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Assessment of the 2011 national reform programme and stability programme for FRANCE

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

on the National Reform Programme 2011 of France and delivering a Council opinion on the updated Stability Programme of France, 2011-2014

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1. INTRODUCTION

France was relatively less affected by the economic and financial crisis than other EU Member States, as sizeable economic stabilisers sustained the disposable income of households. As a result, private consumption did not contract. Another explanation for the relative resilience of the French economy was its relatively low degree of openness to world trade. This protected France to some extent from the effects of the collapse in world trade during the recession. The banking sector also proved resilient after rapid expansion in the decade before the crisis to finance dynamic housing activity. In 2010, the economy recovered and, overall, GDP growth came out at 1.5%. However, the economic crisis has had a substantial impact on France's public finances and level of unemployment. In this context, the French authorities submitted their National Reform Programme (NRP) and their Stability Programme (SP) to the Commission on 3 May 2011. These documents also include the commitments that the French government gave on 25 March 2011 under the Euro Plus Pact with the objective of improving competitiveness and contributing to a higher degree of convergence in the euro area.

2. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 RECENT ECONOMIC DEVELOPMENTS

In 2010, domestic demand was sustained by the government's recovery plan, which supported households' purchasing power and consumption. Investment turned positive again after strong and long correction. Nevertheless, the trade balance of goods has not improved after a protracted deterioration (see Table I in the annex), partly due to a decline in labour cost competitiveness, particularly after a single minimum wage was reintroduced between 2003 and 2005. However, the loss in export price competitiveness during the last decade has been relatively limited, as exporters have partly offset the decline in cost competitiveness by reducing their profit margins. Regarding non-price competitiveness, particularly innovation-related, France's gross domestic expenditure on R&D currently stands just above the euro area average, but the share of R&D funded by business has been decreasing over the past decade. In 2008, France breached, for the second time, the 3% of GDP limit set for the general government deficit. This cannot be completely attributed to the economic slowdown but is also related to insufficient structural adjustment during the years when economic growth was at or above potential. In May 2008, the Commission already issued policy advice to carry out the necessary consolidation of public finances in order to support the reform process.

2.2 OUTLOOK

Growth prospects over the forecast period appear favourable, with investment set to pick up and destocking to slow down. Firms are still benefiting from relatively low interest rates. Moreover, the recent reform of the local business tax (*taxe professionnelle*), which was based on productive assets, could foster productive investment. Households' confidence is still low, owing to a rather high unemployment level and inflationary pressures, but their savings rate, which reached historically high levels during the crisis, is likely to decrease moderately. Against this backdrop, according to the latest Commission forecast, growth is projected to reach 1.8%[1] in 2011 and 2.0% in 2012, core inflation is forecast to stay close to 1% over 2011 and HICP is expected to rise to 2.2% on average, as oil and agricultural commodity prices have gone up significantly. Housing prices reached historical highs in 2010, but, thanks to lending practices (preference for fixed interest rates and limits on borrowers' financial effort based on their disposable income), households' debt-servicing capacity is not affected by fluctuations in market values. However, the protracted loss of cost and non-price competitiveness, resulting in a gradual deterioration of the current account, could impede the recovery in the medium run, while the increase in debt-service requirements could crowd out more productive growth-enhancing expenditure. According to the latest update of the Stability Programme, the general government deficit improved slightly in 2010 to end on 7% of GDP, compared with 7.5% in 2009. The deficit should decline continuously over the programme period; this decline will be concentrated on the expenditure side and will be seen at all sub-government levels. The average annual fiscal effort, based on the structural balance recalculated by the Commission using the commonly agreed methodology, would reach 0.9 % of GDP on average each year from 2011 to 2013.

3. MONITORING, PROCEDURAL ISSUES AND GOVERNANCE

France ensured close coherence between its NRP and SP. The two documents outline, in an integrated manner, the fiscal consolidation efforts on the one hand and key structural reforms underpinning macroeconomic stabilisation on the other. In the NRP, France also set its national targets in the fields of employment, R&D, education, energy and climate change and poverty reduction. However, France set a poverty-reduction target for 2012 only and the national indicators on low work intensity and material deprivation are not consistent with the two related Europe 2020 indicators.

Overall, the challenges mentioned in the NRP are consistent with the bottlenecks to growth, but the NRP focuses on existing policies and reforms. The relatively limited number of new reforms can be partly explained by the need to assess various recently adopted reforms before taking further steps. However, as explained below, the proposed reform agenda does not seem fully consistent with the scale of some macroeconomic challenges, in particular concerning the labour and product markets.

The NRP was prepared in consultation with the social partners and local authorities. The SP and the NRP were put to a vote in the French parliament.

[1] The Commission's projections were made before the 1.0% quarter-on-quarter economic growth result for the first quarter of 2011 was released.

Table 1: French Europe 2020 targets

Europe 2020 targets	Current situation in France	French Europe 2020 target in the NRP
R&D investment (% of GDP)	2,21% (2009)	3%
Employment rate (%)	69,2% (2010)	75%
Early school leaving (%)	11,8% (2008)	9,5%
Tertiary education attainment (%)	43,3% (2009)	50%
Reduction of number of people in or at risk of poverty or exclusion	11.1 million people at risk of poverty or exclusion (2009)	2012 target: reduction by 1/3 on the basis of the national at-risk-of-poverty rate or 1,600,000 by 2012.
Energy efficiency – reduction of energy consumption in Mtoe[2]		Reduction in primary energy consumption: 34.00 Mtoe
Reduction in greenhouse gas emissions (from sources not covered by the Emission Trading System)	-4%[3]	-14%[4]
Renewable energy (% of total energy use)	12,75% (2010)	23%

4. Policy challenges and assessment

4.1 Challenges

The most important policy challenge France faces is related to reduction of the high debt stock and the need for budgetary consolidation. France was one of the European countries that, in 2008, breached the 3% of GDP limit set for the general government deficit (for the second time in its case). This cannot be completely attributed to the economic crisis, which started in the third quarter of 2008; it is also related to insufficient structural adjustment during the years when economic growth was at or above potential. The high level of the general government deficit, set to reach 5.3% of GDP in 2012, according to the Commission's spring 2011 forecast, is feeding in return a sharp increase in public debt: the debt-to-GDP ratio is expected to increase continuously throughout the forecast period, eventually reaching nearly 87% of GDP in 2012. As a result, debt-service requirements are expected to increase continuously and the French authorities anticipate that, in 2013, interest payments could be the biggest budget item of central government, ahead of education. While the long-term budgetary impact of ageing (1.8% of GDP, according to the Commission's 2009 Sustainability Report, not taking into account the latest pension reform) is clearly lower than the EU average (3.2% of GDP), primary surpluses over the medium term are necessary to reduce the risks to the sustainability of public finances[5]. However, the latest reform of the pension system was a significant step in the right direction. Reducing the high general

[2] As estimated by the Commission. Mtoe = Million tonnes of oil equivalent.

[3] This quantity corresponds to the 2005-2008 evolution of the emissions not covered by the EU Emissions Trading System. As the scope of the Emissions Trading System evolved between 2005 and 2008, these emissions are estimated on the basis of the main relevant UNFCCC source categories (as opposed to the difference between total emissions and EU ETS verified emissions).

[4] The national emissions limitation target defined in Decision 2009/406/EC (or "Effort Sharing Decision") concerns the emissions not covered by the EU Emissions Trading System. It is expressed as the minimum relative decrease (if negative) or the maximum relative increase (if positive) compared to 2005 levels.

[5] In the Commission's 2009 Sustainability Report the risks to the sustainability of public finances were assessed as medium.

government structural deficit (4.9 % of GDP in 2010) and the high debt level (81.7 % of GDP at the end of 2010) will contribute to improving the long-term sustainability of public finances and the growth prospects. Risks to fiscal consolidation are related, among other things, to the fact that the revenue-to-GDP ratio is one of the highest in the euro area and the share of non-discretionary expenditure is quite substantial.

The second most significant challenge France has to face concerns the labour market, which remains highly segmented, owing to the employment protection legislation, which gives incentives to hire people on temporary rather than permanent contracts. As previous recessions have resulted in higher structural unemployment in France, it is equally important to maintain labour supply and avoid inactivity and loss of human capital.

The competitiveness of French firms is another major policy challenge. Overall, the development of French enterprises — particularly SMEs — is hampered by, among other factors, the high labour tax wedge and marginal corporate income tax rates combined with numerous exemptions, leading to a rather complex tax system. Moreover, regulatory entry barriers remain comparatively high in the retail sector, regulated trades and legal professions, although the recent Modernisation Act (*Loi de Modernisation de l'Economie)* has led to some improvements. Lastly, the level of business expenditure on R&D is currently relatively low by international standards, partly due to the economic structure of the country, moderately oriented towards high-tech manufacturing. This level is also the result of insufficient engagement of SMEs in R&D. Substantial investment in renewable energy could be a priority in order to achieve the 23 % target by 2020.

<u>Box 1. Action and commitments under the Euro Plus Pact</u>

Based on the NRP, the main steps taken by France in the context of the Euro Plus Pact are as follows:

First, there are initiatives to improve the fiscal framework and the sustainability of public finances. A constitutional reform has been announced, which, if adopted by the Parliament, would introduce binding multiannual budget planning. For each year, a minimum level of fiscal revenue would be laid down, together with a maximum growth rate for public expenditure, in volume terms. Each year, the annual central government and social security budgets will set targets on both the revenue and the expenditure sides, in line with those presented in the multiannual budget plan, otherwise the Constitutional Court would not enforce them. In addition, the French authorities have announced measures to improve monitoring and achieve the objectives set for healthcare spending.

Second, in order to increase labour participation, a reduction of employers' charges for apprenticeship in SMEs, along with a 'bonus-malus' system for other companies (with more than 250 employees) complying with apprenticeship quotas, are aiming to improve school-to-work transition in order to tackle unemployment amongst younger workers. The target is to increase the number of young workers under apprenticeship from 600 000 to 800 000 by 2015. Another target is to create 200 000 additional childcare places by 2012, to make it easier to balance personal and professional life, which would mostly improve employment prospects for women.

Third, in order to improve the higher education system and promote R&D and innovation, the 'investissements d'avenir' programme (EUR 35 billion from the State) is channelling EUR 22 billion towards higher education and research. All universities will become autonomous by the end of 2012. In 2011 their financial resources will increase and they are exempted from the general rule on replacing only half of retiring civil servants. Groupings of higher education institutions will be speeded up and a national fund (EUR 1 billion) is being set up in order to professionalise promotion of research by technology transfer entities.

Finally, in order to decrease the administrative burden and improve the business environment, steps have been taken or announced on administrative and legal simplification, such as the appointment of a national commissioner in charge of simplification and the decision to introduce mandatory impact assessments prior to adoption of any implementing regulation.

Overall, France is taking steps under the Euro Plus Pact in those areas where the main challenges lie, namely public finances, the labour market and competitiveness (focusing on the innovation dimension, on non-price competitiveness and on the business environment). However, some commitments are subject to political risks (constitutional reform) or implementation risks. Many look like natural extensions of public policies launched earlier, particularly concerning fiscal governance or support for higher education and R&D.

4.2 Assessment of policy agenda

4.2.1 Macroeconomic policies

Public finances

The programme presents a macroeconomic scenario with economic growth reaching 2% in 2011, 2.25% in 2012 and 2.5% in 2013 and 2014. The growth levels expected in 2011 and 2012 are higher than the Commission's projections (1.8%[6] and 2.0%) by around 0.25 percentage points. Beyond 2012, the macroeconomic scenario presented by the French authorities can be considered optimistic, since the difference from the Council sub-group[7] projections widens to 0.5 percentage points. In terms of growth composition, the difference in 2011 stems almost entirely from the contribution of inventories to GDP and would have no significant impact on budgetary projections. Regarding 2012, the authorities are more optimistic than the Commission concerning private consumption and external trade; regarding the latter, they expect imports to decelerate, whereas the Commission expects imports to accelerate in 2012, in line with the relatively dynamic domestic demand. In view of the difference in the private consumption projections in 2012, indirect taxes are expected to turn out to be lower than forecast in the programme for this year.

As regards HICP inflation, the authorities expect 2.0% in 2011 and 1.9% in 2012, whereas the Commission's 2011 spring forecast pointed to a more uneven trend: 2.2% and then 1.7%. This is partly related to the underlying assumptions for oil prices in the programme (USD 100 starting from the second quarter of 2011 until the end of 2012), significantly lower than those assumed by the Commission (peaking above USD 120). The sensitivity analysis in the Stability Programme shows that an increase of oil prices by USD 20 would lower GDP by 0.1 percentage points in 2012, helping to explain the gap of 0.25% recorded for growth.

According to the latest update of the SP, the general government deficit reached 7% of GDP in 2010, 1.2 pp. of GDP lower than expected in the February 2010 update of the Stability Programme. Once corrected for the denominator effect, the revenue-to-GDP ratio turned out

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[6] The Commission's projections were made before the 1.0% quarter-on-quarter economic growth result for the first quarter of 2011 was released.

[7] The Ageing Populations and Sustainability Working Group of the Economic Policy Committee.

to be higher than forecast in the previous update, entirely due to the better starting position at the end of 2009, which reflected a sharp rebound in tax revenue. On the expenditure side, one positive surprise was, among other factors, the lower than expected budgetary cost of some discretionary measures (such as the local business tax reform).

Regarding 2011, the Commission's 2011 spring forecast expects the deficit to reach 5.75% of GDP, in line with the official forecast presented in the latest update of the programme, compared with a target of 6% of GDP set in the previous update of the Stability Programme. This improvement is partly related to the better 2010 deficit outcome, leading to a base effect of 0.5% of GDP once corrected for exceptional factors (including a lower transitory impact on the 2010 budget of the reform of the local business tax), a delay in public investments in the context of the '*investissements d'avenir'* programme and a downward revision of revenue elasticity for 2011 (from 1.2 to 1.1). New measures on the revenue side would further improve the 2011 deficit by around 0.5% of GDP. Conversely, the downward revision of the macroeconomic scenario for 2011, the expected increase in interest payments and a downward revision of the non-fiscal revenue projection would deteriorate the deficit ratio by around 0.75 pp.

The main goal of France's medium-term budgetary strategy is to achieve the medium-term objective (MTO), i.e. a balanced budget in structural terms, as in the previous update of the Stability Programme. However, the MTO is not expected to be reached within the programme period nor does the programme mention a target year for achieving it. The consolidation path over the period 2011-2014 aims first of all to bring the deficit back to below the reference level of 3% of GDP by 2013, the revised deadline set by the Council under the EDP in 2009. The structural deficit recalculated by the Commission using the commonly agreed method is projected to decline from 4.9% of GDP in 2010 to 1.6% in 2014.

The deficit would decline continuously over the programme period, with targets unchanged compared with the previous update of the Stability Programme. This decline would be concentrated on the expenditure side at all sub-government levels. Measures identified so far include completely phasing out the stimulus measures in line with the European Economic Recovery Plan (around 0.25% of GDP) and ending the transitory impact of the reform of the local business tax (around 0.25% of GDP) in 2011. At central government level, spending is restricted by two spending norms, the first being the 'zero volume' annual increase in expenditure and the second the target of zero nominal growth, excluding interest and civil servants' pension payments. In accordance with the multi-annual budget, the more constraining rule has to be observed each year. As regards social security spending, the programme forecasts that, after an increase by 3% in 2010, the rise in national health spending (*objectif national de dépenses d'assurance maladie*, ONDAM) would be below 3% on average from 2011 to 2013. Moreover, a reform of the pension system was adopted in 2010. Concerning local authorities, the programme expects a subdued increase in their expenditure over the period covered, notably related to the decision to freeze, in nominal terms, transfers from central government to local authorities.

On the revenue side, a decrease in the budgetary cost of tax expenditure by around 0.75% of GDP over the period 2011-2013 is forecast (partly linked to the reduction in the number of items), compared with an unchanged policy scenario. However, it should be added that, while the programme puts the emphasis on the commitment to decrease the budgetary cost of tax expenditure and some concrete measures have already been taken in this direction as far as 2011 and 2012 are concerned (for a total of around 0.5% of GDP), recent announcements made by the French authorities point to the possibility of new tax expenditure on social contributions being introduced in 2011 already, in order to give private companies incentives to grant their employees a bonus this year. So far there is no information regarding the potential impact. Overall, while the measures on both the revenue and the expenditure sides are comprehensively described for the current year, beyond that there is a distinct lack of detail.

The budgetary projections are subject to significant downside risks in 2012 and 2013, which could jeopardise correction of the excessive deficit by 2013. The most significant one is linked to the optimistic macroeconomic scenario in 2012 and 2013. The sensitivity analysis provided in the programme underlines that, if different potential macroeconomic downside risks materialise, the deficit would be above 3% of GDP in 2013, leaving no leeway. The deficit targets could also be adversely affected by possible expenditure slippages: the curb on public expenditure at all sub-government levels in 2012 and 2013 is related to measures that still need to be specified. In addition, expenditure rules have not always been observed. On the revenue side, the programme does not specify which exemptions would be removed in the later years and possible new tax expenditure recently floated could cast doubts about whether this objective will be achieved. Overall, France’s track record when it comes to meeting its budgetary targets is, at best, mixed and medium-term budgetary projections have always been missed since 2000.

The average annual fiscal effort, based on the evolution of the structural balance recalculated by the Commission using the commonly agreed method, would be 0.9% of GDP on average each year from 2011 to 2013. Progress equivalent to a further 0.5% of GDP towards achieving the MTO would be made in 2014, in line with the adjustment benchmark set by the Stability and Growth Pact (0.5% of GDP per year after the excessive deficit has been corrected).

The average annual increase in primary expenditure would reach 2.1% over the programme period, approximately 1 pp. below the reference rate for prudent medium-term potential GDP growth (3.0% per year over the period 2011-2014 as calculated by the Commission). Moreover, the total amount of the discretionary revenue measures that have already been fully specified by the authorities would stand at around 1% of GDP in 2011. Hence, when assessed against the projected rate of medium-term potential output growth and taking into account specified discretionary revenue measures, expenditure projections seem to be on an appropriate adjustment path towards the MTO[8].

The debt ratio is forecast to follow an upward path up until 2012, due to the high general government deficit. The Commission’s spring 2011 forecast is above the official figures due to the higher projected deficits. The debt ratio is expected to start decreasing as from 2013 under the programme. The public loan would raise the debt-to-GDP ratio by an additional 0.25% of GDP each year (making a total impact of around 0.75% of GDP by 2014). At the beginning of 2011, the capital injections and loans granted to car manufacturers and to the French banking system of around 0.3% and 1% of GDP, respectively, had been almost completely reimbursed. Stock-flow adjustments are projected to be broadly neutral over the programme period. There are risks to the debt scenario, mainly related to the above-mentioned risks to the deficit targets. In the past, the debt targets of the successive programmes have regularly been revised upwards and often missed.

France is at medium risk with regard to the long-term sustainability of public finances. The long-term cost of ageing is clearly lower than the EU average, with pension expenditure showing a more limited increase, as a result of the pension reforms already enacted. The current budgetary position compounds the cost of ageing. Based on the current fiscal position,

[8] The assessment of the expenditure plans against the concept of ‘prudent fiscal policymaking’ (PFM), introduced by the proposed amendment to Regulation (EC) 1466/97, is to be regarded as a complementary analysis to gauge the sustainability of public finances.

debt would increase to 113.7% of GDP by 2020. Moreover, full implementation of the programme would not be enough to put debt on a downward path by 2020. Ensuring sufficient primary surpluses over the medium term would thus help to improve the sustainability of public finances.

Box 2: The 2010 reform of the pension system

The latest pension reform was adopted in November 2010. The key objective is to make the pension system financially balanced by 2020 (although it would be in deficit afterwards).
The statutory retirement age will be raised by two years at a rate of four months a year, starting with the 1951 generation. The minimum retirement age will be 62 for people born in 1956 (age reached in 2018) and the age that qualifies for a full pension (whatever the contribution length) will be 67 for people born in 1956 (who would reach retirement age in 2023). The contribution period will be increased to 41.5 years by 2020 and continue to rise thereafter in line with life expectancy. Some workers with long careers will still be able to retire before the minimum retirement age, between 58 and 61 (under specific conditions). This opportunity will be extended to people who started to work before the age of 18. People who are disabled will be able to retire before the minimum pensionable age, at 60 (under specific conditions).

Adequacy will be strengthened by increasing the compensation period (for the number of contributory years) for youth unemployment periods from 1 to 1.5 years. Women's pensions will be improved slightly by including maternity leave benefits in the reference wage for the pension calculation.

Convergence between the public-sector pension scheme and the *régime général* will be enhanced. The 2010 reform plans an alignment of contribution levels over the next ten years (currently 7.85% for the public sector and 10.55% for the private sector).

The consolidation strategy announced by the French authorities is backed by structural reforms, targeting long-term sustainability of public finances and the overall budgetary framework. The 2010 reform of the pension system includes a gradual raising of the minimum retirement age from 60 to 62, with a cumulated budgetary impact of around 1% of GDP in 2020 (see box 2). Several tax reforms have been adopted recently, but the tax burden on labour and capital still remains one of the highest among EU countries, while consumption is taxed below the average. The number and the cost of items of tax expenditure are expected to be further reduced. As regards the budgetary framework, the French authorities have announced measures to improve monitoring and achieve the objective set for healthcare spending. In addition, a constitutional reform was announced. It would introduce binding multiannual budget planning. This Constitutional reform still needs to be adopted by the Parliament.

Financial sector

France has a large financial system which accounts for 10% of the global banking system and one fourth of that of the euro area. It is highly consolidated and domestic banks dominate retail banking. Various government support measures were taken during the global financial crisis. Fortunately, there was no need to activate these instruments as much as in a number of EU countries, and French banks have come back to normal refinancing conditions relatively rapidly. Their exposure to foreign markets is close to levels in other large European economies and oriented towards mature markets. Overall, the French banking system shows strong geographic diversification, with some exposure to vulnerable countries (see Table VI in the annex). The NRP recalls that a Prudential Supervisory Authority (*Autorité de contrôle* *prudentiel - ACP*) was set up in January 2010, after a merger of the four licensing and supervisory authorities for banking and insurance.

The financial crisis led to a tightening of lending conditions, especially for businesses, but supply constraints were slightly less severe in France than in the euro area as a whole. However, further improvement of the financial environment could avoid liquidity bottlenecks for SMEs and indirectly support economic activity. Soaring real estate prices could have a significant impact on the financial situation and well-being of low- or middle-income first-time buyers: the number of households 'irreparably' over-indebted (*procédure de rétablissement personnel*) has increased. In this regard, the ongoing reform of consumer credit, adding to the information and solvency requirements, should help to protect the most vulnerable from excessive debt. According to the NRP, the plan is to enforce this in spring 2011.

4.2.2 Labour market reform and job opportunities

Despite an initial rapid deterioration, the labour market developed better than expected during the crisis, relative to the drop in GDP. The labour force participation rate (20-64 age group) has not decreased, indicating the absence of any significant discouraged worker effect. Recently employment rates for older workers have picked up (particularly significant for the 55-59 age group). However, levels recorded for the youngest and oldest workers are still below the EU and euro area averages, markedly for the 60-64 age group. Overall, the employment rate[9] (69.2 % in 2010) is somewhat above the euro area and EU averages, but still significantly below the Europe 2020 target of 75 %. The large gap from the high employment rates recorded in some other Member States partly relates to a smaller proportion of part-time employment. The employment rate of non-EU nationals[10] (47.9 % in 2010) is also considerably lower than the EU average.

Making work more attractive

The 2010 pension reform, combined with action targeted at sectoral level to improve labour conditions, could prolong the recent upward trend in the employment rate for older workers. However, a policy effort with regard to older workers could still be necessary in view of their over-representation in collective lay-offs. The recruitment aspects of the negotiated company plans for keeping or hiring older workers, compulsory since 2010, are proving generally vague.

For young workers, the low employment rate is related to high unemployment levels[11], particularly among the low-skilled, partly owing to the level of the minimum wage and the lack of strong links between education institutions and firms which has prevailed for years. Around 25 % of young people are employed on (temporary) subsidised contracts. Consequently, the renewed commitments under the Euro Plus Pact to reduce employers' charges for apprenticeship places in SMEs, combined with the 'bonus-malus' system for other companies (with more than 250 employees) complying with apprenticeship quotas, can be considered steps in the right direction to improve the school-to-work transition. However, there is a risk that, under this initiative, better skilled young people might partly crowd out the targeted population. Other interesting, albeit relatively small-scale, steps have been taken, such as the general application of support structures for youngsters who left school without a

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[9] In line with the definition for the Europe 2020 target of 75 %, this percentage applies to 20-64 year olds.
[10] In the same age group (20-64 years old).
[11] The share of the unemployed within the overall age group is close to the EU average, as activity rates are 3 percentage points lower.

diploma and an agreement to help 65 000 youngsters finding it difficult to enter the labour market (further discussions are to be held with social partners regarding housing and transport hardship, which might also act as drags on employment in France).

Concerning gender equality more specifically, the commitment, under the Euro Plus Pact, to increase childcare places significantly (by 200 000), if satisfactorily implemented, would indirectly contribute more specifically to improving female employment prospects.

Investment in education and training

France is above the EU average on the two headline targets in the field of education and training (early school leavers and higher education attainment). There is, however, room for improvement, in particular to tackle inequalities in education and training.

Two major weaknesses of the French education and training systems are the school failures and the low adult participation in lifelong learning. Too many young people leave school without basic skills or without qualifications and are unemployed or trapped in poor-quality jobs. At the other end of the age spectrum, the employment rate of seniors is low in France. Improving access for adults to education and training is crucial to increase the employability of the workforce and, particularly, employment rates of low-skilled and older people.

However, significant steps have been taken concerning the higher education system, in the form of the law on 'freedom and responsibility of the universities' (2007), implementation of which is still unfolding. In particular, all universities are to become autonomous by 2012 (24 of them did on 1 January 2011), their financial resources from the State budget will increase by 3 % on average in 2011 and they are benefiting from additional funds from the *Plan Campus* and the *Investissements d'Avenir* programme. In addition, they are exempted from the policy of replacing only half of retiring civil servants. Closer ties are being built with enterprises: for instance, businesses are represented on universities' boards. However, the autonomy of universities could now allow them to select their students (provided the latter get more guidance beforehand) and to recruit professors and teacher-researchers under more attractive conditions adaptable to individual situations. Such further steps seem particularly required in France, where the curricula of the *grandes écoles* still enjoy higher visibility and recognition than doctoral studies, despite the new partnerships between *grandes écoles* and universities developed since 2006 in the *pôles de recherche et d'enseignement supérieur*[12].

Specific guidance and a special plan (*Réussir en Licence*) were designed in recent years to limit drop-outs in the first years of university, which is a major issue in France. These steps are likely to improve the transition from universities to the labour market, but the NRP provides no evaluation in this regard. Concerning higher education curricula as a whole, innovation and entrepreneurship education is still relatively limited. Some improvements could result from the '*étudiants entrepreneurs'* plan, consisting of creating partnerships *(pôles)* grouping together higher education institutes, firms and Chambers of Commerce, in order to promote innovation among students (the NRP indicates that 20 additional such *pôles* will be set up in 2011 and also mentions an ongoing attempt to design a training framework for student entrepreneurship). Some measures are related to earlier stages of education, notably the 'new ambition for sciences and technologies at school', presented on 31 January 2011 in response to disappointing PISA indicators in mathematics (2009 study). Although the objectives of these various initiatives are relevant, it is too early to predict the likely outcomes, as results from such attempts become tangible only in the long run.

[12] The first *pôles de recherche et d'enseignement supérieur* (PRES), resulting in closer cooperation between *grandes écoles* and universities, were created in 2006; according to the NRP, additional PRES will be set up in 2011.

Balancing security and flexibility

The NRP does not mention several important issues, such as adaptation of the employment protection legislation to tackle the persistent labour market segmentation or the overall high labour tax wedge. From a demand-side perspective, high labour taxation in France has been eased by long-standing reductions in employers' social security contributions at the minimum wage level. Nevertheless, given fiscal policy constraints, the only way to achieve any further reduction of the tax wedge is by partly shifting taxation to other sources. There is no indication of such structural shifts in the NRP.

Moreover, despite high expenditure on labour market policy, firms can circumvent the relatively stringent restrictions on firing under regular contracts by resorting to temporary employment. Young workers and the low-skilled are therefore likely to continue to bear the labour market risks to a disproportionate degree (the share of temporary contracts is significantly higher for the younger workers). As transitions from temporary to permanent contracts are low, this situation implies high turnover and a limited accumulation of human capital for the workers concerned. A government proposal that moved in the direction of a single open-ended labour contract, offering progressively greater protection, was rejected by employers and employees alike. The 2008 labour market modernisation act nevertheless introduced a new way of terminating contracts by mutual agreement (*rupture conventionnelle)*, in which the employee is entitled to a specific severance payment in addition to unemployment benefits. This reduces the scope for litigation after severance, but at the risk of excessive use of unemployment insurance: firms can terminate contracts with less productive workers aged around 55, who are entitled to benefits until they reach retirement age, with no noticeable impact on their pension. Overall, the content of the programme suggests that the division between indefinite (CDI) and temporary (CDD) labour contracts will remain firmly rooted in French labour law, with both types of contracts highly regulated. The current employment protection legislation remains strict as regards non-monetary firing costs: there is legal uncertainty about economic dismissals[13], while heavy redeployment obligations apply to large collective dismissals (*plans de sauvegarde de l'emploi*). No reforms are planned in that field. In a flexicurity approach, they would have to be complemented by improvements in the support provided to the unemployed by the public employment service.

Getting the unemployed back to work

In this regard, the functioning of the labour market should benefit, in the long run, from the merger of the job-seekers' placement services (ANPE) and the unemployment insurance benefits agency (UNEDIC) into a one-stop shop (*Pôle Emploi*). Follow-up regulations laid down the rights and obligations of jobseekers and what counts as a reasonable job offer. However, the objectives of *Pôle Emploi* over 2009-2010 mainly focused on the merger of the two administrative entities. In this context, outsourcing of placement services has shown mixed results in terms of performance: *Pôle Emploi* resources allocated to individualised support for jobseekers remain under-developed (71 full-time equivalents per 10 000 unemployed, significantly below levels recorded in some peer countries). Also, 49.1 % of jobseekers expressed dissatisfaction with *Pôle Emploi* services in December 2010[14]. The

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[13] A dismissal is deemed economic if based on grounds independent from the employee and resulting from a cancellation of the job or from a modification, refused by the employee, of a core element of the employment contract (owing to economic difficulties or technological changes).

[14] Survey conducted among *Pôle Emploi* users between November 2010 and December 2010. Similarly, an IPSOS survey showed that 48 % of *Pôle Emploi* users are dissatisfied with the services provided to find another job.

institution scaled down individualised support over the crisis. The NRP includes no measures to improve performance, even though the authorities underline the significant rise in long-term unemployment. This context casts doubts on the practical feasibility of the (rather vague) objectives announced under the Euro Plus Pact in terms of stronger support for jobseekers.

Beyond the issues related to the taxation, legal and administrative frameworks, the high level and coverage of the minimum wage significantly affect the employment and competitiveness prospects. Major steps were taken in recent years with the moderation of the increase in the minimum wage (SMIC, *salaire minimum interprofessionel de croissance*) as a result of the elimination of discretionary upward payments (*coups de pouce*). The proportion of employees paid the minimum wage has therefore already decreased substantially and the NRP expects a further drop. However, beyond the indexation procedure, the level and possible differentiation of the minimum wage are not discussed in the NRP.

Although labour demand could still be hampered somewhat by the above-mentioned aspects, on the supply side the authorities strengthened activation policies in 2009 with the introduction of a new social benefit, the active minimum income or RSA (*revenu de solidarité active*). The RSA encourages recipients of social assistance to take up work and allows them to combine wages with social assistance, which is gradually reduced as the hours worked increase. The non-take-up rate is proving higher than initially expected, but the NRP indicates that quantitative surveys are underway to improve the scheme and increase take-up. The NRP also mentions that a national conference will be held in late 2011. However, there is no mention in the programme of issues already debated at national level, like the complicated overlapping system linked to the coexistence of the RSA with an earned income tax credit, the PPE (*prime pour l'emploi*), which is less narrowly targeted (see figure in the annex). The incentive structure and public finances would benefit from withdrawal of the PPE, also bearing in mind its budgetary cost (around EUR 4 billion).

Combat poverty and promote social inclusion

18.4% of the French population was at risk of poverty or exclusion in 2009, which is lower than the EU average of 23.1%. In 2007, France set a target of reducing poverty by 1/3 by 2012 on the basis of the at-risk-of-poverty rate anchored at a fixed moment in time. The NRP states that 1.6 million people (according to EU indicators) could be lifted out of poverty by 2012. However, the national indicators on low work intensity and material deprivation are not consistent with the two related Europe 2020 indicators. Moreover, the three Europe 2020 poverty indicators have been stagnant for several years in France.

The social benefit reform aimed at making it easier to return to employment came into force in June 2009 with the active minimum income or RSA (see above). The RSA is currently being evaluated and it is too soon to assess its impact on either returns to the labour market or poverty reduction.

4.2.3 Growth-enhancing structural measures

Competition framework

The competition framework was improved by the Modernisation Act (*Loi de Modernisation de l'Economie* or LME) adopted in 2008, notably with the creation of a competition authority with a broader mandate and greater powers, various changes affecting retail trade regulation and the creation of a new simplified status for small individual entrepreneurs (*auto-entrepreneurs*). As indicated in the NRP, the latter was supplemented in 2011 by the status of *entrepreneur individuel à responsabilité limitée*, allowing entrepreneurs acting as physical persons to separate their own property from that tied to professional creditors. However, the ban on resale below cost is still in force, as are some administrative restrictions on opening large retail outlets, which hamper competition in the retail sector. In the services sector, quotas (*numerus clausus*) have not been eliminated for several legal and health-related professions. Several regulated professions could thus benefit from greater competition. These issues are not addressed in the NRP. France has also not yet fully implemented the Services Directive, but is finalising the process with one remaining piece of draft legislation pending before the French parliament. In this regard, the NRP indicates that France has put online its electronic point of single contact, but the portal is still limited to information content and businesses will not be able to complete administrative procedures on it until 2012.

As regards network industries, the NRP mentions a new law (*loi pour une nouvelle organisation du marché de l'électricité* or *loi NOME*) adopted in 2010 with the aim of further opening the electricity market, with regulated tariffs for industrial electricity users disappearing by 31 December 2015. However, the NRP does not indicate whether a similar commitment exists to phase out regulated prices for gas.

Competitiveness

The NRP rightly emphasises non-price competitiveness and its innovation dimension (see the 'research and innovation' section below), but cost competitiveness is hardly mentioned.

As regards the wage bill, the French minimum wage is among the highest in the EU compared with the median salary, making low-skilled labour expensive, although governance of the indexation procedure improved recently, with the creation of an advisory commission of independent experts.

As regards the tax burden, the labour tax wedge is relatively large and corporate income tax is marked by a very high nominal rate and a narrow base. However, nothing has been suggested to rationalise the taxation and subsidy systems in parallel, in order to improve cost competitiveness while complying with fiscal consolidation needs. Potential additional savings generated by a withdrawal of various tax cuts would reduce distortions, simplify the business environment and allow a reduction of the tax burden on SMEs, which have fewer opportunities for tax optimisation and are the weak point of the French economic fabric, but also the main source of unused potential for exports and innovation. Nor does the content of the NRP reflect the significant room to reduce the overall total of direct subsidies to firms (including environmentally harmful subsidies, like for fuels in some sectors). As the share of environmental taxation in France is far below the EU average, broadening the environmental tax base and/or increasing environmental tax rates, as initially envisaged by the government, could in turn allow a decrease in the labour tax wedge, while providing the necessary conditions for expansion of the green sector. Tax cuts on overtime would have deserved closer scrutiny in the NRP. The measure was adopted in 2007, in a different economic context. It now results in significant direct losses for social budgets, coupled with possible substitution effects leading to higher unemployment and, consequently, additional social spending.

Business environment

The NRP mentions that venture capital is insufficient in France. In order to tackle market failures, new measures have been taken to structure and boost investment and risk capital, with the new *fonds national d'amorçage*, which will give priority to high-tech sectors.

The NRP also indicates new attempts to reduce the administrative burden. After the appointment of a national commissioner in charge of simplification in November 2010, a major conference on simplification took place in April 2011. It resulted in 80 measures to reduce the administrative burden on SMEs, with decisions in various fields like social, legal and taxation procedures or public procurement. The obligation to conduct an impact assessment prior to adoption of any implementing regulation is a step in the right direction, if effectively implemented. A new simplification law was also eventually adopted on 18 May 2011, although it is too early to assess its content.

Research and innovation

Considerable efforts have been made to improve the French research and innovation system over recent years, including progress towards setting up regional innovation strategies. The policy mix now in place offers diversified and quite generous public support for both public and business research, which is increasingly being implemented on a competitive basis and evaluated using international criteria. Past measures to help SMEs to undertake R&D activities include the CIR (*crédit impôt recherche*), amplified in 2008, the *pôles de compétitivité* and the *jeunes entreprises innovantes* scheme. These measures are now complemented by the new *investissements d'avenir* programme (EUR 35 billion from the State), under the Euro Plus Pact, aiming at considerably strengthening public-private collaboration and promoting research results, with co-financing from the private sector (e.g. *instituts de recherche technologique*). However, the NRP tends to provide mostly a description of the '*investissements d'avenir'*, whereas the overall analysis of their likely impact on growth and competitiveness could have been deeper. Another new measure strengthening incentives and likely to support R&D is the *France brevets* fund (EUR 100 million) set up to improve use of the intellectual property of research laboratories and firms, with valuation strategies enhancing transversal approaches to management of public and private patents. A national fund (EUR 1 billion) has also been set up to professionalise promotion of research by technology transfer entities (*sociétés d'accélération du transfert de technologie*).

The aforementioned recent or ongoing reforms are resulting in numerous new structures and supporting mechanisms, but the links and synergies between them are not always clearly presented in the NRP. Greater governance complexity, potential redundancies or overlaps could require a closer look in years to come, as there may be some room for streamlining the whole knowledge triangle institutional framework, with the benefit of hindsight. Regarding the competitiveness clusters (*pôles de compétitivité*) more particularly, the NRP indicates that the second phase (2009-2012) will benefit from additional financial resources (under the '*investissements d'avenir*' programme) and mentions the need to draw more on private funding. However, no details are given of how to meet this objective. Future decisions concerning cluster policy could be based on an assessment of the economic impact of the *pôles*, carried out at the end of the second phase.

Another key step to foster R&D was the reform of the "Crédit d'impôt recherche" (CIR) in 2008. Initially, this research tax credit was based on the increase in R&D spending and benefits per firm were capped. Now it is based on the volume of R&D expenditure committed, without ceilings (there are still two brackets, depending on the amount). The rate for new participants is higher in the first and second years. The CIR has consequently become one of the most generous tax credits in the EU, with significant changes in the incentives structure. However, in volume, it considerably benefits very large firms, which may imply significant windfall effects. This aspect and the related question of better targeting the CIR are not really mentioned in the NRP. However, the programme indicates that in 2008 the share of public financing for R&D was already 30% for firms with more than 2000 employees, compared with 21% or 22% for firms with 250 to 2000 employees, precisely the category where the business R&D deficit lies. Some recent fine-tuning of the CIR (2011 budget) is mentioned, but this deals with possible abuse more than the overall targeting policy. Another adjustment mentioned in the NRP is a change in the *jeunes entreprises innovantes* scheme, in order to take account of the recent amplification of the CIR, which partly benefits the same firms. Although consistency across the various schemes is undoubtedly an appropriate goal, there is a risk that this adjustment could redirect public support even more towards the largest firms.

Climate and energy

France has committed itself to a 75% reduction in greenhouse gas (GHG) emissions by 2050. However, the National Reform Programme proposes no clear monitoring of progress towards the 2020 EU target. The recent trend in emissions is in line with the Europe 2020 national target (14% reduction compared with 2005 levels) but, as the economic crisis tends to have reduced emissions, caution is needed if the economic recovery proves strong. Greater emphasis could also have been put on measures to reduce the non-CO_2 emissions from agriculture.

On energy efficiency, France has confirmed its sectoral targets for buildings and transport. The impact in terms of primary energy consumption savings by 2020 is estimated at 34 Mtoe. In order to achieve the key sectoral target on buildings, the barriers to energy refurbishment in existing buildings could be further addressed.

In July 2010, France submitted its National Renewable Energy Action Plan which sets sectoral targets and gives details of its current and future measures to develop renewable energy sources. To achieve the 23% target by 2020, ambitious reductions in energy consumption will be needed plus stronger domestic biomass mobilisation, based on projections and streamlined authorisation procedures which do not slow down the development of renewables.

France had transposed the Third Energy Package by May 2011. In order to complete the internal market by 2014, it is essential that intra-day and balancing schemes and coordinated long-term capacity allocation are applied at all borders. Investment in infrastructure and sufficient interconnection capacity will be key factors, given the central position of France in the European electricity and gas networks. However, they are jeopardised by complex permit procedures[15] (high number of mandatory steps and duplication of requirements).

5. Summary

In 2010, the general government deficit decreased to around 7% of GDP (from 7.5% in 2009). Based on the projections presented in the latest update of the programme, the deficit will continuously decrease to exactly 3% of GDP in 2013, the deadline set in the Council recommendation to correct the excessive deficit. This deficit reduction path is partly due to a favourable macroeconomic scenario as from 2012. The debt-to-GDP ratio is forecast to follow an upward path until 2012, due to the high general government deficit. Structural reforms, targeting long-term sustainability of public finances and the overall budgetary framework, would back this consolidation path. The average annual fiscal effort, based on the (recalculated) structural balance, is somewhat below the level requested in the above-mentioned recommendation ('above 1% of GDP'). If different potential macroeconomic

[15] The average permit process in France for an overhead transmission electricity line takes six to seven years.

downside risks materialise, the deficit would be above 3% of GDP in 2013, as the target for 2013 leaves no margin. The deficit targets could also be adversely affected by possible expenditure slippages, as beyond 2011 the measures needed to curb public expenditure are not yet specified. In addition, expenditure rules have not always been observed. On the revenue side, the programme does not specify which tax exemptions would be removed in the later years. Overall, France's track record when it comes to meeting its budgetary targets is, at best, mixed; long-term (more than two-year) budgetary projections have always been missed since 2000.

The challenges mentioned in the NRP are consistent with the bottlenecks to growth and headline targets, but the programme has a significant backward-looking dimension. It focuses on the existing policies and could have benefited from a more detailed description and in-depth analysis of the few new measures or reforms envisaged instead. The reform agenda does not seem fully consistent with the scale of some of the macroeconomic challenges, in particular concerning the labour market or the business environment. Although there was no significant discouraged worker effect during the crisis and employment rates for older workers picked up recently, structural unemployment remains relatively high. It is partly related to the segmentation and lack of flexibility of the labour market and to the underdeveloped support from public employment services to the unemployed, particularly the long-term unemployed. Moreover, despite steps recently taken, including numerous measures regarding the knowledge triangle, some features of the business environment, including the taxation and competition frameworks, are still hampering the competitiveness and development of French firms. However, the limited number of new reforms is also partly related to the need to assess various recently adopted reforms before taking further steps. This aspect is even more acute for several reforms unfolding following a multiyear agenda.

ANNEX

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012
Core indicators							
GDP growth rate	2.5	2.1	1.7	-2.6	1.6	1.8	2.0
Output gap [1]	-0.8	2.4	1.5	-3.9	-3.9	-3.7	-3.2
HICP (annual % change)	1.3	2.0	2.1	0.1	1.7	2.2	1.7
Domestic demand (annual % change) [2]	2.3	2.4	2.2	-2.4	1.2	1.9	2.4
Unemployment rate (% of labour force) [3]	11.1	8.8	8.7	9.5	9.7	9.5	9.2
Gross fixed capital formation (% of GDP)	18.0	19.2	21.0	20.6	20.1	20.4	21.0
Gross national saving (% of GDP)	20.1	20.1	19.3	16.1	15.3	15.5	16.2
General Government (% of GDP)							
Net lending (+) or net borrowing (-)	**-3.4**	**-2.8**	**-2.8**	**-7.5**	**-7.0**	**-5.8**	**-5.3**
Gross debt	**58.2**	**60.2**	**65.4**	**78.3**	**81.7**	**84.7**	**86.8**
Net financial assets	**-39.1**	**-40.6**	**-39.4**	**-50.8**	**n.a**	**n.a**	**n.a**
Total revenue	50.2	49.7	50.0	48.7	49.2	50.1	50.1
Total expenditure	53.6	52.4	52.8	56.2	56.2	55.8	55.4
of which: Interest	3.4	2.9	2.7	2.4	2.5	2.6	2.9
Corporations (% of GDP)							
Net lending (+) or net borrowing (-)	**0.9**	**-1.3**	**-2.4**	**0.1**	**-0.9**	**-1.3**	**-2.1**
Net financial assets; non-financial corporations	**-77.9**	**-84.0**	**-103.4**	**-101.7**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**12.2**	**14.6**	**20.4**	**19.3**	**n.a**	**n.a**	**n.a**
Gross capital formation	9.6	10.7	11.4	9.1	9.4	9.9	10.9
Gross operating surplus	17.0	17.2	17.3	16.5	16.5	17.2	17.8
Households and NPISH (% of GDP)							
Net lending (+) or net borrowing (-)	**4.4**	**4.5**	**3.2**	**4.7**	**4.9**	**4.4**	**4.6**
Net financial assets	**112.5**	**120.7**	**127.5**	**131.5**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	37.8	38.7	38.4	39.2	39.3	39.2	39.1
Net property income	6.9	6.6	6.7	6.9	7.0	7.4	8.0
Current transfers received	25.4	25.1	25.2	26.9	27.4	27.3	27.1
Gross saving	10.2	10.4	10.0	11.1	11.1	10.7	10.9
Rest of the world (% of GDP)							
Net lending (+) or net borrowing (-)	**1.8**	**0.5**	**-2.1**	**-2.8**	**-3.2**	**-2.9**	**-2.9**
Net financial assets	**-5.6**	**-8.6**	**-2.6**	**5.4**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	2.0	1.0	-1.6	-1.9	-2.4	-2.8	-3.0
Net primary income from the rest of the world	0.7	0.8	0.9	0.8	0.7	0.8	0.8
Net capital transactions	0.0	-0.1	0.0	0.0	0.2	1.0	1.3
Tradable sector	36.4	34.7	31.8	29.9	n.a	n.a	n.a
Non tradable sector	52.8	55.1	57.9	60.4	n.a	n.a	n.a
of which: Building and construction sector	4.7	4.8	5.5	5.8	n.a	n.a	n.a
Real effective exchange rate (index, 2000=100)	110.4	104.2	111.4	113.5	111.6	112.6	112.8
Terms of trade goods and services (index, 2000=100)	101.8	101.9	101.3	103.3	100.3	99.5	100.3
Market performance of exports (index, 2000=100)	101.0	98.2	86.3	84.3	84.8	86.1	87.1

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2000 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :

Commission services' spring 2011 forecast

Table II. Comparison of macroeconomic developments and forecasts

	2010		2011		2012		2013	2014
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	1.6	1.6	1.8	2.0	2.0	2¼	2½	2½
Private consumption (% change)	1.7	1.7	1.6	1.7	1.8	2.3	3.0	3.0
Gross fixed capital formation (% change)	-1.4	-1.6	3.4	4.2	5.0	4.6	3.2	3.2
Exports of goods and services (% change)	10.5	10.1	6.7	7.6	6.6	6.0	6.5	6.5
Imports of goods and services (% change)	8.2	7.8	6.8	7.5	7.5	5.9	6.1	6.1
Contributions to real GDP growth:								
- Final domestic demand	1.0	1.0	1.8	1.8	2.1	2.3	2.4	2.4
- Change in inventories	0.2	0.1	0.2	0.4	0.4	0.1	0.1	0.1
- Net exports	0.4	0.4	-0.2	-0.1	-0.4	-0.1	-0.1	-0.1
Output gap[1]	-3.9	-4.0	-3.7	-3.7	-3.2	-2.9	-1.9	-0.8
Employment (% change)	0.1	0.0	0.8	0.9	0.9	1.0	0.9	0.9
Unemployment rate (%)	9.7	n.a.	9.5	n.a.	9.2	n.a.	n.a.	n.a.
Labour productivity (% change)	1.5	1.2	0.9	1.2	1.2	1.3	1.6	1.6
HICP inflation (%)	1.7	1.7	2.2	2.0	1.7	1.9	1¾	1¾
GDP deflator (% change)	0.5	0.5	1.8	1.5	1.8	1.8	1¾	1¾
Comp. of employees (per head, % change)	2.3	n.a.	2.0	n.a.	2.3	optional	optional	optional
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-3.2	-3.2	-2.9	-3.7	-2.9	-3.8	-3.7	-3.7

Note:

[1] In percent of potential GDP, with potential GDP growth according to the programme as recalculated by Commission services.

Source :

Commission services' spring 2011 forecasts (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2010	2011		2012		2013	2014	Change: 2010-2014
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**49.2**	**50.1**	**50.0**	**50.1**	**50.3**	**50.8**	**50.8**	**1.6**
of which:								
- Taxes on production and imports	14.8	14.6	15.0	14.5	15.0	15.0	15.0	0.2
- Current taxes on income, wealth, etc.	10.5	10.9	11.1	11.0	11.4	11.8	11.8	1.3
- Social contributions	18.5	18.5	18.5	18.3	18.5	18.4	18.4	-0.1
- Other (residual)	5.4	6.2	5.4	6.3	5.4	5.6	5.6	0.2
Expenditure	**56.2**	**55.8**	**55.7**	**55.4**	**54.9**	**53.8**	**52.8**	**-3.4**
of which:								
- Primary expenditure	53.7	53.2	53.1	52.5	52.0	50.8	49.8	-3.9
of which:								
Compensation of employees	13.3	13.0	13.1	12.7	12.7	12.4	12.0	-1.3
Intermediate consumption	5.6	5.7	5.3	5.8	5.1	5.0	4.9	-0.7
Social payments	25.5	25.4	25.4	25.2	25.1	24.7	24.4	-1.1
Subsidies	1.7	1.7	1.6	1.6	1.5	1.5	1.4	-0.3
Gross fixed capital formation	3.0	3.1	3.1	3.1	3.1	3.0	3.0	0.0
Other (residual)	4.5	4.3	4.6	4.1	4.4	4.3	4.2	-0.3
- Interest expenditure	2.5	2.6	2.6	2.9	2.9	3.0	3.0	0.5
General government balance (GGB)	**-7.0**	**-5.8**	**-5.7**	**-5.3**	**-4.6**	**-3.0**	**-2.0**	**5.0**
Primary balance	**-4.5**	**-3.1**	**-3.1**	**-2.4**	**-1.7**	**-0.1**	**1.0**	**5.5**
One-off and other temporary measures	-0.2	0.0	n.a.	0.0	n.a.	n.a.	n.a.	n.a.
GGB excl. one-offs	**-6.8**	**-5.8**	**n.a.**	**-5.3**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Output gap[2]	-3.9	-3.7	-3.7	-3.2	-2.9	-1.9	-0.8	3.0
Cyclically-adjusted balance[2]	-5.1	-3.9	-3.9	-3.7	-3.2	-2.1	-1.6	3.5
Structural balance[3]	**-4.9**	**-3.9**	**-3.9**	**-3.7**	**-3.2**	**-2.1**	**-1.6**	**3.3**
Change in structural balance		*1.0*	*1.0*	*0.2*	*0.7*	*1.1*	*0.5*	
Structural primary balance[3]	-2.4	-1.3	-1.3	-0.8	-0.3	0.9	1.4	3.8
Change in structural primary balance		*1.1*	*1.1*	*0.5*	*1.0*	*1.2*	*0.5*	

Notes:

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the information in the programme.

[3]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability programme (SP); Commission services' spring 2011 forecasts (COM); Commission services' calculations

Table IV. Debt dynamics

(% of GDP)	average 2005-09	2010	2011		2012		2013	2014
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**68.0**	**81.7**	**84.7**	**84.6**	**86.8**	**86.0**	**85.6**	**84.1**
Change in the ratio	2.7	3.4	3.0	2.9	2.2	1.4	-0.4	-1.5
Contributions [2] *:*								
1. Primary balance	**1.1**	**4.5**	**3.1**	**3.1**	**2.4**	**1.7**	**0.1**	**-1.0**
2. "Snow-ball" effect	**0.9**	**0.9**	**-0.1**	**-0.2**	**-0.3**	**-0.4**	**-0.6**	**-0.5**
Of which:								
Interest expenditure	2.6	2.5	2.6	2.6	2.9	2.9	2.9	3.0
Growth effect	-0.5	-1.2	-1.4	-1.6	-1.7	-1.8	-2.1	-2.1
Inflation effect	-1.3	-0.4	-1.4	-1.2	-1.5	-1.5	-1.4	-1.4
3. Stock-flow adjustment	**0.7**	**-2.0**	**0.0**	**0.0**	**0.1**	**0.1**	**0.1**	**0.0**
Of which:								
Cash/accruals diff.	0.2	-0.6						
Acc. financial assets	0.4	-1.4						
Privatisation	-0.3	0.0						
Val. effect & residual	0.0	0.0						

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other

Source :

Stability programme (SP); Commission services' spring 2011 forecasts (COM); Commission services' calculations

Table V. Long-term sustainability

France	Baseline scenario (2010)			Programme scenario		
	S1		S2	S1		S2
Value	5,8		5,5	1,6		1,4
of which:						
Initial budgetary position (IBP)	3,8		3,8	-0,3		-0,3
Debt requirement in 2060 (DR)	0,5		-	0,4		-
Long-term change in the primary balance (LTC)	1,5		1,7	1,5		1,7
	2010	2015	2020	2010	2015	2020
Debt as % of GDP	81,7	94,5	113,7	81,7	83,3	84,4

Note: The 'baseline' scenario (2010) depicts the sustainability gap under the assumption that the 2010 budgetary position remains unchanged over the medium–term (until the end of the period covered by the programme). The 'programme' scenario depicts the sustainability gap under the assumption that the budgetary plans of the programme are fully implemented.

Figure: Medium-term debt projection

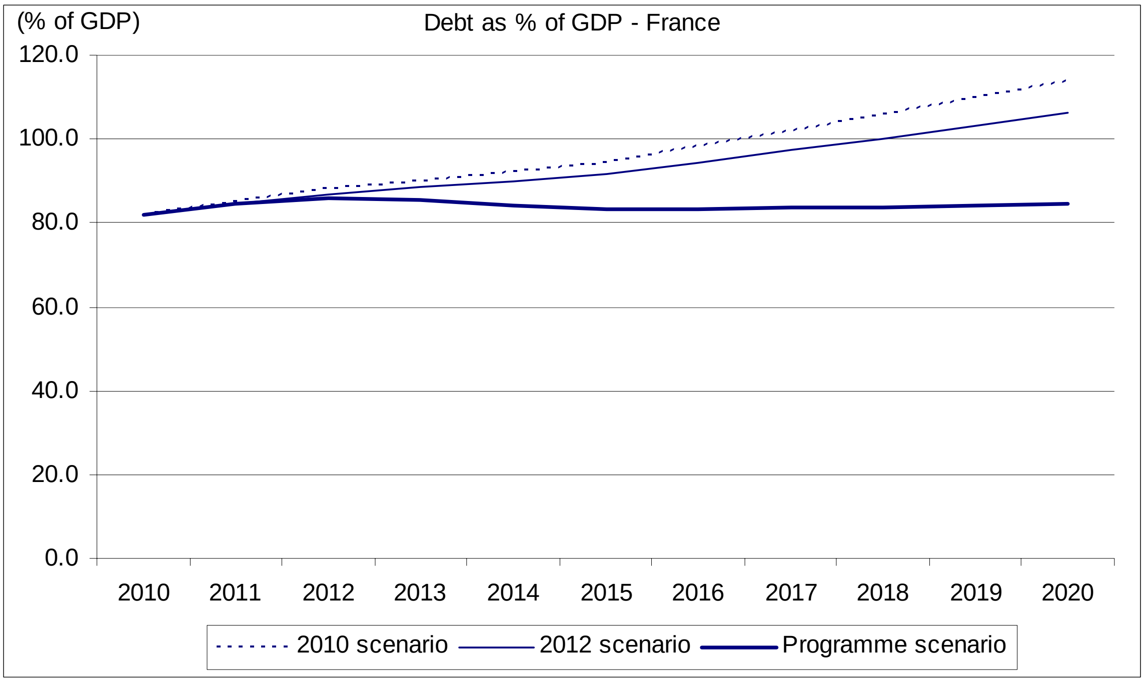

Table VI. Financial market indicators

	2006	2007	2008	2009	2010
Total assets of the banking sector (% of GDP)	327.9	360.8	384.3	407.1	415.4
Share of assets of the five largest banks (% of total assets)	52.3	51.8	51.2	47.2	…
Foreign ownership of banking system (% of total assets)	11.0	11.7	12.0	10.8	…
Financial soundness indicators:					
- non-performing loans (% of total loans) [1), 2)]	3.0	2.7	2.8	3.6	4.2
- capital adequacy ratio (%) [3)]	10.9	10.2	10.5	12.4	12.3
- profitability - return on equity (%) [4)]	14.0	9.8	-1.0	8.2	13.3
Private credit growth (annual % change)	12.3	13.0	10.9	1.2	3.6
Residential property prices (y-o-y % change)	12.1	6.6	1.2	-7.1	6.3
Exposure to countries receiving/repaying official financial assistance (% of GDP)[5)]	5.7	8.3	8.0	7.4	5.4
Private debt (% of GDP)	103.5	110.4	114.9	119.4	124.4
Gross external debt (% of GDP)					
- Public	35.7	34.5	42.3	47.0	49.9
- Private	35.6	36.4	38.7	43.3	44.8
Long term interest rates spread versus Bund (basis points)*	3.4	8.7	25.0	42.8	37.5
Credit default swap spreads for sovereign securities (5-year)*	…	…	30.3	41.1	70.3

Notes:

[1)] Latest available June 2010.

[2)] Loans are classified as nonperforming on the basis of impairment, which is not linked to a 90-day criterion.

[3)] The capital adequacy ratio is defined as total capital devided by risk weigthed assets.

[4)] Net income to equity ratio.

[5)] Covered countries are IE, EL, PT, RO, LV and HU.

* Measured in basis points.

Source :

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission services (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table VII. Labour market and social indicators

Labour market indicators	2005	2006	2007	2008	2009	2010
Employment rate (% of population aged 20 - 64)	69.4	69.4	69.9	70.4	69.5	69.2
Employment growth (% change from previous year)	0.6	1.0	1.4	0.6	-1.2	0.1
Employment rate of women (% of female population aged 20 - 64)	63.7	63.9	64.9	65.5	65.0	64.9
Employment rate of men (% of male population aged 20 - 64)	75.3	75.0	75.0	75.5	74.2	73.8
Employment rate of older workers (% of population aged 55 - 64)	38.5	38.1	38.2	38.2	38.8	39.7
Part-time employment (% of total employment)	17.2	17.2	17.3	16.9	17.3	17.8
Fixed term employment (% of employees with a fixed term contract)	14.1	14.9	15.2	15.0	14.5	15.1
Unemployment rate[1] (% of labour force)	9.3	9.2	8.4	7.8	9.5	9.7
Long-term unemployment[2] (% of labour force)	3.8	3.9	3.4	2.9	3.3	3.9
Youth unemployment rate (% of youth labour force aged 15-24)	21.1	22.1	19.6	19.1	23.5	23.3
Youth NEET[3] rate (% of population aged 15-24)	10.8	10.9	10.3	10.3	12.4	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	12.2	12.4	12.6	11.9	12.3	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	37.7	39.7	41.5	41.3	43.3	:
Labour productivity per person employed (annual % change)	0.9	1.2	0.8	-0.5	-1.4	1.5
Hours worked per person employed (annual % change)	-0.4	-1.3	1.3	0.3	-0.1	-0.3
Labour productivity per hour worked (annual % change; constant prices)	1.5	2.6	-0.4	-0.6	-1.3	1.8
Compensation per employee (annual % change; constant prices)	0.9	0.8	-0.2	-0.2	1.0	1.8
Nominal unit labour cost growth (annual % change)	1.8	2.0	1.5	2.9	3.0	0.3
Real unit labour cost growth (annual % change)	-0.2	-0.3	-0.9	0.3	2.4	-0.1

Notes:

[1] According to ILO definition, age group 15-74)

[2] Share of persons in the labour force who have been unemployed for at least 12 months.

[3] NEET are persons that are neither in employment nor in any education or training.

Sources:

Comission services (EU Labour Force Survey and European National Accounts)

Table VII. (cont.) Labour market and social indicators

Expenditure on social protection benefits (% of GDP)	2004	2005	2006	2007	2008
Sickness/Health care	8.81	8.81	8.74	8.66	8.72
Invalidity	1.72	1.74	1.75	1.77	1.75
Old age and survivors	12.80	12.96	13.10	13.13	13.43
Family/Children	2.49	2.51	2.50	2.45	2.47
Unemployment	2.28	2.22	1.95	1.78	1.69
Housing and Social exclusion n.e.c.	1.29	1.27	1.23	1.21	1.24
Total	29.4	29.5	29.3	29.0	29.3
of which: Means tested benefits	3.50	3.51	4.14	4.12	4.16
Social inclusion indicators	**2005**	**2006**	**2007**	**2008**	**2009**
Risk-of-poverty or exclusion[1] (% of total population)	18.9	18.8	19.0	18.6	18.4
Risk-of-poverty or exclusion of children (% of people aged 0-17)	19.4	18.1	19.6	21.8	21.5
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	18.5	17.5	15.2	13.2	12.3
At-Risk-of-Poverty rate[2] (% of total population)	13.0	13.2	13.1	12.7	12.9
Value of relative poverty threshold (single HH per year) - in PPS	8700	8988	9084	10548	10596
Severe Material Deprivation[3] (% of total population)	5.3	5.0	4.7	5.4	5.6
Share of people living in low work intensity households[4] (% of people aged 0-59 not student)	8.6	9.1	9.5	8.8	8.3
In-work at-risk-of poverty rate (% of persons employed)	6.1	6.0	6.4	6.8	6.6

Notes:

[1] People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate: share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone

[4] People living in households with very low work intensity: Share of people aged 0-59 living in households where the adults work less than 20% of their total work-time potential during the previous 12 months.

Sources:
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

TableVIII. Product market performance and policy indicators

Performance indicators	2001-2005	2006	2007	2008	2009	2010
Labour productivity[1] total economy (annual growth in %)	**1.0**	**1.2**	**1.0**	**-0.1**	**-1.3**	**1.2**
Labour productivity[1] in manufacturing (annual growth in %)	**3.2**	**1.9**	**2.8**	**-1.2**	n.a.	n.a.
Labour productivity[1] in electricity, gas, water (annual growth in %)	**4.3**	**0.6**	**0.4**	**3.1**	n.a.	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	**-0.8**	**-2.0**	**0.2**	**-3.0**	n.a.	n.a.
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	**3.6**	**3.5**	**1.6**	n.a.	n.a.	n.a.
Policy indicators	**2001-2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Enforcing contracts[3] (days)	n.a.	**331**	**331**	**331**	**331**	**331**
Time to start a business[3] (days)	n.a.	**7**	**7**	**7**	**7**	**7**
R&D expenditure (% of GDP)	**2.2**	**2.1**	**2.1**	**2.1**	**2.2**	n.a.
Tertiary educational attainment (% of 30-34 years old population)	**33.8**	**39.7**	**41.5**	**41.3**	**43.3**	n.a.
Total public expenditure on education (% of GDP)	**5.8**	**5.6**	**5.6**	**5.6**	n.a.	n.a.
	2003	**2005**	**2006**	**2008**	**2009**	**2010**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	**1.7**	n.a.	n.a.	**1.5**	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	**3.1**	n.a.	n.a.	**3.1**	n.a.	n.a.
Product market regulation[4], Network Industries6 (Index; 0=not regulated; 6=most regulated)	**3.0**	**2.4**	**2.3**	**2.2***	n.a.	n.a.

Notes:

[1]Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2]Patent data refer to applications designated to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.

[3] The methodologies, including the assumptions, of this indicator is presented in detail at the website http://www.doingbusiness.org/methodology.

[4] The methodologies of the Product market regulation indicators are presented in detail at the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

6 Aggregate ETCR.

*figure for 2007.

Source :

Commission services, World Bank Doing Business (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).