA 95. All European Union Member States are required to make the changeover under the terms of Regulation 549/2013 on the European System of National and Regional Accounts in the European Union. The French national statistics institute, INSEE, anticipated this changeover with the publication of the annual national accounts for 2013, published May 15th 2014.

The main changes under ESA 2010 are as follows:

- ***GDP has been revised upward:** the level of GDP in 2010 was revised upward to €1,998 billion in the accounts published on 15 May 2014, versus €1,937 billion in the notice published on 31 March. Everything else being equal, this change affects the ratios expressed as pp of GDP;*
- ***Tax credits are recognised as expenditure, instead of being subtracted from revenue. The amount recognised is the claim accrued and not just the budgetary cost or the cost in cash terms:** tax credits are added to the amount of general government revenue and expenditure, increasing expenditure by €15.5 billion in 2013 and revenue by €14 billion. Everything else being equal, the government balance worsens in 2013, and more especially in 2014 and 2015;*
- ***Pension liabilities are recognised over the entire benefit period:** the maximum impact on the government balance was €-7.1 billion in 2005, when the one-off contribution was paid to the central government for its partial takeover of pension liabilities of the electricity and gas industries. On the other hand, smaller aggregate pension liabilities narrowed the deficit by €0.5 billion in 2013.*
- ***Capital goods acquired for the military are now recognised as investment rather than intermediate consumption.** This new approach has changed the composition of expenditure, but overall expenditure is still the same.*

Furthermore, the Maastricht general government balance is now in line with the balance shown in the national accounts: the balance recognised at the European level will no longer be adjusted for gains and losses on swaps. The elimination of this adjustment increased government deficit by €0.5 billion in 2013.

1. Outturn in 2013

Overview of the year

Despite weak macroeconomic conditions in 2013, the government deficit improved by 0.7 pp to 4.1% of GDP, compared to 4.9% in 2012. This outturn includes the improvement in the social security balance, as published by the national statistics institute in September.

A major structural effort, equivalent to 1.2 pp of GDP, was achieved in 2013, mainly based on discretionary tax measures that contributed 1.4 pp of GDP. Despite expenditure growth of only 2.0% in nominal terms, the smallest increase since 1998, the expenditure savings effort was diminished by a weak GDP deflator (+0.8% in 2013), which meant that the expenditure savings effort was only equal to 0.2 pp of GDP. At 1.1 pp of GDP, the structural adjustment was smaller than the savings effort because of a tax elasticity coefficient of only 0.2, far below unity. As growth continued to fall short of its potential, the cyclical circumstances added 0.4 pp of GDP to government deficit.

Government expenditure in 2013

Expenditure grew by 1.3% in real terms and by 2.0% in nominal terms in 2013, excluding tax credits. These figures represent major savings efforts, in particular when compared to the historical growth rate, which averaged 2.2% in real terms and 3.9% in nominal terms over the period 2000-2010. Expenditure growth was even lower than the rates of 1.7% in real terms and 2.5% in nominal terms foreseen in the 2014 draft budgetary plan. Expenditure containment is due to sharply lower interest expense than expected as well as underspending by different general government subsectors, with the exception of local government. Central government expenditure in nominal terms was €0.1 billion less than the target underpinning the 2014 draft budgetary plan. Total expenditure covered by the national healthcare expenditure target (Ondam) was €1.7 billion under the target set in the Social Security Budget Act, and €1.0 billion under the 2013 expenditure figure used for the 2014 Social Security Budget Act. On the other hand, factors driving up expenditure in 2013 included a 5.1% growth of local government investment in nominal terms. One-off measures also increased expenditure in 2013, such as the Supplementary Budget Acts to the European Union, number 2 and 8, which included an additional €1.8 billion contribution.

Government revenue in 2013

Aggregate taxes and social security contributions stood at 44.7% of GDP in 2013, an increase of 1.0 pp of GDP compared to 2012. This increase was driven mainly by discretionary tax measures, equivalent to 1.4 pp of GDP. The spontaneous revenue growth rate reduced the aggregate figure by 0.4 pp of GDP.

Discretionary tax measures came to nearly €30 billion in 2013. Most of these measures were introduced under the 2012 Supplementary Budget Act, along with the 2013 Budget Act and the 2013 Social Security Budget Act.

Excluding discretionary measures, the spontaneous growth rate of revenue of 0.2% was lower than the nominal GDP growth rate of 1.1%. This means that the tax elasticity is below unity, at 0.2. A weak growth period – both in real and nominal terms – of two years reduced the elasticity of revenue, especially tax revenue. The trend of corporate income tax revenue dropped drastically whereas the trend of personal income tax revenue remained stagnant. Central government revenue fell sharply, resulting in a negative elasticity coefficient of -1.1. At the same time, the spontaneous increase in local government revenue did not match GDP growth, largely as a result of a big drop in revenue from the contribution on business value added (CVAE) and duties payable on real property sales (DMTO). The elasticity of local government tax revenue stood at 0.6. Social security funds' revenue was bolstered by payroll growth that virtually matched GDP growth, but the sharp decrease in the amount of dividends liable to social security contributions meant that the growth of social security revenue also fell short of GDP growth, resulting in a revenue elasticity of 0.8.

Box 5: Personal income tax revenue in 2013

Net revenue from personal income tax stood at €67.0 billion in 2013, which was €4.7 billion less than forecast in the 2013 Initial Budget Act, after removing the provisions censured by the Constitutional Council. Many factors explain the shortfall.

The lower growth of taxable income stemming from weak economic growth in 2012 and 2013 explains why the forecast for revenue from personal income tax was trimmed by €1.7 billion compared to the 2013 Initial Budget Act. The composition of growth during this period was also less favourable than expected for income tax revenue. New information about the economic situation in 2012 and 2013 led to a revision of the estimated natural trend of personal income tax revenue.

- *Lower wage growth accounted for a downward revision of €0.6 billion in revenue, half of which stemmed from slower payroll growth in 2012, which was trimmed by 0.3 pp after the 2013 Initial Budget Act. Given the gloomy macroeconomic conditions, wage distribution narrowed to the detriment of high earners, which had a direct impact on revenue from personal income tax, as well as on revenue from the surcharge on high incomes.*
- *In addition, some self-employed workers' earnings, especially business and professional income, grew more slowly than expected, leading to a tax revenue shortfall of €0.5 billion.*
- *The decline in property income accounts for a downward revision of €0.3 billion in tax revenue, largely due to the shortfall in revenue from the new flat-rate withholding tax, not counting the calendar effect.*
- *Falling real-estate prices and a decrease in the number of transactions in 2013 accounted for a drop of some €0.3 billion in revenue from capital gains from real-estate sales.*

The cost of some tax expenditure programmes was €0.3 billion greater than expected in 2013. Even though this cost cannot be linked exclusively to the macroeconomic situation, it is very likely that households made the best use possible of tax credits during a period of weak growth. In any event, this cost can only be estimated ex post, *after an analysis of the income declared for 2012.*

Revenue from the flat-rate withholding tax in 2013 was revised downward by €1.0 billion in the 2014 draft budgetary plan to adjust for the collection in 2014 of revenue relating to December 2013. This downward revision was partially offset by the €0.65 billion in revenue from the flat-rate withholding tax on investment income collected in January 2013 on 2012 income, which was not counted as personal income tax revenue and which was revised upward in the 2014 draft budgetary plan. This revision stems from improved accounting for calendar effects and is unrelated to macroeconomic conditions.

Furthermore, nearly €0.5 billion in personal income tax revenue was transferred to social security funds. This transfer corresponds to the social security contributions assessed on the exit tax. The central government guarantees that the social security system will receive this revenue, regardless of the actual sums collected, particularly in the case of capital gains realised and declared after taxpayers have left France. However, this charge against the central government balance is neutral in terms of the general government balance since it is offset by the revenue transferred to the social security system. It is not related to income from work or property income.

The residual shortfall stems from less favourable changes in parameters that can only be known at the end of the year, such as the tax collection rate, revenue collected relating to the previous year or the estimated revenue from some discretionary tax measures on an accrual basis. For example, the tax collection rate for the current year was high in 2012. The tax collection rate in 2013 was more in line with that of previous years, which had a dual impact in 2013. On the one hand, tax revenue collected in 2013 was lower than in 2012 for the same assessments and, on the other hand, tax revenue collection relating to the previous year was lower in 2013, since the aggregate two-year collection rate was unchanged. This effect was amplified by lower tax assessments for previous years (excluding the exit tax*) and lower tax revenue collection relating to the previous year than in 2012.*

2. Mid-year outturn

Government expenditure in 2014

The information available about the first half of the year reveals the following developments in the execution of government expenditure.

The 2014 central government expenditure target, excluding debt service and pension payments should be met. This target includes a further €1.6 billion cut in the target from the 2014 Initial Budget Act, introduced under the 2014 Supplementary Budget Act, and a €1.5 billion cut in transfers to local government. Consequently, the budgetary outturn should be €3.3 billion less than the one in 2013, in nominal terms.

Interest payments on central government debt for the whole year in 2014 should amount €39.7 billion, expressed under national accounts conventions, compared to €40.2 billion in 2013. This forecast is based on debt issuance since the beginning of the year and updated forecasts for yields and for he inflation rate.

The outturn of expenditure covered by the national healthcare expenditure target (Ondam) is consistent with meeting the revised target of €178.3 billion set in the 2014 Supplementary Social Security Budget Act.

Government revenue in 2014

The revenue forecast for the current year is based on data about tax revenue collection and the macro-economic determinants of the tax base in the early months of the year. The forecast has been revised in light of the following data:

- Social contributions and levies account for approximately half of the tax burden. They are based primarily on payrolls, which are now expected to grow by 1.6% in the non-farm market sector. This forecast is consistent with the latest payroll data available.

- Tax data about CICE is incomplete at this stage of the year. However, the data collected during the first semester points out a reduction in the cost of the tax credit compared to previous forecasts. The tax credit claimed in 2013 on eligible payrolls should be lower than expected. This led to revise upward the revenue expected from corporate income tax. The first two instalments and a large share of the the gross balance due for corporate income tax had already been received by the end of August. After an analysis of all this data, the forecast for corporate income tax revenue was revised downward compared to the projections in the 2014 Supplementary Budget Act.

- The forecast of value added tax revenue is based on a contraction of 0.6% in the tax base, in accordance with revenue collection as of the end of August.

- The forecast for personal income tax revenue is based on an analysis of the first tax assessments issued, which seem to show a sharp drop in securities income.

- The revenue collection forecast for the contribution on business value added considers the accounting data for May and the first instalment in mid-June. These point to a large jump in revenue for 2014.

- Forecasts for local direct taxes are consistent with the incomplete data now available on changes made to tax rates;

- Monthly DMTO collection data as of the end of August are consistent with moderate natural revenue growth, in line with GDP growth.

Appendix

Appendix: Status of Council recommendations addressed to France on 8 July 2014

Recommendation	Action
1) *Reinforce the budgetary strategy, including by further specifying the underlying measures, for the year 2014 and beyond to ensure the correction of the excessive deficit in a sustainable manner by 2015 through achieving the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure. A durable correction of the fiscal imbalances requires a credible implementation of ambitious structural reforms to increase the adjustment capacity and boost growth and employment. After the correction of the excessive deficit, pursue a structural adjustment towards the medium-term objective of at least 0,5 % of GDP each year, and more in good economic conditions or if needed to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path. Step up efforts to achieve efficiency gains across all sub-sectors of general government, including by redefining, where relevant, the scope of government action. In particular, take steps to reduce significantly the increase in social security spending as from 2015 as planned, by setting more ambitious annual healthcare spending targets, containing pension costs, and streamlining family benefits and housing allowances. Set a clear timetable for the ongoing decentralisation process and take first steps by December 2014, with a view to eliminating administrative duplication, facilitating mergers between local governments and clarifying the responsibilities of each layer of local government. Reinforce incentives to streamline local government expenditure, by capping the annual increase in local government tax revenue while reducing grants from the central government as planned. Beyond the need for short-term savings, take steps to tackle the increase in public expenditure on health projected over the medium and long term, including in the area of pharmaceutical spending, and take additional measures when and where needed to bring the pension system into balance by 2020 in a sustainable manner covering all schemes, with a special focus on existing special schemes and complementary schemes.*	• After large-scale revenue measures in 2012 and 2013, the focus of adjustment efforts will shift to expenditure measures in the period from 2014 to 2017. Between 2015 and 2017 alone, €50bn in savings will be divided among the various general government sub-sectors. • Central government expenditure savings (€19bn) will be generated by refocusing on core missions, cuts in current expenditure, pooling and sharing of support functions, streamlining the government's real estate portfolio and gains in efficiency. • €10bn in savings will be achieved in the area of social security not including the national healthcare expenditure growth target (ONDAM), particularly through implementation of the 2013 pension reform, the agreements between labour and management on the scope of supplementary schemes and the unemployment insurance agreement, or through savings on family benefits and social security fund operating expenses. • Structural reforms such as streamlining healthcare delivery, expanding outpatient surgery and increasing the percentage of generics in prescribed medication will generate €10bn in savings in the health insurance area. Growth in national healthcare expenditure will be capped at 2.1% in 2015, after 2.4% in 2014. • Local government reform, along with the reallocation of powers between central and local government (envisaged for the end of 2014), will generate savings at local level. These reforms will be associated with a reduction in central government transfers, which will be cut by €11bn for the period 2015-2017. Far-reaching measures will be carried out in a short timeframe (reduction in the number of regions as from 1 January 2016, redefinition of powers, strengthening of intermunicipal structures as from 1 January 2017, etc.). • The Government Modernisation Programme (MAP) enabled France to save at least €1.1bn in 2014. The government expects that it will achieve at least €2bn in savings at central government level for the period 2013-2015, and nearly €1bn in the hospital sector. Under the 2014-2019 Public Finance Planning Act, a spending review will overhaul the budget procedure in such a way as to generate additional savings (Article 22). • These measures will allow France to achieve structural budget balance during the programme period.

Recommendation	Action
2) *Ensure that the labour cost reduction resulting from the 'crédit d'impôt compétitivité emploi' is sustained. Take action to further lower employer social security contributions in line with commitments under the responsibility and solidarity pact, making sure that no other measures offset its effect and that the targeting currently envisaged is maintained. Further evaluate the economic impact of social security contribution exemptions, putting the emphasis on employment, wage developments and competitiveness and take appropriate measures if necessary. Further reduce the cost of labour in a budget neutral way, namely at the lower end of the wage scale in particular through targeted reductions in employer social security contributions taking into account the various wage support schemes.*	• The Competitiveness and Employment Tax Credit (CICE) has lowered labour costs. It was raised in 2014 to 6% of a firm's payroll, excluding salaries that are more than 2.5 times France's minimum wage. This measure fills half the gap between the French tax wedge and the OECD average at the median wage. The government expects the tax credit to create 280,000 jobs by 2017. • Moreover, the Responsibility Pact, whose measures were included in the Supplementary Budget Acts for 2014, calls for further reductions in labour costs as from 2015, via: - Elimination of employers' social security contributions for minimum wage salaries, and a 1.8 point reduction in employers' family contributions on salaries up to 1.6 times the minimum wage as from 1 January 2015, for a total of €4.6bn. Family contributions will also be lowered, for a total of €1bn, for the self employed. - An extension to salaries between 1.6 and 3.5 times the minimum wage, as from 1 January 2016, of the 1.8 point reduction in employers' family contributions, for a total of €4.5bn. These reductions, when combined with the CICE, will represent close to €30 billion by 2016. They are designed to maximise the impact on competitiveness and employment. In all, 90% of wage-earners will be affected by this scheme, with particular emphasis placed on low earners. • The remit of the CICE oversight committee will be extended to include all types of support schemes for businesses. • Lastly, as part of efforts to keep France's businesses competitive with respect to our European partners, in both 2013 and 2014 the government did not adjust the minimum wage beyond the levels prescribed by law (change in the consumer price index and 50% of the purchasing power gains of the basic hourly rate of a worker (SHBOE)).

Recommendation	Action
3) *Simplify companies' administrative, fiscal and accounting rules and take concrete measures to implement the Government's ongoing 'simplification plan' by December 2014. Eliminate regulatory impediments to companies' growth, in particular by reviewing size-related criteria in regulations to avoid thresholds effects. Take steps to simplify and improve the efficiency of innovation policy, in particular through evaluations taking into account latest reforms and if necessary an adaptation of the 'crédit d'impôt recherche'. Ensure that resources are focused on the most effective competitiveness poles and further promote the economic impact of innovation developed in the poles.*	• Following the creation of the Administrative Streamlining Board in January 2014, several measures have been introduced to buttress the radical administrative streamlining measures (choc de simplification) introduced at the beginning of the current presidential term of office. The Board submitted a set of fifty proposals to cut red tape for businesses. On 25 June 2014, the government tabled a bill that included the majority of these recommendations (which include harmonisation of the Labour Code, expanded use of advanced tax rulings, elimination of certain tax-related reporting requirements, etc.). The bill was adopted by the National Assembly on 22 July 2014. A second round of proposals will be submitted in the autumn, and will also be the subject of a bill. Concurrently, an order to streamline and amend French labour law will simplify employers' obligations, particularly with respect to displaying and transmitting documents to the authorities. • Moreover, labour and management have initiated talks, particularly aimed at finding ways to lower impediments to corporate growth and to improve the quality of industrial relations within small companies. • Support schemes for R&D and innovation are the subject of ongoing assessments to improve their effectiveness. These assessments are jointly carried out by the Ministry for Higher Education and Research and the Ministry for the Economy and Finance. The available assessments, which examine the full set of existing programmes reveal the overall effectiveness of France's support schemes with, in the short term, a leverage effect equal to at least 1 (one euro of public financing generates one euro of private-sector spending). • Lastly, the National Commission for the Assessment of Innovation Policies (CNEPI) was set up in 27 June 2014 and is tasked with heightening both the effectiveness and efficiency of innovation policies.

Recommendation	Action
4) *Remove unjustified restrictions on the access to and exercise of regulated professions and reduce entry costs and promote competition in services. Take further action to reduce the regulatory burden affecting the functioning of the retail sector, in particular by simplifying authorisations for the opening of trade outlets and removing the ban on sales at a loss. While maintaining affordable conditions for vulnerable groups, ensure that regulated gas and electricity tariffs for household customers are set at an appropriate level which does not represent an obstacle to competition. Strengthen electricity and gas interconnection capacity with Spain; in particular, increase the gas interconnections capacity to fully integrate the Iberian gas market with the European market. In the railway sector, ensure the independence of the new unified infrastructure manager from the incumbent operator and take steps to open domestic passenger transport to competition in line with the provisions of, and the calendar that will be decided by, the forthcoming directives.*	• To supplement the Consumer Act of 17 March 2014, the government will table a bill later this year that contains various sector-specific measures designed to boost economic efficiency through supply side measures, specifically on the goods and services markets. It will lower the barriers to entry that exist in certain professions and improve regulation of the professions in question. The bill will also clarify existing rules governing Sunday trading, in line with the recommendations of the Bailly Report. • In terms of strengthening electricity interconnections, France currently has 43 interconnections with its neighbours, and is continuing its efforts, in particular via an interconnection with Spain that will come into service shortly and that will double the exchange capacity between our two countries. Moreover, France has submitted five interconnection Projects of Common Interest (PCIs), all of which have been approved by the Commission. Other projects to strengthen or introduce interconnections are also in the planning stages, particularly with Belgium, Germany, Switzerland, Italy and Spain, with a total capacity of some 6,000 MW. With respect to the gas interconnection with Spain, the capacity at Biriatou will be increased to 60 GWh/d in the Spain/France direction by the end of 2015. • Regulated gas tariff setting rules were reformed in 2013 to better reflect GDF-Suez's supply costs. These costs are also the subject of a detailed annual assessment by the Energy Regulatory Commission. The Energy Transition Bill contains measures to reform regulated electricity price setting rules in advance of the changeover to the «energy cost accumulation» method. This shift, which will take place by 2015 at the latest as stipulated in the Electricity Market Reorganisation Act of December 2010, will make it possible for alternative energy suppliers lacking their own means of production to enter the market. • The Railway Reform Act of 4 August 2014 will reorganise France's railway system, improving industrial efficiency by introducing a single infrastructure manager. Expanding the powers of the independent regulator will ensure the independence of this new management structure from the incumbent operator. Additionally, the improved service quality that these reforms are expected to bring, together with the harmonisation of entitlements for the entire railway sector, will pave the way for the opening of passenger transport to competition. • Measures to further deregulate coach transport are currently being examined for inclusion in the Growth Bill.

Recommendation	Action
5) *Reduce the tax burden on labour and step up efforts to simplify and increase the efficiency of the tax system. To this end, starting in the 2015 budget, take measures to: remove inefficient personal and corporate income tax expenditures on the basis of recent assessments and the 'Assises de la fiscalité' initiative while reducing the statutory rates; take additional measures to remove the debt bias in corporate taxation; broaden the tax base, in particular on consumption; phase out environmentally-harmful subsidies.*	• The Competitiveness and Employment Tax Credit (CICE) has lowered labour costs. It was raised in 2014 to 6% of a firm's payroll, excluding salaries that are more than 2.5 times France's minimum wage. This measure fills half the gap between the French tax wedge and the OECD average at the median wage. It will be extended beyond 2014, for a total of €20bn. The government expects the tax credit to create 280,000 jobs by 2017. • Moreover, the Responsibility Pact, whose initial measures were voted into law in July 2014, calls for further reductions in labour costs as from 2015, via: - Elimination of employers' social security contributions for minimum wage salaries, and a 1.8 point reduction in employers' family contributions on salaries up to 1.6 times the minimum wage as from 1 January 2015, for a total of €4.6bn. Family contributions will also be lowered, for a total of €1bn, for the self employed. - An extension to salaries between 1.6 and 3.5 times the minimum wage, as from 1 January 2016, of the 1.8 point reduction in employers' family contributions, for a total of €4.5bn. These reductions, when combined with the CICE, will represent close to €30 billion by 2016. They are designed to maximise the impact on competitiveness and employment. In all, 90% of wage-earners will be affected by this scheme, with particular emphasis placed on low earners. • The Responsibility and Solidarity Pact also contains measures to streamline taxation, including phasing-out of the corporate social solidarity contribution (C3S) starting in 2015 (followed by full elimination in 2017), an end to the exceptional corporate income tax payment for large corporations in 2016, and a gradual decrease in the standard corporate income tax rate starting in 2017 (which will be reduced from its current 33.33% to 28% by 2020). • A 75% cap on the deductibility of loan interest payments was introduced to dissuade businesses from borrowing and encourage them to use equity financing instead. • Tax expenditures on personal income tax were reduced in 2014 with the removal of income tax exemptions for pension bonuses and for employer contributions to collective supplementary healthcare schemes, and a lowering of the cap on family deductions (quotient familial). • The draft budgetary plan includes measures to simplify French tax law by abolishing a series of taxes that generate little or no revenue and that are expensive to collect. These include the so-called «Grenelle II» tax, the oilseed solidarity contribution, the gaming machine tax, royalties paid by holders of underground fuel storage licences, the sidewalk tax, the general tax on polluting activities (TGAP) levied on regulated environmental protection facilities (ICPE) and the urban stormwater management tax. • To expand the VAT base, the draft budgetary plan calls for elimination of the portion of the entertainment tax that pertains to sporting events, with VAT taking its place. This reform is very much in line with streamlining efforts and the elimination of «minor taxes».

Recommendation	Action
6) *Take further action to combat labour-market rigidity, in particular take measures to reform the conditions of the 'accords de maintien de l'emploi' to increase their take up by companies facing difficulties. Take additional measures to reform the unemployment benefit system in association with social partners, in order to guarantee its sustainability while ensuring that it provides adequate incentives to return to work. Ensure that older workers benefit from adequate counselling and training and re-assess the relevant specific unemployment benefit arrangements with respect to their situation on the labour market.*	• Three major reforms have been introduced to bolster labour market efficiency: - The National Multisector Agreement (ANI) of 11 January 2013, which entered into force in May 2013, comprises a set of measures to give businesses greater leeway and legal certainty in unfavourable economic conditions, improves employees' career security and provides them with new rights, and improves labour-management dialogue. - The ANI of 14 December 2013 overhauled vocational training in France by streamlining financing for businesses, reducing labour costs and directing training to those most in need. It also created the Personal Training Account (CPF). - The renewal of the unemployment insurance agreement, which originated from the agreement of 22 March 2014, will improve longer-term sustainability of the scheme and bolster back-to-work incentives without compromising unemployment benefits paid to those who have been out of work the longest. In accordance with current legislation, a new unemployment insurance agreement will be negotiated between labour and management starting in 2016. One of the goals of this renegotiation process will be to ensure the medium-term financial equilibrium of the scheme. • Specific measures to support hiring of older workers gained traction in 2014 (the so-called «generation contracts») and supplementary resources will be allocated in 2015 (rollout of 80,000 job market integration contracts in 2015). Moreover, the National Employment Office (Pôle Emploi) will redouble its efforts to help older workers re-enter the job market. • Additional measures were also decided as part of the Social Conference that was held in July of this year. These include increased support for youth employment by a wider rollout of the «Youth Guarantee» scheme, which is expected to benefit nearly 100,000 recipients in 2017, and a revitalised apprenticeship programme, which has a target of 500,000 apprenticeships by 2017. • Tackling long-term unemployment will be addressed during the renegotiation of the job security contract (CSP) and the negotiations on the new three-way agreement between central government, Unedic (unemployment insurance system) and Pôle Emploi scheduled for Q4 2014.

Recommendation	Action
7) *Pursue the modernisation of vocational education and training, implement the reform of compulsory education, and take further actions to reduce educational inequalities in particular by strengthening measures on early school leaving. Ensure that active labour market policies effectively support the most vulnerable groups. Improve the transition from school to work, in particular by stepping up measures to further develop apprenticeship with a specific emphasis on the low-skilled.*	• The «Youth Guarantee» scheme for encouraging young people to enter the labour force is currently being tested in certain areas of France. It will be rolled out on a wider basis, with a goal of 50,000 beneficiaries as from 2015 and 100,000 beneficiaries by 2017. Support for youth employment will also be provided through government-sponsored contracts and the Jobs for the Future scheme, as well as by the enactment of the Higher Education and Research Act, one goal of which is to improve the integration of young people in the job market. • As part of the Social Conference that was held in July 2014, an additional €200m was earmarked as part of a plan to revitalise the apprenticeship programme, which has a target of 500,000 apprenticeships by 2017. • The ANI of 14 December 2013 overhauled vocational training in France by streamlining financing for businesses, reducing labour costs and directing training to those most in need. Vocational training also received a boost by the introduction of the Personal Training Account (CPF).

Detailed forecast tables

Table 1: Resources and uses of goods and services - Gross Domestic Product and components

	2013		2014	2015
NOMINAL GROSS DOMESTIC PRODUCT (GDP) – level in billion €	**2 113.7**		**2 138.6**	**2 179.2**
	Level in bn €	Volume		
		Rate of change	Rate of change	Rate of change
RESOURCES				
Real gross domestic product	2 113.7	0.3	0.4	1.0
Imports	629.1	1.7	2.6	3.6
TOTAL RESOURCES	**2 742.8**	**0.6**	**0.9**	**1.6**
USES				
Private consumption expenditure	1 169.9	0.2	0.3	1.3
Government consumption expenditure	509.9	2.0	1.2	0.8
Gross fixed capital formation (GFCF). *of which:*	466.9	-1.0	-2.4	-1.1
- GFCF of Non-financial corporations and unincorporated enterprises	251.2	-0.9	-0.6	0.9
- GFCF of Households except unincorporated enterprises	107.9	-3.1	-8.6	-3.6
- GFCF of General Government	85.6	1.0	-0.5	-4.3
Exports	597.8	2.2	2.8	4.6
Changes in inventories and net acquisitions of valuables	-1.7			
TOTAL USES	**2 742.8**	**0.6**	**0.9**	**1.6**
Contributions to real GDP growth (pp)				
Final domestic demand excluding inventories		0.4	-0.1	0.7
Changes in inventories and net acquisitions of valuables		-0.2	0.4	0.0
Net foreign trade		0.1	0.0	0.3

Table 2: Resources and uses of goods and services - Price developments

	2013	2014	2015
	Rate of change	Rate of change	Rate of change
RESOURCES			
Gross domestic product	0.8	0.8	0.9
Imports	-1.6	-1.6	0.9
TOTAL RESOURCES	**0.2**	**0.2**	**0.9**
USES			
Private consumption expenditure	0.7	0.6	0.9
Government consumption expenditure	0.5	0.1	0.4
Gross fixed capital formation	0.4	0.4	0.8
Exports	-0.4	-0.6	1.1
TOTAL USES	**0.2**	**0.2**	**0.9**
OTHER PRICES INDICES - annual average			
Consumer Price Index (CPI)	0.9	0.6	0.9
Consumer Price Index excluding tobacco	0.7	0.5	0.9
Harmonized Index of Consumer Prices (HICP)	1.0	0.7	1.1

Table 3: Sectoral balances – Net lending (+) / borrowing (-)	2012	2013	2014	2015
	pp of GDP	pp of GDP	pp of GDP	pp of GDP
NET LENDING (+) / BORROWING (-) vis-à-vis the rest of the world	**-2.7**	**-2.0**	**-1.6**	**-1.4**
of which:				
- Balance of goods and services	-2.0	-1.5	-1.1	-0.8
- Balance of primary incomes and transfers	-0.5	-0.5	-0.5	-0.7
- Capital account	-0.2	0.0	0.0	0.0
NET LENDING (+) / BORROWING (-) of the private sector	**2.2**	**2.1**	**2.8**	**2.8**
of which:				
- Households	3.5	3.6	4.3	4.1
- Non financial corporations	-2.1	-1.8	-1.9	-1.6
NET LENDING (+) / BORROWING (-) OF GENERAL GOVERNMENT*	**-4.9**	**-4.1**	**-4.4**	**-4.3**

(*) According to the Maastricht definition.

Table 4: French foreign trade	2012	2013	2014	2015
	Level in bn €	Level in bn €	Level in bn €	Level in bn €
TOTAL GROSS TRADE BALANCE CIF-FOB	**-81.7**	**-75.8**	**-69.7**	**-64.8**
of which:				
- Food products	11.4	11.3	7.1	7.6
- Energy	-69.1	-65.8	-53.4	-52.2
- Industry	-26.6	-24.4	-26.7	-23.5
Total trade balance FOB-FOB - in level	-67.4	-61.4	-55.4	-49.8
Total trade balance FOB-FOB - in pp of GDP	-3.2	-2.9	-2.6	-2.3
TRADE BALANCE EXCLUDING ENERGY AND MILITARY EQUIPMENT - in level CIF-FOB	**-15.2**	**-13.1**	**-19.5**	**-16.0**

Table 5: Non-Financial Corporations – Detailed data	2012	2013	2014	2015
	Level in bn €	Rate of change	Rate of change	Rate of change
GROSS VALUE ADDED	**1 065.1**	**0.3**	**0.8**	**2.0**
Compensation of employees	699.5	1.2	1.5	1.7
Ratio: compensation of employees/Gross Value Added – level in %	65.7	66.3	66.7	66.5
Taxes on production	56.7	5.6	4.0	-0.1
Subsidies on production	-16.9	-1.5	63.3	18.2
Gross Operating Surplus (GOS)	325.9	-2.6	1.9	4.4
Ratio: Gross Operating Surplus/ Gross Value Added - margin rate of non-financial corporations – level in %	30.6	29.7	30.0	30.7
Property income paid	285.2	-7.1	-0.3	5.2
Property income received	206.7	-4.9	-0.9	5.3
Taxes on income and wealth	37.1	10.1	-4.6	1.2
GROSS SAVING	**184.5**	**-1.4**	**4.0**	**5.6**
Ratio: Saving Rate (Gross Saving / Gross Value Added) – level in %	17.3	17.0	17.6	18.2
Gross fixed capital formation (GFCF)	241.9	-0.4	-0.5	1.8
Ratio: Self-financing rate (Saving / GFCF) – level in %	76.3	75.5	78.9	81.8
Ratio: Investment rate (GFCF / Gross Value Added) – level in %	22.7	22.5	22.3	22.2
Changes in inventories (1)	2.7	-3.7	6.8	8.8
NET LENDING (+) / BORROWING (-)– in level, pp of Gross Value Added	**-4.2**	**-3.6**	**-3.8**	**-3.3**

(1) Changes in inventories - level in billions.

Table 6: Households - Income Accounts				
	2012	2013	2014	2015
	Level in bn €	Rate of change	Rate of change	Rate of change
RESOURCES				
Wages and salaries	809.7	1.0	1.5	1.8
- Employees' social contributions	108.8	4.4	3.7	3.1
Net wages	700.9	0.5	1.1	1.6
Mixed income (mainly unincorporated enterprises)	121.4	0.1	0.3	1.3
Gross operating surplus (except unincorporated enterprises)	169.2	0.8	1.2	2.2
Social benefits in cash	445.0	2.8	2.3	1.6
Property incomes	134.2	-2.7	-0.9	3.7
Other resources	66.6	3.1	1.2	1.9
USES				
Social contributions by self-employed and non-employed persons	29.1	6.0	2.2	0.6
Current taxes on income and wealth	199.5	3.9	1.7	1.9
Income of the property paid (paid interests)	25.2	-18.8	-10.1	1.6
Other uses	65.6	4.0	1.2	1.9
Gross Disposable Income (GDI)	**1 318.1**	**0.6**	**1.3**	**1.8**

Table 7: Households - From disposable income to net lending				
	2012	2013	2014	2015
	Level in bn €	Rate of change	Rate of change	Rate of change
GROSS DISPOSABLE INCOME (GDI)	**1 318.1**	**0.6**	**1.3**	**1.8**
Purchasing power of GDI	-0.9	0.0	0.7	0.9
Consumption expenditure	1 117.5	0.8	0.9	2.3
GROSS SAVING	**200.6**	**-0.4**	**3.8**	**-0.6**
GLOBAL SAVING RATE (Gross saving / GDI) – in level	**15.2**	**15.1**	**15.4**	**15.1**
Gross fixed capital formation (GFCF)	121.4	-2.7	-6.6	-2.3
Other net uses	5.3	-6.9	7.5	54.1
NET LENDING (in billion €)	**73.9**	**76.8**	**91.8**	**90.1**
FINANCIAL SAVING RATE (Net lending / GDI) – in level	**5.6**	**5.8**	**6.8**	**6.6**

Table 8: International Environment - Basic assumptions

	2013	2014	2015
Short-term interest rate (annual average)	0.2	0.2	0.2
Long-term interest rate (annual average)	2.2	1.8	2.2
USD/€ exchange rate (annual average)	1.33	1.36	1.34
Nominal effective exchange rate	3.3	1.9	-0.3
World growth (excluding EU)	3.7	3.6	4.2
Growth of relevant foreign markets	2.0	3.8	5.1
World imports (excluding EU)	3.8	3.7	5.4
Oil prices (Brent, USD / barrel)	109	108	106

Table 9: International Environment - Detailed forecasts of GDP growth

	2012	2013	2014	2015
	Level * (bn USD)	Rate of change	Rate of change	Rate of change
France	2 687	0.3	0.4	1.0
United Kingdom	2 469	1.7	3.0	2.7
EU (27 countries)	16 651	0.2	1.6	1.8
Euro area	12 213	-0.4	0.8	1.4
Euro area excluding France	9 602	-0.5	0.9	1.6
United States	16 163	2.2	2.1	3.0
Japan	5 938	1.5	1.0	0.7

(*) System of National Accounts 2008 (2008 SNA) for the United States; 2008 SNA / European System of Accounts (ESA 2010) for France; other countries and areas: 1993 SNA / ESA 1995.

Table 10: International Environment - Consumer prices

	2012	2013	2014	2015
France (consumer price index)	2.0	0.9	0.6	0.9
United Kingdom	2.8	2.6	1.7	1.7
Euro area	2.5	1.4	0.6	1.1
United States	2.1	1.5	1.9	2.1
Japan	0.0	0.4	2.8	1.7

Table 11: Labour market developments

	2013	2013	2014	2015
	Level	Rate of change	Rate of change	Rate of change
Employment, persons[1] - Total economy - Annual average	27 042	-0.2	0.2	0.3
Employment, persons - Metropolitan France, all sectors - Annual average, thousands of persons[2]	26 288	-84	51	87
Employment, persons – Metropolitan France, Non-farm private sector - Annual average[2]	15 903	-0.8	-0.2	0.1
Employment, persons – Metropolitan France, Non-farm private sector - Annual average, thousands of persons[2]	15 887	-129	-34	17
Compensation of employees - Total economy	1 104.5	1.3	1.5	1.5
Wages and salaries per employee - Non-farm private sector		1.5	1.7	1.9
Labour productivity - Total economy[3]		0.5	0.2	0.7

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

(2) Localized employment estimates - thousands of persons.

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

Table 12: Real and potential GDP growth

	2013	2014	2015
	Rate of change	Rate of change	Rate of change
Actual GDP growth	0.3	0.4	1.0
Potential GDP growth	1.0	1.0	1.1
Contributions:			
- Labour	0.2	0.2	0.2
- Capital	0.5	0.5	0.5
- Total Factor Productivity (TFP)	0.3	0.3	0.4
Output gap (in pp of potential GDP)	-2.7	-3.3	-3.4

Table 13: General government budgetary targets broken down by subsector

	ESA Code	2013	2014	2015
		% of GDP	% of GDP	% of GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector				
1. General government	S.13	-4.1	-4.4	-4.3
2. Central government	S.1311	-3.2	-3.6	-3.7
3. State government	S.1312	-	-	-
4. Local government	S.1313	-0.4	-0.3	-0.3
5. Social security funds	S.1314	-0.5	-0.5	-0.3
6. Interest expenditure	D.41	2.3	2.2	2.3
7. Primary balance (1 + 6)		-1.9	-2.2	-2.0
8. One-off and other temporary measures[1]		0.0	0.0	-0.1
9. Real GDP growth (%)		0.3	0.4	1.0
10. Potential GDP growth (%)		1.0	1.0	1.1
11. Output gap (% of potential GDP)		-2.7	-3.3	-3.4
12. Cyclical budgetary component (% of potential GDP)		-1.6	-1.9	-2.0
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		-2.6	-2.5	-2.3
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		-0.3	-0.3	0.0
15. Structural balance (13 - 8) (% of potential GDP)		-2.5	-2.4	-2.2

(1) TR-TE= B.9.

(2) The primary balance is calculated as (B.9, item 8) plus (D.41, item 9).

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

Table 14: General government debt developments				
	ESA Code	2013	2014	2015
		% of GDP	% of GDP	% of GDP
1. Gross debt[1]		92.2	95.3	97.2
2. Change in gross debt ratio		3.0	3.1	1.9
Contributions to changes in gross debt				
3. Primary balance		-1.9	-2.2	-2.0
4. Interest expenditure	D.41	2.3	2.2	2.3
5. Stock-flow adjustment		-0.2	-0.2	-0.6
of which:				
- Differences between cash and accruals[2]				
- Net accumulation of financial assets[3]				
of which:				
- Privatisation proceeds				
- Valuation effects and other[4]				
p.m.: Implicit interest rate on debt[5]		2.6	2.4	2.4
Other relevant variables				
6. Liquid financial assets[6]				
7. Net financial debt (7=1-6)				
8. Debt amortization (existing bonds) since the end of the previous year				
9. Percentage of debt denominated in foreign currency				
10. Average maturity				

(1) As defined in Regulation 479/2009.

(2) The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

(3) Liquid assets (currency), government securities, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

(4) Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

(5) Proxied by interest expenditure divided by the debt level of the previous year.

(6) Liquid assets are here defined as AF.1, AF.2, AF.3 (consolidated for general government, i.e. netting out financial positions between government, i.e. netting out financial positions between government entities), A.F511, AF.52 (only if quoted in stock exchange).

Table 15: Contingent liabilities			
	2013 % of GDP	2014 % of GDP	2015 % of GDP
Public guarantees*	9.6%		
of which: linked to the financial sector			

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

Table 16: General government expenditure and revenue projections in ESA 2010 at unchanged policies broken down by main components				
	ESA Code	2013 % of GDP	2014 % of GDP	2015 % of GDP
General government (S13)				
1. Total gross revenue at unchanged policies	**TR**	**53.0**	**53.4**	**53.3**
of which				
1.1. Taxes on production and imports	*D.2*	*15.5*	*15.9*	*16.0*
1.2. Current taxes on income, wealth, etc.	*D.5*	*12.7*	*12.6*	*12.5*
1.3. Capital taxes	*D.91*	*0.5*	*0.5*	*0.5*
1.4. Social contributions	*D.61*	*18.9*	*19.0*	*18.9*
1.5. Property income	*D.4*	*0.6*	*0.7*	*0.7*
1.6. Other		*4.7*	*4.8*	*4.7*
p.m.: Tax burden		*44.7*	*44.7*	*44.6*
2. Total expenditure at unchanged policies (including tax credits)	**TE**	**57.1**	**57.7**	**57.6**
of which				
2.1. Compensation of employees	*D.1*	*12.9*	*13.0*	*12.9*
2.2. Intermediate consumption	*P.2*	*5.2*	*5.2*	*5.2*
2.3. Social payments	*D.62, D.63*	*25.8*	*26.1*	*26.0*
of which Unemployment benefits		*1.5*	*1.5*	*1.5*
2.4. Interest expenditure	*D.41*	*2.3*	*2.2*	*2.3*
2.5. Subsidies	*D.3*	*1.7*	*2.3*	*2.5*
2.6. Gross fixed capital formation	*P.51*	*4.0*	*4.0*	*3.8*
2.7. Capital transfers	*D.9*	*1.0*	*1.0*	*1.0*
2.8. Other		*4.2*	*4.1*	*4.0*

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

	ESA Code	2013 % of GDP	2014 % of GDP	2015 % of GDP
General government (S13)				
1. Total gross revenue target	**TR**	**53.0**	**53.4**	**53.3**
of which				
1.1 Taxes on production and imports	*D.2*	*15.5*	*15.9*	*16.0*
1.2 Current taxes on income, wealth, etc.	*D.5*	*12.7*	*12.6*	*12.5*
1.3. Capital taxes	*D.91*	*0.5*	*0.5*	*0.5*
1.4. Social contributions	*D.61*	*18.9*	*19.0*	*18.9*
1.5. Property income	*D.4*	*0.6*	*0.7*	*0.7*
1.6. Other		*4.7*	*4.8*	*4.7*
p.m.: Tax burden		*44.7*	*44.7*	*44.6*
2. Total expenditure target (including tax credits)	**TE**	**57.1**	**57.7**	**57.6**
of which				
2.1 Compensation of employees	*D.1*	*12.9*	*13.0*	*12.9*
2.2 Intermediate consumption	*P.2*	*5.2*	*5.2*	*5.2*
2.3. Social payments	*D.62.D.63*	*25.8*	*26.1*	*26.0*
of which Unemployment benefits		*1.5*	*1.5*	*1.5*
2.4 Interest expenditure	*D.41*	*2.3*	*2.2*	*2.3*
2.5 Subsidies	*D.3*	*1.7*	*2.3*	*2.5*
2.6 Gross fixed capital formation	*P.51*	*4.0*	*4.0*	*3.8*
2.7 Capital transfers	*D.9*	*1.0*	*1.0*	*1.0*
2.8 Other		*4.2*	*4.1*	*4.0*

Table 18: Amounts to be excluded from the expenditure benchmark					
	ESA Code	2013 Level (Bn€)	2013 % of GDP	2014 % of GDP	2015 % of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue					
2. Cyclical unemployment benefit expenditure		30.8	0.1	0.2	0.2
3. Effect of discretionary revenue measures		943.2	1.4	0.1	-0.1
4. Revenue increases mandated by law					

Table 19: General government expenditure by function	
	% of GDP
1 - General public services	5.9
2 - Defence	1.9
3 - Public order and safety	1.8
4 - Economic affairs	3.7
5 - Environmental protection	1.1
6 - Housing and community amenities	1.9
7 - Health	8.3
8 - Recreation, culture and religion	1.4
9 - Education	6.1
10 - Social protection	24.4
11 - Total expenditure	**56.6**

Source: Eurostat, 2012. Note: These figures are presented in ESA 95 as ESA 2010 data for COFOG are not yet available.

Table 20: Divergence from latest SP				
	ESA Code	2013 % of GDP	2014 % of GDP	2015 % of GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		-4.3	-3.8	-3.0
Draft Budgetary Plan		-4.1	-4.4	-4.3
Difference		0.2	-0.6	-1.3
General government net lending projection at unchanged policies	B.9			
Stability Programme		-4.3	-4.0	-3.2
Draft Budgetary Plan		-4.1	-4.4	-4.3
Difference[1]		0.2	-0.4	-1.1

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

Table 21: Methodological aspects		
Estimation Technique	Step of the budgetary process for which it was used	Relevant features of the model/ technique used
MESANGE[1]	Macroeconometric model, used for the analysis of the impact of measures on growth	Vector error correction model (VECM) estimated on the national accounts of INSEE
Opale[2]	Macroeconomic forecasts for 2013-2014, on which are based the public finance forecasts presented in the Draft Budgetary Plan	Vector error correction model (VECM) estimated on the national accounts of INSEE
Guyon-Sorbe[3]	Structural effort decomposed by general government subsector	Module of decomposition of the structural balance

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

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

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

Table 22: Multiyear public finance trajectory							
(% of GDP)	2013	2014	2015	2016	2017	2018	2019
General government balance (Maastricht definition)	**-4.1**	**-4.4**	**-4.3**	**-3.8**	**-2.8**	**-1.8**	**-0.8**
of which State	*-3.3*	*-3.6*	*-3.6*	*-3.4*	*-2.7*		
of which Other central government bodies	*0.1*	*0.0*	*-0.1*	*0.0*	*0.0*		
of which Local governments	*-0.4*	*-0.3*	*-0.3*	*-0.3*	*-0.3*		
of which Social security funds	*-0.5*	*-0.5*	*-0.3*	*0.0*	*0.3*		
Cyclical balance	-1.6	-1.9	-2.0	-1.7	-1.4	-0.9	-0.5
One-off and other temporary measures (% of potential GDP)	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0
Structural balance (% of potential GDP)	-2.5	-2.4	-2.2	-1.9	-1.4	-0.9	-0.4
Structural adjustment	**1.1**	**0.1**	**0.2**	**0.3**	**0.5**	**0.5**	**0.5**
Nominal growth rate of expenditures excluding tax credits (%)	2.0	1.4	1.1	1.9	1.8		
Real government expenditure rate excluding tax credits (%)	1.3	0.9	0.2	0.5	0.0		
General government expenditures excluding tax credits (% of GDP)	56.4	56.5	56.1	55.5	54.5		
Tax burden excluding tax credits (% of GDP)	44.7	44.7	44.6	44.5	44.4		
Government debt (Maastricht definition) (% of GDP)	92.2	95.3	97.2	98.0	97.3	95.6	92.9
Government debt (excluding financial support for the euro area) (% of GDP)	89.2	92.1	94.0	94.9	94.4	92.7	90.2

Table 23: In-Year quarterly budgetary execution on cash basis for the general government and its sub-sectors

In Bn€	2014	
	Quarter 1	Semester 1
Overall balance by sub-sector		
General government		
Central government[1]	-28.0	-59.4
State government		
Local government[2]	-17.3	-13.0
Social security funds[3]	n.d.	-9.7
Total revenues / inflows		
Local government	40.9	113.6
Social security funds	n.d.	159.7
Total expenditures / outflows		
Local government	58.2	126.7
Social security funds	n.d.	169.3

(1) http://www.performance-publique.budget.gouv.fr/ressources-documentaires/documentation-budgetaire/situation-mensuelle-budget-etat-en-2014#.VCVvAJUcRoJ

(2) http://www.collectivites-locales.gouv.fr/files/files/finances_locales/publication_donnees_trimestrielles_APUL.pdf

(3) *Cf.* « Les comptes de la sécurité sociale, septembre 2014 » (page 144).

Tableau 24: In-Year quarterly budgetary execution in accordance with ESA standards for the general government and its sub-sectors

In Bn€	ESA Code	2014	
		1st quarter	2nd quarter
Overall balance by sub-sector			
General government*	S.13	-21.7	-23.7
Central government	S.1311		
State government	S.1312		
Local government	S.1313		
Social security funds	S.1314		
For general government			
Total of revenues	TR	286.0	285.1
Total of expenses	TE	307.7	308.9

* *Cf.* http://www.performance-publique.budget.gouv.fr/ressources-documentaires/documentation-budgetaire/situation-mensuelle-budget-etat-en-2014#.VCVvAJUcRoJ