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Assessment of the 2012 national reform programme and stability programme for FRANCE

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

on France's 2012 national reform programme and delivering a Council Opinion on France's updated stability programme for 2012-2016

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Executive summary

In 2012, France's economic activity is expected to grow by 0.5%, before regaining momentum in 2013 to reach 1.3%. Unemployment is foreseen to increase further to 10.2%.

In the last two years, France overachieved its deficit targets but the public deficit remains too high and debt is growing. The development of the minimum wage has been contained and measures to promote apprenticeship and help older people find a job have been undertaken. Measures were taken to reduce tax expenditures and to lower labour taxation.

Budgetary consolidation remains an important policy challenge in France. While this year's deficit target appears attainable, the distance to the 3% of GDP threshold to be achieved in 2013 remains significant. The tax system can be made more conducive to sustainable economic growth and competitiveness. The long-term sustainability and adequacy of the pension system requires careful monitoring. The level of segmentation of the labour market remains high and young people are particularly affected. There are risks related to the long-term impact of unemployment on human capital, given that participation in life-long learning remains low and the capacity of the public employment service is strained. The competitiveness of French businesses remains a significant challenge, and competition, particularly in the retail sector and in the network industries, is sub-optimal.

1. Introduction

In June 2011, the Commission proposed five country specific recommendations[1] (CSRs) for economic and structural reform policies for France. In July 2011, the Council of the European Union adopted these recommendations, which focused on public finances, labour market and tax policies and on the competition and regulatory framework.

In November 2011, the Commission published its Annual Growth Survey for 2012[2] (AGS 2012) presenting the basis for building the necessary common understanding about the priorities for action at national and EU level in 2012. It focused on five priorities – ensuring growth-friendly fiscal consolidation, restoring normal lending to the economy, promoting growth and competitiveness, tackling unemployment and social consequences of the crisis, and modernising public administration – and encouraged Member States to implement them in the 2012 European Semester.

Against this background, France presented its national reform programme, prepared in consultation with the social partners and local authorities, and its stability programme in April and May 2012, respectively. These programmes provide details on progress made since July 2011 and plans going forward.

The national reform programme and the stability programme were adopted by the Council of Ministers on 11 April 2012. These documents were also submitted to the Parliament. However, due to the parliamentary recess before the election, the text could not be approved in plenary session. The stability programme was reviewed by the finance committees (*Commission des finances*) of both the *Assemblée nationale* and the *Sénat* on 11 April 2012.

Overall assessment

This Staff Working Document assesses the state of implementation of the 2011 country-specific recommendations and the Annual Growth Survey for 2012 in France, identifies current policy challenges and, in this light, examines the policy plans of the previous government.

Concerning public finances, while the deficit outcome for 2011 turned out better than targeted, the consolidation strategy remains to be further specified and correcting the excessive deficit by 2013 may require additional efforts. Reviewing the long-term sustainability of the pension system also remains a challenge.

Regarding employment, the related country-specific recommendations have been partly implemented. Despite efforts to improve the flexibility of employment contracts for firms encountering temporary economic difficulties, limited reforms have been carried out to address labour market segmentation. The development of the minimum wage has been contained and the distance to the average wage has increased, reducing distortions to the labour market. Hence, the related country-specific recommendation has been partly implemented.

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1 SEC(2011) 806 final of 7 June 2011.
2 COM(2011) 815 final of 23 November 2011.

Specific measures have been taken to promote apprenticeships and further help older people unemployed find a job. However, the limited resources available to the public employment service undermine the credibility of the commitments to address long-term unemployment better. Country-specific recommendation 3, which focused on return to employment, has therefore been partly implemented.

In the field of taxation, relevant measures have been taken to reduce tax expenditures and labour taxation although some of them lack ambition. The efficiency of some reduced rates of VAT remains questionable. Nor has a start been made on developing environmentally friendly taxation. Country-specific recommendation 4 has been partly implemented.

Finally, reforms have been undertaken to simplify the business environment and remove restrictions on some regulated trades and professions. However, challenges remain that are holding back France's competitiveness. In particular, there is still scope for further improving the competition and regulatory environment for services and the retail sector and for additional reforms to bring effective competition to the network industries.

The national reform programme mainly focuses on reforms already adopted while the stability programme includes some more forward-looking elements. While some reforms have been made recently and have yet to bear their fruit, the measures presented in the national reform programme and the stability programme will generally not be sufficient to tackle the remaining challenges.

2. Economic developments and challenges

2.1. Recent economic developments and outlook

Recent economic developments

In 2011, as the government recovery plans were phased out, GDP growth in France stabilised on an annual basis at 1.7%, after 1.5% in 2010, with an uneven quarterly growth pattern. After 0.9% growth in the first quarter, GDP stalled in the second quarter; it grew by 0.3% and then by 0.1% in the last two quarters of the year. Despite the still positive figures for GDP growth in the last two quarters, economic sentiment deteriorated rapidly. Consumer and business sentiment indicators plunged below their long-term average on the back of increased uncertainties, in particular about the financial sector, and rising unemployment.

The relatively weak economic growth and the deteriorating business climate resulted in a sharp increase in unemployment in the second half of 2011. The number of unemployed grew by 2.7% year-on-year in December 2011 and the unemployment rate reached 9.9% in December 2011, close to its peak level of 2009.[3] Older workers were particularly affected, especially due to the phasing-out of job-search exemption measures; the number of registered unemployed people over 50 grew by 15.6% year-on-year in December.

Inflation remained at a relatively high level despite sluggish economic growth. The harmonised index of consumer prices increased by 2.3% on an annual basis in 2011. The acceleration of inflation in 2011 was driven in particular by the high energy prices, which rose by 12%.

[3] Source: Eurostat.

Economic outlook

In its spring forecast published on 11 May, the Commission services considered that economic growth would slow down again in 2012 compared with 2011. Decreasing investment, which compensated for the increase seen in the fourth quarter of 2011, together with sluggish household consumption, brought GDP growth to a halt in the first quarter of 2012. The situation is expected to stabilise in the second quarter although growth is forecast to continue to stall. The gradual pick-up of domestic consumption over the second half of the year is then expected to bring GDP growth to 0.5% in 2012 overall. This figure is very close to the one that was adopted by the French authorities in the stability programme. In 2013, the economic recovery is expected to gain momentum, bringing GDP growth to 1.3%. This is somewhat lower than the official forecast of 1.75%.

The rise in oil prices, which contributed to the high level of inflation in 2011, is expected to ease somewhat in 2012. The impact of the recent increase in energy prices would however mean that the rise in the harmonised index of consumer prices would still be 2.1% in 2012, close to its 2011 level. The downward pressure on wages and production prices linked to a sluggish labour market is set to compensate for the increase in the reduced VAT rate from 5.5% to 7% on specific products and services. The decision to raise the standard VAT rate from 19.6% to 21.2% in October 2012 is not expected to have a significant impact on inflation for the year.

2.2. Challenges

Budgetary consolidation remains one of the main policy challenges in France. The deficit for 2011 was lower than initially expected. Although this year's target of 4.4% of GDP appears achievable, the distance to the 3% of GDP threshold remains significant. In this context, and also given the tensions on the sovereign debts, the French authorities need to specify the measures necessary to ensure that the excessive deficit is corrected by 2013 as recommended by the Council. It is important that the increase in public spending remain below potential GDP growth, with special attention to the trend in social and local government spending. In terms of fiscal revenue, the number and cost of tax expenditures is to be further reduced. Moreover, despite measures to reduce taxes on labour, further efforts are needed to develop a tax system that is more conducive to sustainable economic growth. The long-term sustainability of the pension system also remains a challenge despite the 2010 pension reform which is set to balance the system by 2018, not least through an increase in the statutory retirement age.

The expected slowdown of economic growth in 2012 requires renewed resolve to address the situation in the labour market. According to the Commission spring 2012 forecast, the unemployment rate in France will rise above 10% in 2012 and 2013. The high degree of segmentation of the French labour market remains one of the main issues. The likelihood of moving from a fixed-term to a permanent contract decreased dramatically between 1995-1996 and 2010, to levels that are well below the average in the EU. While structural factors, and in particular the employment protection legislation, explain this phenomenon, the crisis has exacerbated employment risks for outsiders such as young people, low-skilled and non-EU nationals. More specifically, the situation of young people is still a concern as their unemployment rate remains at a high level despite the measures taken by the national authorities and has stood above the EU average since 2003. Particularly worrying is the rising average duration of registration of jobseekers with the public employment service, a proxy for the duration of unemployment spells, from 230 to 252 days between December 2010 and 2011. The participation rate in lifelong learning remaining low and the capacity of the public employment service being under strain, there are risks that unemployment could have a long-term impact on human capital.

France's export performance remains a significant challenge. The export market shares of France have eroded significantly in the last few years due to both cost and non-cost factors. Since 2000, nominal wages have increased faster than productivity, driving unit labour cost up. The strong increase in unit labour cost has resulted in a deterioration of cost competitiveness and led exporting companies to squeeze margins. In terms of non-cost competitiveness, in spite of a slight increase since 2007, business R&D intensity in France still appears relatively low in comparison with other advanced industrialised countries, due notably to the modest share of high-tech manufacturing and to the insufficient engagement of French mid-tier enterprises[4] in research and innovation. The low profitability of French companies limits their investment capacity and may accentuate the deficit in non-price competitiveness in the long term. Efforts are also needed to ensure that the general business environment supports healthy competition and innovation as, in certain areas, the overall regulatory framework and the burden of regulation remain a constraint for the development of firms.

In specific sectors, additional efforts could be made to foster competition. In the retail sector, the issue of limitations on below-cost sales by distributors needs to be evaluated (subject to compliance with competition law, in particular regarding predatory pricing) so that consumers can benefit from lower prices. Consumers would also profit from other competition-enhancing measures in this highly concentrated sector, such as lifting or reviewing spatial planning restrictions and speeding up procedures for setting up new distribution outlets. There is significant scope for reviewing more systematically the remaining restrictions on regulated professions in a number of sectors and their necessity and proportionality.

Besides the retail sector and regulated professions, there is also room for improving competition in other key sectors. In particular, in some network industries, although specific regulations have been enacted, the liberalisation process has delivered mixed results so far. In the electricity sector, the level of concentration is among the highest in the EU. Moreover, the impact of the on-going liberalisation on households and SMEs has remained limited. In the rail transport sector, the French market remains one of the least open in the EU. New entrants are still very limited in both goods and passenger transport. France is underperforming on railway freight transport and logistics. Finally, it should be noted that French ports are lagging behind in terms of performance, reliability and connections with the hinterland.

Summary of the results of the in-depth review under the macroeconomic imbalances procedure

On 14 February 2012, the European Commission presented its first Alert Mechanism Report (AMR), prepared in accordance with Regulation No. 1176/2011 on the prevention and correction of macroeconomic imbalances. The role of the AMR is to serve as an initial screening device to identify those Member States where developments warrant further in-depth analysis to determine whether imbalances exist or risk emerging.

[4] *Entreprise de taille intermédiaire*, 250-5 000 employees. This category of enterprises was introduced in France in the *Loi de modernisation de l'économie* (2008).

For France, an economic reading of the indicators shows that the main challenges relate to the external sector. France's share of world exports decreased by 19.4% between 2005 and 2010, much above the 6% threshold set in the AMR. This puts France among the EU countries where the export market share has decreased the most, just behind the UK (-24%) and Greece (-20%) and on a par with Cyprus (-19%). On the internal side, the high level of French public debt stood at 82% of GDP in 2010, well above the 60% threshold.

Both cost and non-price factors have played a role in the deterioration of France's export performance. While product and geographical market orientation seem to have had a negative impact, most of the deterioration comes from lower performance. The relatively rapid increase in nominal wages in France over the last decade has resulted in lower cost competitiveness. However, most of the development in export market shares is explained by non-price competitiveness. Strong linkages exist between cost and non-price competitiveness due to the downward pressure on margins, and hence on investment, that high costs exert. In addition, the insufficient innovativeness of French firms and the limited number of exporting firms are among the factors that explain the deterioration of France's export performance.

The French authorities have taken measures to limit cost development and strengthen non-price competitiveness. Measures have been taken to limit the rise in the minimum wage and to lower taxes on labour. In addition, some reforms have been implemented to strengthen non-price competitiveness. In particular, the tax credit on research expenditure was broadened to SMEs in 2008 and a set of clusters, known as *pôles de compétitivité*, have been developed to foster linkages between public and private research. As these measures have been taken fairly recently, no comprehensive assessment of their effectiveness is available yet, although formal reviews are planned.

The high level of public debt poses a threat to the sustainability of public finances, and the recent rise in bond spreads suggests that markets are concerned about the country's fiscal position. Rising public debt reduces the space to tackle future shocks and can crowd out private investment, thus lowering growth prospects. It inevitably implies high interest payments, which either go to the detriment of more productive growth-enhancing expenditure or need to be financed by higher revenue while the tax burden is already high in France.

3. Assessment of policy agenda

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

The main goal of the 2012 stability programme is to achieve the medium-term objective, i.e. a balanced budget in structural terms, as in last year's programme. The target year for reaching the medium-term objective is 2015, which was neither covered by nor mentioned in the previous stability programme. However, based on the recalculated structural balance[5], the medium-term objective will not be achieved until 2016. The adjustment path over 2012-2016 aims first to bring the deficit back to the reference value of 3% of GDP by 2013, the revised

5 Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission on the basis of the information provided in the programme, using the commonly agreed methodology.

deadline set by the Council under the excessive deficit procedure in 2009 (see Box 1). The (recalculated) structural balance is projected to improve from a deficit of 4.1% of GDP in 2011 to a surplus of 0.2% in 2016.

Box 1. Excessive deficit procedure for France

On 27 April 2009, the Council decided that an excessive deficit existed in France. The most recent Council Recommendation under Article 126(7) of the Treaty on the Functioning of the European Union was adopted on 2 December 2009. The Council recommended that France's authorities should put an end to the present excessive deficit situation by 2013.

The French authorities should bring the general government deficit below 3% of GDP in a credible and sustainable manner by taking action in a medium-term framework. Specifically, to this end, the French authorities should: (a) implement the deficit-reducing measures in 2010 as planned in the government proposal for the budget law for 2010 while avoiding a further deterioration of public finances, and implement and strengthen the fiscal effort from 2011 onwards above the consolidation measures already planned; (b) ensure an average annual fiscal effort of above 1% of GDP over the period 2010-2013, which should also contribute to bringing the government gross debt ratio back on a declining path that approaches the reference value at a satisfactory pace by restoring an adequate level of the primary surplus; (c) specify the measures that are necessary to achieve the correction of the excessive deficit by 2013, cyclical conditions permitting, and accelerate the reduction of the deficit if economic or budgetary conditions turn out better than currently expected.

An overview of the current state of excessive deficit procedures is available at: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm (please refer to country sections at the bottom of the page).

In 2011, the general government deficit reached 5.2% of GDP, down from 7.1% in 2010. This is lower than the official target of 5.7% of GDP contained in the 2011 stability programme (the target was also overachieved in 2010). While partly due to the phasing-out of the remaining stimulus measures, exceptional military equipment expenditure recorded in 2010 and some other exceptional factors (adding up to nearly 1% of GDP), the deficit reduction also stemmed from new measures on the revenue side (0.7%). Growth above potential also played a role (0.2% of GDP). The outcome better than the target partly stemmed from windfall revenues and statistical reclassifications, implying only a limited base effect for 2012.

Turning to 2012, the deficit is expected to decrease further on the back of the consolidation measures announced in the second half of 2011 and in January 2012 (estimated impact of around 1% of GDP) and adopted as part of the supplementary budget for 2011 and of the budget and the supplementary budget for 2012. These measures are mainly revenue based and aim to compensate for significantly lower growth prospects compared with the previous programme (0.7% now expected vs. 2.25%). Higher revenues are expected both from direct and indirect taxes (see Box 2). On the expenditure side, savings come from cuts in central government expenditure, less than full indexation of some social benefits (e.g. family and housing) and a tighter healthcare spending norm. Furthermore, the recently adopted pension reform will start yielding substantial savings. However, growth below potential will have a negative impact on the (headline) deficit. Overall, the Commission spring 2012 forecast projects a deficit of 4.5% of GDP, broadly in line with the target contained in the stability programme.

Box 2. Main budgetary measures

The on-going consolidation strategy has resulted both in new revenue measures and in expenditure savings. On the revenue side, these include: a cut in tax expenditures, no indexation of tax brackets concerning personal income tax and tax on wealth in 2012-2013, limiting the possibilities for carrying over losses in the calculation of corporate income tax, an additional temporary tax on top incomes and large companies, higher taxes on capital income and gains, a new intermediate VAT rate for several categories of goods and services, and a rise in excise duties on tobacco and alcohol. On the expenditure side, savings come mainly from cuts in central government expenditure and a tighter healthcare spending norm. Furthermore, the 2010 pension reform has started to yield budgetary savings. The proramme projects further savings in 2013-2016 (central government and healthcare expenditure), but these remain to be specified.

Main budgetary measures

Revenue	**Expenditure**
2011	
• Application of the standard VAT rate to triple play services (0.1% of GDP) • Higher taxes on supplementary health insurance schemes (0.1% of GDP) • Reduction in personal income tax and social security exemptions (0.2% of GDP)	• Savings on compensation of employees and running costs in central government (-0.3% of GDP) • Savings in healthcare and age-related expenditure (-0.2% of GDP)
2012	
• New intermediate VAT rate and increase in the standard VAT rate (0.2% of GDP) • Reduction in personal income tax and social security exemptions (0.3% of GDP) • Increase in social levies on capital income and gains (0.1% of GDP) • No indexation of tax brackets (personal income tax and tax on wealth) (0.1% of GDP) • Temporary 5% increase in corporate income tax for large companies (0.1% of GDP) • Reduction in employers' social contributions (-0.2% of GDP)	• Savings on compensation of employees and running costs in central government (-0.3% of GDP) • Savings in healthcare and age-related expenditure (-0.3% of GDP)
2013	
• Increase in the standard VAT rate (0.4% of GDP) • Reduction in personal income tax and	• Savings in age-related expenditure (-0.1% of GDP)

social security exemptions (0.1% of GDP) • Increase in social levies on capital income and gains (0.1% of GDP) • No indexation of tax brackets (personal income tax and tax on wealth) (0.1% of GDP) • Reduction in employers' social contributions (-0.5% of GDP)	
2014	
• n.a.	• Savings in age-related expenditure (-0.1% of GDP)
2015	
• n.a.	• Savings in age-related expenditure (-0.1% of GDP)
2016	
•	• Savings in age-related expenditure (-0.2% of GDP)
Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.	

Going forward, the programme projects that the general government deficit will reach 3% of GDP in 2013, the deadline set by the Council on 2 December 2009 for correcting the excessive deficit, and gradually decrease thereafter, with a balanced budget achieved by 2016. The targets for 2013-2014 are unchanged compared with the previous update of the programme. While the measures so far have concentrated on the revenue side, expenditure savings are expected to account for the bulk of the effort from 2013 onwards. In real terms, the authorities project that general government expenditure will increase by only 0.4% on average in 2013-2016. This compares with an average annual growth of around 2% in the previous decade. Curbs on expenditure growth are envisaged at all sub-government levels.

At central government level, according to the programme, expenditure will continue to be frozen in nominal terms and spending excluding interest payments and civil servants' pensions is set to decrease by 0.05% of GDP a year. In order to comply with those spending norms, the authorities plan to contain operating expenses, including through measures seeking to curb the civil servants' payroll and to decrease the running costs of the public administration through efficiency gains based on measures carried out as a result of the on-going review of public policies (*revue générale des politiques publiques*). As regards social security funds, the programme projects a 2.5% annual rise in healthcare expenditure in 2012-2016; this compares with average annual growth of around 3% in 2008-2011. Regarding pension expenditure, the 2010 reform will start yielding substantial savings as from 2012 (0.15% of GDP per year on average in 2012-2016). Concerning local authorities, the strategy anticipates only a subdued increase in expenditure over the period, to come especially from the decision to freeze, in nominal terms, transfers from central government.

Under the usual no-policy-change assumption, the Commission spring 2012 forecast projects that the deficit for 2013 will stay significantly above the official target of 3% of GDP. Around half of the difference (1.2 pps) stems from expected higher expenditure growth, since savings backing the various spending norms still need to be specified (apart from savings stemming from the latest pension reform). Concerning central government, maintaining the freeze on base wages beyond 2012 (which also applies to staff in social security funds and local authorities) has not been explicitly confirmed and further reducing the number of civil servants (only half of retiring staff have been replaced since 2007) cannot be taken fully for granted; the reduction in running costs also needs to be specified, especially since the planned decrease of 5% in 2011 did not materialise. Regarding social security funds, additional savings in healthcare expenditure compared to previous years will be needed to meet the tighter spending norm. Specifics are also lacking on the subdued growth in local government spending. The impact of measures such as a freeze on transfers from central government remains rather uncertain since local authorities are entitled to increase local taxes and widen tax bases (although the 2010 local business tax reform has affected the fiscal autonomy of sub-national tiers). While decentralisation has undoubtedly led to an increase in local government spending, this is also due to discretionary measures decided at the local level. Divergent macroeconomic scenarios (see above), planned revenue measures of which details are still to be given and a small base effect from 2012 explain the remaining difference (around 0.3%, 0.2% and 0.1% pps, respectively). The lack of specification of measures and risks linked to a less favourable macroeconomic scenario are also valid for the outer years covered by the programme. More generally, France's track record when it comes to meeting its budgetary targets is mixed.

The average annual fiscal effort, based on the evolution of the (recalculated) structural balance from the programme, would be 1.1% of GDP in 2010-2013, in line with the Council recommendation of 2 December 2009. The fiscal effort for 2013 from the Commission spring 2012 forecast is significantly lower than that projected by the authorities. When assessed against the projected rate of medium-term potential output growth and taking into account discretionary revenue measures, expenditure projections seem to ensure an appropriate adjustment path towards the medium-term objective thereafter. Indeed, annual progress equivalent to a further 0.7% of GDP is projected in 2014-2016, 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 general government debt has increased substantially since the beginning of the crisis. Starting from 64.2% of GDP in 2007, the debt ratio reached 85.8% of GDP in 2011 and is projected to increase further. The authorities expect public debt to reach 89.2% of GDP in 2013 and then drop to 83.2% in 2016. In 2014-2015, France will be in a transition period and current plans would ensure sufficient progress towards compliance with the debt criterion. According to these plans, the debt benchmark will be met at the end of the transition period (2016). The Commission forecast for 2012-2013 is above the official figures due to the higher projected deficits. Negative stock-flow adjustments from the programme (other than contributions to the European Financial Stability Facility and European Stability Mechanism and direct loans to vulnerable euro area countries) explain the rest of the difference. Risks to the debt scenario are clearly on the upside, 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.

Overall, the recommendation that France received on 12 July 2011 in the field of fiscal policy has been partly implemented. The deficit target for 2011 was overachieved and additional measures have been adopted to adjust for lower growth prospects in 2012. However, measures backing the consolidation strategy from 2013 onwards still need to be specified, especially on the expenditure side, and additional efforts may be needed for France to bring the deficit below 3% of GDP by 2013 and ensure an average annual fiscal effort of above 1% of GDP over 2010-2013, as recommended by the Council on 2 December 2009 under the excessive deficit procedure and recalled in the context of the 2011 European Semester. The Council has also recommended that France make adequate progress towards its medium-term objective of a balanced budget in structural terms thereafter. Based on the information on structural measures for 2013-2016, timely progress towards the medium-term objective cannot be ensured at this stage.

Long-term sustainability

With regard to the sustainability of public finances, the long-term change in age-related expenditure is below the EU average. The initial budgetary position adds to the long-term costs. Assuming no policy change, debt would increase to 93.2% of GDP by 2020. Additional fiscal consolidation beyond the forecast horizon would be needed to make progress towards the reference value for government debt beyond the short term. Although full implementation of the programme would be enough to put debt on a downward path by 2020, it would still be above the 60% reference value. Recent pension reforms will contribute to improving fiscal sustainability. Ensuring sufficient primary surpluses over the medium-term, as planned in the programme update, and beyond, would improve the sustainability of public finances.

Fiscal framework

France has made considerable changes to its fiscal framework in recent years. These have consisted of introducing new fiscal rules or amending rules already in force, strengthening existing budgetary procedures and establishing multi-annual planning of public finances. Furthermore, a constitutional reform to strengthen the legal status of the multi-annual planning is currently being discussed.

A dual spending norm applies to central government level. Under the second multi-annual public finance planning act, covering the period 2011-2014, central government expenditure excluding interest payments and civil servants' pensions is frozen in nominal terms. This rule comes on top of the zero volume rule introduced in 2004, which applies to all central government expenditure. The dual spending norm has been strengthened in the 2012 budget, with a 0.05% of GDP decrease in central government expenditure excluding interest payments and civil servants' pensions in nominal terms. Regarding social security, healthcare expenditure is subject to a nominal spending target set on an annual basis. This rule was strengthened in 2010. Concerning local authorities, the golden rule effective since the 1980s prohibits financing current expenditure by debt. In addition to strengthening the fiscal rules, the multi-annual planning of public finances has been improved. The constitutional reform of July 2008 created a new category of law for the purpose of defining multi-annual guidelines for public finances while striving towards balanced budgets.

The reforms adopted in recent years moved in the right direction and improved the fiscal framework in France. However, the current budgetary framework shows several weaknesses that should still be addressed. The first major drawback is that it is insufficiently binding.

Indeed, fiscal rules, spending limits and other provisions contained in the first two multi-annual planning acts have not always been met. A second challenge is to use realistic macroeconomic assumptions. Growth and revenue-to-GDP elasticity assumptions presented in the successive stability programmes and planning acts have proved too optimistic on several occasions and thus contributed to non-compliance with the deficit targets. Another significant cause for concern is tax expenditures. Their number and cost tends to weaken the effectiveness of fiscal rules. Tax and social security exemptions have often proved to be a substitute for direct expenditure, allowing the French authorities formally to meet existing spending rules. Finally, the principle of autonomy of some sub-sectors, including local authorities, raises the question of consistency with the adjustment path, which covers the entire general government sector.

Taxation

In 2010, France's tax-to-GDP ratio stood at 42.5% (the fourth highest in the EU and well above the EU average of 35.6%). Social contributions accounted for the highest share relative to GDP in the EU at 16.7% and employers' contributions made up more than two-thirds of the total. As a consequence, the implicit tax rate on labour at 41.0% in 2010 is among the highest in the EU, though less so towards the very end of the wage scale due to measures targeted at (very) low wage levels. In addition, France has the second lowest share of environmental taxes in GDP. Their level declined from 2.2% in 2000 to 1.8% in 2010; this compares with an EU average of 2.6%.

Efforts have been made to reduce tax expenditures (the so-called *niches fiscales et sociales*), in particular by increasing the liability of passive investment income (interest, dividends and capital gains) and alternative remuneration (e.g. stock options) to social contributions, removing mortgage-interest deductions, capping total tax expenditures and removing the tax shield (*bouclier fiscal*). However, these measures have also been accompanied by rate rises (social levies, marginal personal income tax rate, additional temporary levy on top incomes), which tend to increase the already high tax burden on labour. This conflicts with the objective of shifting taxes away from labour, as stipulated in the 2011 country-specific recommendation and highlighted by the 2012 Annual Growth Survey. One possible avenue for broadening the tax base (still a priority in the Annual Growth Survey priority) would be to review and streamline the complex system of taxes and levies on labour. No specific measures have been taken to raise VAT efficiency, except for increasing the reduced rate from 5.5% to 7% for certain categories of goods and services. The efficiency of some reduced rates in achieving their employment or social objectives should be assessed. In the case of labour-intensive services such as catering, the measure has been criticised as costly with a limited impact on employment.[6] Overall, the measures taken are relevant and, in the case of personal income tax but not VAT, relatively ambitious. Their credibility will depend both on clear monitoring and on additional efforts to streamline the array of existing taxes, as well as on measures to review the use of reduced VAT rates.

France has recently adopted a 'social or employment' VAT, consisting of abolition of the 5.4% family social contribution paid by employers for wages up to 2.1 times the minimum wage and progressive partial abolition up to 2.4 times the minimum wage. It is financed by an

[6] See, for example, the report from the *Conseil des prélèvements obligatoires*, http://www.ccomptes.fr/fr/CPO/documents/divers/Rapport_de_synthese_Entreprises_et_niches_fiscales_et_sociales_071010.pdf, page 200 et seq.

increase in the standard rate of VAT from 19.6% to 21.2% and a 2 pps increase in social levies on capital income and gains to 15.5%. The impact in terms of job creation will depend very much on the extent to which companies use this opportunity to increase their margins which, in time, will translate into higher prices. In parallel, other measures taken increase the tax burden on labour.

The country-specific recommendation on developing environmentally friendly taxation has not been implemented. France has the second lowest share of environmental taxation in the EU in tax revenues. France still has considerable room for manoeuvre to develop further environmentally friendly charging and taxation (interoperable road charging and urban congestion charges). In particular, France should pursue efforts to implement the *éco-redevance* in line with the established plan. Furthermore, environmentally harmful subsidies continue to have a high budgetary cost and to generate negative externalities, the costs of which are largely borne by public expenditure. France taxes natural gas and electricity at a reduced VAT rate, applies more favourable tax treatment to diesel fuel than to petrol and provides many exemptions from VAT or excise duties on oil products. Agriculture in particular benefits from exemptions from the polluter pays principle, especially as regards taxes on fuels and water prices.[7] Overall, France has ample room for increasing and adjusting environmentally friendly taxation and for using the potential revenues to meet the objective of decreasing the tax burden on labour.

Removing the mortgage-interest deduction as from 1 January 2011 has helped reduce the debt bias in housing taxation. One point to watch is the very high tax burden on corporations, in terms of both statutory and effective tax rates, which are further aggravated by cuts in corporate income tax expenditures (albeit a positive development if accompanied by cuts in rates) and new surcharges on large companies. These measures make France less attractive both as a location for business activities and for foreign direct investment. Finally, the debt-equity bias in France is amongst the highest in the EU (measured as the gap between effective marginal tax rates on debt- and equity-financed new investments).

3.2. Financial sector

Financial stability

During the summer of 2011, tensions resurfaced on the European banking markets. Concerns over sovereign debt markets and difficulties on the interbank market resulted in a call by the European Council on 27 October to increase banks' capital to further ensure their stability. A temporary increase in the core Tier 1 capital ratio to 9%, above the threshold discussed as part of the Basel III package, by mid-2012 was requested. For the four French banks monitored by the European Banking Authority (BNP Paribas, Banque Populaire Caisse d'Epargne, Crédit Agricole SA and Société Générale), this requirement translated into additional capital needs of EUR 7.3 billion. According to the results of the July 2011 European Banking Authority stress test, no French institution was below the 5% core Tier 1 capital legally required by the Capital Requirements Directive (two banks have core Tier 1 levels between 6 and 7%).

[7] http://www.oecd.org/dataoecd/40/32/44813125.pdf

Funding the economy

The French banks have continued to lend to the economy. In December 2011, outstanding credit to household grew by 4.8% and to non-financial corporations by 5.0% year-on-year. French household debt was equivalent to 80% of disposable income in the third quarter of 2011 (compared with 97% on average in the euro area). The level of credit to non-financial corporations has been increasing in the last few years to represent 67% of GDP in the third quarter of 2011, close to the 70% average for the euro area.[8]

The low profitability of non-financial companies in France might make them very dependent on credit. This is particularly the case for small and medium-sized enterprises (SMEs) as alternative sources such as venture capital or the SME equities market are still scarce. Bank lending surveys conducted by the Banque de France show that credit conditions did indeed tighten in the last quarter of 2011, before stabilising in early 2012. Short-term cash facilities for small or very small enterprises were particularly affected. Meanwhile, demand for loans has continued to decline. Credit growth can therefore be expected to slow down in the next few months, mainly because of the subdued demand.

In order to encourage companies to invest, the government has set up a number of financing schemes. These target in particular SMEs whose access to finance is generally more problematic. Innovative and high-growth SMEs, enterprises operating in technological sectors with high R&D intensity and very small enterprises face particularly acute difficulties. The *Fonds stratégique d'investissement*[9] can invest in companies, and in particular SMEs, through its various targeted funds. In addition, existing support through OSEO[10] has been strengthened and refocused to support companies that have difficulties raising capital. These schemes have contributed to improving the availability of external financing. However, they bridge only part of the financing gap and are not expected to address the structural lack of equity financing from private sources.

3.3. Labour market, education and social policy

Of the five country-specific recommendations addressed to France in 2011, two specifically targeted labour market and social policies. These country-specific recommendations covered a wide range of issues, including the general employment protection regulations, lifelong learning, the tax on labour and services offered by the public employment service. In general, the country-specific recommendations have been only partly implemented, to an extent that varies in the different areas. Besides the implementation of the country-specific recommendations, the deterioration of unemployment statistics in the second half of 2011 calls for renewed attention to labour market and social policies. In particular, youth employment, a domain where commitments were made by France in the context of the Euro Plus Pact, was particularly hit by the crisis and has remained below the average in the EU since then.

8 Source: Banque de France.

9 Set up in 2008 with initial capital of EUR 20 billion, it was allocated an additional EUR 1.5 billion in 2011.

10 OSEO is a public undertaking whose mission is to finance and support SMEs growth.

Labour market policies

Increasing labour market participation, reducing structural unemployment and ensuring a match between the skills of the workers and the needs of the labour market are among the key objectives set in the national reform programme. The French labour market suffers from a number of weaknesses that makes achievement of these objectives particularly critical.

Segmentation of the labour market

One of the main issues on the French labour market, as mentioned in the country-specific recommendations for 2011, is its high degree of segmentation. The likelihood of moving from a fixed-term to a permanent contract dropped from 45% in 1995-1996 to only 12.8% in 2010, clearly below the 25.8% average for the EU. The strong decrease in temporary employment in the second half of 2011 (-34 000 posts) is also illustrates the burden that the segmentation of the labour market puts on the population most at risk. The extensive use of fixed-term contracts and temporary employment also has consequences on human capital as employees under these type of contract tend to have lower access to vocational training. This segmentation is rooted in particular in the high level of employment protection legislation for both permanent and fixed-term contracts. In particular, while the notice period and severance payments are not comparatively higher than in other European countries, some parts of the legislation make dismissal particularly complex. In particular, it is possible to make a claim for unfair dismissal up to one year after the date of economic dismissal (one of the longest periods in the EU[11]). In addition, the definition of economic dismissal excludes the possibility of economic dismissal as part of a strategy to improve a firm's competitiveness and profitability. In order to effectively address the labour market segmentation effectively, the quality of labour relations may play a critical enabling role.

The national reform programme mentions a number of reforms that were made in the last few years to increase the flexibility of the labour market in times of economic difficulties. In particular, the *contrat de sécurisation professionnelle*, which was introduced in July 2011, makes it easier for workers hit by economic redundancies in companies with fewer than 1 000 employees to return to employment. For those workers, responsibility for redeployment is then shifted from the employers to the public employment service. As part of the same law, adopted on 28 July 2011, temporary transfers of employees between companies in the same employers' group were allowed. In parallel, negotiations between social partners on the *accords de compétitivité* were started in January 2012 with the aim of allowing a change in working hours and wages, against a commitment to retain employment. Measures have also been taken in order further to develop partial employment for companies facing a dip in activity. These measures should make it possible for employers faced with temporary difficulties to adjust working conditions with a limited impact on employment. However, they do not seek specifically to address the gap between the various forms of contracts.

A high minimum wage is considered to hinder employment prospects, in particular for the most vulnerable groups. It also contributes to weaker cost competitiveness of French exports. In order to ensure that the development of the minimum wage supports job creation, the French authorities have in particular eliminated the discretionary adjustments (*coup de pouce*)

[11] Source: OECD Indicators on Employment Protection.

since July 2006.[12] This has resulted in a reduction in the share of those employed at the minimum wage (from 13.9% in 2008 to 10.6% in 2011). The distance from the minimum wage to the average wage has also increased, indicating a reduction in the distortive effect of the minimum wage on job creation.

Support for the employment of youth and older workers

The Annual Growth Survey for 2012 stresses the need to pay particular attention to youth employment. The employment rate for people aged 15 to 24 in France (30.3% in 2011) is below the EU average. Within this age cohort, however, those who are active on the labour market are also those with lower levels of qualifications.[13] As the level of qualification of the young people has a significant impact on their risk of unemployment[14], this translates into a high level of unemployment in this age group (23.2% in 2011) in France compared with the average in the EU. The national reform programme clearly mentions the need to improve the employability of youth, and in particular of those with low levels of skills, in line with commitments taken on as part of the Euro Plus Pact. The authorities have committed themselves to increasing the number of apprenticeships from 600 000 to 800 000 by 2015. Several measures described in the national reform programme seek to develop the apprenticeship framework further, in particular through higher quotas for companies and tougher penalties.[15] While these measures are a step in the right direction, the total number of apprenticeships, which stood at 629 000 in December 2011, remains a challenge, although it is increasing. Studies suggest that, more generally, the consistency between the skills taught in the schooling system and the demand on the labour market needs to be better aligned.[16] In that respect, the national reform programme provides details on initiatives undertaken to reduce the number of early school leavers and increase participation in tertiary education. Measures have been taken to improve the vocational training centres whilst a number of specific support schemes target disadvantaged youth.[17]

At the other end of the age spectrum, the employment rate for workers aged 55-64 in France (41.0%) remains among the lowest in the EU (47.1% on average). Although some aspects of unemployment benefit for older workers may represent a disincentive to work[18], the 2010 pension reform, the end of the job-search exemption for senior workers and the phasing-out of early retirement schemes have contributed to the relative pick-up in employment since 2008

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12 Since 2008, an independent advisory committee has been in place which makes recommendations on development of the minimum wage.

13 Although fewer people leave school without at least a secondary diploma (12.6% in France compared with the EU average of 15.5%), and despite a national target of 9.5% of school leavers in 2020, only a modest improvement has been achieved in the past few years.

14 In 2010, the unemployment rate for young people aged 15-24 with pre-primary to lower secondary education in France was 36.3% (+22.2 pps compared with young people having reached the first or second stage of tertiary education and +16.1 pps compared with young people with upper secondary and post-secondary non-tertiary education).

15 The quota was brought from 3% to 4% for companies with more than 250 employees as part of the supplementary budget in July 2011 and then to 5% in February 2012.

16 See Joyandet (2012), "L'emploi des jeunes, grande cause nationale".

17 For example the "boarding schools of excellence", the partnerships set up between higher education institutions and secondary schools from deprived areas and the increased scholarship opportunities.

18 Workers above 50 are entitled to unemployment benefit for a maximum duration of 36 months, compared with 24 months for the other age groups. Furthermore, benefits are flat over the unemployment spells and decline only when the unemployment insurance is exhausted and unemployment assistance becomes payable.

(+3.2 points). However, unemployment has also increased significantly. Measures have been taken to encourage the employment of older workers, including the requirement for companies to implement active age management. However, the related action plans generally lack ambition and do not include measures such as reducing working time or offering positions that would be specifically adapted to older workers. Commitments were also made under the Euro Plus Pact to develop further professionalisation contracts, a form of apprenticeship, which is also open to older workers. Employers hiring low-skilled jobseekers aged more than 45 now benefit from a EUR 2 000 incentive. However, the effect of this measure on employment seems very modest as only 4 330 workers participated in the scheme in 2011.

Unemployment support

The merger of the jobseekers' placement service (ANPE) and the unemployment benefits agency (UNEDIC) into one single body (*Pôle emploi*) is still to deliver on its promise in terms of individualised support and advice for jobseekers. The increase in the number of unemployed and in the share of long-term unemployed workers, which made up 38% of the total number of registered jobseekers in December 2011, compared with 31% in 2008, pose particularly acute challenges for the public employment service. Despite temporary measures[19], internal resources available for individualised support to jobseekers remain limited (6 700 full-time equivalents out of a total of 45 500 employees). Although in January 2012 the state made commitments to allocate EUR 430 million to measures to combat unemployment, it has to be noted that the level of spending on training for jobseekers has remained stable since 2001.[20] In this respect, the target set for 2012 for the activation programme *Préparation opérationnelle à l'emploi* presented in the national reform programme seems very modest. The recourse to subsidised employment – in particular in the non-market sector – which has intensified as a response to the crisis is expected to have a rather limited impact in the medium term as it is generally difficult to return to other forms of employment after such contracts.

Regarding the medium-term development of the public employment service, a new multi-annual tripartite agreement (between the government, social partners and *Pôle emploi*) on its functioning and services was signed on 11 January 2012. The new 2012-2014 agreement is a step in the right direction as it provides for more individualised support for jobseekers and return-to-work targets, in particular for the long-term unemployed. However, these targets still remain to be set, making it difficult to assess properly the level of ambition of the agreement. Also, *Pôle emploi* is operating under tight budgetary constraints. Given the increasing number of jobseekers, the credibility of the objectives, which are to be achieved solely through efficiency gains and redeployments, can be considered uncertain.

Lifelong learning

Little progress has been seen in the participation of adults in lifelong learning, apart from the efforts to promote apprenticeship for young people. This issue would deserve further attention as only 5.0% of adults participated in lifelong learning in France in 2010, compared with 6.4% in 2006 and with an EU average of 9.1%. This figure has deteriorated steadily over the

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[19] In January 2012, a temporary reinforcement of 1 000 staff on fixed-term contracts for *Pôle emploi* was announced.

[20] "40 ans de formation professionnelle: bilan et perspectives", CESE, December 2011.

last decade despite programmes such as the 2009 Law on guidance and vocational training which aimed to encourage the development of a coordinated national strategy, planned and implemented by national authorities, the regions and the social partners to allow each person to improve by at least one level of qualification during his/her professional career. Besides the general low rate of participation in adult training, equal access and targeting of training for groups in need also seem problematic. In particular, older workers and workers with lower levels of initial education seem to participate less in trainings. The support fund *Fonds paritaire de sécurisation des parcours professionnels,* created in 2009, set a target of training 500 000 employees and 200 000 jobseekers each year. However, results so far have been insufficient.[21] Finally, significant scope for improvement remains regarding the quality of lifelong learning provided and its appropriateness to labour market prospects.

Social policy

France performs better than the EU average for the three Europe 2020 poverty and exclusion indicators. The share of the population at risk of poverty or social exclusion stood at 19.3% in 2010 (+0.9 pp compared with 2009, 23.5% on average in the EU). In particular, in-work poverty (6.6%) is below the EU average (8.5%) but has been on the rise since 2004. However, additional efforts could be targeted to reducing the poverty rate among particularly vulnerable segments, including non-EU nationals[22] (47.4% vs. an EU average of 32.5%), people living in urban deprived areas (32.4% in 2009 according to national data) or young people between 18 and 25 years old (24.5% vs. 21.2% on average in the EU, reflecting their difficulty to enter the labour market).

Social protection expenditure in France increased since the beginning of the crisis from 31% of GDP in 2008 to 33% in 2009, above the EU average (29.5% of GDP), mostly due to the automatic stabilisers. Social transfers have had a strong impact on poverty in France as they reduced the share of the population at risk of poverty by 46% in 2009 (35% on EU average).[23] The key measure in France's active inclusion policy is the social benefit reform that came into force in June 2009 with the creation of the RSA (*Revenu de solidarité active*). The RSA scheme guarantees recipients an increase in their income if they return to employment and ensures additional resources for poor workers. However, the evaluations carried out so far have shown lower take-up rates among the working poor than initially expected, due in particular to limited awareness on the part of potential beneficiaries.

According to the latest evaluation of the RSA, presented in December 2011, possible negative impacts such as the development of part-time jobs or decreases in wages have not occurred. However, the scheme does not seem to have any significant effects on return to employment. According to the evaluation committee, the activity part of the RSA, which ensures additional resources for poor workers, resulted in a decrease of 0.2 pp in the poverty rate. As acknowledged in the national reform programme, this limited impact is attributed to the low take-up rates among the working poor and to the amount of the benefit. Though more RSA

[21] In 2010 and 2011, only 272 000 jobseekers were trained, 173 000 employees in partial unemployment, and 138 500 employees with a low level of qualification (see Report on vocational training by Gérard Larcher, April 2012).

[22] The very high poverty rate among non EU nationals is largely due to lower qualification levels and their low participation in employment.

[23] People at risk of poverty are those with an equivalised disposable income below 60% of the national median (source: Eurostat).

recipients are registered in the public employment service than were in the previous scheme, many beneficiaries do not receive the greater support and activation measures they are entitled to. Overall, the RSA has had a stronger impact on reducing the intensity of poverty, in particular among low-wage earners, than on the rate of poverty itself.

3.4. Structural measures promoting growth and competitiveness

France has experienced a rapid erosion of its market share in international trade over the last few years (-19.4% between 2005 and 2010). The long-standing deficit of the trade balance since 2004 is a signal of the deteriorating export competitiveness of the French economy, in particular compared with some partners in the EU.

Cost competitiveness

French exports have lost ground in terms of cost competitiveness compared with France's trade partners since 2000. The real exchange rate based on unit labour cost increased by 12.9% between 2000 and 2010. During the same period, French exports prices remained in line with those of trade partners. This suggests that exporters reduced their margins to limit losses of market share. In order to improve cost competitiveness, measures have been taken by the authorities to limit the evolution of the minimum wage and to lower the tax burden on labour (see above). However, although lower labour costs could contribute to restoring the profitability of French exporters and supporting investment, the lagging non-price competitiveness of French exports suggests that other structural features are at work.

R&D and innovation

Innovation is considered to be one of the key drivers of non-price competitiveness. France's research and development (R&D) intensity was at 2.26% of GDP in 2010, up from 2.08% in 2007, but still far from the country's target of 3%.

Since 2005, France has conducted a comprehensive reform of its research and innovation system. The national reform programme highlights the main landmarks of this reform: the new funding and evaluation agencies and mechanisms (*Agence nationale de la recherche*, OSEO, *Agence d'évaluation de la recherche et de l'enseignement supérieur*), the *pôles de compétitivité*, the Law on autonomy of universities, the amplified research tax credit, which represented EUR 4.7 billion of foregone tax revenue in 2009[24], and the programme *Investissements d'avenir*. These structural measures have been backed up by a public R&D budget which has shown substantial progress since 2007 despite severe budget constraints during the crisis. The national innovation strategy has been complemented at the regional level by specific diagnostic documents (STRATER) which, together with Regional Innovation Strategies, will be used as the basis to define strategic directions for the regional innovation systems. The reforms undertaken so far have resulted in numerous new structures and supporting mechanisms. While the specific instruments are discussed in the national reform programme, little detail is provided on the articulation and coordination between these structures. Governance mechanisms, which would ensure that the deployment of research and innovation activities is not overly complex for stakeholders while limiting potential redundancies and overlaps, are not presented.

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[24] These amounts are not included in the government R&D budget.

Despite some progress since 2007, at 1.38% of GDP in 2010, business R&D intensity in France is below that of the innovation leaders in the EU.[25] While the generous incentives provided by the extension of the research tax credit[26] and the substantial on-going efforts to foster linkages between public research and enterprises and enhance the take-up of research results have probably contributed to this incremental improvement, no systemic assessment of the effectiveness of these support mechanisms is available yet. In terms of human capital for research and innovation, the proportion of students pursuing doctoral studies is lower in France than in the EU as a whole. This suggests that the innovation system would benefit from better promotion of research careers as well as better career opportunities for doctorate-holders in the business sector in order to attract a higher proportion of the best students. More generally, further efforts could be undertaken to ensure that innovation and entrepreneurship education programmes are available more systematically in higher-education curricula.

Competition

In its 2011 country-specific recommendations, the Commission stressed the need for further measures to tackle restrictions on regulated trades and professions, in particular in services, and on the retail sector. Although a number of reforms have been made, reforming and liberalising various activities, significant scope remains for further developing effective competition in these domains.

Regarding regulated trades and professions, France has made efforts to transpose the Services Directive. A substantial number of legislative and practical changes have been introduced.[27] However, significant barriers remain in a number of sectors whether covered by the Services Directive (e.g. veterinarians) or not (taxis, health sector, notaries and more generally legal professions). Furthermore, the justification and proportionality of some measures related to the establishment of service providers and the provision of services may warrant further scrutiny. As far as the Points of Single Contact are concerned, the availability of online procedures and accessibility remain in need of improvement.

Although the retail sector is not mentioned in the national reform programme, positive steps have been taken to foster competition, in particular through the Law on the modernisation of the economy (*Loi de modernisation de l'économie*), adopted prior to the 2011 recommendations, and through some of the measures envisaged in the draft law reinforcing the rights, the protection and information of consumers (*Projet de loi renforçant les droits, la protection et l'information des consommateurs*). However, there are still some concerns about the inflationary pressure resulting from the ban on selling below costs.[28] Consumers could also profit from other competition-enhancing measures in this highly concentrated sector, such as reviewing spatial planning restrictions and speeding up procedures for setting up new distribution outlets (which can take 7 to 10 years according to the competition authority).

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[25] See the Innovation Union Scoreboard 2011 for a detailed comparison of innovation performance.

[26] An assessment conducted for the Ministry of Education and Scientific Research estimates that the current research tax system reduces the cost of R&D for companies by 47% on average.

[27] For example, the Law of 24 July 2010 reforming artists' agents and accountants or the Law of 22 March 2011 allowing the installation of architects established in another Member State.

[28] In its annual report for 2010, the competition authority considered that this regulation had adverse impacts, in particular on the transparency of the relationships between suppliers and distributors, while the objectives sought by the ban could be achieved more effectively through less distortionary measures.

Network industries

Beyond the scope of the country-specific recommendation on regulated trades and professions addressed to France in 2011, competition should be stepped up in the network industries.

In the telecommunication sector, as noted in the national reform programme, the entry of a fourth mobile phone operator in January 2012 combined with the increasing weight of mobile virtual network operators have contributed to increasing the level of competition. The broadband sector is also very dynamic and competitive in France, with more than 75% of the population having access to two or more providers offering triple-play services.

In the electricity sector, the degree of concentration remains one of the highest in the EU, with the historical operator (EDF) having a share of some 85% on both the generation and the retail markets. The Law on the new organisation of electricity markets (NOME), which makes available to competitors a certain amount of low-cost electricity from the historical supplier's nuclear plants and therefore allows a level playing field, has had a positive impact on competition, in particular for larger corporations. However, issues related to the methodology underpinning the price at which competitors have access to this electricity remains to be settled. Due to the complexity of the issues at stake and to the large number of stakeholders involved, the tendering of hydro-concessions, which would also ensure that alternative operators have access to generation capacity, is being delayed. The limited interconnection capacity with neighbouring countries, and in particular with Spain, is another constraint to the development of competition on the domestic electricity market. Finally, according to the French regulatory authorities, competition is also increasing in the wholesale market for gas distribution, where particular attention should, however, be paid to retail tariff-setting and, in particular, to ensuring that the latter does not give rise to margin squeezing that would foreclose competitors.

In the rail freight transport sector, in a context of rapidly decreasing transported volumes, the combined market share of new entrants remains limited. Effective competition requires that competitors have non-discriminatory access to infrastructure, in particular maintenance facilities, and to safety authorisation procedures. Regarding passenger rail services, only international services have been opened up to competition. Until now, there have been very few new entrants (Ferrovie dello Stato/Veolia Transport with a new low-cost connection to Italy). No competitor operates on the most profitable international lines yet (Eurostar and Thalys). Based on the experience in other Member States, France could consider opening domestic markets, in particular via the introduction of public tendering procedures for local and regional services, as envisaged in the national reform programme. In the air transport sector, the dramatic changes in recent years, stemming particularly from the rise of low-cost carriers and the development of new airport strategies, have opened up new routes. However, French air traffic is highly concentrated, with the ten largest airports handling about 83% in 2010.[29] As a consequence, the economic performance of smaller airports appears mixed. It is important to ensure that public support for non-profitable regional airports does not place an unnecessary burden on public finances and create an undue distortion of competition within the internal market. Finally, French harbours are performing unevenly.[30] A reform was

[29] Source: Direction générale de l'aviation civile, Bulletin statistique 2010.

[30] France has seven seaports of national importance. In 2009, four French harbours were among the 40 largest in Europe in terms of freight traffic. While some harbours have registered an increase in traffic since 2006

launched in 2008 to separate the role of the port authorities further from other functions that could be provided by private companies. Although this reform should improve the situation, France still needs to improve connections between ports and the hinterland, in particular the rail freight network and inland waterways, to develop the potential of its ports, an aspect which is currently insufficiently reflected in the preparatory work for the *Schéma national des infrastructures de transport* mentioned in the national reform programme.

Resource efficiency

France has set resource efficiency and reduction of greenhouse gas emissions as one of its main objectives for the national reform programme. Thanks to its energy mix and the hydro-electricity generation capacity, France is among the least CO_2-intensive economies in the EU and one of the Member States with a higher share of renewable energy. An innovative white certificates scheme has been developed. Feed-in tariffs for renewables have proved successful in stimulating the deployment of wind and solar power, but had to be adjusted to avoid excessive cost increases for electricity consumers. In 2011, France also launched its first offshore wind tender and boosted its biogas policy with a new tariff. However, the employment and growth potential of green sectors remains partly untapped in France. In particular, in the waste sector, significant numbers of jobs could be created by implementing the waste hierarchy better, eliminating landfill and limiting energy recovery to non-recyclable waste, with economic instruments such as 'pay as you throw' schemes playing a key role.[31]

As the national reform programme mentions, some initiatives have been taken to strengthen environmental fiscal incentives, in particular for cars, water and buildings. However, as discussed in the section on taxation, France remains the Member State with the second lowest share of environmental taxation in the EU. Moreover, although the report commissioned from the *Conseil d'analyse stratégique* contributed to raising awareness, a number of environmentally harmful subsidies persist, in particular in the agricultural sector. As regards renewables in the transport sector, France should make sure that progress is made as planned in order to reach the 10% target in 2020.

3.5. Modernisation of public administration

Business environment

In 2010-2011, some notable measures to improve the businesses environment were adopted, such as the creation of a new independent entrepreneur scheme[32]. France now scores among good or top performers in terms of the time and cost to start a business, obtain licences and enforce contracts. France is close to the EU average for the availability and take-up of e-government services for businesses, although the full introduction of paperless one-stop shops does not seem to have been achieved yet. A total of 96 simplification measures were announced in 2011 and 25 were included in a new simplification law of 29 February 2012. However, most measures have not been adopted or implemented yet (e.g. common starting dates for new rules applicable to enterprises) and cannot be assessed. Other measures have not been fully implemented in practice, such as systematic impact assessment of new rules

(e.g. Rouen and La Rochelle), the relative importance of the main French harbours is decreasing compared with peers in Europe.

31 See European Commission (2011), "Implementing EU Waste Legislation for Green Growth".

32 *Entreprise individuelle à responsabilité limitée* (EIRL).

applicable to enterprises.[33] Stakeholder consultation has been made more visible and transparent through mechanisms such as *Grenelle*, *Assises* and *Etats généraux*, but remains quite uneven.[34] Notable steps have been taken to simplify interfaces between businesses and relevant public services, although there is significant scope for further streamlining administrative structures and ensuring easy and transparent access to information for all enterprises, including SMEs. Overall, strong political commitments to improve the regulatory environment of businesses have not always been followed by systematic implementation. For example, some policy objectives overlap or lack follow-up[35] and the individual roles of several new bodies could be clarified.[36] Over time, the proliferation of half-measures towards simplification, such as specific derogations and exemptions, tends to create a regulatory 'layer cake' and risks being counterproductive by making the regulatory framework for businesses even more complex and unstable. This is particularly acute when looking at the fiscal framework: exemptions and derogations have tended to lead to such complexity that tax legislation is no longer transparent for businesses, notably SMEs and foreign investors. Too frequent changes in legislation and related exemptions also create a lack of predictability which is not favourable to business investment.

As a result, France still scores clearly below the EU average in terms of burden of regulation, with persistent challenges linked to the burden of compliance with administrative procedures, the regulatory complexity (e.g. tax legislation, labour law and corporate law) and the instability of the regulatory framework (including taxation). Permanent monitoring of the regulatory environment from the competitiveness angle, including regular simplification and systematic follow-up, could lead to significant improvement over time.

Public procurement

A well-functioning public procurement system boosts the efficiency of the public administration and e-procurement is a key component of e-government. The French public procurement market is estimated at between 2.8% and 3.5% of GDP. The public procurement directives have been fully implemented in French national legislation. The national judicial system for providing remedies appears to be quite effective. Concerning e-procurement, approximately 2.5% of public spending on goods and services was managed using electronic tools in 2010. Since 1 January 2010, electronic procurement has been mandatory for IT purchases above EUR 90 000 and from 1 January 2012 French administrations have to accept electronic invoicing from any supplier.

State aid

The overall efficiency of state aid enforcement in France shows a number of weaknesses. France ranks among those Member States with the longest overall and internal procedures, which is compounded by the complexity of the cases. France grants relatively more aid

33 For example, the impact assessment methodology is not publicly available and ex-ante impact assessments do not systematically accompany draft regulations.

34 For example, there is no rule or common practice on the minimum duration of stakeholder consultation.

35 For example, the Euro Plus Pact commitment to introduce paperless procedures for 80% of 100 priority procedures by 2011, the commitment to introduce paperless procedures for the 'most awaited' 100 procedures by 2013 and the commitment to ensure full on-line availability of all procedures by 2020.

36 For example, the Commissioner in charge of simplification, the National Conference of Industry or the Council for simplification in favour of enterprises.

covered by prohibition decisions and more sectoral state aid than most EU Member States. Stronger internal scrutiny and compliance mechanisms are needed.

4. Overview table

2011 commitments	Summary assessment
Country-specific recommendations (CSRs)	
CSR 1: Ensure the recommended average annual fiscal effort of more than 1% of GDP over the period 2010-2013 and implement the correction of the excessive deficit by 2013, in line with the Council recommendations under the EDP, thus bringing the high public debt ratio on a downward path, and ensure adequate progress to the medium-term objective thereafter; specify the necessary corresponding measures for 2012 onwards, take additional measures if needed and use any windfall revenues to accelerate the deficit and debt reduction as planned; continue to review the sustainability of the pension system and take additional measures if needed.	Additional consolidation measures were adopted in the second half of 2011 and in February 2012 to adjust to lower-than-expected growth in 2011-2012, with a budgetary impact of around 1% of GDP in 2012 and an additional 0.2% in 2013. While these are clearly a step in the right direction, measures backing the consolidation strategy from 2013 onwards still need to be specified, especially on the expenditure side, and additional efforts may be needed for France to bring the deficit below 3% of GDP by 2013 and ensure an average annual fiscal effort of above 1% of GDP over 2010-2013. Concerning the long-term sustainability of public finances, the 2010 pension reform is being gradually applied. However, it cannot be ensured that the system will be balanced by 2018, as envisaged by the French authorities, since this expectation may be based on optimistic employment and growth projections, and the system is expected to fall into deficit after 2020. Moreover, the newly created steering committee, which was established to give an annual opinion on the financial situation of the various pension schemes and the conditions required to ensure balanced accounts by 2018, did not issue such an opinion in 2011. Overall, the country-specific recommendation has been partly implemented.
CSR 2: Undertake renewed efforts, in accordance with national practices of consultation with the social partners, to combat labour market segmentation by reviewing selected aspects of employment protection legislation while improving human capital and upward transitions; ensure that any development in the minimum wage is supportive of job creation.	Limited reforms have been carried out to address labour market segmentation. Since 2011, a number of measures have been taken that seek to provide flexible work arrangement for companies facing temporary difficulties. In July 2011, economic dismissals were facilitated for companies with fewer than 1 000 employees. These measures increase the flexibility of the labour market but they do not specifically address the segmentation of the labour market. The development of the minimum wage has been kept in line with inflation and the distance from the average wage has increased. Overall, the country-specific recommendation has been partly implemented.
CSR 3: Encourage access to lifelong learning in order to help maintain older workers in employment and enhance measures to support return to employment. Step up active labour market policies and introduce measures to improve the organisation, decision-making, and procedures of the public	For senior workers, companies are required to implement an active age management plan. However, these plans generally lack ambition. The development of financial incentives for low-skilled job seekers aged more than 45 has had modest

employment service to strengthen services and individualised support provided to those at risk of long-term unemployment.	impact, with only 4 330 workers participating in 2011. The resources available to *Pôle emploi* are a strong constraint to the credibility of the objectives adopted. Commitments have been made to allocate additional temporary resources (1 000 full-time equivalents) to address the current increase in the number of jobseekers. The French authorities also expect that, through efficiency gains, an additional 2 000 FTE could be assigned to counselling jobseekers by 2014. However, this is unlikely to be sufficient to improve significantly the quality of the services offered. The 2012-2014 public employment service agreement, which provides for more individualised support for jobseekers and return to work targets, is a step in the right direction. However, some of the objectives are still to be defined. Its effectiveness will need to be monitored. A more ambitious strategy is needed in the field of adult learning so as to raise the employability of the adult workforce. Overall, the country-specific recommendation has been partly implemented.
CSR 4: Increase the efficiency of the tax system, including for example through a move away from labour towards environmental and consumption taxes, and implementation of the planned reduction in the number and cost of tax and social security exemptions (including *niches fiscales*).	In February 2012, France adopted a 1.6 pps increase in VAT to 21.2% and a 2 pps rise in social levies on capital income and gains to 15.5% to compensate for lower employers' social contributions. This is a relevant measure, although its ambition seems limited given its narrow focus and the developments mentioned below with regard to measures increasing the tax burden on labour. No specific measures have been taken to raise VAT efficiency, except for increasing the reduced rate from 5.5% to 7% for certain categories of goods and services. Efforts have been made to reduce tax expenditures; however, they have also been accompanied by rate rises that tend to increase the already high tax burden on labour. This conflicts with the objective of shifting taxes away from labour. No major move from labour towards environmental taxes has been proposed so far. Overall, the country-specific recommendation has been partly implemented.
CSR 5: Take further steps to remove unjustified restrictions on regulated trades and professions, in particular in services and the retail sector.	France undertook reforms in 2010 and 2011 to remove restrictions on selected trades and professions. However, no horizontal review has been conducted and these measures will therefore have a marginal impact. In the retail sector, the reforms provided for the draft law strengthening the rights, the protection and information of consumers would have a marginal impact and clearly lack ambition. Overall, the country-specific recommendation has been partly implemented.

Euro Plus Pact (national commitments and progress)	
Public finances: • Fully implement the 2010 general pension reform. • Adopt a constitutional reform to introduce binding multiannual budget planning. • Step up efforts to increase the efficiency of healthcare spending.	The public finance commitment has been partly implemented: • The 2010 reform is being gradually applied (increase in the statutory retirement age from 60 to 62, with a first four-month rise for people born in 1951) while the contribution period will increase faster than previously expected (41.5 years for those born in 1955 instead of 1958), in line with higher gains in life expectancy. It has also been decided that the increase in the statutory age to 62 years will come into effect in 2017, i.e. one year earlier than previously envisaged. • The draft constitutional reform was passed by the two chambers of Parliament in July 2011. In order for it to be finally adopted, both chambers need to meet in Congress where a three-fifths majority is required. Such a meeting has not been called so far. • Concerning healthcare spending, the recent improvement of the institutional framework led to compliance with the target for 2010-2011. The targets for 2012-2016 have been tightened, but the corresponding savings from 2013 onwards are still to be specified.
Labour market: • Increase the participation rate for youth and senior workers. • Increase the number of young workers in apprenticeship from 600 000 to 800 000 by 2015. • Develop incentives for companies hiring workers over 45 years old under a *contrat de professionalisation.* • Set up systematic interviews for jobseekers unemployed for more than one year. • Improve the labour participation of women by creating 200 000 additional childcare places by 2012.	The labour market commitments have been partly implemented • For youth (aged 15-24), the employment rate stood at 29.9% in 2011, compared to 30.3% in 2010. The employment rate for senior workers (aged 55 to 64) increased from 39.7% in 2010 to 41.4% in 2011. • The national cross-industry agreement on youth employment of 7 June 2011 was incorporated in the law of 28 July 2011on the development of apprenticeships and secure professional paths. The quota for apprentices in companies with more than 250 employees was increased from 3% to 4% and then to 5% in February 2012. The financial penalties have been increased as well. However, in 2011, the number of apprentices was still far from the objective (629 000). • Long-term unemployment has been increasing for the past three years for all groups. No data are available so far on improved counselling services for the long-term unemployed. According to the Employment Ministry, 87% of long-term unemployed were received by *Pôle emploi* counsellors between March and May 2011. However, the outcome of this process

	remains unclear. Under the new agreement, the provision of customised services will be one of the three priorities of *Pôle emploi*. • The employment rate for women stood at 64.6% in 2011, slightly below its 2010 level (64.7%). The national reform programme states that the childcare creation plan is being implemented and that 85% had been completed in the first three years of the plan.
Structural policies: • Strengthen the research potential and improve its impact in terms of innovation and economic outcome. • Provide EUR 3.6 billion in additional funds for 2011 to tertiary education and research institutions. Foster the emergence of 5 to 10 transversal research clusters. • Launch the Campus Plan, complete the reform granting full autonomy to the universities and accelerate the grouping of tertiary education institutions. • Launch an administrative simplification programme, targeting in particular SMEs, resulting from the consultation process initiated by the government.	The commitments related to structural policies have been partly implemented • The first wave of projects has now been completed (400 projects selected in 2011); the second wave has been launched and is to be completed in the course of 2012. Many aspects of the reform are planned in line with a multi-annual agenda (autonomy of all universities by the end of 2012, target for the completion of buildings corresponding to the new Campus Plan only in 2015). • A new Law on administrative simplification was adopted in February 2012. It resulted in the adoption of 25 measures that were proposed during the consultation held in April and December 2011.
Europe 2020 (national targets and progress)	
Employment rate target: 75%	Employment rate (%): 69.4% (2009), 69.1% (2010). The current deterioration of the employment market creates a significant obstacle to achieving this objective. In particular, the rising levels of long-term unemployment suggest that the effects will be long-lasting. Efforts have been made to increase employment for youth and senior workers. However, their effectiveness has been limited so far. No progress has been made towards achieving this target.
R&D target: 3% of GDP	Gross domestic expenditure on R&D (in % of GDP): 2.26% (in 2009), 2.26% (2010 provisional figure). Ambitious policy measures have been undertaken to develop R&D in both the public and the private sector. The effectiveness of these schemes will be reviewed in the near future. Some progress has been made towards achieving this target.
CO_2 emission reduction target (development in %) of	Greenhouse gas emissions, base year 1990.

the Member State as set in the 2011 national reform programme: -14% in 2020 (compared to 2005), excluding EU ETS	Index 1990 = 100: 92 (in 2009, compared with 101 in 2005). Due to its energy mix, France is among the least CO_2-intensive economies in the EU. The economic crisis should lower emissions in the medium term. Action plans related to the *Grenelle de l'environnement* should contribute to help achieving the objective. Some progress has been made towards achieving this target.
Renewable energy target: 23%	Share of renewable energy in gross final energy consumption (in %): 12.3% (2009). Thanks to its hydraulic electricity generation capacity, France is among the EU countries with a high share of renewable energy. Some progress has been made towards achieving this target.
Energy efficiency – Reduction in primary energy consumption by 2020 (in Mtoe): -34.0 Mtoe	Gross inland consumption of energy divided by GDP (kilogramme of oil equivalent per 1 000 euros): 163.7 (2009), 166.7 (2010). The energy efficiency objectives are set on the basis of national circumstances and national formulations. As the methodology for expressing the 2020 energy consumption impact of these objectives in the same format has been agreed only recently, the Commission is not yet able to present this overview.
Early school leaving target: 9.5%	Early leavers from education and training (percentage of the population aged 18-24 with at most lower secondary education and not in further education or training): 12.2 (2009 provisional figure), 12.6 (2010 provisional figure). The rate of early school leaving has decreased only moderately over the last decade (13.3% in 2000). The national target would represent a significant potential decrease. The government is planning a wide range of initiatives, including better monitoring of early school leavers, plans to prevent and correct low achievement, individualised support and guidance. Although the measures already implemented might result in a more positive trend in the future, further efforts may be needed. Some progress has been made towards achieving this target.
Tertiary education target: 50%	Tertiary educational attainment: 43.2% (2009 provisional figure), 43.5% (2010 provisional figure). France has made considerable progress since 2000 in

	this area. Investment in higher education has increased significantly in France and is backed by major reforms to give the universities greater autonomy. Some progress has been made towards achieving this target.
Target to reduce the population at risk of poverty or social exclusion: reduction of the anchored at-risk-of-poverty rate by one third for the period 2007-2012 or by 1 600 000 people	People at risk of poverty or social exclusion: 11155 000 (2009), 11 763 000 (2010). The main measure to limit the risk of poverty and social exclusion was the introduction of the *Revenu de solidarité active* in 2010. Due in particular to lower-than-expected take-up among the working poor, the results have been slightly below expectations. As a consequence of the crisis, poverty may have increased, offsetting the impact of previous reforms. No progress has been made towards achieving this target.

5. Annex

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Core indicators								
GDP growth rate	2.4	2.0	1.6	-2.7	1.5	1.7	0.5	1.3
Output gap [1]	-0.6	2.2	2.0	-2.8	-2.5	-2.1	-2.8	-2.7
HICP (annual % change)	1.3	2.0	2.1	0.1	1.7	2.3	2.1	1.9
Domestic demand (annual % change) [2]	2.2	2.2	2.1	-2.5	1.4	1.7	0.2	1.3
Unemployment rate (% of labour force) [3]	10.7	8.7	8.7	9.5	9.8	9.7	10.2	10.3
Gross fixed capital formation (% of GDP)	17.4	18.6	20.4	19.7	19.3	19.8	19.9	20.0
Gross national saving (% of GDP)	19.8	20.0	20.0	17.0	17.1	18.1	18.1	18.4
General government (% of GDP)								
Net lending (+) or net borrowing (-)	**-3.4**	**-2.8**	**-2.8**	**-7.5**	**-7.1**	**-5.2**	**-4.5**	**-4.2**
Gross debt	**58.2**	**60.3**	**65.8**	**79.2**	**82.3**	**85.8**	**90.5**	**92.5**
Net financial assets	**-40.5**	**-43.1**	**-41.6**	**-52.3**	**-58.8**	**n.a**	**n.a**	**n.a**
Total revenue	50.2	49.7	50.2	49.2	49.5	50.7	51.8	52.0
Total expenditure	53.7	52.6	53.1	56.8	56.5	55.9	56.3	56.2
of which: Interest	3.3	2.9	2.7	2.4	2.4	2.6	2.6	2.6
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**1.2**	**-0.5**	**-1.5**	**0.6**	**0.3**	**-1.6**	**-2.1**	**-2.1**
Net financial assets, non-financial corporations	**-75.3**	**-90.2**	**-106.9**	**-109.4**	**-112.5**	**n.a**	**n.a**	**n.a**
Net financial assets, financial corporations	**9.1**	**10.5**	**10.8**	**13.6**	**17.5**	**n.a**	**n.a**	**n.a**
Gross capital formation	9.1	10.3	11.3	9.4	10.0	11.0	10.6	10.5
Gross operating surplus	16.6	16.8	16.9	16.1	16.7	16.2	15.4	15.4
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**4.3**	**4.2**	**3.2**	**4.9**	**4.6**	**4.2**	**4.5**	**4.4**
Net financial assets	**119.3**	**126.5**	**132.6**	**137.5**	**141.8**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	38.0	39.0	38.8	39.7	39.6	39.7	39.9	39.6
Net property income	6.8	6.5	6.6	6.7	6.5	6.8	7.1	7.1
Current transfers received	24.7	24.4	24.6	26.4	26.5	26.4	26.8	26.9
Gross saving	10.0	10.0	9.9	11.2	10.8	10.9	11.3	11.3
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**2.1**	**0.8**	**-1.2**	**-2.1**	**-2.2**	**-2.7**	**-2.2**	**-2.0**
Net financial assets	**-12.6**	**-3.8**	**5.0**	**10.6**	**12.0**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	2.1	1.0	-1.3	-1.8	-2.3	-2.9	-2.9	-2.7
Net primary income from the rest of the world	0.9	1.2	1.7	1.6	1.8	1.9	2.1	2.2
Net capital transactions	0.0	-0.1	0.0	0.0	0.0	0.0	0.2	0.2
Tradable sector	39.5	38.4	35.5	33.7	33.8	n.a	n.a	n.a
Non-tradable sector	49.7	51.4	54.0	56.6	56.1	n.a	n.a	n.a
of which: Building and construction sector	4.5	4.7	5.4	5.8	5.4	n.a	n.a	n.a
Real effective exchange rate (index, 2000=100)	110.0	104.7	112.7	115.2	113.4	114.6	113.3	113.2
Terms of trade in goods and services (index, 2000=100)	101.8	101.1	99.0	100.6	98.4	96.6	95.8	96.1
Market performance of exports (index, 2000=100)	101.2	98.3	86.3	83.9	83.4	84.5	86.1	87.2

Notes:

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

[2] The indicator for 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 spring 2012 forecast

Table II. Comparison of macroeconomic developments and forecasts

	2011		2012		2013		2014	2015	2016
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	1.7	1.7	0.5	0.7	1.3	1.8	2.0	2.0	2.0
Private consumption (% change)	0.4	0.4	0.7	0.4	1.5	1.2	2.2	2.2	2.2
Gross fixed capital formation (% change)	2.9	2.9	0.5	0.9	1.8	2.9	2.4	2.4	2.3
Exports of goods and services (% change)	4.9	5.0	2.5	3.4	4.8	5.2	6.2	6.2	6.2
Imports of goods and services (% change)	4.6	4.8	1.3	1.6	4.3	4.0	5.1	5.1	5.1
Contributions to real GDP growth:									
- Final domestic demand	1.0	1.0	0.6	0.6	1.4	1.3	1.7	1.7	1.7
- Change in inventories	0.8	0.8	-0.4	-0.4	0.0	0.2	0.1	0.0	0.0
- Net exports	0.0	-0.1	0.3	0.4	0.0	0.2	0.2	0.2	0.2
Output gap[1]	-2.1	-2.1	-2.8	-2.7	-2.7	-2.4	-1.7	-1.1	-0.4
Employment (% change)	0.7	0.6	0.4	0.3	0.4	0.5	0.8	0.9	0.9
Unemployment rate (%)	9.7	n.a.	10.2	n.a.	10.3	n.a.	n.a.	n.a.	n.a.
Labour productivity (% change)	1.0	1.1	0.0	0.4	0.9	1.3	1.2	1.1	1.1
HICP inflation (%)	2.3	2.1	2.1	1.9	1.9	1.8	1.8	1.8	1.8
GDP deflator (% change)	1.6	1.6	1.5	1.6	1.8	1.8	1.7	1.7	1.7
Comp. of employees (per head, % change)	2.8	2.9	2.1	1.7	2.0	1.5	optional	optional	n.a.
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-2.7	-2.6	-2.2	-2.5	-2.0	-2.1	-1.8	-1.6	-1.3

Note:

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

Source :

Commission spring 2012 forecasts (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2011	2012		2013		2014	2015	2016	Change: 2011-2016
	COM	COM	SP	COM	SP	SP	SP	SP	SP
Revenue	**50.7**	**51.8**	**51.5**	**52.0**	**52.1**	**52.2**	**52.4**	**52.6**	**1.9**
of which:									
- Taxes on production and imports	15.3	15.6	15.7	16.0	16.0	16.1	16.2	16.2	0.9
- Current taxes on income, wealth, etc.	11.3	11.8	11.8	12.1	12.4	12.5	12.7	12.8	1.5
- Social contributions	18.8	18.8	18.7	18.3	18.2	18.2	18.2	18.2	-0.6
- Other (residual)	5.4	5.6	5.3	5.6	5.5	5.4	5.3	5.4	0.0
Expenditure	**55.9**	**56.3**	**55.8**	**56.2**	**55.1**	**54.2**	**53.4**	**52.6**	**-3.3**
of which:									
- Primary expenditure	53.3	53.7	53.3	53.6	52.5	51.6	50.7	49.8	-3.5
of which:									
Compensation of employees	13.2	13.2	13.1	13.0	12.8	12.4	12.1	11.8	-1.4
Intermediate consumption	5.5	5.5	5.5	5.5	5.3	5.2	5.0	4.9	-0.5
Social payments	25.6	25.9	25.8	25.9	25.6	25.3	25.0	24.7	-0.9
Subsidies	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4	-0.1
Gross fixed capital formation	3.1	3.1	3.1	3.2	3.0	2.9	2.9	2.8	-0.3
Other (residual)	4.5	4.5	4.4	4.5	4.3	4.3	4.2	4.1	-0.4
- Interest expenditure	2.6	2.6	2.5	2.6	2.6	2.6	2.7	2.8	0.2
General government balance (GGB)	**-5.2**	**-4.5**	**-4.4**	**-4.2**	**-3.0**	**-2.0**	**-1.0**	**0.0**	**5.2**
Primary balance	**-2.6**	**-1.9**	**-1.8**	**-1.6**	**-0.5**	**0.6**	**1.7**	**2.8**	**5.4**
One-off and other temporary measures	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GGB excl. one-offs	**-5.2**	**-4.6**	**-4.4**	**-4.2**	**-3.0**	**-2.0**	**-1.0**	**0.0**	**5.2**
Output gap[2]	-2.1	-2.8	-2.7	-2.7	-2.4	-1.7	-1.1	-0.4	1.7
Cyclically adjusted balance[2]	-4.1	-3.1	-3.1	-2.9	-1.8	-1.2	-0.5	0.2	4.3
Structural balance[3]	**-4.1**	**-3.2**	**-3.1**	**-2.9**	**-1.8**	**-1.2**	**-0.5**	**0.2**	**4.4**
Change in structural balance		*0.9*	*1.1*	*0.4*	*1.3*	*0.7*	*0.7*	*0.7*	
Structural primary balance[3]	-1.6	-0.6	-0.6	-0.2	0.8	1.4	2.2	3.0	4.6
Change in structural primary balance		*0.9*	*1.0*	*0.4*	*1.4*	*0.7*	*0.8*	*0.8*	
Expenditure benchmark									
Public expenditure growth[4] (real)		-0.93	-1.37	0.47	-1.22	-0.31	-0.32	n.a.	n.a.
Reference rate[5,6]		1.26	1.26	1.26	1.26	1.26	1.26	n.a.	n.a.
Lower reference rate[5,7]		0.34	0.34	0.34	0.34	0.34	0.34	n.a.	n.a.
Deviation in % of GDP from applicable reference rate		-0.68	-0.91	0.07	-0.82	-0.33	-0.34	n.a.	n.a.
Two-year average deviation in % of GDP from applicable reference rate		n.a.	n.a.	-0.30	-0.86	-0.58	-0.33	n.a.	n.a.

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 the Commission on the basis of the information in the programme.

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

[4]Modified expenditure aggregate used for the expenditure benchmark, growth rates net of non-discretionary changes in unemployment benefit and of discretionary measures.

[5]The reference rates applicable to 2014 onwards will be available from mid-2012. For illustrative purposes, the current reference rates have also been applied to the years 2014 onwards.

[6]The (standard) reference rate applies starting in the year following the one in which the country reaches its MTO.

[7]The lower reference rate applies as long as the country is adjusting towards its MTO, including the year in which it reaches the MTO.

Source:

Stability programme (SP); Commission spring 2012 forecasts (COM); Commission calculations.

Table IV. Debt dynamics

(% of GDP)	average 2006-10	2011	2012 COM	2012 SP	2013 COM	2013 SP	2014 SP	2015 SP	2016 SP
Gross debt ratio[1]	**71.6**	**85.8**	**90.5**	**89.0**	**92.5**	**89.2**	**88.4**	**86.4**	**83.2**
Change in the ratio	3.1	3.5	4.7	3.2	2.0	0.2	-0.8	-2.0	-3.2
Contributions [2] *:*									
1. Primary balance	**2.0**	**2.6**	**1.9**	**1.8**	**1.6**	**0.5**	**-0.6**	**-1.7**	**-2.8**
2. "Snow-ball" effect	**1.0**	**0.0**	**1.0**	**0.7**	**-0.1**	**-0.5**	**-0.6**	**-0.4**	**-0.3**
Of which:									
Interest expenditure	2.6	2.6	2.6	2.6	2.6	2.5	2.6	2.7	2.8
Growth effect	-0.4	-1.3	-0.4	-0.6	-1.2	-1.5	-1.7	-1.7	-1.7
Inflation effect	-1.1	-1.2	-1.2	-1.3	-1.5	-1.4	-1.4	-1.4	-1.4
3. Stock-flow adjustment	**0.1**	**1.0**	**1.8**	**0.7**	**0.6**	**0.2**	**0.4**	**0.2**	**-0.1**
Of which:									
Cash/accruals diff.									
Acc. financial assets									
Privatisation									
Val. effect & residual									

		2011	2012 COM/SP[3]	2012 SP[4]	2013 COM/SP[3]	2013 SP[4]	2014 SP	2015 SP	2016 SP
Gap to the debt benchmark[5,6]	-	-	-	-	-	-	-	-	-
Structural adjustment[7]	-	-	-	-	-	-	0.7	0.7	0.7
To be compared to:									
Required adjustment[8]	-	-	-	-	-	-	0.0	0.0	0.0

Notes:

[1]End of period.

[2]The snowball 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, the accumulation of financial assets and valuation and other residual effects.

[3]Assessment of the consolidation path set in SP assuming growth follows the COM forecasts.

[4]Assessment of the consolidation path set in the SP assuming growth follows the SP projections.

[5]Not relevant during EDP that were ongoing in November 2011 and in the three years following the correction of the excessive deficit.

[6]Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[7]Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011

[8] Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP) budgetary projections are achieved.

Source :

Stability programme (SP); Commission spring 2012 forecasts (COM); Commission calculations

Table V. Long-term sustainability indicators

	FR		EU27	
	No-policy change scenario	**Stability programme scenario**	**No-policy change scenario**	**SCPs scenario**
S2	2.2	-1.1	2.9	0.7
of which:				
Initial budgetary position (IBP)	1.3	-2.0	0.7	-1.6
Long-term change in the primary balance (LTC)	0.9	0.9	2.3	2.4
of which:				
pensions	0.4	0.6	1.1	1.2
health care and long term care	0.9	0.8	1.5	1.5
others	-0.5	-0.5	-0.3	-0.3
S1 (required adjustment)*	3.0	-1.0	2.2	-0.1
Debt, % of GDP (2011)	86.0		82.8	
Age-related expenditure, % of GDP (2011)	31.2		25.8	

Source: Commission, 2012 stability programme.

Note: the 'no policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the spring 2012 forecast until 2013. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented.

* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.

Figure. Medium-term debt projection

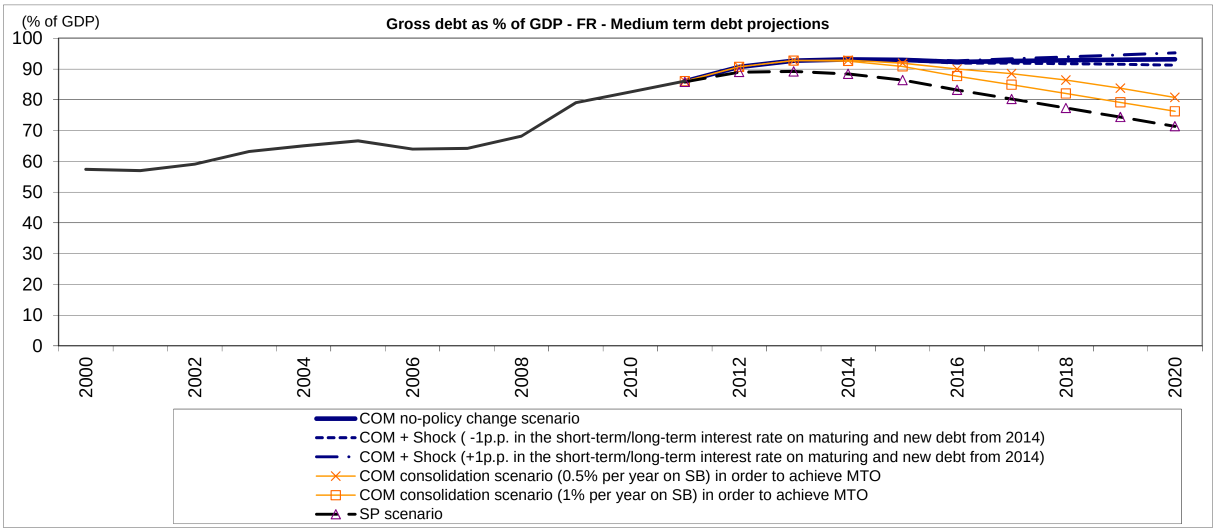

Table VI. Taxation

	2001	2005	2007	2008	2009	2010
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	43.8	43.8	43.4	43.2	42.0	42.5
Breakdown by economic function (% of GDP)[1]						
Consumption	11.3	11.3	11.0	10.8	10.7	10.9
of which:						
- VAT	7.3	7.4	7.2	7.1	6.9	7.0
- excise duties on tobacco and alcohol	0.7	0.6	0.7	0.7	0.7	0.7
- energy	1.6	1.6	1.5	1.4	1.5	1.4
- other (residual)	1.6	1.8	1.6	1.6	1.7	1.7
Labour employed	22.2	22.4	21.9	22.2	22.6	22.4
Labour non-employed	0.7	0.8	0.6	0.6	0.6	0.7
Capital and business income	5.6	4.8	5.4	5.3	3.7	4.5
Stocks of capital/wealth	4.4	4.6	4.7	4.5	4.6	4.3
p.m. Environmental taxes[2]	2.0	1.9	1.8	1.8	1.8	1.8
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	51.4	51.3	51.0	49.8	46.3	47.1

Note:

1 Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2012), Taxation trends in the European Union, for a more detailed explanation.

2 This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.

3 The VAT efficiency is measured via the VAT revenue ratio. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). See European Commission (2011), Tax reforms in EU Member States, European Economy 5/2011, for a more detailed explanation.

Source: Commission

Table VII. Selected macrofinancial stability indicators

	2007	2008	2009	2010	2011
Total assets of the banking sector (% of GDP)	377.4	398.9	405.3	405.1	422.5
Share of assets of the five largest banks (% of total assets)	51.8	51.2	47.2	47.4	…
Foreign ownership of banking system (% of total assets)	11.7	12.0	10.8	…	…
Financial soundness indicators:					
- non-performing loans (% of total loans) [1), 2)]	2.7	2.8	3.6	3.8	...
- capital adequacy ratio (%) [1), 3)]	10.2	10.5	12.4	12.7	...
- return on equity (%) [1)]	9.8	-1.0	8.2	12.0	...
Bank loans to the private sector (year-on-year % change)	14.9	7.0	-0.6	5.0	2.4
Lending for house purchase (year-on-year % change)	12.9	7.4	3.7	8.0	6.2
Loan to deposit ratio	127.4	128.4	120.2	118.0	113.4
CB liquidity as % of liabilities	1.3	3.0	2.0	0.8	2.8
Banks' exposure to countries receiving official financial assistance (% of GDP)[4)]	8.2	8.5	7.3	5.6	4.5
Private debt (% of GDP)	110.6	115.7	120.3	125.2	127.1
Gross external debt (% of GDP) [5)]					
- Public	34.6	42.6	47.8	50.3	…
- Private	36.5	39.2	42.1	43.2	…
Long term interest rates spread versus Bund (basis points)*	8.7	25.0	42.8	37.5	71.2
Credit default swap spreads for sovereign securities (5-year)*	…	30.3	41.1	70.3	126.6

Notes:

1) Latest available December 2010.

2) The capital adequacy ratio is defined as total capital divided by risk weighted assets.

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

4) Covered countries are IE, EL, PT, RO, LV and HU.

5) Latest data 2011Q3.

* Measured in basis points.

Source :

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

Table VIII. Labour market and social indicators

Labour market indicators	2006	2007	2008	2009	2010	2011
Employment rate (% of population aged 20-64)	69.3	69.8	70.4	69.4	69.1	69.1
Employment growth (% change from previous year)	0.7	1.8	1.3	-0.9	0.2	0.3
Employment rate of women (% of female population aged 20-64)	63.8	64.8	65.5	64.9	64.7	64.6
Employment rate of men (% of male population aged 20-64)	74.9	75.0	75.5	74.1	73.7	73.8
Employment rate of older workers (% of population aged 55-64)	38.1	38.2	38.2	38.9	39.7	41.4
Part-time employment (% of total employment)	17.3	17.4	17.1	17.5	17.9	18.1
Part-time employment of women (% of women employment)	30.4	30.6	29.6	30.1	30.3	30.3
Part-time employment of men (% of men employment)	5.8	5.8	5.8	6.1	6.8	6.9
Fixed term employment (% of employees with a fixed term contract)	14.8	15.1	14.9	14.3	15.0	15.3
Unemployment rate[1] (% of labour force)	9.2	8.4	7.8	9.5	9.8	9.7
Long-term unemployment[2] (% of labour force)	3.9	3.4	2.9	3.4	3.9	4.0
Youth unemployment rate (% of youth labour force aged 15-24)	22.4	19.8	19.3	23.9	23.6	22.9
Youth NEET[3] rate (% of population aged 15-24)	11.0	10.3	10.2	12.5	12.5	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	12.4	12.6	11.5	12.2	12.6	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	41.5	41.4	40.8	43.2	42.9	:
Labour productivity per person employed (annual % change)	1.3	0.9	-0.8	-1.3	1.4	1.0
Hours worked per person employed (annual % change)	-1.5	0.5	1.1	-1.4	-0.4	0.0
Labour productivity per hour worked (annual % change; constant prices)	2.9	0.3	-1.7	-0.2	1.7	1.0
Compensation per employee (annual % change; constant prices)	1.0	-0.1	-0.1	1.4	1.3	1.1
Nominal unit labour cost growth (annual % change)	1.8	1.7	3.2	3.2	0.7	1.2
Real unit labour cost growth (annual % change)	-0.3	-0.9	0.7	2.7	-0.1	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:

Commission (EU Labour Force Survey and European National Accounts)

Table VIII. Labour market and social indicators (continued)

Expenditure on social protection benefits (% of GDP)	2005	2006	2007	2008	2009
Sickness/Health care	8.85	8.78	8.70	8.79	9.38
Invalidity	1.75	1.76	1.77	1.76	1.87
Old age and survivors	11.07	11.19	11.27	11.63	12.40
Family/Children	2.53	2.51	2.48	2.49	2.65
Unemployment	2.23	1.96	1.79	1.70	1.93
Housing and Social exclusion n.e.c.	0.81	0.77	0.76	0.80	0.85
Total	31.5	30.9	30.6	31.0	33.1
of which: Means tested benefits	3.53	4.16	4.12	4.19	4.55
Social inclusion indicators	**2006**	**2007**	**2008**	**2009**	**2010**
Risk-of-poverty or exclusion[1] (% of total population)	18.8	19.0	18.6	18.4	19.3
Risk-of-poverty or exclusion of children (% of people aged 0-17)	18.1	19.6	21.8	21.5	23.0
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	17.5	15.2	13.2	12.3	12.0
At-risk-of-poverty rate[2] (% of total population)	13.2	13.1	12.7	12.9	13.5
Value of relative poverty threshold (single household per year) - in PPS	8989	9089	10543	10591	10704
Severe material deprivation[3] (% of total population)	5.0	4.7	5.4	5.6	5.8
Share of people living in low work intensity households[4] (% of people aged 0-59 not student)	9.1	9.5	8.8	8.3	9.8
In-work at-risk-of poverty rate (% of persons employed)	6.1	6.5	6.8	6.7	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 households 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 on social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IX. Product market performance and policy indicators

Performance indicators	2002-2006	2007	2008	2009	2010	2011
Labour productivity[1] total economy (annual growth in %)	**1.3**	**1.3**	**-0.5**	**-2.5**	**2.4**	**1.4**
Labour productivity[1] in manufacturing (annual growth in %)	**3.0**	**3.0**	**-2.4**	**-8.0**	**9.9**	**n.a.**
Labour productivity[1] in electricity, gas, water (annual growth in %)	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Labour productivity[1] in the construction sector (annual growth in %)	**-0.2**	**-2.0**	**-1.3**	**-1.6**	**1.1**	**n.a.**
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	**3.2**	**2.9**	**2.5**	**n.a.**	**n.a.**	**n.a.**
Policy indicators	**2002-2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Enforcing contracts[3] (days)	**n.a.**	**535**	**542**	**548**	**549**	**556**
Time to start a business[3] (days)	**n.a.**	**20**	**17**	**15**	**15**	**14**
R&D expenditure (% of GDP)	**1.8**	**1.8**	**1.9**	**2.0**	**2.0**	**n.a.**
Tertiary educational attainment (% of 30-34 years old population)	**26.5**	**30.0**	**31.1**	**32.3**	**33.6**	**n.a.**
Total public expenditure on education (% of GDP)	**5.1**	**5.0**	**5.1**	**n.a.**	**n.a.**	**n.a.**
	2005	**2006**	**2008**	**2009**	**2010**	**2011**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	**n.a.**	**n.a.**	**2**	**n.a.**	**n.a.**	**n.a.**
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	**n.a.**	**n.a.**	**4**	**n.a.**	**n.a.**	**n.a.**
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	**3**	**3**	**3***	**n.a.**	**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 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, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies for the product market regulation indicators are presented in detail on 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.

[5] Aggregate ETCR.

*figure for 2007.

Source :

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

Table X. Green Growth indicators

		2001-2005	2006	2007	2008	2009	2010
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.18	0.17	0.17	0.17	0.16	0.17
Carbon intensity	kg / €	0.38	0.35	0.33	0.33	0.33	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	0.56	0.55	0.56	0.55	0.50	n.a.
Waste intensity	kg / €	n.a.	0.20	0.20	0.21	n.a.	n.a.
Energy balance of trade	% GDP	-1.7%	-2.5%	-2.3%	-2.9%	-2.0%	-2.4%
Energy weight in HICP	%	8	9	9	9	8	8
Difference between change energy price and inflation	%	0.52	5.1	0.3	6.4	-5.9	4.9
Environmental taxes over labour taxes	ratio	10.0%	9.6%	9.4%	9.1%	9.2%	n.a.
Environmental taxes over total taxes	ratio	5.3%	5.0%	4.9%	4.8%	5.0%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.17	0.15	0.15	0.15	0.14	n.a.
Share of energy-intensive industries in the economy	% GDP	7.3	7.0	6.9	6.6	6.1	n.a.
Electricity prices for medium-sized industrial users	€ / kWh	0.05	0.05	0.05	0.06	0.07	0.07
Public R&D for energy	% GDP	n.a.	0.04%	0.04%	n.a.	n.a.	n.a.
Public R&D for the environment	% GDP	n.a.	0.02%	0.01%	n.a.	n.a.	n.a.
Recycling rate of municipal waste	ratio	59.9%	62.1%	62.7%	63.0%	66.2%	n.a.
Share of GHG emissions covered by ETS	%	n.a.	23.0%	23.3%	23.0%	21.5%	n.a.
Transport energy intensity	kgoe / €	0.56	0.50	0.48	0.46	0.45	n.a.
Transport carbon intensity	kg / €	1.55	1.36	1.28	1.18	1.15	n.a.
Change in the ratio of passenger transport and GDP	%	-0.8%	-2.2%	-1.3%	-0.6%	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	51.0%	51.3%	50.3%	51.0%	51.3%	n.a.
Diversification of oil import sources	HHI	n.a.	0.09	0.09	0.09	0.09	n.a.
Diversification of energy mix	HHI	0.32	0.32	0.32	0.31	0.30	n.a.
Share of renewable energy in energy mix	%	5.8%	6.0%	6.4%	7.2%	7.5%	n.a.

Country-specific notes:
The year 2011 is not included in the table due to lack of data.
General explanation of the table items:
Source: Eurostat unless indicated otherwise; ECFIN explanations given below
All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)
Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)
Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)
Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)
Waste intensity: waste (in kg) divided by GDP (in EUR)
Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP
Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP
Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)
Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"
Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in EUR)
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP
Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste
Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP
Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)
Transport energy intensity: final energy consumption of transport (in kgoe) divided by gross value added of industry (in EUR)
Transport carbon intensity: greenhouse gas emissions in transport divided by gross value added of the transport sector
Passenger transport growth : measured in %-change in passenger kilometres
Energy import dependency: net energy imports divided by gross inland energy consumption incl. of international bunkers
Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin
Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels
Share of renewable energy in energy mix: percentage-share in gross inland energy consumption, expressed in tonne oil equivalents