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**Country Report France 2019
Including an In-Depth Review on the prevention and correction of macroeconomic
imbalances**

Accompanying the document

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN
CENTRAL BANK AND THE EUROGROUP**

**2019 European Semester: Assessment of progress on structural reforms, prevention and
correction of macroeconomic imbalances, and results of in-depth reviews under
Regulation (EU) No 1176/2011**

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EXECUTIVE SUMMARY

While economic activity slowed down in France, the reform process continued ⁽¹⁾. After a year of strong economic growth in 2017, temporary factors weighed on economic activity at the beginning of 2018 and social protests at the end of 2018 hindered the economic recovery that occurred over the summer. At the same time, policy actions that had been undertaken are expected to improve the performance of the French economy by better linking the education and training system to labour market needs and by reducing red tape for firms. Measures to simplify the tax system are ongoing and systemic reforms of the healthcare and pension system have been announced for 2019. Planned savings on government spending including through the new spending review process launched in October 2017 (*Action Publique 2022*) still have to be implemented. The labour market remains fragmented, impeding a faster improvement in labour market conditions for all categories of workers. Barriers to competition in the services sector continue to hamper its performance and high taxes on production remain. The efficiency of public support to innovation could be further improved.

Economic growth is forecast to moderate, while remaining above potential. After expanding at 2.2 % in 2017, GDP growth decreased to 1.5 % in 2018 and is forecast to expand by 1.3 % in 2019 and by 1.5 % in 2020. The GDP growth rate would still remain above its potential, which is gradually recovering after having dropped from an average of 1.8% from 2000 to 2008 to just 1.0% in 2009. Potential growth is now forecast to reach 1.3 % by 2020, driven by slowly improving productivity and robust investment.

Labour market conditions continue to improve, although at a slower pace compared to the EU

⁽¹⁾ This report assesses France's economy in light of the European Commission's Annual Growth Survey published on 21 November 2018. In the survey, the Commission calls on EU Member States to implement structural reforms to make the European economy more productive, resilient and inclusive. In so doing, Member States should focus their efforts on the three elements of the virtuous triangle of economic policy — boosting investment, pursuing structural reforms and ensuring responsible fiscal policies. At the same time, the Commission published the Alert Mechanism Report (AMR) that initiated the seventh round of the macroeconomic imbalance procedure. The AMR found that France warranted an in-depth review, which is presented in this report.

average. The employment rate continued to increase and reached 71.6 % in the third quarter of 2018. The unemployment rate continued to decline gradually, reaching 9.1 % in 2018. However, it remains well above the EU average (7.0 %) and the euro area average (8.2 %). Segmentation is entrenched in the French labour market. Almost 85 % of new hires are on temporary contracts and the transition rate to permanent contracts is among the lowest in the EU. Involuntary part-time work is also very high, at 43.2 % of total part-time work in 2017. Labour market slack (a measure of the underemployed that includes people available to work but not seeking, those seeking work but not immediately available and all involuntary part-time employed) coexists with a structural skills mismatch, as skills shortages are emerging, especially in some sectors.

Growth in consumption is expected to recover gradually. In 2018, private consumption rebounded somewhat over the summer after three quarters of sluggish growth. Demonstrations at the end of 2018 had a negative impact on the economy, mitigating the positive effects on consumption of fiscal measures that had been adopted. Private consumption is set to continue its gradual recovery in 2019-2020 backed by improving labour market conditions.

Investment remains at a high level, accompanied by the Great plan for investment 2018-2022. Investment represented 22.5 % of GDP in 2017. After several years of contraction, government investment increased again in 2016 and is expected to continue increasing up to 2020. Business investment should ease gradually while remaining dynamic. Housing investment, by contrast, slowed down markedly in 2018 and is set to remain subdued. Under the Great plan for investment 2018-2022 (*Grand plan d'investissement 2018-2022*), France has also planned measures for a total of EUR 57 billion to sustain the greening of the economy, address skills mismatch, foster innovation and digitise public services.

Net exports contributed to growth over the last two years, but the net international investment position continued to deteriorate. In 2017, net exports contributed to growth for the first time since 2012. However, the value of trade balance slightly declined for two main reasons: (i) dragged

by its energy component and (ii) worsened by the net export of manufactured goods. At the same time, the current account improved, but remained below the value needed to stabilise the net investment international position (that is the difference between external financial assets and liabilities) in 10 years. As a result, the net international investment position weakened by more than 5 percentage points and reached -20 % of GDP. In 2018, net exports also strongly contributed to growth. Exports remained robust albeit less dynamic than in 2017, while import growth decreased sharply. The value of the current account is set to stabilise.

The picture on competitiveness is mixed. Export market shares increased in 2017 compared to 2012, as France has benefited from a more favourable geographical positioning of its exported goods: imports from France's main trading partners grew faster than the world average. Nevertheless, in comparison with 2016, export market shares deteriorated by 3.2 % in value and 0.8 % in volume. In terms of cost competitiveness, unit labour cost increases have been contained by the moderation of wage developments. However, productivity dynamics remain sluggish. In addition, non-cost competitiveness indicators suggest that quality can still be improved in high revenue sectors.

General government debt remains high. At above 98 % of GDP in 2018, it reduces the room for fiscal manoeuvre in order to respond to future shocks. This combined with a high level of private debt (or debt accumulated by households or businesses) weighs on long-term growth prospects. Efforts to consolidate government finances have brought about an only modest reduction of the public expenditure ratio which, at 56 % in 2018, remained the highest in the EU.

The government adopted some budgetary measures to increase low income households' purchasing power in response to recent social protests. Despite a relatively positive evolution of the real disposable income in recent years for all segments of the income distribution, the government's announcement to increase carbon and diesel taxes as of 2019 has triggered a movement of strong social protest (*'gilets jaunes'*). In response to the movement and the ensuing unrest, the government decided to cancel the

planned increase in fuel tax and adopt further measures to increase the purchasing power of low-income households. The authorities have estimated that introducing these measures in this year's budget will lead the general government headline deficit to reach 3.2 % in 2019, thus reducing to zero the associated planned structural effort.

Public and private investments need to prioritise actions to strengthen research and innovation, facilitate the energy and climate transition, improve skills, tackle unemployment, and adapt to the future of work, as well as to respond to inequalities within the country. Improving education, training and innovation performance could stimulate potential growth over the medium term. In a context of emerging skills mismatch, vocational training, together with appropriate employment support and active inclusion, can improve labour market conditions, especially for disadvantaged groups. At the same time, the French authorities have adopted plans to promote investment in the energy sector, which would also contribute to exploit the untapped potential for private investments that remains in renewable energy and buildings' energy efficiency. Investments to improve connectivity, affordable housing, healthcare and transport, especially in more disadvantaged areas, would help to address inequalities within the country. Annex D identifies key priorities for support under the European Regional Development Fund and the European Social Fund Plus for the 2021-2027 period in France, building on the analysis of investment needs and challenges outlined in this report.

Overall, France has made some progress in addressing the 2018 country-specific recommendations.

There has been substantial progress in pursuing the reform of vocational education and training.

There has been some progress in the following areas:

- moderating developments in the minimum wage;
- simplifying the tax system; and
- reducing red tape.

There has been limited progress in the following areas:

- reforming the pension system;
- improving access and equal opportunities in the job market;
- increasing competition in services; and
- increasing efficiency of the innovation system.

There has been no progress in further developing and implementing a spending review through the Public action 2022 programme.

Regarding progress in reaching national targets under the Europe 2020 strategy, France is performing well in decreasing greenhouse gas emissions, increasing higher (tertiary) education attainment and reducing early school leaving. More action is still needed to reduce poverty, increase the employment rate, increase investment on R&D, use of renewable energy and improve energy efficiency.

France performs relatively well on most of the indicators of the Social Scoreboard supporting the European Pillar of Social Rights. Overall, the social protection system is effective in reducing poverty and access and quality of services are good. Social transfers reduce monetary poverty and limit material deprivation. However, despite recent improvements, access to the labour market remains a challenge, in particular for disadvantaged groups, and pockets of poverty persist for some groups of the population.

The main findings of the in-depth review contained in this report, and the related policy challenges, are as follows:

- **A steady decrease in public debt will depend on the government's ability to curb its spending.** Since 2017, the government has rolled out a renewed fiscal consolidation strategy over the five-year presidential term. Its success will depend on meeting planned expenditure targets defined for the central and local governments and for the healthcare system. Implementing this strategy also requires the execution of the still not fully defined Public action 2022 programme, aimed at delivering substantial efficiency gains for government spending while improving the

functioning of the national public administration.

- **Sustainability risks for general government debt remain high in the medium term.** The high general government debt and structural general government deficit pose sustainability challenges, especially in the medium term. A fiscal effort that translated into a decisive improvement in France's structural primary balance would be essential to avert such risks. Reducing the general government debt ratio would also improve growth prospects and the resilience of the French economy. The planned pension and healthcare reforms could contribute to decreasing the general government debt over the medium term and therefore reducing debt sustainability risks.
- **Continued effort is needed to simplify the tax system and lower taxes on production.** Recent reforms aim to alleviate the tax burden on labour but taxes on production remain high. The complexity and lack of stability of the French tax system weighs on businesses and the economy as a whole. The number of tax expenditures remains high as do low-yield taxes.
- **The solvency of French banks is stable and macro-prudential policies aim at addressing risks stemming from high private debt.** Bank funding and credit quality ratios remain stable. Banks' profitability remains modest in relation to their cost of capital. Macro-prudential policies (mitigating risks to the financial system as a whole) have been rolled out to prevent risks for the financial sector stemming from high private debt.
- **Integrating the most vulnerable categories of workers into the labour market remains challenging.** Several reforms have been adopted in recent years to reduce labour market fragmentation and favouring moves from temporary to permanent contracts. People with a migrant background still tend to be disadvantaged during the recruitment process and their geographical concentration in poor neighbourhoods is a matter of concern. Low skilled and young people also remain at a disadvantage in the labour market.

- **Improvements in the business environment have been so far moderate, but the new PACTE law (*projet de loi relatif à la croissance et la transformation des entreprises*) should further reduce unnecessary red tape.** Measures have been taken to improve the relations between public administration and businesses. The draft PACTE law aiming to overhaul red tape that hinders private initiative, improve the business environment, and help firms growth is currently under discussion in parliament. The Competition Authority's opinions and recommendations have helped to improve the functioning of key markets in recent years. However, the level of regulatory restrictiveness remains higher in France than in other EU Member States, particularly for some services sectors. In professional services, the main barriers came from restrictive requirements for entering and carrying out a regulated profession (authorisation requirements, reserves of activities, shareholding, and voting rights requirements). Retailers also face restrictions on daily operations of shops.
 - **Despite recent initiatives, the gap with respect to EU innovation leaders is not closing.** France is making artificial intelligence a national priority and is emerging as a major start-up hub notably for companies in the digital sector. However, private investment in research and development has remained stable since 2015 and new companies have difficulties to grow. In addition to the recent measures to facilitate the mobility of researchers to firms, furthering links between science and business could help to spread innovation. The efficiency of public schemes and tax incentives that sustain research, development and innovation could be further evaluated and improved.
- launched, while the 2018 reform of the vocational education and training system changed its governance and contributed to make the apprenticeship system more attractive and relevant for the labour market. These reforms are to be complemented by measures on school-based vocational education and improving teacher training to ensure that well-trained teachers are placed in disadvantaged schools.
- **A socio-economic divide exists between some regions and the rest of the country.** Only 3 regions are attracting skilled workers in sectors producing higher value added to the economy, while in the rest of the country — mainly the outermost regions — gains in employment are concentrated in sectors producing lower value added. Major differences among regions can be noted in terms of regional investment in research and development and innovation performance, as well as for energy consumption and waste management where outermost regions face specific challenges.

Other key structural issues analysed in this report, that point to other challenges for France's economy, are the following:

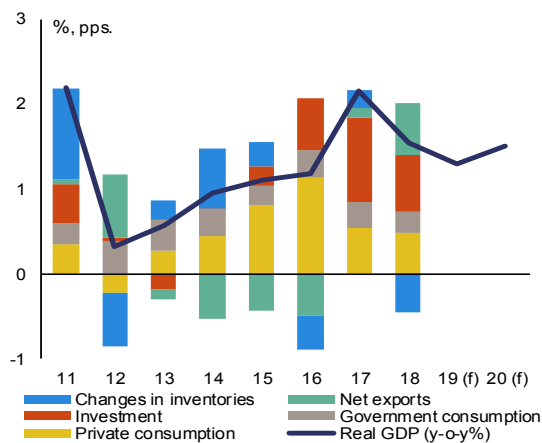
- **Differences in educational outcomes remain high at all levels of education.** Measures have been taken to raise basic skills in primary education. Complementary reforms of upper secondary and tertiary education have been

1. ECONOMIC SITUATION AND OUTLOOK

Economic growth

After a strong year in 2017, GDP growth in France moderated in 2018. GDP growth stood at 1.5 % in 2018, after registering 2.2 % in 2017 ⁽²⁾. Temporary factors, such as strikes in the transport sector, school holidays or unusually warm weather, weighed on French activity at the beginning of 2018. Economic activity accelerated slightly in the second half of 2018, but was impacted by social protests at the end of the year. In this context, private consumption stagnated in the fourth quarter despite several fiscal measures favourable to purchasing power enacted before the social unrest (a decrease in social contributions, a cut in the housing tax and increases in social benefits). Investment remained dynamic overall, although less buoyant than in 2017. Housing investment slowed down markedly following very high growth in 2017, while corporate investment eased more gradually. Public investment eased somewhat. Import growth decreased sharply in 2018, while exports remained robust, though somewhat less so than in 2017. As a result, the contribution of net exports to GDP growth increased to 0.6 percentage point.

Graph 1.1: Contributions to GDP growth (2011-2020)



Source: European Commission, 2018 winter forecast

GDP growth rate is set to decrease in the near future, while remaining above potential. Private consumption growth is forecast to slowly recover.

⁽²⁾ The annual GDP growth figures are non-calendar adjusted. In 2017, calendar adjusted GDP growth reached 2.3 %. In 2018 and 2019, calendar adjusted GDP growth remains unchanged while it reaches 1.4 % in 2020.

Fiscal measures, including the new measures adopted at the end of 2018, should provide support to purchasing power. Nevertheless, their overall effect on private consumption could be limited in the first few months, translating instead into precautionary savings, in line with the persistence of low consumer confidence levels. Investment growth is set to cool down in 2019 and 2020, as spare capacities are gradually reabsorbed. Public investment is set to keep increasing. Corporate investment is forecast to cool down gradually although staying at a high level, while housing investment is expected to remain subdued. In addition, net exports are expected to be neutral in 2019 and 2020, in line with a rebound in imports. GDP growth is expected to reach 1.3 % in 2019 and 1.5 % in 2020 (see Graph 1.1). Inflation is forecast to reach 1.4 % in 2019 and 1.7 % in 2020, after registering 2.1 % in 2018, as a consequence of increases in oil price and in excise duties.

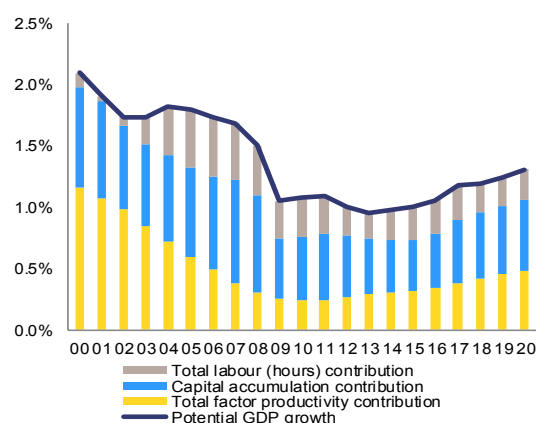
Labour market conditions continue to improve, albeit slowly (see Section 4.3). In line with a relatively favourable cyclical position, the unemployment rate pursued its moderate decline, to 9.1 % in 2018, but it is still significantly higher than the EU average (7.0 %). The employment rate (20-64) rose in 2017 to 70.6 %, still slightly below the EU average (72.2 %). In 2017, the youth unemployment rate decreased to 22.3 % and the long-term unemployment rate decreased for the first time since 2008, at 4.2 % in annual terms. However, the unemployment rate of low-skilled young people (15-24) remains very high, at 37.8 %. In addition, the situation of people with a migrant background and from deprived urban areas continues to be marked by significant challenges. The employment rate for non-EU born, at 55.6 % in 2017, is one of the lowest in the EU. The labour market remains segmented, marked by a predominant share of recruitment and extensions on very short-term contracts, despite an increase of recruitment on permanent contracts since mid-2015. The transition rate between temporary and permanent contracts, at 11.7 %, is also one of the lowest in the EU. Although still high in comparison to the rest of the EU, the share of open-ended contracts has been eroding. While some slack in the labour market persists, indicators such as the labour shortage index and recruiting difficulties in several sectors point to the presence of skills shortages and skills mismatches.

Risks are slightly tilted to the downside. Persistent uncertainties on the external side (European Commission, 2018a) could weigh on export performance and investment. On the domestic side, the weakness of the consumer confidence indicator could translate into lower private consumption growth. On the other hand, the impact of the measures announced by the government at the end of 2018 could materialise faster than expected.

Potential growth

Potential growth has declined since the 2008 financial crisis. The annualised growth rate of potential GDP decreased from 1.8 % on average from 2000 to 2008 to just 1.1 % between 2009 and 2018. It is projected to recover gradually and to reach 1.3 % in 2020. But this is not specific to France. A slowdown of potential GDP has been observed in most major euro area economies. In the case of France, this slowdown can be attributed to a reduction in the contribution of total factor productivity (see Graph 1.2). Despite a gross investment rate of the non-financial corporations relatively resilient to the crisis (see Section 4.4), potential total factor productivity growth in France remains below potential total factor productivity growth in Germany and is now lower than in Spain (European Commission, 2018b).

Graph 1.2: Potential GDP growth breakdown



Source: European Commission, 2018 autumn forecast

The sluggish total factor productivity growth contributes to the weak competitiveness and exacerbates the challenges linked to high public debt. The slowdown of labour productivity, partly due to a deceleration of total factor productivity,

prevents a faster recovery of cost competitiveness (see below). The deceleration in potential GDP also makes it more difficult for France to bring down its public debt without greater fiscal consolidation (see Section 4.1).

Potential growth can be affected by a low responsiveness of labour and product markets.

Promoting labour market mobility among sectors and regions may facilitate resource reallocation, with a positive impact on total factor productivity. Several indicators point to the presence of skills mismatches in France, suggesting the need of future investment for supporting the professional reskilling and upskilling of the workforce (see Section 4.3). Labour market segmentation may also have a negative effect on human capital accumulation (see Section 4.3). Inequality of opportunity, as seen through the strong dependence of educational and labour market outcomes on socio-economic and migration background (see Section 4.3), may be associated to suboptimal investment in human capital. Total factor productivity growth may also be hampered by tax complexity (see Section 4.1) and weaknesses in the business environment, which can weigh on firms' growth, hinder innovation and internationalisation of firms (see Section 4.4).

Measures to boost productivity and therefore potential growth have been adopted or announced.

Those reforms encompass the labour law ('*ordonnances*'), measures on vocational training, the skills investment plan, the educational system, as well as public service reforms. Measures to alleviate the burden of regulations on firms are also part of a draft PACTE law currently in discussion in parliament. However, time is needed to see the full effects of those reforms, especially those concerning the educational system. Their effects on productivity might also be difficult to quantify beforehand (see Section 4.4).

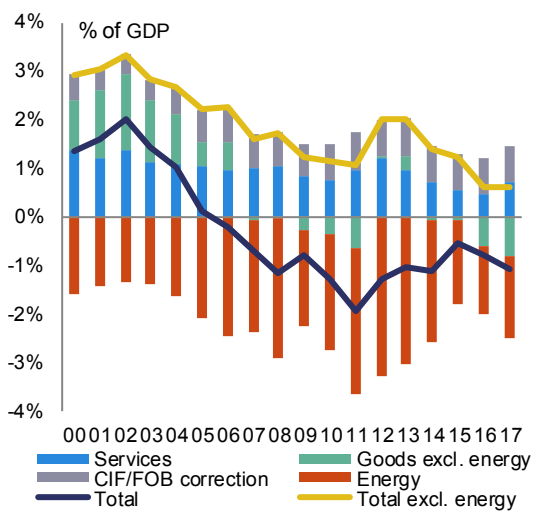
External position

A somewhat more favourable picture of the French external sector emerged as a result of the revision of the national accounts data⁽³⁾. A

⁽³⁾ The revision of the national accounts data (new base system) brought closer balance of payments and national accounts data. The figures from the two methodologies are now almost identical (Insee, 2018a).

new methodology has been adopted, which better takes into account export and import of services, tourism expenditure from developing countries and property income. As a result, the trade deficit stood at -1.1 % of GDP in 2017, compared to -2.5 % using the previous base (base, 2010).

Graph 1.3: Trade balance breakdown



Source: Insee, national accounts

The trade balance has been on a mild but protracted deteriorating trend and slightly deteriorated in 2017 (see Graph 1.3). The trade balance in goods started deteriorating again in 2016. The energy component always weighed on the trade balance and is subject to oil price volatility. Excluding energy products, the trade balance in goods has been on a slow but protracted deteriorating trend, only temporarily interrupted in earlier years of this decade. This trend is mostly explained by manufactured goods net exports (Insee, 2018b). Net exports of manufactured goods kept on deteriorating since the early 2000s and have switched from positive in the mid-1990s to negative in 2007. The year 2017 is no exception: the trade deficit in manufactured goods worsened by almost EUR 7 billion ⁽⁴⁾. On the other hand, the trade balance in services slightly improved in 2017, for the first time since 2012, while remaining positive in 2000-2017. According to the

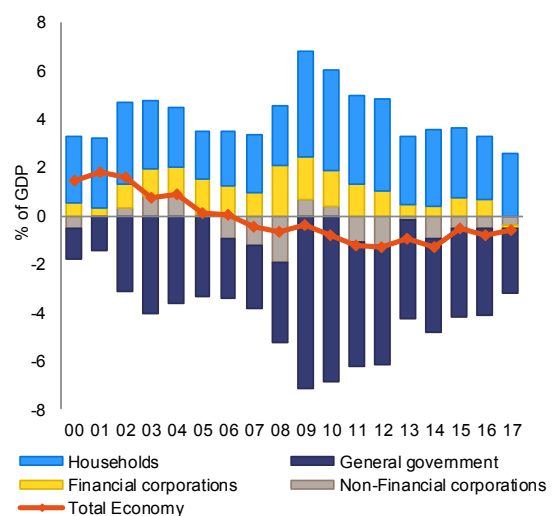
⁽⁴⁾ The widening trade deficit in manufactured goods is mostly explained by the demand of the households and administration sectors, despite the higher volatility of corporate investment. Specific sub-sectors, like equipment goods and other industrial goods, show a considerable deficit due to limited production capacity and dynamic domestic demand.

2018 autumn forecast, the trade balance should slightly improve in 2018, as imports grew at a slower pace than exports, especially in services.

The current account marginally improved in 2017 and posted a small deficit. Compared to the previous year and the trough in 2011, the current account balance improved but remains negative, at -0.6 % of GDP in 2017, after having registered -0.8 % in 2016. This is mainly due to the growth of net income from abroad, as the trade balance deteriorated in 2017. The level of the current account balance in 2017 is essentially close to the cyclically-adjusted one. Nevertheless, it remains below the current account balance predicted by fundamentals, which is a surplus of around 0.5 % of GDP ⁽⁵⁾. The current account balance is set to remain broadly unchanged according to the 2018 autumn forecast.

The current account deficit results from saving and investment decisions at the sectoral level. Net borrowing by non-financial corporations and public sector remains too high to be fully financed by households' net lending (see Graph 1.4). France is currently the only major EU economy in which non-financial corporations are net borrowers, while the net borrowing of the public sector is higher than the euro area average.

Graph 1.4: Net lending/borrowing by sector



Source: Eurostat

⁽⁵⁾ For details regarding the estimation of current accounts based on fundamentals, see Coutinho and *al.* (2018).

The net international investment position remains negative and deteriorated in 2017.

Government bonds account for most of the negative net international investment position (almost -50 % of GDP), while other financial institutions ⁽⁶⁾ show a strong positive position (more than 50 % of GDP). The net international investment position went from around -15 % to -20 % of GDP between 2016 and 2017, mostly due to valuation effects ⁽⁷⁾. Therefore, it remains below the value that could be expected based on the fundamentals (around 9 % of GDP) but is not raising prudential concerns ⁽⁸⁾. At the same time, and excluding valuation effects, the current account outcomes described above seem sufficient to stabilise the net international investment position at its current levels. Yet, they seem insufficient to bring it to its fundamentals, notably to halve the gap to fundamental in a decade.

Competitiveness

Export market shares increased over the five years to 2017 but decreased in 2017 on a year-on-year basis.

In recent years, France has benefited from a more favourable geographical positioning: imports from its main trading partners grew faster than the world average. Nevertheless, despite a pick-up in export growth, France's export market shares deteriorated by 3.2 % in 2017 on a year-on-year basis ⁽⁹⁾ (-0.8 % in volumes). Regarding the good sectors, France underperformed in 2017 and lost export market shares in sectors other than chemical products sector and vehicles, aircraft and vessels sector. In addition, cyclical conditions weighed on export market shares of goods within EU, especially in the vehicles, aircraft and vessels sector.

⁽⁶⁾ Institutions other than government, private sector, 'monetary and financial institutions' and central banks. For example, mutual funds, insurance companies or pension funds.

⁽⁷⁾ The value of French assets owned by foreigners increased in relation to the external assets owned by French residents.

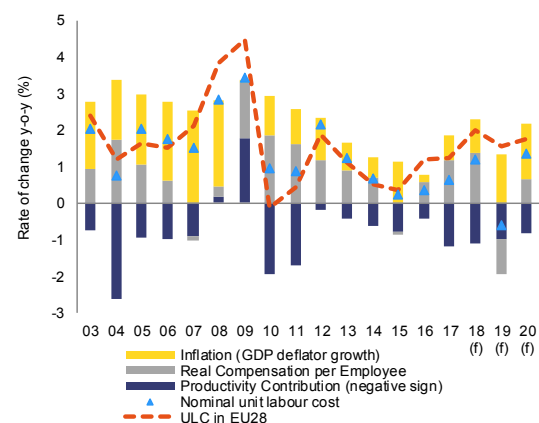
⁽⁸⁾ The net international investment position level explained by fundamentals represents the net international investment position that would result if a country had run its current account in line with fundamentals since 1995. The country-specific prudential threshold denotes the net international investment position level beyond which an external crisis becomes likely (see Turrini and Zeugner, 2019).

⁽⁹⁾ Among the highest deteriorations in value observed in the euro area in 2017.

Growth in unit labour costs remained moderate over the past years but is set to increase.

Nominal unit labour costs grew by only 1.3 % over the 3 years to 2017. As a result, cost competitiveness has improved, thus helping to absorb part of the competitiveness losses accumulated over the past years towards the country's main trading partners. However, unit labour costs in non-agricultural market sectors, which have been growing since the third quarter of 2016, are set to accelerate further (see Graph 1.5) ⁽¹⁰⁾. This is the result of gross wages per person increasing, in response to a gradually improving labour market and higher inflation. In the meantime, labour productivity growth is expected to remain moderate, preventing a faster recovery of cost competitiveness.

Graph 1.5: Breakdown of unit labour cost rate of change



Source: European Commission, 2018 autumn forecast

Wage growth is expected to gradually pick up as labour market slack decreases.

Nominal wage expanded at a moderate pace between 2013 and 2016 and accelerated in 2017. It is set to further accelerate in the upcoming years, albeit moderately, in line with higher inflation. Nominal compensation per employee should broadly follow the same pattern and grow by 2.3 % in 2018. It would exceptionally decouple from wages evolution in 2019 due an accounting artefact ⁽¹¹⁾, growing at 0.4 %, before resuming an annual growth rate of 2.2 % in 2020. Minimum wage

⁽¹⁰⁾ Except in 2019, see next paragraph and footnote ⁽¹¹⁾.

⁽¹¹⁾ The government has decided to replace the *tax credit for competitiveness and employment* (CICE), recorded as a subsidy, by a direct reduction in employers' social security contributions as of 2019. The labour cost should nevertheless remain broadly unchanged on aggregate.

increases and real wage growth are expected to remain moderate.

Labour productivity growth increased in 2017 but is set to remain below pre-crisis trend.

Labour productivity rose steadily, by around 1.3 % per year on average, between 1990 and 2007 and slowed down to 0.9 % between 2010 and 2016. The contribution of the industrial branches accounts for almost 90 % of the slowdown in post-crisis labour productivity. In industrial branches, this decrease is mostly explained by the deceleration of total factor productivity and, to a lesser extent, by lower capital intensity. Construction and market services contributed only marginally to the overall post-crisis slowdown in labour productivity (Insee, 2018c). A less efficient allocation of capital weighed on labour productivity growth in market services (see Section 4.4). It was nevertheless compensated by a higher contribution of total factor productivity (Insee, 2018c). The increase in self-employed jobs in low pay sectors following the crisis (see Section 4.3) might also have contributed to the decrease in labour productivity in market services. Labour productivity picked up to 1.1 % in 2017, as economic activity remained buoyant during the whole year, while job creation progressed in the second part of 2017. Labour productivity growth is set to slightly decrease in the future and remain below its pre-crisis level.

France ranks 6th among 39 advanced economies for the overall quality of exported goods in 2016 ⁽¹²⁾. An in-house study to assess non-cost components of exports ('quality'), comparable to the strategy applied by Bas *et al.* (2015) ⁽¹³⁾, confirmed that French exports are globally of good quality. France ranks above average in almost every aggregated sector (as defined by the Harmonised System at 2-digit level), giving it a solid top 10 position in export quality in 70 % of these sectors. Although the global quality index deteriorates slightly in absolute value between 2003 and 2016, France's

⁽¹²⁾ EU, other Organisation for Economic Co-operation and Development countries and China (no data for Luxembourg).

⁽¹³⁾ Evaluation of export products' quality at Harmonized System 6-digit level, using bilateral flows data from the databases BACI and Trade Unit Values (Centre d'études prospectives et d'informations internationales) from 2003 to 2016.

overall position in relation to other countries is rather stable. Nonetheless, the country ranks consistently behind Japan, Germany, the US, Italy, and has been recently surpassed by China.

Focusing on the most economically significant export sectors for France, quality is often lower than that of its main competitors.

The 5 largest sectors (each representing more than 5 % of French export revenues), namely aeronautics, mechanical machinery, motor vehicles, electrical equipment, and pharmaceuticals together account for about 46.7 % of total French exports. In these key economic sectors, France outperforms its main competitors only in aeronautics in which it ranks second. In the other key sectors, France's position in quality index of exports reaches between the 6th and 10th rank (among the 39 countries under review) (see Table 1.1), while its main competitors rank first, namely Germany and the US, as well as Switzerland in the case of pharmaceuticals. Moreover, the quality index of French exports in these sectors is declining over time, more strikingly in the case of pharmaceuticals and with the exception of motor vehicles that remain stable. France's ranking in these sectors is also deteriorating over time due to some competitors' improving their performance.

Table 1.1: **Non-cost competitiveness of the largest export sectors for France**

Sector	World market share (%)	Part in total French exports (%)	competitiveness index		Rank	1st
			2003	2016		
Machinery	3.0	11.5	0.65	0.56	8	DE
Aeronautics	21.5	11.5	0.71	0.79	2	US
Motor vehicles	3.7	10.2	0.52	0.53	6	DE
Electrical equipment	1.6	7.2	0.88	0.82	6	DE
Pharmaceuticals	6.1	6.3	0.42	0.29	10	CH
Plastics	3.5	3.8	0.31	0.22	12	US
Beverages	16.6	3.6	0.40	0.75	3	US
Cosmetics	15.6	3.5	0.89	0.79	4	US

Source: BACI 2016 and European Commission

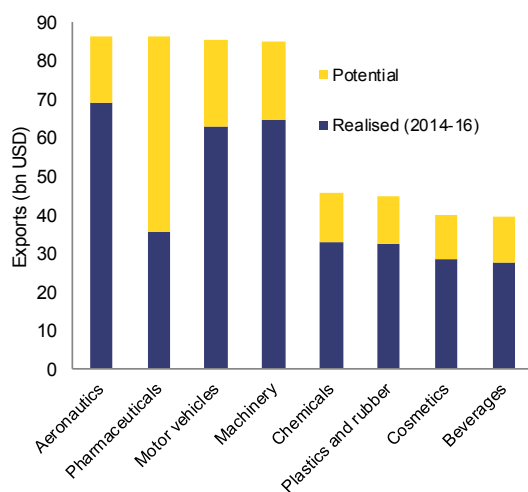
Traditional French specialisation products and specific high-tech niches continue nonetheless to be of very high quality.

France specialises in 6 sectors ⁽¹⁴⁾: (i) aeronautics, (ii) beverages, (iii) cosmetics, (iv) dairy products, (v) leathercraft and (vi) cereals. Except for cereals, the country ranks in the top 4 for the quality index of exports in these sectors that represent 22.5 % of French export revenues (only 10.9 % if aeronautics is excluded). Specifically, in the aeronautics and cosmetics

⁽¹⁴⁾ Sectors where the part in revenue for France is at least twice the world's average.

sectors, France ranks 2nd and 4th in terms of the quality of exports. Both sectors are also associated to a high trade performance as France claims 21.5 % and 16.6 % of the world market share, respectively. At the product level, France ranks 1st for the quality of its perfumes and make-up products. The beverages sector, where France is by far the world's leading exporter (17 % of the world exports), also shows a good quality performance overall (France ranks 3rd behind the US and Italy), with an outstanding 1st position for wines and mineral waters. In addition, France ranks 1st in other highly specialised sub-sectors such as cheese, musical instruments, rail locomotives, wagons, high-thrust turbojets, nuclear reactors and luxury leather articles. These French specialist products are notably associated to a low price elasticity, which makes them strong stands of French exports.

Graph 1.6: French export potential by sectors



Source: International Trade Centre

Untapped export potential remains in French specialisation sectors (see Graph 1.6). Methodologies assessing export potential⁽¹⁵⁾ reveal that France could still exploit an untapped export potential in several specialisation sectors. According to International Trade Centre estimates⁽¹⁶⁾, of the total export potential in aeronautics from France, 25 % is still to be exploited with a

⁽¹⁵⁾ Export potentials calculated by the International Trade Centre are evaluated using a gravity-type model based on the exporter's supply, the market's demand and market access parameters. See Decreux and Spies (2016).

⁽¹⁶⁾ <https://exportpotential.intracen.org>

strong potential demand in Europe, the Middle East and Asia. There is also a strong worldwide potential demand for French cosmetics and beverages (with 40 % and 42 % of export potential). Nevertheless, the largest potentials could be in pharmaceuticals (61 %) and chemicals (39 %). The automotive (36 %) and machinery (31 %) sectors could also generate additional exports by focusing on the dynamic markets of North America, China, and India; given that the European market has reached full potential for these French products.

French exports are concentrated in a limited number of firms. Exporting firms in France are mostly large or intermediate-sized firms, while the contribution of small and medium-sized enterprises to export is particularly low in France. Only 15 % of French small and medium-sized enterprises export against an average of 29 % in the 5 largest EU Member States (Bpifrance *et al.*, 2018). When asked about the main export barriers (European Commission, 2015), French small and medium-sized enterprises primarily consider that the financial investment is too heavy and the administrative procedures too complex (61 % and 61 % of French small and medium-sized enterprises against 37 % and 32 % of EU small and medium-sized enterprises respectively). Representatives of small and medium-sized enterprises also point to the difficulty of finding staff with the suitable skills, including foreign languages, to develop exports. Measures have been adopted to increase the number of exporting firms in France. In February 2018, the French government presented a plan to improve the efficiency of policy schemes to support exports. It intends to do so by disseminating export culture among small and medium-sized enterprises, streamlining public support schemes for export and reforming financing for export.

Private debt

The level of private debt has steadily increased since 1998, reaching 148.2 % of GDP in 2017. Both the debt of households and non-financial corporations has continued to grow somewhat rapidly throughout the crisis and until now (European Commission, 2018c). By contrast, in the rest of the euro area, private debt has been falling since 2009. While households' debt was slightly above the euro area average, the debt of

French non-financial corporations exceeded the euro area average by 10 pps in 2017.

Non-financial corporations' increasing debt signals deleveraging needs and could become a potential source of concern, should the non-adjustment persist. France is among the countries with a positive debt gap and not adjusting (European Commission, 2018c). Credit growth further accelerated in 2017, outpacing nominal GDP in a context of very loose monetary conditions. At 89.7 % of GDP in 2017, non-financial corporations' debt stood more than 17 pps above what fundamentals would suggest and above a level that justifies prudential concerns (see Graph 1.7) ⁽¹⁷⁾. The additional increases in indebtedness of recent years have also been above what fundamentals would predict for that extra borrowing. However, non-financial corporations' interest payments compared to value added are at their lowest in decades, even if they remain well above the euro area ratio. Risks tend also to be mitigated by the fact that the proportion of short-term debt over total debt ⁽¹⁸⁾ has decreased slowly but constantly since the start of the crisis, from 34.3 % in 2007 to 29.4 % in 2017. The High Council for Financial Stability (*'Haut Conseil de stabilité financière'*) is monitoring the situation and introduced two new macroprudential measures given the sustained growth in private debt (see Section 4.2).

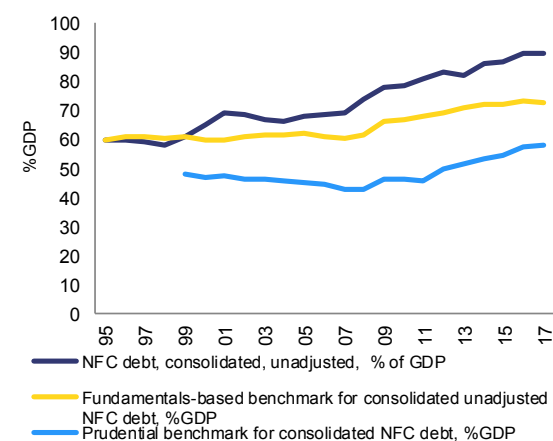
Increasing households' debt does not seem to be a source of concern in the near future. Since 1998, households' debt-to-GDP has kept increasing, uninterrupted by the crisis. The net borrowing flows of recent years have often been in excess of what would be warranted by those fundamentals. Nevertheless, the current debt level (58.6 % of GDP) seems aligned with what fundamentals would suggest. Interest payments are also at a low level and in line with the euro area levels but they could increase in the future as a

⁽¹⁷⁾ Synthetic debt gaps have been defined as the distance to the prudential benchmark. Prudential thresholds represent the debt threshold beyond which the probability of a banking crisis is relatively high, minimising the probability of missed crisis and that of false alerts. Fundamental-based benchmarks are derived from regressions capturing the main determinants of credit growth and taking into account a given initial stock of debt. See European Commission (2017) and (2018d).

⁽¹⁸⁾ Defined as short-term loan and securities other than shares; source: European Commission based on Eurostat.

consequence of the possible monetary policy normalisation. However, the stock of credits is mostly signed with fixed interest rates, which should limit the impact of a potential rise in interest rates (see Section 4.2).

Graph 1.7: **Non-financial corporations' debt and benchmarks**



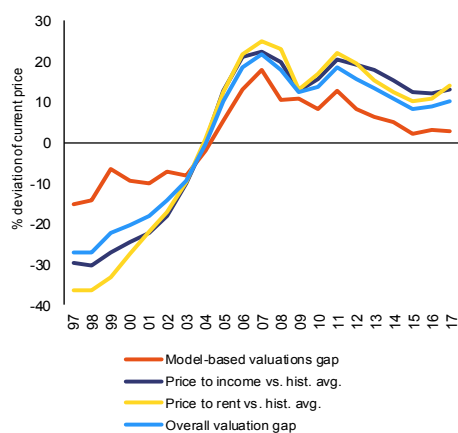
Source: European Commission

Still, households' private debt mostly consists in mortgage credits and the evolution of the housing market should be closely monitored.

The growth of the mortgage stock was particularly rapid (above 5% over the previous year) in 2017 (European Commission, 2018c). As regards the cycle of investment in houses in volume, the gap compared to trend turns positive in 2017 and the first three quarters of 2018, recovering from a trough in 2015 (Bricongne and Pontuch, 2017). At the same time, according to the European Commission's indicators, France presents convergent signs of overvaluation of house prices since 2005 (see Graph 1.8). Overvaluation gaps are on a downward trend since 2011 but slightly increased in 2017. Indeed, real house prices started to rise again in 2016 after 4 years of decline. Overall, according to the European Commission's indicators, the house price gap signals a potential overvaluation of around 10 % in France in 2017 (see Graph 1.8). However, other analysis integrating the evolution of mortgage rates reach the opposite conclusion of no overvaluation (Lalliard, 2017). Heterogeneous developments in house prices can be observed across cities and property types, pointing to the need to monitor house prices at a regional level. Like in other European countries, real house prices in the capital

have tended to grow faster than prices at the national level in recent years (ECB, 2017a, Box 3). For houses, cities such as Marseille, Lyon, Toulouse, Bordeaux and Montpellier seem to have higher price-to-income ratios and lower rental yields than the country as a whole in 2017. For apartments, Paris, Bordeaux and Strasbourg have the lowest rental yields (Durre, 2018).

Graph 1.8: Housing — Valuation gaps



(1) Long-term values are computed over 1995-2016
Source: European Commission

Public finances

The deficit fell below 3 % of GDP in 2017, but no improvement in the structural deficit is envisaged in the short term. According to the Commission 2018 autumn forecast, the general government deficit is expected to stand at 2.6 % of GDP in 2018, due to the envisaged lack of fiscal effort and the downward revision to growth projections. It is set to increase to 2.8 % of GDP in 2019 as a result of the one-off deficit-increasing impact of 0.9 % of GDP of the replacement of the tax credit for employment and competitiveness (*Crédit d'Impôt pour la Compétitivité et l'Emploi*, CICE) by a permanent cut in social security contributions, without which the deficit would be 1.9 % of GDP. However, the measures approved by the end of 2018 imply by themselves an upward revision of the deficit by around 0.3 % of GDP and a negative fiscal effort in 2019, which compares to the initially projected improvement by 0.2 % of GDP at the time of the autumn forecast. At unchanged policies, the deficit was projected to decline to 1.7 % of GDP in 2020, with almost no structural improvement. This forecast did not

factor in the effects of the measures approved at the end of 2018. These should have no material impact on the projected change in the structural balance for 2020.

Some reduction in the general government debt is envisaged by the end of 2020. After the reclassification of one division of the French National Railway Company (*'SNCF Réseau'*) under the general government as of 2016, the public debt-to-GDP ratio reached 98.5 % of GDP in 2017, compared with 88.9 % for the euro area on average. This difference between France and the euro area average is expected to widen further in the coming years (see Section 4.1) as the French debt ratio will only start to decline in 2020 by around 1 % of GDP. The projected limited progress in public debt reduction by the end of 2020 is mainly due to the persistently high structural deficits and the lack of fiscal effort. However, sovereign yields remain very low thanks to the accommodative monetary policy of the European Central Bank.

Social developments

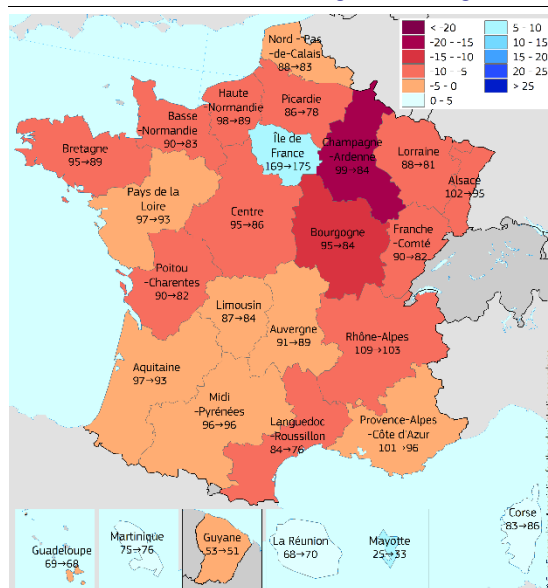
Social indicators are relatively good overall in comparison to the rest of the EU (see Section 4.3). In 2017, the share of people at-risk-of-poverty or social exclusion reached a historical low at 17.1 %, significantly below the EU average of 22.4 %. The impact of social transfers, in particular tax and benefits, on poverty reduction is one of the highest in the EU. However, between 2016 and 2017, the rate of severe material deprivation of people at risk of poverty increased from 19.1 % to 20.3 % (EU level 2017 at 23 %). Moreover, some groups face additional difficulties. For instance, single parents with dependent children, often women, face a 32.6 % poverty rate in 2017 (versus 35.2 % in 2016). Income inequality remained slightly below the EU average but well above pre-crisis levels with the Gini index at 29.3 % in 2017 and the S20/S80 ratio at 4.4.

Socio-economic disparities in educational outcomes remain strong (see Section 4.3). Intergenerational social mobility is hampered by the strong influence of socio-economic and family background on educational outcomes. Educational outcomes are even less favourable for non-EU born pupils, in spite of slight improvements in recent years.

Regional disparities

Socio-economic regional disparities between the capital region and the rest of the country have widened over the past decade. In terms of GDP per head French regions are quite heterogeneous in level compared to the EU average, the capital region being the leader (see Graph 1.9). In 2016, the GDP per head ranges from 175 % in the capital region to 76 % in Languedoc-Roussillon. Only two regions (Ile-de-France and Auvergne-Rhône-Alpes) stand above the EU average. Over the period 2007-2016, except for Ile-de-France, Corsica and some outermost regions, all regions have seen their GDP per head decline significantly compared to the EU average. Employment, R&D investment rate and innovation performances are also quite heterogeneous among regions (see Section 4.4). Nevertheless, thanks to resilient investment, labour productivity remains 15 % above the EU average.

Graph 1.9: **Change in GDP per head (percentage points), France 2007-2016 – Regional convergence**



(1) EU real GDP per head growth = 3.4 %. The values below the name of the regions are the values of the GDP per head of the regions relatively to the EU in 2007 and 2016. Depending on the date of statistical data, the names of the regions are still the ones existing in the former administrative organisation of the country.

Source: Eurostat, European Commission own calculations.

At sub-regional level, territories show contrasting situations and face new challenges. Socio-economic disparities at sub-regional level remain a concern in new French regions such as

Hauts-de-France, Occitanie, Auvergne-Rhône-Alpes and Grand Est (Antunez and *al.*, 2017). Big agglomerations concentrate a large part of the growth but face higher prices, which exacerbate inequalities, especially in the city centre. This contributes to the persistence of pockets of poverty. Particular challenges affect the urban structure of small and medium-sized towns, which have been the backbone of a balanced territorial development. As employment now tends to concentrate in the major cities and as the population ages, urban centres of small and medium-sized towns chiefly located in an arch covering the North, East and Centre of France are experiencing reduced economic activity (small businesses and shops closures) and depopulation (increasing rates of housing vacancies).

In the outermost regions, several vulnerabilities persist, despite some convergence in terms of GDP per head in Martinique, La Réunion and Mayotte. Nearly one quarter of the active population is unemployed. Unemployment is the highest among the young population, which also faces particular integration difficulties. Deteriorated living conditions, high number of occupants per dwelling and poorer health outcomes are characteristic of the outermost regions.

Table 1.2: Key economic and financial indicators

	2004-07	2008-12	2013-15	2016	2017	forecast		
						2018	2019	2020
Real GDP (y-o-y)	2.3	0.4	0.9	1.2	2.2	1.5	1.3	1.5
Potential growth (y-o-y)	1.8	1.1	1.0	1.1	1.2	1.2	1.2	1.3
Private consumption (y-o-y)	2.3	0.6	0.9	2.1	1.0	.	.	.
Public consumption (y-o-y)	1.7	1.5	1.3	1.4	1.3	.	.	.
Gross fixed capital formation (y-o-y)	3.9	-0.9	0.1	2.8	4.5	.	.	.
Exports of goods and services (y-o-y)	4.5	1.2	3.3	1.5	4.5	.	.	.
Imports of goods and services (y-o-y)	6.0	1.2	4.4	3.0	4.0	.	.	.
Contribution to GDP growth:								
Domestic demand (y-o-y)	2.5	0.5	0.8	2.1	1.8	.	.	.
Inventories (y-o-y)	0.2	-0.1	0.4	-0.4	0.2	.	.	.
Net exports (y-o-y)	-0.4	0.0	-0.4	-0.5	0.1	.	.	.
Contribution to potential GDP growth:								
Total Labour (hours) (y-o-y)	0.5	0.3	0.2	0.3	0.3	0.2	0.2	0.3
Capital accumulation (y-o-y)	0.8	0.6	0.4	0.5	0.5	0.5	0.6	0.6
Total factor productivity (y-o-y)	0.6	0.3	0.3	0.3	0.4	0.4	0.4	0.5
Output gap	2.0	-0.8	-1.5	-1.3	-0.3	0.1	0.5	0.8
Unemployment rate	8.7	9.0	10.3	10.1	9.4	9.0	8.8	8.4
GDP deflator (y-o-y)	2.1	1.1	0.8	0.2	0.7	0.9	1.4	1.5
Harmonised index of consumer prices (HICP, y-o-y)	1.9	1.9	0.6	0.3	1.2	2.1	1.4	1.7
Nominal compensation per employee (y-o-y)	2.9	2.4	1.3	0.8	1.9	2.3	0.4	2.2
Labour productivity (real, person employed, y-o-y)	1.5	0.2	0.6	0.5	1.1	.	.	.
Unit labour costs (ULC, whole economy, y-o-y)	1.5	2.0	0.7	0.4	0.6	1.2	-0.6	1.4
Real unit labour costs (y-o-y)	-0.5	0.9	-0.1	0.2	0.0	0.2	-1.9	-0.1
Real effective exchange rate (ULC, y-o-y)	0.8	-0.4	-0.2	0.0	1.2	1.2	-3.4	-0.7
Real effective exchange rate (HICP, y-o-y)	0.0	-1.2	-0.9	1.4	0.6	2.6	-1.4	-0.7
Savings rate of households (net saving as percentage of net disposable income)	9.2	10.0	8.6	8.2	8.5	.	.	.
Private credit flow, consolidated (% of GDP)	8.6	5.6	3.3	7.0	7.0	.	.	.
Private sector debt, consolidated (% of GDP)	110.9	131.7	140.6	146.6	148.2	.	.	.
of which household debt, consolidated (% of GDP)	42.9	53.0	55.8	57.2	58.6	.	.	.
of which non-financial corporate debt, consolidated (% of GDP)	68.0	78.8	84.8	89.5	89.7	.	.	.
Gross non-performing debt (% of total debt instruments and total loans and advances) (2)	2.6	4.2	3.9	3.2	2.8	.	.	.
Corporations, net lending (+) or net borrowing (-) (% of GDP)	0.9	0.9	0.0	0.1	-0.5	-0.5	-0.2	-1.1
Corporations, gross operating surplus (% of GDP)	18.0	17.4	17.3	17.6	17.4	17.1	17.7	16.9
Households, net lending (+) or net borrowing (-) (% of GDP)	2.3	3.7	3.0	2.6	2.6	2.6	2.4	2.3
Deflated house price index (y-o-y)	9.8	-0.3	-2.0	1.1	1.8	.	.	.
Residential investment (% of GDP)	6.3	6.4	6.0	6.0	6.2	.	.	.
Current account balance (% of GDP), balance of payments	0.2	-0.7	-0.6	-0.8	-0.6	-0.5	-0.6	-0.4
Trade balance (% of GDP), balance of payments	0.1	-1.3	-0.6	-0.8	-0.9	.	.	.
Terms of trade of goods and services (y-o-y)	-0.7	-0.4	1.9	0.7	-1.3	-1.3	-0.2	0.3
Capital account balance (% of GDP)	0.0	0.0	0.0	0.1	0.0	.	.	.
Net international investment position (% of GDP)	-4.8	-11.9	-15.0	-14.9	-20.1	.	.	.
NIIP excluding non-defaultable instruments (% of GDP) (1)	-6.7	-23.8	-29.2	-31.4	-33.5	.	.	.
IIP liabilities excluding non-defaultable instruments (% of GDP) (1)	175.3	239.1	237.4	242.6	232.5	.	.	.
Export performance vs. advanced countries (% change over 5 years)	-4.3	-8.4	-6.5	-6.0	-1.9	.	.	.
Export market share, goods and services (y-o-y)	.	.	1.2	2.4	-3.2	.	.	.
Net FDI flows (% of GDP)	1.7	1.5	0.5	1.1	0.3	.	.	.
General government balance (% of GDP)	-3.0	-5.5	-3.9	-3.5	-2.7	-2.6	-2.8	-1.7
Structural budget balance (% of GDP)	.	.	-3.0	-2.7	-2.4	-2.5	-2.3	-2.2
General government gross debt (% of GDP)	65.6	83.1	94.6	98.2	98.5	98.7	98.5	97.2
Tax-to-GDP ratio (%) (3)	44.6	44.9	47.6	47.7	48.4	48.2	47.4	47.2
Tax rate for a single person earning the average wage (%)	28.6	27.9	28.6	29.1
Tax rate for a single person earning 50% of the average wage (%)	18.4	18.8	20.2	18.4

(1) NIIP excluding direct investment and portfolio equity shares

(2) Domestic banking groups and stand-alone banks, EU and non-EU foreign-controlled subsidiaries and EU and non-EU foreign-controlled branches.

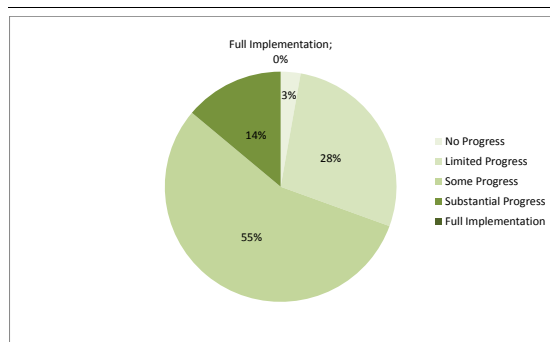
(3) The tax-to-GDP indicator includes imputed social contributions and hence differs from the tax-to-GDP indicator used in the section on taxation.

Source: Eurostat and ECB as of 25-1-2019, where available; European Commission for forecast figures (Winter forecast 2019 for real GDP and HICP, Autumn forecast 2018 otherwise).

2. PROGRESS WITH COUNTRY-SPECIFIC RECOMMENDATIONS

Since the start of the European Semester in 2011, 69 % of all country-specific recommendations addressed to France have recorded at least ‘some progress’⁽¹⁹⁾. 31 % of these CSRs recorded ‘limited’ or ‘no progress’ (see Graph 2.1). Looking at the multiannual assessment of the implementation of the CSRs since these were first adopted, major reforms have been adopted in the field of taxation, as well as to improve the functioning of the labour market and the business environment.

Graph 2.1: Overall multiannual implementation of 2011-2018 CSRs to date



* The overall assessment of the country-specific recommendations related to fiscal policy exclude compliance with the Stability and Growth Pact.

** 2011-2012: Different CSR assessment categories.

***The multiannual CSR assessment looks at the implementation since the CSRs were first adopted until the February 2018 Country report.

Source: European Commission

Despite significant efforts to consolidate public finances, the level of public expenditure has remained very high and broadly stable compared to both the euro area and the EU as a whole. In 2017 France maintained the highest ratio of government expenditure in the EU at 56.5% of GDP, which is 9.4 pps higher than the average in the euro area (47.0 % of GDP)⁽²⁰⁾. Such divergence increased by 2.4 pps between 2011 and 2017 as the French ratio slightly increased by 0.2 pps over the period, while resolute expenditure-based fiscal consolidation action by the other EU Member States brought the aggregate ratio for the

⁽¹⁹⁾ For the assessment of other reforms implemented in the past, see in particular section 4.

⁽²⁰⁾ France is also projected to keep this position up to 2020, over the forecast horizon of the Commission 2018 autumn forecast, although with a reducing gap compared to the average for the euro area and for the EU as a whole.

euro area down by 2.2 pps⁽²¹⁾. Concrete measures under the new spending review (Action Publique 2022) still need to be fully identified and defined, while their quantification and monitoring will be essential to ensure that the objectives in terms of public expenditure reduction can be met.

All expenditure items, except intermediate consumption and interest payments, contribute to increasing the expenditure-to-GDP ratio in France vis-à-vis the euro area. The difference is particularly significant for items such as social payments, compensation of employees and subsidies, with a ratio-to-GDP in 2017 higher than the euro area average by 3.0 pps, 2.8 pps and 1.1 pps. In addition, compared to other EU Member States, France has been characterised in the past by a low selectivity in the evolution of its public expenditure items⁽²²⁾. This suggests the need for more prioritisation while seeking to increase public expenditure’s efficiency (see Section 4.1).

In the field of taxation, a series of measures have been implemented to reduce the cost of labour. Reductions in employer’s social security contributions were firstly focused on salaries close to the minimum wage level. Over time, magnitude and exit threshold of the exemptions in social security contributions were increased to extend labour cost reductions to exporting firms and therefore boost competitiveness. The adoption in 2013 of the tax credit for competitiveness and employment (CICE) tried to reflect this objective, permitting substantial tax savings on the payroll excluding salaries above 2.5 times the minimum wage. Available evaluations (Ducoudré and Yol, 2018, Bozio *et al.* 2018, INSEE 2018d) on its effects point to an impact on employment whose size varies across studies, but there is no visible impact on investment and exports yet (L’Horty, Martin, Mayer, 2019)⁽²³⁾. The effects of the

⁽²¹⁾ Amongst all member states France recorded by far the lowest reduction over the period assessed.

⁽²²⁾ Overall, calculations based on latest available Eurostat data on the classification of government expenditure by function (COFOG) and the selectivity indicator by Lorach and Sode (2015) reveals that the composition of France’s public expenditure has remained broadly unchanged over the period 2001-2016.

⁽²³⁾ See also p. 16 of the *Rapport Economique Social et Financier 2019*, annexed the draft budget law for 2019 (<https://www.tresor.economie.gouv.fr/Articles/2018/10/02/>)

transformation of the CICE into a permanent reduction in employers' social security contributions, as of 1 January 2019, are also currently debated (Ducoudré and Heyer, 2018). As this transformation would contribute to improve the legibility of the measure by firms, it may be better associated with a reduction in the cost of labour, thereby leading to a higher impact on employment in the short term. Meanwhile, its reinforcement for lower wages, which is expected to benefit more non-market services where those salary categories are concentrated, could translate into an indirect positive impact on competitiveness, through intermediate consumption of exporting firms.

Action has been taken to improve the functioning of the labour market and its link with the vocational and training system.

Collective bargaining, social dialogue and dismissal procedures have been revised through a series of reforms of the labour law in 2016 and 2017. Governance and financing of the vocational education, apprenticeship and training systems have been modified in 2018, notably to increase employment opportunities of young and low-skilled workers. Integration policies for newly arrived migrants have started to be strengthened, while measures aiming at improving opportunities for people with a migrant background are in an initial phase (see Section 4.3).

A number of initiatives have been launched to improve firms' business environment, while room for improvement remains as far as competition in the services sector and public support schemes for innovation are concerned.

Measures undertaken so far have sought to promote entrepreneurship, support firms' growth, and simplify complex regulatory and administrative requirements. A higher degree of competition in the services sector would help further improve its performance, beyond the measures introduced by the 2015 Macron law and the 2018 railway reform (see Section 4.4). New initiatives supporting research and innovation activities have also been launched, but there is still room to improve the efficiency of public support schemes.

France has made some progress⁽²⁴⁾ in addressing the 2018 country-specific recommendations (see Table 2.1). Substantial progress has been made in pursuing the reforms of the vocational education and training system. Some progress has been made in simplifying the tax system, reducing the regulatory and administrative burden, and ensuring minimum wage developments consistent with job creation and competitiveness. Limited progress has been made in increasing the performance of the innovation system, improving access and equal opportunities in the labour market, and reforming the pension regime. No progress in further developing and implementing Public Action 2022.

[publication-du-rapport-economique-social-et-financier-plf-pour-2019](#))

⁽²⁴⁾ Information on the level of progress and actions taken to address the policy advice in each respective subpart of a CSR is presented in the Overview Table in the Annex. This overall assessment does not include an assessment of compliance with the Stability and Growth Pact.

Table 2.1: Assessment of 2018 CSR implementation

France	Overall assessment of progress with 2018 CSRs: Some
<p>CSR 1: <i>Ensure that the nominal growth rate of net primary government expenditure does not exceed 1.4 % in 2019, corresponding to an annual structural adjustment of 0.6 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio. Implement expenditure savings in 2018 and fully specify the objectives and new measures needed in the context of Public Action 2022, for them to translate into concrete expenditure savings and efficiency gains measures in the 2019 budget. Progressively unify the rules of the different pension regimes to enhance their fairness and sustainability. (MIP relevant)</i></p>	<p>Limited progress⁽¹⁾</p> <ul style="list-style-type: none"> • No progress in further developing and implementing Public Action 2022. • Limited progress in reforming the pension regime.
<p>CSR 2: <i>Pursue the reforms of the vocational education and training system to strengthen its labour market relevance and improve access to training, in particular for low-qualified workers and jobseekers. Foster equal opportunities and access to the labour market, including for people with a migrant background and people living in deprived areas. Ensure that minimum wage developments are consistent with job creation and competitiveness. (MIP relevant)</i></p>	<p>Some progress</p> <ul style="list-style-type: none"> • Substantial progress in pursuing the reforms of the vocational education and training system. • Limited progress in improving access and equal opportunities in the labour market. • Some progress in ensuring minimum wage developments consistent with job creation and competitiveness.
<p>CSR 3: <i>Simplify the tax system, by limiting the use of tax expenditures, removing inefficient taxes and reducing taxes on production levied on companies. Reduce the regulatory and administrative burden to increase competition in the services sector and to foster firms' growth. Step up efforts to increase the performance of the innovation system in particular by improving the efficiency of public support schemes and strengthening knowledge transfer between public research institutions and firms. (MIP relevant)</i></p>	<p>Some progress</p> <ul style="list-style-type: none"> • Some progress in simplifying the tax system. • Some progress in reducing the regulatory and administrative burden. • Limited progress in increasing the performance of the innovation system.

(1) This overall assessment of CSR1 does not include an assessment of compliance with the Stability and Growth Pact.

Source: European Commission

Box 2.1: EU funds and programmes contribute to addressing structural challenges and to fostering growth and competitiveness in France

France is one of the largest beneficiaries of the European Structural and Investment Funds (ESI Funds). Financial allocation from the ESI Funds, aimed to support France in facing development challenges, amounts to up to EUR 27 billion in the current Multiannual financial framework, equivalent to around 0.1 % of the GDP annually or around 2.9 % of all public investment per year on average. As of the end of 2018, some EUR 15.6 billion (around 57 % of the total) has already been allocated to specific projects. Furthermore, numerous French research institutions, innovative firms and individual researchers benefited from other EU funding instruments, notably Horizon 2020 which provided EUR 4.14 billion.

EU funding has helped to address policy challenges identified in the 2018 CSRs. EU Funds supported closer collaboration between business and research institutions, and R&D investments in the private sector. By the end of 2018, ESI Funds supported 3 171 enterprises working with Regional Innovation Strategies and 317 million private match investments were made. 17 383 start-up enterprises were supported. France is the 4th largest country for participations (10 042) to Horizon 2020, covering a very broad thematic spectrum of areas, from energy to smart, green and integrated transport. Close to EUR 6.5 billion from the European Social Fund and the Youth Employment Initiative (23 % of the ESIF budget in France) is notably used to improve employability of people furthest away from the labour market, in particular the young, and to help workers adapt to change, among others through a better training offer, improved access to apprenticeship or active inclusion support. By the end of 2017, over 2 million participants had benefitted from actions financed by the European Social Fund and the Youth Employment Initiative.

EU funding contributes to mobilisation of private investment. ESI Funds alone mobilise additional private capital by allocating about EUR 647 million in the form of loans, guarantees and equity. This is expected to leverage additional private investment amounting to EUR 1.7 billion. In addition, structural funds have allocated EUR 16 billion to projects in France. Altogether, 4.3 % of the ESI Funds allocation was paid in the form of financial instruments.

Around EUR 5.5 billion (21 % of the overall budget) will be allocated to investments needed for supporting the **shift to a low-carbon economy**, including in energy efficiency, the development of renewable energies and clean urban transport. In addition, about EUR 3 billion will help France to prevent and mitigate the effects of climate change.

EU actions strengthen national, regional and local authorities and the civil society. EUR 20 million has been allocated for strengthening the capacity of public administrations at different levels by prompting close cooperation with stakeholders. The pilot project on industrial transition seeks to improve socio-economic and technological transformation processes in 3 French regions in particular on the impact of new technologies, decarbonisation, the promotion of inclusive growth and the adaptation of the labour forces in Hauts-de-France, Centre-Val-de-Loire and Grand-Est.

The overall volume of approved operations by the European Investment Bank with EFSI backing amounts to EUR 11.6 billion, which is set to trigger a total of EUR 60.6 billion in additional private and public investments (December 2018). France has managed to mobilise EFSI on its priorities — innovation, digital, energy transition. France benefits the most in volume from the Fund, while it ranks 11th as to the overall volume of approved operations as a share of GDP. Three regions (Ile-de-France, Hauts-de-France and Grand-Est) represent more than half of the investments. For further details, see Box 4.4.1.

<https://cohesiondata.ec.europa.eu/countries/FR>

3. SUMMARY OF THE MAIN FINDINGS FROM THE MIP IN-DEPTH REVIEW

The 2019 Alert Mechanism Report concluded that a new in-depth review should be undertaken for France to assess the persistence or unwinding of the imbalances (European Commission, 2018d). In spring 2018, France was identified as having macroeconomic imbalances (European Commission, 2018i). The imbalances identified related in particular to high public debt and weak competitiveness dynamics in a context of low productivity growth. This chapter summarises the findings of the analyses in the context of the macroeconomic imbalance procedure (MIP) in-depth review that is contained in various sections in this report ^{(25)*}.

Imbalances and their gravity

The picture on the evolution of competitiveness of French exports is mixed. The current account balance slightly improved in 2017, reaching -0.6 % of GDP (against -0.8 % in 2016) ⁽²⁶⁾. The net international investment position (NIIP) went on deteriorating to around -20% of GDP mainly on account of valuation effects. At the same time, the export market share deteriorated in 2017. As for the quality of exported goods, France has maintained the highest quality in its sectors of specialisation, while it remained lower than that of the main competitors in high-revenue sectors (Section 1).

Unit labour cost increases continue to be moderate, in a context of low labour productivity growth. The evolution of the unit labour cost in 2017 was contained thanks to a moderation of wage developments, including the minimum wage. However, labour productivity growth remains sluggish and it is set to remain below its pre-crisis trend between 2018 and 2020. Low labour productivity growth appears to be structural and partly due to a deceleration in total factor productivity (see Section 1).

Public debt remains at a high level combined with low potential GDP growth. The French debt-to-GDP ratio is above 98 % and its decrease planned for 2018 has been postponed by at least one year (see Section 4.1). High public debt reduces fiscal space to respond to future negative macroeconomic shocks, weighs on growth prospects, and is accompanied by a higher tax-to-GDP ratio. The very gradual and overall limited recovery in potential GDP growth (see Section 1) heightens the challenges linked to high public debt and decreases the room to reduce French public debt without a reinforced fiscal consolidation. The combination of high public and private debt (especially of non-financial corporations) represents an additional risk, increasing the potential vulnerability of the economy.

The strong economic and financial integration of the French economy with the rest of the euro area can create spillovers for several other EU Member States. France shows particularly strong trade linkages with neighbouring euro area countries (see Table 3.1). Financial and banking links are also important. Box 3.1 illustrates how structural reform measures in France can carry both domestic and cross-border positive effects on GDP. The simulations presented therein can be considered in the context of the euro area recommendations ⁽²⁷⁾.

Evolution, prospects and policy responses

A reform of the labour law and a revision of the vocational education and training system have accompanied tax measures reducing the cost of labour. Reforms adopted and announced in 2018, aimed to address the challenges faced by the vocational education and training systems, while a new reform of the unemployment benefit system is under discussion (see Section 4.3). These reforms follow the 2016 and 2017 labour market reforms, which revised the employment legislation framework and collective bargaining system, allowing social partners to negotiate working conditions better fitting the sectors' or firms' economic situation. A new type of collective

⁽²⁵⁾ Analyses relevant for the in-depth review can be found in the following sections: Public finances (Section 4.1); Financial sector (Sections 4.2); Labour market (Section 4.3); and Investment (Section 4.4). An * indicates the parts of Section 4 that are relevant for the in-depth review.

⁽²⁶⁾ The INSEE's rebasing of the French national accounts in May 2018 led to a strong revision of current account figures, and narrow the differences between the balance of payment and the national account data.

⁽²⁷⁾ Commission Recommendation for a Council Recommendation on the economic policy of the euro area. COM(2018) 759 final

Table 3.1: Outward spill-over heat map for France

	EU partner																											
	AT	BE	BG	HR	CY	CZ	DK	EE	FI	FR	DE	EL	HU	IE	IT	LV	LT	LU	MT	NL	PL	PT	RO	SK	SI	ES	SE	UK
Imports	1.7	11.2	3.2	1.1	1.2	4.4	1.7	1.7	1.2		3.6	1.2	4.4	5.3	2.9	1	2.3	13.3	5.5	5	2.9	4.5	3.2	5.3	3.1	4.1	1.7	1.7
Imports (in value added)	1.3	4.8	1.7	0.9	1.8	2.0	1.4	1.2	1.0		2.3	1.4	2.6	1.8	2.0	1.1	1.3	6.4	1.9	2.3	1.7	2.5	1.8	2.1	1.6	2.9	1.4	1.7
Financial liabilities	9.7	54.4	4.3	1.5	18.1	5.4	10.8	2.9	17		19.5	2	1.3	83.4	15.7	3.8	1.7	1288.7	34.6	55.1	5	9.1	0.4	1.9	5.1	12.3	4.6	28.9
Financial assets	14.7	71.8	5.8	6.2	11.8	2.4	10.4	1.5	14.0		10.0	2.6	3.2	64.0	25.7	1.2	1.9	899.0	29.6	64.1	7.8	17.2	5.1	1.9	3.8	27.0	10.0	19.7
Liabilities (to banks)	2.1	3.1							0.9		3.7	0.5		1.1	3					9.4		2.3				4.2	2	6.7
Bank claims	3	46.9	8.4	1.1	10.8	18.7	3.3	0.3	3.2		4.4	0.7	1.4	12.6	15.1	0.2	0.6	218.1	8.3	12.7	7.4	6.6	5.8	1.9	7.4	5.7	4.5	10.5

(1) Cross-border figures for France, expressed as a % of the GDP of the partner country. The darkest shade of red corresponds to percentile 95 and the darkest shade of green to percentile 5. The percentiles were calculated for each variable based on the full available sample of bilateral exposures among EU countries. The blank spaces represent missing data. Data refer to: Imports - 2016, Imports (in value added) - 2014, Financial liabilities - 2015, Financial assets - 2015, Liabilities (to banks) - 2018-Q2, Bank Claims - 2018-Q2.

Source: UN, OECD, WIOD, BIS and Commission services

agreement was introduced to allow companies to adapt wages, working time and mobility to meet their operational needs or develop employment. The first effects of all these reforms were already visible in 2018 and are expected to strengthen in 2019 (European Commission, 2019b).

A series of initiatives have been undertaken to improve the business environment and R&D and innovation performance. A law to improve the interactions between the private sector and public administration was adopted in July 2018 (*'loi pour un État au service d'une société de confiance'*). A draft law to support the growth and transformation of firms (*'projet de loi relatif à la croissance et la transformation des entreprises'*, PACTE) is currently being debated in the parliament. This law aims at reducing the number of size-related legal, social and fiscal thresholds that hinder business' growth. It also includes measures to better link R&D activities carried out by the public sector with the activities of the private sector (see Section 4.4).

Measures to decrease public expenditures as planned by the government are still not sufficiently defined. In 2017, the government replaced previously existing spending reviews with Public Action 2022 (*'Action Publique 2022'*), a new strategy with three objectives, namely (i) increasing the quality of public services provided, (ii) enhancing the working environment and performance of public officers, and (iii) contributing to the decrease in public spending. However, the relative importance of each of these objectives has not been defined and actions for reducing public spending have not been fully clarified yet. It remains to be seen to what extent actions planned under the umbrella of Public Action 2022 will translate into a fully-fledged spending review, while the bulk of the adjustment

in terms of public spending tends to be left at the end of the government mandate when electoral considerations might make these objectives more difficult to be reached (see Section 4.1).

Overall assessment

Public debt remains high and competitiveness dynamics is weak. Export market share losses observed in the past have not been fully regained yet. Wage increases are moderate and the cost of labour is reduced by fiscal measures. Low labour productivity growth, however, prevents a faster recovery of competitiveness. General government debt continued to increase slightly, although its maturity structure and diversified investor base mitigate risks stemming from its high level. Coupled with high and increasing private debt, high public debt remains a source of concern and a potential source of vulnerability.

Reforms have gained momentum, but their full implementation remains crucial and further reforms are warranted. Labour market reforms have been undertaken and are currently under implementation. Their effects are starting to materialise and are expected to become more prominent over time (see Section 4.3). Some additional reforms to improve the business environment, simplifying the regulatory environment and increasing the competition in the services sector, have been adopted (see Section 4.4). Other measures included in the French reform agenda could amplify their effect. Notably, meaningful actions continue to be warranted to ensure the timely implementation of planned expenditure savings in order to put public debt on a steady downward trajectory.

Table 3.2: MIP Assessment Matrix (*) – France 2019

	Gravity of the challenge	Evolution and prospects	Policy response
	Imbalances (unsustainable trends, vulnerabilities and associated risk)		
Competitiveness	<p>Indicators for the external sector have broadly stabilised over the recent past. However, competitiveness, including in its non-cost dimension, remains an issue of concern notably in a context of low productivity growth and high indebtedness.</p> <p>The NIIP of France was at -20% of GDP in 2017, a level that is still above the prudential threshold (35 %). Yet it worsened by 5 pps over a year on account of detrimental valuation effects. Moreover, it is still below the value suggested by macroeconomic fundamentals (at some 9 % of GDP).</p> <p>Small but continued current account deficits have been recorded in France for a number of years, coming at an average of -0.6 % in the three years to 2017. While those patterns are still sufficient to stabilise the NIIP, they are below the value required to bring the NIIP closer to the level warranted by its fundamentals over a 10-year horizon.</p> <p>French products are often perceived as too pricy for the quality proposed in out-of-specialisation sectors. Notably, the non-cost components of exported French goods in high-revenue sectors (mechanical machinery, vehicles, electrical equipment, and pharmaceutical products) are weaker than its main competitors, leaving a margin for quality upgrade (Section 1).</p>	<p>The current account is expected to remain around its 2017 level this before slightly improving in 2020 in line with the evolution of energy prices according to the COM autumn 2018 forecast.</p> <p>Unit labour cost growth remained modest in some years up to 2017 (1.3% cumulated between 2015 and 2017) against a setting of wage moderation but also low labour productivity growth. Yet some acceleration in wages and unit labour cost took place in 2018 and some more is forecast for 2020.</p> <p>The French export market share declined in 2017 by one of the largest margins in the EU and the outlook is one for broadly stable shares in 2018-2020.</p>	<p>Implemented measures to reduce the cost of labour are planned to be followed by the transformation of the tax credit on competitiveness and employment (CICE) into a permanent reduction in employers' social security contributions as of 2019. Additional reductions of employers' social security contributions for employees below 1.6 time the minimum wage are expected to take place in October 2019 (Section 4.1).</p> <p>French authorities have also taken labour market reforms in 2016 and 2017, as well as measures to improve the business environment and firms' ability to grow and adapt more swiftly to a changing macroeconomic environment. Notably, the draft law PACTE (<i>Plan d'action pour la croissance et la transformation des entreprises</i>) aims to revise most important aspects regulating a firm's life. This draft law also enhances transfer of knowledge between public research and business companies. This could help to better diffuse public research results and fasten their commercialisation (Section 4.4). First effects of these reforms could be observed by the end of 2018, while they are expected to become more prominent over the medium-term.</p> <p>A reform of the vocational training and apprenticeship systems was adopted in summer 2018 to improve the link between training, labour market and firms' needs in terms of hiring (Section 4.3).</p>

(Continued on the next page)

Table (continued)

Public debt	<p>A high debt level – at 98.5% of GDP in 2017 – raises vulnerabilities for the economy as it reduces the fiscal space available to respond to future negative macroeconomic shocks. Over the medium term public debt is assessed to be highly sensitive to the evolution of interest rates and to GDP growth.</p> <p>Moreover high public debt weighs on growth prospects as, unless public expenditure is reduced, it will require a higher tax burden in the future. Low GDP growth will in turn hamper the room the economy will have to deal with risks to its macroeconomic stability.</p> <p>Debt management plays the role of a mitigating factor. Average maturity of total outstanding debt has been lengthened to almost 7.9 years, while the French debt investor base in terms of type of investors as well as geographically remains very diversified.</p> <p>The combination of high public and private debt, however, may constitute a source of risk, increasing the vulnerability of the economy, weighing on growth, and reducing the capacity to counter negative shocks.</p>	<p>General government debt has steadily increased over the last decade. According to the Commission 2018 autumn forecast it was expected to peak at 98.7 % of GDP in 2018. However, the measures approved by the government since mid-November 2018 will entail a higher deficit by around 0.4 pps. of GDP in 2019, which will put off any public debt reduction until 2020.</p> <p>In spite of the high debt-to-GDP ratio, no sustainability challenges are witnessed in the short term. Yet, high sustainability risks remain in the medium-term based on a simulated debt trajectory at horizon 2033, mainly due to insufficient fiscal effort until then.</p> <p>Higher interest rates or lower-than-projected annual GDP growth over the medium term could potentially lead to significantly higher debt ratios over a 10-year timespan.</p> <p>France may face medium fiscal sustainability risk over the long-term as debt is projected to stabilise at relatively high levels, therefore increasing the exposure to future negative macroeconomic shocks. Furthermore, additional risks could arise under more adverse scenarios involving lower total factor productivity growth or more dynamic healthcare expenditures.</p>	<p>The government plans to reduce public expenditure by more than 3 pps. of GDP over five years by 2022 while increasing its efficiency, along with a reduction of the public debt-to-GDP ratio by more than 5 pps. (see Section 4.1). However, the bulk of the structural adjustment on the expenditure side is back-loaded until the last years of the term, which entails additional risks associated with the electoral and economic cycle.</p> <p>The budgetary strategy of France implies risks as it largely relies on cyclical factors. The projected structural efforts over the five-year presidential term are insufficient to put debt on a steady reduction path. Moreover, the initially planned effort in the draft budgetary plan for 2019 will most likely not be delivered in view of the deficit-increasing measures announced at the end of 2018.</p> <p>While the government has engaged in an ambitious plan for transforming the public administration (Public Action 2022) the quantification and timing of expected results in terms of efficiency gains and expenditure savings are yet unclear (see Section 4.1).</p>
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Conclusions from in-depth review analysis

- France is characterised by weak competitiveness and high public debt, in a context of low productivity growth. Associated vulnerabilities have cross-border relevance.
- After falling for many years, export market shares are starting to regain points. The current account slightly improved in 2017, while the NIIP worsened. Wage moderation continues, but it is coupled with low productivity growth preventing a faster improvement of cost competitiveness. A number of elements of the business environment weigh on the non-cost competitiveness, regulatory impediments continue to hamper firms' growth and the degree of competition in the services sector remains low. Although decreasing, the unemployment rate remains relatively high and the labour market continues to be segmented. In autumn 2018, the public debt-to GDP ratio was projected only to decrease as of 2019 with the plans at that time being for fiscal consolidation to be back-loaded.
- Policy measures have been taken in recent years, in particular to reduce the labour cost, to reform the labour law and to improve the functioning of the vocational education and training system. The Plan d'action pour l'investissement et la croissance des entreprises (PACTE) has been announced to foster initiatives in the private sector in France and the resulting PACTE law is now under discussion in the Parliament. Despite an ambitious plan for transforming the public administration, the quantification and timing of expected results in terms of improvement of public spending efficiency and ultimately fiscal consolidation remain unclear. A number of deficit-increasing measures were adopted in late 2018. Reforms to revise further the unemployment benefit system and other pension system are under discussion. The possibility to reform the minimum wage automatic indexation rule equally deserves further attention.

(1) The first column summarises 'gravity' issues which aim at providing an order of magnitude of the level of imbalances. The second column reports findings concerning the 'evolution and prospects' of imbalances. The third column reports recent and planned measures to address these. Findings are reported for each source of imbalance and adjustment issue. The final three paragraphs of the matrix summarise the overall challenges in terms of their gravity, developments and prospects and policy response.

Source: European Commission.

Box 3.1: Spillovers of structural reforms — the case of France

Based on the European Commission's QUEST model ⁽¹⁾, this box shows the effect of the full implementation of a comprehensive set of structural reforms on French GDP. In a model simulation exercise, the impact of the set of reforms is quantified in a harmonised way. This exercise constitutes an update of Varga and in 't Veld (2014), including data up to 2016 ⁽²⁾. For a large set of structural indicators, a benchmark is constructed as the average of the three best performing countries. Gaps with respect to this hypothetical benchmark are closed by half for all indicators together. For France the largest 'reform gaps' identified are in the tax wedge (as captured by the relative share of labour tax revenues compared to consumption tax revenues) and lower labour force participation, in particular of low skilled and early retired. The set of reforms implemented do not exactly correspond to past country-specific recommendations, but illustrate the potential impact that this theoretical package of structural reforms covering different areas (product market regulation and entry, labour market participation, taxation structure and R&D subsidies) could have on the French economy. Altogether and assuming no budgetary impact, this ambitious reform package could boost GDP by 7 % after 10 years, rising to almost 13 % after 20 years.

Structural reforms would also have a small but positive effect on the rest of the euro area. Spill-overs from structural (supply-side) reforms are generally found to be positive but limited. Indeed, the 2 dominant spillover channels, demand and competitiveness, are counterbalancing each other. Contrary to positive demand shocks, for which the domestic demand effect and real appreciation complement each other in the impact on import demand, supply shocks trigger offsetting effects, i.e. more imports due to higher domestic demand and less (net) imports due to increasing competitiveness of the domestic economy. The model also accounts for international financial flows and knowledge spillovers. Increasing the rate of return on capital can lead to capital inflows until rates of return are equalised internationally. Exchange rate changes associated with international capital flows can hence induce further trade flows. Knowledge spillovers resulting from the international diffusion of innovations can also lead to positive spillovers *via* intangible capital formation. Nevertheless, the spillovers effects stemming from those channels tend to be limited. Overall, the net spillover of the comprehensive set of reforms simulated in France to the rest of the euro area is small but positive, and total euro area GDP would increase by 0.5 % after 10 years.

Table 1: Spillover effects of structural reforms — France closing half of the structural reform gaps

France	year t+1	year t+2	year t+3	year t+4	year t+5	year t+10	year t+20
GDP	1.2	1.8	2.3	3.0	3.7	7.1	12.5
REER	-1.2	-1.3	-0.6	0.3	1.3	4.6	9.1
Trade balance (% GDP)	-0.9	-1.4	-1.4	-1.1	-0.8	-0.5	-0.3
Rest of euro area GDP	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Euro area GDP	0.0	0.1	0.2	0.2	0.3	0.5	0.8

REER = real effective exchange rate; its increase can be interpreted as a depreciation. The year t corresponds to the baseline scenario and hence the moment in which the package of structural reforms is implemented.

Source: European Commission

⁽¹⁾ QUEST is the global macroeconomic model DG ECFIN uses for macroeconomic policy analysis and research. It is a structural model in the New-Keynesian tradition with microeconomic foundations derived from utility and profit optimisation and including frictions in goods, labour and financial markets. Detailed information on the model and applications are available at: http://ec.europa.eu/economy_finance/research/macroeconomic_models_en.htm.

⁽²⁾ Varga, J, in 't Veld J. (2014), 'The potential growth impact of structural reforms in the EU: a benchmarking exercise', European Economy Economic Papers no. 541. http://ec.europa.eu/economy_finance/publications/economic_paper/2014/pdf/ecp541_en.pdf

4. REFORM PRIORITIES

4.1. PUBLIC FINANCES AND TAXATION

The general government deficit of France has steadily decreased over time although a temporary rebound is expected in 2019. In 2017, for the first time in 10 years, the general government deficit was brought back down under the threshold of 3 %, to 2.7 %. However, the structural deficit stood at 2.4 % of GDP, implying a considerable distance with respect to its Medium Term Objective of -0.4 % of GDP. The additional measures adopted late in the budgetary process by the government in urgent response to the social protests of the yellow vests (*‘gilets jaunes’*) movement are expected to lead public deficit again above the threshold of 3% of GDP in 2019. Yet, the breach is expected to be temporary, not least also because of the impact of the transformation of the tax credit for employment and competitiveness (CICE) into a permanent reduction in employers’ social contributions.

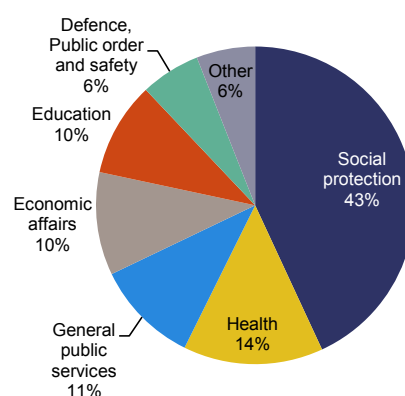
The consolidation strategy up to 2017 has strongly relied on tax and revenue-increasing measures, declining interest payments associated with low interest rates and cuts in public investment. Between 2011 and 2017 the ratio of total government revenues over GDP increased by 2.7 pps, while the ratio of interest payments and of public investment declined by 0.8 pps and 0.6 pps, respectively.

Over the same period the composition of public expenditure has remained relatively stable in particular for items that, provided a proper degree of efficiency, are important drivers for long-term growth (ECB, 2017b). Social protection remains the most important spending item, accounting in 2017 for more than 43% of total government expenditure (see Graph 4.1.1), up by 1 pp. compared to 2011. Expenditure on healthcare and education, which are important in order to raise the level of human capital, remained stable and account in 2017 for 14.2 % and 9.6 % of the total, respectively. Expenditure on general public services and on economic affairs recorded opposite trends, decreasing and increasing by almost 2 pps since 2011, respectively. The latter item includes expenditure on infrastructure, notably transport and energy, which is associated with the need for increasing the level of physical capital. The share of the two components of energy

and transport over total expenditure increased between 2011 and 2017, although by less than 1 pp. altogether.

The fiscal consolidation strategy rolled out by the government over the 5-year presidential term is likely to be adapted in light of renewed political priorities. The multiannual programming law for 2018-2022 quantifies four objectives in terms of GDP, namely: (i) cutting the general government deficit by more than 2 percentage points, (ii) reducing the government expenditure rate-to-GDP by more than 3 percentage points, (iii) cutting aggregate taxes and social security contributions by 1 percentage point, and (iv) reducing public debt by more than 5 percentage points. While the overall strategy is expected to be broadly maintained in terms of ultimate objectives and trends, the current strategy would possibly take into account the outcome of the national public consultation (*‘Grand debat’*) launched by the government between mid-January and March 2019, seeking to build public consensus on the economic and social priorities to address over the remainder of the presidential term.

Graph 4.1.1: **Composition of government expenditure (% of total expenditure, 2017)**



Source: INSEE

Compared to the initial approach presented in the 2019 Draft Budgetary Plan, the government might be called to strike a new balance between revenues and financing means. The outcome of

the national public consultation cannot be anticipated at present. In January 2019 the French authorities confirmed the objective defined in the 2019 Draft Budgetary Plan to contain public expenditure growth in real terms to an average rate of 0.3 % per year over the five-year term. While this would be an unprecedented result compared to past efforts, the overall objective and the underlying yearly milestones will need to be assessed in light of the latest policy developments and the eventual adjustments to the fiscal strategy.

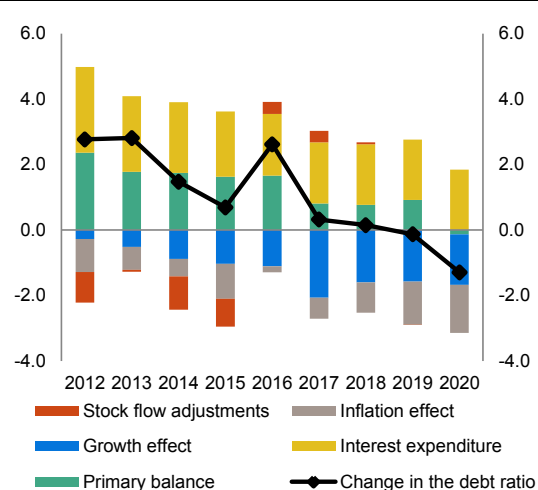
Overall, adhering to the fiscal consolidation strategy will strongly depend on complying with the expenditure ceilings defined for the central government, the healthcare system and for the local level. In the latter case this implies the effective implementation and functioning of the new contractual approach introduced between the State and the 322 biggest local authorities. Not least, the announced reduction of 3 percentage points of the expenditure-to-GDP ratio by 2022 is also expected to be driven by the effective implementation of the Public Action 2022 initiative which following recent political and budgetary developments has become even more pressing (see below).

Debt sustainability analysis and fiscal risks (28)*

General government debt continued to increase in 2017 and 2018, while it is projected to start decreasing only as of 2020. On 6 September 2018, the French national statistical institute (INSEE) revised the level of public debt in 2016 and 2017 following the reclassification of ‘SNCF Réseau’ into the general government. This implied an increase in the public debt ratio by 1.6 and 1.7 pps. in 2016 and 2017, to 98.2% and 98.5% of GDP, respectively compared to previous estimates. According to the Commission 2018 autumn forecast, the public debt ratio is projected to peak at 98.7 % of GDP in 2018 (see Graph 4.1.2). However, the measures put forward by the government in response to the ‘yellow vests’ movement will imply an upward revision to the general government deficit and public debt in

2019. Therefore, public debt should only start to decrease as of 2020. This trend keeps implying a widening gap with respect to the euro area, where overall public debt is projected to decline by some 6 pps to 82.8 % of GDP between 2018 and 2020. Such a difference is explained by the relatively high French primary deficits projected until 2019, whereas the declining interest burden is expected to stabilise as of 2019.

Graph 4.1.2: Contributions to the change in the public debt ratio in France



Source: European Commission

There are no sustainability challenges in the short term in spite of the high public debt ratio. Short-term sustainability is assessed by the indicator S0 (29). As in previous years, the short-term fiscal sub-index indicates some short-term vulnerabilities, notably driven by the cyclically-adjusted deficit and the high net government debt. However, the overall S0 indicator does not flag any significant risk. This low short-term risk is confirmed by the ‘AA stable’ rating given by the three major rating agencies to French government debt.

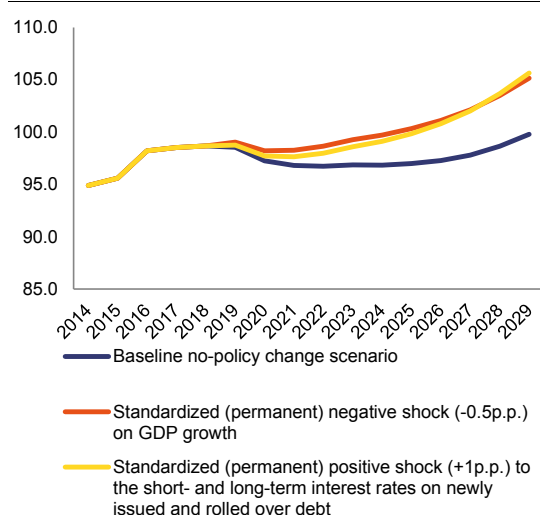
(28) This section is based on the 2018 Ageing Report (European Commission, 2018e) and the 2018 Fiscal Sustainability Report (European Commission, 2019a).

* An asterisk indicates that the analysis in the section contributes to the in-depth review under the MIP (see section 3 for an overall summary of main findings).

(29) S0 is a composite indicator aimed at evaluating the extent to which there might be a fiscal stress risk in the upcoming year, stemming from the fiscal, macro-financial and competitiveness sides of the economy. A set of 25 fiscal and financial-competitiveness variables proven to perform well in detecting fiscal stress in the past is used to construct the indicator. Countries are deemed to face potential high short-term risks of fiscal stress, whenever S0 is above an estimated critical threshold.

The average maturity and the diversification of the investors' base reduce the short-term risks linked to high public debt. As French debt is denominated in euro there is no currency risk. In turn, the average maturity of total outstanding debt has increased to almost 7.9 years in 2018 compared to 7.8 years in 2017 (average maturity is above 8 years for medium and long-term debt). Also, the French debt remains an investment sought for complying with capital and liquidity requirements as well as for diversification purposes, even if the share of non-resident holders of negotiable government debt has continued to decrease over time, to reach around 54 % in 2018, which is broadly evenly distributed between euro area and other countries.

Graph 4.1.3: Projections of French public debt over the medium term under alternative scenarios



Source: European Commission

Sustainability risks remain high in the medium term. According to the baseline scenario in the debt sustainability analysis, at unchanged policies, the public debt ratio is projected to rise again to above 99.8 % of GDP in 2029, the last projection year (see Annex B). This increase in public debt stems from the projected high primary deficits aggravated by the increase in age-related expenditure. The favourable snowball effect (e.g. the difference between the implicit interest rate on government debt and the nominal growth rate of the economy) is expected to fade out in 2026 and would turn negative thereafter due to the rising interest rate burden. The S1 sustainability indicator, which measures sustainability risks over

the medium term, indicates a high medium-term risk, mainly due to insufficient fiscal effort. This indicator implies that a cumulative gradual improvement in the French structural primary balance of 4.2 pps. of GDP, relative to the baseline scenario, would be required over 5 years (starting from 2021) to reduce the debt ratio to 60 % of GDP by 2033. Specifically, 2.8 pps of the required fiscal adjustment would be due to the debt ratio's distance from the 60 % reference value, 1.0 pp. to the unfavourable initial budgetary position (defined as the gap to the debt-stabilising primary balance) and the remaining 0.4 pps. to the projected increase in age-related public spending. Public debt projections are especially sensitive to interest rate and growth developments. Higher interest rates or lower projected annual GDP growth would lead to significantly higher debt ratios after 10 years (see Graph 4.1.3).

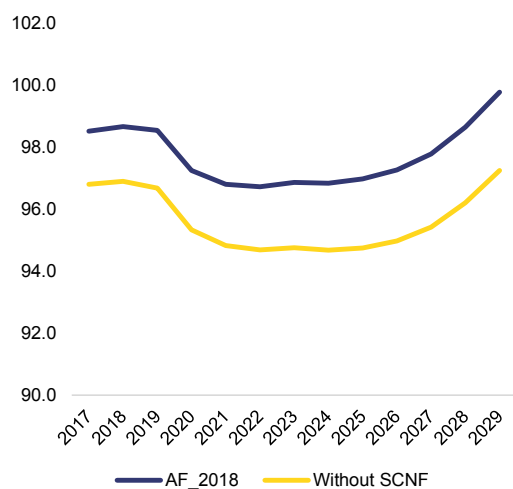
The reclassification of 'SNCF Réseau' into the general government had only a limited impact on fiscal sustainability. The increase in the public debt ratio by 1.7 pps. in 2017 and the projection of SNCF deficits up until 2029 entail an almost parallel trajectory of debt projections (see Graph 4.1.4) that imply a modest increase, by 0.2 pps, in the medium-term sustainability indicator. This deterioration is mainly due to the rise in the debt ratio's distance from the 60 % reference value by 0.1 pp. and by the slightly more unfavourable initial budgetary position by an additional 0.1 pp.

However, over the long-term, France is deemed to be at medium fiscal sustainability risk. The long-term fiscal sustainability indicator S2⁽³⁰⁾ shows that no improvement of the structural primary balance would be required to stabilise the debt-to-GDP ratio over the long-term (a slightly negative fiscal gap at -0.1 pp. of GDP). This result is due to the projected decrease of ageing costs (contribution of -1.5 pps. of GDP), mitigated by the unfavourable initial budgetary position (1.4 pps. of GDP). It is in particular the projected decrease of public pension expenditure that drives down ageing costs (contribution of -2.0 pps. of GDP) and is mainly due to the indexation of public pensions to inflation as measured by consumer

⁽³⁰⁾ The S2 indicator is used to assess the fiscal sustainability challenges in the long term under a baseline no-policy change scenario by gauging the necessary improvement of the structural primary balance to stabilise the debt-to-GDP ratio over the long term.

prices, which means that pensions would grow more slowly than wages on average. Healthcare expenditure is not expected to contribute significantly to long-term fiscal risks, growing by 0.5 pps of GDP up to 2070 due to favourable demographic trends, below the EU average increase of 0.9. Notwithstanding the low S2 indicator, the implied fiscal adjustment might lead to debt stabilising at relatively high levels for which this indicator should be taken with some caution for high debt countries. Therefore, despite the slightly negative sustainability gap S2 indicator, the vulnerabilities linked to the high debt burden as captured by the debt sustainability risk assessment suggest that French public debt might be facing a medium sustainability risk over the long term. Moreover, under more adverse scenarios involving more dynamic healthcare and long-term care expenditures, the sustainability gap S2 indicator would increase to 1.9 pps. of GDP, thus pointing to higher long-term fiscal risks ⁽³¹⁾.

Graph 4.1.4: Impact of the reclassification of SNCF of public debt projections



Source: European Commission

Pension*

The budgetary equilibrium of the pension system is highly dependent on macroeconomic assumptions. Pension expenditure situated at 13.8 % of GDP in 2017. According to the latest

⁽³¹⁾ For a detailed discussion of the approach to the overall long-term sustainability challenges and the sensitivity analysis of the S2 sustainability indicator see the 2018 Fiscal Sustainability Report (European Commission, 2019a).

annual report by the Pensions Advisory Council (*Conseil d'orientation des retraites*, 2018), they are projected to reach 13.5 % in 2022, before remaining in a range between 11.6 % and 14.4 % by 2070 depending on the growth rate assumed for the evolution of GDP and employment over time. The balance of the system is expected to worsen up to 2022 reaching -0.2 % of GDP. On the longer term, the system could be in equilibrium in 2035 if the GDP growth rate will be equal to 1.8 %, while it would be in deficit in case the GDP growth rate is assumed to be equal the current potential GDP growth rate (1.3 %).

A pension reform has been announced for 2019.

More than 40 different pension schemes co-exist in France. These schemes apply to different groups of workers and function according to different sets of rules. A law is planned to be adopted in 2019 to progressively unify the rules of these schemes, with a view to simplifying the functioning of the pension system notably to improve its transparency, equity and efficiency. This comprehensive law would contain all details of the new pension system. According to the 10 principles announced by the High Commissioner for the pension reform on 10 October 2018, the new system would be points-based, take the whole career into account to define pension rights, include a reference age to ensure the adequacy of pension entitlements with respect to living conditions, and follow the golden rules to avoid any transfer of the current debt of the system to future generations. The new system will not apply to pensioners nor to workers retiring within the next 5 years. The transition will be progressive and preserve the rights acquired in the current system.

Healthcare*

Expenditure on healthcare has steadily increased over time. Total expenditure was estimated at 11.5 % of GDP in 2017, the highest level within the EU countries adhering to the OECD. In terms of per capita spending (about EUR 3 572) the country ranked only 8th in the EU, while spending on the governance of the system was 3 times higher than the average in the other EU countries. Healthcare expenditure financed by the government and compulsory schemes was estimated at 9.5 % of GDP in the same year, the highest along with Germany (9.6 %) (OECD, 2018).

A new reform of the healthcare system has been announced in the autumn of 2018. The plan '*Ma santé 2022*' represents an additional step to shift the traditionally hospital-centred healthcare systems towards strengthened primary care and to increase the quality of services⁽³²⁾. It also aims at introducing a better cooperation among health professions and a smoother coordination among primary, outpatient specialist, hospital care, and long-term care. It should further facilitate the access to care in underserved regions (see Section 4.3) and takes account of the care needs of an ageing population, including the growing number of people living with chronic diseases.

Success will depend on a clear legal and organisational framework to be set up, providing the right incentives and fostering collaboration between public and private actors. Hospitals in France will be classified in three categories: (i) local health care, (ii) specialized care and (iii) ultra-specialised care. Between 500 and 600 local hospitals (*hôpitaux de proximité*) should become operational, offering basic services in hospital care. Public local hospitals would continue to be integrated with the territorial hospital groups (*groupements hospitaliers de territoire*) that were created by the 2016 law to improve the cooperation between hospitals within a defined geographic area. It is not clear if the new system of local hospitals will be coordinated with the existing private hospitals to facilitate access to healthcare while reducing the cost of the healthcare system.

The announced reform of the healthcare system does not include a revision of the growth norm for healthcare expenditure (*Objectif National de Dépenses d'Assurance Maladie, ONDAM*). This spending norm covers a third of social security spending. It is divided in 6 categories, but some of them are fungible (e.g. hospital care or primary care). Although this objective has been respected since 2010, the ONDAM target was already increased 3 times since 2017. Notably, it was made less demanding for the period 2018-2020, from an initial target of 2.1 % growth, to a revised target of 2.3% in budget law for 2018, which was further

⁽³²⁾ The number of hospital beds in France, even on decline since 2000, remains still above the EU average (6.1 per 1 000 population in 2016 compared to 5.1 for the EU average).

increased up to 2.5 % in the draft budgetary plan for 2019⁽³³⁾. This will reflect to some extent the additional expenses to be incurred by '*Ma santé 2022*'.

High cost originator medicines and the low use of generics remain a significant challenge, notwithstanding some achieved efficiency gains in pharmaceutical spending. Between 2006 and 2016, the generic market share in volume nearly doubled in France, rising from 14.5 % to 27.6 %. Relatively few categories of drugs have so far been opened to generic substitution and competition, so that the generic market share remains below the EU average. The law on the financing of social security for 2019 requires that, as of 2020, a substitutable originator medicine will be reimbursed only at the price of a generic, unless objective medical reasons exist. This may save up to EUR 100 million in the short term. Moreover, a working group will present its results in spring 2019 addressing the challenges deriving from the high cost of originator medicines.

Housing*

Public spending on housing amounts to 1.8% of GDP in 2017 (*Comptes du logement, 2017*). A recent reform changes housing policy to improve its efficiency. In 2017, EUR 23.3 billion have been spent on housing benefits in public housing or the private sector ("*aides à la personne*") and around EUR 19 billion on subsidised loans and tax incentives ("*aides à la pierre*"). Personalised housing allowances (*Aide Personnalisée au Logement, APL*) have decreased in 2018 in social housing, alongside a reduction of rents, and are planned to decrease in real terms (for all beneficiaries) in 2019 and 2020. The social security financing law for 2019 provides that personalised housing allowances (APL) allowances will be based on a household's current income (last 12 months), and not on its income of the two previous years. This measure to be implemented in 2019 should generate EUR 700 million of savings this year. In parallel, since 2018 some of the tax expenditures that encourage rental housing investment have been reduced in non-tense areas, to target specific areas where housing supply is insufficient (e.g. the Paris area, cities

⁽³³⁾ Source: '*Ma santé 2022. Un engagement collectif*, Dossier de presse 18/09/2018.

with more than 250 000 inhabitants). This responds to the observations made by the French Court of Auditors on schemes supporting rental housing investment (worth EUR 1.7 billion in 2016) which are believed to have a limited impact on housing supply and in particular tense areas (*Cour des Comptes, 2018a*).

Fiscal framework*

The fiscal framework is centred on the public finance programming laws setting budgetary objectives over the medium term. The French Constitution was amended in 2008 to introduce the public finance programming laws (PFPL) and the overarching objective of a balanced budget of public administrations. The 2012 constitutional bylaw ‘Organic Law’- sets the principles of public finances governance and defines the content of the public finance programming laws. According to the Organic Law, annual budgets should be consistent with the multiannual budgeting approach of the public finance programming laws. The public finance programming law outlines the targets for general government balances for the 3 years ahead in structural and nominal terms and sets targets for the state budget in detail and for the social security administrations at aggregate level.

The French fiscal framework is complemented by expenditure rules and supervised by the independent monitoring institution, the High Council for Public Finances (HCPF). Expenditure rules are in place at the state level and a cap on the growth of healthcare spending facilitates the respect of the social security spending targets. In addition, the public finance programming law provides indicative growth rates for expenditure by local governments. The French Court of Auditors issues reports on the situation and trends in public finances, including on state expenditure compared to the expenditure rules in force and an alert committee is in charge of monitoring the growth of healthcare expenditure. Enforcement is weaker at local government level and certain social security funds are less monitored. Established by the 2012 ‘Organic Law’, the High Council for Public Finances plays a central role in the oversight of the fiscal strategy as it monitors the respect of the numerical fiscal targets and assesses compliance of the budgetary objectives set in the annual budgets with the objectives of the programming laws. Nonetheless,

in case the public finance programming law is amended by Parliament, the assessment of the High Council for Public Finances is made against the new objectives set in the programming law, which is a structural weakness of the French fiscal framework. In case of departure from the targets, it can trigger the correction mechanism. Finally, the High Council for Public Finances provides endorsement of the macroeconomic forecast underlying the budgetary documents.

Local administration

Local spending exceeded the planned growth target in 2017. Since 2014, the public expenditure of the local administration in France is guided by an expenditure norm indicating yearly non-binding growth targets for both operating public expenditure and financing needs at local level (*‘Objectif d'évolution de la Dépense Locale’, ODEDEL*). The link between local investments and the electoral cycle as well as the limited reduction in the number of municipalities, led the expenditure norm not to be respected in 2017. In 2018, this norm has been accompanied by legally binding contract agreements between the state and 71 % of the 322 biggest local authorities, valid in 2018-2020⁽³⁴⁾. While this contractual approach may help to better plan both operational and investment spending it is to be seen how this approach will help the rationalisation of the local administration started in 2014. Indeed, the territorial reform of 2014-2016 cut by half the number of regions but the number of *communes* only slightly decreased, which remains above 35 000 by far the highest in the EU (DG Trésor, 2015). In addition, systematic information on local investment projects may be still lacking, along with clear criteria guiding local authorities to select investment projects on the basis of their long-term impact (*Cour des Comptes, 2015*).

Action Publique 2022

The implementation of the government's plan for transforming the public administration continues. In October 2017 the government launched the ‘Public Action 2022’ programme,

⁽³⁴⁾ Rapport économique, social et financier (RESF), document général annexé au projet de loi de finances 2019 https://www.performance-publique.budget.gouv.fr/sites/performance_publique/files/farandole/ressources/2019/pap/pdf/RESF19.pdf

aiming at an ambitious and coordinated overhaul of all public policies. The programme sets 3 main objectives, namely, the improvement of the quality of public services, the modernisation of public administration and the support to the reduction of the expenditure-to-GDP ratio by 3 percentage points by 2022. It also formally embeds and replaces the annual spending reviews introduced in 2014 which were officially terminated at the end of 2017. After a first preparatory phase ⁽³⁵⁾, the second half of 2018 was meant to give way to the definition and implementation of effective reform measures. This has taken the form of the conclusions of the second dedicated inter-ministerial committee (*Comité interministériel de la transformation publique, CITP*) in October 2018, which confirmed the strategy for transforming public action while providing more details on guiding principles, objectives and areas of intervention. Moreover, the inter-ministerial committee endorsed the transformation plans presented by each and every ministry.

The structural nature of the process is consistent with transforming the public administration over the medium- to long-term but the expected results in terms of efficiency gains and expenditure savings are unclear. The government has given clear priority to methodological and process-related aspects rather than focusing on the ex-ante and across-the-board quantification of potential savings. While this could be consistent with a complex reform process and the need to smoothen the public debate over likely sensitive issues, it also makes the quantitative assessment of the overall strategy and of its contribution to fiscal consolidation difficult. In particular, it is not clear how exactly and with what timing the reform programme — including the transformation plans by ministries which embrace an extremely varied set of measures — would contribute to the very specific objective of reducing the expenditure-to-GDP ratio by 2022. Overall, available information shows partial adherence to the guidance for spending reviews agreed in 2016 at the level of the Eurogroup ⁽³⁶⁾.

⁽³⁵⁾ This phase was characterised by the work of an ad hoc committee of experts (*Comité Action Publique 2022*) which handed in its report to the Prime Minister in spring 2018, the setting up of inter-ministerial projects on cross-cutting issues and by widespread stakeholders' consultation.

⁽³⁶⁾ <http://www.consilium.europa.eu/media/23664/spending-reviews-commission-note.pdf>

Moreover, implementation risks seem also high when looking at the track record of spending reviews in France and the relatively limited results produced. The assessment of the implementation and of the expected impacts of 'Public Action 2022' will continue in the following months on the basis of the quarterly state of advancement of the programme to be released by the authorities.

General tax structure *

France's tax structure is skewed to labour and capital. The level of the tax-to-GDP ratio is one of the highest in the EU (46.5% of GDP in 2017 v. 39.1 % in EU on average) and more than half of total tax revenues comes from labour taxation (23.7% of GDP v. 19.3% in EU on average in 2016). The implicit tax rate on labour is one of the highest in the EU and exceeds the EU average (41.2 % compared to the EU-28 average of 36.1 % in 2016). Tax reforms are ongoing since 2017 to lower in particular taxes on labour. In addition, revenues from capital taxes, including recurrent property taxes, are among the highest in the EU (10.7 % of GDP v. 8.4 % in EU on average). Revenues from consumption taxes as % of GDP are close to the EU average. France's tax structure is one of the topics being discussed during the national public consultation ('*Great debate*').

Complexity of the tax system*

The complexity and lack of stability of the French tax system weighs on business environment. The tax code encompasses multiple rates systems and tax expenditures. This complexity often aims at achieving specific policy goals, like alleviating the tax burden on the most vulnerable households and incentivising or correcting specific behaviours. However, it bears the risk of losing readability, thus increasing compliance costs and legal uncertainty detrimental to France's attractiveness while creating loopholes. In addition, according to Eurobarometer survey, changes brought to the tax legislation are a major obstacle to investment by companies in France (European Commission, 2018c).

Efforts are ongoing to reduce tax compliance costs. The ESSOC law (*Loi pour un Etat au service d'une société de confiance*) aims at simplifying administrative procedures and makes them more transparent. In tax matters, the law

provides that tax rulings should become more systematic, their requests trackable by the tax payers and results should be published to serve as a reference. Similarly, tax audit should also deliver legally binding conclusions to provide legal certainty to the tax payer. Tax adjustments will be eased, penalties reduced and normalised for those tax payers willing to become compliant. In addition, companies liable to corporate tax could ask to have the compliance of their tax operations checked. Specific support will focus on small and medium-sized enterprises as a first step. Overall, the law has been welcomed by businesses, especially the introduction of a single contact point responsible for the whole procedure. Making such support more continuous and targeting companies willing to export may be beneficial as they are more likely to face difficulties to comply with crossborder tax rules and new tax environment (see Chapter 1 and Section 4.4.4).

The withholding of personal income tax is in force since January 2019. Tax payments are now better synchronised to earnings avoiding important collection time lags. Monthly payments from the tax payers will be taken over by companies, reducing the amount of transactions to the tax administration. This may however entail additional costs for companies, in particular for small businesses. Although not fully deployed (notably for private persons acting as employers), it provides some options to individualise the personal income tax⁽³⁷⁾.

Streamlining tax expenditures and reducing the number of small taxes could further help simplifying the tax system. Unlike the previous multiannual framework, this current budgetary framework (2018-2022) does not provide a spending limit for tax expenditures. It sets instead, a non-binding target of 28 % for the ratio of tax expenditures to the sum of net tax revenues and tax expenditures. This ratio will progressively decrease to reach 25 % in 2022. The 2019 budget tables a decrease of the overall amount of tax expenditures below EUR 100 billion, putting an end to a 5-year period of constant increase in volume. Total tax expenditure is estimated at 4 % of GDP in 2019. Between 2018 and 2019, the number of tax expenditures has however increased from 457 to 474. In 2018, the Court of Auditors

recommended to streamline the existing tax expenditures and pointed their lack of control and evaluation. Furthermore efforts to discontinue taxes which bring limited revenue or that are inefficient have been amplified in 2019. In total, 26 taxes yielding low revenues have been cut in the Budget law 2019, 20 eliminated in 2019 for a total amount of EUR 132 million and 6 will be eliminated in 2020 for a total amount of 208 million. The elimination of small taxes is expected to continue in 2020 at the same pace.

Corporate taxation*

The reduction of the corporate income tax rate in 2019 is more limited than envisaged. The statutory corporate income tax rate has been lowered from 33.33 % to 31% except for firms with a turnover above EUR 250 million for which the decrease has been postponed. Reduced rates of 15 % for small and medium-sized enterprises and of 28 % for the first EUR 500 000 of profits continue to apply in 2019. The decrease of the standard tax rate, gradually to 25 % by 2022 will also further reduce the debt-equity tax bias in corporate financing. Although it recorded a substantial drop from 5 % to 3.8% between 2016 and 2017, it remains the highest in the EU⁽³⁸⁾.

Other taxes on production continue to weigh on businesses Taxes on production stood at 3.1 % of GDP in 2016⁽³⁹⁾ above Italy (1.4 %), Spain (1.0 %) or Germany (0.4 %). Such taxes have different tax bases (turnover, added value, salaries, land and buildings) and can increase the overall cost of production. This could have a negative impact on competitiveness in particular for the manufacturing sector (*OFCE, Coe-Rexecode, 2018*). Taxes on production are often levied at the local level and the revenue benefits local authorities. The rationale behind such taxes is that they finance local public goods (e.g. public transport, infrastructures) that directly or indirectly benefit companies. Decreasing taxes on production requires a broader reflection on local public finances since they represent a large share of revenues of local authorities. The 2019 budget law cuts only one tax on production (*'forfait social'*) levied at national level and worth EUR 660 million per year (once fully implemented in 2020).

⁽³⁷⁾ For further development, see SWD(2016) 79 final, p77.

⁽³⁸⁾ SWD(2018) 208 final, p.28.

⁽³⁹⁾ This figure excludes producer households.

Taxes on capital*

It is too early to assess the economic impact of the capital tax reforms introduced in 2018.

Capital taxation in France was among the highest in the EU in 2016, before the substantial reforms of 2018 that have narrowed down the wealth tax to a tax on real estate property and introduced a flat tax on capital income⁽⁴⁰⁾. The economic impacts of these reforms are difficult to assess at this stage and studies show a wide range of effects⁽⁴¹⁾. A monitoring committee under the leadership of the Prime Minister has been established. Its first report on the impact of the reform is due for September 2019. While in terms of income redistribution, capital tax reforms introduced in 2018 have benefitted the highest decile of the income distribution⁽⁴²⁾, the reform has been designed to foster productive and riskier investments as well as to attract capital in France.

The housing tax continues to be reduced in 2019.

For 80% of households, the housing tax (*taxe d'habitation*) is further reduced by 35 % in 2019 for a cost of EUR 3.8 billion. Part of the decrease of the housing tax effective in 2018 has been offset by an increase in the rate decided by some local authorities. The increase remained overall modest, of 0.49 pps on average in 2018 (v. 0.73 pps in 2017). Authorities plan to fully abolish the tax for the remaining 20 % richest households.

The elimination of the housing tax calls for a comprehensive reform of the financing of local authorities. An update of the immovable property tax base for housing properties could be announced in 2019 (See Box 4.1.1). Such an update has already been introduced in 2017 for commercial properties. Authorities could pursue the reform to the benefit of housing properties. Updating the tax base from its outdated 1970 value might entail redistributive effects which may call

⁽⁴⁰⁾ SWD(2018) 208 final, p.28.

⁽⁴¹⁾ The economic impact of those reforms is difficult to assess *ex-ante*. Evaluations based on the presidential programme assessed an impact from 0.1 % (OFCE (2017)) to 1.3 % of GDP (Coe-Rexcode, 2017) by 2022. Authorities evaluate the actual reforms to have an impact of 0.5 % GDP in the long run

⁽⁴²⁾ See Rapport économique, social et financier (RESF), document général annexé au projet de loi de finances 2018, p. 74 (<https://www.tresor.economie.gouv.fr/Articles/2017/10/03/publication-du-rapport-economique-social-et-financier-plf-pour-2018>).

for a gradual implementation and others specific adjustments. For example, the update of the tax base for commercial properties is being gradually implemented with 10 years transition phase revenue neutral to avoid strong effects. Consultations with stakeholders (and in particular local authorities) will be necessary to ensure a smooth implementation.

Revenues from inheritance and gift taxes have strongly increased.

Tax revenues are expected to reach EUR 14.3 billion in 2019. It stood at EUR 9.1 billion in 2012. This increase is explained by 2011-2012 reform of the inheritance and gift taxes and the increase in wealth of older cohorts. On the other end, average tax rate remains low, despite high marginal inheritance tax rates (OFCE, 2017⁽⁴³⁾), which limit the redistributive effects of inheritance and gift taxes. This discrepancy stems from possibilities to decrease inheritance tax through exemptions, life insurance contracts and split of property between usufruct and bare ownership. On average, the wealth of households receiving inheritances or donations is 1.7 times higher (Insee, 2018). Inheritance represented 19 % of households' disposable income in 2015 against 8 % in 1980 and could reach 25 % in 2050 (*France Stratégie, 2017*).

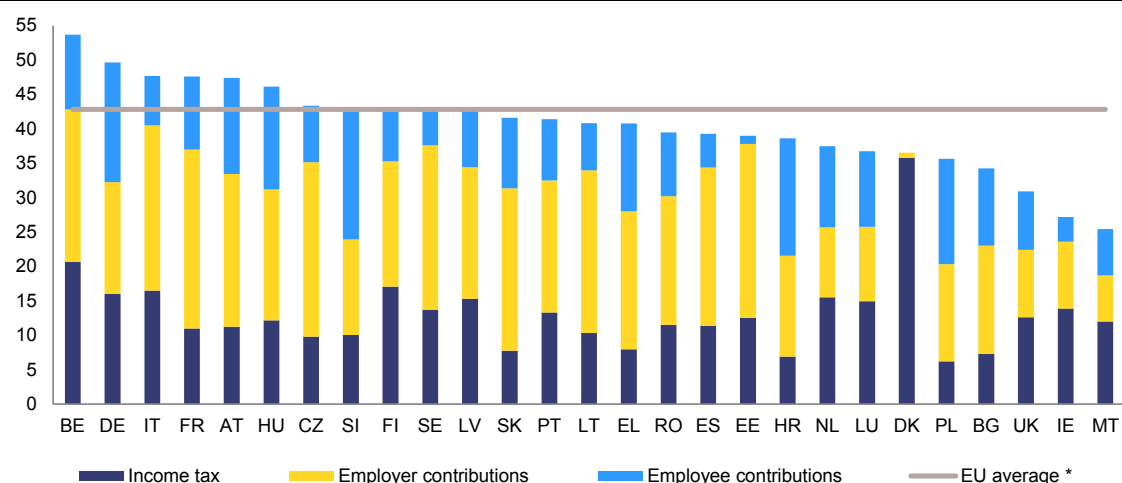
Taxes on labour*

The tax wedge on labour remains high for those at average wage but the gap with the EU average is diminishing.

While the tax wedge on labour for low-income earners (50 % of average wage) is below the EU average (30.9 % vs 32.8 % in 2017), the tax wedge on labour for average income earners remains the fourth highest in the EU (47.6 % in 2017) (see Graph 4.1.5). This is due to sizeable employer social contributions, which weigh on France's labour market performance. As of 2019, the tax credit for employment and competitiveness (*Crédit d'Impôt pour la Compétitivité et l'Emploi, CICE*) is replaced by a reduction in employer social security contributions. The increased corporate income tax revenues (EUR 5 billion) will be partly used to decrease further employer social contributions at minimum wage level, setting them at zero. The

⁽⁴³⁾ Average tax rate stand at 3 % for direct heirs and 20 % for indirect heirs, whereas marginal inheritance tax rates reach 45 % for direct heirs and 65 % for indirect (OFCE, 2017).

Graph 4.1.5: Tax wedge on labour, single earner, average wage (2017) (in % of labour cost)



* weighted on GDP

(1) data for Cyprus is not available

Source: European Commission.

announced exemption of employees' social security contributions and of income tax on overtime hours is expected to stimulate labour supply of workers and to increase their disposable income ⁽⁴⁴⁾.

Taxes on consumption and environment*

The efficiency of the French value-added tax system is limited by the extensive use of reduced rates. While the standard value-added tax rate (20 %) is below the EU average (21.6 %), France applies two reduced rates (5.5 % and 10 %), as well as a super reduced rate (2.1 %) ⁽⁴⁵⁾. In 2016, the revenue foregone from applying reduced rates represented 11.9 % compared to a theoretical maximum where all products and services are taxed at the standard rate.

Planned efforts to increase revenue from transport fuel taxes have been cancelled in 2019. The objective to close the gap between

diesel and petrol by 2021 is unlikely to be achieved. The increase in environmental taxes, in particular energy, risks weighing on vulnerable households and may require effective well-targeted support to be accepted by taxpayers. To that end, France has strengthened its support scheme to acquire new vehicles (in 2018, the amount is doubled to EUR 2000 for non-taxable households ; in 2019 for low-income and long-distance drivers households), extended the tax credit on green transition (*Crédit d'impôt pour la transition énergétique*) albeit reducing its budget, and increased its energy voucher from EUR 150 to 200 per household per year and enlarged the number of beneficiaries. Preferential fiscal treatments related to some transport means or more generally to other areas of the energy transition risk undermining the consistency the consistency with ambitious climate objectives, and deprive authorities of additional resources they could allocate to support the transition towards a greener economy. Overall, revenues from environmental taxes steadily increased from 2009 onwards to reach 2.3 % of GDP in 2017, but are still below the EU-28 average (2.4 %).

⁽⁴⁴⁾ A gain equivalent to 11.3 % of the extra hour rate, according to the Labour Ministry, and 8 million workers would be concerned, with a gain in disposable income of EUR 200 annually (EUR 155 for a worker at the minimum wage).

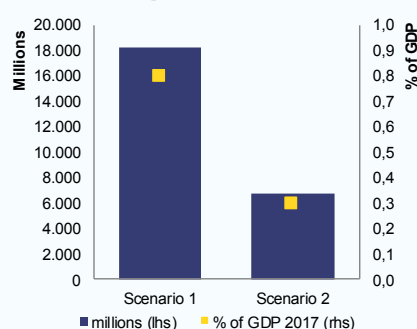
⁽⁴⁵⁾ Member States applying super reduced rates (rates below 5%) before the creation of the Single Market in 1992 were allowed to continue to apply them until the application of the definitive value added tax system.

Box 4.1.1: Assessing the budgetary and distributional effects of alternative scenarios to reform the immovable property tax in France

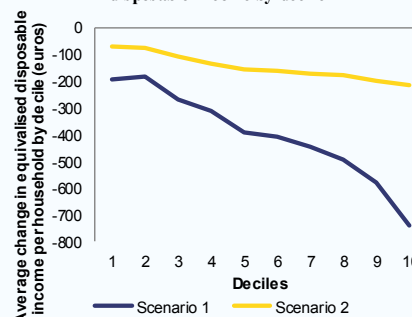
Like many other EU countries, France has not comprehensively updated the tax base ('*valeur locative cadastrale*') of the immovable property tax ('*taxe foncière*') since 1970. France applies a correction coefficient to outdated property values, which does not reflect appreciations and depreciations of property values resulting from the different development of urban areas. These outdated property values generate distortions and potential inequitable effects. The immovable property tax is a direct local tax payable annually by owners of real estate. In 2017, revenues ⁽¹⁾ of this recurrent property tax reached EUR 32 billion (1.35 % of GDP) to the benefit of local authorities, which determine part of the total tax rates. The elimination of the housing tax by 2022 ('*taxe d'habitation*') calls for a comprehensive reform of the local government financing system. Such a reform, including an update of the immovable property tax base, could be announced in 2019.

The European Commission's Joint Research Centre simulated an uprate of the immovable property tax to better reflect properties' market values ⁽²⁾. To this end, the microsimulation model EUROMOD ⁽³⁾, has been enriched with the latest data on reported tax from the EU-SILC⁽⁴⁾. The baseline scenario, reflecting tax-benefit rules in place in 2017, reproduces the current situation of outdated cadastral values. Two alternative reform scenarios are then used to reform the immovable property tax: (1) an uprate by geographical unit (NUTS 2), based on uprating ratios of the commercial properties implemented in 2017; (2) an uprate by housing property type (apartment v. houses) and size (surface in m²), based on an experimentation by the French authorities in 5 departments in 2015⁽⁵⁾.

Graph 1a: Impact of reform scenarios on public revenues



Graph 1b: Average impact on equivalised disposable income by decile



Source: European Commission, Joint Research Centre based on EUROMOD

Based on the EUROMOD simulations, uprating the tax on recurrent property taxes to reflect market values whilst keeping local tax rates constant would lead to higher revenue. In the first scenario, the reported immovable property tax is uprated using ratios that have been simulated for commercial properties, bringing extra revenues of EUR 18 billion (0.8 % of GDP). The second scenario uses uprating ratios based on property type (apartment v. houses) and size (surface in m²) and corresponds to additional revenues of around EUR 7 billion (0.3 % of GDP) (see Graph 1a).

The redistributive effects of the simulations suggest the need for specific adjustments. On average, households in the lowest decile would pay an extra EUR 195 (scenario 1) and EUR 69 (scenario 2) of immovable property tax, while households in the highest decile would pay EUR 739 or EUR 218, respectively (see Graph 1b). In relative terms, the lowest deciles would be more affected than the highest deciles, as the increase in immovable property tax represents a higher share of their disposable income. This suggests the need for a gradual implementation over time of the reform or some progressive scheme to limit effects on inequality.

⁽¹⁾ Tax on build property only ("*taxe sur le foncier bâti*").

⁽²⁾ The simulations assume the uprate of the reported tax liabilities, which, given that the tax schedules are not changed, would be equivalent to uprates of the tax bases.

⁽³⁾ EUROMOD simulates benefit entitlement and tax liabilities according to the rules applicable in each Member State.

⁽⁴⁾ Statistiques sur les Ressources et les Conditions de Vie (2016).

⁽⁵⁾ "Expérimentation révision des valeurs locatives des locaux d'habitation" (DGFIP, 2015).

4.2. FINANCIAL SECTOR

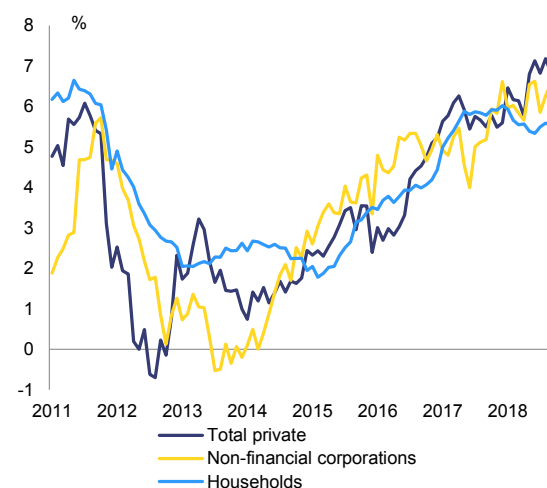
Banking*

French banks' solvency is stable, but their profitability is under pressure. The French banking sector presents stable solvency, funding and credit quality ratios. Return-on-equity remained at a similar level to previous exercises, at 6.4 % at the end of 2017 (see Table 4.2.1), a little higher than the euro area average (5.6 %) but lower than the typical cost of capital. As of June 2018, the capital adequacy ratio was stable at 17.7 % (v. 17.9 % in the euro area), the non-performing loan ratio reached a new low at 2.9 % (v. 4.2 % in the euro area), and the loan-to-deposit ratio slightly increased to reach 106.0 % (v. 96.0 % in the euro area).

French banks are mostly exposed to risks common to other euro area banks. Overall, the 2018 EU-wide stress test revealed that French banks' resilience is close to the European average. An abrupt increase in interest rates represents their most significant risk, together with possible international regulatory fragmentation (Banque de France, 2018). The remaining risks are country-specific. In particular, French banks are confronted with growing private indebtedness of both non-financial corporations (particularly large ones) and households (Graph 4.2.1) and to significant exposure to the Italian private sector via the large retail subsidiaries held in Italy. Fierce competition leads to low average interest rates on housing loans (1.49 % in December 2018). Should such limited profitability from new credit flows persist, the banks' bottom line could be more significantly affected. Finally, some distortions persist, such as the tax on financial transactions and the exoneration of the Livret A (equity and bonds), which tends to penalise capital market intermediation to the benefit of banking intermediation (loans); while the non-deductibility

of banks' contributions to the Single Resolution Fund has an opposite effect.

Graph 4.2.1: Annual growth rate of loans



(1) Adjusted for sales and securitization

Source: ECB CBD

Risks to an abrupt adjustment are limited. The percentage of new mortgage generation at variable rates has remained very low in recent years, falling from 8.9 % in 2012 to 0.6 % in 2017. Hence, even if interest rates were to increase suddenly, their impact would remain contained. Moreover, banks' non-performing corporate loans ratio remains stable at low levels (around 5 %). It requires close monitoring though, given the increasing share of vulnerable borrowers with a relatively high Debt Service-to-Income ratio.

French authorities have shown a pro-active approach to anticipate risks. Given the sustained growth in private indebtedness, the French High Council for Financial Stability (*Haut Conseil de stabilité financière*) decided to introduce two new macroprudential measures. A counter-cyclical

Table 4.2.1: Financial soundness indicators – all banks in France

	2014q4	2015q4	2016q2	2016q3	2016q4	2017q1	2017q2	2017q3	2017q4	2018q1	2018q2
Non-performing loans	4.2	4.0	3.9	3.9	3.6	3.5	3.4	3.2	3.1	3.1	2.9
o/w foreign entities	1.9	2.5	2.5	2.5	2.0	1.8	1.6	1.6	1.6	1.6	1.3
o/w NFC & HH sectors	5.1	5.0	4.9	4.9	4.8	4.8	4.6	4.5	4.3	4.2	4.0
o/w NFC sector	6.2	5.8	5.9	5.8	5.8	5.7	5.5	5.2	5.1	5.1	4.7
o/w HH sector	4.4	4.2	4.2	4.1	4.1	4.0	4.0	3.8	3.6	3.5	3.5
Coverage ratio	51.3	51.1	50.0	50.2	51.4	51.0	50.3	49.5	50.4	50.4	51.4
Return on equity ⁽¹⁾	4.4	6.8	7.4	7.3	6.5	6.4	7.0	7.0	6.4	5.6	6.8
Return on assets ⁽¹⁾	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Total capital ratio	15.2	16.4	16.7	16.9	17.6	17.8	17.7	17.5	17.8	17.7	17.7
CET 1 ratio	11.8	12.6	12.8	12.9	13.7	13.8	14.0	13.9	14.2	14.1	14.0
Tier 1 ratio	13.1	13.8	14.1	14.1	15.0	15.1	15.1	15.0	15.3	15.2	15.1
Loan to deposit ratio	105.1	104.7	104.6	105.5	106.2	102.9	102.1	102.8	105.1	105.2	106.0

* ECB aggregated balance sheet: loans excluding government and MFI deposits

** For comparability purposes, only annual values are presented.

Source: ECB CBD.

buffer (CCyB) of 0.25 % will enter into force as of July 2019, while a specific cap on systemic banks' exposure to the most indebted non-financial corporations entered into force in July 2018. Both measures send a clear preventive signal to the sector to anticipate and avoid excessive imbalances in the future. Since both are very recent, it is too early to assess their potential impact on banks' credit strategy. In the insurance sector, France is one of the rare Member States that have designed and implemented a macro-prudential and resolution framework establishing several tools to deal with macroprudential risks in the sector.

Insurance*

Risks stem from the bankruptcy of several foreign insurers offering builder's risk insurance following poor risk selection and provisioning practices. Builder's risk insurance is an important line of business in France, partly because it is mandatory. Several foreign insurers created serious imbalances in this market, by offering low prices without enough provisioning and risk selection. The consequences of these bankruptcies on the French insurance and construction sectors need to be monitored.

The multiplication of extreme climatic events is expected to substantially affect the market of reinsurance and non-life insurance in France. Extreme climatic events have multiplied in France over the last years (Seine and Loire floods in 2016, hurricane Irma in 2017). In this respect, the impact of the natural catastrophes' line of business was strongly negative in 2017, with a combined ratio (before reinsurance) of 200 %, much higher than 98 % in 2016. Most of hurricane Irma's EUR 2 billion insured cost was absorbed by the French public reinsurer, the *Caisse Centrale de Réassurance*. As a result, its equalisation reserve fell by 1/3, from EUR 3 billion to EUR 2 billion. Its current own funds and reserves should enable it to cover a natural disaster market loss of EUR 4.5 billion without resorting to the use of State guarantees in the future. Natural catastrophes can in theory be reinsured by private reinsurers. However, the concentration of natural catastrophes risks in certain geographical zones, like overseas territories, explains the choice of the French authorities to set up a public entity (*Caisse Centrale de Réassurance*) to reinsure natural catastrophes risks across the French territories and

to enforce some mutualisation between overseas and continental France.

New measures are expected to make new forms of life insurance contracts more attractive. Like in other EU Member States, the life insurance sector suffers from the persistent low interest rate environment. The loss of the life insurance tax advantage for the new contracts above EUR 150 000 does not seem to have had a significant impact on the volume of written premiums. For instance, 2017 saw a strong increase of unit-linked premiums to the detriment of traditional life insurance, but this rebalancing seems to have stabilised since the second quarter of 2018. The *euro-croissance* contract, which offers a guaranteed interest rate, but only at maturity, has had very little success until now. Contrary to traditional life insurance, it would allow insurers to adopt a longer-term assets allocation strategy and invest into relatively riskier and more profitable assets. However, its functioning has been complex, its legibility relatively limited and its investment policy still particularly constrained. The draft PACTE law (*'loi PACTE'*) aims at remedying these shortcomings and making the euro-growth (*'euro-croissance'*) contract more attractive.

4.3. LABOUR MARKET, EDUCATION AND SOCIAL POLICIES

Labour market developments*

Labour market conditions continue to improve, albeit at a slower pace than in the rest of the EU. In line with a relatively favourable business cycle in 2017, headcount employment registered the highest growth rate since 2008 (+1.1 % based on National Accounts). The employment rate (20-64) increased at 71.3 % Q3 2018 and is close to the EU average (73.2%). The unemployment rate is only slowly reducing, and at 9.0% (2018Q3) is higher than the EU average (6.8%) and the euro area average (8.1%). The persistently high level of unemployment, together with the significant share of involuntary part-time (43.2% of total part-time in 2017) and the entrenched segmentation of the labour market, point to room for further investments in human capital.

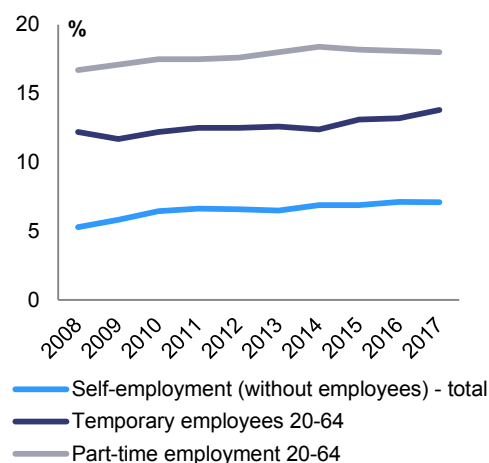
While all groups benefit from the improvements in the labour market, low skilled and young people remain at a disadvantage. The unemployment rate of the low skilled fell in 2017 for the first time since 2008, but at 17%, it remains much above pre-crisis levels. The rate of young people (15-24) not in employment, education or training decreased from 11.8% in 2016 to 11.5% in 2017 (slightly above the EU average of 10.9%), but is close to 18% for young people not born in the EU. Youth unemployment (15-24) decreased by 2.3ppps in 2017, to 22.3%, but still above the EU average of 16.8%. However, the unemployment rate of low-skilled young people is still very high, at 37.8%. Long-term unemployment is also improving and is now below the EU average as a share of total unemployment, but remains a concern, especially for older workers. Moreover, workers who have been unemployed for more than two years are less likely to secure job interviews (8%) (*Duguet, Le Gall, L'Horty, Petit, 2017*). Additional investment could help address these challenges.

The French labour market is highly segmented. On the one hand, self-employment has been quite dynamic, accounting in 2000-2017 for more than 20% of total job creation (compared to zero for the euro area). The increase in *micro-entrepreneurs* (has been particularly significant since 2009⁽⁴⁶⁾,

⁽⁴⁶⁾ In 2009 a new social contribution and fiscal regime was created for self-employed. For most self-employed, a flat tax applies. This status may be cumulated with a salaried job. Following the introduction of the new regime, 1.2

with self-employed without employees rising from 5.2% of total employment in 2008 to 6.8% in 2017 (see Graph 4.3.1). However, the self-employment created jobs mainly in low-productivity and low pay sectors (*Askenazy and Erhel, 2015; OECD 2017*). The rise of temporary contracts continues steadily - in particular of those with very short-term contracts (OFCE, 2018) – as well as recalls with the same employer (*Unédic, 2016, 2018*). The transition rate from temporary to permanent contracts (11.7%) remains among the lowest in the EU. On the other hand, recruitment on open-ended contracts has been increasing since mid-2015 but still represented only 15.6% of total recruitment. A breakdown of job creation by sector reveals that net job creation in the last 10 years was positive only in services sector, while it was negative in industry and to a lesser extent in construction, pointing to the need of future investment for supporting the professional reskilling and upskilling.

Graph 4.3.1: Trends in self-employment, part-time and temporary employment



Source: Eurostat

As labour market conditions improve, several indicators point to skills mismatches. While unemployment and under-employment remain high, the job vacancy rate and the labour shortage index are increasing, although at a slower pace than in the EU. Shortages of skilled workers can be

million unincorporated enterprises were created between 2009 and 2012, representing about half of total newly created enterprises (*Askenazy and Erhel, 2015*). However, most micro-entrepreneurs retain an accessory status with low financial turnout, based on latest available data (INSEE 2010-2014).

detected in certain sectors. The *Conseil d'orientation pour l'emploi* estimated unfilled ICT vacancies could reach 80 000 in 2020. A forecast exercise led by the European Centre for the Development of Vocational Training expects a more marked change in France, compared to the EU average, in the labour force structure towards higher level of qualifications. Skill shortages and lack of competencies are key factors explaining unfilled job vacancies. According to data from *Pole Emploi*, in 2017, out of 3.2 million registered job vacancies, 150 000 were cancelled due to the lack of suitable candidates⁽⁴⁷⁾. The Beveridge curve⁽⁴⁸⁾ (see Graph 4.3.2) shifted rightwards in 2008-2010, entailing a higher unemployment rate for the same job vacancy rate and pointing to a deterioration of the match between job vacancies and job seekers. Evidence suggests that, during the crisis and the subsequent recovery, an increase of skill mismatches, contributed to both a slower decline of unemployment and to higher long-term unemployment (*Dosi et al., 2017*). These different factors point to the need for further investment in skills, France has already adopted a major Investment plan for skills (*Plan d'investissement dans les compétences, PIC*) for 2018-2022 to tackle the skills mismatch. Adequate financing will be key for its success.

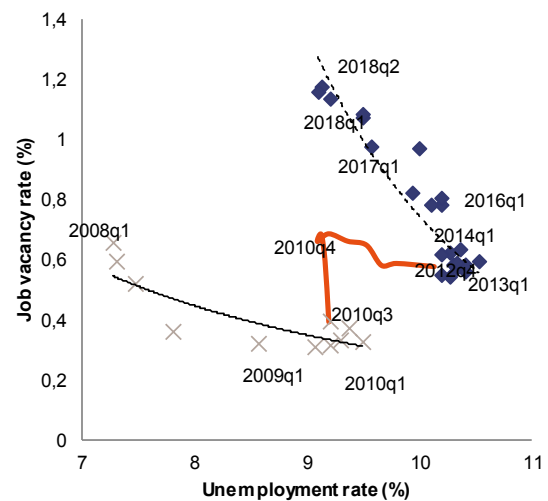
Some slack in the labour market remains.

Adding up underemployed, discouraged and unavailable workers to unemployed, unused resources still amount to more than 17% of the labour force. This contributes to explain the moderate wage dynamics, which are below the prediction based on economic fundamentals (LMWD, 2018). The increase in the share of temporary contracts⁴⁹ from 11.9 % in 2011 to 15.6% in 2017 (INSEE), which was mainly concentrated in services, also had a large and significant negative impact on wage growth, in particular at the lower end of the wage distribution.

In 2017, wages started to respond to a tightening labour market. After growing at a moderate pace between 2013 and 2016, nominal

wages partially picked up in 2017 in response to a gradually improving labour market (see Graph 4.3.3). However, due to rising inflation real wage growth remained moderate (+1.0%). The job vacancy rate⁽⁵⁰⁾ has been also increasing - from 0.6% in 2012-2015 to 1.2% in Q2 2018. Consistent with tightening labour market conditions, nominal wage growth has picked up from 1.5% of the first half of 2017 to 2% of the first half of 2018. As part of the 'law for the freedom to choose one's own professional career' adopted on September 2018 5th, the French government introduced measures to reduce the gender pay gap in firms with at least 250 employees by 2022, as well as in firms with between 50 and 250 employees by 2023. The main measure is the introduction of an index measuring gender pay inequalities coupled with reinforced controls and financial penalties.

Graph 4.3.2: Beveridge curve: 2003Q2-2018Q2



Source: European Commission, own calculations

The minimum wage continued to evolve according to its indexation formula, with no *ad hoc* hikes since 2013. In January 2019, the minimum wage will increase by 1.5%, aligned to inflation (tobacco expected), similar to reference wages. Income of workers earning close to the minimum wage will be supported by complementary income (*Prime d'activité*), which saw a significant increase. The revaluation of the complementary income will not have an impact on the cost of labour and therefore on competitiveness.

⁽⁴⁷⁾ This share is higher for contracts shorter than 6 months (5.5%) than for longer duration contracts (4.2%). (Boulema, A. and T.Goldman, 2017)

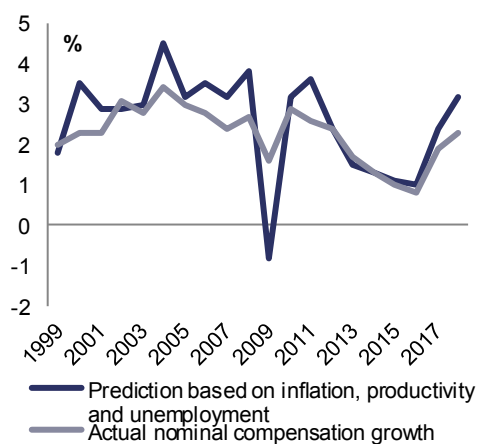
⁽⁴⁸⁾ The Beveridge curve is the relationship linking unemployment rate to job vacancies and is usually negatively sloped over the business cycle.

⁽⁴⁹⁾ Fixed-term contracts and interim, excluding apprenticeship.

⁽⁵⁰⁾ The ratio between vacant posts and the sum of vacant and occupied posts.

Reforms adopted in recent years aimed at reducing labour market segmentation and promoting transitions towards open-ended contracts. The September 2017 labour law *ordonnances* fully entered into force in 2018, making open-ended contracts more flexible and further promoting decentralised bargaining (see Country Report 2018). Their effect is expected to enhance gradually flexibility of the labour market. However, the merging of social dialogue entities at the company level, considered by trade unions as a reduction of available means, might be delayed. On the other hand, the “Law for the freedom to choose one’s own professional career” (2018/771), adopted on 5 September 2018, aims at developing professional skills of the active population and providing tools for career orientation. Finally, negotiations between social partners on a reform of the unemployment benefits system are ongoing. The aims are i) to reduce the debt of the system and ii) to amend the rules in order to reduce job insecurity and make them more conducive for the unemployed, iii) to find an incentive mechanism to decrease the separation rate of the firms when it is excessively high. The public employment services are undergoing an ambitious modernisation agenda, including a rationalisation of their territorial structure and a digitalisation of their offer.

Graph 4.3.3: Wage benchmark

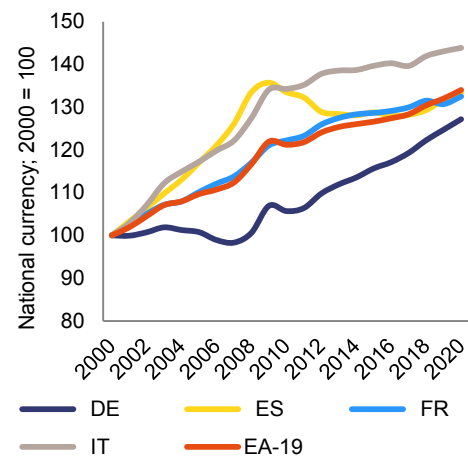


Source: European Commission, own calculations

Reaching out to the most vulnerable jobseekers, in particular young people and those with a migrant background remains a challenge. In 2017, the Youth Guarantee scheme in France covered an estimated 68% of young people (under

25) not in employment, education or training but almost three quarters (73%) of those registered at any point during the year had been waiting for an offer for more than 4 months. In addition, the percentage of young people (15-24) not in employment, education or training is much higher for non-EU born (18.7%) than for young people born in France (11.0%). Cooperation between key providers of employment and social services has not always been efficient so far, but is improving. These elements point to a need to further modernise labour market institutions and services towards an integrated approach. Moreover, active labour market policies are increasingly focused on training for jobseekers, while the number of subsidised contracts is further decreasing (cf. Skills investment plan).

Graph 4.3.4: Nominal unit labour cost dynamics



Source: Eurostat, National Accounts

Regional disparities are relatively moderate compared to other European countries, with the exception of outermost regions. In the outermost regions, disparities are particularly pronounced for indicators linked to young people. Educational attainment rates tend to be much lower than in the rest of the country and labour market prospects of young people remain weak (youth unemployment hovered around 50% in 2017, compared to 22.4% on average in France). Regional disparities are less pronounced in metropolitan France. In general terms, long-term unemployment and youth unemployment are higher in the northeast and Mediterranean areas. Moreover, higher employment rates are recorded for working-age people living in rural areas rather than in cities. A

recent OECD study showed that Pays de la Loire and Auvergne-Rhone-Alpes accounted for 52% of the overall job creation in the period 2011-2016, whereas Grand Est and Hauts-de-France concentrated about 70% of job destruction in metropolitan France. On the other hand, the region Ile-de-France contributed only a 17% share to the overall job creation, although on jobs of higher productivity potential (*OECD regions at a glance, 2018*). Moreover, French regions are characterised by different risk of automation, entailing differentiated investment needs in upskilling and reskilling policies (*OECD, 2018*).

Table 4.3.1: **Employment growth by sector**

	France			Euro area		
	Total employment	Employees	Self-employed	Total employment	Employees	Self-employed
Total - all NACE activities	8,9	7,6	22,1	10,4	12,3	0,1
Industry (except construction)	-23,2	-24,4	7,5	-13,3	-12,8	-21,6
Construction	17,0	12,5	42,7	-10,9	-15,5	7,9
Wholesale and retail trade, transport, accommodation	12,9	12,0	20,1	13,9	20,0	-9,3
Professional, scientific and technical activities	33,4	31,7	52,8	53,9	58,8	36,4
Public administration	11,7	9,5	59,8	18,1	16,8	41,3
Arts, entertainment and recreation; other service activities	14,4	10,8	48,1	22,6	20,6	33,0

Source: Eurostat

The geographical concentration of people with a migrant background in poor neighbourhoods is a matter of concern. In poor neighbourhoods, more than 30 % of the population was born outside the EU (against less than 10 % for metropolitan France) (*INSEE*). People living in these areas face multiple disadvantages, related to lower educational attainment as well as limited social inclusion and integration in the labour market. Testing experiments held by the national ombudsman (*Défenseur des droits*) show that living in a poor neighbourhood has a negative impact on job opportunities. The unemployment rate in these neighbourhoods was of 25.3% in 2016, compared to 9.9% in the surrounding areas, but is slowly improving. The revamped recruitment incentive scheme of hiring incentive (*Emplois francs*), whose experimentation started in April 2018 in 194 neighbourhoods, aims at tackling these disparities, but it is too early to assess the results of this initiative.

People with a migrant background also tend to be disadvantaged during the recruitment stage. Experimental studies reveal that candidates with Arab sounding names and residents of poor neighbourhoods have much lower chances of obtaining a job interview than others with identical CV (*Bunel et al., 2016; Petit et al., 2016*).

Adequate investment and policies promoting social diversity might improve the reputation of poor neighbourhoods in the long run, but may be less effective in tackling discrimination based on family names. According to a recent study by the *Défenseur des droits*⁽⁵¹⁾, origin is one of main factors of discrimination at work.

Despite recent improvement, ensuring access to employment for people with a migrant background remains a challenge.

The employment rate for non-EU born, at 55.6% in 2017, is one of the lowest in the EU. The employment rate among recently arrived non-EU born residents is also very low (35.5 %). Non-EU born women are at a particular disadvantage, with an employment rate of 45.8%, almost 24 pps lower than women born in France. In addition, the acquisition of formal qualifications has a limited impact on employment opportunities, compared to natives: in 2017, 69 % of who were not born in the EU having tertiary education were in employment, against 85 % of who were born in France. The gap for secondary education is 15 pps. These figures suggest that, at equivalent level of qualification, people with a migrant background suffer from a lack of professional or personal networks and from direct or indirect discrimination. Tackling these challenges, also in light of the Social Pillar principles on equal opportunities, may deserve higher investment on targeted policies.

In June 2018, the French government announced a series of measures to improve the integration of newly arrived migrants.

The new measures will increase the hours of French classes for newcomers (from 200 to 400 hours, up to 600 hours for illiterate people) with an improved training framework. Access to employment is also expected to be promoted through the creation of specific vocational training pathways for 5000 refugees, 1000 pathways for skills recognition, and linguistic trainings with a vocational dimension. Specific measures for refugees will be implemented (housing, health, better support to claim rights after getting the refugee status). These measures will only start to have an impact from 2019 onwards.

⁽⁵¹⁾ https://www.defenseurdesdroits.fr/sites/default/files/atoms/files/etudresult-harc-moral-a4-num-30.08.18_0.pdf

Education and skills

Socio-economic and territorial disparities in educational outcomes remain strong at all educational levels (European Commission, 2018). This points to significant investment needs in this area, particularly in some regions. Inter-generational social mobility is hampered by the strong influence of socio-economic and migration background on educational outcomes⁽⁵²⁾. Educational attainment is much lower in poor neighbourhoods. Teachers in disadvantaged schools tend to be less experienced and teaching hours are *de facto* lower due to both teacher and student absenteeism. Early school leaving rates showed significant regional disparities, and were particularly high in the Overseas territories. Access to higher education also varies widely across regions.

To improve basic skills and reduce inequalities, the starting age of compulsory education will be lowered to 3 years in September 2019. The measure targets those few children who do not participate in early childhood education and care, most of whom are from disadvantaged and migrant backgrounds or live in overseas territories. In the area of childcare, France is performing well, but the level of offer varies between regions. Moreover, the halving of class size in the first two grades of primary education will be extended to all disadvantaged schools by September 2019. French authorities estimate that reducing the size of classes could in the long term bring about an increase of 2 percentage points in GDP and create 120 000 jobs. The measure may need to be accompanied by investment in infrastructures. There are also plans to strengthen teacher training to deliver differentiated teaching, which is essential for class size reduction to have an optimal impact. These measures are likely to have an effect also at later stages of education, as 80 % of early school leavers already experienced learning

difficulties in the first grade⁵³. Still, as about 70 % of disadvantaged children are not enrolled in disadvantaged schools '*éducation prioritaire*'⁽⁵⁴⁾, these will not benefit from the measure. Evaluations for new pupils have been set up in primary education as well as in secondary education and cost-free tutoring for homework has been extended in lower secondary schools.

Working conditions for teachers in disadvantaged schools will be improved. The annual salary of staff in disadvantaged schools will be progressively increased by EUR 3 000 by September 2020. Teacher participation in continuous professional development is comparatively low (TALIS and PIRLS), partly because participation is not compulsory for secondary education teachers. The national budget allocated for continuous professional development is far from being fully used for teachers' professional development and its effectiveness in improving competences seems limited. Measures currently under discussion envisage a strengthening of initial teacher education and continuous professional development.

Complementary reforms of upper secondary and tertiary education have been launched in 2018. The first reform aims to make upper secondary education and the final examination (*baccalauréat*) more relevant for higher education or for the labour market, including by strengthening guidance. The second reform aims to improve completion in higher education, while so far failure and dropout have disproportionately affected disadvantaged students from a lower socio-economic background. It also aims to put an end to previous selection practices such as drawing lots (*Parcoursup*). Only 28 % of university students graduate three years after completing secondary education and only 41 % after 4 years. The figures are lower for holders of a technological or vocational *baccalauréat*. The socioeconomic background of students has an impact on the *baccalauréat* chosen, which in turn is strongly correlated with higher education outcomes. Places reserved for holders of the

⁽⁵²⁾ On average across OECD countries, students' family background explains 13 % of the variation in student performance in science, against at least 20 % in France (OECD broken elevator p.261). The type of secondary school-leaving diploma (*baccalauréat*) obtained is strongly dependent on a pupil's socioeconomic background. While 77 % of children whose parents are managers have a general education diploma and 9 % of them a vocational diploma, the corresponding proportions for children of blue-collar workers are 34 % and 44 %. Similar findings hold true for higher education. See also ETC 2018 and CR 2018.

⁽⁵³⁾ Ministry of Education ("Assises école maternelle Mars 2018); <http://education.gouv.fr/cid128334/assises-ecole-maternelle.html>

⁵⁴ http://cache.media.education.gouv.fr/file/2018/68/4/depp-ni-2018-18-02-1-education-prioritaire-etat-des-lieux_896684.pdf

technological and vocational *baccalauréat* will be increased substantially. Minimum quotas for holders of a needs-based grant will be also guaranteed. Increasing the completion rate can improve the efficiency of spending and impact on the future employment rates of students.

Labour market outcomes of initial vocational education and training are improving. The positive economic developments have supported the increase in the number of apprentices (+4.3% in 2017). Higher education contributes to 79% of this increase, in line with a long-time trend, but apprentices in secondary education are also on the rise. The higher education component of the vocational education and training system would be reinforced by the extension of access to apprenticeship from 25 to 30 years of age experimented in 9 regions (*Dares, 2018*). Recent figures confirm that apprenticeship presents better employment results than school-based vocational education and training. Results are also better in terms of job quality, with a higher share of apprentices hired on open-ended contracts. At the same time, several studies point at the potential orientation bias in entry into apprenticeship, notably based on socio-economic, gender and migrant background.

The 2018 reform plans to reshape the apprenticeship system to make it more attractive and relevant for the labour market. The September 2018/771 Law introduces several types of measures to support both the supply and demand of apprenticeship. The apprenticeship governance and funding system will be significantly restructured. Opening of apprenticeship centres will not be conditioned to Regional' approval, but labelled at national level from spring 2019. As of 2020, centres will be funded based on the number of signed contracts, with branch-defined cost coverage. Regions will retain a reduced budget to ensure a geographical balance of the apprenticeship offer within their territory. Termination rules for apprenticeship contracts will be made easier for companies and financial incentives will be exclusively targeted to small and medium size companies for training up to secondary education levels.

Several measures also aim to improve the appeal of apprenticeship. The extension of age limit from 25 to 30 years is to be applied across the

board. Apprentices below the age of 20 will receive a salary increase, while those aged over 18 will benefit from EUR 500 support to pass their driver's license. To support equal enrolment and to limit the termination of contract, the preparation to be undertaken before starting an apprenticeship programme will be promoted and a special representative has been appointed by the government to promote apprenticeship in the most deprived areas (*Quartiers politique de la ville*). Information on labour market integration of curricula (also applying to school-based VET) is to be made available, although implementing measure have not yet been taken.

Measures supporting apprenticeship will be complemented by measures on school-based vocational education and training. Students in school-based vocational education and training represent around 75% of vocational education and training students in secondary education. The Ministry of Education is planning improvements in line with the announced law on "a School based on trust" to be introduced gradually, with main components as of September 2019. The measures target : (i) attractiveness, through better information to students and families, clearer and more tailored curricula on topics such as digital technology and energy transition; (ii) employability, through closer links with companies and as of September 2019 updated training offer, better adjusted to labour market needs and gradual specialisation of pupils. Moreover, links with other pathways, such as apprenticeship, will be strengthened (*Cedefop, 2018*).

Adult participation in learning was broadly stable in 2017 (18.7%) and far above the EU average (10.9%). Yet, the participation in learning by low-qualified and unemployed people is comparatively low in respect of other groups. Upskilling the low qualified has been identified as an investment priority by the French authorities, in line with the 2016 CSR on upskilling pathways, a field which could also benefit from further support to validation of competences. The implementation of the EUR 14 billion Skills investment plan for 2018-2022 will gain pace in 2019. The plan aims at reaching out 1 million to young people not in employment, education or training and 1 million low-qualified unemployed and supports new forms of training (i.e. online). It has been launched in 2018, combining outreach,

counselling and support to training measures. As of 2018, some flagship measures have started to support specialised courses on the low-carbon economy and to develop IT skills (EUR 77 million for 10.000 trainings towards IT jobs through the label IT advanced school (*Grande école du numérique*), to test innovative approaches to offer tailored pathways (*100% inclusion*) to low-qualified jobseekers and to strengthen the training component of subsidised contracts. Half of the plan will be implemented at regional level; agreements between the State and the Regions are currently being rolled out.

The Skills investment plan complements the continuous vocational education and training reform. The personal training account in place since 2015 is credited in euros instead of hours since January 2019. The aim is to provide access to higher number of training courses, certified by the new vocational education and training governance body to overcome current eligibility restraints due to the sectoral segmentation of the current system. To ease access to certified training, the law introduces a modularisation of the courses, with all professional certifications being divided into ‘competences blocks’. Autonomy of individuals should be supported by the professional counselling which will receive additional funding. The governance of the system is being reshaped, with new responsibilities given to multi-sectoral skills operators (*Opérateurs de compétences*) to support companies in defining the training needs. A national public agency “France Competences” is created and will be in charge of financing and regulating the system. Regions would see their role of overseeing coordination in orientation and guidance strengthened, including for additional professional counselling.

Social policies

The French Social protection system performs well in comparison to the rest of the world. Taxes and social transfers reduce the gap in mean equivalised disposable income between the top 10% richest and the bottom 10% to 6 times (v. 22 times before redistribution) in 2017. Between the top 20% richest and the bottom 20%, the gap is reduced to 4 times (v. 8 times before redistribution) (*Insee, 2018*). In 2017, the share of people at risk of poverty or social exclusion reached a historical low at 17.1%, significantly

below the EU average of 22.4%. The impact of social transfers (excluding pensions) on poverty reduction, at 44.8%, is one of the highest in the EU. Income inequality remained slightly below the EU average but well above pre-crisis levels, with the Gini index at 29.3% in 2017 and the S80/S20 ratio at 4.4. However, in 2017, the rate of material deprivation of people at risk of poverty increased from 7.1% to 9.3% (EU level 2017 at 7.7%). Besides, fixed costs reduce disposable income for specific groups. This is particularly the case for households below the 60% of median income (DREES, 2018), which are already overburdened by housing costs (20.1 % against 4.7 on average in France). The increased taxation applied to fuel and tobacco products in 2018, aimed at influencing consumption behaviour, might have hampered the disposable income of specific groups (IPP 2018). In response to social protest, the government cancelled the increase in energy taxes in 2019.

Access to social protection for the self-employed has been improved. The September 2018/771 law opens unemployment benefits to the self-employed, which represent 11% of total employment. Strict eligibility criteria will apply, such as a compulsory liquidation, excluding solo-entrepreneurs. Freelance workers do not have formal access to maternity benefit. Moreover, trainees and vocational trainees do not have formal access to unemployment benefits and old age/survivors pensions.

Some groups face additional difficulties, despite recent improvements. For instance, single parents with dependent children, often women, face a 32.6% poverty rate (down by 2.6pps in 2017). Poverty in young people (18-24) also remains relatively high at 20.9%. The risk of poverty and material deprivation is particularly high for people with a migrant background. Risk of poverty or social exclusion for people born outside the EU was 33.6% in 2017, more than double compared to people born in France. The situation is particularly worrying for children. 41.3% of children with parents born outside France were at risk of poverty in 2017 (compared to only 13.8% of those with parents born in France), one of the highest rate in the EU and steadily rising since 2014. In addition, people born outside the EU tend to be more exposed to poverty, even when they are working. In spite of a slight improvement in the employment rates, the in-work at-risk of poverty rate of people

born outside the EU increased to 19.3% in 2017 (6.5% for natives). Inter-generational mobility is also a matter of concern. In 2017, the employment rate for native-born persons (15-34) with two parents born outside France was 15.9 pps lower than for French nationals without immigrant background.

The government presented in September 2018 a strategy to prevent and fight against poverty.

This ambitious strategy adopts a 'work-first' approach. An 'Activity guarantee' will be developed for beneficiaries of social minima, based notably on the Youth guarantee scheme, with additional 100 000 places being created in social and occupational integration structures by 2022. The strategy also aims at promoting effective access to social benefits (take-up gap currently estimated at about 30% for the main minimum income) as well as developing work-friendly childcare facilities. The strategy also intends to merge different income benefits into a single one universal activity income (*Revenu universel d'activité*⁽⁵⁵⁾). Consultations are to be pursued in 2019 and a draft law presented in 2020 for progressive implementation as of 2021. In response to the yellow vest ('*gilets jaunes*') movement, the government anticipated the planned increase of the *Prime d'activité* (household income-tested complementary activity income), which together with the automatic increase in minimum wage, resulted in a EUR 100 monthly gain for minimum wage earners as of January 2019.

Overall, access to healthcare is good. The social security health insurance system is generalised and covers the entire population with a comprehensive care package. In addition, 96% of the population has a complementary health plan subscribed individually or with the employer (*OECD*), for better coverage of those goods and services which are poorly covered by the social health insurance. In addition, publicly funded complementary coverage is available for insured people with low income. Overall, out-of-pocket expenditure on healthcare has remained relatively low over recent

years compared with the EU average. It stood at 9.8% of total health expenditure in 2016. To further limit co-payments by insured parties, an agreement signed in 2018 between the government and professional bodies aims to achieve by 2021 a 'zero co-payment' on dental prosthetics, optical items and hearing aids. The generalisation of third-party payment at the point of delivery for all medical services, aiming at removing financial barriers to medical treatment, has been postponed.

Regional disparities in health services ('medical deserts') remain significant.

France ranks slightly below average in Europe in terms of medical density, with a ratio of 3.4 doctors per 1 000 inhabitants (*OECD*), and access to care has become difficult in some areas, mainly in rural zones, given the lack of practising doctors. Doctors are more prevalent in the southeast, the west coast and urban hubs and relatively scarce in most rural territories and major towns in the Paris region and northern France. Overseas territories face a particular challenge due to their isolated geographical location, administrative or financial barriers, shortages in certain medical professions (e.g. specialists) and weak prevention. The implementation of the 2017 plan for access to care in the regions is showing first results, with the promotion of telemedicine and e-health, financial support for 538 multidisciplinary medical homes, incentives for medical and paramedical professions and for medical students and young doctors to start their career in underserved areas.

A wave of massive retirements is expected to put significant pressure on the health system.

The ageing of the medical profession (27% of doctors are 60 or over), the preference of young doctors to work under salaried contracts and shorter hours, as well as the rise in the demand for care, are all set to put pressure on the system. The government is taking steps to ease access to medical professions, facilitate the establishment of medical practice and modernise medical and paramedical studies (see section 4.4.2.). Moreover, 400 family doctors have been allocated to 'medical deserts'. According to the government, more than EUR 3.4 billion will be needed until 2022 to finance the implementation of the transformation strategy (see Section 4.1).

Social housing supply is limited in certain areas. Despite recent positive developments (124 200

⁽⁵⁵⁾ In 2016, the adequacy of the minimum income benefits exceeded the EU average, according to the results of the 2018 Benchmarking exercise in the area of Minimum Income of the Social Protection Committee. See the Draft Joint Employment Report 2019 (European Commission, 2018) for details.

social rental units financed in 2016 and more than 100 000 renovated), shortages of affordable and social housing remain in certain regions. It is estimated that, in 2017, 2.1 million households were in the waiting list for social housing (*Union sociale pour l'habitat*). Overcrowding for more modest households is also increasing due to the lack of accommodation. Stronger investment in social housing, especially in areas with high demand, could reduce social distress and foster labour mobility.

The recently adopted ELAN law (*‘Évolution du logement, de l'aménagement et du numérique’*) aims at better allocating social housing to those most in need. The situation of existing social housing tenants living in tense areas will be now revised every 3 years to ensure that it benefits to the most urgent situations (see Section 4.1) Transparency in the allocation of social housing is also expected to be fostered by generalising a scoring system in large agglomerations. So far, only 2 large agglomerations (Paris and Rennes) have implemented this system. On the other hand, the easier conditions for selling out social houses to private actors could lead to the privatisation of up to 40 000 social housing units per year (compared to the current 8 000 units per year) with

potential risks of shortage of social housing (*Fondation Abbé Pierre*). The law is also relaxing standards related to accessibility of people with disabilities, by reducing from 100 % to 20 % the share of new housings to be fully accessible. This change has been criticised by the French Ombudsman and the Council of Europe. An assessment of the changes introduced by the law is planned in 5 years.

Investment needs

Increased investment in skills, education and training, employment support and active inclusion can foster equal opportunities and improve access to the labour market. Adequate employment support and further investment in social inclusion are particularly important to improve labour market conditions for youngsters, low-qualified and people with a migrant background and from urban deprived areas, with a particular focus on outermost regions. At the same time, the emergence of skills shortages and mismatches points at the need for additional public and private investment in initial and continuous training.

Box 4.3.1: Monitoring performance in light of the European Pillar of Social Rights

The European Pillar of Social Rights is designed as a compass for a renewed process of upward convergence towards better working and living conditions in the EU ⁽¹⁾. It sets out 20 essential principles and rights in the areas of equal opportunities and access to the labour market; fair working conditions; and social protection and inclusion. The analysis in this report has been carried out in light of the Pillar's principles.

SOCIAL SCOREBOARD FOR FRANCE		
Equal opportunities and access to the labour market	Early leavers from education and training (% of population aged 18-24)	On average
	Gender employment gap	On average
	Income quintile ratio (S80/S20)	On average
	At risk of poverty or social exclusion (in %)	Better than average
	Youth NEET (% of total population aged 15-24)	On average
Dynamic labour markets and fair working conditions	Employment rate (% population aged 20-64)	On average
	Unemployment rate (% population aged 15-74)	On average
	Long-term unemployment rate (% population aged 15-74)	On average
	GDHI per capita growth	On average
	Net earnings of a full-time average single worker earning AW	Better than average
Social protection and inclusion	Impact of social transfers (other than pensions) on poverty reduction	Better than average
	Children aged less than 3 years in formal childcare	Better than average
	Self-reported unmet need for medical care	Better than average
	Individuals' level of digital skills	On average

Members States are classified according to a statistical methodology agreed with the EMCO and SPC Committees. The methodology looks jointly at levels and changes of the indicators in comparison with the respective EU averages and classifies Member States in seven categories (from "best performers" to "critical situation"). For instance, a country can be flagged as "better than average" if the level of the indicator is close to EU average, but it is improving fast. For methodological details, please consult the draft Joint Employment Report 2019, COM(2018)761 final. Data update of 29 January 2019. NEET: neither in employment nor in education and training; GDHI: gross disposable household income.

France performs relatively well on a number of indicators of the Social Scoreboard supporting the European Pillar of Social Rights. The social protection system is a point of strength, both in terms of impact of social transfers on poverty reduction and of quality of services. However, risks are higher for specific groups, especially when taking into account fixed household costs. The main challenges relate to entrenched labour market segmentation and equality of opportunities. Educational and labour market outcomes remain strongly dependent on socio-economic and migrant background.

Despite the several reforms adopted in recent years, the labour market remains segmented. The share of hiring and renewals on very short-term contracts remains very high, despite a recent increase of hiring on permanent contracts. Segmentation may also have negative effects on long-term human capital accumulation. The transition rate from temporary to permanent contracts is among the lowest in the EU. Involuntary part-time is also very high. The September 2017 labour law *ordonnances* are expected to gradually enhance labour market flexibility, but their effects remain to be seen. At the same time, negotiations are ongoing between social partners on a reform of the unemployment benefits system. The public employment services are undergoing an ambitious modernisation agenda.

In response to emerging skills shortages and persistent inequality of opportunities, a comprehensive reform package has been adopted in 2018. The aim is to raise basic skills and increase the relevance, attractiveness and quality of vocational education and training. The reform also aims at making apprenticeship more attractive and relevant for the labour market. To complement these reform efforts, the Skills investment plan will finance, over the next 5 years, intensive counselling with qualifying trainings, to improve the situation of disadvantaged groups on the labour market and fostering mobility and employment opportunities.

⁽¹⁾ The European Pillar of Social Rights was proclaimed on 17 November 2017 by the European Parliament, the Council and the European Commission. https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights/european-pillar-social-rights-20-principles_en

4.4. COMPETITIVENESS REFORMS AND INVESTMENT

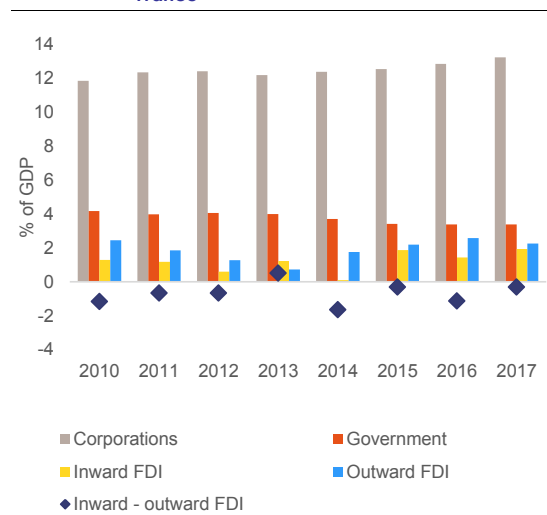
4.4.1 Investment and productivity*

Total investment is high in France. Both corporate and public investments are at a high level in France. Their level is fairly stable in annual terms at about 13 % and 3 % of GDP respectively. France has also a higher share of inward and outward foreign direct investment than in other large economies, accounting for 1.9 % and 2.3 % of French GDP in 2017, respectively (Graph 4.4.1). A *Grand Plan d'Investissement* aims at mobilising EUR 57 billion of investments over the period 2018-2022, for sustaining the environmental transition (EUR 20 billion), enhancing skills (EUR 15 billion), improving innovation (EUR 13 billion), and digitising public services (EUR 9 billion). The volume of total financing under the European Fund for Strategic Investments (EFSI) in France is the highest in the EU (Box 4.4.1).

Further investments in infrastructures, skills and innovation in France could foster potential growth, support competitiveness and reduce regional disparities. Additional investment may contribute to improve the performance of research, development and innovation activities as well as to address the challenges of the digital economy. Coupled with training, further investment would also enhance the cost and non-cost competitiveness of French exports (Section 1) and decrease regional disparities (Section 4.4.3, Annex D). Lastly, the announced investment plans would help modernise existing energy capacities, while further investment may support the transition to low-carbon and circular economy, including by unleashing the potential for additional private investments in this field.

Business investment expanded up to 2017. The investment rate of financial and non-financial corporates in France reached 23.9% in 2017 as a percentage of their gross value added. Business investment in France performs relatively well compared to other euro area Member States (Graph 4.4.2). In addition, a survey (EIB, 2018) shows that a high share of firms in France are investing and expecting to increase their investment in the year. This position in the 'high investment expanding' quadrant has been reinforced (see Graph 4.4.3) for all sectors, except for construction.

Graph 4.4.1: Public, corporate and foreign investment in France



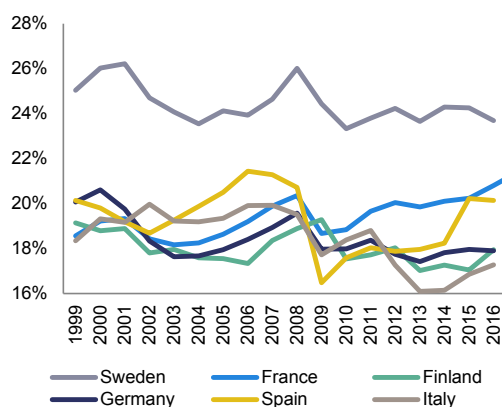
Source: Eurostat

Business investment in intangible assets has been resilient during the crisis contrarily to investments in tangible assets. Investment by firms in intangible assets has become important to support the relative specialization of advanced economies at the upper end of global value chains. (Alexander and Eberly, 2018; Corrado, Hulten, and Sichel, 2009). In France, investment in intangible assets (intellectual property products) stands above a number of other EU Member States and its level is close to that of Nordic EU Member States. Investment in tangible assets (excluding dwellings) remains instead at a relatively low level with respect to their pre-crisis trend and to the other EU Member States. In particular, the equipment rate in robots is low in France compared to Germany and Italy (132 robots for 10 000 employees in the manufacturing industry in France in 2016 v. 309 in Germany, and 160 in Italy) (Guillou *et al.*, 2018). The share of machinery and equipment considered by French firms as being state-of-the-art (29 %) is below the EU average (44 %) (EIB, 2018).

In spite of the rather high investment level, productivity gains have been moderate. In comparison to some other large European economies, France is characterised by a stronger decline in total factor productivity (TFP) growth observed since the 2000s (European Commission 2018a, p.5). This structural slowdown of total factor productivity growth (Section 1), first, casts

doubts upon the efficiency of French firms' investment and the impact of some public policies on firms' investment decisions (Guillou *et al.*, 2018, *OFCE forthcoming*). Second, it may lead to enquire about the speed at which investments translate into productivity gains, given investments in intangibles assets may take longer to increase firms' productivity (*OFCE forthcoming*). Third, it raises questions on the localisation of investment, as investments abroad to relocate part of a production process could affect country's value added (Markusen, 2002; Navaretti *et al.*, 2010; Hijzen *et al.*, 2011; Emlinger *et al.*, 2019). Fourth, the structural slowdown of total factor productivity growth may be linked to a low innovative intensity of firms. According to a survey (EIB, 2018), indeed, replacing capacity remains the most commonly cited priority for motivating investment by firms over the next three years (36% of firms in France). Contrarily to previous years, this first priority is now more closely followed by the need to develop or introduce new products, processes or services.

Graph 4.4.2: Investment rate by firms



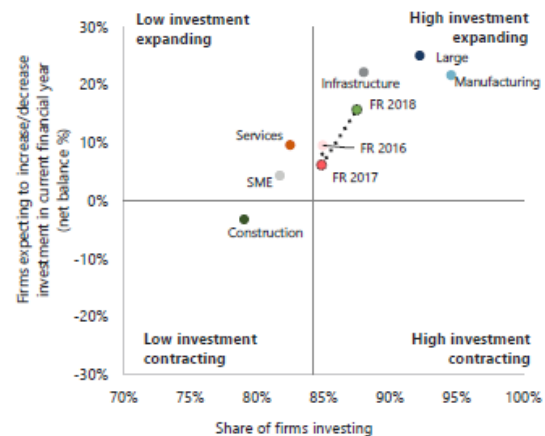
(1) Excludes public sector activities and real estate.

Source: European Commission

The deceleration of aggregate productivity growth is mainly attributable to lower productivity growth within firms. As shown in Graph 4.4.4, on average the contribution of efficiency gains within firms decreased between 2010 and 2014, meaning that firms experienced a slowdown of their total factor productivity growth. At the same time, the between-firms reallocation of resources (allocative efficiency) decreased more between 2004 and 2007, with some studies even finding a stabilisation over the most recent years

(Libert, 2017) and others highlighting a positive “dynamic effect”, that is, a reallocation towards productivity enhancing firms (Ben Hassine 2017, OFCE forthcoming) ⁽⁵⁶⁾. By sector, manufacturing has suffered from a larger slow-down in the within-firm productivity growth, whereas a relatively smaller reallocation of resources between firms has been observed in the services sector, although the literature is not conclusive on this topic (Ben Hassine 2017). Increasing heterogeneity characterizes French firms (Cette *et al.*, 2017), with highly productive firms tending to raise their total factor productivity at a faster pace than less performing ones.

Graph 4.4.3: Business investment prospects in France



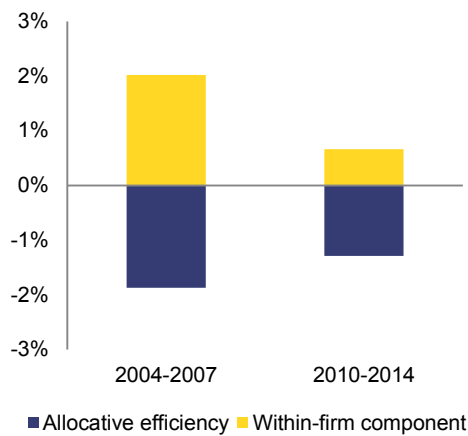
Source: EIB, 2018

Adopted or announced reforms are likely to boost investment and improve productivity. Barriers to firms' investment remain, while recent and planned structural reforms in France are expected to boost investment and productivity (box 4.4.2). Their effects are difficult to qualify ex ante (IMF, 2018). Following the 2016 Council Recommendation ⁽⁵⁷⁾, France has also appointed the *Conseil National de Productivité* as National Productivity Board in June 2018. National Productivity Boards are objective, neutral and independent institutions that can investigate the productivity challenges, contributing to evidence-based policy making, boosting domestic ownership of structural reforms.

⁽⁵⁶⁾ The methodology used for the decomposition could introduce a downward bias in the allocative efficiency component (Nishida *et al.*, 2017).

⁽⁵⁷⁾ Council Recommendation of 20 September 2016 on the establishment of National Productivity Boards. OJ C 349, 24.9.2016, p. 1–4.

Graph 4.4.4: Total factor productivity (TFP) growth decomposition



Source: COMPNET database, 6th edition

Research, Development and Innovation*

Research and development investment remains stable since 2015 and France has not been able to reduce the gap with EU innovation leaders.

Total research and development intensity⁽⁵⁸⁾ stood at 2.25% in 2016, which was above the EU average (2.03%) but slightly lower than in 2015 (2.27%), which hints to a certain stagnation of research and development efforts. Investment from the business sector has been the main driver of the overall positive trend of research and development investment but their level is still far below the 2% target. Business expenditure on research and development rose to 1.43% of GDP in 2016, compared to 1.27% in 2007. Public expenditure on research and development amounts to 0.78% of GDP in 2016, above the EU average (at 0.7%). Overall, France is not on track to meet its total research and development intensity target of 3% for 2020. France is also among the more research and development intensive EU Member States that reported business research and development intensity growth rates lower than the EU average in 2007-2016 (European Commission, 2018i). According to the 2018 European Innovation Scoreboard, France ranks 11th in the EU and its position compared to the best performers has not changed over the last years. Firms' non-research and development innovation expenditure⁽⁵⁹⁾ are one of the weak dimensions.

⁽⁵⁸⁾ R&D investment as a percentage of GDP.

⁽⁵⁹⁾ This indicator measures non-R&D innovation expenditure as a percentage of total turnover. Several of the

components of innovation expenditure, such as investment in equipment and machinery and the acquisition of patents and licenses, measure the diffusion of new production technology and ideas. (*Community Innovation Survey*)

Furthermore, the business dynamism seems to be subdued, as suggested by the low and declining share of employment in high growth enterprises (9.4% compared to EU average of 14% in 2016), in particular in those companies belonging to the 50% most innovative sectors (4.1% in 2015, down from 5.1% in 2008 and below the EU average of 4.8%).

The basis for ERDF interventions in favour of Research, Development and Innovation is the elaboration of smart specialisation strategies at regional level.

The success of these strategies will depend on the territories' ability to mobilise and concentrate the resources on action plans designed to support their strategic objectives and activities. Updating these strategies from the 2014-2020 period will be needed, especially in the new regions resulting from the new regional organisation. The success of this process will also depend on the ability to coordinate the approach over time, to support an entrepreneurial discovery process involving the regional innovative ecosystem in the long term, based on the defined strategy, to coordinate with other French and European regions with a view of optimising the benefits of the transfer of skills, knowledge and technologies in the territories. All these challenges could benefit from the exchange of good practices among French regions, and also regions inside the cross border and inter-territorial cooperation.

While the quantity of human capital in science is high, there may be room to strengthen the efficiency of the public research system.

The French scientific system benefits from a number of strengths and in particular the share of French graduates in science and engineering (21.6 per thousand population) is the second highest in the EU. However, an international comparison of public research systems, measuring their performance in terms of outcome indicators (number of publications, citations and patents) against the resources used (*DG Trésor, 2018*) suggested that the French performance could be improved. Its performance is comparable to that of Germany. In addition, France only ranks 10th in the EU for the share of top 1% highly cited scientific publications.

components of innovation expenditure, such as investment in equipment and machinery and the acquisition of patents and licenses, measure the diffusion of new production technology and ideas. (*Community Innovation Survey*)

Links between science and business could be further incentivised through researchers' careers. A limited number of public researchers is taking part in business creation and collaborates with existing companies. Since 2000, only 51 requests of public researchers to join companies and 231 requests to create new businesses have been examined by the Deontology Commission⁶⁰. The draft Pacte law (*'Loi Pacte'*) would relax some of the underused rules of the current law (*Loi Allègre*) and includes provisions to promote researchers' mobility by allowing researchers to dedicate 50% of their working time to newly created companies, as well as to return to public research while preserving their firms' shares. However, researchers' careers and advancement are still largely based on research output such as publications.

Partnership research between businesses and public research has to be improved. Between 2012 and 2014, 15% of innovative firms collaborated with public research organisations and universities (compared to 17% in Germany). France continues to score below the EU average for public research and development financed by businesses. Many commercialisation structures have been set up since 2010 with the Investment for the Future Programme (*'Plan d'investissement d'avenir'*, PIA) for a total public support reaching EUR 5.4 billion between 2010 and 2020. In particular, the first results of the 14 Technology Transfer Accelerator Offices (*Société d'accélération du transfert de technologies, SATT*) in terms of licencing, patents, spin-offs are below expectations and the target of financial equilibrium by 2020 will not be achieved (*Cour des Comptes, 2018b*). Following the Court's recommendations, underperforming Technology Transfer Accelerator Offices structures will be closed in 2019, such as SATT Grand Centre. Evidence also suggests the need to further develop targeted training in partnership research for staff working in commercialisation structures. Support to competitiveness clusters (*'pôles de compétitivité'*) has been renewed for a fourth phase (2019-2022) and priority will be given to clusters organisations well connected with others structures at local level,

⁶⁰ This number may underestimate the real number of public researchers that have moved to the private sector since not all public researchers ask for a review of the Deontology Commission.

concentrated on national industrial priorities and with a track record in EU projects.

The efficiency of public schemes and tax incentives for research, development and innovation needs to be further evaluated. The French landscape is characterised by a wide range of direct and indirect support schemes and a generous support to business research and innovation efforts. This includes the R&D tax credit scheme (*Crédit d'Impôt Recherche, CIR*) the most generous among OECD countries, amounting to 0.24% of GDP in 2018. However, the overall performance of the research and development and innovation ecosystem does not yet match the large amount of public support. International organisations have already drawn attention on this issue in the past (OECD, 2014). This warrants the need for a comprehensive evaluation of the policy mix to inform future implementation. ⁽⁶¹⁾A group of French experts' repeated the call for regular evaluations of public schemes (*Lewiner report*). The Innovation Council (*'Conseil de l'innovation'*), set up in July 2018, is tasked with supervising the simplification measures including better coordination between regional and national support to innovation.

France is making artificial intelligence a national priority. Drawing on the findings of the Villani Report (2018), a national strategy for artificial intelligence ("AI for humanity") has been designed and foresees EUR 1.5 billion in public investments until 2022. This strategy will take advantage of the quality of human resources in mathematics, computer science, cognitive sciences and existing leading research centres. Priority areas include mobility, environment, security and health, notably the creation of a Health Data Hub. The Innovation and Industry Fund (*Fonds pour l'innovation et l'industrie*), financed through privatisations ⁽⁶²⁾, will also contribute to provide funding for artificial intelligence. Timely development of related technologies, such as the Internet of Things, 5G networks, high performance

⁽⁶¹⁾ Several studies are currently being conducted by France Stratégie.

⁽⁶²⁾ The draft law PACTE allows the French state to sell shares in Groupe Aéroport de Paris, Française des jeux and Engie by reducing current shareholding minimum requirements. The proceeds of these privatisations will be invested to generate a return used to finance the EUR 10 billion Innovation and Industry fund.

computing and, more generally, the data economy, will be one of the keys to the success of these initiatives.

Box 4.4.1: The Investment Plan for Europe - in France

Total financing under the European Fund for Strategic Investments (EFSI) in France amounts to EUR 11.6 billion and is set to trigger EUR 60.6 billion in additional investments, which make France the country which benefited most in volume from the Fund (while it ranks eleventh as to the overall volume of approved operations as a share of GDP). France managed to highly mobilise EFSI on its priorities — innovation, the energy transition and the digital — in the regions.

120 infrastructures and innovation projects have been financed by the European Investment Bank (EIB) with EFSI backing, which amounts to approximately EUR 9.3 billion in total financing and set to trigger EUR 45.8 billion in total investment. 3 regions (Ile-de-France, Hauts-de-France and Grand-Est) represent more than half of the investments.

Under the SME Financing component of the plan, the European Investment Fund (EIF) has developed in France several tools: equipment loans, innovation loans and equity investments in SMEs through investment funds. The EIF has also signed agreements with commercial banks to provide them with a guarantee that they will finance innovation loans for research and development of SMEs. 40 agreements financed by European Investment Fund (EIF) with EFSI backing have been signed with intermediary banks with a total of EUR 2.2 billion of financing and set to trigger approximately EUR 14.7 billion in investments with some 234 919 SMEs and mid-cap companies expected to benefit from improved access to finance.

Examples of EFSI-backed projects in France

Agriculture: Agricool

Agricool is an SME in France which developed a business cultivating strawberries closer to the city and without pesticides to improve flavour and reduce transport costs. The co-founders upcycled an innovative container in which to grow the fruit called a Cooltainer. To expand the business further, Agricool sought an equity investment from Daphni, a fund backed by EIF under the EU's Investment Plan for Europe. Most of this investment was used to recruit engineers and agronomists, with the company expanding to 45 employees.

Energy transition: Adestia energy-efficient social housing

- EFSI-backed financing: EUR 200 million, set to trigger total investment: EUR 330 million

The EIB is providing a EUR 200 million loan for modernisation and energy efficiency refurbishment work in 25 000 social housing units. The loan will help to increase the volume of operations by speeding up refurbishments that are more ambitious than originally planned, improving the quality of the housing units and reducing heating energy costs. In addition to the environmental and socio-economic impact, refurbishing these homes and bringing them up to standard will contribute to economic growth in their areas due to the scale of the work undertaken.

Circular economy: EcoTitanium: recycling aviation grade titanium

The EIB is lending EUR 30 million to EcoTitanium to build and operate Europe's first recycling plant for aviation grade titanium. EcoTitanium will recycle and re-melt aviation-grade scrap titanium metal and titanium alloys. All aviation-grade European titanium scrap currently has to be exported, mainly to the United States, as no such facility exists in Europe. The project would help establish a circular economy for titanium metal and alloys in Europe.

Box 4.4.2: Investment challenges and reforms in France

Section 1. Macroeconomic perspective

Total investment in France (measured as gross fixed capital formation) remains important. Total investment-to-GDP ratio is higher than in the Euro area as a whole and in large economies including Germany, Italy and Spain. This is notably due to a larger share of corporate and public investment in GDP. However, investment growth is expected to cool down in the upcoming years, in particular in the corporate sector. Public investment is set to continue contributing in 2018-2019 to the increase in the share of investment in GDP.

Section 2. Assessment of barriers to investment and ongoing reforms

Public administration/ Business environment	Regulatory/ administrative burden	CSR	Financial Sector / Taxation	Taxation	CSR
	Public administration			Access to finance	
	Public procurement /PPPs		R&D&I	Cooperation btw academia, research and business	CSR
	Judicial system			Financing of R&D&I	CSR
	Insolvency framework		Sector specific regulation	Business services / Regulated professions	CSR
	Competition and regulatory framework			Retail	
Labour market/ Education	EPL & framework for labour contracts			Construction	
	Wages & wage setting	CSR		Digital Economy / Telecom	
	Education, skills, lifelong learning	CSR		Energy	
			Transport		

Legend:

	No barrier to investment identified		Some progress
CSR	Investment barriers that are also subject to a CSR		Substantial progress
	No progress		Fully addressed
	Limited progress		

Barriers to investment in France are overall moderate. Access to finance is a barrier to investment only for very fast growing companies or break-through innovation. Also thanks to the action of national investment banks, external finance accounts for a larger share of investment finance in France than in other Member States (56 % v 35 %) (European Commission, 2018k). The proportion of firms that consider digital infrastructure to be an obstacle is instead increasing over time, with an 11-point increase compared to last year (EIB, 2018). Labour and product market regulations continue to be viewed as a barrier by firms in France (European Commission, 2018m). In this respect, measures addressing the impact of temporary breaches of size thresholds should alleviate the impact of the regulatory requirements related to firms' growth and give firms time to consider investment opportunities.

Selected barriers to investment and priority actions underway

More business-friendly taxation, further reducing the labour tax wedge, and implementing a gradual reduction in corporate income taxes will continue to unfold over the coming years. Along with recent labour market reforms, these actions might sustain firms' investments. Investment barriers stemming from the availability of workers with the right skills and unnecessary regulatory burden are being addressed as follows:

1. The reform of the vocational education and training system could improve the link between training, labour market and firms' needs in terms of hiring (Section 4.3). The availability of staff with the right skills is indeed considered as an obstacle for investment by 75 % of the firms in France. This share has increased vis-à-vis last year (62 %), although it remains lower than the EU average (77 %).
2. The 2018 '*Loi pour un État au service d'une société de confiance*' further simplifies procedures, interactions and exchange of information with the public administration (Section 4.4). The draft law PACTE, currently under discussion, is expected to pave the way for businesses throughout life trajectories, notably by simplifying procedures to start or to register them, developing new rules to have a second chance, and reducing the time and cost of insolvency procedures. Some measures contained in the same draft law may also help channel savings, reorienting them to more risky products to support firms' investment and growth.

Digitisation*

The Plan for Ultra-Fast Broadband (*Plan France Très Haut Débit*) aims to ensure that all French territories are covered by broadband networks providing at least 30 Mbit/s by 2022. In 2017, only 55% of French households had such coverage, compared to an EU average of 80 %. Fast broadband take-up is also low (20% of households v. 41 % in the EU on average in 2018). The use of mobile broadband services increased over the past year from 86 to 91 subscriptions per 100 inhabitants, but is still slightly below the EU average (96). Broadband coverage varies greatly across regions and remains limited in rural areas and overseas territories. The plan *France Très Haut Débit* was launched in 2013 and reviewed in 2017 to ensure universal access to fast broadband (of at least 8 Mbit/s) by 2020. EUR 3.3 billion has been committed to support deployment projects implemented by regional and local authorities in areas where private initiative is lacking. Measures to support equipment installation by households in remote areas (*Guichet Cohesion Numérique des Territoires*) have also been announced. In June 2018, the government accepted the proposals of operators Orange and SFR to speed up fibre-to-the-home (FtH) deployment. The French authorities expect that a total of 27m fibre-to-the-home lines, of which 18.8m from private initiatives will be built by the end of 2022. These and related measures can be expected to significantly contribute to reach the country's connectivity targets. A close monitoring of their implementation, particularly in areas with poor coverage, will be essential given the predominantly decentralised approach as well as potential bottlenecks owing to availability of skilled required for network roll-out (see Section 4.3).

Actions to promote the adoption of digital technologies by companies are being developed. France's levels of adoption of digital technologies and e-commerce are below the EU average and vary significantly with company size. Small and medium-sized enterprises show lower adoption levels than their larger counterparts, e.g. only 15 % of small and medium-sized enterprises sell online compared to nearly 44 % of large enterprises (European Commission, 2018j). *France Num*, launched in October 2018, aims to further promote the digital transformation of business. It notably

seeks to unlock EUR 1 billion worth of loans to small and medium-sized enterprises and microenterprises via a guarantee scheme that partly draws on EU funding.

France is taking measures to foster e-government roll-out. The country displays a medium-high level in terms of both penetration and digitisation (*eGovernment Benchmark*). It performs strongly in open data use and is above the EU average regarding completion of online services as well as digital public services for businesses. However, it is lagging behind in terms of the amount of pre-filled data in public services' online forms. *Action Publique 2022*, launched in October 2017 (see Section 4.1), includes the objective of 100 % of dematerialised public services by 2022. A dedicated fund for the modernisation of public services was set up end-2017 and endowed with EUR 700 million over five years, including EUR 200 million for 2018. Implementation is ongoing and 32 transformation projects have been launched, including several on digital transformation (*FranceConnect*). In the area of e-health, results are mixed. 80% of primary care physician offices use using electronic medical records (OECD, 2018). Telemedical consultations are reimbursed by the national health insurance in primary care. E-prescribing, however, has not yet been implemented. A personalised digital space for patients will be introduced by 2022.

Investments for sustainable growth*

Energy

In 2017, France invested around 41 billion euros in climate-related policies. Most of these investments were in the fields of energy (20 billion euros for energy efficiency, 6.6 for renewable energies deployment) and transport (10 billion euros for the construction and updating of sustainable transport), according to the '*Panorama des financements climat*' performed by I4CE-Institute for Climate Economics (2018). These investments - significantly growing for the first time since 2013 - aim at achieving the ambitious objectives set by the Energy Transition Act (LTECV, *Loi pour la transition énergétique et la croissance verte*) adopted in 2015 and translated into operational terms in the National Low Carbon Strategy (SNBC, *Stratégie Nationale Bas-Carbone*) and the Multiannual Energy Programme

(PPE, *Programmation Pluriannuelle de l'Énergie*). With the Climate Plan adopted in July 2017, France has now set carbon neutrality as new long term objective, to be met by 2050.

So far, France is performing well in climate mitigation policy but needs to step up efforts with a view to reaching its 2030 targets. Notably, France needs to increase the pace in the deployment of renewables (only 16 % of the energy mix in 2016 against a target of 23 % by 2020) and energy refurbishment of the building stock. The observatory set up by the *Agence de l'Environnement et de la Maîtrise de l'Énergie* (ADEME) in 2018 indicates a widening gap relative to its "carbon budget" objective (+ 6.7 % of greenhouse gas emissions in 2017, mainly due to the building sector: +22.7%). If no further measures are taken, France would fall short of its 2030 objective of greenhouse gas emissions by 10 pps. (Graph 4.4.5). According to I4CE, in order to achieve its 2020 and 2030 commitments and considering also the investment gap accumulated between 2016 and 2018 ⁽⁶³⁾, France would need to invest a total of between EUR 55 and 85 billion per year between 2019 and 2023. As more than half (52 %) of the funding supporting for these investments is publicly-driven, the economic and regulatory conditions would need to make the financing of projects more viable for the private sector in order to tap significant investment opportunities.

The French government presented on 27 November 2018 the draft second Multi-annual Energy Programme for 2019-2028 (second PPE), setting the main trajectory for investments in the field of energy involving public intervention in this period. This plan addresses operationally for the first time the implementation of the objectives in terms of nuclear energy that were included in the energy

transition law adopted in 2015. In particular, the 2nd PPE sets the objective of reduction of the share of nuclear power to 50% of electricity production by 2035. At the same time, it acknowledges the need of a continued operation after 40 years of most of the existing nuclear fleet, which will require substantial investment (so-called '*grand carénage*'). The investment needs have been revised in 2017 by Electricité de France (EDF) at 45 for the entire fleet over the 2014-2025 period. The government also asked the French electric utility company (*Électricité de France S.A.*, Graph 4.4.6) to make proposals on possible evolution of its structure for meeting the objectives set in 2nd PPE. It is important to ensure that the implementation of the second duly internalise the need for *Electricité de France* to develop without having unintended consequences for French public finances.

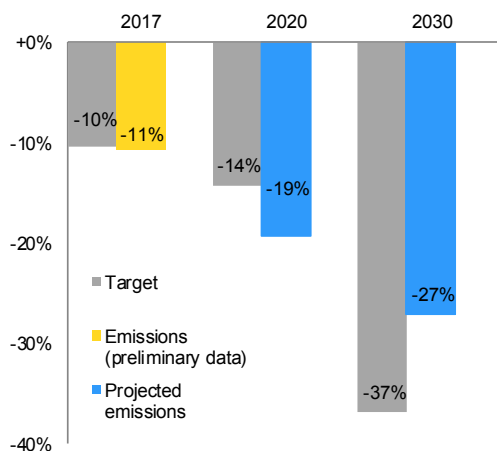
Further private investments would be needed in the field of renewable energy to reach the 23% target for 2020. Despite an appropriate support scheme in place (*'complément de rémunération'*), and efforts made to alleviate administrative and regulatory barriers, further simplification is required - in particular in the field of off-shore wind technology: the delay of implementation of a project (7 to 10 years in France against 3 to 4 in Germany) could be reduced significantly with the adoption of the law '*pour un Etat au service d'une société de confiance*'. The systematic appeals against construction sites prevent faster deployment of wind technology, despite its high potential. Such issues could partially be solved by participating, introduced as an experiment in recent tenders, communication towards citizens and local communities and a reform of local taxes so that hosting municipalities could benefit more from those projects. It is particularly important that France accelerate the penetration of renewables in the heating and cooling sector, where there is a large untapped potential for further decarbonisation.

High investment needs and gap equally concern energy efficiency in buildings. The share of building stock reported to satisfy high energy efficiency standards is lower for firms in France (22 %) than the EU (37 %) (EIB, 2018). According to the plan for the retrofitting of buildings (*'Plan de rénovation énergétique des bâtiments'*) adopted in 2017, 500 000 housing units should be

⁽⁶³⁾ In its National Energy and Climate Plan to be adopted by 31 December 2019 in line with the Regulation on the Governance of the Energy Union and Climate Action (Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018), France will provide an overview of its investment needs until 2030 for the different dimensions of the Energy Union, including renewable energy, energy efficiency, security of supply, and climate mitigation and adaptation. The information provided will further contribute to the identification and assessment of energy and climate-related investment needs for France. France submitted its draft National Energy and Climate Plan on 15 February 2019.

retrofitted annually by 2020, of which 120 000 in social housing units, and 380 000 in private housing units. According to I4CE (2018), the investment gap reached 5 to 8 billion euros in 2018, accounting for 60 % of the total climate investment gap. Despite the multiplicity of existing public instruments to finance this segment (zero-interest “eco-loan”, Energy Transition Tax Credit program – *Crédit d’impôt pour la transition énergétique, CITE* – or White Certificates program - *Certificats d’économie d’énergie, CEE, Habiter Mieux, programme de l’Agence nationale pour l’Habitat*), France needs to unlock private financing into energy efficiency on the necessary scale in order to secure its energy transition with a 2020 perspective and beyond, through citizens awareness campaign, up-skilling of the workforce and one-stop shops with a strong territorial anchorage.

Graph 4.4.5: France: targets and emissions under the effort-sharing legislation (percentage change from 2005)



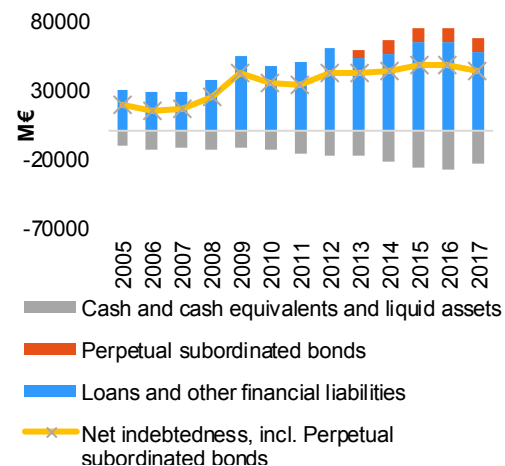
Source: European Commission

Finally, more investments in interconnection projects are needed to advance in the integration of the internal energy market, e.g. by further tying the Iberian Peninsula. France’s electricity interconnection level was 9% in 2017⁽⁶⁴⁾ and is on its way to reach the 2020 target of 10% through the completion of Projects of Common Interest (PCIs) currently under way, e.g. the Savoie-Piémont, IFA2 or ElecLink

⁽⁶⁴⁾ Communication on strengthening Europe’s energy networks, COM(2017) 718 final.

interconnections. In 2018, important progress was made with the power line crossing the Bay of Biscay, co-financed by the Connecting Europe Facility (CEF), which will double the interconnection capacity between France and Spain by 2025. In addition, several projects of common interests are planned, which should contribute to further increase the electricity interconnection capacity between France and its neighbours. In the gas sector, France is well interconnected, as illustrated by the output capacity doubling and the entry capacity increasing by 50% in the last ten years.

Graph 4.4.6: Evolution of Électricité de France S.A. (EdF) indebtedness from 2005 to 2017



Source: European Commission, based on EdF annual reports

Circular economy, eco-innovation, waste management and emission reduction

France has strongly supported the development of eco-industries, eco-innovation and the circular economy over the last decades.

According to the Circular Economy Monitoring Framework, the circular (secondary) use of material is also the highest in Europe (at 19.5 % in 2016, against an EU average of 11.7%), notwithstanding the limited number of persons employed in the circular economy (1.52 % of total employment in 2016 compared to the EU average of 1.73 %). In April 2018 France published the first roadmap for the circular economy with the objective to create up to 300 000 new jobs. Among others, the roadmap is set to reduce by 30 % the resource use and consumption compared to the GDP by 2030 (compared to 2010), reduce by 50 % the quantities of non-hazardous waste landfilled by

2025 (compared to 2010) and an ambitious 100 % recycling of plastic waste by 2025. New extended producer responsibility schemes will be put in place, while the scope of existing ones will be expanded and their governance improved. Information to consumers on products' reparability will be made mandatory from 2020 for electric and electronic devices, according to a specific new index to be aligned with the EU product policy.

Further investments may be needed to increase eco-innovation, waste management, and emission reduction. Despite the progress made thanks to the national industrial policy '*Nouvelle France Industrielle*', legislative and financial barriers can still impede many companies to invest in eco-innovation. Individual behaviours and social acceptance of sustainable consumption patterns appear to be difficult to change. Banks are still cautious as to funding breakthrough innovations. In terms of waste management, with a recycling rate of 42 % in 2016 (*Commissariat Général au Développement Durable*), France is close to the EU target of 50 % recycling of municipal waste by 2020. However, more effort will be necessary to comply with the recycling targets in the post-2020 period and to reach the ambitious targets of the action plan for circular economy. As for the reduction of several air pollutants, air quality in France continues to give cause for severe concern⁽⁶⁵⁾. Additional efforts are needed to attain the emission reduction commitments (compared to 2005 emission levels) laid down in the new National Emissions Ceilings Directive⁽⁶⁶⁾ between 2020 and 2029 and from 2030 onwards.

Agriculture and agri-food sectors

Despite good positioning of the French agricultural sector in intra-EU trade, France's trade balance has deteriorated in the past few years. From 2007 to 2017, France's exports to other Member States went from 14 % to 11 % of total intra-EU exports. While total intra-EU trade (in value) increased significantly, France's

agricultural sector did not take the opportunity to increase at the same pace. Also on foreign markets, France's total agri-food exports increased over the period 2007-2017 but not as fast as total EU exports, so that France has lost 1 percentage point of market share over this period.

The relatively poor performance of French exports over the last decade highlights the need to reinforce the productive value chain. The number of farms and people engaged in agriculture has decreased significantly. According to the Farm structure survey published in 2018, France lost 110 000 farms between 2005 and 2016, which is a 20 % decrease. This led France's agricultural sector to have a good level of utilised agricultural area as well as livestock unit per labour unit compared to other competing Member States, pointing to a competitiveness issue at value chain level. In November 2018, France adopted a new law following the conclusions of the *États Généraux de l'Alimentation* (EGA) launched in July 2017. It aims to improve price margins transmission along the chain (from producers to distributors), while giving the consumer a better perception of price structure. It also addresses societal expectations, notably with regard to organic products, quality designations, animal welfare, reduction of phytosanitary products and waste, and soil quality.

An investment plan amounting to EUR 5 billion between 2018 and 2022 has been launched to help increase the economic, environmental, social and sanitary performance of the agricultural and agri-food sectors. In France, there is an increased awareness of the need to further modernize the agricultural and agri-food sectors in order to better respond to citizens and consumers' expectations in terms of production practices and supply diversification. The modernization of the sector is seen as an important element to ensure sustainable and inclusive growth, through investment support and other relevant instruments like agri-environment-climate measures as well as accompanying the change of farming practices through extension services. The plan will support investments covering five cross-cutting priorities: (i) agro-ecology and reduction of inputs (including plant health and antibiotics), (ii) animal welfare and animal health safety, (iii) protein independence (animal feed), (iv) renewable

⁽⁶⁵⁾ For the year 2015, the European Environment Agency (2018) estimated that more than 40 000 premature deaths in France were attributable to concentrations of fine particulate matter, nitrogen dioxide and ozone. This corresponds to almost 500 000 life-years lost due to air pollution in absolute terms or more than 700 life-years lost in relative terms, i.e. calculated per 100 000 inhabitants.

⁽⁶⁶⁾ Directive 2016/2284/EU

energy production and energy savings, and (v) workers' health and working conditions.

4.4.2 Competition and market integration*

The Competition Authority's opinions and recommendations have helped to improve the functioning of key markets in recent years.

Under French competition law, the government must consult the Competition Authority ('the Authority') on draft secondary legislation that provides for price regulation as well as measures restricting access to a market or a profession, establishing exclusive rights or imposing uniform prices or sales terms. The Authority may also on its own initiative render opinions on any issue on competition or carry out sector inquiries. For example, in January 2015, the Authority published an opinion on regulated legal professions (such as notaries and bailiffs) finding to be imperative that those professions were modernised and opened up to competition. The Authority then issued 80 recommendations to reform the legal professions (such as lifting restrictions on qualified legal professionals to set up shop freely and introducing more cost-based and flexible pricing), most of which were reflected in the final Macron law of 2015.

Despite progress, barriers to entry and competition in business services and regulated professions remain high.

Main barriers arise with respect to restrictive authorisation requirements, reserves of activities, shareholding and voting rights requirements. The new OECD intra-EEA Services Trade Restrictiveness Index shows that the level of regulatory restrictiveness in France vis-à-vis other EU Member States is higher than the Single Market average in sectors such as accounting, legal services and distribution services. In the short-term accommodation, the ELAN law introduced new obligations on collaborative platforms. Ambitious reforms in the field of regulated professions have been undertaken in past years (i.e. 2015 Law on growth, activity and equality of economic chances, designated as '*loi Macron*'), but the implementation of certain measures have taken more time than expected and further improvements could be made (*Mission d'évaluation de la loi Macron, 2018*) Meanwhile reforms in specific sectors continue. For instance, the healthcare transformation strategy announced by the

President in September 2018 aims to reform the health professions and health education. It includes establishing a new profession of 'medical assistant' to relieve doctors from performing administrative tasks and abolishing the *numerus clausus* to access medical studies, as well as the exams at the end of the first study year.

Barriers have led to high profit margins and prices, harming the competitiveness of the whole economy. Churn rates are lower and mark-ups are higher in key business services in France compared to the rest of the EU. In real estate, as well as in legal and accounting services, gross operating rates are particularly high compared to other service sectors. Lack of competition combined with high labour costs have contributed to keep such prices high, notably in real estate transactions, housing, catering and professional services (France Stratégie, 2017). Insofar as these services costs are also borne by firms as inputs, they represent an additional factor weighing on France's competitiveness, including on industry.

In the retail sector France has carried out a number of reforms to reduce the regulatory burden, but further effort is warranted.

On retail establishment the situation has improved and France is the tenth least restrictive Member States (European Commission, 2018g). However, France is the most restrictive Member State when it comes to regulating daily operations of shops. Restrictions concern shop opening hours, distribution channels for certain products and sales promotion. In addition, a specific retail tax based on selling space and turnover has a very negative impact on the competitiveness of retailers and puts them at a disadvantage compared to e-commerce. In this context, retail sector growth in France is rather modest.

As for the railway system, France is implementing an ambitious reform, which includes further opening up to competition.

The 'Law for a New Railway Pact' entered into force on 28 June 2018. This law is designed to improve France's national railway company (*Société nationale des chemins de fer français, SNCF*) governance, further open it up to competition, and improving its viability. Indeed, SNCF's legal monopoly on rail passenger transport is expected to end in December 2020 for high-speed trains and in December 2023 for regional transport. Longer

transitional periods are however planned for market liberalisation in major regional transport networks (e.g. the Greater Paris area). The law's implementation will be detailed in *ordonnances* to be published between December 2018 and June 2019. Railway stations will be transferred from the railway undertaking '*SNCF Mobilités*' to the infrastructure manager '*SNCF Réseau*', as the current arrangement had been identified as an obstacle to the opening up to competition by the regulatory body (ARAFER).

France has also planned to invest EUR 13.7 billion to improve transport and mobility until 2023. The '*projet de loi d'orientation des mobilités*' reviews the programming of infrastructures. State investment would increase up to EUR 13.7 billion for 2019-2023, 40 % more than the previous five-year period. Main priorities for investment are as follows: the maintenance and modernisation of road, rail and river networks to also allow greater use of transport multimodal solutions; the desaturation of large railway nodes; the opening up of medium-sized towns and rural areas and the development of clean and shared mobility on a daily basis; and finally the modal shift in freight. Developing further the rail connectivity with Spain could help ensure the circulation of trains through the Trans-European Network for Transport (TEN-T) Atlantic and Mediterranean corridors.

4.4.3 Regional disparities in investment

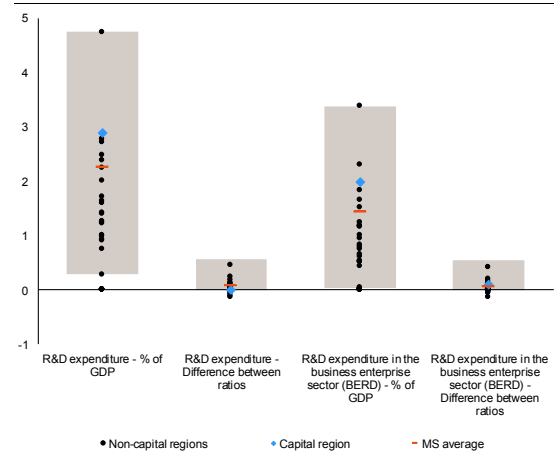
Socio-economic indicators show a major divide between some growing regions and the rest of the country. Île-de-France, Franche-Comté, Midi-Pyrénées, Rhône-Alpes and Pays de la Loire are attracting skilled labour force in higher value-added sectors⁽⁶⁷⁾. The share of employment in high technology sectors is far below the EU average of 4 % in the rest of the country and declined from 7.8 % in 2010 to 7.1 % in 2017 in the leading Ile-de-France. This state of play and its evolution raise some concerns about the overall attractiveness of French regions and their capacity to innovate and compete internationally.

⁽⁶⁷⁾ As in Section 1, depending on the date of statistical data, the names of the regions are still the ones existing in the former administrative organisation of the country.

Regions differ significantly in terms of R&D expenditure and innovation performance. With R&D expenditure of 4.75 % of GDP in 2015, Midi-Pyrénées is the only region that exceeds the 3% target (Graph 4.4.7). Only six other regions spend above the EU average of 2.04%. The regional efforts in R&D by private businesses mimic the same relative ranking. As regards innovations, Ile-de-France has the highest innovative score while Midi-Pyrénées and Rhône-Alpes also show good performances. Several metropolitan regions and regions that are still in industrial transition or rural rank below the EU average. Outermost regions are at the low end of the scale.

In terms of overall regional competitiveness, significant differences persist. According to the regional competitiveness index⁽⁶⁸⁾, Ile-de-France is consistently ranking eighth in Europe, much ahead of the second and third best performers at the 68th and 87th places. However, between 2013 and 2016 all but five regions (three in the Nord, Alsace and Guyane) improved their overall ranking.

Graph 4.4.7: Regional expenditure for R&D in France



Source: Eurostat, own calculations

Important regional differences appear also in the energy sector. Energy intensity is decreasing in almost all regions, but at a different pace. The decrease in energy intensity exceeds 30 % in PACA and is very marked in Aquitaine (-28 %) or

⁽⁶⁸⁾ See the "EU Regional Competitiveness Index", available at https://ec.europa.eu/regional_policy/en/information/maps/regional_competitiveness/

Midi-Pyrenees (-27 %). Franche-Comté and Limousin are the only two regions where energy intensity grows slightly (respectively 2 % and 3 % due to a drop in GDP that exceeds the decline in final energy consumption). As for renewable energy, while Guyana produces 40% of its consumption from renewable energy, that share is less than 5% in Île-de-France. In Auvergne-Rhône-Alpes, which is the strongest regional producer of renewable energy (more than 28000 GWh/year), this accounts for), about one third of the regional consumption. Each French region has set renewable energy objectives for 2020 as part of its *Schéma Régional du Climat, de l’Air et de l’Energie* (SRCAE), a planning document established under the Grenelle II law in 2010. These plans will be updated in 2019 as part of the *Schéma régional d’aménagement, de développement durable et d’égalité des territoires* (SRADDET) created under the law on territorial organisation adopted in 2015 ⁽⁶⁹⁾.

Waste management is of specific relevance for the outermost regions (ORs). In 2014, the ORs collected selectively only an average of 15.8 kg of household waste versus 45.9 kg in metropolitan France. The single incineration unit of households waste in Martinique and the two methanisation units in La Réunion signal a patent lack of equipment in the ORs. The waste collection network is also unequally developed. Investments are needed higher in the waste hierarchy (waste prevention and collection) and in recycling in order to meet the more ambitious targets. The financial burden of investments and of operation costs are high for local authorities, which results in delays. The ORs also have important needs in waste water treatment and supply of drinkable water, where less than 50 % of the population were connected in 2012. The French authorities have adopted an action plan (‘plan eau DOM’) to speed up the implementation of the Urban Waste Water Treatment Directive in the six ORs in 2016. Yet, the situation remains of concern in Mayotte.

4.4.4 Business and regulatory environment*

Business environment has slightly improved since last year, but it would still benefit from a reduction in the regulatory burden and from

⁽⁶⁹⁾ Loi no 2015-991 du 7 août 2015 portant sur la nouvelle organisation territoriale de la République.

improvements in the functioning of labour and product markets. The business environment experimented limited improvement in 2018, according to the annual assessments of the World Economic Forum and World Bank (WEF, 2018; World Bank, 2018). The former registers a minor relative improvement (France ranks 17th out of 140 countries for competitiveness), but weaknesses remain with regard to the functioning of the labour and product markets, skills’ mismatches and the burden of government regulations. According to the Small Business Act for Europe (SBA) – see European Commission, 2018j – the business environment for small and medium enterprises (SMEs) has improved over time (see Graph 4.4.8). For the tenth consecutive year, the participation of small and medium enterprises in the single market and the complexity of administrative procedures remain among the weaknesses.

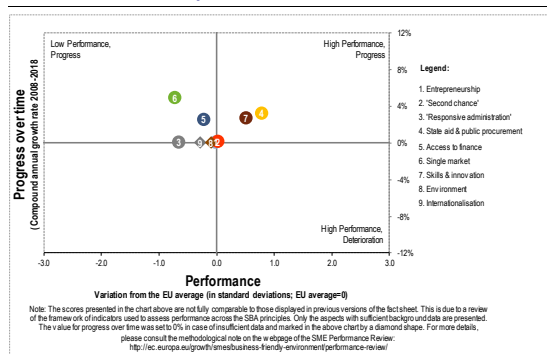
The regulatory burden is expected to be reduced over the next years. One year after the July 2017 circular introducing the "one-in, two-out" principle for autonomous decrees ⁽⁷⁰⁾, 18 new autonomous decrees were adopted and as a compensation, 41 withdrawn or lightened (*Comité interministériel de la transformation publique*, 2018). After an update exercise in 2018, the number of published circulars was reduced from 30 000 to 10 000. A further government circular requires any new legislation must include simplifications. In October 2018, the government presented legislative measures to remove over-transposition of EU law in several fields, such as corporate law, environmental law or public procurement. In addition, a law (*‘loi pour un État au service d’une société de confiance’*) was adopted in July to facilitate relations between the private and public sectors with three objectives: (i) improve tolerance for mistakes to public administrations made by private firms and individuals when made in good faith; (ii) give the possibility to firms and individuals to request ex-ante checks by public administrations for legal certainty they comply to the administration’s answer; and (iii) simplify public procedures.

Small and medium enterprises suffer from fast-changing legislation and administrative

⁽⁷⁰⁾ Autonomous decrees are decrees which are not adopted pursuant to another norm. They are around 100 per year, i.e. 10 % of all decrees.

complexity. 80 % and 85 % of French small and medium enterprises find respectively fast-changing legislation and complex administrative procedures a problem for business (EU average: 61 % and 60 %) (European Commission, 2018j). Further progress could be done to take better account of business' needs when designing legislation, following the example of the consultations done for the draft law *PACTE*. Impact assessments sometimes appear as a formal exercise with little influence on the decision, even if the range of costs assessed has been broadened and the *Secrétariat général du gouvernement* can reject the assessment if its quality is insufficient. Although an extended 'small and medium enterprises test' was introduced in 2014, none has been carried out since 2015. Regarding administrative complexity, some indicators suggest some improvement since 2015 (*baromètre de la complexité*, DITP). The procedures which businesses find the most complex relate to building authorisations, public procurement and environmental measures. Firms spend nearly 3 % of their turnover on tax obligations in France against a 2.5 % average in a sample of 20 Member States (European Commission, 2018f).

Graph 4.4.8: France: SBA performance, state of play and development from 2008 to 2018



Source: European Commission, 2018

Entrepreneurship is still weak and small and medium enterprises have difficulties in growing into mid-sized companies. Early stage entrepreneurial activity amounts to 3.9 % in France, far below the EU average (8.3 %), even though entrepreneurial intentions increased from 15.7 % in 2016 to 17.6 % in 2017 (European Commission, 2018j). Small and medium enterprises have difficulties to grow into mid-sized companies. Indeed there are only 5 800 mid-sized companies (250-4999 employees) compared to

12 500 in Germany, 10 000 in the UK or 8 000 in Italy. They have potential to innovate, export and create jobs: in 2016 they created 156 000 out of the 187 200 net jobs in the market sector (Institut Montaigne, 2018). Small and medium enterprises may have difficulties to grow due to investment barriers (see Box 4.4.2).

France is emerging as a major start-up hub, although many French start-ups still have difficulties to scale up. The start-up ecosystem in France is vibrant and in the first semester 2018, the number of venture capital deals above EUR 20 million doubled compared to the same period last year. Foreign investors are eager to invest in French start-ups, notably the digital ones (EY, 2018). French start-ups struggle, however, to grow. There are relatively few deals worth EUR 50 million or more, and the number of French "unicorns" (i.e. private companies valued at USD 1 billion or more) remains limited. Public support to start-ups in the digital sector is channelled in particular through the French Tech initiative. A French Tech Seed Fund endowed with EUR 400 million has been announced to support tech start-ups at their early stages of development (notably Deep Tech start-ups and those younger than three years old). Private initiatives include Station F, founded in June 2017 and currently the largest business incubator in the world.

The draft PACTE law aims to support the growth and transformation of firms. PACTE will reduce the number of thresholds firms face as they grow (however, remaining thresholds become broader in scope and more costly to overcome, notably when reaching 50 employees). It also introduces a 5-year transition before considering a threshold is reached and encourages small and medium enterprises to use incentives and participation schemes for employees linked to firm performance ⁽⁷¹⁾. Finally, it provides simplified procedures to start or register businesses ⁽⁷²⁾; new rules to help entrepreneurs get a second chance;

⁽⁷¹⁾ It cuts employers' social contributions ("forfait social") for small and medium enterprises below 50 employees. Concerning firms between 50 and 250 employees, social security contributions will be cut only for schemes "d'intéressement", as the profit-sharing schemes are compulsory for this category of firms.

⁽⁷²⁾ Training obligations before opening a new business will no longer be obligatory in commercial and craft sectors). As of 2021 formalities will be allowed to be completed online (registration, start a business).

and reduces the time and costs of insolvency procedures, notably for small and medium enterprises, including by making them more predictable. According to the French administration's own estimates, the potential impact of the law on GDP is an increase by 0.32 % by 2025 and by 1 % in the longer term.

ANNEX A: OVERVIEW TABLE

Commitments	Summary assessment ⁽⁷³⁾
2018 country-specific recommendations (CSRs)	
<p>CSR 1: Ensure that the nominal growth rate of net primary government expenditure does not exceed 1.4 % in 2019, corresponding to an annual structural adjustment of 0.6 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio. Implement expenditure savings in 2018 and fully specify the objectives and new measures needed in the context of Public Action 2022, for them to translate into concrete expenditure savings and efficiency gains measures in the 2019 budget. Progressively unify the rules of the different pension regimes to enhance their fairness and sustainability.</p> <ul style="list-style-type: none"> • Ensure that the nominal growth rate of net primary government expenditure does not exceed 1.4 % in 2019, corresponding to an annual structural adjustment of 0.6 % of GDP. • Use windfall gains to accelerate the reduction of the general government debt ratio. 	<p>France has made limited progress in addressing CSR 1 (this overall assessment of CSR 1 does not include an assessment of compliance with the Stability and Growth Pact):</p> <ul style="list-style-type: none"> • The compliance assessment with the Stability and Growth Pact will be included in spring when final data for 2018 will be available. • The compliance assessment with the Stability and Growth Pact will be included in spring when final data for 2018 will be available.

⁽⁷³⁾ The following categories are used to assess progress in implementing the 2018 country-specific recommendations (CSRs):

No progress: The Member State has not credibly announced nor adopted any measures to address the CSR. This category covers a number of typical situations, to be interpreted on a case-by-case basis taking into account country-specific conditions. They include the following:

no legal, administrative, or budgetary measures have been announced in the national reform programme,

in any other official communication to the national Parliament/relevant parliamentary committees or the European Commission, publicly (e.g. in a press statement or on the government's website);

no non-legislative acts have been presented by the governing or legislative body;

the Member State has taken initial steps in addressing the CSR, such as commissioning a study or setting up a study group to analyse possible measures to be taken (unless the CSR explicitly asks for orientations or exploratory actions). However, it has not proposed any clearly-specified measure(s) to address the CSR.

Limited progress: The Member State has:

announced certain measures but these address the CSR only to a limited extent; and/or

presented legislative acts in the governing or legislative body but these have not been adopted yet and substantial further, non-legislative work is needed before the CSR is implemented;

presented non-legislative acts, but has not followed these up with the implementation needed to address the CSR.

Some progress: The Member State has adopted measures

that partly address the CSR; and/or

that address the CSR, but a fair amount of work is still needed to address the CSR fully as only a few of the measures have been implemented. For instance, a measure or measures have been adopted by the national Parliament or by ministerial decision, but no implementing decisions are in place.

Substantial progress: The Member State has adopted measures that go a long way towards addressing the CSR and most of them have been implemented.

Full implementation: The Member State has implemented all measures needed to address the CSR appropriately.

<ul style="list-style-type: none"> • Implement expenditure savings in 2018 and fully specify the objectives and new measures needed in the context of Public Action 2022, for them to translate into concrete expenditure savings and efficiency gains measures in the 2019 budget. • Progressively unify the rules of the different pension regimes to enhance their fairness and sustainability. 	<ul style="list-style-type: none"> • No Progress. It remains difficult to understand how exactly and with what timing "<i>Action Publique 2022</i>" would contribute to the objective of reducing the expenditure-to-GDP ratio by 3 percentage points by 2022. Available information shows weak adherence to the guidance for spending reviews agreed in 2016 at the level of the Eurogroup. Implementation risks seem high when looking at the track record of spending reviews in France and the relatively limited results produced. No significant expenditure savings and efficiency gains stemming from Public Action 2022 was included in the 2019 budget. • Limited Progress. In October 2018, the Government presented the main principles of the future pension reform, which will replace the more than 40 regimes currently existing with a unique and universal pension system. Consultations with social partners are currently ongoing, while the adoption of the reform is scheduled by the end of 2019.
<p>CSR 2: Pursue the reforms of the vocational education and training system to strengthen its labour market relevance and improve access to training, in particular for low-qualified workers and jobseekers. Foster equal opportunities and access to the labour market, including for people with a migrant background and people living in deprived areas. Ensure that minimum wage developments are consistent with job creation and competitiveness.</p> <ul style="list-style-type: none"> • Pursue the reforms of the vocational education and training system to strengthen its labour market relevance and improve access to training, in particular for low-qualified workers and jobseekers. 	<p>France has made some progress in addressing CSR 2:</p> <ul style="list-style-type: none"> • Substantial progress has been made to pursue the reforms of the vocational education and training (VET) system and improve access to training. The law on "freedom to choose one's professional pathway" (adopted in September 2018) reforms apprenticeship and continuous training to support labour market integration. Measures are being gradually implemented since January 2019 to increase the attractiveness of apprenticeship (accompanying measures

<ul style="list-style-type: none"> • Foster equal opportunities and access to the labour market, including for people with a migrant background and people living in deprived areas. 	<p>for apprentices, financial incentives for SMEs). Comparative information on the labour market relevance of apprenticeship pathways and school-based vocational education should be made available in the future. The law also facilitates access to continuous training through a revised, euro-based, personal training account granting increased rights to low-qualified and part-time workers. The governance of the VET system is overall reshaped and simplified with the establishment since January 2019 of a single national certifying authority “France compétences”. A reform of school-based vocational education has been announced in 2018 and will be progressively introduced as of September 2019. In addition, a EUR 15 billion investment plan for skills (PIC) has been running since 2018 to train 1 million of young people and 1 million of low qualified job seekers by 2022. The plan is gaining pace in 2019, based on agreements on jobseekers trainings between the state and the regions, which are currently rolled out.</p> <ul style="list-style-type: none"> • Limited progress has been made in improving access and equal opportunities in the labour market for people living in deprived areas. A specific hiring premium for increasing labour market integration is being tested since April 2018, before possible mainstreaming. Moreover, professional orientation and internship opportunities are being currently strengthened at the level of lower secondary schools in these areas. Testing against discriminatory practices is currently under way. However, the focus is limited to bigger French enterprises. Concerning persons with a migrant background, little progress has been made in 2018, apart from the actions targeted at recently arrived migrants and actions in the field of education. A revision of the integration policy for recently arrived migrants focused on trainings to learn French (especially for professional purposes) and the mobilisation of economic actors to favour their access to the labour market (inter alia by closer
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<ul style="list-style-type: none"> • Ensure that minimum wage developments are consistent with job creation and competitiveness. 	<p>monitoring and better recognition of qualifications and professional experiences). On education, the starting age of compulsory education was reduced to three years, targeting those few children who do not participate in early childhood education and care, most of whom are from disadvantaged and migrant backgrounds or live in overseas territories. The halving of class size in the first two grades of primary education was extended to all disadvantaged schools. The on-going upper-secondary and higher education reforms and in particular, strengthened guidance in upper secondary education as well as support measures to increase the completion rate in higher education and to increase the number of places reserved for holders of technological and vocational <i>baccalauréat</i> also supports the future employment rates of (disadvantaged) students.</p> <ul style="list-style-type: none"> • Some progress has been made in ensuring minimum wage developments are consistent with job creation and competitiveness. Since 2012, no ad-hoc hike of the minimum wage has been adopted. The minimum wage hence evolved following its automatic indexation rule, evolving below reference wages in the previous years. The implementation of the formula led to an increase of +1.5% in January 2019, aligned to inflation and reference wages evolutions observed in 2018. At the same time, the unemployment rate of the low-skilled remains in France at 17% end 2017 and 16.6% in the second quarter of 2018. Income of employees paid close to the minimum wage will be supported by an additional increase of 90 euros of the activity premium (at minimum wage level) associated to a decrease of employees' social contributions applied in October 2018.
<p>CSR 3: Simplify the tax system, by limiting the use of tax expenditures, removing inefficient taxes and reducing taxes on production levied on companies. Reduce the regulatory and administrative burden to increase competition in the services sector and to foster firms' growth. Step up efforts to increase the</p>	<p>France has made some progress in addressing CSR 3:</p>

<p>performance of the innovation system in particular by improving the efficiency of public support schemes and strengthening knowledge transfer between public research institutions and firms.</p> <ul style="list-style-type: none"> • Simplify the tax system, by limiting the use of tax expenditures, removing inefficient taxes and reducing taxes on production levied on companies. • Reduce the regulatory and administrative burden to increase competition in the services sector and to foster firms' growth. 	<ul style="list-style-type: none"> • Some progress has been made in simplifying the tax system for businesses and removing inefficient taxes while very limited progress has been made to reduce taxes on production levied on companies. In particular, several measures have been announced and are being implemented to simplify the tax system (ESSOC law). Furthermore, a total of 17 inefficient taxes worth EUR 7.5 million will be discontinued in 2019. On tax expenditures, six inefficient tax expenditures are planned to be suppressed, while four new ones (worth EUR 1 billion) to be introduced. However, little has been done to reduce taxes on production weighing on companies: only one tax ("forfait social") is planned to be cut in 2019 (according to the budget law). • Some progress has been made in reducing the regulatory and administrative burden to increase competition in the services sector and to foster firms' growth. The 2018 <i>'Loi pour un État au service d'une société de confiance'</i> (ESSOC law) further simplified procedures, interactions and exchange of information with the public administration. A law supporting firms' growth (loi PACTE) is currently being discussed at the Parliament. It plans to reduce the number of thresholds related to size-dependent regulations based on the number of employees that firms face as they grow, and to introduce a five-year transitional period to give firms time to adjust when they cross these thresholds. To further support SME growth, the draft law promotes employees' incentives linked to firm performance by removing the so-called <i>forfait social</i> for firms with less than 50 employees. Barriers to competition in the services sector remain and reforms in specific sectors continue. For instance, the healthcare transformation strategy ("<i>Plan</i>
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<ul style="list-style-type: none"> • Step up efforts to increase the performance of the innovation system in particular by improving the efficiency of public support schemes and strengthening knowledge transfer between public research institutions and firms. 	<p><i>Santé</i>") announced by the President in September 2018 aims to abolish the numerus clausus to access medical studies.</p> <ul style="list-style-type: none"> • Limited progress. Several measures have been announced to improve the performance of the innovation system, with a particular focus on breakthrough innovation, e.g. the Innovation Council and the EUR 10 billion fund, but they still need to be fully implemented. Concerning the efficiency of public support schemes, the 4th Phase (2019-2022) of the competitiveness poles has been announced and the preliminary design suggests that some of the weaknesses identified in a previous evaluation have been addressed. The announced publication of the evaluations of the R&D tax credit (CIR) have been repeatedly postponed and it is still due to date. Finally, more incentives for researchers in the public sector to collaborate with industry have been proposed in the PACTE law which has not been adopted yet.
Europe 2020 (national targets and progress)	
<p>Employment rate target: 75 % of population aged 20 to 64</p>	<p>The employment rate for workers aged 20-64 was 70.6 % in 2017, up from 70 % since 2016.</p> <p>This rise continued in the first half of 2018, with a 71.2 % employment rate in metropolitan France in the second quarter. However, the 75 % target remains out of reach at this stage, in spite of continued job creations in the private sector.</p>
<p>R&D target: 3.0 % of GDP</p>	<p>Although there has been some progress in recent years, France is not on track to meet its target of spending 3% GDP on R&D by 2020.</p> <p>R&D intensity in 2016 was at 2.25%, up from 2.02% in 2007.</p> <ul style="list-style-type: none"> - Public R&D intensity has been rather stable over time, stabilising at 0.78% in 2016. - Business R&D intensity has increased since 2008, but it stood only at 1.43% GDP in 2016.

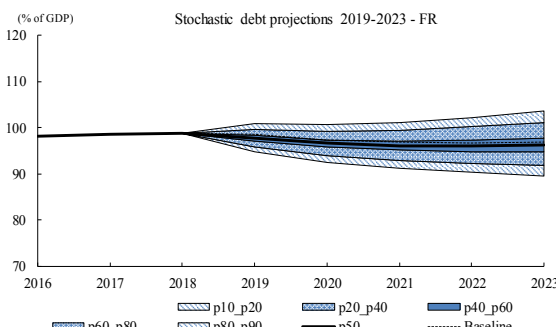
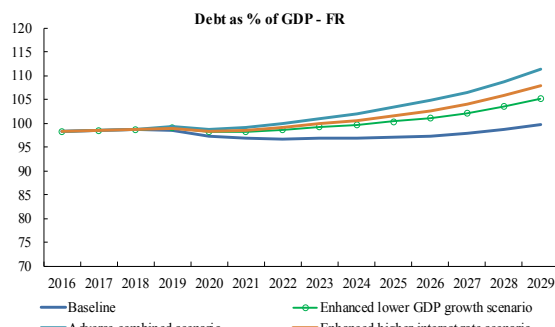
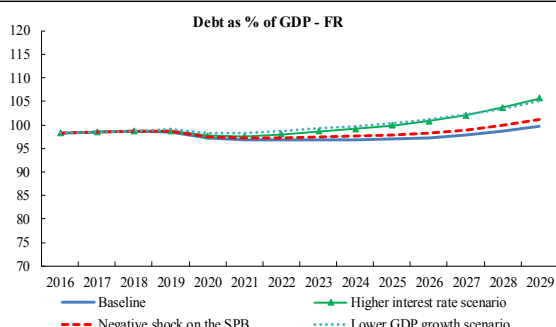
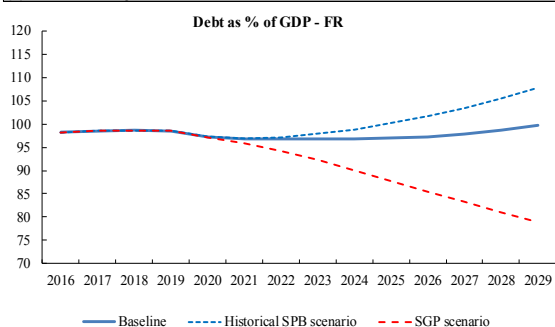
<p>National greenhouse gas (GHG) emissions target:</p> <p>-14 % in 2020 compared with 2005 (in sectors not included in the EU emissions trading scheme)</p>	<p>Based on the latest national projections and taking into account existing measures, non-ETS emissions will fall by 19.4 % between 2005 and 2020. The -14 % target is thus expected to be met, by a margin of more than five percentage points.</p>
<p>Renewable energy target: 23 %, with a share of renewable energy in all modes of transport equal to 10.5%</p>	<p>In 2017, according to Eurostat data, the share of renewable energy in gross final energy consumption reached 16.3 %, which is below the interim target of 19.5 % set in the National Renewable Energy Action Plan (NREAP) presented in 2009 to pave the way towards its 2020 objective of 23 %.</p> <p>The tenders organised under the "<i>complément de rémunération</i>" scheme (equivalent to a feed-in-premium, implemented since 1 January 2016) should help France in achieving its 2020 target.</p> <p>Concerning the renewable energy share in heating & cooling, the National Renewable Energy Action Plan anticipates a share of 33 % for in 2020. However, since 2010, the actual deployment has constantly been below the planned trajectory (in 2016, the share of renewables in heating and cooling reached 21.1 %, below the interim target of 25.5 %). Moreover, the spread between the anticipated share and the effective share has increased. According to the European Union Reference Scenario 2016, the country is projected to miss its anticipated 2020 value, despite several measures to promote renewables in the heating and cooling sector.</p> <p>In the field of transport, according to the National Renewable Energy Action Plan, the anticipated national share of renewable energy in the transport sector is 10.5 % by 2020. Since 2010, France is on track regarding its planned trajectory. If the current trend is maintained (8.9 % in 2016), the country is projected to be almost in line in with its 2020 anticipation. Due to a very important diesel fuelled car market, France is by far the top European biodiesel consumer. The country owns a structured biodiesel industry with some of the main European producers.</p>

<p>Energy efficiency target: 219.9 million tons of oil equivalent (Mtoe) for the primary energy consumption and 131.4 Mtoe for the final energy consumption</p>	<p>Since 2005, France has decreased its primary energy consumption by 13 % to reach 239.5 million tons of oil equivalent (Mtoe) in 2017 and its final energy consumption also decreased by 43 % to reach 148.7 Mtoe in 2017, whereas the GDP increased by 15.2 % over the same period. These figures - together with the primary energy intensity which decreased by a 1.8 % annual average rate since 2005 – reflects the general decoupling between economic growth and energy consumption.</p> <p>However, even if France has reduced the gap towards its indicative national 2020 targets for energy efficiency, the rapid and thorough implementation of the Energy Transition for green growth Act of 2015 is required to further tap into the significant potential for energy demand reductions in areas such as the building sector. Additional efforts should be envisaged to accelerate the energy renovation of residential buildings and development of demand-side response.</p>
<p>Early school/training leaving target: 9.5 %</p>	<p>The French early school leaving rate remained stable at 8.9 % in 2017 from 8.8 % in 2016, remaining under the Europe 2020 target.</p> <p>Despite an early school leaving rate below the EU average, significant regional disparities remain. There are still too many young people who leave education with at most a lower secondary level diploma, especially in the Outermost regions, while the labour market prospects of this group have significantly deteriorated.</p>
<p>Tertiary education target: 50 % of population aged 17-33.</p>	<p>The French tertiary education attainment rate for the population aged 30-34 years was 44.3 % in 2017, increasing from 43.6 % in 2016. This rate is above the EU tertiary education target of 40 %.</p> <p>Women (49.6 %) are consistently outperforming men (38.7 %) in the attainment rate.</p>

<p>Target for reducing the number of people at risk of poverty or social exclusion target: -1 900 000 in cumulative terms since 2007.</p>	<p>The number of people at risk of poverty or social exclusion decreased in cumulative terms from 2008 of 329 000 units. As for other Member States, the 2020 objective still remains out of reach.</p>
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ANNEX B: COMMISSION DEBT SUSTAINABILITY ANALYSIS AND FISCAL RISKS

General Government debt projections under baseline, alternative scenarios and sensitivity tests													
FR - Debt projections baseline scenario	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Gross debt ratio	98.5	98.7	98.5	97.2	96.8	96.7	96.9	96.8	97.0	97.3	97.8	98.7	99.8
Changes in the ratio <small>(-1+2+3)</small>	0.3	0.2	-0.1	-1.3	-0.4	-0.1	0.1	0.0	0.1	0.3	0.5	0.9	1.1
of which													
(1) Primary balance <small>(1.1+1.2+1.3)</small>	-0.8	-0.8	-0.9	0.1	-0.1	-0.4	-0.6	-0.6	-0.7	-0.6	-0.7	-0.8	-0.8
(1.1) Structural primary balance <small>(1.1.1-1.1.2+1.1.3)</small>	-0.6	-0.6	-0.4	-0.4	-0.5	-0.5	-0.6	-0.6	-0.7	-0.6	-0.7	-0.8	-0.8
<small>(1.1.1) Structural primary balance (bef. CoA)</small>	-0.6	-0.6	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
<small>(1.1.2) Cost of ageing</small>					0.1	0.2	0.3	0.3	0.4	0.4	0.4	0.5	0.6
<small>(1.1.3) Others (taxes and property incomes)</small>					0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
(1.2) Cyclical component	-0.2	0.1	0.3	0.5	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(1.3) One-off and other temporary measures	0.0	-0.2	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(2) Snowball effect <small>(2.1+2.2+2.3)</small>	-0.8	-0.7	-1.0	-1.2	-0.6	-0.5	-0.4	-0.6	-0.5	-0.4	-0.2	0.1	0.3
<small>(2.1) Interest expenditure</small>	1.9	1.9	1.8	1.8	1.9	2.0	2.1	2.2	2.4	2.6	2.9	3.2	3.4
<small>(2.2) Growth effect</small>	-2.1	-1.6	-1.6	-1.5	-0.8	-0.7	-0.6	-1.0	-1.0	-1.1	-1.2	-1.2	-1.2
<small>(2.3) Inflation effect</small>	-0.6	-0.9	-1.3	-1.5	-1.6	-1.7	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9
(3) Stock-flow adjustments	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0



Short term	Medium term	S1	Debt sustainability analysis (detail)						DSA	S2	Long term
			Baseline	Historical SPB	Lower GDP growth	Higher interest rate	Negative shock on SPB	Stochastic projections			
LOW (S0 = 0.3)	HIGH	HIGH (S1 = 4.2)	HIGH	HIGH	HIGH	HIGH	HIGH	HIGH	LOW (S2 = -0.1)	MEDIUM	
			99.8	107.7	105.1	105.6	101.2				
			2029	2029	2029	2029	2029				
			65.0%	75.0%							
								33.6%			
								13.9			

Note: For further information, see the European Commission Fiscal Sustainability Report (FSR) 2018.

[1] The first table presents the baseline no-fiscal policy change scenario projections. It shows the projected government debt dynamics and its decomposition between the primary balance, snowball effects and stock-flow adjustments. Snowball effects measure the net impact of the counteracting effects of interest rates, inflation, real GDP growth (and exchange rates in some countries). Stock-flow adjustments include differences in cash and accrual accounting, net accumulation of assets, as well as valuation and other residual effects.

[2] The charts present a series of sensitivity tests around the baseline scenario, as well as alternative policy scenarios, in particular: the historical structural primary balance (SPB) scenario (where the SPB is set at its historical average), the Stability and Growth Pact (SGP) scenario (where fiscal policy is assumed to evolve in line with the main provisions of the SGP), a higher interest rate scenario (+1 pp. compared to the baseline), a lower GDP growth scenario (-0.5 pp. compared to the baseline) and a negative shock on the SPB (calibrated on the basis of the forecasted change). An adverse combined scenario and enhanced sensitivity tests (on the interest rate and growth) are also included, as well as stochastic projections. Detailed information on the design of these projections can be found in the FSR 2018.

[3] The second table presents the overall fiscal risk classification over the short, medium and long-term.

a. For the short-term, the risk category (low/high) is based on the S0 indicator. S0 is an early-detection indicator of fiscal stress in the upcoming year, based on 25 fiscal and financial-competitiveness variables that have proven in the past to be leading indicators of fiscal stress. The critical threshold beyond which fiscal distress is signalled is 0.46.

b. For the medium-term, the risk category (low/medium/high) is based on the joint use of the S1 indicator and of the DSA results. The S1 indicator measures the fiscal adjustment required (cumulated over the 5 years following the forecast horizon and sustained thereafter) to bring the debt-to-GDP ratio to 60% by 2033. The critical values used are 0 and 2.5 pps. of GDP. The DSA classification is based on the results of 5 deterministic scenarios (baseline, historical SPB, higher interest rate, lower GDP growth and negative shock on the SPB scenarios) and the stochastic projections. Different criteria are used such as the projected debt level, the debt path, the realism of fiscal assumptions, the probability of debt stabilisation, and the size of uncertainties.

c. For the long-term, the risk category (low/medium/high) is based on the joint use of the S2 indicator and the DSA results. The S2 indicator measures the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical values used are 2 and 6 pps. of GDP. The DSA results are used to further qualify the long-term risk classification, in particular in cases when debt vulnerabilities are identified (a medium / high DSA risk category).

ANNEX C: STANDARD TABLES

Table C.1: **Financial market indicators**

	2013	2014	2015	2016	2017	2018
Total assets of the banking sector (% of GDP) ¹⁾	372.3	380.4	370.7	373.9	368.8	375.0
Share of assets of the five largest banks (% of total assets)	46.7	47.6	47.2	46.0	45.4	-
Foreign ownership of banking system (% of total assets) ²⁾	3.0	5.9	5.4	5.0	4.8	4.6
Financial soundness indicators: ²⁾						
- non-performing loans (% of total loans)	-	4.2	4.0	3.6	3.1	2.9
- capital adequacy ratio (%)	15.0	15.2	16.4	17.6	17.8	17.7
- return on equity (%) ³⁾	6.0	4.4	6.8	6.5	6.4	6.8
Bank loans to the private sector (year-on-year % change) ¹⁾	0.9	0.5	2.0	4.9	5.6	7.5
Lending for house purchase (year-on-year % change) ¹⁾	3.6	-2.8	3.2	4.9	6.2	6.9
Loan to deposit ratio ²⁾	-	105.1	104.7	106.2	105.1	106.0
Central Bank liquidity as % of liabilities ¹⁾	-	2.3	2.3	1.7	2.3	2.1
Private debt (% of GDP)	137.4	141.5	142.8	146.6	148.2	-
Gross external debt (% of GDP) ²⁾ - public	57.2	62.4	60.3	59.0	55.6	54.1
- private	49.7	52.8	54.2	56.1	56.9	46.2
Long-term interest rate spread versus Bund (basis points)*	63.4	50.3	34.7	37.7	49.2	37.6
Credit default swap spreads for sovereign securities (5-year)*	38.9	31.0	24.4	22.7	14.4	11.1

(1) Latest data Q3 2018. Includes not only banks but all monetary financial institutions excluding central banks.

(2) Latest data Q2 2018.

(3) Quarterly values are not annualised

* Measured in basis points.

Source: European Commission (long-term interest rates); World Bank (gross external debt); Eurostat (private debt); ECB (all other indicators).

Table C.2: **Headline Social Scoreboard indicators**

	2013	2014	2015	2016	2017	2018 ⁶
Equal opportunities and access to the labour market						
Early leavers from education and training (% of population aged 18-24)	9.7	8.8	9.2	8.8	8.9	:
Gender employment gap (pps)	8.1	7.5	7.2	7.5	7.9	7.6
Income inequality, measured as quintile share ratio (S80/S20)	4.5	4.3	4.3	4.3	4.4	:
At-risk-of-poverty or social exclusion rate ¹ (AROPE)	18.1	18.5	17.7	18.2	17.1	:
Young people neither in employment nor in education and training (% of population aged 15-24)	11.2	11.2	12.0	11.9	11.5	:
Dynamic labour markets and fair working conditions[†]						
Employment rate (20-64 years)	69.5	69.2	69.5	70.0	70.6	71.3
Unemployment rate ² (15-74 years)	10.3	10.3	10.4	10.1	9.4	9.1
Long-term unemployment rate ³ (as % of active population)	4.4	4.5	4.6	4.6	4.2	3.8
Gross disposable income of households in real terms per capita ⁴ (Index 2008=100)	99.5	100.2	100.7	102.0	103.4	:
Annual net earnings of a full-time single worker without children earning an average wage (levels in PPS, three-year average)	23319	23761	24291	24579	:	:
Annual net earnings of a full-time single worker without children earning an average wage (percentage change, real terms, three-year average)	-0.2	0.0	0.4	0.6	:	:
Public support / Social protection and inclusion						
Impact of social transfers (excluding pensions) on poverty reduction ⁵	43.9	44.6	43.1	42.4	44.8	:
Children aged less than 3 years in formal childcare	39.0	39.5	41.8	48.9	50.5	:
Self-reported unmet need for medical care	2.6	2.8	1.2	1.3	1.0	:
Individuals who have basic or above basic overall digital skills (% of population aged 16-74)	:	:	57.0	56.0	57.0	:

(1) People at risk of poverty or social exclusion (AROPE): individuals who are at risk of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in households with zero or very low work intensity (LWI).

(2) Unemployed persons are all those who were not employed but had actively sought work and were ready to begin working immediately or within two weeks.

(3) Long-term unemployed are people who have been unemployed for at least 12 months.

(4) Gross disposable household income is defined in unadjusted terms, according to the draft Joint Employment Report 2019.

(5) Reduction in percentage of the risk of poverty rate, due to social transfers (calculated comparing at-risk-of-poverty rates before social transfers with those after transfers; pensions are not considered as social transfers in the calculation).

(6) Average of first three quarters of 2018 for the employment rate, long-term unemployment rate and gender employment gap. Data for unemployment rate is annual.

Source: Eurostat.

Table C.3: Labour market and education indicators

Labour market indicators	2013	2014	2015	2016	2017	2018 ⁴
Activity rate (15-64)	71.1	71.0	71.3	71.4	71.5	71.9
Employment in current job by duration						
From 0 to 11 months	11.4	11.7	12.1	12.7	13.5	:
From 12 to 23 months	7.7	7.6	7.6	7.6	8.2	:
From 24 to 59 months	14.0	14.2	14.0	13.6	13.5	:
60 months or over	65.5	65.6	65.2	65.1	63.7	:
Employment growth*						
(% change from previous year)	0.2	0.5	0.2	0.7	1.1	1.0
Employment rate of women						
(% of female population aged 20-64)	65.5	65.6	66.0	66.3	66.7	67.5
Employment rate of men						
(% of male population aged 20-64)	73.6	73.1	73.2	73.8	74.6	75.2
Employment rate of older workers*						
(% of population aged 55-64)	45.6	46.9	48.7	49.8	51.3	52.1
Part-time employment*						
(% of total employment, aged 15-64)	:	18.6	18.4	18.3	18.2	18.0
Fixed-term employment*						
(% of employees with a fixed term contract, aged 15-64)	15.3	15.3	16.0	16.1	16.8	16.8
Participation in activation labour market policies						
(per 100 persons wanting to work)	40.5	40.4	41.2	43.5	:	:
Transition rate from temporary to permanent employment						
(3-year average)	11.2	10.0	10.0	10.7	11.7	:
Youth unemployment rate						
(% active population aged 15-24)	24.9	24.2	24.7	24.6	22.3	21.1
Gender gap in part-time employment (aged 20-64)						
	:	23.1	22.7	22.2	21.9	21.2
Gender pay gap ¹ (in unadjusted form)	15.5	15.5	15.3	15.3	15.4	:
Education and training indicators	2013	2014	2015	2016	2017	2018
Adult participation in learning						
(% of people aged 25-64 participating in education and training)	17.8	18.4	18.6	18.8	18.7	:
Underachievement in education ²	:	:	23.5	:	:	:
Tertiary educational attainment (% of population aged 30-34 having successfully completed tertiary education)	44.0	43.7	45.0	43.6	44.3	:
Variation in performance explained by students' socio-economic status ³	:	:	20.3	:	:	:

* Non-scoreboard indicator

(1) Difference between the average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees. It is defined as "unadjusted", as it does not correct for the distribution of individual characteristics (and thus gives an overall picture of gender inequalities in terms of pay). All employees working in firms with ten or more employees, without restrictions for age and hours worked, are included.

(2) PISA (OECD) results for low achievement in mathematics for 15 year-olds.

(3) Impact of socio-economic and cultural status on PISA (OECD) scores. Values for 2012 and 2015 refer respectively to mathematics and science.

(4) Average of first three quarters of 2018 for the activity rate, employment growth, employment rate, part-time employment, fixed-term employment. Data for youth unemployment rate is annual.

Source: Eurostat, OECD.

Table C.4: Social inclusion and health indicators

	2012	2013	2014	2015	2016	2017
Expenditure on social protection benefits* (% of GDP)						
<i>Sickness/healthcare</i>	8,9	9,0	9,1	9,1	9,2	:
<i>Disability</i>	2,0	2,0	2,1	2,0	2,1	:
<i>Old age and survivors</i>	14,3	14,6	14,6	14,6	14,6	:
<i>Family/children</i>	2,5	2,5	2,5	2,5	2,4	:
<i>Unemployment</i>	2,0	2,0	2,0	2,0	2,0	:
<i>Housing</i>	0,8	0,8	0,8	0,8	0,8	:
<i>Social exclusion n.e.c.</i>	0,9	0,9	0,9	1,0	1,0	:
Total	31,4	31,9	32,1	31,9	32,1	:
<i>of which: means-tested benefits</i>	3,4	3,5	3,5	3,5	3,5	:
General government expenditure by function (% of GDP, COFOG)						
<i>Social protection</i>	24,2	24,5	24,5	24,4	24,4	:
<i>Health</i>	8,0	8,0	8,2	8,1	8,1	:
<i>Education</i>	5,5	5,5	5,5	5,5	5,4	:
Out-of-pocket expenditure on healthcare (% of total health expenditure)	10,1	10,0	9,9	9,8	9,8	:
Children at risk of poverty or social exclusion (% of people aged 0-17)*	23,2	20,8	21,6	21,2	22,6	22,3
At-risk-of-poverty rate ¹ (% of total population)	14,1	13,7	13,3	13,6	13,6	13,3
In-work at-risk-of-poverty rate (% of persons employed)	8,0	7,8	8,0	7,5	7,9	7,4
Severe material deprivation rate ² (% of total population)	5,3	4,9	4,8	4,5	4,4	4,1
Severe housing deprivation rate ³ , by tenure status						
<i>Owner, with mortgage or loan</i>	1,0	0,9	1,1	1,3	1,7	0,9
<i>Tenant, rent at market price</i>	7,5	5,2	6,3	4,6	6,2	4,0
Proportion of people living in low work intensity households ⁴ (% of people aged 0-59)	8,4	8,1	9,6	8,6	8,4	8,1
Poverty thresholds, expressed in national currency at constant prices*	11321	11248	11283	11330	11478	11634
Healthy life years (at the age of 65)						
<i>Females</i>	10,4	10,7	10,7	10,7	10,6	:
<i>Males</i>	9,4	9,8	10,4	9,8	9,5	:
Aggregate replacement ratio for pensions ⁵ (at the age of 65)	0,7	0,7	0,7	0,7	0,7	0,7
Connectivity dimension of the Digital Economy and Society Index (DESI) ⁶	:	:	49,1	51,2	52,6	55,2
GINI coefficient before taxes and transfers*	49,2	49,0	48,4	49,0	49,6	49,1
GINI coefficient after taxes and transfers*	30,5	30,1	29,2	29,2	29,3	29,3

* Non-scoreboard indicator

(1) At-risk-of-poverty rate (AROP): proportion of people with an equivalised disposable income below 60 % of the national equivalised median income.

(2) Proportion of people who experience at least four of the following forms of deprivation: not being able to afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour TV, or ix) have a telephone.

(3) Percentage of total population living in overcrowded dwellings and exhibiting housing deprivation.

(4) People living in households with very low work intensity: proportion of people aged 0-59 living in households where the adults (excluding dependent children) worked less than 20 % of their total work-time potential in the previous 12 months.

(5) Ratio of the median individual gross pensions of people aged 65-74 relative to the median individual gross earnings of people aged 50-59.

(6) Fixed broadband take up (33%), mobile broadband take up (22%), speed (33%) and affordability (11%), from the Digital Scoreboard.

Source: Eurostat, OECD.

Table C.5: Product market performance and policy indicators

Performance indicators	2012	2013	2014	2015	2016	2017
Labour productivity per person ¹ growth (t/t-1) in %						
Labour productivity growth in industry	1.18	1.73	0.94	2.21	2.04	2.34
Labour productivity growth in construction	-4.77	0.96	-1.96	1.97	0.17	2.68
Labour productivity growth in market services	0.33	0.56	0.95	0.85	0.12	0.26
Unit Labour Cost (ULC) index ² growth (t/t-1) in %						
ULC growth in industry	0.92	0.12	0.52	0.63	-0.70	-0.38
ULC growth in construction	5.79	1.14	1.85	-0.53	2.26	-0.51
ULC growth in market services	1.31	0.69	0.43	0.26	0.79	2.05
Business environment	2012	2013	2014	2015	2016	2017
Time needed to enforce contracts ³ (days)	390	395	395	395	395	395
Time needed to start a business ³ (days)	6.5	6.5	4.5	4.0	3.5	3.5
Outcome of applications by SMEs for bank loans ⁴	0.59	0.60	0.53	0.51	0.32	0.23
Research and innovation	2012	2013	2014	2015	2016	2017
R&D intensity	2.23	2.24	2.23	2.27	2.25	:
General government expenditure on education as % of GDP	5.50	5.50	5.50	5.50	5.40	:
Employed people with tertiary education and/or people employed in science and technology as % of total employment	47	48	49	49	50	50
Population having completed tertiary education ⁵	28	29	30	30	31	31
Young people with upper secondary education ⁶	84	86	88	87	88	88
Trade balance of high technology products as % of GDP	0.67	0.75	0.79	0.93	0.90	0.54
Product and service markets and competition				2003	2008	2013
OECD product market regulation (PMR) ⁷ , overall				1.77	1.52	1.47
OECD PMR ⁷ , retail				3.76	3.80	2.64
OECD PMR ⁷ , professional services				2.20	2.45	2.34
OECD PMR ⁷ , network industries ⁸				3.37	2.77	2.51

(1) Value added in constant prices divided by the number of persons employed.

(2) Compensation of employees in current prices divided by value added in constant prices.

(3) The methodologies, including the assumptions, for this indicator are shown in detail here:

<http://www.doingbusiness.org/methodology>.

(4) Average of the answer to question Q7B_a. "[Bank loan]: If you applied and tried to negotiate for this type of financing over the past six months, what was the outcome?". Answers were codified as follows: zero if received everything, one if received 75% and above, two if received below 75%, three if refused or rejected and treated as missing values if the application is still pending or don't know.

(5) Percentage population aged 15-64 having completed tertiary education.

(6) Percentage population aged 20-24 having attained at least upper secondary education.

(7) Index: 0 = not regulated; 6 = most regulated. The methodologies of the OECD product market regulation indicators are shown in detail here: <http://www.oecd.org/competition/reform/indicatorsofproductmarketregulationhomepage.htm>.

(8) Aggregate OECD indicators of regulation in energy, transport and communications (ETCR).

Source: European Commission; World Bank — Doing Business (for enforcing contracts and time to start a business); OECD (for the product market regulation indicators); SAFE (for outcome of SMEs' applications for bank loans).

Table C.6: **Green growth**

Green growth performance		2012	2013	2014	2015	2016	2017
Macroeconomic							
Energy intensity	kgoe / €	0.13	0.13	0.12	0.12	0.12	0.12
Carbon intensity	kg / €	0.24	0.24	0.22	0.22	0.22	-
Resource intensity (reciprocal of resource productivity)	kg / €	0.38	0.38	0.37	0.35	0.34	0.35
Waste intensity	kg / €	0.17	-	0.16	-	0.15	-
Energy balance of trade	% GDP	-3.3	-3.1	-2.5	-1.8	-1.4	-1.7
Weighting of energy in HICP	%	9.93	9.45	9.85	9.41	8.97	8.72
Difference between energy price change and inflation	%	3.3	2.9	1.3	-0.7	-1.8	2.5
Real unit of energy cost	% of value added	11.2	10.6	9.6	9.9	10.2	-
Ratio of environmental taxes to labour taxes	ratio	0.08	0.09	0.08	0.09	0.09	-
Environmental taxes	% GDP	2.0	2.0	2.0	2.2	2.3	2.3
Sectoral							
Industry energy intensity	kgoe / €	0.08	0.08	0.07	0.07	0.07	0.07
Real unit energy cost for manufacturing industry excl. refining	% of value added	14.9	14.2	13.4	14.0	14.7	-
Share of energy-intensive industries in the economy	% GDP	5.6	5.8	5.7	5.7	5.7	5.7
Electricity prices for medium-sized industrial users	€ / kWh	0.09	0.09	0.10	0.10	0.09	0.10
Gas prices for medium-sized industrial users	€ / kWh	0.04	0.04	0.04	0.04	0.04	0.03
Public R&D for energy	% GDP	0.05	0.05	0.04	0.05	0.04	0.07
Public R&D for environmental protection	% GDP	0.01	0.01	0.01	0.02	0.01	0.01
Municipal waste recycling rate	%	37.7	38.7	39.8	40.8	41.8	42.9
Share of GHG emissions covered by ETS*	%	23.7	23.8	22.1	21.2	22.4	-
Transport energy intensity	kgoe / €	0.59	0.60	0.60	0.63	0.63	0.61
Transport carbon intensity	kg / €	1.54	1.56	1.56	1.62	1.64	-
Security of energy supply							
Energy import dependency	%	48.4	48.1	46.2	46.0	47.4	48.6
Aggregated supplier concentration index	HHI	7.9	8.6	8.8	8.2	8.5	-
Diversification of energy mix	HHI	0.30	0.30	0.32	0.32	0.30	0.30

(1) All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2010 prices)
 Energy intensity: gross inland energy consumption (Europe 2020-2030) (in kgoe) divided by GDP (in EUR)

Carbon intensity: greenhouse gas emissions (in kg CO₂ equivalents) divided by GDP (in EUR)

Resource intensity: domestic material consumption (in kg) divided by GDP (in EUR)

Waste intensity: waste (in kg) divided by GDP (in EUR)

(2) Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP.

(3) Weighting of energy in HICP: the proportion of 'energy' items in the consumption basket used for the construction of the HICP.

(4) Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual % change).

(5) Real unit energy cost: real energy costs as % of total value added for the economy.

(6) Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2010 EUR).

(7) Real unit energy costs for manufacturing industry excluding refining : real costs as % of value added for manufacturing sectors.

(8) Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP.

(9) Electricity and gas prices for medium-sized industrial users: consumption band 500–20 000 MWh and 10 000–100 000 GJ; figures excl. VAT.

(10) Recycling rate of municipal waste: ratio of recycled and composted municipal waste to total municipal waste.

(11) Public R&D for energy or for the environment: government spending on R&D for these categories as % of GDP.

(12) Proportion of GHG emissions covered by EU emissions trading system (ETS) (excluding aviation): based on GHG emissions (excl land use, land use change and forestry) as reported by Member States to the European Environment Agency.

(13) Transport energy intensity: final energy use in transport sector including international aviation, (in kgoe) divided by transport industry gross value added (in 2010 EUR).

(14) Transport carbon intensity: GHG emissions in transport sector divided by gross value added of the transport activities.

(15) Energy import dependency: net energy imports divided by gross inland energy consumption plus consumption of international maritime bunkers.

(16) Aggregated supplier concentration index: Herfindahl-Hirschman index for net imports of crude oil and NGL, natural gas and hard coal. Smaller values indicate larger diversification and hence lower risk.

(17) Diversification of the energy mix: Herfindahl-Hirschman index of the main energy products in the gross inland consumption of energy.

* European Commission and European Environment Agency

Source: European Commission and European Environment Agency (Share of GHG emissions covered by ETS); European Commission (Environmental taxes over labour taxes and GDP); Eurostat (all other indicators).

ANNEX D: INVESTMENT GUIDANCE ON COHESION POLICY FUNDING 2021-2027 FOR FRANCE

Building on the Commission proposal for the next Multi-Annual Financial Framework for the period 2021-2027 of 2 May 2018 (COM (2018) 321), this Annex D presents the preliminary Commission services views on priority investment areas and framework conditions for effective delivery for the 2021-2027 Cohesion Policy. These priority investment areas are derived from the broader context of investment bottlenecks, investment needs and regional disparities assessed in the report. This Annex⁽⁷⁴⁾ provides the basis for a dialogue between France and the Commission services in view of the programming of the cohesion policy funds (European Regional Development Fund and European Social Fund Plus). Given that the only less developed French regions are among the outermost regions, and that the latter receive a substantially higher European Regional Development Fund envelope, in addition to the specific allocation granted to offset the additional cost related to their handicap listed in article 349 of the TFUE, this Annex consistently stresses the specific situation of the outermost regions.

Policy Objective 1: A Smarter Europe – Innovative and smart industrial transformation
<p>Despite being a strong innovator, France's innovation performance remains below that of EU innovation leaders and shows much disparity among regions. France is not on track to meet its total research and development intensity target of 3% for 2020. National and regional needs and potential are to be taken into account, as well as regional innovation smart specialisation strategies and synergies with Horizon Europe and InvestEU. Internal disparities will have to be considered when increasing regional investments in research and development to levels closer to the ones of the most advanced French regions (e. g. Ile-de-France and Midi-Pyrénées).</p> <p>High priority investment needs⁽⁷⁵⁾ are identified to enhance research, development and innovation capacities, in particular to improve collaboration and collaborative schemes (e. g. clusters) between public research institutions and private companies and contribute to increase the competitiveness of the French economy by developing new processes, new technologies, and new products that can be implemented in the production sector to increase competitiveness.</p> <p>Priority investment needs have therefore been identified to:</p> <ul style="list-style-type: none"> • On the basis of the updated regional innovation smart specialisation strategies, increase the attractiveness of French research development and innovation activities at regional level, including through recruit of highly qualified and skilled researchers; • support the transformation and the development of new value chains, by supporting the development of the necessary skills, technologies and infrastructures and by stimulating the integrated cooperation in new value chains across programmes and across borders; • reap the benefits of digitisation for citizens, small and medium sized enterprises and governments, in particular in inter-regional projects. <p>France performs below the EU average on entrepreneurial activity and the small and medium sized enterprises regional competitiveness index shows high internal disparities. High priority investment needs have therefore been identified to enhance growth and competitiveness of Small and medium sized enterprises and to implement a smart industrial transformation and induce more connections among actors (clustering) in particular to:</p> <ul style="list-style-type: none"> • contribute to the generation of new start-ups through the facilitation of the integration of Research Development & Innovation outcomes into the economic exploitation by new small and medium sized enterprises in the productivity and services sectors; • contribute to the scaling-up of the newly created start-ups, assist young heads of Small and medium sized enterprises in the early stage of life of their enterprise (e. g. nurseries);

⁽⁷⁴⁾ This Annex is to be considered in conjunction with the Proposal for a Regulation of the European Parliament and of the Council on the European Regional Development Fund and on the Cohesion Fund COM(2018) 372 and the Proposal for a Regulation of the European Parliament and of the Council on the European Social Fund Plus COM(2018) 382, in particular as regards the requirements for thematic concentration and urban earmarking outlined in these proposals.

⁽⁷⁵⁾ The intensity of needs is classified in three categories in a descending order - high priority needs, priority needs, needs.

<ul style="list-style-type: none"> • contribute to improve the position of French small and medium sized enterprises within EU internal and external markets including through cross-border and transnational cooperation.
<p>Policy Objective 2: A low carbon and greener Europe – Clean and fair energy transition, Green and blue investment, circular economy, climate adaptation and risk prevention</p>
<p>In line with the 2030 European energy and climate targets, France ambitions to produce more renewable energy and improve energy efficiency, leading to a 40% cut in greenhouse gas emissions compared to 1990 levels.</p> <p>High priority investment needs have therefore been identified to promote renewable energy, and in particular :</p> <ul style="list-style-type: none"> • support deployment of renewables including an efficient use of biomass (e.g. small scale infrastructures for the production of renewable energy); • increase the share of renewable energy in the cooling systems and in the electricity sectors in the outermost regions which are disconnected from the European electricity grid; • support actions in line with the "Clean Energy for Islands" initiative (Corsica). <p>High priority needs have therefore been also identified to promote energy efficiency measures, and in particular to contribute to energy efficiency in:</p> <ul style="list-style-type: none"> • the social and private (low revenue owners) residential sector; • services (including social, education and health infrastructures); • industry (buildings and emissions of Greenhouse gases from processes); • infrastructures, technologies and skills to foster transition to low-carbon production in industrial clusters where proximity provides conditions for circular economy, industrial symbiosis and other ways to foster resource and energy efficiency. <p>Furthermore high priority investment needs have therefore been identified to promote the transition toward a circular economy.</p> <p>High priority investment needs have therefore been also identified to promote supply of drinkable water, waste water treatment and municipal waste collection and management in the French outermost regions, in particular through supporting:</p> <ul style="list-style-type: none"> • infrastructures of waste water treatment and networks of clean water supply (only if the connection of citizens to the network is ensured and controlled); • small scale infrastructures for clean treatment of waste and support investments to accelerate the clean energy transition. <p>France is concerned by the protection of biodiversity, as it is one of the 10 Member States with the highest number of species under threat and that it is the Member State with the larger number of biogeographical regions. Investment needs have therefore been identified to enhance biodiversity, green infrastructure in the urban environment, and reducing pollution in particular to contribute to protect and value terrestrial and marine biodiversity and their fragile natural ecosystems, also in cooperation with neighbouring islands/territories.</p> <p>In France, negative impacts of climate change, including floods in the river basins (Loire, Rhône) and coastal areas (Atlantic regions), and of major natural hazards are increasingly felt. High priority investment needs have therefore been identified to promote climate change adaptation, risk prevention and disaster resilience.</p>
<p>Policy Objective 3: A more connected Europe – Mobility and regional Innovation and Communication Technology connectivity</p>
<p>In the French outermost regions coverage by next generation access networks is currently much lower than European average. Priority investment needs have therefore been identified to enhance digital connectivity in the outermost regions. In a few rural areas of metropolitan France, the roll out of the high</p>

speed broadband has not been completed yet. Investment needs have been identified in rural areas where it will be demonstrated that the European Regional Development Fund participation has an added value to complete the existing roll out of the high-speed broadband networks.

The French outermost regions suffer from accessibility problems via maritime and aerial links. Poor public transport and underdeveloped road infrastructures perpetuate dependence on individual transport. Priority investment needs have therefore been identified to promote sustainable multimodal mobility, and in particular to support:

- transport investment aimed at offsetting additional costs due to remoteness may be regarded as a priority for the European Regional Development Fund investment in first instance with the support from the specific allocation;
- transnational actions aiming at better connecting the outermost regions with their neighbours.

Policy Objective 4: A more social Europe – Implementing the European Pillar of Social Rights

France faces persistent labour market challenges, in particular for people with low skills, migrant background and those living in deprived areas. High priority investment needs have therefore been identified **to improve access to employment, in particular of the young, long-term unemployed and inactive people, promoting self-employment and the social economy, and to modernise labour market institutions and services**, in particular to:

- provide outreach measures, in particular for the inactive and young people not in education, employment and training, especially in outermost regions;
- provide integrated support and training tailored to the needs of jobseekers and inactive ;
- support measures to improve hiring practices and to fight discrimination;
- provide support for self-employment and (social) entrepreneurship;
- anticipate long-term employment trends in the design of national and regional skills strategies;
- modernise labour market institutions and services towards an integrated approach.

France suffers from a persistent skills mismatch, due to a weak initial vocational education and training and uneven access to continuous training, and from high early school leaving in deprived areas and in the outermost regions. High priority investment needs have therefore been identified **to improve the quality, effectiveness and labour market relevance of education and training, to promote equal access to, and completion of, quality and inclusive education and training, in particular for disadvantaged groups, and to promote lifelong learning, notably flexible upskilling and reskilling**, and in particular to:

- provide targeted outreach and support to prevent early school leaving, especially in outermost Regions;
- provide targeted support for early intervention, including second-chance schools;
- develop competences of teachers, trainers, school leaders and higher education staff;
- in the outermost regions, contribute to building new and improving existing education infrastructures;
- facilitate mobility of learners, education and training staff, especially in outermost regions;
- promote vocational education and training as a quality career pathway and strengthen work-based learning;
- upgrade the basic skills of the adult population and support the validation of competencies;
- provide continuous guidance and training for professional mobility.

Social inclusion remains a challenge, notably in deprived areas and for people with a migrant background, and access to healthcare is worsening in rural areas and in the outermost regions. High priority investments needs have therefore been identified **to foster active inclusion, to promote socio-economic integration of third country nationals, and, in the outermost regions, to enhance the equal and timely access to quality, sustainable and affordable services**, in particular to:

- develop and deploy integrated active inclusion policies;
- support measures to improve access to employment for a diverse workforce;
- organise awareness raising and engagement to fight discrimination;
- in the outermost regions, contribute to building new and improving existing health infrastructures, moving away from a hospital-centred model to more outpatient, primary and community-based care.

Policy Objective 5 – A Europe closer to citizens by fostering the sustainable and integrated development of urban, rural and coastal areas and local initiatives
<p>The cohesion of the various French territories is a permanent challenge that requires specific and targeted measures to face the multiple needs. A flexible response adapted to the evolution of each territory involving the local actors and combining the relevant resources, needs to be implemented on the basis of integrated and sustainable strategies. Given its numerous maritime and terrestrial borders and strong links with neighbouring countries, France should support transnational and cross border cooperation, the EU Strategy for the Alpine and Atlantic macro regions, and the integration of outermost regions in their neighbouring environment.</p> <p>High priority investment needs have therefore been identified to foster the integrated development in various types of areas through integrated territorial investments, Community-Led Local Development and other specific tools, in particular:</p> <ul style="list-style-type: none"> • increase the socioeconomic integration of marginalised communities, migrants and disadvantaged groups, through integrated measures including housing and social services. <p>In urban areas, in the frame of an integrated strategy, contribute to:</p> <ul style="list-style-type: none"> • regenerate deprived areas as well as integrate people with a migrant background through missing investments in education or health infrastructure; • culture and tourism. <p>In remote rural and coastal areas, improve the management of natural resources in the frame of an integrated strategy.</p> <p>In the outermost Regions:</p> <ul style="list-style-type: none"> • enhance and protect biodiversity and improve the environment, also in cooperation with neighbouring islands/territories; • support clean energy and clean public transport (including specific infrastructures allowing better energy performance of public transport e. g. reserved access to cities but excluding rolling stock). <p>In the cross-border areas, facilitate the cross-border labour mobility (mobility of commuters using clean public transport).</p>
Factors for effective delivery of Cohesion policy
<ul style="list-style-type: none"> • broader use of financial instruments and/or contributions to France compartment under InvestEU for all revenue-generating and cost-saving activities; • consequences of the decentralisation to regions are taken on board by increasing the overall audit capacity, by streamlining regional uniform procedures and by reducing the number of programmes; • strengthen administrative capacity in the outermost regions to reinforce the legal and regular implementation of the funds and to support local authorities in charge of implementing strategies in the areas concerned by the Integrated Territorial Investment tools; • support regions in industrial transition, by taking account of the lessons learnt in Hauts-de-France, Centre-Val-de-Loire and Grand-Est during the implementation of the Commission pilot project on industrial transition, in particular by facilitating the adoption of new technologies, fostering decarbonisation, supporting inclusive growth and adapting the labour forces' skills to future needs; • improve more efficient measures to prevent and address conflict of interest, fraud and corruption; • strong involvement of local authorities, social partners and civil society organisations in programming and implementation remains a key factor of success; • (social) innovation and experimentation should be supported as much as possible.

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