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Proposal for a

COUNCIL OPINION

on the Economic Partnership Programme of France

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COUNCIL OPINION

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013[1] on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, and in particular Article 9(4) thereof,

Having regard to the proposal of the European Commission,

Whereas:

(1) The Stability and Growth Pact (SGP) aims at securing budgetary discipline across the Union and sets out the framework for preventing and correcting excessive government deficits. It is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth underpinned by financial stability, thereby supporting the achievement of the Union's objectives for sustainable growth and jobs.

(2) Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area sets out provisions for enhanced monitoring of budgetary policies in the euro area and for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the SGP and the European Semester. Since purely budgetary measures might be insufficient to ensure a lasting correction of the excessive deficit, additional policy measures and structural reforms may be required.

(3) Article 9 of Regulation (EU) No 473/2013 sets out the modalities for economic partnership programmes, to be submitted by euro area Member States under an Excessive Deficit Procedure. Setting out a roadmap of measures to contribute to an effective and durable correction of the excessive deficit, the economic partnership programme should detail in particular the main fiscal-structural reforms, notably those referring to taxation, pension and

[1] OJ L 140, 27.5.2013 p. 11.

health systems and budgetary frameworks, which will be instrumental to correct the excessive deficit in a lasting manner.

(4) On 27 April 2009, the Council adopted a decision according to Article 104(6) of the Treaty establishing the European Community (TEC), whereby France is placed in an Excessive Deficit Procedure. On 21 June 2013, the Council adopted a revised recommendation under Article 126(7) of the Treaty on the Functioning of the European Union (TFEU) in the context of an excessive deficit which was opened before the entry into force of Regulation (EU) No 473/2013. In this context, France was requested to present an economic partnership programme by 1 October 2013.

(5) On 1 October 2013, and thereby within the time frame established by Article 9(3) and 17(2) of Regulation (EU) No 473/2013, France presented to the Commission and to the Council an Economic Partnership Programme, setting out in particular fiscal-structural reforms that aim at ensuring an effective and lasting correction of the excessive deficit. The Economic Partnership Programme includes measures aimed at implementing the country-specific recommendations (CSR) addressed to France by the Council on 9 July 2013: (i) ensuring the long-term sustainability of public finances (CSR 1) while simplifying the tax system (CSR 5), (ii) restoring competitiveness through measures to reduce production costs (CSR 2), improving the business environment (CSR 3) and increasing competition (CSR 4) as well as (iii) combating unemployment and inequality on the labour market (CSR 6).

(6) The Economic Partnership Programme focuses on measures which, with very few exceptions, either have already been implemented or are in the process of adoption. It provides limited information on the policy strategy of the government for the period up to 2015, which is the deadline for correcting the excessive deficit. The fiscal-structural reforms taken or planned by France are the following: (i) measures to reduce the general government deficit, notably through efforts to contain expenditure growth, (ii) creation of an independent fiscal council, (iii) reform of the pension system, (iv) simplification of the tax system (v) reduction in the cost of labour. Additional structural reforms with a bearing on growth and competitiveness, and hence an indirect impact on the deficit reduction include: (i) support to innovation and export capacity of firms, (ii) measures to enhance competition and efficiency in network industries and in some regulated sectors, (iii) reform of the labour market, and (iv) support to youth employment.

(7) Regarding public finances, the measures taken seek to comply with the headline deficit targets set forth in the Council recommendation of 21 June 2013, making specific efforts to contain expenditure growth, including on healthcare. To that avail, a number of public policy assessments have been carried out as part of the on-going spending review and have translated into specific proposals but the expected savings have not been systematically quantified. In addition, part of the measures announced so far consist in limiting and/or abolishing tax and social security exemptions, which will actually raise the tax burden rather than lower expenditure. More generally, it remains to be seen to what extent the spending review will indeed result in major reforms of government policies, coverage of activities by the public sector and delivery modes of public services. The government has also initiated a decentralisation reform aimed at clarifying the responsibilities of local authorities and central government in order to increase the efficiency of local government expenditure. However, it is unclear at this stage whether this process will indeed contribute to rationalising local spending and the expected savings have not been quantified. Beyond the significant amount of savings targeted for 2014, the Economic Partnership Programme provides little information on measures to improve the cost-effectiveness of healthcare

spending in the medium to long run, including in the area of pharmaceuticals, in view of the projected increase in this spending.

(8) The governance of public finances has been strengthened in particular through the creation of a High Council for Public Finances. An independent authority by law, the High Council provides an opinion on the macroeconomic scenario underpinning draft budgets and stability programmes and on the consistency of annual fiscal targets with the multi-annual budgetary strategy. Accordingly, it provided an opinion on the Stability Programme submitted by France on 30 April 2013 as well as on the Draft Budgetary Plan.

(9) The planned pension reform can be expected to contribute to the long-term sustainability of the pension system. Measures taken up to 2020 mainly focus on the revenue side, in particular with an increase in social contributions for both employees and employers, a measure that the Council had warned against. The government has committed itself to offsetting the impact of the planned pension reform on the cost of labour in 2014 through a reduction in family contributions. From 2020, the contribution period for a full pension will gradually increase to 43 years in 2035. The planned reform falls short of fully addressing the Council recommendation as the measures considered are expected to only halve the financing gap of the pension system by 2020. In this respect, the scope and specific rules of public sector worker schemes have not been reviewed. Moreover, the financial gap of the pension system by 2020 could be even higher than expected if the macroeconomic scenario underpinning the reform proves overly optimistic, which cannot be fully ruled out based on current economic developments. The budgetary cost of planned measures to better take strenuous activities into account is subject to significant uncertainty and is yet another risk to the financial outlook of the pension system.

(10) Further efforts have been made to simplify the tax system and increase its efficiency through a further cut in tax expenditures and proposals to increase environmental taxation. On the other hand, beside the measure already adopted in 2013 and whose impact will increase in 2014, no measures are considered in the Draft Budgetary Plan to further reduce the debt bias in corporate taxation. Amendments to the Draft Budgetary Plan after the latter was submitted to the Commission and the Council will result in a *de facto* higher corporate income tax statutory rate for large companies, contrary to the Council recommendation to reduce statutory rates while broadening the tax base. Furthermore, while value-added tax rates will change from January 2014, as decided in December 2012, the Economic Partnership Programme does not include information on measures to further bring reduced rates closer to the standard rate as recommended by the Council. The suspension of a green tax on heavy goods vehicles announced by the government on 29 October appears at odds with the efforts presented in the Economic Partnership Programme to increase environmental taxation.

(11) The measures taken by the government to support cost-competitiveness can be expected to mitigate the increase in the cost of labour linked to the fiscal consolidation measures adopted since 2010. In particular, the tax rebate for competitiveness and employment adopted in December 2012 reduces significantly the cost of labour for wages below 2.5 times the minimum wage. Beside the commitment to offset the impact of the planned pension reform in 2014 the government has announced an upcoming reform of the social security financing in order to diversify receipts and reduce its impact on the labour cost. However, little information is available at this stage on the specifics of this reform.

(12) The Economic Partnership Programme puts forward a number of structural reforms taken to increase growth and competitiveness and to fight unemployment. To support competitiveness, the government has taken measures to ease access to finance for innovative projects and support exporting firms. Initiatives to simplify the interactions between companies and the administration have been launched. In addition, the Economic Partnership Programme mentions targeted measures to increase competition in some regulated sectors (e.g. notaries, accountants) but these measures fall short of fully addressing the country-specific recommendations which called for an ambitious reform in the services sector. A reform of the railway system is also presented in the Economic Partnership Programme. While this reform seeks to improve the efficiency of the system, it does not provide for the opening of domestic passenger transportation to competition, as called for in the country-specific recommendations. The Economic Partnership Programme also presents significant measures adopted to fight unemployment although most of them were known at the time of the Council recommendation. The law of 14 June 2013 on securing jobs, the specific measures to support the employment of young people and of older workers, as well as the forthcoming reform of vocational training and apprenticeship are positive steps to improve the functioning of the labour market and hence increase France's growth potential. By contrast, the negotiation on the unemployment benefit system has been postponed to 2014,

HAS ADOPTED THIS OPINION:

The Economic Partnership Programme of France presented to the Commission and to the Council on 1 October 2013 includes a set of fiscal-structural reforms that is partly adequate to support an effective and lasting correction of the excessive deficit. The Economic Partnership Programme provides a comprehensive overview of the measures adopted prior to the Council recommendation of 9 July. It also includes information on the additional reforms launched by the time the Economic Partnership Programme was submitted. However, these will be insufficient to address fiscal and structural imbalances and little detail on planned reforms to further respond to the recommendation has been provided. The government proposal for a pension reform will reduce the deficit of the pension system but will not suffice to eliminate it by 2020, with notably schemes for state government officials and employees working in a number of state-controlled companies still expected to run significant deficits by that horizon and the underlying macroeconomic scenario appearing too optimistic. The on-going spending review has delivered only limited outcomes so far and it remains to be seen to what extent it will translate into sizeable savings. Whether the planned decentralisation reform will improve coordination between local, regional and national levels and bring significant savings for the general government as a whole is also unclear. The Economic Partnership Programme provides little information on measures to tackle the projected medium- to long-term increase in public expenditure on healthcare. Moreover, recent decisions taken by the government in the area of taxation seem to go against the Council recommendation and create uncertainty about the government's strategy. Finally, the measures underpinning the government's commitment to reduce the cost of labour need to be further specified. Overall, while the already legislated reforms are welcome steps, further efforts to address fiscal and structural imbalances are required to effectively support a durable correction of the excessive deficit and the long-term sustainability of public finances. Therefore, France is invited to submit additional information in the upcoming National Reform Programme and Stability Programme on the reform efforts to increase the efficiency of public spending across all sub-sectors of general government and in particular to achieve better coordination and additional savings between central and local government levels. Measures to increase the cost-effectiveness of healthcare expenditure and to avoid that the projected deficits of public sector worker pension schemes will weigh on the general government deficit necessitate further explanation. More information is also needed on the actions planned to further reduce the labour cost and more generally on the further structural reforms envisaged to increase the adjustment capacity of the economy and to boost potential growth. The Commission and the Council will monitor the implementation of the reforms in the context of the European Semester.

Done at Brussels,

For the Council
The President