European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on France’s 2012 national reform programme and delivering a Council opinion on France's stability programme for 2012-2016.

BACKGROUND: the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability, boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission’s Annual Growth Survey on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

CONTENT: on 4 May 2012, **France** submitted its updated stability programme covering the period 2012-2016 and, on 13 April 2012, its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

Based on the assessment of the stability programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections in the programme **is optimistic**. The Commission's 2012 spring forecast projected GDP growth to reach 0.5% in 2012 and 1.3% in 2013, against 0.7% and 1.75%, respectively, according to the programme.

After the deficit came out better than expected at 5.2% of GDP in 2011, the programme plans to **bring it down to 3% of GDP in 2013**, which is the deadline set by the Council for correcting the excessive deficit, and to continue consolidation thereafter, with a **balanced budget to be achieved by 2016**. Starting from 85.8% of GDP in 2011, the debt ratio is expected to reach 89.2% in 2013 and to drop to 83.2% in 2016. According to the programme, **the debt reduction benchmark will be met at the end of the transition period (2016)**.

The Commission considers that **it cannot be ensured that the excessive deficit will be corrected by 2013** unless the planned measures are sufficiently specified and additional ones implemented as needed.

According to the Commission, the **main policy challenges** for the country are as follows:

- Although additional consolidation measures were adopted in the second half of 2011 and in February 2012, implementation of fiscal consolidation remains a major challenge.

- The 2010 pension reform is gradually being applied. However, it is not certain that the system will be balanced by 2018, if employment and growth turns out lower than projected, and the system is expected to fall into deficit after 2020.
- Several measures have also been taken or are under discussion to provide flexible work arrangements for companies facing temporary difficulties (e.g. the professional security contract (CSP)). However, they do not address specifically the segmentation of the labour market.
- Measures taken to encourage the employment of older workers, including the requirement for companies to implement active age management, are steps in the right direction. However, the related action plans generally lack ambition and do not include measures such as reducing working time or offering positions that would be specifically adapted to older workers.
- Despite the measures taken, the total number of apprenticeships is still far from the objective. In addition, a recent report commissioned by the French authorities showed that 40% of SMEs consider that the skills of apprentices do not match their needs.
- The merging of the jobseekers' placement services (ANPE) and the unemployment benefits agency (UNEDIC) into a single body (*Pôle emploi*) has so far not produced the expected results in terms of effectiveness and quality of services.
- In February 2012, France adopted a 1.6 pp increase in VAT to 21.2 % and a 2 pp rise in social levies on capital income and gains to 15.5% to compensate for lower employers' social contributions. This is an appropriate measure to introduce a more balanced taxation system that shifts the tax burden away from labour. However, the focus of the reform is too narrow.
- In addition, while efforts have been made to reduce tax expenditures, the latter have also been accompanied by rate hikes which tend to increase the already high tax burden on labour. France has the second lowest share of environmental taxation in the EU in tax revenues, which indicates ample room for increasing such taxes.
- While a number of reforms have been adopted to simplify the business environment and to remove restrictions on some regulated trades and professions, they fall short of addressing barriers to entry and restrictive conduct conditions in many others (e.g. veterinarians, taxis, health sector, legal professions including notaries).
- The intensity of competition in a number of network industries (wholesale electricity, rail sector) should be reinforced as reforms conducted so far in these sectors have only yielded partial results.
- The French export market share has decreased by 19.4% between 2005 and 2010, one of the strongest declines among Member States, and much above the threshold included in the Alert Mechanism Report published by the Commission on 14 February 2012.
- In particular, increasing unit labour costs have put the profitability of French companies under pressure and have constrained their ability to grow, to make the necessary investments to improve their performance and to innovate.

Recommendations proposed for France for the period 2012-2013:

Budgetary measures:

- reinforce and implement the budgetary strategy, supported by sufficiently specified measures, for the year 2012 and beyond to ensure a timely correction of the excessive deficit; thereafter, ensure an adequate structural adjustment effort to make sufficient progress towards the medium-term budgetary objective (MTO), including meeting the expenditure benchmark, and ensure sufficient progress towards compliance with the debt reduction benchmark;
- continue to review the sustainability and adequacy of the pension system and take additional measures if needed.

Labour market:

- introduce further reforms to combat labour market segmentation by reviewing selected aspects of employment protection legislation, in consultation with the social partners in accordance with national practices, in particular related to the administrative procedure for individual dismissals;
- continue to ensure that any development in the minimum wage is supportive of job creation and competitiveness;
- take actions to increase adult participation in lifelong learning;
- adopt labour market measures to ensure that older workers stay in employment longer;
- improve youth employability especially for those most at risk of unemployment, by providing in particular more and better apprenticeship schemes which effectively address their needs;
- step up active labour market policies and ensure that public employment services are more effective in delivering individualised support.

Taxation:

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

Services, industry and networks:

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

These recommendations should be endorsed by the European Council on 28-29 June 2012 and formally adopted by the Council in July 2012.