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Assessment of the 2013 national reform programme and stability programme for FRANCE

Accompanying the document

Recommendation for a Council Recommendation

on France's 2013 national reform programme and delivering a Council Opinion on France's stability programme 2012-2017

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After a year without growth in 2012, economic activity in France has remained weak in early 2013 as the country entered its third recession in five years and little improvement is expected before the second half of 2013, according to the Commission services' 2013 Spring Forecast. The deterioration in confidence, together with sluggish internal consumption, will result in a slight contraction of GDP in 2013 (-0.1%), with growth picking up to 1.1% in 2014. Unemployment is projected to increase from 10.2% in 2012 to 10.6% in 2013 and 10.9% in 2014. Driven by rising energy prices, inflation remained almost unchanged at 2.2% in 2012 and is set to ease to 1.2% in 2013 and 1.7% in 2014. Deteriorating competitiveness will continue to hamper export performance over the next few years.

Although France has made significant efforts to contain its fiscal deficit in the last few years, the Commission predicts that the headline public deficit will remain at 3.9% of GDP in 2013, significantly above the 3% reference value. Based only on the measures that have been adopted or specified in detail up to now, the deficit is expected to increase to 4.2% of GDP in 2014. The additional effort needed to bring the deficit below 3 % and the impact that further consolidation would have on economic growth has prompted the Commission to propose an additional delay of two years for France to correct its excessive deficit. For the years after the planned correction of the excessive deficit (from 2016 on), the (recalculated) annual progress towards the country's medium-term objective, which is a balanced budget in structural terms, falls short of the benchmark requirement of 0.5% of GDP. The structural balance recalculated by the Commission is therefore projected to improve from -3.6% of GDP in 2012 to -0.3% in 2017. Public debt is expected to continue growing from 90.2% of GDP in 2012 to 96.2% in 2014.

Key Issues

France's competitiveness losses over the last decade warrants close scrutiny, and slackening economic growth has weighed on employment and public finances. The country has also been identified as experiencing macroeconomic imbalances. Overall, the circumstances not only make reforms more difficult, they also call for more decisive action.

In the past year, France made some progress in addressing its structural weaknesses. Measures were taken to combat rising unemployment, particularly among young people and older workers, and a law on securing employment was adopted following a national inter-professional agreement with social partners. Meanwhile, the government introduced a pact on growth, competitiveness and employment to support companies, for example, by reducing labour taxation.

However, while a number of reforms have been initiated, France continues to face challenges related to the budgetary situation, the functioning of the labour market and external competitiveness. Measures are needed to avoid large deficits in the pension system and that rising unemployment becomes long-term. The competitiveness of French businesses remains a challenge, with both cost and non-cost aspects playing a role in the deterioration of export market shares. Furthermore, there is room to increase competition, particularly in the regulated professions, the retail sector and network industries.

- **Public finances**: While the general government deficit has decreased from its peak of 7.5% of GDP in 2009, it remains one of the highest among non-programme euro area countries and will stay above 3% of GDP this year. In view of the continued increase in the government debt, which exceeded 90% of GDP in 2012, the 2013 budget needs to be strictly implemented and consolidation efforts firmly pursued in the years to come.

- **Labour market**: Existing labour market inefficiencies and shortcomings in education, particularly lifelong learning, are obstacles to job creation. For example, the likelihood of moving from a temporary to a permanent job remains much lower than the EU average. Youth unemployment reached 24.3 % in 2012, while the employment rate for 55 to 64-year-olds is amongst the lowest in the EU. Long-term unemployment now accounts for 39.5% of total unemployment, while participation in lifelong learning is well below the EU average. Moreover, France’s education system has been unable to reduce an early school leaving rate of around 12% over the last six years.

- **Competitiveness**: There has been a substantial increase in unit labour costs – including a 16% increase in the minimum wage in real terms in the last 10 years – which has detrimental effects on employment and on the competitiveness of companies. The tax credit for competitiveness and employment (‘crédit d’impôt pour la compétitivité et l’emploi’) will reduce the cost of labour for companies. However, as companies are expected to restore their financial situation first, the impact on competitiveness will be slow to materialize. In addition, the broad scope of the measure and the focus on low salaries means that the measure will not benefit primarily the manufacturing sector. Limited progress has been made on removing unjustified restrictions on professional services and there is room to further unleash the potential of the services and network industries.

1. INTRODUCTION

In May 2012, the Commission proposed a set of country-specific recommendations (CSRs) for economic and structural reform policies for France. On the basis of these recommendations, the Council of the European Union adopted five CSRs in the form of a Council Recommendation in July 2012. These CSRs concerned public finances, the labour market, tax policies and the competition and regulatory framework. This Staff Working Document (SWD) assesses the state of implementation of these recommendations in France.

The SWD assesses policy measures in light of the findings of the Commission's Annual Growth Survey 2013 (AGS)[1] and the second annual Alert Mechanism Report (AMR)[2], which were published in November 2012. The AGS sets out the Commission's proposals for building the necessary common understanding about the priorities for action at national and EU level in 2013. It identifies five priorities to guide Member States to renewed growth: pursuing differentiated, growth-friendly fiscal consolidation; restoring normal lending to the economy; promoting growth and competitiveness for today and tomorrow; tackling unemployment and the social consequences of the crisis; and modernising public administration. The AMR serves as an initial screening device to determine whether macroeconomic imbalances exist or risk emerging in Member States. The AMR found positive signs that macroeconomic imbalances in Europe are being corrected. To ensure that a complete and durable rebalancing is achieved, France and 13 other Member States were selected for a review of developments in the accumulation and unwinding of imbalances.[3]

Against the background of the 2012 Council Recommendation, the AGS and the AMR, France presented an update of her national reform programme (NRP) and of its stability programme on 30 April 2013. These programmes provide detailed information on progress made since July 2012 and on the future plans of the government. The information contained in these programmes provides the basis for the assessment made in this SWD.

The national reform programme was prepared in consultation with the social partners and local authorities. Both the national reform programme and the stability programme were adopted by the Council of Ministers on 17 April. These documents were also submitted on that date to the French Parliament, which endorsed a declaration on the latter through a vote on 24 April.

Overall assessment

The analysis in this SWD leads to the conclusion that France has made some progress on measures taken to address the CSRs of the Council Recommendation. Reforms have been initiated, in particular with respect to the tax system and on the labour market, which will need to be further strengthened. On the other hand, efforts have fallen short in a number of policy areas and in particular on the removal of excessive regulations on professional services.

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[1] COM(2012) 750 final.

[2] COM(2012) 751 final.

[3] 13 in-depth reviews were published on 10 April 2013. While selected for an in-depth review in the AMR, Cyprus was ultimately not reviewed under the Macroeconomic Imbalance Procedure (MIP) in view of the advanced preparations for a financial assistance programme.

Concerning public finances, France has made some progress to address its excessive deficit. The authorities have engaged in strong fiscal consolidation since 2011, which helped lower the public deficit to 4.8% of GDP in 2012 from over 7% in 2009-10. This is expected to further decrease in 2013 but to remain above the 3% of GDP reference value. Reviewing the medium- and long-term sustainability of the social security system is also a challenge, not least in the areas of healthcare and pensions.

Regarding employment, youth employability and adult participation in lifelong learning, some progress was made on the related CSRs. Specific schemes have been set in place to help alleviate the impact of the crisis on young workers and to limit the rise in unemployment. In addition, reforms have been initiated to reduce the segmentation of the labour market and efforts were made to increase skills, including through the announcement of more structural reform of compulsory education. On the other hand, the minimum wage was increased beyond the legal minimum. Finally, the reform of the public employment service has been initiated.

In the field of taxation, substantial progress was made with the adoption of the tax credit for competitiveness and employment, the '*crédit d'impôt pour la compétitivité et l'emploi*' (CICE), in line with the recommendation made by the Council. It contributes to shifting taxation away from labour and towards VAT and environmental taxation, although the underlying measures have been only partly specified. On the other hand, beyond a limited increase in the intermediate VAT rate, no effort has been made to address the low VAT efficiency.

Finally, limited progress has been recorded on the removal of unjustified restrictions on regulated sectors and professions.[4] Despite some improvement in specific sectors, there remains room to further unleash the competitiveness potential of the services and network industries in France.

The national reform programme submitted by France adequately reflects the challenges identified in last year's Staff Working Document. It outlines the policy initiatives which have been taken to address the various aspects of the CSRs. In addition, when relevant, it provides an indication of the policy plans of the government. However, only in the case of the tax credit for competitiveness and employment does it provide a detailed assessment of the macroeconomic impact of these measures. The stability programme confirms the objective of the government to correct its excessive deficit by 2014, one year after the deadline set by the Council 2009 recommendation. It also states the medium-term objective of a balanced budget in structural terms and provides the budget strategy considered to reach this objective.

2. ECONOMIC DEVELOPMENTS AND CHALLENGES

2.1. Recent economic developments and outlook

Recent economic developments

Economic activity in France stagnated in 2012, following two years of positive growth. Reflecting the rapidly deteriorating economic sentiment, firms cut back their equipment investment. Against the background of decreasing domestic private demand, the positive

[4] Implementation of, or compliance with, EU legislation cannot in itself be considered a reform, as it results from a legal obligation under the EU Treaties.

contributions of public and net external demand (+0.4 and +1.0 percentage points, or pps, respectively) — thanks in particular strong aeronautic sales — were offset by a sharp reduction in inventories (-0.8 pps). Overall, the)

quarterly growth pattern showed a downward trend, with GDP contracting by 0.2% in the last quarter.

Employment started decreasing in 2012 as employers tried to restore their productivity, which had suffered since 2007. The unemployment rate rose to 10.2% in 2012, from 9.6% a year earlier. Young workers were particularly affected, as their unemployment rate reached 24.3% in 2012, as against 22.8% in 2011. Driven by rising energy prices, inflation remained almost unchanged at 2.2%, despite sluggish economic growth. All in all, household disposable income fell slightly in 2012 in real terms, and households used their savings to maintain their consumption level.

Economic outlook

The Commission services' 2013 Spring Forecast (hereafter the Commission spring forecast) expects that the French economy will not recover before 2014, with GDP projected to decrease by 0.1% in 2013 and growth to accelerate to 1.1% in 2014. In the current context of stagnating economic activity and rigid nominal wages, employers are likely to focus more on restoring productivity, to the detriment of job creation. Despite ongoing efforts to reform the labour market, unemployment is expected to continue rising to 10.6% and 10.9% in 2013 and 2014, respectively, and disposable income to further contract in real terms. However, households are set to further reduce their saving rate to maintain consumption. In 2014, the relative stabilisation in the labour market, together with lower fiscal consolidation efforts in line with the usual no-policy-change assumption, will contribute to a recovery in real disposable income, thus allowing a rebound in private consumption.

The conditions for a rapid pick-up in investment are not likely to be met in 2013. Persistent flat economic growth and the enduring deterioration in the profit margins of non-financial companies are likely to have dented the expectations of entrepreneurs, who will continue to invest less in 2013. Only from 2014 should the gradual increase in aggregate demand and improved confidence translate into a partial catch-up.

The deteriorated competitiveness will continue to hamper export performance over the forecast horizon. In 2013, the low external demand and the continuing erosion in market shares will weigh on export growth. On the other hand, slow growth in imports is expected to translate into a positive contribution of net exports to GDP growth (0.2 pps). In 2014, the economic recovery will cause imports to rise, while the still ailing competitiveness is forecast to bring the contribution of trade below zero (-0.1 pps).

The macroeconomic scenario underpinning the stability programme appears plausible for 2013 but optimistic for 2014. The government GDP growth assumptions for 2013 and 2014 are close to the Commission spring forecast, at +0.1% and +1.2%, respectively. While for 2013, the growth scenarios are indeed comparable, the stability programme assumes a significant budgetary effort in 2014 to reach a public deficit of 2.9% of GDP. On the other hand, the macroeconomic scenario of the Commission only takes into account measures that have been sufficiently specified. In addition, the Commission expects that the impact of the CICE tax credit will not be as strong as expected by the authorities. As most of the budgetary measures for 2014 will be adopted as part of the budget law discussed during the autumn, its usual no-policy-change assumption leads the Commission to consider that the public deficit will increase to 4.2% of GDP next year. The High Council for Public Finances is also of the opinion that the official growth forecast and macroeconomic scenario for 2014 are clearly optimistic.

2.2. Challenges

One year without growth has exacerbated some of the vulnerabilities of the French economy. Slackening economic growth has resulted in a strong deterioration of the labour market and has weighed on public finances. Moreover, despite some sign of stabilisation in 2012, the evolution of the external position of France in the last decade warrants close scrutiny. Overall, the circumstances not only make structural adjustment more difficult, they also call for more decisive actions.

The situation on the labour market has deteriorated in the last few months, pushing the overall unemployment rate to 10.2 % in 2012. The situation on the labour market has severely deteriorated, with a strong impact on disadvantaged people. The high segmentation of the labour market translated into increasing difficulties for young people. Indeed, youth unemployment reached 24.3 % in 2012. At the other end of the age spectrum, the employment rate of senior workers remains among the lowest in the EU. In parallel, the duration of unemployment spells has increased dramatically. The long-term unemployed accounting for 38.5 % of the total unemployed in 2012.

The rising unemployment warrants renewed attention to lifelong learning and to strengthening human capital, in particular for the unemployed and workers in ailing sectors of the economy. Participation in lifelong learning remains very low and no progress has been recorded in the last ten years. At 5.7 %, the 2012 participation figure for France was clearly below the 9.0 % EU average. Furthermore, the ability of the multiple schemes and instruments to adequately target those who most need training has been put into question. The initial education system also has a critical role to play in providing all young people with sufficient skills. Unfortunately, France's education system has been unable to reduce an early school leaving rate that stagnates at close to 12 %. Most worryingly, the gap in level of education at age 15 between the best students and the worst performers widened more rapidly between 2000 and 2009 and appears wider in France than in most other OECD countries.

France's export performance remains a challenge as market shares have experienced a strong erosion in the last decade due to both cost and non-cost factors (see Box 1). As shown in the in-depth review, while exporting companies maintained their prices to remain competitive, the increase in unit labour costs since 2000 has led them to squeeze margins, weighing on investment capacity and accentuating the deficit in non-price competitiveness. After labour, the cost of services is the second largest cost category in the manufacturing industry. The high cost of labour in the services sector together with the low level of competition in some services contribute to increasing input prices, hence putting pressure on the profitability of manufacturing companies and limiting their growth potential. In addition, the weakness of high-tech and medium-high-tech manufacturing industries represents a vulnerability for the long-term growth of France. These sectors accounted for 9.2 % of the total value added by industry and services in 2009, a lower share than the EU average (11.5 %) and their weight in the economy is on a downward trend.

Some aspects of the business environment also constrain the development of a dynamic private sector, and in particular of small and medium-sized enterprises (SMEs). Restoring export performance will entail improving the profitability of companies and ensuring that the business environment is conducive to a more dynamic private sector. France still has significant margins for improving its performance in freight transport and logistics to boost industrial competitiveness and increase its export capacity. In addition, the general business environment is marred by an insufficient level of competition in some sectors while, in certain areas, the overall regulatory framework and the burden of regulation remain a constraint for the development of firms.

The high and rising level of public debt, together with still high public deficits, continues to represent a challenge. While the general government deficit has decreased from its peak of 7.5% of GDP in 2009, it remains one of the highest among non-programme euro area countries and will stay above the 3% of GDP reference value this year too (3.9% according to the Commission spring forecast). In view of the continued increase in the government debt, which already exceeds 90% of GDP, the 2013 budget needs to be strictly implemented and consolidation efforts firmly pursued in the years to come. It is crucial that public spending grows significantly less rapidly than potential GDP as the improvement in the structural deficit has so far been mainly revenue-based. Dynamic trends in social security and local government spending require close scrutiny. This calls for decisive action as part of the ongoing spending review at all levels of general government. Although deemed at relatively low risk with regard to long-term sustainability, age-related expenditure remains a challenge to the extent that the pension system will still face large deficits by 2020 assuming no further policy changes are made. The projected increase in healthcare expenditure is also a matter of concern.

Despite sizeable measures to reduce labour taxation, the tax system remains insufficiently conducive to sustainable economic growth. The tax system remains rather complex, reflecting the wide range of exemptions and special allowances bur also frequent changes in tax legislation. The amount of foregone revenue from tax and social security exemptions is still very high. This contradicts economic literature which indicates that a broad tax base coupled with low statutory rates is more conducive to growth and social welfare. Reduced VAT rates are also widely used while distributional objectives can be achieved more cost efficiently by considering the tax system as a whole rather VAT alone. There is also significant scope for increasing environmental taxation.

Box 1. Summary of the 2013 in-depth review (IDR) under the Macroeconomic Imbalance Procedure (MIP)

In last year's in-depth review (IDR), the Commission concluded that France was experiencing serious macroeconomic imbalances, in particular as regards developments related to export performance and competitiveness. In the new Alert Mechanism Report (AMR) published on 28 November 2012, the Commission found it useful, also taking into account the identification of serious imbalances in May, to examine further the persistence of imbalances or their unwinding. To this end this IDR takes a broad view of the French economy in line with the scope of the surveillance under the Macroeconomic Imbalance Procedure (MIP). The main observations and findings from this analysis are:

- The resilience of the country to external shocks is diminishing and its medium-term growth prospects are increasingly hampered by long-standing imbalances. The trade balance has been decreasing since 1997 and reached a deficit of 2.0% of GDP in 2012. As a consequence, the current account balance, which was still at a surplus of 2.8% of GDP in 1998, recorded growing deficits from 2005 on, reaching 2.3% in 2012.

- The market share of French exports decreased by 11.2% between 2006 and 2011, still clearly faster than the 6% threshold defined in the Alert Mechanism Report. The appreciation in unit labour costs over the last few years has put the profitability of firms under pressure. To limit price hikes, exporters have reduced their margins, in particular in the manufacturing sector. This has limited the resources they can dedicate to improving non-price competitiveness through e.g. innovation.

• Rigidities on the labour market hinder the adjustment capacity of the economy and slow down developments in productivity. The high tax wedge has a negative effect on labour demand and on the number of hours worked. The increasing tax burden on labour has also contributed to rising labour costs. Furthermore, a highly segmented labour market results in uncertainties for a large proportion of employees, reducing incentives to increase their human capital and hence productivity.

• The low profitability of companies, in particular in the manufacturing sector, together with their high indebtedness, represents a threat to the overall competitiveness of the French economy. The profit margin of French companies is the lowest in the euro area. Additionally, the increasing indebtedness in the private sector may affect the ability to invest and innovate.

• The high and increasing public debt is reducing the capacity of public finances to face potential adverse shocks and could result in negative spillovers to the whole economy. While risks to medium-term sustainability appear moderate, sensitivity tests show that adverse economic events may have a significant negative impact on debt dynamics.

3. ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

The main goal of the 2013 stability programme is to achieve the medium-term objective (MTO), i.e. a balanced budget in structural terms, as in last year's programme. The MTO more than adequately reflects the objectives of the Stability and Growth Pact. The target year for reaching the MTO is 2016, compared with 2015 in the previous stability programme. However, based on the (recalculated) structural balance,[5] the MTO will not be achieved within the timeframe set forth in the stability programme, in contradiction with the 2012 CSRs. The adjustment path over 2013-17 aims first to bring the deficit below the reference value of 3% of GDP by 2014, one year after the revised deadline set by the Council under the excessive deficit procedure in 2009 (see Box 2). The (recalculated) structural balance is projected to improve from -3.6% of GDP in 2012 to -0.3% in 2017.

[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.

Box 2. 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 should put an end to the present excessive deficit situation by 2013. Specifically, in order to bring the general government deficit below 3% of GDP in a credible and sustainable manner, the French authorities were recommended to: (a) implement the consolidation measures in 2010 as planned and strengthen the fiscal effort from 2011 onwards; (b) ensure an average annual fiscal effort of above 1% of GDP over the period 2010-13; (c) specify the measures that were 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 turned out better than expected at the time of the recommendation. In addition, the French authorities were recommended to seize opportunities beyond the fiscal effort, including from better economic conditions, to accelerate the reduction of the gross debt ratio back towards the reference value. Furthermore, the Council invited the French authorities to continue implementing reforms with a view to enhancing the efficiency and governance of public finances and raising potential GDP growth, aiming at increased enforceability of expenditure control, notably in the areas of healthcare and local authorities, and reforming the pension system as planned.

An overview of the current state of excessive deficit procedures, including additional steps adopted after the finalisation of this Staff Working Document, 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 2012, the general government deficit reached 4.8 % of GDP, down from 5.3 % in 2011 (revised from 5.2 %). This is higher than the official target of 4.5% of GDP announced shortly after the new authorities took office and even more so compared with the 4.4% target of the 2012 stability programme. The revised target was accompanied by a significant set of additional measures which aimed to compensate for worse than previously expected growth prospects. The negative surprise came from the upward revision in the deficit for 2011, GDP growth that eventually stalled (instead of the 0.3% forecast number that underpinned the 4.5% target), the recapitalisation of Dexia but also from some, albeit limited, expenditure overruns at local government level. All this was partly offset by lower than anticipated costs of tax contingencies.

Turning to 2013, the stability programme projects that the deficit will reach 3.7 % of GDP, well above the 3 % of GDP targeted in last year's programme. France thus does not plan to correct its excessive deficit by the deadline set in the 2009 Council Recommendation under the excessive deficit procedure and referred to in the 2012 CSRs. The budget for 2013 aimed at 3% of GDP and relied on a new package of measures, on top of those adopted in the summer, but was based on an overly optimistic macroeconomic scenario (GDP growth for 2013 projected at 0.8% vs 0.1% assumed in the stability programme). Higher revenue is expected mainly from both direct taxes and social contributions (see Box 3). Current expenditure rules (central government and healthcare) are renewed and this will contribute to maintaining spending restraint. The 2010 pension reform, which included a gradual increase in retirement ages from 60 to 62 and from 65 to 67, is set to yield additional savings. Lower than previously projected inflation and the partial suspension of indexation for pensions paid by supplementary schemes (see below) will also help avoid slippages. On the other hand, GDP growth, forecast at significantly below potential, will adversely affect the headline balance. Overall, the official deficit target of 3.7% of GDP appears slightly on the optimistic side when compared with the Commission spring forecast, which expects the deficit to come out at 3.9 % of GDP. The main reasons behind that difference are that the Commission forecast projects weaker growth, a somewhat lower impact of discretionary measures and slightly higher expenditure increase.

Going forward, the programme projects the headline deficit to reach 2.9 % of GDP in 2014 and to gradually decrease thereafter, although this would not lead to a balanced headline budget by the end of the programme horizon. The deficit targets for 2014-17 have been significantly revised upwards compared with the previous update of the programme, in line with the assumed postponed correction of the excessive deficit. The underlying structural adjustment appears front-loaded (2014-15) while cyclical factors are expected to be the main driver behind the planned deficit reduction in the subsequent years. The composition of fiscal adjustment is expected to gradually shift towards expenditure savings, in contrast with the last few years, over which revenue measures have represented the bulk of the effort. The authorities project that general government expenditure will increase by only 0.4 % on average in 2014-17 when deflated by the national consumer price index, against 1 % in 2012-13 and around 2 % in the previous decade.

According to the programme, savings are expected at all sub-sectors of general government, with strong curbs on expenditure growth planned at the level of social security and local governments. At central government level, according to the programme, expenditure will continue to be frozen in real terms and spending, excluding interest payments and civil servants' pensions, is set to decrease by 0.1 % of GDP in 2014 and remain flat thereafter. In order to comply with these spending limits, the authorities plan to contain the wage bill and other operating costs through efficiency gains achieved as part of the spending review process (*modernisation de l'action publique* or MAP). A number of programmes are currently under review and a target amount of savings has been announced for some of them. In addition to seeking efficiency gains, transfers to local governments will be cut by 0.1 % of GDP next year and by an additional 0.1 % in 2015. As regards social security funds, the programme projects a 2.5 % annual rise in healthcare expenditure in 2014-17, broadly in line with recent outturns. Regarding pension expenditure, the 2010 reform will continue yielding additional savings although these will be partly offset by last year's decision to bring the minimum retirement age back to 60 for certain categories of workers.[6] The only partial indexation of second-pillar pensions will also add savings over 2014-16. Finally, the targeted slowdown in pension expenditure factors in a reform which, based on current plans, is to be adopted by the year-end of 2013. Savings are projected to come also from rationalising family allowances. Concerning local authorities, the strategy anticipates a marked slowdown in expenditure over the period, to come especially from the above-mentioned decision to reduce transfers from central government and the expected drop in gross fixed capital formation in 2014-15 in line with the electoral cycle at local level.

Based on a no-policy-change assumption, the Commission spring forecast projects that the deficit for 2014 (4.2 % of GDP) will stay significantly above the official target of 2.9 % of GDP. A part of the difference stems from expected higher expenditure growth since savings backing the various spending limits still need to be specified (apart from savings stemming from the 2010 pension reform and the less than full indexation of second-pillar pensions). First, the authorities have not explicitly confirmed whether the freeze in base wages — which applies to all sub-sectors of general government — will be maintained

[6] However, this has been matched by an increase in social contributions affecting both employers and employees.

beyond 2013. Second, while the MAP spending review is ongoing, it remains unclear whether it will translate into sizeable (and easy to quantify) savings. Contrary to its predecessor, the RGPP,[7] the MAP has been extended to all sub-sectors of general government. However, as the MAP is still at a very preliminary stage of implementation, little information is available on whether it will indeed give a boost to the reform of government policies, coverage of activities by the public sector and delivery modes of public services. The RGPP delivered only partial results and was confined to merging ministerial departments, rationalising the central government's administration at local level and sharing support services that cut across all ministries (HR policy, procurement, etc.). Thirdly, regarding the pension system, the actual measures that would underpin the announced reform remain to be unveiled. Lastly, specifics are also lacking on the projected slowdown in local government spending. Measures such as cuts in transfers from central government offer an incentive for local authorities to better control expenditure developments but recent overruns call for caution. While decentralisation has undoubtedly led to an increase in local government spending, this is also due to discretionary measures decided at local level. In addition, inefficiencies are likely to be substantial due to the multiple tiers of local government that create problems of duplication, coordination and role ambiguity. France has some 40 % of all the municipalities in the EU (36 700 municipalities for 65 million people). The median population of a French municipality is 1 800 inhabitants, as against 5 500 in the EU. Successive reforms have added additional layers (e.g. inter-communality) without streamlining an already complex administrative division (26 regions, 101 departments) and sharing of competences. The planned next decentralisation reform is expected to create an additional layer with the setting up of '*métropoles*'. There are risks that such a measure would add further complexity and possibly new costs.

Risks to the macroeconomic scenario for 2014 are also clearly tilted to the downside. Indeed, while real GDP growth is forecast to be 1.2 % and thus very close to the Commission spring forecast (1.1 %), the underlying fiscal scenarios are at odds: the authorities' scenario factors in a structural effort of 1 % of GDP in 2014 whereas the Commission forecast is built on a slightly deteriorating structural balance. This means that the authorities' scenario is much more optimistic since the 1.2 % figure is assumed to take account of second-round effects of fiscal consolidation on growth. The newly created fiscal council (see below) has also considered the macroeconomic scenario underpinning the 2014 deficit target presented in the stability programme as markedly optimistic, questioning in particular the authorities' assumption that low import growth and the introduction of the CICE tax credit would offset the negative impact of fiscal consolidation. Based on this and in the absence of sufficient information about planned expenditure but also revenue measures, the adjustment path to achieve the correction of the excessive deficit by 2014 currently appears unrealistic.

The assessment of the structural balance over 2010-13 shows that the fiscal effort comes close to the level recommended by the Council on the 2 December 2009. The average annual fiscal effort, based on the change in the (recalculated) structural balance deriving from the programme, is estimated at 1.1 % of GDP in 2010-13. .The fiscal effort deriving from the Commission spring forecast is lower than that projected by the authorities and comes below but close to the recommended level. However, a detailed assessment of the discretionary measures implemented by the authorities over this period provides a more positive picture than does the purely top-down approach based on the structural balance.

[7] *Révision générale des politiques publiques.*

For the years after the planned correction of the excessive deficit, the planned (recalculated) annual progress towards the MTO is lower than the minimum requirement of 0.5% of GDP. According to the information provided in the programme, the expenditure benchmark, which focuses on expenditure developments net of discretionary revenue measures, would be broadly met in 2015-16 although a slight deviation is expected in 2015. Following an overall assessment of France's budgetary plans, with the structural balance as a reference, including an analysis of the expenditure benchmark, a deviation from the adjustment path towards the MTO is to be expected in both years.

Box 3. Main measures

Main budgetary measures

Revenue	Expenditure
2013	
• Increase in indirect taxes (+0.1% of GDP) • Increase in personal income taxation, wealth tax, social levies on capital income and gains, etc. (+0.5% of GDP) • Increase in corporate income taxation (0.4% of GDP) • Increase in social contributions (0.3% of GDP) • Increase in capital taxation (0.1% of GDP)	• Savings in compensation of employees and running costs in central government (-0.1% of GDP) • Savings in military expenditure (-0.1% of GDP) • Savings in social transfers to households (-0.1%) • Cuts in transfers to local authorities (-0.1% of GDP) • Other savings at central government level (-0.1% of GDP) • Savings in healthcare expenditure (-0.1% of GDP)
2014	
• New corporate income tax credit '*compétitivité-emploi*' (-0.5% of GDP) • Increase in VAT (+0.3% of GDP)	• Cuts in transfers to local authorities (-0.1% of GDP) • Savings in family allowances (-0.1% of GDP) • Other savings stemming from the MAP spending review (-0.2% of GDP over 2014-15)

Note: The budgetary impact in this table is the impact reported in the programme, i.e. by the national authorities. A plus sign indicates that revenue/expenditure increases as a consequence of the measure. The degree of detail reflects the information made available in the convergence/stability programme and, where available, in a multiannual budget.

The general government debt has increased substantially since the beginning of the crisis. Starting from 64.2 % in 2007, the ratio of debt to GDP reached 90.2 % in 2012 and is projected to increase further. On the other hand, the authorities expect the debt ratio to peak at 94.3% of GDP in 2014 and then to drop to 88.2% in 2017. In 2015-17 (based on a correction of the excessive deficit in 2014 according to the stability programme), France would be in a transition period regarding the debt rule and plans would ensure sufficient progress towards compliance with the debt criterion. The debt ratio in the Commission spring forecast for 2013-14 is above the official figures due to the projected higher deficits and lower nominal GDP growth. The risks to the deficit targets mentioned above translate into upside risks to the debt scenario. In the past, the debt targets included in the successive stability programmes have regularly been revised upwards and often missed. Medium-term debt projections (see Graph and Table V in annex) indicate that the full implementation of the programme would put debt on a downward path by 2020, although it would still be well above the 60 % of GDP reference value.

Long-term sustainability

Despite significant budgetary challenges, France faces limited fiscal sustainability risks, notably due to favourable demographic factors. Sustainability risks are medium in the medium term and low in the long term. However, risks would be higher in the event of the structural primary deficit reverting to the higher levels observed in the past, such as the average for the period 1998-2012. The focus should, therefore, be on resolutely continuing to implement sustainability-enhancing measures that prevent potential risks to fiscal sustainability from materialising in the short term. In addition, the public debt, which exceeded 90 % of GDP in 2012, needs to be reduced.

On the basis of the budgetary position in 2014, using the Commission spring forecast, and the projected increase in age-related expenditure (2012 Ageing Report), France has a sustainability gap (S2)[8] of 1.9 pps of GDP, which is lower than the EU average of 3.0 pps. This reflects the long-term cost of ageing. The long-term cost of ageing is projected to increase by +0.9 pps of GDP, driven by an increase in pension expenditure (+0.6 pps) and healthcare expenditure (+1.0 pps). In addition, the evolution of public expenditure on healthcare and long-term care could be further impacted by non-demographic factors, such as the development of new pharmaceutical products and treatments and/or the widening coverage of healthcare systems.

The 2012 Sustainability Report projects an effect of the increase in public expenditure on healthcare which is higher than the EU average both in the medium and in the long run. This means that future public expenditure on healthcare is an issue. In that view, areas where efficiency could be further improved include pharmaceutical and administrative spending.[9]

While long-term sustainability risks related to pension expenditure appear relatively low, recent developments affecting this area are of more concern. In line with the 2012 CSRs, France undertook an assessment of the sustainability of the pension system, which was carried out by the Pensions Advisory Council (‘*Conseil d’orientation des retraites*’ — COR).[10] This review points to persistent deficits by 2018, contrary to the objective of the 2010 pension reform of a balanced system by that time. This is mainly due to a less benign macroeconomic scenario. In this respect, the Commission had raised doubts about the growth and unemployment assumptions underlying the previous projections in the context of the 2012 European Semester. The increase in the minimum and full-pension retirement ages to 62

[8] The S2 indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: (i) the initial budgetary position, which gives the gap to the debt-stabilising primary balance; and (ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates), thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60 % debt threshold.

[9] Regarding public spending on outpatient pharmaceuticals, France is one of the highest spenders in the EU, both in terms of GDP (FR: 1.3%; EU: 1.1%) and per capita (measured in Purchasing Power Standards) (FR: 334; EU: 283). France also has one of the highest ratios of public expenditure on administration and insurance to GDP (France: 0.4%; EU: 0.3%) and to public current expenditure on health (France: 5.2%; EU: 3.7%).

[10] Pensions Advisory Council, *Retraites: perspectives 2020, 2040 et 2060*, December 2012.

and 67, respectively, decided as part of the 2010 reform, and the full-pension contribution period evolving in line with gains in life expectancy thus appear insufficient to bring the system into balance by 2020, as now targeted by the authorities. Social partners have recently agreed on partly suspending indexation to inflation of pensions paid by the AGIRC and ARRCO supplementary schemes. Extending such a measure to other pension schemes would yield substantial savings but could also lead, if applied across the board, to an increase in the number of older people at risk of poverty. The projections of the COR also suggest that the average amount of pension will continue to vary significantly across schemes, in particular to the advantage of dedicated public sector pension schemes and special schemes for employees of state-owned enterprises or working in certain branches.[11] Finally, the partial rollback[12] of the 2010 reform decided shortly after the new government took office goes against the Commission's position that longer working lives should be promoted.[13]

Fiscal framework

A number of provisions of the Treaty on Stability, Coordination and Governance (TSCG) have already been transposed into national law. A balanced budget rule expressed in structural terms has been established along with a correction mechanism that would be triggered automatically in the event of significant deviations from the country's MTO. A High Council for Public Finances was created in 2012 and is in charge of ex-ante analyses of fiscal plans and ex-post assessments of compliance with rules. This should raise the reputational costs of undesirable policies but the concrete implementation of monitoring poses significant technical and operational challenges. In addition, a new multi-year public finance planning act covering the period 2012-17 was adopted in late December. It set a number of objectives both in nominal and in structural terms, specified the automatic correction mechanism and introduced measures to improve the information provided to Parliament.

Regarding control of public finances, several new features have contributed to improving the content of the 2012-17 planning act compared with previous ones. The planning act now covers a longer time period, without questioning the principle of the three-year ministerial expenditure ceilings at state level, which have demonstrated their effectiveness;[14] nominal targets have been complemented by targets in structural terms. However, several shortcomings remain, not least concerning the relatively optimistic macroeconomic assumptions underlying the planning, including in 2013-14.[15] While the technical information provided is more extensive than in previous years, a general bridge table between the two approaches, integrating the three-year ceilings at ministry level into the fiscal aggregates fixed over the five-year horizon, would have helped in checking consistency. It also remains unclear whether annual monitoring of the implementation of the planning act — very partial so far — will actually be strengthened. The role of the newly created High Council will be key in that respect.

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[11] Pensions Advisory Council, *Compléments aux perspectives du système de retraite en 2020, 2040 et 2060: les projections régime par régime*, March 2013.

[12] The gradual increase in the minimum retirement age from 60 to 62 has been partly reversed, with certain categories of workers again allowed to retire at 60.

[13] European Commission (2012), White Paper: An agenda for adequate, safe and sustainable pensions -— COM(2012) 55 final.

[14] These clearly helped to remain within overall spending limits at state level in 2011-12. For the record, expenditure excluding interest payments and civil servants' pensions has been frozen in nominal terms since 2011. This rule comes on top of the zero volume rule introduced in 2004, which applies to all state expenditure.

[15] The official GDP growth forecast has since been revised downwards.

Tax system

In 2011, the tax-to-GDP ratio in France stood at 43.9 %, the fourth highest in the EU-27. Implicit tax rates on both capital and labour employed are high in France. The tax wedge on low wage earners — which encompasses employers' social security contributions, personal income tax and employees' social security contributions — is the second highest among Member States after Belgium, although less so for workers at or near the minimum wage given social security exemptions. By contrast, France has the third lowest share of environmental taxes in GDP (2011: 1.8 %) and is among the EU countries having the lowest share of VAT in GDP. France has also the highest adjusted top statutory tax rate on corporate income (36.1 % in 2013). Finally, the debt-equity tax bias in corporate financing is the highest in the EU27. Last year, France received a recommendation to reduce this tax bias. While some measures to address tax incentives to indebtedness in corporate taxation have been adopted, such as a partial limitation of interest deductibility for interest payments above EUR 3 million (in 2013, 15% will be disallowed; in 2014, the percentage will be 25%) and thin capitalisation rules (that exist since 1979), there is still scope for further improvement.

Welcome efforts to reduce and streamline tax expenditures have been pursued. These efforts are consistent with a broad base-low rate approach which is more conducive to growth**.** Overall, the amount of forgone revenue from tax and social security exemptions is expected to decrease by around 8 % between 2010 and 2013 based on national source data.[16] Nevertheless, the total remains still very high at above EUR 100 billion or 5 % of GDP — and even twice that amount according to estimates by the Court of Auditors —, with personal income tax (PIT) benefits set to represent half of total PIT receipts this year. The situation is similar for corporate income taxation, although the majority of corporate tax exemptions are no longer considered as such by the authorities.[17] .Moreover, the actual amount of foregone revenue from tax and social security exemptions has often proved higher than initially forecast.[18]

As regards VAT, new rates will be applicable from January 2014 but there is scope for further changes. The intermediate rate (renovation of private dwellings, transport services, hotel accommodation, restaurant services, etc.) will be increased from 7 % to 10 %; the reduced rate applied to foodstuffs, cultural goods, gas and electricity standing charges, etc. will at the same time be lowered by 0.5 pps to 5 %; and the standard rate will be increased from 19.6 % to 20 %. Therefore taxation of products and services subject to the intermediate rate will have almost doubled since January 2012 (i.e. from 5.5 % to 10 %). However, several reports[19] have attested to the ineffectiveness of some non-standard rates, without this leading to any sufficiently differentiated and relevant policy response. This is particularly the case of those applied to renovation of private dwellings and to restaurant services, the cost of which is set to exceed EUR 8 billion or 0.4 % of GDP in 2013 based on national source estimates.

The introduction of a tax credit for competitiveness and employment will reduce labour costs and foster firms' competitiveness although the impact expected by the authorities appears to be on the optimistic side. The CICE tax credit will equal 6 % (4 % in 2013) of the

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[16] See draft state and social security budget laws for 2012 and 2013 (*Evaluation des voies et moyens, tome II — Dépenses fiscales; Annexe 5 — Présentation des mesures d'exonérations de cotisations et contributions et de leurs compensations*).

[17] Court of Auditors, *Rapport public annuel 2011*, February 2011.

[18] Court of Auditors, *Rapport public annuel 2012*, February 2012.

[19] *Comité d'évaluation des dépenses fiscales et des niches sociales*, June 2011; National Assembly, *Rapport relatif aux conséquences de la baisse du taux de TVA dans la restauration*, No 337, October 2012.

payroll for wages up to 2.5 times the minimum wage. Funds for this measure will be made available mainly through the above-mentioned reshuffling of VAT rates and through expenditure savings. This measure, which takes the form of tax expenditure, shifts the tax burden away from labour. More precisely, it is equivalent to halving the gap between the French tax wedge and the OECD average at the level of the median wage,[20] suggesting further scope for action. The tax credit is the only measure for which the NRP provides a detailed macroeconomic impact assessment. The authorities consider that this measure will increase GDP by 0.1 pps as soon as 2013 and by 0.5 pps by 2017..In addition, they expect that close to 300 000 jobs will be created by 2017. These figures seem to represent upper boundaries. Indeed, given their low profitability, it can be expected that companies will use the tax credit to first restore profitability and investment, hence postponing the impact of the measure In addition, the overall tax burden on businesses has substantially increased since 2010, a development that the CICE tax credit will only partly offset.

Regarding energy and environmental taxation, areas for improvement include the preferential treatment of diesel within excise duties, the absence of indexation of environmental taxes and the relatively low degree of internalisation of external costs. The government aims to bring the level of environmental taxation closer to the EU average. A specific standing committee was set up in December 2012 and the Ministry of Economy was tasked in January 2013 to work on the development of green taxes to be introduced within the budget for 2014. However, progress has so far been only limited, with for example the decision to increase the tax penalty on high-emission vehicles. The '*éco-taxe poids lourds*', which was originally planned to enter into force in summer 2013, is expected to be operational by October 2013.

Overall, the French tax system remains rather complex, reflecting the wide range of exemptions and special allowances.[21] It generates high collection costs[22] for the tax administration and unnecessary compliance costs also due to frequent changes in tax legislation — around 20 % of the articles of the tax code are amended each year.[23] However, progress has been made recently with a view to reviewing and abolishing a number of tax expenditures. Further simplifying the tax system while ensuring greater continuity of tax rules over time would thus help reduce both collection and compliance costs and improve the efficiency of revenue collection.

3.2. Financial sector

French banking institutions, supported in particular by robust retail banking activities, have generally remained strong throughout the financial turmoil although some vulnerabilities remain. The financial sector in France is dominated by five large banking institutions, including four considered as systemic and therefore included in the monitoring framework of the European Banking Authority (EBA). The core tier 1 ratio of the French

[20] OECD Economic Surveys: France, March 2013.

[21] According to the World Economic Forum's Global Competitiveness Report 2012-13, France's tax regime is perceived as highly distortive to business decisions and is ranked 128th out of 144 economies; the country is ranked 126th for overall burden of government regulation.

[22] The cost of tax collection is relatively high in France. Indeed, the ratio of aggregate tax administrative costs to (100 units of) net revenue collection increased from 0.97 in 2007 to 1.31 in 2009, thereby rising above the EU average (1.08).

[23] Court of Auditors, *Les relations de l'administration fiscale avec les particuliers et les entreprises*, February 2012.

banks monitored by the EBA was above the target of 9% in June 2012. Over 2013-14, the slow economic growth is expected to translate into weak prospects for the French banking sector although the impact on profits would remain moderate. The main weakness faced by French banks is linked to an over-reliance on wholesale funding. In particular, some smaller institutions relying mostly on wholesale funding have faced difficulties (in particular Crédit Immobilier de France and Dexia Crédit Local). In December 2012, credit distributed to residents by banks represented 111% of deposits, compared with 105% in the euro area. While this ratio has gone down from its July 2008 level of 122%, it is still a sign that French banks rely significantly on wholesale funding, with potential liquidity risks in the event of a shock on funding markets. In addition, the situation in peripheral economies of the euro area represents a downside risk for French banks, in particular in the event of renewed tensions on the sovereign debt market, since their exposure to debt in these economies is non-negligible. In December 2012, French banks' foreign claims vis-à-vis Italy, Spain, Portugal, Ireland and Greece amounted to EUR 380 billion, representing 32% of the total foreign claims of European banks in these economies.[24]

Despite a number of measures to develop alternative sources of finance, private companies, and in particular small and medium-sized enterprises, remain heavily dependent on bank credit. The amount of outstanding credit to enterprises increased by a mere 0.9% in 2012, although surveys do not point toward significant credit tightening by banks. Credit to SMEs proved slightly more dynamic (+2.7% year-on-year) while credit to the manufacturing sector decreased (-3.1%). In comparison, self-financing capacity has contracted sharply since 2010. Alternative sources of financing, in particular equity financing for SMEs and mid-tier enterprises, remain insufficiently developed. The new BPI ('*Banque Publique d'Investissement*') has been granted funds to guarantee loans to companies, including to innovative SMEs. In addition, policy measures to facilitate access to equity financing, in particular for SMEs and mid-tier enterprises, have been announced as part of the 'competitiveness pact' but these have not been implemented yet. On the other hand, a number of measures aiming to increase taxation on capital could eventually result in a lower supply of equity finance. Moreover, inefficiencies remain in the use of state aid to support private companies.[25]

3.3. Labour market, education and social policies

While the labour market resisted the worst effects of the crisis in 2009 and 2010, the last four years have seen a surge in unemployment, from 7.8% in 2008 to 10.2% in 2012. The government considers that the increase in unemployment could be curbed by the end of 2013, but the Commission expects in its spring forecast that the unemployment rate will continue to rise to 10.9% in 2014 on persistently weak economic growth. Existing labour market inefficiencies, together with shortcomings in education, including with regard to lifelong learning, also continue to represent an obstacle to a dynamic labour market. At the same time, the rising unemployment calls for renewed attention to the social consequences of the crisis.

[24] Total foreign claims of French banks represented 16 % of the total for reporting European banks. By definition, banks do not hold foreign claims vis-à-vis the domestic economy.

[25] See for example Court of Auditors, *Les dispositifs de soutien à la création d'entreprises,* December 2012 or Ernst & Young (2013), The efficiency of public aids to enterprises — Priorities for French competitiveness. In addition, France does not have mechanisms for the control and monitoring of state aid (unlike Member States that have introduced mechanisms such as transparency obligations or have set up bodies to verify the eligibility of aid granted within the framework of aid schemes).

Labour market rigidities

The segmentation of the French labour market continues to be a source of concern. The likelihood of moving from a temporary to a permanent job was only 10.6 % in 2010, against 25.9 % on average in the EU. As a result, those without permanent jobs tend to bear the brunt of the adjustment process. Employees on a temporary contract — who made up 15.1 % of the workforce in 2012 — and interim workers have been particularly affected. In particular, while the employment ratio stalled in 2012, the number of temporary agency workers (in full-time equivalent) contracted by 11.1 %.[26]

In order to combat labour market segmentation and to simplify the dismissals procedure while securing workers' transitions on the labour market, the French authorities have adopted a law on securing career paths. The law, which is based on the resulting inter-professional agreement (*'Accord national interprofessionnel'*), offers increased rights for workers, addresses the legal uncertainty of dismissals and increases flexibility for employers (see Box 3). In that respect, it represents an important step toward a more fluid labour market. On the other hand, the actual implementation of some measures relies on subsequent negotiations at branch and company levels. The degree of acceptance of these measures by social partners at the local level may be uneven, hence posing a risk to the effectiveness of some aspects of the reform. In any case, despite the aim of making the open-ended contract the norm, not least by increasing the cost of short fixed-term contracts, the draft law does not specifically address the segmentation issue. In particular, the case of interim workers has been let to further negotiations. Besides this ongoing reform of the labour market, the discretionary hike in the minimum wage decided in July 2012, while limited in magnitude, goes against the 2012 CSRs and the opinion of the expert group on the minimum wage. Although the coexistence of multiple schemes entails unnecessary complexity, work-related incentives to make work pay — such as the active solidarity income and the earned-income tax credit ('*Prime pour l'emploi*') which benefit low-income employees — have proven to be more efficient than increases in the minimum wage when it comes to fighting in-work poverty as they are more targeted towards individuals' situations.

[26] Dares Indicateurs, March 2013, No 019.

Box 3. The law 'on securing employment' ('*sécurisation de l'emploi*')

On 11 January, the social partners reached an agreement on a series of measures with a view to reforming the labour market. The agreement was then translated into a draft law which globally allows the implementation of the measures, some of which will be actually enforced through subsequent negotiations between social partners.

The reform: (i) allows portability of unemployment benefits across different occupations; (ii) introduces disincentives for temporary contracts of short duration and cuts in social security contributions for young adults;[27] (iii) introduces measures to promote adult lifelong training; (iv) sets a minimum number of hours for part-time contracts; (v) improves exit flexibility by significantly reforming the collective dismissal procedure; (vi) broadens the scope of firm-level collective negotiations allowing hours worked and wages to derogate from those agreed in sectoral agreements; and (vii) seeks to further develop conciliation to increase the likelihood of out-of-court settlements, thereby reducing the current uncertainties in the event of dismissals.

The reform addresses key weaknesses of the French labour market institutions, although there are considerable implementation risks. Measures such as the reduction in the time allowed to contest a dismissal and the promotion of mobility increase the flexibility for employers. On the other hand, the effectiveness of some of the main measures will very much depend on the willingness of social partners to continue the process of modernisation of the labour market. In particular, the effectiveness of the possibility to initiate an economic dismissal based on a firm-level agreement and of the '*accords de maintien de l'emploi*', which further formalise negotiations between employers and trade unions in the event of a drop in activity, will critically depend on the continued quality of the social dialogue at branch and firm levels.

Beyond implementation risks, a number of measures introduced could have negative effects which require monitoring. First, while the increase in social security contributions for fixed-term contracts of short duration may help in reducing labour market duality, they could also shift job creation in favour of interim employment, for which the social security contributions remain unchanged unless a specific branch agreement dictates otherwise. Also, the increase in the minimum hours of part time may potentially reduce the use of overtime (and its cost); but this effect is partly offset by an increase in the compensation for the first 10% of overtime. Finally, there is also a risk that the introduction of clearance by the administration ahead of any collective dismissals results in additional red tape for employers with a limited impact on legal certainty.

Support for the employment of disadvantaged people

Although a number of measures targeted toward young jobseekers were taken in 2012, youth unemployment increased rapidly throughout the year, in particular for people with the lowest level of education. Youth unemployment reached 24.3% in 2012, compared with 22.8% a year earlier. A gap exists between the comparatively large proportion of young people pursuing their studies and those with the lowest level of education, whom

[27] For young persons recruited under open-ended contracts, the employer will benefit from a three-month exemption from unemployment insurance contributions (up to four months for companies below 50 employees).

unemployment has hit primarily. The government launched an initiative to offer 150 000 subsidised jobs to young people (the '*emplois d'avenir*'), mostly in the public sector and with a focus on the most deprived areas and the least qualified. However, the minimum duration of these contracts[28] is considerably shorter than the otherwise similar '*emplois jeunes*' implemented in 1997. This could reduce the effectiveness of the '*emplois d'avenir*' in building the skills of young people. In addition, a scheme offering subsidies for companies with less than 300 employees hiring a young person on an open-ended contract while keeping a senior worker in employment has been launched (the '*contrats de génération'*). Larger companies will be required to sign agreements 'pertaining to the employment of seniors' but will not qualify for the subsidies. Some 500 000 'generation contracts' are expected by the government within the next five years. Yet these contracts have been associated with a potential deadweight effect and do not appear to focus sufficiently on the priority groups. France also intends to establish a youth guarantee scheme which will be tested from September 2013 on. It is unclear at this stage whether this scheme is aligned with the standards set in the related Council Recommendation.[29]

The employment rate for workers aged 55-64 (44.5 % in 2012) remains low, especially in the 60-64 sub-group, despite longer life expectancy at age 65 than in the EU, and unemployment is rising in this age group. Rapid progress has been made since 2000 primarily as a result of demographic factors and also due to the gradual phasing-out of publicly funded measures facilitating early retirement. Nonetheless, the unemployment rate of senior workers is also increasing.[30] The latter trend is all the more worrisome as people over 50 exiting the public employment service (PES) in 2012 — be it because they returned to work or for any other reason — had been registered as jobseekers almost twice as long as the others.

Difficulties faced by disadvantaged people are in particular exemplified by the difficulties faced by people with migrant backgrounds. The employment rate for non-EU nationals stands at only 47.9 % in 2012. This poor performance for non-EU nationals is partly linked to their younger age (on average) and to the lower participation of women in the labour market. The unemployment rate of non-EU nationals' descendants is also three times as high as that of people with no migrant background,[31] a discrepancy that is only partly explained by individual factors such as education level, place of residence or work experience. The French authorities have yet to launch a comprehensive policy response to address this specific issue.

Unemployment support

Under pressure from limited resources in a context of increasing unemployment, the French authorities are starting to refocus active labour market policies towards the most in need of support. Accordingly, the new tripartite agreement with the PES provides for differentiated follow-up of jobseekers, depending on how remote they are from the labour

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[28] One year, renewable up to three years.

[29] Council Recommendation of 22 April 2013 on establishing a Youth Guarantee (2013/C 120/01) to ensure that all young people under the age of 25 years receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship within four months of becoming unemployed or leaving formal education.

[30] The unemployment rate for people aged 55 to 64 increased from 6.6 % in the last quarter of 2012 to 7.5 % one year later.

[31] Insee, *Immigrés et descendants d'immigrés en France, édition 2012.*

market. Despite the PES's ongoing recruitment and/or redeployment of 6 000 staff, taking into account the staff reductions of 2011, the number of job counsellors should increase by 4 200 people. This increase is insufficient to face the rising number of people unemployed and, as a consequence, the average size of a job counsellor's caseload has further increased. The difficulties in providing systematic follow-up for all registered jobseekers have led to a reorientation of the PES strategy towards people furthest away from employment. Though pragmatic, this approach and the measures undertaken so far appear rather limited in view of the current situation and the expected further increase in unemployment.

The unemployment benefit system is under significant stress due to the increasing number of jobseekers. As part of the ANI, social partners have agreed on a measure to better ensure that the unemployment benefit system does not create disincentives to return to work. More specifically, the possibility to combine newly acquired unemployment rights with formerly acquired residual rights has been announced. This measure, which has a potentially significant financial impact on *Unedic*, the institution managing the unemployment benefits, should contribute to reducing unemployment. It complements the existing possibility to combine reduced activity with unemployment benefits, which has brought positive effects for its beneficiaries, helping them keep a link with the labour market and gain professional experience. On the other hand, the cumulated deficit of the unemployment insurance regime has been rising and is expected to represent close to 1 % of GDP in 2013[32] while expenditures, which increased by 5.3 % in 2012, are expected to rise by a further 6.1 % in 2013 according to the stability programme. This deteriorated financial situation calls for a reform of the unemployment benefit system. Such a reform should also be the occasion to better target unemployment benefit. In addition, a number of parameters need to be adjusted to ensure that incentives to return to work are adequate. In particular, eligibility conditions for unemployment benefit appear relatively favourable in France compared to other countries in the EU (e.g. longer reference period and short minimum period of contribution). In addition, the replacement rate remains constant over the benefit period and varies less across the wage scale than in a number of European countries.

Education

In order to limit youth unemployment for the least qualified, efforts have been made to improve the transition from school to work, with limited results so far. The number and share of young, low-qualified individuals entering apprenticeship have decreased. A reform of apprenticeship and lifelong learning has been announced for the end of 2013 which would aim to improve the vocational training system and encourage training for jobseekers. The recent 'Youth priority' action plan, which is still to be implemented, includes concrete medium-term measures related to education, early school leaving and employment. In addition, a reform of compulsory education, putting the emphasis on pre-primary and primary education, is currently being discussed which seeks, among other objectives, to increase employability and lower the drop-out rate.

With only 5.7 % of adults engaging in lifelong learning in 2012, France lags clearly behind the EU average (9 %) despite ongoing reforms. The French lifelong learning system also fails to adequately target those most in need of training as unemployed proportionally

[32] Cour des comptes (2013), "Le mrché du travail: face à un chômage élevé, mieux cibler les politiques", rapport publique thématique, La documentation Française

undergo less training than employed individuals[33] while the participation of low-skilled adults is particularly low. The multiplicity of institutional arrangements governing the distribution of funds contributes to the shortcomings of the system. Besides the reform of vocational training planned for the end of 2013, the government has announced that, as part of the upcoming decentralisation, the State's vocational training competences would be further transferred to the Regional Councils.

Social policy

The mounting level of unemployment, together with the relative slowdown in wage growth since 2009, has weighed on social conditions. Still, France performs better than the average for the three Europe 2020 poverty and exclusion indicators. But the crisis and rising unemployment have led to the deterioration of several indicators, such as the monetary poverty rate (14 %, the highest level since 2000), in-work poverty (7.6 % in 2011 compared with 6.1 % in 2006) or the poverty rate of the unemployed (36.7 %, +3.6 pps since 2010), whereas income inequality is at its highest level in 10 years. In this context, some specific groups (in particular non-EU nationals and young people) remain particularly disadvantaged. Albeit below the EU average, child poverty in France has been on the rise since 2006[34] and is particularly high in deprived urban areas (49 %).

The active solidarity income (‘*Revenu de solidarité active*’ — RSA) implemented from 2009 onwards proved effective in reducing the intensity of poverty, although its impact on the poverty rate itself has been more modest. In particular, 68 % of workers eligible for the RSA do not benefit from the scheme, due notably to insufficient awareness of the scheme. A multi-year plan to tackle poverty was released in January 2013 to address the low take-up of support schemes such as the RSA, the vulnerability of young people not in employment, education or training, child poverty, health coverage and improving pathways to work, training and housing. Specific measures and their financing are not yet available and many will not be known before the end of 2013. On the other hand, the French authorities mention in the NRP that they have abandoned the national target for poverty reduction, as they consider the related indicator questionable. The absence of a quantified target is particularly problematic in a period when poverty is actually increasing.

3.4. Structural measures promoting growth and competitiveness

In order to foster growth in the medium term, France needs to overcome the growing external imbalance that has built up over the last decade. As noted in the 2013 in-depth review, the large losses in export market shares, which have led to a mounting current account deficit, have their origin in both cost and non-cost developments. On the one hand, production costs must be contained in order to allow firms to remain competitive. In addition, further efforts are needed to develop non-price competitiveness.

Cost competitiveness

Wage development in France has been very dynamic, leading to a substantial increase in the unit labour cost. A high cost of labour has detrimental effects both on employment and on the competitiveness of companies. While the ‘*crédit d’impôt pour la compétitivité et*

[33] The training situation of employed people was stable in 2011, whereas the situation for the unemployed deteriorated (-3.7 % in 2011). Unemployed people with the lowest level of education had the least access to training.
[34] The percentage of children at risk of poverty increased from 13.2 % in 2006 to 14.0 % in 2011.

l'emploi' is a positive measure which will reduce the cost of labour for employers, the impact on competitiveness will only be felt in the medium-term (see assessment above). Moreover, given the focus put on low salaries, the tax credit will not benefit primarily manufacturing companies they tend to be characterised by a lower labour intensity and higher salaries compared to other sectors. Nevertheless, the expected reduction in the cost of intermediate consumptions, notably of services, for exporting firms including in the manufacturing sector will also contribute to their competitiveness. Besides, the discretionary increase in the minimum wage introduced in July 2012, though moderate (+0.6 % in real terms), contributed to increasing the cost of labour. The French minimum wage stands out by its relatively high level (two thirds of the hourly median wage) and its rapid progression (by 16 % in real terms between 2002 and 2012). Despite strong support for low-skilled jobs through exemptions from social contributions, the development of the minimum wage should be carefully monitored in order not to hamper the employment prospects of the low-skilled in the present downturn.

Competition in services

The cost of services is a large contributor to the cost of production in the manufacturing sector. In order to support growth and competitiveness, it is important that efforts are made to foster competitiveness in the services sector. The poor performance of this market in France was in particular identified in the Gallois report on competitiveness as one of the structural causes holding back the export performance of France. Notwithstanding recent commitments to address the issue, only limited progress was seen in the course of 2012 and early 2013. As mentioned in the NRP, prohibitions on commercial communications for registered accountants were removed, a measure taken in particular to comply with related decision of the European Court of Justice. Other measures were taken to lift restrictions that are strictly prohibited under the EU Services Directive (the possibility for EU accountants to participate in the share capital reserved for registered accountants or the removal of the full prohibition of active marketing (*démarchage*) for lawyers). Beyond these measures, only few reforms were initiated to remove unjustified restrictions on the access to, and exercise of, regulated professions.[35]

Many regulated sectors and professions face unjustified restrictions limiting their growth potential. A number of professional services also face restrictions as regards the legal form and shareholding rules of the company through which they want to provide services. For example, lawyers or veterinarians are compelled to own no less than 75% of their share capital. In addition to these restrictions, other significant barriers (such as heavy restrictions on commercial communications, quotas or territorial restrictions) still remain in a number of sectors covered by or excluded from the scope of the EU Services Directive (taxis, certain health professions, notaries and other legal professions). The retail sector is still subject to a number of regulations which limit competition. In particular, the authorisation procedure for the establishment of retail outlets continues to be cumbersome, to the detriment of consumers. The French competition authority has also pointed out that the existing regulation on the ban to sell below costs had adverse impacts, in particular on the transparency of the relationships between suppliers and distributors[36].

[35] The case of veterinarians, for which a draft law establishing in particular the freedom of choice of legal form as well as other elements relating to compliance with EU law will be discussed in 2013, is a notable exception.

[36] See the annual report 2010 of the French competition authority (Autorité de la Concurrence) for a review of the barriers to competition in the retail sector.

Network industries

Regarding the network industries, progress achieved since the adoption of the 2012 CSRs has been limited. The French electricity market remains one of the most concentrated in the EU, as regards both wholesale and retail segments. On the wholesale electricity market, the law on the new organisation of the electricity market (‘*Loi sur la nouvelle organisation du marché de l’électricité*’) required the incumbent operator to provide access to the electricity produced by nuclear plants. However, the impact on the level of competition is unclear at this stage. The tenders for hydro-concessions are still to be launched, limiting the possibility for new entrants to compete on the electricity market. Regarding investments, new interconnections with Spain on the one hand and Italy on the other are ongoing.[37] However, more interconnection capacity with neighbouring countries would further enhance competition and improve management of peak load. The electricity grid needs to be developed to integrate increasing energy sources from renewables. Regulated prices continue to act as a barrier for new entrants[38] and to create a competitive distortion on the market.

As regards transport, significant obstacles remain to develop an efficient system. The rail freight market in France has been on decline for several years, although volumes picked up in 2011. The market share of new entrants rose to 29 % in 2011 but discriminatory or anti-competitive practices can still persist, as illustrated by the EUR 61 million fine imposed on the SNCF by the French competition authority. The limited cross-border connection capacity, particularly with Spain, may also hamper the development of international rail freight. Rail passenger transport is not open to competition, except for international services, where there are few new entrants. The conclusions of two reports on the development of the railway system, commissioned by the authorities, were released on 22 April. These reports recommend a closer relationship between the infrastructure manager (RFF) and the railway undertaking (SNCF). While such a structure is considered to limit conflicts of interest, there are risks that it would limit the independence of the infrastructure manager, hence representing a potential obstacle to fair and effective access for alternative operators. Finally, it should also be noted that French ports, which perform unevenly, remain exploited below their potential, hence limiting their contribution to growth.

Research, development and innovation

Progress in R&D intensity in France is hampered by the modest weight of high-tech and medium-high-tech manufacturing sectors. R&D expenditure remained stable in 2011 compared with 2010, representing 2.25 % of GDP, still far from the national target of 3 %. This gap is mainly due to the insufficient intensity of business R&D (1.43 % of GDP) despite some progress since 2007. While several high- and medium-high-tech manufacturing sectors show a high and growing R&D intensity, the modest and declining share of these sectors compared with other R&D-intensive countries explains the average performance in France. Structural change towards these sectors can be driven in particular by SMEs and mid-tier enterprises (ETIs), whose growth in these sectors should be enabled by framework conditions favourable to innovation and entrepreneurship (e.g. seed financing, SME/ETI-large firm

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[37] RTE, the French transmission system operator, is reinforcing its interconnections with neighbouring countries, which should contribute to fostering competition. In particular, a new high voltage link with Spain (Baixas-Santa Llogaia) will double the electricity exchange capacity to 2 600 MW by 2014. In addition, the French and the Italian operators are optimising the existing interconnection and agreed to develop a new one of 1 000 MW between Savoie and Piedmont by 2017.

[38] See Commission communication COM(2012) 663 on the internal energy market adopted on 15 November 2012

relationships, tax treatment of risks taken by innovators and entrepreneurs, public procurement of innovation, innovation and entrepreneurship culture and education).

While far-reaching reforms of the research and innovation system have been implemented since the mid-2000s, further measures have been announced to increase their economic impact. In 2012, the assessment of the second phase of the '*Pôles de compétitivité*' showed that they had become a focal point concentrating resources. However, the *Pôles* are still insufficiently oriented towards marketable innovations, to the detriment of their economic impact. The focus on creating value decided for the third phase of the *Pôles* (2013-18) is therefore relevant. In November 2012, the government announced additional measures to enhance technology transfer and the exploitation of research results. While these new measures address some of the important remaining bottlenecks impairing technology transfer in France (e.g. career incentives, technology transfer-related training and courses, management of IPR in the public sector), it is important that they rely on — and be consistent with — the structures and financing already put in place to foster technology transfer. Common laboratories between SMEs and public research are powerful means to boost and organically structure their collaboration and lead to sustained high economic benefits.

France still has the potential to do better in terms of high-end research and economic impact of its scientific production. The assessment and public funding allocation systems have evolved over the last few years so as to steer public research activities towards the highest standards. However, while it confirms the strong engagement of France in the European Research Area, the recently presented draft law on tertiary education and research puts these developments on hold. In addition, the draft law currently proposed does not provide for further development of institutionalised channels of cooperation between universities and enterprises, although these would reinforce the economic and societal role of universities. Finally, PhD studies and research experience remain insufficiently attractive and recognised career paths in France. Attracting more of the best talents in doctoral studies and increasing the number of doctorate holders in enterprises would contribute to improve the link between public research and enterprises.

Energy and resource efficiency

Further increasing energy and resource efficiency could contribute to reducing production costs. A key measure to achieve demand-side reductions is the Energy Efficiency Certificates scheme, established in 2006 and recently renewed until 2020 (with the objectives for 2014-16 currently being discussed). The scheme encourages companies to commit to improving their energy performance. On the other hand, a number of environmentally harmful subsidies, in particular partial reimbursement of taxes on oil products for specific users, remain while France has considerable margin for manoeuvre to further develop environmentally-friendly charging and taxation.

The environmental conference, which took place in September 2012, resulted in a work programme to promote sustainable development and resource efficiency. In the field of energy, measures are considered in particular to lower dependency on fossil fuels and to further develop renewables and energy savings. This process should result in a draft energy bill by the autumn of 2013 which will map out the expected energy pathway until 2050. Water management in France continues to be marked by a loose implementation of the polluter-pays principles. Further efforts could also be made to increase the share of waste recycled and to develop fiscal incentives to reduce waste. The landfill tax is currently at a low level compared with other Member States, hence limiting the disincentive toward this practice. Although a number of reforms in these fields are considered as part of the roadmap defined during the environmental conference, the actual measures remain to be fully defined.

3.5. Modernisation of public administration

Business environment

As a whole, the overall stability of the tax framework and of the regulatory environment for businesses should remain a high priority, and political commitments need to be followed up by effective implementation. Procedures for starting up a business are less complex in France than in the EU on average and the cost of starting a company is lower, as is the cost of enforcing contracts. E-government usage by enterprises improved and reached 94% in 2012, compared with an EU average of 87%. However, progress is still necessary in relation to the *Guichets Entreprises*, which remain unsatisfactory in terms of their user-friendliness and the availability of online procedures.

The Pact for Competitiveness includes commitments to stabilise five major tax schemes which stimulate investment by enterprises, to initiate a regular simplification of the regulatory framework over time. Other measures announced include a target of eliminating ten declarative obligations by 2016. If fully implemented, such measures are likely to contribute to further improving the business environment. However, more could be done to ensure that impact assessments and the underlying methodology are publicly available, in particular as regards new rules applicable to enterprises. Besides, the multiplication of tax exemptions and derogations has led to such complexity that the overall tax system is no longer transparent for most businesses, in particular SMEs and foreign investors. Too frequent changes in the regulatory framework reduce the predictability of the tax system, hence representing a risk for businesses.

SMEs in France face a number of barriers limiting their development. The relationship between SMEs and large enterprises in France are often marked by an imbalance of power which results in difficulties for subcontractors. These are related in particular to excessive delays of payment. An official subcontracting mediator position has been created by the Ministry of Industry in 2010 to improve the relationship between the various stakeholders in the value chain. Furthermore, the competitiveness pact announced by the French authorities also includes the objective to further support co-operation between firms in the same sector. A number of threshold which also constrain the development of SMEs exist, notably related to the organisation of social dialogue[39]: While some measures have already been taken to reduce the negative effect of these thresholds (in particular for companies reaching 10 employees), these may continue to constrain the growth of SMEs.

A 'simplification' shock has recently been announced by the authorities and a first set of measures already decided. These include a global moratorium on standards — no proposal for a new regulatory text would be accepted unless accompanied by an equivalent simplification — and reviewing legal and regulatory constraints in the construction sector as well as in the area of public-private partnerships. However, the overall impact of such measures remains rather uncertain.

EU funding

[39] "Une stratégie PME pour la France", J.-P. Betbèze, C. Saint Etienne, (complements by C. Picart, F. Rogier, W. Roos), CAE report 2006

Regarding EU structural funds, the management responsibilities will be partly transferred from central to regional governments. Preparation of operational programmes without appropriate coordination may lead to duplications, thus increasing the administrative burden and costs, as well as the risks of double funding. Therefore, it is crucial that the new management and control systems ensure the rapid and secure absorption of the funds.

4. OVERVIEW TABLE

2012 recommendations	Summary assessment
Country-specific recommendations (CSRs)	
CSR 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 Recommendation 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.	Some progress Although the authorities took additional consolidation measures shortly after they took office to secure the 4.5 % target for 2012, the deficit eventually came out at 4.8 % of GDP. However, part of the deviation was due to exceptional factors, such as the cost of bailing out Dexia. As far as 2013 is concerned, the budget was based on a deficit target of 3 % of GDP. However, the deficit will likely stay well above the reference threshold and the stability programme now aims at 3.7 % of GDP. The Commission spring forecast projected the deficit to reach 3.9 %. Regarding the pension system, the latest projections by the Pensions Advisory Council point to large deficits by 2020 assuming no further policy action, contrary to the primary objective of the 2010 pension reform (which included an increase in retirement ages). The decision to reinstate retirement at 60 for some categories of workers goes against the recommendation. Furthermore, this measure is financed by higher social security contributions, hence further increasing the already high tax burden on labour.
CSR 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.	Some progress A national agreement was reached by social partners on 11 January. This agreement has two main strands. It offers new rights to employees and increases the flexibility of the labour contract for employers. The implementing draft law was presented to the Parliament in April and definitely adopted by mid-May. The agreement reached is a step in the right direction, although it is still too early to fully assess its impact as it needs further implementation by the social partners. At this stage, the measures included in the agreement are in line with the CSR as they address partly labour market segmentation and reduce the uncertainties of dismissals. On the other hand, the discretionary hike in the minimum wage decided in July 2012, although limited, goes clearly against the recommendation. Despite the reforms undertaken, the French participation rate of adults in lifelong learning remains below the EU average. The planned transfer of additional lifelong learning competences to the Regions provides an opportunity to address the weaknesses of the current system. In addition, the national agreement of 11 January (see above) included a number of lifelong learning-related proposals which are still to be implemented. The government has announced further consultation planned for this summer and a draft bill on

	apprenticeship and lifelong learning before the end of 2013.
CSR 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.	Some progress 500 000 generation contracts are expected to be created within the next five years to promote the creation of jobs for young workers along with the retention of seniors in employment. Specifically targeted toward deprived areas, the '*emplois d'avenir*' scheme plans to offer 150 000 jobs in the public sector to young people by the end of 2014. The number and proportion of young, low-qualified individuals entering apprenticeship have decreased. A reform of apprenticeship and lifelong learning was announced for the end of 2013 which would aim to improve the vocational training system and encourage training for jobseekers. Regarding the public employment service, the announced plan to increase staffing is positive but insufficient to address the increasing number of unemployed people and therefore the public employment service will still be under strain.
CSR 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.	Substantial progress The tax credit introduced as part of the Pact on competitiveness is financed by an increase in VAT rates, by environmental taxation adjustments (still to be defined) and by additional savings (idem). It is therefore consistent with the recommendation to shift taxation from labour to less distortive forms of taxation, including consumption and environmental taxes, although part of the measures are still to be specified in sufficient detail. Concerns may be raised on the effect of the tax credit on the incentives to hire or maintain in employment low- rather than high-skilled people. In addition, the government has taken further measures to reduce tax expenditures for both personal income tax and corporate income tax. In particular, specific attention has been paid to the need to reduce the incentive to increase debt, as indicated in the recommendation, but at the same time, incentives to equity investment seem to have been reduced. Regarding the reduced VAT rates, the intermediate rate will be increased by 3 pps. However, no major change has been announced regarding their scope despite the low efficiency of some of them pointed out in a number of reports.
CSR 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.	Limited progress No significant progress has been recorded on this recommendation, with the exception of a major electricity interconnection project under construction between France and Spain. However, there is still room for progress towards more open markets (hydro-concessions not tendered yet; regulated prices for non-household customers to be removed by the deadline agreed with the French authorities), more interconnections, and development of the electricity grid to integrate

	increasing energy from renewable sources. In the context of the planned reform of the rail system, there is also room for progress to ensure the necessary independence of the infrastructure manager to guarantee fair and non-discriminatory access to the network to all operators in both freight and passenger transport. On regulated sectors ad professions, despite a few noticeable exceptions (including veterinaries, lawyers and accountants), no progress has been recorded in the removal of restrictions, in particular in the retail sector.
Europe 2020 (national targets and progress)	
Employment rate target: 75%	Employment rate (%) in 2010: 69.2, 2011: 69.2 and 2012: 69.3 Despite rather good resilience to the crisis, the employment rate in France is stagnating. Progress on this objective will be significantly hampered in the short term by the deterioration of the labour market. Reforms to better secure jobs could contribute to increase the employment rate in the medium term.
R&D target: 3%	2.25% in 2011. The distance to the target is primarily due to lower R&D intensity in the business sector. While efforts have been made to support R&D expenditures, not least through a tax credit for research, the business R&D intensity gap is to a large extent due to the economic structure of the country, insufficiently oriented towards R&D-intensive economic sectors. Shifting the orientation of the private sector toward R&D-intensive sectors will be a slow process. The likelihood to see France reaching its 3% target in 2020 is therefore not high, despite major efforts towards this goal.
Greenhouse gas (GHG) emissions target: *-14% (compared with 2005 emissions, ETS emissions not covered by this national target)*	*Change in non-ETS greenhouse gas emissions between 2005 and 2011: -10%* *According to the latest national projections submitted to the Commission and when existing measures are taken into account, the target is expected to be achieved: -17% in 2020 compared to 2005 (representing a projected over-achievement of 3 percentage points compared to the target).*
Renewable energy target: 23% Share of renewable energy in all modes of transport: 10%	The share of renewable energy in gross final energy consumption was 11.5% in 2011 and 6.10% in transport. (Source: Eurostat. April 2013. For 2011, only formally reported biofuels compliant with Art. 17 and 18 of Directive 2009/28/EC are included). France's current policy measures do not seem sufficient to reach its national RES targets. Also, France has not yet put in place transparent and clear

	administrative procedures to guarantee access of renewable energy to the grid.
Energy efficiency — reduction of energy consumption in Mtoe: Indicative national energy efficiency target for 2020: 17% reduction of final energy consumption in 2020 compared with a baseline. This implies reaching a 2020 level of 236.3 Mtoe primary consumption and 131.4 Mtoe final energy consumption.	In 2011 primary energy consumption stood at 266.4 Mtoe while final consumption represented 155.6 Mtoe. France has set an indicative national energy efficiency target in accordance with Articles 3 and 24 of the Energy Efficiency Directive (2012/27/EU). It has also expressed it, as required, in terms of an absolute level of primary and final energy consumption in 2020 and has provided information on the basis on which this data has been calculated.
Early school leaving target: 9.5 %	Only modest progress has been made from 12.4 % in 2006 to the 2012 early school leaving rate of 11.6 %, which suggests that stronger action is needed to achieve the national target. The French ESL rate remains below the EU average of 13.5 % in 2011 (provisional figures for 2012: 12.8%). A number of measures have been taken to improve skills and better monitor early school leaving, most of them focusing on secondary level and compensatory programmes. The planned transition towards a comprehensive early school leaving strategy based on a cross-cutting approach across different policies is positive.
Tertiary education target: 50 %.	Progress has been made from 39.7 % in 2006 to 43.6 % in 2012, which surpasses the EU higher education attainment average (35.8 %). The French authorities mention in the NRP a national objective on tertiary attainment among 17-33 year-olds by 2012. This indicator, which differs from the Europe 2020 benchmark seeks to put more emphasis on the recent increase in the number of HE graduates The investment in higher education has significantly increased in France and major reforms have been made since 2007 (greater autonomy granted to the universities, development of guidance and a special plan for success in the 'Licence', which should contribute to lowering the high drop-out rates). A new reform of higher education and research is expected to be adopted by the end of June 2013. The bill would aim to improve the employability of all students and the efficiency of academic bodies.
Risk of poverty or social exclusion target: reduction of the anchored at-risk-of-poverty rate by one third for the period 2007-12 or by 1 600 000 people (data available in 2015). NB: The poverty target, which was criticised as incantatory by the Prime Minister at the social conference in July 2012, was abandoned according to the 2013 NRP and not replaced by a new target.	People at risk of poverty or social exclusion: 11 693 000 (2010), 11 840 000 (2011). The main measure to limit the risk of poverty and social exclusion was the introduction of the active solidarity income (Revenu de solidarité active — RSA) in 2009. Due in particular to lower-than-expected take-up rates among the working poor, the results are below expectations. With the crisis and

	rise in unemployment, poverty has increased. No progress has been made towards achieving this target. A multi-year plan was adopted in January 2013, including a reform of the RSA, the creation of a Youth Guarantee, the extension of the complementary health coverage, additional appropriations in 2013 to improve the capacity to accommodate homeless people, measures targeting over-indebtedness, reinforced activation measures, reinforced training and integration through economic activity, and childcare. Most of these measures still need to be further specified.

5. ANNEX

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2009	2010	2011	2012	2013	2014
Core indicators								
GDP growth rate	2.4	2.0	0.7	1.7	1.7	0.0	-0.1	1.1
Output gap [1]	-0.5	2.1	1.2	-2.0	-1.4	-2.4	-3.4	-3.3
HICP (annual % change)	1.3	2.0	1.7	1.7	2.3	2.2	1.2	1.7
Domestic demand (annual % change) [2]	2.2	2.2	1.2	1.6	1.7	-0.8	-0.2	1.2
Unemployment rate (% of labour force) [3]	10.7	8.7	8.8	9.7	9.6	10.2	10.6	10.9
Gross fixed capital formation (% of GDP)	17.4	18.6	20.2	19.4	20.1	20.2	19.9	20.1
Gross national saving (% of GDP)	19.6	20.0	19.4	17.3	18.1	17.9	17.7	17.9
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-3.4**	**-2.8**	**-3.8**	**-7.1**	**-5.3**	**-4.8**	**-3.9**	**-4.2**
Gross debt	**58.2**	**60.3**	**68.4**	**82.4**	**85.8**	**90.2**	**94.0**	**96.2**
Net financial assets	**-40.5**	**-43.1**	**-43.7**	**-57.3**	**-62.9**	**n.a**	**n.a**	**n.a**
Total revenue	50.2	49.7	50.0	49.5	50.6	51.7	53.3	52.9
Total expenditure	53.7	52.6	53.8	56.5	55.9	56.6	57.2	57.1
of which: Interest	3.3	2.9	2.6	2.4	2.6	2.5	2.5	2.5
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**1.0**	**-0.6**	**-1.0**	**0.5**	**-1.8**	**-1.2**	**-1.7**	**-1.4**
Net financial assets; non-financial corporations	**-75.3**	**-90.2**	**-107.3**	**-111.7**	**-105.9**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**9.1**	**10.5**	**11.2**	**17.6**	**17.4**	**n.a**	**n.a**	**n.a**
Gross capital formation	9.1	10.3	10.9	10.1	11.3	10.2	9.8	10.1
Gross operating surplus	16.6	16.8	16.7	16.7	15.9	15.6	15.3	15.3
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**4.3**	**4.2**	**3.6**	**4.6**	**4.5**	**4.3**	**4.2**	**4.2**
Net financial assets	**119.3**	**126.5**	**133.3**	**140.4**	**135.2**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	38.0	39.0	39.0	39.6	39.6	39.5	39.4	39.0
Net property income	6.8	6.5	6.6	6.4	6.4	6.8	6.8	6.8
Current transfers received	24.7	24.4	24.9	26.5	26.4	26.9	27.5	27.7
Gross saving	10.0	10.0	10.1	10.7	10.8	10.6	10.5	10.5
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**1.9**	**0.8**	**-1.3**	**-1.9**	**-2.6**	**-1.7**	**-1.4**	**-1.5**
Net financial assets	**-10.6**	**-1.8**	**9.2**	**15.8**	**21.5**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	2.1	1.0	-1.4	-2.2	-2.8	-2.1	-2.0	-2.3
Net primary income from the rest of the world	0.7	1.2	1.7	1.9	1.9	1.9	2.0	2.0
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	35.2	34.1	33.8	n.a	n.a	n.a
Non tradable sector	49.7	51.4	54.4	55.7	55.8	n.a	n.a	n.a
of which: Building and construction sector	4.5	4.7	5.5	5.5	5.5	n.a	n.a	n.a
Real effective exchange rate (index, 2000=100)	99.9	94.6	102.5	103.0	103.8	101.3	103.5	103.1
Terms of trade goods and services (index, 2000=100)	102.0	101.3	99.8	100.4	98.4	98.4	98.1	97.5
Market performance of exports (index, 2000=100)	112.5	109.0	95.0	91.9	93.1	95.7	96.1	96.4

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

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

Source:

Commission services' 2013 spring forecasts (COM); Stability programme (SP).

Table II. Comparison of macroeconomic developments and forecasts

	2012		2013		2014		2015	2016	2017
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	0.0	0.0	-0.1	0.1	1.1	1.2	2.0	2.0	2.0
Private consumption (% change)	-0.1	-0.1	-0.1	0.2	0.9	0.9	1.8	1.9	1.8
Gross fixed capital formation (% change)	0.0	0.0	-2.1	-0.8	1.7	1.2	1.8	2.5	2.9
Exports of goods and services (% change)	2.5	2.5	1.2	2.0	4.8	4.5	6.7	6.7	6.7
Imports of goods and services (% change)	-0.3	-0.3	0.6	0.8	4.8	3.5	5.3	5.3	5.4
Contributions to real GDP growth:									
- Final domestic demand	0.3	0.3	-0.2	0.2	1.2	0.9	1.5	1.6	1.7
- Change in inventories	-1.1	-1.0	-0.1	-0.4	0.0	0.1	0.1	0.0	0.0
- Net exports	0.8	0.7	0.2	0.3	-0.1	0.2	0.3	0.3	0.3
Output gap[1]	-2.4	-2.5	-3.4	-3.3	-3.3	-3.2	-2.3	-1.5	-0.7
Employment (% change)	-0.2	0.0	0.0	-0.2	0.4	0.6	0.9	0.9	0.9
Unemployment rate (%)	10.2	n.a.	10.6	n.a.	10.9	n.a.	n.a.	n.a.	n.a.
Labour productivity (% change)	0.1	0.0	-0.1	0.4	0.7	0.6	1.1	1.1	1.1
HICP inflation (%)	2.2	2.0	1.2	1.3	1.7	1.8	1.8	1.8	1.8
GDP deflator (% change)	1.6	1.6	1.4	1.5	1.7	1.8	1.7	1.7	1.7
Comp. of employees (per head, % change)	1.9	2.1	1.3	1.9	1.5	1.9	n.a.	n.a.	n.a.
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-1.7	-2.2	-1.4	-1.8	-1.5	-1.3	-1.0	-0.6	-0.2

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :

Commission services' 2013 spring forecasts (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2012	2013		2014		2015	2016	2017	Change: 2012-2017
	COM	COM	SP	COM[1]	SP	SP	SP	SP	SP
Revenue	**51.7**	**53.3**	**53.1**	**52.9**	**53.5**	**53.4**	**53.5**	**53.2**	**1.5**
of which:									
- Taxes on production and imports	15.4	15.5	15.6	16.0	16.3	16.3	16.3	16.2	0.8
- Current taxes on income, wealth, etc.	12.0	13.0	12.8	12.3	12.4	12.2	12.1	11.8	-0.2
- Social contributions	19.0	19.2	19.3	19.1	19.4	19.5	19.6	19.7	0.7
- Other (residual)	5.3	5.5	5.4	5.6	5.4	5.4	5.5	5.5	0.2
Expenditure	**56.6**	**57.2**	**56.8**	**57.1**	**56.4**	**55.4**	**54.6**	**53.9**	**-2.7**
of which:									
- Primary expenditure	54.0	54.7	54.4	54.7	53.9	52.8	51.9	51.1	-2.9
of which:									
Compensation of employees	13.2	13.2	13.2	13.2	13.1	12.8	12.6	12.4	-0.8
Intermediate consumption	5.6	5.6	5.6	5.5	5.4	5.3	5.1	5.0	-0.5
Social payments	26.0	26.6	26.4	26.8	26.3	25.9	25.7	25.4	-0.6
Subsidies	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	0.0
Gross fixed capital formation	3.1	3.2	3.2	3.1	3.1	2.8	2.7	2.7	-0.4
Other (residual)	4.6	4.6	4.6	4.5	4.5	4.3	4.2	4.1	-0.5
- Interest expenditure	2.5	2.5	2.4	2.5	2.5	2.6	2.7	2.8	0.3
General government balance (GGB)	**-4.8**	**-3.9**	**-3.7**	**-4.2**	**-2.9**	**-2.0**	**-1.2**	**-0.7**	**4.1**
Primary balance	**-2.3**	**-1.4**	**-1.3**	**-1.8**	**-0.4**	**0.7**	**1.6**	**2.1**	**4.4**
One-off and other temporary measures	0.0	0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0
GGB excl. one-offs	**-4.9**	**-4.1**	**-3.6**	**-4.1**	**-2.8**	**-1.9**	**-1.2**	**-0.7**	**4.2**
Output gap[2]	-2.4	-3.4	-3.3	-3.3	-3.2	-2.3	-1.5	-0.7	1.6
Cyclically-adjusted balance[2]	-3.5	-2.1	-1.9	-2.5	-1.2	-0.7	-0.4	-0.3	3.2
Structural balance (SB)[3]	**-3.6**	**-2.2**	**-1.8**	**-2.3**	**-1.1**	**-0.6**	**-0.4**	**-0.3**	**3.3**
Change in SB	*1.1*	*1.3*	*1.8*	*-0.1*	*0.7*	*0.4*	*0.3*	*0.1*	-
Two year average change in SB	*1.1*	*1.2*	*1.4*	*0.6*	*1.2*	*0.6*	*0.4*	*0.2*	-
Structural primary balance[3]	-1.0	0.3	0.6	0.2	1.4	2.0	2.3	2.5	3.5
Change in structural primary balance		*1.3*	*1.6*	*-0.1*	*0.8*	*0.5*	*0.4*	*0.2*	-
Expenditure benchmark									
Applicable reference rate[4]	0.34	0.34	0.34	0.20	0.20	0.20	0.20	n.a.	-
Deviation[5] (% GDP)	-0.6	-1.2	-1.4	0.9	-0.3	0.1	-0.1	n.a.	-
Two-year average deviation (% GDP)	-0.8	-0.9	-1.1	-0.1	-0.8	-0.1	0.0	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 Commission services on the basis of the programme scenario using the commonly agreed methodology.

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

[4] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t.The reference rates applicable to 2014 onwards have been updated in 2013.

[5] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A positive sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Stability programme (SP); Commission services' 2013 spring forecasts (COM); Commission services' calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2007-2011	2012	2013		2014		2015	2016	2017
			COM	SP	COM	SP	SP	SP	SP
Gross debt ratio[1]	**76.0**	**90.2**	**94.0**	**93.6**	**96.2**	**94.3**	**92.9**	**90.7**	**88.2**
Change in the ratio	4.4	4.4	3.9	3.4	2.2	0.7	-1.4	-2.2	-2.5
Contributions[2] *:*									
1. Primary balance	**2.6**	**2.3**	**1.4**	**1.3**	**1.8**	**0.4**	**-0.7**	**-1.6**	**-2.1**
2. "Snow-ball" effect	**1.1**	**1.2**	**1.3**	**0.9**	**-0.1**	**-0.2**	**-0.6**	**-0.5**	**-0.4**
Of which:									
Interest expenditure	2.6	2.5	2.5	2.4	2.5	2.5	2.7	2.8	2.8
Growth effect	-0.4	0.0	0.1	-0.1	-1.0	-1.1	-1.8	-1.8	-1.7
Inflation effect	-1.1	-1.4	-1.2	-1.4	-1.5	-1.6	-1.5	-1.5	-1.5
3. Stock-flow adjustment	**0.7**	**0.9**	**1.1**	**1.2**	**0.5**	**0.5**	**0.0**	**-0.1**	**0.0**
Of which:									
Cash/accruals diff.									
Acc. financial assets									
Privatisation									
Val. effect & residual									

	2012	2013		2014		2015	2016	2017
		COM/SP[3]	SP[4]	COM/SP[3]	SP[4]	SP	SP	SP
Gap to the debt benchmark[5,6]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
Structural adjustment[7]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	0.2	0.1
To be compared to:								
Required adjustment[8]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	-0.4	-0.7

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other 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 for Member Sates that were subject to an EDP procedure in November 2011 and for a period of 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 for the previous years are achieved.

Source :

Stability programme (SP); Commission services' spring 2013 forecasts (COM); Commission services' calculations.

Table V. Sustainability indicators

	FR		EU27	
	No-policy change scenario	**Programme (SCP) scenario**	**No-policy change scenario**	**Programme (SCP) scenario**
S2	1.9	-0.4	3.0	1.3
of which:				
Initial budgetary position (IBP)	0.9	-1.4	0.8	-0.9
Long-term cost of ageing (CoA)	0.9	1.0	2.2	2.2
of which:				
Pensions	0.6	0.7	1.0	1.1
Health care	1.0	0.9	0.9	0.8
Long-term care	-0.1	-0.1	0.6	0.6
Others	-0.5	-0.5	-0.4	-0.3
S1 (required adjustment)*	2.3	-0.4	2.2	0.5
of which:				
Initial budgetary position (IBP)	-0.1	-2.8	0.0	-1.8
Debt requirement (DR)	2.3	2.3	1.9	1.9
Long-term cost of ageing (CoA)	0.1	0.1	0.3	0.4
S0 (risk for fiscal stress)**	0.19		:	
Debt, % of GDP (2012)	90.4		87.0	
Age-related expenditure, % of GDP (2012)	31.2		25.8	

Note:
The 'No-policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the Commissions' spring 2013 forecast until 2014. The 'Programme (SCP)' 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.
** The critical threshold for the S0 indicator is 0.44.

Source :
Commission services; 2013 stability programme.

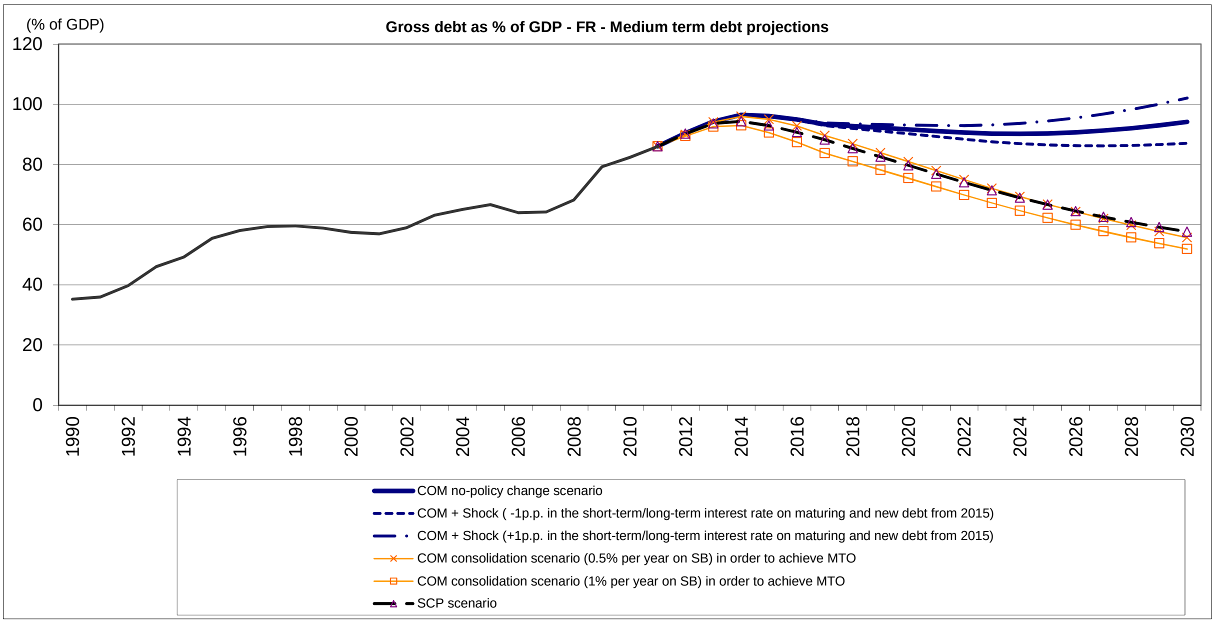

Table VI. Taxation indicators

	2002	2006	2008	2009	2010	2011
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	43.3	44.1	43.2	42.1	42.5	43.9
Breakdown by economic function (% of GDP)[1]						
Consumption	11.4	11.2	10.8	10.8	10.9	11.1
of which:						
- VAT	7.2	7.3	7.1	6.9	7.0	7.0
- excise duties on tobacco and alcohol	0.8	0.7	0.7	0.7	0.7	0.8
- energy	1.7	1.6	1.4	1.5	1.4	1.5
- other (residual)	1.7	1.6	1.6	1.7	1.7	1.9
Labour employed	20.9	21.0	20.8	21.2	20.8	21.2
Labour non-employed	1.4	1.4	1.5	1.5	1.6	1.7
Capital and business income	5.5	6.1	5.8	4.3	5.1	5.6
Stocks of capital/wealth	4.3	4.6	4.5	4.6	4.3	4.6
p.m. Environmental taxes[2]	2.1	1.9	1.8	1.8	1.8	1.8
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	50.2	51.3	49.8	46.4	47.1	47.8

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 (2013) 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 (2012), Tax reforms in EU Member States, European Economy 6/2012 and Taxation Papers 34/2012 for a more detailed explanation.

Source: Commission

Table VII. Financial market indicators

	2008	2009	2010	2011	2012
Total assets of the banking sector (% of GDP)	398.9	406.0	404.0	420.7	397.9
Share of assets of the five largest banks (% of total assets)	51.2	47.2	47.4	48.3	…
Foreign ownership of banking system (% of total assets)	12.0	10.8	…	…	…
Financial soundness indicators:					
- non-performing loans (% of total loans)[1),2)]	2.9	4.2	4.3	4.3	...
- capital adequacy ratio (%) [1), 2)]	10.5	12.4	12.7	12.3	...
- return on equity (%) [1)]	3.6	7.2	12.0	8.3	...
Bank loans to the private sector (year-on-year % change)	7.0	-0.6	5.0	2.4	2.0
Lending for house purchase (year-on-year % change)	7.4	3.7	8.0	6.1	2.8
Loan to deposit ratio	128.4	120.2	120.6	113.4	111.2
CB liquidity as % of liabilities	3.2	2.3	1.1	3.2	3.5
Banks' exposure to countries receiving official financial assistance (% of GDP)[3)]	14.6	15.9	11.2	9.2	8.0
Private debt (% of GDP)	115.7	120.5	125.2	126.6	128.6
Gross external debt (% of GDP)[4)]					
- Public	40.4	49.5	51.1	53.0	57.3
- Private	37.5	43.1	44.2	44.9	43.9
Long term interest rates spread versus Bund (basis points)*	0.2	0.4	0.4	0.7	1.0
Credit default swap spreads for sovereign securities (5-year)*	30.3	41.1	70.3	126.6	150.6

Notes:

1) Latest data (December 2011).

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

3) Covered countries are CY, EL, ES, LV, HU, IE, PT and RO.

4) Latest data 2012Q3.

* 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	2007	2008	2009	2010	2011	2012
Employment rate (% of population aged 20-64)	69.8	70.4	69.4	69.2	69.2	69.3
Employment growth (% change from previous year)	1.4	0.5	-1.3	-0.1	0.6	0.1
Employment rate of women (% of female population aged 20-64)	64.8	65.5	64.9	64.8	64.7	65.0
Employment rate of men (% of male population aged 20-64)	75.0	75.5	74.1	73.8	73.9	73.8
Employment rate of older workers (% of population aged 55-64)	38.2	38.2	39.0	39.8	41.5	44.5
Part-time employment (% of total employment, 15 years and more)	17.3	17.0	17.4	17.8	17.9	18.0
Part-time employment of women (% of women employment, 15 years and more)	30.4	29.5	30.0	30.1	30.1	30.2
Part-time employment of men (% of men employment, 15 years and more)	5.7	5.7	6.0	6.7	6.9	6.9
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	15.1	14.9	14.3	15.0	15.2	15.2
Transitions from temporary to permanent employment	1.3	1.6	1.3	1.2	:	:
Unemployment rate1 (% of labour force, age group 15-74)	8.4	7.8	9.5	9.7	9.6	10.3
Long-term unemployment rate2 (% of labour force)	3.4	2.9	3.4	3.9	4.0	4.1
Youth unemployment rate (% of youth labour force aged 15-24)	19.8	19.3	24.0	23.6	22.8	24.3
Youth NEET rate (% of population aged 15-24)	10.3	10.2	12.4	12.4	12.0	12.2
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	12.6	11.5	12.2	12.6	12.0	11.6
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	41.4	41.2	43.2	43.5	43.3	43.6
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	13.0	17.0	16.0	17.0	18.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	14.0	23.0	25.0	26.0	26.0	:
Labour productivity per person employed (annual % change)	0.9	-0.4	-1.6	1.9	1.2	0.1
Hours worked per person employed (annual % change)	0.8	0.5	-1.3	0.4	-0.1	0.0
Labour productivity per hour worked (annual % change; constant prices)	0.1	-1.0	-0.6	1.4	1.4	0.1
Compensation per employee (annual % change; constant prices)	0.0	0.2	1.3	1.5	1.5	0.3
Nominal unit labour cost growth (annual % change)	1.7	3.2	3.7	0.6	1.6	2.0
Real unit labour cost growth (annual % change)	-0.9	0.7	3.0	-0.4	0.3	0.2

Expenditure on social protection benefits (% of GDP)	**2006**	**2007**	**2008**	**2009**	**2010**
Sickness/Health care	8.70	8.59	8.65	9.21	9.24
Invalidity	1.87	1.84	1.84	1.94	1.96
Old age and survivors	12.96	13.05	13.37	14.28	14.39
Family/Children	2.63	2.58	2.58	2.72	2.66
Unemployment	2.06	1.92	1.86	2.15	2.20
Housing and Social exclusion n.e.c.	0.78	0.76	0.79	0.84	0.82
Total	29.60	29.32	29.68	31.89	32.04
of which: means tested benefits	3.38	3.28	3.29	3.60	0.00
Social inclusion indicators	**2007**	**2008**	**2009**	**2010**	**2011**
At-risk-of-poverty or social exclusion[1] (% of total population)	19.0	18.6	18.5	19.2	19.3
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	19.6	21.4	21.2	22.6	23.0
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	15.2	13.9	13.4	12.8	11.5
At-Risk-of-Poverty rate[2] (% of total population)	13.1	12.7	12.9	13.3	14.0
Severe Material Deprivation[3] (% of total population)	4.7	5.4	5.6	5.8	5.2
Share of people living in low work intensity households[4] (% of people aged 0-59)	9.5	8.8	8.3	9.8	9.3
In-work at-risk-of poverty rate (% of persons employed)	6.5	6.7	6.6	6.2	7.6
Impact of social transfers (excluding pensions) on reducing poverty	50.4	46.0	46.3	47.2	43.3
Poverty thresholds, expressed in national currency at constant prices[5]	9865	11215	11244	11470	11238
Gross disposable income (households)	1255597	1297664	1305151	1331457	1365905
Relative median poverty risk gap (60% of median equivalised income, age: total)	17.9	14.8	18.2	20.2	17.1

Notes:

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

[2] At-risk-of poverty rate (AROP): 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 (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.

[5] For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)

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

Table IX. Product market performance and policy indicators

Performance indicators	2003-2007	2008	2009	2010	2011	2012
Labour productivity[1] total economy (annual growth in %)	1.5	-0.6	-1.9	1.7	1.2	0.1
Labour productivity[1] in manufacturing (annual growth in %)	4.2	-2.9	-2.7	7.9	1.6	n.a.
Labour productivity[1] in electricity, gas, steam and air conditioning supply (annual growth in %)	0.9	-4.0	-18.8	-1.0	-2.9	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	-0.8	-4.4	-6.1	-3.3	0.6	n.a.
Total number of patent[2] applications per million of labour force	301.9	305.6	305.2	306.7	n.a.	n.a.
Policy indicators	**2003-2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Enforcing contracts[3] (days)	390	390	390	390	390	390
Time to start a business[3] (days)	14	7	7	7	7	7
R&D expenditure (% of GDP)	2.1	2.1	2.3	2.2	2.3	n.a.
Tertiary educational attainment (% of 30-34 years old population)	37.9	41.2	43.2	43.5	43.3	n.a.
Total public expenditure on education (% of GDP)	5.72	5.62	5.89	n.a.	n.a.	n.a.
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	n.a.	1.5	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	3.1	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	2.2	n.a.	n.a.	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] Total number of patent applications to the European Patent Office (EPO) per million of labour force

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies of 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 Energy, Transport and Communications Regulation (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

		2002-2006	2007	2008	2009	2010	2011
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.18	0.17	0.17	0.16	0.17	0.16
Carbon intensity	kg / €	0.37	0.33	0.33	0.33	0.32	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	0.56	0.56	0.55	0.50	n.a.	n.a.
Waste intensity	kg / €	n.a.	n.a.	0.21	n.a.	0.22	n.a.
Energy balance of trade	% GDP	-1.8%	-2.3%	-2.9%	-2.0%	-2.4%	-3.1%
Energy weight in HICP	%	n.a.	9	9	8	8	9
Difference between change energy price and inflation	%	n.a.	0.3	6.4	-5.9	4.9	8
Environmental taxes over labour taxes	ratio	8.6%	8.0%	7.9%	7.7%	7.8%	n.a.
Environmental taxes over total taxes	ratio	4.6%	4.1%	4.2%	4.3%	4.2%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.16	0.15	0.15	0.14	n.a.	n.a.
Share of energy-intensive industries in the economy	% GDP	7.1	6.9	6.6	6.1	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.06	0.06	0.07	0.07	0.08
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	0.03	0.04	0.03	0.03	0.04
Public R&D for energy	% GDP	n.a.	0.04%	0.04%	0.05%	0.06%	0.05%
Public R&D for the environment	% GDP	n.a.	0.01%	0.02%	0.02%	0.02%	0.01%
Recycling rate of municipal waste	ratio	61.2%	62.7%	66.8%	67.1%	67.4%	n.a.
Share of GHG emissions covered by ETS*	%	n.a.	23.6%	23.4%	21.9%	22.5%	21.7%
Transport energy intensity	kgoe / €	n.a.	0.48	0.47	0.47	n.a.	n.a.
Transport carbon intensity	kg / €	n.a.	1.27	1.21	1.23	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	n.a.	50.5%	50.9%	51.0%	49.1%	48.9%
Diversification of oil import sources	HHI	n.a.	0.07	0.07	0.07	0.08	n.a.
Diversification of energy mix	HHI	n.a.	0.32	0.31	0.31	0.30	0.32
Share renewable energy in energy mix	%	n.a.	6.2%	6.9%	7.4%	7.8%	7.0%

Country-specific notes:
The year 2012 is not included in the table due to lack of data.
General explanation of the table items:
Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated 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 2005 EUR)
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP
Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT.
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 activity (kgoe) divided by transp industry gross value added (2005 EUR)
Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector
Energy import dependency: net energy imports divided by gross inland energy consumption incl. energy consumption 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 renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents
*Provisional data (15 April 213). Commission Services and EEA.
** For 2007 average of S1 & S2 for DE, LU, NL, FI, SE & UK. Other countries only have S2.
*** For 2007 average of S1 & S2 for IT, NL, FI, SE & UK. Other countries only have S2.