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France's economy, 2nd largest in Europe, is embarked on an unprecedented reforms programme

Moody's recent decision to downgrade France's long-term credit rating by one notch does not question either the economic fundamentals of France or her credit-worthiness.

The robustness of the French economy has been recognised by investors for decades. France benefits from a solid economy, with numerous advantages. A fast-growing population of 64.7 million with strong purchasing power. A strategic location at the heart of the European Union, the world's largest single market, which offers direct access to nearly 500 million consumers. A strong, diversified industrial base, powered notably by the largest pharmaceutical, aerospace, nuclear and agri-food sector in Europe, the continent's second-largest chemical industry and its third-largest ICT sector. Overall, France is home to over 3.1 million companies. France also has a highly qualified workforce, among the top three most productive in the world, according to the International Labour Organization. France's world-class infrastructure is also well-known and its dynamic energy market is one of the most competitive in the world. These features, combined with high private savings (over 15% of gross disposable income) and the relatively moderate debt levels of private economic agents (households and companies) makes France one of the strongest economies in the world. The French banking sector is robust, and even more than last year with a very good funding, lower exposure to certain countries, and increased own funds (core tier-one capital of 9%).

France is one of the best-rated countries in the world and Europe. In its recent decision to affirm France's long term credit rating with a negative outlook, Standard and Poor's places particular emphasis on the Government's commitment to conduct fiscal and structural reforms to redress public finance and restore growth. Moody's grants a similar rating to France, despite the recent downgrade from AAA to only one notch lower. The French public borrowing costs are very low : in the medium- and long-terms, 1.87% for 2012 as of Friday 23rd, and 1.02% on an average.

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At the initiative of President François Hollande, the French government is leading unprecedented reforms to boost growth and employment. Support to French companies' competitiveness is at the heart of the government's strategy. The National Pact for Growth, Competitiveness and Employment has been conceived for this purpose. It was announced by Prime Minister Jean-Marc Ayrault on November 6th.

A new corporate tax credit for competitiveness and employment, amounting to € 20 billion per year, will be implemented through a budget law in early 2013. The size of the tax credit will be calculated in proportion to the gross payroll of each company (for salaries not exceeding 2.5 times the legal minimum wage). Such a measure is designed to strengthen the position of French companies in terms of international competitiveness. It will also alleviate the labour cost of SMEs targeting the national economy level. Overall, this measure is equivalent to a 6-% cut in labour costs. This tax credit will be used for investment, education, quality, employment, research and innovation. In line with the recommendations from international organizations, such as the IMF and the European Commission, the French Government has chosen to fund the tax credit in a balanced manner between expenditure cuts (a € 10-billion cut in public spending will be achieved through the modernization programme for public action) and increased revenues (€ 10-billion of additional revenues, with two-thirds coming from a VAT increase and one-third from a new "green" tax, all supported by households).

The French government has also decided to extend better support to SMEs and intermediate-size enterprises (ISEs) to increase their export capacity, through different channels. Not only will SMEs and ISEs benefit from the effect of the tax credit as early as 2013, but a new bank, called *Public Investment Bank*, will also provide them a guarantee on their cash flow management and support the international expansion of their activities. Besides, riskier and longer-term investments will be encouraged through a reform of the tax system on savings. The government will also explore all ways to make the access of SMEs and ISEs to capital markets easier, including the maintenance of the current income tax and wealth tax exemptions for investments in SME equity. A "small business act" that will encourage the greater use of public purchases to foster the development of SMEs with innovative activities is also about to be approved.

The Pact also includes reforms aimed at improving general business environment: "network contracts" between employers in the industry sectors, trade unions and the State, will be launched to develop mutual commitments for innovation, investment and employment; mechanisms for export financing will be aligned with the best foreign practices (direct public financing as the KfW does in Germany); administrative procedures for companies will be simplified in order to reach Doing Business standards (data collection, pre-filling administrative forms, registration procedures, streamlining the number of company subsidy schemes), etc.

Last but not least, innovation in French companies will be fostered through the maintenance and stabilization of several schemes with proved effectiveness (such as the research and development tax credit). In addition, the *Public Investment Bank* will design programs encouraging innovation; administrative complexities will be lifted to strengthen the link between public and private research spending; digital technologies and uses will be widely spread; strategic clusters with an international scope will be given particular attention; very high-speed Internet technology will be spread throughout the country.

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All in all, the National Pact for Growth, Competitiveness and Employment embodies the resolve of the French government to tackle the structural challenges the French economy faces today and to secure a winning position in the globalized economy. Only this approach, together with a renewed commitment to deficit and debt reduction, will enable France to secure strong growth and jobs in the coming years, while maintaining a high level of solidarity and public services.

The recovery of French public finance has started, with no less than six structuring financial texts having been presented to the Parliament in six months (including the Organic Law on Public Finance Planning and Governance) and the reaffirmation of our budgetary targets, particularly the goal of 3% of public deficit by 2013.

The growth potential should improve not only through the swift implementation of the National Pact for Growth, Competitiveness and Employment, but also through the reform of financing the economy, the ongoing negotiations for job security and modernising public action. In particular, labour market reforms are in full swing: targeted contracts for the future have been voted by the Parliament, the ongoing negotiation between social partners has reached agreement on generation contracts and initial steps on part-time employment. New measures on "flexsecurity", an agreement between trade unions and employers granting workers more security in their employment perspectives and giving firms more flexibility in adjusting their payroll in times of adverse economic conditions, will be announced in early 2013.

The stabilisation of the international environment, particularly in the Euro zone, should help France to reach its goals. In the Euro zone, unprecedented efforts have been made at various levels: the European Union Stability and Growth Pact in June, the ECB declarations, the stabilisation of the situation in Spain and Italy, and deeper economic integration including financial supervision.

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