PROJET DE LOI DE FINANCES POUR 2014

ECONOMIC, SOCIAL AND FINANCIAL REPORT

EXTRACT

France's economic policy strategy[1]

Over the last five years, France has been experiencing a severe crisis that hit the global economy as a whole first and has become more acute in the euro area in the last two years. The situation seems to have turned around in 2013, with the end of the recession in the euro area in the second quarter and many promising signs of a recovery. France, which withstood the crisis better than its European partners, saw a rebound with growth of 0.5% in the second quarter. Many downside risks remain, however.

The Government intends to provide full support for this renewed growth and to address the challenges facing the French economy (Part 1) by continuing to consolidate public finances at a pace that does not undermine the ongoing recovery and complies with our European commitments (Part 2) and by undertaking reforms that promote competitiveness and employment (Part 3).

I. The brighter economic outlook coincides with a shift in the international consensus towards promoting growth and jobs

Improvements in the developed countries' economies gathered strength in 2013 and were underpinned by a shift in international and European economic strategies to promote growth. Ever since the economic crisis of 2008-2009, global growth has featured disparities between regions. The United States' GDP is well above its pre-crisis level and Japan's has almost made up for the ground lost. However, in the United Kingdom and the euro area, GDP is still much lower (see Chart 1). There are wide disparities within the Economic and Monetary Union between countries, like Germany and France, where GDP has now matched or exceeded its pre-crisis level, and troubled countries, where GDP is still much lower than before the crisis (see Chart 2). Meanwhile, the emerging economies, which showed resilience during the crisis, have seen their growth gradually slow down since 2011.

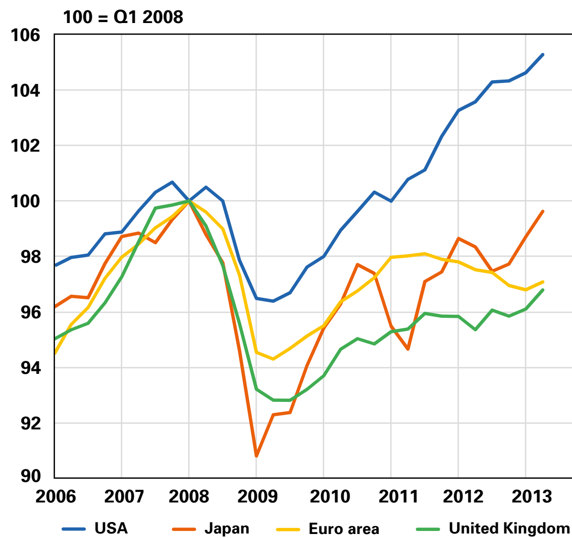
Several factors account for the different growth rates of the advanced economies since 2010, starting with the tension on certain sovereign debt markets in the euro area that emerged in 2010 (see Chart 3). This tension undermined consumer and business confidence and spurred faster consolidation of public finances in some countries. Households and non-financial corporations deleveraging, especially in countries that experienced real-estate bubbles or credit bubbles, also hampered the recovery (see Chart 4). Furthermore, the economies of the southern euro area encountered problems with financing the real economy, stemming from the vulnerability of the banking sector in some countries and "financial fragmentation[2]". These problems also contributed to a sharp drop in their GDP. As a result, unemployment soared in many European countries.

In the second quarter of 2012, the European Union shifted its priorities to growth and jobs at the instigation of France and other countries (see Box 1). European institutions, and the European Central Bank in particular, initiated actions more than one year ago to ease tensions on financial

(1) This presentation of the Government's economic policy will be submitted to the European Commission and the Council in the form of the "economic partnership programme" stipulated in the Regulation on common provisions for monitoring and assessing draft budgetary plans of the Member States in the euro area. This document is an extension of the national reform programme and stability programme, and it reflects the Council's recommendations in the context of the European Semester. In the case of France, the Council's Recommendation of 9 July 2013 called for pension reform, continued efforts to reduce labour costs, improved non-price competitiveness, labour market reform, greater competition in services and simplification of the tax system.

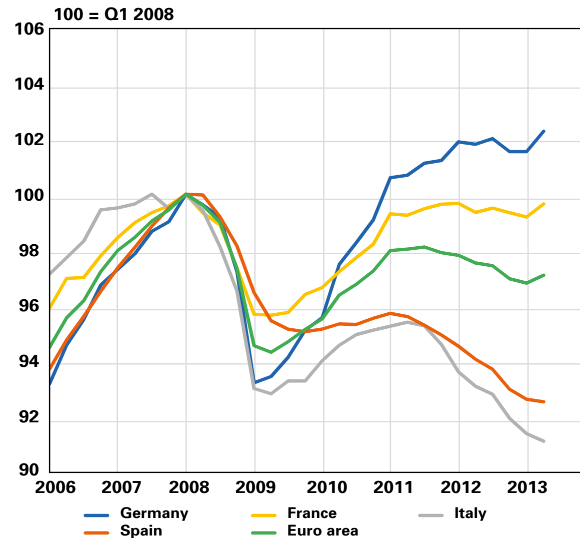
(2) This describes the re-nationalisation of financial flows in the euro area, especially bank financing. It results in financing terms for households and businesses that diverge depending on the country to a degree that is not warranted by the economic outlook.

Chart 1: Real GDP level



Source: Global Insight ; Calculations : DG Trésor
Last observations : Q2 2013

Chart 2: Real GDP level



Source: Global Insight ; Calculations : DG Trésor
Last observations : Q2 2013

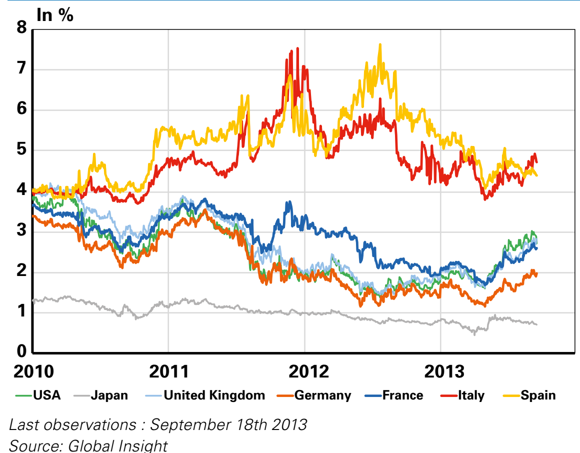
markets. This strategy has achieved a significant improvement in the advanced economies, such as the euro area's exit from recession in the second quarter.

In contrast to the advanced economies, the emerging economies have shown no signs of improvement since the beginning of 2013. And, since May, these countries have had to cope with major capital outflows stemming from changing expectations about the timing of the US Federal Reserve's tapering of its unconventional monetary policy measures. Even though the emerging countries are still posting strong growth, it is much slower than it was before the crisis.

The gradual recovery in France should be driven by improvements in the international outlook and reforms to support growth and jobs. France's growth showed resilience in the face of the cyclical shocks caused by the crisis. France's stable GDP in 2012 and 2013 reflects good resilience relative to the euro area as a whole, where GDP shrank by 0.6% in 2012.

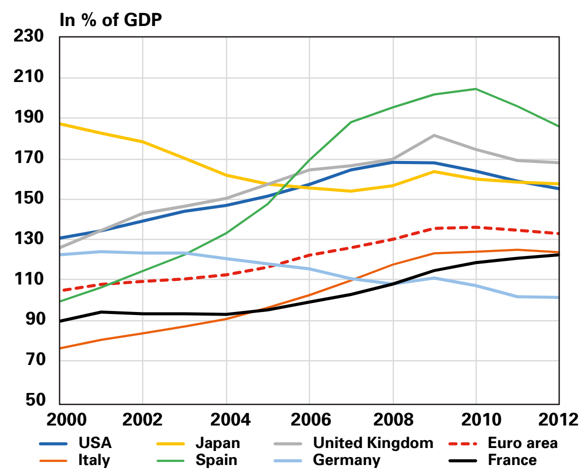
After contracting slightly for two quarters, France's economy posted fresh growth in the second quarter of 2013. Its GDP rose by 0.5%, compared to an average rise of 0.3% for the euro area. The macroeconomic environment should

Chart 3: Sovereign yields (10 years)



Last observations : September 18th 2013
Source: Global Insight

Chart 4: Level of aggregate private indebtedness



Source: Banque de France

Box 1: International and European policies to support growth

Growth and jobs have become higher priorities for Europe

Along with reform of European fiscal governance and gradual consolidation of public finances, the European Union's priorities shifted to promoting growth and jobs in the second quarter of 2012, at the urging of France in particular. On the one hand, the European Union took measures producing quick results to support growth, such as the Compact for Growth and Jobs in June 2012, the Youth Employment Initiative in February 2013, and the Joint EBI/Commission Investment Plan and Initiative to support SMEs in June 2013. On the other hand, European fiscal rules were enforced pragmatically and intelligently: the Council Decision in June 2013 to grant more time to six countries, including France, to correct their excessive deficits (to less than 3% of GDP) reflects fiscal governance based on commitments that are defined in structural terms, which gives greater consideration to developments in the macroeconomic environment than governance based on headline deficit targets does.

Growth in Europe should be sustainable and inclusive. To this end, the implementation of the new macroeconomic imbalance procedure, which is one component of the "six pack"(a set of five Regulations and one Directive adopted in 2011), should help achieve overall macroeconomic balance in the euro area in order to lay the foundations for sustainable and balanced growth. In addition, France is promoting a determined «solidarity-based integration» approach to the future of Economic and Monetary Union (EMU), whereby any move towards greater integration of the EU must come hand in hand with enhanced European solidarity. More specifically, the gradual implementation of the banking union will ensure financial stability in the euro area and help fight financial fragmentation. In addition to the purely financial aspects highlighted by the crisis, Europe needs to make further moves towards integration, as explained by the President of the Republic at a press conference on 16 May 2013, with the institution of a euro-area economic government and the creation of a euro-area fiscal capacity.

G20 for strong, sustainable and balanced growth

The G20's role in coordinating economic policies has grown in recent years. At the latest G20 summit in Saint Petersburg, the Leaders explicitly made economic growth and medium-term sustainability of public finances their priorities, instead of headline short-term deficit targets, which hamper the operation of automatic stabilisers. The priority given to growth is also reflected in the G20 countries' commitments to help reduce global imbalances. These commitments include increasing domestic savings in economies with current account deficits, naturally, but also stimulating domestic demand in economies with current account surpluses to prevent adjustments from becoming overly recessionary in aggregate.

continue to improve in the second quarter, with the same goal of halting the rise in unemployment by the end of the year, and a genuine resumption of growth in 2014 (at 0.9%, compared to 0.1% for 2013 as a whole). These macroeconomic forecasts are broadly in line with those of international organisations and consensus forecasts.

With the recovery, the Government's economic policy strategy is aimed at building on the country's strengths to ensure the sustainability of public finances and create the right conditions for sustainable growth that creates jobs. France's economy has many structural strengths (see Charts 5 to 8). It is diversified, with some of the world's leading companies

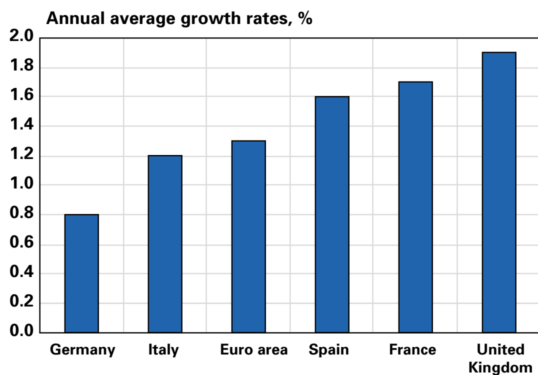
in many industries. It has a highly qualified and very productive workforce, along with excellent infrastructure. Household debt is low compared to the euro area as a whole. The soundness of the French banking industry is also one of the reasons that France came through the crisis with less damage than the euro area did. Finally, France's demographic growth is one of the strongest in Europe, which enhances the country's prospects for long-term growth[3].

The Government has taken full advantage of the strengths of France's economy to organise its action to address the three "deficits" that France has to tackle: the public finance deficit, the competitiveness deficit and the confidence deficit. The strategy is based on the following three pillars:

- **Consolidating public finances with the aim of restoring medium-term sustainability, reducing the deficit at a pace suited to economic conditions and the new focus on expenditure saving measures:** France's government debt represents more than 90% of GDP (see Chart 9), which is slightly greater than the debt of most of its European partners

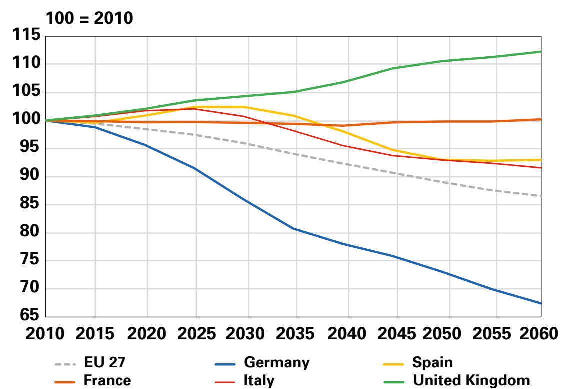
(3) See European Commission (2012), "The 2012 Ageing Report: Economic and budgetary projections for the 27 EU Member States (2010-2060)", European Economy No. 2/2012.

Chart 5: Potential GDP growth forecasts (2010-2060)



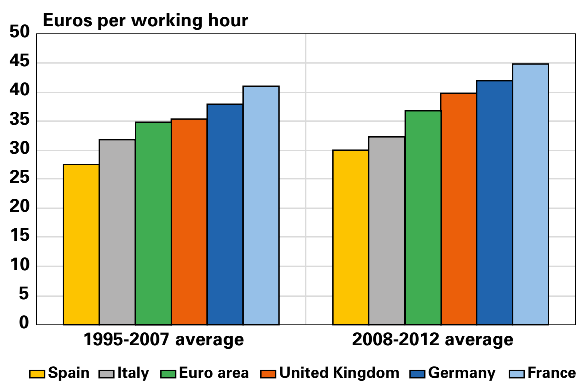
Source: Ageing Report 2012

Chart 6: Working-age population



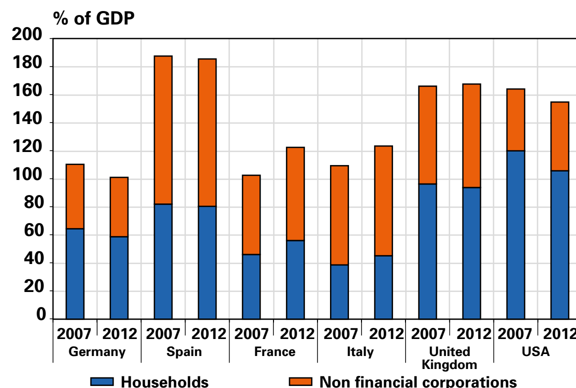
Source: Eurostat (2011)

Chart 7: Real hourly labour productivity



Source: Eurostat

Chart 8: Aggregate private indebtedness



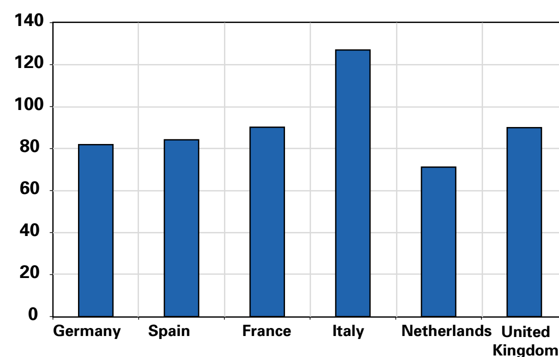
Source: Banque de France

(Germany, Spain, United Kingdom, etc.) and the deficit is still over the 3% threshold. The Government's fiscal strategy is aimed at achieving a gradual return to structural balance by the end of the current Government's five-year term. This will make it possible to reduce the headline deficit and start reducing the debt-to-GDP ratio, while preserving growth in the short term. Therefore, the strategy first relied on targeted tax increases, which have less impact on GDP growth, and it now focuses on expenditure saving measures. The strategy is based on the principles of social justice and economic effectiveness. It is underpinned by revamped public finance governance and reforms aimed at the medium and long term, such as the September 2013 plan for pension reform and sweeping government modernisation.

- **Restoring competitiveness:** export performance and the current account deficit have worsened steadily since 2000, owing to a widening gap between France's and Germany's unit labour costs (see Charts 10 and 11) and structurally weak private-sector research and development activity compared to other countries. Restoring competitiveness calls for determined action to improve the business environment and cut labour costs, as well as enhanced support for business investment and pro-active policies to diversify the sources of financing available to businesses in order to boost the innovation and export performance of French companies. Reforms aimed specifically at improving the efficiency of certain industries (energy, real estate, transport, etc.) also help to reduce businesses' costs. These actions also help drive prices down, which in turn boosts households' purchasing power.

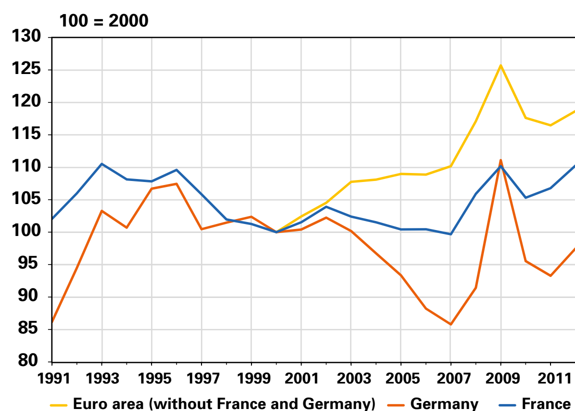
- **Fighting unemployment, exclusion from the job market and inequality:** France has had high unemployment for many years, standing at 10.5% (metropolitan France) in the second quarter of 2013, and low labour force participation rates among young and older people, which means that employment rates for both categories of workers are low compared to other countries (see Chart 12). This situation calls both for urgent measures to help the most deprived people and for sweeping reforms to reduce segmentation of the labour market and increase labour force participation rates for young and older people, thus increasing France's growth potential.

Chart 9: Public debt (2012, % of GDP)



Source: Eurostat

Chart 10: Unit labor costs, manufacturing



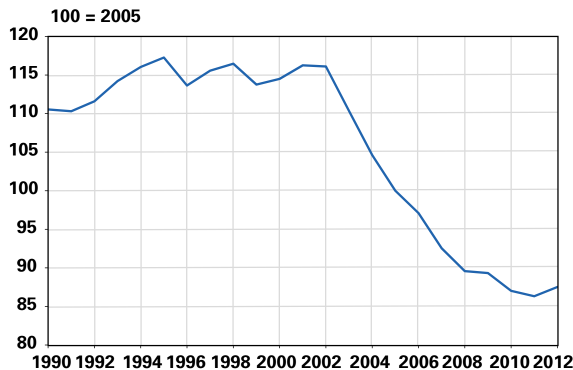
Source: Eurostat ; Calculations : DG Trésor

II. Public finance strategy

It is imperative to reduce the debt burden to ensure our financial sovereignty, following ten years of worsening public finances in a context of economic crisis and chronic structural deficits. The Government's fiscal policy thus calls for continued efforts to consolidate public finances, without undermining growth, and focusing on structural expenditure saving measures starting in 2014, with the aim of restoring structural balance by the end of the current Government's five-year term.

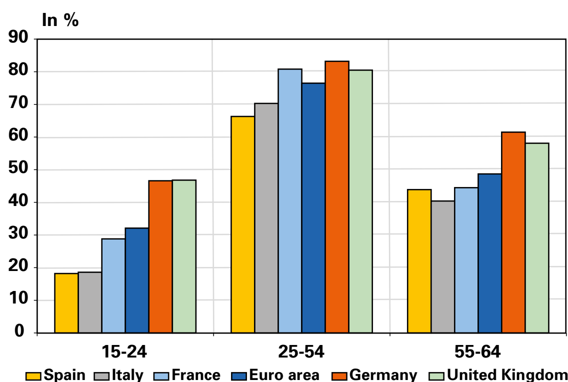
This strategy is based on revamped governance, sweeping government modernisation, improved efficiency and simplification of our tax system and implementation of reforms to improve the long-term sustainability of public finances, such as the 2013 pension reform plan.

Chart 11: Export performance



Source: Insee, DG Trésor

Chart 12: Employment rate per age group (2012)



Source: Eurostat

i. Fiscal adjustment based primarily on expenditure saving measures starting in 2014 and on revamped public finance governance in order to restore structural balance in the medium term

After a major fiscal effort in 2012, and a historically large effort in 2013, which was needed to restore France's fiscal credibility, the Government has chosen to ease the pace of fiscal consolidation starting in 2014 in order to sustain growth while achieving full compliance with its European commitments.

In 2013, the measures set out in the 2013 Budget Act and the Social Security Budget Act involve a structural adjustment of 1.7 points of GDP, following 1.3 points in 2012. This major effort will enable France to comply with the Council's Recommendation of 21 June 2013 under the excessive deficit procedure (see Box 2 on fiscal surveillance in the euro area), which called for an adjustment of at least 1.3 points of GDP in 2013[4]. Worse-than-expected trends in tax revenues (VAT and corporate income tax, in particular), mean the actual deficit should stand at 4.1% of GDP, which is higher than the Council's recommendation of 3.9%. This deviation stems from the economic environment, and the Government has chosen not to offset it with further consolidation measures. This is in line with European and international preferences for tackling the structural component of the budget deficit.

Structural adjustment will continue in 2014 and 2015, but at a slightly slower pace than in 2013 in order to preserve growth. The adjustment will be 0.9 point of GDP in 2014 and again in 2015. In view of the Government's

(4) The Council's Recommendation sets a headline deficit target and a structural adjustment target, whereas the European Commission's analysis will consider elasticities (changes in revenue relative to economic growth) to verify compliance with the Recommendation, which is an approximation of the notion of structural effort. The projections for 2013 show very unfavourable tax elasticity, which means that structural adjustment achieved (with the growth potential in the multiyear Public Finance Planning Act) would be 1.3 points for an effort of 1.7 points.

Box 2: 2013: first year of official discussions at the European level on national draft budgetary plans

In the fourth quarter of 2013, the «two-pack» will be enforced for the first time. The two-pack is made up of two Regulations. The first deals with fiscal surveillance of euro-area Member States, and the second deals with the enhanced surveillance procedure for euro-area States experiencing or threatened with financial difficulties (primarily those receiving financial assistance).

More specifically, the first Regulation calls for prior examination of national draft budgetary plans by the Commission, enhanced monitoring of Member States under the excessive deficit procedure and a requirement to base draft budgetary plans and stability programmes on macroeconomic forecasts produced or approved by independent bodies.

In its prior examination of national budgetary plans, the Commission has two weeks to request that a revised draft budgetary plan be submitted if it identifies "serious non-compliance" with the budgetary policy obligations laid down in the Stability and Growth Pact. In any event, on 15 November, the Commission will publish its opinion on the budgetary plans of each euro-area Member State, with regard to their budget commitments, and an overall assessment of the budgetary situation and prospects in the euro area as a whole. The Eurogroup will then discuss the Commission's opinions on each euro-area Member State's budgetary plans. At the request of France and to further genuine euro area economic government, the Eurogroup will also discuss the appropriate fiscal strategy for the euro area as a whole, based on the Commission's overall assessment.

growth forecasts, this pace of fiscal consolidation should produce a deficit of 3.6% of GDP in 2014, followed by 2.8% in 2015, in line with the Council's Recommendation of 21 June 2013.

Structural balance is expected to be achieved in 2016. But the headline balance will still be negative, since the output losses incurred during the crisis will not yet be fully overcome by that time. This objective will be achieved by continuing savings efforts throughout the term of this legislature. The effort will be shared by all sub-sectors of the general government sector and total government expenditure will increase by an average of 0.2% per year in real terms. **The choices made under the medium-term consolidation strategy mean that the aggregate tax and social security contribution rate should be stable from 2014 to 2016 and start declining in 2017, once structural equilibrium has been achieved. At the same time, government expenditure as a proportion of GDP will decrease by nearly 3 percentage points between 2013 and 2017.**

This effort will primarily take the form of expenditure saving measures starting in 2014. Tax increases were frontloaded in 2012 and 2013 in order to preserve growth. This is because, particularly when growth is flat, public expenditure cuts have a greater negative short-term impact on the economy than tax increases do. In 2014, following the massive efforts made in 2012 and 2013, and as economic activity picks up, it will be possible to ease the structural effort and focus on expenditure cuts, which will account for 80% of the effort. From 2015 to 2017, the adjustment will rely entirely on containing government expenditure. This strategy is consistent with the economic policy recommendations of the European Commission and international institutions, such as the IMF and the OECD, and is informed by past experience, which showed that successful fiscal consolidation can include a large revenue component in times of very weak growth, but it must then rely primarily on expenditure saving measures in order to be sustainable and promote growth in the medium and long term.

Efforts to contain expenditure in 2014, accounting for 80% of the overall consolidation effort, will be spread over all general government sectors.

- **Central government expenditure**, excluding debt service and pensions, will decrease by €1.5bn, equivalent to savings of €8.5bn compared to a situation where expenditure is left to grow according to trend. These savings will focus on three areas, namely operating expenditure, transfers to other entities (local governments, central government agencies) and other expenditure, including intervention and capital expenditure. More specifically, the savings on operating expenditure will come from i) containing the growth of the wage bill through a freeze in the public sector pay scale index and a stabilisation of staff numbers throughout the Government's term, with redeployment of human resources to implement the Government's priorities, and ii) a 2% decrease in ministries' current funding compared to 2013. This will be achieved through modernisation of public procurement policy and implementation of ministerial modernisation and streamlining programmes (programmes ministériels de modernisation et de simplification, PMMS). In addition, borrowing rates will remain lower than the projections made in the multiyear Public Finance Planning Act for 2012 to 2017, which results in a savings on debt service.
- **In the interests of justice and fairness, local governments and central government agencies will also share the burden.** Local governments will see a reduction of 1.5 billion euros in the transfers received compared to 2013 while funding for central government agencies, which had been increasing by over 2% per year on average, will decrease in 2014. Furthermore, as stipulated in the multiyear Public Finance Planning Act, earmarked taxes will be significantly reduced each year: all central government agencies will have to play their full part in consolidating public finances and it will not be possible to introduce an earmarked tax unless another tax of the same amount or more is abolished.
- **Social security funds will also share in the effort to contain expenditure based on the terms to be outlined in the Social Security Budget Act.** These will include containing the growth of healthcare expenditure with a target (Ondam) of 2.4%, equivalent to savings of some €2.5bn compared to the natural trend, efforts to contain management costs, reform of the first-pillar and second-pillar pension schemes (see below) with a labour-management agreement that includes a smaller cost-of-living adjustment, and reform of family policy.

Tax and social security contribution increases in 2014 will be equivalent to only 0.1 points of GDP, compared to 1.5 points in 2013. This is the result of a tax cut stemming from measures to boost the competitiveness of French companies already passed (Competitiveness and Employment Tax Credit), the aftershock in 2014 from measures introduced in the 2013 Initial Budget Act and the 2013 Social Security Budget Act and discretionary revenue measures in the 2014 draft budgetary plan and the 2014 social security draft budgetary plan aimed primarily at offsetting the aftershocks. The GDP elasticity of taxes will be equal to 1 in 2014.

Tax and social security contribution increases have been calibrated with special care to enhance the competitiveness of French companies, support jobs and sustain growth. The cut in business taxes on labour (with the implementation of the Competitiveness and Employment Tax Credit (CICE)) has been maintained, with increases in employers' pension contributions being offset by an equivalent cut in their family contributions. The introduction of a tax on earnings before interest, tax, depreciation and amortisation (EBITDA), at the same time as the abolition of the turnover tax, is a first step towards a new balance in business taxes based on the determination to reduce the tax burden

on production and give greater consideration to companies' profitability. This rebalancing is consistent with the funding procedure used for the Competitiveness and Employment Tax Credit, which is based on shifting the tax burden from labour to notably environmental taxation. If we strip out the tax cut stemming from the CICE, the tax burden on companies is stable between 2013 and 2014. The limited revenue increases will hamper growth less.

Revenue measures are aimed at the twin objectives of fairness and macroeconomic efficiency (see more about the reform of the tax system below). They support the competitiveness of French companies by lowering labour costs and making a start on structural reform of business taxes. They also enhance the progressive nature of the tax system, but reducing the least efficient tax expenditures. The fight against tax fraud, which France has affirmed as one of its key priorities in international fora, will also be stepped up through new measures in the 2014 draft budgetary plan, in addition to the measures introduced over the past year.

Since the start of this legislature, the Government has chosen to ask more of those who have more to achieve a socially just and economically efficient sharing of the consolidation effort. With this in mind, tax increases are targeted primarily on the most affluent households in order to preserve the purchasing power of the largest number of households, thereby underpinning consumption and growth. The tax measures concentrate on the highest income brackets (lowering of the cap on family deductions or "*quotient familial*", creation of a new 45% income tax bracket), on investment income, which mainly accrues to the richest households, and on assets (wealth tax, inheritance tax), which are largely held by high-income households. In contrast, the Government chose not to burden low-income households. Such households are not generally concerned by the tax increases and will even see a slight increase in their income, with the accelerated adjustment of the social inclusion benefit (*RSA socle*), the back-to-school benefit, the family support benefit and scholarships. Furthermore, in addition to boosting the competitiveness of French companies, the Competitiveness and Employment Tax Credit is an effective measure for achieving a lasting reduction in the unemployment of the workers with fewer qualifications, which results in a lasting increase in these workers' incomes.

ii. Revamped public finance governance that enhances the credibility of France's medium-term strategy

This ambitious public finance trajectory is based on **revamped and enhanced governance** following the passage of the constitutional by-law on public finance planning and governance of 17 December 2012 and Public Finance Planning Act for 2012 to 2017 of 31 December 2012. These acts strengthen and enhance the existing budgetary framework. **They buttress the credibility of the Government's commitment to consolidate public finances, especially through the creation of the High Council on Public Finances (HCFP).** This independent body works under the aegis of the Court of Auditors (*Cour des comptes*) and is responsible for issuing an opinion on the macroeconomic forecasts underpinning the Budget and Social Security acts and their consistency with the multiyear trajectory.

The macroeconomic forecasts underlying these public finance projections must now be submitted to the High Council on Public Finances for its opinion. The High Council has already issued its opinion on the April 2013 Stability Programme and the 2014 draft budgetary plan and social security draft budgetary plan were the first to be subjected to this procedure, which enhances the transparency of budget making, since the High Council's opinions are made public.

Parliament's supervision of public finance objectives for all general government bodies has also been strengthened. For the first time, as required by the constitutional by-law, Parliament will examine the opening article of the 2014 draft budgetary plan, which sets out the forecasts for the structural balance and the actual balance for all general government bodies, as well as the balances for the previous year and the current year. Supplementary Budget Acts and Supplementary Social Security Budget Acts will now include such

an opening article summarising the forecasts of outturns and structural balances for the year covered by the Acts.

In addition, these annual public finance objectives must now be consistent with the multiyear framework stipulated by a Public Finance Planning Act and the High Council on Public Finances will issue an opinion on this consistency. For the first time, the High Council was asked to give an opinion on the consistency of the 2014 draft budgetary plans with the structural balance trajectory set out in the Public Finance Planning Act for 2012 to 2017 and the High Council will now assess the compliance of Public Finance Planning Acts with France's European commitments. For this purpose, the constitutional bylaw requires additional content in the Public Finance Planning Acts. These acts must define multiyear trajectories for the structural and actual budget balances of all general government bodies covering at least 3 years, and set multiyear rules for spending (central government spending growth rule, caps per budget mission, healthcare expenditure growth target) and for revenue (trajectory of discretionary tax measures).

The constitutional bylaw calls for the High Council on Public Finances to monitor any deviation from the structural balance trajectory stipulated in the multiyear Public Finance Planning Act. And a correction mechanism reinforces the credibility of France's multiyear public finance framework. The constitutional bylaw incorporates a new rule on the general government structural balance into the Public Finance Planning Act for 2012 to 2017 and the High Council supervises compliance with this rule. The High Council on Public Finances released an opinion in June 2013 on the 2012 budget outturn, noting that there was no significant deviation (0.5 points of GDP over one year or an average of 0.25 points over two consecutive years) between the outturn from the previous year and the structural balance trajectory set out in the Public Finance Planning Act for 2012 to 2017. The High Council will release a new opinion in June 2014 on the 2013 budget outturn. In the event of a major deviation, the constitutional bylaw calls for the Government to propose corrective measures to return to the structural trajectory within two years or less. The High Council on Public Finances also gives its opinion on any exceptional circumstances, as defined by the Treaty on Stability, Coordination and Governance, that may arise and which may waive the correction mechanism activation requirement.

iii. The consolidation of public finances relies on ambitious government modernisation and clarification of the powers of the different general government bodies, with the aim of making public expenditure more efficient

Government modernisation aims to enhance the efficiency of government services while consolidating public finances. It requires all stakeholders to make efforts.

After two waves of assessments launched in January 2013 and April 2013, the **third meeting of CIMAP** (interministerial government modernisation council) was held on 17 July 2013. It made **decisions on the initial reforms stemming from the 12 completed public policy assessments**. The Government thus decided to refocus its economic intervention on four priorities: innovation, industry, investment and international trade. This will be achieved through streamlining of support schemes for businesses, including elimination of redundant aid and schemes that introduce distortions or are inefficient. In this vein, a reform of vocational training will make it possible to customise the training policy for jobseekers, after negotiations with labour and management representatives and consultations with regional governments.

Public management will also be streamlined through:

- **A revamped investment decision-making process,** including consultation with the General Commission for Investment, to implement the prior social and economic assessment arrangement stipulated in Article 17 of the Public Finance Planning Act for 2012 to 2017;

- More efficient procurement policy combining savings with other public policy

objectives: access to government contracts for SMEs, integration of long-term jobless, promoting innovation, gender equality and sustainable development.

At the same time, **the Government drafted a simplification programme for 2014, 2015 and 2016**. It is aimed at boosting the growth of business through streamlined accounting requirements for very small and small and medium-sized enterprises and paperless luncheon vouchers, simplifying people's lives by extending the validity of identity cards from 10 to 15 years and creating a single application form for requesting low-rent housing, providing better protection for local governments and lightening the administrative burden, including cutting the number of advisory commissions by 25%.

Simultaneously with government modernisation, the Government initiated **an ambitious decentralisation reform aimed at streamlining government by clarifying the responsibilities of local and central government in order to increase the efficiency of local government expenditure**. Three decentralisation bills were submitted to the Council of Ministers meeting on 10 April 2013.

The first bill on local government modernisation and metropolitan area empowerment is now being debated by Parliament and will help increase the efficiency of expenditure further. At this point, it starts by calling for better governance and monitoring of local governments, with greater coordination of the action of different categories of local government. For example, this bill overhauls the legal status of metropolitan areas, a specific category of public intermunicipal co-operation establishment (EPCI). More specifically, metropolitan areas will take over the responsibilities of the existing EPCIs in Paris, Lyons and Aix-Marseilles and help increase the efficiency of local government expenditure. Enhanced oversight and transparency of procedures for funding local government capital expenditures will also help make local governments more efficient.

The other two bills call for improving the effectiveness of local government economic policies, by giving regional governments a greater role in vocational training and apprenticeships in particular. Promoting equality between communities will enhance the solidarity of local governments. Parliament will debate and vote on these two bills by the end of 2014.

iv. The aggregate tax and social security contribution rate will remain stable and reform of the tax system will continue to make it fairer, more efficient and simpler

After large-scale revenue measures in 2013, **the aggregate tax and social security contribution rate will be stable from 2014 to 2016 and then start to decline in 2017, while reform of the tax system continues to make it fairer, simpler and more conducive to growth.** This reform enhances governance of tax expenditures. The Public Finance Planning Act for 2012 to 2017 requires stabilisation of tax expenditures in nominal terms (Article 14), places time limits on tax expenditures (Article 16) and requires ex-post assessment (Article 18) of tax expenditures and social security exemptions. The Government has set up a new tax conference procedure as part of the preparation of the draft budgetary plan. This procedure is intended to produce a joint assessment of the efficiency and effectiveness of tax expenditures and to make it possible to work with the ministries where tax expenditures are used to complement budget allocations in order to propose the necessary reforms.

In keeping with the recommendations of the Fragonard Report on family benefits, the family deductions will be capped at €1,500, instead of €2,000 for each dependent. The income tax exemption on the pension bonus for parents having raised three or more children has also been abolished, along with the tax exemption on the share of collective supplementary health insurance premiums paid by the employer. These measures are designed to contribute to balancing the budgets of the family benefits, old-age pensions, and health insurance sections of the social security system, as well as to finance redistribution measures, such as benefits for the lowest-income families and making supplementary health insurance available to all.

The Government will reintroduce the cost-of-living adjustment of income tax rates, after a two-year freeze **to enhance social justice and boost purchasing power**. The Government will introduce specific measures to support the lowest-income taxpayers, with a 5% increase in the tax relief ceiling ("décote" mechanism) on top of the inflation rate and a multiyear plan to fight poverty and promote social inclusion. The measures adopted in 2012 (including the new 45% income tax bracket and taxing investment income like earned income) and reduction of certain tax exemptions, with a lower aggregate cap of €10,000, will reinforce the progressiveness of the tax system.

The debt bias of corporate taxation has been reduced. On the one hand, the cap on loan interest deductions has been lowered in accordance with the trajectory in the 2013 Initial Budget Act. The cap is now 85% of net financial expense for 2013 and 75% for 2014. On the other hand, the new tax on EBITDA, which was introduced to rebalance business taxes, by reducing taxes on production, and to continue expanding the corporate tax base, will also help to reduce the current debt bias for non-financial corporations and unincorporated enterprises, since EBITDA is calculated before deducting their financial expenses. When this new tax was introduced, the turnover tax (IFA), which was inefficient, was abolished.

Tax incentives for business investment have been stabilized. The research tax credit has been extended and the calculation of the credit is now more flexible, as the requirements regarding employment of young researchers were eased, the eligible expenditure was extended to include international industrial property protection. At the same time, a revamped and predictable tax and regulatory framework was presented at the Entrepreneurship Conference. This new framework will facilitate business creation and development to promote jobs with a reform of the capital gains tax on securities, the introduction of a share savings plan specifically for SMEs (PEA-PME) and an increase in the maximum deposit on share savings plans.

Finally, **the tax system will be geared to energy transition,** in keeping with the announcement of new measures to be introduced starting in 2014 made at the Environmental Conference on 20 and 21 September 2013. These measures include a new climate-energy tax created by means of a gradual increase in the fuel tax in proportion to the carbon content, which will reach €4bn in 2016. This measure will comply with our commitment to stabilise the tax burden and produce €1bn in additional revenue to finance energy transition. The bonus/penalty system for cars will be strengthened, the tax rules applying to diesel fuel for off-road use will be amended and the base for the pollution tax (TGAP) will be extended to cover seven new pollutants.

v. Pension reform to ensure the long-term sustainability and fairness of the system

The bill on ensuring the future and fairness of the pension system submitted to the Council of Ministers meeting on 18 September 2013, has two objectives: achieving a swift and sustainable return to financial equilibrium for our pay-as-you-go pension system and making the system fairer, by giving greater consideration to tough working conditions.

All in all, the adjustment effort will be evenly divided between expenditure and revenue measures, without adding to the cost of labour. In 2040, nearly half of the planned €21.6bn in consolidation measures will be paid for through expenditure cuts.

In the short-to-medium term (2020), the planned reform will provide a quick response to the financing problems of the pay-as-you-go pension system, which were highlighted in the December 2012 report by the Pensions Advisory Council (COR). The deficit of the first-pillar pension schemes will be cut by €3.8bn in 2014 and by €7.3bn[5] by 2020, which will restore the equilibrium of our pension system. This will be achieved through equitable financing where all stakeholders share in the effort. Social security

(5) When the measures cited above are combined with management savings of €0.2bn in 2020.

contributions for workers and employers will be raised gradually at the same pace (0.3 points between 2013 and 2017), while retirees will also have to make an effort through taxation of the pension bonus received by the parents of three or more children and deferment of cost-of-living adjustments from April to October. The increase in pension contributions will be neutralised in the social security draft budgetary plan (see below) to ensure consistency with the policy to support the competitiveness of French companies, which is a priority for the Government.

After 2020, the financing effort will be based on a structural measure to increase the contribution period required to receive a full pension. Longer life expectancy makes it necessary to work longer to achieve the balance of the pension system in the medium term. Therefore, the reform calls for an increase of the contribution period by one quarter every three years, until it reaches 43 years in 2035. This increase will affect everyone in the pension system. It should help improve the balance of all pension schemes by €5.4bn by 2030 and by €10.4bn in 2040. This improvement, along with the short-term measures, ensures the equilibrium of the first-pillar pension schemes until 2040. The Government decided to increase the contribution period required to receive a full pension rather than raise the minimum retirement age. This choice was made in the interest of social justice and so as not to penalise those who started working at an early age. The minimum retirement age of 62 is unchanged, but the effective retirement age, which is a key variable for the sustainability of public finances, should rise automatically as the contribution period increases. Eventually, a person who starts working at the age of 23 (the average in France) would not be entitled to a full pension until they are 66 years old. **This increase in the effective retirement age should also increase the employment rate of older people, thereby increasing the economy's growth potential.**

The pension reform also improves the governance of the pension system by introducing an oversight mechanism. A steering committee (Comité de surveillance des retraites) will be responsible for monitoring the financial situation of pension schemes, issuing an annual opinion and issuing alerts in the event of significant deviations from the baseline scenario. The committee will make recommendations about the measures to be taken where appropriate. This new governance structure has been broadly inspired by the success of the new early warning committee for health insurance spending, which made it possible to meet the health expenditure growth target in each of the four last years.

Last but not least, the reform will substantially enhance the fairness of the pension system. The pension reform bill draws largely on the January 2013 report by the Pensions Advisory Council (COR) and the findings of the report by the expert commission chaired by Yannick Moreau in June 2013. It proposes measures to address unequal treatment of retirees and social injustice. To start with, the pension system will now consider tough working conditions, with the creation in 2015 of a personal account to prevent such conditions. To improve the final working years of employees with physically demanding jobs, as defined by management and labour representatives in 2008, the reform provides an incentive for employers to reduce their employees' exposure to tough working conditions through additional social security contributions paid by companies where employees do physically demanding work. Furthermore, such employees can choose to take training for new job skills, work part-time as they approach retirement or, as a last resort, receive credit for additional pension entitlements (up to 2 years of contributions). The bill also includes specific measures to increase the fairness of the pension system for women, young people, people with uneven contribution profiles, persons receiving low pensions, persons collecting multiple pensions and people with disabilities.

Management and labour representatives reached an agreement on 13 March 2013 on ways to bring **second-pillar pension schemes (Agirc and Arrco)** into balance. The agreement calls for smaller cost-of-living adjustments to supplementary pensions over three years and increases in contributions in 2014 and 2015.

III. Support for growth and jobs

The Government's objective is to support every component of our economy's growth potential by stepping up productivity gains, supporting investment, increasing labour force participation and achieving a lasting reduction in the unemployment rate. These reforms will also help restore the competitiveness that has been lost over the last ten years.

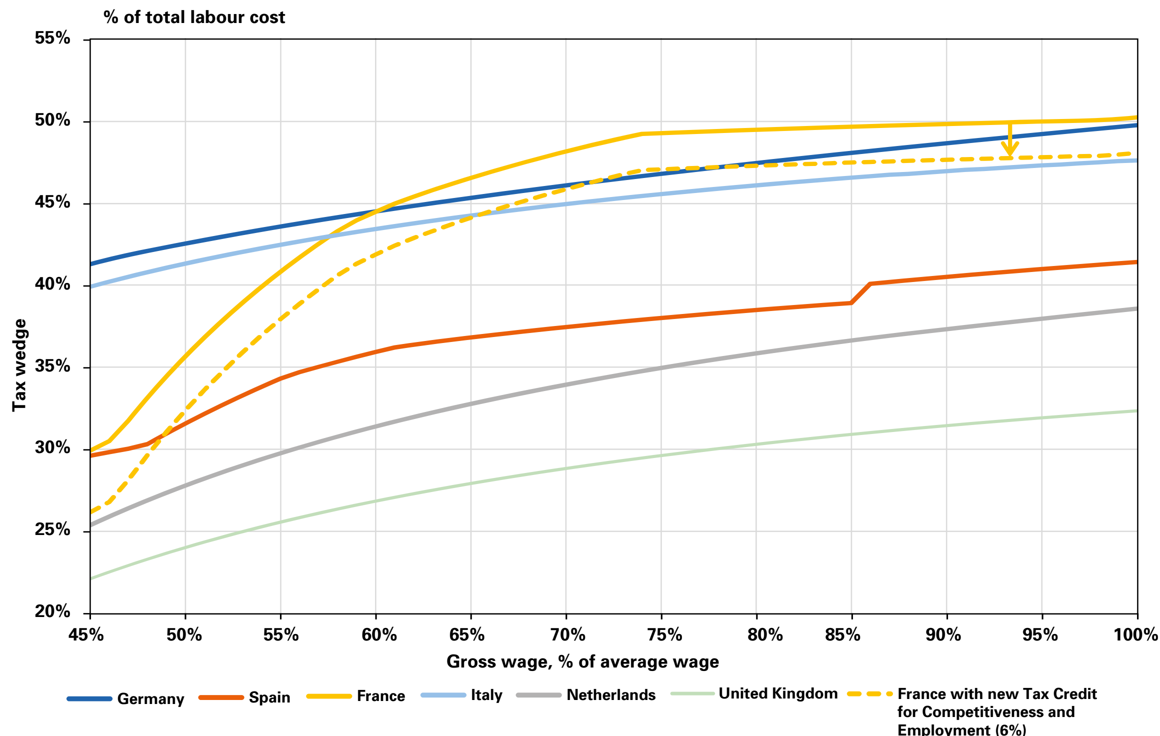
1. Restoring the competitiveness of French companies

One of the Government's priorities is to reverse the steady decline in the competitiveness of French companies that started in 2000. This is the purpose of the National Pact for Growth, Competitiveness and Employment, initiated on 6 November 2012, which is now being implemented. The Pact focuses on regaining cost and non-cost competitiveness, with a €20bn reduction in the cost of labour achieved through the Competitiveness and Employment Tax Credit, improved access to financing for SMEs, support for innovation and exports, and improvement of the business environment through simplification of administrative procedures. Companies should gradually start passing on lower production costs achieved through cost-competitiveness measures in their selling prices, which will also boost households' purchasing power.

i. Stronger policies to reduce labour costs will promote competitiveness, jobs and innovation in 2014

By introducing the Competitiveness and Employment Tax Credit (CICE), which came into force on 1 January 2013, the Government decided to achieve a historic reduction in labour costs, with savings of €20bn on wages up to 2.5 times the minimum wage, in order to restore the competitiveness of French businesses

Chart 13: Tax wedge for wages below average wage



For a wage equal to 50% of the average wage, the tax wedge, meaning the tax burden on labour income (taxes and social security contributions) divided by labour costs, is around 36% in France in 2012. Taking into account the decrease in labour costs through the Competitiveness and Employment Tax Credit, the tax wedge comes down to around 32% (dotted line).

Source: OECD, Taxing wages, 2012
Single individual without children

and support jobs[6]. In addition, companies were able to receive advances on their tax credits from Bpifrance, which distributed more than €0.8bn in advances between the introduction of the tax credit and the end of the second quarter of 2013.

The Competitiveness and Employment Tax Credit will help achieve gradual improvement in French companies' competitiveness and export market shares as it is ramped up in 2014 (the tax credit rate will be raised from 4% to 6%). The 6% tax credit rate leads to a 3% reduction in companies' labour costs on average. This reduces the tax and social security contributions on labour to a level lower than that paid by German companies on all low-wage and average-wage employees (see Chart 13). The tax credit will cost €10bn in 2014 (based on the 2013 wage bill) and will be financed in 2014 by VAT reform (€6bn) and expenditure saving measures. After that, the increased rate of the tax credit will be covered by more expenditure saving measures and an increase in environmental taxation (see above).

The decrease in labour costs through the Competitiveness and Employment Tax Credit will be maintained. The increase in employers' pension contributions called for under pension reform will be fully offset by a cut in employers' family contributions. More generally, in 2014, the Government will initiate a reform, as part of the work of the High Council on social security financing, to strengthen and diversify financing for social security so that it has less impact on labour costs and employment.

(6) The tax credit is based on the companies' gross earnings and is the equivalent in economic terms of a decrease in the cost of labour. The Accounting Standards Authority ruled on 28 February 2013 that the tax credit can be recognised as a decrease in payroll expense and the National Statistics Institute includes the tax credit when calculating its labour cost index (ICT).

ii. Sector reforms, such as those to promote competition, will also help improve the competitiveness of French companies and boost purchasing power

On-going reforms in the services, energy and housing sectors will help cut prices in these sectors. These price cuts will boost households' purchasing power and improve businesses' competitiveness by reducing their costs and stimulating innovation.

In the consumer goods and retail services sector, the consumer bill submitted to the Council of Ministers on 2 May 2013 and now being debated by Parliament introduces new economic regulation instruments to enhance consumer protection. It calls for the introduction of class actions to provide collective recourse in mass consumption disputes, including suits relating to unfair competition. This measure enhances both economic efficiency and social justice, since the development of class actions should deter companies from engaging in anti-competitive practices and provide relief for the households and companies that suffer from them. The consumer bill was also amended to include measures to boost competition and purchasing power in certain sectors, such as insurance, consumer credit and certain regulated sectors, along with measures to eliminate monopolies for sales of certain products, such as pregnancy tests.

In the real estate market, reforms are aimed at lowering land and housing prices through a policy to expand supply[7]. The draft budgetary plan proposes a significant effort, with reduced-rate VAT on construction of social housing, abolition of incentives to withhold building lots by eliminating deductions based on length of ownership, and a

(7) The Act on the use of public property for housing and increasing the production of social housing was published on 21 January 2013. The implementing decree on land transfers was published on 15 April 2013 to increase the housing supply in areas with the greatest needs. The Bill on access to housing and city planning (Alur) was submitted to the Council of Ministers on 26 June 2013 and will be debated by Parliament in the fourth quarter. The Bill calls for modernisation of city planning rules to allow greater density in areas with housing shortages. The housing investment plan announced on 21 March 2013 is designed to increase the housing supply by promoting construction and renovation of housing stock in both the private and public sectors. The plan includes measures to shorten the time required to complete procedures and streamline administrative formalities. The fast-track "ordonnance" procedure will be used to introduce these measures.

new generalised deduction for capital gains on property other than building lots, which is aimed at making the real-estate market more fluid and supporting the construction industry. Tax incentives were also introduced for building medium-income housing, which is an important market in the housing ladder and for achieving compliance with social-mix objectives. The incentives are based on applying the intermediate-rate of VAT and a property tax exemption on built-up properties.

In the energy sector, the gas market will become more efficient with the abolition of regulated gas tariffs for businesses by the end of 2015 under the terms of the consumer bill currently being debated by the Senate. The electricity generation market will be opened up further with the launch of tenders for hydroelectric concessions that are up for renewal. In addition to these measures, the Environmental Conference on 20 and 21 September highlighted possible future action.

In the transport sector, the Government is preparing a rail system reform that will improve the efficiency of the system and prepare it for open competition for passenger transport by 2019. Further deregulation of coach transport called for under decentralisation reform will increase supply, particularly for low-income users.

In the legal and accounting professions, the measures for simplifying business and making it more secure that were submitted to the Council of Ministers meeting on 4 September 2013 have two objectives: stimulating competition for the benefit of retail and business customers and easing the requirements for starting new firms and hiring in these professions. Access to the profession of notary will be facilitated by abolishing the current rule restricting individual notaries or partnerships of notaries from hiring more than one notary as an employee. In view of the success of new status for notaries working as employees introduced in 1990, this further easing of requirements is bound to lead to a significant increase in the numbers employed and thereby expand supply. The creation of new accounting firms and investments in existing firms will be facilitated as well.

iii. Enhancing the non-cost competitiveness of French companies by reducing administrative burdens, through future-oriented investments and strong support for innovation

In addition to reforms to promote cost competitiveness, the Government has introduced **specific measures to enhance the non-cost competitiveness of French companies**, in accordance with the Council's recommendation to this effect.

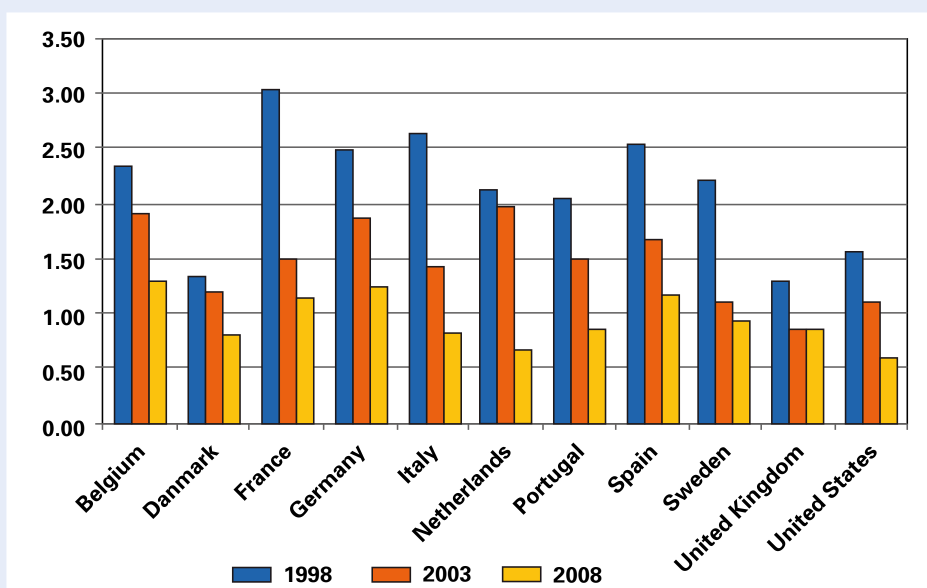
The Government has committed to cutting red tape on a massive scale in order to boost competitiveness and strengthen confidence between government and public service users. The plan is to use every means of making life easier for businesses and individuals, lightening their administrative burden and shortening processing times, without undermining the protection of such key interests as the security of people and property, health, the environment and workers' rights. In addition to the seven priority projects for businesses[8] in the National Pact for Growth, Competitiveness and Employment, a crosscutting three-year programme to streamline administrative procedures, laws and regulations was launched on 17 July 2013 as part of the government modernisation initiative. The programme covers more than 200 measures, including 142 new measures and 59 projects, including the seven priority projects mentioned above, which are already in the process of being implemented. The measures to be adopted by the end of the year include four bills empowering the Government to enact streamlining by ordinance. The first bill was submitted to the Council of Ministers meeting on 4 September. These bills are aimed at freeing up the housing and construction sector, eliminating superfluous procedures for businesses, adopting the principle that the administration's silence in response to a request means consent and lightening the workload of devolved government departments. All of these streamlining measures will enhance the competitiveness of French

(8) The "tell-us-once" project, the single employer return (déclaration sociale nominative), simplification of the laws governing business real estate, a single portal for business support schemes, fighting excessive transposition of European law into French law, the "SME test" and the removal of export barriers.

Box 3: The macroeconomic impact of reducing administrative burdens

Two categories of costs are related to administrative burdens. On the one hand, there are the direct costs for drafting, management and monitoring the compliance of regulations by the public sector. On the other hand, there are the compliance costs incurred by businesses (direct costs, investment costs) and by households. The OECD has highlighted these costs by publishing a ranking of countries according to the simplicity of their regulatory environment for businesses (the number of procedures required and the time and costs required). Even though it has cut the cost of administrative burdens by approximately two thirds in 10 years, France still ranked 16th out of the 31 OECD countries in 2008, trailing many of its European partners (see Chart 14).

Chart 14: Administrative burdens in OECD countries[1]



(1) Administrative burdens are computed as the mean of two OECD indicators on Product market regulation: (i) Regulatory and administrative opacity, (ii) Administrative burdens on startups

Administrative burdens for businesses and households carry a substantial cost, which varies from country to country. The OECD estimates that it ranges between 3% and 4% of GDP in France, or between €60bn and €80bn. The cost of red tape in excess of what seems necessary to meet the objectives of efficient tax collection, economic and financial stability and consumer protection adds to the cost of doing business through compliance costs, paperwork and the man-hours required. Simplification will reduce businesses' costs, improve their allocation of human resources and increase their productivity. In addition, the public finance savings achieved should make it possible to reduce the tax burden.

The literature suggests that the macroeconomic benefits of an ambitious programme to reduce administrative burdens could be significant. *Tang and Verweij (2004)[1] found that a* ***25% reduction in administrative burden costs across all of the EU countries would lead to a 1.1% increase in GDP in the first year and a 1.4% increase in the long term.*** *These findings are in line with those of Gelauff and Lejour (2006)[2], who estimate that a 25% reduction in red tape costs would boost labour productivity by 1.6% and increase GDP in France by 1.7% in 2025 (versus 1.5% on average in the European Union). According to Costa and Aubyn (2012)[3], streamlining programmes in 40 developed countries between 1996 and 2009 had an average positive impact of some 0.6% on total factor productivity in the long term.*

(1) Tang, P., and G. Verweij, "Reducing the administrative burden in the European Union", CPB Memorandum no.93, 2004.
(2) Gelauff, M., and A. Lejour, "Five Lisbon Highlights. The economic impact of reaching these targets", CPB Document, no. 104, 2006.
(3) Costa L. and M. Aubyn, "The Macroeconomic Effects of Legal-Simplification Programmes", Working Papers 2012/12, Department of Economics at the School of Economics and Management (ISEG), Technical University of Lisbon, 2012.

companies by reducing their administrative costs and by improving their productivity, as the measures free up more man-hours for production (see Box 3).

The Government intends to develop an investment strategy that boosts growth potential, without burdening public finances, by targeting priority sectors and promoting innovation. To this end, the Government decided to redeploy the Invest for the Future programme in January 2013, reallocating €2.2bn to the priorities set out in the National Pact for Growth, Competitiveness and Employment and announced a new Invest for the Future programme in July 2013 with an endowment of €12bn. The new programme will be implemented in the 2014 draft budgetary plan. It will focus primarily on financing innovative projects that are likely to produce growth and jobs and it will run for the next ten years. The projects financed will deal mainly with supporting the transition towards more environment-friendly energy sources.

Phase 3 of the cluster policy (2013-2018) will also enhance the economic benefits of clusters, by focusing support on joint research and development projects aimed at creating innovative products, processes and services with good prospects of reaching the market.

iv. Increasing the efficiency of business financing, particularly for SMEs and exporting companies

Several measures will also strengthen the central government's action to promote businesses' innovation and export capacities, particularly in the case of SMEs and mid-tier companies.

The Act of 1 January 2013 created **Banque Publique d'Investissement (BPI), or Bpifrance**. This public investment bank brings all of the existing resources in France under one roof to provide better service to businesses. More specifically, Bpifrance introduced two new instruments for SMEs. Research Tax Credit pre-financing was introduced in February 2013 and will facilitate the use of this tax advantage by small and medium-sized enterprises by limiting their cash requirements for carrying out R&D. In 2011, nearly 15,000 enterprises, of which 88% were SMEs, used the Research Tax Credit. Bpifrance also introduced pre-financing arrangements for the Competitiveness and Employment Tax Credit, which outstripped their target of €800m. Bpifrance also introduced a cash facility worth €500m and a new innovation loan in 2013.

Specific actions for innovative SMEs will be strengthened. The Innovation Tax Credit, which supplements the Research Tax Credit, was introduced in the 2013 Budget Act. It will enable SMEs to receive a tax credit in 2014 that is worth 20% of their spending on the design of prototypes of new products executed in 2013. In addition, the Innovative Start-Up scheme (JEI), which currently grants tax breaks and exemptions from social security contributions on researchers' pay to new SMEs carrying out research and development, will be stepped up in 2014. Exceptional depreciation allowances will be introduced to support SMEs investing in robotics.

Incentives will be enhanced for investing savings in financing SMEs and facilitating their export financing. The 2014 draft budgetary plan calls for a reform of the taxation of capital gains on securities in a way that promotes long-term holdings and investment in SMEs up to ten years old. The reform of the share savings plan (PEA), announced at the Entrepreneurship Conference held at the end of April 2013, is designed to promote investment of domestic savings in equities and to create a new instrument to support the financing of SMEs and mid-tier companies. The cap on deposits in share savings plans will be raised and a share savings plan will be created specifically for SMEs and introduced on 1 January 2014. This set of reforms will support business start-ups, along with innovation and equity financing for SMEs and mid-tier companies. These reforms are an extension of the insurance code reform carried out in 2013, which now allows insurance companies to invest massively in business loans. The Supplementary Budget Act will complete this reform with changes to the taxation of life insurance.

The Government has implemented two phases of a reform of **financial support for exports**. The first phase of the reform was adopted at the end of December 2012, primarily to establish enhanced refinancing guarantees designed to facilitate access to liquidity for banks granting export credits. The second phase of the reform was presented on 22 May 2013, as part of the creation of the "Bpifrance export" brand, which aims to improve the public export support system for SMEs and mid-tier companies. It has three main thrusts: simplifying the existing systems, improving the products provided and stepping up their distribution.

2. Continuing labour market reform and fighting exclusion from the job market and precarious employment

Unemployment has reached an intolerable level, at which a growing portion of the labour force is threatened with long-term joblessness, discouragement and loss of skills. Therefore, the Government's priority is to reverse the unemployment trend by the end of 2013 and every means will be used to achieve this end.

i. A combination of sweeping labour market reform and specific measures aimed at those least likely to find jobs

First of all, there is the **Competitiveness and Employment Tax Credit**, which not only enhances the competitiveness of companies, but is also an effective means of achieving a lasting reduction in unemployment. This tax credit is expected to create an additional 300,000 jobs by the end of 2017, after adjusting for the impact of the funding measures.

In addition, the Job Security Act of 14 June 2013 introduced a sweeping reform of the labour market, drawing on the contents of the national inter-industry agreement signed by labour and management representatives on 11 January 2013. This Act is now fully in force[9]. It enhances employees' rights and security by extending supplementary health coverage, renewable unemployment benefit entitlements and personal training accounts to all workers. At the same time, the Act makes it easier for companies to cope with economic shocks (agreements on protecting jobs and a recasting of the system for short-time working) and mitigates the legal uncertainties surrounding termination of employees, which could account for the reluctance of certain companies to hire employees under open-ended contracts. All in all, the reform decreases inequality in the labour market by reducing segmentation of the market. It also marks a turning point in the political rationale of reform, since it is based on dialogue with labour and management and testifies to their ability to reach compromises.

Meanwhile, the deployment of specific measures to support jobs for young and older people (Jobs for the Future scheme, generation contracts) is still ongoing and should result in the lasting integration of the groups least likely to find jobs into the labour market. At the end of July 2013, more than 55,000 contracts as part of the Jobs for the Future scheme were signed, with a goal of 100,000 contracts signed by the end of 2013 and 150,000 by the end of 2014. The scheme was extended to the market sector in order to accelerate its growth.

The Government is also continuing its fight social exclusion and poverty through the ***national plan to fight poverty and promote social inclusion***, which was adopted in January 2013. More specifically, the "youth guarantee" was launched in ten communities in September to provide the most vulnerable young people with financial support equivalent to the RSA income support scheme, intensive counselling and periodic offers of employment or training. Then, in July 2013, a sweeping reform of the financing of social

(9) Only a few of the measures still require implementing regulations or negotiations between labour and management: renewable unemployment benefit entitlements need to be negotiated as part of the new unemployment insurance agreement, industry-wide negotiations are needed on supplementary health insurance, talks on the personal training account are needed to reach an agreement by the end of the year.

inclusion through work was launched, to simplify the system and ensure better management.

ii. Structural policies to help training and education produce the skills needed

By the end of 2013, the Government will consult with management and labour representatives and submit a vocational training and apprenticeship bill designed to reform the overall lifelong learning system. The reform will include redeployment of funding to reach those who need it most (jobseekers, the least skilled employees, young people) in order to reduce structural unemployment, to make vocational training a genuine tool for improving competitiveness and to simplify the system and make it more understandable and more effective. The pensions reform stipulates that young people will be able to count their time in apprenticeships towards their contribution period, thus enhancing the incentives for entering apprenticeships. The right to training was greatly strengthened by the National Inter-Industry Agreement on training, which was enshrined in French law by the Act of 14 June 2013, which created the universal and fully portable personal training account.

Structural reforms of primary, secondary and higher education were also carried out, with the passage of two framework acts in the third quarter of 2013. The first framework act is primarily designed to reduce dropout rates through the redeployment of resources to primary and preschools as well as to priority education areas. The second act is designed to improve the success rates of students seeking undergraduate degrees and their ability to find jobs by improving the continuity and equivalency of degrees, and by strengthening the links between higher education and the world of business.

Box 4: Follow-up of the Council Recommendation of 9 July 2013 on the National Reform Programme 2013 of France and delivering a Council opinion on the Stability Programme of France, 2012-2017

NB: The references below refer to the section on the Economic Policy Strategy.

"The Council of the European Union [...] RECOMMENDS that France take action within the period 2013-2014 to [...]:

1. Reinforce and pursue the budgetary strategy in 2013. Enhance the credibility of the adjustment by specifying, by autumn 2013, and implementing the necessary measures for the year 2014 and beyond to ensure a correction of the excessive deficit in a sustainable manner by 2015 at the latest and the achievement of the structural adjustment effort specified in the Council recommendations under the EDP. Use all windfall gains for deficit reduction. 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. Maintain a growth-friendly fiscal consolidation course and further increase the efficiency of public expenditure, in particular by proceeding as planned with a review of spending categories across all sub-sectors of general government. Take action through the forthcoming Decentralisation Law to achieve better synergies and savings between central and local government levels. After the correction of the excessive deficit, pursue the structural adjustment effort at an adequate pace so as to reach the MTO by 2016. Take measures by the end of 2013 to bring the pension system into balance in a sustainable manner no later than 2020, for example by adapting indexation rules, by increasing the full-pension contribution period, by further increasing the effective retirement age, by aligning the retirement age or pension benefits to changes in life expectancy and by reviewing special schemes, while avoiding an increase in employers' social contributions, and increase the cost-effectiveness of healthcare expenditure, including in the areas of pharmaceutical spending.

The budgetary policy strategy set out in the Economic, Social and Financial Report for 2014 (see Economic Policy Strategy, Part II) complies with the Council Recommendation. The government modernisation approach aims to improve the efficiency of public expenditure in a sustainable manner, in the context of fiscal consolidation (see Part II.2, Box 2). For the first time, the 2014 central government budget incorporates a net reduction in expenditure of €1.5bn compared to 2013, excluding debt service and pensions (see Part II.3). The bill on local government modernisation and metropolitan area empowerment will help further increase the efficiency of local government expenditure (see Part II.iii). The pension reform plan ensures the financial equilibrium of the pension system up until 2020 and 2040, through measures that are shared fairly by all generations and sections of the population (see Part II.v, Box 4). The draft social security budgetary plan includes provisions for containing healthcare expenditure (see Part II.v, Box 3).

"2. Ensure that the reduction in the labour cost resulting from the 'credit d'impôt pour la compétitivité et l'emploi' yields the planned amount and that no other measure will offset its effect. Take further action to lower the cost of labour, in particular through further measures to reduce employers' social-security contributions, in association with social partners. Ensure that developments in the minimum wage are supportive of competitiveness and job creation, taking into account the existence of wage support schemes and social contribution exemptions."

As of 1 January 2014, companies will benefit from the increase in the Competitiveness and Employment Tax Credit from 4% to 6%. Plans call for maintaining the gains from the tax credit by making sure that new measures do not cause labour costs to rise. More specifically, the increase in employers' pension contributions called for under the pension reform plan will be offset by an equivalent decrease in their family contributions (see Part III.1.i). Following the report by a working group on wage policy that included labour and management representatives, the Government issued a decree on 8 February 2013 that revised the rules for adjusting the statutory minimum wage. The new indexation criteria are designed to ensure that changes in the minimum wage are more in line with the economic realities of the employees concerned.

"3. Take further measures to improve the business environment and develop the innovation and export capacity of firms, in particular SMEs and enterprises of intermediate size. In particular, launch the announced simplification initiative of the regulatory framework, and improve the framework conditions for innovation, by enhancing technology transfer and the commercial exploitation of research, including through a reorientation of the competitiveness poles."

Four bills empowering the government to enact simplification by ordinance (the first bill was submitted to the Council of Ministers meeting on 4 September) are aimed at freeing up the housing and construction sector, eliminating superfluous procedures for businesses, adopting the principle that the administration's silence in response to a request means consent and lightening the workload of devolved government departments. The bill presented to the Council of Ministers on 4 September 2013 (with a debate in Parliament scheduled for the fourth quarter) calls for streamlining accounting requirements for very small enterprises and eliminating certain reporting requirements. These provisions will simplify the regulatory framework and improve the business environment, leading to significant productivity gains (see Part III.1.iii). A new €12bn Invest for the Future programme was announced in July 2013. It is designed primarily to finance innovative projects up until 2025 and focuses largely on supporting the transition towards more environment-friendly energy sources (see Part III.1.iii). Phase 3 of the cluster policy (2013-2018) will also enhance the economic benefits of clusters, by focusing support on joint R&D projects aimed at creating innovative products, processes and services with good prospects of reaching the market (see Part III.1.iii). The draft budgetary plan for 2014 includes various reforms to promote innovation and the creation and financing of new companies, especially SMEs. These include extending the Innovative Start-up scheme, a reform of the capital gains tax on securities and a reform of the share savings plan (see Part III.1.iv). Measures to support exporting companies were simplified and strengthened under the 2012 supplementary budget act of 29 December 2012.

"4. Take action to enhance competition in services; remove unjustified restrictions in the access to and exercise of professional services, notably regarding legal form, shareholding structure, quotas and territorial restrictions; take action to simplify authorisation for the opening of trade outlets and to remove the ban of sales at a loss; remove regulated gas and electricity tariffs for non-household customers and strengthen interconnection capacity with neighbouring countries; in the railway sector, open domestic passenger transport to competition."

The «simplification" bill submitted to the Council of Ministers on 4 September 2013 includes measures to facilitate the growth of certain professions. Access to the profession of notary will be facilitated by abolishing the current rule restricting individual notaries or partnerships of notaries from hiring more than one notary as an employee. The creation of new accounting firms and investment in existing firms will be facilitated. These measures facilitate access to professional services and ease the restrictions on shareholding structures (see Part III.1.ii). The consumer bill submitted to the Council of Ministers on 2 May 2013, which is now being debated by Parliament, introduces class actions to provide collective recourse in mass consumption disputes, including suits relating to unfair competition. The development of class actions should deter companies from engaging in anti-competitive practices and provide relief for the households and companies that suffer from them (see Part III.1.ii). This bill, which is now being debated in Parliament, was supplemented by provisions ending regulated gas tariffs for businesses. Other provisions are designed to promote the supply of certain products, such as pregnancy tests (see Part III.1.ii). The Government is preparing a rail system reform that will improve the efficiency of the system and prepare it for open competition for passenger transport by 2019. The decentralisation bill contains provisions designed to stimulate the development of coach lines. The objective of these reforms is to make the transport industry more efficient (see Part III.1.ii).

"5. Pursue efforts to simplify the tax system and improve its efficiency, while ensuring continuity of tax rules over time. Take additional measures to remove the debt bias in corporate taxation. Step up efforts to reduce and streamline personal and corporate income tax expenditures while reducing statutory rates; bring reduced VAT rates closer to the standard rate and remove inefficient reduced rates. Take further measures shifting the tax burden from labour to environmental taxation or consumption."

The 2014 draft budgetary plan calls for continued efforts to simplify the tax system and make it more efficient through such measures as curbing aggressive tax planning and eliminating certain tax expenditures. By eliminating the annual turnover tax (IFA), which is an inefficient tax, the 2014 draft budgetary plan helps to improve the efficiency of the tax system. The 2014 draft budgetary plan also introduces a new tax on EBITDA that is based more on the actual profitability of companies (see Part II.iv). In terms of environmental taxation, the 2014 draft budgetary plan introduces a «carbon" component in the current fuel taxes, in accordance with the guidelines of the Committee for Ecological Taxation. This «carbon" component will expand gradually. At the same time, several eco-unfriendly tax expenditures have been brought into question and the pollution tax (TGAP) base has been extended to new air pollutants (see Part II.iv).

"6. Implement fully, without delay and in consultation with the social partners the inter-professional agreement of January 2013. Take further action to combat labour-market segmentation, in particular to address the situation of interim agency workers. Launch urgently a reform of the unemployment benefit system in association with the social partners and in accordance with national practices to ensure sustainability of the system while ensuring that it provides adequate incentives to return to work. Enhance the employment rate of older workers and stimulate their participation in the labour market. Take specific action to improve the employment perspective of older unemployed people in particular through specific counselling and training. Increase adult participation in lifelong learning, especially of the least qualified and of the unemployed. Ensure that public employment services effectively deliver individualised support to the unemployed and that active labour market policies effectively target the most disadvantaged. Take further measures to improve the transition from school to work through, for example, a Youth Guarantee (1) and promotion of apprenticeship."

The Job Security Act of 14 June 2013, which transposes the inter-industry agreement between labour and management representatives signed on 11 January 2013 into French law, marks an ambitious step towards achieving a lasting improvement in the way the labour market works (see Part III.2.i). By the end of 2013, the Government will present a vocational training and apprenticeship bill, based on talks with labour and management representatives. This bill will channel funding to those who need it most and define the operating procedures for personal training accounts. It will help simplify and improve the efficiency of vocational training and pro-active labour market policies. An emergency training plan for 30,000 additional jobseekers has already been implemented during the second half of 2013 in anticipation of this development (see Part III.2.ii). The central government will significantly increase the resources for employment of the least qualified, young and older jobseekers. These resources include funding for generation contracts to preserve and transmit knowhow from older workers to younger generations, and for the Jobs for the Future scheme aimed at the least qualified young jobseekers (see Part III.2.i). As part of the negotiations on the unemployment insurance agreement for 2014 and 2015, which will lead to the implementation of renewable unemployment benefit entitlements, management and labour representatives will have to redefine the unemployment benefit system in light of its financial trajectory.

Economic outlook

Economic outlook: overview

France's economy is expected to post slight growth of 0.1% in 2013, after remaining flat in 2012. Growth will then pick up again in 2014 to reach 0.9%. This forecast is consistent both with the Consensus Forecasts of 12 September 2013 and the average of forecasts by the members of the Technical Group of the National Economic Council (Commission économique de la Nation, CEN), which are 0.1% for 2013 and 0.8% for 2014. The strong potential for renewed growth, with the output gap standing at nearly 3 points of potential GDP in 2013, could be released by the combined effects of a gradual recovery in the euro area, policies to promote competitiveness and employment, European initiatives to promote growth and financial stability, such as the banking union, and a slower pace of fiscal consolidation.

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The economic situation has been much brighter since the second quarter of 2013, following a dip in GDP in both France and Europe during winter 2012/2013

France's GDP contracted by 0.2% in the first quarter of 2013, following a similar contraction in the fourth quarter of 2012. The economic situation in Europe depressed exports and caused a slight softening of domestic demand over the winter, as rising unemployment weakened purchasing power.

The situation was much improved in the second quarter, with growth of 0.5%. The more favourable international environment enabled businesses to expand their exports of goods and services by 2.0% in real terms, following a fall of 0.5% in the previous quarter. This export growth underpinned output, especially in France's manufacturing sector. The recovery in France is also a reflection of firmer domestic demand. Household consumption expenditure rose by 0.4%, following a decline of 0.1% in the first quarter of 2013.

Business investment was virtually stable in the second quarter at -0.1%, after dropping 0.9% in the first quarter. As the outlook for sales gradually improved, businesses started to rebuild their stocks, as a sign of renewed confidence, contributing 0.2 points of GDP to growth.

The improvement in the economic situation should be confirmed by the end of 2013, as demand grows firmer, marking the end of a period of stagnation that started at the end of 2011 as a consequence of the sovereign debt crisis. In keeping with the pattern of international economic growth, the recovery should be gradual, with continuing growth in the coming months, but at a slower pace than in the second quarter. Economic indicators, such as the business climate, are beginning to turn around, but they are starting from a very low level and are still below their long-term averages. At this stage, the strong performance of the service sector and the automotive industry, which boosted the upturn in the second quarter, could be more moderate in the third and fourth quarters. **Average annual GDP growth should stand at 0.1% in 2013.**

The French economy has strong potential to bounce back

The output gap has widened greatly since the 2008-2009 crisis, according to all of the international organisations. France's gross domestic product is some 3 points lower than its potential level, which means there is a high chance of it bouncing back. Closing the output gap will happen more rapidly as the economic and financial situation of the troubled euro-area countries improves through the combined action of euro-area governments and European institutions.

Under the circumstances, the growth forecast of 0.9% in 2014 is a scenario for gradual economic recovery. This rate is still significantly lower than the potential growth rate for that date.

France's international environment is expected to improve gradually over the forecast period

In 2013, global growth is expected to remain slow, close to the rate seen in 2012. In the euro area, GDP should fall again on the back of public and private deleveraging and because of financing difficulties in the troubled countries. The rest of the world should see stronger growth. This growth should be driven by renewed spending by economic stakeholders in the United States. Japan's highly expansionary economic policy is expected to stimulate its growth. The emerging economies' growth is showing signs of slowing, but it is still strong, even though not nearly as strong as it was before 2008.

Growth is expected to gather pace in 2014, driven primarily by the United States and the euro area, where fiscal consolidation efforts should be more tempered. The recovery in the euro area should be made possible by easing financial tensions, the European Central Bank's commitment to keep its interest rates low for an extended period of time and a halving of the pace of fiscal consolidation. However, growth is expected to remain moderate with wide disparities. Growth in the United States should gather strength as private demand picks up. Japan's growth might slow down with an increase in the consumption tax and the aftershock of the fiscal stimulus in 2013. Finally, the emerging economies should continue to see relatively weak growth compared to the first decade of the new millennium.

All in all, growth in relevant foreign markets should remain soft in 2013, growing by 0.7% and it is not expected to pick up again until 2014, when slightly stronger global growth should cause relevant foreign markets to expand by 4.8%. This is the scenario accepted on the whole by the international organisations (IMF, OECD, WTO).

Growth in relevant foreign markets is expected to drive French exports, which should also be buttressed by measures to promote the competitiveness of French businesses

The recovery in global demand is expected to boost French exports, with export growth rising gradually to stand at 3.5% in 2014. **French exports should also be helped by the early effects of the measures in the National Pact for Growth, Competitiveness and Employment, such as the Competitiveness and Employment Tax Credit (CICE),** which enhances the price competitiveness of French businesses and allows them to rebuild their margins, which had been eroded by the crisis.

The decline in export market shares is expected to be slower than in the first decade of the new millennium. France's export market shares were virtually stable in 2011 and 2012. The lagged effects of the recent rise in the value of the euro should have a slightly adverse impact on competitiveness and hamper export growth. The trade deficit should narrow slightly over the forecast period.

Growing sales opportunities and larger margins should lead to a gradual increase in business investment

The gradual economic revival should lead to a recovery in non-financial corporations' investment, which should expand by 1.5% in 2014, after contracting by 2.2% in 2013. Businesses should continue to enjoy favourable financing terms, as interest rates remain low. The low level of business loans in France seems to stem more from weak demand than from problems with the supply of credit. Investment should be underpinned by economic policy measures, such as the Competitiveness and Employment Tax Credit, along with the stabilisation of business taxes (net of the tax credit). The CICE should lower businesses' labour costs, thereby boosting both their profits and their price competitiveness.

However, the scenario for the recovery of investment is still somewhat uncertain. Businesses should increase their investment slightly to respond to the recovery, but without any excessive increase in their financing requirements. The capacity utilisation rate is still low and businesses are likely to try to maintain or improve their financial situations.

Based on housing-starts data, household investment should decline in real terms in 2013, before strengthening in 2014, with the Government's measures to increase housing supply.

Employment should recover gradually as the economy grows and it should be underpinned by government policies

Employment should recover gradually, with the usual lag seen in each upswing of the business cycle. Some 90,000 new jobs should be created in 2014 in the market sector, after more than 55,000 job losses in 2013 (year-on-year data).

Employment should also be underpinned by government policies to support France's economic recovery. The cut in labour costs resulting from the Competitiveness and Employment Tax Credit should boost the job content of the recovery. At the same time, **policies to boost employment, such as government-sponsored employment contracts, should have a significant impact.** Generation contracts, the expansion of the Jobs for the Future programme (100,000 jobs at the end of 2013 and 150,000 jobs at the end of 2014) and the increase in the number and duration of government-sponsored contracts in the non-market sector (440,000 new jobs planned for 2013), should help lift aggregate employment.

Government policies should help reverse the rise in unemployment by the end of 2013. The increase in the unemployment rate slowed in the second quarter and the youth unemployment rate has already started to come down.

Household consumption should take off again in 2014 as purchasing power increases

Household consumption was affected by a decline in purchasing power in 2012 and by precautionary savings patterns, both of which were influenced by the employment situation. However, consumption remained firm in the second half of 2012, leading to a lower savings rate.

In 2013, households' purchasing power should rise slightly. As was the case in 2012, purchasing power should be depressed by the slower growth of total payrolls and fiscal consolidation measures (that target households most able to pay taxes, thereby limiting the impact of tax increases on consumption), but it should be boosted by lower inflation. Slightly stronger purchasing power should lead to modest growth of consumption by 0.3% and a stable savings rate.

Gradual improvement in employment should lift household income in 2014. Consumption should mirror the purchasing power trend and expand by 0.8% in 2014. As the labour market improves and precautionary savings patterns change, the savings rate should decline very slightly.

Under these circumstances, inflation should be low in 2013, at 0.9%[1] before starting to rise again slightly in 2014 to stand at 1.3%

The fall in inflation since mid-2012 stems largely from a drop in imported inflation, particularly oil prices and other commodity prices, and weak domestic growth. As the external effects taper off and big price cuts in the telecommunications industry come to an end, inflation should pick up again slightly in 2014.

This scenario of a very gradual economic recovery is subject to many uncertainties that tend to balance each other out on the whole

The recovery in 2014 hinges on the pace and scale of the recovery in global demand and, more particularly, on stronger growth in the euro area. The recovery could be stronger if economic agents enjoying some financial leeway increase their spending more. On the other hand, any resurgence of financial tension or a sharper slowdown in the emerging economies would be likely hamper to the ongoing recovery.

France's domestic household and business demand could deviate from the baseline scenario. Expectations of stronger growth in the business sector could stimulate investment and boost consumption, with faster improvement of the employment situation and stronger growth of variable compensation components. On the other hand, businesses might have to rebuild their margins, which would limit the improvement of the employment situation and the increase in wages, and could dampen investment.

(1) 0.8% excluding tobacco prices

Table 1: Economic Forecasts 2013-2014 (Rate of change in volume in p.p. unless otherwise stated)	2012	2013	2014
GDP - France	0.0	0.1	0.9
Growth of relevant foreign markets	0.9	0.7	4.8
France Consumer Price Index	2.0	0.9	1.3
World GDP	3.2	2.9	3.7
United States GDP	2.8	1.4	2.6
Euro Area GDP	- 0.6	- 0.5	1.0
Exchange Rate EUR/USD	1.29	1.31	1.32
Oil prices (Brent, USD / barrel)	112	108	109

Box 1: Review of the forecasts for 2013-2014

Current growth forecasts for 2013 and 2014 are compared with those set out in the macroeconomic scenario contained in the Stability Programme, submitted to the European Commission in April 2013.

The 2013 growth forecasts in the 2014 draft budgetary plan (PLF) remain unchanged while the 2014 growth forecasts have been trimmed slightly. This is because since April 2013, the projected growth of relevant foreign markets has been slightly reduced, particularly for the euro area, which limits the strength of the expected export-driven upturn in France's economy in 2014. Therefore, the growth forecast for the French economy has been maintained at 0.1% for 2013 and lowered from 1.2% to 0.9% for 2014.

The forecast for 2013 remains unchanged

France's economy emerged from recession in the second quarter of 2013, at the same time as the euro area. Growth should remain weak in 2013, at 0.1%, as projected in the Stability Programme. The contribution from export demand is expected to be smaller than projected in the April forecasts and should be offset by stronger output growth, as companies rebuild stocks with the expectation that their business will improve. Domestic demand, net of changes in inventories, should remain the same, as weaker business investment is offset by slightly firmer household consumption than projected in the April forecasts.

As projected in the Stability Programme, growth should gradually pick up in 2014

The revision of the 2014 growth forecast from 1.2% to 0.9% stems from slower growth of relevant foreign markets than originally anticipated in the Stability Programme, at 4.8% instead of 6.5%. The export growth forecast has therefore been trimmed from 4.5% to 3.5%.

In a more sluggish international economy, business investment should pick up less rapidly than originally anticipated, with moderate average annual growth of 1.5%, instead of the 2.4% predicted in the Stability Programme. This lower investment growth forecast stems from a weaker outlook for business opportunities and continuing slow investment in new construction, as signalled by the small number of building permits granted in the first half of 2013. The forecast for household consumption should be virtually unchanged, with 0.8% growth, instead of 0.9%.

All in all, the contribution of domestic demand, net of changes in inventories, should be smaller than previously thought, standing at 0.7 points of GDP, instead of 0.9 points. The contribution of changes in inventories to growth should remain unchanged.

Table 2: Comparisons of the 2014's Draft Budgetary Plan and April 2013' Stability Programme

	Stability Programme April 2013		Draft Budgetary Plan 2014	
Annual Growth Rate, in percentage	**2013**	**2014**	**2013**	**2014**
International Environment				
Oil prices (Brent, USD / barrel)	114	114	108	109
Exchange Rate EUR/USD (in level)	1.32	1.31	1.31	1.32
Growth of relevant foreign markets (goods)	2.6	6½	0.7	4.8
France				
GDP	0.1	1.2	0.1	0.9
Imports	0.8	3.5	1.0	3.0
Households' Consumption Expenditure	0.2	0.9	0.3	0.8
Total GFCF	- 0.8	1.2	- 1.8	0.0
of which non-financial corporations and unincorporated enterprises	- 1.0	2.4	- 2.2	1.5
Exports	2.0	4.5	1.2	3.5
Contributions of Net Foreign Trade to Growth (in p.p. of GDP)	0.3	0.2	0.0	0.1
Contributions of Changes in Inventories to Growth (in p.p. of GDP)	- 0.4	0.1	- 0.1	0.1
Consumer Price Index	1.3	1.75	0.9	1.3

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.

Before the draft budgetary plan (PLF) and the social security draft budgetary plan (PLFSS) for the upcoming year are tabled in Parliament, the Government submits the macroeconomic forecasts that the draft budgetary plans are based on to the High Council on Public Finances. The Government also provides the High Council with items from the PLF and PLFSS that are relevant for assessing the consistency of the opening article of the PLF with the multiyear guidelines for the structural balance set out in the multiyear Public Finance Planning Act. The opening article of the PLF contains a table summarising the structural and headline balance forecasts or outturns for the previous year, current year and the year covered by the budget acts.

The High Council on Public Finances gives its opinion on all of these items. This opinion is then incorporated into the draft budgetary plan tabled in the National Assembly and made public by the High Council at the same time. The Constitutional Council upheld the principle that the opinions of the High Council on Public Finances are among the items that it considers when assessing the accuracy of the legislation brought before it.

Box 3: Comparison with international organisations' forecasts and those of the Technical Group of the CEN

The draft budgetary plan forecast is similar to the latest forecasts by international organisations

The latest growth forecasts for 2013 by the European Commission and the IMF do not incorporate the unexpected bounce in growth in the second quarter reported in August, which brought cumulative growth to 0.1% (see Table 3). The OECD has updated its forecasts for 2013 and now anticipates growth of 0.3%, which is higher than the 0.1% growth predicted in the draft budgetary plan. The Government projects that GDP growth will increase to 0.9% in 2014. This is similar to the OECD and IMF forecasts of 0.8% growth and the European Commission forecast of 1.1% growth in a scenario with no policy change. However, these forecasts do not factor in the latest good economic news and, more specifically, stronger growth in the second quarter.

The Government's forecasts are consistent with the international and domestic forecasts of the Technical Group

The Government and the Technical Group both predict slight GDP growth of some 0.1% in 2013 (see Table 4). The Government's macroeconomic scenario for 2014, featuring 0.9% growth, is also very close to the average forecast of 0.8% by the Technical Group. The Government's forecast is exactly in the middle of the Technical Group forecasts, which range from 0.5% to 1.3%, depending on the institutions.

The international forecasts by the Technical Group and the Government are very similar. More specifically, their forecasts of oil prices in dollars are virtually identical. In addition, the growth forecasts for our trading partners are very similar, particularly in the case of the United States and the euro area (see Table 4). Both the draft budgetary plan and the Technical Group foresee an upturn in French exports in 2014 and predict identical contributions from net foreign trade to GDP growth.

The forecasts for domestic demand are virtually identical and the inflation forecasts are similar. The Technical Group expects the consumer price index (CPI) to rise by 1.0% in 2013 and by 1.5% in 2014, which is consistent with the projection of price increases in the draft budgetary plan scenario (0.9% in 2013 and 1.3% in 2014).

The Technical Group also predicts that the general government borrowing requirement will stand at 4.0 points of GDP in 2013 and at 3.6 points in 2014. These are virtually the same figures as those given in the draft budgetary plan (4.1 points in 2013 and 3.6 points in 2014).

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

	Draft budgetary Plan for 2014		European Commission (May 2013)		OECD (May 2013)		IMF (April and July 2013)	
	2013	2014	2013	2014	2013	2014	2013	2014
GDP	0.1	0.9	- 0.1	1.1	- 0.3*	0.8	- 0.2	0.8
Harmonized Index Consumer Prices (HICP)	1.0	1.4	1.2	1.7	1.1	1.0	1.6	1.5
Net Lending (+) or Borrowing (-) of the General Government (in GDP percentage points)**	- 4.1	- 3.6	- 3.9	- 4.2	- 4.0	- 3.5	- 3.7	- 3.5

* +0,3 % according to quarterly forecasts published September 3th 2013 ** according to the Maastricht definition.

Table 4: Comparisons of the Economic Outlook of the Draft Budgetary Plan and the Commission économique de la Nation

	Economic Outlook Draft Budgetary Plan for 2014		Commission économique de la Nation	
	2013	2014	2013	2014
International Environment				
Exchange Rate EUR/USD	1.31	1.32	1.30	1.27
Oil Prices (Brent, USD / barrel)	108	109	109	108
GDP Growth				
United States	1.4	2.6	1.6	2.6
Japan	1.5	1.1	1.7	1.4
China	7.2	7.2	7.6	7.6
Euro Area	- 0.5	1.0	- 0.4	0.9
France				
GDP	0.1	0.9	0.1	0.8
Final Domestic Demand Excluding Inventories	0.2	0.7	0.1	0.6
Contribution of Changes in Inventories and Net Acquisitions of Valuables to GDP Growth (in p.p. of GDP)	- 0.1	0.1	0.0	0.1
Contribution of Net Foreign Trade to GDP Growth (in p.p. of GDP)	0.0	0.1	0.0	0.1
Consumer Price Index - CPI (annual average)	0.9	1.3	1.0	1.5
Net Lending (+) or Borrowing (-) of the General Government (in GDP percentage points)*	- 4.1	- 3.6	- 4.0	- 3.6

* according to the Maastricht definition.

Public finance outlook

Public finance outlook: overview

The Government's objective is to achieve structural fiscal balance by the end of the term of this legislature, to create more leeway for government action and to restore the sustainability of public finances. The efforts accomplished since May 2012 have brought France much closer to achieving this objective. The structural deficit may have deepened by 2 points of GDP between 2006 and 2011, but the structural balance improved by nearly 1.2 points of GDP (1.15 points) in 2012. The Court of Auditors considers this to be a very significant adjustment. For the first time, central government expenditure, including debt service and pensions, declined in 2012 (by €0.3bn). The headline deficit was reduced by 0.5 points of GDP to 4.8% of GDP, despite flat economic growth. In 2013, the headline deficit should fall further to stand at 4.1% of the GDP as the result of a historic structural effort equivalent to 1.7 points of GDP.

The draft budgetary plan for 2014 is consistent with the trajectory for fiscal consolidation. The structural deficit will be reduced by nearly 1 point of GDP, in compliance with France's European commitments.

This effort will primarily take the form of expenditure savings measures. Tax increases were frontloaded in 2012 and 2013 in order to sustain growth. In 2014, following the massive efforts made in 2012 and 2013, and as economic activity picks up, the structural effort will be eased and focused on expenditure cuts, which will account for 80% of the effort. The tax burden will increase by 0.1 points of GDP, primarily as a result of a stepped up fight against tax fraud and aggressive tax planning.

Revenue measures in the 2014 draft budgetary plan are designed to boost the competitiveness of French companies. Labour costs will come down as the Competitiveness and Employment Tax Credit is phased in and no new measures will increase the cost of labour. Taxes on production will be cut and replaced by a tax on earnings before interest, tax, depreciation and amortisation (EBITDA), which are more representative of businesses' actual capacity to pay taxes. The tax system will provide incentives for innovation. The incentives for innovative start-ups will be increased and special depreciation and amortisation allowances will be granted to SMEs that invest in robotics. A reform of capital gains tax on securities and a new share savings plan for SMEs will facilitate business development financing. Several measures will contribute to financing France's social model, such as lowering the cap on family deductions ("quotient familial") and eliminating the income tax exemption on the pension bonus for parents of three or more children. The draft budgetary plan also includes strong measures to boost purchasing power, with the reintroduction of the cost-of-living adjustment of income tax rates after a two-year freeze and a 5% increase in the tax relief ceiling ("décote") on top of the inflation rate, representing an aggregate gain of €0.9bn for households. The tax measures in the draft budgetary plan for 2014 also reflect the Government's ecological ambition for sustainable growth, including the introduction of a "carbon" component in the current fuel tax base.

The deficit in 2013 should stand at 4.1% of GDP, as the gradual recovery mitigates the impact of an adjustment effort equivalent to 1.7 points of GDP.

In 2013, the headline deficit should stand at 4.1% of GDP, representing a reduction of 0.7 points of GDP compared to 2012. This deficit is larger than the one forecast in the Stability Programme (3.7%) in view of the economic situation, which affects revenue elasticities (-0.4 points of GDP), and the expected cost of the second amending budget of the European Union for 2013 (-0.1 points of GDP). In contrast, one-off events and measures have been revised upwards in view of recent developments regarding tax disputes (+0.1 points of GDP).

The reduction of 0.7 points of GDP is the result of an historic structural effort (1.7 points of GDP), whereas the sluggish economy will add approximately 1 point of GDP to the deficit.

- The growth forecast for 2013 is deliberately conservative at 0.1%, which is lower than the potential of the French economy (1.4% in 2013). This means that the cyclical

deficit will deteriorate by 0.6 points in 2013 compared to 2012.

- Furthermore, the aggregate tax elasticity is below one, which will reduce government revenues by 0.4 points of GDP.

The massive effort made in 2013, equal to 1.7 points of GDP, makes possible a further reduction of the fiscal deficit by 0.7 points of GDP, from 4.8% of GDP in 2012 to 4.1% in 2013.

The expenditure submitted for Parliament's approval (central government expenditure, healthcare expenditure) has been perfectly contained. Central government expenditure, excluding debt service and pensions, and excluding the second exceptional amending budget of the European Union, will be stable compared to the initial 2012 budget act in nominal terms. In view of the nature of the budget appropriations concerned (clearing up past liabilities) and their one-off nature, the amending budget will be financed outside of the spending growth rules. An additional effort will be made concerning the National Healthcare Expenditure Growth Target (Ondam). The target in the 2013 Social Security budget act has been trimmed by €0.5bn. The revenue measures, accounting for 1.5 points of GDP, are largely the result of the 2013 Budget Act and Social Security Budget Act, along with the stepping up of measures introduced in the supplementary budget act of 16 August 2012. The tax burden should reach 46.0 % of GDP, increasing by 1 point compared to 2012. This increase is primarily the result of discretionary revenue measures. It is limited by spontaneous changes in taxes, which are much smaller than changes in economic growth, since the current composition of growth does little to increase revenues: total payrolls are not keeping pace with economic growth, consumption is sluggish and revenues from corporate income tax and value added tax are lower than expected.

Government expenditure should increase by 1.7% in real terms, or 2.5% in nominal terms, to reach 57.1% of GDP. The unexpected fall in inflation in 2013 automatically led to an increase in government expenditure in real terms, since a major share of this expenditure is set in nominal terms or indexed on the inflation forecast in the Stability Programme. The second amending budget of the European Union for 2013, which completes the 2007-2013 budget programming period, should come to 0.1 points of GDP.

In 2014, 80% of the continued efforts will rely on expenditure measures to reduce the fiscal deficit to 3.6% of GDP.

In 2014, fiscal consolidation efforts will continue, but at a slower pace so as to avoid undermining the recovery. The structural effort will be 0.9 points, which is broadly in line with the effort projected in the Stability Programme (1 point of GDP). Eighty per cent of this effort will rely on expenditure savings measures worth €15bn.

The fiscal deficit should narrow by 0.5 points of GPD compared to 2013 on the strength of this effort of 0.9 points of GDP, despite the negative impact of cyclical developments (-0.4 points of GDP). Despite the recovery, growth is not expected to reach its potential rate and should thus fail to narrow the output gap that opened up during the crisis. One-off and temporary developments, especially tax disputes, should deepen the fiscal deficit by 0.1 points.

Fiscal consolidation should rely mostly on containing expenditure. Central government expenditure, excluding debt service and pensions, should decline by €1.5bn compared to the initial 2013 budget act. This is the first time that the budget incorporates such a large reduction. In comparison to the natural growth trend, this reduction of central government expenditure, excluding debt service and pensions, represents a savings of €9bn. Savings are made in three areas, central government operating expenditure, transfers to central government agencies and local governments, and other expenditure, including intervention and capital expenditure. Furthermore, savings of €6bn will be made on aggregate social security fund expenditure. These savings will result from the reform of first-pillar pension schemes announced on 27 August 2013 and the reform of second-pillar pension schemes, the reform of family benefits policy announced in June 2013 and efforts to reduce healthcare expenditure, with the growth target for healthcare expenditure being set at 2.4%, which was the lowest growth rate ever submitted for Parliament's approval since 1998. Local governments and central government agencies will play their full part in

the fiscal consolidation effort through restriction of their resources.

The savings should lead to a decline in government expenditure as a share of GDP from 57.1% in 2013 to 56.7%. The growth of expenditure in real terms will be limited to only 0.4%. This growth rate should reflect the tighter limits imposed by spending rules expressed in nominal terms, given a higher inflation rate than in 2013 (1.3% versus 0.8%), an additional savings effort of €1.5bn in nominal terms, savings on social security fund expenditure (see above), the adjustment of certain benefits based on the initial inflation forecast for 2013, and a decrease in capital expenditure by local governments in an election year.

The tax burden should stand at 46.1%, increasing by 0.1 points compared to 2013. This rise should be largely due to the expected increase in revenue from measures to fight tax fraud and aggressive tax planning. The elasticity of taxes should be equal to 1.

General government debt, as defined by the Maastricht criteria, increased by 4.4 points of GDP in 2012 to reach 90.2% of GDP. Government debt should grow more slowly now, rising by 3.2 points of GDP in 2013 and 1.7 points of GDP in 2014 to stand at 95.1% of GDP at the end of 2014. This lower growth is expected as a result of the continuing improvement in the fiscal balance and in the GDP growth rate. This would lower the level of the debt-stabilising fiscal balance and government debt as a percentage of gross domestic product should start to decline as from 2015.

Table 1: Public balance and breakdown by sub-sector

General government lending capacity (+) / borrowing requirement (-) (% of GDP)	2012	2013	2014
State	- 3.9	- 3.2	- 3.2
Other central government bodies	- 0.1	0.0	0.0
Local governments	- 0.2	- 0.2	- 0.2
Social security funds	- 0.6	- 0.7	- 0.3
Government balance	**- 4.8**	**- 4.1**	**- 3.6**

Table 2: Structural balance

% of GDP, unless otherwise mentioned	2012	2013	2014
Government balance	**- 4.8**	**- 4.1**	**- 3.6**
of which, cyclical balance	- 0.8	- 1.4	- 1.8
of which, structural balance *(excluding one-off measures, % of potential GDP)*	- 3.9	- 2.6	- 1.7
of which, one-off measures (% of potential GDP)	- 0.1	0.0	- 0.1
Structural adjustment (excluding one-off meausures, % of potential GDP)	**1.1**	**1.3**	**0.9**
of which, structural effort	1.3	1.7	0.9
discretionary tax measures	1.2	1.5	0.2
effort in expenditure	0.1	0.2	0.7
of which, non discretionnary component	- 0.1	- 0.4	0.0

Table 3: Key figures

% of GDP, unless otherwise mentioned	2012	2013	2014
Government debt (excluding financial support for the euro area)	87.8	90.4	91.8
Government debt (Maaastricht definition)	90.2	93.4	95.1
Real growth rate of expenditures (%)	1.0	1.7	0.4
General government expenditure	56.6	57.1	56.7
Aggregate tax and social security contribution rate	45.0	46.0	46.1

Box 1: The trajectory of public finance under the "no-policy change" scenario

In accordance with the requirements of Article 6 of Regulation No 473/2013 of the European Parliament and of the Council (part of the "two-pack"), this report presents a no-policy change scenario, which corresponds to the change in the government balance with no changes to legislation or fiscal practices. The no-policy-change scenario includes developments that can be attributed to the existing laws and regulations, which distinguishes it from a «trend» trajectory, but it does not consider the greater effort to be made since the passage of the multiyear Public Finance Planning Act.

This programme uses the following assumptions to construct the no-policy-change scenario

- The scenario considers revenue and expenditure measures already passed ("no-legislative-change" concept) under all legislation that has an impact on public finances and, more specifically, under previous years' Budget Acts, Social Security Budget Acts and multiyear Public Finance Planning Acts. In this account, therefore, the scenario includes the effects of measures introduced by the 2013 Initial Budget Act, the 2013 Social Security Budget Act, the Supplementary Budget Act of December 2012 and previous Budget Acts, along with the rules that future Budget Acts must comply with the Public Finance Planning Act for 2012 to 2017. More specifically, the multiyear Planning Act includes ambitious fiscal objectives for central government expenditure and a moderate increase in the national healthcare expenditure growth target (Ondam). These objectives have proven to be effective instruments for containing expenditure.

- The scenario also assumes no change in budget practices, such as index-linking of benefits (family benefits, pensions, etc.) and of tax rates. It also incorporates statistically observed patterns, such as the pattern of the local government balance over the election cycle (capital expenditure and local direct tax rates in particular).

On the other hand, the no-policy-change scenario differs from the trajectory in this report because it does not incorporate the measures decided since the Public Finance Planning Act for 2012 to 2017.

Table 4: Trajectory at no-policy-change

(% of GDP)	2013	2014
Spontaneous trajectory (before measures introduced after May 2012)	**- 6.2**	**- 6.6**
Compliance with the expenditure rules	0.6	1.1
New tax and social security contribution measures of the multiyear Public Finance Planning Act	1.5	1.5
Competitiveness pact		0.0
of which CICE net of the VAT hike*		*- 0.2*
of which expenditure saving measures		*0.2*
"No-policy-change" scenario	**- 4.1**	**- 4.0**
Reinforcement of the effort compared to the multiyear Public Finance Planning Act		0.4
Target trajectory	**- 4.1**	**- 3.6**

* Corporate Tax Credit for Competitiveness and Employment

This report also presents a "spontaneous trajectory" for the deficit that shows the spontaneous growth rate of government revenue, healthcare expenditure and central government expenditure. This trajectory is different from the no-policy-change scenario, because it does not consider efforts to meet budgetary rules and measures introduced after July 2012. Without the efforts planned in the interval, the deficit would stand at 6.2% of GDP in 2013.

***The no-policy-change scenario for 2013 calls for a deficit of 4.1% of GDP**, which is the Government's objective. All of the expenditure and revenue measures for 2013 were passed before or in the Public Finance Planning Act for 2012 to 2017 and in the 2013 Initial Budget Act and Social Security Budget Act.*

In 2014, *the no-policy-change scenario incorporates compliance with central government expenditure growth rules and with the national healthcare expenditure growth target defined in the multiyear Public Finance Planning Act. It also includes the expenditure measures provided for in the Planning Act to finance the Competitiveness and Employment Tax Credit. The structural effort was increased by 0.4 points of GDP in 2014, compared to the target in the multiyear Public Finance Planning Act. This increase stems from stepping up the fight against tax fraud, pension reform (including second-pillar pension schemes) and additional savings on the management of social security funds and unemployment benefits.*

Box 2: Review of 2012

In 2012, the government balance improved by 0.5 points of GDP (from 5.3% in 2011 to 4.8%) despite one-off items that hampered this improvement (e.g. recapitalisation of Dexia, payment for the Amending Budget of the European Union), in a very adverse economic context, with flat growth that led to an increase of 0.5 points of GDP in the cyclical deficit. The narrowing of the deficit, therefore, was the result of a massive structural adjustment (1.1 points of GDP, which is close to the level of 1.2 points set out in the Public Finance Planning Act for 2012 to 2017). Government expenditure and revenue accounted for 56.6% and 51.8% of GDP in 2012, respectively. The aggregate tax and social security contribution rate stood at 45.0% of GDP.

In accordance with Article 23 of the constitutional bylaw of 17 December 2012, the Government submitted the opening article of the 2012 Budget Review Act to the High Council on Public Finances on 17 May 2013 for a ruling on whether there was a «significant deviation» from the structural deficit trajectory defined in the multiyear Public Finance Planning Act. The High Council found that the deviation estimated to be 0.3 points could not be deemed to be significant and that it stemmed primarily from a revision of the national accounts in 2011 and from slightly stronger spending growth that were offset by the fact that tax revenues were more resilient in the face of slower growth than had been projected in the Public Finance Planning Act.

Government expenditure trajectory in 2012

Government expenditure posted little growth in 2012, expanding at a rate of 1.0% in real terms. Central government and healthcare expenditure, which are subject to the rules of the multiyear Public Finance Planning Act, was lower than expected, which points to the effectiveness of expenditure management, including historic undershooting of the healthcare expenditure growth target by €1.0bn. However, aggregate expenditure was driven up in 2012 by one-off items that were not expected at the time the draft budgetary plan for 2013 was being prepared. These items included the recapitalisation of Dexia, recorded as an expense and not a financial transaction. The recapitalisation cost €2.6bn and increased expenditure by over 0.2 points. Another one-off item was the payment at the beginning of 2013 for the 2012 Amending Budget of the European Union. The €580m payment in January 2013 was recorded in the national accounts for 2012.

All in all, the growth of government expenditure in real terms was much slower than the trend over the previous five years, when it rose by 1.7% per year on average.

Tax and social security contribution trajectory in 2012

In 2012, the aggregate tax and social security contribution rate stood at 45.0% of GDP, up 1.2 points compared to 2011. Most of this growth stems from discretionary revenue measures, equivalent to 1.1 points of GDP. The spontaneous increase in tax revenue accounted for a smaller contribution to this growth, equivalent to 0.1 points of GDP.

Discretionary revenue measures contributed 0.7 points to the increase in central government tax revenue, and 0.4 points to the increase in social security revenues. Most of these measures, accounting for around 0.8 points of GDP, were passed before May 2012, such as the creation of a 7% reduced-rate value added tax (+€2.1bn), freezing the cost-of-living adjustment of income tax rates (+€1.8bn), change in the holding period for the real estate capital gains tax exemption (+€1.6bn), limits on the option for carrying forward past losses against current profits (+€1.2bn), and the 1.2-point increase in social security contributions on investment income (+€1.1bn). The main measures passed since May 2012 have been the creation of a one-off wealth tax charge (+€2.3bn), the abolition of the social security contribution exemption for overtime pay (+€1.0bn), and the 2-point increase in social security contributions on investment income (+€0.8bn). All in all, the discretionary measures passed since May 2012 have contributed 0.3 points of GDP to the increase in general government tax revenue.

Excluding discretionary measures, the aggregate tax and social security contribution rate has increased slightly more rapidly than nominal GDP (1.7% versus 1.5%), corresponding to an aggregate tax elasticity of 1.1, which contributed for a total of 0.1 points to the increase in the aggregate tax and social security contribution rate between 2011 and 2012. The spontaneous increase in central government tax revenue was much slower than GDP (elasticity of 0.1), because of the adverse macroeconomic environment for revenue, particularly revenue from VAT and corporate income tax. In contrast, the spontaneous increase in social security revenue, particularly from social security contributions and the general social security contribution, was sustained by total payroll growth that outstripped GDP growth. The GDP elasticity of social security revenue stood at 1.4.

Box 3: Interim outturn outline

Government expenditure trajectory in 2013

Interim reporting at this point in the year provides the following information about the government expenditure outturn:

- *With the exception of the French contribution to the exceptional amending budget of the European Union to cover past liabilities before the implementation of the 2014-2020 financial perspective (€1.8bn), the objective of stable nominal central government expenditure, excluding debt service and pensions, compared to the initial 2012 budget act, should be met.*
- *The interest payments on central government debt, as defined in the national accounts, should come to €41.1bn for 2013 as a whole. This forecast is based on debt issuance since the beginning of the year and forecasts for yields and the inflation rate.*
- *The outturn for healthcare expenditure covered by the growth target (Ondam) suggests it will be possible to undershoot this target by approximately €0.5bn.*

Government revenue trajectory in 2013

The revenue forecast for 2013 is based on data about revenue collection and the macroeconomic determinants of the tax base in the early months of the year:

- *Total payrolls are the base for nearly half of taxes (social security contributions and the general **social security contribution** in particular). The 2013 forecast for total payroll growth of 1.3% (non-farm market sector) is consistent with the carry-over at the end of June, which stood at 1.1% (ACOSS).*

*- The first two advance payments and a large share of the remainder due for **corporate income tax** had already been received by the end of July. An analysis of the revenue collected led to a downward revision of the forecast for growth of taxable profit in 2012, compared to the forecast in the initial 2013 budget act.*

*-The forecast for revenue from **value added tax** is based on the assumption that the base will grow by 0.3% in 2013, which is consistent with the revenue collected at the end of July.*

*- The forecast for **personal income tax** is based on an analysis of the first tax assessments issued, which seem to show sluggish growth of self-employed workers' income in 2012.*

*The forecast for the **tax on corporate value added**, with spontaneous growth nearly flat in 2013, relies on accounting data about the balance in May and the first advance payment in mid-June.*

*- Revenue from the **real property transfer tax** (DMTO), which varies greatly from month to month, was consistent with a decline of approximately 10% in the volume of real-estate transactions and virtually flat prices.*

Detailed forecast tables

Table 1: Resources and uses of goods and services - Nominal gross domestic product and components

	2012		2013	2014
NOMINAL GROSS DOMESTIC PRODUCT (GDP) level in billions	**2 032.3**		**2 068.3**	**2 116.8**
	Level in Bn €	Volume		
		Rate of change	Rate of change	Rate of change
RESOURCES				
Real gross domestic product	2 032.3	0.0	0.1	0.9
Imports	602.6	- 1.1	1.0	3.0
TOTAL RESOURCES	2 634.9	- 0.2	0.3	1.4
USES				
Private consumption expenditure	1 172.3	- 0.3	0.3	0.9
Government consumption expenditure	502.7	1.4	1.5	0.8
Gross fixed capital formation (GFCF)	401.8	- 1.2	- 1.8	0.0
Of which:				
- GFCF of Non-financial corporations and unincorporated enterprises	208.4	- 2.1	- 2.2	1.5
- GFCF of Households except unincorporated enterprises	110.5	- 0.3	- 3.8	0.2
- GFCF of General Government	63.7	- 0.5	2.5	- 5.2
Exports	557.6	2.4	1.2	3.5
Changes in inventories and net acquisitions of valuables	0.5			
TOTAL USES	2 634.9	- 0.2	0.3	1.4
Contributions to real GDP growth				
Final domestic demand excluding inventories		- 0.1	0.2	0.7
Changes in inventories and net acquisitions of valuables		- 0.9	- 0.1	0.1
Net foreign trade		1.0	0.0	0.1

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

	2012 Rate of change	2013 Rate of change	2014 Rate of change
RESOURCES			
Gross domestic product	1.5	1.6	1.4
Imports	1.9	- 1.0	0.8
TOTAL RESOURCES	1.6	1.0	1.3
USES			
Private consumption expenditure	1.8	0.8	1.3
Government consumption expenditure	1.2	0.7	1.0
Gross fixed capital formation	1.7	1.0	1.7
Exports	1.2	0.1	0.9
TOTAL USES	1.6	1.0	1.3
OTHER PRICES INDICES - annual average			
Consumer Price Index (CPI)	2.0	0.9	1.3
Consumer Price Index excluding tobacco	1.9	0.8	1.3
Harmonized Index Consumer Prices (HICP)	2.2	1.0	1.4

Table 3: Sectoral balances – Net lending (+) / borrowing (-)

	2011 % GDP	2012 % GDP	2013 % GDP	2014 % GDP
NET LENDING (+)/ BORROWING (-) vis-à-vis the rest of the world	**- 2.5**	**- 2.2**	**- 1.7**	**- 1.6**
Of which:				
- Balance of goods and services	- 3.0	- 2.2	- 1.8	- 1.7
- Balance of primary incomes and transfers	0.5	0.1	0.1	0.0
- Capital account	0.0	- 0.1	0.0	0.0
NET LENDING (+)/ BORROWING (-) of the private sector	**2.8**	**2.6**	**2.4**	**2.0**
Of which:				
- Households	4.5	4.1	4.2	4.1
- Non financial corporations	- 2.9	- 2.8	- 2.9	- 3.1
NET LENDING (+)/ BORROWING (-) of general government*	**- 5.3**	**- 4.8**	**- 4.1**	**- 3.6**

(*) according to the Maastricht definition

Table 4: French external trade

	2011 Level in Bn €	2012 Level in Bn €	2013 Level in Bn €	2014 Level in Bn €
TOTAL GROSS TRADE BALANCE CIF-FOB	**- 87.9**	**- 81.3**	**- 70.4**	**- 68.1**
Of which:				
- Manufacture of food products	11.4	11.5	12.0	12.2
- Energy	- 62.4	- 69.0	- 65.3	- 65.5
- Industry	- 39.6	- 26.6	- 20.0	- 17.8
Total trade balance FOB-FOB - in level	- 73.7	- 67.0	- 56.1	- 53.2
Total trade balance FOB-FOB - in p.p. of GDP	- 3.7	- 3.3	- 2.7	- 2.5
COMMERCIAL BALANCE EXCLUDING ENERGY AND MILITARY EQUIPMENT - in level CIF-FOB	**- 28.2**	**- 15.1**	**- 7.9**	**- 5.6**

Table 5: Non financial Corporations – Detailed data

	2011 Level in Bn €	2012 Rate of change	2013 Rate of change	2014 Rate of change
GROSS VALUE ADDED	**1 006.5**	**1.2**	**1.6**	**2.0**
Compensations of employees	676.5	2.0	1.5	2.2
Ratio: compensations of employees / Gross Value Added – level in %	67.2	67.7	67.7	67.9
Taxes on production	53.2	6.2	5.9	3.7
Subsidies on production	- 16.3	2.7	1.7	- 1.4
Gross operating surplus (GOS)	293.2	- 1.5	0.9	0.9
Ratio - Gross operating surplus/ Gross Value Added : margin rate of non-financial corporations – level in %	29.1	28.4	28.2	27.9 / 28.7*
Property income paid	310.6	- 0.2	- 4.0	4.2
Property income received	219.5	- 5.1	- 4.8	3.5
Taxes on income and wealth	33.0	- 0.6	13.1	- 24.0
GROSS SAVING	**144.4**	**- 9.7**	**- 0.2**	**3.9**
Ratio : Saving Rate (Gross Saving / Gross Value Added) – level in %	14.4	12.8	12.6	12.8
Gross fixed capital formation (GFCF)	199.1	- 0.8	- 1.0	3.3
Ratio : Self-financing rate (Saving / GFCF) – level in %	72.6	66.0	66.6	67.0
Ratio : Investment rate (GFCF / Gross Value Added) – level in %	19.8	19.4	18.9	19.1
Changes in inventories (1)	15.5	- 0.2	7.0	11.8
NET LENDING (+) / BORROWING (-) (in points of Gross Value Added) – in level	**- 5.7**	**- 5.7**	**- 5.8**	**- 6.3**

(*) Margin rate reintegrating into the profits, the amount that companies will recover under the CICE (the tax credit for competitiveness and employment).

(1) Changes in inventories - level in billions.

Table 6: Households - Income accounts

	2011 Level in Bn €	2012 Rate of change	2013 Rate of change	2014 Rate of change
RESOURCES				
Compensations of employees	787.9	1.9	1.2	2.1
Employees' social contribution	108.9	3.4	4.3	3.9
Net wages	679.0	1.6	0.8	1.8
Mixed income (mainly unincorporated enterprises)	121.7	1.7	1.5	2.8
Gross operating surplus (except unincorporated enterprises)	158.2	1.4	2.7	3.7
Social benefits in cash	427.5	4.0	3.4	2.2
Property incomes	158.3	- 1.2	- 4.6	4.0
Other resources	61.5	0.8	1.8	2.3
USES				
Social contributions by self-employed and non-employed persons	27.8	5.9	6.1	3.1
Current taxes on income and wealth	174.5	10.2	5.2	4.4
Income of the property paid (paid interests)	26.7	- 9.8	- 24.0	3.4
Other uses	50.8	3.7	1.8	2.3
Gross Disposable Income (GDI)	**1 326.3**	**0.9**	**1.0**	**2.1**

Table 7: Households - From disposable income to net lending

	2011 Level in Bn €	2012 Rate of change	2013 Rate of change	2014 Rate of change
GROSS DISPOSABLE INCOME (GDI)	**1 326.3**	**0.9**	**1.0**	**2.1**
Purchasing power of GDI		- 0.9	0.3	0.8
Consumption expenditure	1 113.9	1.4	1.1	2.1
GROSS SAVING	**212.4**	**- 1.8**	**0.8**	**1.9**
GLOBAL SAVING RATE (Gross saving/ GDI)				
– in level	**16.0**	**15.6**	**15.6**	**15.5**
Gross fixed capital formation (GFCF)	119.3	1.8	- 2.9	2.1
Other net uses	3.9	25.6	24.5	15.0
NET LENDING (in billions €)	**89.2**	**82.3**	**86.2**	**86.8**
FINANCIAL SAVING RATE (Net lending / GDI)				
– in level	**6.7**	**6.1**	**6.4**	**6.3**

Table 8: International Environment - Basic assumptions

	2012	2013	2014
Short-term interest rate (annual average)	0.6	0.2	0.5
Long-term interest rate (annual average)	2.5	2.3	3.3
€/USD exchange rate (annual average)	1.29	1.31	1.32
Nominal effective exchange rate	- 2.9	2.9	0.6
World growth (excluding EU)	4.0	3.7	4.2
Growth of relevant foreign markets	0.9	0.7	4.8
World imports (excluding EU)	4.6	4.0	6.1
Oil prices (Brent, USD / barrel)	112	108	109

Table 9: International Environment - Detailed forecasts of the GDP growth

	2011 Level in Bn US $	2012 Rate of change	2013 Rate of change	2014 Rate of change
France	2 782	0.0	0.1	0.9
United Kingdom	2 432	0.2	1.2	1.7
EU (27 countries)	17 589	- 0.2	0.0	1.3
Euro area	13 109	- 0.6	- 0.5	1.0
Euro area excluding France	10 331	- 0.7	- 0.6	1.0
United States	15 076	2.8	1.4	2.6
Japan	5 897	2.0	1.5	1.1

Table 10: International Environment - Consumer prices				
	2011	2012	2013	2014
France (consumer price index)	2.1	2.0	0.9	1.3
United Kingdom	4.5	2.8	2.6	2.4
Euro area	2.7	2.5	1.5	1.6
United States	3.1	2.1	1.6	2.0
Japan	- 0.3	0.0	0.2	2.6

Table 11: Labour market developments				
	2011 Level	2012 Rate of change	2013 Rate of change	2014 Rate of change
Employment, persons - Total economy - Annual average		0.1	- 0.1	0.6
Employment, persons - Total economy - YoY[1]		- 59	114	152
Employment, persons - Non-farm private sector - Annual Average		- 0.1	- 0.6	0.1
Employment, persons - Non-farm private sector YoY[1]		- 92	- 53	89
Compensations of employees - Total economy	1 084.9	2.0	1.5	2.2
Wages and salaries per employees - Non-farm private sector		1.9	1.9	2.1
Labour productivity - Total economy[2]		0.1	0.3	0.3

(1)Thousands of persons.

(2) Productivity per person employed (Real GDP / total Employment).

Table 12: Real and potential GDP growth			
	2012 Rate of change	2013 Rate of change	2014 Rate of change
Actual GDP growth	**0.0**	**0.1**	**0.9**
Potential GDP growth	**1.3**	**1.4**	**1.5**
Contributions :			
- Labour	0.3	0.3	0.3
- Capital	0.6	0.6	0.6
- Total Factor Productivity (TFP)	0.4	0.5	0.6
Output gap (in p.p. of potential GDP)	**- 1.6**	**- 2.9**	**- 3.5**

Table 13: General government budgetary targets broken down by subsector

	ESA Code	2012 % GDP	2013 % GDP	2014 % GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector				
1. General government	S.13	- 4.8	- 4.1	- 3.6
2. Central government	S.1311	- 4.0	- 3.2	- 3.1
3. State government	S.1312	-	-	-
4. Local government	S.1313	- 0.2	- 0.2	- 0.2
5. Social security funds	S.1314	- 0.6	- 0.7	- 0.3
6. Interest expenditure	D.41	2.5	2.3	2.5
7. Primary balance (1 + 6)		- 2.3	- 1.8	- 1.1
8. One-off and other temporary measures[1]		- 0.1	0.0	- 0.1
9. Real GDP growth (%)		0.0	0.1	0.9
10. Potential GDP growth (%)		1.3	1.4	1.5
contributions:				
- labour				
- capital				
- total factor productivity				
11. Output gap (% of potential GDP)		- 1.6	- 2.9	- 3.5
12. Cyclical budgetary component (% of potential GDP)		- 0.8	- 1.4	- 1.8
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		- 4.0	- 2.7	- 1.9
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		- 1.5	- 0.4	0.6
15. Structural balance (13 - 8) (% of potential GDP)		- 3.9	- 2.6	- 1.7

1/ A plus sign means deficit-reducing one-off measures.

Table 14: General government debt developments

	ESA Code	2012 % GDP	2013 % GDP	2014 % GDP
1. Gross debt[1]		90.2	93.4	95.1
2. Change in gross debt ratio		4.4	3.2	1.7
Contributions to changes in gross debt				
3. Primary balance		- 2.3	- 1.8	- 1.1
4. Interest expenditure	D.41	2.5	2.3	2.5
5. Stock-flow adjustment		0.9	0.7	0.2
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]		3.0	2.6	2.7
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 entities), A.F511, AF.52 (only if quoted in stock exchange).

Table 15: Contingent liabilities

	2012 % GDP	2013 % GDP	2014 % GDP
Public guarantees*	8.0		
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 1,5 pt of GDP).

Table 16: General government expenditure and revenue projections at unchanged policies broken down by main components

	ESA Code	2012 % GDP	2013 % GDP	2014 % GDP
General government (S13)				
1. Total revenue at unchanged policies	TR	51.8	52.9	52.8
Of which				
1.1. Taxes on production and imports	*D.2*	*15.4*	*15.6*	*16.0*
1.2. Current taxes on income, wealth, etc	*D.5*	*12.0*	*12.6*	*12.0*
1.3. Capital taxes	*D.91*	*0.5*	*0.5*	*0.5*
1.4. Social contributions	*D.61*	*19.0*	*19.3*	*19.3*
1.5. Property income	*D.4*	*0.7*	*0.7*	*0.7*
1.6. Other		*4.2*	*4.3*	*4.3*
p.m.: Tax burden		*45.0*	*46.0*	*45.8*
2. Total expenditure at unchanged policies	TE	56.6	57.0	56.8
Of which				
2.1. Compensation of employees	*D.1*	*13.2*	*13.2*	*13.1*
2.2. Intermediate consumption	*P.2*	*5.6*	*5.6*	*5.6*
2.3. Social payments	*D.62, D.63*	*26.0*	*26.5*	*26.5*
of which Unemployment benefits		*1.4*	*1.5*	*1.5*
2.4. Interest expenditure	*D.41*	*2.5*	*2.3*	*2.5*
2.5. Subsidies	*D.3*	*1.5*	*1.5*	*1.6*
2.6. Gross fixed capital formation	*P.51*	*3.1*	*3.2*	*3.0*
2.7. Capital transfers	*D.9*	*0.9*	*0.7*	*0.7*
2.8. Other		*3.8*	*4.0*	*3.9*

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

	ESA Code	2012 % GDP	2013 % GDP	2014 % GDP
General government (S13)				
1. Total revenue target	TR	51.8	52.9	53.1
Of which				
1.1. Taxes on production and imports	*D.2*	*15.4*	*15.6*	*16.0*
1.2. Current taxes on income, wealth, etc.	*D.5*	*12.0*	*12.6*	*12.2*
1.3. Capital taxes	*D.91*	*0.5*	*0.5*	*0.5*
1.4. Social contributions	*D.61*	*19.0*	*19.3*	*19.4*
1.5. Property income	*D.4*	*0.7*	*0.7*	*0.7*
1.6. Other		*4.2*	*4.3*	*4.3*
p.m.: Tax burden		*45.0*	*46.0*	*46.1*
2. Total expenditure target	TE	56.6	57.0	56.7
Of which				
2.1. Compensation of employees	*D.1*	*13.2*	*13.2*	*13.1*
2.2. Intermediate consumption	*P.2*	*5.6*	*5.6*	*5.6*
2.3. Social payments	*D.62.D.63*	*26.0*	*26.5*	*26.4*
of which Unemployment benefits		*1.4*	*1.5*	*1.5*
2.4. Interest expenditure	*D.41*	*2.5*	*2.3*	*2.5*
2.5. Subsidies	*D.3*	*1.5*	*1.5*	*1.6*
2.6. Gross fixed capital formation	*P.51*	*3.1*	*3.2*	*3.0*
2.7. Capital transfers	*D.9*	*0.9*	*0.7*	*0.7*
2.8. Other		*3.8*	*4.0*	*3.9*

Table 18: Amounts to be excluded from the expenditure benchmark					
	ESA Code	2012 Level (Bn €)	2012 % GDP	2013 % GDP	2014 % GDP
1. Expenditure on EU programmes fully matched by EU funds revenue					
2. Cyclical unemployment benefit expenditure		29.3	0.1	0.1	0.2
3. Effect of discretionary revenue measures		908.6	1.1	1.5	0.1
4. Revenue increases mandated by law					

Table 19: General government expenditure by function	
Fonction (COFOG)	**% 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 : INSEE, 2012

Table 20: Revenue-impacting measures planned for 2014 (in billion euros)	
Revenue measures planned for 2014 (in billion euros)	**2.7**
Sustaining our social model	**5.9**
Reforming the pension system	3.4
Increase in employees' social security contributions	1.05
Increase in employers' social security contributions	1.05
Elimination of the income tax exemption on the pension bonus for parents of three or more children	1.2
Agricultural measures (funding of pension reform)	0.1
Reforming the family and education policy	1.5
Lowering of the cap on family deductions (personal income tax)	1.0
Elimination of the income tax reduction granted to parents whose children go to high school or to university	0.4
Financing the universalization of supplemental health insurances	1.0
Elimination of the income tax exemption on the employer contribution to supplemental health insurance collective agreements	1.0
Promoting economic growth, competitiveness and employment	**- 3.4**
Competitiveness and Employment Tax Credit (decrease in corporate income tax ; increase in VAT rates)	- 3,8
Decrease in employers's social contributions	- 1.05
Tax on earnings before interest, tax, depreciation and amortisation (EBITDA)	2.5
Elimination of the annual flat rate tax payed by corporations	- 0.6
Reform of capital gains tax on securities	- 0.4
Reinforcement of the plan designed to help innovating startups	- 0.1
Accelerated capital cost allowance for robots	0.0
Supporting purchasing power and access to housing	**- 1.5**
Supporting purchasing power	- 0.9
Reintroduction of the cost-of-living adjustment of income tax rates	- 0.7
5% increase in the tax relief ceiling on top of the inflation rate	- 0.2
Decrease in the VAT rate on cinema tickets	- 0.1
Facilitating access to housing	- 0.6
Reform of the taxation of real estate gains (cost: 0,3 billion euros in 2013 ; cumulative cost: 0,5 billion euros in 2014)	- 0.2
Decrease in the VAT rate on social housing	- 0.4
Support for institutional investment in mid-range housing (cost as from 2015)	0.0
Allowing a successful ecological transition	**0.5**
Introduction of a “carbon” component in the current fuel tax base	0.3
Step-by-step elimination of the tax exemption for biofuels	0.1
Reinforcement of the tax on polluting vehicles	0.1
Fighting against tax fraud and aggressive tax planning	**1.8**
Tax fraud (households)	1.0
Aggressive tax planning (corporations)	0.8
Others	**- 0.6**
2014 Social Security budget act measures	0.6
Exceptional solidarity tax on high salaries paid by corporations	0.3
Option granted to Départements to raise tax rates on real estate transactions (hypothesis: average use of 50%)*	0.5
Other measures (which have already received legislative approval)	- 2.0
Including tax on heavy good vehicles	1.2
Including aftereffects of measures on corporations having received legislative approval since May 2012	- 4.5
Others	1.3

* The maximum use, by all Départements already capping the maximum rate, of the option to raise the rates on real estate transactions, would yield 1 billion euros. However, some Départements will not use this option, and other Départements will not use it in totality.

Table 21: Divergence from latest SP

	ESA Code	2012 % GDP	2013 % GDP	2014 % GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		- 4.8	- 3.7	- 2.9
Draft Budgetary Plan		- 4.8	- 4.1	- 3.6
Difference		0.0	- 0.4	- 0.7
General government net lending projection at unchanged policies	B.9			
Stability Programme		- 4.8	- 3.7	- 3.5
Draft Budgetary Plan		- 4.8	- 4.1	- 4.0
Difference[1]		0.0	- 0.4	- 0.5

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 22: 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 23: Multiyear public finance trajectory						
(% of GDP)	2012	2013	2014	2015	2016	2017
General government balance (Maastricht definition)	**- 4.8**	**- 4.1**	**- 3.6**	**- 2.8**	**- 1.7**	**- 1.2**
State	*- 3.9*	*- 3.2*	*- 3.2*	*- 2.5*	*- 1.9*	*- 1.8*
Other central government bodies	*- 0.1*	*0.0*	*0.0*	*- 0.1*	*- 0.1*	*0.0*
Local governments	*- 0.2*	*- 0.2*	*- 0,2*	*0.0*	*0.0*	*0.0*
Social security funds	*- 0.6*	*- 0.7*	*- 0.3*	*- 0.1*	*0.3*	*0.6*
Cyclical balance	- 0.8	- 1.4	- 1.8	- 1.7	- 1.5	- 1.2
One-off and other temporary measures (% of potential GDP)	- 0.1	0.0	- 0.1	- 0.1	0.0	0.0
Structural balance (% of potential GDP)	*- 3.9*	- 2.6	- 1.7	- 0.9	- 0.2	0.0
Structural adjustment	1.1	1.3	0.9	0.9	0.6	0.3
Real growth rate of expenditures (%)	1.0	1.7	0.4	0.2	0.2	0.2
General government expenditure rate	56.6	57.1	56.7	55.9	54.9	54.0
Tax and social security contribution rate	45.0	46.0	46.1	46.1	46.1	45.8
Government debt (Maaastricht definition)	90,2	93.4	95.1	94.7	93.1	91.0
Government debt (excluding financial support for the euro area)	87,8	90,4	91,8	91,6	90,0	88,0

Note: This table presents a breakdown of the multiyear public balance in its stuctural, cyclical and one-off components; a conventional breakdown by sub-sector is also communicated, which will be documented in next year's Stability Program