2016

GROWTH STRATEGY

FRANCE

French Governement
2016 Growth Strategy Update

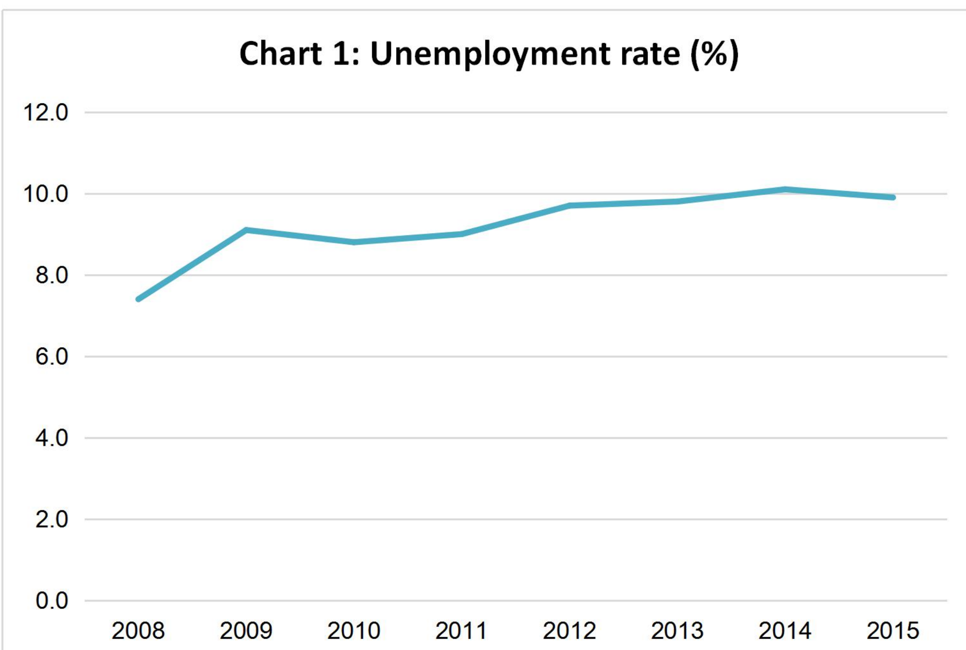
French economic activity is gradually picking up, with dynamic consumption and investment recovery, while uncertainties in the global economy remain important. Brisbane commitments have been fully implemented and corresponding measures are gaining momentum. Adjustments and new measures presented in Antalya and Hangzhou aim at strengthening and extending this political action to achieve the objective of strong, sustainable and balanced growth.

A. Economic Context and Objective

Objectives & context

France has embarked upon a **long-term reform programme** which has helped green shoots of recovery to take hold both domestically and in the euro area.

The main challenge is to reduce a too high unemployment rate (see chart 1) at a time when the employment rate is increasing (thanks in particular to the ongoing effect of recent pensions reforms – see chart 2) **and to get the economy moving** again through the introduction of **concerted and effective reforms** focusing on **modernising**, **simplifying** and supporting the economy, to return it to **robust, sustainable and inclusive growth**.



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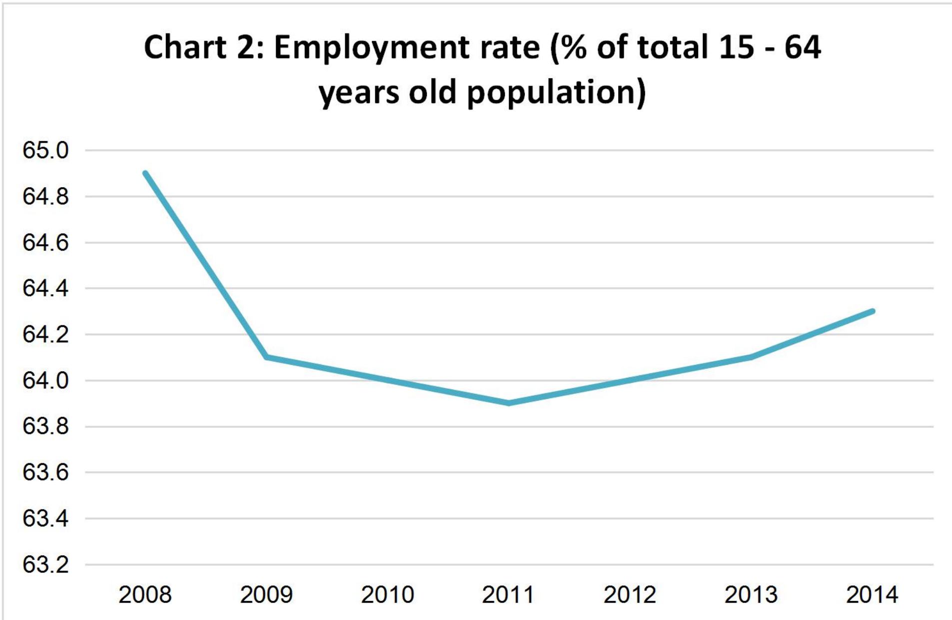


Source : Insee

The approach taken was meant not to be a sharp break-away, but rather to generate momentum with a series of targeted and coordinated reforms on a wide spectrum of subjects. This approach has already enabled the country to reduce structural weaknesses. Ongoing efforts to restore businesses' competitiveness have allowed France to stabilize its share of export markets, to lower its trade deficit and to nearly balance its current account for the first time since 2004. Corporate margins have made up for one half of the loss following the crisis, giving room for a robust pickup in investment in 2016.

The French Government will maintain its strategy based on 4 pillars: (i) ensuring the **sustainability of public finances**, (ii) **regaining competitiveness, boosting productivity and enhancing the business environment** (iii) improving the **functioning of the labour market** and (iv) promoting **equality, social inclusion and equal opportunities**.

Outlook

Compared to last autumn's forecasts, the progressive recovery seems on track and consequently our spring 2016 forecasts have not been revised downward. Economic growth picked up speed in 2015, reaching 1.2%[1] (instead of the 1.0% predicted in the year's Draft Budgetary Plan), compared with a mere 0.7% in 2014. The 2016 Draft Budgetary Plan and Stability Programme have forecasted growth of 1.5% in 2016. On the other hand, inflation will be much lower than expected, due to falling oil prices, and is predicted to be around zero in 2016.

[1] Working day adjusted data

Economic growth was driven by spending by **households**, whose purchasing power grew by 1.6% in 2015, the biggest one-year rise since 2007. **Corporate investment**, which increased by 2.8% in 2015, also played a role. Margins leaped up 1.1 point to reach 31.4%, their highest point since 2011, making up two-thirds of the ground lost since the crisis. **Labour costs in the manufacturing sector**, using unit labour costs as a yardstick, decreased by 4.2% (including the CICE tax credit) between Q4 2012 and Q1 2016 thanks to labour tax cuts and recent wage moderation, compared with an increase of 0.3% in the euro area.

Ongoing efforts to restore **businesses competitiveness** have stabilised France's export market share (exports grew by 6.1% in 2015, more than world trade), lowered the country's trade deficit and balanced the current account (-0.2% of GDP in 2015). France's trade flows with other countries are relatively dynamic, imports and exports having accelerated in similar proportions.

It helped to support job creation: In 2015, 102,000 net **jobs** were created in the non-agricultural sector (including 82,000 in the private sector alone). This gradual recovery helped keep unemployment stable in 2015 and decrease its rate in 2016 (the ILO unemployment rate stood at 9.9% in Q2 after 10.2% in Q1).

As far as the United Kingdom's withdrawal from the European Union is concerned, it would reduce exports due to lower growth in the UK and increase uncertainty which may be detrimental to investment. However the short term economic impact is as a whole expected to be limited in France.

The Government's economic strategy continues to focus on boosting this recovery and the job content of growth with effective measures to improve the supply-side of the economy while sustaining aggregate demand so as to reduce the risks of persistent stagnation against a backdrop of low inflation.

For a summary of the 2016 French National Reform Programme, please refer to:

http://www.economie.gouv.fr/files/files/PDF/PNR2016-SYNTHESE-EN-V3.pdf

For the full version of the document:

http://ec.europa.eu/europe2020/pdf/csr2016/nrp2016_france_en.pdf

Key indicators (April 2016 forecasts)

These forecasts will be updated in September, coincident with the discussion of the Budget Act for 2017.

	2015[2]	**2016**	**2017**	**2018**	**2019**
Real GDP (% yoy)	1.2	1.5	1.5	1¾	1.9
Nominal GDP (% yoy)	2.3	2.4	2.4	3.1	3.6
Output Gap (% of GDP)*	-3.3	-3.3	-3.3	-2.9	-2.4
Inflation (% yoy)	0.0	0.1	1.0	1.4	1¾

[2] On 30 May, Insee published updated figures for real GDP, nominal GDP and fiscal balance for 2015 (the following figures are gross and are not adjusted for working days): +1.3%, +1.9%, -3.6% respectively

	2015[2]	2016	2017	2018	2019
Fiscal Balance (% of GDP)**	-3.5	-3.3	-2.7	-1.9	-1.2
Unemployment (%)	10.0	*NA*	*NA*	*NA*	*NA*******
Savings[3] (% of GDP)	20.6	21.1	21.6	22.3	22.9
Investment[4] (% of GDP)	22.2	22.5	22.7	23.2	23.9
Net lending (+)/borrowing (-) (% of GDP) ***	-1.6	-1.4	-1.1	-1.0	-1.0
Current Account Balance (% of GDP)****	-0.2	0.0	0.3	*NA*	*NA*

***A positive (negative) gap indicates an economy above (below) its potential.**
****A positive (negative) balance indicates a fiscal surplus (deficit).**
*****National account definition (B9NF from the European System of Accounts 2010)**
******Definition from the BPM6 (Balance of Payments and International Investment Position**
*******Unemployment forecasts are not publicly communicated by the French government**
Manual of the IMF, Sixth Edition)
2015 : Banque de France data;
2016-2017 : extrapolated with the variations of net lending/borrowing vis-a-vis ROW

Source: INSEE for 2015, 2016-2019 Stability Programme

[3] Sum of gross savings from all agents

[4] Gross fixed capital formation + net capital transfers + stock variations

B. Macroeconomic Policy Actions to Support Growth

Monetary policy

In a context of low inflation and subdued growth, the ECB announced additional easing measures on 10 March 2016. The deposit facility rate and main refinancing rate were lowered by 10 bp to -0.40% and by 5 bp to 0% respectively. Monthly asset purchases conducted through the ECB's asset purchase programme were raised by €20bn to €80bn. This program is now intended to run until the end of March 2017, or beyond if necessary, and the list of assets eligible to the programme was expanded to include investment-grade euro-denominated bonds issued by non-bank corporations established in the euro area, and purchases of such bonds started in June 2016. Furthermore, a new series of targeted long-term refinancing operations was announced: the first one was conducted on 26 June. Overall, this set of measures should ease further corporates' financing conditions, support credit and contribute to anchor inflation expectations in accordance with the ECB's mandate by accelerating the return of inflation to levels below, but close to, 2%.

For more details on the monetary policy, please refer to European Commission's and ECB's Growth Strategy.

Fiscal policy

France's approach is to follow a medium term fiscal adjustment strategy based on a pace of structural adjustment and a composition of the fiscal effort compatible with the economic recovery. Therefore, along with the postponing of the deadline for bringing the deficit below 3% of the GDP (to 2017), decided in 2015 in line with European fiscal rules, some measures were taken in the beginning of this year to contribute to a targeted support of short-term demand. Examples of such measures include the doubling of training courses for the unemployed and the hiring incentive programme for SMEs (*Embauche PME*). The efficiency of structural reforms will benefit from the targeted short-term demand support provided by these measures.

Fiscal consolidation continues to rely exclusively on public expenditure savings, with good results in 2015. In the spring of 2014, the Government committed to driving forward public finance consolidation with a €50bn savings plan for 2015-2017. This commitment was enacted in the multiyear budget act starting at the end of the year 2014 and implemented in the following budget bills (PLF/PLFSS 2015 and 2016). The French public deficit decreased to 3.6% of GDP in 2015 and structural deficit was reduced from 4.4% of GDP in 2011 to 1.6% in 2015, and is now at its lowest level since 2000. This result is proof of the effictiveness of the French Government's fiscal strategy, which has contained public spending (public spending increased by just +0.9% in nominal terms in 2015, excluding tax credits). As a result, for the first time since 2001, the Government managed to reduce the public deficit while simultaneously reducing taxes (aggregate tax and social security contributions as a percentage of GDP went down from 44.8% in 2014 to 44.7% in 2015).

The 2016-2019 Stability Programme calls for savings of €13.2 billion for 2016 after €18.1 billion in 2015. They will include a reduction of operating expenditure for all ministries, tighter control of local expenses, and a new growth target for social security expenditure. These figures take into account supplementary measures to offset the negative impact of low inflation on fiscal adjustment (€3.8 billion in 2016). This plan is underpinned by strong governance, improved budget bill procedures (focused expenditure reviews) and a structural reform of public administration. Where local government is concerned, the local and regional government reform provides the tools for streamlining local public expenditure and generate major medium-term efficiency gains. For 2017, the spending efforts will be continued, while at the same time addressing recent developments and challenges, notably the need for security measures.

All these measures should result in (all figures are taken from the April 2016 Stability Programme, and will be updated later):

- A deficit reduction path, with the deficit remaining below 3% in 2017. The fiscal balance is set to fall to –3.3% of GDP in 2016, -2.7% in 2017 and –1.9% in 2018.
- The structural deficit is expected to reach its equilibrium in 2019.
- The stabilization of public debt at 96.5% of GDP in 2017 before it starts on a downward trend thereafter.

C. Structural Reform Priorities

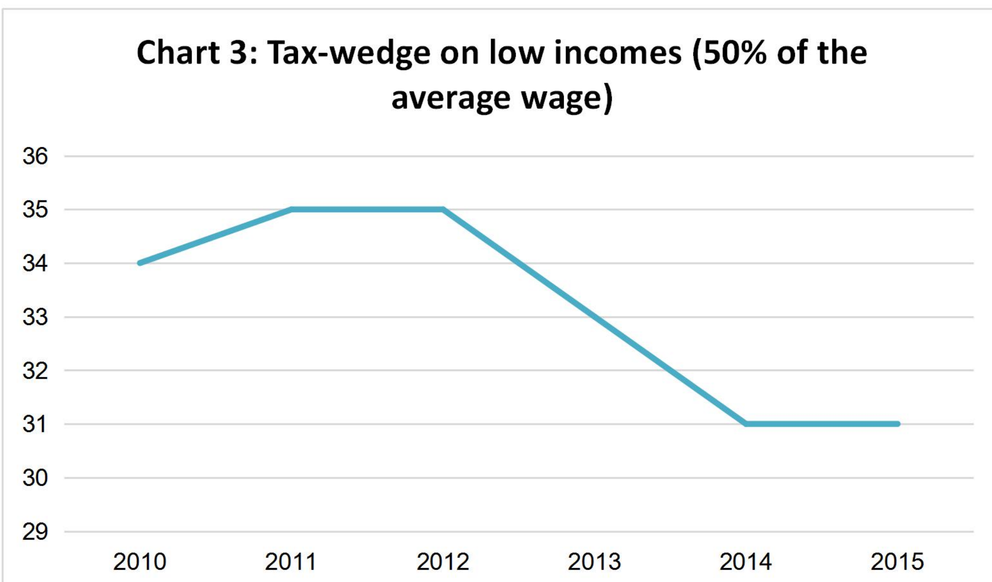
C1. Implementation of Past Growth Strategy Commitments

i. ***Stimulate employment and improve business competitiveness by reducing the labour tax wedge –*** *Status: Done*

High unemployment in 2012, notably for low-skilled workers, led to a strategy to rein in labour costs, through a **reduction of the labour tax wedge** starting in 2013, with a progressive phasing in (1.5 pp of GDP in 2016), **financed mainly by expenditure savings**.

The **CICE** is a **tax credit** equivalent to 6% of a company's gross payroll targeted on low and medium wages (up to 2.5 times the statutory minimum wage). It has been fully implemented and will amount to €19.5bn labour cost reductions in 2017.

The **responsibility and solidarity pact** includes a **reduction in social security contributions**. It amounts to €10bn, targeting wages up to 3.5 times the minimum wage, with a specific reduction for wages close to the minimum wage (see figure below) to have a more important positive impact on employment. The social contributions reductions of the Pact have been fully implemented since April 2016.



Source: OECD, for a single person without children

ii. ***Increase purchasing power and incentives to take up jobs by easing the tax burden on low-income households –*** *Status: Done*

A succession of measures to **boost the purchasing power of low and medium income households** came into force as part of the Responsibility and Solidarity Pact. These measures also aim to make paid work more attractive and increase the labour supply:

- In 2014, a one-off cut of €1.3 billion in personal income tax was passed as part of the first Supplementary Budget Act for 2014.
- The Initial Budget Act for 2015 reformed personal income tax and simplified it by eliminating the lowest tax bracket. This meant that personal income tax was cut by a further €1.5 billion in 2015.
- The Initial Budget Act for 2016 included a further personal income tax cut of €2 billion.

As a result, twelve million tax households have seen their taxes reduced.

In addition, the Act of 17 August 2015 on Labour Management Dialogue and Employment created the **in-work benefit** (*prime d'activité*), which replaced the in-work income supplement (*RSA activité*) and the earned income tax credit (*prime pour l'emploi*) on 1 January 2016. This is a financial allowance for low-wage workers that is available to young workers aged 18 or older. It has made returning to full-time work more attractive. The statistical follow-up shows good appropriation of the measure, the number of beneficiaries is indeed higher than expected: By March 2016, the new in-work benefit had been paid to 2.1 million households (24% more than expected).

iii. Increase competition in services, particularly in the energy, healthcare, financial, legal and accounting service sectors – *Status: Done*

In an attempt to stimulate GDP, the market for goods and services is being modernised and the regulatory environment streamlined. Following the initiatives taken in 2014 to increase competition in various sectors (e.g. opticians), the Growth, Economic Activity and Equal Economic Opportunity Act of August 2015 has helped **reduce the fees charged by various regulated professions** and **lowered some of the barriers to entry**. This Act has notably made it possible to develop the coach transport sector, which has been a resounding success so far. Lastly, it has extended Sunday trading through the creation of international tourist zones where shops may open on Sundays provided that their employees are compensated accordingly. As of July 2016, 82 out of 87 implementing decrees had been published or were being examined by the *Conseil d'Etat*.

iv. Increase competitiveness by simplifying administrative formalities and cutting red tape – *Status: In progress*

Another government priority is to **reduce the red tape faced by businesses**. To this end, it is taking steps to improve legal certainty, streamline construction standards and assist the progress of major projects, simplify procedures and cut red tape for VSEs and SMEs, and improve import-export procedures. The latest information available indicates that these measures helped businesses make gross savings of €1.1 billion between August 2014 and September 2015.

On 3 February 2016, the Government announced **90 new measures** focused on jobs and innovation. Examples of the new measures concern professionals in the craft sectors, which can be created more easily and are more accessible for microenterprises in particular, simplification of applications for the Research Tax Credit (*Crédit d'Impôt Recherche,* CIR) and introduction of advance rulings, with the possibility of revising the initial advance ruling, introduction of a cost of hiring simulator, more flexible rules for access to or taking up several business activities in a wide range of sectors (craft industries, agriculture, tourism) and facilitation of construction of medium-height buildings.

v. ***Improve the business environment by reducing the tax burden on firms –*** *Status: In progress and adjusted*

The corporate social solidarity contribution (C3S) is a turnover tax and as such it creates economic distortions that are particularly burdensome for the manufacturing industry. After a first phase in 2015 where 200,000 small businesses were exempted from the turnover tax at a cost of €1bn, in 2016, an additional 80,000 SMEs and mid-sized enterprises were exempted at a cost of €1bn. As a result, this contribution now only concerns 20,000 companies.

The **exceptional corporate income tax** payment for large corporations has been **abolished** for fiscal years ending from 31 December 2016 as part of the implementation of the Responsibility and Solidarity Pact. For the large corporations that paid the tax, the effect is equivalent to a 3.6 percentage-point cut in their corporate income tax rate. This measure represents a tax cut of nearly €3 billion.

The statutory rate of corporate income tax will be cut for SMEs in 2017. This cut will help enhance the attractiveness of France as a place to do business, as well as promoting jobs and investment.

The Brisbane commitment to abolish the C3S and cut the corporate income tax rate for all businesses has been replaced by an additional reduction of the tax wedge in 2017 (higher rate of the CICE tax credit) to ensure a more rapid effect on employment (see Annex 2).

vi. ***Support pro-innovation investment***

In section D.

vii. ***Tackle unemployment by improving the vocational training system and increasing public service efficiency –*** *Status: Done*

The Government has implemented **measures to support jobseekers**, promote their **return to work** and make **the labour market more fluid** in order to improve the match between skills and labour market needs.

To supplement the Act of 5 March 2014 on Vocational Training, Employment and Workplace Representation (see France's adjusted grow strategy 2015 – Antalya), **two new vocational training contracts** have been developed for older jobseekers and the long-term unemployed. The "new career" vocational training contract, which is designed especially for unemployed jobseekers over the age of 45 who need to adapt their skills, does not require any new legislation to take effect. The "new opportunity" vocational training contract was established by the Act of 17 August 2015. The term of this vocational training contract and the training periods are adapted to the needs of the long-term unemployed.

Moreover, France's **public employment service agency** *Pôle Emploi* is implementing **internal reforms** (digital tools, reinforced tutoring for the long-term unemployed and those at risk of becoming long-term unemployed, professionalisation and specialisation of the employment advisers, cooperation with other agencies).

viii. ***Streamline the organisation of local government –*** *Status: In progress*

Providing efficient public services while ensuring that tax and social security contributions do not hold back the economy requires reforming government action. This includes overhauling France’s local government structures since local governments account for 20% of government expenditure and 60% of public investment**. Local administration reform** aims at adapting France’s institutions to its economy by improving the coherence of its administrative and its economic geography, as evidenced by France Stratégie[5]. More specifically, improving decision-making and increasing powers wielded at the level of urban areas should enhance the effectiveness of urban planning and transport policies, increasing population density in some urban areas and generating a major positive impact on productivity[6].

This reform is currently on track. As of 1 January 2016, **the number of regions has been halved**. Following the creation on 1 January 2015 of **12 new metropolitan areas**, the Paris and Aix-Marseille-Provence areas have been in official existence since 1 January 2016. Lastly, the Local Administration Reform (NOTRe) Act was passed on 7 August 2015. It provides for a **new wave of intermunicipal mergers**, reducing the number of intermunicipal structures by one-third by 2017 while a law passed in March 2015 already fostered the merger of 1090 municipalities into 317 new ones in 2015. In addition, the NOTRe Act will clarify the division of power between the various layers of local government by **abolishing the *clause de compétence générale*** (legal concept allowing local authorities to act in areas for which they are not responsible as of right) for *départements* and *régions*. These measures will reduce overlap of responsibilities, streamline existing structures and have a positive knock-on effect for the entire economy. According to the OECD[7], the creation of the new metropolitan areas of Paris and Aix-Marseille alone will increase GDP by 1 pp by 2025 andby 0.3 pp by 2020.

In 2016, new intermunicipal cooperation plans will be prepared and adopted.

At the same time, a merger of central government services at the regional level is ongoing, as well as the digital transformation of these services at the local level.

ix. ***Improve and flexibilize the functioning of the labour market and promote labour-management dialogue in companies –*** *Status: Done*

In a rapidly changing world, companies need to have the ability to adapt rapidly to promote employment, which means putting a greater emphasis on company-level labour agreements.

Job protection agreements (*accords de maintien de l’emploi*, AME) were established by the Job Security Act of 14 June 2013. These agreements allow for temporary adjustment of working hours and pay in the event of serious short-term economic hardship in exchange for a commitment from the employer to

[5] « Réforme territoriale et cohérence économique régionale », France Stratégie (2015)
[6] Tresor Economics No. 154, *“An economic approach to local government reform”*, refering to Ahrend, R. *et al.* (2014), “What makes cities more productive ? Evidence on the Role of Urban Governance from five OECD countries”, OCDE Regional Development Working Papers
[7] OECD (2014) *« Structural reforms in France: impact on growth and options for the future ».*

preserve jobs. The requirements for invoking such agreements are regulated: the agreements are accepted by a majority vote with a commitment from the employer of no redundancies until the term of the agreement. Before the agreements are signed a diagnosis of the company's economic situation is carried out and the results are shared with the trade union organisations, which can refer to an expert appraisal conducted at the employer's expense. The Growth, Economic Activity and Equal Economic Opportunity Act relaxed the requirements for entering such agreements: the term of the agreements was extended from two to five years and an agreement may contain a clause setting the requirements for suspending it in the event of an improvement or an exacerbation in the economic situation, without the need for a ruling from the Court of First Instance.

The **Act of 17 August 2015 on Labour-Management Dialogue and Employment** lays the groundwork for more effective labour-management dialogue within companies. The Act abolishes the requirement for prior consultations with the works council about any proposed agreement and reduces the 17 annual consultation sessions to three: on business strategy, the economic and financial situation of the company, the company's social policy, working and employment conditions (changes in employment, equality at work, working hours). The existing twelve annual collecting bargaining meetings have been reduced to three on the following topics: pay, working hours and share of value added, quality of working conditions, job and career management. The Act also makes it possible to adapt the structure and frequency of the bargaining sessions by means of an agreement accepted by a majority vote and subject to certain restrictions. More specifically, the period of mandatory wage bargaining can be extended up to once every three years, instead of the default period of once every year in the absence of a company-level agreement. The Act includes provisions to reduce the effects of size-related criteria in regulations. The Act changes the framework for the single employee representative body (DUP), by extending the option of applying this arrangement to companies with between 200 and 299 employees (instead of up to 199 employees) and to the Health and Safety Committee (CHSCT). The Act also allows companies with 300 employees or more to merge the representative bodies by means of an agreement accepted by a majority vote. Mandatory consultations have been simplified so that employers will be less reluctant to grow beyond the threshold of 50 employees. These measures contribute to make sure that the evolution of real wages has again been in line with the evolution of productivity since 2013, as it was the case in France before the crisis.

*x. **Support the digitalization of the economy and the emergence of innovative start-ups –** Status: Done*

Several measures have been introduced to support innovative start-ups.

The **Innovative Start-Up** (*Jeune entreprise innovante – JEI)* scheme was introduced in 2004 to reduce R&D and innovation costs for these start-ups through exemptions from taxes and social security contributions. It was targeted at SMEs in their first eight years where R&D expenditure accounted for more than 15% of total expenditure. It has benefited more than 7,300 companies since its launch in 2004. The French Tech Initiative is designed to bolster the ecosystem that promotes the emergence and growth of start-ups via a range of approaches including incubators, international promotion of French businesses, and schemes for attracting the brightest talents to France. This status has been extended to university start-ups (held by students or teachers-researchers by at least 10%).

A vast **digital strategy** is now being deployed to increase the penetration and impact of digital technology in France's economy. The share of digital activities in total GDP is now close to other leading Western European countries. A large part of the Invest for the Future Programme (*Programme d'Investissements d'Avenir,* PIA) aims at fostering the development of the digital economy.

Simultaneously, the **superfast broadband plan** (*Plan France très haut débit*) was launched in 2013 to provide very high-speed Internet connections (> 30 Mbit/s) to half of the country's inhabitants in 2017 and full coverage in 2022. In 2016, the Government will ramp up the plan to achieve a million connections operated by public initiative networks by the end of the year.

As part of the progressive deployment of **the Digital Plan** announced by the President of the French Republic in May 2015, €1 billion will be earmarked over 3 years for secondary schools to provide pupils with digital hardware and learning resources for the start of the 2018-2019 school year, as well as for a digital technology training plan, a national bank of digital learning resources, deployment of a secure environment for access to digital resources, support and promotion of teaching technology innovation, partnerships with economic players, and development of the digital resources publishing industry. In addition, computer science and digital technology teaching has been stepped up in lower secondary schools (with new curricula for the autumn of 2016) and in general and technology upper secondary schools (since the autumn of 2015 for the first year of upper secondary school and starting in the autumn of 2016 for the second year of upper secondary school). The National Higher Education Strategy launched in September 2015 has three headings that concern digital technology: diversifying the supply of international courses by developing massive online open courses (MOOCs); planning for systematic use of digital technology for teaching and assessing students; developing digital resources and content curation. These measures are expected to improve the innovation capacity of the labour force.

Financing of innovative SMEs has been facilitated: schemes such as ISF-PME make it easier for innovative start-ups to access equity financing and the legal framework for crowdfunding for SMEs (particularly innovative start-ups) has been adapted. Bpifrance, the public investment bank, has continued to provide financial support for start-ups through customised products that support innovative entrepreneurs and renewed support for the venture capital sector with funds of funds and direct investment funds. Digitalization and start-ups are also supported by the Research Tax Credit.

C2. New and Adjusted Structural Reform Measures

i. Continue to revamp taxes for businesses and households and reduce labour costs to boost investment and create jobs

- Adjustment of tax measures in 2017

To bolster the **CICE tax credit**'s contribution to cutting labour costs, it will be **continued and reinforced through an increase from 6% to 7% of gross wages**. This measure has been preferred to the final abolition of the C3S and the cutting of corporate income tax for all businesses, a cut that will target SMEs.

- Continuation and extension of reforms for SMEs and households

Since January 2016, a **temporary hiring subsidy targeted at SMEs** (less than 250 employees), called *"Embauche PME"*, has been introduced to foster job creation. It lowers labour costs on new hires for permanent contracts or fixed-term contracts lasting more than 6 months and for wages up to 1.3 times the statutory minimum wage. Over half a million new hires had benefitted from this measure by mid-2016 and this figure is expected to reach one million by the year-end. These figures show that the measure is working well, and it has been recently decided that it will be extended to 2017. . The subsidy can be combined with other general measures to reduce labour costs (general cuts, CICE, and Responsibility and Solidarity Pact). A measure focused on initial employment, regardless of the wage amount, was also introduced in July 2015.

Finally, **household taxation** will also be revamped with the introduction of a **withholding tax system** for personal income tax. This will provide for better correlation between the amount of tax and the taxpayer's circumstances whilst simultaneously cutting red tape and contributing to bolstering incentives to take up jobs.

Reforms to improve the efficiency of public expenditure are presented in the fiscal policy section.

ii. Restructure the Labour Code to modernise the functioning of the labour market, foster labour/management dialogue, reduce the duality of the labour market and make career paths more secure

The purpose of the reform is to put in place **a new structure for the Labour Code** that offers clear *(i)* public policy rules which apply to all, *(ii)* regulations negotiated between labour and management, and *(iii)* regulations that apply when labour and management cannot reach an agreement (*règles supplétives*, or "default rules"). These rules and regulations will be decided on at grassroots level to best reflect businesses' economic circumstances and needs whilst upholding employee protection.

The bill aiming at introducing new opportunities and new safeguards for companies and employees (the Labour Bill) was adopted through the 49-3 procedure on 21 July 2016. The Bill will give **new room of manoeuvre for firms to organize working time at the company level**. To give **greater legitimacy to company-level agreements**, the majority agreement rule will be rolled out with unions having the option of initiating an employee consultation. The occupational sectors' contribution to regulating competition between businesses will be reasserted and their number will be reduced from 700 to 200 over four years.

The goal of the Bill will also give **greater visibility to companies**, particularly VSEs and SMEs, to encourage hiring people on permanent contracts. It identifies and spells out the economic difficulties faced by a company that can justify layoffs. Alongside the Bill, a decree will soon introduce an indicative scale for compensations that labour tribunal judges can hand down for unfair dismissal, giving heightened visibility to both employers and employees. This scale will give judges a unique national reference in a current context of wide disparities at national level. It is then expected that this reference will progressively help harmonise the compensations awarded. In reducting the duality on the labour market, the reform will ease the integration of young people in the labour market, which could contribute to support short-term demand.

The Bill will also introduce **new safeguards, particularly for employees with little job security and young people**. The Personal Activity Account (CPA), that will take effect on 1 January 2017, will allow all workers to accumulate entitlements throughout their career, regardless of their status (salaried employee, self-employed worker, civil servant, jobseeker), particularly for training or support in setting up a business. A "training capital" (extra hours added to the CPA) available for young dropouts and low-skilled workers will be provided with improved training entitlements. Young jobseekers, who are not enrolled in a training programme and who have no source of income, can apply to the Youth Guarantee scheme for comprehensive assistance to pave the way to employment and financial support for one year. Besides, starting next September, young holders of a vocational degree looking for a job will be entitled (under certain conditions) to a financial subsidy of 200€ per month for 4 months, to aid their labour market integration.

In addition to this Bill, the President also announced in January 2016 that an additional 500,000 training courses would be financed in 2016 for a total of € 1 bn. The primary goal is to train jobseekers, particularly those with few or no skills or whose skills are obsolete. The second objective is to meet the recruitment needs of companies in fields where skilled workers are scarce or fields of the future. This active labour market policy may also contribute to generate positive impact on short-term demand, while implementing at the same time supply side measures.

To complement this set of measures, provisions concerning housing included in the Equality and Citizenship Act will improve the implementation of **social housing regulations**, contributing to remove an important obstacle to the geographical mobility of workers.

iii. Ensure the sustainability and the efficiency of the unemployment insurance system

Management and labour representatives, who are in charge of the unemployment benefit scheme, have a mandate to reach an agreement on the unemployment insurance system. The objective is to reach an agreement making unemployment insurance more effective, while maintaining its protective function, based on lines of action, including:

- further adapting the unemployment insurance system to a changing labour market, more specifically by providing employees greater protection when changing careers to promote mobility and provide better protection for people with non-linear career paths;
- supporting the re-entry of members of the workforce into the job market and encouraging all players to create high-quality jobs. The increasing number of very short-term employment contracts calls for a strong drive to promote stable employment;
- rebalancing the finances of the system to ensure its long-term sustainability. The unemployment insurance agency (Unédic) forecasts that, failing new measures and despite the measures included in the 2014 agreement, its structural deficit should persist for the next three years and stand at €1.6 billion in 2018.

Such an agreement was expected to be reached in S1. Negotiations should restart before the end of 2016. In the meantime, the current convention, that played its full part as an automatic stabiliser during the crisis providing replacement income for people who lost their jobs involuntarily, has been extended.

iv. Heighten economic transparency to build investor confidence and promote France’s appeal

The Transparency, Anti-Corruption and Economic Modernisation Bill, which was presented on 30 March 2016, is part of the Government’s action to **improve the business environment**. Initiatives to step up the **fight against corruption** are expected to generate positive impact on business confidence and, as shown by economic studies[8], on investment and growth[9]. In this regard, the Bill sets out to bolster the system for fighting offences against probity by, amongst other measures, inaugurating a National Corruption Prevention and Detection Agency and improving protection for corruption whistle-blowers. The Bill also aims for increased **transparency** in the relationship between government authorities and the business world by, inter alia, introducing a digital directory of interest group representatives.

v. Capitalise on new business opportunities

The **Digital Republic Bill** proposes a new framework, combining support for innovation and new business models and wider access to data to promote the circulation of knowledge, protect privacy (access to digital services, protection of personal data), enhance the loyalty of platforms, network neutrality, data portability and greater access to digital technology. The Bill is being considered under the fast-track procedure. It was passed by the National Assembly after the first reading on 26 January 2016, then by the Senate on 3 May. It is now being considered by a commission consisting of both houses to agree on the final text.

The Transparency, Anti-Corruption and Economic Modernisation Bill also follows on from prior reforms that sought to adjust the goods and services market to the changing economy. To this end, it contains provisions for the ongoing **improvement of the growth trajectories of VSEs and SMEs**, by staggering the effects of micro-enterprises exceeding turnover thresholds in terms of tax and social security contributions over time, by making it easier to change from sole trader (*entrepreneur individuel*) status to another status, and by introducing stiffer penalties for late payments which are highly detrimental for small companies. Moreover, **setting up businesses will be streamlined** with the overhaul of the training course prior to business start-up and removal of the need for micro-

[8] The impact of the level of perception of corruption on growth has been widely studied and channels have been highlighted, notably the impact of corruption on the cost of investment, the risk assessment of investment, FDIs and the level and composition of public finances.

[9] Tresor Economics no 176, “Fight against corruption: positive effects on economic activity including in developed countries”, to be published.

entrepreneurs to have a specific bank account. The Bill also encourages the acquisition of the required qualifications to access certain professions by streamlining the process allowing employees to have their know-how recognised and validated as a qualification. As regards **business funding**, the Bill authorises the Government, by issuing an order, to allow part of the amounts held in companies' supplementary pension schemes to be invested in venture capital and, especially, in innovative start-ups. Lastly, the Bill aims to upgrade business law by **streamlining certain corporate reporting obligations.**

D. Investment Addendum

The French Investment strategy, as presented in 2015, focuses on encouraging the productive orientation of private investment by improving business-climate and intermediation channels, in particular to facilitate SME financing. Targeted measures have also been designed and implemented so as to foster investment in specific sectors where market failures exist, notably the R&D and innovation sectors, ecological transition activities, and the housing market.

i. Improving the investment ecosystem

Policy actions aiming at improving the investment ecosystem have been implemented. Measures aiming at ***simplifying business formalities*** by cutting red tape (measures proposed by the Business Simplification Council have been adopted through the Act on growth, economic activity and equal economic opportunity - August 2015 -), enhancing the quality of labour-management dialogue (through the Act on Labour-Management dialogue and Employment of August 2015) and streamlining local government organisation (through the Act on the new territorial organization of the French Republic of August 2015) have been enacted, as well as measures aiming at ***restoring companies' margins*** (the Competitiveness and Employment Tax Credit – CICE- and the Responsibility and Solidarity Pact) , and measures ***strengthening competition*** in the services sector (through the Act on growth, economic activity and equal economic opportunity - August 2015 -), see section C1.

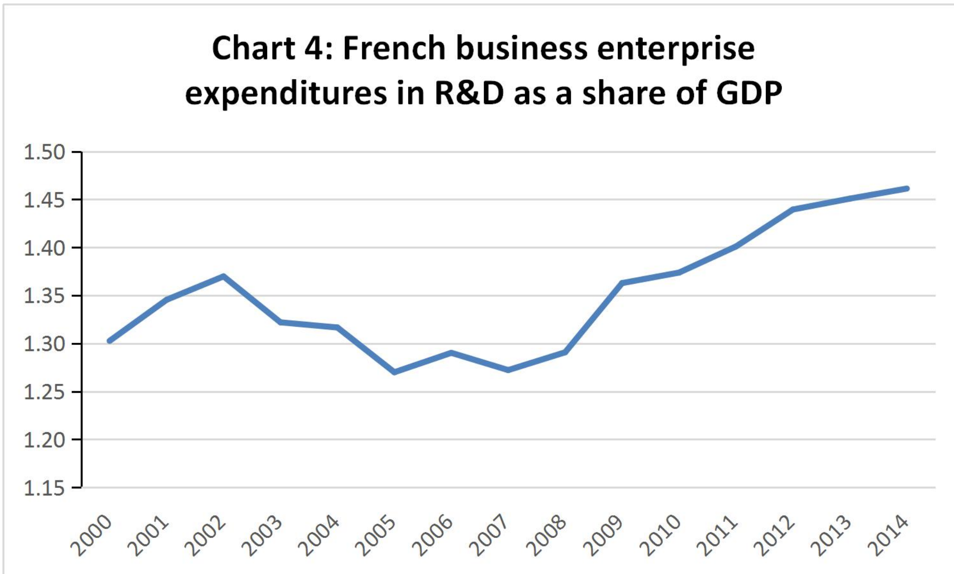
Further reforms in favour of the investment ecosystem will be taken in 2016: the Transparency, Anti-Corruption and Economic Modernisation Bill**,** which was adopted at first reading by the Parliament, will increase economic transparency to build investor confidence and will be the vector for further streamlining measures presented by the Business Simplification Council; the law on labour, social dialogue modernization and career paths safeguarding, enacted on the 8th August, will modernize the functioning of the labour market and foster labour-management dialogue; while further measures helping restore business margins thanks to the CICE and the Responsibility and Solidarity Pact will continue to improve business margins (see section C2).

ii. Supporting innovation

The Government has established a strategy aiming at improving the quality of private investment, in particular towards R&D and innovation.

In order to help industrial companies to modernise their production factors, a **higher depreciation allowance scheme for industrial investmen**t was introduced in 2015 and extended to 2016 and 2017. This measure allows companies to reduce their corporate income tax base by an additional amount equal to 40% of the eligible investment. According to the French national statistics institute, the total effect of the higher depreciation allowance was an increase in investment in manufactured goods of some 0.2 to 0.4 percentage points per quarter.

Moreover, the Government aims at **supporting R&D through tax incentives, synergies between research centres, enterprises, and teaching institutions, and efficient transfer of the results of publicly performed R&D to private companies**. The Research Tax Credit (*Crédit d'Impôt Recherche*, CIR) which allows a tax credit amounting to 30 % of R&D expenses (up to €100m, 5% beyond that) has been stabilised. The Clusters (*Pôles de Compétitivité*), which help companies, research centres and teaching institutions create collaborative R&D projects, have entered a third phase (2013-2018), to favour the creation of new products and processes with significant market potential. A reform of these Clusters is under discussion to better coordinate them with the *Nouvelle France Industrielle* programme (see below) as well as increased competence of the regions for economic development.



Source: OECD

The Government is also **promoting innovation**. Industrial policy has been strengthened by the May 2015 launch of the second phase of the *Nouvelle France Industrielle* programme (New Industrial France) which aims to identify and develop the more promising sectors. The programme consists of 9 industrial solutions to gain a foothold in various future markets (e.g. new resources, environmentally-friendly mobility, smart objects, etc.). The innovation tax credit (*Crédit d'Impôt Innovation*, CII), which allows SMEs to benefit from a tax credit amounting to 20% of their expenses regarding prototypes conception and pilots for new products (up to €400,000) has been set up in 2013. Finally, eligibility to the tax framework applicable to subscriptions by start-up staff to shares of their companies (the BSPCE scheme – *Bons de Souscription de Parts de Créateur d'Entreprise*), reserved for new innovative start-ups, was extended in August 2015.

These actions are supplemented by the **Invest for the Future Programme** (*Programme d'Investissements d'Avenir* – PIA), a €47bn plan led by the General Commission for Investment (CGI), whose goal is to strengthen France's long-term growth potential through (i) an investment strategy targeted in a few sectors, (ii) competitive calls for proposals to select the most effective projects and (iii) the use of a wide range of financial instruments (grants, guarantees, repayable advances, loans, endowments) to mobilise co-financing from both private and public players. By the end of December 2015, 2,500 projects had been selected for a total amount of €37bn, including €9.5bn for projects led by enterprises. The remainder of the €47bn envelope will be invested by the end of 2017.

A third component of the Invest for the Future Programme, for which €10bn has been earmarked, is in preparation. Equity investment's share in the programme will be higher than in previous ones. It will reflect the same philosophy of original public intervention focusing on strategic issues with regard to France's potential for growth and job creation. Main sectors will notably include agri-food industries and tourism. It will be invested from 2017 on.

iii. Developing infrastructures

The Government has taken several initiatives aiming at developing high quality infrastructures, in particular where market failures exist, notably for long term investment, ecological transition activities and the housing market.

Transport infrastructures

Regarding **transport infrastructures**, the French Government committed in July 2013 to investing up to €5bn per year by 2030 in transport (the "Investing for France" plan), primarily in the area of maintenance and modernization of the network. On top of this plan, the Grand Paris Express is a flagship project consisting of 200 km of automatic metro lines that will better link up the main business centres of the Paris area. It has been thoroughly reviewed, and the cost-benefit analysis undertaken for the overall project shows that it could deliver good value for money: the Net Present Value of this €25.5bn investment has been estimated at €23bn by the project manager, which corresponds to a socioeconomic internal rate of return of 7.5%. The Prime Minister reaffirmed several times his commitment to this project, and decided in July 2014 to accelerate the roadmap of its implementation (construction works for the Grand Paris Express begin in 2016). In addition, CDG Express, a top-notch and high-quality line which represents a total investment of €1.7bn, is planned to link the Roissy airport and Paris by 2024.

As far as **interurban transport** is concerned, four high-speed railway lines (Sud Europe Atlantique, Bretagne Pays de la Loire, contournement Nîmes Monptellier, Est phase 2), representing a total investment of about €15bn, are under construction. They will start operating by the end of 2017 and will consolidate France's position as the second high-speed railway network in Europe. Besides, France and Italy have agreed to go ahead with the Lyon-Turin project, starting with the construction of the base tunnel of this new railway link (representing an investment of about €8.3bn). Finally, the Canal Seine Nord Europe project (waterway connection between France and Belgium) represents an investment of about €4.7bn.

Digital infrastructures

France is also investing in digital infrastructures with the initiative "France Très Haut Débit" (see Section C1 - x).

Promoting housing

In order to facilitate low-income households access to housing, France is committed to increasing the **supply of housing** and has taken several measures to achieve this.

Expanding the transfer of local town urban planning schemes to inter-municipal structures, reforming the structure of planning documents to encourage flexibility and adaptability, reinforcing the land supply analysis in local programming and planning documents and improving access to land market information for public and private stakeholders will lead to the release of public and private land. Measures aimed at encouraging the gathering of building permit processing, at reducing processing times for obtaining these permits and at limiting litigation duration in urban planning law are designed to stimulate housing supply by reducing regulatory constraints. The development of social housing and middle income public housing (*logement intermédiaire*) is encouraged by maintaining reduced rates of VAT as well as tax incentives for buy-to-let investments. Moreover, widening the scope of the interest-free loans will help first-time buyers to become home owners.

Energy transition

The Energy Transition and Green Growth Act of August 2015 sets several objectives for the long and medium term: reduce greenhouse gas emissions by 40% in 2030 and by 75% in 2050 compared to 1990, reduce fossil fuel consumption by 30% in 2030 compared to 2012, reduce final energy consumption by 20% in 2030 and by 50% in 2050 compared to 2012, decrease nuclear energy's share of electricity production to 50% in 2025, increase the share of renewables in final energy consumption to 23% in 2020 and 32% in 2030, build 7 millions charging stations for electric vehicles by 2030. The Act also establishes a multi-year energy programming which constitutes a national roadmap to reach the set of climate and energy objectives; the first energy programming aims at defining the energy generating capacity of each technology between now and 2018, and a generating capacity range to reach by 2023 for each technology.

Successful achievement of these objectives will require a substantial amount of additional investment, especially in renewable energy production, electricity networks and energy efficiency. A wide range of instruments already exists or will be set up to support these investments. Carbon reduction schemes (European Trading Scheme (ETS) for some sectors and, for non-ETS sectors, the Climate Energy Tax, set at 22 €/tCO2eq in 2016 and planned to increase gradually up to 100 €/tCO2eq in 2030) give a long term signal to investors and encourage investments in energy efficiency and low emission technologies. The energy saving certificates system is another economically efficient way to incentivize electricity suppliers to invest in energy efficiency in agriculture, residential and tertiary building, industry, networks and transport. Support mechanisms for renewable energies and an energy transition fund with a budget of €1.5bn will also be created to subsidise other investments, including those aiming at the development of positive energy territories.

The Energy Transition Act stands out owing to its purpose to foster improved integration of climate-related issues into the decision-making process of both non-financial and financial companies through four dedicated and interdependent provisions. By developing the information that is needed by financial institutions when gauging the risks and opportunities related to climate change, as well as encouraging their effective integration, the Act will contribute to a better pricing of these issues across financial decision-makings and *in fine* to the emergence of a transition-consistent financial system. In particular, this "smarter" financial sector will be able to trigger a broad rebalancing of financial flows towards transition-oriented investments.

European investment plan

The Juncker Plan for investment aims at mobilising €315bn to support high-value strategic investments and to improve risk financing in Europe, notably in small and medium-sized enterprises. As of 8 April 2016, France was the leading beneficiary of the Juncker Plan as of the 8th April 2016 with 28 projects approved since its launch with total guarantees of €1.8bn, triggering total investment of €11.3bn. The European Investment Bank approved 13 "infrastructure and innovation" projects, with a guarantee of €1.4bn that could generate €6.1bn in investment and create more than 20,000 jobs. In addition, the European Investment Fund signed fifteen SME financing agreements under the Plan for €420 million, that could generate €5.2bn in investments in more than 23 000 SMEs and start-ups.

Project bonds

Axione Infrastructures and its investors[10], including the *Caisse des Dépôts et Consignations*, worked with the EIB and the European Commission to launch the first project bond for broadband infrastructures in July 2014. Natixis led the €189m bond, the first of its kind in France and the first broadband infrastructure bond in Europe. A second project bond was signed in France in July 2015, with a total bond issuance of €504 million benefiting a project in the port infrastructure sector (Port of Calais).

iv. Ensuring SMEs' access to finance

The French Government has been focused on improving **SMEs' access to finance.**

The Government is determined to support SME equity financing. the 2015 Supplementary Budget Act introduced a reform of the "ISF-PME" scheme (tax breaks for taxpayers liable for the wealth tax who invest in SMEs) to make it comply with new EU rules; it now aims to support primarily innovative SMEs in their development phase, thus enabling them to become intermediate-size enterprises, a key target of the Government's economic policy.

As part of the Growth, Economic Activity and Equal Opportunity Act, the French Government has taken several initiatives in 2015 with regard to the development of SMEs and their access to capital markets:

- updating the regulatory regime applicable to commercial paper (an existing but little-used kind of debt acknowledgment) so that it can be used on crowdfunding platforms;
- facilitating intercompany (trade) credit;
- offering insurers and asset managers a debt-management programme to access Banque de France's credit rating proprietary database of corporates.

[10] MIROVA and *Bouygues Energies & Services*

In late 2015, the *Autorité des Marchés Financiers* also launched a public consultation regarding corporate lending by funds, within the context of the launch of ELTIFs at EU level.

Aside from these initiatives aiming directly at improving, streamlining and extending the financing opportunities for SMEs, the Government remains committed to monitoring excessively long payment terms imposed on suppliers (often SMEs) through legal means: it has therefore re-activated the Banque de France Trade Credit Observatory, extending its mandate to the payment terms from public prime contractors.

The Government also closely follows discussions concerning the revitalisation of securitisation markets, with a particular focus on the pooling of SME loans.

To further address financing difficulties that SMEs and other enterprises can encounter, especially when there are market failures due to spillovers or information, France has created a public investment bank, Bpifrance. Its products (loans, guaranties, co-financing and co-investments) improve business financing conditions at all stages of an enterprise’s life. In 2014, €17.5bn was pledged by Bpifrance Financement, and this amount should increase to reach €22bn in 2018.

In addition, the upcoming Transparency, Anti-Corruption and Economic Modernisation Bill (Q3 2016) will improve the regulatory framework to facilitate business financing. Measures include a derogation to the banks’ monopoly on lending, under the terms of the Monetary and Financial Code, to allow lending by European long-term investment funds. This measure will diversify sources of financing for the economy and lower financing costs. Moreover, the points-based pension scheme will be reformed to channel the savings invested towards financing the economy and to boost the return on savings.

France's 2016 Growth Strategy Update

Annex 1. Past commitment – Brisbane and Antalya commitments

Brisbane and Antalya Key Commitments for Monitoring Purposes

• **Policy Action 1:**	**Stimulate employment and improve business competitiveness by reducing the labour tax wedge**		
Inclusion of the commitment in growth strategies	This policy action was included in the Brisbane growth strategy.		
	Interim Steps for Implementation	Deadline	Status
Ramp-up of the Tax Credit for Competitiveness and Employment (CICE)	1 – Full implementation of the CICE (6% of total payroll on wages of up to 2.5 times the minimum wage (MW)) 2- Extension of the tasks of the supervisory committee to the follow-up of all public support to companies.	1 –*done* 2 –*done*	1-The ramp-up of the tax credit is now fully effective. The tax credit should total €20bn in 2017 (1 pp of GDP). 2-The CICE supervisory committee report was published in September 2015. The new committee will publish the results of its assessment of the CICE tax credit in its next report (September 2016).
Reduction of employers' social security contributions on low and medium wages (Responsibility and Solidarity Pact)	1-The first stage of the Responsibility and Solidarity Pact reduces employer's social security contributions on jobs paying between 1 and 1.6 times the statutory minimum wage 2-The second stage of the Pact extends the reduction in the payroll contributions paid by employers, with a 1.8 percentage point cut in employers' family allowance contributions on jobs paying between 1.6 times and 3.5 times the statutory minimum wage	1-*Done* (2014 and 2015) 2-*Done* (1 April 2016)	1-Passed in 2014 Supplementary Budget Act and Social Security Budget, and in 2015 Budget Act and Social Security Budget 2-Passed in the 2016 Social Security Budget Act of 21 December 2015 These measures will lower the cost of labour by approximately €10 billion in 2017
Hire subsidy to lower labour costs on low-wage jobs as an incentive for SMEs to hire	Part of the "Boosting employment in VSEs and SMEs Programme": payment of a bonus for the first person recruited (added in the Antalya	*Done*	Decree of 3 July 2015

more employees	adjusted growth strategy)		
Impact of Measure	The reduction in the cost of labour due to the Competitiveness and Employment Tax Credit and the Responsibility and Solidarity Pact is expected to drive up demand for labour from business and have a sharp effect on employment and economic activity. Given that the cost elasticity of labour demand falls with the wage level – with the highest elasticity at the minimum wage level – the impact on employment is expected to be greatest for wages closest to the minimum. Moreover, along with other corporate taxation reduction measures, these labour cost reductions immediately improve margins and reduce businesses' financing needs, which should enhance their non-cost competitiveness (leeway to improve the organisation of labour, innovate, expand export markets, etc.) and provide relief for businesses experiencing temporary financial difficulties. The impact of the reduction in the cost of labour (tax credit and pact) was estimated using the Mésange and Matis models. A correction was applied to the variant simulating the impact of a uniform reduction in social security contributions in order to factor in the high cost sensitivity of labour demand at wages close to the minimum wage. The tax credit was converted into an equivalent reduction in social security contributions, but takes into account the non-increase in corporation tax (as opposed to a straight reduction in social security contributions). These measures are expected to create more than 500,000 jobs and to add + 1.7 GDP pp by 2020. This has been assessed taking into account the whole measures expected initially in the Responsibility Pact (including tax measures described in Policy action #5) and might be slightly revised in the final version with the adjustments of the tax measures decided in the summer 2016 (see Annex2 : New and adjusted commitments).		

• **Policy Action 2:**	**Increase purchasing power and incentives to take up jobs by easing the tax burden on low-income households**		
Inclusion of the commitment in growth strategies	This policy action was included in the Brisbane growth strategy.		
	Interim Steps for Implementation	Deadline	Status
"Solidarity" part of the Responsibility and Solidarity Pact	1 –One-off cut of €1.5bn in personal income tax 2 –Abolish the lowest income tax bracket, equivalent to a further €1.5bn tax cut 3 –Further personal income tax cut equivalent to €2bn.	1 –*Done* 2 –*Done* 3 –*Done*	1-Adopted in the 2014 Supplementary Budget Act. 2-Included in the 2015 Initial Budget Act 3-Included in the 2016 Initial Budget Act
Reform of *RSA activité* (in-work income supplement) and PPE (earned-income tax	1-Phase out PPE for 2016 2-Create a new in-work benefit (*Prime d'activité*) to replace the	*Done* (Jan. 2016)	1-Second Supplementary Budget Act for 2014 2-Enacted in the Act of 17

credit), subsidies for low-income workers	*RSA activité* and the PPE for 2016		August 2015 on Labour-Management Dialogue and Employment.
Impact of Measure	These measures will reduce the tax burden on the lowest income households, mainly unskilled workers, and thus help make work pay more than inactivity. The merger of *RSA activité* and PPE will make the working incentives system less complex and therefore promote activity more effectively (especially with a monthly payment mechanism). The merger will also benefit young workers, unlike *RSA activité*. This measure is also expected to support short-term demand.		

• **Policy Action 3:**	**Increase competition in services, particularly in the energy, healthcare, financial, legal and accounting service sectors**		
Inclusion of the commitment in growth strategies	This policy action was included in the Brisbane growth strategy.		
	Interim Steps for Implementation	Deadline	Status
Reform of the taxi licence system	1-Creation of new taxi licences 2-Modernization of the sector's regulations	*1-Done* *2-2016*	1-Passed into law in October 2014 2- Negotiations in progress for revised regulations
Consumer act	1 –Reduce regulatory constraint in optical and insurance sectors 2 – Introduce class actions 3 – New cost evaluation method to set gas prices	1 – *done* 2 – *done* 3 – *done*	1,2 and 3: Passed in March 2014 and introduced between March and June 2014 Some class actions have already been instigated
Growth, Economic Activity and Equal Economic Opportunity Act	Open up the coach travel market, conditional privatization of airports, more power to the French Competition Authority, ease restrictions on Sunday and night openings in the retail trade, and introduce cost-based fees and more freedom to set up and open practices for the regulated legal professions	*Done*	Growth, Economic Activity and Equal Economic Opportunity Act, enacted on 6 August 2015 Orders and implementing decrees progressively passed to implement the law.
End of regulated gas and electricity tariffs (exc. small users) and new hydroelectric concession contracts	1-Phase in new concession contracts 2- Introduce the principle of adding up costs for energy tariffs	1-Dependent on end dates for existing contracts 2-*done*	Enacted on 17 August 2015 in the Energy Transition and Green Growth Act
Impact of Measure	The pro-competitiveness measures to lift barriers to the efficient functioning of the goods and services markets will have a positive impact *via* two main channels:		

	1) lower prices for buyers (households and businesses) will enhance the competitiveness of businesses and raise the purchasing power of households, a positive impact that outweighs the negative impact of the reduction in rents/margins in the deregulated occupations/sectors; ii) lower margins will stimulate productivity in the deregulated sector as well as in downstream sectors (see Cette et al., 2014, references below). The reforms to lift barriers in certain goods and services markets are modelled using a combination of shocks introduced into the Mésange model: i) a reduction in consumer prices and business input prices (the size of the reductions is estimated for each measure, mainly based on elasticities taken from the economic literature); ii) a reduction in rents and margins in the sectors affected by the reform, given that the deregulated occupations generally have levels of income where the propensity to consume is below average; and iii) an increase in productivity gains in the deregulated sectors and in user sectors, based on the price elasticity of productivity in the study by Cette et al., 2014. These effects are combined in the Mésange model to estimate the macroeconomic impact. (G. Cette, J. Lopez & J. Mairesse, Product and Labour Market Regulations, Production Prices, Wages and Productivity, NBER Working Paper No. 20563, October 2014) All pro-competitiveness measures combined may boost GDP by 0.4 percentage points and create around 25,000 jobs by 2020.

• **Policy Action 4:**	**Increase competitiveness by simplifying administrative formalities and cutting red tape**		
Inclusion of the commitment in growth strategies	This policy action was included in the Brisbane growth strategy.		
	Interim Steps for Implementation	Deadline	Status
Simplification measures	1 – Create the Business Simplification Council 2 – Launch the simplification shock with the 50 initial simplification measures 3–New set of simplification measures (starting Oct. 2014) included in the Activity Bill 4-Continue with the process: 90 new simplification measures	1 –*done* 2 –*done* 3 –*done* 4-2016	1- Effective in January 2014 2- Presented in April 2014 and passed into law in December 2014 3- Enacted on 6 August 2015 4- New set of 90 measures presented on 3 February 2016 Altogether, 415 simplification measures have been announced and many of them have already taken effect (e.g. simplification of business creation procedures)

Simplification of the business environment for VSEs and SMEs	First set of measures in the Growth, Economic Activity and Equal Economic Opportunity Act (e.g. simplification of rules on transfers of registered office, removal of some obligations concerning general meetings, etc.)	*Done*	Enacted on 6 August 2015
Impact of Measure	The simplification process reduces costs for businesses and makes for a more efficient allocation of the factors of production. This boosts competitiveness, productivity and, in turn, investment and economic activity. Some measures also target investment directly, such as the simplification of building regulations. Between August 2014 and September 2015, the measures passed have already generated €1.1 billion in gains for companies. This assumption is reasonable in view of the estimates of the impact of simplification programmes in other European countries in the 2000s, where estimated administrative costs were 3% to 4% of GDP. The gains from the reduction in the administrative burden are deemed a positive shock for productivity, modelled in the Mésange model by an increase in the efficiency of labour, which drives up long-term production and improves competitiveness and purchasing power by lowering prices. These effects will be gradual.		

• **Policy Action 5:**	**Improve the business environment by reducing the tax burden on firms**		
Inclusion of the commitment in growth strategies	This policy action was included in the Brisbane growth strategy.		
	Interim Steps for Implementation	Deadline	Status
Streamlining and cutting business taxes	1 –A €2 billion reduction in the corporate social solidarity (C3S) contribution (tax on turnover) for SMEs 2 – Phase out the C3S contribution 3 – Phase out the exceptional corporate income tax 4-Reduce the nominal rate of corporate income tax to 28% in 2020	1 –*Done* 2 – Adjusted (see Annex 2) 3 –*Done* 4- Adjusted (see Annex 2)	1-2015 and 2016 Social Security Budget Bill 2- Adjusted 3- Non renewal in the Initial Budget Act for 2016 4- Adjusted
Size-related criteria in regulations that impede companies' growth	1-Align employers' social security contribution exemptions for all companies, regardless of size 2-Freeze on taxes and social	1- *Done* *2-Done* 3-*Done*	1-Passed into law as part of the Responsibility and Solidarity Pact (2015 Budget Bill and Social Security Budget Act)

	security contributions triggered by reaching the 50-employee threshold 3-All thresholds of 9 and 10 employees are raised to 11 employees ; simplification of dialogue between labour and management representatives in companies with more than 50 employees		2-Boosting employment in VSEs and SMEs programme of 9 June 2015, passed into Budget Bill and Social Security Budget Act for 2016 3-Act on the modernization of social dialogue
Impact of Measure	The reduction in capital taxation driven by phasing out the C3S and lowering the corporation tax rate should have a powerful impact on investment, employment and economic activity. However, this effect will take longer to materialise than with other measures such as a cut in the labour tax wedge. The reduction in the C3S contribution was simulated as a reduction in a tax whose base consists of 50% labour, 32% capital and 18% imports. The C3S is most likely to generate a loss of efficiency in the production chain by taxing inputs several times, so the evaluation also incorporates a positive shock to productivity here. The reduction of the corporation tax rate is evaluated by the Mésange model as a negative shock to the cost of capital, which stimulates investment while reducing unemployment in the long term.		

• **Policy Action 6:**	**Support pro-innovation investment**		
Inclusion of the commitment in growth strategies	This policy action was included in the Brisbane growth strategy.		
	Interim Steps for Implementation	Deadline	Status
Scale up the Invest for the Future programme	1-Phase 2: additional €12bn 2-Phase 3: new scale-up of this programme (in the Antalya adjusted growth strategy)	1-NA 2-2017	1-Passed in December 2013 2-Announced by the President of the Republic on 12 March 2015
Public Investment Bank	1-Creation 2-A further €2.1 bn in loans from the BPI : additional € 8 bn until 2017	1-NA 2-2017	1-December 2012 2-Announced by the Prime Minister on 8 April 2015
Higher depreciation allowance measure for productive investment	40% additional depreciation on productive investment	*Done*	Enacted by the Growth, Economic Activity and Equal Opportunity Act of 6 August 2015
Impact of Measure	All these measures stimulate the volume of investment and therefore have an immediate positive impact on economic activity by pushing up demand. The size of the impact obviously depends on the deadweight effect (i.e. if the investment would have been		

	made anyway even if these measures had not been introduced) and the imported content of investment. These measures also have an impact on economic potential because they increase the stock of productive capital. The investments improve businesses' non-cost competitiveness, especially when they target innovative products and R&D as is the case with the Invest for the Future Programme. At macroeconomic level, the BPI's interventions help: 1) finance projects that generate externalities, mainly via subsidies and repayable advances; and ii) reduce borrowing costs for businesses and address asymmetric information issues, mainly via loans and equity investments. Through these channels, the BPI stimulates private investment. The end impact on economic activity therefore depends on BPI's ability to select projects that genuinely lack private financing (low windfall effect) and attract private investors to the projects it helps finance (leverage effect). The macroeconomic impact is therefore evaluated in terms of the increase in private investment spurred by BPI's interventions. The creation of the BPI is expected to raise GDP by a total of almost 0.4 points in 2020. The long-run impact cannot be calculated because it depends partly on the BPI's business plan and on the trend in market financing conditions. The depreciation measure could increase investment by means of an anticipation effect by an amount equivalent to the budget cost in 2015-2016 (€2.5 billion), based on past experience of this type of reform (P. A. Muet and S. Avouyi-Dovie, 1987).

• **Policy Action 7:**	**Tackle unemployment by improving the vocational training system and increasing public service efficiency**		
Inclusion of the commitment in growth strategies	This policy action was included in the Brisbane growth strategy.		
	Interim Steps for Implementation	Deadline	Status
Growth, Economic Activity and Equal Economic Opportunity Act	Industrial tribunal reform	2016	Enacted on 6 August 2015
New unemployment benefits convention	1-Implement the 2014 unemployment insurance agreement 2-Next unemployment benefits convention *(new)*	1-*done* 2-2016	1-Agreement from 2014 2-In discussion by workers' and employers' representatives
Vocational training reform	1-Clarify the governance of vocational training	*Done*	Adoption of the law of 5 March 2014

	2-Reform the financing of vocational training		
Improving employability	1-Increase public employment service agency (*Pôle Emploi*) resources for the most vulnerable 2-Roll out the Youth Guarantee mechanism nationwide *(new)*	1-2015-2017 2-2015-2016	1-Agreement between Pôle Emploi, decentralised job centres, and central government: 18 December 2014 2-Enacted by the law on labour, social dialogue modernization and career paths safeguarding on 8 August 2016
Impact of Measure	All of the measures implemented to improve the functioning of the labour market will have a positive impact on our economic potential by means of a number of channels. The measures to ease labour market rigidity and improve legal certainty, balanced by mechanisms to improve the security of occupational pathways (particularly "rechargeable" entitlements to unemployment benefits), will reduce costs and uncertainty for businesses, improve mobility and the match between supply and demand on the labour market, with a positive impact on productivity, and/or reduce structural unemployment. Measures that strengthen incentives to return to work (the new unemployment benefits convention and the next convention in 2016) are also designed to bring down structural unemployment. The measures in the Labour-Management Dialogue and Employment Act will have a positive impact on business and therefore on productivity. They will also mitigate the impact of size-related criteria in regulations on business growth. The measures to improve industrial relations (single staff delegation, possibility of merging representative bodies by collective agreement, combined information/consultation of employee representative bodies, and simplification of compulsory negotiations) will reduce employer costs on the whole and the additional cost associated with a workforce over the threshold of 50 employees. Lastly, extended Sunday trading hours should lead to an increase in jobs in the retail trade sector and create new opportunities for consumption that will boost economic activity and employment. The vocational training reform adopted on 5 March 2014 helped reform training policy governance by strengthening the role of regional authorities and relaxing the legal framework governing companies' employee training obligations. It thus clarifies the training financing system and makes it more effective.		

• **Policy Action 8:**	**Streamline the organisation of local government**
Inclusion of the commitment	This policy action was included in the Brisbane growth strategy.

<table>
<tr><td>in growth strategies</td><td colspan="3"></td></tr>
<tr><td></td><td>Interim Steps for Implementation</td><td>Deadline</td><td>Status</td></tr>
<tr><td>Reform of local government</td><td>1 –Dissolve existing intermunicipal structures and create metropolitan government bodies (“MAPTAM”)

2 –Reduce the number of regions

3 –Incentives for municipalities to merge</td><td>1 –Jan. 2015 (Jan. 2016 for Paris and Aix-Marseille)

2 – Jan. 2016

3 –Enacted on 7 August 2015</td><td>1-Passed by the Act of 27 January 2014

2-Passed by the Act of 16 January 2015

3-Passed by the Act of 16 March 2015</td></tr>
<tr><td>Improve the distribution of powers between the different layers of local government</td><td>1- Increase powers for the intermunicipal level and revoke the general competence clause for départements and regions

2-Reduce the number of intermunicipal bodies</td><td>Jan. 2017</td><td>1 and 2-Enacted on 7 August 2015 in the NOTRe Act</td></tr>
<tr><td>Impact of Measure</td><td colspan="3">The local and regional government reform seeks to improve the efficiency of our institutions by adjusting the administrative map to the geography of our economy. In particular, the rationalization of local administrations’ powers should facilitate decision-making and make urban planning and transport policies more efficient. In addition, this is expected to increase the density of some urban areas, which will generate economic gains via several channels:

• access to a thicker, more competitive market for intermediate goods;
• a better match between supply and demand on the labour market;
• more fluid exchanges and circulation of information;
• a larger and more appropriate supply of public goods (infrastructure, transport, etc.)

Recent empirical literature on this issue shows that an increase in a agglomeration’s density can have a strong positive impact on productivity.

The OECD also reports that a less fragmented administrative structure of urban areas (defined by the number of municipalities per capita) has a positive impact on productivity for a given density. For a given number of municipalities, better cooperation between the different administrative levels, for instance through the oversight by a central authority, can reduce the negative impact of fragmentation on urban productivity.

While a quantitative evaluation of this kind of reform is inherently complex, an initial, partial attempt by the OECD to evaluate the MAPTAM Act suggests that the potential gains of the local administration reform are very high. The OECD estimates the impact of establishing metropolitan governments in Paris and Aix-Marseille at 0.3 percentage points of GDP by 2020 (and around 1 percentage point by 2025).</td></tr>
</table>

• **Policy Action 9:**	**Improve and flexibilize the functioning of the labour market and promote labour-management dialogue in companies**		
Inclusion of the commitment in growth strategies	This policy action was included in the Antalya adjusted growth strategy.		
	Interim Steps for Implementation	Deadline	Status
New compensation rules	New unemployment insurance agreement	2016	Under discussion
Simplify and raise the quality of labour-management relations	Combining and streamlining disclosures and mandatory consultations with staff representative Extending the application of the single employee representative body to 200-299 employees and to the Health and Safety Committee, thus reducing costs for companies with more than 50 employees	Done	Act of 17 August 2015 on labour management dialogue and employment Two decrees of March 2016 on the personnel and functioning of the single employee representative body
Improve and flexibilize the functioning of the labour market	1- Indicative scale of compensations as a guide for labour courts and related reforms 2- Extension of *accords de maintien dans l'emploi* (job protection agreements) allowing employers experiencing severe economic difficulties to protect employees' jobs in return for changes to their working hours and compensation (through company agreement)	Done	Growth, Economic Activity and Equal Opportunity Act of 6 August 2015 – A decree specifying the indicative scale of compensations is to be published
Secure hires in VSEs and SMEs	Measures aiming at lifting obstacles and uncertainty surrounding hiring and streamlining procedures for VSEs and SMEs.	Done	Plan of 9 June 2015 (*Tout pour l'emploi*) ; measures included in the Act of 17 August 2015 on labour management dialogue and employment and in the Growth, Economic Activity and Equal Opportunity Act of 6 August 2015
Impact of Measure	As described before, all of the measures implemented to improve the functioning of the labour market will have a positive impact on our economic potential by means of a number of channels : The measures to ease labour market rigidity and improve legal certainty, balanced		

	by mechanisms to improve the security of occupational pathways (particularly "rechargeable" entitlements to unemployment benefits), will reduce costs and uncertainty for businesses, improve mobility and the match between supply and demand on the labour market, with a positive impact on productivity, and/or reduce structural unemployment. The measures enhancing the quality of labour-management dialogue will have a positive impact on business and therefore on productivity. They will also mitigate the impact of size-related criteria in regulations on business growth. The measures to improve industrial relations will reduce employer costs on the whole and the additional cost associated with a workforce over the threshold of 50 employees. By helping companies to adjust their labour force when they encounter economic difficulties or helping them to anticipate the costs associated to dismissals not justified by a firm's economic situation, these measures should reduce costs and uncertainty for companies. These reforms may improve the quality of the match between skills and labour market needs.

• **Policy Action 10:**	**Support the digitalization of the economy and the emergence of innovative start-ups**		
Inclusion of the commitment in growth strategies	This policy action was included in the Antalya adjusted growth strategy.		
	Interim Steps for Implementation	Deadline	Status
Taking advantage of new business opportunities	1 – Stagger the effects of micro-enterprises exceeding turnover thresholds in terms of tax and social security contributions over time 2 – Streamline business creation process 3- Several provisions to ease SME financing (notably venture capital)	2016	Promulgation of the Transparency, Anti-Corruption and Economic Modernisation Bill by the start of the third quarter.
Speed up the digital transition	1 – Digital Republic Bill – measures include notably the opening of public data, an equal access to the web and a better protection of users 2 – France's Superfast Broadband Plan to reach a total coverage in 2022 (> 30 Mbits/s) – more than €2bn had been invested at the end of 2015	1-2015-2016 2-2022 3-Sept. 2016	1-Under discussion in Parliament 2-Started in 2013 3-Ongoing, pilot tests will run in the 2015-2016 school year. National roll-out scheduled for the 2016-2017 school year.

	3 –Digital Education programme : €1bn will be invested until 2018		
Impact of Measure	These measures will support the emergence of start-ups, especially by improving their financing and investment, and should therefore increase potential activity.		

Annex 2. New and Adjusted Policy Commitments since Antalya

• **Functioning of the labour market**	**Improve and flexibilize the functioning of the labour market and promote labour-management dialogue in companies**
Implementation path and expected date of implementation	1- For open-ended contracts, dismissals to be based on economic grounds explicitly defined in the Labour Bill to offer greater clarity in relation to the rules applicable, particularly as regards SMEs. 2- Introduction of an indicative scale for compensations 3- Facilitate take up of derogations at company level from general or contract provisions, in particular as regards wages and working time arrangements (e.g. overtime costs) 4- Make it possible to reach company-level agreements with trade unions to maintain and develop employment that would prevail, over employment contracts provisions, regarding working hours and benefits for instance. 5- Additional training courses for jobseekers: 500,000 training courses financed in 2016 for jobseekers, particularly those with few or no skills or whose skills are obsolete.
What indicator(s) will be used to measure progress?	Number of company level dismissals ; number of dismissals considered as unjustified by labour tribunal courts
Explanation of additionality or adjustment (where relevant)	Additional measures reinforcing Policy Action 9.

• **Cost competitiveness**	**Continue to cut taxes and labour costs for businesses to boost investment and create jobs**
Implementation path and expected date of implementation	1- Adjustment of Responsibility and Solidarity Pact tax commitments for 2017 : - continuing and strengthening the CICE tax credit from 6 to 7% of gross wages - Third phase of the Responsibility and Solidarity Pact will be voted by the autumn (lowering of corporate income tax rate for SMEs). 2- Continuation and extension of reforms for SMEs

	Recruitment incentive programme ("Embauche PME") for low wage workers- Implementing decree of 26 January 2016.
What indicator(s) will be used to measure progress?	Unemployment rate, share of long term contracts in total employment, labour cost
Explanation of additionality or adjustment (where relevant)	Conversion of the CICE into a permanent reduction of social security contributions is a simplification measure for companies, reinforcing Policy Action 4.

• **Unemployment insurance**	**Ensure the sustainability and the efficiency of the unemployment insurance system**
Implementation path and expected date of implementation	Negotiations began on 22 February. Implementation of the new agreement is expected on 1 July.
What indicator(s) will be used to measure progress?	Financial balance (short, middle and long term)
Explanation of additionality or adjustment (where relevant)	New commitment

• **Business environment**	**Heighten economic transparency to build investor confidence and promote France's attractiveness**
Implementation path and expected date of implementation	Setting up of a National Corruption Prevention and Detection Agency, improved protection of whistle-blowers, measures promoting transparency regarding interest group representatives. The Transparency, Anti-Corruption and Economic Modernisation Bill was presented on 30 March 2016. Vote expected on the third quarter of 2016.
What indicator(s) will be used to measure progress?	Corruption perception index (Transparency International)
Explanation of additionality or adjustment (where relevant)	New commitment

• New economic opportunities	Capitalising on new business opportunities
Implementation path and expected date of implementation	Measures to facilitate the growth trajectory of VSEs and SMEs, to ease their financing and to simplify their rules Professional qualifications review to assess the proportionality of the regulatory framework Measures to ensure fair competition between taxis and other modes of passenger transport, to be implemented in 2016 Measures of simplification of VSE and SME's business environment, included in the Transparency, Anti-Corruption and Economic Modernisation Bill Extension of the higher depreciation allowance measure until the end of 2017 Most of these measures are included in the Transparency, Anti-Corruption and Economic Modernisation Bill presented on 30 March 2016. Vote expected in the third quarter of 2016.
What indicator(s) will be used to measure progress?	Growth of VSEs and SMEs
Explanation of additionality or adjustment (where relevant)	Measures reinforcing Policy Action 10.

Annex 3. Past commitment – St. Petersburg fiscal commitment

The outturn shows that the Government met its commitments in 2015. The public deficit reported by France’s national statistics institute (INSEE) in March 2016 stood at 3.5% of GDP, compared with 4.0% in 2014 (and 7.0% in 2010), showing that government expenditure is under control.Government expenditure increased by only 0.9% in nominal terms in 2015, excluding tax credits, compared with average growth of 3.2% from 2007 to 2012, and the public expenditure-to-GDP ratio declined from 57.3% in 2014 to 56.8% in 2015[11]. This result is also lower than the 1.1% growth forecast for 2015 in the 2014-2019 Public Finance Planning Act. Nominal expenditure growth was historically low in 2015, which confirms the Government’s commitment to public finance sustainability.

The Government intends to continue its fiscal consolidation policy with efforts to reduce government expenditure. In line with the Public Finance Planning Act, the adjustment path set out in the Stability Programme is based on a steady reduction of government expenditure as a percentage of GDP at a pace appropriate to economic conditions. This will ensure that the deficit is brought down to less than 3% of GDP in 2017, while reducing the tax burden. However, current macroeconomic conditions, with low inflation, are having a negative impact on France's public finances. Consequently, the Government presented €3.8 billion in additional measures for 2016 under the Stability Programme and €5 billion for 2017.

The 2016 draft budget estimates that government expenditure as a percentage of GDP will decrease from 55.3 percentage points in 2015 to 54.0 percentage points in 2017 (excluding tax credits).

Medium- term projections, and change since the Antalya submission (April 2016 forecasts):

These forecasts will be updated in September, coincident with the discussion of the Budget Act for 2017.

		Estimated Projections				
	2014	**2015**	**2016**	**2017**	**2018**	**2019**
Gross Debt	95.3	95.7	96.2	96.5	95.4	93.3
pp change	*-0.2*	*-0.6*	*-0.4*	*0.0*	*0.3*	
Net Debt	na	na	Na	na	na	na
pp change	*na*	*na*	*Na*	*na*	*na*	*na*
Deficit	4.0	3.5	3.3	2.7	1.9	1.2

[11] In March 30th, Insee updated the figure for 2015 at 57.0% of GDP.

pp change	*0.0*	*-0.2*	*0.0*	*0.0*	*0.0*	
Primary Balance	-1.8	-1.5	-1.3	-0.7	0.1	0.9
pp change	*0.0*	*0.2*	*-0.1*			
CAPB	0.1	0.4	0.5	1.1	1.7	2.1
pp change	*0.0*	*0.1*	*-0.2*			

Note: the pp changes are calculated in comparison with the figures in the 2016 Budget Bill
Source: Insee seasonally and working day adjusted data, detailed results published in Q4 (March 2016) for 2015; 2016 Stability Programme for the 2016-2019 period

The debt- to- GDP ratio and deficit projections are contingent on the following assumptions for growth:

	2014	**2015**	**2016**	**2017**	**2018**	**2019**
Real GDP growth	0.2	1.2	1.5	1.5	1¾	1.9
pp change	*0.0*	*0.2*	*0.0*	*0.0*	*0.0*	*0.0*
Nominal GDP growth	1.2	2.3	2.4	2.4	3.1	3.6
pp change	*0,4*	*-0,8*	*-1,3*	-	-	-

Source: Insee for 2014/2015, April 2016 Stability Programme for the period 2016-2019.

Annex 4. Pre-Brisbane commitments

Pre-Brisbane Commitments

Launch an extensive labour market reform	
Structural reform	**Los Cabos**
Rationale for carrying forward	France has faced persistently high unemployment for the past 30 years, making it necessary to re-think employment policy to make it more effective. Government action is structured around several complementary areas, with the overall aim of facilitating professional development and increasing effective security for employees.
Update on Progress	See previous update on progress from August 2014 for details on the Job Security Act. On 3 April, the Government launched an evaluation of the Job Security Act with the social partners. This evaluation will continue through to the end of May, clause by clause, and the Government will then make the decisions needed to improve the effectiveness of this act, for example by relaxing employment retention agreements so that they are more widely used. These decisions will be introduced by amendment into one of the acts being examined by Parliament to ensure that they enter into force rapidly. In addition, the Government enacted an act on the modernization of social dialogue on 17 August 2015 to increase the effectiveness of industrial relations in companies by rationalizing the rules, gearing them to company size and giving companies more leeway in collective agreements. This will simplify and raise the quality of industrial relations with fewer obligations and bodies. The Government also introduced a draft bill that intends to restructure the Labour Code to allow more room for collective bargaining without compromising employees' basic rights.

Improve competitiveness	
Structural reform	**St. Petersburg**
Rationale for carrying forward	The issue has long been known: complexity (including administrative procedures and unnecessary standards) generates extra costs for businesses, affects the business climate and creates inefficiencies that harm consumers, affect jobs and undermine economic activity in the long run.
Update on Progress	See previous update on progress from August 2014 for details on reforms of housing and railway sectors, and measures that improve the insurance code and equity investment in SMEs. +See Policy Action 1, 4, 5, 6 in Annex 1 The Government created the Business Simplification Council in January 2014, an independent body co-chaired by a Member of Parliament and a business leader. Every six months, the Council announces new simplification measures and assesses those that have already been announced.

Increase competition on the product market	
Structural reform	**St. Petersburg**
Rationale for carrying forward	Opening up the goods and services market is an essential instrument for business growth, competitiveness and economic activity in France. Certain excessive regulations generate extra costs in sheltered sectors of the economy. These eat into the purchasing power of households and end up weighing on the external competitiveness of the economy.
Update on Progress	See previous update on progress from August 2014 for details on the Consumer Act and the reform of legal and accounting professions and the energy market. +See Policy Action 3 in Annex 1

Annex 5. Key Economic Indicators

These forecasts will be updated in September, coincident with the discussion of the Budget Act for 2017.

Key Indicators (April 2016 forecasts)

	2015***	2016	2017	2018	2019	2020
I. Macroeconomic Indicators						
Real GDP (% yoy)	1.2	1.5	1.5	1 ¾	1.9	NA
Nominal GDP (% yoy)	2.3	2.4	2.4	3.1	3.6	NA
Output Gap (% of GDP)*	-3.3	-3.3	-3.3	-2.9	-2.4	NA
Inflation (%, yoy)	0.0	0.1	1.0	1.4	1 ¾	NA
Fiscal Balance (% of GDP)**	-3.5	-3.3	-2.7	-1.9	-1.2	NA
Unemployment (%)	10.0	NA	NA	NA	NA	NA
Savings (% of GDP)	20.6	21.1	21.6	22.3	22.9	NA
Investment (% of GDP)	22.2	22.5	22.7	23.2	23.9	NA
Public Fixed Capital Investment (% GDP)	3.6	3.4	3.4	3.4	3.4	NA
Private Fixed Capital Investment (% GDP)	17.8	17.8	18.1	18.7	19.4	NA
Total Fixed Capital Investment (% GDP)	21.2	21.2	21.5	22.0	22.8	NA
Current Account Balance (% of GDP)***	-0.2	0.0	0.3	NA	NA	NA

***A positive (negative) gap indicates an economy above (below) its potential.**
****A positive (negative) balance indicates a fiscal surplus (deficit).**
***** Definition from the BPM6 (Balance of Payments and International Investment Position Manual of the IMF)**

Source: INSEE seasonally and working day adjusted data, detailed results published in Q4 (March 2016) for 2015 ; 2016 Stability Programme for the 2016-2019 period. On 30 May, INSEE published updated figures for the real GDP and the fiscal balance for 2015 (the following figures are gross and are not adjusted for working days): +1.3% (real GDP), +1.9% (nominal GDP), -3.6% (fiscal balance, % of GDP)