COUNCIL OF
THE EUROPEAN UNION

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from:	Permanent Representatives Committee
to:	Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on France's 2013 national reform programme and delivering a Council opinion on France's stability programme for 2012-2017

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2013) 360 final.

ANNEX

Recommendation for a

COUNCIL RECOMMENDATION

on France's 2013 national reform programme

and delivering a Council opinion on France's 2013 stability programme for 2012-2017

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission[3],

Having regard to the resolutions of the European Parliament[4],

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

After consulting the Economic Policy Committee,

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1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 COM(2013) 360 final.
4 P7_TA(2013)0052 and P7_TA(2013)0053.

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, on the basis of the Commission's proposals, the Council adopted on 13 July 2010 a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States[5], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 Strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a recommendation on France's national reform programme for 2012 and delivered its opinion on France's updated stability programme for 2011-2016.

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[5] Council Decision 2013/208/EU of 22 April 2013.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey[6], marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report[7], in which it identified France as one of the Member States for which an in-depth review would be carried out.

(6) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(7) On 10 April 2013, the Commission published the results of its in-depth review[8] for France, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that France is experiencing macroeconomic imbalances, which require monitoring and decisive policy action. In particular, developments related to a deterioration in the trade balance and competitiveness, driven both by cost and non-cost factors, also in the context of a deteriorating external position and high public debt deserves continued attention so as to reduce the risk of adverse effects on the functioning of the French economy and of the Economic and Monetary Union, notably given the size of the French economy.

(8) On 30 April 2013, France submitted its 2013 stability programme covering the period 2012-2017 and its 2013 national reform programme. In order to take account of their inter-linkages, the two programmes have been assessed at the same time.

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6 COM(2012) 750 final.
7 COM(2012) 751 final.
8 SWD(2013) 117 final.

(9) Based on the assessment of the 2013 Stability Programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that despite considerable consolidation efforts that brought the headline deficit down from 7.5 % of GDP in 2009 to 4.8 % in 2012, France is not expected to correct its excessive deficit by 2013 as recommended by the Council in late 2009. This is linked notably to a worse economic environment than expected at the time the recommendation was made which was only partly compensated by windfall revenues, while the effort was somewhat backloaded. The macroeconomic scenario underpinning the budgetary projections in the programme is plausible for 2013 but overly optimistic for 2014. In particular, the authorities anticipate that after a standstill in 2012 (0%) and in 2013 (+0.1%), GDP will grow by 1.2% in 2014 while assuming that fiscal measures are taken to bring the general government deficit to 2.9% of GDP. By comparison, the Commission forecasts that GDP will grow by 1.1% in 2014 based on a no-policy-change assumption, a scenario which only takes into account measures that have been adopted or sufficiently specified and hence forecasts a deficit of 4.2% of GDP. The main objective of the budgetary strategy outlined in the programme is to achieve the medium-term objective (MTO), which is a balanced budget in structural terms, as in last year's programme. This is more ambitious than required by the Stability and Growth Pact. The target year for reaching the MTO is 2016, compared with 2015 in the previous stability programme. The planned headline deficit set by the stability programme is consistent with a correction of the excessive deficit by 2014, one year after the revised deadline set by the Council under the excessive deficit procedure in late 2009. Given the overly optimistic growth forecast in the programme for 2014, unless additional measures are taken to substantially reinforce the effort for that year, the Council considers that the fiscal effort envisaged by the authorities is not compatible with an actual correction of the excessive deficit by 2014. Planned savings and additional revenue also lack specifics. In these circumstances, measures need to be specified for both 2014 and 2015 to credibly ensure that the excessive deficit is corrected by 2015 at the latest [as recommended by the Council]. In 2016, the structural balance, as recalculated by the Commission, is expected to be -0.4 % of GDP (-0.3 % in 2017) and thus the MTO would not be reached by the end of the programme horizon. Progress towards the MTO in 2016 is expected to represent 0.3% of GDP, which is below the 0.5% of GDP benchmark.

The general government debt has increased substantially since the beginning of the crisis. Starting from 64.2% in 2007, the ratio of debt to GDP reached 90.2% in 2012 and is projected to increase further to 96.2% by 2014 according to the Commission services' 2013 Spring Forecast. The authorities expect the debt ratio to peak at 94.3% of GDP in 2014 and then to drop to 88.2% in 2017. France will be in a transition period from 2016 regarding compliance with the debt criterion.

(10) Given the high and still increasing debt and the fact that the deadline to correct the excessive deficit is postponed again, to 2015, it is all the more important that the 2013 budget is strictly implemented and substantial consolidation efforts are firmly pursued in subsequent years. In particular, it is crucial that France's public spending grows significantly less rapidly than potential GDP as improvements in the structural deficit have so far been mainly revenue based. In this respect, the on-going public spending review ('Modernisation de l'action publique'), whose scope includes local government and social security administrations in addition to central government, should provide indications to further improve the efficiency of public expenditure. There is also room for further streamlining of the different administrative layers and competences in order to achieve further synergies, efficiency gains and savings. The planned new decentralisation law should address this issue. In view of the expected increase over the medium-and long-term in public health care expenditure, future public expenditure on health care requires greater scrutiny and efficiency, in particular in pharmaceutical spending. The most recent projections by the Pensions Advisory Council ('Conseil d'orientation des retraites') point to persistent deficits of the pensions system by 2018, contrary to the 2010 reform objective of achieving a balanced system by that time. In addition, the partial rollback of the 2010 reform goes against the Council recommendation.

Hence, the pension system will still face large deficits by 2020 and new policy measures are urgently needed to remedy this situation while preserving the adequacy of the system. Such measures could include further increasing both the minimum and the full-pension retirement ages as well as the contribution period to obtain a full pension, adapting the indexation rules and reviewing the currently numerous exemptions to the general scheme for specific categories of workers. The French Government has decided to fully associate the social partners to design the reform and enhance its ownership. Given its negative impact on the cost of labour, an increase in the level of social security contributions should be avoided. In light of the public finance challenge faced by France, it is of critical importance that fiscal measures are complemented by increased efforts to pursue structural reforms in order to support and increase the long-term growth potential of the French economy.

(11) As shown by the 2013 In-Depth Review (IDR), France’s competitiveness remains a significant challenge, as the strong erosion of its export markets shares in recent years shows. The French government proposed in November 2012 several policy measures in the context of the ‘Competitiveness Pact’. The introduction of a corporate income tax credit (crédit d’impôt pour la compétitivité et l’emploi — CICE), with a planned full-year impact of EUR 20 billion, is a significant step which should contribute to lowering labour costs. There is room for further action as the new tax credit does no more than halve the gap between the French tax wedge and the OECD average at the level of the median wage. In addition, the fiscal measures affecting companies, including reductions in tax expenditures, adopted since 2010 result in an overall increase in business taxation, even when corrected for that measure. The increase in the minimum wage decided in July 2012, while limited, may have a negative impact on job and competitiveness, as stressed by the 2012 Council recommendation. Between 2002 and 2012, the hourly minimum wage increased by 38% (16% in real terms). The high level of the minimum wage, which represents 60% of the median wage, is compensated for employers by a number of social security contribution exemptions for employers. The related cost for public finances has increased rapidly between 1992 and 2002 and stabilised since then at close to 1 % of GDP. In addition, alternative instruments such as income support schemes (the ’Prime pour l'emploi’ and the ’Revenu de solidarité active’) are more efficient instruments than the minimum wage to address in-work poverty.

(12) As regards non-price competitiveness, while the government has recently renewed its export strategy, supporting the development of export oriented networks and partnerships would promote the internationalisation of SMEs[9]. More generally, measures could be taken to ensure that the business environment is conducive to SMEs' growth. Despite considerable efforts deployed by firms in R&D-intensive sectors and sizeable government support (e.g. the research tax credit), high- and medium-high-tech sectors represent only a modest and declining share of the French economy. Hence, there is a need to further foster the creation and growth of SMEs and mid-tier companies (ETI) in these sectors by improving the framework conditions that encourage innovation and entrepreneurship. The cluster policy that has been developed to link public research and private companies might also be further geared towards commercial exploitation of R&D&I, positive externalities between private companies located closely to one another and internationalisation of SMEs. In addition, PhD studies and research experience should be made sufficiently attractive to further foster linkages between private companies and research institutions.

(13) With regard to services, only limited progress was seen in the course of 2012. In particular, no horizontal reform was initiated to remove unjustified restrictions in regulated sectors and professions. Many professional service providers still face restrictions as regards their legal form and shareholding structure (e.g. restrictions on capital ownership for veterinarians and lawyers). Other significant barriers to entry or practice (such as commercial communications, quotas or territorial restrictions) remain in a number of sectors (such as taxis, certain health professions, notaries and other legal professions). The retail sector is still subject to a number of regulations, such as cumbersome and time-consuming authorisation procedures for the establishment of retail outlets. In addition, the existing ban on selling below costs induces a number of distortions while the objective of supporting producers and small distribution outlets could be effectively achieved through less distortionary measures.

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9 European Commission (2011), "Small business, big world - a new partnership to help SMEs seize global opportunities", COM(2011) 702.

These excessive restrictions in regulated sectors and professions weigh on competition and tend to raise their prices. As the in-depth review shows, higher prices in intermediary services, which account for close to a quarter of production costs in the manufacturing sector, ultimately impact on the external competitiveness of French firms. Limited progress was achieved in 2012 on network industries. The French electricity market remains one of the most concentrated in the EU. Regulated prices in electricity and gas distort competition and continue to act as a barrier for new entrants. Regulated tariffs for non-household customers should be removed according to the timetable agreed with the French authorities. More interconnection capacity with neighbouring countries and the launch of the tenders for hydro-concessions would also contribute to fostering competition in the electricity market. In the railway sector, the rail-freight market has been on decline for several years (e.g. volume in tones/km contracted by 17 % between 2006 and 2011), while rail passenger transport is not open to competition, except for international services. The forthcoming reform should ensure that any new 'unified infrastructure manager' remains independent of the incumbent operator to guarantee new entrants fair and non-discriminatory access.

(14) The French tax system remains complex and lacks efficiency due to the wide range of exemptions, special allowances, but also frequent changes in legislation. Despite efforts to reduce and streamline tax expenditures, the amount of foregone revenue from these remains high. The choice of a broad base-low rate approach for corporate and personal income taxation would be more conducive to growth and social welfare. The intermediate VAT rate is set to increase from 7 % to 10 % from January 2014. This is a move in the right direction but additional efforts are necessary. Overall, the cost of tax and social-security exemptions remains very high up to 10% of GDP. Despite the demonstrated ineffectiveness of some reduced VAT rates, such as those for restaurant services, no sufficiently differentiated policy measures have been taken. The introduction of the CICE tax credit, financed partly through the above-mentioned increase in the intermediate but also standard VAT rates, shifts the tax burden away from labour. Further scope for action is however needed, in particular to rebalance the share of environmental taxes. Last year, France adopted some measures to address tax incentives to indebtedness in corporate taxation.

Interest deduction is limited above EUR 3 million and 15 % of the interest above that limit will be disallowed for tax deductibility in 2013, a share which will be brought to 25 % in 2014. However, there is scope for further improvement**.**

(15) The unemployment rate increased from 9.7% in 2010 to 10.2% in 2012. The Commission forecasts that the unemployment rate will increase to 10.6% in 2013 and 10.9% in 2014 due to persistently weak economic growth. Against this background, the segmentation of the French labour market continues to be a source of concern. The likelihood of moving from a temporary to a permanent job was only 10.6% in 2010, as against 25.9% on average in the EU. As a result, low-skilled workers in precarious forms of employment tend to bear the brunt of any adjustment process in the labour market. A law was adopted in May 2013, based on the inter-professional agreement (ANI) on securing jobs concluded between the social partners in January 2013. It foresees increased rights for workers, addresses the legal uncertainty of dismissals and provides greater flexibility for employers. The law is a positive step towards a more fluid labour market. On some specific issues the actual implementation of this reform, as well as its impact, is linked to the adoption of further branch/enterprises agreements which will be needed before the agreement can fully enter into force.

(16) A sixth of young people in France leave education and training without a qualification. This is particularly worrying as the unemployment rate of young people was of 25.4% at the end of 2012 and as the risk of being unemployed was almost two times higher for the least qualified young people. Schemes to promote apprenticeships should reach in particular the least qualified young people. The alignment of national schemes to the Youth Guarantee Council recommendation should play a structuring role in responding to these challenges.

Despite reforms initiated in 2009, the French participation rate of adults in lifelong learning (5.7% in 2012, low-skilled adults: 2.5%) is below the EU average. The planned transfer of competences to the regional Councils might provide an opportunity to address the weaknesses of the current system. Despite its significant raising trend, the employment rate for workers aged 55-64 is still low, at the median of the EU countries (45.7% in the fourth quarter of 2012), and it has closed by only half the gap with EU-average since 2008 (from 7.4 points in 2008 to 3.8 points). Unemployment is rising among older people, at the same rate as overall unemployment.

Although a step in the right direction, it is not clear to what extent the 'generation contracts' will contribute to the employment of older workers and facilitate a return to work by older jobseekers. French public spending on unemployment benefits rose by 5.3 % in 2012 and are expected to further increase by 6.1 % in 2013 according to the stability programme. The cumulated deficit of the unemployment regime, which would be close to 1 % of GDP by 2013 calls for a reform of the unemployment benefit system. In particular, some elements, such as the eligibility conditions, the degressivity of benefits over time or the replacement rates for workers with the highest wages should be adapted to ensure that incentives to work are adequate.

The new tripartite convention of the public employment service (Pôle emploi) foresees a differentiated follow-up of jobseekers. The job counsellor's portfolio has however further increased due to the rising unemployment level and the reorientation of the Pôle emploi strategy is hampered by the weak economic situation. All in all, there is a need to take further action in view of the negative economic prospects and the expected further increase in unemployment in France.

(17) In the context of the European Semester, the Commission has carried out a comprehensive analysis of France's economic policy. It has assessed the stability programme and national reform programme, and presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in France but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the European Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (6) below.

(18) In the light of this assessment, the Council has examined France's stability programme, and its opinion[10] is reflected in particular in recommendation (1) below.

(19) In the light of the Commission's in-depth review and this assessment, the Council has examined the national reform programme and the stability programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances are reflected in recommendations (1), (2), (3), (4), (5) and (6) below.

(20) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis the Council has issued specific recommendations addressed to the Member States whose currency is the euro. France also should ensure the full and timely implementation of these recommendations.

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10 Under Article 5(2) of Council Regulation (EC) No 1466/97.

HEREBY RECOMMENDS that France should take action within the period 2013-2014 to:

1. Reinforce and pursue the budgetary strategy in 2013. Enhance the credibility of the adjustment by specifying by autumn 2013 and implementing the necessary measures for the year 2014 and beyond to ensure a correction of the excessive deficit in a sustainable manner by 2015 at the latest and the achievement of the structural adjustment effort specified in the Council recommendations under the EDP. Use all windfall gains for deficit reduction. A durable correction of the fiscal imbalances requires a credible implementation of ambitious structural reforms to increase the adjustment capacity and boost growth and employment. Maintain a growth-friendly fiscal consolidation course and further increase the efficiency of public expenditure, in particular by proceeding as planned with a review of spending categories across all sub-sectors of general government. Take action through the forthcoming decentralisation law to achieve better synergies and savings between central and local government levels. After the correction of the excessive deficit, pursue the structural adjustment effort at an adequate pace so as to reach the MTO by 2016. Take measures by the end of 2013 to bring the pension system into balance in a sustainable manner no later than 2020, for example by adapting indexation rules, by increasing the full-pension contribution period, by further increasing the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy and by reviewing special schemes, while avoiding an increase in employers' social contributions, and increase the cost-effectiveness of healthcare expenditure, including in the areas of pharmaceutical spending.

2. Ensure that the reduction in the labour cost resulting from the 'credit d'impôt compétitivité et emploi' yields the planned amount and that no other measure will offset its effect. Take further action to lower the cost of labour, in particular through further measures to reduce employers' social-security contributions, in association with social partners. Ensure that developments in the minimum wage are supportive of competitiveness and job creation, taking into account the existence of wage support schemes and social contribution exemptions.

3. Take further measures to improve the business environment and develop the innovation and export capacity of firms, in particular SMEs and enterprises of intermediate size. In particular, launch the announced simplification initiative of the regulatory framework, and improve the framework conditions for innovation, by enhancing technology transfer and the commercial exploitation of research, including through a reorientation of the competitiveness poles.

4. Take action to enhance competition in services; remove unjustified restrictions in the access to and exercise of professional services, notably regarding legal form, shareholding structure, quotas and territorial restrictions; take action to simplify authorisation for the opening of trade outlets and to remove the ban of sales at a loss; remove regulated gas and electricity tariffs for non-household customers and strengthen interconnection capacity with neighbouring countries; in the railway sector, open domestic passenger transport to competition.

5. Pursue efforts to simplify the tax system and improve its efficiency, while ensuring continuity of tax rules over time. Take additional measures to remove the debt bias in corporate taxation. Step up efforts to reduce and streamline personal and corporate income tax expenditures while reducing statutory rates; bring reduced VAT rates closer to the standard rate and remove inefficient reduced rates. Take further measures shifting the tax burden from labour to environmental taxation or consumption.

6. Implement fully and without delay the January 2013 inter-professional agreement, in consultation with the social partners. Take further action to combat labour-market segmentation, in particular to address the situation of interim agency workers. Launch urgently a reform of the unemployment benefit system in association with the social partners and in accordance with national practices to ensure sustainability of the system while ensuring that it provides adequate incentives to return to work. Enhance the employment rate of older workers and stimulate their participation in the labour market. Take specific action to improve the employment perspective of older unemployed people in particular through specific counselling and training. Increase adult participation in lifelong learning, especially of the least qualified and of the unemployed. Ensure that public employment services effectively deliver individualised support to the unemployed and that active labour market policies effectively target the most disadvantaged. Take further measures to improve the transition from school to work through, for example, a Youth Guarantee and promotion of apprenticeship.

Done at Brussels,

For the Council
The President