



STABILITY PROGRAMME

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1. OVERVIEW

1. Overview

This Stability Programme outlines France's fiscal strategy for the period 2016-2019. It presents the macroeconomic scenario adopted by the government and sets out its main objectives - getting the French economy back on track and continuing its fiscal consolidation efforts.

In 2015, France exceeded its budgetary targets. The general government deficit continues to fall: it has been reduced to 3.5% of GDP, and halved since the peak of the crisis in 2009. Public spending, excluding tax credits, rose 0.9% in nominal terms - the lowest increase in decades. For the first time since 2009, aggregate tax and social security contributions as a percentage of GDP fell. France has demonstrated its ability to achieve fiscal consolidation through tighter control of its expenditure – reducing it in proportion to GDP – while funding government priorities and lowering the tax burden.

France will carry these consolidation efforts forward in line with the projected fiscal adjustment path, to support the ongoing economic recovery while financing government priorities.

Firm foundations for growth were laid in 2015. Households saw their purchasing power increase strongly, thanks to tax moderation and to lower oil prices, allowing consumption to gain momentum. After three successive years of income tax cuts, 12 million households – two-thirds of taxpayers – will see their income tax bill fall in 2016, representing a total gain of €5bn in purchasing power. Combined with low interest rates, this creates a favourable environment for investment. In total in 2016, companies will benefit from €34bn in tax and social security contribution relief, after €24bn the previous year. The French economy went back to creating jobs in the private sector in 2015, at a pace that is set to accelerate as the recovery gathers pace and the emergency job creation plan is implemented.

The macroeconomic assumptions adopted last year are still valid. After 1.2% growth in 2015, the forecast underpinning the fiscal adjustment path is still 1.5% for both 2016 and 2017. The fresh fall in oil prices, however, results in another zero-inflation year.

After having complied with the targets set in the Multiyear Public Finance Planning Act in 2014 and 2015, **deficit targets have been maintained at 3.3% of GDP in 2016 and 2.7% in 2017.** Public expenditure and aggregate taxes and social security contributions as a proportion of GDP will continue to decrease.

In line with our commitments, our fiscal consolidation strategy is based on keeping expenditure under control while continuing to fund our priorities, namely security, employment, education, justice and investments for the future. The muted pace of public spending growth - about 1% in 2014 and 2015, excluding tax credits - will be maintained in 2016 and 2017. Expenditure as a percentage of GDP will thus decline at the expected pace.

At the same time, the aggregate tax and social security contribution ratio will continue to fall. After declining last year for the first time since 2009, it will ease steadily to 44% of GDP in 2017.

These targets are demanding but within reach. Weak inflation, partly due to cheaper energy, is boosting the purchasing power of households and general government sub-sectors alike. However, it requires us to adjust our expenditure to make up for the impact of low inflation on public finances and meet our deficit targets.

To meet the targets set in the Multiyear Public Finance Planning Act, the government plans to make an additional €3.8bn in savings in 2016. In a similar vein, the next budget bill will include additional measures of €5bn in 2017 across all general government sub-sectors in proportion to their share of public spending.

The goal of reducing the deficit to below 3% of GDP by 2017 will be met. This will stabilise our debt level below the threshold of 100% of GDP and then begin to decrease it.

The imbalances in our public accounts adjusted for fluctuations in the business cycle, i.e. the structural deficit, are also contracting: after having been reduced by nearly two-thirds since 2011, the pace is now consistent with a gradual return to balance without compromising growth.

2. MACROECONOMIC OUTLOOK

2. Macroeconomic outlook

2.1 SITUATION IN 2015 AND OUTLOOK FOR 2016 AND 2017

Economic recovery is expected to continue in 2016 and 2017 (forecasted growth of 1.5% each year, after 1.2% in 2015), and then pick up speed in 2019 (1¾% in 2018 and 1.9% in 2019). Inflation, which is set to be nearly flat in 2016 (0.1%, after 0.0% in 2015), is expected to climb to 1.0% in 2017, 1.4% in 2018 and 1¾% in 2019.

GDP should be spurred by several factors that will help growth reach and exceed its potential. These include economic policy initiatives, in particular support for businesses' competitiveness and household purchasing power, with fiscal consolidation efforts at a more relaxed pace than in the years prior to 2014, an ongoing accommodative monetary policy, a global economic context of low oil prices and stronger growth among our trading partners. Investment in construction, however, is expected to recover slowly.

This growth forecast is in line with those of market economists (+1.3% in 2016 and +1.5% in 2017 in the March 2016 Consensus Forecasts), and with that of the OECD (+1.2% in 2016 and +1.5% in 2017 in its March 2016 Interim Economic Outlook). In its Winter Economic Forecast issued in February 2016, the European Commission projected 1.3% growth in 2016 and 1.7% in 2017, based on a no-policy-change scenario. The French Economic Observatory (OFCE) has updated its forecasts, and is now predicting 1.6% growth in both years.

Growth slowed in late 2015, but is expected to pick up in early 2016.

After some ups and downs in the first half of 2015 (0.6% in Q1, followed by 0.0% in Q2), partly linked to climate fluctuations, growth gained momentum in Q3 (0.4%). **Although it slowed slightly in Q4 (0.3%), it remained robust, particularly in the wake of the terrorist attacks of 13 November.**

In the first quarter of 2016, GDP growth should return to a pace in line with what business surveys are calling for (about 0.4%). As a result of the attacks of 13 November and a marked falloff in energy demand caused by higher-than-usual temperatures, household consumption dipped slightly in Q4 (-0.1%), with a temporary slowdown in spending on manufactured goods, but is expected to bounce back in Q1 2016. Production and business investment are expected to keep their solid gains, buoyed by a positive outlook for economic growth. Exports are expected to benefit from the gradual pickup in world trade, helped by the continued economic recovery in the euro area. On the other hand, a wait-and-see attitude related to the expansion of the interest-free loan scheme (PTZ) as from 1 January 2016 put a damper on sales of individual houses in late 2015. This in turn affected building permits and housing starts in early 2016, and put off the positive upturn in construction being reflected in the national accounts.

Table 1: Macroeconomic prospects 2015-2019

<i>Annual rate of growth, in %</i>	2015*	2016	2017	2018	2019
Gross Domestic Product	1.2	1.5	1.5	1¾	1.9
Private consumption expenditure	1.4	1.6	1.6	1.8	2.0
Government consumption expenditure	1.5	1.0	0.6	0.0	0.0
Gross fixed capital formation	0.0	1.7	3.0	3.9	4.5
<i>o.w. non-financial enterprises</i>	<i>2.0</i>	<i>3.2</i>	<i>3.8</i>	<i>4.7</i>	<i>5.0</i>
Contribution to real GDP growth of changes in inventories	0.4	0.4	0.0	0.0	0.0
Contribution to real GDP growth of external balance of goods and services	-0.3	-0.3	-0.1	-0.1	-0.1
Exports of goods and services	6.1	3.9	4.8	5.5	5.5
Imports of goods and services	6.7	4.8	5.1	5.6	5.8
GDP deflator	1.1	0.9	0.9	1.3	1.7
Private consumption deflator	-0.1	0.1	1.0	1.4	1¾
Wages and salaries (non-farm business sector)	1.6	2.3	2.5	3.1	3.8
Wages and salaries per employee (non-farm business sector)	1.6	1.4	1.8	2.7	3.2
Employment, persons (non-farm business sector)	0.1	0.8	0.7	0.4	0.6

* INSEE quarterly national accounts (adjusted for working days)

Economic activity should be spurred by a more favourable international context, with the recovery of demand from emerging economies in particular.

Growth is expected to gradually pick up speed in the euro area, and be less uneven across countries. Low oil prices, the past depreciation of the euro and the ECB's accommodative monetary policy should support economic activity, which is set to gain momentum in 2016 and 2017, driven by domestic demand. On the one hand, private consumption should benefit from improved household purchasing power, in a context of sluggish inflation and more robust job creation. On the other hand, corporate investment is expected to pick up, under the impetus of brighter market prospects and a marked improvement in financing conditions in peripheral countries. Finally, exports are expected to rise, thanks to increased world demand – a result of the gradual return of demand in emerging countries.

Outside of the euro area, growth in the United States and the United Kingdom should continue to be the highest among the advanced economies, but is not expected to pick up any further. Growth should level out in the US in the wake of the hike in interest rates. In the UK, growth should be stable in 2016-2017 compared to 2015, and is slated to remain above its potential. In Japan, the economic recovery should pick up speed in 2016 but level off in early 2017, due to the rise in VAT rates planned for Q2 2017.

In the emerging economies, growth is expected to gradually gather steam in 2016 and 2017, particularly as the Russian and Brazilian economies gradually emerge from crisis. Aside from the assumption that political uncertainty in Brazil will subside, both Brazil and Russia are slated to benefit from stable commodity prices and from the boost that past depreciations to their respective currencies will give to their competitiveness. The slower-than-expected return to normal of US monetary policy is easing financial turmoil in emerging countries, which are heavily exposed to international capital movements (Brazil, Mexico, Turkey and South Africa in particular). Measures by the Chinese government to curb the slowdown in the Chinese economy are also expected to indirectly spur growth in emerging economies, particularly Asian ones (Korea, Malaysia and Taiwan). On the other hand, the Chinese economy should continue to slow, and oil-producing countries (particularly those in the Middle East) should be held back by fiscal consolidation measures intended to partly offset the loss in oil revenues and a weakened external balance.

World trade slowed considerably in 2015 (+2.1% after +3.6%); the fall in imports into the emerging economies was more significant than could have been projected based on domestic demand trends in these countries. In contrast to the poor performance last year, world trade is set to recover in 2016 (+3.2%) and should pick up further in 2017 (+4.4%) as Brazil and Russia gradually come out of recession and Chinese imports gradually increase. In the euro area, trade is expected to keep up its momentum. Foreign demand for French goods and services should follow a similar pattern. As France trades more with advanced countries than with the emerging economies, **foreign demand** fell less than world trade in 2015 (+3.4% after +3.9%). It should increase slightly in 2016 to +3.8% before jumping to +4.7% in 2017.

The gradual recovery in external demand and measures to cut labour costs are expected to boost exports.

After a strong performance in 2015, both imports and exports are set to slow down in 2016, before picking up again in 2017. The net contribution of foreign trade to GDP growth should be negative from 2015 to 2017 (-0.3 pp in 2015 and 2016 and -0.1 pp in 2017).

A slowdown in imports and exports in 2016 would be essentially due to foreign trade in services falling back to a lower growth rate.

Two factors account for the brisk rise in imports of goods in 2015 (+5.8%). On one hand, the increase in household demand that was centred on the most imported items (manufactured goods and energy). On the other, the rise in imports of intermediate inputs, in particular owing to faster production rates in the aeronautics industry. This contributed to substantial stock rebuilding in late 2015 which should only be partially corrected during 2016. After a vibrant 2015, **growth in imports of goods is expected to slow noticeably in 2016 (+5.4%) and maintain a similar rate in 2017 (+5.3%).** In 2017, it is expected that the import growth rate will be dictated by a less

import-intensive growth structure, with the gradual recovery of investment in the construction sector buttressing activity.

After the sharp increase of 5.1% in 2015, growth in exports of goods is expected to be flatter (+4.4 % in 2016 and +4.8% in 2017). The currency impact should still buoy up their momentum but to a lesser extent than in 2015. However, exports should remain strong, driven by global demand progressively gathering pace and by measures to cut labour costs. Moreover, the abovementioned structure of imports at the end of 2015 suggests that exports of manufactured goods will continue to be vigorous in 2016.

Domestic demand is set to speed up, especially under the impetus of household demand.

Households' purchasing power should remain strong in 2016 against a backdrop of low inflation (+1.6% after +1.8% in 2015), before falling off in 2017 (+1.2%) as inflation picks up.

Growth in real wages is expected to slow in 2016 and 2017 as the financial situation of companies continues to improve. Market sector employment should keep progressing in 2016 thanks to employment-oriented government policies (CICE tax credit, Responsibility and Solidarity Pact, the SME recruitment incentive programme (*Embauche PME*)). It is slated to improve even further in 2017 as the economic recovery takes over from employment policies. The improvement in corporate earnings is expected to boost households' property income over the forecast period. In addition, the tax moderation policy in place since 2014 together with successive measures to lower personal income tax (€5bn for the benefit of 12 million households) should enhance households' purchasing power.

Despite a marked rise in 2015 (+1.4% after +0.6% in 2014), household consumption did not keep pace with purchasing power owing to a poorer performance in Q4 and higher-than-expected savings. Consumption should continue to rise in both 2016 and 2017 (+1.6% each year) as the outlook on the labour market improves. **Overall, the savings rate should be 15.4% in 2016 before declining to 15.0% in 2017.**

The construction sector's troubles are expected to dissipate slowly and household investment should gradually help speed up the recovery.

There should be an upswing in household investment over the forecast period. After a sharp decrease in 2015 (-2.8%), this investment should become steadier in 2016 (-1.5% with the improvement only kicking in during the second half of the year), before picking up substantially in 2017 (+3.0%), thus supporting the recovery. After having fallen at the end of 2015, pending the extension of the zero-interest loan scheme on 1 January 2016, new-home sales should immediately benefit from its effects. In 2016, this should represent greater momentum for individual housing starts followed by a gradual increase in households' construction investment; however, it is not expected to achieve a positive annual rate before 2017.

Business investment excluding construction is set to turn around under the impetus of economic policy measures and the recovery of business profit margins.

Business investment excluding construction is expected to increase faster in 2016 than in 2015 (+4.1% against +2.6%) on the back of the strong recovery of profit margins, and economic policy measures, especially the higher depreciation allowance for productive investment. In 2017, this investment should continue to progress (+4.8%) under the impetus of the economic recovery.

Lower oil prices should keep inflation down in 2016 but it is expected to rise in 2017.

Inflation is expected to be near zero in 2016 (0.1%) mainly due to the further fall in oil prices up to March. **It should rise to 1.0% in 2017.** In 2016, lower oil prices mean that forecasts issued after the draft budget will need to be revised. Core inflation is set to increase (0.8% in 2016, after 0.5% in 2015), partly due to the past depreciation of the euro, which should continue to buoy up the prices of imported manufactured products. Prices for services are expected to rise marginally owing to the slight slowing of nominal wages in 2016.

Inflation should pick up again in 2017 (1.0%) owing to the combined impact of the mechanical increase in volatile inflation (forecasts are traditionally based on unchanged oil prices and exchange rates) and rising energy taxation. Core inflation should also increase (1.1%, after 0.8%), in particular due to inflation in the services sector fuelled by rising wages and salaries.

Market sector employment is expected to recover in 2016, underpinned by government policies and stronger growth.

The recovery in total employment was confirmed in 2015 (adding an annual 95,000 jobs on average) under the impetus of the CICE tax credit and the Responsibility and Solidarity Pact. The recovery should speed up in 2016 (adding an annual 190,000 jobs on average) mainly on the back of the SME recruitment incentive programme. In 2017, total employment is expected to continue rising (+150,000 jobs) as the economic recovery takes over from employment policies and job creation in the non-market sector.

After contracting for three years, market sector paid employment was steady in 2015 (adding an annual 5,000 jobs on average¹). It should start to increase again in 2016 (adding an annual 130,000 jobs on average) under the combined effects of the CICE tax credit, the Responsibility and Solidarity Pact and the new SME recruitment incentive programme. Measures taken to reduce labour costs should enable around 150,000 extra jobs to be created on average in 2016, 30,000 of which will be a direct result of the SME recruitment incentive programme². In 2017, market sector employment is expected to continue progressing (adding an annual 110,000 jobs on average).

¹ And even 82,000 jobs year-on-year.

² And 60,000 year-on-year.

Non-market sector employment is projected to keep on rising in 2016 (adding an average 25,000 jobs compared to 55,000 in 2015). In 2017, it should be stable on average if the number of government-sponsored employment contracts remain at their 2016 year-end level.

2.2. MEDIUM-TERM OUTLOOK (2018-2019)

Activity should progressively gather pace by 2019.

Growth is forecast to reach 1¾% in 2018, then 1.9% in 2019. Inflation is projected to climb to 1.4% in 2018 and 1¾% in 2019. The upswing in growth will offset only very gradually the output gap which is set to remain significantly wide throughout the period covered by the Programme, bearing out the conservative nature of the actual growth forecast.

Many unknown factors are surrounding this forecast.

This recovery scenario is based inter alia on oil prices and the euro exchange rate staying close to recent levels. An increase or decrease would invalidate this scenario.

The performance of French exports will depend on our partners' growth levels which may be affected by two factors: (i) the economic situation in the emerging countries, particularly in Russia and Brazil and (ii) the pace of recovery in the euro area. Moreover, the slack in Chinese demand owing to industrial overcapacity and the rebalancing of the domestic economy, could be more severe than expected. Nevertheless, it will probably lead to a more assertive response from the Chinese authorities to stimulate demand and could also affect commodity prices and economic policies (via lower inflation).

The behaviour of French households and businesses is also uncertain. It could prove bullish if they decide to quickly use the gain in purchasing power generated by the dip in oil prices or if the improvement in corporate margins and the higher depreciation allowance measure have a stronger-than-expected impact on investment, or conversely bearish if they continue to adopt a wait-and-see attitude and decide to focus on improving their financial situations and deleveraging. In addition, the pace of the recovery of corporate and household investment could be compromised, particularly if businesses elect to earmark gains from labour cost cutting measures for increasing salaries or reducing debt, and if the surge in the building of new homes expected in 2017 were to be delayed.

Box 1: Comparison with the European Commission's Winter Forecast

In its Winter 2016 forecasts published in February of the same year, the European Commission projected GDP growth of 1.3% in 2016 followed by a jump to 1.7% in 2017 under the usual no policy change assumption.

The Stability Programme, which includes measures required to meet the target of bringing the deficit back down below 3% by 2017, forecasts growth of 1.5% in both 2016 and 2017, after 1.2% in 2015.

Both macroeconomic scenarios assume buoyant domestic demand under the impulse in particular of stronger private consumption supported by an improved outlook on the labour market. The Commission's estimate for total investment is more optimistic than the Stability Programme's (4.6% in 2017 after 1.6% in 2016, compared with 3.0% after 1.7 %) based on higher GDP growth and the positive impact on businesses' competitiveness of the CICE and the Responsibility and Solidarity Pact.

Following strong growth in 2015, exports are expected to slow down in 2016 before picking up again in 2017 (5.7% in 2017 after 4.6% in 2016 according to the Commission, compared with 4.8% after 3.9% in the Stability Programme) supported by the expected upturn in global demand, which is slightly higher in the Commission scenario. With the progressive revival of domestic demand, import growth should be strong (5.8% in 2017 after 4.9% in 2016 for the Commission versus the Stability Programme's 5.1% after 4.8%), with external trade thus putting a drag on growth.

3. FISCAL STRATEGY

3. Fiscal strategy

3.1 OVERALL STRATEGY

The government's fiscal policy aims to continue fiscal consolidation and reduce the general government deficit to less than 3% of GDP in 2017 and then achieve structural balance in 2019. Gradual reduction of the deficit is based on containing expenditure, while still financing priorities and easing the tax burden. This adjustment path will stabilise and then gradually reduce the general government debt ratio.

The results achieved in 2015 vindicate the government's policy choices. The 2015 public deficit reported by France's national statistics institute (Insee) on 25 March 2016 stood at 3.5% of GDP, compared to 4.0% in 2014. The deficit has been halved from its crisis-induced peak in 2009. The 2015 deficit was also much smaller than the 4.0% figure recommended by the Council in March 2015 or the assumption of a 3.8% deficit underlying the Draft Budget for 2016. Nominal public expenditure was contained in 2015, posting growth of 0.9%, excluding tax credits, compared to 1.0% growth in 2014. This was the second year in a row of record low expenditure growth. The average growth for the period from 2007 to 2012 stood at 3.2% per year.

In 2016 and 2017, the adjustment path will rely on continued containment of public expenditure. The deficit targets of 3.3%, followed by 2.7%, announced in last April's Stability Programme and upheld when drafting the 2016 budget bills, have been maintained. This adjustment path complies with our European commitments to the recommended deficits of 3.4% and 2.8%. It will enable us to stabilise, and then reduce the debt ratio, while still leaving enough fiscal headroom to finance the cut in the tax burden under the Responsibility and Solidarity Pact and the Competitiveness and Employment Tax Credit (CICE).

The Initial Budget Act and the Social Security Budget Act for 2016 implemented the commitments that the government made in the April 2015 Stability Programme. The second annual instalment of the €50bn three-year savings plan (2015-2017) was written into these Acts.

In accordance with the government's strategy, additional expenditure measures introduced after the Initial Budget Act for 2016 entered into force will be fully financed. This is the case for the emergency job creation plan announced by the President of the French Republic on 18 January 2016, as well as for the civil service pay raise granted on 17 March 2016, which will be financed by redeploying expenditure.

Persistent low inflation, expected to be 0.1% (as opposed to the 1.0% inflation assumption underlying the Draft Budget), will once again have an adverse fiscal impact in 2016, at the same overall economic growth rate. It will also reduce the impact of the measures previously set out in the €50bn savings plan.

In order to ensure that the deficit target is achieved in 2016 despite lower inflation, the government has presented further savings of €3.8bn, in addition to the measures required to finance additional

expenditure measures. These savings will come from the expenditure of central government and central government agencies, debt servicing and Social Security expenditure.

Savings efforts will continue in 2017, with the implementation of the third annual instalment of the €50bn savings plan under the budget bills for 2017. More specifically, savings efforts involving the central government and its agencies will continue, along with the reduction in central government transfers to local governments and the planned savings on Social Security.

The persistence of low inflation levels and the need to keep the nominal deficit on the right path means that the government has added €5bn in savings to be achieved through supplementary measures under this Stability Programme in 2017. These measures will require efforts from all general government sub-sectors. They will be presented in the budgetary legislation submitted to Parliament in the fourth quarter.

In aggregate, these savings will make it possible to continue containing public expenditure and still ease the tax burden. As the approach of local elections drives up local government expenditure, nominal public expenditure, excluding tax credits, should increase by 1.1% in 2016 and 2017, following rises of 0.9% in 2015 and 1.0% in 2014. Public expenditure as a percentage of GDP should decrease by more than 2 percentage points from 2014 to 2017 to stand at 54.0% of GDP in 2017 (excluding tax credits). Meanwhile, deployment of the Responsibility and Solidarity Pact and the take-up of the CICE tax credit should contribute to a lighter tax burden: after stabilising at 44.8% in 2014 and declining in 2015 for the first time since 2009, to 44.5% of GDP, the aggregate tax and social security contribution ratio should fall to 44.2% in 2016 and then to 44.0% in 2017.

This policy will be maintained after 2017, leading to structural equilibrium in 2019, by means of a structural adjustment of 0.5 percentage points in 2018, followed by 0.3 percentage points in 2019. The continuing easing of the tax burden, which is fully consistent with these objectives, will be made possible by ensuring that public expenditure growth does not exceed the inflation rate. As economic growth picks up over this period and outstrips the potential growth rate, the general government balance should see a cyclical improvement, in addition to the structural improvement. The deficit should stand at 1.2% of GDP in 2019.

The debt ratio according to the Maastricht definition started to stabilise in 2015, at 95.7% of GDP, following 95.3% in 2014 and 92.4% in 2013. It should stand at 93.3% of GDP in 2019.

Table 2 - Adjustment path

	2014	2015	2016	2017	2018	2019
General government balance	-4.0	-3.5	-3.3	-2.7	-1.9	-1.2
Cyclical balance	-1.9	-1.9	-1.8	-1.8	-1.6	-1.3
One-offs (as a % of potential GDP)	0.0	0.0	-0.2	-0.1	0.0	0.0
Structural balance (as a % of potential GDP)	-2.1	-1.6	-1.3	-0.8	-0.3	0.0
Structural adjustment	0.5	0.4	0.4	0.5	0.5	0.3
Nominal public expenditure growth, excluding tax credits (%)	1.0	0.9	1.1	1.1	1.4	1.8
Aggregate tax and social security contribution ratio	44.8	44.5	44.2	44.0	43.8	43.5
Government expenditure ratio (excluding tax credits)	56.1	55.3	54.6	54.0	53.1	52.1
General government debt	95.3	95.7	96.2	96.5	95.4	93.3
General government debt excluding financial assistance for the euro area	92.2	92.7	93.2	93.7	92.6	90.6

3.2 OUTTURN 2015

On 25 March 2016, France's national statistics institute (Insee) published the preliminary general government accounts showing a deficit of 3.5% of GDP (€77.4bn) in 2015, compared to 4.0% in 2014. This is nearly €5bn less than the deficit of 3.8% of GDP forecast in the April 2015 Stability Programme, which was also the basis for subsequent budget legislation.

All general government sub-sectors contributed to beating the projection. The central government deficit reached €70.5bn, as opposed to the deficit of €73.3bn projected when the 2015 Supplementary Budget Act was drafted. The improvement stems from savings on expenditure, with underspending for the fourth time in a row since 2012 on items subject to the expenditure rule on central government expenditure, excluding debt servicing and pensions³. Tax and non-tax revenue also played a role. Social security funds also contributed to the improvement: the deficit on the general scheme and the old-age solidarity fund stood at €10.7bn, marking an improvement of €2.4bn compared to 2014. The national healthcare expenditure growth target (Ondam) was achieved once again in 2015. The growth target was revised down to 2.0% in the 2016 Social Security Budget Act and the other expenditure of the general scheme and hospital expenditure was contained. Finally, the local government balance improved sooner than expected and posted a surplus for the first time since 2003. The surplus was €0.7bn and is in contrast with the projected deficit of €0.5bn in 2015 and the €4.6bn deficit in 2014. The improvement in the local government balance stems from a sharper-than-expected slowdown in their overall expenditure on both

³ In fact, since the implementation of the rule from the start of the 2012 budget year.

operating and capital items, and strong growth in revenue from registrations duties on property sales (DMTO), owing to the large volume of such transactions at the end of the year.

The outturn for 2015 confirmed that public expenditure is under control. The nominal expenditure growth rate stood at 0.9%, excluding tax credits, compared to 1.0% in 2014. This growth rate was slightly lower than the assumption underlying the 2016 Draft Budget, which predicted nominal expenditure growth of 1.0%. This is the lowest increase in public expenditure for several decades. This performance concerns all general government sub-sectors and reflects the priority placed on containing expenditure for fiscal consolidation. This priority was set in the 2014 Initial Budget Act, and upheld with each successive piece of budget legislation and incorporated into the 2014–2019 fiscal adjustment path.

The aggregate tax and social security contribution rate fell in 2015, for the first time since 2009. It decreased to 44.5% of GDP, compared to 44.8% of GDP in 2014. The CICE tax credit and the Responsibility and Solidarity Pact contributed to this achievement. Aggregate tax elasticity stood at 0.8 in 2015, which is just slightly lower than the forecast of 0.9 in the 2016 Draft Budget.

Ultimately, the deficit improved by 0.4 percentage points of GDP in 2015, compared to 2014, and this improvement was entirely structural (see Section 3.3).

These results show that fiscal consolidation continued in 2015, against the backdrop of gradual economic recovery and low inflation. They also show that France honoured its European commitments (see “Excessive Deficit Procedure”).

3.3 STRUCTURAL BALANCE

In 2015, the public deficit shrank by 0.4 percentage points of GDP to 3.5%, compared to 4.0% in 2014. This improvement is the fruit of a major structural effort equivalent to 0.7 percentage points of GDP achieved mainly through containment of public expenditure, which posted nominal growth of 0.9%, excluding tax credits, compared to 1.0% in 2014. The three-year €50bn savings plan implemented in 2015 contributed to this improvement. The expenditure effort equivalent to 0.8 percentage points of GDP was offset in part by discretionary tax measures, which resulted in a negative contribution of 0.1 percentage points of GDP. The measures concerned include the Responsibility and Solidarity Pact and the CICE tax credit. The aggregate tax elasticity to GDP growth was less than one (0.8), against the backdrop of low inflation, which dampened the growth of certain tax bases, such as consumption or wages and salaries. The aggregate spontaneous growth of revenue reduced structural adjustment by 0.2 percentage points of GDP, while the continued deployment of the CICE trimmed the adjustment by another 0.1 percentage points of GDP (correction for accrual-based measurement of tax credits⁴). The structural adjustment achieved in 2015 came to 0.4 percentage points of GDP. Real GDP grew by 1.2%, just slightly

⁴ The cost recorded in the national accounts is the cost of the claim acquired on the government, whereas the tax expenditure recognised in the budget is the cost of the allocations and refunds. As the Competitiveness and Employment Tax Credit (CICE) is deployed, a gap emerges between these two measurements in the central government balance. This gap is identified separately in the structural breakdown of the deficit (See Appendix).

higher than the potential growth rate of 1.1% in 2015, which means that the cyclical component of the deficit was unchanged from 2014. Finally, one-offs pared nominal adjustment by 0.1 percentage points of GDP, because of the treatment as a one-off of the change in the time of recording of the European Union Amending Budget 6, following a Eurostat's decision that came after the Public Finance Planning Act (*Loi de programmation des finances publiques* – LPFP) was passed in December 2014 (see Box 2).

In 2016, the improvement of the general government balance by 0.3 percentage points of GDP will once again rely on a major expenditure effort worth 0.7 percentage points of GDP, with nominal public expenditure growth of only 1.1%, excluding tax credits. This effort reflects the impact of the second year of the €50bn savings plan, bolstered by the further savings explained in detail in this Stability Programme (see Box 3), which will offset the fiscal impact of low inflation. The measures to ease the tax burden will trim the structural effort by 0.15 percentage points of GDP, particularly with the implementation of the Responsibility and Solidarity Pact. The impact of tax elasticity (0.9) partly stemming from low inflation, which slows the natural growth of certain tax bases, should once again make a negative contribution of 0.15 percentage points of GDP. Therefore, structural adjustment should reach 0.4 percentage points of GDP. As real GDP growth gradually recovers to 1.5%, matching potential growth, the cyclical adjustment should be virtually zero, while one-offs could reduce nominal adjustment by 0.1 percentage points of GDP, primarily as a result of the expected cost of settling tax disputes.

In 2017, the general government balance should improve by 0.6 percentage points of GDP as a result of structural adjustment of 0.5 percentage points and one-offs that improve nominal adjustment by 0.1 percentage points of GDP between 2016 and 2017. The third annual instalment of the €50bn savings plan, supplemented by the efforts set out in this Stability Programme (see Box 3), is forecast to contain nominal public expenditure growth at 1.1%, excluding tax credits, and should result in an expenditure effort equivalent to 0.6 percentage points of GDP. However, the structural adjustment is expected to be adversely affected by discretionary tax measures (-0.3 percentage points of GDP), as implementation of the Responsibility and Solidarity Pact continues. The correction for accrual-based measurement of tax credits should become positive, at 0.1 percentage points of GDP, as the disbursements related to the CICE tax credit accelerate. As aggregate tax elasticity normalises and returns to one over this period, the non-discretionary component of adjustment should be zero. As is the case in 2016, the cyclical component of adjustment should be zero, since actual GDP growth matches potential growth.

In 2018 and 2019, cutting the public deficit will require structural adjustments of 0.5 percentage points of GDP, followed by 0.3 percentage points and actual growth that outstrips potential growth over the period. The structural expenditure effort should make it possible to further fiscal consolidation while leaving enough fiscal headroom for more cuts in taxes and social security contributions. Real GDP growth of 1.4% in 2018 and 1.9% in 2019 should gradually narrow the output gap, with potential GDP growth estimated at 1.4% and 1.3% for those years. The structural deficit should stand at 0.3% of GDP in 2018 and structural fiscal equilibrium should be achieved in 2019.

Table 3 - Structural balance adjustment path and breakdown of structural adjustment⁵

% of GDP	2015	2016	2017	2018	2019
General government balance (1)	-3.5	-3.3	-2.7	-1.9	-1.2
Cyclical balance (2)	-1.9	-1.8	-1.8	-1.6	-1.3
One-offs (as a % of potential GDP) (3)	0.0	-0.2	-0.1	0.0	0.0
Structural balance (as % of potential GDP) (1)- (2)- (3)	-1.6	-1.3	-0.8	-0.3	0.0
Structural adjustment	0.4	0.4	0.5	0.5	0.3
Structural effort	0.7	0.5	0.3	0.5	0.4
<i>Discretionary tax measures</i>	<i>-0.1</i>	<i>-0.2</i>	<i>-0.3</i>	<i>-0.2</i>	<i>-0.2</i>
<i>Expenditure effort</i>	<i>0.8</i>	<i>0.7</i>	<i>0.6</i>	<i>0.7</i>	<i>0.6</i>
Non-discretionary component	-0.2	-0.2	0.0	0.0	0.0
Correction for accrual-based measurement of tax credits	-0.1	0.0	0.1	0.1	0.0

Box 2 - One-offs taken into account when evaluating France's structural balance

France introduced a structural balance rule to implement the Treaty on Stability, Coordination and Governance (or "Fiscal compact"). The structural balance corresponds to the general government balance adjusted for direct cyclical effects and for one-offs. This rule avoids the pro-cyclical effects produced by managing government finances on the sole basis of the nominal general government balance.

In response to a request from the High Council of Public Finance, the report appended to the 2014-2019 Public Finance Planning Act sets out the government's rules on one-offs and proposes a set of criteria to define one-offs.

On the revenue side, the timing for recognition of losses stemming from exceptional tax disputes in the national accounts cannot be foreseen because it depends on the timing and the tenor of the courts' final rulings⁶. Therefore, these losses have been classified as one-offs. They include

⁵ The breakdown of structural adjustment between expenditure effort and discretionary tax measures in 2018 and 2019 is a conventional breakdown used to illustrate an adjustment path where cuts to taxes and social security contributions continue.

⁶ Expenditure and revenue are recorded on an accrual basis in the system of national accounts in compliance with the European System of Accounts of 2010. This means they are recorded, "when economic value is created, transformed or extinguished, or when claims and obligations arise, are transformed or are cancelled" §1.101. Consequently, losses stemming from tax disputes will be recorded in the year when the courts make their final rulings, which correspond to liabilities. On the other hand, the losses will be recorded in budgetary accounting on the basis of cash receipts or disbursements, which may occur before or after the courts hand down their final rulings.

reimbursements to foreign UCITS, reimbursements of withholding tax on dividends paid, the De Ruyter dispute⁷ and the Steria dispute⁸.

On the expenditure side, interest payments owed on dispute settlements have also been recorded as one-offs. The change in the time of recording the European Union Amending Budget 6 is also treated as a one-off, because the adjustment path was based on a lower contribution to the European budget in 2015 at the time the Public Finance Planning Act was drafted and passed at the end of 2014. However, a decision by Eurostat, which came after the Public Finance Planning Act was passed, in early 2015, changed the case law regarding the rules for recording of such events. The decision deems that the recognition date for Amending Budget 6 should be the date on which the Member States were first notified about it. This accounting change resulted in the recognition of a gain stemming from Amending Budget 6, not as the payments occurred, but in a single entry recognising a gain of €1.1bn in 2014, when notice of the decision was given.

Consequently, the timing change should be neutralised. This substantial change does not alter the medium-term adjustment path, but it does mean that structural adjustment is smaller than called for in the Public Finance Planning Act. Therefore, the pragmatic approach is to treat this change in the time of recording, which could have a major impact on structural adjustment measurements, as a one-off. More specifically, the timing change, and not the event itself, is treated as a one-off.

Finally, contrary to the European Commission's methodology, and in compliance with the rules set out in the appendix to the Public Finance Planning Act, sales of mobile phone licenses are not recorded as one-offs since such transactions are part of the usual management of the central government's non-financial assets.

Table 4 - One-offs excluded from the structural balance under the national system of accounts

(deviation from baseline, in € bn)	2014	2015	2016	2017	2018	2019
Total	0.3	-1.1	-3.8	-2.0	-0.4	0.0
Revenue	-0.7	-0.6	-2.6	-1.7	-0.4	0.0
Withholding tax dispute (<i>précompte mobilier</i>)	0.0	0.0	-0.3	0.0	0.0	0.0
Stéria dispute	0.0	0.0	-0.3	-0.3	-0.3	0.0
UCITS dispute	-0.7	-0.6	-1.4	-1.4	-0.1	0.0
De Ruyter dispute	0.0	0.0	-0.5	0.0	0.0	0.0
Expenditure	0.9	-0.5	-1.2	-0.3	0.0	0.0
Timing change of the AB6 2014	1.1	-0.3	-0.8	0.0	0.0	0.0
Interest on dispute settlements	-0.1	-0.1	-0.4	-0.3	0.0	0.0

NB: the figures given in this table do not predict the outcome of the disputes; they merely reflect a conservative approach to multiyear public finance projections. Therefore, the figures shown are subject to change as a result of the courts' final rulings.

⁷ Dispute concerning French social security contributions under European Union law.

⁸ Dispute concerning dividends received from European subsidiaries.

Box 3 – Planned corrective measures

Since the Public Finance Planning Act of December 2014 was passed, the expenditure containment strategy has been expressed in successive pieces of budget legislation and in the budget outturns. Supplementary measures have been taken as warranted by economic developments. For example, the April 2015 Stability Programme included supplementary measures to boost expenditure savings in 2015 and 2016, as inflation had remained weaker than expected. New regulations and cuts were implemented immediately under the central government expenditure rules and the national healthcare expenditure growth target (Ondam) in the second quarter of 2015. Supplementary savings measures for 2016 were then written into the budget legislation in the fourth quarter. The savings concerned all general government sub-sectors, in accordance with the main components of the initial savings plan.

The same approach has been used this year, following the downward revision of the inflation rate forecast by nearly one percentage point, as was the case at the same time last year.

This Stability Programme contains €3.8bn in additional savings measures in 2016, on top of the savings measures passed in the Initial Budget Acts. These savings are designed to offset the adverse impact of low inflation on efforts to meet the government deficit targets. The expenditure savings will be made by issuing regulations or by implementing cuts during the year. The details are as follows:

- ▶ €1bn on central government and central government agency expenditure. These savings will be in addition to those financing priority discretionary measures introduced at the beginning of 2016 (such as the emergency job creation plan or support for agriculture);
- ▶ €1bn on healthcare and social protection expenditure, based on the good results achieved in 2015;
- ▶ €1.8bn less in interest expenditure due solely to the lower interest rate forecast, with an estimated 10-year rate of 1.25% at the end of 2016, versus the forecast of 2.4% in the Initial Budget Act⁹.

In 2017, fiscal consolidation efforts will also be stepped up with supplementary savings measures worth €5bn to offset the slower-than-expected rise in inflation. At this point in the 2017 budget making process, the effort is distributed according to each general government sub-sector's share of public expenditure, as was the case in the initial savings plan:

- ▶ The balance of the central government and its agencies will be adjusted, with €2bn in additional savings;
- ▶ The balance of healthcare and social protection administrations will also be adjusted by €2bn;
- ▶ Finally, local government expenditure growth will slow by €1bn, thanks to lower inflation.

These corrective measures will be set out in detail in the budget acts in the fourth quarter of 2016.

9. On 8 April, this rate stood at 0.43%.

3.4 THE GENERAL GOVERNMENT BALANCE BY SUB-SECTORS

Fiscal consolidation will result from efforts to rein in expenditure shared by all sub-sectors of general government to lead France back to a nominal deficit that is less than 3% of GDP in 2017, and then to structural equilibrium in 2019. The deficit is forecast to shrink from 3.5% of GDP in 2015 to 2.7% in 2017. After that, the deficit is expected to shrink to 1.9% of GDP in 2018 and 1.2% in 2019.

Table 5 - General government lending capacity (+) / borrowing requirement (-)¹⁰

% of GDP	2015	2016	2017	2018	2019
General government balance, Maastricht definition	-3.5	-3.3	-2.7	-1.9	-1.2
<i>primary balance</i>	<i>-1.5</i>	<i>-1.3</i>	<i>-0.7</i>	<i>0.1</i>	<i>0.9</i>
Central government	-3.3	-3.2	-2.9	-2.3	-1.8
Other central government bodies	-0.1	0.0	0.0	0.0	0.0
Local government	0.0	0.0	-0.1	-0.1	-0.2
Social security funds	-0.3	0.0	0.3	0.6	0.8

The central government sub-sector (central government and other central government bodies) balance is expected to improve by 0.4 percentage points between 2015 and 2017, from 3.3% of GDP in 2015 to 3.0% of GDP in 2017. Most of the improvement will stem from a major expenditure effort, as part of the planned decrease in nominal central government expenditure, excluding debt servicing and pensions, and including levies on revenues for the benefit of local governments and the European Union. The bulk of the savings will come from efficiency gains (more pooling of procurement and IT functions, moderating central government operating expenditure, refocusing government action); other central government bodies will see their operating expenditure and scope of intervention trimmed, as their resources are more tightly regulated with new or lower caps on earmarked taxes; financial support for local governments will be subject to further cuts. The new savings measures described in this Stability Programme (see Box 3) will bolster the efforts of the central government sub-sector as lower-than-expected inflation persists. The correction of the central government deficit will also be facilitated by low interest rates. Inversely, changes in the central government balance will reflect the compensation provided to the Social Security administration for lower contributions resulting from implementation of the Responsibility and Solidarity Pact.

The social security balance should improve by 0.6 percentage points of GDP between 2015 and 2017, from a deficit of 0.3 percentage points of GDP to a surplus of 0.3 percentage

¹⁰ The breakdown of the effort by sub-sectors after 2018 is the result of a convention.

points of GDP. The expected improvement will come from economic recovery and savings incorporated in the adjustment path set out in the Public Finance Planning Act or in subsequent measures: effort on the national healthcare expenditure growth target (Ondam), savings measures passed in budget acts, such as the reform of benefit adjustment procedures included in the 2016 Social Security Budget Act, the agreement signed in October 2015 between management and labour representatives on supplementary pension schemes, along with the expected renegotiation of the agreement on unemployment insurance, continuing implementation of measures concerning family benefits and pension reform, and savings on the management expenditure of social protection bodies. Social security funds will be compensated for cuts in taxes and contributions in 2016, as they were in 2015, by putting the financing for housing benefits provided by the family allowance funds back into the central government budget.

The local government sub-sector will also contribute to the fiscal consolidation effort, which will result in a €3.3bn cut in transfers in 2016, followed by a cut of €3.7bn in 2017, compared to the €3.5bn cut in 2015¹¹. In 2016 and 2017, local governments will have to slow the growth of their operating expenditure further, as low inflation persists. The government's structural reforms should facilitate slower growth of local governments' expenditure (see the section on streamlining local government expenditure). On the other hand, the recovery in capital expenditure in 2016 and 2017 could have a negative impact on the local government deficit, which could deepen by 0.1 percentage points of GDP between 2015 and 2017.

3.5 PUBLIC EXPENDITURE

3.5.1 General government expenditure

The growth of public expenditure from 2016 to 2017 reflects the government's measures to restore fiscal equilibrium while financing the cuts in taxes and social security contributions under the terms of the CICE tax credit and the Responsibility and Solidarity Pact. The adjustment path for public expenditure primarily reflects the €50bn savings plan for all general government sub-sectors for the period from 2015 to 2017, which was passed in the 2014-2019 Public Finance Planning Act. The adjustment path also incorporates additional measures introduced in the April 2015 Stability Programme, then confirmed in the 2016 Budget Act, and reinforced once again in this Stability Programme. These measures will offset the impact of weak inflation on the fiscal adjustment path.

In 2015, nominal public expenditure, excluding tax credits, grew by 0.9%, which was slower than the growth of 1.0% observed in 2014. This figure confirms the historically low growth rate achieved in 2014, compared to previous years, since the average growth rate of nominal public expenditure from 2007 to 2012 stood at 3.2% per year. The containment of public expenditure stems from the implementation of the first annual instalment of the €50bn savings plan, low interest rates (the 10-year yield stood at 0.9% at the end of 2015), which reduced the cost of debt servicing from one year to the next, and the decline in local governments' investment expenditure. The latter declined by 10.0% in 2015 as a result of the election cycle.

¹¹ The decrease in transfers to local governments started with a €1.5bn cut in 2014.

Nominal expenditure growth should remain moderate, at 1.1% in 2016 and 2017. Expenditure growth should be contained by continued implementation of the €50bn savings plan and the additional measures described in Box 3, persistent low inflation and a very gradual rise in interest rates. The slightly faster growth, compared to 2014-2015, should stem primarily from the gradual recovery of local governments' investment expenditure, which is the usual pattern in the local election cycle.

Public expenditure as a share of GDP, excluding tax credits, should fall from 56.1% in 2014 to 55.3% in 2015, then to 54.6% in 2016 and 54.0% in 2017.

Table 6 - Change in general government expenditure by sub sector

<i>(annual average, nominal terms, excluding tax credits, in %*)</i>	2014	2015	2016	2017
General government	1.0	0.9	1.1	1.1
Central government	-0.4	-1.6	0.7**	-0.6
Other central government bodies (ODAC)	4.1	1.7	1.7**	1.2
Local government (APUL)	0.2	-1.3	1.2	1.6
Social security funds (ASSO)	2.3	1.5**	1.3**	1.2

*Nominal expenditure, excluding tax credits under current terms, unless otherwise specified (**), and including transfers between general government sub-sectors

** Like-for-like terms:

- In 2015, housing benefits (APL) were incorporated into the central government budget, which reduces social security expenditure without changing aggregate public expenditure. If the incorporation of housing benefits into the budget is counted the change would be 0.7%;

- In 2016

- the incorporation of the levy to compensate electricity distributors for additional costs entailed by their public service obligations (CSPE) and the special fund account for energy transition into the general budget will decrease expenditure of other central government bodies and increase that of the central government by €7bn;

- the incorporation of the family housing allowance (ALF) into the budget will decrease social security expenditure and increase that of the central government;

- if these measures are counted, i.e. under current terms, central government expenditure would grow by 3.5% in 2016, expenditure by other central government bodies would decline by 6.7% and social security expenditure would rise by 0.5%.

Box 4 – Implementation of the €50bn savings plan

The 2014-2019 Finance Planning Act passed in December 2014 incorporated a €50bn savings plan into the fiscal adjustment path. The plan runs from 2015 to 2017 and aims to bring the public deficit back down to less than 3% of GDP in 2017 and to ensure financing for the Responsibility and Solidarity Pact and the Competitiveness and Employment Tax Credit. The persistence of low inflation measured by the CPI excluding tobacco in 2014 (0.4%) and 2015 (0.0%) and estimated for 2016 (0.1%), followed by the expected gradual rise in 2017 (1.0%), made it necessary to take additional corrective measures to stay on the path to a public deficit at less than 3% of GDP in 2017. More specifically, weak inflation reduces the impact of some savings, since the spontaneous growth of expenditure, without any measures, is slower when inflation is lower. Therefore, to achieve the desired impact, additional measures are needed to lower actual expenditure growth and offset the adverse fiscal effect of weak inflation.

Savings achieved in 2015 resulted in nominal expenditure growth of only 0.9% (excluding tax credits). These savings were initially laid out in the 2015 Initial Budget Act and Social Security Budget and then supplemented in the April 2015 Stability Programme. They represent savings of €18bn compared to spontaneous expenditure growth.

The measures included in the 2016 Initial Budget Act and Social Security Budget and supplemented by the additional measures in this Stability Programme (see Box 3) now represent total savings of €13bn. Their impact was revised along with the inflation forecast.

The savings measures for 2017 represent a total of just under €19bn and result from measures that have already been passed and their future impact, along with savings measures set out in this Stability Programme (see Box 3).

The details are as follows:

- ▶ For **central government expenditure** (excluding debt servicing, pensions and financial support for local governments), the adjustment path is based on the expenditure level stipulated in the 2016 Initial Budget Act, along with the supplementary measures in this Stability Programme. The bulk of the savings will come from efficiency gains (more pooling of procurement and information systems, moderating central government operating expenditure, refocusing government action); **other central government bodies** will see their operating expenditure and scope of intervention trimmed. These measures will produce a total of slightly more than €19bn in savings on central government expenditure and the expenditure of other central government bodies between 2015 and 2017;
- ▶ **Transfers to local government** will be cut by a total of €10.5bn between 2015 and 2017;
- ▶ Measures in the 2015 and 2016 **Social Security** Budget Acts will produce savings on financial benefits paid to households (revised adjustment procedures for all benefits) and on healthcare expenditure, with a national healthcare expenditure growth target of 1.75% in 2016 and 2017. The agreement reached on supplementary pension schemes in 2015 and the unemployment insurance agreement currently under negotiation are expected to produce savings of €1.6bn and contribute to the financial equilibrium of the schemes. Savings will also be made on social security funds' management costs and this Stability Programme calls for supplementary measures in 2017. In aggregate, these measures should produce just under €20.5bn in savings over the period between 2015 and 2017.

3.5.2 Central government expenditure

Containment of public expenditure will continue in 2016 and 2017, building on the major efforts accomplished in recent years and the results achieved in 2015. The central government deficit stood at €70.5bn in 2015, compared to the expected deficit of €73.3bn underlying the 2015 Supplementary Budget Act. The better-than-expected outcome is largely the result of expenditure savings, including underspending on the items subject to the nominal growth rule for expenditure other than debt servicing and pensions, along with lower debt servicing costs. Expenditure on the items subject to the expenditure rule (excluding support for local governments, debt servicing and pensions) decreased by €1.4bn in 2015, compared to 2014 on a like-for-like basis. The decrease stems from decisions made during the year that increased the efforts compared to the decrease already stipulated in the 2015 Initial Budget Act. The 2015 outcome provided enough resources to finance discretionary measures introduced during the year and, more especially, the measures taken to ensure the security of the French people following the attacks in January 2015. It also provided enough fiscal headroom to lower the objective through net cancellations of appropriations worth €0.7bn under the rescission decree of 9 June 2015.

In 2016 and 2017, central government and central government agencies will continue to play a significant role in fiscal consolidation, building on the 2015 instalment of the €50bn savings plan. The expenditure targets set out in the 2016 Initial Budget Act are consistent with the second year of the three-year plan. Furthermore:

- ▶ In 2016, the central government share of the additional expenditure under the jobs plan (€1.6bn, after the €0.4bn in co-financing from management and labour bodies) will be financed under the expenditure rule (up to €0.9bn) and by lower government disbursements, as defined by the Maastricht Treaty, on the Invest for the Future Programme (€0.4bn) and savings on social security (€0.3bn). Other priorities under the government's policy gave rise to discretionary measures introduced after the 2016 Initial Budget Act was passed, such as the livestock farming support plan (€0.8bn). These measures will be financed by redeployment of expenditure covered by the expenditure rule, excluding debt servicing and pensions.
- ▶ In addition, a further €1bn in savings on central government expenditure will be achieved, through regulations cancelling appropriations.

The government will use fiscal regulation instruments to ensure that the 2016 central government expenditure objective is met, along with the contingency reserve requirement. The initial reserve ratio was stabilised in 2016 at 8% of appropriations, excluding personnel expenditure (Title 2) and 0.5% of appropriations for wages and salaries. Furthermore, €1.8bn in appropriations carried over from 2015 to 2016 were frozen at the beginning of April for all ministries, leading to an increase in the contingency reserve after the start of the fiscal year.

In 2017, supplementary corrective measures worth €2bn will be introduced to improve the deficit of the central government and central government agencies. The efforts will involve:

- ▶ Keeping the government wage bill under control, even with the raise in civil service pay.

- ▶ Containing operating expenditure through the efficiency gains already obtained on IT resources and procurement, along with the fiscal headroom created by weak inflation and low oil prices;
- ▶ Streamlining of local delivery of services, with pooling and improved synergy of central government and central government agencies' local networks, in line with the government's reforms of local government, including the reduction in the number of regions.
- ▶ Prioritising intervention expenditure.

Box 5 – Central government borrowing costs and yield forecasts

In 2015, France continued to enjoy very favourable borrowing terms as a result of continued investor confidence and the European Central Bank's accommodative monetary policy relying on quantitative easing (QE). Yields at issue for short-term securities (BTFs) averaged -0.19%. These yields ended the year under -0.30%, which is lower than the interest rate on the ECB deposit facility, which was cut in December. Similarly, annual yields at issue of securities with maturities of more than one year stood at an average of 0.63%, which is a historically low level.

The yield profile underlying the debt servicing cost forecast assumes that European monetary policy will be tightened starting in 2017. It is also consistent with a macroeconomic scenario calling for higher growth and inflation.

Table 7: Yield forecasts

<i>End of year levels (forecasts)</i>	2016	2017	2018	2019
Short-term yields (3-month BTFs)	-0.40%	-0.10%	0.70%	1.50%
Long-term yields (10-year OATs)	1.25%	2.00%	2.75%	3.50%

Short-term yields (3-month BTFs) are expected to stabilise at the level resulting from the key rate cuts in March 2016. They should start to climb again in 2017, as the ECB tightens its monetary policy, and then rise by 80 basis points per year as the improved macro-economic situation leads to a return to normal financing terms.

The 10-year yield stood at 0.43% on 8 April 2016. The assumption is that long-term yields will rise gradually in 2016, with a 10-year yield of 1.25% by the end of 2016 as growth gathers strength. They should then rise by 75 basis points per year, as macroeconomic conditions improve and, starting in the first quarter of 2017, as the moderating effect of the ECB's asset purchase policy ends.

It should be noted that debt servicing costs are also sensitive to inflation because of the substantial share of inflation-linked bonds, which account for approximately 13% of the outstanding negotiable central government debt securities with maturities of one year or more.

3.5.3 Expenditure of other central government bodies

Other central government bodies, most of which are also central government agencies¹² will contribute to efforts to rein in expenditure. These bodies' expenditure underwent a sharp increase in the past¹³, and is now being monitored more closely. Containing expenditure starts with the funding sources. These sources are now subject to closer supervision, including budget grants or earmarked taxes, which are capped in most cases, in accordance with the provisions of the 2014-2019 Public Finance Planning Act. In order to contain expenditure, these bodies are banned from borrowing from credit institutions and subject to restrictions on issuing debt securities with maturities of more than 12 months, unless specifically authorised to do so. These provisions were confirmed and clarified in the 2014-2019 Public Finance Planning Act. Central government representatives sit on the governance bodies of the vast majority of other central government bodies, ensuring that they adopt balanced budgets. The agencies' expenditure under the Invest for the Future programme is monitored at the central level by the General Commission for Investment, which reports to the Prime Minister in coordination with the Ministry for Finance and Public Accounts.

In 2016-2019, the government will continue the ongoing effort to streamline central government agencies. This is likely to result in a reduction in the number of these agencies (see Part 6.1.4. Agencies' expenditure), job cuts and a reduction in the financial resources appropriated to them in the form of subsidies for public service obligations and earmarked taxes. The 2014-2019 Public Finance Planning Act¹⁴ sets minimum annual objectives for lowering caps on earmarked taxes that are already capped, along with systematic capping of all earmarked taxes starting in 2016, or, failing that, restoration of uncapped taxes to the central government budget in 2017. Only capped earmarks that are duly justified will continue to exist, meaning earmarked taxes that are virtually fees for services, sector-specific levies or taxes financing insurance or compensation funds. At the same time, in keeping with the targets that central government will set for its own expenditure (operating expenditure, intervention expenditure, etc.), the operating expenditure and scope of intervention of central government agencies will be contained.

Other central government bodies' expenditure¹⁵ was kept under control in 2015. Various measures to encourage these bodies to rely on their own resources and to lower the caps on earmarked taxes and levies on operating funds have produced results. Expenditure growth was also slower than in 2014, the year when the compensation that the French Transportation Infrastructure Financing Agency (AFTIF) owed to Ecomouv was recognised on an accrual basis.

12 The salient features of central government agencies are that they provide public services, are mostly financed by the central government and are under its direct control. The purview of central government agencies and that of other central government bodies is not exactly the same: the former correspond to a budget-based approach while the latter are listed by Insee each year and correspond to a national accounts-based definition.

13 See, for example L'État et ses agences, Report 2011-M-044-01 by the Inspection générale des finances, March 2012. It is available at www.economie.gouv.fr.

14. Articles 15 and 16 of Act 2014-1653 of 29 December 2014, Public Finance Planning Act for 2014 to 2019

15 The reclassification of Société du Grand Paris (SGP) under Other local government bodies meant that the expenditure of Other central government bodies decreased over the whole period, including a decrease of €0.7bn in 2015.

Other central government bodies' expenditure are expected to decrease on a current basis in **2016** as a result of a major change in the entities classified as such. The levy to compensate electricity distributors for additional costs entailed by their public service obligations (CSPE) will become part of the central government budget, lowering other central government bodies' expenditure by approximately €7bn. Starting in 2016, this expenditure will be included in the general budget and in the special fund account for "energy transition" set up for this purpose. On a like-for-like basis, other central government bodies' expenditure is expected to be contained and grow at the same rate as in 2015. This will be achieved through the supplementary measures worth €5bn announced in the April 2015 Stability Programme, and the new savings measures announced in this Stability Programme (see Box 3).

New savings measures are planned to contain the growth of other central government bodies' expenditure in 2017.

3.5.4 Social security funds' expenditure

In 2015, the growth of benefits paid out by social security funds slowed to 1.9%, compared to 2.2% in 2014. This slower growth resulted from family policy measures that produced savings of €0.7bn, including means-testing of family allowance benefits since 1 July 2015. The growth of pension expenditure also slowed to 2.0%, compared to 2.4% in 2014, as a result of an adjustment of only 0.1% on 1 October 2015. The growth of health insurance benefits expenditure slowed to 2.0%, compared to 2.4% in 2014, as the national healthcare expenditure growth target (Ondam) was met for the sixth year in a row.

In 2016, growth of social benefits expenditure should slow even further to 1.3%, compared to 1.9% in 2015. Expenditure covered by the national healthcare expenditure growth target should grow by 1.75%, which would help slow the growth of health insurance expenditure, which stood at 2.0% in 2015. An improved job market, combined with the expected results of the talks in 2016 on the unemployment insurance agreement, should lead to a decline in expenditure on unemployment benefits.

Starting in 2017, the growth of social benefits expenditure should take off again as inflation rises. The Agirc-Arrco agreement on supplementary pension schemes signed on 30 October 2015 called for pension adjustments to be one percentage point lower than inflation and for adjustments to take effect later in the year (1 November). These changes should slow pension expenditure growth, while efforts to contain healthcare expenditure growth should continue in order to meet the national healthcare expenditure growth target of 1.75% until the end of the period.

Table 8 - Annual nominal growth rate of social benefits (%)

	2015	2016*	2017-2019 **
Social benefits	1.9	1.3	1.5
Pensions	2.0	1.7	1.9
National healthcare expenditure growth target	2.0	1.75	1.75
Other	0.9	-0.3	0.4

* Current basis

** Average annual growth rate

Healthcare benefits

In 2015, the controlled growth of healthcare expenditure seen since 2008 continued and complied with the national healthcare expenditure growth target (Ondam). The governance measures for the national healthcare expenditure growth target that have been in force for several years now, including the lower warning threshold, the monitoring committee and the increase in the number of actions taken by the early warning committee, helped meet the target for the sixth year in a row. This result is testimony to the government's efficient management of healthcare expenditure. The government has also backed this effort with structural action to improve the organisation of the healthcare system by elaborating a national healthcare strategy.

In 2016, the expenditure covered by Ondam should grow by only 1.75%, which would be the lowest growth rate since 1997. The expenditure effort will be organised around the main thrusts of the national healthcare strategy set out in the 2016 Social Security Budget Act: more efficient hospital expenditure (€0.7bn), more outpatient surgery and fewer unnecessary hospitalisations (€0.5bn), containment of health product prices and promotion of generic drugs (€1.0bn) and supervision of the appropriate use of treatments provided (€1.2bn).

Meeting this medium-term objective will rely on the continued implementation of the national healthcare strategy and the savings plan in four areas: developing outpatient care, improving the efficiency of hospitals' expenditure, continued efforts to lower drug prices and promote generic drugs, improving the effective and appropriate use of primary care and hospitalisation.

Old-age pensions

In 2016, pension expenditure growth should slow to 1.7%, compared to 2.0% in 2015, as successive pension reforms produce their effects.

The medium-term adjustment path also incorporates the effects of the measures implemented under the Agirc-Arrco agreement signed on 30 October 2015, including moving the pension adjustment date back to 1 November each year and making adjustments that are 1 percentage point lower than inflation (with a clause to prevent negative adjustments) from 2016 to 2018. All in all, in addition to the savings achieved in the short and medium term (approximately €6bn in 2020), the agreement will ensure the long-term equilibrium of the supplementary pension schemes.

Other benefits

The effects of family policy savings measures should continue with €0.3bn in savings in 2016, compared to €0.7bn in 2015.

In 2015, expenditure on unemployment benefits rose by 3.1%, as the increase in the number of unemployed receiving benefits outstripped the effects of the savings measures introduced under the unemployment insurance agreement of 2014. In contrast, expenditure should decrease in 2016 as the expected savings measures under the new agreement to be negotiated by management and labour representatives in 2016 take effect and the job market improves.

3.5.5 Local government expenditure

The local election cycle means that local government expenditure should pick up again in 2016 and 2017, following the slower growth seen in 2014 and the contraction seen in 2015.

In addition to the impact of the election cycle, other factors promoting rationalisation of expenditure include cuts in transfers to local governments, low inflation, local government reform, governance measures passed in the Public Finance Planning Act and the local government expenditure growth target (ODEDEL).

Following a €1.5bn cut in central government transfers to local governments in 2014, further cuts totalling €10.5bn were decided for the years from 2015 to 2017. These cuts in central government support mean that local governments are doing their share to achieve fiscal consolidation.

Local government reform will also produce efficiency gains that will slow the growth of operating expenditure. The creation of metropolitan areas and the reduction in the number of intermunicipal structures have been powerful tools for rationalising expenditure at the municipal level. The reduction in the number of regions in metropolitan France from 22 to 13 as of 1 January 2016 will also streamline France's administrative structures. The elimination of the *clause de compétence générale* for regions and *départements* under the local administration reform Act of 7 August 2015 (NOTRe Act) clarifies the division of powers and streamlines local governments' actions. Furthermore, increasing the minimum population threshold for intermunicipal structures to 15,000 will reduce the number of Public Intermunicipal Cooperation Establishments (EPCI) with their own tax raising powers by 40% by 1 January 2017. Mergers of 1,161 municipalities under the Act of 16 March 2015 produced 340 new municipalities¹⁶, bringing the number of municipalities in France to fewer than 36,000 for the first time. The population now living in the new municipalities is greater than 1.1 million. In contrast, only 25 new municipalities, resulting from mergers of 70 former municipalities, were created between 2011 and 2015. The mergers took effect on 1 January 2016.

The 2014-2019 Public Finance Planning Act creates a new governance tool in the form of a local government expenditure growth target (ODEDEL) that sets an indicative cap on nominal local government expenditure growth. This enhances transparency and trust in the dealings between local and central government by officialising a common commitment to keep the growth

16 New municipalities created as of 1 March 2016.

of local government expenditure under control. This target was met in 2014, the first year it took effect, showing that it is an effective tool for promoting rationalisation of local government expenditure. The 2016 draft budget broke down the target by level of government, enhancing motivation by providing each level of government with a relevant objective that reflects its individual situation. In consideration of the favourable effects of low inflation, the target for 2016 was lowered in the draft budget from the 1.9% figure stipulated in the Public Finance Planning Act to 1.2%¹⁷.

Several developments are noteworthy with regard to **local government expenditure**:

- ▶ **Local governments' investment expenditure** posted a further contraction in 2015, shrinking by 10.0%, following a decline of 8.4% in 2014. Most of the decrease can be attributed to the effect of the local election cycle and changes in the parties in power. The usual local election cycle pattern means that local government investment expenditure should stabilise in 2016, before picking up again in 2017 and rising faster and faster in the run-up to the next municipal elections.
- ▶ The estimated growth of **operating expenditure** was only 0.9% in 2015, compared to 2.2% in 2014¹⁸. Slower growth was the result of bigger cuts in central government support in 2015 than in 2014, as well as the favourable effects of low inflation. Wage bill growth was much lower at 2.1% in 2015, compared to 3.7% in 2014, and intermediate consumption shrank by 1.0%, compared to a contraction of 0.1% in 2014¹⁹. Local government operating expenditure is expected to grow by 1.4% in 2016 and again in 2017, demonstrating the tighter control that local governments have over their expenditure. More specifically, containment of personnel expenditure is forecast to continue with an average annual increase of 1.9% in 2016 and 2017.
- ▶ All in all, the local government expenditure growth target, which has been set at 0.5% for aggregate expenditure and 2.0% for operating expenditure, should be met for the second year in a row.

17. In 2016, the target for operating expenditure alone was lowered from 2.2% in the Public Finance Planning Act to 1.6%.

18 More specifically, this heading covers operating expenditure of local governments, which includes non-discretionary expenditure, such as the *départements'* expenditure on social benefits.

19. Excluding financial intermediation services indirectly measured (FISIM), which the system of national accounts treats as intermediate consumption.

3.6 PUBLIC REVENUE

3.6.1 General government revenue

After posting a steady rise from 2009 to 2013 resulting from fiscal consolidation measures, the aggregate tax and social security contribution rate was stable in 2014 (44.8%) and decreased in 2015 (44.5%) for the first time since 2009. It is expected to fall further in 2016 and 2017, due in part to the effects of the Responsibility and Solidarity Pact and the CICE tax credit, and stand at 44.0% in 2017.

This forecast incorporates all of the measures passed or announced by the government, including the measures in the Responsibility and Solidarity Pact.

The aggregate tax and social security contribution rate is expected to decrease between 2015 and 2016, from 44.5% to 44.2%. The aggregate tax elasticity should be less than one, rising from 0.8 in 2015 to 0.9 in 2016, because of low inflation and growth in wages and salaries that is slower than GDP growth. Discretionary measures are expected to lower the aggregate tax and social security contribution rate by 0.2 percentage points of GDP as a result of the Responsibility and Solidarity Pact, which will continue the movement to lower the cost of labour that started with the implementation of the Competitiveness and Employment Tax Credit (CICE), and the effect of the supplementary cut in personal income tax introduced in the 2016 Initial Budget Act to support the purchasing power of low-income and middle-income households. Some of these effects could be attenuated by other measures, such as the growth of green taxes.

The aggregate tax and social security contribution rate is expected to continue to decrease, to stand at 44.0% in 2017. Most of the decrease would stem from the final measures under the Responsibility and Solidarity Pact, such as the elimination of the corporate social solidarity contribution (C3S) and the cut in the corporate income tax rate. The adjustment path also incorporates the impact of pension reform, the growth of green taxes, the usual pattern of changes in local taxes over the election cycle and disbursements for tax disputes.

Expenditure savings should help finance further reductions in taxes and social security contributions in **2018 and 2019**.

The adjustment path is also based on a spontaneous growth rate for taxes and social security contributions that should gradually align itself on nominal GDP growth (elasticity equal to one between 2017 and 2019).

Furthermore, non-tax revenue should remain steady at 7.6% of GDP between 2015 and 2019.

Table 9 – Taxes and social security contributions

	2014	2015	2016	2017	2018	2019
Aggregate rate as a percentage of GDP)	44.8	44.5	44.2	44.0	43.8	43.5
Aggregate tax elasticity	0.7	0.8	0.9	1.0	1.0	1.0

Box 6 – Implementation of the Responsibility and Solidarity Pact

Most of the measures under the Responsibility and Solidarity Pact have now entered into force and they will amplify the cuts in taxes and social security contributions in 2016, building on the cuts made in 2015 and paving the way for more cuts in 2017. The second round of cuts in social security contributions, the elimination of the exceptional corporate income tax payment for large corporations, a further cut in the corporate social solidarity contribution (C3S) and a further cut in the income tax bill of households all took effect in 2016. These measures represent an additional decrease of nearly €9bn in taxes and social security contributions compared to 2015.

The measures will continue in 2017, with the same objectives of promoting employment, sustaining productive investment capacity and underpinning competitiveness, while increasing the progressiveness of personal taxes to the advantage of low-income and middle-income households.

Corporate taxes and contributions will decrease by more than €40bn in 2017, including around €34bn in cuts in 2016

The Pact and the CICE tax credit promote employment and boost the competitiveness of French companies, after ten years of steady decline between 2002 and 2012, as shown in the Gallois Report published in November 2012. In 2016, these measures will continue to rebuild non-financial corporations' profit margins, as they did in 2015. These measures are expected to create 500,000 new jobs and boost growth by 1.7 percentage points by 2020. **Combined with plans to support investment and small and medium-sized enterprises, the tax credit and the Pact will result in a tax savings of around €34bn for companies in 2016 and a savings of more than €40bn in 2017.**

The Pact will amplify the reduction in the cost of labour, which started with the CICE, through additional cuts in taxes and contributions:

- ▶ Elimination of all employers' payroll contributions on minimum-wage jobs to the collection bodies (URSSAF), except unemployment insurance, along with a 1.8-point reduction in employers' family allowance contributions on jobs paying up to 1.6 times the minimum wage as from 1 January 2015, for total cuts of €4.6bn. This measure was backed up by a cut of €1bn in self-employed workers' family allowance contributions;
- ▶ An extension of the 1.8-point cut in employers' family allowance contributions to jobs paying between 1.6 and 3.5 times the minimum wage starting on 1 April 2016, which will cut contributions by €3.1bn in 2016 and by more than €4bn in 2017.

The Pact will streamline and reduce corporate taxes. The corporate social solidarity contribution (C3S), paid by some 300,000 companies, is being phased out between 2015 and 2017, for a tax savings of €5.5bn. A preliminary cut of €1bn was introduced in 2015 in the form of an allowance, which means that two-thirds of the companies currently paying this tax became

exempt. This exemption applies to small and medium-sized enterprises. A second deduction for an equivalent amount was introduced in 2016, exempting another 80,000 companies. The exceptional corporate income tax payment for large corporations was also eliminated in 2016, which will reduce taxes by nearly €3bn. Furthermore, the standard rate of corporate income tax will be lowered gradually from the current 33⅓% to 28% in 2020, with a preliminary cut in 2017. This tax reform will promote investment, thus boosting jobs and growth. Abolishing the corporate social solidarity contribution fully in 2017 and avoiding a cascade of taxes on intermediate consumption should also lead to more efficient organisation of production.

Personal income tax cuts come to approximately €5bn

Under the terms of the Responsibility and Solidarity Pact, several successive measures to boost the purchasing power of low-income and middle-income households have come into force:

- ▶ A one-off €1.5bn cut in personal income tax was included in the first Supplementary Budget Act for 2014.
- ▶ The 2015 Initial Budget Act included a reform and simplification of personal income tax, with the elimination of the lowest bracket of taxable income, which represents a further cut of €1.5bn in 2015.
- ▶ The 2016 Initial Budget Act included a further €2bn cut in personal income tax.

A total of 12 million households will benefit from these tax cuts.

3.6.2 Central government revenue

In 2016, taxes and social security contributions assessed by central government are projected to be 0.3 percentage points of GDP higher than in 2015, primarily as a result of discretionary tax measures and transfers. Revenue is expected to be underpinned by the inclusion of the levy to compensate electricity distributors for additional costs entailed by their public service obligations (CSPE) in the central government budget, instead of the Other central government bodies' budget as before. At the same time, tax-cutting measures will continue, with a cut in personal income tax and the abolishment of the exceptional corporate income tax payment for large corporations.

With no change to legislation, central government taxes would grow by 2.8% in 2016, outstripping nominal GDP growth of 2.4%: the weak growth of VAT revenue stemming from low inflation should be more than offset by personal income tax and corporate income tax revenue. The spontaneous increase in such revenue should be greater than GDP growth because of the progressiveness of personal income tax and the strong growth of companies' taxable profits in 2015.

In 2017, taxes and social security contributions assessed by central government should fall, easing by 0.3 percentage points of GDP, mainly as a result of the CICE tax credit and the Responsibility and Solidarity Pact. Aggregate tax elasticity should be slightly higher than one as economic growth picks up again.

3.6.3 Social security funds' revenue

In 2015, the growth of social security funds' revenue slowed to 1.1%, compared to 2.5% in 2014, following implementation of the Responsibility and Solidarity Pact, which led to cuts in Social Security contributions that were offset by transferring the family allowance fund's contribution to financing housing benefits to the central government budget.

On a like-for-like basis, revenue would have grown a bit more than wages and salaries (1.9% vs. 1.6%) because of the increase in contributions for old-age pensions under the terms of the "long careers" decree of 2012 (€0.6bn), the 2014 pension reform (€0.6bn) and the increase in supplementary pension scheme contributions under the terms of the 2013 Agirc-Arrco agreement (€0.5bn).

Social Security taxes and contributions represented 24.1% of GDP in 2015, which was 0.3 percentage points less than in 2014. Spontaneous increases that did not keep pace with GDP growth account for half of the decrease and discretionary tax measures account for the other half.

In 2016, social security funds' revenue should increase by 1.5%. The second phase of the Responsibility and Solidarity Pact reduces revenue from Social Security contributions and the corporate social solidarity contribution (C3S). Once again, most of these reductions will be offset by lower expenditures (transfer of the family allowance fund's contribution to financing housing benefits to the central government budget).

On a like-for-like basis, revenue would increase by 2.3% in 2016, which is slightly more than the 2.0% growth of wages and salaries, because of discretionary tax measures (higher contributions for basic old-age pensions under the terms of the "long careers" decree and the 2014 pension reform) and higher contributions to supplementary pension schemes under the terms of the 2015 labour-management agreement.

Aggregate taxes and Social Security contributions should stand at 23.8% of GDP, down by 0.3 percentage points compared to 2015, with the measures under the Responsibility and Solidarity Pact accounting for most of the difference.

In 2017, social security funds' revenue should increase by 2.6%, sustained by strong growth of private-sector wages and salaries (2.5%) as the economy recovers and by the government's measures to boost employment.

3.6.4 Local government revenue

In 2015, growth of local government tax revenue stood at 4.3%, following growth of 2.4% in 2014. This growth was sustained by revenue from registration duties on property sales (DMTO), which posted strong growth in 2015 as a result of a strong increase in transaction volume at the end of the year and further hikes in these duties by some *départements*. Total local government taxes and contributions came out at €133.4bn. Despite the decline in central government transfers, which shrank by €3.5bn in 2015, following a cut of €1.5bn in 2014, local governments' overall revenue increased by 0.8% in 2015, compared to 1.7% in 2014.

In 2016, the growth of local government tax revenue should slow to 2.6%, under the assumption that the real estate market stabilises. Central government financial support for local government should contract again, decreasing by €3.3bn compared to 2015. In aggregate, local government revenue is expected to increase by 0.9% in 2016.

The growth of local government tax revenue should pick up again in 2017, reaching 3.0%, as the real estate market matches GDP growth. With the decline in central government transfers, local governments' overall revenue should increase by 0.9%.

3.7 GENERAL GOVERNMENT DEBT AND STOCK-FLOW ADJUSTMENT

The debt-to-GDP ratio stood at 95.7% in 2015, compared to 95.3% in 2014. After rising by 2.9 percentage points of GDP in 2014, the debt-to-GDP ratio was virtually stable in 2015, as efforts to reduce the general government deficit cut the latter from 4.0% of GDP in 2014 to 3.5% in 2015 and nominal GDP growth increased from 1.2% in 2014 to 2.3% in 2015. This meant that the debt-stabilising balance improved from -1.1% of GDP in 2014 to -2.2% in 2015 (see Table 11). Stock-flow adjustments also made a major contribution, slowing growth of the debt-to-GDP ratio by 0.9 percentage points of GDP. Favourable stock-flow adjustments are primarily the result of exceptionally large issue premiums²⁰, which reduced the debt-to-GDP ratio by 1.0 percentage point and a negative correction for accrual-based measurement of tax credits of 0.3 percentage points, which worsens the accrual-based Maastricht balance, but does not affect the debt level. These effects are partially offset by accrued interest, as well as losses and gains on auctions (+0.2 percentage points) and the variation in the Treasury's account balance (+0.2 percentage points).

The debt level notified to the European Commission stood at €2,097.1bn at the end of 2015, or 95.7% of GDP²¹.

The increase in the debt ratio in 2016 is expected to be contained once again at 0.4 percentage points of GDP, reaching 96.2%. The shrinking deficit, decreasing from 3.5% of GDP in 2015 to 3.3% in 2016, combined with economic recovery, with real GDP growth of 1.5%, despite persistent low inflation putting nominal GDP growth at 2.4%, is expected to automatically reduce the growth of the debt ratio, with the deviation from the debt-stabilising balance reduced to 1.0 percentage point of GDP. Stock-flow adjustments are estimated at -0.6 percentage points of GDP in 2016, which is mainly attributable to a favourable contribution from the variation in central government cash holdings (-0.4 percentage points) and €2bn from asset sales to be used for debt reduction in accordance with the forecast in the 2016 Budget Act. The neutralisation of the debt arising from the correction for accrual-based measurement of tax credits (-0.3 percentage points)

²⁰ Maastricht debt is recorded at its nominal reimbursement value at maturity. Issues of securities with coupon rates that are higher than the market yields result in payment of a premium to the issuer. These premiums are recorded as negative stock-flow adjustments.

²¹ Figure submitted to Parliament for the purposes of Article 32 of the 2014-2019 Public Finance Planning Act.

should be offset by accrued interest, as well as losses and gains on auctions (+0.3 percentage points).

The increase in the debt ratio in 2017 is forecast to be contained once again at 0.4 percentage points of GDP, for a debt ratio of 96.5%. The continuing reduction of the deficit, by 2.7% in 2017, combined with nominal GDP growth of 2.4% once again, will reduce the contribution from the deviation from the debt-stabilising balance to 0.4 percentage points, whereas stock-flow adjustment will become virtually neutral over the forecast period, at -0.1 percentage points of GDP, which primarily corresponds to repayment of the debt of the national motorway fund (*Caisse nationale des autoroutes*).

In 2018 and 2019, continuing fiscal consolidation and GDP growth that outstrips its potential could mean that the debt ratio starts to decline, with a 1.0 percentage point decrease to 95.4% of GDP in 2018, followed by a larger decrease of 2.1 percentage points of GDP in 2019, for a debt ratio of 93.3%. Starting in 2018, the general government balance is forecast to be much smaller than the debt-stabilising balance. Furthermore, the impact of the stock-flow adjustment is supposed to be neutral from 2018 on, with the exception of the national motorway fund (*Caisse nationale des autoroutes*, CNA), which should contribute to a reduction in general government debt of 0.1 percentage points of GDP.

Table 11 – General government debt developments

(percentage points of GDP)	2015	2016	2017	2018	2019
Debt-to-GDP ratio according to the Maastricht definition	95.7	96.2	96.5	95.4	93.3
Debt-to-GDP ratio excluding financial assistance for euro area Member States	92.7	93.2	93.7	92.6	90.6
Nominal GDP growth (%)	2.3	2.4	2.4	3.1	3.6
<i>Debt-stabilising balance (excluding stock-flow adjustment)</i>	-2.2	-2.3	-2.2	-2.9	-3.4
<i>Headline balance</i>	-3.5	-3.3	-2.7	-1.9	-1.2
Deviation from debt-stabilising balance	1.4	1.0	0.4	-1.0	-2.1
Stock-flow adjustment	-0.9	-0.6	-0.1	-0.1	0.0
Change in debt ratio	0.4	0.4	0.4	-1.1	-2.1

Box 7 - Impact of European financial assistance plans on general government debt

In the wake of tensions on European markets that started in the fourth quarter of 2009, several euro area Member States in succession had to call upon Europe for financial assistance, since market interest rates had risen too high.

The impact of financial assistance for the euro area on France's general government debt is

estimated at €65.8bn in 2016, or 3 percentage points of GDP, as it was in 2015. It is expected to remain stable thereafter.

Table 12 - Debt arising from financial assistance for the euro area (deviation from baseline)

(in €bn)	2015	2016	2017	2018	2019
Debt according to the Maastricht definition	65.8	65.8	65.8	65.8	65.8
Bilateral loans to Greece	11.4	11.4	11.4	11.4	11.4
EFSF loans to Greece	28.6	28.6	28.6	28.6	28.6
EFSF loans to Ireland	3.8	3.8	3.8	3.8	3.8
EFSF loans to Portugal	5.7	5.7	5.7	5.7	5.7
Capital endowment to ESM	16.3	16.3	16.3	16.3	16.3

(percentage points of GDP)	2015	2016	2017	2018	2019
Debt according to the Maastricht definition	3.0	3.0	2.9	2.8	2.7
Bilateral loans to Greece	0.5	0.5	0.5	0.5	0.5
EFSF loans to Greece	1.3	1.3	1.3	1.2	1.2
EFSF loans to Ireland	0.2	0.2	0.2	0.2	0.2
EFSF loans to Portugal	0.3	0.3	0.2	0.2	0.2
Capital endowment to ESM	0.7	0.7	0.7	0.7	0.7

When the European Commission and Council assess compliance with the deficit and debt criteria, the Stability and Growth Pact (Article 2 of Regulation 1467/97 as amended) explicitly calls for special attention to be given to debt incurred in the form of bilateral and multilateral assistance between Member States to preserve financial stability and debt related to financial stabilisation operations during major financial crises.

Three successive financial assistance instruments were set up:

1) Bilateral loans: The euro area Member States and the IMF jointly assisted Greece in the second quarter of 2010 under a bilateral loan programme with an initial amount of €110bn that was supposed to run until mid-2013. Only part of the initial amount was disbursed; the remainder was incorporated into the second financial assistance programme introduced in March 2012 and financed by the EFSF and the IMF. Ultimately, the bilateral loans amounted to €52.9bn, with France's share standing at €11.4bn.

2) European Financial Stability Facility: The euro area Member States also created the European Financial Stability Facility (EFSF) to provide assistance to any euro area country that requests it. This facility has a capacity of €440bn on top of the €60bn in the European Financial Stabilisation Mechanism (EFSM), which is a European Union instrument backed by the EU budget and available to all 28 Member States. **The Member States' guarantees for EFSF loans are**

recognised as Maastricht debt, in proportion to their shares of the guarantees provided to the EFSF²² for the loans disbursed. France's share at the beginning of 2016 stood at 21.88%.

The EFSF and EFSM were first activated jointly with the IMF to assist Ireland and Portugal. Ireland was the first to receive a total of €67.5bn in assistance at the end of 2010, including €17.7bn from the EFSF, to which France contributed €3.8bn, under a programme where all of the loan tranches were disbursed before December 2013. In the middle of 2011, Portugal received €78bn in assistance, including €26bn from the EFSF, to which France contributed €5.7bn, under a programme to finance Portugal's general government until the middle of 2014. Ireland exited its EFSF assistance program on 15 December 2013 and Portugal followed suit on 18 May 2014. Rigorous implementation of reforms enabled them to resume sustainable market financing of their debts.

Following a deterioration in Greece's economic and financial situation in the middle of 2011, a **second financial assistance programme** was introduced in March 2012. The euro area Member States (via the EFSF) and the IMF provided further financing of €130bn on top of the undisbursed funds from the first EFSF programme covering the period from 2012 to 2014. After the Eurogroup extended the second programme until June 2015, it was ended on 30 June 2015. Not all of the assistance under the programme was disbursed²³. The ultimate amount disbursed by the EFSF totalled €130.9bn²⁴ and the guarantee provided by France came to €28.6bn.

France finances or guarantees a total of €38.1bn (equivalent to 2.3 percentage points of GDP in 2015) in financial assistance for euro area peripheral countries through bilateral loans or the EFSF.

None of these loans is scheduled to be repaid before the end of the period covered by this Stability Programme (2019). The average maturity of the EFSF loans to Ireland and Portugal has been extended from 15 to 22 years following the decision made by the Eurogroup in March 2013. Portugal should start repaying its loans in 2025 and Ireland in 2029. In accordance with the Eurogroup's decisions on 26 November 2012, the average maturity of the bilateral loans to Greece was set at 20 years, with the first repayment planned for 2020, and the average maturity of the EFSF loans was set at 32.5 years, with the first repayment planned for 2023.

3) European Stability Mechanism: The EFSF will no longer grant new loans²⁵ since it was replaced by the European Stability Mechanism (ESM), which came into force in September 2012. The EFSF was set up to be a temporary institution that cannot take part in any further financial assistance programmes after June 2013. At its December 2010 meeting, the European Council

22 This share is based on the national central banks' shares in the ECB's capital, adjusted for the holdings of Member States benefitting from the withdrawal clause under the terms of a financial assistance programme.

23. The fifth programme review was supposed to lead to a disbursement of €1.8bn, but it was never validated.

24. In 2014, the amount that the EFSF disbursed under the programme came to €141.8bn. The difference of €10.9bn with the 2015 figure corresponds to the funds handed back by Greece that had been disbursed for recapitalising banks and were not used. The Greek banking industry's needs were less than the amount budgeted.

25 The EFSF is now being managed in run-off mode, which means that the Facility will continue to manage the loans already granted until they are fully repaid and that any new financial assistance will now be provided by the ESM.

decided, therefore, to set up a permanent mechanism to safeguard the financial stability of the euro area. The ESM is designed to be permanent and to rely not only on government guarantees, but also on paid-in capital.

Eurostat issued an opinion on 7 April 2011 based on the characteristics described in the Conclusions of the European Council of 24 and 25 March 2011. **Eurostat deemed that the liabilities of the ESM will not be counted as part of the Member States' Maastricht debt²⁶ and that only their borrowing to finance their subscriptions to the paid-in capital would be recognised as debt. This capital stands at €80.5bn since Latvia joined the euro area on 1 January 2014 and Lithuania joined on 1 January 2015. France's 20.3% share totals €16.3bn.**

France paid in its share of the capital in five instalments of €3.3bn. In accordance with the Statement of the Heads of State and Government at the European Council meeting of 2 March 2011, France's Supplementary Budget Act of 8 February 2012 includes authorisation for €16.3bn in commitments. France then ratified the ESM Treaty on 8 March 2012. The first two instalments were paid in October 2012, adding €6.6bn to France's debt in 2012. The third was paid on 29 April 2013, the fourth on 31 October 2013 and the fifth and last instalment was paid on 29 April 2014.

The ESM made its first disbursements to Spain for its bank recapitalisation programme, which was decided in July 2012. The amount disbursed in December 2012 and February 2013 ultimately came to €41.3bn. The programme ended in January 2014. Rigorous implementation led to sustainable stabilisation of Spanish banks and Spain repaid €1.6bn ahead of schedule in July 2014, followed by €1.5bn in March 2015 and €2.5bn in July 2015, which reduced the outstanding amount to €35.7bn.

After the Eurogroup gave its approval on 24 March 2013, the ESM also granted €10bn in financial assistance to Cyprus. The ESM provided €9bn and the IMF €1bn. The ESM has disbursed €6.3bn of the assistance.

After the second programme for Greece expired, the Heads of State and Government of the euro zone Summit of 12 July 2015 decided to implement a third programme. Consequently, on 19 August 2015, the ESM Board of Governors granted Greece up to €86bn in financial assistance to be disbursed over 3 years (2015-2018). In the interim, Greece obtained a temporary loan from the EFSM²⁷ for €7.2bn, which was repaid in full in August 2015. Five disbursements were made in 2015: €13bn on 20 August, €2bn on 24 November and €1bn on 23 December, along with disbursements made for bank recapitalisations, as planned by the Eurogroup of €2.7bn on 1 December and € 2.7bn on 8 December. Consequently, Greece's outstanding loans from the ESM came to €21.4bn as of 31 December 2015.

²⁶ Since the ESM is a permanent international institution under international law with a governance structure similar to that of international financial institutions (with a board of governors, a board of directors and a managing director), and a paid-in capital of €80.2bn. The ESM's paid-in capital must always be greater than 15% of its commitments.

²⁷ The European Financial Stability Mechanism (EFSM) is an EU financial assistance mechanism for helping Member States. It allows the Commission to borrow up to €60 billion on the financial markets with an implicit guarantee from the EU budget. It was used to assist Ireland and Portugal between 2011 and 2014. Since the EFSF and the ESM were created, the EFSM no longer offers assistance programmes.

4. COMPLIANCE WITH THE STABILITY AND GROWTH PACT

4. Compliance with the Stability and Growth Pact

4.1 EXCESSIVE DEFICIT PROCEDURE

As part of the Excessive Deficit Procedure started in April 2009, on 10 March 2015, the Ecofin Council made a recommendation to France to end its excessive deficit by 2017. The recommendation set nominal deficit targets of 4.0% of GDP in 2015, 3.4% in 2016 and 2.8% in 2017. These targets were consistent with structural adjustment of 0.5 percentage points of GDP in 2015, 0.8 percentage points of GDP in 2016 and 0.9 percentage points of GDP in 2017.

The Recommendation asked France to specify, adopt and implement additional measures to achieve the recommended improvement in the structural balance in 2015. The Commission estimated that these measures would have to be equivalent to 0.2 percentage points of GDP. The previous Stability Programme provided for a package of supplementary consolidation measures worth €4bn to ensure that the planned savings were achieved despite lower-than-expected inflation. New regulations and cuts were implemented immediately in the second quarter of 2015 under the central government expenditure rule and the national healthcare expenditure growth target (Ondam). The savings concerned all general government sub-sectors, in accordance with the strategy behind the initial savings plan.

The 2015 deficit notified by the French national statistics institute (Insee) on 25 March 2016 was 3.5% of GDP, which was under the recommended target of 4.0% of GDP. For the second year in a row, the outturn was lower than the initial forecasts set in budget acts, despite the adverse effect of persistent low inflation. The improvement in the nominal deficit is primarily the result of structural adjustment of 0.4 percentage points of GDP, reflecting the implementation of the first year of the €50bn savings plan with an expenditure effort equivalent to 0.7 percentage points of GDP, which was lessened in part because of adverse tax elasticity effects and by measures to cut personal and corporate taxes.

In 2016, additional savings of €3.8bn set out in this Stability Programme to back up the savings already planned under the €50bn savings plan (see Boxes 3 and 4) will ensure that the recommendation of March 15 is met. They will also offset the adverse effects of low inflation on meeting the public deficit targets. The public deficit will be trimmed to 3.3% of GDP, which is smaller than the recommended target of 3.4%. The structural effort will be equivalent to 0.5 percentage points of GDP.

The public deficit will dip below the 3% reference value in 2017 to stand at 2.7% of GDP, in compliance with the target of 2.8% in the recommendation. The fiscal consolidation effort will be underpinned by supplementary measures for savings of €5bn.

4.2 COMPLIANCE WITH THE PREVENTIVE ARM STARTING IN 2018

4.2.1 Convergence towards the medium-term budgetary objective

The 2014-2019 Public Finance Planning Act set a medium-term budgetary objective (MTO) of a structural balance of -0.4% of potential GDP and set out the adjustment path for achieving this objective. This path is the benchmark for this Stability Programme, which complies with the requirements of the preventive arm of the Stability and Growth Pact.

The Stability and Growth Pact requires structural adjustment of at least 0.5 percentage points of GDP per year even after France exits the Excessive Deficit Procedure as expected in 2017 and until the medium-term objective has been attained²⁸.

The structural deficit reduction path described in this Stability Programme is compatible with this requirement, since it calls for structural adjustment of 0.5 percentage points of GDP in 2018, after the deficit is reduced to under 3% in 2017 (see Part 3.3 “Structural balance”), and 0.3 percentage points of GDP in 2019, which means that structural equilibrium will be reached in 2019, in compliance with the medium-term objective.

4.2.2 Compliance with the expenditure rule

The expenditure rule provides a quantitative criterion to ensure the Member States that still have not met their medium-term objective do so, and that the Member States having achieved their MTO remain on target in the long run. The purpose of the expenditure rule is to measure the efforts that Member States make based on an aggregate under the direct control of the government, in contrast to the nominal balance.

In practice, the rule requires the growth rate of nominal expenditure (excluding interest expenditure and cyclical unemployment expenditure, and including investment expenditure smoothed over four years) to be less than or equal to a **medium-term potential GDP growth benchmark**, unless overspending is offset by discretionary tax measures.

The adjustment path set out in this Stability Programme should comply with the expenditure rule in 2018 and 2019. Strict containment of expenditure should produce major savings that will reduce the structural deficit and finance tax cuts at the same time.

²⁸ Article 5 of Regulation 1466/97 as amended.

Table 13: Expenditure rule

(growth, in %)	2018	2019
Real expenditure growth corrected for discretionary tax measures	0.0	0.2
Maximum growth under the expenditure rule	0.2	0.2
Medium-term potential GDP growth benchmark	1.1	1.1
Margin to ensure convergence to the MTO*	-0.9	-0.9

* Convergence margin calculated by the European Commission

4.2.3 Compliance with the debt criterion

From 2018 to 2020, France will be subject to a transitional rule on reducing its debt ratio²⁹. Under the adjustment path set out in this Stability Programme, this rule would require minimum structural adjustment of 0.3 percentage points of GDP per year, which means that compliance should be achieved within the timeframe of this Stability Programme. After the transitional period, the public debt ratio will be locked into an adjustment path towards 60% of GDP, as is shown by the projected reduction of the ratio by more than 3 percentage points between 2017 and 2019.

29. The transitional period stems from a provision of the "Six Pack" of November 2011 that applies to the three years following the end of an excessive deficit procedure. During this period, compliance with the "debt criterion" is assessed according to the Member States' progress towards the criterion of reducing the gap between public debt and the 60% of GDP benchmark by one twentieth each year.

5. SENSITIVITY ANALYSIS AND COMPARISON WITH PREVIOUS PROGRAMME

5. Sensitivity analysis and comparison with previous programme

5.1 SENSITIVITY TO EXTERNAL ASSUMPTIONS

The pace of France's economic recovery and underlying spontaneous public finance developments will depend on world demand for French goods, oil prices, euro exchange rates and interest rates.

The international scenario underlying the projections is as follows:

- ▶ Oil prices are stable at \$38 per barrel;
- ▶ The euro exchange rate is stable at \$1.10;
- ▶ Growth gradually return to the global economy and world trade. After rising by 3.4% in 2015, world demand for French goods is expected to increase by 3.8% in 2016 and by 4.7% in 2017, followed by growth of 5½%³⁰ in 2018 and 2019.

The assumptions about the euro exchange rate are slightly higher than the ones in the Commission's winter forecasts. This Stability Programme assumes an exchange rate of \$1.10 and the Commission's winter forecasts, an exchange rate of \$1.08. The oil price assumptions are also different: at \$37 in this Stability Programme versus an average \$35.8 in 2016 for the Commission. The figures for 2017 are \$38 and \$42.5 respectively. The Commission also expects more dynamic world demand for French goods: 4.3% in 2016 and 4.8% in 2017.

In addition to providing figures about how the assumptions concerning foreign demand, exchange rates, oil prices and interest rates will affect growth, inflation and the nominal deficit (see Tables 14 to 17), this section assesses the main upside and downside risks surrounding the forecast.

Uncertainty about the economic recovery of France's leading trading partners in advanced economies

There is uncertainty about future exchange rate movements. Renewed depreciation of the euro could give the euro area economy an added boost and promote a resurgence of inflation. Conversely, appreciation of the euro could put a damper on activity. More volatile exchange rates also increase economic uncertainty.

Falling oil prices are stimulating growth in France and in its leading trading partners, but a rise in oil prices could reverse this trend. Gains linked to lower oil prices could spread more quickly than

30 Or average growth rate of the world demand for French goods during the period 1995-2014.

forecast to advanced economies. Continuing falls in oil prices could provide an additional spur for growth in the short and medium term, but with no certitude. On the other hand, if oil prices rebound too soon, they could drag down household purchasing power and domestic demand, which would slow growth.

Given market volatility and the uncertain outlook for the US and world economies, the Federal Reserve's programmed increase in interest rates could be slower than expected, which would contribute to growth both in the US and worldwide.

Risks from trading partners in emerging economies

In the emerging economies, rising vulnerabilities are a major risk. Over and beyond the recessions in Russia and Brazil, which may last longer than expected, and the economic slowdown in China, some emerging economies are likely to experience financial turmoil that will take a toll on their growth. The worsening budget position and balance of trade of oil-producing nations is also a risk factor. Nevertheless, the emerging economies are more robust now than during times of turmoil in the past, which lessens the risks. Other risk-reducing factors include China's willingness to use monetary and fiscal means to shore up growth, and the Federal Reserve's expected slow pace in raising interest rates.

Uncertainty about business and household demand

Investment forecasts are subject to uncertainty in several areas. First, in addition to uncertainty about oil prices and exchange rates, there is uncertainty about their impact on the economy. Uncertainty can also slow the pace of getting businesses back to investing, particularly if they opt to put off large-scale investments and improve their financial position instead. Conversely, business investment could pick up if the improvement in corporate margins and the higher depreciation allowance measure have a greater impact than expected. Moreover, there is also uncertainty about the pace of the recovery in households' construction investment.

Household consumption could also defy predictions and be either stronger or weaker than expected. It could be more bullish if they decide to use the gain in purchasing power generated by the dip in oil prices more quickly than expected. Conversely, purchasing power and consumption could be more sluggish if businesses take a harder line during wage negotiations in view of greater-than-expected needs to improve their financial situation and deleverage. Precautionary saving could ease more or less, depending on the labour market and confidence in the economic recovery.

Alternative scenarios presented in the Stability Programme:**Table 14 - Impact on France's economy of a 1% increase in world demand for French goods (*)**

(deviation from the baseline scenario in %)	n	n+1	n+2
GDP growth	0.2	0.2	¼
Total jobs created (thousands)	9	27	40
Household consumption deflator	0.0	0.1	0.1
Net government lending/ borrowing (in % points of GDP)	0.0	0.1	0.1

(*) Permanent 1% increase in export demand at the start of year n with no change in real interest rates

NB: An increase in world demand would boost exports, which would feed through to the rest of the economy, increasing business investment in particular.

Table 15 - Impact on France's economy of a 10% depreciation of the euro against all other currencies (*)

(deviation from the baseline scenario in %)	n	n+1	n+2
GDP growth	0.6	1.0	1.2
Total jobs created (thousands)	+30	+85	+149
Household consumption deflator	0.5	0.7	1.2
Net government lending/ borrowing (in % points of GDP)	0.2	0.4	0.6

(*) 10% depreciation in the value of the euro against all other currencies at the beginning of the year n, with no change in real interest rates, endogenous reaction of the rest of the world.

NB: A weak euro would boost growth in the short term by improving France's price competitiveness outside of the euro area and by stimulating the economic growth of its euro area partners.

Table 16 - Impact on France's economy of a \$20 increase in oil prices (*)

(deviation from the baseline scenario in %)	n	n+1	n+2
GDP growth	-0.1	-0.2	-0.2
Total jobs created (thousands)	-3	-28	-62
Household consumption deflator	0.3	0.8	1.2
Net government lending/ borrowing (in % points of GDP)	0.0	-0.1	-0.2

(*) \$20 increase in the price of oil per barrel at the beginning of year n, with no change in real interest rates, endogenous reaction of the rest of the world.

NB: With no change in exchange rates, an increase in the price of oil would have an inflationary impact. The resulting increase in consumer prices and decrease in corporate profits would weaken growth.

Table 17 - Impact on France's economy of a 100-basis-point increase in short-term interest rates for two years (*)

(deviation from the baseline scenario in %)	n	n+1	n+2
GDP growth	-0.2	-0.3	-0.1
Total jobs created (thousands)	-10	-36	-45
Household consumption deflator	-0.1	-0.1	-0.2
Net government lending/ borrowing (in % points of GDP)	-0.1	-0.2	-0.1

(*) A 100-basis-point increase in euro area short-term interest rates lasting for two years and occurring at the beginning of year n that has an impact on long-term interest rates and on the value of the euro and endogenous reaction of the rest of the world.

NB: An increase in central bank interest rates would hamper growth by restricting business investment and the return on capital. It would promote savings over consumption and lead to an appreciation of the euro.

5.2 COMPARISON WITH THE PREVIOUS PROGRAMME

Table 18 - Comparison with the previous Stability Programme

	2015	2016	2017	2018	2019
2015-2018 Stability Programme (April 2015)					
Real GDP growth (in %)	1.0	1.5	1.5	1%	-
General government balance (% of GDP)	-3.8	-3.3	-2.7	-1.9	-
Structural balance (% of potential GDP)	-1.6	-1.1	-0.6	-0.1	-
<i>Structural adjustment (% of potential GDP)</i>	<i>0.5</i>	<i>0.5</i>	<i>0.5</i>	<i>0.5</i>	-
General government debt (% of GDP)	96.3	97.0	96.9	95.5	-
General government debt, excl. support for the euro area (% of GDP)	93.3	94.0	94.1	92.7	-
2016-2019 Stability Programme (April 2016)					
Real GDP growth (in %)	1.2*	1.5	1.5	1%	1.9
General government balance (% of GDP)	-3.5	-3.3	-2.7	-1.9	-1.2
Structural balance (% of potential GDP)	-1.6	-1.3	-0.8	-0.3	0.0
<i>Structural adjustment (% of potential GDP)</i>	<i>0.4</i>	<i>0.4</i>	<i>0.5</i>	<i>0.5</i>	<i>0.3</i>
General government debt (% of GDP)	95.7	96.2	95.6	95.4	93.3
General government debt, excl. support for the euro area (% of GDP)	92.7	93.2	93.7	92.6	90.6

*Change in quarterly accounts, adjusted for seasonal variations and working days

The 2015 structural balance was in line with the target set under the 2015-2018 Stability Programme (1.6% of GDP) and the structural adjustment was revised very slightly downward. The nominal balance improved, notably due to a greater-than-expected cyclical adjustment, in line with a higher growth rate (1.2%, compared with the 1.0% that was forecast last April), as well as by a favourable adjustment in the effect of one-offs for 0.1 percentage points of GDP.

In 2016, the outlook for growth is the same as that in the previous programme (1.5%) – a result of an unchanged cyclical adjustment between the two years. Structural adjustment is expected to be smaller than under the previous programme (0.4 percentage points instead of 0.5 percentage points), due primarily to the effects of unfavourable tax elasticity. The €3.8bn in supplementary measures set out in this Stability Programme will enable the government to maintain its nominal deficit target (3.3% of GDP).

In 2017 and 2018, structural adjustment should be unchanged from the previous programme, as should the outlook for growth. The deficit reduction path should thus remain the same (2.7% and 1.9%, respectively), and the deficit is expected to fall below the 3% reference value in 2017.

5.3 COMPARISON WITH THE EUROPEAN COMMISSION'S PUBLIC FINANCE FORECASTS

Table 19 - Comparison with the European Commission's forecasts

	2015	2016	2017
European Commission's projections (winter forecasts, February 2016)			
Real GDP growth (in %)	1.1	1.3	1.7
General government balance (% of GDP)	-3.7	-3.4	-3.2
Structural balance (% of potential GDP)	-2.7	-2.3	-2.5
<i>Structural adjustment (% of potential GDP)</i>	<i>0.1</i>	<i>0.4</i>	<i>-0.2</i>
General government debt (% of GDP)	96.2	96.8	97.1
2016-2019 Stability Programme (April 2016)			
Real GDP growth (in %)	1.2	1.5	1.5
General government net lending (% of GDP)	-3.5	-3.3	-2.7
Structural balance (% of potential GDP)	-1.6	-1.3	-0.8
<i>Structural adjustment (% of potential GDP)</i>	<i>0.4</i>	<i>0.4</i>	<i>0.5</i>
General government debt (% of GDP)	95.7	96.2	96.5

In its winter forecast published on 4 February 2016, before the 2015 deficit figure was reported by France's national statistics institute (Insee) on 25 March, the European Commission forecast that France's deficit would stand at 3.7% of GDP in 2015, 3.4% in 2016 and 3.2% in 2017 under a no-policy-change scenario, with lower GDP growth rates for 2015 and 2016 than the ones used by the government in this Stability Programme (namely 1.1% and 1.3% respectively, compared with the government's estimates of 1.2% and 1.5%) and a higher GDP growth rate for 2017 (1.7%, compared with the government's estimate of 1.5%). It should be pointed out that, for the entire period, the differences in estimates of the level of the structural balance are the result of varying estimates of the size of the output gap.

In 2015, the Commission forecast a deficit that was bigger than the figure released by Insee in its provisional account. Slightly higher growth than predicted generated greater revenue (2.0% observed, compared with the Commission's 1.9%), whereas nominal expenditure growth was slightly lower (1.3%, compared with the Commission's winter forecast of 1.4%, including tax credits). Structural adjustment in 2015 is estimated at 0.4 percentage points of GDP in the current Programme. The differential between the Commission's February forecast and the government's forecast is due to an improved outturn in 2015, differences in assessing potential growth and a different set of one-offs.

In 2016, the differential between the Commission's scenario and that of the present Stability Programme stems from the 2015 base effect and the fact that the Commission forecast a lower GDP growth rate for 2016 (1.3%, against 1.5%). Moreover, the Commission's forecasts do not factor in the full set of planned consolidation measures, and in particular the supplementary measures set out in this year's Stability Programme. This effect is not directly visible in structural adjustment measurements, since it is offset by differences in assessing one-offs.

In 2017, the two forecasts are not comparable since the Commission's adjustment path under the no-policy-change scenario does not include all of the measures passed under the Public Finance Planning Act (particularly the €50bn savings plan), nor the stepped-up efforts announced in this Stability Programme, although the Commission's path does factor in the tax cuts and reductions in social security contributions announced by the government. This choice explains the increase in the structural deficit set out in the European Commission's scenario.

6. QUALITY OF PUBLIC FINANCES

6. Quality of public finances

6.1 QUALITY OF PUBLIC EXPENDITURE

4.2.4 Expenditure reviews

Expenditure reviews were instituted by the Public Finance Planning Act of 29 December 2014. They are an innovative tool for assessing general government expenditure and an effective means of producing savings, because of three characteristics:

- ▶ Their broad scope: the reviews can cover all general government subsectors and all financing tools;
- ▶ Their operational approach: review recommendations must be ready, at least in part, for implementation with the next Budget Act;
- ▶ Their coordination with Parliament: the expenditure review calendar is coordinated with the budget-making procedure and all of the expenditure reviews are submitted to Parliament.

These characteristics enabled the very first round of expenditure reviews to produce conclusive results, identifying savings of nearly €500 million in 2016 that are expected to increase to €600 million in 2017. The savings concerned housing benefits, specific exemptions from Social Security contributions, expenditure on medical devices, postage expenditure by the Public Finances Directorate General, legal fees, Chambers of Agriculture and innovation subsidies.

In 2016, a new round of expenditure reviews, covering all areas of government policy, was launched. The new expenditure reviews cover initial training for civil servants, optimisation of interventions to promote sports, local governments' subsidiary budgets, local government procurement, local government assets, management of the VAT Compensation Fund, ambulance services, healthcare obtained abroad under French insurance, governance of Other central government bodies' wages and salaries, management of Common Agricultural Policy subsidies, pooling public helicopter fleets, and free-trade zones in French overseas *départements* and territories.

Expenditure reviews take a long-term view and aim to make government policies more efficient year after year. They help improve public policy performance and ensure compliance with the fiscal adjustment path that France has chosen. They complement work on Government Modernisation through their fiscal and operational aims, along with their calendar, which is coordinated with the budget-making procedure. A new round of Government Modernisation work started in 2015 with 15 policy reviews, covering such topics as school health services, management of public main roads and management of the European Social Fund. Six of these policy reviews have already been completed.

Box 8 – Implementation of the 2014-2019 Public Finance Planning Act

The main provisions of the Public Finance Planning Act for 2014 to 2019 have been implemented.

In terms of public finance governance, the local government expenditure growth target (ODEDEL) was updated and broken down by level of government in the 2016 Draft Budget (explanatory statement, appended documents). The target was met in 2014. Expenditure reviews undertaken in 2015 identified savings of €500 million in 2016, and a new round of reviews started in 2016. The minimum contingency reserve requirement in 2016 is 8% of appropriations, which is even more stringent than the 6% requirement stipulated in the Public Finance Planning Act. Similarly, the level of earmarked taxes capped or re-integrated into the budget increased sharply in 2016. The total amount of the caps rose from €5.9bn to €9.1bn when the number of capped taxes was increased.

Most of the implementing provisions have been published, such as the implementing decree that reinforces supervision of partnership deals with Other central government bodies and local governments, which was incorporated into the implementing decree for the public procurement ordinance of 23 July 2015, and the decree for the approval of revenue and expenditure projections for hospitals subject to a recovery plan. A ministerial circular dealt with reporting obligations relating to earmarked taxes.

The provisions of the Public Finance Planning Act enhancing the transparency of public finances have also been implemented for the most part, including the report on the financial outlook for unemployment insurance (16 June 2015) and the report on the Government's proposals (December 2015), along with the report on the public expenditure trend path (included in the Economic, Social and Financial Report appended to the 2016 Draft Budget) and the extension of the yellow background budget document on Other central government bodies.

Box 9 – Better control of central government and central government bodies' expenditure on real property

The Central Government Real Property Policy involves annual expenditure of approximately €10bn (including Other central government bodies), making it a major focus for government modernisation. The first steps to have the central government adopt a genuine real property policy were taken in 2005 and 2006.

After the cabinet meeting of 20 January 2016, the government announced that it would give new impetus to this policy as part of a broader approach towards a rationalisation of the central government's support functions. A central government procurement directorate was also created in March 2016.

The government announced the main thrusts of a reform of the Central Government Real Property Policy and the main measures will go into effect in 2016. Governance will be

overhauled, with the transformation of the France Domaine Department into a fully-fledged central government property directorate reporting to the Ministry of Finance and Public Accounts. This change will secure the central government's role as a landowner in the administrative structure. Efforts to enhance professionalisation initiated in recent years will be stepped up, and efforts will be made to achieve more effective pooling of the Ministries' property management capacities.

Rationalisation of sites is also bound to continue, both at the central and local levels of government. For this purpose, the regional property guidelines (*schémas directeurs immobiliers régionaux*, SDIR) aimed at decompartmentalising and optimising property choices at the regional level, will be generalised and should generate savings as local government reform progresses. The principles of the Central Government Real Property Policy will also be extended to the agencies and special types of properties (sites with very specific characteristics, such as courthouses and prisons). The reform also includes a budgetary component calling for implementation of "property consultations" in 2016 in preparation for the 2017 Draft Budget. The consultations will be incorporated into the budget-making procedure to provide an overview of property expenditures by the central government and its agencies. The consultations will enhance the consideration of property issues in budgetary choices and improve governance of such expenditure by making it more effective and by increasing the focus on projects that will generate future savings.

4.2.5 Containing healthcare expenditure

The structural reforms of the healthcare system under the National Health Strategy will produce efficiency gains that will ensure the control of expenditure without compromising the quality of care.

The strategy relies on using all of the available leverage in four areas:

- ▶ **Shifting the focus to ambulatory care and improving the effectiveness of inpatient and outpatient care.** Hospitals' activities should be refocused on the most appropriate treatments; this means shortening hospital stays, while ensuring quality of care, by developing ambulatory surgical procedures, using alternatives to hospitalisation, providing support for patients returning home and reducing hospital admissions and re-admissions.
- ▶ **Increasing the efficiency of hospital expenditure**, using the hospital performance programme for responsible purchasing (PHARE program) and forming local hospital groups to pool resources.
- ▶ **Continuing efforts to reduce drug prices, so that a fair price is paid for innovation, and to promote the use of generic drugs.** The objectives of the National Generic Drug Promotion Plan launched in March 2015 are to increase the share of generic drug prescriptions by 5 percentage points by 2017, through actions aimed at all of the private-practice and hospital doctors writing prescriptions, to conduct public information campaigns, to maintain appropriate pricing policies and to make France more attractive for foreign investors.
- ▶ **Promoting the reasonable use of outpatient and inpatient care.** This objective aims to reduce duplicate and inappropriate treatments through such means as contracts between institutions, regional health agencies and the health insurance fund, tighter supervision of

doctors' prescriptions for transportation and drugs, and the reasonableness of certain treatments.

The National Health Strategy will provide support for multi-disciplinary structures with GPs at the centre to coordinate treatment by the various healthcare providers for each patient. The role of the public hospital system will be reaffirmed. The affordability of care has been reinforced through generalisation of complementary health insurance and implementation of the third-party payment system for people receiving subsidies to buy complementary health insurance. Third-party payment will be expanded in stages to facilitate access to healthcare. It will be made available on a voluntary basis to patients with 100% coverage (long-term illnesses and pregnancy) as of 1 July 2016, before becoming a right for such patients on 31 December 2016. It will be available to all patients on a voluntary basis as of 1 January 2017, before becoming a right for all on 30 November 2017.

These structural objectives will be broken down into annual targets under the national healthcare expenditure growth target (Ondam). The 2015 target was met according to the data available in early April 2016, which are still subject to revision, even though it was cut by €425 million under the previous Stability Programme. The new target was incorporated into the 2016 Social Security Budget Act. The fact that the target has been met for six years in a row, despite persistently high expenditure for the new hepatitis C treatments, shows how effective the government's oversight of healthcare expenditure is.

4.2.6 Streamlining local government expenditure

As part of its fiscal consolidation strategy, the government has undertaken a set of reforms to improve control of local government expenditure.

After a freeze on central government transfers lasting for several years, local governments have been more closely involved in the fiscal consolidation effort, **through cuts in these transfers starting in 2014**. The 2016 Budget Act pursues the same objectives by reducing central government transfers by €3.3bn, following cuts of €3.5bn in 2015 and €1.5bn in 2014.

At the same time, the government initiated **a reform of the general operating grant (*dotation globale de fonctionnement*) for municipalities and intermunicipal structures** in order to make the grant more transparent and fairer when the reform comes into force on 1 January 2017. Today, the grant's per capita levels vary greatly and result from stratified historical grants, and these variations are not always justified by differences in wealth or expenses. The report by the Members of Parliament Christine Pires-Beaune and Jean Germain revealed the unfair and opaque nature of the current distribution of general operating grants: the per capita grants can vary by a factor of two without any possible justification for two municipalities facing strictly identical circumstances. Based on this finding, which has been endorsed by all of the associations of local elected officials, the government proposed an overhaul of general operating grants for municipalities that will simplify the system and introduce calculation criteria that are more tightly linked to the actual resources and expenses of municipalities and intermunicipal structures.

The government also **continued deployment of the local government expenditure growth target (ODEDEL)** introduced under the 2014-2019 Public Finance Planning Act. The target was broken down by level of local government (municipalities and intermunicipal structures, *départements*, regions) when the budget legislation for 2016 was presented. Each local government now has a tangible benchmark for comparing the evolution of its budget to the overall target for local government expenditure growth. The target is also monitored ex-post and assessed annually.

The effort to control local government expenditure is occurring within the more general framework of the **third phase of decentralisation**, which started with the Act on modernising local government and strengthening metropolitan areas of 27 January 2014 (MAPTAM Act) and the redrawn map of regions established by the Act of 16 January 2015, and has now been finalised by the adoption of the local administration reform Act of 7 August 2015 (NOTRe Act). These reforms rationalise the distribution of powers and, ultimately, local government expenditure, by simplifying administrative boundaries, reducing the number of municipalities, regions and intermunicipal structures, clarifying the powers of each level of government (abolishment of the *clause de compétence générale* for *départements* and regions, strengthening of the regions' role in economic development and land-use planning) and provisions promoting the pooling of resources by local governments.

4.2.7 Agencies' expenditure

Agencies and other central government bodies, which saw much more rapid expenditure growth compared to the central government in recent years, have played their full part in the consolidation efforts under way since 2012. More specifically, the caps on taxes earmarked for them were lowered and their financial governance has been tightened up. They are involved in the central government real property policy reform and the strengthening of central government procurement policy.

The agencies have also contributed to restraint in job growth in central government and central government agencies, through annual job plans with net cuts in the agencies, with the exception of priority sectors such as higher education and employment or, more recently, justice, immigration and asylum policy as part of the plan to fight terrorism and the “migrants” plan.

More generally, rationalisation of central government agencies continued with developments such as the creation of the French Biodiversity Agency (AFB), born of the merger of four entities with complementary tasks, the merger of the Invest in France Agency (AFII) and Ubifrance to create Business France, or the merger of the National Centre for Pedagogical Documentation (CNDP) and the 30 Regional Centres for Pedagogical Documentation (CRDP), which now form a single entity, the Canopé network.

The agencies' contribution to the national fiscal consolidation effort was facilitated by the various governance rules set out in the 2014-2019 Public Finance Planning Act:

- ▶ The agencies are included in the scope of the expenditure reviews introduced in Article 22 of the Act.
- ▶ The revenue earmarked for the agencies is now regulated more tightly. The use of earmarked taxes is strictly circumscribed by Article 16 of the Act, in accordance with

the findings of the Tax Policy Council (*Conseil des prélèvements obligatoires*). For this purpose, the Act provides for generalisation of caps on earmarked taxes and, where necessary, reincorporation of earmarked taxes into the central government budget. The agencies that collect earmarked taxes themselves will also be required to submit annual reports to their line ministries so that changes in these resources can be assessed and supervised more closely.

The number of earmarked taxes subject to caps was increased in 2016 with the inclusion of eight new taxes that benefit, among others, the six water agencies, the agencies for development of urban areas in protected public shoreline lands (*zone des cinquante pas géométriques*) in Guadeloupe and Martinique, the French Institute for Radiation Protection and Nuclear Safety (IRSN) and the national agricultural contingency fund (FNGRA).

The overall coverage of the caps on taxes was expanded to a total of €9.1bn in the 2016 Initial Budget Act, accounting for more than 80% of the taxes earmarked for agencies.

The ban on borrowing with maturities of more than 12 months imposed in 2010 was recast to rein in the agencies' debt, with a one-year grace period for compliance by bodies that have been newly classified as "Other central government bodies" (ODAC).

The use of public-private partnerships (PPPs) is now more secure following the ban on direct contracts with agencies, which centralises contracting expertise in the line ministries.

The Public Finance Planning Act also improves Parliament's oversight and information with regard to central government agencies. For this purpose, the appendix on their budgets in the draft budget has been supplemented with the following:

- ▶ a list of the agencies and government bodies created or closed down during the year preceding each draft budget;
- ▶ a report covering changes in agencies' total payroll, staffing levels and financing sources (budget appropriations and earmarked taxes) over three years;
- ▶ information about changes in their real property holdings;
- ▶ the aggregate sum of the ten largest gross compensation packages within each agency for entities with more than ten employees.

In addition, implementation, on 1 January 2016, of certain provisions of the Decree on government fiscal and accounting management of 7 November 2012 substantially recast the fiscal and accounting framework of the agencies. These provisions harmonise the fiscal and accounting rules for more than 1,300 bodies in order to improve the monitoring of their financial sustainability. This new fiscal and accounting framework makes more information available about the financial situation of the agencies by supplementing the accrual-basis financial accounts (under the revised 2015 standards) with cash-based budgetary accounts. Consequently, the budget authorisations passed by the boards of more than 680 bodies now distinguish between commitment appropriations and payment appropriations, as is the case for the central government budget. This improves control of commitments covering more than one year. In addition, the agencies and their line ministries now have tools that facilitate analysis of cash holdings. Adjusting subsidy payments for public service obligations to disbursement requirements prevents build-up of excess cash surpluses.

6.2 QUALITY OF PUBLIC REVENUES

The government's tax policy, which is aligned with the overall objective of lowering taxes, also aims to make taxation more efficient, predictable and transparent for individuals and businesses. In keeping with the commitments set out in the 2015 National Reform Programme, the measures taken in 2016 will sustain the dynamics initiated in 2015. Tax policy:

- ▶ Supports investment and innovation;
- ▶ Sustains the measures taken to boost competitiveness and lower labour costs;
- ▶ Modernises taxation and reduces the burden for the least well-off households;
- ▶ Enhances the efficiency and sustainability of the tax system.

Supporting investment and innovation

The government has extended its exceptional support for productive investment to foster the economic recovery and sustain the significant increase in investment observed in 2015. For example, it has extended the higher depreciation allowance measure for productive investment for one more year. The depreciation allowance will be equal to 40% of the cost price of the investment. It will entitle the eligible businesses to immediate reductions of their corporate income tax by the same amount, spread out over the useful life of the investment. The cost of extending this measure is estimated at €2.5bn over five years. At this stage, with no tax-return data available, this cost is deemed to be equivalent to that of the measure taken in 2015, which was financed as part of the Responsibility and Solidarity Pact.

The government has committed itself to promoting innovation. The rules governing the capital gains tax to which individuals are subject when they sell securities were reformed in 2014 to make them more transparent and attractive, thereby promoting long-term investment and risk-taking. Making the Research Tax Credit (CIR) a permanent measure, under the rules set out in the 2008 reform, also helps to support business expenditure on in-house research and development.

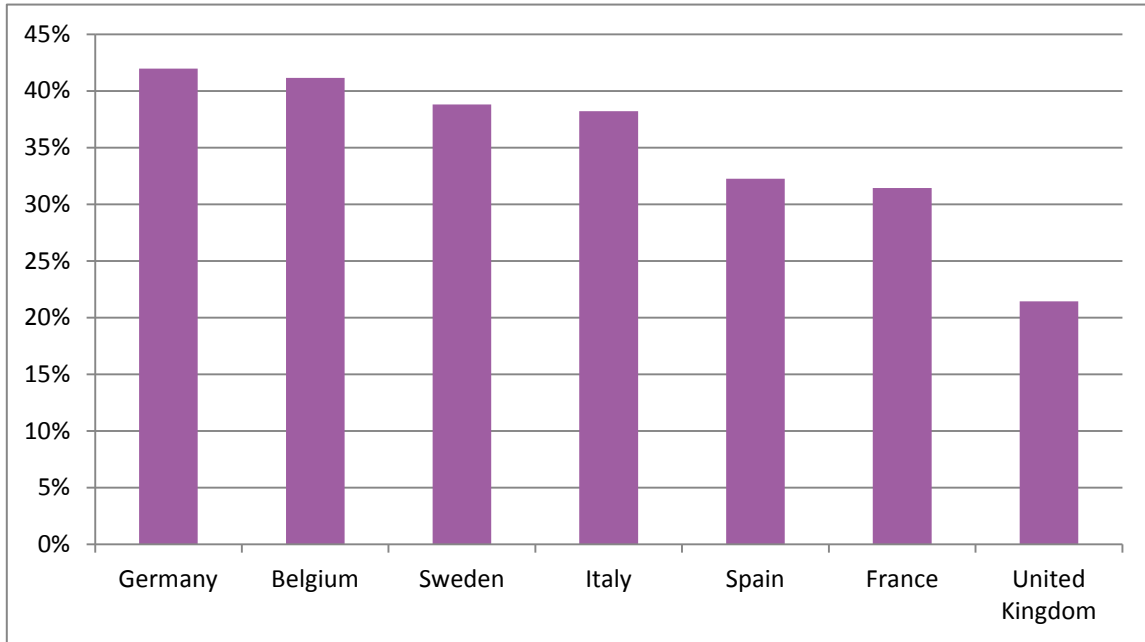
Furthermore, the Growth, Economic Activity and Equal Economic Opportunity Act of 6 August 2015 includes provisions that align the tax treatment of free shares with the rest of the tax system and make France more attractive for investors.

Sustaining the measures taken to boost competitiveness and lower labour costs

The government has been committed to reducing labour costs since the fourth quarter of 2012. Starting in April 2016, all of the Social Security contribution cuts under the Responsibility and Solidarity Pact will be in force, and the Competitiveness and Employment Tax Credit (CICE) is now fully phased in. All of these measures to cut labour costs will require a fiscal effort of nearly €30bn in 2017, to enable businesses to rebuild their profit margins, invest and create jobs.

With these two measures, the government's actions will concern 90% of employees, with a special effort for low-wage employees. The result will be a reduction of the tax wedge³¹ on low-wage jobs where the impact on employment is the strongest. Moreover, this will enhance France's competitiveness. The French tax wedge on minimum-wage jobs ranked in the middle of the distribution for OECD countries in 2014, and was smaller than that of its neighbours (see chart below).

CHART 1: tax wedge (share of total labour cost) for a single employee earning 50% of the average wage in 2014



Source: "Taxing Wages" model by the OECD, DG Trésor calculations

The CICE monitoring and assessment committee³² stresses that the tax credit is fully phased in and the take-up rate is close to 100%. Even though the committee's 2015 report did not yet present an ex post assessment of the impact of the CICE, it did highlight the strong take-up of the scheme by businesses and recounted the positive effects on investment and employment reported by businesses.

Following implementation of the Responsibility and Solidarity Pact, a decision was made at the Social Conference of July 2014 to **expand the committee's monitoring to cover all government support for businesses**, including the cuts introduced by the Responsibility and Solidarity Pact. Since 2014, the committee members include representatives from labour and management, representatives from the main government departments concerned, experts and Members of Parliament.

31 The tax wedge is the ratio of taxes and social security contributions to the total labour cost paid by the employer.

32 Instituted by the Supplementary Budget Act of 29 December 2012.

Cuts in social contributions have been complemented with several tax-cutting measures in the Pact to make France more attractive for businesses, including elimination of the corporate social solidarity contribution (C3S), abolishment of the exceptional corporate income tax payment for large corporations and gradual cuts in the corporate income tax rate. The total fiscal effort in favour of businesses will come to more than €40bn in 2017.

Modernising taxation and reducing the burden for the least well-off households

The progressiveness of personal income tax was enhanced to improve tax justice and provide targeted support for the purchasing power of the low- and middle-income taxpayers. These taxpayers have benefited from tax cuts, which have been made permanent through a reform of the lowest tax bracket.

Measures introduced in the 2013 and 2014 Budget Acts, such as taxing investment income at the same rate as earned income and eliminating unwarranted exemptions, have enhanced the progressiveness of personal income tax.

The Responsibility and Solidarity Pact also includes income tax cuts for households in the middle of the income range in order to boost their purchasing power. A tax cut, passed for 2014 in the Supplementary Budget Act, has resulted in tax savings for 4 million low-income households, including 2 million that ended up being non-taxable. The 2015 and 2016 Initial Budget Acts extended this tax cut for low- and medium-income households and made it permanent. These reforms eliminated the lowest tax bracket and raised the tax relief ceiling for low-income taxpayers (under the “*décote*” mechanism), thereby raising the minimum threshold to make the tax even more progressive in the lower brackets and giving greater consideration to the situation of couples than the previous rules. In aggregate, the combined effects of the tax cut in 2014 and the reform of the lowest tax bracket will benefit 12 million households, including 4 million households that will owe no tax as a result. The reform cuts taxes by more than €5bn and boosts the purchasing power of the households concerned by the same amount.

Furthermore, the November 2014 Supplementary Budget Act eliminated the earned income tax credit (*Prime pour l'emploi*, PPE) so that it could be merged with the in-work income supplement (*RSA Activité*) and become a single in-work benefit. This change simplifies incentives to work and makes them more effective. The in-work benefit was created by the Act of 17 August 2015 on Labour-Management Dialogue and Employment, and has been in place since 1 January 2016. It provides a stronger incentive than its predecessors, since it includes an individual portion and is paid monthly, unlike the earned income tax credit. The in-work benefit is also better targeted to promote a return to full-time work for young people, and more generally for low-paid workers.

The eligibility criterion for the reduced-rate general social security contribution on social benefits was switched from not being liable for personal income tax to a criterion using the base taxable income. This change was made to limit cumulative threshold effects (particularly through personal income tax and the residence tax) and the pace of changes in tax rates for taxpayers.

Finally, the government has started work on modernising personal income tax by introducing withholding at source starting in 2018 and by moving all declaration forms online. The government has proposed a gradual shift to online declarations over four years, from 2016 to 2019, for all taxpayers who are able to use them. This change will facilitate tax formalities for taxpayers,

improve declaration processing and provide faster delivery of tax statements and refunds. It will also reduce the workload involved in processing taxes.

Box 10 – Withholding at source for personal income tax: modernising household taxation

At the Cabinet meeting of 16 March 2016, the government confirmed that the introduction of withholding at source for personal income tax would go ahead. The legislation will be passed in 2016 for effective implementation on 1 January 2018. This large-scale reform of the tax collection process will concern 98% of the income liable to personal income tax. It will eliminate the one-year lag between receiving taxable income and paying tax on it, thereby reducing tax payment problems when taxpayers' income varies or when their situation changes.

Implementation of withholding at source will be accompanied by the development of the single staff reporting statement (DSN), which will simplify formalities and produce savings for employers.

Withholding at source of personal income tax will not jeopardise the founding principles of the French tax system, and, more specifically:

- ▶ the progressive nature of personal income tax, deductions for dependents and couples, and the application of tax reductions and tax credits will be maintained;
- ▶ the general income tax form will be maintained.

Enhancing tax fairness also requires implementing a sustainable solution for the impact of local taxes on retired people living on the lowest incomes due to recently implemented tax measures. This is why the 2016 Initial Budget Act raised the income threshold for eligibility for local tax exemptions (residence tax, property tax, and public broadcast licence fee). This change serves two purposes:

- ▶ for taxpayers whose actual situation has not changed, the local tax exemptions for low-income retirees in 2014 have been made permanent by adjusting the applicable income thresholds used, in order to neutralise the impact of past personal income tax measures, such as the abolishment of the half-unit deduction for persons living alone, which was first implemented in 2010;
- ▶ for taxpayers whose situation has changed and who are no longer eligible for the exemptions, the threshold effects have been smoothed by extending exemptions from local taxes for two years and arranging for reduced taxes over the following two years to prevent threshold effects.

Enhancing the efficiency and sustainability of the tax system

The elimination of low-yield taxes and ineffective tax expenditures is also continuing in order to improve the transparency of the tax system. As part of this effort, tax consultations, devoted to the examination of tax measures, will continue in 2016. The consultations take place under the framework set out by the Public Finance Planning Acts. The purpose is to streamline the

tax system by stabilising nominal levels of tax expenditures and tax credits in the medium term. For this purpose, the 2014-2019 Public Finance Planning Act establishes an annual cap on tax expenditures, and stipulates that tax expenditures introduced or altered after 1 January 2015 must be assessed within the first three years following their implementation and that any renewal must be justified. In addition, expenditure reviews now cover tax expenditures.

Furthermore, a revision of notional rental values is under way to take into account trends in the real estate market. Notional rental values have not been revised since the 1970s. An experiment involving residential properties was conducted in five *départements* in 2015 (Charente-Maritime, Nord, Orne, Paris and Val-de-Marne). Revision of notional rental values for business premises will start in 2017.

Tax efficiency and sustainability also require efforts to fight tax fraud and tax avoidance. The resources for this fight have been increased substantially since 2012. This fight is key to upholding the principle of equal treatment of taxpayers. Tax fraud undermines national solidarity by placing the burden of taxation only on taxpayers who comply with their obligations, and it undermines fair competition between businesses. More than 70 measures have been taken with these objectives in mind since 2012. In keeping with the measures to fight VAT fraud in the most vulnerable sectors (automotive and construction industries) introduced in 2015, new measures included in the 2016 Budget Act include the requirement to use cash register software with anti-fraud features. The tax administration is also continuing to invest in fraud investigation and detection techniques (data mining) and encourages exchanges of information between countries. Information exchanges will be stepped up by the implementation of automatic exchanges of financial data starting in 2017. The resources of the Offshore Disclosure Unit (*Service de traitement des déclarations rectificatives*, STDR) have been increased to provide a legal means for individual taxpayers to make voluntary disclosures of hidden offshore assets as part of the effort to fight tax avoidance by individuals. A new three-year plan to fight public finance fraud (2016-2018) will be published in the middle of 2016.

The government's determination has produced results: the back taxes and fines assessed in 2015 totalled €21.2bn (compared to €19.3bn in 2014), and the amounts collected reached €12.2bn, compared to €10.4bn in 2014.

Looking beyond the fight against fraud, it is important to ensure that businesses pay their fair share of taxes where they make their profits, particularly in the case of multinational firms. This is why France played an active role in the OECD's Base Erosion and Profit Shifting (BEPS) project and has become the first country to include one of the project recommendations, country-by-country reporting, in its domestic legislation. This provision, which came into force on 1 January 2016, requires large corporations to provide the tax administration with detailed, country-by-country information on their activities in other countries. As part of the same effort, France supports work within the European Union to reform international rules to fight aggressive tax planning more effectively.

France also supports generalising automatic information exchanges between tax administrations, revealing the beneficial owners of trust-like entities, and adopting retaliatory measures against governments that will not implement this common core.

Taxation is also an effective means of ensuring environmental sustainability (see Box 11).

Box 11 – Taxation and energy transition following COP 21

The Paris Agreement adopted by 195 countries in December 2015 aims to keep the increase in global average temperature to well below 2°C above pre-industrial levels, and to strive for 1.5°C. To achieve this, all countries will need to set new and ever more ambitious emission reduction targets every 5 years. As part of this effort, the European Union made a commitment to reduce its emissions by at least 40% by 2030, compared to the 1990 levels. Europe's effort will be made through the EU emissions trading system (EU ETS), and the Member States will share the efforts in the case of sectors that are not covered by the system.

In 2014, France introduced a carbon component, called the Climate-Energy Tax (CCE), in its energy taxes (domestic taxes on the consumption of energy products, natural gas and coal) to reduce emissions in these sectors. This tax has been ramped up over time, from €7 per ton of CO₂ in 2014, to €14.50 per ton in 2015, to €22 per ton in 2016, and will rise to €30.50 per ton in 2017.

Furthermore the Energy Transition and Green Growth Act of 17 August 2015 set the long-range targets for the tax in 2020 (€56 per ton) and 2030 (€100 per ton).

The 2015 Supplementary Budget Act turns the levy to compensate electricity distributors for additional costs entailed by their public service obligations (*contribution au service public de l'électricité, CSPE*) and the solidarity contribution for the special gas rate (*contribution au tarif spécial de solidarité du gaz*) and the biomethane contribution into domestic excise taxes on the final consumption of electricity (*taxe intérieure sur la consommation finale d'électricité, TICFE*) and the final consumption of gas (*taxe intérieure de consommation sur le gaz naturel, TICGN*) to provide secure financing for electricity and gas supplied as a public service.

Electricity taxes will be stabilised at their 2016 level of €22.5/MWh in 2017 and financing for renewable energy development will be paid for by part of the rise in the Climate–Energy Tax. In the government's view, it was only right for carbon-emitting fossil fuels to contribute to financing renewable energy, but the main source of funds will be taxes on electricity in 2017. Biofuels have been promoted by cutting the excise taxes on petrol blends that contain more than 5% bioethanol and increasing taxes on blends with less than 5% bioethanol.

In addition to increasing the Climate-Energy Tax, which will provide better coverage of the externalities related to fuel consumption for transport than that provided by the excise tax, the government decided to institute the principle of aligning taxes on diesel oil and petrol. To this end, excise tax on diesel oil was raised by €0.01 per litre on 1 January 2016 and will rise by the same amount on 1 January 2017, in addition to the tax increases resulting from the Climate-Energy Tax. At the same time, excise tax on petrol was cut by €0.01 per litre before the increases resulting from the Climate-Energy Tax in 2016 and it will be cut by the same amount in 2017.

Box 12 – Tax Consultations

Tax consultations are meetings that are held each May and organised by the Ministry of Finance with other government departments. The meetings examine tax expenditures, earmarked taxes and the tax measures proposed for inclusion in budget bills to be passed in the autumn. The consultations provide an innovative framework for streamlining public finance. They started in 2013, establishing a joint tax-setting procedure that is conducted in coordination with the budget-making procedure.

The consultations are a channel for closer consultations with ministries and prior assessments of proposed tax measures. They are part of the government's implementation of sound management principles that are the key to complying with France's European commitments regarding public finances. The total cost of tax expenditures came to €72bn in 2013 and this cost is estimated at €83bn in 2016, including €13bn for the CICE.

The tax consultations are also covered by the 2014-2019 Public Finance Planning Act of 29 December 2014, which establishes ceilings on tax expenditures and tax credits and requires an assessment of new measures in their first three years of application.

Coordination of the tax consultations and the budget consultations, where budget appropriations are negotiated, was enhanced in 2015 by establishing joint reporting of conclusions of budget and tax consultations to decision-makers making policy choices.

In addition to discussing tax expenditures, the 2015 tax consultations also examined earmarked taxes and low-yield taxes that often involve complicated compliance procedures for taxpayers and high collection costs. With the goal of simplifying the tax system, proposals were made to eliminate taxes with inadequate yields or unproven relevance, and to transform or merge underperforming taxes. The rationalisation of earmarked taxes supplemented the initiatives started in 2012, which included the definition of a ceiling and reincorporation of these taxes into the general budget.

Tax consultations are a channel for coherent and coordinated governance of the fiscal adjustment path, covering both expenditure and revenue. They should improve the transparency and efficiency of France's tax system, while identifying ways of achieving sustainable savings, thus contributing to a return to structural equilibrium.

7. SUSTAINABILITY OF PUBLIC FINANCES

7. Sustainability of public finances

7.1 SUSTAINABILITY OF GENERAL GOVERNMENT DEBT

7.1.1 Impact of the ageing population on public finances

France's strong birth rate, the improvement in its older worker participation rate and the reforms it has made over the last 20 years or more, have placed France in a strong position to deal with its ageing population compared to its European partners. The financial equilibrium of France's pension system is no longer a major issue for the long-term sustainability of public finances.

The pension reform in 2014 enables the system to face the current financial challenges in the short and medium term. In the wake of the far-reaching economic crisis and in preparation for the wave of baby-boomers reaching retirement, this reform calls for consolidation measures that will be borne equally between firms, employees and pensioners. More recently, on 30 October 2015, management and labour representatives signed a national multisector agreement that includes a series of short-, medium- and long-term consolidation measures concerning supplementary pension schemes (see Box 13).

The European projections by the Ageing Working Group (AWG)³³, based on Eurostat's population forecasts, predict that pension expenditure as a percentage of GDP in France will stabilise through 2025, and then fall markedly over the long term. Thus, France's age-related spending (which includes, in addition to pensions, spending on healthcare, long-term care, unemployment and education) is expected to fall by 1.7 percentage points of GDP between 2013 and 2060, and by as much as 2.8 percentage points in the area of spending on pensions alone. France's average fertility rate is one of the highest in Europe for the period under review (an average of 2.0 between 2013 and 2060), partially offsetting the ageing of the population. Concurrently, reforms over the last 20 years or more should reduce pension expenditure as a percentage of GDP and raise the retirement age. More specifically, the increase in the number of years of service required to obtain a full pension, up to 43 years starting in 2035, which was part of the reforms passed in 2014, will raise the effective retirement age as life expectancy increases.

The October 2015 agreement on supplementary pension schemes is not taken into account in the Commission's forecasts. These additional measures are expected to further improve the long-term sustainability of the French pension system in comparison with the findings of the AWG (see Box 13).

Moreover, the 2014 reform enhanced governance of the pension system by setting up the Pension Steering Committee (*Comité de suivi des retraites*), an independent authority with responsibility for publishing an annual opinion on the situation of the pension system with regard to the statutory

³³ European Commission, 2015, "2015 Ageing Report: economic and budgetary projections for the 28 EU Member States (2013-2060)", *European Economy*, no. 3/2015.

objectives, especially its short- and long-term financial viability. For this purpose the Committee relies on the forecasts by the Pensions Advisory Council (*Comité d'orientation des retraites*). In its second opinion, published in the summer of 2015, the Pension Steering Committee issued no recommendations, as in its first opinion. Governance of supplementary pension schemes was also strengthened. Under the terms of the agreement, multiannual monitoring of supplementary pension schemes will be developed to define an equilibrium path for the unified scheme, which will come into force in 2019.

7.1.2 Sustainability indicator (S2)

A country's public finances are sustainable when it is able to meet its long term financial obligations without having to cut expenditure or increase revenue. A public finance sustainability gap is normally assessed by estimating the immediate and lasting fiscal adjustment (expressed in percentage points of GDP) that would be required to avoid a long-term increase in the debt-to-GDP ratio, with no further change in the structural primary balance (meaning the structural balance excluding interest expenditure). This indicator, called the S2 indicator, is the sum of two terms:

- ▶ **The impact of the initial budget position**, which corresponds primarily to the difference between the structural primary balance and the balance that would stabilise debt in the long term.
- ▶ **The impact of the ageing population** on expenditure on pensions, healthcare, long-term care and unemployment benefits starting in 2019 based on a no-policy-change assumption. Work carried out by the Member States and the European Commission produced a harmonised estimate of this impact at the European level. The data used are from the 2015 Ageing Report, adjusted for the expected savings resulting from the agreement with Agirc-Arrco (supplementary pension schemes) signed by labour and management on 30 October 2015 (the effects of this agreement are not factored into predictions for 2015). Assumptions concerning ageing-related spending in 2060 are thus very close to those set out in this year's Stability Programme, leaving out the agreement on supplementary pension schemes.

According to the S2 indicator, long-term debt stabilisation will be achieved even if the structural primary balance were to remain at its 2015 level throughout the period 2016-2019.

The S2 is worth -0.1 points of GDP in this scenario, indicating that no additional adjustment is necessary to achieve a stable debt-to-GDP ratio in the long term. The expected favourable impact of the ageing population slightly exceeds the gap initially forecast between the structural primary balance and the debt-stabilising balance (see Table 20).

The savings set out in this Stability Programme should allow France to considerably improve the S2 indicator. The significant structural effort planned for 2016-2019 should reduce the necessary adjustment stemming from the initial budget position by 1.8 percentage points of GDP. As from 2019, all the conditions will be in place to considerably bring down the long-term debt-to-GDP ratio.

Table 20 - Fiscal sustainability gap indicator S2 (percentage points of GDP)

<i>Base year</i>	2015	2019
Sustainability gap (S2 indicator)	-0.1	-1.9
o.w impact of the initial budget position	0.7	-1.0
o.w impact of the ageing population (as of 2020)	-0.9	-0.9

Note:

- ▶ The 2015 S2 indicator is estimated on the basis of a counterfactual scenario, where the structural primary balance is assumed to be constant at its 2015 level for the duration of the Programme (2016-2019) independently of the impact of the ageing population: it corresponds to the long-term fiscal adjustment that would have to be achieved in 2019 to stabilise the very long-term debt-to-GDP ratio in view of the impact of the ageing population after 2019;
- ▶ The 2019 S2 indicator is estimated on the basis of the 2019 structural primary balance expected under this Programme. It corresponds to the long-term fiscal adjustment that would have to be achieved in 2019 to stabilise the very long-term debt-to-GDP ratio in view of the impact of the ageing population after 2019.
- ▶ The ageing-related expenditure figures (pensions, healthcare, long-term care, education, unemployment benefits) are taken from the Ageing Working Group's data published in 2015, adjusted to factor in the effects of the agreement with Agirc-Arrco on supplementary pensions signed by labour and management in late 2015.

Box 13 – Contribution of the measures in the agreement on supplementary pension schemes signed in October 2015 to the sustainability of age-related spending

In view of the risk of exhausting the schemes' reserves, which the French supreme audit institution (*Cour des comptes*) estimates could happen in 2018 for Agirc and 2025 for Arrco, if no further measures are taken, on 30 October 2015, labour and management representatives signed an agreement that contains a series of measures:

- In the short term, the agreement calls for shifting annual benefit adjustments to 1 November, setting those adjustments 1 percentage point lower than inflation between 2016 and 2018, and raising the purchase value of points by 2 percentage points more than average wage increases for the same period, which will slow the pace at which benefits are accrued. These measures will reduce the accrual rate³⁴ of the pensions schemes by approximately 9%.
- Beginning in 2019, the Agirc and Arrco supplementary pension schemes will be merged. Incentives to postpone retirement will be introduced. A temporary 10% penalty on pensions paid out (called "solidarity coefficients") will be introduced for three years for those who retire at the legal age for a full pension under the basic scheme. These coefficients will be cancelled for individuals who delay their retirement by one year. Bonuses will be paid to those who put off retirement for more than two years. The call-up rate³⁵ will rise from 125% to 127%, and the contractual employee contribution rates on earnings ranging from one to eight times the Social Security ceiling will be raised.

According to estimates by the Directorate General of the Treasury based on the short-term assumptions in the Stability Programme and the long-term macroeconomic scenario of the Ageing Working Group, all of the measures stipulated in the agreement should help improve the balance of all pensions schemes by slightly more than 0.3 points of GDP starting in 2019. The effects of each measure will not be felt within the same time-frame:

- In the short term, savings should come from indexing annual benefit adjustments at a lower rate and shifting the adjustment date, both of which concern entitlements that have already been earned.
- In the medium term, up until 2030, these two measures will have achieved their full effect, whereas the introduction of a unified scheme should produce additional

34. The accrual rate is the ratio between the annual benefits to which beneficiaries are entitled and the amount of contributions paid in. Starting in 2019, an employee will receive benefits of €60 per year for each €1000 in contributions paid in, instead of the current annual accrual rate of €65.60.

35. Not all contributions generate entitlements, a rate of 125% is applied to the contribution rate. When a beneficiary contributes €125, pensions benefits are calculated on the basis of €100.

savings (increase of the contribution rate and introduction of the solidarity coefficients). Incentives to get people to put off their retirement will have a positive impact on the Agirc and Arrco schemes, but also on other retirement schemes (primarily the general scheme) – beneficiaries will begin receiving their pension later, which will lower pension expenditure and increase the contributions paid in.

- In the longer term, raising contributions between 2016 and 2018, which will result in a lower return, will contribute substantially to the consolidation of the supplementary pensions schemes. The full effects of this measure will not be felt for some time: they will be felt only when those who entered the labour market in 2016 (when the measure first took effect) cease to receive a pension. In the long term, the effects of other measures are expected to diminish (solidarity coefficients, increased contractual employee contribution rates on earnings).

Table 21 – Effects of the agreement of 30 October 2015 on Agirc-Arrco supplementary pension schemes on the full set of pension schemes

Amounts (in % of GDP)	2020	2030	2040	2050	2060
Improvement in balance, all pension schemes combined	0.3	0.3	0.3	0.3	0.3
Expenditure	0.2	0.2	0.2	0.2	0.2
Revenue	0.1	0.1	0.1	0.1	0.1

Source: Aphrodite model, Directorate General of the Treasury

The agreement on the supplementary pension schemes will raise the S2 sustainability indicator by 0.3 percentage points of GDP. In comparison with a counterfactual scenario in which no agreement was signed, lower pension expenditure would improve the S2 indicator by 0.2 percentage points of GDP, and revenue from supplementary contributions would increase the S2 indicator by 0.1 percentage points of GDP. These two effects, which will be felt starting in 2019, are expected to improve the S2 by improving the initial budget position. The agreement is also expected to have a positive effect on the discounted costs of ageing after 2020 (slightly less than 0.05 percentage points of GDP).

Table 22 – Effects of the agreement of 30 October 2015 on Agirc-Arrco supplementary pension schemes (in percentage points of GDP)

Base year	2019
S2 indicator prior to agreement	-1.6
Effect on expenditure	-0.2
Effect on revenue	-0.1
S2 indicator after agreement	-1.9

7.2 CONTINGENT LIABILITIES

General government off-balance sheet liabilities cannot be evaluated with certainty and depend on future developments. If a given event occurs, the central government's liability may be invoked. They may eventually affect public finances, and are therefore very closely monitored. More specifically, central government off-balance sheet liabilities are described in detail in the central government's General Financial Statement that is published each year. This financial statement is certified by the *Cour des Comptes*. The main general government off-balance sheet liabilities are:

- ▶ **liabilities for future ageing-related expenditure** (pensions, healthcare, long-term care, education), where valuations depend on the demographic and macroeconomic outlook. The impact of these liabilities on the sustainability of debt is measured by calculating a sustainability gap indicator, the S2 indicator (see Section 7.1).
- ▶ **contingent liabilities**, which are liabilities that may or may not have to be paid, depending on future events. In most cases, these relate to guarantees provided by the central government and to a lesser extent by local government.

Central government guarantees cover a wide range of actions to sustain or preserve economic activity or to provide financing for certain economic agents when market financing is inadequate. These guarantees are given under clear-cut agreements and they include in particular: central government loan guarantees, guarantees related to general interest functions (insurance mechanisms operated through the central reinsurance fund, export loan guarantees through COFACE, guarantees to protect savings, etc.), liability guarantees (e.g. for France's share of ESM callable capital) and central government financial commitments for co-financing projects and providing development assistance. Generally speaking, the risk of such guarantees being invoked is small. Furthermore, no new central government guarantees can be given other than in a Budget Act, as stipulated in the Constitutional Bylaw on Budget Acts (*Loi organique relative aux lois de finances*, LOLF). The government's role in regulating both the economy and French society means that it is committed to providing budget-balancing subsidies, particularly to the supplementary pension schemes.

In 2014, the aggregate outstanding central government guarantees under clear-cut agreements, meaning all central government loan guarantees, came to €194bn³⁶ compared to €202bn in 2013. The guaranteed amounts for debt issuance by SFEF (*Société de financement de l'économie française*), which had reached €24bn at end of 2013, were fully amortised in 2014. Conversely, several guaranteed amounts increased in 2014, including the guarantees provided to the EFSF (European Financial Stability Facility), which increased from €70bn in 2013 to €75bn in 2014, to the unemployment insurance scheme (Unédic), which increased from €15bn in 2013 to €20bn in 2014, and to Crédit immobilier de France, which rose from €12bn in 2013 to €14bn in 2014. The

36. Source: 2014 central government financial statements.

guarantee provided to Dexia stabilised at €33bn in 2014. It should be noted that the debt of the unemployment insurance scheme, which is part of general government, is included in Maastricht debt. Furthermore, following a decision by Eurostat on 27 January 2011, the funds that the EFSF lends to Member States in difficulty are recognised directly as part of the Maastricht debt of the Member States providing the guarantees, in proportion to the amount provided.

The use of this type of guarantee has increased since the crisis, particularly in developed economies, but without necessarily being a long-term arrangement. It requires the central government to be more vigilant about risks that could be transferred to the public sector. The fiscal risks that the central government incurs through these guarantees, which serve a general interest purpose, must be assessed beforehand, and be subject to ongoing monitoring and control.

France exercises this vigilance in three ways:

First, through a decision-making process, where, under the terms of Article 34 of the Constitutional Bylaw on Budget Acts (*Loi organique relative aux lois de finances*, LOLF), **Parliament's authorisation must be obtained in the Budget Act for any new guarantee scheme**. The legislation must include a precise definition of the guarantee scheme being created. When seeking authorisation from Parliament, the risks incurred must be described exactly, and, according to Constitutional Council precedent, such authorisation is not valid unless there is a guarantee limit or a mechanism to maintain financial control of the scheme. The preliminary assessments are very detailed and public information.

Secondly, in conjunction with the other entities concerned during the budget-making process, **off balance sheet liabilities are subject to centralised fiscal monitoring** at least twice a year to assess the risk of the guarantees being invoked. In addition, more specific information, which is also public, is provided as part of the various draft budgets, along with many reports on specific topics submitted to the Finance Committees of both chambers of Parliament. Some of the reports are required under the terms of the Budget Act that establishes the guarantee scheme concerned.

Thirdly, the notes to the **Central Government Financial Statements on Central Government Liabilities** provide a comprehensive inventory of guarantees given and other off-balance sheet liabilities incurred by the Ministry for Finance in conjunction with the other ministries concerned.

This inventory gives France a major advantage in terms of the materiality of its accounting compared to its partners. This accounting item is audited annually by the French Government Audit Office, which highlighted the improved quality of the accounting of this item in its audit report on the 2014 central government financial statements published in May 2015.

7.3 ONGOING STRUCTURAL REFORMS

Using consultations and labour-management dialogue, France is implementing a long-term strategy of reforms that will help sustain and boost economic recovery both in France and in the euro area. These reforms all have the same goal – to modernise, streamline and free up business activity so that it can fully resume in a sustainable manner.

Ongoing efforts to boost competitiveness and productivity and enhance the business environment

Measures taken to boost business competitiveness have helped keep production costs under control by having an impact on labour, capital and input costs. At the same time, several measures have been introduced to bolster general productivity.

France's **cost competitiveness** in comparison with the rest of the euro area has recovered in recent years, particularly thanks to efforts to reduce labour costs and business taxation via the Competitiveness and Employment Tax Credit (CICE) and the Responsibility and Solidarity Pact. These measures will reduce business taxation by nearly €34bn in 2016 and by more than €40bn in 2017. The temporary scheme encouraging SMEs to recruit staff (*Embauche PME*) introduced in 2016 will help underpin these efforts. The third phase of the Responsibility and Solidarity Pact will include, on the one hand, an elimination of the corporate social solidarity contribution (C3S) and, on the other hand, an initial reduction in the corporate income tax rate, which will gradually be brought down from the current rate of 33.3% to 28% by 2020. To boost the impact of the CICE tax credit on reducing the cost of labour, the credit will be made permanent in the form of lower social security contributions.

To support non-cost competitiveness and help boost the productivity of French businesses, measures to boost investment and innovation have also been stepped up, over and beyond lowering the corporate income tax rate (see above). The Research Tax Credit has been extended and stabilised. Efforts are underway to reform France's clusters (*Pôles de compétitivité*) to bring them more into line with the "Nine Industrial Solutions" programme. To support the recovery of investment, the higher depreciation allowance measure that was introduced in 2015 will remain in effect in 2016. Moreover, support for innovative businesses is a government priority. Combined with other economic policy initiatives, these actions will help support business investment.

In an attempt to stimulate GDP, **the market for goods and services has been modernised, and the regulatory environment has been streamlined**. Following initiatives taken in 2014 to increase competition in various sectors, the Growth, Economic Activity and Equal Economic Opportunity Act of August 2015 has helped reduce the fees charged by various regulated professions and lowered some of the barriers to entry. The Act also deregulated coach transport and expanded the possibility for shops to open on Sunday. Efforts to reduce the red tape faced by businesses continue, allowing them to cut costs and shorten timelines, particularly for large-scale construction projects.

The Transparency, Anti-Corruption and Economic Modernisation Bill presented on 30 March will contribute to efforts to boost transparency in public-sector decision-making and to better prevent

and punish corruption. By making it easier to gauge the risk of investment projects, the bill will enhance France's appeal as a place to do business and will help boost companies' profitability. In the section devoted to modernising economic activity, the Bill calls for facilitating the growth of VSEs and SMEs, for example by introducing stiffer penalties for late payments and by streamlining and modernising business law to encourage people to set up businesses.

Improving the functioning of the labour market more fluid

Step by step, the government is introducing a French version of flexicurity, giving businesses more leeway to adapt and change, and providing employees with greater protection during times of career change, particularly periods of unemployment. To do so, it is relying on labour-management dialogue to promote maximum ownership of these reforms by all stakeholders in the long term.

The 2013 Job Security Act provided businesses with more adaptability through an ambitious simplification of short-time working rules, making mass redundancy procedures simpler and more secure, and introducing the possibility to adjust wages and working hours, by agreement, in times of economic hardship. The initial results of these actions can already be seen – the percentage of mass redundancy procedures that end up in court has been reduced by two-thirds (from 25% to 8%).

The Act on Labour-Management Dialogue and Employment (August 2015) makes labour relations more effective by streamlining regulations and adapting them to the size of the company. Dialogue between labour and management will be simpler and more effective, with fewer meetings and stakeholders involved. Specifically, SMEs with up to 300 employees (compared to 200 before the Act was passed) can set up a single employee representative body (*délégation unique du personnel*) comprising the Health and Safety Committee (*Comité d'hygiène, de sécurité et des conditions de travail*) that will help improve their day-to-day running.

The 2015 Growth, Economic Activity and Equal Economic Opportunity Act introduced major reform for the labour tribunals that rule on individual cases (*justice prud'homale*). Judges will be able to more quickly hand down decisions, which will be more predictable and less costly for companies and employees. Other measures carry forward efforts to provide safeguards in cases of dismissals on economic grounds, in particular regarding obligations with respect to international outplacement for employees.

The aim of the Bill introducing new opportunities and new safeguards for companies and employees (the "Labour Bill"), which was presented to the Cabinet on 24 March, is to restructure the French Labour Code. Rules will be able to be defined on a more local level, in order to be more in line with economic realities and companies' needs, within a framework that provides protection for employees. Subject to legislation, setting the rules concerning how work is organised and working hours will now be the responsibility of labour and management, particularly at company level. The goal of the Bill is also to give **greater visibility to companies**, particularly VSEs and SMEs, to encourage hiring people on permanent contracts. It identifies and spells out the economic difficulties faced by a company that can justify announcing layoffs. Concomitantly, the Bill introduces **new safeguards, particularly for employees with little job security and young people.** The Personal Activity Account (CPA), that will take effect on 1 January 2017, will allow all workers to accumulate entitlements throughout their career, regardless of their status

(salaried employee, self-employed worker, civil servant, jobseeker), particularly for training or support in setting up a business. A “training capital” (extra hours added to the CPA) for acquiring a profession or retraining will be available for young dropouts and low-skilled workers will be provided with improved training entitlements. Young jobseekers, who are not enrolled in a training programme and who have no source of income, can apply to the Youth Guarantee scheme for comprehensive assistance to pave the way to employment and financial support for one year.

Promoting social inclusion and equal opportunity

Finally, efforts to combat poverty and social exclusion have softened the impact of the financial crisis on the most vulnerable individuals. The government employed various policy means, particularly within the framework of the multiyear plan to fight poverty and social exclusion. These included an adjustment of minimum welfare benefits (the RSA social inclusion benefit adjusted at 10 points above inflation between 2013 and 2017), measures to encourage financial inclusion, subsidies for access to housing, support for young people via the Youth Guarantee scheme, professional training contracts for older workers and the long-term unemployed, efforts to reduce school dropout rates and reforms for schools in underprivileged areas. Thanks to these measures and the existing social welfare system, France was less hard-hit by the financial crisis than many other EU countries. The number of citizens at risk of falling into poverty and social exclusion in 2014 was similar to that observed in 2007. The goal is to ensure that everyone benefits from economic recovery.

8. INSTITUTIONAL ASPECTS AND FISCAL GOVERNANCE

8. Institutional aspects and fiscal governance

8.1 FULLY OPERATIONAL FISCAL GOVERNANCE

The Constitutional Bylaw (loi organique) of 17 December 2012 overhauled both public finance steering and its institutional framework. Changes to fiscal management include an introductory article for Budget Acts that supplements public finance steering based on the nominal balance with targets defined in structural terms and a multi-year outlook. Changes to the institutional framework include the creation of the High Council of Public Finance (*Haut Conseil des finances publiques*, HCFP), which is tasked with issuing an opinion on the macroeconomic forecasts underlying the Stability Programme, draft budgets and draft Social Security budgets, and their consistency with the multiyear structural balance guidelines set out in the Public Finance Planning Act. The High Council also identifies potential deviation of the budget outturn from the multiyear forecast during the debate on the draft Budget Review Act. Where appropriate, the High Council may trigger the corrective mechanism in the event of a major deviation or decide whether there are any "exceptional circumstances" that could justify the deviation. The government must take this opinion into account in the draft budget for the year and the draft Social Security budget for the year and provide details of the corrective measures being planned. In such cases, the opinions issued by the High Council include an assessment of these measures.

The High Council provides Parliament, the Constitutional Council and outside observers with an independent assessment of the government's macroeconomic and public finance forecasts. It has issued 14 opinions on budget bills and Stability Programmes presented by the government since April 2013. The High Council also issued an opinion in September 2014 on the multiyear macroeconomic projections of the draft Public Finance Planning Act for 2014-2019, as well as on the consistency of the plans with France's medium-term objective and European commitments.

Alongside the new institutional framework, the fiscal rules and targets set in recent years are now an integral part of the overall public finance strategy. Budget legislation ensures the alignment of the rules and targets and incorporates them into the law:

- ▶ *Central government:* setting the expenditure growth target for central government and breaking it down by ministry and by budget programme, caps on staff for ministries, level of central government transfers to local government, overall budget equilibrium and central government cash flow;
- ▶ *Other central government bodies:* caps on staff for central government bodies set in the Budget Act, ban on incurring debt for more than 12 months, continued extension of caps

on earmarked taxes and lowering certain caps in the Budget Act, control over the use of public-private partnerships;

- ▶ *Local government*: ban on borrowing to cover operating expenditure, introduction of the local government expenditure growth target (ODEDEL) at the end of 2014 and breaking the target down by level of government in the 2016 Budget Act.
- ▶ *Social security funds*: the national healthcare expenditure growth target (Ondam) set in the Social Security Budget Act and broken down into sub-targets, steady lowering of the annual growth target since its inception, which has contributed to a sharp slowdown of healthcare expenditure growth, stronger containment of operating and payroll expenditure by Social Security funds under the objectives and management agreements, setting the expenditure and balance targets for each branch of Social Security in the Social Security Budget Act, steering hospital wages and salaries.

Expenditure reviews have provided the government with an innovative tool for annual assessments of public expenditure for fiscal and operational purposes. This tool is fully integrated into the parliamentary budget-making procedure. The reviews were implemented ahead of schedule in 2015 and identified €500 million in savings in 2016. They will be ramped up this year with a view to preparing the 2017 Budget (see subsection 6.1.1).

A new Multiyear Public Finance Planning Act for 2014-2019 was passed in December 2014 to set the structural balance adjustment path based on the savings plan, and to improve fiscal governance. The Act sets a structural deficit of 0.4% of potential GDP as the medium-term objective and incorporates the €50bn savings plan implemented by the government from 2015 to 2017, along with the Responsibility and Solidarity Pact.

France's domestic fiscal governance is finally fully integrated within the European procedure. Since the entry into force of the "Two-Pack", the European Commission issues an opinion on Member States' draft budgetary plans³⁷ in the autumn of each year. The Council of the European Union then discusses the plans. In addition, the Stability Programme is submitted to the Commission in April. At each of these European deadlines, compliance of each Member State's adjustment path with European recommendations is assessed, in accordance with the provisions of the Stability and Growth Pact.

37 . The Economic and Social Report appended to the draft budget is France's draft budgetary plan.

8.2 STATISTICAL GOVERNANCE

France's national statistics institute (Insee) is responsible for publishing the national accounts, which include the main public finance aggregates in the national accounts format. A new European System of Accounts (ESA), ESA 2010, is now in force, replacing ESA 95. Since September 2014 it has been applicable to all Member States. Insee maintains regular contact with Eurostat to ensure that its accounts are in compliance with the new ESA 2010 rules. The **semi-final and final general government accounts**, published with lags of two years and three years respectively, are compiled on the basis of detailed accounting information. The main information source for the central government is the budget outturn, supplemented by the central government's financial statements (accrual-based financial statements, which are certified by the French supreme audit institution (*Cour des comptes*)). Restating the budget outturn as government net lending requires a series of adjustments to correct for some time lags and for the difference in treatment of certain transactions in budgetary cash-based accounting and in the system of national accounts. Compiling the "Other central government bodies" account, which mainly covers central government agencies, involves restating each of the agencies' accounts in the national accounts format. The data for the local government sector (APUL) come from the individual management accounts kept by Public Finances Directorate General accountants. The accounts of the Social Security funds (ASSO) are compiled from the accounts of the various funds, public hospitals and private hospitals providing public healthcare services, the unemployment insurance agency (Unédic) and Pôle Emploi, France's public employment service agency, along with the accounts of supplementary retirement scheme management bodies (such as Agirc and Arrco). Insee has revised the latter accounts every year since September 2013 using supplementary accounting data, ahead of the semi-final accounts.

The data available for the **provisional general government account**, published three months after the end of the year, are not as exhaustive. The central government's budget cycle ends in mid-January of the following year (y+1) and the central government's public accounts are closed towards the middle of March of the following year (y+1). Consequently, the data published on 25 March of the following year (y+1) are virtually final and any minor revisions made later relate primarily to the adjustments required to bring them into line with the national accounts format. The agencies' account uses data derived directly from accounting sources that cover approximately two thirds of revenue and expenditure. The preferred sources for local governments are the data reported in the central government's accounting documents and direct, comprehensive and centralised data for regions, *départements* and virtually all municipalities, as well as a sampling of various local government bodies. For the 25 March release, the Social Security accounts are partially based on estimates, since the different schemes have not yet produced their full financial statements, even though the general social security scheme compiles its financial statements in March. Nevertheless, a large number of accounting data (e.g. from the general social security funds, public hospitals, etc.) are used. The provisional accounts provide a good estimate of the general government balance and revisions to the balance for the final accounts are fairly minor³⁸.

38. France is one of the European Union countries that make the fewest revisions to their general government balance after the first release. (See European Commission survey: "How reliable are the statistics of the stability and growth pact?" L.G. Mora and J.N. Martins, Economic Papers No. 273, February 2007, European Commission).

Maastricht debt is compiled using accounting data from virtually all of the general government sub-sectors, as soon as the provisional accounts are available. The debt of general government sub-sectors is consolidated based on the data gathered directly by the Public Finances Directorate General from the main holders of government securities. The transfer of the accounting data to Insee is governed by an agreement between Insee and the Public Finances Directorate General.

France's Parliament adopted the Economic Modernisation Act in July 2008. Article 144 of this Act enshrines the professional independence of government statisticians, thus ensuring the **independence of statistical output** and government statisticians. The enshrinement of this principle into law was a response to the European Statistics Code of Practice adopted by the Statistical System Committee on 24 February 2005 and reiterated in the European Commission Recommendation of 25 May 2005 on the independence, integrity and accountability of national and Community statistical authorities, which was revised in September 2011. The Code's first principle on professional independence states that the independence of the statistical authorities in producing and disseminating public statistics must be specified in law. To this end, Article 144 created a Public Statistics Authority (Autorité de la statistique publique) responsible for ensuring compliance with the European Statistics Code of Practice. It covers all entities producing public statistics.

8.3 STATUS OF THIS STABILITY PROGRAMME UNDER INTERNAL PROCEDURES

The Stability Programme was presented to Parliament on 13 April 2016.

In compliance with the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, the High Council of Public Finance (HCPF) was instituted by the Constitutional Bylaw of 17 December 2012 on public finance planning and governance. Article 17 of the Constitutional Bylaw stipulates that the HCPF shall issue an opinion on the macroeconomic forecasts underpinning this Stability Programme. "The government shall refer the macroeconomic forecasts underpinning the Stability Programme drawn up for the purposes of coordinating the economic policies of the Member States of the European Union to the High Council of Public Finance, which shall issue its opinion at least two weeks before the deadline for submitting the Stability Programme to the Council of the European Union and to the European Commission. This opinion shall be appended to the Stability Programme when it is submitted."

The High Council of Public Finance published its opinion on the macroeconomic forecasts underlying the Stability Programme for 2016 to 2019 on 13 April 2016. This opinion will be appended to the Stability Programme when it is submitted to the Council of the European Union and to the European Commission at the end of April 2016.

9. APPENDIX

9. Appendix

9.1 STATISTICAL TABLES

Table 1a. Macroeconomic prospects

	ESA Code	2015*	2015*	2016	2017	2018	2019
		Level in €bn	Rate of change	Rate of change	Rate of change	Rate of change	Rate of change
1. Real GDP	B.1*g	-	1.2	1.5	1.5	1 ¾	1.9
2. Nominal GDP	B.1*g	2,190.1	2.3	2.4	2.4	3.1	3.6
Components of real GDP							
3. Private consumption expenditure	P.3	1,199.7	1.4	1.6	1.6	1.8	1.9
4. Government consumption expenditure	P.3	522.9	1.5	1.0	0.6	0.0	0.0
5. Gross fixed capital formation	P.51	463.3	0.0	1.7	3.0	3.9	4.5
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	22.1	-	-	-	-	-
7. Exports of goods and services	P.6	650.7	6.1	3.9	4.8	5.5	5.5
8. Exports of goods and services	P.7	676.2	6.7	4.8	5.1	5.6	5.8
Contributions to real GDP growth							
9. Final domestic demand excluding inventories		-	1.1	1.5	1.6	1.8	2.0
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	-	0.4	0.4	0.0	0.0	0.0
11. External balance of goods and services	B.11	-	-0.3	-0.3	-0.1	-0.1	-0.1

* Seasonally and working-day adjusted data taken from the quarterly accounts (March 2016), with the exception of the nominal GDP in 2015, which corresponds to the figure from the March 2016 EDP notification.

Table 1b. Price developments

	ESA Code	2015*	2016	2017	2018	2019
		Rate of change	Rate of change	Rate of change	Rate of change	Rate of change
1. GDP deflator		1.1	0.9	0.9	1.3	1.7
2. Private consumption deflator		-0.1	0.1	1.0	1.4	1.7
3. HICP		0.0	0.1	1.0	1.4	1.7
4. Public consumption deflator		-0.2	-0.1	0.1	0.6	0.8
5. Investment deflator		0.1	0.4	0.8	1.9	2.4
6. Export price deflator (goods and services)		0.1	-0.6	1.0	1.1	1.7
7. Import price deflator (goods and services)		-2.9	-2.8	0.4	1.0	1.6

*Seasonally and working-day adjusted data taken from the quarterly accounts, March 2016.

Table 1c. Labour market developments

	ESA Code	2015	2015	2016	2017	2018	2019
		Level	Rate of change	Rate of change	Rate of change	Rate of change	Rate of change
1. Employment, persons¹		27,407	0.4	0.7	0.6	0.4	0.4
2. Employment, hours worked²							
3. Unemployment rate (%)³							
4. Labour productivity, persons⁴		-	0.8	0.8	0.9	1.4	1.4
5. Labour productivity, hours worked ⁵							
6. Compensation of employees (including employers' contributions)	D.1	1,159	1.5	1.8	2.2	2.8	3.5
7. Compensation per employee (including employers' contributions)			1.1	1.1	1.6		

¹ Occupied population in thousands, national accounts definition

² National accounts definition

³ ILO concept

⁴ Real GDP per person employed

⁵ Real GDP per hour worked

Table 1d. Sectoral balances

% of GDP	ESA Code	2015*	2016	2017	2018	2019
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-1.6	-1.4	-1.1	-1.0	-1.0
<i>of which</i>						
- Balance on goods and services		-1.2	-0.8	-0.7	-0.7	-0.7
- Balance of primary incomes and transfers		-0.5	-0.6	-0.4	-0.4	-0.3
- Capital account		0.0	0.0	0.0	0.0	0.0
2. Net lending/borrowing of the private sector	B.9					
3. Net lending/borrowing of general government	B.9	-3.5	-3.3	-2.7	-1.9	-1.2
4. Statistical discrepancy						

*Seasonally and working-day adjusted data taken from the quarterly accounts, March 2016.

** The public sector deficit is based on the GDP figure from the March 2016 release.

Table 2a. General government budgetary prospects

	ESA Code	2015	2015	2016	2017	2018	2019
		Level in €bn	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending/borrowing (EDP B9) per sub-sector							
1. General government	S.13	-77.4	-3.5	-3.3	-2.7	-1.9	-1.2
2. Central government	S.1311	-72.4	-3.3	-3.2	-3.0	-2.3	-1.8
3. State government	S.1312						
4. Local government	S.1313	0.7	0.0	0.0	-0.1	-0.1	-0.2
5. Social security funds	S.1314	-5.7	-0.3	0.0	0.3	0.6	0.8
General government (S.13)							
6. Total revenue	TR	1166.0	53.2	52.8	52.7	52.5	52.3
7. Total expenditure	TE	1243.4	56.8	56.0	55.3	54.4	53.5
8. Net lending/ borrowing	B.9	-77.4	-3.5	-3.3	-2.7	-1.9	-1.2
9. Interest expenditure	D.41	44.1	2.0	1.9	1.9	2.0	2.1
10. Primary balance¹		-33.3	-1.5	-1.3	-0.7	0.1	0.9
11. One-off measures²		-1.1	0.0	-0.2	-0.1	0.0	0.0
Selected components of revenue							
12. Total taxes (12=12a+12b+12c)		634.5	29.0	28.7	28.6	28.4	28.1
12a. Taxes on production and imports*	D.2	347.7	15.9	15.8	15.7	15.8	15.8
12b. Current taxes on income, wealth etc.	D.5	274.6	12.5	12.4	12.3	12.1	11.8
12c. Capital taxes	D.91	12.3	0.6	0.6	0.5	0.6	0.5

13. Social contributions	D.61	412.8	18.8	18.7	18.6	18.6	18.6
14. Property income	D.4	15.3	0.7	0.6	0.7	0.7	0.7
15. Other³ (15=16-12-13-14)		103.4	4.7	4.7	4.7	4.8	4.8
16=6. Total revenue	TR	1166.0	53.2	52.8	52.7	52.5	52.3
NB: Tax burden (D.2+D.5+D.61-D612+D.91-D.995) ⁴		1001.4	45.7	45.3	45.2	45.0	44.8
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1 + P.2	392.8	17.9	17.6	17.3	17.0	16.6
17a. Compensation of employees	D.1	281.5	12.9	12.7	12.6	12.4	12.2
17b. Intermediate consumption (including financial intermediation)	P.2	111.2	5.1	4.9	4.8	4.6	4.4
18. Social payments⁵ (18=18a+18b)		567.4	25.9	25.7	25.4	25.1	24.6
of which unemployment benefits		31.6	1.5	1.4	1.3	1.3	1.2
18a. Social transfers in kind supplied via market producers	D.6311 D.63121 D.63131	130.7	6.0	6.0	5.9	5.8	5.7
18b. Social transfers other than in kind	D.62	436.7	19.9	19.7	19.4	19.2	18.9
19=9. Interest expenditure	D.41	44.1	2.0	1.9	1.9	2.0	2.1
20. Subsidies	D.3	55.3	2.5	2.6	2.6	2.5	2.4
21. Gross fixed capital formation	P.51	75.3	3.4	3.4	3.3	3.3	3.4
22. Capital transfers	D.9	22.3	1.0	0.9	0.9	0.9	0.8
23. Other⁶ (23=24-17-18-19-20-21-22)		86.2	3.9	3.9	3.9	3.7	3.6
24=7. Total expenditure	TE ¹	1243.4	56.8	56.0	55.3	54.4	53.5
NB: Government consumption (nominal)	P.3						

¹ The primary balance is calculated as (B.9, item 8) plus (D.41, item 9).

² A plus sign means deficit-reducing one-off measures.

³ P.11+P.12+P.131+D.39+D.7+D.9

⁴ Including those collected by the European Union and including an adjustment for uncollected taxes and social contributions (D.995).

⁵ Includes cash benefits (D.621 and D.624) and in kind benefits (D.631) related to unemployment benefits.

⁶ D.29+D.4-D.41+D.5+D.7+P.52+K.2+D.8

*Excluding taxes collected by the European Union

Table 2b. No-policy-change projections

	2015	2015	2016	2017	2018	2019
	Level in €bn	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Total revenue with no policy change	1166.0	53.2	52.8	52.7	52.6	52.3
2. Total expenditure with no policy change	1243.4	56.8	56.1	55.6	54.7	53.7

Table 2c. Amounts to be excluded from the expenditure benchmark

	2015	2015	2016	2017	2018	2019
	Level in €bn	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue						
2. Cyclical unemployment benefit expenditure	3.4	0.2	0.1	0.1	0.1	0.1
3. Effect of discretionary revenue measures	-1.8	-0.1	-0.2	-0.2	-0.1	-0.2
4. Revenue increases mandated by law						

Table 3. General government expenditure by function

% of GDP	COFOG code	2014
1. General public services	1	6.7
2. Defence	2	1.7
3. Public order and safety	3	1.6
4. Economic affairs	4	5.1
5. Environmental protection	5	1.0
6. Housing and community amenities	6	1.4
7. Health	7	8.2
8. Recreation, culture and religion	8	1.5
9. Education	9	5.5
10. Social protection	10	24.8
11. Total expenditure	TE	57.5

NB: latest available data from Insee by COFOG codes, which are not consistent with the update of the 2014 accounts released on 25 March 2016.

Table 3a. Revenue

Stability Programme Measures	2015	2016	2017
Total	-1.8	-5.5	-5.7
Recent measures	-0.5	-1.3	0.1
One-year extension of higher depreciation allowance measure		-0.4	-0.2
Lower social contributions for farmers		-0.5	
Extension of the Climate-Energy Tax		0.1	1.5
Extension of the energy transition tax credit (CITE)			-1.4
VAT on sanitary napkins		-0.1	
Alignment of diesel oil and petrol taxes		0.3	0.3
Enhanced interest-free homebuyer loans			-0.1
Lower social contributions for individual employers	-0.0	-0.2	
Measure on direct local taxes	-0.4		
Other measures	-0.0	-0.6	-0.0
Growth, Economic Activity and Equal Economic Opportunity Act	-0.0	-0.2	0.1
Change in Social Security contributions on distributions of free shares	-0.0	-0.2	0.1
Introduction of a 16% reduced social security contribution rate on profit-sharing payments that are put into group retirement savings plans investing in SMEs and mid-sized enterprises (PERCO+ scheme)		-0.1	
Higher depreciation allowance measure (2015)	-0.4	-0.2	
Second 2014 Supplementary Budget Act	1.1	2.3	-0.3
Elimination of the earned income tax credit		2.0	0.1
Non-deductibility of certain taxes for corporate income tax and the social contribution on profits	0.8	0.4	-0.1
Fight against tax evasion (transfer pricing and VAT fraud)	0.4	0.1	
Lower tax rate on systemic risks and new tax on toxic loan funds	-0.4	-0.1	-0.1
Tax on retail floor space	0.2		
Other measures	0.2	-0.0	-0.1
2015 Initial Budget Act / 2015 Social Security Budget Act	0.8	-0.8	0.3
Introduction of an energy transition tax credit (CITE)	-0.3	-0.4	0.6
€0.02 increase in the excise tax on diesel oil	0.8	-0.1	0.0
“Pinel” tax incentive for buy-to-let investments		-0.0	-0.1
Enhanced interest-free homebuyer loans		-0.1	-0.2
Other measures	0.3	-0.1	-0.0
Responsibility and Solidarity Pact	-7.3	-7.0	-5.6

Central government measures	-1.0	-2.8	-1.0
Personal income tax cut (2016 Initial Budget Act)		-2.0	
Elimination of the lowest income tax bracket	-2.8		
One-time decrease in income taxes (repercussion in 2015 of the 2014 decrease)	1.3		
Impact of lower employer contributions on corporate and personal income tax revenue	0.6	1.7	0.3
Impact of the phasing-out of the corporate social solidarity contribution (C3S) on corporate income tax revenue	0.1	0.4	0.6
Cut in corporate income tax rate			-1.5
Elimination of the exceptional corporate income tax payment for large corporations		-2.9	-0.4
Lower employer contributions: impact on the National Housing Aid Fund (FNAL)	-0.3		
Social Security fund measures	-6.3	-4.2	-4.6
Lower employer contributions	-5.3	-3.2	-1.1
Elimination of the corporate social solidarity contribution (C3S)	-1.0	-1.0	-3.5
Competitiveness and Employment Tax Credit (CICE)	-5.3	-0.6	-3.1
Offshore Disclosure Unit (STDR)	0.6	-0.3	-1.6
Other measures (excl. tax disputes)	9.2	4.5	3.5
Central government measures	3.7	1.2	2.0
Higher corporate income tax for large corporations (5% and then 10.7%)	-0.4	0.1	0.1
Extension of the 7% VAT rate for renovation work on certain housing units	0.3		
Reform of capital gains tax on real estate and securities	0.4	-0.0	0.0
Fight against aggressive tax planning that makes use of hybrid products and artificial indebtedness	-0.2		
Reform of payment facilities for settling death duties by reducing the maximum length of advances granted by the government	1.0	0.3	0.2
Limit on the deductibility of financial expenses	1.3	-0.7	
Revision of support for improving energy efficiency (CIDD)	-0.0		0.9
Stimulus package	-0.8	-0.2	0.0
Introduction of a Climate-Energy Tax	1.8	1.5	0.0
Home buying reform	0.2	0.4	0.5
Other measures	0.1	-0.1	0.3
Social security fund measures	3.0	1.6	0.9
VSE and SME measures, impact of reduced social security contributions		-0.0	
Pension reform: increase in old-age pension contributions and lower family allowance contributions	0.6	0.6	0.6

Supplementary retirement schemes: extension of the early retirement contribution (AGFF) to salaries in the C bracket		0.1	
Increase in supplementary pension scheme contribution rate	0.5		
Indirect impact of exemptions and reduced rates for the General Social Security Contribution and Social Security Debt Repayment Contribution in the 2014 Initial Budget Act	0.5		
Elimination of the right to choose for cross-border commuters working in Switzerland	0.2	0.0	
Expansion of the early retirement scheme for people having started work at an early age	0.6	0.6	
Reform of capital gains on real estate	0.3		
Other measures	0.3	0.2	0.3
Local government	1.4	0.8	0.6
Higher local direct tax rates	0.7	0.9	0.6
Higher threshold for transport contribution		-0.1	
Other measures	0.7	0.1	-0.0
Other central government bodies	1.1	0.9	
Increase in the levy to compensate electricity distributors for additional costs entailed by their public service obligations (CSPE)	1.1	1.1	
Other measures	0.0	-0.2	
Tax disputes	0.1	-2.0	0.9
Withholding tax dispute (précompte mobilier)		-0.3	0.3
UCITS dispute	0.1	-0.8	
De Ruyter dispute	-0.0	-0.5	0.5
Stéria dispute		-0.3	0.0
Total measures prior to transfers	-1.8	-5.5	-5.7
Total central government measures prior to transfers	-1.0	4.8	-2.8
Total social security funds measures prior to transfers	-3.3	-3.8	-3.6
Total local government measures prior to transfers	1.4	0.9	0.6
Total other central government bodies measures prior to transfers	1.1	-7.3	0.0
Total measures including transfers	-1.8	-5.5	-5.7
Total central government measures including transfers	-3.1	5.0	-7.9
Total social security funds measures including transfers	-2.6	-3.9	1.4
Total local government measures including transfers	2.0	0.9	0.6
Total other central government bodies measures including transfers	2.0	-7.5	0.1

Table 4. General government debt developments

% of GDP	ESA Code	2015	2016	2017	2018	2019
1. Gross debt¹		95.7	96.2	96.5	95.4	93.3
2. Change in gross debt ratio		0.4	0.4	0.4	-1.1	-2.1
Contributions to changes in gross debt ratio						
3. Primary balance²		-1.5	-1.3	-0.7	0.1	0.9
4. Interest expenditure³	D.41	2.0	1.9	1.9	2.0	2.1
5. Stock-flow adjustment		-0.9	-0.6	-0.1	-0.1	0.0
<i>of which</i>						
- differences between cash and accruals ⁴						
- net accumulation of financial assets ⁵						
- privatisation proceeds						
- Valuation effects and other ⁶						
NB: Implicit interest rate on debt ⁷		2.2	2.1	2.1	2.1	2.3
Other relevant variables						
6. Liquid financial assets ⁸						
7. Net financial debt (7=1-6)						
8. Debt amortization						
9. Percentage of debt denominated in foreign currency						

¹ As defined in Regulation 3605/93; (not an ESA concept).

² See item 10 in Table 2.

³ See item 9 in Table 2.

⁴ The differences concerning interest expenditure, other expenditure and revenue may be posted here where material or if the debt-to-GDP ratio is above the reference value.

⁵ Liquid assets (currency), government securities, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets may be posted here where material or if the debt-to-GDP ratio is above the reference value.

⁶ Changes due to exchange rate movements and operations in secondary markets may be posted here where material or if the debt-to-GDP ratio is above the reference value.

⁷ Calculated as the ratio of gross interest expenditure to gross outstanding debt on 31 December of the previous year.

⁸ FA1, FA2, FA3 (consolidated at market value), FA511 (listed equities), FA52 (mutual fund units or shares)

Table 5. Cyclical and structural developments

% of GDP	ESA Code	2015*	2016	2017	2018	2019
1. Real GDP growth (in %)		1.2	1.5	1.5	1 ¾	1.9
2. General government balance	B.9	-3.5	-3.3	-2.7	-1.9	-1.2
3. Interest expenditure	D.41	2.0	1.9	1.9	2.0	2.1
4. One-off measures¹		0.0	-0.2	-0.1	0.0	0.0
5. Potential GDP growth (as a %)		1.1	1.5	1.5	1.4	1.3
Contributions to potential growth**:						
- labour		0.2	0.3	0.3	0.2	0.2
- capital		0.5	0.6	0.6	0.6	0.5
- total factor productivity		0.4	0.4	0.4	0.4	0.5
- effect of structural reforms		0.0	0.2	0.2	0.2	0.2
6. Output gap		-3.3	-3.3	-3.3	-2.9	-2.4
7. Cyclical budgetary component		-1.9	-1.8	-1.8	-1.6	-1.3
8. Cyclically-adjusted balance (8=2-7)		-1.7	-1.4	-0.9	-0.3	0.0
9. Cyclically-adjusted primary balance (9=8+3)		0.4	0.5	1.1	1.7	2.1
10. Structural balance (10=8-4)		-1.6	-1.3	-0.8	-0.3	0.0

*Seasonally and working-day adjusted data taken from the quarterly accounts, March 2016.

** The contribution of factors of production is taken from the European Commission's spring 2014 forecast. When the April 2015 Stability Programme was drafted, the potential growth forecast was raised by 0.2 percentage points per year starting in 2016 to reflect the effects of structural reforms (Competitiveness and Employment Tax Credit and Responsibility and Solidarity Pact).

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

Table 6. Divergence from previous update

	ESA Code	2015	2016	2017	2018	2019
Real GDP growth						
Previous programme (2015-2018)		1.0	1.5	1.5	1 ¾	-
Current programme (2016-2019)		1.2	1.5	1.5	1 ¾	1.9
Difference		0.2	0.0	0.0	0.0	-
General government net lending (% of GDP)	B.9					
Previous programme (2015-2018)		-3.8	-3.3	-2.7	-1.9	-
Current programme (2016-2019)		-3.5	-3.3	-2.7	-1.9	-1.2
Difference		0.2	0.0	0.0	0.0	-
General government gross debt (% of GDP)						
Previous programme (2015-2018)		96.3	97.0	96.9	95.5	-
Current programme (2016-2019)		95.7	96.2	96.5	95.4	93.3
Difference		-0.6	-0.8	-0.4	-0.1	-

Table 7. Long-term sustainability of public finances*

% of GDP	2015	2020	2040	2050	2060
Total expenditure					
<i>of which age-related expenditure</i>	31.3	31.0	30.8	30.0	29.2
Pension expenditure	14.9	14.4	13.6	12.6	11.9
<i>of which Social Security pension</i>					
<i>of which old-age and early pensions</i>					
<i>of which other pensions (disability, survivors)</i>					
<i>of which occupational pensions (if in general government)</i>					
Healthcare	7.8	8.0	8.6	8.7	8.6
Long-term care	2.0	2.1	2.6	2.7	2.8
Education expenditure	5.1	5.0	4.9	4.9	4.8
Other age-related expenditure (unemployment benefits)	1.6	1.5	1.1	1.1	1.1
Interest expenditure					
Total revenue					
<i>of which property income</i>	0.7	0.7	0.6	0.6	0.6
<i>of which pension contributions (or social contributions if appropriate)</i>					

Pension Reserve Fund assets					
<i>of which consolidated public pensions fund assets (assets other than government liabilities)</i>					
Systemic pension reforms¹					
Social contributions paid to private compulsory pension schemes ²	:	:	:	:	:
Pension expenditure paid by private compulsory pension schemes ³	:	:	:	:	:
Assumptions					
Labour productivity growth	:	:	:	:	:
Real GDP growth	:	:	:	:	:
Participation rate males (aged 20-64)	:	:	:	:	:
Participation rate females (aged 20-64)	:	:	:	:	:
Total participation rates (aged 20-64)	:	:	:	:	:
Unemployment rate	:	:	:	:	:
Share of population over 65 years old	:	:	:	:	:

1 Systemic pension reforms refer to reforms that introduce a switch to a multi-pillar system, including a compulsory fully-funded pillar.

2 Social contributions or other revenue received by the compulsory fully-funded pillar to cover the pension obligations it acquired in conjunction with the systemic reform.

3 Pension expenditure or other social benefits paid by the compulsory fully-funded pillar linked to the pension obligations it acquired in conjunction with the systemic reform.

*Source: the 2015 Ageing Report by the Ageing Working Group, adjusted for the effects of the management-labour agreement of October 2015 on the Agirc-Arrco supplementary retirement schemes.

Table 7a. Contingent liabilities

In €bn	2014	2015
Public guarantees*	194	
<i>of which linked to the financial sector</i>		

*These are guarantees granted by the central government in budget acts under clear-cut agreements.

Table 8. Basic assumptions

	2015	2016	2017	2018	2019
Short-term interest rate (annual average)¹	0.0	-0.2	0.0	0.6	1.4
Long-term interest rate (annual average)²	0.8	0.9	1.7	2.4	3.2
USD/€ exchange rate (annual average)	1.11	1.10	1.10	1.10	1.10
Nominal effective exchange rate	-3.9	1.5	-0.1	0.0	0.0
Global GDP growth excluding EU³	3.3	3.6	3.9	4.3	4.4
EU GDP growth³	1.9	2.0	2.0	1.9	1.9
World demand for French goods	3.4	3.8	4.7	5.5	5.5
World import volumes excluding the EU	0.4	2.4	3.8	n.a.	n.a.
Oil prices (Brent, USD/barrel)	54	37	38	38	38

¹ Euribor 3-month rate

² Yield on 10-year French Treasury bonds.

³ The growth forecasts for 2018 and 2019 are taken from the October 2015 *World Economic Outlook* by the IMF.

9.2 METHODOLOGICAL ANNEX: CALCULATION OF STRUCTURAL ADJUSTMENT

Role of potential growth

Potential GDP is the level of output that can be sustained without straining factors of production and, more specifically, without putting pressure on prices and wages. This notion is used to guide the conduct of fiscal policy (medium-term growth) and monetary policy (inflation risk). Unlike GDP or inflation, **potential growth cannot be observed so it must be estimated.**

There are different methods for estimating potential growth, such as the direct potential GDP approach, with an estimate by filter, and the more economics-based approach using a **production function** that breaks GDP down into its different components (labour, capital, productivity). The latter is the approach that is generally used by international organisations and by the Public Finance Planning Act: differences in the estimates stem from the different treatment applied to each component.

Structural balance

The value of the structural balance lies in the fact that it separates the part of the general government balance that depends directly on cyclical developments and the part that is independent of them, which is therefore the part where policy decisions can have an impact. **This means that calculating the structural balance relies intrinsically on the definition of the business cycle and, accordingly, the gap between GDP and potential GDP.** More specifically, we observe that revenue is lower and expenditure is higher (particularly expenditure on unemployment benefits) when GDP is below its potential and, inversely, that revenue goes up and expenditure goes down when GDP is higher than its potential level.

The general government balance for each year can be broken down into:

- ▶ **a cyclical component** that captures the impact of the business cycle stage on the general government balance, i.e. the different revenue and expenditure items affected by the business cycle;
- ▶ **a structural component** that corresponds to an estimate of what the balance would be if GDP were equal to its potential;
- ▶ **one-off measures**, which have no lasting impact on the deficit and are therefore excluded from the assessment of the structural balance.

On the expenditure side, only expenditure on unemployment benefits is assumed to be cyclical. All other expenditure is assumed to be structural, either because it is discretionary, or because its relationship to the business cycle is difficult to measure.

On the revenue side, we assume that all taxes and contributions are cyclical, whereas other revenue (e.g. interest and dividends) is assumed to be non-cyclical.

We quantify the components of the general government balance **on the basis of average historical elasticities (called conventional elasticities)** of these expenditure and revenue items to the output gap. The elasticities are based on an econometric estimate made by the OECD. Revenue is broken down into four categories of taxes and contributions (personal income tax, including the General

Social Security Contribution, corporate income tax, social contributions and other taxes and contributions) since the reaction of the tax bases to cyclical changes can vary greatly depending on the tax under consideration. **On average, the aggregate conventional tax elasticity is very close to one.**

The elasticities of the taxes and contributions under review³⁹ are presented in Table 23. They were updated in 2014.

Table 23: Semi-elasticities to the output gap

Personal income tax + General Social Security Contribution (CSG)	1.86
Corporate income tax	2.76
Social contributions	0.63
Indirect taxes	1.00
Unemployment benefit expenditure	-3.23

In practice, France's cyclical balance is a bit more than half of the difference between actual GDP and potential GDP. This is because cyclical items account for about half of France's GDP and the average tax elasticity is about 1.

The variation in the general government balance, therefore, results from the variation attributed to cyclical changes, structural adjustment and the impact of one-off measures. Structural adjustment is the result of a structural effort, which measures the discretionary component of the balance controlled directly by the government, a “non-discretionary” component and a correction for accrual-based measurement of tax credits (see below).

A tax-by-tax approach is used to calculate the cyclical balance and, by extension, the structural balance, since the reaction of the tax bases to cyclical changes can vary greatly depending on the tax under consideration. Consequently, the specific conventional elasticities of corporate income tax, personal income tax, social contributions and other taxes and contributions are used.

39. More precisely, the semi-elasticity to the output gap.

Box 13 - Structural balance

The structural balance is the balance that would be observed if GDP were equal to its potential. It corresponds to the general government balance adjusted for cyclical effects. Therefore, calculating the structural balance is based on the gap between the actual GDP, denoted Y , and potential GDP, denoted Y^* .

On the expenditure side, only expenditure on unemployment benefits is assumed to be cyclical. The rest of expenditure is assumed to be structural, either because it is discretionary, or because its relationship to the business cycle is difficult to measure. On the revenue side, we assume that all taxes and contributions (personal income tax, including the CSG, corporate income tax, social contributions and other taxes and contributions) are cyclical, whereas the rest of revenue (such as dividends paid to central government) is assumed to be non-cyclical.

For each category of taxes and contributions R , the structural component R_s can be written as a function of the conventional elasticity θ to the output gap:

$$R_s = R \left(\frac{Y^*}{Y} \right)^\theta$$

Therefore, the aggregate structural revenue is obtained as the sum of structural revenue, calculated as R_s (for the four categories of cyclical taxes and contributions: personal income tax, including the CSG, corporate income tax, social contributions and other taxes and contributions), and the rest of revenue.

Structural expenditure is obtained as the difference between actual expenditure and cyclical expenditure on unemployment benefits, denoted D_{cho} . Structural expenditure on unemployment benefits is determined in the same way as structural revenue, as a function of the conventional elasticity ε of expenditure on unemployment benefits to the output gap.

$$D_s^{\text{cho}} = D^{\text{cho}} \left(\frac{Y^*}{Y} \right)^\varepsilon$$

The difference between structural expenditure and structural revenue is the structural balance S_s . Finally, the ratio of the structural balance to potential nominal GDP relies on the GDP deflator.

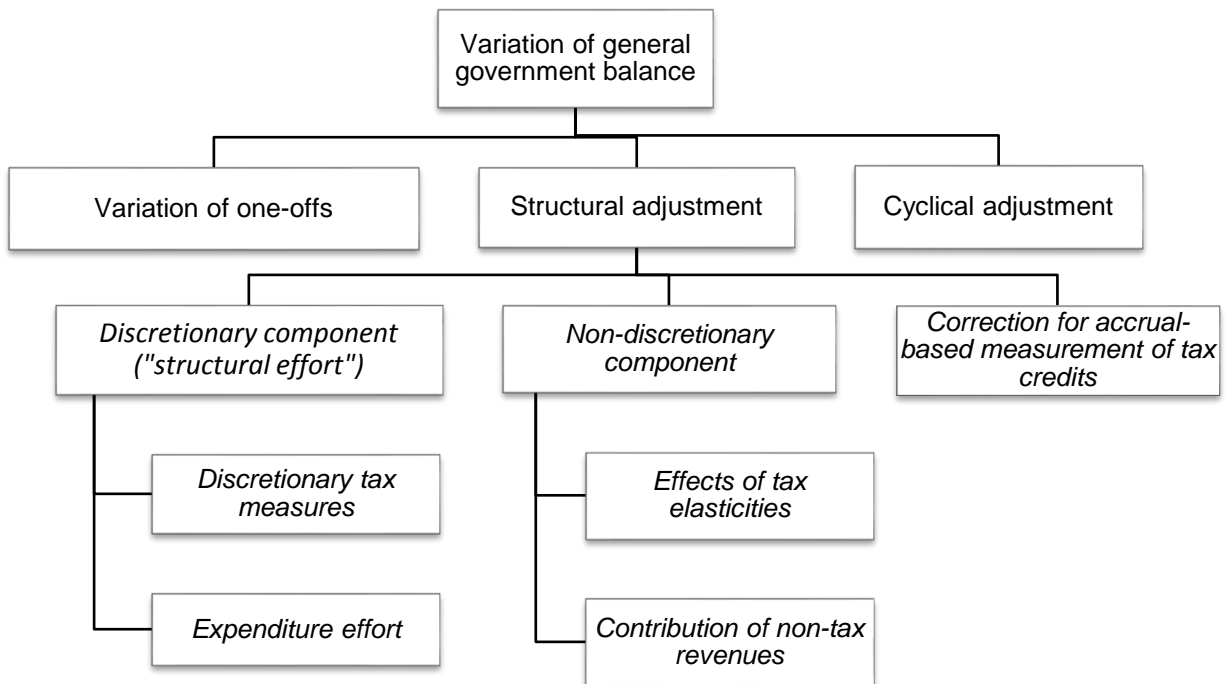
Structural effort

The structural balance needs to be supplemented with another public finance analysis tool: structural effort.

Each year, the (instantaneous) actual tax elasticities to cyclical changes fluctuate around their historical mean. Some of the fluctuations are significant. For example, in 2009, tax revenue, especially revenue from corporate income tax, dipped in an over-reaction to cyclical changes. In practice, the differential between instantaneous elasticity and conventional elasticity is passed on in full in variations in the structural balance, even though the differential corresponds to a non-discretionary component of variations in the general government balance. This means that it is beyond the control of policy-makers and yet it is still incorporated into the structural balance.

To overcome this contradiction, the structural effort corresponds to the variation of the structural balance that can be attributed to discretionary factors.

Furthermore, the accounting conventions of ESA 2010⁴⁰ introduced in 2014, change the treatment of refundable tax credits. The credits are no longer recognised as less revenue; instead, they are recognised as expenditure as soon as the beneficiaries assert their claims. When structural adjustment is broken down, in addition to the structural effort and the non-discretionary component, a third component, a correction for accrual-based measurement of tax credits, is now included to enhance transparency, following the adoption of the new accounting conventions under ESA 2010. This correction mainly reflects the impact of the Competitiveness and Employment Tax Credit (CICE) after 2014. The fiscal cost (recognised as discretionary tax measures) is less than the cost of the tax claim, which has an impact on the general government balance in the national accounts. This explains why this component reduced structural adjustment in 2014 and 2015. This effect is temporary, since the fiscal cost will eventually converge with the cost of the claim.



Therefore, the variation in the structural balance can be broken down into:

- A discretionary component called “structural effort”;
- A non-discretionary component;
- And a correction for accrual-based measurement of tax credits.

The **structural effort** can then be broken down into a revenue effort (discretionary tax measures) and an expenditure effort.

- **Discretionary tax measures** are decided and implemented by the government authorities.

40. See the Insee document from May 2014: “Les comptes nationaux passent en base 2010”.

- ▶ **Expenditure effort** is measured in relation to potential growth: an expenditure effort implies that real structural spending growth (adjusted by the GDP deflator) is lower than potential growth, and vice-versa.

The non-discretionary component of the variation in the structural balance corresponds to two terms:

- ▶ **The contribution of non-tax revenue**, which is assumed to be non-discretionary (equal to the variation in the ratio of non-tax revenue to potential GDP).
- ▶ **“Tax elasticity effects”**, which measure the impact of the differential between the instantaneous and conventional tax elasticities to the output gap.

9.3 ADJUSTMENT PATH UNDER THE NO-POLICY-CHANGE SCENARIO AND TREND PATH

In accordance with the requirements of the revised Stability and Growth Pact, this Stability Programme includes a no-policy-change scenario. This is the counterfactual path that would have occurred without the measures set out in this Stability Programme. It also presents a trend general government balance path based on no changes to legislation or budget practices after May 2012. The no-policy-change scenario incorporates developments stemming from existing laws and regulations, but does not factor in measures still to be implemented to meet budgetary targets.

The trend path of the general government balance is determined by the natural growth rates of government revenue and expenditure:

- ▶ On the revenue side, the trend path is based on natural revenue growth determined by the economic situation and observed and projected tax elasticities to tax bases, the usual pattern of local tax rates (driven by the election cycle) and inflation-linked taxes. The effects of measures already adopted in all of the legislation before Act 2012-958 of 16 August 2012 (second 2012 Supplementary Budget Act) have also been taken into account, but not the effects of discretionary tax measures adopted after May 2012, including those in the second 2012 Supplementary Budget Act, the Initial Budget Act and Social Security Budget Act and the supplementary budget acts for 2013, 2014, 2015 and 2016.
- ▶ Expenditure is assumed to grow in line with the usual inflation-linking rules and demographic changes. Ordinary changes in local government expenditure driven by the election cycle are also included, along with the natural growth of central government expenditure and health insurance expenditure that would occur without the expenditure rules. On the other hand, this path does not consider savings from reforms after 2012, such as the pension reform of 2014, the agreements on supplementary pension schemes (Agirc-Arrco) in 2013 and 2015, or the 2014 agreement with the unemployment insurance scheme (Unédic), or any corrective measures adopted or announced after 2012. This includes the additional measures introduced under this Stability Programme.

This Stability Programme also presents a **“no-policy-change” scenario**, in accordance with the European Council Directive of 8 November 2011:

- Revenue under this scenario follows the same pattern as the trend path, but it incorporates all of the discretionary measures announced up to and including the 2016 budget acts (2016 Initial Budget Act and 2016 Social Security Budget Act).
- In contrast to the trend scenario, expenditure in this scenario assumes compliance with the expenditure rules for the central government budget, the national healthcare expenditure growth target (Ondam), and all of the savings measures adopted before this Stability Programme.

The **target adjustment path** is the one in this Stability Programme.

Table 24 – Trend path and No-policy-change path

% of GDP	2012	2013	2014	2015	2016	2017
Trend path (before measures introduced after July 2012)	-5.6	-6.3	-6.8	-7.0	-6.9	-6.9
Expenditure savings	0.4	0.8	1.3	2.2	2.8	3.5
<i>of which lowering of national healthcare expenditure growth target compared to its trend path</i>	<i>0.1</i>	<i>0.3</i>	<i>0.4</i>	<i>0.5</i>	<i>0.7</i>	<i>0.8</i>
<i>of which lowering central government expenditure (excluding Competitiveness and Employment Tax Credit)</i>	<i>0.3</i>	<i>0.5</i>	<i>0.9</i>	<i>1.3</i>	<i>1.4</i>	<i>1.6</i>
<i>of which other</i>	<i>0.0</i>	<i>0.0</i>	<i>0.1</i>	<i>0.4</i>	<i>0.8</i>	<i>1.1</i>
Discretionary tax measures introduced after May 2012 (including the 2016 Initial Budget Act, the CICE tax credit, the Responsibility and Solidarity Pact, excluding tax disputes) + correction for accrual-based measurement of tax credits	0.3	1.4	1.5	1.2	0.8	0.5
No-policy-change scenario	-4.8	-4.0	-4.0	-3.5	-3.3	-2.9
Discretionary tax measures announced in the 2016 Stability Programme	0.0	0.0	0.0	0.0	0.0	0.0
Savings measures announced in the 2016 Stability Programme	0.0	0.0	0.0	0.0	0.1	0.3
Target adjustment path	-4.8	-4.0	-4.0	-3.5	-3.3	-2.7

In 2016, the no-policy-change scenario would correspond to a deficit of 3.3%. The target adjustment path incorporates the €3.8bn in savings announced (see Box 3), excluding interest, which is incorporated into the trend path in this instance. The no-policy-change scenario does not incorporate the tax cuts decided after the 2016 Initial Budget Act and Social Security Budget Act, such as the extension of the higher depreciation allowance measure and the cut in farmers' social contributions.

In 2017, the no-policy-change scenario would produce a deficit of 2.9%. The target adjustment path incorporates the planned supplementary savings measures to achieve a deficit of 2.7% in 2017, along with the tax measures announced after the 2016 budget acts.

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