

# WHY INVEST IN FRANCE

September 2015



# Executive Summary

France boasts numerous structural assets: dynamic demographics, good quality infrastructure, a diversified manufacturing base, and a highly productive workforce

Significant fiscal consolidation measures in 2015-2017, including EUR21bn in the 2015 Budget Act

Implementation of an ambitious structural reform programme aimed at restoring competitiveness:

- Significant reforms have already been implemented, including important cuts to employers' contributions and taxes (resulting in a 3-point operating margin increase for businesses by 2017)
- A new economic opportunities bill will be presented by the end of the year

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- **France's structural assets**
  - **The near term outlook:**  
economic activity picked up in H1-2015
  - **Recent reforms already paying off**
  - **Next on the agenda**



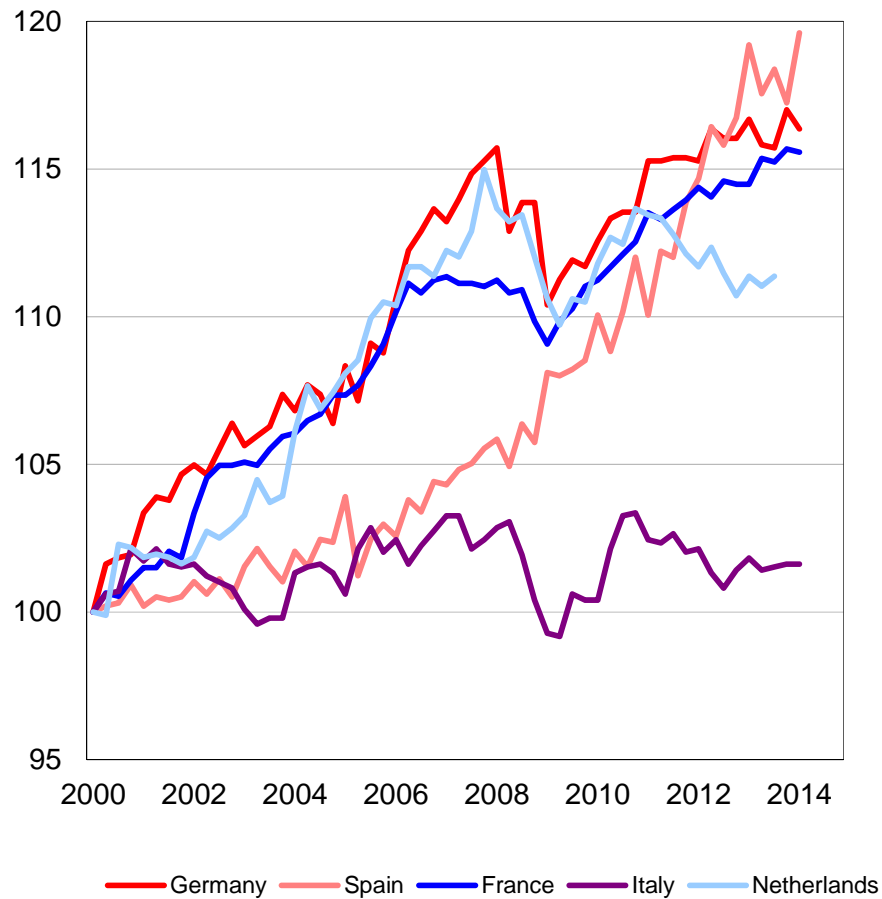
# France's structural assets

- Human capital
- Innovation
- Infrastructure
- Geographic location
- Energy

## France's structural assets

### Human capital - France has a highly productive workforce

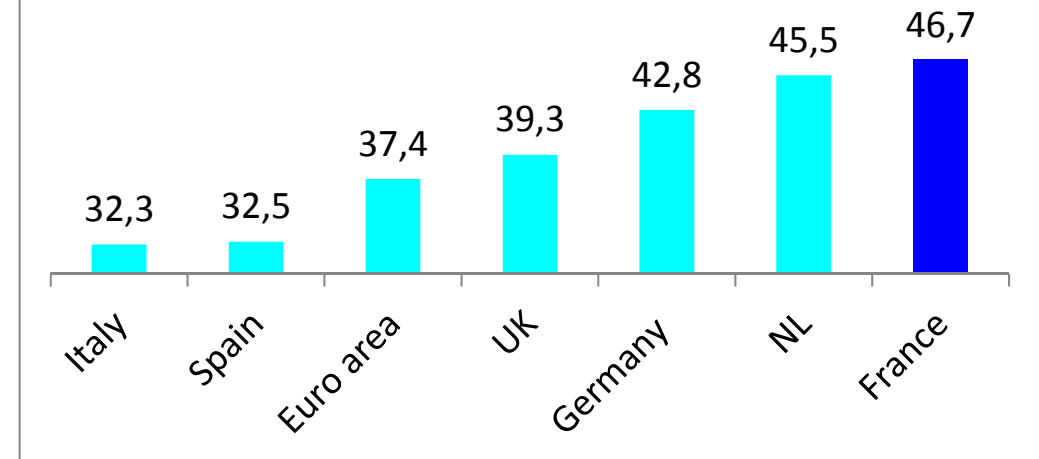
**Real Labour Productivity Index**  
(100 = Q1 2000)



Source: Eurostat

**Labour Productivity**

(euro per hour worked, 2014Q2)

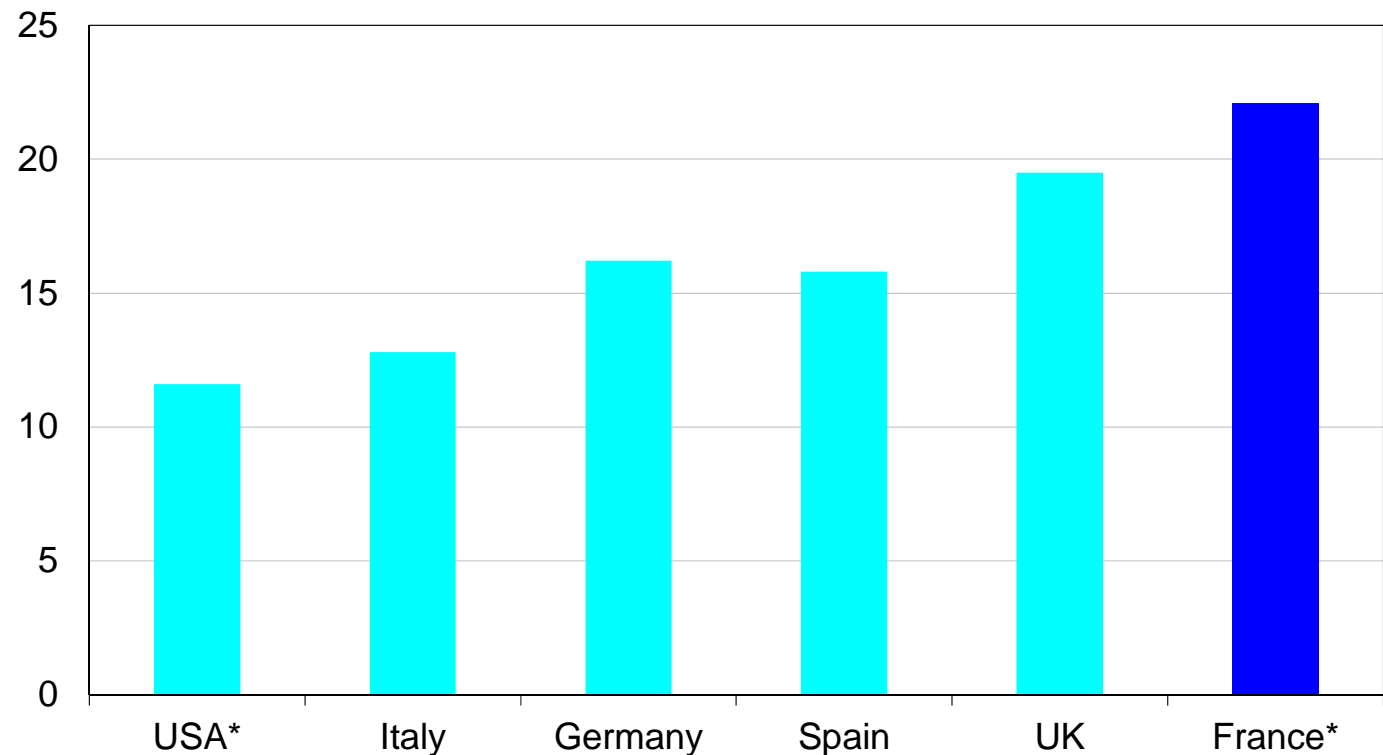


Source: Eurostat; data 2014Q1 for Germany & Italy, Q3-2013 for NL & UK

**More science graduates than any other European country**

**Fields medal:  
11 out of 55  
have been awarded to  
French mathematicians**

**Number of Graduates in Science per 1,000 of Population Aged 20-29 ( in 2012)**



Source: Eurostat

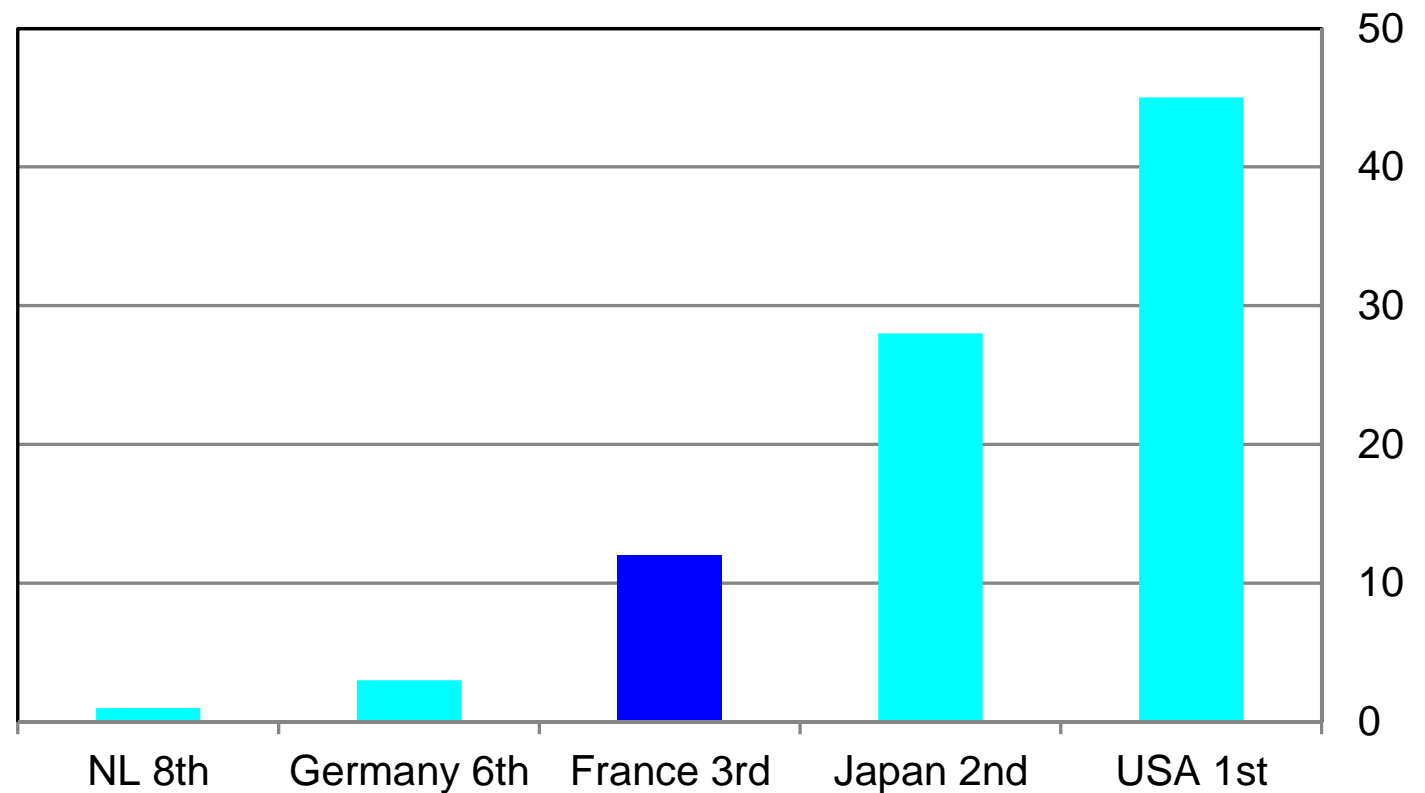
\*: 2011 data

**1<sup>st</sup>**

European country  
in Technology  
Fast 500

Source: *Deloitte*

**Top 100 Global Innovators: Number of Innovative Companies by Country**



Source: *Thomson Reuters Top 100 Global Innovators 2013*

## Infrastructure - high-class infrastructure and a gateway to Europe

**1<sup>st</sup>**

largest road  
network in  
Europe

**2<sup>nd</sup>**

largest airport in  
Europe (CDG) for  
freight and passengers

**2<sup>nd</sup>**

largest high-speed  
railway network  
in Europe

**1<sup>st</sup>**

in Europe for FDI  
logistics flow:  
gateway to 500m  
European consumers



## Geographic location - Paris, a highly dynamic city

**12**

million inhabitants

**47**

million tourists a year

**€624bn**

GDP in 2013

Ranked 3rd most attractive city  
in the world for foreign  
investment in 2014

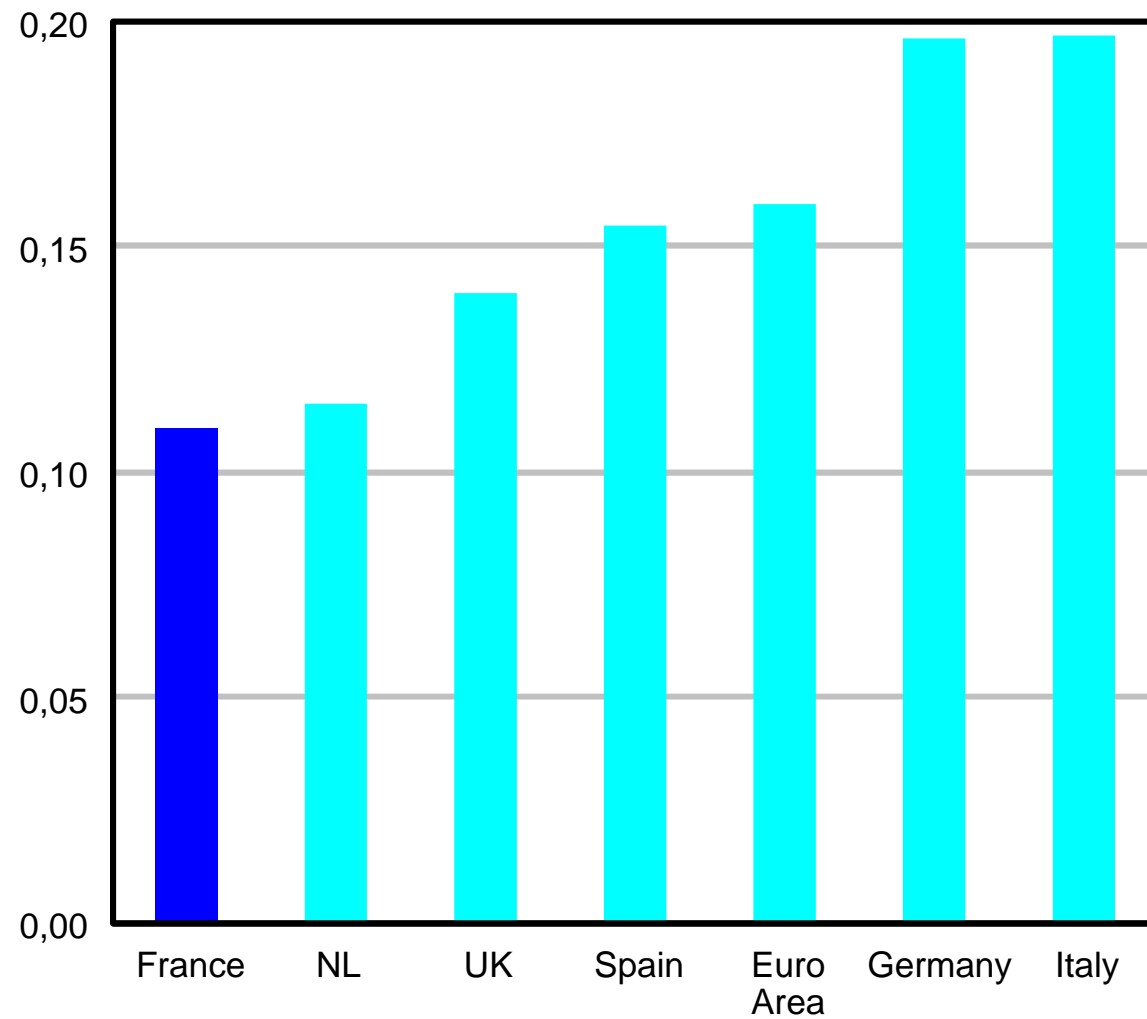
1,000-1,500 startups created  
every year in Paris

Same amount of R&D investment as  
Silicon Valley

The 'Grand Paris' project will build  
68 new train stations, 125 miles of  
underground railway, 70,000 new  
houses a year; **€22bn invested.**

## Energy - France has low energy costs

**Average cost of KWh for industrials (H1-2013, euros)**



Source: Eurostat

France ranks:

**1st**

for manufacturing  
FDI projects in 2014

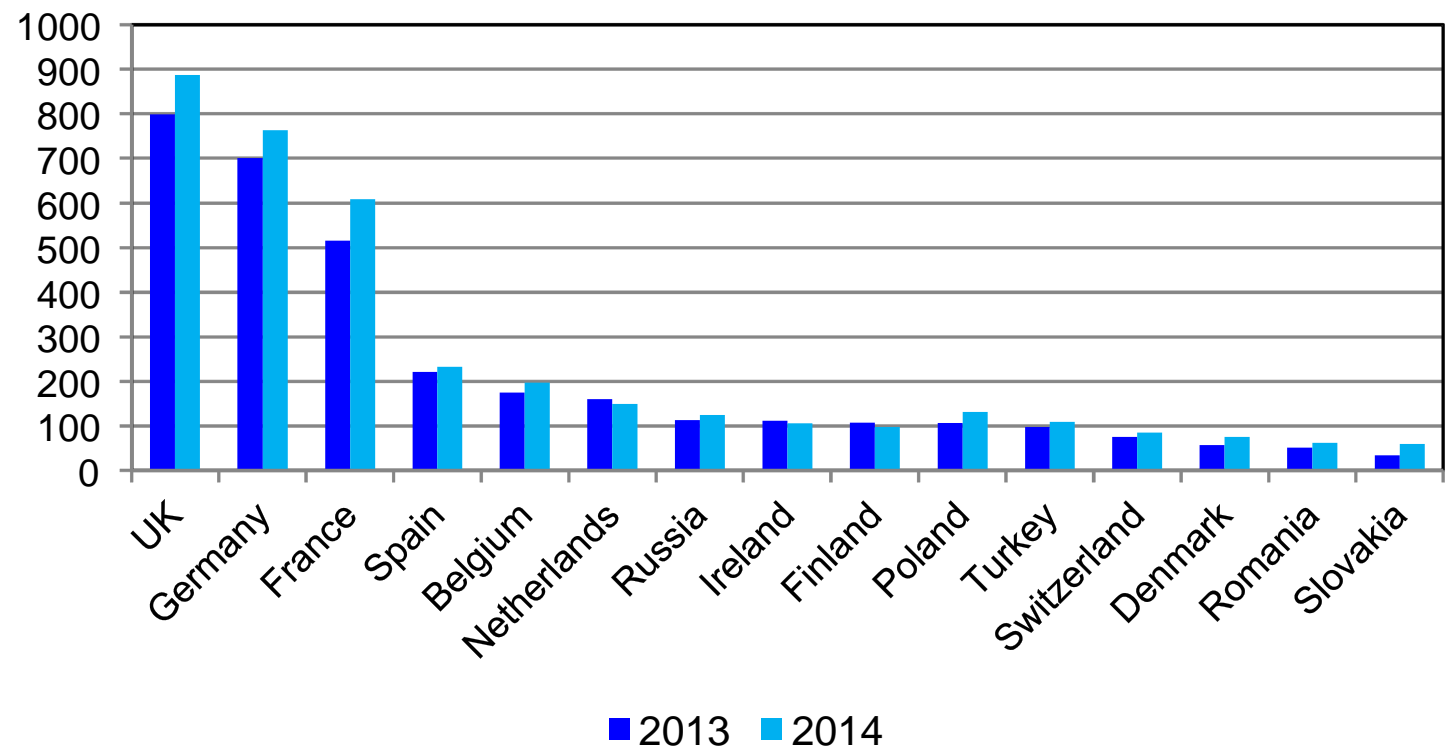
3rd for FDI projects  
in 2014: + 18% vs.  
2013

**4th**


in Global 500

Source: Fortune

Location of FDI projects



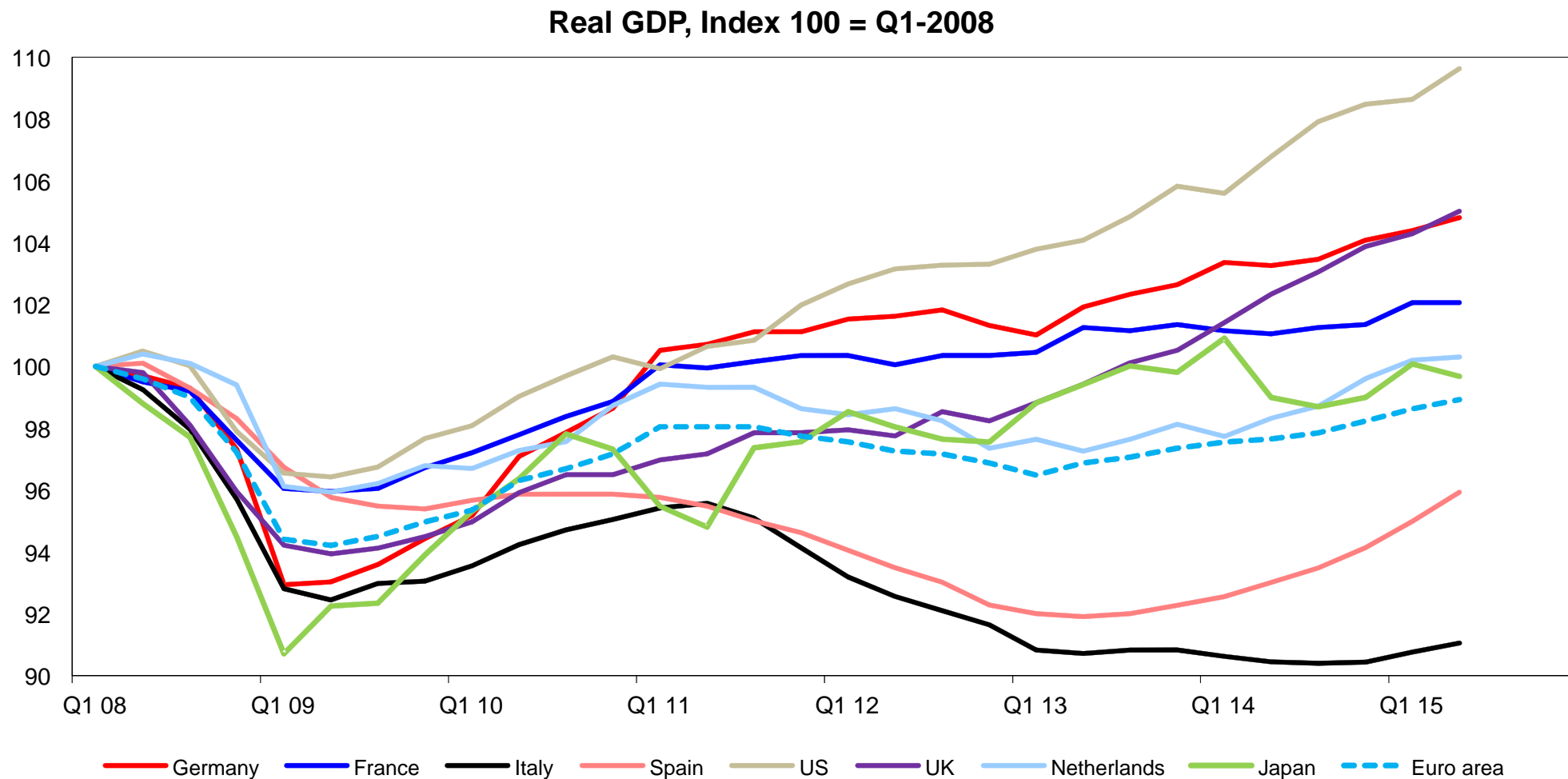
Source: Ernst & Young 2015 European  
Attractiveness Survey



# **The near term outlook: economic activity picked up in H1-2015**

- GDP trends
- Business confidence index

## GDP trends - French GDP above its pre-crisis level



Behaviour of major OECD countries' GDP since 2008

Source: National statistical offices, last observation: 2015 Q2

## GDP trends - Forecasts point to a pick-up in growth in 2015 and 2016

	2015						2016					
	French Stability Programme (Apr. 15)	OECD (Jun. 15)	IMF (Apr. 15)	EC (May 15)	Consensus Forecast (Aug. 15)	Banque de France (Jun. 15)	French Stability Programme (Apr. 15)	OECD (Jun. 15)	IMF (Apr. 15)	EC (May 15)	Consensus Forecast (Aug. 15)	Banque de France (Jun. 15)
<b>GDP</b>	1.0	1.1	1.2	1.1	1.2	1.2	1.5	1.8	1.5	1.7	1.6	1.8
<b>Inflation</b>	0.0	0.0	0.1	0.0	0.3	0.3	1.0	0.6	0.8	1.0	1.2	1.4

Sources: 2015-2018 Stability programme, IMF, OECD, Consensus Forecast, Banque de France

## **Business confidence index - improvement in national indicators**

### **June**

Rebound in business startups: business creation +3.2%

### **May**

Manufacturing industry turnover: +1.2% MoM (+1.0% YoY)

### **2015**

Corporate investment: +7% in 2015 according to the INSEE survey

### **July**

INSEE Business Climate: +2 pts in Services (97) and Industry (102); Services PMI at 52.0

### **Q1**

NFC margin rate: 31.1% (+1.3 pt over one quarter)



## Recent reforms already producing results

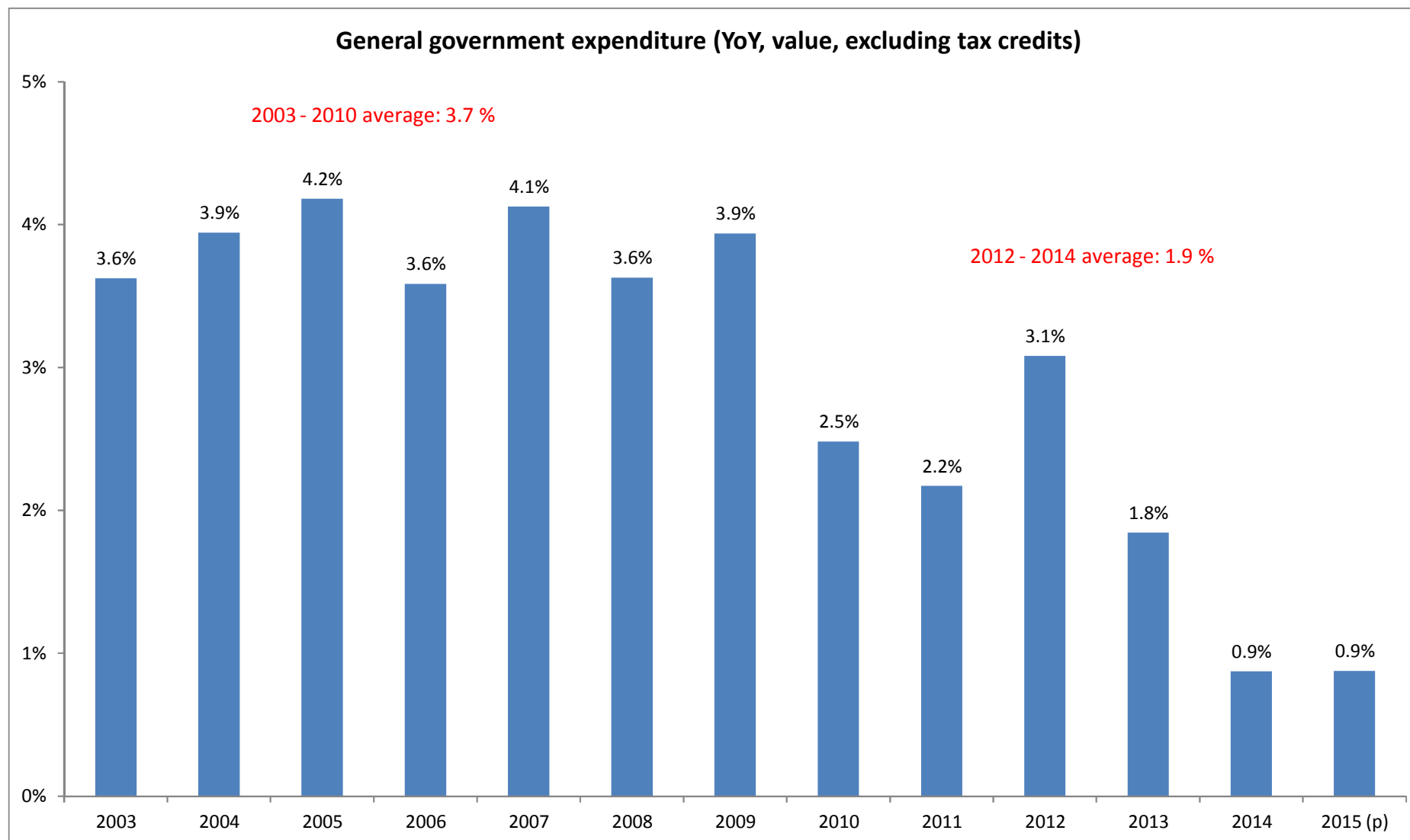
- Sound public finances: a strong commitment to expenditure reduction
- Cost competitiveness: meeting European standards
- Non-cost competitiveness: promoting innovation, investment and streamlining
- Goods and services: unleashing growth by opening up new markets
- Labour market: improving flexibility



*Recent reforms already producing results*

**Sound public finances:**

**Significant change in public expenditure trends**



Source: INSEE, MINEFI, General government expenditure, 2015 Stability Programme

*Recent reforms already producing results*

## Sound public finances: An unprecedented €50bn in public expenditure savings

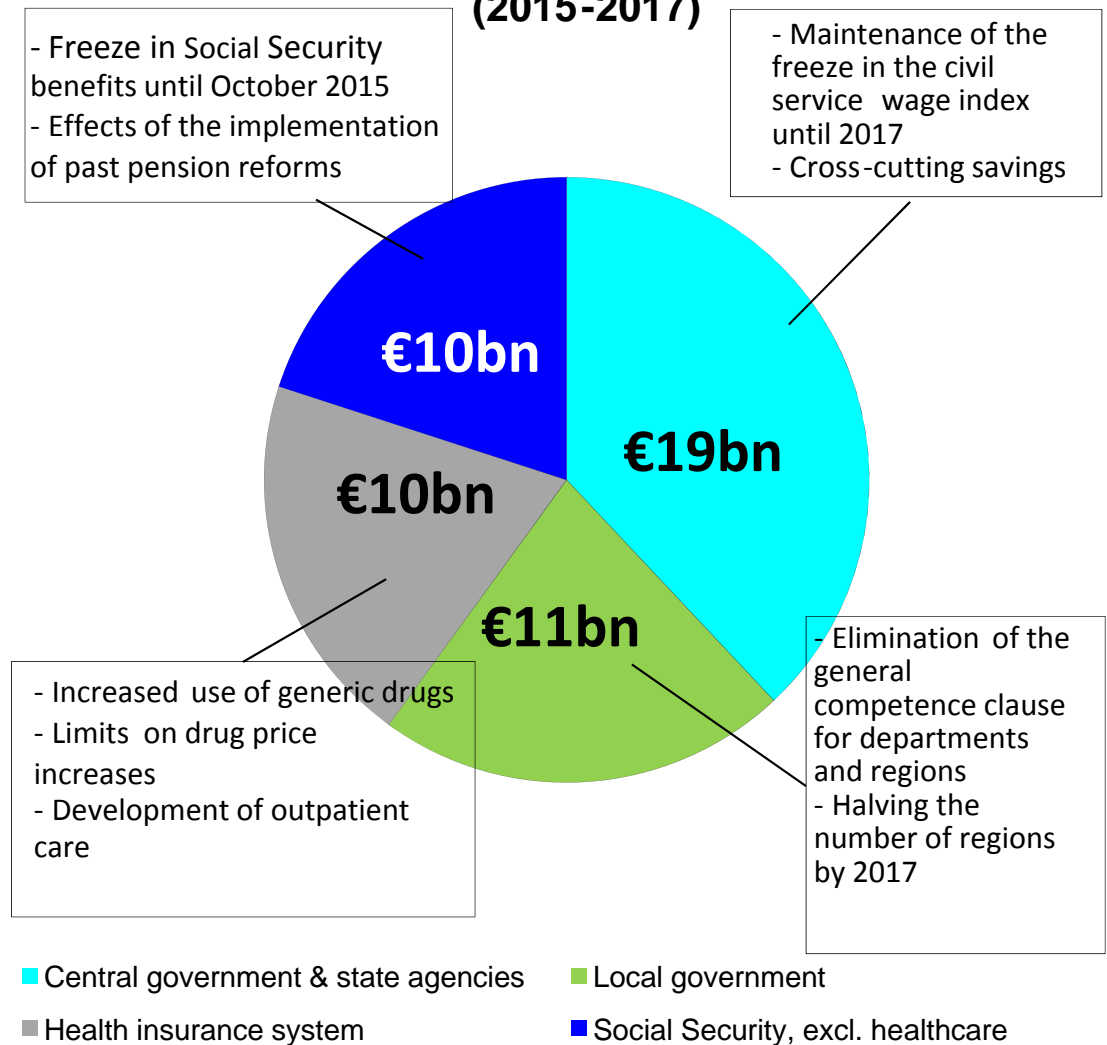
Public expenditure savings will amount to €50bn between 2015 and 2017, and will impact central and local government and Social Security.

**€21bn**

savings in 2015

A savings programme which allows deficit reduction and a **€40bn cut in employers' contributions**

### Breakdown of Expenditure Savings (2015-2017)



## **Cost competitiveness: A €40bn cut in employers' contributions**

### **The National Pact for Growth, Competitiveness and Employment:**

**A reduction in labour costs** amounting to 4% of payrolls below 2.5x the minimum wage in 2014, 6% from 2015 onwards, a 3% reduction in labour costs.

#### **Available to corporations in every sector of the economy:**

- The manufacturing sector is the largest beneficiary of the tax credit, with a share of 18.3 per cent
- The trade sector (17.6 per cent)
- Exporting companies will receive 62 per cent of the total amount

**Responsibility pact and tax credit:**

**€40bn**

reduction in employers'  
contributions and corporate  
taxes

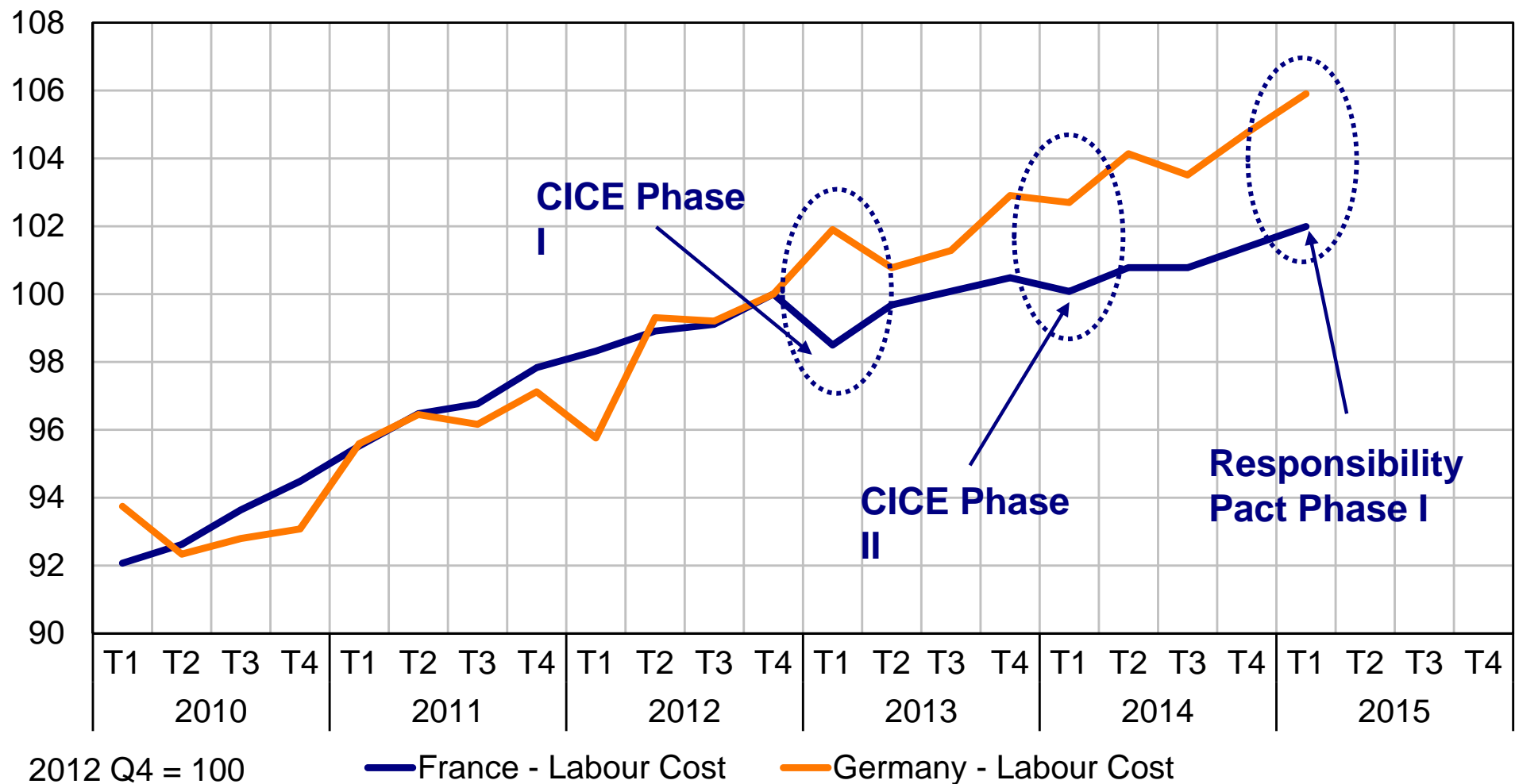
**At least 500,000 new jobs  
expected by 2020**

*Source: DG Trésor*

Recent reforms already producing results

**Cost competitiveness: First results – Change in unit labour costs - manufacturing labour costs now lower than Germany's**

## Labour Cost Index (industry excl. construction)



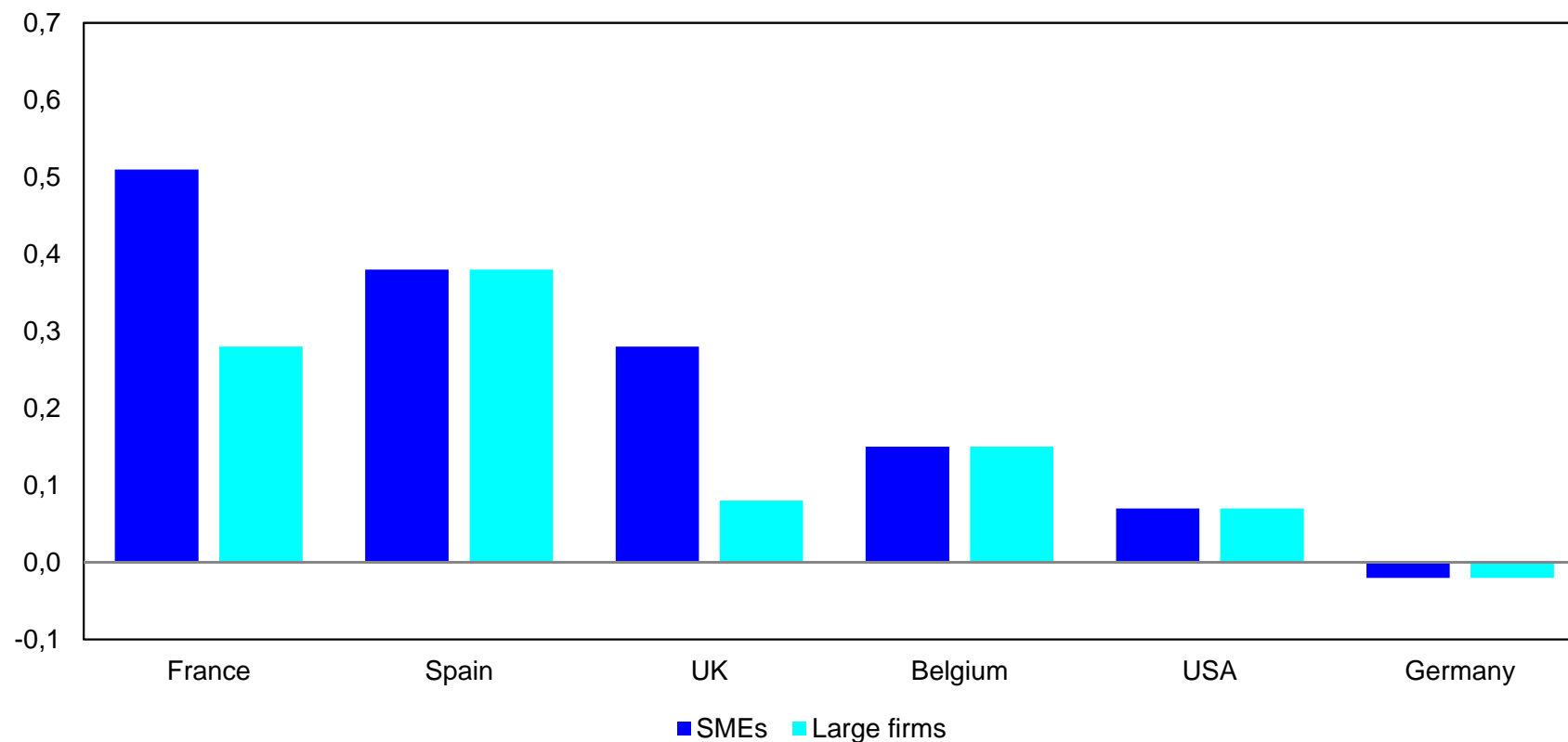
Source: Eurostat, 2012 Q4 = 100, Last update : 2015 Q1

*Recent reforms already showing results*

## **Non-cost competitiveness: A unique R&D tax credit in Europe to support innovation**

Tax subsidy rate  
(1-B index)

**Tax subsidy rates on R&D expenditures, 2013**



Source: OECD

Note: The tax subsidy rate is calculated as 1 minus the B-index. The B-index is a measure of the before-tax income needed to break even on USD 1 of R&D outlays (Warda, 2001). The higher (1-B-index) is, the higher the subsidy rate.

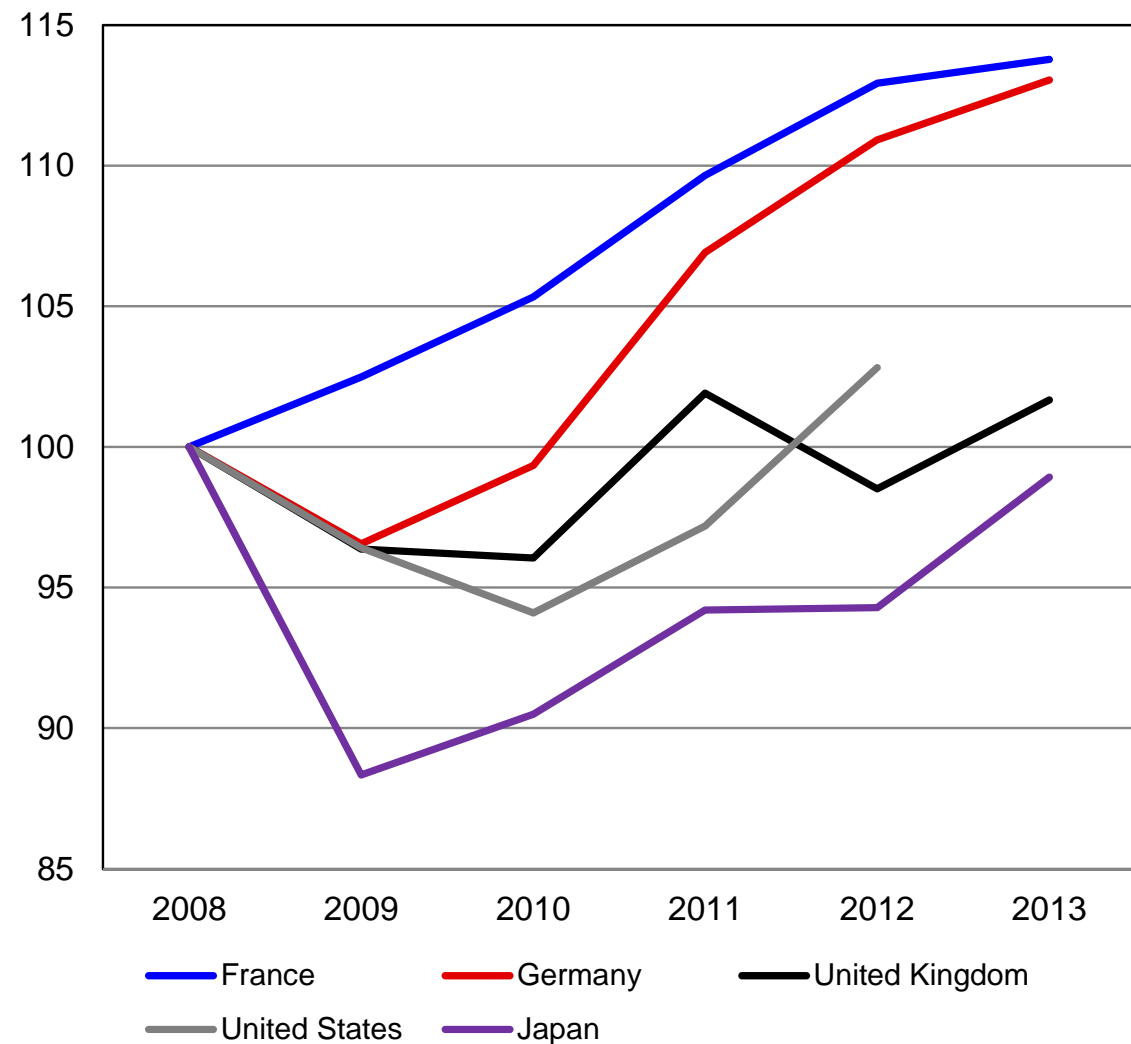
*Recent reforms already showing results*

## Non-cost competitiveness: The R&D tax credit - a significant impact on R&D expenditure and international projects

**Recent announcements of key R&D centres in France** for Intel, Samsung, Cisco and Facebook.

**Significant commitments from American healthcare players – Merck and Alexion – setting up co-investment programmes with hospital institutions and national health centres in the Paris region.**

**Business Enterprise R&D Expenditures**  
(index, 2008=100, constant prices and PPP)



Source: OECD

## **Non-cost competitiveness: The success of the French Tech**

### **Creating a vibrant ecosystem**

- **CES 2015: 25% of startups from France**
- Halle Freyssinet in Paris: biggest incubator in the world will open in 2016 – 1,000 startups

### **Developing strategic sectors of the digital economy**

- €47bn: "Invest for the Future" programme
- €20bn: "High-speed internet development programme"

### **Attracting tomorrow's leaders**

- **"The French Tech initiative": €215 million in support to accelerate the growth of digital startups**
- **"The French Tech Ticket":** non-French entrepreneurs programme to facilitate their arrival in France (€12,500 grant, administrative support, etc.).

*Recent reforms already producing results*

## **Non-cost competitiveness: A target plan to support 9 innovative industrial solutions**

### **9 industrial solutions**

Data economy  
Internet of Things  
Digital security  
Personalised medicine  
Smart cities  
Eco-mobility  
Transportation  
Renewable energy  
Food

### **Examples of recent industrial projects**

- **Hexcel** is building a new plant in Isère for €200m and creating 120 jobs
- **Coca Cola Company** invested €30m in Grigny
- **Kubota Corporation** from Japan invested €40m in Dunkirk (and created 140 jobs)



## **Non-cost competitiveness: strong support for investment**

**A fiscal incentive for investment: a depreciation rate of 140%** for investments made from April 2015 to April 2016

Creation of a **€500m investment** fund to invest directly in companies

**French public investment bank (Bpifrance):** lending capacity of up to €8bn for development projects

**European Investment Plan:** fully operational in France (co-financing of €8bn by French public institutions)

*Recent reforms already producing results*

## **Non-cost competitiveness: Attracting talent from everywhere**

### **For CEOs, future investors and employees**

Single point of contact to deal with administration

120 bilateral agreements to avoid double taxation

Creation of the tailored "Talent passport" to simplify existing visas

Fast track for delivering visas and special processes for companies

*Recent reforms already producing results*

## **Non-cost competitiveness: An unwavering commitment to administrative simplification**

New streamlining  
measures announced  
every six months since  
January 2014

**€3.3bn**

reduction in administrative  
costs (half for companies)

**No. 1**

in Europe for  
e-administration  
(source: UN)

## **Goods & services: More competition, lower prices and improvement in efficiency - impact of the Growth and Economic Activity Bill**

### **The Growth and Economic Activity Bill was passed last July.**

- Regulated professions
  - Covers a wide range of legal professions: auctioneers, notaries, etc.
  - Regular review of prices
  - Easing of constraints on creating a business
  - Expected outcome: more competition, lower prices
- Right to open on a Sunday for retailers has been extended: all year long in tourist areas and up to 12 weeks per year elsewhere
- Deregulation of coach services (removal of constraints weighing on inter-city coach services) and reduction of driving license costs.  
Expected impact: lower transportation costs for households, job creations
- Streamlining measures for the construction sector: easing of legal constraints weighing on commercial real estate businesses
- State ownership: a €5bn-€10bn reduction in government stakeholdings will confirm market liberalisation and enable State ownership to switch focus to where it is most needed

## **Labour market: France has its “Jobs Act”**

### **French Small Business Act (June 2015)**

- €4,000 incentive for the first hire in small companies
- More flexibility to reduce working time for economic reasons

### **Social Dialogue Modernisation Act (Q2-2015)**

- Streamlining administrative obligations for small companies, allowing them to grow

### **Job Security Act (June 2013)**

- Signed by unions and employers' representatives in January 2013

### **Growth and Economic Activity Bill (July 2015)**

- A more favourable legislation concerning industrial relations board
- Reform of industrial tribunals to reduce uncertainty, delays and cap lay-off costs

## **Labour market: major reform of the French labour market in 2013**

**A very significant step towards “flexisecurity” with a law to protect employment** enacted on 14 June 2013 (enacting a major agreement on a labour market reform reached on 11/01/2013 between three trade unions and employers’ federations).

### **More flexibility and competitiveness for firms**

- Creation of employment preservation agreements allowing employers to reduce nominal wages and/or working time in exchange for a commitment to preserve jobs in cyclical downturns
- New flexibility tools such as negotiating internal mobility
- More legal security in case of collective redundancy plans with clear time constraints

### **A reduction in labour market dualism**

- Increase in the unemployment insurance contribution rates paid by firms on some short-term contracts
- Incentives to hire young employees on permanent contracts
- Possibility to keep residual unemployment benefit rights when a worker finds a new job

**Measures in line with IO’s recommendations and welcomed by the OECD: “a major agreement”.**

## **Labour market: greater flexibility**

### **At the collective level**

An effective new procedure for dismissal since 2013

Choice at the firm level between a majority agreement with trade unions or administrative approval under a 21-day fast-track procedure, shortened deadlines for appeal

#### **Since the law came into effect:**

- **A negotiation with trade unions was launched in the majority of cases (70%)**
- **Legal disputes fell from about 20-30% to 7%.**

### **At the individual level**

Clear increase in contract terminations (« ruptures conventionnelles »)



**Next on the agenda**



## **More reforms on the agenda (2015 – 2016)**

### **Focus on digital technology and innovation**

#### **New economic opportunities Act (Q1-2016)**

- Further improves the environment for businesses
- **Reduces the boundaries between insiders and outsiders** to create more efficient business solutions and strengthen our attractiveness for newcomers
- Reforms the French economy to get the most from the digital revolution
- Creates a new approach to the job market and takes into consideration the recent emergence of the gig economy.

#### **New measures to give more flexibility in working policy at branch and company level**

#### **Reform of the unemployment insurance scheme (Q1-2016)**