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To:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2023 National Reform Programme of France and delivering a Council opinion on the 2023 Stability Programme of France

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission Proposal COM(2023) 610 final.

Recommendation for a

COUNCIL RECOMMENDATION

on the 2023 National Reform Programme of France and delivering a Council opinion on the 2023 Stability Programme of France

THE COUNCIL OF THE EUROPEAN UNION,

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

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

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

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

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1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing reforms and investments, in particular to promote the green and digital transition and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Recovery and Resilience Facility was updated on 30 June 2022 in accordance with Article 11(2) of Regulation (EU) 2021/241.

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3 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey[4], marking the start of the 2023 European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 23 March 2023. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2023 Alert Mechanism Report, in which it identified France as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. On the same date, the Commission also adopted an opinion on France's 2023 draft budgetary plan. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 16 May 2023, as well as the proposal for the 2023 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 13 March 2023.

(3) While the EU economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the EU stands firmly with Ukraine, the EU economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and companies in the short term, and on keeping up efforts to deliver on the green and digital transition, support sustainable and inclusive growth, safeguard macroeconomic stability and increase resilience in the medium term. It also focuses heavily on increasing the EU's competitiveness and productivity.

4 COM(2022) 780 final.

(4) On 1 February 2023, the Commission issued the Communication *A Green Deal Industrial Plan for the Net-Zero Age*[5] to boost the competitiveness of the EU's net-zero industry and support the fast transition to climate neutrality. The plan complements ongoing efforts under the European Green Deal and REPowerEU. It aims to provide a more supportive environment for scaling up the EU's manufacturing capacity for the net-zero technologies and products required to meet the EU's ambitious climate targets, as well as ensuring access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The plan is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains. On 16 March 2023, the Commission also issued the Communication *Long-term competitiveness of the EU: looking beyond 2030*[6], structured along nine mutually reinforcing drivers with the objective to work towards a growth enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well focused investments and regulatory measures for the long-term competitiveness of the EU and its Member States. The recommendations below help address those priorities.

5 COM(2023) 62 final.
6 COM(2023) 168 final.

(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. Fully implementing the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(6) The REPowerEU Regulation[7] adopted on 27 February 2023 aims to rapidly phase out the EU's dependence on Russian fossil fuel imports. This will contribute towards energy security and the diversification of the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. They will also help boost the competitiveness of the EU's net-zero industry as outlined in the Green Deal Industrial Plan for the Net-Zero Age and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States to finance new energy-related reforms and investments under their recovery and resilience plans.

[7] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024. It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination[8]. The Commission recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. It called for fiscal policies in 2023-2024 that ensure medium-term debt sustainability as well as raise potential growth in a sustainable manner. Member States were invited to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the 3% of GDP deficit reference value is adhered to as well as plausible and continuous debt reduction, or for debt to be kept at prudent levels in the medium term. The Commission invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy price pressures, Member States should target such measures much better than in the past towards vulnerable households and firms. The Commission proposed that the fiscal recommendations would be quantified and differentiated.Moreover, as proposed in its Communication on orientations for a reform of the EU economic governance framework[9], the fiscal recommendations would be formulated on the basis of net primary expenditure. It recommended that all Member States should continue to protect nationally financed investment and ensure the effective use of the Recovery and Resilience Facility and other EU funds, in particular in light of the green and digital transition and resilience objectives. The Commission indicated that it will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.

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8 COM(2023) 141 final.
9 COM(2022) 583 final.

(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the EU's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and inclusive growth in all Member States through reforms and investments. In its proposals, the Commission aims at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023, the objective is to conclude the legislative work in 2023.

(9) On 28 April 2021, France submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 13 July 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for France[10]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that France has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

10 Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for France (ST 10162/21; ST 10162/21 ADD 1).

(10) On 11 May 2023, France submitted its 2023 National Reform Programme and, on 11 May 2023, its 2023 Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2023 National Reform Programme also reflects France's biannual reporting on the progress made in achieving its recovery and resilience plan.

(11) The Commission published the 2023 country report for France [11] on 24 May 2023. It assessed France's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022, and took stock of France's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed France's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

11 SWD(2023) 610 final.

(12) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for France and published its results on 24 May 2023[12]. It concluded that France is experiencing macroeconomic imbalances. In particular, vulnerabilities related to high government debt, and competitiveness and low productivity growth, which have cross-border relevance, remain present but have shown some signs of reduction. Government debt has been declining since the rebound in GDP in 2021, following an increase during the pandemic. In 2022, various fiscal measures significantly mitigated the impact of the energy crisis but slowed debt reduction. Debt is forecast to further decline this year and next, but it is projected to enter an upward trend again thereafter in the absence of policy action, remaining high and above pre-pandemic levels, and medium-term fiscal sustainability challenges remain high. Policy measures taken in recent years aiming at enhancing potential growth might help correct the projected increase in public debt in the medium term. Several reforms have been adopted to boost cost competitiveness. A small positive effect on competitiveness is already visible, and their full impact is expected to materialise over the coming years. Likewise, labour productivity is expected to benefit from the effective implementation of planned investments and reforms. The French economy displayed resilience over the last year, as cost competitiveness was less affected by increases in energy prices than in the rest of the euro area. Exports are improving owing to the further recovery of cross-border tourism and the aircraft industry, which were much affected by the pandemic. While private sector debt increased during the worst of the pandemic, higher corporate borrowing went hand in hand with increases in equity and accumulation of liquidity buffers. Higher interest rates may make public and private deleveraging more difficult. The policy response has been favourable, but there remain challenges, centred on public finance management.

[12] SWD(2023) 633 final.

An effective implementation of recently adopted reforms remains central to further reduce vulnerabilities, namely the reform of public finances management and the new mechanism to conduct annual public spending evaluations. Both actions are crucial to continue to curb expenditure and keep public debt on a sustained downward trend. Moreover, the government has adopted a reform of the public pension system that is expected to help public debt sustainability.

(13) Based on data validated by Eurostat,[13] Frances's general government deficit decreased from 6.5 % of GDP in 2021 to 4.7 % in 2022, while general government debt fell from 112.9% of GDP at the end of 2021 to 111.6% at the end of 2022. On 24 May 2023, the Commission published a report under Article 126(3) TFEU;[14] the report discussed the budgetary situation of France, as its general government deficit in 2022 exceeded the 3% of GDP Treaty reference value, while its general government debt exceeded the 60% of GDP Treaty reference value and did not respect the debt reduction benchmark. The report concluded that the deficit and debt criteria were not fulfilled. Also, in line with the Communication of 8 March 2023,[15] the Commission did not propose to open new excessive deficit procedures in spring 2023; in turn, the Commission stated that it would propose to the Council to open deficit-based excessive deficit procedures in spring 2024, on the basis of the outturn data for 2023. France should take account of this in the execution of its 2023 budget and in preparing the Draft Budgetary Plan for 2024.

13 Eurostat-Euro Indicators, 47/2023, 21.4.2023
14 COM(2023) 633 final, 24.5.2023.
15 COM(2023) 141 final, 8.3.2023.

(14) The general government balance has been impacted by the fiscal policy measures adopted to mitigate the economic and social impact of the increase in energy prices. In 2022, such revenue-decreasing measures included the reduction of the domestic tax on final electricity consumption (TICFE); while such expenditure-increasing measures included direct subsidies to compensate gas and electricity suppliers for the cap on regulated gas and electricity prices, subsidies to limit the increase of retail transport fuel prices and to energy-intensive enterprises, as well as transfers to low-income households. The cost of these measures was partly offset by new taxes on windfall profits of energy producers and suppliers, namely an exceptional solidarity tax on fossil fuel and refining companies and a mechanism for capping infra-marginal market revenues from electricity generation, as well as indirect tax revenues from and lower subsidies to renewable energy producers, stemming from the positive gap between the market and the reference electricity prices. The Commission estimates the net budgetary cost of these measures at 0.9% of GDP in 2022. At the same time, the estimated cost of COVID-19 temporary emergency measures dropped to 0.5% of GDP in 2022, from 2.6% in 2021.

(15) On 18 June 2021, the Council recommended that in 2022 France[16] use the Recovery and Resilience Facility to finance additional investment in support of the recovery, while pursuing a prudent fiscal policy. Moreover, France should preserve nationally financed investment.

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16 Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of France, OJ C 304, 29.07.2021, p. 43.

(16) According to the Commission estimates, the fiscal stance[17] in 2022 was supportive, at -2.0% of GDP. As recommended by the Council, France continued to support the recovery with investments financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.6% of GDP in 2022 (0.7% of GDP in 2021). The marginal decrease in expenditure financed by Recovery and Resilience Facility grants and other EU funds in 2022 was due to the frontloaded implementation of the plan over the first two years thereof. Nationally financed investment provided an expansionary contribution of 0.1 percentage points to the fiscal stance.[18] France therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided an expansionary contribution of 1.7 percentage points to the fiscal stance. This significant expansionary contribution included the additional impact of fiscal policy measures to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 0.8% of GDP). At the same time, the indexation of pensions, social benefits and public wages also contributed (0.4% of GDP) to the growth in net primary current expenditure. France therefore did not sufficiently limit the growth in nationally financed current expenditure. The significant expansionary contribution of nationally financed current expenditure was only partially due to the measures to address the economic and social impact of the increase in energy prices, as well as the costs to offer temporary protection to displaced persons from Ukraine.

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17 The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding Covid-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth. For more details see Box 1 in the Fiscal Statistical Tables.

18 Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0.3 percentage points of GDP, mainly explained by the impact of capital transfers paid in the context of the French recovery plan, *France Relance*, not funded by RRF grants.

(17) The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is more favourable than the Commission 2023 Spring Forecast for 2023 and thereafter. The government projects real GDP to grow by 1.0% in 2023 and 1.6% in 2024. By comparison, the Commission 2023 spring forecast projects a lower real GDP growth of 0.7% in 2023 and 1.4% in 2024, mainly due to lower contributions to growth of domestic demand in 2023, stemming from gross fixed capital formation and inventories, and of external demand in 2024.

(18) In its 2023 Stability Programme, the government expects that the general government deficit ratio will increase to 4.9% of GDP in 2023. The increase in 2023 mainly reflects the slowing down of economic activity and expected revenue shortfalls. According to the Programme, the general government debt-to-GDP ratio is expected to decrease from 111.6% at the end of 2022 to 109.6% at the end of 2023. The Commission 2023 spring forecast projects a government deficit of 4.7% of GDP for 2023. This is lower than the deficit projected in the Stability Programme, mainly due to a higher tax elasticity expected by the Commission, leading to higher revenues. The Commission 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 109.6% at the end of 2023.

(19) The government balance in 2023 is expected to continue to be impacted by the fiscal policy measures adopted to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022, in particular the decrease in the TICFE and the direct subsidies to compensate gas and electricity suppliers for the cap on regulated gas and electricity prices, as well as new measures such as the means-tested transport fuel voucher ("chèque carburant") for low-income households, replacing the generalised rebate applied in 2022, and the subsidies to micro-, small- and medium-sized enterprises not benefitting from regulated electricity tariffs, to cover for the increase in the energy bill until end-2023. The cost of these measures continues to be partly offset by taxes on windfall profits on energy producers and suppliers, namely a mechanism for capping infra-marginal market revenues from electricity generation, as well as by the indirect tax revenues from and lower subsidies to renewable energy producers, stemming from the positive gap between the market and the reference electricity prices. Taking these revenues into account, the net budgetary cost of the support measures is projected in the Commission 2023 spring forecast at 1.0 % of GDP in 2023[19]. Most measures in 2023 do not appear targeted to the most vulnerable households or firms, and do not fully preserve the price signal to reduce energy demand and increase energy efficiency, even though the price caps on electricity and gas for households have been raised. As a result, the amount of targeted support measures, to be taken into account in the assessment of compliance with the fiscal recommendation for 2023, is estimated in the Commission 2023 spring forecast at 0.2% of GDP in 2023 (compared to 0.1% of GDP in 2022). Finally, the 2023 government balance is expected to benefit from the phasing out of COVID-19 temporary emergency measures of 0.5% of GDP.

[19] The figure represents the level of annual budgetary cost of those measures, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

(20) On 12 July 2022, the Council recommended[20] that France ensure in 2023 a prudent fiscal policy, in particular by limiting the growth of nationally financed primary current expenditure below medium-term potential output growth[21], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. At the same time, France should stand ready to adjust current spending to the evolving situation. France was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.

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20 Council Recommendation of 12 July 2022 on the National Reform Programme of France *OJ C 334, 1.9.2022, p. 79*.

21 Based on the Commission 2023 spring forecast, the medium-term (10-year average) potential output growth of France is estimated at 6.3% in nominal terms.

(21) In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be contractionary (+0.5% of GDP), in a context of high inflation. This follows an expansionary fiscal stance in 2022 (-2.0% of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide a contractionary contribution of 0.6% of GDP to the fiscal stance. This includes the increased cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0.1% of GDP. In sum, the projected growth of nationally financed primary current expenditure is in line with the recommendation of the Council. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.4% of GDP in 2023, while nationally financed investment provided a neutral contribution to the fiscal stance[22]. Therefore, France plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it plans to preserve nationally financed investment. It plans to finance public investment for the green and digital transitions, and for energy security, such as investments under the plan France 2030 to foster investment in state-of-the-art R&D and in the digital realms, as well as investments in renewable energy in heating systems and renovation of public and private buildings, measures supporting the decarbonisation of industry, investments in sustainable transport, health and education, which are partly funded by the Recovery and Resilience Facility and other EU funds.

[22] Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0.3 percentage points of GDP, mainly explained by the impact of capital transfers paid in the context of the French recovery plan, *France Relance,* not funded by RRF grants and of the investment plan France 2030.

(22) According to the Stability Programme the general government deficit is expected to decline to 4.4% of GDP in 2024. The decrease in 2024 mainly reflects the withdrawal of most energy support measures, jointly with higher tax elasticities. The programme expects the general government debt-to-GDP ratio to remain broadly stable at 109.5% at the end of 2024. Based on policy measures known at the cut-off date of the forecast, the Commission 2023 spring forecast projects a government deficit of 4.3% of GDP in 2024. This is lower than the deficit projected in the programme, mainly due to a base effect stemming from an already lower deficit projected by the Commission for 2023. The Commission 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 109.5% at the end of 2024.

(23) The Stability Programme envisages the phasing out of most of the energy support measures in 2024. The Commission currently assumes the net cost of energy support measures at 0.2% of GDP in 2024. These estimates hinge upon the assumption of no renewed energy price increases. The energy support measures that are currently planned to remain in place in 2024 do not appear targeted to vulnerable households or firms. They do not fully preserve the price signal to reduce energy demand and increase energy efficiency.

(24) Council Regulation (EC) No 1466/97 calls for an annual improvement in the structural budget balance toward the medium-term objective by 0.5% of GDP as a benchmark.[23] Taking into account fiscal sustainability considerations, the need to reduce the deficit to below the 3% of GDP reference value, and improvement in the structural balance of at least 0.7% of GDP for 2024 would be appropriate, according to the Commission. To ensure such an improvement, and in accordance with the Commission's methodology, the growth in net nationally financed primary expenditure[24] in 2024 should not exceed 2.3%, as reflected in this recommendation. At the same time, the remaining energy support measures (currently estimated by the Commission at 1.0% of GDP in 2023) should be phased out, contingent on energy market developments and starting from the least targeted ones, and the related savings should be used to reduce the government deficit. Based on Commission estimates, this would lead to a growth in net primary expenditure below the recommended maximum growth rate for 2024.

(25) Assuming unchanged policies, the Commission 2023 spring forecast projects net nationally financed primary expenditure to grow at 3.1% in 2024, which is above the recommended growth rate. The adjustment projected in the Commission forecast is less than the savings from the full phasing out of energy support measures. This is due to increased investments under the programme *France 2030* and the full withdrawal of the production tax on firms' value added.

23 Cf. Article 5 of Council Regulation (EC) No 1466/97, which also requires an adjustment of more than 0.5% of GDP for Member States with a government debt exceeding 60% of GDP, or with more pronounced debt sustainability risks.

24 Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

(26) According to the programme, government investment is expected to remain stable at 3.8% of GDP between 2023 and 2024. The programme refers to reforms and investments, that are expected to contribute to fiscal sustainability and sustainable and inclusive growth. These include a reform of the governance of public finances and a new spending review mechanism, reforms of the pension and unemployment benefit system, as well as investments to foster the green and digital transitions, which are also part of the Recovery and Resilience Plan. The Stability Programme outlines a medium-term fiscal path until 2027. According to the programme, the general government deficit is expected to gradually decline to 3.7% of GDP in 2025, to 3.2% in 2026 and to 2.7% by 2027. The general government deficit is therefore planned to decrease below 3% of GDP in 2027. According to the programme, the general government debt-to-GDP ratio is expected to decrease from 109.5% at the end of 2024 to 108.3% by the end of 2027.

(27) In accordance with Article 19(3), point (b) and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. The implementation of France's recovery and resilience plan is underway. France submitted 1 payment request, corresponding to 38 milestones and targets in the plan and resulting in an overall disbursement of EUR 7 400 000. Milestones reflect progress in the implementation of reforms in the areas of public finance, housing, mobility, employment, skills and health. Several targets reflect major investments in the fields of energy renovation of buildings, decarbonisation of industry, clean vehicles, research, youth employment, and education. France submitted a revision of its plan on 20 April 2023, including a REPowerEU chapter. France's request to modify its plan is based on the need to factor in the high inflation experienced in 2022, supply chain disruptions and the downward revision of its maximum Recovery and Resilience Facility grant allocation. Once these modifications are assessed by the Commission, the revised assessment of the recovery and resilience plan will be subject to Council approval. This can take place swiftly, assuming France takes all necessary steps to facilitate the process, which will allow France to ensure rapid implementation of the plan. The inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of France's strategic objectives in the field of energy and the green transition. The systematic and effective involvement of local and regional authorities, social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.

(28) The Commission approved most of France's cohesion policy programming documents in 2022 except the Saint-Martin programme, which was adopted on 20 March 2023. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transition, increasing economic and social resilience as well as achieving balanced territorial development in in France.

(29) Beyond the economic and social challenges addressed by the recovery and resilience plan and cohesion policy programmes, France faces a number of additional challenges related to the shortage of skills and inequalities in the education system, and to energy policy and the green transition. Addressing those challenges could help boost the skills of workers, increase labour productivity, make French businesses more energy efficient, and in turn make the French economy more competitive overall.

(30) Labour shortages remain high in France. According to the 2023 survey on labour force needs ('Pôle Emploi'), 61% of employers anticipate further hiring difficulties in 2023, in particular for skilled labour in construction and industry – two sectors severely impacted by the green and digital transition. In recent years, France has boosted investment in the upskilling and reskilling of workers, in part supported by the Recovery and Resilience Facility. However, evaluations show that multiple barriers persist to the upskilling of the low-skilled, undermining the effectiveness of targeted programmes such as the 'investment plan in skills. Although on the rise, the participation of low-skilled workers in training remains much lower than that of other workers, and they tend to benefit less from training that leads to a qualification. This suggests that further boosting the number of young people entering the labour market with sufficient basic skills and qualifications should remain a priority of the education system.

(31) Despite an overall level of public spending above the OECD average and good outcomes, the French education system is marked by a significant share of low achievers, and socio-economic background remains a strong predictor of pupils' performance. Underachievement and inequalities in acquired skills in mathematics remain a particular concern. According to national and international surveys, average performance in mathematics has steadily decreased over the past 30 years in France. Some steps have been taken to strengthen the acquisition of basic skills, including by reinforcing the continuous training of teachers in mathematics and French, initiated in 2019, and adding a one-hour support module in mathematics and French to the first year of secondary school from school year 2023/24 on. The plan to halve class sizes in first and secondary grades in disadvantaged public pre-primary and primary schools has almost been completed and the long-term impact on the learning outcomes of the 300 000 pupils concerned is being assessed. However, a substantial share of disadvantaged pupils, outside of priority areas, do not benefit from it. Challenges also remain, despite investments and progress, with regard to the access of pupils and students with disabilities to the mainstream education system.

(32) In 2022, France continued to invest in the apprenticeship system and in further work-based learning options, such as the reform of vocational training in secondary schools. While these measures could have a positive outcome, their impact is yet to be felt and would require a greater involvement of professionals and teachers in the design of programmes. Despite measures to improve teaching conditions, including an increase of teachers' wages, concerns remain over the attractiveness of the teaching profession and the high share of contractual staff, who often have lower levels of qualifications and experience than permanent staff and insufficient access to training opportunities. Overall, the teacher-to-student ratio remains among the highest in the EU.

(33) The French energy mix is less reliant on fossil fuels than other EU countries, although it remains dependent on imported fossil fuels. France's consumption of natural gas has dropped by 16% in the period August 2022 - March 2023, compared with the average gas consumption over the same period in the preceding 5 years, beyond the 15% reduction target. France could keep pursuing efforts to temporarily reduce gas demand until 31 March 2024[25]. The current geopolitical situation and high energy prices are also increasing the urgency for France to further step up its efforts to meet renewable energy targets laid down in its national energy and climate plan. With 19.1% of gross final energy consumption from renewable energy, France missed its renewables target of 23% for 2020. It is also not on track to reach its 2030 renewables target and is lagging behind on deploying renewable energy, in particular for electricity production and heating. Swift deployment of renewables such as solar and wind energy would contribute to France's energy security and supply diversification by reducing the use of fossil fuels. The low rate of renewables deployment can be explained by slow and complicated administrative procedures related to permitting. Delays in permitting for all technologies (onshore and offshore wind as well as solar) are linked to a lack of political support for projects, inadequate planning and long and complex permitting procedures. There are also public acceptance and legal challenges, which create uncertainty for investors and developers. The permitting process could be accelerated by the allocation of more staff and financial resources in central administration at regional levels as well as in relevant authorities and grid operators. Improved spatial planning procedures and the swifter application of tendering procedures are also key to securing the installation of renewable projects. France adopted a law in 2023 on the acceleration of renewable energy production, which acknowledges the need to considerably develop renewable heat and gas and increase the share of renewable electricity in order to meet the growing needs of electrification of uses. If properly implemented, the law could foster a faster deployment of renewable projects. This could put France on a trajectory to achieve the 2030 objectives.

[25] Council Regulation (EU) 2022/1369 and Council Regulation (EU) 2023/706.

(34) In order to bring its interconnection level to the 10% target for 2020, further support for cross-border electricity interconnectors (under development or planned) remains of crucial importance for the integration of large shares of renewables Frontloading investment in energy infrastructure, both domestic and cross-border, will help reduce dependence on fossil fuel and in particular Russian gas. New infrastructure and network investments are recommended to be future proof where possible, in order to facilitate their long-term sustainability through future repurposing for sustainable fuels. Interconnections are crucial for an efficient functioning of the internal energy market by pooling resources to achieve overall security of supply.

(35) The French recovery and resilience plan contains major projects in building renovation for social and individual housing as well as public buildings and smaller businesses. On the renovation of residential buildings, most projects have focused on one-step works, leading to limited renovations. In the first half of 2022, only 27% of works contained at least two steps of renovation, and only 5% were total renovations. Extensive renovations could have a major impact on reducing energy consumption in the building sector. In addition, greater efforts to channel public and private investment towards helping low-income households renovate buildings and renovating building stock with the worst energy performance could help eradicate the 5.2 million most energy-inefficient dwellings (housing with an energy efficiency rating of F and G) by 2030. The 2021 Climate and Resilience Law introduced several measures to incentivise the extensive renovation of buildings, such as the prohibition of rental housing with an energy efficiency rating of G as of 2025, F from 2028 and E from 2034. To encourage more significant energy efficiency gains, the policy framework could be improved to incentivise deep renovation and help France further increase the energy efficiency of its building stock with a particular focus on low-income households.

(36) France represents nearly 11% of the EU's total venture capital investment in climate technology start-ups and scale-ups. However, despite large public support, only 29% of small French firms have invested more than 1% of their turnover to become resource efficient (40% on average in the EU). Promoters of clean-tech manufacturing projects are confronted with a high administrative burden and face long procedures and litigation risks. It takes 17 months on average to obtain a building permit, receive environmental authorisation and carry out the public investigation process for an industrial project. The procedure involves blocking points, where the project owner must wait for replies from different bodies (administrative court, opinion of the environmental authority, report from the public investigator). Furthermore, a public consultation must be held for large industrial projects. This process can last at least 6 months, which adds to the time taken to obtain the building permit, receive environmental authorisation and carry out the public investigation. Investment projects may also be subject to litigation procedures that can last several years, leading to projects being abandoned. While permitting procedures are necessary to safeguard overriding public and private interests, they should be simplified and speeded up for clean-tech manufacturing projects. Launching administrative procedures in parallel and proposing industrial sites ready for use could also help save time.

(37) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, these measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition. In 2022, labour shortages were reported in France for several occupations that required specific skills or knowledge for the green transition, including civil engineering technicians, power production plant operators, and engineering professionals.

(38) In light of the Commission's assessment, the Council has examined the 2023 Stability Programme and its opinion[26] is reflected in recommendation (1) below.

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26 Under Articles 5(2) and 9(2) of Council Regulation (EC) No 1466/97.

(39) In view of the close interlinkages between the economies of euro area Member States and their collective contribution to the functioning of the Economic and Monetary Union, the Council recommended that euro area Member States take action, including through their recovery and resilience plans, to (i) preserve debt sustainability and refrain from broad-based support to aggregate demand in 2023, better target fiscal measures taken to mitigate the impact of high energy prices and reflect on appropriate ways to wind down support as energy price pressures diminish; (ii) sustain high public investment and promote private investment to support the green and digital transition; (iii) support wage developments that mitigate the loss in purchasing power while limiting second-round effects on inflation, further improve active labour market policies and address skills shortages; (iv) improve the business environment and ensure that energy support to companies is cost-effective, temporary, targeted to viable firms and that it maintains incentives for the green transition; and (v) preserve macro-financial stability and monitor risks while continuing to work on completing the Banking Union. For France, recommendations (1), (2), (3) and (4) contribute to the implementation of the first, second, third and fourth euro area recommendations.

(40) In light of the Commission's in-depth review and this assessment, the Council has examined the 2023 National Reform Programme and the 2023 Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendation (1) below. Policies referred to in recommendation (1) help address vulnerabilities linked to high government debt and to weak competitiveness and low productivity growth. Recommendations (2) and (3) contribute to addressing recommendation (1). Policies referred to in recommendation (1) contribute to both addressing imbalances and implementing the recommendations for the euro area, in line with recital 39.

HEREBY RECOMMENDS that France take action in 2023 and 2024 to:

1. Wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.

   Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 2.3%[, corresponding to an annual improvement in the structural budget balance of at least Y.Y% of GDP for 2024].

   Preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions.

   For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.

   Further improve framework conditions to facilitate investment and innovation.

2. Proceed with the steady implementation of its recovery and resilience plan and, following the recent submission of the addendum, including the REPowerEU chapter, rapidly start the implementation of the related measures. Proceed with the swift implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

3. Address the shortage of skills, in particular by providing additional work-based learning options and raising the share of people with basic skills. Adapt resources and methods to the needs of disadvantaged students and schools in order to make the education and training system more equitable and inclusive. Improve the working conditions and initial and continuous training for teachers.

4. Reduce overall reliance on fossil fuels. Accelerate the deployment of renewable energies, focusing in particular on wind, solar and geothermal sources and biogas, including through small-scale renewable energy production and the promotion of collective self-consumption, and promote related storage technologies, through increased public investment, by facilitating private investment, and addressing permitting bottlenecks. Further upgrade electricity transmission and distribution grids and increase cross-border electricity interconnections. Further improve the policy framework to incentivise the deep renovation of buildings and the decarbonisation of heating systems, with a particular focus on low-income households and on building stock with the lowest energy performance. Build a supporting regulatory environment to increase investment in clean-tech manufacturing, including by simplifying and speeding up permitting. Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.

Done at Brussels,

For the Council

The President