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Assessment of the 2014 national reform programme and stability programme for FRANCE

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on France's 2014 national reform programme and delivering a Council opinion on France's 2014 stability programme

{COM(2014) 411 final}

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EXECUTIVE SUMMARY

France initially weathered the crisis relatively well, but its medium-term growth prospects now look bleak. The sharp slowdown in international trade in 2009 had only a limited impact on the French economy because of its sizeable automatic stabilisers, its relatively small export sector, and because unlike some other countries, France had not been experiencing a credit boom before the crisis. However, sluggish economic growth since 2010 has led to a rapid increase in the unemployment rate which reached 10.3 % in 2013. The large general government deficit in 2009 and 2010 pushed the public debt ratio above 90 % of GDP in 2012. GDP growth is expected to remain below potential in 2014 and to accelerate only moderately in 2015. The increase in production, together with measures taken to foster employment, would allow for a moderate decrease in the unemployment rate. Meanwhile, although a number of fiscal consolidation measures were announced, notably as part of a 'responsibility and solidarity pact', the general government deficit is expected to remain significantly above the 3 % benchmark by 2015.

Overall, France has made some progress in addressing the 2013 country-specific recommendations. France has made some progress in reducing the general government deficit further and improving the sustainability of public finances, in particular through a pension reform. The government has also carried out a review of the taxation system and the national reform programme provides indications on the measures identified to streamline it, notably as part of the responsibility and solidarity pact. Some progress has been made in implementing the recommendations related to the labour market and school to work transition but efforts to address rising unemployment of older workers have been limited. Some progress has been achieved towards reducing the cost of labour and improving framework conditions for innovation but only limited progress has been made as regards the business environment, despite the few simplification measures implemented as part of a 'simplification plan' initiated in 2013. The national reform programme spells out the government's economic strategy and provides some indications on policy actions going forward, although with a generally limited level of detail. The stability programme provides only partial information on the savings measures which have been announced as part of the responsibility and solidarity pact, as reflected in the Commission 2014 spring forecast and with risks tilted to the downside.

To stimulate economic growth and restore competitiveness, particular attention should be paid to a number of policy areas:

- **Public finances:** Based on the information available at the cut-off date, the Commission 2014 spring forecast projects that, in spite of the measures announced as part of the responsibility and solidarity pact, the government deficit will not be corrected on time. The deficit is expected to be 3.4 % of GDP in 2015, significantly above the 3 % government's target. The consolidation strategy outlined in the stability programme must be specified further and additional measures on top of those planned may be needed to comply with the requirements of the Stability and Growth Pact. The focus should be resolutely on improving the cost-effectiveness of public expenditure at all levels of general government and redefining, where relevant, the scope of government action. In addition, further improving the sustainability of public finances in the medium and long term remains a challenge.

- **Labour market and education:** Challenges in the labour market remain acute. The level of segmentation remains high and the unemployment rate continued to increase in 2013, coming close to its 1997 high. Some progress has been made in implementing the country-specific recommendation on the functioning of the labour market. In particular, the law on securing employment adopted in June 2013 seeks to improve 'flexicurity' although its actual impact has been limited to date. The new law on lifelong learning and vocational education, which will come into force at the start of 2015 and seeks to enhance training among unemployed, should also help reduce skill losses associated with long-term unemployment. However, its direct impact on employment will remain marginal in the short term. The 2013 reform of compulsory education and the law on higher education and research are first steps to ease transition from education to work in particular for the low qualified and will need to be fully implemented.

- **Competitiveness:** As highlighted in the 2014 in-depth review, France is facing a strong deterioration of its export peformance compared to the early 2000's which originates in both cost and non-cost factors. In particular, the low profitability of non-financial companies limits their potential to grow, innovate and export. In order to support cost competitiveness, the government has launched a number of initiatives to shift the tax burden from labour to environmental taxation and consumption, including the tax credit for competitiveness and employment and a further cut in employer social security contributions announced as part of the responsibility and solidarity pact. While these measures will reduce the cost of labour and are thus expected to support employment, their impact on competitiveness is more uncertain and may only materialise in the medium term. In order to support non-price competitiveness, further efforts are still needed to improve the business environment, beyond the measures already enacted. In addition, the efficiency of the innovation policy can be further enhanced.

- **Reform of the services market:** Limited progress has been made in improving competition in regulated professions and services, a key issue highlighted in the 2013 country-specific recommendations. Such reforms would help improve the overall competitiveness of the economy by increasing employment in services and decreasing input costs for export industries. They could also contribute to simplifying the business environment. In addition, the level of competition could also be strengthened in the energy and transport sectors.

1. INTRODUCTION

In May 2013, 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 six CSRs in the form of a Council Recommendation in July 2013. These CSRs concerned public finances, cost and non-cost competitiveness, competition in services, tax policy and the labour market. This staff working document assesses the state of implementation of these recommendations in France.

The staff working document assesses policy measures in light of the findings of the Commission's Annual Growth Survey 2014 (AGS),[1] the Joint Employment Report 2014 (JER)[2] and the third annual Alert Mechanism Report (AMR),[3] which were published in November 2013. The AGS sets out the Commission's proposals for building the necessary shared understanding of the priorities for action at national and EU level in 2014. 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 may emerge 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 15 other Member States were selected for a review of developments in the accumulation and unwinding of imbalances. These in-depth reviews were published on 5 March 2014 along with a Commission communication.[4]

In light of the 2013 Council Recommendation, the AGS, the AMR and the in-depth review, France presented an update of its national reform programme and of its stability programme on 7 May 2014. These programmes provide information on progress made since July 2013 and on the economic strategy of the government going forward. The information contained in these programmes provides the basis for the assessment made in this staff working document.

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 23 April. These documents were also submitted on that date to the French Parliament, which endorsed a declaration on the latter through a vote on 29 April.

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1 COM(2013) 800 final.
2 COM(2013) 801 final.
3 COM(2013) 790 final.
4 Apart from the 16 Member States identified in the AMR, Ireland was also covered by an in-depth review, following the conclusion by the Council that it should be fully integrated into the normal surveillance framework after the successful completion of its financial assistance programme.

2. ECONOMIC SITUATION AND OUTLOOK

Economic Situation

In 2013, economic growth in France remained marginally positive (0.3 %, unchanged from 2012),[5] on the back of a timid recovery in domestic demand. Private consumption rose slightly as the sharp decline in inflation increased households' purchasing power in spite of still increasing unemployment. Investment contracted (-1.0 %) for the first time in annual terms since 2009. While external demand accelerated in 2013, exports did not significantly pick up, pointing to further losses in export market shares which resulted in an only slightly positive contribution of net trade to growth (0.1 pp). The fall in inflation (1.0 % on average in 2013 after 2.2 % in 2012) stemmed from decreasing energy prices, the large gap between actual and potential output and from the continuing effects on prices of the introduction of a fourth mobile operator in 2012.

Employment decreased by 0.2 % in 2013, the first yearly decrease since 2009, in a context of sluggish demand and low profitability of companies. Consequently, the unemployment rate continued to rise to 10.3 % in 2013, from 9.8 % a year earlier, despite a modest decrease in the last quarter notably driven by the take-up of subsidized job schemes (the *emplois d'avenir*). The most vulnerable groups have been particularly affected by the difficult conditions in the labour market. The youth unemployment rate reached 24.8 % in 2013, compared to 24.4 % in 2012, while the number of unemployed workers above 50 increased by 15 %.

Economic Outlook

The Commission 2014 spring forecast (the Commission forecast thereafter) expects that the French economy will gradually recover, with GDP projected to grow by 1.0 % in 2014 and by 1.5 % in 2015. Private consumption, the traditional growth driver of the French economy, is expected to keep on accelerating, driven notably by a gradual turnaround in unemployment. Persistently low inflation is also set to contribute to the improvement in households' purchasing power, thus supporting consumption. From 2015 on, the measures for low-income households announced as part of the responsibility and solidarity pact (see Section 3.1) are set to further support employment and consumption. Investment is also expected to recover due to higher demand and improved confidence as companies' profit margins are forecast to recover in 2014 and 2015. Falling energy prices and still modest activity growth are expected to mitigate the impact of recent VAT increases and inflation is set to reach 1.0 % and 1.1 % in 2014 and 2015, respectively.

The recovery in aggregate demand is set to remain too limited to translate into significant job creation in the private sector in 2014. However, subsidised job schemes, which mainly impact on the public sector, are expected to continue supporting total employment. For 2015, the planned reduction in employer social security contributions for low wages announced as part of the responsibility and solidarity pact is set to translate into an acceleration of job creation (+0.8 %). However, the impact on unemployment will be mitigated by the continuing expansion of the labour force. Altogether, the unemployment rate is forecast to stabilise at 10.4 % in 2014 before receding to 10.2 % in 2015.

[5] Figures in this section are based on the latest data available at the time of publication (15 May 2014, based on the ESA10 system of national accounts).

The macroeconomic scenario which underpins the stability programme and the national reform programme is based on a growth forecast of 1.0 % in 2014 and 1.7 % in 2015. For 2014, the GDP growth rate is identical to the one in the Commission forecast. For 2015, the official forecast comes close to that of the Commission, although the latter is slightly less optimistic on the contribution of trade to growth. This notably reflects a relatively optimistic assessment by the government of the impact of the tax credit for competitiveness and employment (the *crédit d'impôt compétitivité-emploi* or CICE) on the French export competitiveness. In the national reform programme, indications are given on the macroeconomic impacts associated with major reforms, including the responsibility and solidarity pact, the 2013 pension reform, the administrative simplification process and specific measures included in the law on consumption. In its opinion on the macroeconomic scenario included in the stability programme, the High Council for Public Finances considered that the government's macroeconomic forecast for 2014 was plausible and, for 2015, achievable but based on a number of optimistic assumptions. By contrast, the macroeconomic scenario for the outer years covered by the programme was considered optimistic.

Box 1. Conclusions from the March 2014 in-depth review on France

The third in-depth review on France under the Macroeconomic Imbalance Procedure was published on 5 March 2014.[6] On the basis of this review, the Commission concluded that France continues to experience macroeconomic imbalances, which require specific monitoring and decisive policy action. The main observations and findings from the analysis are:

- France has experienced significant losses in export market shares in recent years (-14.0 % between 2007 and 2012). While the current level of the current account deficit and net international investment position deficit remains benign, the eroding export performance has resulted in a continuous deterioration of these deficits.

- While wage developments have generally followed the trend in productivity, France is one of the euro area economies where the cost of labour is the highest. In particular, the high tax burden on labour reduces companies' profitability. Rigidities in the wage setting framework may distort the wage structure and limit wage adjustments.

- Non-cost factors have been key to the deterioration in export performance. The low profit margins of French companies, which continued to deteriorate in 2012 notably due to a still increasing tax burden, may reduce companies' ability to invest and to effectively engage in export activities. The business environment in France also constitutes a barrier to companies' export potential.

- The high general government deficit, together with a still rising public debt, represents a major vulnerability that calls for further adjustment measures. France's deficit increased sharply in 2009 as a result of the economic crisis. While risks to medium-term sustainability are moderate, the increase in public debt following the financial crisis means that the economy has become more sensitive to potential adverse economic events.

- As the French economy is tightly interconnected with the other Member States, through both trade and financial channels, negative developments in France would potentially have a significant impact on the other euro area economies.

The in-depth review also discusses policy elements stemming from these areas and possible avenues for remedying the macroeconomic imbalances identified:

- Efforts to reduce the government deficit need to be strengthened, in line with the trajectory recommended under the Excessive Deficit Procedure, and focus should be put on reducing public expenditure.

- There is still room to improve competition in services, with a positive impact on intermediary costs. Meanwhile, important resources have been dedicated to innovation policy but outcomes appear modest so far.

- The importance of the minimum wage in the overall wage-setting framework and the limited existing exemptions contribute to wage rigidities, and have an impact on the employment prospects of workers with low skills. In addition, social security contribution exemptions, which mitigate the impact of the minimum wage on employment for low-skilled workers, may distort the wage distribution and reduce incentives to increase skills.

[6] http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm.

3. CHALLENGES AND ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

The main purpose of the 2014 stability programme is to achieve the medium-term objective, which is a balanced budget in structural terms, as in last year's programme. The medium-term objective (MTO) is more stringent than what the Stability and Growth Pact requires. The target year for reaching the MTO is 2017, compared with 2016 in the previous stability programme. However, based on the evolution of the (recalculated) structural balance,[7] the MTO will not be achieved within the timeframe set forth in the stability programme, in contrast to what the 2013 CSR called for. The adjustment path over 2014-17 aims first to bring the general government deficit to the reference value of 3 % of GDP by 2015. While a correction of the excessive deficit by next year is in line with the revised deadline set by the Council under the Excessive Deficit Procedure in 2013, the target in the programme is above the recommended target of 2.8 % of GDP (see Box 2). The (recalculated) structural balance is projected to improve from -3.1 % of GDP in 2013 to -0.8 % in 2017.

In 2013, the general government deficit reached 4.3 % of GDP, down from 4.9 % in 2012 (revised from 4.8 %).[8] This is higher than the target of 4.1 % of GDP contained in the Draft Budgetary Plan submitted by France in October 2013 and much above the 3.7 % target of the 2013 stability programme. The gap compared to the target set by the Draft Budgetary Plan stemmed from a lower yield from revenue measures and weaker growth of tax bases, which taken together translated into a larger loss of tax receipts than expected. Revisions to 2012 data also contributed negatively to the outcome (base effect). This was partly offset by public spending growing at a slower pace than projected at the time of the Draft Budgetary Plan (+2.0 % versus +2.5 %).

The stability programme projects that the deficit will improve further and reach 3.8 % of GDP in 2014. This is 0.2 pp higher than the target of 3.6 % of GDP enshrined in the Draft Budgetary Plan. Based on the Commission forecast, the revised target seems plausible provided that the budget and the additional measures outlined in the stability programme, some of which remain to be adopted, are strictly implemented. The latter consist of savings to offset the loss of tax receipts due to the suspension of a green tax on heavy goods vehicles (the *éco-taxe poids lourds*), the cancellation of ministerial appropriations to be adopted as part of a supplementary budget, savings linked to the reform of the unemployment benefit system and the first effects of the EUR 50 billion savings plan announced by the government (see next paragraph). Finally, with local elections held in March and based on previous election cycles, the stability programme projects a drop in public investment. Overall, the revised deficit target of 3.8 % of GDP appears within reach, with the Commission forecast at 3.9 %. The difference stems solely from slightly divergent expenditure projections, notably in intermediate consumption and social benefits.

Looking forward, the stability programme aims at a deficit of 3.0 % in 2015, with the general government balance planned to improve further in 2016-17. The deficit targets for 2015-16 have been revised upwards compared to the trajectory underpinning the Draft Budgetary Plan but the target for 2017 is broadly unchanged at 1.3 % of GDP. This implies

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7 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.

8 Unless stated otherwise, historical data in this section stem from the figures reported in the first 2014 notification to Eurostat by the Member States, based on the ESA95 system of national accounts.

that the planned adjustment has been somewhat backloaded compared to the autumn scenario, notably due to the responsibility and solidarity pact announced by the government. The reduction in the deficit is planned to be achieved through expenditure cuts, with an overall savings target of EUR 50 billion or around 2.5 % of GDP over 2015-17. General government expenditure is projected to grow by only 0.1 % annually when deflated by the national consumer price index, against 0.8 % in 2010-13 and more than 2 % in the previous decade.

The key assumption underpinning the EUR 50 billion savings target over 2015-17 is that social benefits and local government spending will, as a consequence of measures, grow at a much slower pace than in previous years. The stability programme provides a breakdown of the savings target by sub-sector of general government. EUR 18 billion are expected to come from central government spending norms being renewed.[9] The government plans to contain the wage bill and other operating costs by maintaining the freeze in base wages (in place since 2010), achieving efficiency gains and rationalising public sector real estate. State-controlled agencies (the *organismes divers d'administration centrale*) will be financially incentivised to reduce their own spending as well. Local governments will see an unprecedented EUR 11 billion cut in grants from the state over the next three years. In order for this to translate into a similar reduction in local spending and thus contribute to lowering the general government deficit, the stability programme outlines a number of reforms which are assumed to bring substantial savings. In particular, a bonus and penalty system will be introduced in state grants to local authorities as from 2015. The *clause de compétence générale,* which allows the *régions* and the *départements* to undertake initiatives that go beyond their immediate scope of action, will be revoked since it is often considered to generate overlaps and a waste of resources. In addition, the government aims to halve the number of *régions* and increase the size of intermunicipal authorities (the *intercommunalités*) but also initiate a debate on the future of the *départements*. Finally, an ambitious EUR 21 billion is to come from savings in social benefits. Setting a more ambitious healthcare spending norm (the *objectif national de dépenses d'assurance maladie* or ONDAM) is planned to bring EUR 10 billion over 2015-17. The remaining amount comprises the multi-year effects of already legislated measures, a one-year nominal freeze in social benefits and a number of reforms which remain to be specified.

In light of the Commission forecast, which projects that the deficit will reach 3.4 % of GDP in 2015, the trajectory outlined in the stability programme appears insufficiently specified. Based on the information available at the cut-off date, the Commission forecast incorporates a large part of the savings targeted for 2015. In particular, it assumes that central government and healthcare expenditure norms will be strictly met, the savings target on social benefits broadly achieved and that the announced cut in grants to local governments will to a large extent translate into lower local spending. Despite that, the Commission forecast expects that the deficit will remain above the 3 % of GDP target in 2015. Some of the reforms in the stability programme have not been considered in the forecast as the information provided is not specific enough. These include further streamlining family allowances and reducing operating costs of social security funds. Similarly, a number of revenue measures underpinning the planned deficit reduction path are still to be specified.

Risks to the Commission forecast and thus to the 3 % of GDP target are clearly tilted to the downside and primarily relate to the government's ability to effectively reduce spending by social security funds and local governments. While keeping central government expenditure under control appears achievable to the extent that this has already been done in previous years, reducing the rate at which social benefits and local government

9 Known as *zéro valeur* and *zéro volume*.

spending grow, as planned in the stability programme, may not be achieved. Beyond the fact that the overall savings target for 2015-17 is partly unspecified, it appears premature to say whether a number of measures which depend on decisions by local governments and the social partners will be implemented within the time and budget constraints specified in the programme. In addition, regarding local governments, not only the structural reforms outlined in the programme (reducing the number of *régions*, enhancing intermunicipal cooperation, restricting the powers of or abolishing the *départements*), which are expected to deliver substantial savings, will take effect only in the medium term but they are also subject to significant implementation risks. In the field of social security, setting unprecedentedly ambitious annual healthcare expenditure targets from 2015 is a step in the right direction, but achieving them will be challenging. Containing the increase in pension costs and other social benefits already in the short term is also a key area of uncertainty, as illustrated by the fact that the government after submitting the stability programme partly backtracked on plans to freeze pensions. More generally, judging from the evaluations conducted and the measures taken so far, it remains unclear whether the on-going spending review (the *modernisation de l'action publique* or MAP) will indeed lead to a major review of the scope of government action and not only to short-term, across-the-board cuts. In this respect, the savings to come from already specified measures remains modest,[10] and while the newly created Strategic Council for Public Spending is expected to provide a boost to the MAP process, few concrete measures have resulted from it so far. Finally, the macroeconomic scenario for the outer years underpinning the stability programme is also subject to downside risks, as highlighted by the High Council for Public Finances, which would in turn negatively affect the general government balance.

The structural adjustment underpinning the deficit targets for 2013-14 appears plausible, in contrast to the shortfall expected for 2015. Considerable downside risks remain. The Commission forecast projects that the general government deficit will reach 3.9 % of GDP in 2014 and 3.4 % in 2015, against 3.8 % and 3.0 %, respectively, in the stability programme. The annual changes in the (recalculated) structural balance deriving from the programme are estimated to fall short of the levels recommended by the Council in June 2013, except for 2014. The corrected changes in the structural balance deriving from the Commission forecast are estimated to fall short of these levels over the entire horizon (2013-15), albeit by a small margin as regards 2013 and 2014 (0.1 % of GDP in each year). The fiscal effort calculated on the basis of a bottom-up assessment of discretionary measures paints a very similar picture, with a shortfall of 0.1 % of GDP in 2013 and no shortfall in 2014 against the levels deemed consistent with the annual changes in the structural balance recommended by the Council. Overall, the expected deviation from the structural effort targets for 2013-14 set in the Council recommendation and the underlying amounts of discretionary measures appears smaller than estimated at the time of the Commission 2014 winter forecast, on the basis of which the Commission on 5 March addressed a recommendation to France (see Box 2). The difference between the winter forecast and the spring forecast is notably explained by the outturn data for 2013 and the additional measures for 2014 outlined in the stability programme. The fiscal effort is expected to fall significantly short of the required level in 2015, reflecting the projected deviation from the headline deficit target of 3.0 % of GDP. Risks to the corrected improvements in the structural balance and the bottom-up fiscal efforts as derived from the Commission forecast are tilted to the downside and reflect most of the risks to the headline deficit numbers.

[10] EUR 9-11 billion or 0.5 % of GDP over 2014-17 based on government sources (*Comité interministériel pour la modernisation de l'action publique*).

Box 2. Excessive deficit procedure for France

France is currently subject to the corrective arm of the Stability and Growth Pact. The Council opened the Excessive Deficit Procedure for France on 27 April 2009 and recommended it to correct the excessive deficit by 2012, a deadline which was extended to 2013 on 2 December 2009.

On 21 June 2013, the Council concluded that France had taken effective action but that adverse economic events with major implications on public finances had occurred and hence issued the following recommendation: "(1) France should put an end to the present excessive deficit situation by 2015. (2) France should reach a headline deficit of 3,9 % of GDP in 2013, 3,6 % in 2014 and 2,8 % in 2015, which is consistent with delivering an improvement in the structural balance of 1,3 % of GDP in 2013, 0,8 % in 2014 and 0,8 % in 2015, based on the extended Commission 2013 spring forecast. (3) France should fully implement the already adopted measures for 2013 (1½ % of GDP) and specify, adopt and implement rapidly the necessary consolidation measures for 2014 and 2015 in order to achieve the recommended improvement in the structural balance, while proceeding as currently planned with a thorough review of spending categories across all sub-sectors of general government, including at social security and local government levels. (4) France should use all windfall gains for deficit reduction. Budgetary consolidation measures should secure a lasting improvement in the general government structural balance in a growth-friendly manner. (5) The Council establishes the deadline of 1 October 2013 for France to take effective action and, in accordance with Article 3(4a) of Regulation (EC) No 1467/97, to report in detail the consolidation strategy that is envisaged to achieve the targets. Furthermore, the French authorities should strengthen the long-term sustainability of the pension system by further adjusting all relevant parameters. In particular, the planned reform, as currently envisaged, should be adopted by the end of this year, and bring the system into balance in a sustainable manner no later than 2020 while avoiding any further increase in the cost of labour. In addition, to ensure the success of the fiscal consolidation strategy, it will be important to back the fiscal consolidation by comprehensive structural reforms, in line with the Council recommendations addressed to France in the context of the European Semester and, in particular, those related to the Macroeconomic Imbalance Procedure."

On 5 March 2014, the Commission, having regard to Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficits of the Member States in the euro area, and in particular Article 11(2), recommended that France makes efforts to ensure full compliance with the Council recommendation of 21 June 2013. To this end, France was recommended to take the necessary steps to ensure that the structural effort recommended by the Council is met and to report on measures responding to this recommendation in a dedicated section of the 2014 stability programme.

The year following the correction of the excessive deficit, France will be subject to the preventive arm of the Pact and should ensure sufficient progress towards its MTO. As the debt ratio in 2015 is projected at 96.6 % of GDP, exceeding the 60 % of GDP reference value, during the three years following the correction of the excessive deficit France will also be subject to the transitional arrangements as regards compliance with the debt criterion, during which it should ensure sufficient progress towards compliance.

An overview of the current state of excessive deficit procedures is available at: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm.

In the years following the planned correction of the excessive deficit, the planned (recalculated) annual progress towards the MTO is lower than the minimum requirement of at least 0.5 % of GDP. According to the information provided in the stability programme, the annual change in the (recalculated) structural balance is 0.4 % of GDP in 2016-17. Moreover, most if not all of the downside risks to the government's strategy identified for 2015 are also valid for the subsequent years covered by the programme. As a consequence, a deviation from the adjustment path towards the MTO is to be expected in both 2016 and 2017.

The general government debt kept increasing in 2013 and the trend is not expected to be reversed over the horizon of the Commission forecast. Starting from 64.2 % in 2007, the ratio of debt to GDP reached 93.5 % in 2013 and the Commission forecast projects it to increase further in 2014-15. The stability programme expects that the debt ratio will peak at 95.6 % of GDP in 2014 and 2015 and then drop to 91.9 % in 2017. In 2016-17, assuming that the excessive deficit will be corrected in 2015, as planned in the stability programme, France would be in a transition period regarding the debt rule. The debt ratio in the Commission forecast for 2015 is above the government's figure due to the projected higher deficit 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.

Fiscal framework

The impact on budgetary forecasting of the newly created High Council for Public Finances has been positive but the overall added value of reforms introduced under the Treaty on Stability, Coordination and Governance will depend on the functioning of the national correction mechanism. The High Council for Public Finances was created in 2012 as part of the transposition of the Treaty on Stability, Coordination and Governance (TSCG) into national law. Its task is to assess ex ante consistency of draft annual (or supplementary) budgets with a pre-defined multiannual structural deficit reduction path and to report ex post on possible significant deviations from that path, which would then automatically trigger a correction mechanism. The opinions the High Council has issued so far have shed light on the plausibility of government forecasts and probably played a role in the draft budget for 2014 being based on realistic macroeconomic assumptions, which was not always the case in previous years. By contrast, uncertainty remains regarding the functioning of the correction mechanism which is to be triggered in the event of significant deviation.

Existing coordination mechanisms across general government sub-sectors are insufficient to effectively involve non-state-controlled sub-sectors in the overall deficit reduction strategy. Regarding local governments, efforts to curb grants from the central government have been made, with notably a nominal freeze in 2011-13 followed by a EUR 1.5 billion cut in 2014. However, this will not necessarily translate into a similar reduction in local spending insofar as local authorities have also been entitled to temporarily raise stamp duties on the sale of immovable property in 2014-15. More generally, a 'confidence and responsibility pact' between the central government and local authorities has been agreed on, but a genuine governance framework for local authorities remains to be built, as acknowledged in a recent report from the Court of Auditors.[11] Regarding supplementary pension schemes for private sector workers, the social partners reached an agreement in 2013 which will partly reduce deficits. An agreement to curb the deficit of the unemployment benefit system, also run by the social partners, has been reached as well. Although both

[11] Court of Auditors, *Les finances publiques locales*, October 2013.

agreements will have a positive impact on the general government balance, there is a need to improve coordination mechanisms to ensure that non-state-controlled sub-sectors of general government are effectively involved in the country's deficit reduction strategy. In particular, introducing a ceiling on the annual increase in local government tax revenue while maintaining the planned reduction in grants from the central government would help curb local government expenditure.

Long-term sustainability of public finances

France appears to face medium fiscal sustainability risks in the medium term. The medium-term sustainability gap,[12] showing the adjustment effort up to 2020 required to bring the debt ratio to 60 % of GDP in 2030, amounts to 2.2 % of GDP, primarily due to the high level of government debt (96.6 % of GDP in 2015). In the long term, France appears to face low fiscal sustainability risks, primarily related to the projected ageing costs contributing with 1 pp of GDP over the very long run, in particular in the field of healthcare expenditure. The long-term sustainability gap,[13] which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path, is 1.6 % of GDP. Risks would be higher if the structural primary balance was to revert to values closer to the average recorded over the 2004-13 period. It is therefore appropriate for France to reduce government debt and further contain age-related expenditure[14] growth to contribute to the sustainability of public finances in the long term.

Limited progress has been made in tackling the rise in public expenditure on health projected in the medium and long run. Costs have been kept under control for the last few years thanks to improved monitoring, with public expenditure on health (ONDAM) below target for the fourth consecutive year in 2013. Savings measures in 2014 include a further cut in pharmaceutical prices, efforts to eliminate prescriptions and treatments deemed medically unnecessary and further lowering tariffs for laboratory and imaging services. Savings in administrative costs are also planned, although it remains to be seen how precisely these will be achieved. While such savings will help keep spending under control in the short term, there is a need to implement further cost-containment policies as the system is expected to face a significant rise in expenditure over the medium and long term. Indeed, according to the 2012

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12 See Table V. The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance to be introduced until 2020, and then sustained for a decade, to bring debt ratios back to 60 % of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 pp of GDP per year until 2020 after the last year covered by the 2013 autumn forecast (year 2015) is required (indicating an cumulated adjustment of 2.5 pps), it is assigned medium risk; and (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 pp of GDP per year is necessary), it is assigned high risk.

13 See Table V. The long-term sustainability gap (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 (IBP) 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 increase 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. The following thresholds for the S2 indicator were used: (i) if the value of S2 is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and (iii) if it is greater than 6, it is assigned high risk.

14 Ageing costs comprise long-term projections of public age-related expenditure on pensions, healthcare, long-term care, education and unemployment benefits. See the 2012 Ageing Report for details.

Ageing Report,[15] public spending on health is projected to increase by 2.1 % of GDP by 2060 when factoring in both demographic and non-demographic factors. This is higher than the EU-27 average of 1.7 % of GDP and far above the projected rise in pension expenditure (0.5 % of GDP by 2060). Areas where efficiency could be further improved include pharmaceutical and administrative spending.[16] The government has acknowledged the need to increase the efficiency of hospital care as well. Recent estimates from the OECD[17] suggest that the savings potential in the area of healthcare in France is sizeable (1.3 % of GDP) although below the OECD average (1.9 % of GDP). These estimates are based on the difference between a scenario with no reform and a scenario where countries become as efficient as the best-performing countries. Overall, France can be considered to have made limited progress in addressing the country-specific recommendation on the cost-effectiveness of the health system.

France has made some progress in improving the sustainability of the pension system but adopted measures will likely not be sufficient to eliminate its deficit. A pension reform was adopted in December 2013 with a view to ensuring the medium- and long-term sustainability of the system, improving its fairness and strengthening governance rules. Until 2020, revenue measures will account for the bulk of the adjustment. These mainly consist of higher employer and employee social security contributions. Measures to increase the effective retirement age will only come into effect from 2020. In particular, the minimum number of years an employee must pay into the system before qualifying for a full pension will rise to 43 years by 2035, from an expected 41¾ in 2020. A monitoring committee has also be created, to revise the pension system annually and make recommendations to the government, including on whether sustainability risks need to be addressed. The reform contains a number of measures to take better account of strenuous activities and to increase women's pensions. Despite the progress made, more still needs to be done. The adopted measures will only halve the system's total deficit to approximately 0.5 % of GDP by 2020, according to official projections from the authorities. In particular, pension schemes for state government officials and employees working in a number of state-controlled companies will need additional funding to cover the cost of pension payments. The deficit reduction path planned by the reform is also subject to significant risks. In particular, as was the case with previous reforms, the macroeconomic scenario underpinning the government's projections could prove overly optimistic notably when compared with the near-term economic outlook shown in the Commission forecast and the medium- and long-term macroeconomic assumptions in the 2012 Ageing Report. The budgetary cost of measures to take better account of strenuous activities is subject to significant uncertainty and is a further risk to the long-term financial position of the pension system. The sustainability of the pension system will also depend on the ability of the newly created monitoring committee to effectively address potential deviations from the deficit reduction path underpinning the reform.

Tax system

France has a high and rising overall tax burden. In 2013, France received a country-specific recommendation to continue efforts to simplify the tax system and increase its

15 European Commission, *The 2012 Ageing Report*, European Economy 2/2012.

16 Regarding public spending on outpatient pharmaceuticals, France was one of the highest spenders in the EU in 2011, both relative to GDP (France: 1.2 %; EU: 0.9 %) and per capita (measured in Purchasing Power Standards) (France: 337; EU: 224), and generic drug penetration was below the EU average both in volume and in value (France: 42 % and 18 %, respectively; EU: 47 % and 22 %, respectively). France also had one of the highest ratios of public expenditure on administration and insurance to GDP (France: 0.4 %; EU: 0.2 %) and to public current expenditure on health (France: 4.6 %; EU: 3.1 %).

17 OECD (2010), *Health Care Systems: Efficiency and Policy Settings*, OECD Publishing.

efficiency, in particular through broadening income tax bases while lowering statutory rates, increasing VAT efficiency, shifting the tax burden from labour to environmental taxation and consumption and further reducing the debt bias in corporate income taxation. France has made limited progress in addressing these recommendations (for the detailed assessment, see the overview table in Section 4). Tax-related challenges therefore remain relevant, especially in the context of the AGS objectives of fiscal consolidation and promoting growth and competitiveness.

Additional cuts in the tax burden on labour have been announced by the government. As of 2014, the CICE tax credit introduced for corporate taxation amounts to 6 % of gross wages of up to 2.5 times the minimum wage, compared to 4 % in 2013. The overall budgetary cost is estimated at EUR 10 billion in 2014 and EUR 20 billion (1 % of GDP) when in full effect, funded mainly through increases in standard and reduced VAT rates from January 2014 and through expenditure cuts. An increase in environmental taxation also helps to fund the measure. In addition, in January 2014, the government announced an additional EUR 10 billion by 2016 to reduce the cost of labour for companies as part of the responibility and solidarity pact. This includes EUR 4.5 billion on low wages (between 1 and 1.6 times the minimum wage), an additional EUR 4.5 billion on medium wages (between 1.6 and 3.5 times the minimum wage) and EUR 1 billion for the self-employed. Together with the CICE these measures will account for EUR 30 billion or 1.5 % of GDP, which is commensurate with the overall increase in business taxation recorded in 2010-13.

No progress has been made in broadening personal and corporate income tax bases and increasing VAT efficiency. Broadening tax bases would provide room to pursue a more robust tax shift and for statutory rates to be reduced. No progress has been made over the last year in reducing and streamlining income tax expenditures. Instead, a temporary surcharge on large companies created in 2012 has been extended to 2015 and its rate has been more than doubled to 10.7 %. This results in the all-in statutory corporate income tax rate peaking at 38.1 %. The statutory rate is already one of the highest in the EU at 33.3 %. The 2014 budget also introduced reduced VAT rates on energy- or social housing-related renovation works and on cinema tickets, with no review of their effectiveness. In such cases, specific ex post evaluations would help determine whether a narrowing of the tax base is an efficient method of achieving social and environmental goals.

Following opinions of the environmental taxation committee, a number of measures in the area of environmental taxation have been adopted or are planned. Steps were taken with the introduction of a new CO_2 component in excise duties on energy products (the 'carbon tax'), a broadening of the tax base of the general tax on polluting activities, a phasing out of reduced rates for certain biofuels and the strengthening of bonus and penalty car taxation. However, there is scope for further substantial improvement. First, excise duties are not indexed with inflation although this would help maintain the real value of taxes over time. Furthermore, some exemptions to the carbon tax and partial reimbursements remain for some sectors (agricultural, fishing and transport businesses), reduced VAT rates are in part applied on electricity and natural gas (which conflicts with overall ambitions in energy and climate policy) and diesel still benefits from a preferential rate of excise duty.[18] A tax on hydrofluorocarbons (HFC) also represents a possible source of tax revenues in addition to its

[18] "Specific objectives relating mainly to the period up to 2020 (…) the failure to effectively control NOx emissions from light-duty diesel vehicles has contributed substantially to current air quality compliance problems and should be rectified as a priority", SWD(2013)531, *Impact assessment – Air package*, December 2013, pp. 21-22, 35; see also *The contribution of transport to air quality*, EEA Report 10/12. Copenhagen, 2012, pp. 79-80.

effect on greenhouse gas emissions reductions.[19] Lastly, although the government has suspended a tax on heavy goods vehicles in light of public resistance, its implementation remains necessary and in line with the 'user pays' or 'polluter pays' principles. Overall, France can be considered to have made some progress in addressing the recommendation on environmental taxation, even though there is scope for improvement in the sectors of water, waste[20] and air pollution[21] and in phasing out environmental harmful subsidies,[22] taking into account social concerns.

Limited progress has been made in further reducing the bias favouring debt rather than equity financing in corporate income taxation. As part of the 2013 budget, France adopted a measure which limits the deduction of net loan interests above EUR 3 million to 75 % (85 % in 2013). Both the fact that the deduction is calculated on a net basis and the fact that the threshold is relatively high suggest that this measure is targeted to large companies. France has also adopted measures to promote equity financing through tax incentives for business angels and announced a decrease in the statutory rate of corporate income tax (from 33.3 % to 28 %). However, the latter remains to be formally adopted and it will take effect over 2017-20 only. Therefore, vulnerabilities related to over-reliance on debt financing remain and need to be further addressed.

Overall, France has recently made some progress in adressing the recommendation in the area of labour taxation which, however, needs to be assessed against an increasing trend in the overall tax burden since the beginning of the crisis and very limited action to pursue efforts to simplify the tax system and improve its overall efficiency. A special committee (the *Assises de la fiscalité*) has provided avenues for reform of the tax system within the current government term. A number of measures were unveiled as part of the responsibility and solidarity pact. Apart from the above-mentioned reduction in labour costs, corporate taxation will be lowered by eliminating the 'C3S' turnover tax over the next three years and the corporate income surcharge on large companies from 2016 (on top of the decrease in the statutory rate of corporate income tax), and the purchasing power of low-income households will be boosted through a reduction in employee social security contributions and (partly unspecified) tax cuts. For most of the measures announced, implementation will, however, not take place before 2015 and some would even run after the next parliamentary elections (2017).

3.2. Financial sector

The French banking sector reduced its risk profile in 2013. In 2013, France did not receive a country-specific recommendation related to the financial sector as no significant risks to stability or business funding were identified. Between 2012 and 2013, the capitalisation of French banks improved and their average solvency ratio stood at 14.7 % of risk-weighted assets in June 2013, in line with that of their euro area counterparts (15.0 %). French banks also reduced their loan-to-deposit ratio to 144 %, down from 147 % one year before, and reduced their reliance on wholesale funding. A law adopted in July 2013 seeks in particular to insulate banks speculative activities from those which provide access to finance

[19] France was the first emitter of HFC in the EU in 2011, with 19.4 % of EU HFC emissions (source: European Environmental Agency greenhouse gas data viewer). HFC emissions in France more than doubled between 2000 and 2011.

[20] *Comité pour la fiscalité écologique*, *Avis portant diagnostic sur la fiscalité et le financement de l'économie circulaire*, November 2013.

[21] *Comité pour la fiscalité écologique*, *L'écart de taxation entre le gazole et l'essence*, April 2013.

[22] OECD (2013), *Inventory of Estimated Budgetary Support and Tax Expenditures for Fossil Fuels 2013*, OECD Publishing.

for the economy. Although part of the implementing regulatory measures related to this law has yet to be published by the government, measures taken so far by French banks to comply with this regulation have had a limited impact on their profitability and capital structure.

Although the credit dependency of French companies, and in particular small and medium-sized enterprises, remains high, access to finance does not seem to represent a major constraint. Given their low profitability, small and medium-sized enterprises (SMEs) are highly dependent on bank credit. Credit from banking institutions represented 29 % of total liabilities for SMEs in 2012, compared to 12 % for large companies. Access to bond financing for SMEs is marginal. While bank lending surveys and business surveys do not point to specific difficulties in accessing finance, the reliance on bank credit may represent a limitation in financing long-term investments. As mentioned in the national reform programme, measures have thus been taken by the government to diversify sources of funding, although availability of debt and venture capital for SMEs in France is already above the EU average.[23] The existing saving plan in shares (the *plan d'épargne en actions*) has been extended to cover listed and unlisted SMEs. In addition, taxation of capital gains has been reduced and a reform of the insurance code adopted in August 2013 allows life insurance companies to invest up to 5 % of assets under management in SMEs. Finally, the Public Investment Bank (the *Banque publique d'investissement* or BPI), which was created in March 2013, offers a single point of contact for companies seeking access to public funds and guarantees. The impact of these measures, which increase the availability of alternative sources of finance, will remain limited as lending surveys suggest that investment is constrained more by negative cyclical conditions than by credit conditions. However, ensuring that more diverse sources of financing are available could support a stronger recovery.

3.3. Labour market[24], education and social policies

Despite a number of policy measures, the situation in the labour market continued to deteriorate in 2013 and challenges remain acute. The overall employment rate of people aged 20-64 was estimated at 69.5 % in 2013, showing only limited progress towards the Europe 2020 target of 75 %. The unemployment rate continued to increase, rising to 10.3 % in 2013 compared to 7.5 % in 2008, although quarterly figures showed a stabilisation in the second part of the year. In particular, long-term unemployment worsened significantly (by 2.6 pps since 2012). Young people, and in particular those with low levels of qualifications, also remain at a higher risk of unemployment. The social impact of the weakened labour market situation remains comparatively contained. Nevertheless, in-work poverty is increasing, though from levels well below the EU average.

In 2013, France received a country-specific recommendation on the need to conduct a broad set of reforms to improve the functioning of its labour market. The recommendation highlighted the need to reduce labour market segmentation, increase older workers' access to employment, reform the unemployment benefit system, ensure more efficient active labour market policies and further develop lifelong learning. France has made some progress in addressing this recommendation. Of particular note are the law on securing employment adopted in June 2013 and the law on vocational education and lifelong learning adopted in March 2014. In addition, the reforms of compulsory and of higher education

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23 European Commission (2012), SME Access to Finance Index (SMAF), sub-index on access to equity finance, 2012 data.

24 For further details, see the 2014 Joint Employment Report, COM(2013)801, which includes a scoreboard of key employment and social indicators.

launched in July 2013 seek to improve school to work transition and notably aim to halve the number of youngsters leaving the education system with no qualification by 2017. However, some of these measures remain to be fully implemented and their impact will only be felt over time.

Labour market

The French labour market remains segmented with very low levels of transition from temporary to permanent contracts. The inter-professional agreement on securing employment was translated into a law adopted in June 2013. The use of partial unemployment has been made easier and the social partners have now the possibility to negotiate collective dismissals. However, the overall impact of this reform remains modest at this stage. In particular, efforts to reduce the level of segmentation, notably through higher social security contributions for very short-term contracts, have failed to curb the increase in the proportion of fixed-term contracts among new contracts. The market remained highly segmented, with 82.8 % of work contracts signed in 2013 being fixed-term contracts and temporary work gaining 35 400 jobs while overall employment in the business sector decreased. Very few companies seem to have used the company-level agreements created by the new law to increase the flexibility of work conditions in case of temporary economic hardship. This is notably linked to the difficulties that eligible companies may encounter to prove the 'temporary' character of the challenges they face and to the associated legal uncertainties. Some progress has been made in increasing security for temporary agency workers, as recommended in the country-specific recommendation. Open-ended contracts for temporary agency workers have been created as well as a fund to finance their training actions during periods of inactivity. The agreement signed by the government and temporary recruitment agencies set an objective of 20 000 open-ended contracts to be signed within the next three years. This would, however, represent less than 1 % of the 2 million temporary workers.

Developments in the minimum wage were restrained in 2013 although its level remains high. Developments in the minimum wage in France are guided by an indexation formula and by nudges which can be decided by the government on top of the legal requirement. The indexation formula was modified in 2013 to better reflect wage developments and the cost of living of workers earning the minimum wage, with only a marginal impact on long-term dynamics. In 2013, unlike the year before, no discretionary rise in the minimum wage on top of the indexation formula was decided. As a consequence, the hourly minimum wage increased by 1.1 % on 1 January 2014. The level of the minimum wage in France offers one of the highest purchasing powers of the EU countries with a minimum wage. Based on 2012 figures, the cost of labour at the minimum wage in France is close to EUR 21 200 per year for a full-time employee. Even taking into account the full impact of the CICE tax credit, which would bring the cost of labour at the minimum wage close to EUR 20 000 per year, France, together with the Netherlands, Belgium, Luxembourg and Ireland, belongs to the group of Member States where the cost of labour at the minimum wage is the highest. In France, like in close to half of the 21 Member States with a minimum wage (excluding Germany), exemptions to the minimum wage exist for underage workers. However, the scope of the differentiation is reduced in France[25] and limited schemes exist to significantly reduce the cost of labour for young workers. By comparison, and with the exception of Slovenia, countries where the minimum wage as a proportion of the average wage is close to France's[26] have set

[25] Apprentices, interns, underage workers in the first months of activity and workers with a subsidised contract may be paid less than the minimum wage.

[26] Based on 2012 data, the minimum wage represented more than 40 % of the average wage in Belgium, the Netherlands, Luxembourg, Ireland, France and Slovenia.

up a number of exceptions to the minimum wage which are linked to age, the length of service or skills.[27] Reducing the cost of labour for vulnerable groups could take the form of targeted social security contribution exemptions or of time-limited differentiations of the minimum wage as is the case in other countries with a high statutory minimum wage. Such measures need to duly take into account the existing wage support schemes in order to mitigate potential impacts on earnings. However, these schemes suffer from shortcomings which have been pointed out in a number of reports.[28] In particular, the two main wage support schemes (the *prime pour l'emploi* and *revenu de solidarité active*) pursue the same objective, introducing a complexity which increases the relatively low take-up by eligible households. Despite recent announcements, no progress has been made in simplifying the schemes and increasing their use by eligible low-wage earners.

The employment rate of the older workers over the past three years has increased together with unemployment. The employment rate of older workers stood at 45.6 % in 2013. Although this ratio has gone up due in particular to successive pension reforms, it remains low from an EU-wide perspective. In addition, the unemployment rate among this group has also seen an upward trend, from 4.6 % in 2008 to 7.0 % in 2013. Few measures have been taken to improve the employment prospects of older unemployed people. The main reform introduced by the government to keep older workers in employment (the *contrats de génération*) has proved insufficient. The deadline for negotiating an agreement at company level, a requirement for companies with more than 300 employees, has had to be postponed from September 2013 to April 2014 due to the reluctance of employers to use this tool. The inter-professional agreement, signed on 22 March 2014, on a reform of the unemployment benefit system will not significantly change the incentives to work for older workers. In particular, unemployed people over 50 will continue to be eligible for a longer duration of benefit payments (36 months compared to 24 months in the general case). On the other hand, the restrictions on unemployment benefits for workers who have obtained a large severance package from their employers reduce the incentives to use agreed dismissals[29] as a form of early retirement.

Unemployment support

The outcome of the negotiation on the unemployment benefit system clearly falls short of the level of ambition set by the 2013 country-specific recommendation. The deficit of the unemployment benefit system has increased rapidly since 2009 and is expected to represent EUR 4.4 billion in 2014 for a total debt of EUR 22.3 billion. This calls for significant efforts to avoid negative implications for the overall situation of public finances. The savings envisaged in the agreement reached by the social partners in March 2014 will clearly be insufficient to tackle the issue as they are expected to amount to EUR 0.5 billion in 2014. The unemployment trap, measured through the extent to which the gains from moving from unemployment to work are reduced as a result of the tax and benefit system, remains relatively high in France although the gap with the EU average has been reduced in the last

[27] For instance, at 18, workers are entitled to receive 79 % of the minimum wage in Belgium and 46 % in the Netherlands. In addition, Luxembourg has a differentiated minimum wage according to the level of skills, while Belgium and Ireland set lower minimum wages in the first few months of activity.

[28] See in particular Sirugue C. (2013), *Réforme des dispositifs de soutien aux revenus d'activité modestes, Rapport à M. le Premier ministre*, and Chérèque F. and S. Vanackere (2014), *Evaluation de la 1ère année de mise en œuvre du plan pluriannuel contre la pauvreté et pour l'inclusion sociale*, *Inspection générale des affaires sociales*.

[29] The *rupture conventionelle* represented 25 % of the reason to end an open-ended contract for workers above 58 in 2012 compared to 16 % on average.

few years.[30] The 'transferability' of individual rights to unemployment benefits (the *droits rechargeables*), which enables a jobseeker to retain previous accumulated rights to unemployment benefits in future periods of unemployment rather than forfeit them when taking up a job, and which was introduced already in the inter-professional agreement adopted in January 2013, should increase incentives to take up work. However, and despite the fact that a report by the Court of Auditors[31] has notably pointed out the low progressivity of the unemployment benefit replacement rate, the generosity of benefits for the most highly paid workers has been maintained. The introduction of elements of degressivity in unemployment benefits over time was not considered as part of the reform.[32] Finally, adjustments to the specific systems for older workers and for workers in the entertainment industries were limited.

Increased attention is paid by the public employment service to providing personal guidance and addressing the needs of vulnerable groups although implementation remains a challenge. Substantial progress has been made in delivering individual support to unemployed people, as recommended in the 2013 country-specific recommendation. Several types of guidance have been developed depending on the jobseeker's situation, and new measures for young people facing multiple obstacles in the labour market have been created, such as the youth guarantee (the *garantie jeunes*) launched in October 2013 (see Box 3). In addition, the roll-out of the *emplois d'avenir* programme, which came close to the objective of 100 000 jobs for vulnerable young people by the end of 2013, is set to continue in 2014. However, given the increasing number of unemployed, and despite increased funding in 2013, the public employment service (the *Pôle emploi*) and the local public employment services for youth (the *missions locales*) face challenges in providing adequate service to jobseekers.[33]

Box 3: The delivery of the Youth Guarantee[34] in France

In December 2013, France presented a Youth Guarantee Implementation Plan, the *plan national de mise en œuvre de la garantie pour la jeunesse en France*. In light of the Council Recommendation of 22 April 2013 on establishing a Youth Guarantee (2013/C 120/01), this plan seeks 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 a period of four months of becoming unemployed or leaving formal education." France has undertaken first steps to implement the Council Recommendation on establishing a Youth Guarantee. The French plans build upon an array of existing schemes[35] targeting young NEETs (Not in Education, Employment or Training) and identifying early-school leavers but do not represent yet a comprehensive Youth Guarantee based on the criteria defined by the Council.

[30] For example, for a single worker earning 67 % of the average wage, the unemployment trap stood at at 77 % in 2012, above in particular the levels in Germany, Austria and Sweden, compared to 74 % for the EU average. This level was however below that in Belgium, Italy and Spain.

[31] Court of Auditors, *Face à un chômage élevé, mieux cibler les politiques*, January 2013.

[32] Degressive unemployment benefits were briefly introduced in France between 1992 and 1996. The related measure increased the generosity of the system for high-wage earners by reducing gradually earnings for workers close to the end of their benefit period (which was thereby increased). This measure resulted in an increase in the duration of unemployment spells. See Dormont B., D. Fougère and A. Prieto (2001), *L'effet de l'allocation unique dégressive sur la reprise d'emploi*, *Economie et statistique*, INSEE.

[33] Out of 4.8 million registered jobseekers, only 2.3 million have a dedicated *Pôle emploi* counsellor. The others are either followed by other partners (such as the *missions locales* for some young people), not followed because they work 78 hours per month or more, or waiting for their first interview.

[34] Council Recommendation of 22 April 2013 on establishing a Youth Guarantee (2013/C 120/01).

[35] Services delivered by the public employment service (the *missions locales*, *Pôle emploi*, *CAP emploi*) and specific schemes such as CIVIS, the *écoles de la seconde chance*, the *emplois d'avenir*, the *service militaire adapté* in overseas territories, NACRE for entrepreneurship.

Some positive steps have been made but these remain insufficient. The commitment has been taken that the 166 000 young people registered for the longest time at the public employment service would receive support within four months. However, the actual quality of this support, which includes CV-writing workshops and interview simulations, is unclear at this stage. Moreover, this guarantee only tackles a minor part of the overall youth unemployment as there are 674 000 young people registered in total.

The Youth Guarantee also includes schemes such as the *garantie jeunes* aiming to bring disadvantaged young people closer to the labour market through social benefits, guidance services and work experience (10 000 beneficiaries in 2014, 20 000 more in 2015). The related measures involve a variety of stakeholders and the coordination mechanisms – notably regarding the *Pôle emploi* and the *missions locales* – and the educational actors may not be sufficient. For example, France has not introduced one-stop shops providing a single information point. France has not established a comprehensive outreach strategy to ensure that all young (non-registered) NEETs are proposed an offer of sufficient quality within four months.

Education

Educational inequalities have been widening for more than a decade due to a sharp decline in the results of low achievers. As confirmed by the 2013 Programme for International Student Assessment survey, educational inequality in France is among the highest in OECD countries. While the proportion of young people leaving school with no qualifications[36] has remained close to 15 % since the mid-1990's, the economic crisis has only exacerbated the difficulties those youngsters face entering the job market. The unemployment rate of young people with no qualifications three years after exiting the education system increased by 16 pps between 2007 and 2013, compared to 8 pps on average for young people from the same generation.[37] The reform of compulsory education launched in 2013 focuses on pre-primary and primary education to tackle inequalities at an early stage. It aims notably to halve the number of young people leaving with no qualifications by 2017 and to raise the proportion of two- to three-year-olds in early childhood education and care to 30 % by 2017. A new plan targeting schools providing lower secondary education in disadvantaged areas was announced in January 2014 and is set to be fully implemented by 2015-16. Although the reform is a positive development, reaching the 2017 targets and ensuring a long-lasting reduction in inequalities seems challenging notably due to implementation risks. In any case, it is still too early to assess the extent to which the various measures will reach their objectives.

While measures have been taken to build stronger links between the education system and the labour market, the number of apprentices decreased in 2013. The law on higher education and research of July 2013 includes measures to develop guidance systems, better transition to post-secondary education and improve links between education and economic actors. An increase in the number of vocational qualifications (the *baccalauréats professionnels*) in upper secondary education has been recorded since 2011, notably as a result of the 2009 reform of upper secondary schools. Meanwhile, limited progress has been made in promoting apprenticeships. The number of new apprenticeships fell by 8.1 % compared to 2012, at odds with the government's objective of 500 000 apprentices by 2017. The number of apprentices whose highest qualification is the *baccalauréat* or an equivalent,

[36] Without at least an upper secondary qualification (BAC, CAP, BEP).

[37] Céreq (2014), *Enquête 2013 auprès de la Génération 2010 : Face à la crise, le fossé se creuse entre niveaux de diplôme*, *Bref du Céreq n°319*.

whose transition from school to work is more problematic, decreased by 1 % between 2005 and 2011. The law on vocational training adopted in March 2014 includes specific measures to promote apprenticeship such as introducing open-ended apprenticeship contracts and providing more secure funding for apprenticeships for those with fewer qualifications. However, these measures will only come into force in 2015 and their impact remains to be assessed. Limited progress has been made in developing a Youth Guarantee (as indicated in Box 3).

Adult participation in lifelong learning remains low in France despite large needs. According to a survey conducted by the OECD as part of its Programme for the International Assessment of Adult Competencies, the level of adult literacy and numeracy in France for those with at most lower secondary education is among the lowest in the EU.[38] Access to lifelong learning remains easier for younger people, those who are already employed and skilled people working in larger companies than for older people, the unemployed and those with low levels of skills. In order to reduce the number of unfilled positions, the government has launched a scheme to provide specific training for jobseekers in sectors with medium-term labour force needs. The vocational training reform adopted in March 2014 makes some progress in implementing the recommendation to increase adult participation in lifelong learning. The reform, which transfers responsibility for lifelong learning to regional level, clarifies the overall governance of the system. It also dedicates more funds to jobseekers and companies with less than 10 employees. The creation of a personal training account should facilitate access to training for both jobseekers and employees. However, the impact will very much depend on the quality of trainings offered and in particular on their relevance to the needs of the labour market.

Social policies

The social situation in France is worsening but remains better than in the average in the EU. With 19.1 % of the population at risk of poverty or social exclusion in 2012, France fares much better than the EU average (24.8 %) in this aspect of the Europe 2020 strategy. While the rate of poverty among unemployed people decreased slightly in 2012, the increasing proportion of part-time workers, particularly where they earn close to the minimum wage, translates into rising in-work poverty (8 % in 2012 compared to 6.5 % in 2010). Also, the situation for the most vulnerable categories, including children, young people and single-parents families seems to be deteriorating with increasing poverty rates of 19.0 %, 23.0 % and 35 %, respectively, in 2012.

Employment and social outcomes remain marked by significant inequalities. These particularly affect women and migrants. The employment rate for women remains well below that of men (65.5 % compared to 73.7 %). Moreover, women are 4.4 times more likely to work part-time and the gender pay gap remains large (14.8 %), leading to a wide gender gap in pensions (39 %). The tax benefit system contributes to this bias, continuing to provide disincentives for second earners[39] to work full-time. Migrants, and in particular women, also face lower employment rates and higher unemployment rates (25.1 % for the population born outside the EU-27 compared to 10.3 % for the general population in 2013). In 2012, 76 % of the population considered that discrimination on the grounds of ethnic origin was widespread

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[38] Those results are influenced by the high proportion of French seniors (55-64) with at most lower secondary educational qualification (41 % compared to 36 % at EU level). However, detailed results show limited improvements across generations in the level of numeracy and literacy.

[39] Couples with a female second earners represent the majority of couples in France (source: Tax-benefit systems and female employment, study commissioned by DG Justice).

in France, the highest share in the EU.[40] About 47 % of people with disabilities are employed compared to 72 % of persons without disabilities[41] and the unemployment rate of people with disabilities is twice the rate of other jobseekers.

The implementation of the multiannual anti-poverty plan adopted in January 2013 is underway but some major reforms are overdue. An assessment of the government's action plan against poverty, published in early 2014,[42] notes that significant actions have been taken, such as increasing social minima or the youth guarantee. It is, however, too early to assess the impact of the new package of measures on child and family poverty, which includes increased minimum social benefits, access to school canteens and extra childcare places (with 10 % saved for low income households). A number of measures included in the plan also remain in limbo (e.g. measures on wage support schemes). A decrease in employee social security contributions for wages close to the minimum wage and additional fiscal measures targeting low-income households were announced as part of the responsibility and solidarity pact to further support those at risk of poverty. Overall, while some progress has been seen, actions implemented to date have not been able to offset the impact of an increasingly difficult situation in the labour market.

3.4. Structural measures promoting sustainable growth and competitiveness

The French economy has experienced significant losses in its export market shares since 2000. Low export performance, which has resulted in a current account deficit amounting to 1.9 % of GDP in 2012, highlights weaknesses in the French growth model. As a result, in the in-depth reviews for France published under the Macroeconomic Imbalance Procedure since 2012, the Commission has pointed out the need to conduct a broad range of structural reforms to ensure the long-term sustainability of the French economy and to limit the risk of negative spill-overs on other Member States (see Box 1). In light of this assessment, the Council considered that the country-specific recommendations were all relevant to address these imbalances. In particular, the Council insisted on the need to reduce the cost of labour, the need to ensure that developments in the minimum wage support competitiveness and job creation, the need to foster innovation and the need to enhance competition in services with a specific focus on the retail sector and on network industries. France has made some progress on measures taken to reduce the cost of labour and on the minimum wage. On the other hand, limited progress has been made on measures to improve innovation and to improve competition in services (for the full CSR assessment, see the overview table in Section 4).

Cost competitiveness

France is among the European economies where the cost of labour is the highest, with a negative impact on profitability of companies. The cost of labour has increased in line with growth in productivity over the last 10 years. However, as noted in the 2014 in-depth review, cross-country analysis suggests that the actual level of the cost of labour is high. In particular, the tax burden on labour, which represented 27 % of the cost of labour in 2012, is among the highest in the EU. The high cost of labour impacts on the profitability of French non-financial companies. Indeed, with a profit share representing 28 % of value added in 2012, non-financial companies in France are the least profitable in the EU. Such a low, and decreasing, level of profitability (-3 pps since 2008) reduces the ability of French companies to invest and to effectively engage in export activities.

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[40] Eurobarometer (November 2012).

[41] Eurostat, European Union Statistics on Income and Living Conditions.

[42] Chérèque F. and S. Vanackere (2014), *Evaluation de la 1ère année de mise en œuvre du plan pluriannuel contre la pauvreté et pour l'inclusion sociale*, *Inspection générale des affaires sociales*.

The reforms implemented to reduce the cost of labour (see Section 3.1) will have a positive impact on competitiveness although its magnitude is uncertain. The CICE tax credit, adopted in December 2012, targets wages of up to 2.5 times the minimum wage. As pointed out by the committee in charge of the assessment of the CICE, as exporting companies tend to serve higher wages than the others, they will benefit less from the measure than non-exporting firms.[43] As a consequence, while the measure, which adds to the already existing exemptions on low wages, can be expected to have a rapid and significant effect on employment, the size and timing of the impact on competitiveness appears more uncertain. In particular, assuming that lower labour costs for companies in the non-tradable sector will result in a significant reduction in the cost of intermediary goods for exporting firms could prove an optimistic assumption at the current juncture. Indeed, a survey conducted by the INSEE statistical office indicates that only a minority of companies intend to use the CICE to reduce prices.[44] The responsibility and solidarity pact includes a EUR 4.5 billion reduction in employer social security contributions targeted to wages of up to 1.3 times the minimum wage in order to maximise the impact on employment and another EUR 4.5 billion one targeted to wages between 1.6 and 3.5 times the minimum wage. The latter measure is set to have a more direct impact on exporting firms due to its targeting on higher wages although, as it will be implemented in 2016 only, there is a risk that its targeting may be amended.

France is among the EU Member States which have the largest social security contribution exemptions for low wage earners, with a potential impact on competitiveness. This can be seen in particular in the strong progressivity of the tax wedge, which represents 54 % of the cost of labour for a single full-time worker paid 1.67 times the average wage and only 36 % for workers paid half the average wage. Not taking into account the CICE and the responsibility and solidarity pact, these exemptions represent a total of EUR 20 billion (1 % of GDP). This amount will be more than doubled once these measures fully take their effect. While assessments of the measures for workers earning low wages generally conclude that their impact on employment is positive, the impact on productivity and competitiveness is more ambiguous. Acting on a request of the Prime Minister, the High Council for the Financing of Social Protection (the *Haut Conseil du financement de la protection sociale*) is currently reviewing the potential economic impact of various scenarios related to the upcoming tax exemptions. An interim report was released in March 2014 and the final report is expected in May 2014. While the report makes a thorough assessment of the impact on employment and on growth in the medium term, limited focus is put on competitiveness and on wage dynamics. In particular, further increasing the progressivity of social security contributions may entail a risk of distorting incentives to increase wages and skills. The report by the experts group on the minimum wage has estimated that, based on the current system, an increase in the wages for workers paid close to the minimum wage had only a marginal impact on earnings due to exemptions and social schemes. It would therefore seem important to further evaluate the overall impact of exemptions on wage developments and competitiveness.

Competition in services

Restrictions on access to and exercise of professions in the services sector persist in France, regarding in particular the legal form, shareholding structure, quotas and territorial restrictions. Professional services play an important role in business service markets, which account for 14 % of French GDP and 14.6 % of employment. Beyond the

[43] 46 % of the labour force of companies exporting more than 35 % of their turnover will be eligible to the CICE, compared to 79 % for non-exporting firms. For details, see *Comité de suivi du Crédit d'impôt pour la compétitivité et l'emploi (2013), Rapport 2013, Commissariat général à la stratégie et la prospective.*

[44] INSEE, *Conjoncture in France: the Eurozone perks up a little*, *INSEE conjuncture*, March 2014.

scope of the Services Directive, this sector, composed largely of SMEs, faces a high regulatory burden which affects its growth potential. Although barriers on legal forms, shareholding requirements or tariffs have been removed for certain professions, a majority of professions still face significant barriers to entry or practice (taxis, the health sector, notaries and more generally legal professions). The principle of numerus clausus for access to many professions is still hampering access to services and it could be reviewed without risking quality or safety. Some progress has also been made in improving the competition environment, in particular through recently adopted law on consumer protection (the *loi sur la consommation*) and the upcoming removal of capital requirements for accountants and of the prohibition of active marketing by lawyers. The law on consumer protection will in particular increase competition in a number of sectors, such as healthcare and optical services, and facilitate insurance contract termination. It will also introduce a mechanism for collective redress that the government hopes will spur competition.

No cross-cutting assessment of the necessity and proportionality of restrictions affecting regulated professions has taken place to date. An economic assessment of the impact of a set of structural reforms (see Box 4) shows that improving competition in France is the reform which would increase GDP growth the most within 5 years. To do so, a horizontal assessment of barriers to competition could provide a base to identify areas where efforts are most needed. More precisely, in a working paper of the *DG Trésor*,[45] it was estimated that bringing margins in selected services sectors (retail, hotels and financial services) to the level reached by best performers in the OECD could increase GDP by 1.2 %. The simplification exercise (the *choc de simplification*) that began in November 2013 as well as the transparency exercise at EU level on the basis of the modernised Professional Qualifications Directive provide an opportunity to considerably simplify and rationalise the regulatory framework for services. Such exercises need to be implemented rigorously, with the clear objective to increase competition in services, in order to promote competitiveness and employment.

In the retail sector, authorisation requirements for opening trade outlets and the ban on sales at a loss still have an adverse impact on competition and on consumers. Given the economic importance of the retail sector in France, which accounts for 4.3 % of GDP and employs 7.5 % of the workforce, the smooth functioning of its regulatory framework is essential. However, retailers establishing outlets face barriers to entering the market, notably resulting from urban planning regulations, as pointed out by the French competition authority.[46] This affects the structure of the market, particularly in the already concentrated grocery retail sector, and therefore affects competition in the sector to the detriment of consumers. The ban on sales at a loss has also been pointed out on several occasions, including by the French competition authority, as contributing to the opacity of pricing dynamics in the retail sector. This ban has therefore ultimately been detrimental to consumers. The French government has committed itself to carrying out reforms in this area. As mentioned in the national reform programme, the on-going plans notably aim at simplifying the authorisation procedure by creating a single authorisation procedure for the establishment of retail outlets. It is also foreseen to remove from the legislation the obligation to wait one year before filling a new authorisation request in cases where a previous one was rejected. Discussions have been initiated on the removal of the ban to sell below costs in the longer term. However, no concrete measures have been adopted by Parliament to date and limited progress has thus been seen on the implementation of the country-specific recommendation.

[45] Bouis R. (2007), *Quels secteurs réformer pour favoriser l'emploi et la croissance ?*, *Document de travail*, DGTPE.

[46] *Autorité de la concurrence*, *Décision n°13-DCC-90*, January 2013.

Research, development and innovation

France's research and development intensity is still far from the national target of 3 %, due in large part to the eroding industrial base. Research and development (R&D) expenditure in France represented 2.3 % of GDP in 2012 and this share has remained relatively stable since 2000. A comparison with the Member States which come close to dedicating, or which already dedicate, more than 3 % of GDP to R&D[47] shows that low R&D activity by the private sector accounts for most of the gap. Private sector expenditure on R&D represented 1.5 % of GDP in 2012, compared to close to or above 2 % in the best performing countries. Progress on R&D investment by French companies is hampered by the decreasing weight of medium-high- and high-technology sectors, which represented 40 % of value added in the manufacturing sector in 2010, a 4 pps decrease since 1999. Meanwhile, business R&D expenditure increased at the same rate as those in Germany between 2007 and 2012 (22 % in France, 21 % in Germany and 15 % in the EU), to which recent government efforts in favour of business R&D might have contributed.

The efficiency of the research and innovation strategy could be more systematically evaluated and improved, with a particular focus on the impact in terms of growth and jobs. The overall performance of the French public research system in terms of scientific publications is slightly below the EU average, while France ranks seventh for public sector R&D intensity. Doubts remain as to the efficiency of the knowledge transfer system due to its complexity. The cost of the tax credit on research is expected to reach EUR 5.8 billion in 2014 (close to 0.3 % of GDP). This measure has undergone recent extensions, notably the suppression of the ceiling in 2008 and the introduction of an innovation component for SMEs in 2013, which have contributed to increasing its costs. However, in spite of the costs of this measure, no ex post assessment of its efficiency is available. Similarly, while some evaluation of the public policy in support of competitiveness poles has been conducted, limited attention has been paid to ensuring its efficiency. Currently, 71 poles are supported by the government, of which 7 are considered of global relevance and concentrated 29 % of public sources of financing between 2008 and 2011. Despite this effort to focus resources, the large number of poles and the diversity of topics addressed may represent a risk of spreading resources across too large a number of institutions (45 % of the funds distributed over 2008-11 were allocated to poles of only national relevance). Moreover, the assessment of this policy, commissioned by the government, shows that more attention should be paid to ensuring that collaborative projects initiated within the poles actually translate into a marketable innovation. The national reform programme mentions a number of additional measures which have been initiated to increase and facilitate innovation. These include in particular the second tranche of the 'Investment plan for the future' (EUR 12 billion), the 'France Broadband' plan (EUR 20 billion which seeks to ensure the completion of a high speed infrastructure by 2017) and 34 industrial plans, led by industry managers. As most of these initiatives have been launched recently, no concrete impact can be assessed at this stage. It seems important to ensure an overall consistency between priorities set by these initiatives and those of the competitiveness poles.

Box 4. Potential impact of structural reforms on growth – a benchmarking exercise

Structural reforms are crucial for boosting growth. It is therefore important to know the potential benefits of these reforms. Benefits of structural reforms can be assessed with the help of economic models. The Commission uses its QUEST model to determine how structural reforms in a given Member State would affect growth if the Member State narrowed its gap vis-à-vis the average of the three best EU performers on key indicators such

47 Finland, Sweden, Denmark, Germany and Austria.

as the degree of competition or labour market participation. Improvements on these indicators could raise France's GDP by about 3.2 % in a 10-year period. Some reforms could have an effect even within a relatively short time horizon. The model simulations corroborate the analysis of Sections 3.2 and 3.3, according to which the largest gains would likely stem from reforms to increase competition in the final goods sector.[48] A reform increasing the participation of female worker would also have a strong impact already within five years. In the longer term, increasing the participation of older workers, a measure which only gradually improves potential growth, would have a very positive impact on GDP. As noted in Section 3.1, the various pension reforms enacted since 2010 will gradually increase the retirement age. They should therefore already help decrease the pension-related non-participation of older workers.

Table: Structural indicators, targets, and potential GDP effects[49]

Reform areas		FR	Average 3 best EU performers	GDP % relative to baseline	
				5 years	10 years
Market competition	Final goods sector markups (price-cost margin)	0.16	0.13	0.8	0.9
Market regulation	Entry costs	0.90	0.13	0.0	0.0
Tax reform	Implicit consumption tax rate	19.9	28.6	0.3	0.4
Skill enhancing reforms*	Share of high-skilled	8.1	10.7	0.1	0.1
	Share of low-skilled	27.5	7.5	0.0	0.0
Labour market reforms	Female non-participation rate (25-54ys):			0.6	0.8
	- low-skilled	31.3	26.4		
	- medium-skilled	15.3	10.5		
	- high-skilled	8.8	4.3		
	Low-skilled male non-participation rate (25-54ys)	11.8	7.7	0.1	0.1
	Elderly non-participation rate (55-64ys):			0.2	0.7
	- low-skilled	22.0	13.4		
	- medium-skilled	12.0	4.8		
	- high-skilled	5.7	3.3		
	ALMP (% of GDP over unemployment share)	16.2	37.4	0.2	0.2
	Benefit replacement rate**	57.4	52.6	0.1	0.1
Total				2.3	3.2

Source: Commission services. Note: Simulations assume that all Member States undertake reforms which close their structural gaps by half. The table shows the contribution of each reform to total GDP after five and ten years. If the country is above the benchmark for a given indicator, we do not simulate the impact of reform measures in that area; however, the Member State in question can still benefit from measures taken by other Member States.[50] * The long-run effect of increasing the share of high-skilled population would be 1.3% of GDP and of decreasing the share of low-skilled would be 3.8%. ** EU average is set as the benchmark.

Network industries

Substantial progress has been made in implementing the recommendation to phase out regulated electricity and gas prices for non-household customers while interconnections remain limited. Prices continue to be regulated for households and, for electricity, their low level has been a barrier to entry for alternative suppliers although recent evidence suggests an

[48] For the sake of calibrating the model, the final goods sector is identified with the services sector.

[49] Final goods sector mark-ups is the difference between the selling price of a good/service and its cost. Entry cost refers to the cost of starting a business in the intermediate sector. The implicit consumption tax rate is a proxy for shifting taxation away from labour to indirect taxes. The benefit replacement rate is the % of a worker's pre-unemployment income that is paid out by the unemployment scheme. For a detailed explanation of indicators see Annex.

[50] For a detailed explanation of the transmission mechanisms of the reform scenarios see: European Commission (2013), "The growth impact of structural reforms", Chapter 2 in QREA No. 4. December 2013. Brussels; http://ec.europa.eu/economy_finance/publications/qr_euro_area/2013/pdf/qrea4_section_2_en.pdf

improvement.[51] Market concentration both at wholesale and retail level remains very high. On the electricity generation side, EDF, the incumbent operator, alone represents 91 % of the installed capacity. The decision by the government to postpone the tendering of hydro-concessions, which represent 20 % of the total installed electricity capacity in France, is a missed opportunity to attract investments, technology and competition in power generation, as has also been noted by the Court of Auditors (the *Cour des comptes*).

Energy interconnection capacity with neighbouring countries remains limited in spite of substantial progress. On-going projects, in particular the Baixas-Santa Lloogaia connection between France and Spain, should reinforce the electricity interconnections with the neighbouring countries. However, this project will bring the interconnection capacity between France and Spain from its current 3 % of peak demand in Spain to 6 %. The transmission capacity between the two countries would, however, still remain below the 10 % minimum recommended by the European Union. On gas, the low interconnection level between the Spanish and French gas systems is a major infrastructure bottleneck as the two existing interconnections (Larrau and Biriatou) face recurrent congestion. Increasing capacity would allow a better integration of the Iberian and the other Western European markets, hence increasing supply security and competition in the European gas market. It is critical to effectively implement current plans to strengthen the network so as to increase interconnection capacity, in particular with Belgium and Spain, by 2015.[52]

Barriers to market entry in the transport sector continue to prevent the market from functioning efficiently. France has not opened up its domestic rail passenger market to competition, except for international services, where there are few new entrants. For freight, new entrants' market share rose to 32 % in 2012 but the overall freight volumes transported by rail decreased in 2012, after peaking in 2011. France has launched a reform of its railway system with a view to making it more financially sustainable. A fully-fledged infrastructure manager is expected to be set up within a vertically-integrated structure that includes the incumbent operator. There is a risk that this new structure may hamper network access for alternative operators. The development of a more integrated European market for transport is also constrained by the low capacity of cross-border connections for both freight and passengers, in particular with Spain and Italy. Lastly, French ports perform unevenly and remain under-used, hence limiting their contribution to growth.

Energy and resource efficiency

France has a comprehensive set of measures in place for energy and resources efficiency although the 'polluter-pays' principle could be further developed. France has taken measures to meet its target of a 17.4 % reduction in final energy consumption. In addition, the 2015-17 objective for energy saving certificates targeting energy suppliers has been set at 660 TWh, compared to 345 TWh in the period between 2011 and 2013. Renewable energy sources provided 13.4 % of total final energy consumption in 2012. A series of measures were adopted in 2013 and are expected to accelerate the uptake of renewables and increase their weight in energy consumption. In particular, the regulatory framework, notably the authorisation regime for small sites, was streamlined and the support schemes were simplified. By contrast, the inefficient allocation of water between sectors and the insufficient implementation of the 'polluter-pays' principle in the agriculture sector remain major issues in

51 *Commission de régulation de l'énergie, Observatoire des marchés de l'électricité et du gaz naturel – 4ème trimestre 2013.*

52 On-going interconnection projects in gas infrastructure are expected to almost triple transmission capacity with neighbouring countries by 2015. Plans are considered to further increase this capacity to six times its current level by 2020.

France.[53] Farmers, for instance, do not pay for clean water in proportion to the amount they pollute, passing the bill onto industry and households. This leads to higher water costs for these sectors and distortions in the sectoral structure of the economy. Additional costs borne by domestic users due to agricultural pollution are estimated at between 7 % and 12 % of the water bill on average in France. Further efforts could also be made to increase the proportion of waste that is recycled and to develop fiscal incentives to reduce waste.[54] Landfill taxes are currently at a low level compared with other Member States, limiting the disincentive for sending waste to landfill.[55] Although a number of reforms in these fields are considered as part of the 'second roadmap for ecological transition', which was drawn up during the environmental conference of September 2013, the actual measures to be implemented are yet to be fully defined and put in place.

3.5. Modernisation of public administration

The business environment in France constitutes a drag on the competitiveness of French companies and limits their growth. France is characterised by both unprofitable and relatively small companies. With gross operating surplus representing only 28.3 % of value added, French companies have the lowest profit share in the EU. Moreover, in 2012, the average French firm had 5.8 employees compared to an EU average of 6.4 employees. As the in-depth review discussed, this may represent an obstacle to engaging in export activities, with a negative impact on aggregate export performance. Results of international surveys suggest that some aspects of the business environment may constitute a barrier to SMEs' potential for growth.

In 2013, the Council recommended to France to take action in order to improve the business environment. The analysis in this staff working document leads to the conclusion that France has made some progress on measures taken to address this recommendation, in particular as part of the simplification plan launched in July 2013 (for the full CSR assessment, see the overview table in Section 4).

Business environment

The business environment needs to be improved in order to limit the burden on SMEs' potential for growth and exports. France's global ranking in a number of international business environment surveys has deteriorated. In particular, the 2013 World Economic Forum (WEF) ranked France 23rd compared to 21st in the previous year and 18th the year before. Similarly, the World Bank's 'Doing business' report records a relative deterioration of the business environment in 2014, with France losing three places compared to 2013 (in the 38th position compared to 35th last year). In particular, the distance to the frontier appears the

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53 The absence of the application of the 'polluter-pays' principle leads to high nitrates and pesticides pollution (from diffuse agricultural sources in particular). The overall costs of such pollution, taking into account the costs of switching from tap water to bottles because of nitrates and pesticides, of collecting and treating bottles, of filtering tap water because of pollutions or costs arising from eutrophication borne by other activities (e.g. tourism), range between EUR 1.1 and 2.4 billion per year. These costs are directly paid for by water consumers. See Acteon (2013), *Potential for Growth and Job Creation through the Protection of Water Resources*.

54 Moving towards eliminating landfill and limiting energy recovery to non-recyclable waste is a milestones in the *Roadmap for a resource efficient Europe* (COM(2011)21 final, *A resource-efficient Europe*, p. 7) and a priority of the AGS 2014, *Promoting resource efficiency by improving waste and water management, recycling and energy efficiency* (COM(2013)800 final, pp. 10-11).

55 "There is a positive relationship between higher landfill taxes (and higher total landfill charges) and lower percentages of municipal waste sent to landfill", in *Steps towards greening in the EU, Monitoring Member States' achievements in selected environmental policy areas*, Institute for European Environmental Policy, 2013.

highest for resolving insolvency and protecting investors, two areas where no progress was seen in 2013. More specifically, several regulations are associated with specific size thresholds, a feature which may hamper the growth of French companies. This may also contribute to SMEs' difficulties in exporting and innovating. Such size thresholds stem either from the labour code or from accounting rules, with for example the requirement to establish a works council and to appoint an external auditor for companies with more than 50 employees. There are still some concerns regarding the French point of single contact under the EU Services Directive (the *Guichet entreprises*), included in the national pact for growth, competitiveness and employment adopted in 2012, especially relating to its accessibility for service providers from other Member States (including language barriers) and making sure that more procedures can be completed online.

Some reforms, and in particular the recently launched simplification plan, seek to reduce the administrative burden, although concrete results have been limited to date. The simplification plan launched in July 2013 is expected to simplify standards and procedures over a period of three years. A first set of 130 priority measures to simplify the business environment were unveiled in July 2013 as part of the on-going spending review (the *modernisation de l'action publique*). The first measures, which notably aim to simplify tax and accounting declarations for SMEs, were adopted in early 2014. Moreover, in January 2014, a national council on simplification was established, whose task is to review the main interactions between the administration and companies throughout their lifecycle, to identify opportunities to reduce red tape. In April, this council published a set of 50 propositions to reduce the administrative burden of companies. In addition to the simplification plan, the national reform programme mentions that further simplification initiatives, notably on the pay slip, are to be launched by mid-2014. However, it remains to be seen whether these review exercises, notably the simplification plan, will translate into significant measures to improve the business environment. Moreover, it is still too early to assess to which extent the first simplification measures adopted effectively improve the business environment, in particular for SMEs. In that respect, the SME test, which consists of analysing the effects of a legislative proposal on SMEs, has only been partially implemented as a pilot exercise while it could contribute to limiting the additional burden created for SMEs. In particular, such a test may have contributed to simplifying the current CICE tax credit as the administrative procedures necessary to benefit from it and its deferred disbursement have made it less effective for the smallest enterprises.

Development of e-procurement

Take-up of e-procurement was still relatively low in 2011. Many regions, counties and towns are building their own e-procurement systems. These are numerous and rarely interoperable, and there is little coordination at national level to avoid duplications. This complicates participation by companies in public procurement processes. A comprehensive strategy to encourage the transition to e-procurement and to coordinate its implementation could generate significant cost savings, improve the transparency of public procurement, shorten lead time and increase competition. It is an opportunity to rethink the way public procurement is organised and a key element for leveraging smart procurement.

4. CONCLUSIONS

The economic recovery in France remains fragile and vulnerable. Based on the Commission forecast, economic growth is expected to remain sluggish while the unemployment rate is expected to continue increasing in 2014 before receding in 2015. The imbalances which affect the French economy, namely its deteriorating export performance and the high level of public debt, are expected to abate only gradually and will still impact on economic growth by 2015 according to the Commission forecast. This fragility of the French growth model, and the negative impact that developments in France could have on other Member States, call for decisive policy actions by the authorities aimed at mitigating the imbalances in the medium term.

The analysis in this staff working document shows that some progress has been made in addressing the country-specific recommendations. Regarding public finances, some progress has been made in addressing both short-term and long-term challenges. However, in the absence of fiscal measures beyond those described in sufficient detail in the stability programme, the general government deficit is expected to remain significantly above 3 % of GDP in 2015, the deadline set by the Council for correcting the excessive deficit. France has also made some progress in further reducing the tax burden on labour, specifically as regards the cost of labour for companies. By contrast, limited progress has been made in increasing the level of competition in the services sector and improving the business environment. The tax system and particularly environmental taxation are other areas where limited progress has been seen. Addressing these structural challenges would help boost the growth potential of the French economy and thus lead to sustainable economic growth and job creation.

OVERVIEW TABLE

2013 commitments	Summary assessment[56]
Country-specific recommendations (CSRs)	
CSR 1: Reinforce and pursue the budgetary strategy in 2013. Enhance the credibility of the adjustment by specifying by autumn 2013 and implementing the necessary measures for the year 2014 and beyond to ensure a correction of the excessive deficit in a sustainable manner by 2015 at the latest and the achievement of the structural adjustment effort specified in the Council recommendations under the EDP. Use all windfall gains for deficit reduction. A durable correction of the fiscal imbalances requires a credible implementation of ambitious structural reforms to increase the adjustment capacity and boost growth and employment.	**France has made some progress in addressing CSR 1** **Some progress** The government has initiated a process of fiscal consolidation. While the 2013 efforts mostly relied on increasing revenue, the government is expected to focus on expenditure cuts in 2014 (amounting to EUR 15 billion according to official estimates). The government continued to freeze public sector wages in 2014, and it reduced ministries' other operating expenses by 2 % and transfers to local authorities by EUR 1.5 billion. The healthcare expenditure norm (ONDAM) has been set at 2.4 %. The recently created High Council for Public Finances has considered that the growth forecast underpinning the 2014 budget was plausible but that the planned structural deficit reduction was optimistic. More recently, in its annual report published in February 2014, the Court of Auditors indicated that a EUR 4 to 6 billion risk to tax receipts was looming for 2014 and emphasised the lack of room for manoeuvre in the event of unforeseen expenditure.
CSR 1 (continued): Maintain a growth-friendly fiscal consolidation course and further increase the efficiency of public expenditure, in particular by proceeding as planned with a review of spending categories across all sub-sectors of general government. Take action through the forthcoming decentralisation law to achieve better synergies and savings between central and local government levels. After the correction of the excessive deficit, pursue the structural adjustment effort at an adequate pace so as to reach the MTO by 2016.	**Limited progress** The government has initiated a review of all public spending categories (the *modernisation de l'action publique*). However, the overall amount of savings to be achieved in 2014 (close to EUR 3 billion) is far below what is needed, as public spending increases by EUR 15 to 20 billion above inflation each year. The first of a series of laws on decentralisation has been adopted. A second law is expected by the end of 2014. However, the chance that this package will result in a significant streamlining of local government and in efficiency gains is small. The stability programme outlines a numbers of structural reforms (reducing the number of *régions*, enhancing intermunicipal cooperation, restricting the powers of or abolishing the *départements*). Although the planned timetable has since been brought forward, the measures will take effect only in the medium term and they are subject to significant implementation risks.

[56] The following categories are used to assess progress in implementing the 2013 country-specific recommendations: No progress: The Member State has neither announced nor adopted any measures to address the CSR. This category also applies if a Member State has commissioned a study group to evaluate possible measures. Limited progress: The Member State has announced some measures to address the CSR, but these measures appear insufficient and/or their adoption/implementation is at risk. Some progress: The Member State has announced or adopted measures to address the CSR. These measures are promising, but not all of them have been implemented yet and implementation is not certain in all cases. Substantial progress: The Member State has adopted measures, most of which have been implemented. These measures go a long way in addressing the CSR. Fully addressed: The Member State has adopted and implemented measures that address the CSR appropriately.

CSR 1 (continued): Take measures by the end of 2013 to bring the pension system into balance in a sustainable manner no later than 2020, for example by adapting indexation rules, by increasing the full-pension contribution period, by further increasing the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy and by reviewing special schemes, while avoiding an increase in employer social security contributions, and increase the cost-effectiveness of healthcare expenditure, including in the areas of pharmaceutical spending.	**Some progress** Pension reform measures adopted in 2013 include an increase in the required contribution period, from 2020, and an increase in social security contributions by 0.6 pp to be in place by 2017. Limited progress has been made in increasing the cost-effectiveness of the healthcare system.
CSR 2: Ensure that the reduction in the labour cost resulting from the 'credit d'impôt compétitivité-emploi' yields the planned amount and that no other measure will offset its effect.	**France has made some progress in addressing CSR 2** **Some progress** Thanks to the CICE tax credit, the cost of labour should decrease by 6 % from 2014 for workers paid less than 2.5 times the minimum wage. This measure bridges half of the gap between the proportion of an individual's total wage paid as tax for the average wage in France and in the OECD. The government estimates that this measure could create up to 300 000 jobs by 2017.
CSR 2 (continued): Take further action to lower the cost of labour, in particular through further measures to reduce employer social security contributions, in association with the social partners.	**Some progress** The cost of labour will be further reduced as part of the responsibility and solidarity pact, through an additional reduction in employer social security contributions. The total amount of the reduction is EUR 10 billion (on top of the EUR 20 billion from the CICE tax credit). In particular, EUR 4.5 billion will be spent on low wages (between 1 and 1.6 times the minimum wage) and another EUR 4.5 billion on medium wages (between 1.6 and 3.5 the minimum wage).
CSR 2 (continued): Ensure that developments in the minimum wage are supportive of competitiveness and job creation, taking into account the existence of wage support schemes and social security contribution exemptions	**Some progress** In 2013 and 2014, the government did not increase the minimum wage beyond the minimum level set in the law (inflation and half of the purchasing power of the hourly wages of workers and employees (SHBOE)).
CSR 3: Take further measures to improve the business environment and develop the innovation and export capacity of firms, in particular SMEs and enterprises of intermediate size.	**France has made some progress in addressing CSR 3** **Limited progress** A law adopted on 2 January 2014 allows the government to take actions by decree to simplify and make the business environment more secure for companies.
CSR 3 (continued): In particular, launch the announced simplification initiative of the regulatory framework,	**Some progress** The measures already adopted to simplify accounting and fiscal statements of SMEs (law of 30 January 2014), the increased validity period for identity cards and the creation of a unique identifying number for companies are positive, though limited steps. The government has committed itself to taking 10 additional measures every month, starting from May.

CSR 3 (continued): and improve the framework conditions for innovation, by enhancing technology transfer and the commercial exploitation of research, including through a reorientation of the competitiveness poles.	**Some progress** A number of policy measures have been announced to increase and facilitate innovation, including: 1) a second tranche of the 'Investment plan for the future'; 2) a new innovation tax credit for SMEs (EUR 160 million expected in 2014); 3) a plan to encourage knowledge transfer from public sector research; 4) new financial products from the Public Investment Bank, tailored to the perceived needs of innovative companies; 5) a five-year tax depreciation for acquisition of minority business participation in innovative companies; 6) the French Tech programme, aiming to accelerate the growth of digital start-ups and boost digital ecosystems; and 7) 34 industrial plans, led by industry managers.
CSR 4: Take action to enhance competition in services; remove unjustified restrictions in the access to and exercise of professional services, notably regarding legal form, shareholding structure, quotas and territorial restrictions;	**France has made limited progress in addressing CSR 4** **Limited progress** The only action undertaken relates to ending the limitation on the number of salaried public notaries, the monopoly for pharmacists on some specific products such as pregnancy tests and the restrictions on optical products. The government expects that the recently introduced law on consumption, which allows for class actions in French law, liberalises a number of sectors (notably opticians) and facilitates contract termination in the insurance sector, could also strengthen competition. Positive changes are underway, such as abolishing the ban on commercial communications for lawyers and the legal forms and shareholding requirements for accountants, which still need to be implemented by delegated acts. Discussions are ongoing regarding the regulation setting a minimum length of time required for tourism vehicles with a driver to serve their client, following its suspension by the *Conseil d'Etat*.
CSR 4 (continued): take action to simplify authorisation for the opening of trade outlets and to remove the ban of sales at a loss;	**Limited progress** Reforms are currently being considered to simplify the establishment of retail outlets. However, no concrete measures in this respect have so far been adopted. The ban on sales at a loss has not been removed.
CSR 4 (continued): remove regulated gas and electricity tariffs for non-household customers and strengthen interconnection capacity with neighbouring countries; in the railway sector, open domestic passenger transport to competition.	**Some progress** Regulated tariffs for electricity and gas will be phased out by the end of 2015 for non-household customers. Ongoing interconnection projects in gas and electricity will allow more competition and better market integration. The on-going railway reform aims to establish a fully-fledged infrastructure manager within an industry-wide structure with a view to improving financial sustainability. The reform does not address market opening and may have a negative effect on access to the network.
CSR 5: Pursue efforts to simplify the tax system and improve its efficiency, while ensuring continuity of tax rules over time.	**France has made limited progress in addressing CSR 5** **Limited progress** Few measures were taken in 2013 to rationalise the tax system.

CSR 5 (continued): Take additional measures to remove the debt bias in corporate taxation. Step up efforts to reduce and streamline personal and corporate income tax expenditures while reducing statutory rates;	**No progress** No additional measures to limit incentives to indebtedness have been taken since limiting the deduction of net loan interests above EUR 3 million to 75 % (85 % in 2013). No progress has been made either in broadening personal and corporate income tax bases and a temporary surcharge on large companies created in 2012 has instead been extended to 2015 and its rate has been more than doubled to 10.7 %.
CSR 5 (continued): bring reduced VAT rates closer to the standard rate and remove inefficient reduced rates.	**No progress** No progress has been made in increasing VAT efficiency. Instead, the 2014 budget introduced reduced VAT rates on energy- or social housing-related renovation works and on cinema tickets, with no review of their effectiveness.
CSR 5 (continued): Take further measures shifting the tax burden from labour to environmental taxation or consumption.	**Some progress** The cost of labour will be further reduced as part of the responsibility and solidarity pact, through an additional reduction in employer social security contributions. The government has also introduced a 'carbon tax' (the *contribution climat-énergie*), linking excise duties on energy products to their CO_2 content. Among other measures, bonus and penalty car taxation has been strengthened and reduced rates for certain biofuels will be phased out. By contrast, VAT rates on energy- or social housing-related renovation works have been lowered and a tax on heavy goods vehicles (the *éco-taxe poids lourds*) has been suspended.
CSR 6: Implement fully and without delay the January 2013 inter-professional agreement, in consultation with the social partners. Take further action to combat labour-market segmentation, in particular to address the situation of interim agency workers.	**France has made some progress in addressing CSR 6** **Some progress** The law on securing employment, which transposed the inter-professional agreement into French law, was adopted in June 2013. It facilitates moving to part-time work and reduces the risks from an employer's perspective linked to dismissal procedures.
CSR 6 (continued): Launch urgently a reform of the unemployment benefit system in association with the social partners and in accordance with national practices to ensure sustainability of the system while ensuring that it provides adequate incentives to return to work.	**Some progress** In March 2014, an agreement was found among the social partners, including the MEDEF employers' federation, to reform the unemployment benefit system. The agreement introduces only moderate changes. It introduces the concept of *droits rechargeables*, which enables a jobseeker to retain previous accumulated rights to unemployment benefits in future periods of unemployment rather than forfeit them when taking up a job. The savings measures are expected to yield around EUR 800 million according to the national reform programme. Taking into account the costs linked to the implementation of the *droits rechargeables*, this will most likely be insufficient to significantly reduce the system's debt.
CSR 6 (continued): Enhance the employment rate of older workers and stimulate their participation in the labour market. Take specific action to improve the employment perspective of older unemployed people in particular through specific counselling and training.	**Limited progress** The measure introduced by the government in March 2013 to increase the number of older workers in employment (the *contrats de génération*) has proved insufficient.

CSR 6 (continued): Increase adult participation in lifelong learning, especially of the least qualified and of the unemployed.	**Some progress** A law on vocational training was adopted in March 2014. Personal training accounts aim to increase access to training for unemployed people and those with fewer qualifications. The law increases the role played by the *régions*. In addition, 30 000 jobseekers have been offered targeted training to help meet the needs of sectors which do not have a sufficient workforce.
CSR 6 (continued): Ensure that public employment services effectively deliver individualised support to the unemployed and that active labour market policies effectively target the most disadvantaged.	**Substantial progress** The reform of public employment services allows for an increased emphasis on personalised follow-up and a focus on unemployed people who have been out of the labour market for the longest period of time.
CSR 6 (continued): Take further measures to improve the transition from school to work through, for example, a Youth Guarantee and promotion of apprenticeship	**Some progress** The 'jobs of the future' programme has helped stabilise the number of young people registered as unemployed. The law on vocational training is expected to increase support for apprenticeships by increasing the regional coordination role and funds granted to the *régions*. It also aims to guarantee quality apprenticeships for those with fewer qualifications. Limited progress has been made, however, on the Youth Guarantee, with improvement needed in coverage, quality of offers and the coordination of actors in the scheme.
Europe 2020 (national targets and progress)	
Policy field target	**Progress achieved**
Employment rate target set in the 2012 national reform programme: 75 %	The employment rate among 20-64 year-olds was 69.2 % in 2010 and 2011, and 69.3 % in 2012. Quarterly data suggest that this rate could have risen to 69.9 % by the end of 2013. Although employment is expected to rise again from 2014, this change is expected to be too moderate for France to meet its 75 % target.

R&D target: 3 % of GDP by 2020	2.26 % in 2012. France is not likely to reach its target, mainly because of the relatively low level of business investment in R&D. This is chiefly due to the decline of industry and to the sectoral structure of the economy, where the proportion of medium/high- and high-tech sectors is relatively low. Business R&D intensity increased slightly, from 1.31 % in 2008 to 1.45 % in 2012, but a significant part of this is publicly funded (public sector funding of business R&D was 0.38 % of GDP in 2011). French companies do not under-invest in R&D and the ratio of R&D expenses to sales of French companies that carry out R&D is similar to or higher than that seen in other OECD countries. France has long had policies involving significant public sector funding for business R&D. To date, this has not been effective enough to prevent the erosion of its industrial base. The significant public sector funding and the complex research and innovation system need careful monitoring and evaluation.
2020 Renewable energy target: 23 % Proportion of renewable energy in all modes of transport: 10 %	The proportion of RES in total energy consumption in 2012 was 13.4 %. However, the average proportion of RES for 2011-12 (12.4 %) was 0.4 pp below the Renewable Energy Directive benchmark of 12.8 %. RES proportion in the transport industry: 7.1 %.
Greenhouse gas (GHG) emissions target: -14 %, compared to 2005 emissions. Emissions Trading Scheme (ETS) emissions are not covered by this national target.	The change in non-ETS greenhouse gas emissions between 2005 and 2012 was -10 %. According to the latest national projections and taking into account existing measures, the target is expected to be met, with a margin of 2 pps, with a reduction of 16 % in 2020 compared to 2005.
Energy efficiency target. 17.4 % (reduction of final energy consumption in 2020). By 2020: level of 236.3 Mtoe primary consumption and 131.4 Mtoe final energy consumption.	In 2012, primary consumption amounted to 246.5 Mtoe while final energy consumption represented 153.5 Mtoe. The plans to improve energy efficiency in the real estate sector (500 000 dwellings refurbished every year) will only start in 2017. Although some measures have been implemented to improve energy efficient transport (such as strengthening bonus and penalty car taxation), the suspension of the *éco-taxe poids lourds* is a negative signal.
Early school leaving target: 9.5 %	In line with the general EU trend, the French early school leaving rate decreased between 2011 and 2012, from 12 % to 11.6 % (no provisional data are available for 2013), progressing towards the national target of 9.5 %. The rate remains below the EU average of 12.7 %. Modest progress has been made from 12.4 % in 2006 to the current early school leaving rate of 11.6 %.

Tertiary education target: 50 % The French tertiary education target differs from the Europe 2020 benchmark and refers to the age group 17 to 33 year-olds. The French indicator allows for the increase in recent HE graduates to be taken into consideration.	The tertiary educational attainment rate was 44.0 % in 2013 (according to provisional data), 43.6 % in 2012 and 43.4 % in 2011, getting closer to the national target of 50 %. Significant progress has been made, moving from 39.7 % in 2006 to the current tertiary attainment rate, which surpasses the EU average of 35.7 %.
Reduction of the number of people at risk of poverty or social exclusion by one sixth by 2020 (i.e. 1.9 million).	There were 11.84 million people at risk of poverty or social exclusion in 2011, falling to 11.76 million in 2012. While the figures showed a slight decrease between 2011 and 2012, there were 67 000 more people at risk of poverty or social exclusion compared to 2010. No progress has been made in achieving the poverty reduction target set by the previous government. In the last few years, the main measure to limit the risk of poverty and social exclusion was the introduction of an income support scheme (the *revenu de solidarité active* or RSA) in 2010. The effectiveness of this scheme is, however, hampered by the very high non-take-up rates among the working poor. The multiannual plan against poverty (published in January 2013) includes the creation of a Youth Guarantee, the extension of the complementary health coverage, measures to improve access to housing and accommodation for homeless people, reinforced activation measures and measures to support families. Most of these reforms are underway or have been completed. On the other hand, the plan was also supposed to include a much-needed reform of the RSA which is still to be launched. The government's 2014 roadmap against poverty maintains a particular focus on labour market participation, effective access to rights, family measures and better governance for social inclusion policies.

ANNEX

Table I. Macroeconomic indicators

	1996-2000	2001-2005	2006-2010	2011	2012	2013	2014	2015
Core indicators								
GDP growth rate	2.7	1.6	0.6	2.0	0.0	0.2	1.0	1.5
Output gap [1]	-0.1	2.0	0.8	-0.9	-2.0	-2.7	-2.8	-2.4
HICP (annual % change)	1.3	2.0	1.7	2.3	2.2	1.0	1.0	1.1
Domestic demand (annual % change) [2]	2.7	1.9	1.0	2.0	-0.9	0.2	1.0	1.7
Unemployment rate (% of labour force) [3]	10.4	8.6	8.6	9.2	9.8	10.3	10.4	10.2
Gross fixed capital formation (% of GDP)	17.7	18.7	20.2	20.0	19.8	19.2	19.4	20.0
Gross national saving (% of GDP)	20.1	19.6	19.1	18.3	17.7	17.7	18.1	18.6
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-2.7**	**-3.1**	**-4.6**	**-5.2**	**-4.9**	**-4.3**	**-3.9**	**-3.4**
Gross debt	**58.7**	**62.3**	**71.7**	**86.2**	**90.6**	**93.5**	**95.6**	**96.6**
Net financial assets	**-40.5**	**-44.7**	**-46.1**	**-62.3**	**-70.3**	**n.a**	**n.a**	**n.a**
Total revenue	50.5	49.8	49.8	50.7	51.8	52.8	52.9	52.7
Total expenditure	53.1	52.9	54.4	55.9	56.7	57.0	56.8	56.1
of which: Interest	3.2	2.8	2.6	2.6	2.6	2.3	2.4	2.4
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**0.5**	**-0.5**	**-0.7**	**-1.6**	**-1.4**	**-1.3**	**-1.2**	**-1.5**
Net financial assets; non-financial corporations	**-84.7**	**-88.4**	**-111.4**	**-110.6**	**-116.4**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**13.6**	**7.7**	**14.2**	**22.1**	**26.5**	**n.a**	**n.a**	**n.a**
Gross capital formation	9.6	10.1	10.8	11.5	10.4	10.0	10.4	11.1
Gross operating surplus	16.7	16.7	16.8	16.2	15.8	15.8	15.9	16.1
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**4.1**	**4.1**	**3.9**	**4.4**	**4.0**	**3.9**	**3.5**	**3.4**
Net financial assets	**125.4**	**125.8**	**134.2**	**132.7**	**139.4**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	38.1	39.1	39.1	39.4	39.5	39.5	39.1	38.8
Net property income	6.7	6.5	6.6	6.6	6.6	6.5	6.5	6.5
Current transfers received	24.5	24.6	25.3	26.4	26.9	27.4	27.4	27.2
Gross saving	9.7	10.1	10.4	10.7	10.3	10.4	10.1	10.0
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**2.0**	**0.4**	**-1.5**	**-2.5**	**-2.2**	**-1.9**	**-1.9**	**-1.9**
Net financial assets	**-11.8**	**1.7**	**12.3**	**23.5**	**26.3**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	2.0	0.7	-1.8	-3.0	-2.2	-2.0	-2.0	-2.1
Net primary income from the rest of the world	1.0	1.2	1.8	2.1	1.7	1.8	1.8	1.8
Net capital transactions	0.1	-0.1	0.0	0.0	-0.1	0.0	-0.1	0.0
Tradable sector	39.2	37.9	34.8	33.8	33.4	33.1	n.a	n.a
Non tradable sector	50.0	51.9	55.0	55.9	56.2	56.5	n.a	n.a
of which: Building and construction sector	4.4	4.8	5.6	5.5	5.6	5.4	n.a	n.a
Real effective exchange rate (index, 2000=100)	96.7	96.4	103.0	103.4	101.3	104.2	105.5	104.9
Terms of trade goods and services (index, 2000=100)	101.7	101.3	99.9	98.1	97.4	98.1	98.2	98.4
Market performance of exports (index, 2000=100)	111.8	106.8	93.3	92.4	94.8	94.9	94.4	94.6

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

Source:

Commission 2014 spring forecast (COM); Stability programme (SP).

Table II. Comparison of macroeconomic developments and forecasts

	2013		2014		2015		2016	2017
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	0.2	0.2	1.0	1.0	1.5	1.7	2¼	2¼
Private consumption (% change)	0.3	0.8	0.6	0.8	1.2	1.6	2.2	2.2
Gross fixed capital formation (% change)	-2.3	-2.1	1.3	0.2	4.5	1.3	3.3	3.4
Exports of goods and services (% change)	0.6	0.8	3.1	3.4	5.3	4.7	6.9	6.9
Imports of goods and services (% change)	0.5	0.8	3.1	3.1	5.8	4.1	5.7	5.7
Contributions to real GDP growth:								
- Final domestic demand	0.1	0.2	0.9	0.6	1.7	1.4	1.9	2.0
- Change in inventories	0.1	0.1	0.1	0.3	0.0	0.2	0.0	0.0
- Net exports	0.0	0.0	-0.1	0.0	-0.2	0.1	0.3	0.3
Output gap[1]	-2.7	-2.6	-2.8	-2.9	-2.4	-2.5	-1.7	-0.9
Employment (% change)	-0.3	-0.2	0.3	0.6	0.8	0.7	0.9	0.9
Unemployment rate (%)	10.3	n.a.	10.4	n.a.	10.2	n.a.	n.a.	n.a.
Labour productivity (% change)	0.6	0.4	0.7	0.4	0.7	1.0	1.3	1.3
HICP inflation (%)	1.0	0.9	1.0	1.2	1.1	1.5	1.8	1.8
GDP deflator (% change)	1.1	1.1	1.3	1.2	1.2	1.5	1.7	1.7
Comp. of employees (per head, % change)	1.7	1.7	1.2	1.5	1.3	1.8	n.a.	n.a.
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-1.9	-1.6	-1.9	-1.4	-1.9	-1.2	-0.9	-0.5

Note:

[1] In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the

Source :

Commission 2014 spring forecast (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2013	2014		2015		2016	2017	Change: 2013-2017
	COM	COM	SP	COM[1]	SP	SP	SP	SP
Revenue	**52.8**	**52.9**	**52.9**	**52.7**	**52.6**	**52.4**	**52.2**	**-0.6**
of which:								
- Taxes on production and imports	15.8	16.1	16.1	16.2	16.2	16.2	16.1	0.3
- Current taxes on income, wealth, etc.	12.4	12.1	12.0	11.9	11.9	11.9	11.9	-0.5
- Social contributions	19.4	19.4	19.5	19.0	19.1	18.9	18.9	-0.5
- Other (residual)	5.3	5.4	5.3	5.6	5.4	5.4	5.3	0.0
Expenditure	**57.0**	**56.8**	**56.6**	**56.1**	**55.6**	**54.5**	**53.5**	**-3.5**
of which:								
- Primary expenditure	54.8	54.4	54.2	53.7	53.1	51.9	50.8	-4.0
of which:								
Compensation of employees	13.3	13.2	13.2	13.0	12.9	12.5	12.2	-1.1
Intermediate consumption	5.7	5.6	5.5	5.6	5.5	5.3	5.2	-0.5
Social payments	26.3	26.3	26.2	26.1	25.8	25.5	25.1	-1.2
Subsidies	1.5	1.5	1.5	1.5	1.5	1.5	1.5	0.0
Gross fixed capital formation	3.2	3.0	3.1	2.9	2.8	2.7	2.6	-0.6
Other (residual)	4.8	4.7	4.8	4.6	4.7	4.6	4.2	-0.6
- Interest expenditure	2.3	2.4	2.4	2.4	2.5	2.6	2.7	0.4
General government balance (GGB)	**-4.3**	**-3.9**	**-3.8**	**-3.4**	**-3.0**	**-2.2**	**-1.3**	**3.0**
Primary balance	**-2.0**	**-1.5**	**-1.4**	**-1.0**	**-0.5**	**0.4**	**1.4**	**3.4**
One-off and other temporary measures	0.2	0.0	0.0	-0.1	-0.1	-0.1	0.0	-0.2
GGB excl. one-offs	**-4.5**	**-3.9**	**-3.8**	**-3.3**	**-2.9**	**-2.1**	**-1.3**	**3.2**
Output gap[2]	-2.7	-2.8	-2.9	-2.4	-2.5	-1.7	-0.9	1.8
Cyclically-adjusted balance[2]	-2.8	-2.4	-2.2	-2.1	-1.7	-1.3	-0.8	2.0
Structural balance (SB)[3]	**-3.0**	**-2.3**	**-2.2**	**-2.0**	**-1.6**	**-1.2**	**-0.8**	**2.2**
Change in SB	*0.8*	*0.6*	*0.9*	*0.4*	*0.6*	*0.4*	*0.4*	-
Two year average change in SB	*0.9*	*0.7*	*0.8*	*0.5*	*0.8*	*0.5*	*0.4*	-
Structural primary balance[3]	-0.7	0.0	0.2	0.5	0.9	1.4	1.9	2.7
Change in structural primary balance		*0.7*	*1.0*	*0.4*	*0.7*	*0.5*	*0.5*	-
Expenditure benchmark								
Applicable reference rate[4]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-
Deviation[5] (% GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-
Two-year average deviation (% GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-

Notes:

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by 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 negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Stability programme (SP); Commission 2014 spring forecast (COM); Commission calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2008-2012	2013	2014		2015		2016	2017
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**81.4**	**93.5**	**95.6**	**95.6**	**96.6**	**95.6**	**94.2**	**91.9**
Change in the ratio	5.3	2.9	2.1	2.1	1.0	0.0	-1.4	-2.3
Contributions[2] *:*								
1. Primary balance	**3.0**	**2.0**	**1.5**	**1.4**	**1.0**	**0.5**	**-0.4**	**-1.4**
2. "Snow-ball" effect	**1.4**	**1.1**	**0.3**	**0.4**	**-0.1**	**-0.4**	**-1.0**	**-0.8**
Of which:								
Interest expenditure	2.6	2.3	2.4	2.4	2.4	2.5	2.6	2.7
Growth effect	-0.1	-0.2	-0.9	-0.9	-1.4	-1.6	-2.1	-2.0
Inflation effect	-1.0	-1.0	-1.2	-1.1	-1.1	-1.4	-1.5	-1.5
3. Stock-flow adjustment	**0.9**	**-0.2**	**0.3**	**0.3**	**0.1**	**0.0**	**0.0**	**-0.1**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								

	2013	2014		2015		2016	2017
		COM	SP	COM	SP	SP	SP
Gap to the debt benchmark[3,4]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Structural adjustment[5]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
To be compared to:							
Required adjustment[6]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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

[3]Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three

[4]Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-

[5]Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that

[6]Defines the remaining annual structural adjustment over the transition period which ensures that - if followed –

Source :

Stability programme (SP); Commission 2014 spring forecast (COM); Commission calculations.

Table V. Sustainability indicators

	France			European Union		
	2013 scenario	No-policy-change scenario	Stability programme scenario	2013 scenario	No-policy-change scenario	Stability programme scenario
S2*	2.6	1.6	0.2	2.4	2.4	0.7
of which:						
Initial budgetary position (IBP)	1.7	0.6	-0.8	0.5	0.4	-1.3
Long-term cost of ageing (CoA)	0.9	1.0	1.0	1.9	2.0	2.0
of which:						
pensions	0.5	0.7	0.7	0.7	0.8	0.9
healthcare	1.1	1.0	0.9	0.9	0.9	0.8
long-term care	-0.2	-0.1	-0.1	0.6	0.6	0.6
others	-0.5	-0.5	-0.5	-0.4	-0.4	-0.3
S1**	3.4	2.2	0.8	1.5	1.7	-0.2
of which:						
Initial budgetary position (IBP)	1.3	-0.4	-1.8	-0.2	-0.4	-2.0
Debt requirement (DR)	2.0	2.5	2.4	1.5	1.8	1.5
Long-term cost of ageing (CoA)	0.0	0.1	0.1	0.2	0.3	0.3
S0 (risk for fiscal stress)***	0.13	:		:		
Debt as % of GDP (2013)	93.5			88.9		
Age-related expenditure as % of GDP (2013)	31.2			25.8		

Source *: Commission; 2014 stability programme.*

Note : The 2013 scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2013 in line with the Commission's 2014 spring forecast. The 'no-policy-change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2015 in line with the Commission's 2014 spring forecast. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented. Age-related expenditure as given in the 2012 Ageing Report.

* The long-term sustainability gap (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 (IBP), which gives the gap vis-à-vis 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 bound 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. The following thresholds were used for the S2 indicator: (i) if the value of S2 is lower than 2, the country is classed as low risk; (ii) if it is between 2 and 6, it is classed as medium risk; and (iii) if it is greater than 6, it is classed as high risk.

** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance in the period to 2020 and then sustained for a decade, to bring debt ratios back to 60% of GDP in 2030, including financing for any additional expenditure by the target date, arising from population ageing. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is classed as low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 pp of GDP per year until 2020 after the last year covered by the 2014 spring forecast (2015) is required (indicating a cumulated adjustment of 2.5 pp), it is classed as medium risk; and (iii) if the S1 value is greater than 2.5 (i.e. a structural adjustment of more than 0.5 pp of GDP per year is necessary), it is classed as high risk.

*** The S0 indicator reflects up-to-date evidence on the role played by fiscal and financial competitiveness variables in creating potential fiscal risks. The methodology for the S0 indicator differs fundamentally from that for the S1 and S2 indicators. Unlike S1 and S2, S0 is not a quantification of the required fiscal adjustment effort, but a composite indicator which estimates the extent to which there might be a risk of fiscal stress in the short term. The critical threshold for the S0 indicator is 0.43.

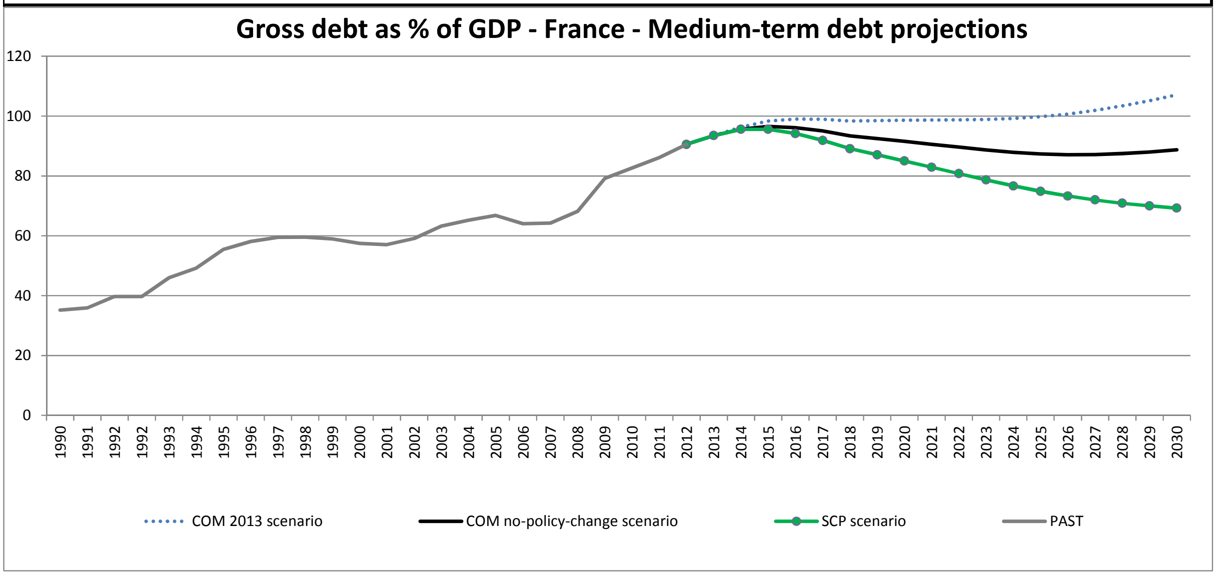

Table VI. Taxation indicators

	2002	2006	2008	2010	2011	2012
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	43.3	44.1	43.2	42.5	43.7	45.0
Breakdown by economic function (% of GDP)[1]						
Consumption	11.3	11.2	10.8	10.8	11.0	11.1
of which:						
- VAT	7.2	7.3	7.1	7.0	7.0	7.0
- excise duties on tobacco and alcohol	0.8	0.7	0.7	0.7	0.7	0.7
- energy	1.7	1.6	1.4	1.4	1.5	1.5
- other (residual)	1.7	1.6	1.6	1.7	1.8	1.9
Labour employed	20.9	21.0	20.8	20.8	21.2	21.7
Labour non-employed	1.4	1.4	1.5	1.6	1.7	1.8
Capital and business income	5.5	6.1	5.9	5.1	5.5	5.8
Stocks of capital/wealth	4.4	4.7	4.5	4.4	4.7	4.8
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	47.0	47.7	47.4

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 (2014), 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. It is defined as the ratio between the actual VAT revenue collected and the revenue that would be raised if VAT was applied at the standard rate to all final (domestic) consumption expenditures, which is an imperfect measure of the theoretical pure VAT base. 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'). It should be noted that the relative size of cross-border shopping compared to domestic consumption also influences the value of the ratio, notably for smaller economies. See European Commission (2012), Tax Reforms in EU Member States and OECD (2012), Consumption tax trends for a more detailed discussion.

Source: Commission

Table VII. Financial market indicators

	2009	2010	2011	2012	2013
Total assets of the banking sector (% of GDP)	406.0	404.1	419.6	397.4	382.7
Share of assets of the five largest banks (% of total assets)	47.2	47.4	48.3	44.6	-
Foreign ownership of banking system (% of total assets)	10.1	9.7	9.6	10.4	-
Financial soundness indicators:					
- non-performing loans (% of total loans)[1),2)]	4.0	3.8	4.3	4.3	-
- capital adequacy ratio (%) [1)]	12.4	12.7	12.3	14.5	-
- return on equity (%) [1)]	7.2	12.0	8.3	6.0	-
Bank loans to the private sector (year-on-year % change)	-0.6	5.0	2.4	2.0	0.9
Lending for house purchase (year-on-year % change)	3.7	8.0	6.1	2.8	3.6
Loan to deposit ratio	120.2	118.0	113.4	111.2	107.8
CB liquidity as % of liabilities	2.7	1.0	3.6	4.0	2.2
Banks' exposure to countries receiving official financial assistance (% of GDP)[3)]	15.4	10.2	8.4	6.2	6.2
Private debt (% of GDP)	134.6	136.4	138.5	140.6	-
Gross external debt (% of GDP)					
- Public	49.5	51.0	52.0	56.3	58.9
- Private	43.1	45.4	52.4	52.6	49.9
Long term interest rates spread versus Bund (basis points)*	42.8	37.5	71.2	104.2	63.4
Credit default swap spreads for sovereign securities (5-year)*	41.0	60.2	94.9	85.7	38.9

Notes:

[1)] Latest data December 2012.

[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.

* 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	2008	2009	2010	2011	2012	2013
Employment rate (% of population aged 20-64)	70.4	69.5	69.2	69.2	69.4	69.5
Employment growth (% change from previous year)	0.5	-1.3	0.1	0.6	0.0	-0.2
Employment rate of women (% of female population aged 20-64)	65.5	64.9	64.8	64.7	65.1	65.5
Employment rate of men (% of male population aged 20-64)	75.5	74.2	73.8	74.0	73.8	73.7
Employment rate of older workers (% of population aged 55-64)	38.2	39.0	39.8	41.5	44.5	45.6
Part-time employment (% of total employment, 15 years and more)	17.0	17.4	17.8	17.9	18.0	18.4
Part-time employment of women (% of women employment, 15 years and more)	29.5	30.0	30.1	30.1	30.2	30.6
Part-time employment of men (% of men employment, 15 years and more)	5.7	6.0	6.7	6.8	6.9	7.2
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	14.9	14.3	14.9	15.2	15.1	16.5
Transitions from temporary to permanent employment	12.2	12.8	10.6	11.6	10.9	:
Unemployment rate[1] (% of labour force, age group 15-74)	7.5	9.1	9.3	9.2	9.8	10.3
Long-term unemployment rate[2] (% of labour force)	2.8	3.2	3.8	3.8	4.0	4.2
Youth unemployment rate (% of youth labour force aged 15-24)	19.0	23.6	23.3	22.6	24.4	24.8
Youth NEET rate (% of population aged 15-24)	10.2	12.4	12.4	12.0	12.2	11.2
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	11.5	12.2	12.6	12.0	11.6	9.7
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	41.2	43.2	43.5	43.3	43.6	44.0
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	17.0	16.0	17.0	18.0	:	:
Formal childcare (30 hours or over; % over the population less than 3 year)	23.0	25.0	26.0	26.0	:	:
Labour productivity per person employed (annual % change)	-0.4	-1.6	1.8	1.3	0.1	0.5
Hours worked per person employed (annual % change)	0.5	-1.3	0.5	0.1	-0.2	0.0
Labour productivity per hour worked (annual % change; constant prices)	-1.0	-0.6	1.2	1.2	0.2	0.5
Compensation per employee (annual % change; constant prices)	0.2	1.3	1.5	1.2	0.6	0.7
Nominal unit labour cost growth (annual % change)	3.2	3.7	0.7	1.3	2.1	:
Real unit labour cost growth (annual % change)	0.7	3.0	-0.2	0.0	0.6	:

Notes:

[1] 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.

[2] Long-term unemployed are unemployed persons for at least 12 months.

Sources:
Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	**2007**	**2008**	**2009**	**2010**	**2011**
Sickness/Health care	8.6	8.6	9.2	9.2	9.1
Invalidity	1.8	1.8	1.9	2.0	2.0
Old age and survivors	13.0	13.4	14.3	14.4	14.5
Family/Children	2.6	2.6	2.7	2.7	2.6
Unemployment	1.9	1.9	2.1	2.2	2.1
Housing and Social exclusion n.e.c.	0.8	0.8	0.8	0.8	0.8
Total	29.3	29.7	31.9	32.0	31.9
of which: means tested benefits	3.3	3.3	3.6	3.6	3.6
Social inclusion indicators	**2008**	**2009**	**2010**	**2011**	**2012**
At-risk-of-poverty or social exclusion[1] (% of total population)	18.5	18.5	19.2	19.3	19.1
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	21.2	21.2	22.9	23.0	23.2
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	14.1	13.4	11.8	11.5	11.1
At-Risk-of-Poverty rate[2] (% of total population)	12.5	12.9	13.3	14.0	14.1
Severe Material Deprivation[3] (% of total population)	5.4	5.6	5.8	5.2	5.3
Share of people living in low work intensity households[4] (% of people aged 0-59)	8.8	8.4	9.9	9.4	8.4
In-work at-risk-of poverty rate (% of persons employed)	6.5	6.6	6.5	7.6	8.0
Impact of social transfers (excluding pensions) on reducing poverty	46.8	46.3	46.6	43.3	40.8
Poverty thresholds, expressed in national currency at constant prices[5]	11 160	11 244	11 414	11 238	11 321
Gross disponsable income (households)	1 297 664	1 305 151	1 332 483	1 369 027	1 382 363
Relative median poverty risk gap (60% of median equivalised income, age: total)	14.5	18.2	19.5	17.1	16.2

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	2004-2008	2009	2010	2011	2012	2013
Labour productivity[1] total economy (annual growth in %)	0.8	-1.7	1.5	1.5	0.2	n.a.
Labour productivity[1] in manufacturing (annual growth in %)	2.0	-2.7	8.3	3.5	-1.3	n.a.
Labour productivity[1] in electricity, gas, water (annual growth in %)	-1.4	-18.8	2.0	-4.5	1.9	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	-1.9	-6.1	-3.8	0.1	-0.4	n.a.
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	305.3	301.7	301.7	301.5	n.a.	n.a.
Policy indicators	**2004-2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Enforcing contracts[3] (days)	390.0	390	390	390	390	395
Time to start a business[3] (days)	6.9	7	7	7	7	7
R&D expenditure (% of GDP)	2.1	2.3	2.2	2.3	2.3	n.a.
Tertiary educational attainment (% of 30-34 years old population)	39.1	43.2	43.5	43.3	43.6	44.0
Total public expenditure on education (% of GDP)	5.7	5.9	5.9	n.a.	n.a.	n.a.
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	1.5	n.a.	n.a.	n.a.	n.a.	1.4
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	3.8	n.a.	n.a.	n.a.	n.a.	2.6
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	2.6	n.a.	n.a.	n.a.	n.a.	2.4

Notes:

[1] Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2] Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.

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

[4] The methodologies 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.

[5] Aggregate ETCR.

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

		2003-2007	2008	2009	2010	2011	2012
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.18	0.17	0.16	0.17	0.16	0.16
Carbon intensity	kg / €	0.35	0.33	0.32	0.32	0.30	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	0.55	0.55	0.50	0.49	0.49	n.a.
Waste intensity	kg / €	n.a.	0.21	n.a.	0.22	n.a.	n.a.
Energy balance of trade	% GDP	-2.0%	-2.9%	-2.0%	-2.4%	-3.1%	-3%
Energy weight in HICP	%	9	9	8	8	9	10
Difference between change energy price and inflation	%	2.16	6.4	-5.9	4.9	8.0	3.3
Environmental taxes over labour taxes	ratio	8.6%	8.0%	7.9%	7.8%	8.0%	n.a.
Environmental taxes over total taxes	ratio	4.4%	4.1%	4.3%	4.1%	4.1%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.16	0.15	0.14	n.a.	n.a.	n.a.
Share of energy-intensive industries in the economy	% GDP	7.0	6.6	6.1	n.a.	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.06	0.06	0.07	0.07	0.07
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	0.04	0.03	0.03	0.04	0.04
Public R&D for energy	% GDP	n.a.	0.04%	0.05%	0.06%	0.05%	0.05%
Public R&D for the environment	% GDP	n.a.	0.02%	0.02%	0.02%	0.01%	0.01%
Recycling rate of municipal waste	ratio	62.0%	66.8%	67.1%	67.4%	71.3%	70.4%
Share of GHG emissions covered by ETS*	%	n.a.	23.3%	21.8%	22.4%	21.5%	21.1%
Transport energy intensity	kgoe / €	0.50	0.46	0.47	n.a.	n.a.	n.a.
Transport carbon intensity	kg / €	1.41	1.21	1.23	n.a.	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	51.0%	50.8%	51.0%	49.1%	48.6%	48.1%
Diversification of oil import sources	HHI	n.a.	0.07	0.07	0.08	0.07	n.a.
Diversification of energy mix	HHI	0.32	0.31	0.31	0.30	0.32	0.31
Share renewable energy in energy mix	%	5.8%	6.9%	7.3%	7.8%	7.0%	8.2%

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
* Commission and EEA.
** For 2007 average of S1 & S2 for DE, HR, LU, NL, FI, SE & UK. Other countries only have S2.
*** For 2007 average of S1 & S2 for HR, IT, NL, FI, SE & UK. Other countries only have S2.

List of indicators used in Box 4 on the potential impact on growth of structural reforms.

Final goods sector mark-ups: Price-cost margin, i.e. the difference between the selling price of a good or service and its cost. Final goods mark-ups are proxied by the mark-ups in selected services sectors (transport and storage, post and telecommunications, electricity, gas and water supply, hotels and restaurants and financial intermediation but excluding real estate and renting of machinery and equipment and other business activities).[57]
Source: Commission services estimation using the methodology of Roeger, W. (1995), *Can imperfect Competition explain the Difference between primal and dual Productivity?*, Journal of Political Economy, Vol. 103(2), pp. 316-30, based on EUKLEMS 1996-2007 data.

Entry costs: Cost of starting a business in the intermediate sector as a share of income per capita. The intermediate sector is proxied by the manufacturing sector in the model.
Source: World Bank, Doing Business Database, www.doingbusiness.org. 2012 data.

Implicit consumption tax rate: Defined as total taxes on consumption over the value of private consumption. In the simulations it is used as a proxy for shifting taxation away from labour to indirect taxes. The implicit consumption tax rates are increased (halving the gap vis-à-vis the best performers) while labour tax rates are reduced so that the combined impact is ex ante budgetary neutral.
Source: European Commission, *Taxation trends in the European Union*, 2013 edition, Luxembourg, 2013. 2011 data.

Shares of high-skilled and low-skilled: The share of high-skilled workers is increased, the share of low-skilled workers is reduced (halving the gap vis-à-vis the best performers). Low-skilled correspond to ISCED 0-2 categories; high-skilled correspond to scientists (in mathematics and computing, engineering, manufacturing and construction). The remainder is medium-skilled.
Source: EUROSTAT. 2012 data or latest available.

Female non-participation rate: Share of women of working age not in paid work and not looking for paid work in total female working-age population
Source: EUROSTAT. 2012 data or latest available.

Low-skilled male non-participation rates: Share of low-skilled men of working age not in paid work and not looking for paid work in total male working-age population
Source: EUROSTAT. 2012 data or latest available.

Elderly non-participation rates (55-64 years): Share of the population aged 55-64 years not in paid work and not looking for paid work in total population aged 55-64 years.
Source: EUROSTAT. 2012 data or latest available.

ALMP: Active Labour Market Policy expenditures as a share of GDP over the share of unemployed in the population.
Source: EUROSTAT. 2011 data or latest available.

Benefit replacement rate: Share of a worker's pre-unemployment income that is paid out by the unemployment insurance scheme. Average of net replacement rates over 60 months of unemployment.
Source: OECD, Benefits and Wages Statistics.
www.oecd.org/els/benefitsandwagesstatistics.htm. 2012 data.

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[57] The real estate sector is excluded because of statistical difficulties of estimating a mark-up in this sector. The sector renting of machinery and equipment and other business activities is conceptually part of intermediate goods sector.