**<u>SPRING 2019 REFORM BAROMETER – FRANCE</u>**

## European Semester - Overall assessment of 2018 cycle

| | To what extent do you agree with these statements: | | Detailed comments |
|---|---|---|---|
| 1. | The National Reform Programme submitted by your Government (March 2018) is appropriate. | To some extent | Main reform orientations mentioned in the report are the right ones; but for Medef:<br>1/Some major points are missing: reduction in taxes on production factors, increase in retirement age…<br>2 / Priority for restoring public accounts focused on reducing public spending by 3 percentage points of GDP by 2022 is confirmed but main public policies are still based on tax increases: climate change, mobility….<br>3/ There are some gaps between the announced reforms and reality. One example: public spending continues to grow (+ € 28 billion in last year) and savings announced are hardly perceptible despite the progress made in Public Action 22. Structural spending efforts remain largely insufficient (0,2 point instead of the recommended 0.6 point). The deficit has in fact widened again in 2018 after a significant improvement in 2017, which once again delays the deleveraging of France;<br>4/Reform approach stays much too prescriptive - it's a top- down, state-controlled -approach: educational reform, territorial reform, mobility reform…. |
| 2. | The Commission's country specific recommendations for your country are appropriate. | Yes, absolutely | 1/As identified by the European Commission, the priority must be the effective reduction in public spending (through structural reforms) in order to reduce the long-term tax burden on economic players and the public debt.<br>2/Ss regard CSR 2 (Pursue the reforms of the vocational education and training system…) Medef was asking for an overall reform with a system to be turned to and driven by companies and industries in order to better match with labour market needs.<br>3/Reduction in production taxes is a key issue for Medef, as well as the reduction in administrative burden, which stays at a high level with heavy constraints on companies growth. |

| | To what extent do you agree with these statements: | | Detailed comments |
|---|---|---|---|
| 3. | The Commission assessment of reform implementation the year before is appropriate. | To a large extent | Medef agrees on:<br>- progress underlined by the Commission regarding tax system and labour market reforms,<br>- finding that competitiveness recovery is still below the needs, as well as reduction in public expenses,<br>- no progress on public debt which is still increasing,<br>-no progress regarding thresholds which limit SME's growth,<br>-lack of impact assessment of public funding of innovation and slowness of the transition of the public research results to the market.<br>But our views are mitigated on the assessment of:<br>- the effectiveness, up to now, of the decrease in labour costs,<br>- corporate tax reform: Medef never agreed on the fact that an enlargement of the tax basis was needed; the most important remains the convergence with European average rate<br>- innovation: significant progress has been made upstream with the recognition and valorisation of PhDs, the reform of the baccalaureate which should improve engineers' skills and decisions regarding the financing of breakthrough innovations, which imply to develop-finally -a strategic vision! |
| 4. | The Commission assessment of excessive imbalances (in-depth review) is appropriate. | Yes, absolutely | France is finally coming out of the excessive deficit procedure, but:<br>- should be the only country in the Union to be above 3% in 2019,<br>- the situation is fragile as there is no sufficient structural progress regarding reduction in public expenses neither in the increase in cost and non-cost competitiveness.<br>As far as it concerns the quality of companies' investment, the situation is more complex that mentioned, as pointed out in a recent report of France Strategy. |

## Assessment of Country Specific recommendations 2018 in detail

| | | Q1: The recommendation is: | Q2: implementation on effort is: | Detailed comments |
|---|---|---|---|---|
| CSR **1** | Ensure that the nominal growth rate of net primary government expenditure does not exceed 1.4 % in 2019, corresponding to an annual structural adjustment of 0.6 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio. Implement expenditure savings in 2018 and fully specify the objectives and new measures needed in the context of Public Action 2022, for them to translate into concrete expenditure savings and efficiency gains measures in the 2019 budget. Progressively unify the rules of the different pension regimes to enhance their fairness and sustainability. | Extremely important | Unsatisfactory | Targets for public finances by 2022 can only be achieved through a virtual freeze on the evolution of expenditure in volume (limited to 0.2 points in volume), as just highlighted by a study from France Strategy. Structural adjustment through a very large effort on spending is therefore key. We welcome the strategy of transformation of public action defined by the Government, which must now be implemented.<br><br>The government has launched in April 2018 the social partners consultation process on the pension scheme reform; one of its objectives is to simplify and harmonize the system, particularly the 42 existing pension schemes but also of the public / private contribution rates. Medef supports a reform to be applied to all insured persons, at the same pace, to ensure the equity of the system (including Public Service and Special Schemes). Nevertheless, the reform should also include an objective of long-term financial sustainability, through an increase of the retirement legal age. |

| | | Q1: The recommendation is: | Q2: implementation on effort is: | Detailed comments |
|---|---|---|---|---|
| CSR **2** | Pursue the reforms of the vocational education and training system, to strengthen its labour market relevance and improve access to training, in particular for low qualified workers and jobseekers. Foster equal opportunities and access to the labour market, including for people with a migrant background and people living in deprived areas. Ensure that minimum wage developments are consistent with job creation and competitiveness. | Extremely important | Mixed | The "Act for the freedom to choose one's future career" has been adopted on 5 September 2019. On the apprenticeship measures, the Act meets our main expectations and is an opportunity to be seized by enterprises and sectors to become the key players. On the vocational training measures, we have more reservations as there is an apparent contradiction between accountability of economic actors on the results of the training system and increased state control of the financial mechanisms. In addition, Medef considers as the major challenge the definition of enterprises skills needs and their development; this subject is little in the law. |
| CSR **3** | Simplify the tax system, by limiting the use of tax expenditures, removing inefficient taxes and reducing taxes on production levied on companies. Reduce the regulatory and administrative burden to increase competition in the services sector and to foster firms' growth. Step up efforts to increase the performance of the innovation system notably by improving the efficiency of public support schemes and strengthening knowledge transfer between public research institutions and firms. | Important | Mixed | Regarding tax system, there is a significant progress made to remove inefficient taxes but nothing has been done up to now to reduce taxes on production.<br>Administrative simplification must be revived and prioritized, following the great disappointment caused by the failure of the "simplification shock" of the previous Government. Concrete answers must be provided in order to simplify the administrative role and the functioning of administrations, to reduce the weight of standards and over-regulations, but also to improve the efficiency of public services and government / user relations. To increase the quality of the expenditure and the efficiency of the public sphere requires to reform in public the public action. |

## Reform Progress in your Member State in 2018

How would you assess reform progress in 2018, for the following broad areas:

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|---|---|
| **Taxation and Public Finances** | Mixed |
| **Business environment (regulation/access to markets)** | Mixed |
| **Labour market** | Satisfactory |
| **Innovation and skills** | Mixed |
| **Access to finance and Financial stability** | No Reform Necessary |

## Reform priorities for 2019

| | I. Policy Area | II. Concrete Recommendations | III. Are the proposed recommendations already in the agenda of your Government? |
|---|---|---|---|
| **Priority 1** | Consolidation of public expenditures | 1 / Review in depth the scope of public action, refocusing it on the sovereign and strategic missions;<br>2 / Freezing the evolution of total public expenditure by volume over the medium term;<br>3 / Reforming the public service | Yes partly |
| **Priority 2** | Pension and health care reforms | Medef expectation is to reach a fairer and more readable system allowing both to maintain a decent level of pension and to ensure its financial balance without increasing its weight in public spending. We are still waiting for a concrete proposal; the draft law should be discussed in the second Semester 2019. | Yes partly, under preparation for 2019 |

| | I. Policy Area | II. Concrete Recommendations | III. Are the proposed recommendations already in the agenda of your Government? |
|---|---|---|---|
| **Priority 3** | Tax reforms | Reduction in production taxes | no |
| **Priority 4** | Wage bargaining and wage-setting policies | To master the evolution of wages contributing to cost competitiveness: SMIC price adjustment; civil service salaries; to take the necessary measures to open up competitive business services in order to ensure competitive prices | Yes partly |
| **Priority 5** | Business Environment - Regulatory barriers to entrepreneurship | Thresholds' reform should go much further that the measures contained in the draft law PACTE.<br>The flow of new legislation must be strongly reduced.<br>Unemployment insurance reform in order to facilitate job transitions and to strengthen job seekers control (even if social partners reached an agreement in March 2017 on the unemployment benefit scheme) | Yes partly |