COUNCIL RECOMMENDATION

of 10 July 2012

on the National Reform Programme 2012 of France and delivering a Council opinion on the Stability Programme of France, 2012-2016

(2012/C 219/09)

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 conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

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

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States [3], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 12 July 2011, the Council adopted a recommendation [4] on France's National Reform Programme for 2011 and delivered its opinion on France's updated Stability Programme for 2011-2014.

(4) On 23 November 2011, the Commission adopted the second Annual Growth Survey, marking the start of the second European Semester of *ex ante* and integrated policy coordination, which is anchored in the Europe 2020 strategy. On 14 February 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified France as one of the Member States for which an in-depth review would be carried out.

(5) On 1 December 2011, the Council adopted conclusions calling the Social Protection Committee, in cooperation with the Employment and other Committees, to present its views on actions recommended within the Europe 2020 policy cycle. These views form part of the opinion of the Employment Committee.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 15 February 2012, adopted a resolution on employment and social aspects in the Annual Growth Survey 2012 and a resolution on the contribution to the Annual Growth Survey 2012.

(7) On 2 March 2012, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 2 March 2012, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time to be included in their Stability or Convergence Programmes and their National Reform Programmes.

(9) On 4 May 2012, France submitted its updated Stability Programme covering the period 2012-2016 and, on 13 April 2012, its 2012 National Reform Programme. In order to take account of their interlinkages, the two Programmes have been assessed at the same time. The Commission has also assessed, in an in-depth review under Article 5 of Regulation (EU) No 1176/2011, whether France is affected by macroeconomic imbalances. The Commission concluded that France is experiencing imbalances, although not excessive ones.

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(1) OJ L 209, 2.8.1997, p. 1.
(2) OJ L 306, 23.11.2011, p. 25.
(3) Maintained for 2012 by Council Decision 2012/238/EU of 26 April 2012 on guidelines for the employment policies of the Member States (OJ L 119, 4.5.2012, p. 47).
(4) OJ C 213, 20.7.2011, p. 8.

(10) Based on the assessment of the Stability Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the Programme is optimistic. The Commission services 2012 spring forecast projected GDP growth to reach 0,5 % in 2012 and 1,3 % in 2013, against 0,7 % and 1,75 %, respectively, according to the Stability Programme. After the deficit came out better than expected at 5,2 % of GDP in 2011, the Stability Programme plans to bring it down to 3 % of GDP in 2013, which is the deadline set by the Council for correcting the excessive deficit, and to continue consolidation thereafter, with a balanced budget to be achieved by 2016. The medium-term budgetary objective (MTO) of a balanced budget in structural terms is expected to be reached within the Stability Programme period. The MTO adequately reflects the requirements of the Stability and Growth Pact. Based on the (recalculated) structural budget balance [1], the planned average annual fiscal effort in 2010-2013 is in line with the Council recommendation of 2 December 2009. Annual progress in structural terms equivalent to a further 0,7 % of GDP towards achieving the MTO is projected to be made in 2014-16. According to the Stability Programme, the growth rate of government expenditure, taking into account discretionary revenue measures, is in line with the expenditure benchmark of the Stability and Growth Pact. The adjustment path presented in the Stability Programme is subject to risks. The macroeconomic scenario could turn out to be less favourable as indicated by the Commission services 2012 spring forecast.

Measures are not sufficiently specified to reach the targets from 2013 onwards and to achieve the recommended average annual fiscal effort. Furthermore, France's track record when it comes to meeting expenditure targets is mixed. Therefore, it cannot be ensured that the excessive deficit will be corrected by 2013 unless the planned measures are sufficiently specified and additional ones implemented as needed. Starting from 85,8 % of GDP in 2011, the debt ratio is expected to reach 89,2 % in 2013 and to drop to 83,2 % in 2016. According to the Stability Programme, the debt reduction benchmark will be met at the end of the transitional period (2016).

(11) Although additional consolidation measures were adopted in the second half of 2011 and in February 2012, implementation of fiscal consolidation remains a major challenge. Avoiding expenditure slippages by means of a strengthened fiscal effort based on fully specified measures is vital to re-establishing a sustainable fiscal position. In addition, it would be appropriate for France to seize opportunities to accelerate the deficit reduction, in order to facilitate the correction of the excessive deficit as planned. Concerning the long-term sustainability of public finances and adequacy of future pensions, the 2010 pension reform is gradually being applied. However, it is not certain that the system will be balanced by 2018 as planned, if employment and growth turns out lower than projected, and the system is likely to fall into deficit after 2020. Moreover, the newly created steering committee, which was established with the task of issuing 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, making the assessment of the sustainability of the pension system difficult.

(12) The functioning of the French labour market would be improved by further reducing labour market segmentation. The professional security contract (CSP), which was introduced by the July 2011 law and merged two already existing contracts, places the burden of counselling in the case of economic redundancies on the public employment services (*Pôle emploi*). This is a positive but limited step. Several measures have also been taken or are under discussion to provide flexible work arrangements for companies facing temporary difficulties. However, they do not address specifically the segmentation of the labour market. In addition, the review of employment protection legislation shows that the procedures for dismissals continues to entail uncertainties and potentially large costs for employers. Finally, it is important to ensure that any development in the minimum wage is supportive of employment, especially of low skilled and inexperienced workers.

(13) Following the pensions reform, measures taken to encourage the employment of older workers, including the requirement for companies to implement active age management, are steps in the right direction. 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. Moreover, some aspects of the unemployment benefit system for older workers (duration) may provide limited incentives to work. Finally, a more ambitious strategy is needed in the field of adult learning so as to raise the employability of the adult workforce.

(14) To address youth unemployment, the French authorities have committed to increasing the number of apprenticeships from 600 000 to 800 000 by 2015. Several measures were introduced in 2011 and 2012 in order to increase the quota of apprentices in companies and to strengthen the penalties for companies which would fail to comply. Despite these measures, the total number

[1] Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the Programme, using the commonly agreed methodology.

of apprenticeships is still far from the objective. It seems necessary to reinforce the match between the needs of youth and of companies. Hence, policies tackling youth unemployment would benefit from greater consistency between the skills taught in the education system and the needs of the labour market.

(15) The merging of the jobseekers' placement services (ANPE) and the unemployment benefits agency (UNEDIC) into a single body (*Pôle emploi*) has so far not produced the expected results in terms of effectiveness and quality of services. The new multi-annual tripartite agreement signed in January 2012 (between government, social partners and *Pôle emploi*) on the functioning and services of *Pôle emploi* for 2012-2014 is a step in the right direction. However, a number of targets/objectives still remain to be fixed, making it difficult at this stage to assess the ambition of the reform. The credibility of the reform is also hindered by the budgetary and human resources constraints of the public employment services.

(16) In February 2012, France adopted a 1,6 percentage points increase in VAT to 21,2 % and a 2 percentage points rise in social levies on capital income and gains to 15,5 % to compensate for lower employers' social contributions. The new government has announced its intention to revise this measure and to adopt a fiscal reform in the course of 2012. This is an appropriate measure to introduce a more balanced taxation system that shifts the tax burden away from labour. As noted in the in-depth review on macroeconomic imbalances conducted by the Commission services, it could contribute to improving the cost competitiveness of French exports, with potentially positive impacts on firms' profitability and, in the longer term, on investment and non-price competitiveness However, the focus of the reform is too narrow. In addition, while efforts have been made to reduce tax expenditures, the latter have also been accompanied by rate hikes which tend to increase the already high tax burden on labour. France has the second lowest share of environmental taxation in the EU in tax revenues, which indicates ample room for increasing such taxes. Lastly, while France assessed in 2011 the efficiency of various tax expenditures in achieving their employment or social objectives, some reduced VAT rates remain in particular to be reviewed.

(17) While a number of reforms have been adopted to simplify the business environment and to remove restrictions on some regulated trades and professions, they fall short of addressing barriers to entry and restrictive conduct conditions in many others (e.g. veterinarians, taxis, health sector, legal professions including notaries). As a result, there is a need for a more horizontal and systematic review of remaining entry and conduct restrictions in regulated professions to assess their necessity and proportionality. As regards the retail sector, distributors should be allowed to set their prices and other commercial terms freely so that consumers can benefit from lower prices. Consumers would also benefit from other competition-enhancing measures in this highly concentrated sector, such as lifting or reviewing spatial planning restrictions and streamlining procedures for the setting-up of new distribution outlets.

(18) The intensity of competition in a number of network industries (wholesale electricity, rail sector) should be reinforced as reforms conducted so far in these sectors have only yielded partial results. The degree of concentration in the electricity market remains one of the highest in the Union. While the Law on the New Organisation of Electricity Markets (NOME law) has had a positive impact on competition, further steps are necessary to improve the access of alternative operators to generation capacity in France, such as hydro-based electricity generation. In rail transport, the entry of new companies remains limited both in freight and in international passenger transport; in freight, technical barriers to non-discriminatory access also remain.

(19) The French export market share has decreased by 19,4 % between 2005 and 2010, one of the strongest declines among Member States, and much above the threshold included in the Alert Mechanism Report adopted by the Commission on 14 February 2012. In their in-depth review for France, the Commission services concluded that the losses in export market shares come from a deterioration of both cost and non-price competitiveness, especially the latter. In particular, increasing unit labour costs have put the profitability of French companies under pressure and have constrained their ability to grow, to make the necessary investments to improve their performance and to innovate. The policies taken to foster innovation in the private sector should be monitored and complemented by measures to restore the profitability of French companies.

(20) France has made a number of commitments under the Euro Plus Pact. These commitments, and the implementation of the commitments presented in 2011, relate to fostering employment, improving competitiveness and enhancing sustainability of public finances. The Commission has assessed the implementation of the Euro Plus Pact commitments. The results of this assessment have been taken into account in the recommendations.

(21) In the context of the European Semester, the Commission has carried out a comprehensive analysis of France's economic policy. It has assessed the stability programme and national reform programme, and presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in France but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (5) below.

(22) In the light of this assessment, the Council has examined the Stability Programme, and its opinion [1] is reflected in particular in recommendation (1) below.

(23) In the light of the results of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in particular in recommendations (2), (4) and (5) below,

HEREBY RECOMMENDS that France take action within the period 2012-2013 to:

1. Reinforce and implement the budgetary strategy, supported by sufficiently specified measures, notably on the expenditure side, for the year 2012 and beyond to ensure a correction of the excessive deficit by 2013 and the achievement of the structural adjustment effort specified in the Council recommendations under the excessive deficit procedure. Thereafter, ensure an adequate structural adjustment effort to make sufficient progress towards the MTO, including meeting the expenditure benchmark, and ensure sufficient progress towards compliance with the debt reduction benchmark. Continue to review the sustainability and adequacy of the pension system and take additional measures if needed.

2. Introduce further reforms to combat labour market segmentation by reviewing selected aspects of employment protection legislation, in consultation with the social partners in accordance with national practices, in particular related to dismissals; continue to ensure that any development in the minimum wage is supportive of job creation and competitiveness; take actions to increase adult participation in lifelong learning.

3. Adopt labour market measures to ensure that older workers stay in employment longer; improve youth employability especially for those most at risk of unemployment, by providing for example more and better apprenticeship schemes which effectively address their needs; step up active labour market policies and ensure that public employment services are more effective in delivering individualised support.

4. Take further steps to introduce a more simple and balanced taxation system, shifting the tax burden from labour to other forms of taxation that weigh less on growth and external competitiveness, in particular environmental and consumption taxes; continue efforts to reduce and streamline tax expenditures (in particular those providing incentives to indebtedness); review the effectiveness of the current reduced VAT rates in support of growth and job creation.

5. Pursue efforts to remove unjustified restrictions on regulated trades and professions, in particular in services and the retail sector; take further steps to liberalise network industries, in particular in the electricity wholesale market, develop energy interconnection capacity and facilitate the entry of new operators into the rail freight and international passenger transport sectors.

Done at Brussels, 10 July 2012.

For the Council

The President

V. SHIARLY

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[1] Under Article 5(2) of Regulation (EC) No 1466/97.