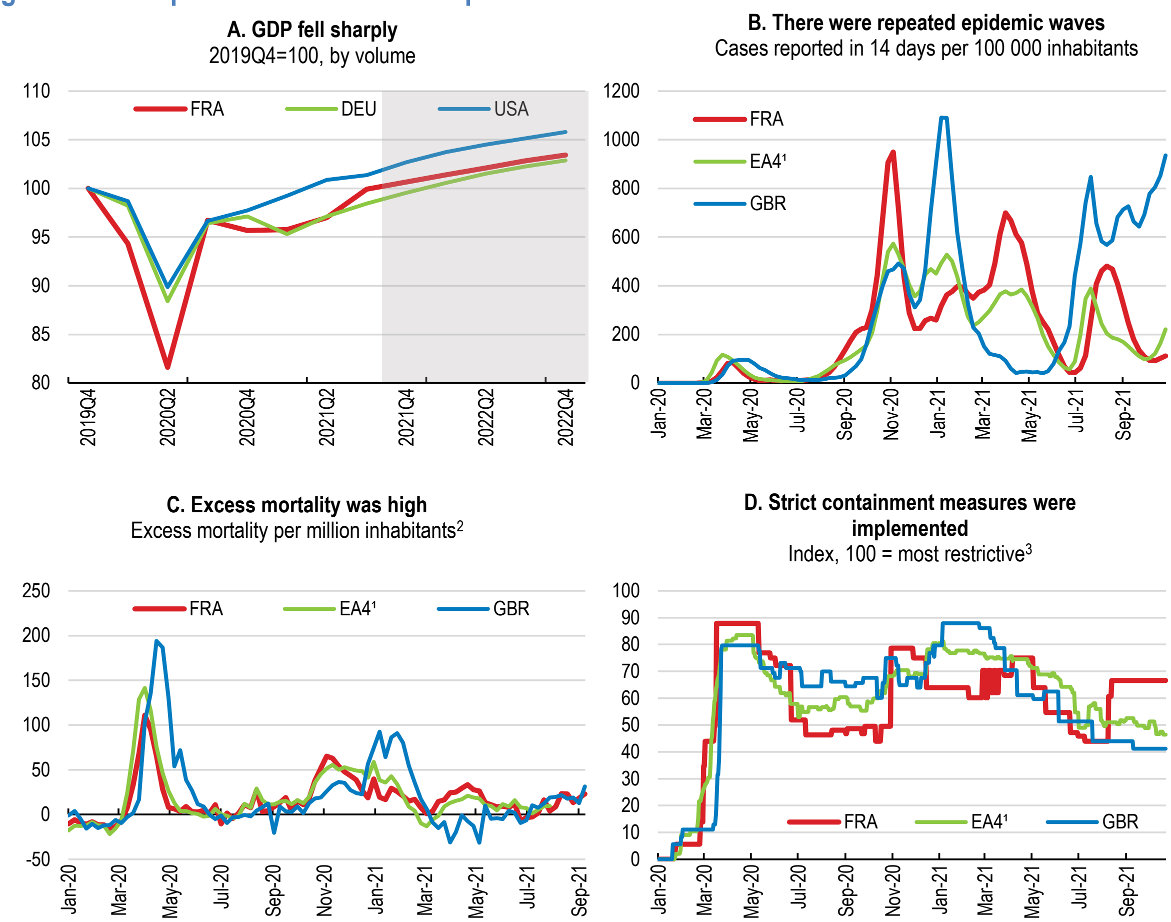
1 Key policy insights

The French economy has bounced back following an unprecedented contraction during the COVID-19 pandemic. The fall in activity in 2020 was the sharpest since the end of the Second World War. As in other OECD countries, successive waves of COVID-19 cases reduced life expectancy by around half a year in 2020 (close to the OECD average; Figure 1.1). Economic activity and employment have bounced back swiftly since May 2021. Yet, the recovery remains conditional on the full normalisation of the health situation and an effective shift to more inclusive and sustainable growth once the remaining health restrictions are lifted.

Figure 1.1. The pandemic caused a deep economic and social recession



1. EA4 is the simple average for Germany, Spain, Italy and the Netherlands.
2. Excess mortality compared to the weekly average for 2015-2019, as a proportion of the population.
3. The Oxford Index (COVID-19 Government Response Tracker, stringency index) is based on nine indicators, including closures of schools and workplaces, and travel restrictions.

Source: OECD (2021), OECD Economic Outlook: Statistics and Projections, and Mortality: Excess deaths by week, 2020 and 2021 (databases); Oxford COVID-19 Government Response Tracker, Blavatnik School of Government, University of Oxford; ECDC (2021), Epidemic Intelligence, national weekly data.

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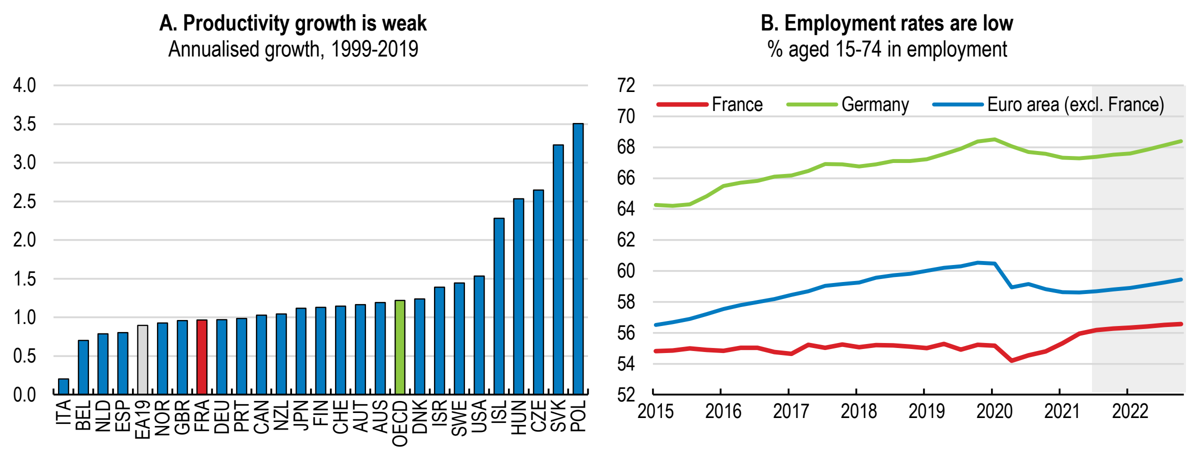
Despite effective emergency economic and social measures, the pandemic has weighed on the most vulnerable. Together with automatic budget stabilisers, the emergency measures allowed for relatively stable per capita disposable income and a minor fall in employment in 2020. However, older people, those born abroad and those living in the poorest, most densely populated municipalities were most affected by the first wave of the virus in 2020 (Insee, 2020a; Dubost et al., 2020). In early 2021, income losses were perceived as more frequent among the most vulnerable: low-income households, young people and the self-employed (Clerc et al., 2021). The number of minimum income recipients had increased sharply in the second part of 2020 and, despite a marked decline thereafter, it remained 2.8% above its 2019 level in July 2021 (Drees, 2021).

Before the crisis, the medium-term economic performance had been disappointing. As in most other advanced economies, growth in living standards as measured by per capita GDP had been constrained by the slowdown in productivity gains, while employment rates were still relatively low (Figure 1.2). Despite the rise in real wages, households' purchasing power per unit of consumption, a better way of measuring the standard of living, had been stagnant for around 10 years (Insee, 2021a). Too many low-skilled workers and young people were excluded from the labour market, and unequal opportunities weakened cross-generational social mobility (OECD, 2019a).

Figure 1.2. Improving employment and productivity are long-term challenges



Source: OECD (2021), OECD Economic Outlook: Statistics and Projections (database).

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France should build on the recovery plan and the reform programme under way since 2017 to ensure a steady recovery and more inclusive growth. Though the economic rebound has been strong over the summer 2021 and France has limited school closures during the epidemic waves of 2020-21, the pandemic has highlighted a number of weaknesses in the French economy, including inadequate digitalisation among small and medium-sized enterprises (SMEs), a mismatch between labour force skills and business needs and a persistently poor record in innovation (OECD, 2019a; CNP, 2019). The challenge is therefore to stimulate growth and create quality jobs while encouraging the digital and green transitions and ensuring the social acceptability of the reforms (Chapter 2; Dechezleprêtre et al., forthcoming). The key recommendations formulated in this *Survey* could generate further growth in per capita GDP, a measure close to average income, of 1.2% after 10 years.

Against this background, the main messages of this *Survey* are as follows:

- Public policy should continue to support activity while shifting the focus of support measures towards viable businesses and sectors to allow the necessary reallocations in the economy as the recovery gains traction.
- The recovery plan must encourage stronger and more sustainable growth, notably the shift to a digital economy and the green transition (Chapter 1). Structural reforms should boost productivity. Accelerating the pace of emissions reduction requires strengthened economic incentives while ensuring social acceptability.
- Policies must prevent the crisis from exacerbating unequal opportunities. Building the skills of young people and low-skilled workers, facilitating professional transition and reducing territorial disparities would promote more inclusive growth.
- Public debt is historically high and requires a medium-term fiscal consolidation plan to gradually lower spending. This strategy should be based on spending reviews and improved expenditure allocation.

1.1. The pandemic has caused an unprecedented recession

Emergency measures cushioned the impact of the crisis

The government implemented extensive direct budgetary support to households and businesses in 2020 and 2021. The cost of the emergency measures was around EUR 70 billion in 2020 (2.9% of 2019 GDP), according to the national accounts (RF, 2021a). In 2021, the measures will cost close to EUR 64 billion (2.6% of 2019 GDP) (Box 1.1), and implementation of the recovery plan would provide support amounting to 1.6% of 2019 GDP, notably through public investment (Box 1.2). The strengthened job retention scheme covered up to 29% of private-sector employees (full-time equivalent) in April 2020 at an estimated cost approaching EUR 35.5 billion between March 2020 and July 2021 (DARES, 2021a). Additionally, the solidarity fund, which was created to support small businesses and the self-employed, made payments to more than 2 million businesses amounting to EUR 36 billion - 1% of GDP - (IGF-France Stratégie, 2021a and 2021b; Secrétariat du Comité Cœuré, 2021).

Emergency income support schemes have had a major impact. The job retention scheme, whose conditions are generous in international comparison (OECD, 2021a), was extensively used, leading to a limited fall in employment during the crisis (Figure 1.3). As a result, disposable household income continued to rise in 2020 despite the fall in GDP. Combined with the drop in consumption (Table 1.2), this generated high levels of savings, which rose to close to EUR 110 billion above the pre-crisis trend at end-2020 (around 4% of GDP in 2019), a particularly high level compared to other OECD countries (Figure 1.4; OECD, 2021b; Banque de France, 2021a). Also, as budget support significantly curtailed the recession, this reduced indirectly their budgetary cost: the net cost of the six principal support measures amount to between 67% and 81% of their gross cost in 2020 (Canivenc and Redoulès, 2021).

Extensive indirect support provided liquidity to businesses. More than EUR 142 billion (5.8% of GDP) in government guaranteed loan (PGE) was made available since March 2020benefitting to close to 40% of businesses (Figure 1.6 and Box 1.3; Husson, 2021). This ranks France below Spain and Italy in terms of guaranteed loans, but above Germany and the United Kingdom (IGF-France Stratégie, 2021b). Government guarantees were targeted chiefly at SMEs and export businesses, enabling them to enjoy more favourable finance terms than other loan guarantee schemes set up in Germany, Spain or Italy (Anderson et al., 2021). Moreover, together with other mechanisms, deferrals in the payment of taxes and social contributions by businesses and the self-employed also benefited corporate cash reserves. At the same time, macro-prudential regulations were eased (Box 1.4).

Box 1.1. The main fiscal measures to support economic activity in 2020-22

The French authorities introduced many timely emergency support measures since March 2020. They were subsequently supplemented by the France Relance recovery plan and the investment plan to 2030 (Box 1.2). As a result, the planned public funding amount to close to 8.8% of 2019 GDP across the years 2020-22 (according to national account definition; Table 1.1, excluding the investment plan to 2030). Added to this are measures with no effect on the fiscal balance that total up to EUR 327.5 billion in guarantees and EUR 76 billion in cash measures for businesses.

Table 1.1. The main fiscal measures to support the economy in 2020-22

	2020 EUR billion	2021 EUR billion	2022 EUR billion	Total 2020-22 EUR billion	Total 2020-22 % of 2019 GDP
A. Emergency measures (total)[1]	***69.7***	***63.8***	***8.1***	***141.6***	***5.8***
Job retention schemes (excluding those in the recovery plan in 2021)	26.5	9.3		35.8	1.5
Solidarity fund and related support	15.9	23		38.9	1.6
Health spending	14	14.8	5	33.8	1.4
Exemptions from social contributions	5.8	2.6		8.4	0.3
Extended duration of unemployment benefits and delayed reforms of unemployment insurance	3.9	5.3	0.3	9.5	0.4
Other measures	3.6	8.8	2.8	15.2	0.6
B. Recovery Plan, France Relance (total)[1]	***1.8***	***38.2***	***30.1***	***70.1***	***2.9***
Planned European funding		16.5	10.6	27.1	1.1
A. Emergency measures, % of 2019 GDP	***2.9***	***2.6***	***0.3***		***5.8***
B. Recovery Plan, % of 2019 GDP	***0.1***	***1.6***	***1.2***		***2.9***

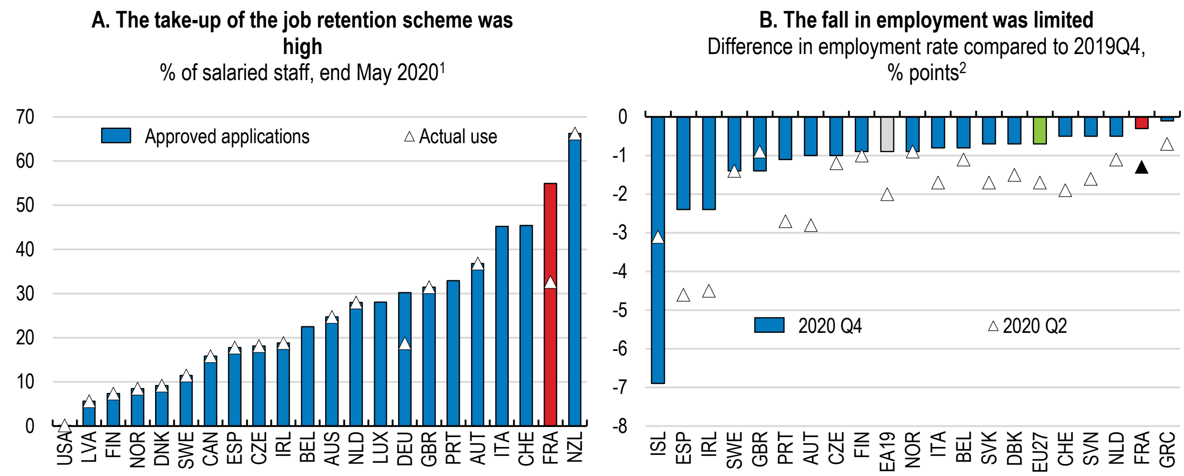
1. Includes only those measures that affect the fiscal balance in the national accounts.
Source: RF (2021), Rapport Économique Social et Financier 2022, October 2021, Government of the French Republic.

The key emergency measures are:

- **The job retention scheme**: the scheme was made more generous for businesses and workers (OECD, 2021). The share payable by employers, which was zero between March and May 2020, varies across sectors. In the most affected sectors such as hotels and catering, the share remained at zero until the end of August 2021 and has increased gradually. In other sectors, the share has been rising since June 2020 and is set at 40% since September 2021. However, businesses that are still affected by sanitary restrictions (administrative closures, people density limits) or those in hard-hit sectors whose turnover has fallen by more than 80% continue to be subsidised in full until the end of October 2021.
- **Solidarity fund**: the fund comprises flat-rate support to the smallest businesses experiencing a significant fall in turnover that meet certain conditions. The scheme was later extended to the sectors most affected by the crisis, such as hotels and catering, and the conditions on business size were lifted in December 2020 (Cour des comptes, 2021). In 2021, further assistance for "fixed costs" was also introduced to cover 70% to 90% of the operating losses off businesses subject to trading restrictions (RF, 2021).
- **Exemptions from social contributions**: these involved the sectors most affected by the crisis.

Source: Cour des comptes (2021), Le budget de l'État en 2020 (résultats et gestion), report of 13 April 2021; RF (2021), Rapport Économique Social et Financier 2022, Government of the French Republic; OECD (2021), OECD Employment Outlook 2021, OECD Publishing, Paris.

Figure 1.3. The job retention scheme contained the employment fallout



1. Employment rates are calculated in respect of the population aged between 15 and 64.
Source: Eurostat (2021), *Employment and Unemployment (LFS) – detailed quarterly results*; OECD (2020), *OECD Employment Outlook 2020*, OECD Publishing, Paris.

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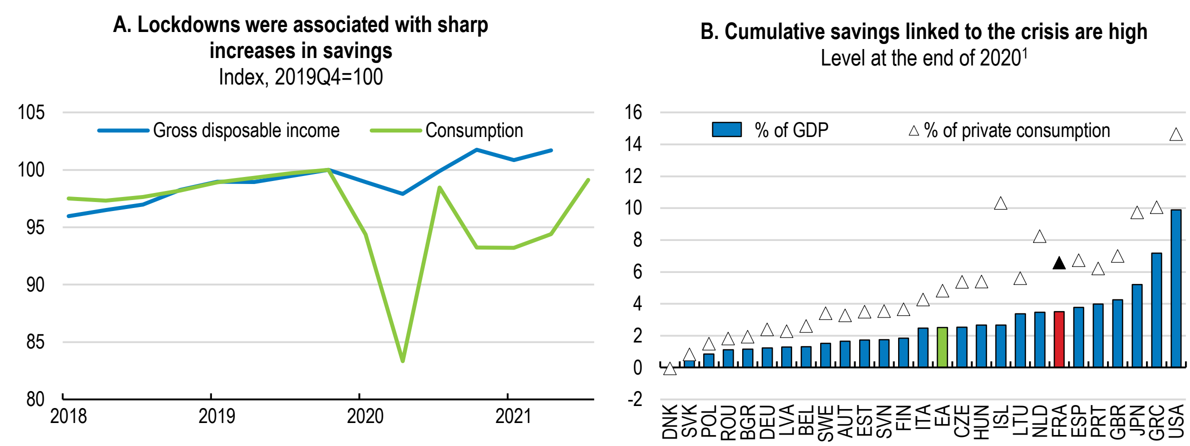
Figure 1.4. The shock on household income was limited, leading to large savings



1. Cumulative savings as a result of the crisis are estimated using excess household deposits, meaning the difference between savings levels at December 2020 and a hypothetical level that assumes that, in 2020, deposits rose at the average rate for the previous five years.
Source: OECD (2021), OECD Economic Outlook: Statistics and Projections (database).

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Box 1.2. The recovery plan, *France Relance* and the investment plan to 2030

The *France Relance* recovery plan commits to EUR 100 billion worth of measures, the majority in 2021-22, including EUR 87.3 billion according to the national account definition. This includes France's recovery and resilience plan worth around EUR 39.4 billion financed through the European Recovery and Resilience Facility (RF, 2021; EC, 2021). This effort is part of the Next Generation EU recovery plan that has enlarged fiscal space and will provide EUR 750 billion (about 5.5% of EU27 2019 GDP) of grants and loans to member states, funded by EU debt issuance (OECD, 2021). The main measures of *France Relance* are organised into three main fields:

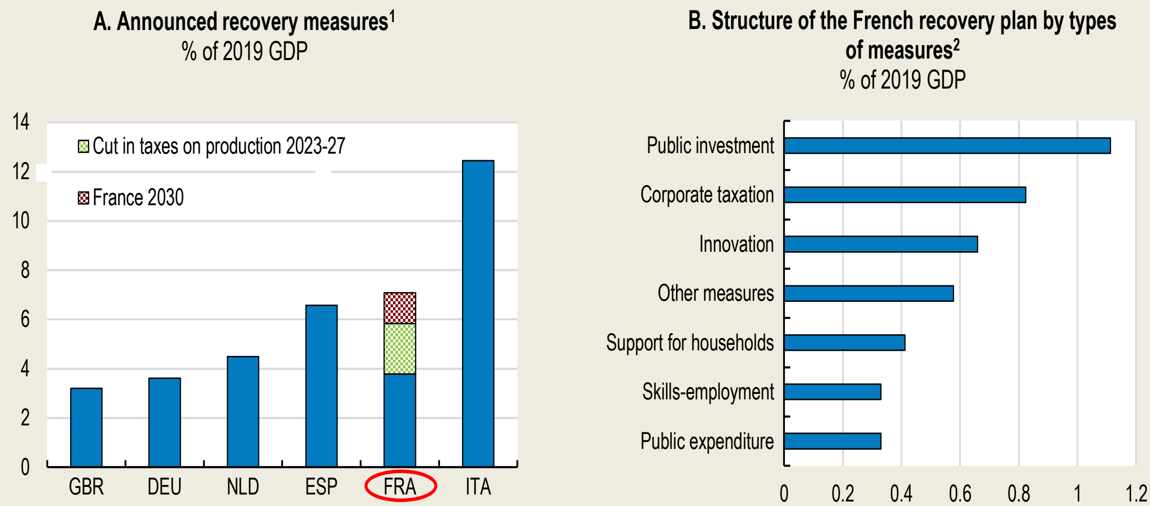
- **The ecological transition** (EUR 30 billion), including measures to improve the energy performance of buildings, increase rail freight, develop the use of decarbonised hydrogen and support businesses to make the transition;
- **Competitiveness and innovation** (EUR 34 billion), including EUR 20 billion in tax cuts over two years (maintained at EUR 10 billion per annum subsequently), corporate equity-building measures and support for digitalisation; and
- **Social inclusion, employment and territorial cohesion** (EUR 36 billion) including employment subsidies (targeted at young people and the most vulnerable), additional finance for the healthcare sector, and additional support for local government and lifelong learning.

In addition, the authorities announced a new investment plan to 2030 in October 2021. The plan, worth EUR 30 billion until 2027, would complement *France Relance* and notably target further investment in the energy sector (EUR 8 billion), as well as the health and transport sectors (EUR 7 billion and EUR 4 billion, respectively).

When compared internationally, the estimated recovery expenditures would rank France in an intermediate or high position, when the investment plan to 2030 and permanent business tax cuts are included (Figure 1.5). The permanent business tax cuts (EUR 10 billion annually) bring the estimated level of support to around 7.1% of 2019 GDP for the period 2020-27. Government estimates, excluding the 2030 investment plan, indicate a cumulative impact of 4% on GDP in the period 2020-27, including through support for public investment in 2020-22 and positive spillovers from the EU recovery plan (RF, 2020).

The Monitoring and Evaluation Committee for Business Support Measures established in April 2020 and chaired by Benoît Cœuré published an initial evaluation report of *France Relance* in October 2021 and an evaluation through research projects is planned in 2022. The initial report notes that the objectives in terms of the amounts to be committed have been achieved or are in the process of being achieved. Yet, the medium-term effects of the plan on energy efficiency, labour-market integration of young people, as well as productivity and resilience of value chains remain uncertain (Comité d'évaluation du plan France Relance, 2021).

Figure 1.5. The recovery plan emphasises public investment



1. The measures announced cover only measures that impact the budget balance up to end-2027 at most.
2. The planned business tax cuts are accounted for in 2021-22 only. The EUR 4 billion of the 2030 investment plan in 2022 are assumed to raise public investment.

Source: OECD estimate based on IGF-France Stratégie (2021), Rapport Final du Comité de suivi et d'évaluation des mesures de soutien financier aux entreprises confrontées à l'épidémie de Covid-19, July 2021, and national sources; RF (2020), Rapport Économique Social et Financier 2021, Government of the French Republic.

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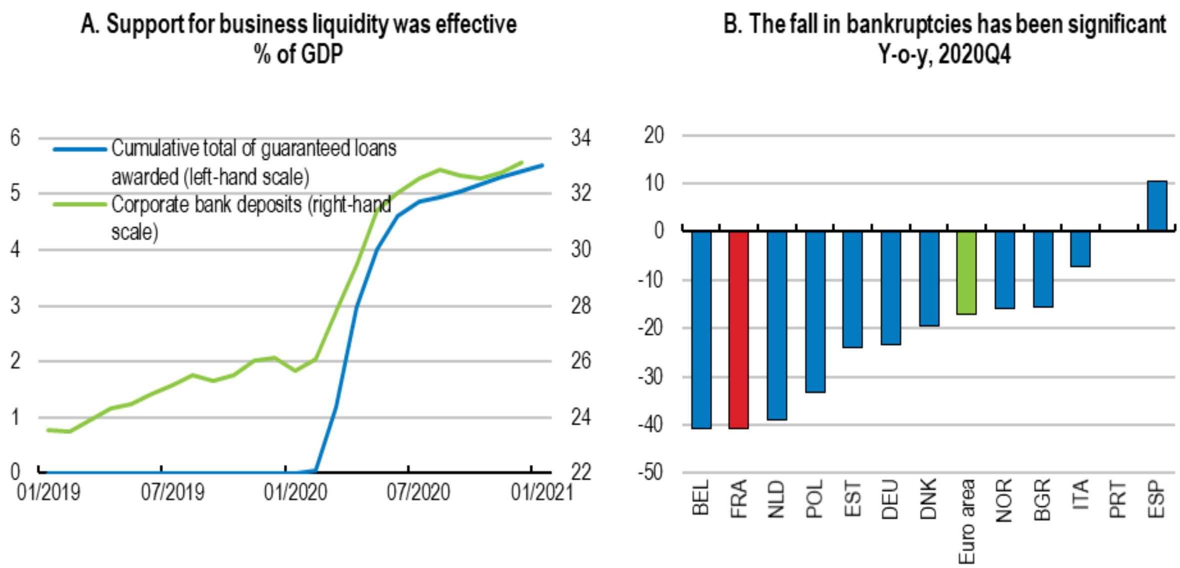
Source: RF (2021), Plan National de Relance et de Résilience, Government of the French Republic; RF (2020), Rapport Économique Social et Financier 2021, Government of the French Republic ; EC (2021), Commission Staff Working Document: Analysis of the recovery and resilience plan of France, European Commission ; OECD (2021), OECD Economic Surveys – European Union, OECD publishing, Paris; Comité d'évaluation du plan France Relance (2021), Premier rapport, Octobre 2021.

Support for business liquidity and temporary adjustements to banking regulations limited credit constraints (Figure 1.6). The annual growth in bank loans to non-financial businesses stood at 13.3% in December 2020, the highest level since 2008 (Banque de France, 2021b). As a result of both the temporary administrative changes to reduce the likelihood of petitions for bankruptcy, and the reduced activity in the courts because of the pandemic, creditworthy businesses with low cash reserves and high levels of debt were prevented from going bankrupt.

At end-2020, bankruptcies had fallen by more than 40% in France compared to the previous year, against a 17% drop in the euro area (EC, 2021a). By safeguarding otherwise viable businesses, this policy minimised the hysteresis effects of the crisis on the economy's production capacity. According to simulations run by the Ministry of the Economy, the proportion of French businesses that would have become insolvent during 2020, on account of the impact of the crisis, was halved as a result of public support (Hadjibeyli et al., 2021). This support did not significantly influence the key factors for business failure in 2020 (Cros et al., 2020; Hadjibeyli et al., 2021).

Figure 1.6. Support for business liquidity was effective



Source: Banque de France (2021), Financial situation of households and firms; EC (2021), Quarterly registrations of new businesses and declarations of bankruptcies – statistics, European Commission.

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Box 1.3. Measures to support the liquidity of businesses and strengthen their equity in 2020-21

Initial key liquidity measures

- **Government guaranteed loans (PGE) has accounted for EUR 142 billion of loans (5.8% of 2019 GDP) between March 2020 and August 2021**(Figure 4). Representing up to 25% of turnover, PGEs enable recipient businesses to apply to spread their repayments over between one and five years at the end of the first year and, in some cases, depreciate their capital only at the end of the second year. The scheme was mainly deployed from end-March 2020 to end-2021. Small and medium-sized enterprises account for 75% of the sums allocated (Secrétariat du Comité Cœuré, 2021).
- **Deferrals of social contributions mainly involved very small enterprises (VSEs).** VSEs, which represent around 20% of all employment, account for 56% of all deferred social contributions (IGF-France Stratégie, 2021). Non-financial business debt, in particular involving deferrals of social security and tax payments, amounted to EUR 25 billion (1% of 2019 GDP) in March 2021.
- **Credit mediation supported businesses in difficulties.** It handled close to 14 000 case files between March and December 2020 and, in half of cases, a solution was found with the banks.
- **The State supported Air France-KLM with a EUR 7 billion shareholder loan.**
- **The European Investment Bank (EIB) guarantee mechanisms have been expanded** (OECD, 2021). They include the establishment of a EUR 25 billion European Guarantee Fund to deploy up to EUR 200 billion in finance to businesses throughout the European Union.
- **Tax credit advances and the carry-back procedure were relaxed in 2020 and 2021.**

Tools to develop business equity and improve savings allocation

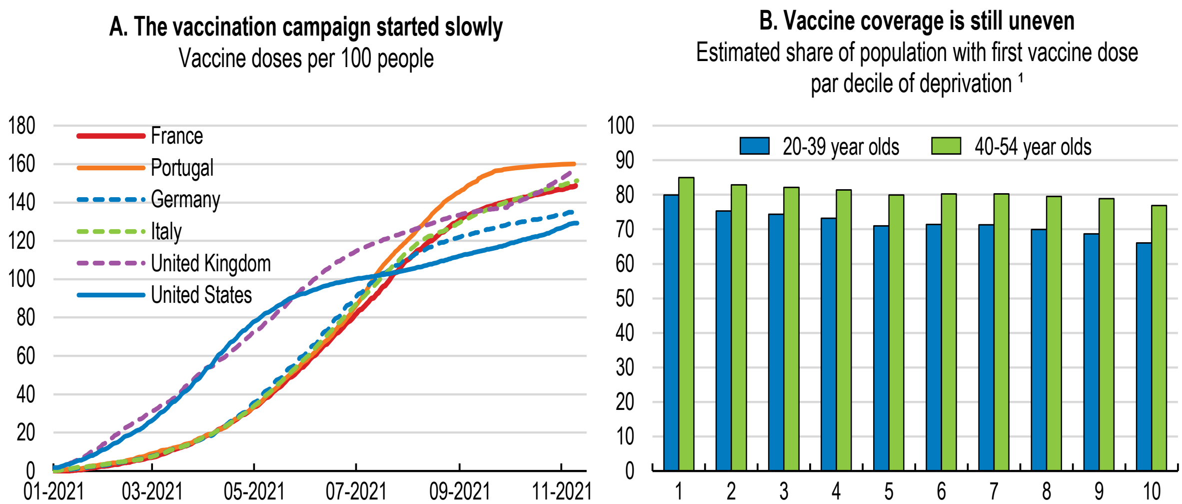
- **The long-term loan scheme (prêts participatifs Relance) guarantees business loans and was introduced in May 2021.** These long-term highly subordinated loans (loans that mature after eight years where the principal is repaid only from the fifth year and that are subordinate to all other bank debts) are intended to support business investment. This mechanism could mobilise EUR 20 billion in finance, that is around 6% of non-financial business investment in 2019 (MEFR, 2021).
- **Created in October 2020, the Relance label aims to guide private savings towards dedicated investment funds.** The label is based on a set of investment rules and environmental, social and governance criteria controlled by the French Treasury. As of September 2021, around 200 funds were labelled "relance" and amounted to around EUR 16 billion, including EUR 3.6 billion for insurers. Some 70% of the labelled funds are invested in the equity and quasi-equity of French businesses and more than 50% in SMEs and medium-to-large-sized enterprises (MEFR, 2021).
- **Incentives for households to invest in SMEs have been strengthened.** Income tax deductions were increased to 25% for equity subscriptions from August 2020 to December 2021.

Source: Secrétariat du Comité Cœuré (2021), *Chiffres clés de la mise en œuvre des mesures de soutien financier aux entreprises confrontées à l'épidémie de Covid-19*; OECD (2021), *Economic Survey 2021 – European Union*, OECD Publishing, Paris; IGF-France Stratégie (2021), Rapport *d'Étape du Comité de suivi et d'évaluation des mesures de soutien financier aux entreprises confrontées à l'épidémie de Covid-19*, April 2021; MEFR (2021), *Renforcer le bilan des entreprises pour la relance: présentation des prêts participatifs Relance et des obligations Relance*, Ministry of the Economy, Finance and the Recovery.

The acceleration of the vaccination campaign supports the recovery

The vaccination rollout has significantly eased pressure on intensive care units and will help to sustain the economic recovery. Although, as in the rest of Europe, the vaccination campaign got off to a slow start, it gained significant speed in the spring and summer 2021 when vaccination centres opened and vaccines were made available to healthcare professionals, and later with the implementation of the health pass. At the beginning of November 2021, 74.6% of the population was fully vaccinated, and 76.4% had received their first injection (Figure 1.7; Santé Publique France, 2021a), higher than European average rates (ECDC, 2021). At the same time, France rolled out its testing campaign, based on broad capacity and free testing until October 2021, for an estimated cost of EUR 7.7 billion in 2020-21 (0.3% of 2019 GDP).

Figure 1.7. The vaccination programme has been scaled up but remains perfectible



1. The deprivation index is defined at the municipality level as the first principal component of four variables (median income per consumption unit, the share of secondary school graduates in the out-of-school population aged 15 or over, the share of workers in the active population aged 15-64 and the share of unemployed in the active population aged 15-64).
Source: Caisse nationale de l'Assurance Maladie (2021), *Taux de vaccination (en %) par indice de défavorisation au 24 octobre 2021*; Our World in Data (2021), COVID-19 vaccine doses administered per 100 people.

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Ensuring a steady recovery requires achieving an even broader vaccination coverage and making changes to preventive health measures. The vaccination strategy prioritised the elderly and people with comorbidities that were at risk of developing more severe diseases. The authorities also took welcome measures to target the most vulnerable and disadvantaged, such as the introduction of mobile teams. In view of the low vaccine coverage among some healthcare professionals (Santé Publique France, 2021b), vaccination was made mandatory for healthcare and care home workers, as in the United Kingdom. However, in early November 2021, vaccine coverage was significantly lower in the most deprived areas (Figure 7; Ameli, 2021) and lower than the European average for those in the 80+ age group (ECDC, 2021). The priority is therefore to scale up vaccination even more for the most fragile and vulnerable communities.

As in other countries, the spread of more infectious or more severe variants is still a risk (Advisory Panel on COVID-19, 2021a and 2021b). In order to control their spread and prevent further waves of the epidemic, the authorities introduced protective measures in summer 2021, including the health pass, social distancing in places open to the public and the administration of booster shots for the vulnerables, thus reducing the scale of potential rebound in certain business sectors. Capacity to screen adults and young children rapidly will also have to continue to grow to ensure the success of the test, track (especially upstream) and isolate (especially for people arriving from at-risk countries) strategy. Additionally, capacity to sequence variants should continue to increase. In addition, the aid to achieve higher vaccination globally should continue. The French government plans, in a welcome move, to share around 60 millions doses of COVID-19 vaccine before the end of 2021 (PR, 2021; OCDE, 2021m).

Beyond the health challenges, the crisis has underlined the importance of anticipating and preventing risks (Pittet et al., 2020 and 2021). Planning for major risks should be the subject of recurring general and specific exercises, such as stress tests of logistical capacity, and reflected in specific targets that are regularly reviewed, such as preparation of operational capacity. All-hazards risk analyses should also include highly unlikely situations such as the simultaneous occurrence of a combination of improbable multi-hazard risks (for example, a flood followed by an earthquake) whose potential cost is very high, to ensure that response capacity is adequate.

Local risk management strategies should involve greater commitment and the formulation of a shared vision that brings together local governments and the national authorities. Little account is taken in planning and urban development policies of specific risks (such as flooding) or the comprehensive multi-hazard view of risks, including health-related, climatic, geological, seismic and technological risks (OECD, 2017a; 2018a). In Japan, the national and local authorities are closely linked through national and subnational "national resilience plans". The aim of the plans is to ensure that the electrical, digital, rail, airport and flood-prevention infrastructures can perform as planned in the event of disaster (OECD, 2021c).

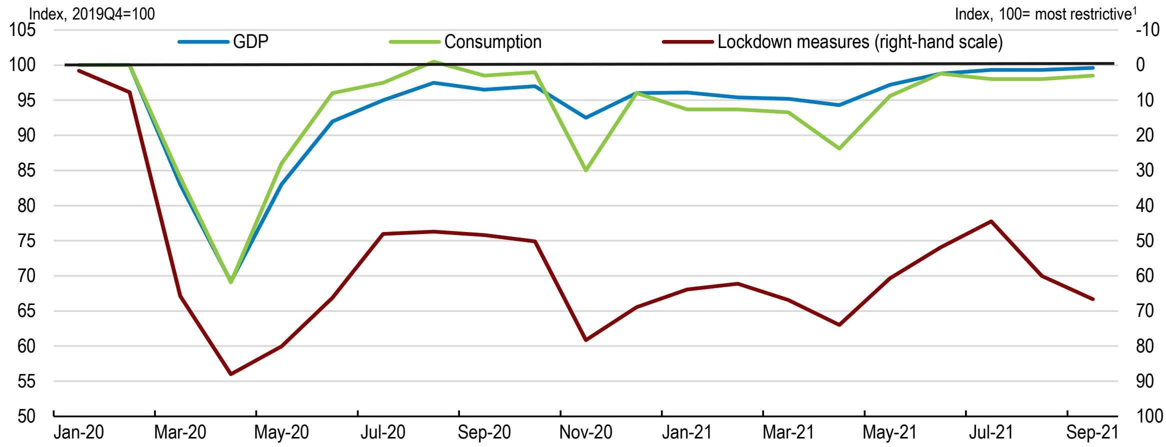
1.2. The economy bounced back when health restrictions were lifted

Macroeconomic policies are supporting domestic demand and the recovery

GDP growth will be around 6.8% in 2021 and 4.2% in 2022, and economic activity returned close to its pre-crisis levels in the third quarter of 2021 (Table 1.2 and Figure 1.8). Health restrictions have had an ever-decreasing effect on consumption patterns and mobility (Insee, 2021b; Banque de France, 2021c). After a poor start in 2021, the economy rebounded as the epidemic lessened, the vaccination campaign accelerated and health restrictions were relaxed. Moreover, while supply constraints weakened industrial performance at the beginning of 2021 and increased again over the summer 2021, some of them should gradually fade (Insee, 2021c).

The economy strongly rebounded at the beginning of summer 2021. Despite a further wave of COVID-19 cases over the summer, the lifting of health restrictions and the reopening of certain sectors has sustained a rapid rebound in consumption (Insee, 2021d; Banque de France, 2021g). Activity in restaurants, bars, leisure and air travel services (around 14% of output in non-financial service sectors in 2015), which in March 2021 was at less than 50% of its level at end-2019, therefore recovered (Figures 9 and 10). Moreover, demand from trade partners also bounced back swiftly, and exports are likely to slowly return to previous levels following their historically low levels of 2020 and mid-2021.

Figure 1.8. The economic impact of the epidemic and containment measures has fallen



1. The Oxford Index (COVID-19 Government Response Tracker, stringency index) is based on nine indicators, including closures of schools, workplaces and travel restrictions.
Source: Insee (2021), Après l'épreuve, une reprise rapide mais déjà sous tensions, October 2021; Oxford COVID-19 Government Response Tracker, Blavatnik School of Government, University of Oxford.

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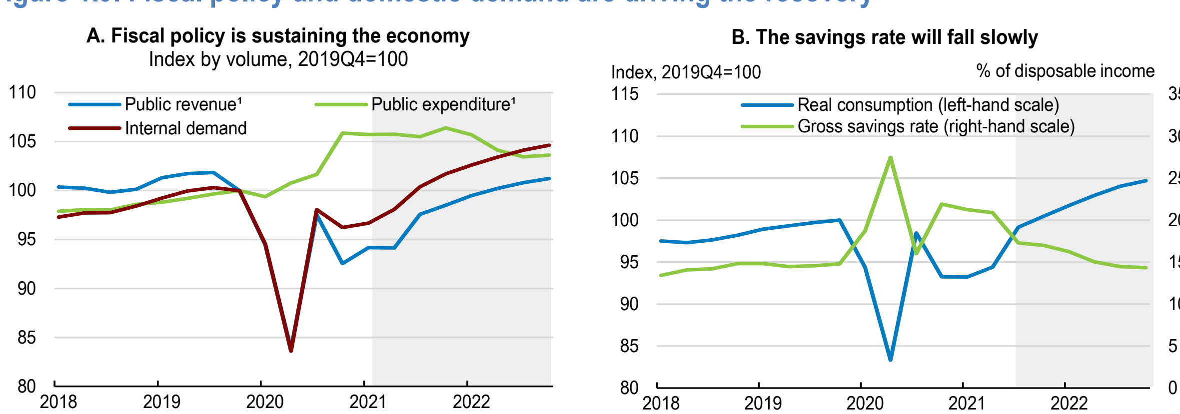
Fiscal measures strongly support domestic demand. The emergency economic and social measures (Box 1.1) together with the gradual lowering of the housing tax, will considerably lessen the crisis' effects on household incomes and purchasing power, despite the planned cut in unemployment benefits. The recovery and 2030 investment plans and support measures that protected corporate production capacity will also support business investment. However, although robust in 2020 and during the first part of 2021 (Figure 1.2), business investment will be restrained by high levels of gross debt in some firms as well as ongoing uncertainties (notably related to the health situation and trends in aggregate demand).

The recovery will support a moderate decrease of the unemployment rate. New hires and outflows from unemployment rebounded over the summer 2021. Yet, as the take up of the job retention scheme is declining rapidly, the increase in the number of hours worked in 2021 will be sustained chiefly by an increase in working time per employee (Figure 1.11). Moreover, the normalisation of the labour force, following its dip in 2020, will temporarily push the unemployment rate upwards (Table 1.2). As these factors fade out, the labour market will tighten further. Recruitement difficulties, notably for skilled staff, have already increased significantly (DARES, 2021b).

Figure 1.9. Fiscal policy and domestic demand are driving the recovery



1. Total public revenue and expenditure is deflated by the GDP deflator. Public revenue excludes European funding in 2021 and 2022.
Source: OECD (2021), OECD Economic Outlook: Statistics and Projections (database).

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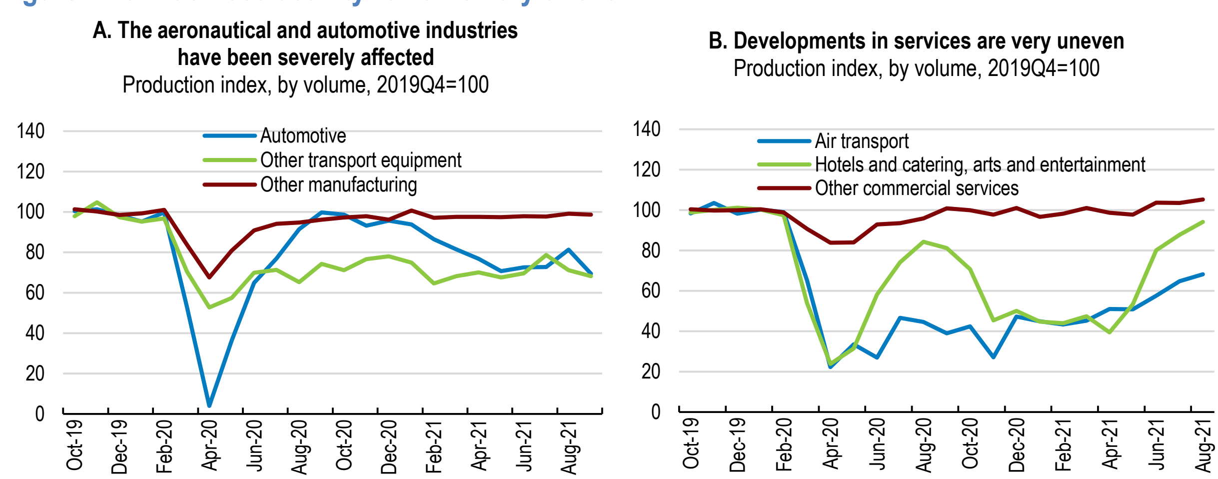
Table 1.2. Macroeconomic indicators and projections

	2017	2018	2019	2020	2021	2022
France	Current prices EUR billion	Percentage changes, volume (2014 prices)				
GDP at market prices	2 298.6	1.8	1.8	-8.0	6.8	4.2
Private consumption	1 241.0	0.8	1.9	-7.2	4.8	6.8
Government consumption	543.4	0.8	1.0	-3.2	6.4	1.9
Gross fixed capital formation	517.3	3.3	4.1	-8.9	12.0	3.7
Final domestic demand	2 301.7	1.4	2.1	-7.0	6.3	4.2
Stockbuilding[1]	21.6	0.0	0.0	-0.2	-0.2	-0.3
Total domestic demand	2 323.4	1.4	2.1	-6.8	6.6	4.5
Exports of goods and services	711.6	4.6	1.5	-16.1	8.2	7.5
Imports of goods and services	736.4	3.1	2.4	-12.2	7.3	8.4
Net exports[1]	-24.8	0.4	-0.3	-1.1	0.1	-0.4
Note:						
GDP deflator	_	1.0	1.3	2.5	0.7	0.8
Harmonised consumer price index	_	2.1	1.3	0.5	1.9	1.7
Core HICP[2]	_	0.9	0.6	0.6	1.2	1.4
Unemployment rate[3] (% of active population)	_	9.1	8.5	8.1	7.8	7.6
Gross household saving (% of disposable income)	_	14.1	14.7	21.0	19.1	15.0
General government financial balance	_	-2.3	-3.1	-9.1	-8.0	-5.0
General government gross debt	_	121.1	123.5	146.5	146.5	146.6
General government gross debt, Maastricht definition (% of GDP)	_	97.7	97.4	115.1	115.2	115.3
Current account balance (% of GDP)	_	-0.8	-0.3	-1.9	-1.0	-1.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised consumer price index, excluding energy, food, alcohol and tobacco.
3. Including overseas departments.
Source: OECD (2021), OECD Economic Outlook: Statistics and Projections (database) and updates.

Figure 1.10. Business activity remains very uneven



Source: Insee (2021), Industrial production index (IPI) and services production index (SPI).

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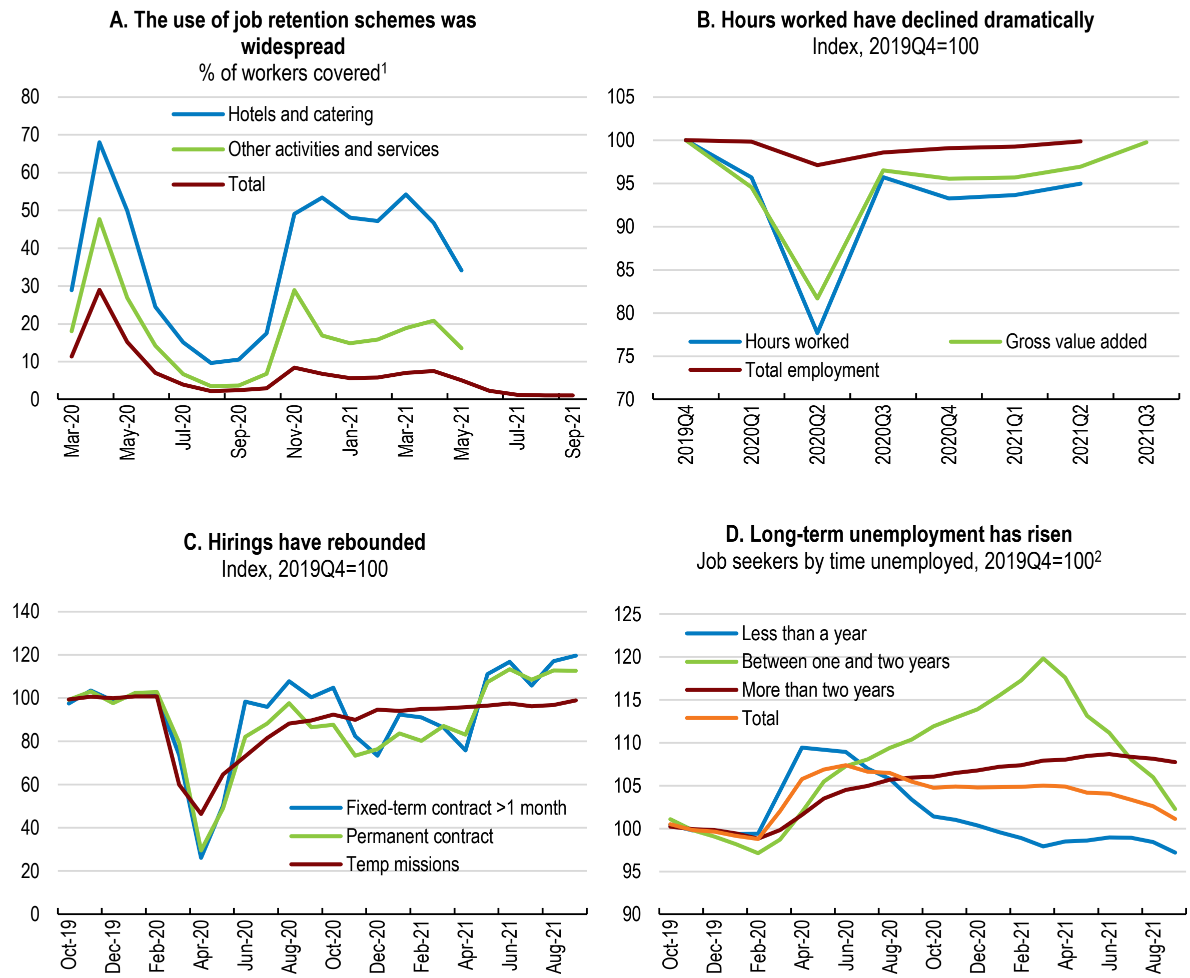
Figure 1.11. The labour market has been seriously affected



1. Monthly trend in actual take-up of short-time work schemes (shown as FTE) in the two sectors where the scheme was used most.
2. Job seekers registered at Pôle Emploi at the end of the month in categories A, B and C in metropolitan France.

Source: Secrétariat du Comité Cœuré (2021), *Chiffres clés de la mise en œuvre des mesures de soutien financier aux entreprises confrontées à l'épidémie de Covid-19*; DARES (2021), *L'emploi intérimaire*; DARES (2021), *Les demandeurs d'emploi inscrits à Pôle emploi*; ACOSS (2021), *Déclarations préalables à l'embauche*; Insee (2021), *Quarterly national accounts – detailed figures.*

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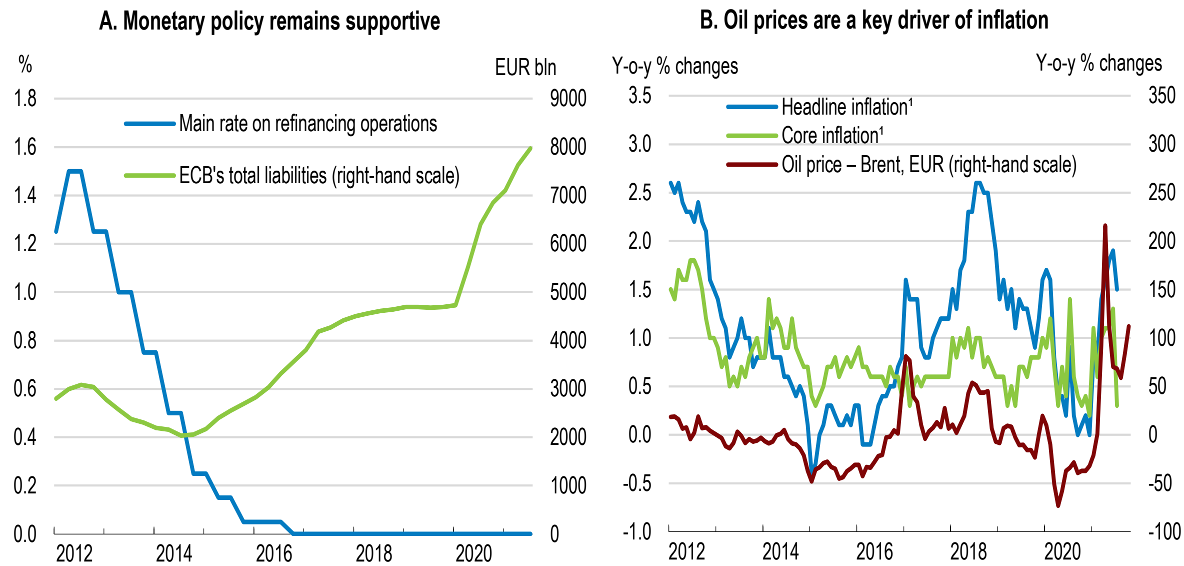
Core inflation will rise in 2021-22 (Figure 1.12). Since the beginning of 2021 and with an acceleration over the summer, the increase in commodity prices, particularly of oil and gas, together with supply problems driven both by the vigorous rebound of demand and disruption to some value chains, have been exerting upward pressure on consumer prices (Banque de France, 2021c; Insee, 2021c). So far, the trend in commodity prices has only partially been passed on in business sales prices (Banque de France, 2021e) and the scale of spare capacity in the economy is temporarily holding down core inflation. Yet, the resilience of the labour market and rising labour market shortages are set to support a pick-up in wages.

Figure 1.12. Core inflation will remain moderate



1. Harmonised indices.
Source: OECD (2021), OECD Economic Outlook: Statistics and Projections (database) and updates; ECB (2021), "Financial Market Data: Official Interest Rates", Statistical Data Warehouse (database), European Central Bank, Frankfurt.

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The risks surrounding these projections are historically high

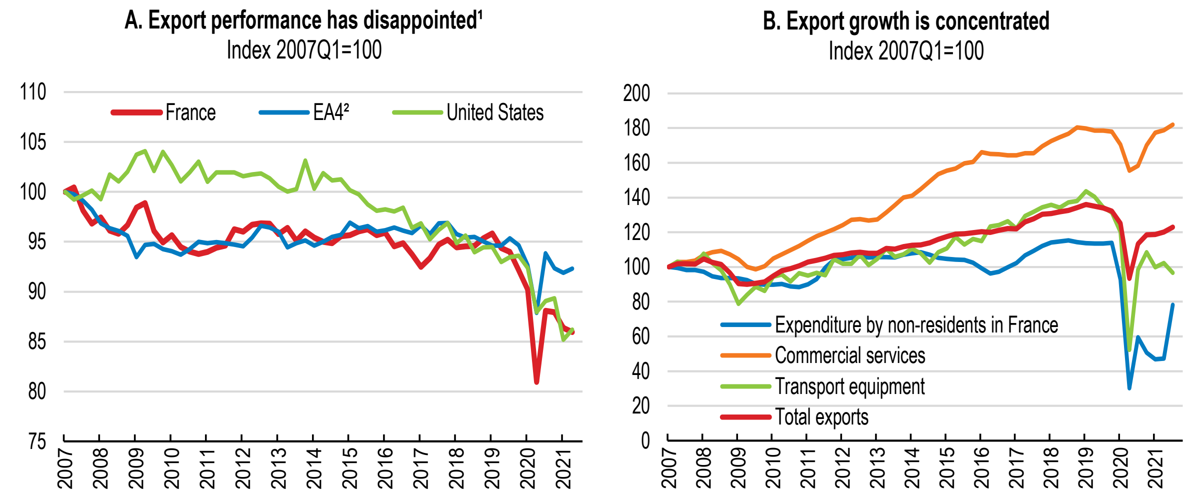
In the short and medium term, the risks surrounding these projections are high. Passenger transport, tourism, cultural services and the aeronautical industry will probably carry lasting scars. Demand for these goods and services has fallen, and recovery is highly dependent on the health situation. Businesses have also accrued significant debt, and some of them will face liquidity and solvency issues, potentially leading them into bankruptcy. A slower recovery among France's main trading partners in the euro area would also delay recovery in France. By contrast, a larger drop in the savings accrued during the crisis, swift use of recovery funds at European level and a faster-than-predicted recovery in international tourism would stimulate growth. Finally, a number of large potential shocks could also alter the economic outlook significantly (Table 1.3).

Table 1.3. Events that could lead to major changes in the outlook

Vulnerability	Possible outcome
Further national or global epidemic waves, potentially linked to the emergence of new variants that are more infectious or cause more severe disease.	Failure to combat the pandemic could increase pressure on the health system and require further preventive measures that could revert the economic recovery, particularly for the hotel and catering, tourism and leisure services sectors.
Rapid, uncontrolled rise in bankruptcies.	The overloading of commercial courts could considerably prolong the time taken to restructure debt, lead to deterioration in the banks' balance sheets and raise risk premia and could reduce the supply of bank loans.
Significant re-evaluation of interest rates.	A sharp rise in borrowing costs would increase the pressure on public finances and the banking system.

Trade performance is a key vulnerability for the French economy. France's foreign trade performance is unsatisfactory, as exports have never returned to the levels attained on the export markets since the 2007/8 crisis and fell steeply in 2020 (Table 1.2 and Figure 1.13). In particular, in 2021Q2, exports of transport equipment, including large exports of aeronautical and space equipment, and expenditures by non-residents remained well below their end-2019 levels (Figures 1.13 and 1.14; Insee, 2021b). In mid-2021, these sectors still showed adverse changes in activity and in their outlook for recovery in the short term (Banque de France, 2021e; Berthou et Gollier, 2021). Additionally exports of services, which had been growing rapidly since 2007, had only partly rebounded. Furthermore, French businesses, which in part focused their growth strategy on increasing the numbers of their production sites, saw rapid falls in income linked to foreign direct investment. As a result, the current account has been in deficit since 2007 and stood at -1.9% of GDP in 2020.

Figure 1.13. Export performance is disappointing



1. Difference between export growth and export markets' growth, in volume terms (based on export markets as of 2010).
2. EA4 is the simple average for Germany, Spain, Italy and the Netherlands.
Source: OECD (2021), OECD Economic Outlook: Statistics and Projections (database) and updates; Insee (2021), Quarterly national accounts (database).

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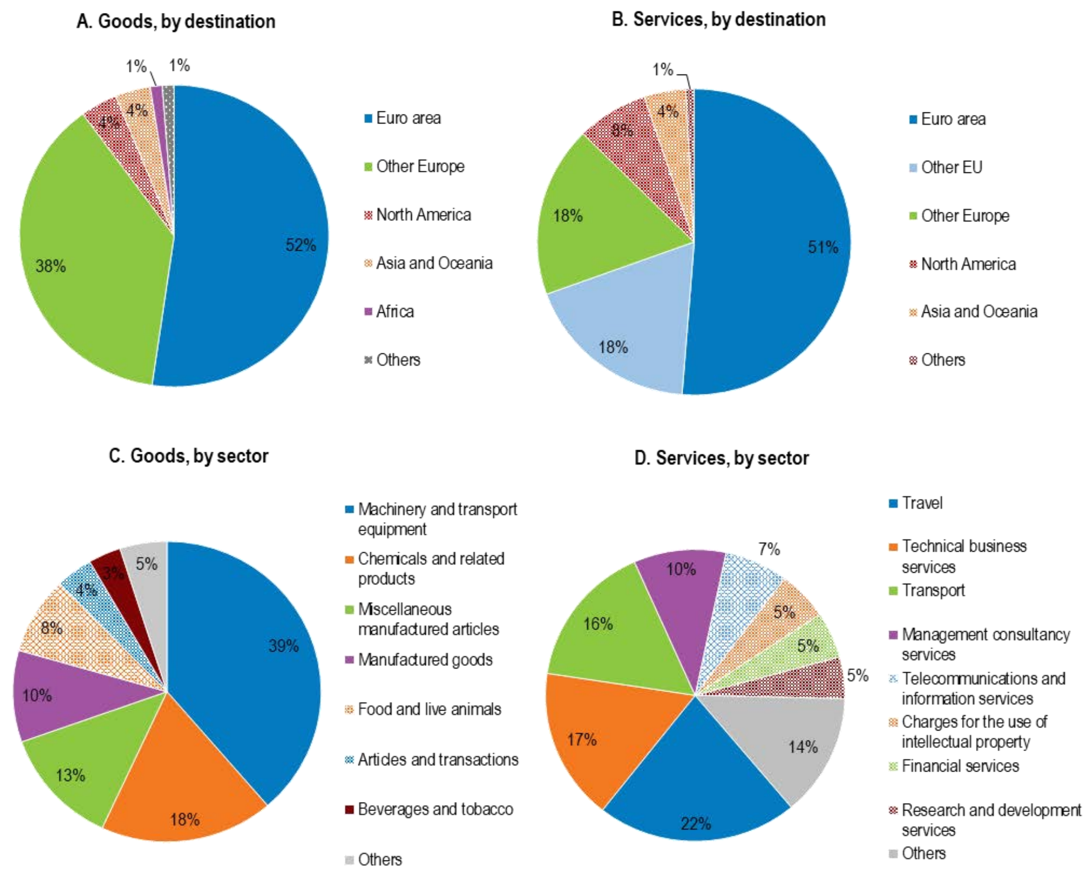
Productivity gains and improvements in non-price competitiveness are necessary to reduce exposure to external trade shocks. France's export-market shares had stabilised over 2012-19, as the intergration of emerging countries in international trade slowed and the tax credit for competitiveness and employment (CICE) and other labour tax cuts on low and average wages have considerably reduced the labour cost of low-skilled workers. However, labour costs remain relatively high for some skilled jobs (Paris, 2019). Moreover, although the non-price competitiveness of French exports appears good in the aeronautics, cosmetics and beverages sectors, it is only average in major sectors of world trade such as machinery, electrical equipment, vehicles or pharmaceuticals (Burton and Kizior, 2021). Non-price competitiveness is notably hampered by weaker innovation than in the best performing economies.

Figure 1.14. Structure of exports

Per cent, 2019



Note: In panel C, “others” includes mineral fuels, lubricants and related materials, crude materials, and animal and vegetable oils. In panel D, “others” includes insurance and retirement-savings services, construction and cultural services

Source: OECD (2021), International Trade Statistics (database).

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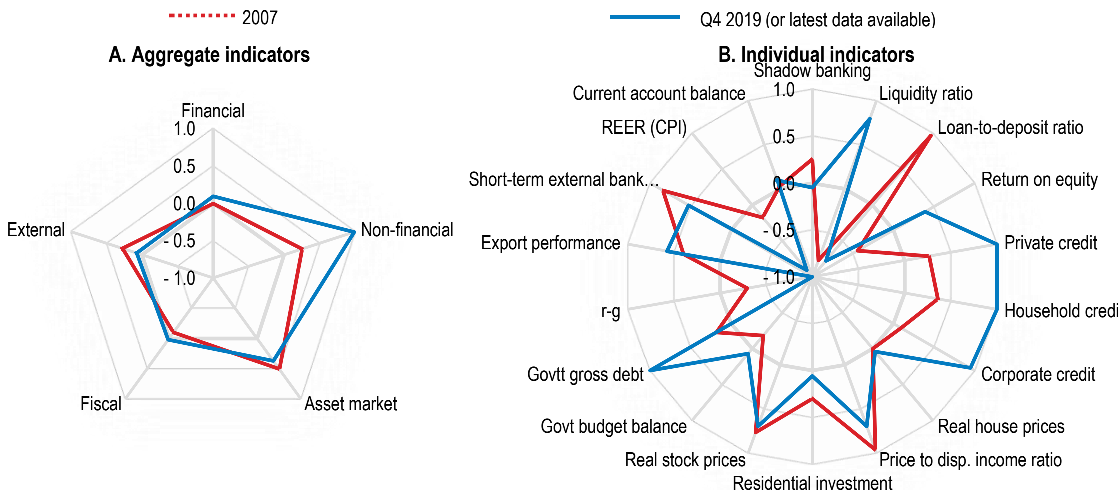
1.3. Financial risks have increased

Financial vulnerabilities were contrasted before the crisis. French banks had more robust levels of equity and liquidity than in 2007 (Figure 1.15; Banque de France, 2020a). This sound situation, together with fiscal and monetary support, has so far enabled banks to effectively face increased funding needs (OECD, 2021l). However, the crisis has exacerbated pre-existing risks related to the upward trend in private debt (both household and corporate), public debt, as well as some vulnerabilities in market finance and asset management (Figure 1.15; OECD, 2019a).

The crisis has increased gross corporate debt. Non-financial businesses entered the health crisis after three years of buoyant activity, rising profit margins, low interest rates and strong cash reserves. The rise in indebtedness was down to medium and large enterprises: debt for SMEs was falling (Bureau and Py, 2021). However, non-financial corporate debt rose from 73% of GDP at end-2019 to close to 88% in 2020. This rise was largely linked to SMEs, state-backed loans and the fall in GDP (see above). Although high cash reserves and intragroup borrowing moderated the risks for the businesses involved (Khder and Rousset, 2017; Banque de France, 2020b), the combined effects of an uncertain economic outlook and an increase of payment delays undermines the financial situation of some businesses, especially some of the smallest ones (IGF-France Stratégie, 2021b).

Figure 1.15. Prior to the crisis, the risks related to public and private debt were high

Index scale of -1 to 1 from lowest to greatest potential vulnerability, 0 refers to long-term averages since 1970[1]



1. Each aggregate macro-financial vulnerability dimension is calculated by aggregating (simple average) normalised individual indicators from the OECD Resilience Database. Individual indicators are normalised to range between -1 and 1, where -1 to 0 represents deviations from long-term average resulting in less vulnerability, 0 refers to long-term average and 0 to 1 refers to deviations from long-term average resulting in more vulnerability. Non-financial dimension includes: total private credit (% of GDP), private bank credit (% of GDP), household credit (% of GDP) and corporate credit (% of GDP). The asset market dimension includes: growth in real house prices (year-on-year % change), house price to disposable income ratio, residential investment (% of GDP) and real stock prices. Fiscal dimension includes: government budget balance (% of GDP) (inverted), government gross debt (% of GDP) and the difference between real bond yield and potential growth rate (r-g). External dimension includes: current account balance (% of GDP) (inverted), short-term external bank debt (% of GDP), real effective exchange rate (REER) (relative consumer prices) and export performance (exports of goods and services relative to export market for goods and services) (inverted).

Source: Calculations based on OECD (2021), OECD Resilience Statistics (database).

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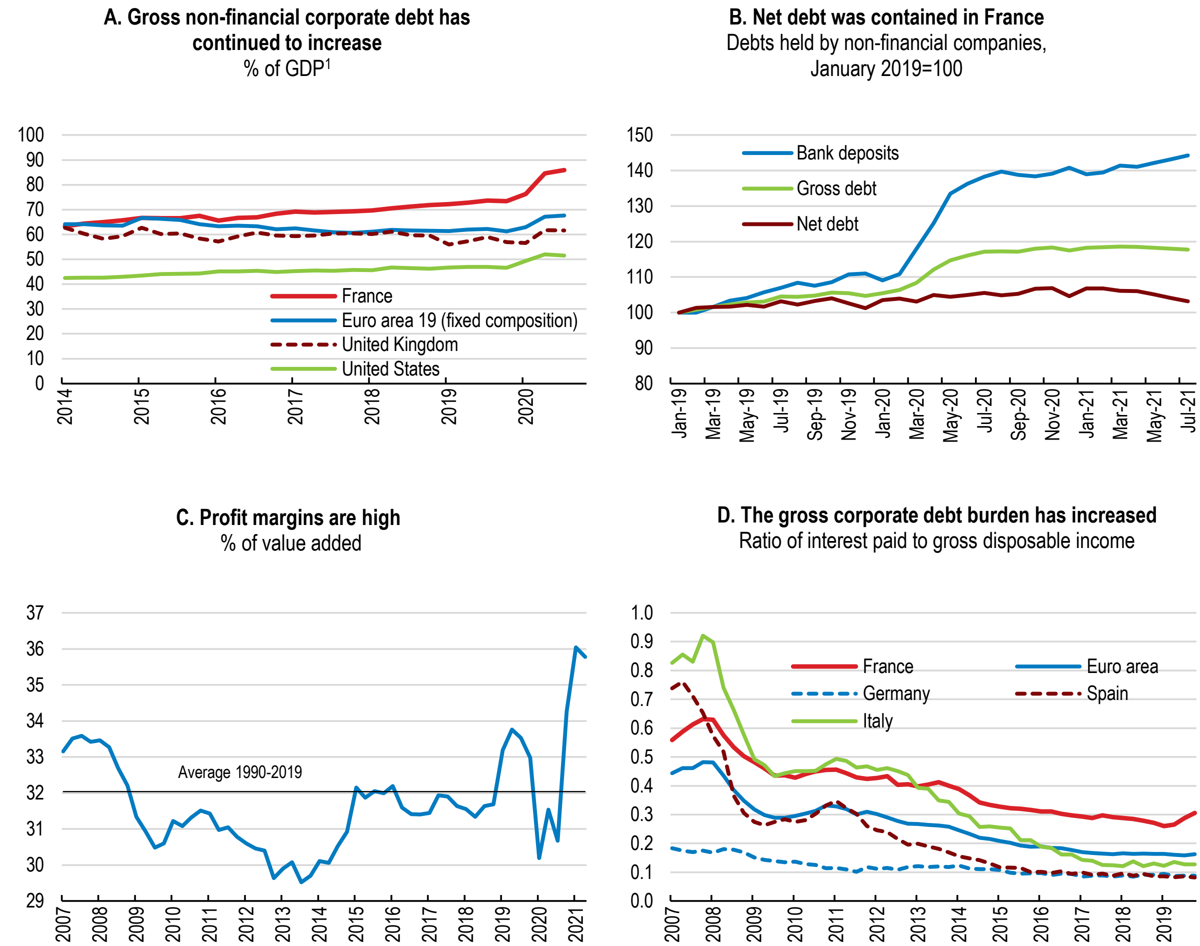
Continuing to provide liquidity to small and medium-sized enterprises and to strengthen their equity in a targeted manner is key for a resilient recovery (Figure 1.16). French businesses' liquidity appears adequate, but the profitability of some firms (excluding public support) has been very significantly affected, and the time taken for business-to-business payments has increased (Gonzalez, 2021). While the impact of the crisis on the corporate financial situation is currently limited (IGF-France Stratégie, 2021b), the pace of the phasing out of emergency support and the implementation of the recovery plan will be critical. Extending guaranteed loans could be a partial solution: during the 2008-09 crisis, such extensions made it possible to save jobs and limit public spending (Barrot et al., 2019).

Figure 1.16. Non-financial gross corporate debt has risen rapidly



1. The non-financial corporate debt is consolidated by subtracting assets from the non-financial corporate sector's liabilities.
Source: Banque de France (2021), "Endettement des agents non-financiers: comparaisons internationales", Webstat database; Insee (2021).

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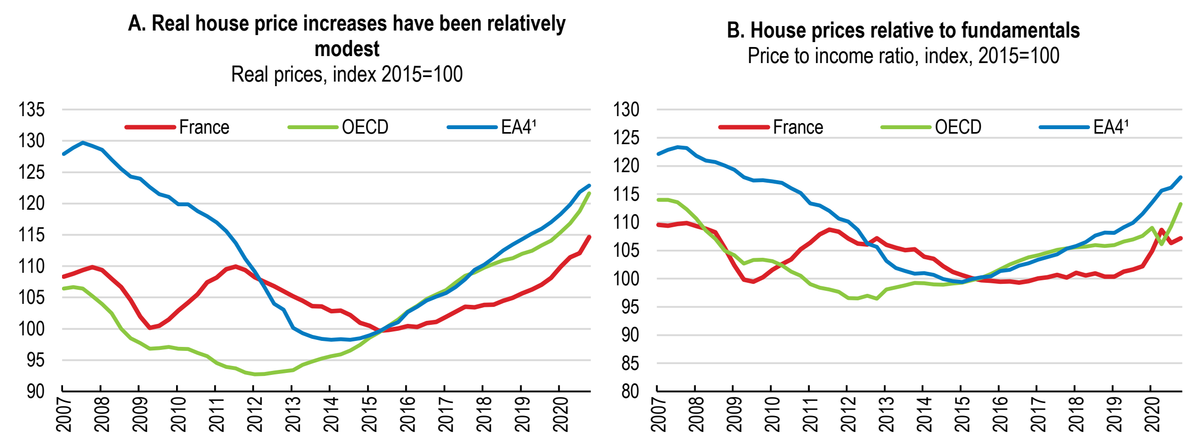
France has introduced several measures to support equity finance, which should help to reduce the risks of high corporate debt (Demmou et al., 2021; IMF, 2021; OECD, 2020f). The main instrument – *Prêt participatif Relance* – incentivises the private sector to mobilise highly subordinated long-term loans backed by public guarantees (Box 1.3). While the scheme combines features of market-led selectivity and limits the administrative cost for the government, few businesses have applied so far. The insufficient business awareness about the scheme and the debt-status of the instrument may have limited its attractiveness, as well as is design and complex status (IMF, 2021). If take-up remains weaker than planned or equity needs persist, support may have to increase and the instruments adjusted, for example by selectively providing greater equity through regional investment funds co-managed by the public investment bank (Bpifrance), the regions and private partners. Moreover, further structural measures concerning insolvency procedures and corporate financing are likely to contain the systemic risks (see below).

The valuation of commercial real estate requires careful monitoring, as the French market was very buoyant in 2019, and, at that point, France was already the most expensive market among the major European countries (Banque de France, 2021b; 2018). The crisis has also accelerated profound change with a boom in homeworking that could result in a reduction in office space (ACPR, 2021; Bergeaud and Ray, 2020). The systemic consequences of the price correction experienced in this market appear limited, since the direct exposure of the insurance and major commercial banks to the commercial real estate sector accounts for less than 5% of their balance sheets (HCSF, 2017). For the moment, they are apparently resilient enough to weather a sharp price correction in prices in the office space segment of commercial real estate. However, the correction under way could reduce business investment by having a bearish effect on assets that could be used as collateral (Fougère et al., 2019).

Household credit was also at an all-time peak before the crisis (Figure 1.15). The progressive easing of conditions for mortgage loans noted in recent years have made households more vulnerable, but the measures taken by the High Council for Financial Stability (HCSF) in December 2019, and then again in January 2021, made mortgage conditions more stringent (Box 1.4). The increase in real house prices since mid-2015 is less than the average for the euro area and the OECD (Figure 1.17). Price-to-rent and price-to-income ratios remain below the average for the OECD, and increases have slowed from their highs in 2011. Moreover, the nature of mortgages, which are primarily at fixed interest rates – 96% of the outstanding mortgage market in 2019 (ACPR, 2020) – speaks for the resilience of household solvency. However, a sharp increase in banks' financing costs would adversely impact the profitability of their mortgage stock. Moreover, a sharp repricing of household assets (particularly housing) or a drop in household income if the recovery were to disappoint, would make households less solvent.

Figure 1.17. Housing market trends



1. EA4 is the simple average for Germany, Spain, Italy and the Netherlands.
Source: OECD (2021), Analytical House Price Indicators (database).

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Against this background, the profitability of the French banking system should be carefully monitored. In mid-2021, the bank capital ratio remains high and close to the euro area average at close to 16% (CET1, Basel III), whereas the total capital ratio stood at 19.4% (ECB, 2021). Before the crisis, the gross ratios of non-performing loans held by French banks were low by comparison with other European countries and they have not increased so far (HCSF, 2020; Banque de France, 2021f). However, the profitability of European and French banks was low even before the crisis (OECD, 2021d; ACPR, 2021). An increase in banks' credit risk linked to potential corporate bankruptcies and the cost of the risk could accentuate the weakness of the banks' revenues. Even though the European measures have reduced the cost of risk (Box 1.4), the credit outlook could prove challenging. A rise in the banks' perception of risk could push them to tighten credit standards, while an adjustment of state guarantee programmes and the need to improve corporate balance sheets could reduce corporate demand for credit.

Box 1.4. Monetary policy measures and adjustments to financial regulations in 2020-21

European regulations

- **The European Central Bank (ECB) expanded its asset purchase programme, allocating a further EUR 1 970 billion to the total** (equivalent to 16.5% of euro area GDP for 2019; OECD, 2021). The programme is essentially a EUR 1 850 billion pandemic emergency purchase programme (PEPP) under which net purchases will continue until at least March 2022 and to which some of the limits imposed on asset purchases by the ECB itself will not apply.
- **In order to preserve banking credit and liquidity, the ECB announced further targeted longer-term refinancing operations**, made the funding conditions offered under targeted longer-term refinancing operations (TLTROs) more favourable, and relaxed the criteria it applies when determining which assets are acceptable as collateral.
- **The regulatory requirements governing banking capital and liquidity ratios have been temporarily relaxed,** notably through amendments to the regulation on capital requirements and the introduction of a degree of flexibility on the prudential treatment of non-performing loans (NPLs). In order to preserve bank capital, the ECB asked banks not to pay dividends or buy back shares.
- **Targeted amendments of the rules that apply to capital markets have been applied.** Regulations on prospectuses, in the Markets in Financial Instruments Directive (MiFID II) and rules on securitisation, have been amended to allow issuers to raise funds quickly and facilitate recourse to securitisation, including for NPLs, so that the banks can make more loans.

Key national measures

- **The High Council for Financial Stability (HCSF) fully released the counter-cyclical capital buffer in March 2020.**
- **The recommendation of the Banque de France and the ECB on the temporary suspension of any cash dividend and of any share buyback that was formulated in March 2020 was relaxed in December and extended to September 2021.**
- **The HCSF has recommended greater prudence in granting mortgage loans.** In December 2019, it recommended that debt-service-to-income ratios should not be greater than 33% (35% since January 2021) and that the loan maturity should not exceed 25 years. The recommendation will become binding in January 2022 (HSCF, 2021).

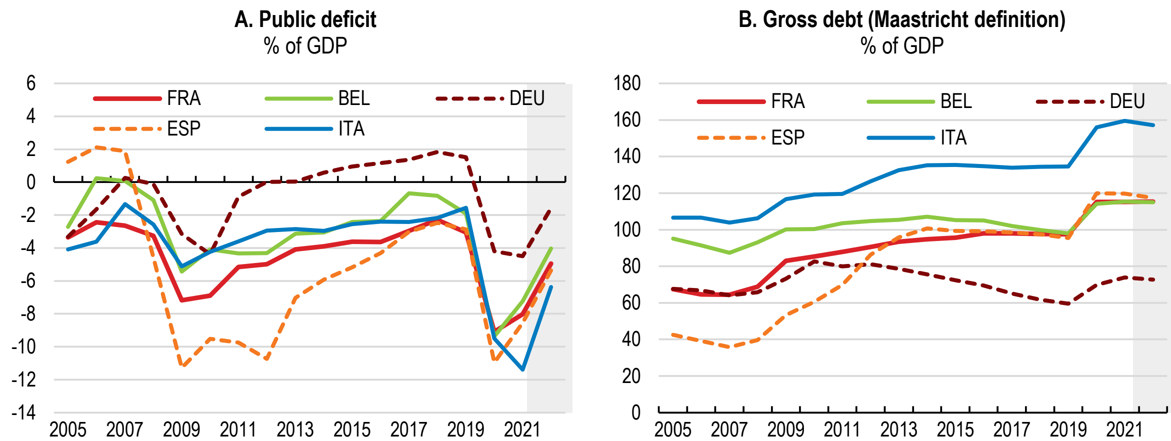
Source: OECD (2021), *Economic Survey 2021 – European Union*, OECD Publishing, Paris; HCSF (2021), *Décision D-HCSF-2021-7 relative aux conditions d'octroi de crédits immobiliers*, 29 September 2021, High Council for Financial Stability.

1.4. Reforming public finance to sustain the recovery

Continuing and targeting short-term support

France had been making some progress in reducing its public deficit between 2012 and 2019. It had fallen from 5.0% of GDP in 2012 to 2.5% in 2018. In 2019, by excluding a significant one-off expense caused by replacing the competitiveness and employment tax credit (CICE) with reduced employers' social security contributions, the public deficit was 2.1% of GDP. Buoyant growth and the fall in unemployment had more than compensated for the emergency provisions made in the wake of the "yellow vests" movement. Yet, the crisis and the associated fiscal support have pushed the deficit to 9.1% of GDP in 2020. The ratio of gross public debt to GDP rose sharply in 2020, as in most OECD countries (Table 1.4 and Figure 1.18).

Figure 1.18. The deficit and public debt are historically high



Source: OECD (2021), OECD Economic Outlook: Statistics and Projections (database) and updates.

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Fiscal support must be maintained until the recovery has been firmly established, but it needs to become more targeted and more limited to facilitate the reallocation of resources after the pandemic. However, in the event that risks associated with the ongoing health situation materialise, or if the recovery proves weak, it would be appropriate to retain the flexibility of the current approach, which allows public policy to be tailored to the evolution of the pandemic. This could include mobilising the state guarantee given to numerous loans.

According to OECD projections, significant efforts will be required to stabilise France's public debt at close to 120% of GDP in 2060 (Maastricht definition; Figure 1.19). Beyond 2022, the assumption is that the increase in the costs of ageing will be fully offset and that additional measures will stabilise the debt. Otherwise, the debt-to-GDP ratio will remain close to 120% of GDP and could rise to close to 150% of GDP in 2060 if the rise in interest rates proves greater than projected under the initial assumptions (Figure 1.19). That would threaten the viability of the public finances. Although clouded by significant uncertainty, the outcomes are in line with recent analyses by the Committee on the Future of the Public Finances (Commission pour l'avenir des finances publiques, CAFP) and the European Commission (CAFP, 2021; EC, 2021b)

Table 1.4. Key fiscal indicators

As a percentage of GDP

	2014	2015	2016	2017	2018	2019	2020	2021[1]	2022[1]
Spending and revenue									
Total expenditure	57.2	56.8	56.7	56.5	55.6	55.3	61.7	59.9	56.6
Total revenue	53.3	53.2	53.1	53.5	53.3	52.3	52.6	51.9	51.7
Total revenue excluding European funding in 2021-22[2]	53.3	53.2	53.1	53.5	53.3	52.3	52.6	51.3	51.3
Net interest payments	2.1	1.9	1.7	1.6	1.6	1.4	1.2	1.0	0.8
Budget balance									
Fiscal balance	-3.9	-3.6	-3.6	-3.0	-2.3	-3.1	-9.1	-8.0	-5.0
Primary fiscal balance	-1.8	-1.8	-1.9	-1.3	-0.7	-1.7	-7.9	-7.0	-4.1
Cyclically adjusted fiscal balance[2]	-2.6	-2.3	-2.3	-2.4	-2.2	-3.3	-2.5	-5.6	-4.7
Underlying fiscal balance[3]	-2.6	-2.5	-2.2	-2.4	-1.9	-2.4	-2.5	-6.1	-4.9
Underlying primary fiscal balance[3]	-0.6	-0.6	-0.4	-0.7	-0.3	-1.0	-1.4	-5.2	-4.0
Public debt									
Gross debt (Maastricht definition)	94.8	95.6	98.0	98.1	97.7	97.4	115.1	115.2	115.3
Net debt	75.3	77.2	79.3	77.5	78.0	78.7	94.5	95.9	96.2

1. Projections.
2. The European funding received by France will be EUR 16.5 billion and 10.6 in 2021 and 2022, respectively.
3. As a percentage of potential GDP. The underlying balances are adjusted for the cycle and for one-offs. For more details, see *OECD Economic Outlook Sources and Methods*.
Source: OECD (2021), OECD Economic Outlook: Statistics and Projections (database) and updates.

In order to set the debt-to-GDP ratio on a sustainable path and increase the efficiency of public spending, it is necessary to better identify the costs and benefits of each public policy while reducing the fragmentation of the budgetary processes. There are over 90 000 public entities in three categories of public administration (Cour des comptes, 2020a). This makes it difficult to identify clearly the scale and total cost of public policies and hampers the ability to make decisions on the allocation of resources. Various budgetary processes exist alongside each other and could be consolidated (Moretti and Kraan, 2018).

The establishment of a consultative body comprising representatives of the State, social security and subnational governments, and regularly opening a general debate on public revenue and the conditions for fiscal balance could increase the efficiency of the fiscal framework. The new body could be given responsibility for establishing and rolling out an expanded, multiannual expenditure rule with sectoral objectives while the High Council for Public Finances (HCFP) could be made responsible for sounding the alarm in the event of a significant deviation from the multiannual trajectory (Cour des Comptes, 2020a). Expenditure rules have a positive track record of successfully curbing the deficit bias in some European countries, such as the Netherlands and Sweden (OECD, 2021p). As envisaged by a 2021 draft law, following its analysis of the macroeconomic assumptions of the main annual budget and with a longer preparation period, the HCFP could be tasked to analyse and publish an opinion about the realism of the budgetary forecasts and evaluate their compliance to the multiannual trajectory for public finances.

The authorities will have to regularly evaluate the efforts to rationalise public expenditures and improve their efficiency. In-depth spending reviews are necessary to implement an ambitious programme to significantly and progressively lower public spending and increase its efficiency. Public spending is among the highest in the OECD when compared to GDP, especially where social expenditures are concerned (OECD, 2020g), and welfare benefits and payroll grew strongly after the 2008-9 economic and financial crisis (Figure 1.20) and require growing tax revenues.

While the administrative costs of some expenditure are high, the outcomes in terms of reducing social and regional inequalities and performance in the education system and innovation were disappointing (see below). Established in 2017, the Comité Action Publique 2022 identified potential efficiency gains to reduce public spending. Nevertheless, the results were modest so far. The process supported the welcome modernisation of some services delivery and some reorganisation of human resources. Yet, there were no precise performance targets for public service quality or budget savings. Spending reviews could be designed to assist in identifying areas for potential savings, and improving alignment of public expenditure with strategic and political priorities, as in Canada and the United Kingdom (Box 1.5). Regular evaluations of the effects of spending reviews would be key to ensure their efficiency (OECD, 2017a).

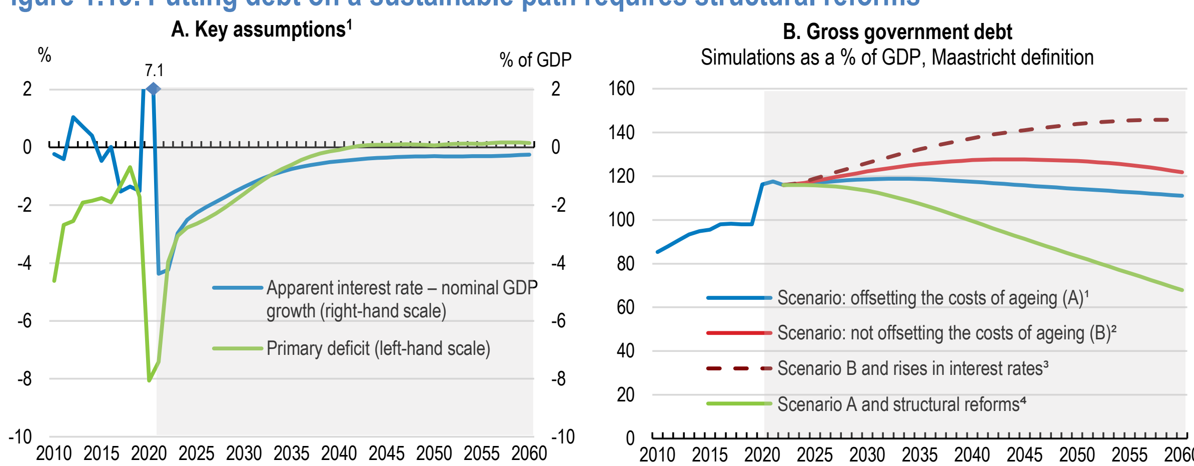
Box 1.5. Spending reviews in Canada and the United Kingdom

Canada's Policy on Results (2016) prioritised the achievement of results across government by enhancing transparency on which resources are allocated to achieve them and through better use of evidence including use of performance information and spending reviews (OECD, 2019). Spending reviews focused on thematic areas of spending, such support for innovation, management of fixed assets. These reviews look at spending across all of government and apply a results-driven, rather than a fiscally-driven, approach to spending assessment.

The United Kingdom is an example of linking spending reviews to mid-term fiscal strategy. Such multi-year spending reviews were introduced in 1998 (EC, 2020). They usually set 3 to 4 year capital and current budgets for each ministry, with the final year of each spending review period becoming the first year of the subsequent one – deliberately designed to deal with the rising uncertainty associated with medium-term targets.

Source: EC (2020), Spending Reviews: Some Insights from Practitioners – Workshop Proceedings, European Economy Discussion Paper, No. 135 ; OECD (2019), Budgeting and Public Expenditures in OECD Countries 2019, OECD Publishing, Paris.

Figure 1.19. Putting debt on a sustainable path requires structural reforms



1. These assumptions are taken from the long-term model described in Guillemette and Turner (2021). In the model, the rise in spending related to ageing is offset in full, and the primary deficit develops endogenously and stabilises public debt in the long term at 2021 levels.
2. This scenario includes the costs of ageing as described in European Commission Table III.1.137 (2021c).
3. Compared to the assumptions in scenario A, the rate is 125 basis points higher in 2025 and remains stable thereafter.
4. The "OECD-recommended reforms" scenario adds the estimated effects of the reforms recommended in this *Survey* (Box 1.5 and Table 1.6). This scenario assumes a rise of 1.2% in potential GDP by 2033.

Source: Adapted from OECD (2021), OECD Economic Outlook: Statistics and Projections (database), June and November; and European Commission (2021), "The 2021 Ageing Report: Economic and budgetary projections for the EU Member States (2019-2070)" Directorate-General for Economic and Financial Affairs.

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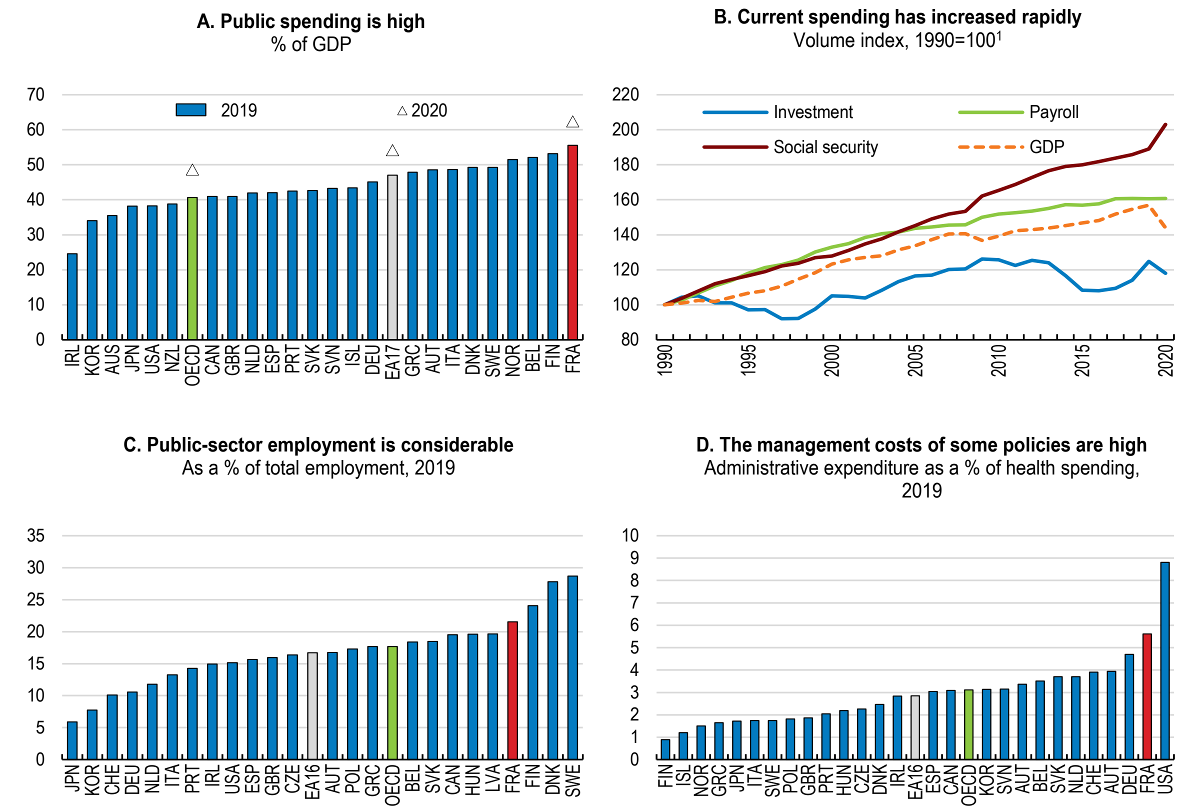
France also lacks long-term projections for public spending and debt. The public finance trajectories presented by the government have a five-year time frame (CAFP, 2021). Even though the annual Stability Programmes include an indicator of long-term sustainability and some long-term simulations are also published for the pension system, regularly publishing long-term debt projections for the general government and expanding the mandate of the High Council for Public Finances (Haut Conseil des finances publiques, HCFP) to include analysing the extent to which the assumptions for these projections are realistic would be steps in the right direction. For example, in the Netherlands and the United States, independent fiscal institutions are responsible for analysing long-term fiscal sustainability in periodic documents with 40- and 30-year time horizons.

Figure 1.20. Public spending efficiency must improve



1. Expenditure is deflated by the GDP deflator.
Source: OECD (2021), OECD Economic Outlook: Statistics and Projections (database); OECD (2021), *OECD Health Statistics 2020*; OECD (2019), *Government at a Glance 2019*; Insee (2021), The national accounts.

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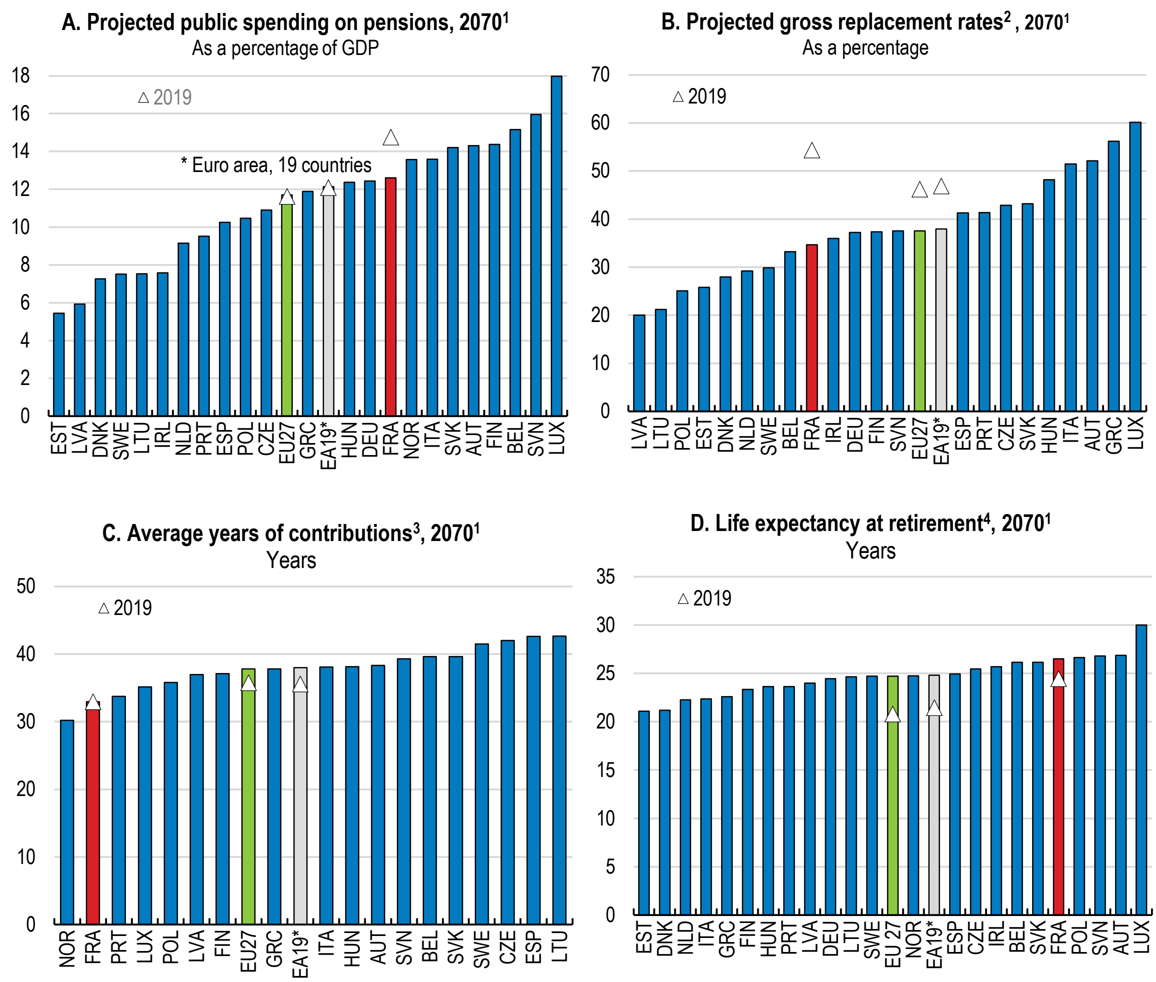
Improving the allocation of public spending to support more sustainable growth

A strategy to reduce public expenditures in France should include improving their efficiency, particularly those related to local governments and tax expenditures. Lowering the public sector wage bill, and reducing pension spending in relation to GDP by raising the retirement age and easing longer careers should also be a priority. This would make it possible to finance much needed investment, especially in digitalisation, skills and the environment (Table 1.6; EC, 2021c; Guillemette and Turner, 2021). At the same time, the reduction of public spending should be associated with higher incentives for greener investment (Table 1.6 and Chapter 2). This strategy would lead to lower tax rates in the medium run, notably on labour, increasing potential growth (Fournier and Johansson, 2016). This would allow to deepen the recent reforms of in-work benefits (*Prime d'Activité*) and personal income taxation, which have raised work incentives, but remain perfectible (Sicsic and Vermesh, 2021; Blanchard and Tirole, 2021).

The relatively low average effective retirement age implies high public spending on pensions and low labour participation rates among older workers, which adversely affect medium-term growth. Public pension spending is among the highest in the OECD area at about 14% of GDP (Figure 1.21). However, under the current legislation, public expenditures on pensions are set to remain broadly stable until 2040 and decline thereafter according to the projections from the European Commission (EC, 2021c). Indeed, several reforms until 2014 have increased the minimum affiliation period, progressively increased the statutory retirement age, raised incentives to delay retirement and indexed pension on prices (rather than wages) (Bellon, 2020; COR, 2021). Under the current rules, the financial sustainability of the pension system will be ensured by a rapid lowering of replacement rates (Figure 1.21), and a decline of the average pension compared to the average wage (EC, 2021c; COR, 2021). According to these projections, in 2070, projected public pension spending would be close to the euro-area average.

Figure 1.21. Public spending on pensions is set to decline alongside replacement rates



1. European Commission projections (2018).
2. Gross replacement rates are measured as the very first pension benefit relative to the last wage before retirement.
3. Average contributory period for new pensions. Contributory periods can increase for several reasons, such as, for example, rising statutory retirement ages that force employees or higher employment rates.
4. Life expectancy at average retirement age.
Source: European Commission (2021), "The 2021 Ageing Report: Economic and budgetary projections for the EU Member States (2019-2070)", Directorate-General for Economic and Financial Affairs.

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The pension system suffers from numerous weaknesses. The effective contributory period to the public pension system is among the lowest in the European Union, whereas the payment period is far longer than the European average (Figure 1.22). Weak employment rates and labour market weaknesses, as well as the low effective age of exit from the labour market, reduce contribution periods and pension rights (OECD, 2019a). Moreover, the complex structure of the pension system – 42 different pension regimes coexist – prevents workers from knowing what their pension entitlement will be. The coexistence of multiple schemes with different rules also undermines labour mobility, and contributes to the inequity of the pensions system, fostering mistrust.

Several measures would be desirable to raise the employment opportunities of older workers and promote an age-inclusive workforce. Despite a significant increase over the past decade, the employment rate of the 55-64 year old remained more than 18 percentage points lower than in Denmark, Germany or Finland in 2019. Increasing the statutory retirement age in line with life expectancy through smooth and predictable indexation mechanisms could accelerate the rise in the effective retirement age (OECD, 2017c). A revision of bonuses could also make gradual retirement more attractive (OECD, 2020a). In addition, it will be important to ensure the convergence of the parameters of the special pension regimes in the private sector that often allow for earlier retirement (COR, 2016). Such measures should go hand in hand with measures to raise the employability and training of older workers and address age-based discrimination (OECD, 2019f).

The political economy of a pension reform will be key for its success. To be socially acceptable and politically feasible, the reform will need to strike a balance between a partial recognition of acquired rights, to the extent that public finances can accommodate it, possible compensations of the aggregate impacts, along with mechanisms to support the population in the reform process (OECD, 2015). Building on the reduced number of branches and the 2017 reform of social dialogue, programmes to promote quality jobs for older workers could be designed and experimented with social partners at the sectoral level to be tailored to sector-specific working conditions and skill needs. Improving working conditions and easing access to part-time jobs and flexible work arrangements would be ways to give older workers greater choice and lengthen working lives. Finland, for example, has implemented flexible working hour schemes for older workers (OECD, 2020h), and the waste sector in France has developed a comprehensive framework to reduce health risks (Bellon, 2020). Similarly, targeted support for learning could be effective in increasing the labour market attachment or probability to re-enter employment of older workers (Van Hoof and Van den Hee, 2017). The Netherlands for instance has training vouchers available to individuals above 55; and Canada has a subsidy program targeting older workers aged 45-64.

The plan to move to a single, points-based pension system was a move in the right direction. The design of adequate contributions and solidarity mechanisms will be key to a successful move to a single pension system (Boulhol, 2019). A systematic reform such as that of 2019 will need to ensure a better visibility of future pension levels and to take into account differences in working conditions and their effects on health for older workers (Boulhol, 2019; Blanchard and Tirole, 2021). To avoid creating inequities between workers and retirees, it will also be necessary to review the rules for adjusting past earnings based on wages and adjust the other parameters to ensure the sustainability of the pension system. Such reform should also address the current shortcomings in family-related pension benefits. They are heterogeneous across pension schemes, and the third child top-up tends to benefit more men than women and affluent families (Vignon, 2018). Survivor pension schemes could also be reviewed to increase incentives to work and reduce their costs (OECD, 2020a).

Better regulating social expenditures

The government temporarily provided a welcome rise in social spending during the crisis but France's social expenditures require structural reform. In 2019, before the crisis, social expenditures represented 31% of GDP compared to the OECD average of close to 20% (OECD, 2020g). Moreover, it has grown at an annual rate of 2.7% over the last decade. The deviation from the OECD average is chiefly the result of the pension system (see above) and the recent growth in expenditure broadly reflects population ageing (Gouardo and Lenglart, 2019; DREES, 2021). However some cash benefits for care or assistance to individuals show scope for savings (Cour des Comptes, 2021d). Social expenditures, excluding pensions, amount to close to 40% of the difference in the total general government expenditures to GDP ratios between France and the Euro area average (Table 1.5).

Whether it is unemployment benefit and income support, housing assistance or family benefits, French social spending is high. Even though the benefits sharply reduce cash poverty, there is room for improvement (OECD, 2019a). The government's decisions to partially undo pensions index-linking in 2019 and 2020 and the reforms under way in respect of unemployment insurance are steps in this direction. The simplified automated scales set out as part of the Universal Income Guarantee (*Revenu Universel d'Activité*) would also be a move in the right direction by reducing potential tenants' access costs as well as management costs.

Additionally, housing policy instruments could also be reviewed as spending in this area is markedly higher than the European average (Table 1.5). In addition to measures to encourage a flexible rental market (see below), personal housing assistance could be targeted more narrowly at the poorest households (Cour des Comptes, 2021d). In order not to sustain inequalities between households with similar incomes depending on their access or not to social housing, setting rental supplements in relation to income, length of the tenancy and better adjusting social housing rent based on the perceived quality of the social dwelling is needed. This could also increase mobility within the social housing sector and between the social and private housing sectors (Trannoy and Wasmer, 2013).

Table 1.5. Composition of public spending by main component

2019[1,2]

	France	Allemagne	Euro Area[3]	OCDE[3]	France vs Euro Area (difference)ro	
	% of GDP	% of GDP	% of GDP	% of GDP	% points	Share in total difference (%)
Total public spending	**55.4**	**44.9**	**43.7**	**42.4**	**11.7**	**100**
Primary spending	53.9	44.1	42.7	40.7	11.2	96
Wage bill	12.2	7.8	10.4	10.3	1.8	15
Investment	3.7	2.5	3.3	3.5	0.4	3
Education[4]	4.7	4.1	4.1	4.4	0.6	5
Housing and collective equipment	1.1	0.4	0.5	0.5	0.5	5
Social expenditures	**31.0**	**25.9**	**22.4**	**19.8**	**8.6**	**74**
Pension	14.0	10.2	10.0	8.2	4.1	35
Health	8.5	8.2	5.7	5.6	2.8	24
Family	2.9	2.3	2.2	2.1	0.7	6
Active labour market policies	0.8	0.7	0.6	0.4	0.3	3
Unemployment	1.5	0.9	1.0	0.6	0.6	5
Housing	0.7	0.6	0.3	0.3	0.5	4

Note: 1. Or latest available year. 2. Numbers may not add to totals because of rounding, overlapping across selected spending categories and non-universal coverage of all spending categories.. 3. Non-weighted averages of available data. 4. Excluding pre-primary education.
Source: OECD (2021), OECD Economic Outlook 110 Database, OECD Social Expenditure Database (SOCX); OECD Education at a Glance 2021 Database and National accounts.

Containing local government spending

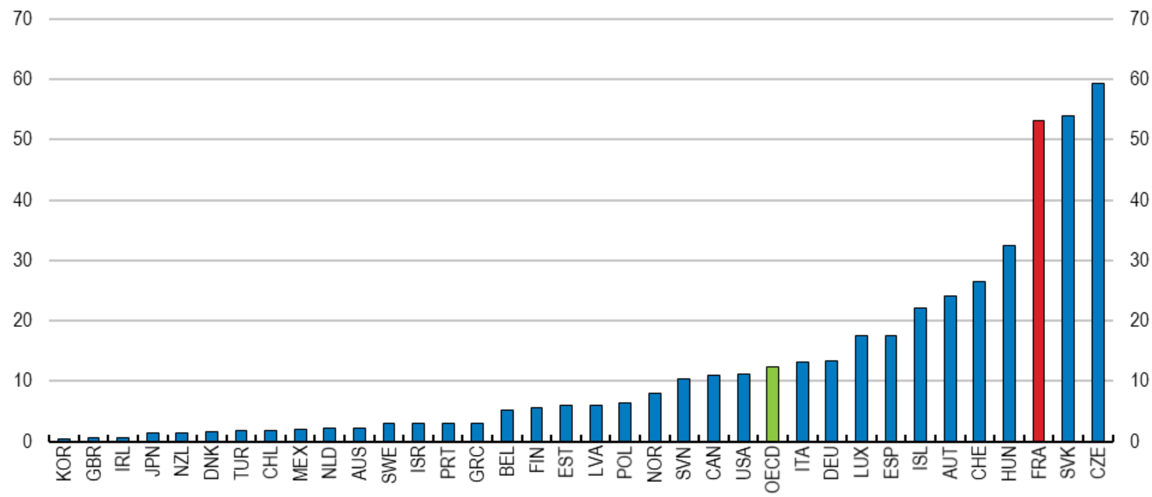
Simplifying the multiple layers of sub-central governments – known as the “mille-feuille” – could serve to make spending more efficient and, in due course, realise substantial savings. The 2014-15 territorial reforms reduced the number of regions in metropolitan France from 22 to 13 and increased the size of inter-municipal co-operation structures. They also created new governance bodies for large urban areas (*métropoles*). Detailed objectives were lacking however, and early indications suggest that cost savings in the short run have been limited since the merging of regional administrations were either partial or done based on the most attractive conditions. Additionally, the reforms did not fully streamline the allocation of responsibilities across different levels of local governments, suggesting significant room for efficiency gains in this area (Cour des comptes, 2017a). Additionally, the first assessments of the introduction of metropolitan areas (*métropoles*) and regions (*régions)* are unconvincing. They have so far not yet had the expected structural impact on the mutualisation of local capacities and transfers of responsibilities across administrative levels (Cour des comptes, 2019; 2020c).

Continuing efforts to streamline small municipalities would help achieve further efficiency gains. French municipalities are small in international comparison, and French metropolitan areas are among the most administratively fragmented in the OECD (Figure 1.22). Small municipalities make it more difficult to internalise spatial spillovers in terms of urban planning, environmental costs and public services provision. They also compound co-ordination problems by spreading expertise more thinly. Asymmetric arrangements, in which responsibilities for municipalities are differentiated based on population size or urban/rural criteria, could be further developed in that respect (Allain-Dupré, 2018). The differentiation of responsibilities depending on the category of inter-municipal cooperation structures is a step in that direction. Pilot experiments like the Danish “Free Municipality” programme would also be helpful to identify the asymmetric arrangements that result in the strongest benefits. Moreover, ensuring that regulations applying to subnational governments are proportional and tailored to them would help limit the effects of those regulations on public spending (Lambert and Boulard, 2018).

Intergovernmental transfers need to reflect local governments’ spending needs more accurately in order to contain public spending growth. The main central government transfer to the municipal sector (*dotation globale de fonctionnement*, DGF) is complicated, as it includes multiple layers, including several equalisation components that benefit nearly all municipalities. Moreover, the lump-sum component of the DGF tends to perpetuate past spending patterns that can lead to sizeable inequalities across jurisdictions (Cour des comptes, 2016). Giving cost-based approaches a stronger role by defining a basic set of collective goods and services for delivery by local governments would help better reflect actual spending needs of municipalities.

Figure 1.22. French municipalities are fragmented

Average number of municipalities per 100 000 inhabitants, 2016



Source: OECD (2021), OECD Cities statistics (database).

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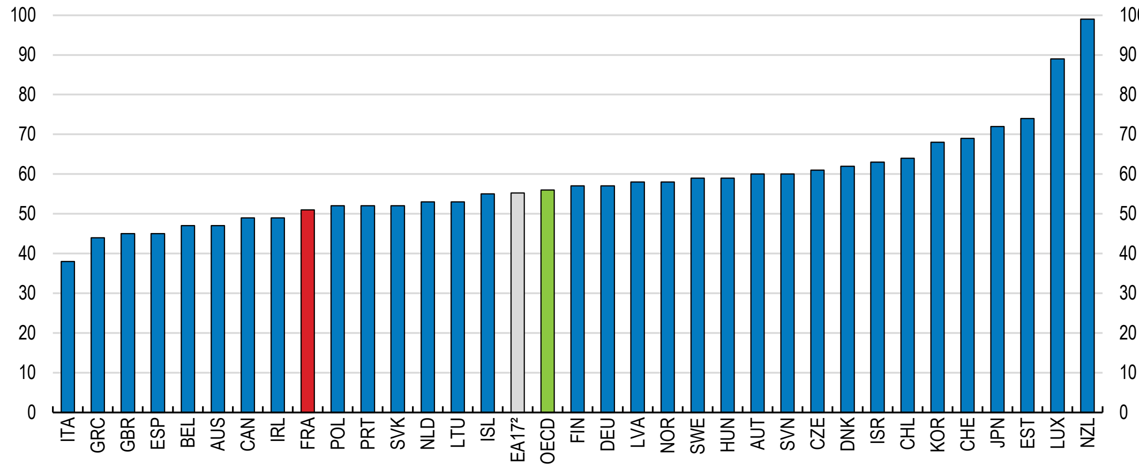
Reducing inefficient tax expenditures

Tax expenditures are high at about EUR 80 billion in 2019 (3.4% of GDP, excluding the CICE) and can be gradually streamlined to improve the effectiveness of the tax system and its redistributive effects. These tax expenditures relate to various areas and objectives such as the tax preferences in favour of the housing sector; reduced VAT rates and VAT exemptions; or exemptions from inheritance and gift taxes, which benefit the wealthiest households (OECD, 2019a). In the short term, the high rates of saving and the surplus saving accumulated by households during the crisis would justify the removal of tax breaks on saving flows. The VAT system is complicated by the use of many reduced rates on selected items and exemptions, leading to substantial VAT revenue shortfalls (Figure 1.23). For example, the reduced rates on housing maintenance, development and renovation work have a limited impact on employment in terms of revenue cost and tend to benefit the wealthiest households (CPO, 2015). Moreover, once the recovery has gained traction in these sectors, it would be reasonable to review the reduced rates on hotels and restaurants, which have largely benefitted the owners of the businesses concerned (Benzarti and Carloni, 2019), and the most affluent households. Broadening the tax bases will have to be accompanied by lower tax rates, particularly the progressivity of the tax wedge on low- and middle-income households, to strengthen social cohesion.

There is room to strengthen regular evaluations of tax expenditures (Cour des comptes, 2020a). Yet, the authorities are introducing new tax expenditures such as tax-free overtime work, which can have adverse effects on hiring and entail significant dead-weight costs (Cahuc and Carcillo, 2014). The benefits of tax expenditures should be systematically evaluated after a few years of implementation. Such reports should be made public and if some tax expenditures are deemed inefficient, the government should phase them out or explain why it wishes to maintain them.

Figure 1.23. VAT revenue shortfalls are large

VAT revenue ratio[1] (VRR), 2018



1. The VRR is an indicator of the loss of VAT revenue as a consequence of exemptions and reduced rates, fraud, evasion and tax planning. It measures the difference between the VAT revenue actually collected and what would theoretically be raised if VAT was applied at the standard rate to the entire potential tax base in a "pure" VAT regime and all revenue was collected.
2. Euro area member countries that are also members of the OECD (17 countries).
Source: OECD (2020), *Consumption Tax Trends 2018 – VAT/GST and Excise Rates, Trends and Policy Issues*, Consumption Tax Trends, OECD Publishing, Paris.

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Table 1.6. Illustrative fiscal impact of OECD-recommended reforms

Estimated change in the fiscal balance in the medium term, as a percentage of 2019 GDP

Cut further distorsive business taxes (*impôts de production*)	-0.5%
Remove tax breaks on household saving	0.2%
Strengthen environmental taxation	0.5%
Once the recovery is confirmed, remove the reduced VAT rate on hotels and restaurants	0.1%
Total tax measures	***0.3%***
A gradual increase in the effective retirement age to 64 in 2025	0.9%
Broad-based spending review	0.2%
Increase the efficiency of local public spending	0.2%
Focus housing supply support on high-density areas	0.1%
Increase support for the railway network and renewables (Fond chaleur)	-0.2%
Total spending cuts	***1.2%***
Effect on the fiscal balance	***1.5%***

Note: The estimated changes in the fiscal balance are static estimates that abstract from behavioural responses that could be induced from policy changes. These estimates are reported only for illustrative purposes. For the increase in the effective retirement age, the pension simulator from the Pensions Advisory Council (Conseil d'orientation des retraites, COR) is used (www.cor-retraites.fr/simulateur). The outcomes of the broad-based spending review are scaled using the proposals of the Action Publique 2022 Committee related to health care (improved balance of EUR 5 billion) and reform of central governement (improved balance of EUR 1 billion). The reforms of housing support would improve the balance by EUR 3 billion. The measures concerning local government - mutualisation of purchases of goods and services by public entities and local government reforms would improve the balance by EUR 4 billion. A 0.2% reduction in tax breaks on household saving could be achieved by removing the favourable tax treatment for housing investment and for the sale of immovable property (Council of Mandatory Contributions (CPO), 2018). For the fiscal benefits from removing reduced VAT rates, estimates available in the *Évaluation des voies et moyens Tome II – Dépenses fiscales* 2019 budget draft bill are used. The strengthening of environmental taxation takes into account a lowering of tax expenditures on energy – notably off-road diesel fuels and goods transport (EUR 3.5 billion) and an increase in the carbon tax (EUR 9.1 billion).-
Source: OECD calculations.

Table 1.7. Past OECD recommendations to boost the efficiency of public spending

Main OECD recommendations	Summary of actions taken since the 2019 Survey
Move towards a single pension system to make the system easier to understand, reduce inequalities and lower management costs. Then, gradually increase the minimum retirement age in line with life expectancy.	Discussions with stakeholders to move to a single pension system were held in 2018-19. However, no vote was held on the reform.
Reform public employee job-mobility rules, and reduce the number of civil servants through a targeted approach, redefining the duties of government, for example with the help of an external audit.	A 2019 law (Loi de transformation de la fonction publique) eased job-mobility between the public and private sectors and hirings on private-law contracts.
Simplify the tax system by reducing the use of exemptions and reduced rates that do not benefit the lowest earners, and reduce tax rates.	The French recovery plan lowered taxes on production in 2021.
Reduce registration fees, and increase taxes on immovable property.	No action taken. The repeal of the housing tax runs against an increase in taxes on immovable property.
Systematically review tax expenditures after some years of implementation and phase them out if not deemed helpful.	No action taken.
Continue to extend the investment selection framework in place in the health sector to other sectors. Strengthen the share of infrastructure maintenance spending in public investment.	Ex-evaluation has been integrated to the implementation of major investment plans, such as the 2020 plan (Plan d'Investissement d'Avenir
Take better account of environmental externalities in transport taxation and develop flanking measures for the most affected populations over the short term.	Since 2020, France has conducted an annual environmental audit (Rapport sur l'impact environnemental du budget de l'Etat, September 2020, referred to as the green budget "budget vert").
Merge welfare programmes and in-work benefits (prime d'activité), taking into account housing benefits and public housing in overall household resources.	The authorities are developing further analyses to implement a systemic reform of minimum income programmes (*Revenu Universel d'Activité*).

1.5. Reform plans for a steady, sustainable and inclusive recovery

Additional reforms are needed to sustain employment, productivity growth and household income. The key recommendations made in this *Survey* could generate a further 1.2% in GDP growth per capita GDP after 10 years (Box 1.5). The changes needed for a more sustainable, more inclusive and more digitalised economy (Chapter 2) require increasing investment, notably in training and education. The high level of corporate debt, the longer periods of unemployment and the disruption to the training and education system could weigh heavily on corporate investment capacity and productivity. However, the pandemic has also been an opportunity to trial new methods of working (home working, remote meetings), discover new, untapped sources of productivity (shorter travel times, streamlined procedures, advances in medical research) and to speed up investments in digitalisation (e-commerce, digital services) (Criscuolo et al., 2020).

Box 1.6. Potential impact on growth of the OECD-recommended reforms

The estimated impact of some of the key structural reforms proposed in this Survey is calculated using historical relationships between reforms and growth in OECD countries (Table 1.7). These estimates assume full and swift implementation of reforms.

Table 1.8. Potential impact of some reforms proposed in this *Survey* on GDP per capita after 10 years

	GDP per capita[1] %	Through employment (percentage points)	Through productivity (percentage points)
Labour market reforms			
– Greater effectiveness of activation policies	0.4	0.2	0.2
– Gradual increase in the effective retirement age to 64 by 2025	0.5	0.3	0.1
Tax and public spending measures			
– Higher digital investment, notably through additional public support for digital training (0.1% of GDP)[2]	0.3		0.3
Total (recommended reforms)	1.2	0.5	0.6

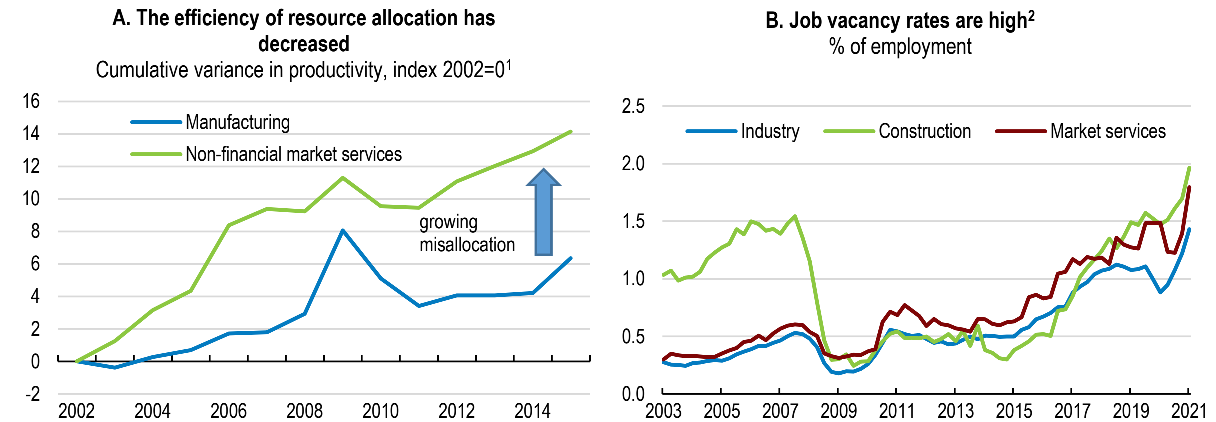
1. All figures are rounded to the nearest decimal point. The estimates assume full implementation of the reforms.
2. The output effects from a permanent increase of 0.1% of GDP in digital investment are scaled using the range of models used to estimate the long-term GDP gains from an increase in public investment reported in A. Mourougane, et al. (2016), "Can an increase in public investment sustainably lift economic growth?", OECD Economics Department Working Papers, No. 1351, OECD Publishing, Paris.
Source: OECD estimates based on based on B. Égert and P. Gal (2017), "The quantification of structural reforms in OECD countries: A new framework", OECD Journal: Economic Studies, Vol. 2016/1; Akgun, O., B. Cournède and J.-M. Fournier (2017), "The effects of the tax mix on inequality and growth", OECD Economics Department Working Papers, No. 1447, OECD Publishing, Paris.

Facilitating the reallocation of resources while preventing failures of viable businesses and facilitating corporate restructuring is necessay to make the most of these changes. This means supporting lifelong training and boosting innovation, particularly in the digital field, and competition on markets that are still protected, for example the retail sector and regulated professions. The recovery measures and the rate at which they develop will require great flexibility and fine-tuning to the economic and social situation. Indeed, at end-2020, the crisis, despite its strong sectoral nature, the crisis had widened activity gaps among businesses in the same sectors (Bureau et al., 2021).

Encouraging a better allocation of resources

Further structural reforms are needed to boost productivity gains and employment. The fall in productivity gains during the 2000s is, in part, the result of the increasingly inefficient allocation of jobs to more productive businesses (David et al., 2020). Some regulations have hindered firm entry and growth, as well as more efficient resource allocation. After 2008, the reallocation of labour and capital towards the most productive firms slowed markedly (Figure 1.24; OECD, 2019e; David et al., 2020; Libert, 2017). Though the 2018 Pacte law has sinced eased firm creation and growth (OECD, 2019e), job vacancies are at an unprecedented high level, especially in construction, despite the rise in the number of job seekers during the crisis (Figure 1.11).

Figure 1.24. Factor allocation could be improved



1. The figure shows the estimated coefficients of annual dummy variables in a regression of logarithmic variance in labour productivity within industries in France, and within country-industry pairs in a set of reference countries, taking the first year as reference (Desnoyers-James et al., 2019). The variance is measured as the ratio of the 9th to the 1st deciles of the distribution of business productivity. The equations are estimated separately for manufacturing and non-financial market services.

2. The job vacancy rate is the ratio of the number of declared job vacancies to the sum of the number of job vacancies and the number of jobs filled. It is calculated for businesses with 10 or more employees in France (metropolitan area and DOM excluding Mayotte).

Source: OECD (2019), "France: Productivity", *OECD Insights on Productivity and Business Dynamics*, February 2019; Desnoyers-James, I., S. Calligaris, and F. Calvino (2019), "DynEmp and MultiProd: Metadata", *OECD Science, Technology and Industry Working Papers*, OECD Publishing, Paris; DARES (2021), *Les emplois vacants au 2ème trimestre 2021*.

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Anticipating and improving insolvency procedures

Insolvency proceedings are expected to rise in commercial courts. The risks of insolvencies appear contained in the short term (Épaulard and Gache, 2021; Épaulard et al., 2021), but a catch-up from the low level of bankruptcies observed in 2020 could lead to a significant increase in cases. Some models assume a sharp rise in bankruptcies among SMEs compared to 2018 and 2019, for example as much as 25% in accommodation and catering as dedicated support measures are gradually withdrawn (Gourinchas et al., 2021; Guerini et al., 2020). Moreover, although credit supply and government guaranteed loans have been a crucial prop in maintaining production processes in 2020 and early 2021, the level of corporate debt could constrain future output potential and especially investment capacity. Business investment could be reduced – without any offset measures – by up to 2% in the medium term according to models by Demmou et al. (2021) and Hadjibeyli et al. (2021).

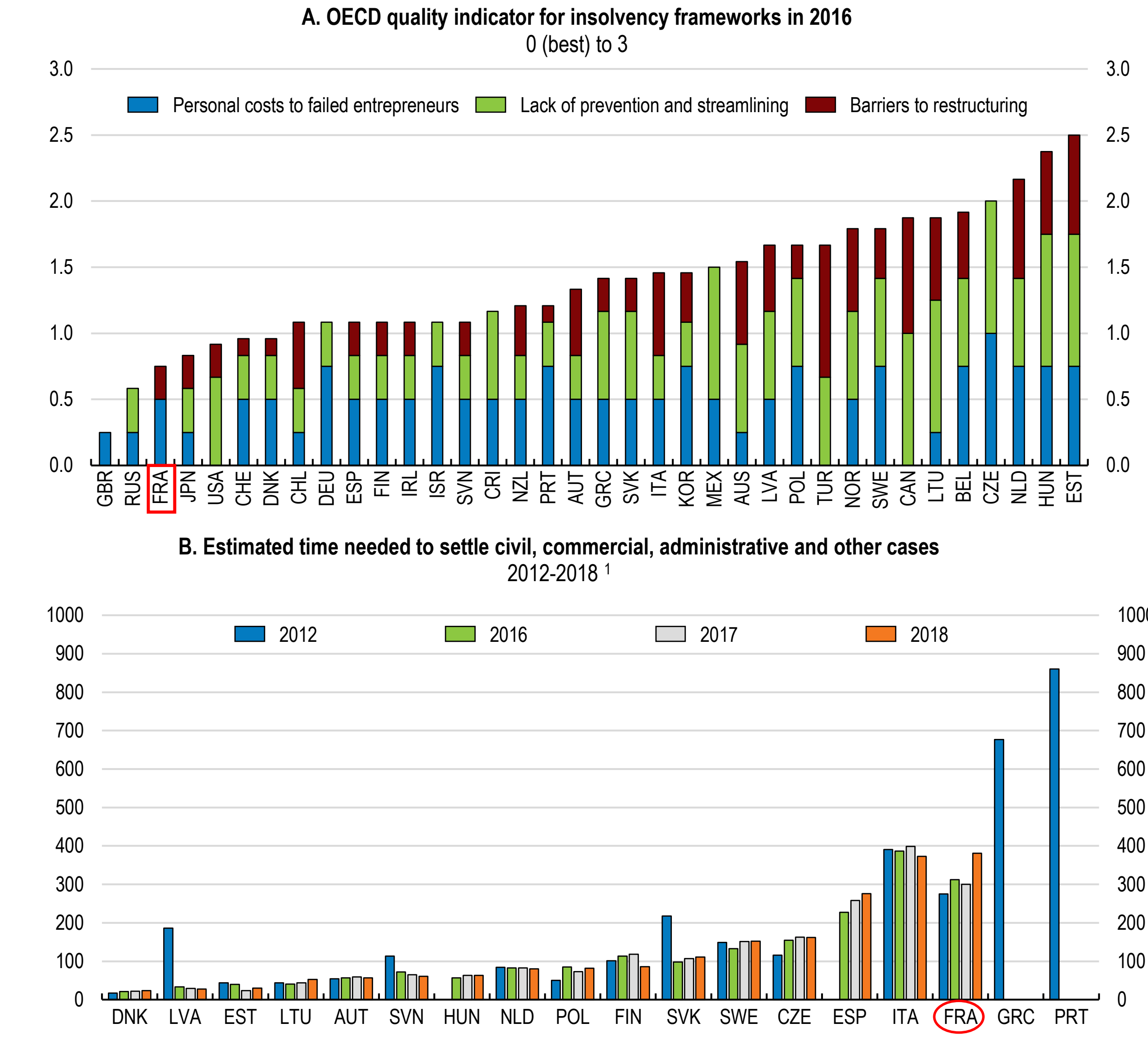
Effective insolvency law is crucial to absorb the coming stream of businesses in difficulties, enable the highest possible number of viable businesses to restructure successfully and contain the associated credit losses. For businesses whose financial situation has deteriorated too far, improving the balance sheet requires full debt restructuring in partnership with public and private creditors. Although French insolvency procedures appear to be well designed and were further improved under the PACTE Law (De Williencourt et al., 2018), they are lengthy in international comparison (Figure 1.25; EC, 2020; World Bank, 2019). In particular, the commercial courts are often very busy, and insolvency procedures are lengthy despite preventive safeguard measures. Indeed, take-up of preventive procedures is uneven, even though they considerably increase the survival chances of businesses by reducing the effects of stigma (Épaulard and Zapha, 2021; Zapha, 2020). The authorities have taken in May 2021 welcome measures to develop ad-hoc procedures to ease firm restructuring during the recovery, notably through selective financial support and simplified court-based procedures for SMEs (see below; MEFR, 2021).

Several approaches could improve further the effectiveness of commercial courts during the recovery and the risks of bankruptcies associated to the phasing out of unconditional business support. Establishing and promoting an enhanced regional structure for consultations with public and private stakeholders would make it possible to build a consensus on the financial situation of corporates in difficulty and to identify the prospects of recovery upstream of insolvency procedures (Husson, 2021). Such an approach would make it possible to distinguish which corporates can and cannot be restructured and allow for early identification of non-viable businesses and those that could deploy preventive procedures. This would speed up resolution of SME insolvency procedures. The increase in administrative capacity for out-of-court and court restructuring could be temporary in part. If this strategy and the approaches taken to boost equity (see above) prove insufficient, subsidising reductions in private debt could be envisaged, while paying attention that it remains a one off (Blanchard et al., 2020; Greenwood et al., 2020). Involving private stakeholders who have direct information on SMEs' circumstances would make it possible to triage viable businesses and those that will be liquidated by the banks and to prevent excessive numbers of businesses being wound down (Demmou et al., 2021; CNP, 2021).

Speeding-up insolvency proceedings and reducing their costs would also help. The government has introduced a temporary simplified court-based procedure for businesses with fewer than 20 employees to allow them to conduct debt-rescheduling negotiations with all their creditors (MEFR, 2021). Should those negotiations fail, the procedure will convert to the standard court-based reorganisation procedure. However, before the crisis, some procedures were very lengthy, and, in February 2021, close to two thirds of winding-up proceedings had been under way for more than two years. The commercial courts will need to be made more aware of the need to close winding-up proceedings within two years, where necessary using their powers to appoint an appropriate representative to monitor the proceedings under way (Ricol, 2021). Better cost-efficiency at all stages of reorganisation and winding-up proceedings could also be achieved by rethinking the scale of emoluments for court-appointed receivers and administrators (Plantin et al., 2013).

Finally, as in many other OECD countries, the French corporate tax system continues to favour debt over equity (Hanappi, 2018). The deductibility of corporation tax against interest rates makes debt financing more attractive. This debt bias can reach high levels in France (Hanappi, 2018; Figure 1.26).The reform of 2019 of the corporate income tax (CIT) and the progressive lowering of the standard CIT rate over 2018-22 are attenuating this bias without remedying it fully (OECD, 2019a; IMF, 2021). An allowance for corporate equity, which could be temporary (Demmou et al., 2021) or targeted at SMEs, would allow notional interest equivalent to the expected return on equity to be deducted from the corporate tax base. It would have to be designed so as to ensure both that multinationals do not leverage the system for profit-shifting strategies and that its fiscal costs are acceptable (OECD, 2020d).

Figure 1.25. Bankruptcy procedures are well designed but lengthy



1. Number of days taken by the competent court to come to a decision at first instance. This category includes all civil and commercial litigious and non-litigious cases, non-litigious land and business registry cases, other registry cases, other non-litigious cases, administrative law cases and other non-criminal cases.

Source: Adalet McGowan, M. and D. Andrews (2018), "Design of insolvency regimes across countries", *OECD Economics Department Working Papers*, No. 1504, OECD Publishing, Paris; EC (2020), EU Justice Scoreboard, European Commission.

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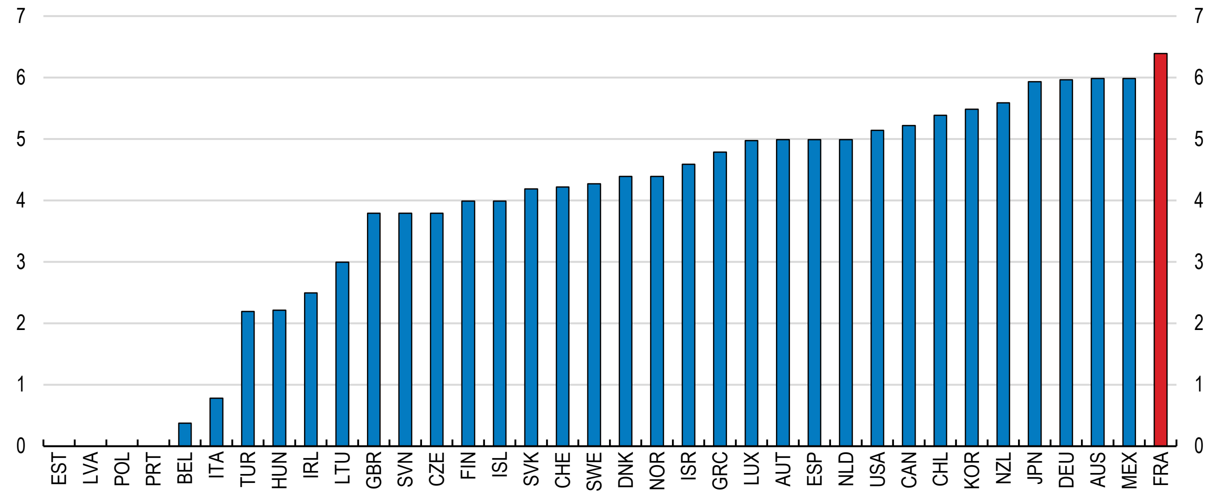
Figure 1.26. The tax bias towards debt financing remains significant

Estimate of the debt-equity bias at the corporate level, percentage points, 2020[1]



1. Difference between the estimated average effective tax rate for debt-based rather than equity-based project finance at the corporate level. The figures come from a scenario with 1% inflation and 3% real interest rate. They do not take into account taxes at the personal level.
Source: OECD Corporate Tax Statistics.

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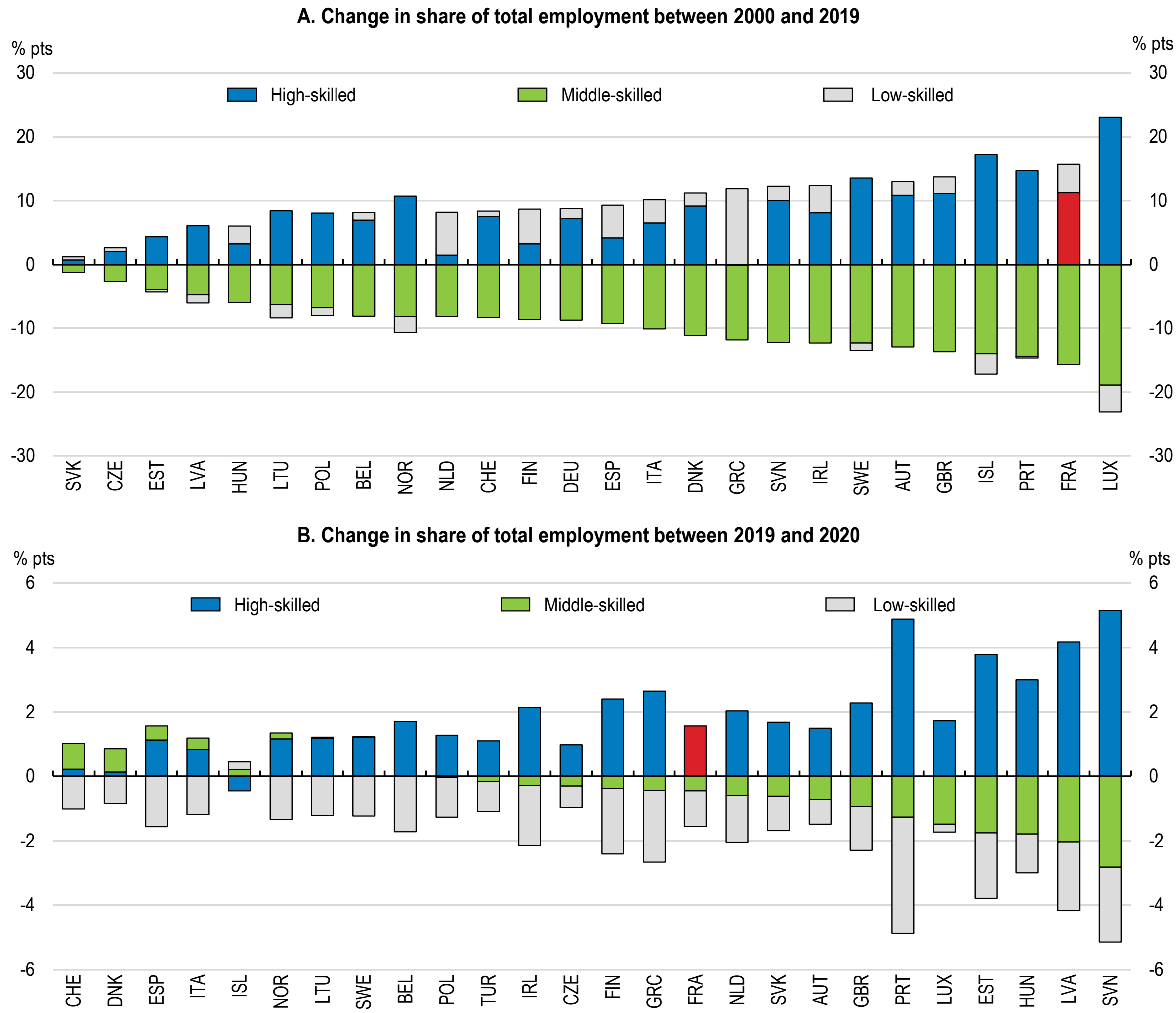
Boosting training and better connecting people to jobs

The economic crisis has accelerated needs to reallocate labour within and between sectors as well as the need to train and reskill workers. The demand for skilled workers has continued to rise (Figure 1.27), and needs for training and upskilling have been accentuated by the recovery. Some skills (such as stock management, sales, customer relations) were in high demand in sectors where jobs were most severely affected in 2020, but in very low demand in currently buoyant sectors (Coueffe, 2021). Numerous schemes were therefore established to support retraining, especially under the *France Relance* plan (Box 1.6). Moreover, for employees in more vulnerable jobs, the “Transitions Collectives” scheme offers support for retraining in sectors recruiting from the same job pool. Employees retain their wages and employment contracts throughout the duration of the training. This could go some way into bridging the skills gap. According to OECD estimates, businesses in France with average productivity levels could have increased those levels by 11% before the crisis if their skills mix had been similar to that of a business in the top 20%. This figure is significantly higher than the European average (Criscuolo et al., 2021; CNP, 2021).

The authorities must continue to boost learning and support for young people. In 2018, nearly 89 000 young people left the French education system with only the lower secondary qualification or no diploma at all (Depp, 2021b). They often spend long periods when they are not in education, employment or training; they are generally from the most disadvantaged backgrounds (Reist, 2020; Figure 1.28). Young people who are in work are often recruited for temporary jobs (Eurostat, 2021a). This increases the likelihood of skills obsolescence and depreciation, while France stands out as one of the few European countries where the qualifying age for the minimum income is higher than the age of majority. The government plans to expand the temporary “*Un jeune, une solution*” (One young person, one solution) plan and the strengthened youth guarantee (*Garantie Jeune*) through the “Contrat d’Engagement Jeune”(Box 1.6; COJ, 2021). Experience in OECD countries shows that a broad range of targeted interventions, ranging from specialist education programmes to mentoring, can benefit young people who are furthest from employment (Carcillo et al., 2015), and that effective activation policies can make provision for a monetary allowance. The allowance could be age-dependent and reserved for those who need it, such as those not in education or employment, and conditional on training participation to encourage training. Students would continue to be supported by the scholarship system subject to parents’ means-testing (OECD, 2013). A significant share of the funding of the new allowance should come from eliminating the advantages of including young adult children in their family tax units. At the same time, it will be necessary to simplify the many age thresholds that determine young people's eligibility to social programmes and benefits and complicate their economic and social integration (Verot and Dulin, 2017).

Figure 1.27. The polarisation of the labour market and the crisis weigh on the low-skilled



Note: The figure shows the percentage point change in employment shares by skill intensity between the fourth quarter of 2000 and the fourth quarter of 2019 (panel A) and between the fourth quarter of 2019 and the fourth quarter of 2020 (panel B). High-skilled occupations include jobs classified under the ISCO-88 major groups: legislators, senior officials, and managers, professionals, and technicians and associate professionals. Middle-skilled occupations include clerks, craft and related trades workers, and plant and machine operators and assemblers. Low-skilled occupations include service workers and shop and market sales workers, and elementary occupations.
Source: OECD calculations based on Eurostat (2021), Employment by occupation and economic activity (database).

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A successful reform and implementation of the *Contrat d'Engagement Jeune* will require enhanced coordination between social inclusion services. The new guarantee will have to link effectively with the preparatory learning schemes for apprenticeship dedicated to the most challenged young people and second-chance schools, as well as various local stakeholders responsible for providing support, training and the allocation of monetary assistance. To that end, a single local body for each local labour markets could be given responsibility to rule on admissions and the monitoring of young people covered by all existing aid mechanisms for example, by taking on board the experiences of the single windows for young people in Finland (Ohjaamo) as a starting point (OECD, 2019b).

Box 1.7. Measures announced for training and integration into the labour market

The "Un jeune, une solution" plan and its development

"Un jeune, une solution" initially provided 1.3 million "solutions" targeted at young people under 26 years of age for a total of EUR 6.5 billion announced in July 2020 (RF, 2020). The plan boosted assistance for recruiting young people, an emergency measure for firms that employ apprentices and young people recruited under the "emploi franc" scheme, as well as guidance and training for 200 000 young people for work in jobs and sectors of the future. It also includes support measures for 300 000 young people who are particularly vulnerable.

The plan was subsequently extended with measures costing EUR 9 billion. The emergency support for apprenticeships was extended until mid-2022. The bonus for recruiting young people was also extended until 31 May and adjusted in April to target salaries below 1.6 SMIC [minimum wage].

Initial assessments of the recruitment assistance scheme (Martin and Rathelot, 2021; Borel et al., 2021) confirm the positive role it has played in youth employment during the crisis, as it did during the crisis of 2008-2009 (Cahuc et al., 2019).

The strengthening of the *garantie jeune* and its foreseen reform

Established in 2013 and funded in part using European credits, the *garantie jeune* combines levelling up, enhanced support and a (conditional) income guarantee for under-26s. It was enhanced at European level in October 2020, and its eligibility widened in France in May 2021. The current *garantie jeune* is administered by local agencies and targets 200 000 young people.

The scheme would be extended beyond 2022 through the "Contrat d'Engagement Jeune". The aim is to improve the labour market integration of those under-26s, notably by providing some of them with a monthly allowance of up to EUR 500.

Training-related measures contained in the recovery plan

The *France Relance* plan dedicates around EUR 3 billion to professional training in 2021-22:

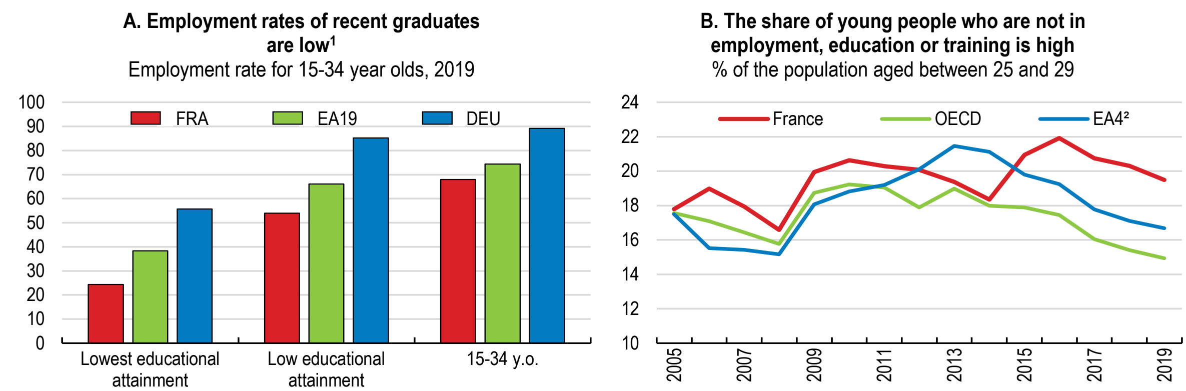
- A first envelope of close to EUR 1 billion aims to facilitate professional transitions and to adjust the labour supply to tomorrow's needs.
- A second EUR 1 billion envelope is devoted to a fund that would allow employees on short-time work schemes to develop their skills and employees whose jobs are under threat to retrain (FNE-training).
- A final EUR 1 billion envelope strengthens the means available to France Compétences and Pôle Emploi by EUR 750 million and EUR 250 million respectively. It finances work-study schemes, insurance and support for jobseekers.

Source: Cahuc, P., S. Carcillo and T. Le Barbanchon (2019), "The Effectiveness of Hiring Credits", *Review of Economic Studies*, 86(2), pp. 593-626; Martin, P. and R. Rathelot (2021), "Évaluation de l'aide à l'embauche des jeunes à partir des déclarations préalables à l'embauche", *Focus*, No. 60, CAE, 5 May 2021; Borel M., C.-L. Dubost, A.-S. Pichavant and C. Reist (2021), "Quels ont été les effets de l'aide à l'embauche des jeunes sur l'emploi des jeunes? Premières évaluations de l'AEJ", *DARES Analyses*, No. 22, May 2021; RF (2020), Plan #1JEUNE1SOLUTION press release, Government of the French Republic.

Raising access to the adult learning system and its ambitions is also needed. The 2018 reforms to professional training and apprenticeships resulted in considerable progress (OECD, 2019a). Nonetheless, the welcome increase of apprenticeships has been mostly concentrated among older and more-skilled workers (Box 1.7). Further support from the public employment services for the low skilled and SMEs will be necessary, as will the development of more comprehensive and accessible information on the quality of training and its value on the labour market. Indeed, under the 2018 reform, restricted training lists were discontinued, which eased eligibility and access but required quick implementation of the planned certification mechanisms after the crisis to improve information on training courses and their relevance.

Funding professional training for young people and people made vulnerable by the crisis will have to be extended, especially if labour market adjustments take longer or are weaker than projected. Like the recovery plan, the *plan d'investissement compétences* (skills investment plan – PIC) is due to end in 2022 (Box 1.6). The same is true of the support for retraining employees in struggling industries and their transition to new jobs. Following the PIC and the recent 2021-22 plan to address labour shortages (*Plan pour réduire les tensions de recrutement*), a new multiannual programme to invest in professional training and mobility would improve stakeholders' awareness. It should build on the forthcoming evaluation of the PIC. In addition, if the economic situation deteriorates again, further subsidised jobs in the commercial sector could be established for low-skilled workers. In that case, employment grants could help to improve the opportunities of the low-skilled and to maintain their skills (Card, Kluve and Weber, 2018; Cahuc, Carcillo and Le Barbanchon, 2019).

Figure 1.28. Young people struggle on the labour market



1. Employment rates are measured between one and three years after the end of training.
2. EA4 is the simple average for Germany, Spain, Italy and the Netherlands.
Source: Eurostat (2021), Detailed annual results of labour force surveys, Eurostat (database); OECD (2021), *Youth not in employment, education or training* (NEET) (indicator).

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The funds available to the public employment service should be increased (OECD, 2021e). The authorities have gradually modified the unemployment insurance reform planned in 2019 in order to tailor it to the changing economic conditions (Table 1.7). Reducing the pro-cyclical nature of support finance in favour of employment will be vital as the country emerges from the crisis. Pôle Emploi is responsible for the operational management of unemployment insurance, which covers *inter alia* the payment of unemployment benefit and job-seeker's support. Pôle Emploi itself is financed by the State and a fixed share of Unédic's past receipts, which will result in a substantial drop in Pôle Emploi's resources in 2022 (Unédic, 2021a). This had to be compensated through temporary funding from the recovery plan and the REACT EU funds. Providing Pôle Emploi with a budget allocation that is independent of unemployment insurance receipts would make it possible to remove the pro-cyclical component of its funding and to ensure it is better in line with economic conditions (Cahuc et al., 2021). For example, outside crisis periods, Unédic's participation in Pôle Emploi's budget could be made part of a multiannual framework and based on a financial trajectory of Pôle Emploi (Cour des Comptes, 2021a).

Box 1.8. Enhancing the effects of the 2018 apprenticeship reform

The 2018 law "Loi pour la liberté de choisir son avenir professionnel" entrusted responsibility for work-study programmes to a new operator – France Compétences – and the relevant branches of industry. Several measures have enhanced the attractiveness of the main apprenticeship scheme (apprentissage). One such measure is the simplification of contractual procedures and available assistance, the raising of the age limit (from 25 to 29) and length of the working week, the increased net income received by apprentices, higher allowances to help apprentices take their driving tests and the option to continue classroom training if the work contract is terminated.

Take-up of the apprentissage and an alternative scheme (contrats de professionalisation) rose from 5.6% and 8.6% in 2019 and 2020, despite the health crisis. Emergency aid enhanced the attractiveness of apprenticeships for employers (Box 1.6). Nevertheless, the rise in contracts has been concentrated among older, more skilled workers, in part as the age limit was increased to 29 years in 2018. Moreover, the take-up of work-study programmes among students in secondary and early tertiary education is relatively low in France compared to Germany, Austria or Denmark.

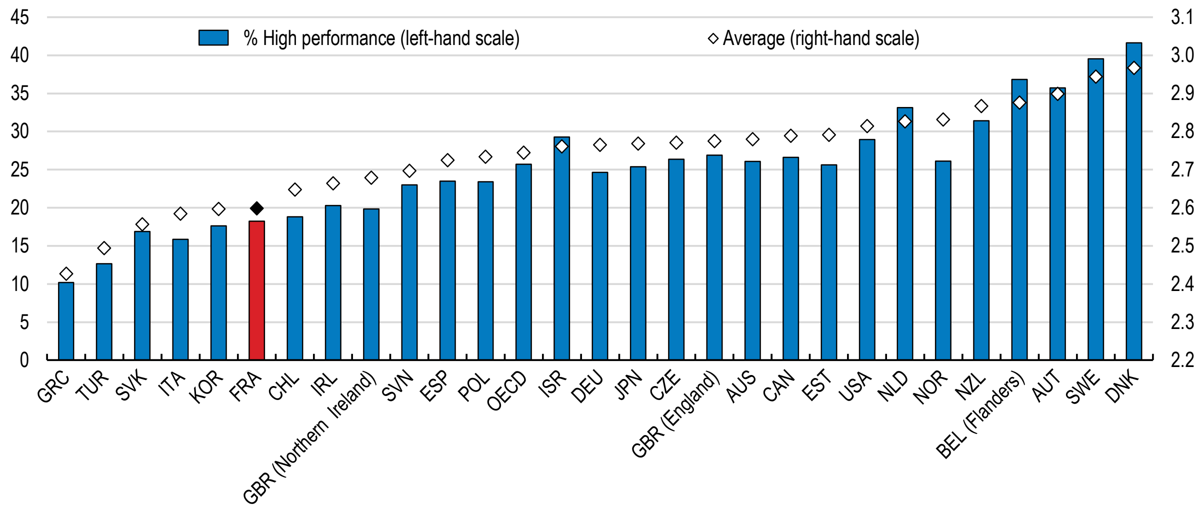
Further development of apprenticeships should include closer links between training and business, especially by encouraging longer contracts with more time spent in the workplace. The duration of apprenticeship contracts tends to be shorter than in Germany (20 months instead of 36). Additionally, the share of the time spent in the workplace during training is close to 62-75% in France for upper secondary vocational students, compared to close to 80% in Austria or Finland (OECD, 2020). In France, apprenticeships are offered by 4% of businesses compared to 20% in Germany. Strengthening the possibilities to switch between general and vocational education could also improve the attractiveness of vocational studies (OECD, 2020). In France, only 62% of students in vocational upper secondary education are registered in programmes that allow them to access tertiary education, while this proportion reaches 92% in Germany (OECD, 2020).

Source: OECD (2020), Education at a Glance 2020, OECD publishing, Paris.

Work-based training and human resources management practices must also be improved. The better the quality of management, the greater the resilience of value added and employment in the face of recessions (Cette et al., 2020). The current changes that are driven by the lockdown measures associated with the epidemic will require profound shifts in management methods (remote working, delegation). Surveys of management quality and organisational practices within industry show that France is significantly behind in adopting successful organisational delegation practices (Figure 1.29; Eurofound and Cedefop, 2020). These shortcomings could have consequences for the allocation of resources, the ability to find appropriate staff, the adoption of new technologies and the development of skills. It should be noted that, during 2020-21, French businesses increasingly viewed remote working as a source of productivity losses (Insee, 2021c).

Figure 1.29. Management practices are still formal

Percentage of jobs with a high level of high-performance work practices (HPWPs) and an average HPWP score[1]



1. The figure shows the average value of the HPWP indicator and the percentage of individuals in a job below the 75th centile in the various distributions of HPWPs sampled. HPWPs include certain aspects of the organisation of work, including teamwork, autonomy, prioritisation, mentoring, job rotation and the implementation of new learning, as well as management practices – including employee participation, pay incentive schemes, training practices and flexibility of working hours.
Source: *Survey of Adult Skills* (PIAAC) (2012, 2015).

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Active labour market policies should be targeted more at small and medium-sized enterprises. According to some opinion polls, a majority of business managers have little trust in Pôle Emploi, most frequently because of bad experience in the past (Cannevet and Kennel, 2020). However, those who take up the services offered to businesses are satisfied overall, especially large firms (Cannevet and Kennel, 2020; Cour des comptes, 2020b). The tools introduced, especially those that enable direct searches of online profiles appear to significantly reduce the costs of looking for candidates, and lead to job offers (Algan et al., 2020). These services should be tailored better to the smallest businesses (Cour des comptes, 2020b), and the distribution of information to businesses should be automated through e-mails setting out the services provided by Pôle Emploi's 5 500 specialist advisers. More ambitiously, the establishment of local one-stop shops for businesses combining training, recruitment and human resources services would provide better guidance to businesses in search of information and support (France Stratégie, 2021a). The strengthened collaboration between Pôle Emploi and the agency in charge of handicaped workers (Cap emploi) over 2021-22 could be a starting point in this direction.

The structural effects of recent labour market reforms should be carefully evaluated after the crisis, when the reform of lifelong learning is fully implemented (see above). The 2017 reforms promoted a more flexible labour market, through lower uncertainty about separation costs and the development of firm-level bargaining (OECD, 2019e; Carcillo et al., 2019). A significant increase of in-work benefits (Prime d'Activité) in 2018-19 was also associated with a lowering of labour costs focused on low-wage workers. However, short-term contracts remain high and self-employment has increased. In 2021, as recommended by the OECD, the authorities have reformed the unemployment insurance system so that it does not encourage recurrent short-term employment periods and unemployment spells. They are also planning to increase the relative cost of short-term hiring in 2022 (Table 1.9).

Table 1.9. Past OECD recommendations for a more inclusive and resilient labour market

Main OECD recommendations	Summary of actions taken since the 2019 *Survey*
Focus employer social security contribution exemptions mainly on low wages.	The 2019 reform of the competitiveness tax credit focused the associated cut of social contributions on low wages.
Strengthen work-study programmes in vocational secondary schools, and programmes for social and workplace integration for economically inactive young people.	In 2020-21, the "Un jeune, une solution" plan established financial incentives for work-study programmes and additional support measures for young people. The government plans to extend a number of measures through the "Contrat d'engagement jeune".
Ensure access to transparent information and effective monitoring of the quality of lifelong learning programmes through additional evaluations and counselling.	The 2018 reform of lifelong foresaw the implementation of certification mechanisms, but it has been delayed by the crisis.
Restrict the possibility of receiving unemployment benefits during repeated periods of temporary employment and the reloading of rights over short employment spells.	The minimum eligibility requirements for receiving and reloading rights to unemployment benefits were tightened in November 2019. The eligibility criteria will reach six months if the improvement in the labour market gains traction. A new method of calculating unemployment benefits that takes account of periods out of work entered into force in October 2021.
Modulate labour costs to reduce the excessive use of short-term contracts.	A modulation of employers' unemployment insurance contributions is due to enter into force in mid-2022 in some sectors, based on a reference period that started in July 2021..

Stimulating innovation and business digitalisation

Developing innovation and the availability of digital technologies will be vital to stimulate productivity when the crisis is over. France lags behind in R&D investment and availability of digital technologies compared to the top-ranking OECD countries.

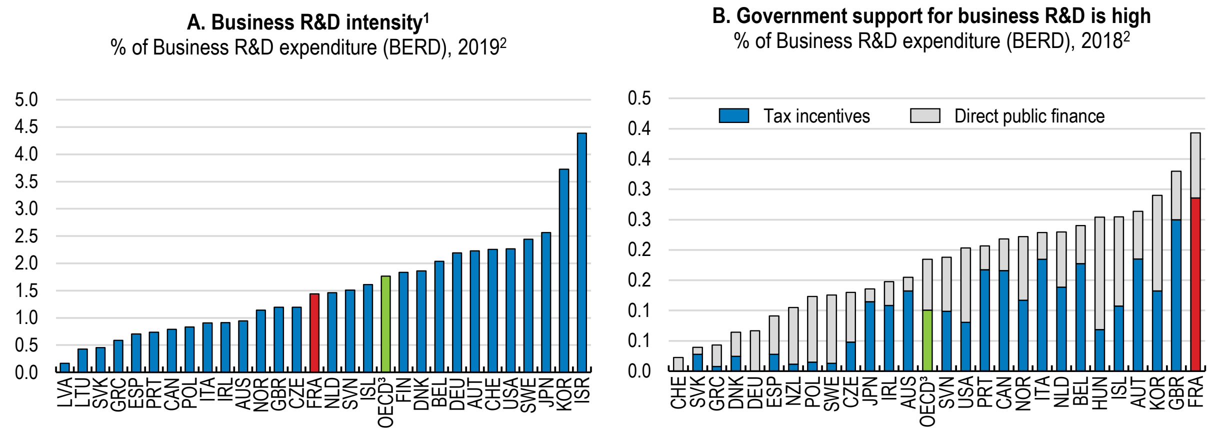
Strengthening R&D and innovation

France has a high rate of support for business R&D relative to countries with a similar business R&D-to-GDP ratio. In 2018, its support was the highest in the OECD (Figure 1.30). Nonetheless, business R&D expenditure is lower than the OECD average (Figure 1.30). The same is true for innovation, especially among SMEs, the quality of scientific papers and cooperation between science and industry (OECD, 2021f). This reflects, in part, the sectoral composition of the French economy, where the high- and especially the medium-high technology sectors are under-represented (OECD, 2021g).

Support for R&D mostly takes place through two tax instruments: a volume-based tax credit and social security contribution exemptions targeted at young and innovative firms, while there are also numerous schemes offering direct assistance and possible income tax reductions on income associated with intellectual property (OECD, 2021h). Moreover, a specific investment fund for supporting radical technological innovation, the Innovation and Industry Fund (Fonds pour l'Innovation et l'Industrie, FII), was created in 2018. In parallel, a new Innovation Council was set up in 2018 to provide guidance on innovation policies, including a review of existing measures with an objective of simplification.

Despite this significant progress, numerous measures could improve innovation support. Young and innovative firms enjoy good access to bank financing and a rapidly increasing venture capital market (Banque de France, 2021d). However, the effects of the 2008/2009 crisis show that innovation expenditure and intangible assets could suffer from growing financial constraints during the recovery (Aghion et al., 2012). SMEs account for a low share of innovation and innovation finance (Figure 1.31). The time taken to recover the sums committed under R&D tax credit (*credit d'impôt recherche*) are long for small, young businesses (Kallenbach et al., 2018), and the amounts allocated remain highly focused on large businesses, whereas the effects on innovation in large businesses have not been documented (CNEPI, 2021; Bach et al., 2021). Efforts should be targeted more at young SMEs, which tend to be more innovative. Indeed, OECD findings show that the effect of fiscal assistance mechanisms for R&D is generally stronger in SMEs than in large businesses (OECD, 2020c).

Figure 1.30. Business investment has stagnated, despite generous R&D support



1. R&D investment, excluding real estate activities, public administration and defence, compulsory social security and education, human health and social work activities, and activities of households as employers.
2. Or latest available year.
3. Unweighted average across 30 countries with available data.
Source: OECD (2021), R&D Tax Incentives Database; OECD (2021), Main Science and Technology Indicators Database.

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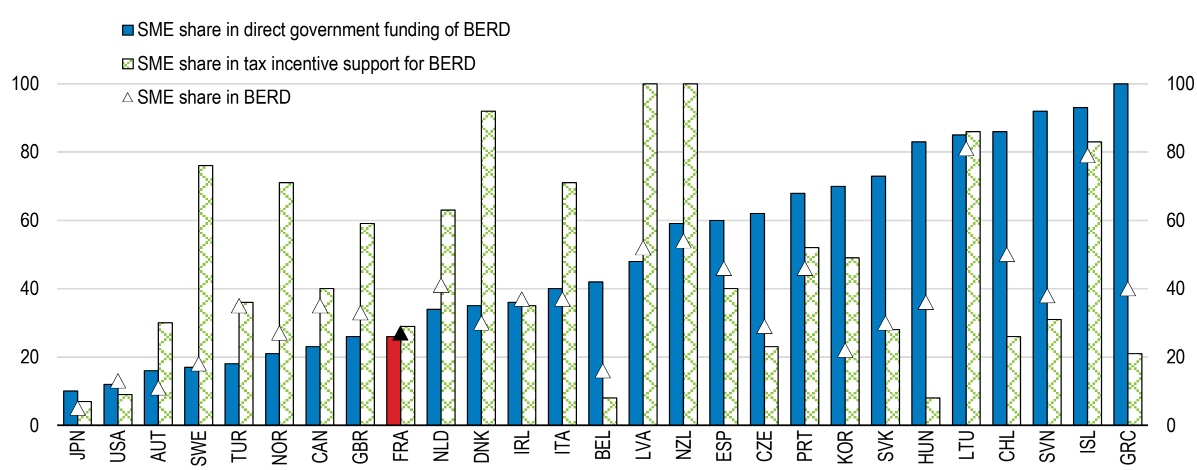
Basic research and public-private links are also crucial to the innovation process. The public R&D budget credits have been on a downward trend since 2008, and a targeted rise in the finance allocated to public research should go hand in hand with reforms to increase universities' autonomy over their human resources (OECD, 2019a). Additionally, the share of competitive public funding for research appears low in international comparison to the other OECD countries, focusing on competitive processes in order to allocate additional finance would be beneficial. The law on research planning 2021-2030 and the fourth Investing for the Future Programme (PIA4, 2021-27) provide for work in this area by raising an annual public research effort of EUR 6 billion (0.2% of 2019 GDP). Work on links between research and industry should also be continued by giving wide circulation to toolboxes for public/private partnership agreements and identifying the major centres of expertise (Cour des comptes, 2021b).

Figure 1.31. The take-up by SMEs of R&D support is low

% of public support for R&D (% of business R&D expenditure) by policy type, 2018



Note: International comparability may be limited, e.g. due to differences in SME definitions for business R&D and R&D tax relief reporting purposes. SME figures refer to enterprises with 1-249 employees (i.e. excluding firms with zero employees).
Source: OECD (2021), OECD R&D Tax Incentive Indicators (http://oe.cd/rdtax) and OECD (2021), Research and Development Statistics (database).

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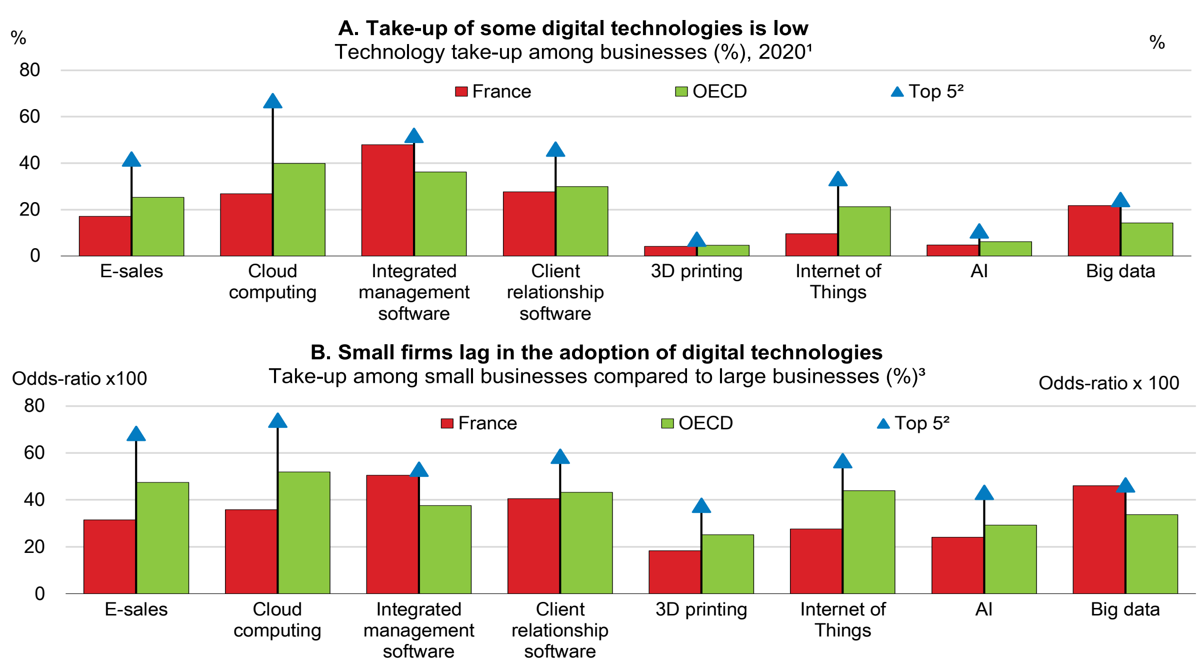
Improving the diffusion of digital technologies

Boosting the adoption of digital technologies would make for significant productivity gains. The take-up of some technologies is low among French businesses, in particular in service sectors. Take-up is also targeted more on large businesses in France than in most OECD countries (Figure 1.32; Boudrot, 2021; EIB, 2021). France is thus one of the OECD countries where business productivity has most to gain from the adoption of digital technologies (Gal et al., 2019; Cette et al., 2020). Wider diffusion of these technologies is also likely to have beneficial consequences for French exports (Aghion et al., 2020).

In small businesses, lack of training among managers and employees, and poor knowledge of support mechanisms act as a barrier to the take-up of digital technologies. The recovery and resilience plan, which covers investments from the recovery plan that would be financed through the European Recovery and Resilience Facility, foresees EUR 10 billion in assistance for digitalisation, and the focus will be on expenditure to support digital technologies (Box 2). The take-up of training in these technologies among business leaders and employees is too low for it to be possible to optimise production processes (Figure 1.33). Feedback shows that the most effective tools for promoting robotic and digital solutions combine financial support and technical follow-up, as provided by the platform *France Num* launched in 2018 (Faquet and Malardé, 2020). This could encourage take-up of digital innovation as experience in Germany, Finland and Italy has shown (OECD, 2021i).

The rapid rise in online sales also requires adjustments to be made. Online sales, measured by transactions using bank cards, leapt by more than 30% in the year to spring 2021 (Faquet and Malardé, 2021). In some markets, digital technology lowers barriers to entry and allows small enterprises to access bigger markets. However, improving fairness with regard to taxation, consumer protection and competition across the different methods of trading must be a priority. Measures to provide training, leadership and support in setting up local platforms providing shared logistics could enable independent traders and productive companies to develop their businesses online (Deketelaere-Hanna et al., 2021a).

Figure 1.32. The diffusion of digital technologies is uneven



1. Or latest year available.
2. Average of the five countries where take-up rates are highest (A) or availability is greatest (B).
3. Small businesses have between 10 and 50 employees, and large businesses have more than 250 employees.
Source: OECD calculations using OECD (2021) ICT Access and Use by Businesses (database).

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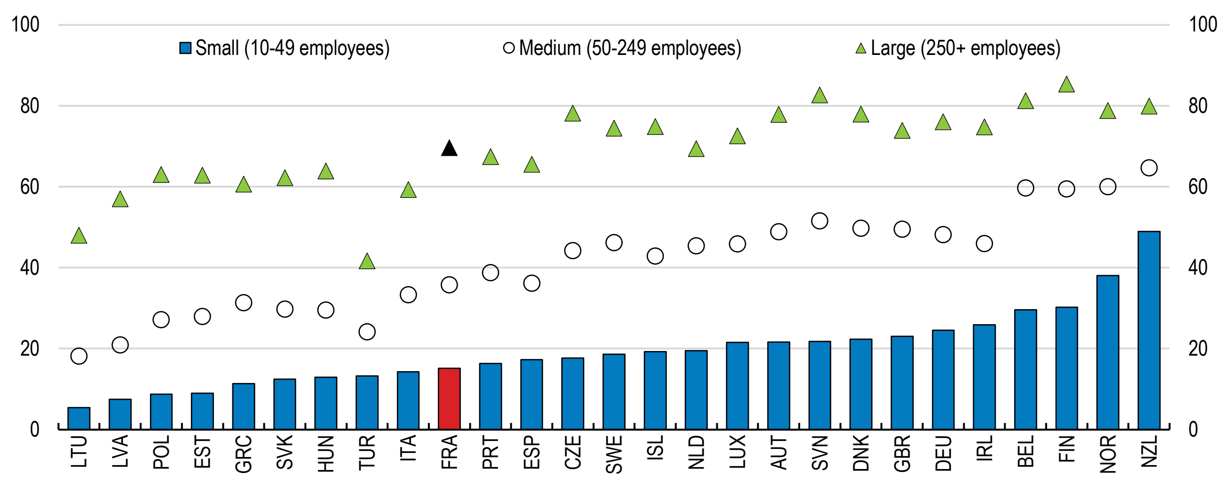
The roll-out of efficient telecommunications networks must continue. The roll-out of broadband had a positive impact on productivity gains and imports by businesses in France at the beginning of the 2000s (Malgouyres et al., 2019), and the pricing of telecommunications services is moderate in international comparison (OECD 2021f). The superfast broadband plan for France (Plan France Très Haut Débit) with an envelope of EUR 3.3 billion for 2013-22 and the *New Deal Mobile* of 2018 have led to rapid progress, but fixed superfast broadband coverage remains uneven. Nationally, close to 58% of locations are eligible for superfast services, of which 93% are in highly populated areas and 43% in small towns and rural areas (ARCEP, 2021). The recovery plan provided a welcome scale-up in funding to EUR 0.6 billion. However, if the objectives of the superfast plan are to be attained, i.e. total coverage down to the subscriber by 2025, the work involved in the roll-out is significant, with 16.5 million locations yet to be connected.

Growing digitalisation of the economy also prompts the need for new regulations. The economic power of some digital platforms has become considerable, and, in the bulk of OECD countries, growing digitalisation is associated with a rise in profit ratios for the largest businesses (McMahon et al., 2021). More transparency must also be imposed on the major digital firms by opening up application programming interfaces and involving citizens and experts in testing and controlling algorithms in order to encourage new entrants and innovation (Bourreau and Perrot, 2020).

Figure 1.33. The take-up of digital training remains low

% of businesses offering ICT training to their employees, by size, 2018



Note: Businesses with at least 10 employees offering training to develop their employees' ICT-related skills over the past 12 months. Data for Portugal refer to 2017, for New Zealand to 2016, and for Iceland to 2014.
Source: OECD (2020), ICT Access and Usage by Businesses (database) and OECD (2020), OECD Telecommunications and Internet Statistics (database).

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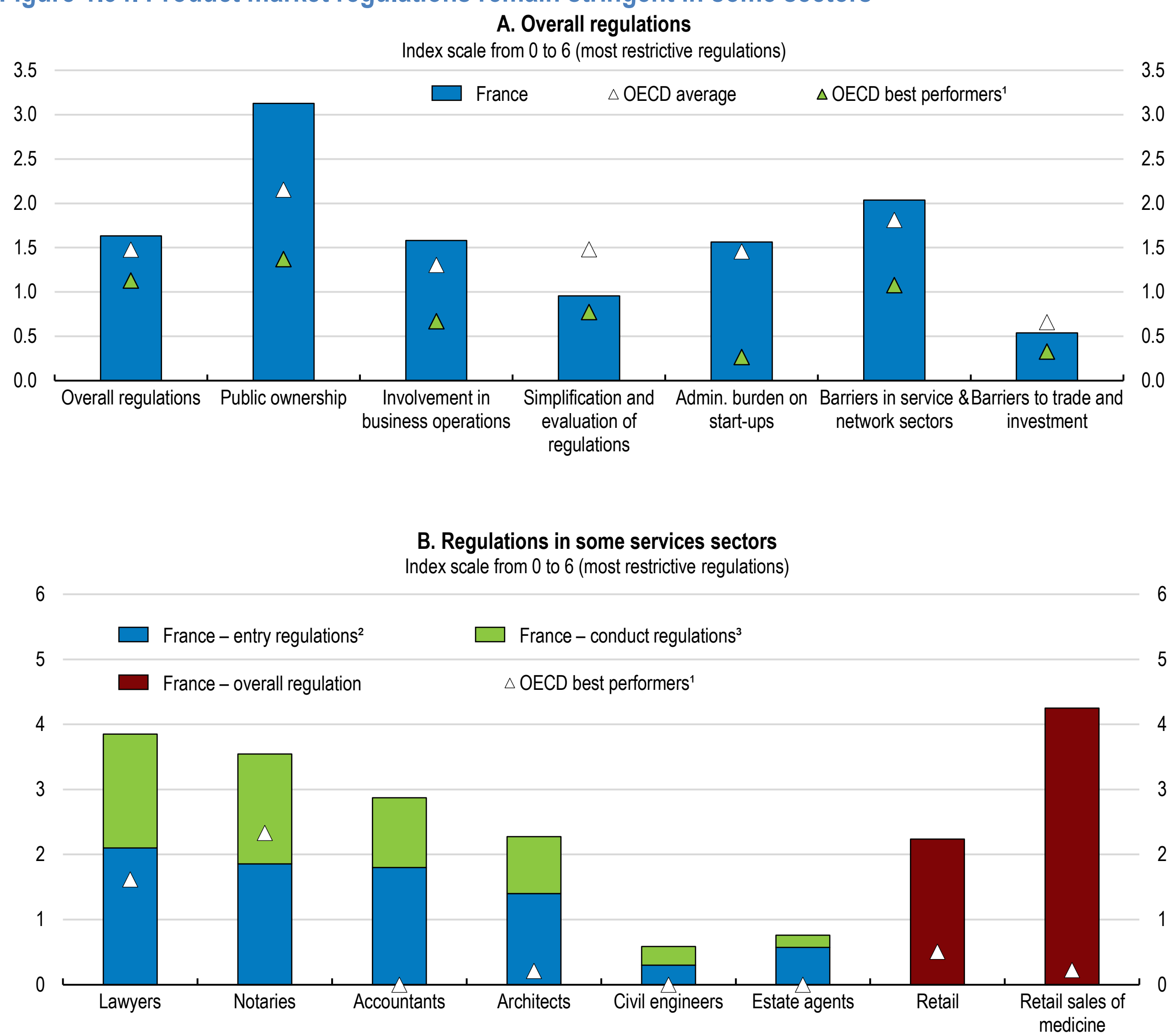
Increasing business performance and competition in services

Additional reforms to the markets for goods and services will encourage competitiveness and long-term growth. Some services sectors are partly sheltered from competition, and business regulations remain complex. Regulations on start-ups and services sectors that hinder the entry of new firms, competition and productivity are more restrictive than in many other OECD countries (Figure 1.34). At the same time, entrepreneurial activity is lower than in many OECD countries, especially among young people and in the services sector (OECD, 2019c; Gilles et al., 2020; Bauer et al., 2020), despite significant progress (Gourdon, 2021). As a result, new entrants during the 2000s were smaller and their capacity for growth lower than the average for OECD countries (OECD, 2020d).

Easing unduly restrictive regulations would stimulate competition and innovation. As foreseen by a 2019 law (loi Pacte), an electronic Single Window is set to replace the six current networks of business formalities centres that are used for firm creation by January 2022 and a single general register will centralise and publish, information about businesses online (Comité Impacte, 2021). Nonetheless, multiple regulatory and tax thresholds may still be a barrier to firm growth, as small firms may shy away from growing beyond them. Studies estimate the cost of such regulations at between 0.3% and 4% of GDP (Garicano, Lelarge and Van Reenen, 2016; Gourio and Roys, 2014), depending on the degree of downward wage rigidity, although older research suggests only a small impact on the firm-size distribution (Ceci-Renaud and Chevalier, 2011). Despite the adoption of significant recent measures to smooth some of these thresholds included in a 2019 Law (loi Pacte), the new regulatory environment has tended to concentrate them on 11 and 50 employees, and the 2017 labour-law orders introduced differentiated treatment of industrial agreements based on firm size.

Figure 1.34. Product market regulations remain stringent in some sectors



1. The figure for "OECD best performers" is the average of the five OECD countries with the least distortive regulations.
2. Entry regulation refers to the regulation of new entrants to the profession.
3. Conduct regulation refers to the regulation of the conduct of existing professionals.
Source: OECD (2019), Product Market Regulation indicators.

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Making taxes on production more conducive to business productivity gains should remain a priority. In a welcome move, the recovery plan cut taxes on production significantly. Moreover, the government continued to reduce the corporate income tax rates from 33% in 2018 to 25% in 2022. However, some tax bases continue to be particularly distortive (Martin and Trannoy, 2019; Martin and Paris, 2020). For example, the corporate social solidarity contribution (*contribution sociale de solidarité des sociétés* – C3S) is levied on turnover, regardless of how the business performs, and increases the fragility of companies in times of crisis. Eliminating some tax expenditures, including in the short term, household saving incentives, and, once the recovery has gained further ground, reduced VAT rates, would give room to cut taxes on production, promoting a more efficient tax system (OECD, 2019a).

As in most OECD countries, many professional services are subject to a raft of regulations. Although the regulations in force would appear more conducive to trade in most services sectors, the same cannot be said of professional services (OECD, 2021j). Where notary, architectural, accountancy and legal services are concerned, barriers to entry and controls on practice in France remained among the highest in the OECD, suggesting that it should be possible to reach a better balance between quality control, integrity and competition. For example, in architecture services, the majority of shares in an architectural firm must be owned by licensed architects, while the regulatory framework imposes licensed auditors to manage auditing firms (OECD, 2021j).

More generally, a further opening of the capital of selected professions would ease new entry and allow economies of scale and scope. For example, France stands out as the country with the most restrictive regulations on retail sales of medicines (Autorité de la Concurrence, 2016). Pharmacies continue to retain a monopoly on the sale of basic drugs and are subject to strict restrictions on ownership and size, capital, distribution chains and online sales.

Table 1.10.Past OECD recommendations to stimulate innovation and business performance

Main OECD recommendations	Summary of actions taken since the 2019 *Survey*
Task an independent institution to conduct a thorough review of all existing and proposed regulations affecting firms.	The 2019 PACTE law simplified starting a business, merged employment thresholds for SMEs and improved insolvency procedures. In 2019, the Law on Mobility (*loi d'orientation des mobilités*) lowered some of the regulatory barriers in the vehicle parts sector and driving schools. However, the time allowed for sales was reduced in 2019.
Continue to increase universities' autonomy over their programmes and human resource policies, while taking into account their public service function.	No action taken.
Continue to increase the budget of the National Research Agency.	The law on research planning 2021-2030 provides for an increase in the budget of the National Research Agency.

Ensuring an inclusive recovery

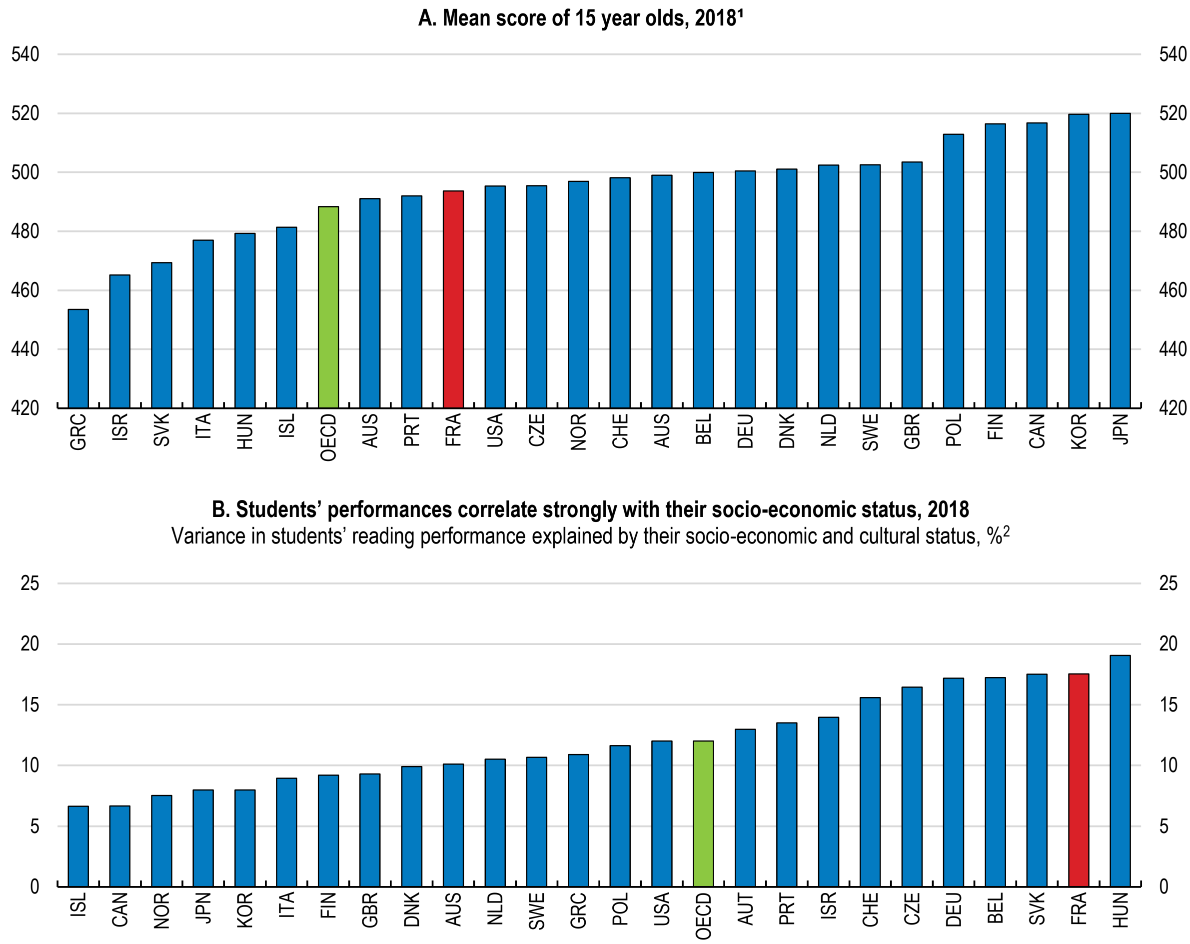
The coronavirus health crisis has had and will have very significant economic and social consequences. Although the government has introduced important measures to attenuate the social impacts of the crisis, it may still result in increased poverty (France Stratégie, 2021b) and more unequal opportunities. Measures to improve the outlook for employment and productivity should be supplemented by specific measures to ensure that all students can be supported on their learning journeys and that those living in the most vulnerable areas are not further marginalised.

Improving initial education

The labour market is continuing to shift towards higher-skilled employment (Figure 1.27). Thus, in order to sustain growth, it is becoming increasingly important to adjust and improve skills, starting with initial education. In international comparison, the quality of the education system appears average compared to the level of public spending on education (Blanchard and Tirole, 2021; Table 1.5). In PISA 2018, as in

2015, students in France had slightly above-average performance in reading, mathematics and science, but equity indicators were among the least favourable of OECD countries (OECD, 2020e). Students' skills correlated strongly with their socio-economic and cultural status (Figure 1.35). Additionally, France closed its schools comparatively shortly, providing good continuity of education in international comparison, while it took steps to address and assess the learning gaps associated with school closures (OECD, 2021k; OECD, 2021l). Annual national evaluations do not show a drop in average learning outcomes at the elementary level between January 2020 and 2021 (Depp, 2021a). However, problems were more frequently encountered by students from low-income backgrounds due to the lack of equipment needed or to their parents' inability to support them during the first lockdown in 2020 (Insee, 2020a).

Figure 1.35. The school system perpetuates significant disparities



1. Average score in reading, mathematics and science.
2. Variance in reading performance explained by socio-economic context as measured by the PISA index of economic, social and cultural status.
Source: OECD (2019), OECD Programme for International Student Assessment (PISA).

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Disparities between socio-professional categories and regions become embedded at a very early age. While the social system and public assistance provide significant childcare, only 30% of children from disadvantaged backgrounds attend "formal" childcare, whether crèches, day care or childminders, compared to close to 60% for the population as a whole in 2019 (OECD, 2021o). This is, in part, a reflection of geographical disparities: the level of development of these forms of care varies with the municipality or borough. Childcare provision for young children is much fuller in urban areas, wealthy municipalities and better-off boroughs (HCFEA, 2018). Though the starting age of compulsory education has recently been lowered to three, early childcare helps children's general development and their social skills: unequal opportunities start here (OECD, 2018b).

France does not strike the right balance in spending per pupil across education levels to best address inequalities in educational outcomes. Relative to the OECD average, spending per student is comparable to the per-student average in tertiary and pre-primary education and it is above for upper secondary education. Yet, spending per children is below the OECD average for primary education (OECD, 2021n). There is also extensive evidence that teachers were more inexperienced, more often on temporary contracts, and that staff turnover was higher for schools in poor neighbourhoods (Depp 2020a; 2020b).

To address some of these concerns and to better tackle inequalities in education that start to accumulate from early childhood, pre-primary education was made compulsory for three year olds from the 2019 school year (*loi "pour une école de la confiance*"), class sizes are being halved in grade 1 and grade 2 of primary school in priority education networks (*Réseau d'éducation prioritaire*, REP), and the salary supplement for staff in those schools was boosted in 2021-22 by the Grenelle education measures (Table 1.11). Nonetheless, although declining, the number of children per teacher and the ratio of children per contact-staff, including teachers and teachers' aides, remain relatively high in pre-primary education (in 2018-19, there were 23 children per teacher – eight children more than the OECD average – and the ratio of children per contact staff was 15 compared to an OECD average of 11). Moreover, the strengthening of the attractivity of teaching as career initiated with the *Grenelle de l'Éducation* should combine wage increases and more autonomy for school management and the choice of teaching practices (OCDE, 2020e; Blanchard and Tirole, 2021). In particular, encouraging teachers' collaborative work will be essential for the diffusion of good practices and innovative teaching methods.

Educational interventions for disadvantaged children are more efficient when they are made at an early stage (OECD, 2018c). The authorities should continue to increase the number of teachers at pre-primary level in disadvantaged neighbourhoods, as is gradually being done. Efforts should also focus on initial training and professional development measures, in particular in respect of continuing training and salary progression, in order to attract and train high-quality educators and teachers where the challenges are the greatest. In addition, policies for Early Childhood Education and Care (ECEC) could do more to increase the fairness of the education system and boost women's employment. Local allocation of places in early public childcare facilities (crèches) should be revised, making the criteria more transparent, more dependent on household income and the expected long-term learning outcomes and less subject to political pressures (OECD, 2019a). In addition, a more coordinated governance system of childcare services for 0-6 year olds could help to deliver a more consistent learning experience, for example by placing these services under the umbrella of the same ministry (OECD, 2020e).

Continuing with work to bring initial training more into line with labour market and business needs must be the priority for secondary education. Some vocational routes are unattractive because they provide poor opportunities for graduates and do not provide a way into jobs of the future (OECD, 2020e). They also often have a bad reputation because they are perceived as following on from a failure to progress to higher education (OECD, 2015). Enhancing technical schools (*Campus des métiers et qualifications*) and rolling out work-study programmes in vocational upper secondary schools are promising steps. Despite this, in 2016, only 2 in 10 students were on a vocational programme that combined work and study (OECD, 2020e). More recently, the aim of the careers reform is also to develop a more progressive approach. The development of work-study programmes, which often lead to better opportunities, must therefore continue. Strengthening the place of business in work-study programmes, as in Germany, could also help students transition more securely into working life as early as the upper secondary cycle (Box 1.7).

Table 1.11. Past OECD recommendations to improve learning outcomes

Main OECD recommendations	Summary of actions taken since the 2019 *Survey*
Offer attractive salaries and career prospects to teachers in schools with many pupils from disadvantaged backgrounds.	The salary supplement paid to teachers in REP schools was increased in 2019 and 2021. The Grenelle education measures provide for a further increase in 2022.
Promote an innovative range of different practices in teacher training in order to meet students' differing needs.	The 2021 teacher training reforms increase professional practice through an observation placement or a work placement.
Bring schools' human resources budgets into line with the number of their students, with top-ups for disadvantaged students and those whose first language is not French. Publish the budgets and the underlying formulae.	In 2021, an experiment tests a new approach to better integrate social and geographical criteria in school funding in three regions.
Speed up the development of additional childcare services for low-income households and in the poorest neighbourhoods.	The financing of pre-primary schools is partly based on two bonuses for their share of low-income children and their location in poor neighbourhoods since 2019.

Ensuring territorial equity

Public policy must support the territories during the recovery. The poverty rate after taxes and transfers is relatively low in France but very heterogeneously distributed. Benefits in kind such as education, health and housing also contribute significantly to reducing inequality (Insee, 2021a). Even though the gaps in disposable incomes between urban and rural areas appear to have been closing, it has increased within urban areas (Box 1.9) while the drop in public service provision and economic activity in peripheral areas has increased people's discontent. The demonstrations at end-2018 were more frequent where the number of local businesses, schools and healthcare professionals had recently fallen (Davoine et al., 2020).

The territorial impact of the 2020 crisis has varied widely. Income in areas that are very popular with tourists has fallen sharply, whereas regions dominated by farming have been relatively unaffected (Figure 1.37; Insee, 2021d; Bouvart et al., 2021). Although the areas that were worst affected were not the poorest performers before the crisis (Barrot, 2021), the recovery could nonetheless make some regions vulnerable. The poor are very much clustered together geographically, and the increase in poverty could be substantial for young people and the self-employed.

Improving access to essential services

Disparities within urban districts and between urban and rural areas have been linked to persistently high opportunity gaps. For example, rural and suburban areas appear to have a larger proportion of low-skilled young people (Caro, 2018), and children from the major metropolitan areas still predominate in elite universities (Bonneau et al., 2021). Although inequalities in disposable income have shrunk markedly between *départements* and regions over the long term (Bonnet et al., 2021; Davezies, 2021), the upward social mobility of children of manual and white-collar workers is still highly dependent on the *département* where they were born (Dherbécourt, 2015). The social ladder seems to work well in some regions — Île-de-France, Brittany — and poorly in others — Hauts-de-France. In particular, some rural areas suffer from a lack of transport mobility to educational establishments, and travel time is long (Caro, 2018; Berlioux, 2020), while poor districts in urban centres are hives of social and educational challenges. Though some initiatives such as boarding schools (Internats d'excellence) target these gaps, access to essential services and business centres must be developed further, especially for young people.

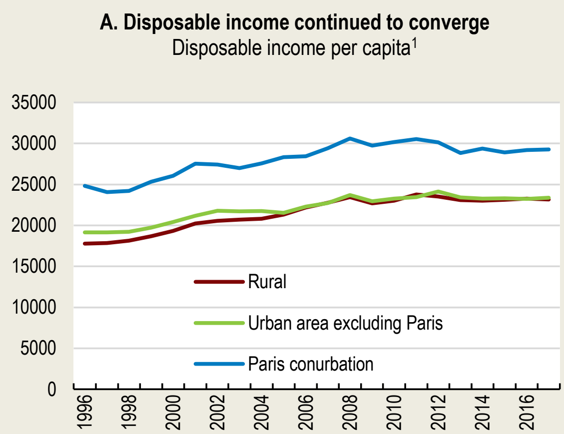
Public service provision and access to social assistance must continue to improve. Relative to the population, the presence of public services in both rural territories and districts designated as "poor" under urban policy is high overall but varies sharply depending on the branch of public service concerned (Cour des comptes, 2019; ONPV, 2020). The aim of introducing the "France Services" label is to promote and modernise access to public services. The label has 1,304 locations, and a further 181 are planned in 2021 as well as 90 *France Services* buses for designated priority districts and rural locations. Outreach measures aimed at vulnerable populations or those that are far away from urban centres must be further developed and better targeted. This is about defining measurable targets for accessibility on the basis of service diversity and regular, independent analysis of quality of public service access, as happens for telecommunications (Brandt, 2018). Moreover, adding social support agencies and community centres to "France Services" hubs could reduce failure to take up the assistance and minimum welfare benefits that will be vital to the most vulnerable people once the crisis is over (CNLE, 2021).

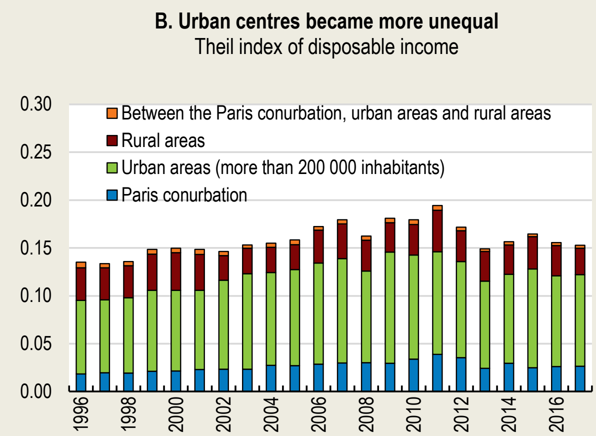
Box 1.9. Recent increases in income inequalities have been concentrated within urban areas

Analysis of microdata for the past 20 years (Goujard and Loriaux, forthcoming) shows that per capita disposable income is substantially higher in urban areas (especially around Paris). However, between 1996 and 2017, disposable income rose faster in rural areas than in large and medium-sized urban settlements. The differences between major regional capitals and rural areas were tapering out until the 2008 crisis (Figure 1.36).

The convergence of average incomes masks a rise in inequalities in disposable incomes between 1996 and 2017, which was concentrated in urban areas (excluding Paris), while disparities within rural areas tended to fall (Figure 1.36).

Figure 1.36. Changes in income disparities between urban and rural areas





1. Per consumption unit in constant euros.
Source: OECD calculations based on the Tax and Social Incomes Survey (ERFS), Insee.

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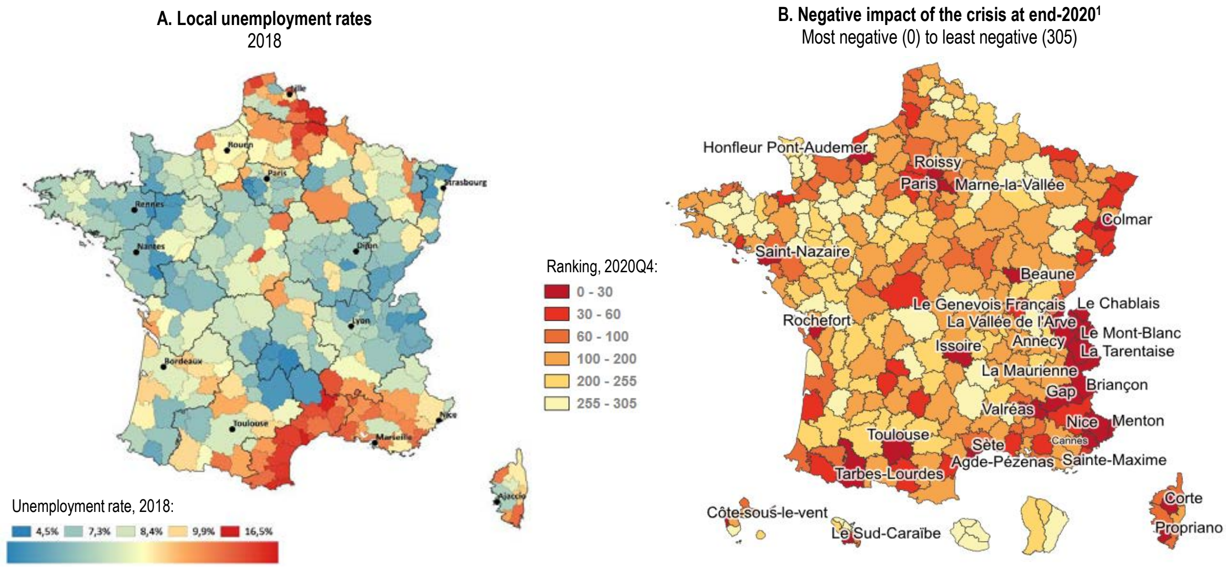
These changes reflect both the effects of fiscal redistribution (Insee, 2021) and the significant impacts of household composition. The taxes and transfer system tends to reduce differences in primary incomes of households between Paris, large and medium urban areas and rural areas. Additionally, socio-professional status and the structure of households explain some of the income gaps between urban and rural zones. Finally, changes in household structure, in particular the rise in lone-parent families and living apart, contribute to the rise in inequalities observed in urban areas (Behagel, 2008; Goujard and Loriaux, forthcoming).

Source: Goujard A. and Loriaux, C. (forthcoming), Trends in regional income disparities in France from 1996 to 2017, OECD Technical background paper; Behagel L. (2008), "La dynamique des écarts de revenus sur le territoire métropolitain (1984-2002)", Economics and Statistics No. 415-416, pp. 97-120; Insee (2021d), La France et ses territoires – Édition 2021, Insee.

Figure 1.37. Past vulnerabilities and the effects of the 2020 crisis overlap imperfectly



1. The negative impact is measured using downward local sectoral GDP exposure, local take-up rates of short-time work schemes and local job destruction between the fourth quarter of 2019 and the fourth quarter of 2020 (Bouvart et al., 2021).
Source: Insee (2021), www.insee.fr/fr/statistiques/5371275?sommaire=5371304; Bouvart et al., (2021), “L’emploi en 2020: géographie d’une crise”, *Note d’analyse,* France Stratégie, No. 100, April 2021.

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Access to transport remains difficult in some urban neighbourhoods and rural areas. The 2019 Law on Mobility (LOM) broadened the perimeters of transport organising authorities’ to the entire territory, by partly shifting this responsibility to the regions, so that all areas could be included in a local transport strategy. However, the coverage and frequency of public transport in sparsely populated areas remains poor. Improving digital-based ride-sharing could reduce the number of miles driven, lower emissions and reduce road congestion substantially, provided it replaces individual car use. Norway has achieved promising results by providing door-to-door bus services at the user’s desired time rather than with a fixed route and timetable (Dotterud and Skollerud, 2015). These new services have improved well-being by improving access to social and cultural events and to health services, particularly among the young and the old.

Ensuring a sound implementation of the recovery plan is likely to encourage territorial convergence (Box 1.9). The amounts contained in the regional recovery plans equate on average to 1.1% of regional GDP. Subnational governments, especially the smallest, need engineering support in order to respond to calls for complex national projects with tight time frames. Developing the roles played by expertise, technical support and procedural harmonisation at regional level to the benefit of local services and small municipalities could lead to efficiency gains and achieve greater fairness (OECD, 2019a).

Box 1.10. The local implementation of the recovery plan

The recovery plan (Box 1.2) provides for three types of place-based measures with funding of EUR 16 billion in 2021-22 (out of a total of EUR 100 billion). Regional recovery plans have been signed by the regions and the State. Joint control is provided at local level by state services, and regional and *département* councils. Funds are allocated in the form of specific envelopes under the responsibility of *préfets*, calls for projects and decentralised loans. The plan provides for EUR 10.5 billion in funding for local governments.

The recovery plan should be cascaded to subregional level in summer 2021, by which time recovery and ecological transition contracts (CRTE) should be drawn up. The contracts will be subdivided between 833 inter-municipality groupings and will cover the contractual process in place (rural community contracts, ecological transition contracts, etc.) to formalise the funding linked to the recovery plan.

Measures for rural territories

The recovery plan allocates EUR 5 billion to rural territories for:

- young people (deployment of 800 volunteers at subnational level in administration in particular);
- support for businesses in rural areas (support for 1 000 restaurants under the sustainable tourism support fund);
- encouragement of local food systems (EUR 80 million).

Measures for disadvantaged urban neighbourhoods

The authorities have provided for EUR 1 billion for priority districts by way of:

- workplace integration for young people and the “Un jeune, une solution” plan (Box 1.6);
- improving the living environment and attractiveness of territories through enhanced support for refurbishment of social housing, infrastructure and public facilities;
- increased social cohesion through enhanced support for solidarity stakeholders.

Source: ANCT (2021), *Le numérique du quotidien au cœur du plan de relance*, Agence Nationale de la Cohésion des Territoires; RF (2021), *France Relance – 9 000 projets d’investissement du quotidien – Coup de projecteur sur les mesures de soutien aux collectivités locales*, press release of 6 May 2021.

Tailoring support for employment and inclusion to local needs

The experience of OECD countries shows that it is vital to coordinate public policies in order for the regions to develop (OECD, 2019d). Locally, support for employment in non-mobile sectors should be accompanied by enhanced assistance for training (see above) and geographical mobility to boost the population's economic and social prospects.

Place-based tax incentives should be rigorously evaluated and their management should be reformed to encourage local development and the involvement of local governments. Place-based tax incentives accounted for around EUR 620 million in 2018 (Deketelaere-Hanna et al., 2021b), although they have not proved effective in business or job creation. For example, impact assessments of urban free zones (ZFU) have concluded that they have little or no effect. They show no impact on the activity of existing establishments and largely highlight displacement effects, and even then only in the most densely populated urban environments. In particular, tax breaks appear to be more effective in the areas best served by transport networks (Briant et al., 2015). The same is true for rural regeneration zones (Behagel et al., 2015). Moreover, these place-based schemes are determined nationally, with no local consultation and with no room for local experimentation or adjustment (Algan et al., 2020). These expenditures could be reallocated to lagging urban and rural areas, but in the form of allocations that closely involve locally elected representatives. If the place-based tax incentives are retained, it might be appropriate to try to restrict them to export business and enlarge their geographical boundaries to local employment areas. This could maximise the potential positive effects on activity and employment, as the examples of Germany and the United Kingdom show (Criscuolo et al., 2019; Etzel et al., 2021).

Coordination between inclusion and employment stakeholders must increase. The non-take-up of financial assistance for the least well-off is still considerable (Drees, 2020). When combined with more systematic integration programmes for the jobless, automated payments would provide better support towards employment (Pitollat and Klein, 2018). The effectiveness of the unification of national social benefits will depend on a proper architecture of associated rights, especially at the local level, for which knowledge is incomplete. Regular surveys of these schemes, for example using annual selections of a cross-section of communes and *départements*, would help to increase awareness among local policy makers when determining their scales for levels of assistance (Desmarescaux, 2009).

Easing geographical mobility

Public support for geographical mobility should take better account of the links between mobility needs and employment. Employment rates vary significantly from one region to another, especially for the low skilled and the young, and geographic mobility among young unemployed or inactive people is low (OECD, 2019a). The available grants could be reformed to better support short-distance mobility (Roulet, 2018). The fragmentation and lack of coordination of available support for mobility provided for by subnational governments and their groupings, the public employment service and the voluntary sector means that job seekers and businesses are unable to use it effectively. Local information points would raise awareness. The eligibility conditions of mobility subsidies from Pôle Emploi also appear to be restrictive and based on many factors (minimum distance, amount of unemployment benefits, training undertaken) that cannot be tailored to local circumstances (Cour des comptes, 2021c).

Many measures could improve the flexibility of the rental market. A state guarantee (*garantie Visale)* was put in place in 2016 for young people moving into privately rented accommodation but is seldom used in sought-after areas. Enhancement of this guarantee could be channelled through more ambitious information campaigns and an increase in delays to report unpaid rents. In addition, social housing needs to take into greater consideration the specific issues of young people and short-term contracts. The removal of the requirement for ties to the municipality of residence to have a right to social housing, the transfer of quotas to supra-municipal organisations and the creation of a right which would be transferable from one municipality to another would help avoid penalising tenants planning to move to accept a job a long way from their place of residence (Carcillo, Huillery and L'Horty, 2017; Défenseur des droits, 2020). At the same time, assistance for the construction of rental properties should be refocused on areas of very high population density and towards the most vulnerable households. Finally, the upsurge in teleworking means that the rental market could be developed by making the procedures for converting offices into housing more straightforward. Indeed, some requirements such as parking areas appear restrictive, even though they were relaxed in 2018.

Moreover, the high taxation of housing and land transfers and the relatively low and declining recurrent taxes on property assets prevent them from being used more effectively, and limits residential and business mobility (Bergeaud and Ray, 2021). Reducing registration and transfer fees and increasing recurrent taxes on land and property by gradually aligning them with market prices would incentivise owners to sell developable land (Bérard and Trannoy, 2018). This would help absorb tensions on the housing market and commerical real estate. At the same time, updating cadastral rental values and reforming the *taxe foncière* is a priority to ensure efficiency and fairness of property taxation. The cadastral values used for the property tax levied on households (both for the *taxe d'habitation* and *taxe foncière*) are based on an assessment of property values dating back to 1970.

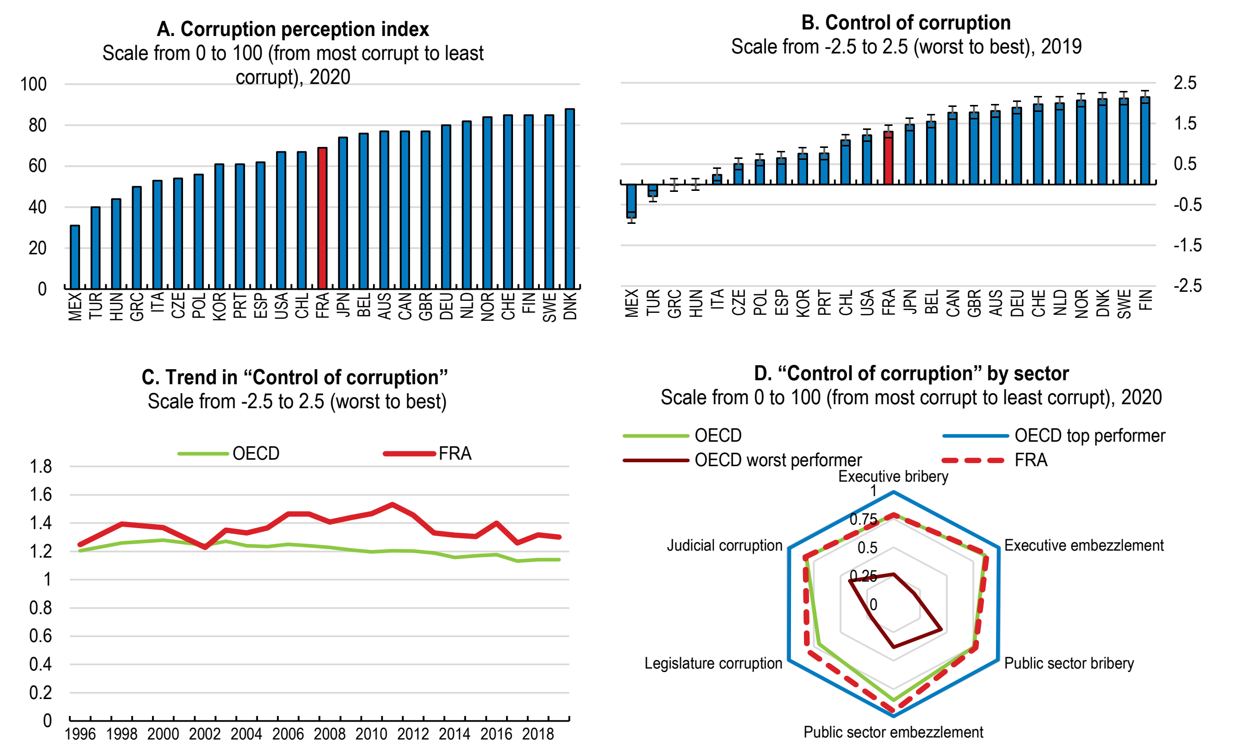
Reducing further discriminations

Continuing a detailed monitoring of the pandemic's differentiated impacts will be crucial for determining whether additional measures to address discrimination is needed. On average, the COVID-19 crisis did not affect more strongly women's and foreign-born employment rates in France so far, but they are still significantly lower than those of men and native workers (Insee, 2021; Eurostat, 2021b). Perceptions of labour market discrimination are high in international comparison (Carcillo and Valfort, 2020). The government took a series of measures to fight unequal treatment between women and men in 2018 (OECD, 2019e) and monitored the impact of the pandemic on domestic violence and labour market outcomes. In a welcome move, it also extended paid paternity leave from 11 to 25 days in 2021. Despite the crisis, the mandatory equal-pay indices published by firms in 2020 and 2021 have shown some progress (MTEI, 2021). However, some forms of discrimination based on ethnicity and residence appear to have increased after the first lockdown (Challe et al., 2021). To assess such changes and raise awareness and incentives to reduce such behaviours, broadening the scope of the equal-pay indices to include the share of women, older workers and minorities would be a good move (Carcillo and Valfort, 2020).

Continuing the efforts to fight corruption

Continuing the efforts to fight corruption is important. Corruption can distort competition, damage the business climate and divert the use of public resources from the public interest, as well as foster a sense of mistrust towards public institutions. Transparency International's Corruption Perceptions Index and the World Bank's Corruption Control Indicator placed France around the median of OECD countries in 2019-20 (Figure 1.38).

Figure 1.38. The risks of corruption are perceived as relatively contained



Source: World Bank (2018), *World Governance Indicators*; Economist Intelligence Unit; Gallup Organisation; French Ministry of the Economy and French Development Agency; Political Risk Services; Global Insight; V-Dem Institute; University of Gothenburg; University of Notre Dame; and Transparency International.

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Further progress is possible both in respect of local public procurement and of control of the risks of corruption for the central government. In its guide to public procurement, the French Anti-Corruption Agency (AFA) sets out the good practices that local governments should put in place. Nonetheless, compliance with statutory ethical obligations continues to be uneven and practices to control the risks are yet to be developed (AFA, 2020a). There is room to improve the knowledge of anti-corruption mechanisms within small local governments (AFA, 2018), and thereby to further professionalise public procurement processes at the local level (OECD, 2015; 2019a). There is also scope for improvement in the control of risks of corruption in central government. The members of the executive, including the President of the Republic, should publicly report at regular intervals which lobbyists they have met and what they discussed (AFA, 2020a and b; GRECO, 2020).

Table 1.12. Main findings and key recommendations

MAIN FINDINGS	KEY RECOMMENDATIONS
Ensuring a strong and resilient recovery	
Fiscal policy has responded in swiftly and appropriately to the effects of the pandemic. The economic rebound has been rapid, but a premature withdrawal of support to households and businesses could raise bankruptcies and unemployment.	**Provide increasingly selective fiscal support as the economic recovery gains traction.**
The recovery plan, supported by EU funds, is expected to support the green and digital transitions, which should lead to a stronger and more resilient growth.	**Ensure swift and effective implementation of the recovery plan.**
The commercial courts and the early warning system risk not being able to deal efficiently with insolvencies when the economy emerges from the crisis. Insolvency proceedings are lengthy.	**Encourage the take-up of the new, simplified preventive procedures and strengthen the capacity of commercial courts.**
The vaccination rate has increased, but the coverage rates of some vulnerable groups are still comparatively low.	Strengthen further efforts to reach out vulnerable and precarious groups.
Prevention and risk-management strategies are often fragmented and ill-suited to catastrophic risks. The recent health crisis has highlighted the lack of preparedness and coordination between the State and the various stakeholders, especially at the local level.	Further develop all-hazards risk-management approaches that involve all relevant stakeholders.
Strengthening the effectiveness of fiscal policy	
Public debt is historically high as a share of GDP and ageing costs, if not addressed, could put it on an unsustainable path.	**Develop a strategy to stabilise and gradually lower the public debt ratio.**
The projections for public debt do not cover the long term.	**Publish long-term debt projections based on assumptions validated by the fiscal council.**
Public spending is among the highest in the OECD and is damaging growth and debt sustainability, despite favourable borrowing costs.	**Lower gradually and significantly public spending through a medium-term consolidation strategy based on spending reviews and improved expenditure allocation.**
The governance of public finance is fragmented across sectors and levels of government. It does not allow a full evaluation of some policies.	**Implement a multiannual expenditure rule that encompasses the entire public sector.**
The competences of various levels of local governments are overlaping.	Rationalise the competences of local governments.
Tax expenditure is considerable and some new measures have been implemented (such as tax exemptions for overtime), even though evidence of their effectiveness is poor.	**Reduce tax expenditure, in particular those that do not benefit low-income households or measures that encourage excessive household saving.**
The effective age of exit from the labour market is low. The pension system is fragmented and pension expenditure is high.	**Encourage a rise in the effective age of exit from the labour market, notably by increasing the minimum retirement age in line with life expectancy.**
Boosting employment and productivity	
Businesses are heavily indebted and dependent on bank finance, while the valuation of commercial real estate has fallen rapidly. Government measures aim at supporting business investment, but the tax system is biased towards debt finance.	Allow a tax deduction for risk capital. Regularly monitor changes in investment and the gross and net debt held by SMEs at sectoral and subnational level in detail. Strengthen selective measures to support business, if the existing measures do not make for a rapid recovery in investment.
The financing of unemployment insurance and activation programmes is pro-cyclical.	**Reform the financing of job seekers's support to ensure it is in line with economic conditions.**
Human resources management practices could be improved.	Establish local one-stop shops providing a range of activities to support human resources practices in small businesses.
The quality of lifelong learning programmes is uneven. Despite ambitious reforms, the crisis halted the roll-out of quality labels for training bodies.	Develop transparent information and effective monitoring of the quality of lifelong learning programmes through additional evaluations and counselling.
The school-to-work transition is still complex, especially for low-skilled youth, who have been severely affected by the crisis. The authorities plan to expand the youth guarantee scheme. Apprenticeship is underdeveloped, especially at the secondary level.	**Ensure that measures to expand the youth guarantee scheme combine a financial allowance for those who need it, support to enter the labour market and streamlined procedures.** **Increase the share of work-based training for apprentices.**
The bases of some business taxes are not conducive to growth and productivity.	Finance a cut of the most distortive business taxes by reducing ineffective tax expenditures.
The pandemic has speeded up the transition to a digital economy, but the take-up of digital technologies by small businesses remains low.	**Provide financial support for training in digital technologies for small businesses.**

Enhancing equal access to opportunities	
Disadvantaged households have less access to formal childcare, making employment more difficult for women.	**Speed up the development of additional childcare services for low-income households and in the poorest neighbourhoods.**
Access to public services could be improved in certain rural and urban areas. The government is developing a network of regional contact points known as “France Services”.	**Strengthen outreach and accessibility schemes by implementing a quantitative follow-up of local access to public services.** Consider complementing the “France Services” contact points by including social workers and civil society stakeholders.
The short supply of housing in dynamic areas prevents higher housing mobility and employment, especially for young people.	**Refocus housing supply subsidies on the most densely populated areas.** Lower transaction costs on housing, notably real estate transfer taxes.
Place-based job incentives do little to involve local stakeholders and evidence of their effectiveness is weak. The current zoning scheme focus on small areas and support is available to highly mobile sectors.	Reform the governance of place-based job schemes by involving locally elected representatives. Focus place-based support schemes on export activities and consider extending their zoning to cover local labour markets.

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From:

OECD Economic Surveys: France 2021

Access the complete publication at:

https://doi.org/10.1787/289a0a17-en

Please cite this chapter as:

OECD (2021), “Key policy insights”, in *OECD Economic Surveys: France 2021*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/a9457891-en