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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of France

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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of France

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

General considerations

(1) Regulation (EU) 2024/1263, which entered into force on 30 April 2024, specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances and sustainable and inclusive growth and resilience through reforms and investments, and preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the TFEU. The European Semester includes, in particular, the formulation, and the surveillance of the implementation of country-specific recommendations. The Regulation also promotes national ownership of fiscal policy and emphasises its medium-term focus, combined with more effective and coherent enforcement. Each Member State must submit to the Council and the Commission a national medium-term fiscal-structural plan, containing its fiscal, reform and investment commitments, over 4 or 5 years, depending on the length of the national legislative term. The net expenditure[2] path in these plans has to comply with the

[1] OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

[2] Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: 'net expenditure' means government expenditure net of (i) interest expenditure; (ii) discretionary revenue measures; (iii) expenditure on programmes of the Union fully matched by revenue from Union funds; (iv) national expenditure on co-financing of programmes funded by the Union; (v) cyclical elements of unemployment benefit expenditure; and (vi) one-offs and other temporary measures.

Regulation's requirements, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period, or for it to remain at prudent levels below 60% of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3%-of-GDP Treaty reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in the Regulation, the adjustment period may be extended by up to three years.

(2) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility (the 'RRF'), entered into force on 19 February 2021. The RRF provides financial support to Member States for implementing reforms and investments, delivering a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the RRF fosters economic and social recovery while driving sustainable reforms and investments, in particular promoting the green and digital transitions and making Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the Union and support the continued implementation of the European Pillar of Social Rights.

(3) Regulation (EU) 2023/435 of the European Parliament and of the Council[4] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This helps achieve energy security and diversify the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. France added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

(4) On 28 April 2021, France submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of that Regulation, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V. On 13 July 2021, the Council adopted its Implementing Decision approving the assessment of the recovery and resilience plan for France[5], which was amended under Article 18(2) on 14 July 2023 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[6]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5), stating that France has satisfactorily achieved the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory achievement requires that the

[3] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

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

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

[6] Council Implementing Decision of 14 July 2023 amending the Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for France (ST 11150/23; ST 11150/23).

achievement of preceding milestones and targets for the same reform or investment has not been reversed.

(5) On 21 January 2025 the Council, upon the recommendation of the Commission, adopted a recommendation endorsing the national medium-term fiscal-structural plan of France[7]. The plan was submitted in accordance with Articles 11 and 36(1), point (a) of Regulation (EU) 2024/1263, covers the period from 2025 until 2029 and presents a fiscal adjustment spread over seven years.

(6) On 26 November 2024, the Commission adopted an opinion on the 2025 draft budgetary plan of France. On the same date, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2025 Alert Mechanism Report, in which it did not identify France as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2025 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[8] on 13 May 2025 and the Joint Employment Report on 10 March 2025.

(7) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the EU's global competitiveness over the next five years. It identifies the three transformative imperatives of sustainable economic growth: (i) innovation; (ii) decarbonisation and competitiveness; and (iii) security. To close the innovation gap, the EU aims to foster industrial innovation, support the growth of start-ups through initiatives like the EU Start-up and Scale-up Strategy, and promote the adoption of advanced technologies like artificial intelligence and quantum computing. In pursuit of a greener economy, the Commission has outlined a comprehensive Affordable Energy Action Plan and a Clean Industrial Deal, ensuring that the shift to clean energy remains cost-effective, competitiveness-friendly, particularly for energy-intensive sectors, and is a driver for growth. To reduce excessive dependencies and increase security, the Union is committed to strengthening global trade partnerships, diversifying supply chains and securing access to critical raw materials and clean energy sources. These priorities are underpinned by horizontal enablers, namely regulatory simplification, deepening of the single market, financing competitiveness and a Savings and Investments Union, promotion of skills and quality jobs, and better coordination of EU policies. The Competitiveness Compass is aligned with the European Semester, ensuring that Member States' economic policies are consistent with the Commission's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

(8) In 2025, the European Semester for economic policy coordination continues to develop alongside the implementation of the RRF. The full implementation of the recovery and resilience plans remains essential for delivering on the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations

[7] Council Recommendation of 21 January 2025 endorsing the medium-term fiscal-structural plan of France, OJ C/2025/659, 10.2.2025.

[8] Council Recommendation of 13 May 2025 on the economic policy of the euro area (OJ C, C/2025/2782, 22.5.2025, ELI: http://data.europa.eu/eli/C/2025/2782/oj).

issued in recent years. These country-specific recommendations remain equally relevant for the assessment of amended recovery and resilience plans in accordance with Article 21 of Regulation (EU) 2021/241.

(9) The 2025 country-specific recommendations cover the key economic policy challenges that are not sufficiently addressed by measures included in the recovery and resilience plans, taking into account the relevant challenges identified in the 2019-2024 country-specific recommendations.

(10) On 4 June 2025, the Commission published the 2025 country report for France. It assessed France's progress in addressing the relevant country-specific recommendations and took stock of France's implementation of the recovery and resilience plan. Based on this analysis, the country report identified the most pressing challenges France is facing. It also assessed France's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

Assessment of the Annual Progress Report

(11) On 21 January 2025 the Council recommended the following maximum growth rates of net expenditure for France: 0.8% in 2025, 1.2% in 2026, 1.2% in 2027, 1.2% in 2028 and 1.1% in 2029, which corresponds to the maximum cumulative growth rates calculated by reference to 2023 of 4.6% in 2025, 5.8% in 2026, 7.1% in 2027, 8.4% in 2028 and 9.5% in 2029. In 2025-2029, these maximum growth rates of net expenditure coincide with the corrective path in accordance with Article 3(4) of Regulation 1467/97, as recommended by the Council on 21 January 2025 with a view to bringing an end to the situation of an excessive deficit[9]. On 30 April 2025 France submitted its Annual Progress Report [10], on action taken in response to the Council recommendation of 21 January 2025 with a view to bringing an end to the situation of an excessive deficit, the implementation of the set of reforms and investments underpinning the extension of the adjustment period and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects France's biannual reporting on the progress made in achieving its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

(12) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission recommended to activate the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending and this proposal was welcomed by the European Council of 6 March 2025.

(13) Based on data validated by Eurostat[11], France's general government deficit increased from 5.4% of GDP in 2023 to 5.8% in 2024, while the general government debt rose from 109.8% of GDP at the end of 2023 to 113.0% at the end of 2024. According to the Commission's calculations, these developments correspond to a net expenditure growth rate of 3.1% in 2024. In the 2025 Annual Progress Report, France estimates

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9 Council Recommendation with a view to bringing an end to the situation of an excessive deficit in France, C/2025/5033/1.

10 The 2025 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en

11 Eurostat-Euro Indicators, 22.4.2025.

the net expenditure growth in 2024 at 3.3%. Based on the Commission's estimates, the fiscal stance[12], which includes both nationally and EU financed expenditure, was broadly neutral in 2024.

(14) According to the Annual Progress Report, the macroeconomic scenario underpinning the budgetary projections by France expects real GDP growth at 0.7% in 2025 and 1.2% in 2026[13], while CPI inflation is projected at 1.4% in 2025. The Commission Spring 2025 Forecast projects real GDP to grow by 0.6% in 2025 and 1.3% in 2026, and HICP inflation to stand at 0.9% in 2025 and 1.2% in 2026.

(15) In the Annual Progress Report, the general government deficit is expected to decrease to 5.4% of GDP in 2025, while the general government debt-to-GDP ratio is set to increase to 116.2% by the end of 2025. These developments correspond to net expenditure growth of 0.9% in 2025.The Commission Spring 2025 Forecast projects a general government deficit of 5.6% of GDP in 2025. The decrease of the deficit in 2025 mainly reflects the impact of revenue-increasing measures estimated to amount to around 0.5% of GDP, along with expenditure-decreasing measures, mostly on public consumption and social transfers, worth almost 0.3% of GDP. These more than offset the projected higher unemployment benefit expenditure and increasing interest payments on government debt. According to the Commission's calculations, these developments correspond to net expenditure growth of 0.9% in 2025. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be contractionary, by 0.9% of GDP, in 2025. The general government debt-to-GDP ratio is set to increase to 116.0% by the end of 2025. The increase of the debt-to-GDP ratio in 2025 mainly reflects the projected high primary deficit.

(16) General government expenditure amounting to 0.1% of GDP is expected to be financed by non-repayable support (“grants”) from the Recovery and Resilience Facility in 2025, compared to 0.1% of GDP in 2024, according to the Commission Spring 2025 Forecast. Expenditure financed by Recovery and Resilience Facility non-repayable support enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of France.

(17) General government defence expenditure in France amounted to 1.7% of GDP in 2021, 1.8% of GDP in 2022 and 1.8% of GDP in 2023[14]. According to the Commission Spring 2025 Forecast, expenditure on defence is projected at 1.9% of GDP in both 2024 and 2025. This corresponds to an increase of 0.2 percentage points of GDP compared to 2021.

(18) According to the Commission Spring 2025 Forecast, net expenditure in France is projected to grow by 0.9% in 2025 and 4.1% cumulatively in 2024 and 2025. Based on the Commission Spring 2025 Forecast, the net expenditure growth of France in 2025 is projected to be above the recommended maximum growth rate established by the

12 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

13 In all years, GDP growth reported in the Annual Progress Report is seasonally- and calendar-adjusted.

14 Eurostat, government expenditure by classification of functions of government (COFOG).

corrective path, corresponding to a deviation[15] of 0.1% of GDP in annual terms. The projected deviation does not exceed the 0.3% of GDP threshold for the annual deviation, beyond which there would be a strong presumption of no effective action. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is projected to be below the recommended maximum growth rate. Therefore, the excessive deficit procedure for France is held in abeyance. At the same time, France is invited to stand ready to take further measures to comply with the corrective path. A more complete assessment will be carried out when outturn data are available.

(19) In the Annual Progress Report, the general government deficit is projected to decrease to 4.6% of GDP in 2026, while the general government debt-to-GDP ratio is projected to increase to 117.6% by the end of 2026. After 2026, in the Annual Progress Report, the general government deficit is projected to decrease gradually, to 4.1% of GDP in 2027, 3.4% of GDP in 2028, and 2.8% of GDP in 2029. In turn, after 2026, the general government debt-to-GDP ratio is projected to increase to 118.1% of GDP in 2027, and then to decrease gradually, to 117.8% in 2028, and 117.2% in 2029. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2025 Forecast projects a government deficit of 5.7% of GDP in 2026. The increase of the deficit in 2026 mainly reflects the no-policy change assumption and rising interest payments on government debt. These developments correspond to net expenditure growth of 2.5% in 2026. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be broadly neutral in 2026. The general government debt-to-GDP ratio is projected by the Commission to increase to 118.4% by the end of 2026. The increase of the debt-to-GDP ratio in 2026 mainly reflects the projected high primary deficit.

(20) The recommendation endorsing the medium-term fiscal-structural plan of France specifies the set of reforms and investments underpinning the extension of the adjustment period, together with a timeline for their implementation. They include existing and stepped-up measures from the recovery and resilience plan, such as reinforcing spending reviews, reforms for accelerating renewable energy production, a reform of unemployment insurance and an increase in public research spending, as well as additional reforms and investments such as the rationalisation of tax and social expenditures, the reform of the general reductions in social security contributions, reforms to simplify the business environment and to facilitate the decarbonisation of industry. Taking into account the information provided by France in its Annual Progress Report, the Commission finds that the reforms and investments underpinning an extension that were due by the 30 April 2025 have been implemented with the exception of the reform of the general reductions in social security contributions relative to the minimum wage (SMIC), which delivered slightly lower savings than committed.

(21) Tax expenditures in France are numerous and create a heavy budgetary burden. The 467 tax expenditures in the draft budget for 2024 are estimated to have amounted to EUR 83.3 billion (2.9% of GDP), representing about a quarter of total revenues of the state. According to the French Court of Auditors, the final budgetary cost of tax expenditures in 2024 implies a slippage of EUR 4.55 billion compared to their initial estimated cost, which *de facto* extends their upward trend in real terms since 2013

[15] From 2026 these figures will appear in the control account that is established in Article 22 of the Regulation (EU) 2024/1263.

despite many attempts to control their cost and number. Moreover, the aforementioned cost does not include tax expenditures related to the value added tax devolved to local governments and social security administrations. The largest tax expenditures according to their budgetary impact in the 2024 budget law are the research tax credit (*crédit d'impôt en faveur de la recherche*, EUR 7.9 billion), the tax credit for domestic employees (*crédit d'impôt pour l'emploi d'un salarié à domicile*, EUR 6.7 billion), the 10% allowance on pensions and retirement arrangements (*abattement de 10 % sur les pensions et retraites*, EUR 4.8 billion), the exemption of sums paid for participation of salaries in firm's profits, sharing of capital gains, employee savings plans and retirement saving plans (EUR 2.8 billion) and the 10% rate for improvement, conversion, fitting-out and maintenance works (*taux de 10 % pour les travaux d'amélioration, de transformation, d'aménagement et d'entretien*, EUR 2.2 billion). By contrast, there are numerous tax expenditures that entail limited individual benefits while creating a sizeable overall budgetary burden, whereas in other cases, the number of beneficiaries is unknown, which hampers their full control. Tax expenditures reduce the efficiency and transparency of the French tax system, introduce a significant degree of complexity and, more broadly, induce allocative efficiency losses due to the distortion of individual decisions. The multiannual public finance programming law for 2023-2027, adopted in November 2023, introduced specific provisions to limit the budgetary impact of tax expenditures, control their number and make them more efficient, while also aiming to improve the transparency of communication to parliament in the annual budgetary process. However, past attempts have shown limited success in reducing tax complexity and the budgetary cost associated with tax expenditures.

(22) At 57.1% of GDP in 2024, France's public expenditure remained among the highest in the EU, and 7.5 percentage points above the EU average. The Commission 2025 spring forecast projects a similar gap in 2025 and 2026. Hence, fiscal consolidation in France calls for decisive action on public spending. The spending review mechanism adopted with the 2023 budget law, as part of the recovery and resilience plan, aims to conduct regular evaluations to identify the most efficient expenditures favouring growth, social inclusion and the green and digital transitions, while supporting fiscal consolidation by attaining expenditure savings where inefficiencies are detected. As part of its medium-term fiscal-structural plan and to underpin an extension of the fiscal adjustment period, France committed to implement a number of measures addressing this challenge. According to the French Annual Progress Report, the expenditure reviews carried out in 2024 identified and generated savings estimated at EUR 4.3 billion in the 2025 budget law, which would imply a substantial progress towards achieving the objective in the French medium-term fiscal-structural plan of cumulative permanent savings of EUR 8 billion over 2025-2027. Going forward, fiscal consolidation would benefit from further regular integration of quantified expenditure saving targets from spending reviews into future annual and multiannual budgetary planning.

Key policy challenges

(23) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, finalising the effective implementation of the recovery and resilience

plan including the REPowerEU chapter, is essential to boost France's long-term competitiveness through the green and digital transitions, while ensuring social fairness. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(24) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF) and the European Social Fund Plus (ESF+), has accelerated in France. It is important to continue efforts to ensure the swift implementation of these programmes, while maximising their impact on the ground. France is already taking action under its cohesion policy programmes to boost competitiveness and growth. At the same time, France continues to face challenges, including the need to better capitalise on industrial opportunities offered by the green and digital transitions, challenges related to housing, particularly in deprived neighbourhoods in urban areas and the need to improve access to clean water and sanitation, particularly in the outermost regions, especially in Mayotte. Furthermore, to enhance social resilience, particular attention needs to be paid to investing in upskilling and reskilling to meet labour market needs, focusing on the most disadvantaged groups, and reinforcing anti-poverty and social inclusion measures, with particular attention to children. In accordance with Article 18 of Regulation (EU) 2021/1060, France is required – as part of the mid-term review of the cohesion policy funds – to review each programme taking into account, among other things, the challenges identified in the 2024 country-specific recommendations. The Commission proposals adopted on 1 April 2025[16] extend the deadline for submitting an assessment – for each programme – of the outcome of the mid-term review beyond 31 March 2025. It also provides flexibilities to help speed up programme implementation and incentives for Member States to allocate cohesion policy resources to five strategic priority areas of the Union, namely competitiveness in strategic technologies, defence, housing, water resilience and energy transition.

(25) The Strategic Technologies for Europe Platform (STEP) provides the opportunity to invest in a key EU strategic priority by strengthening the EU's competitiveness. STEP is channelled through 11 existing EU funds. Member States can also contribute to the InvestEU programme supporting investments in priority areas. France could use these initiatives to support the development or manufacturing of critical technologies, including clean and resource-efficient technologies.

(26) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, France faces several additional challenges related to regulatory and administrative burden, intensity of business R&D, effectiveness of business-academia collaboration, digitalisation of small to medium-sized enterprises (SMEs), the decarbonisation of transport and buildings, the roll-out of renewables and related investments in the electricity grid and storage, skills shortages, the education system, the teaching profession and child poverty.

(27) As set in the Competitiveness Compass, all the EU, national, and local institutions must make a major effort to produce simpler rules and to accelerate the speed of administrative procedures. The Commission has set ambitious goals for reducing

[16] Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review - COM(2025) 123 final.

administrative burden: by at least 25% and by at least 35% for SMEs; and has created new tools to achieve these goals, including systematic stress test of the stock of EU legislation and enhanced stakeholders' dialogue. To match this ambition, France also needs to take action. 84% of businesses consider the complexity of administrative procedures to be a problem for their company when doing business in France[17]. France has adopted several reforms aiming to reduce administrative burden[18] and accelerate public action[19]. These efforts have potentially contributed to a reduction in the perception that business regulations pose a long-term barrier to investment as indicated by the decline in firms considering regulations a major obstacle (from 25% in 2019 and 22% in 2020 to 19.7% in 2024). Furthermore, France has improved its standing relative to the EU average since 2019[20]. As part of its medium-term fiscal-structural plan and to underpin an extension of the fiscal adjustment period, France committed to implement a number of reforms addressing this challenge. However, they would not fully address the challenge of regulatory and administrative burden. According to the Commission's assessment[21] and the OECD's 2023 Product Market Regulation indicators, for retail and business services, many of which are regulated professions, regulatory restrictions remain higher in France compared to other Member States. Redesigning requirements for accessing and exercising service activities would stimulate innovation, competition and professional mobility, resulting in a positive overall economic impact[22]. Easing restrictions on retail – such as registration requirements, authorisations and operational constraints including on sales – could help improve business operations and benefit consumers through competitive prices and a broader product choice. The overall licensing and permitting system, while less burdensome than the EU average, could be further improved by adopting best practices, including regular reviews of permits and licences to assess their necessity.

(28) While France has the highest share of public support for business R&D[23] in the EU (more than twice the EU average both for total public support and for its component of tax incentives), France's business R&D intensity is stagnating and remained somewhat below the EU average in 2023. In particular, a costly tax credit on research (EUR 7.9 billion in 2024) is in place, although evaluations revealed major weaknesses[24]. Notably, the evaluation conducted by the National Commission for the Evaluation of Innovation Policies in 2021 indicated that the scheme had no significant effects on larger firms, despite half of the support being transferred to them. As recommended by the General Inspectorate of Finance (*Inspection Générale des*

[17] Businesses' attitudes towards corruption in the EU, Flash Report, Eurobarometer Report (April 2024).

[18] Law of 22 May 2019 for the growth and transformation of businesses (Pacte).

[19] Law of 7 December 2020 for the acceleration and simplification of public action (ASAP).

[20] European Investment Bank, EIB Investment Survey 2024. For the EU, an arithmetic average is computed.

[21] European Commission, Retail restrictiveness indicator (2022 update), 2024.

[22] Upcoming assessment by the French competition authority of the reforms related to the conditions of establishment and tariffs of regulated legal professions is expected in summer 2025.

[23] France's public support for business R&D was at 0.45% of GDP in 2021, compared to the EU average of 0.2%. In 2021, R&D tax incentives amounted to foregone revenues of 0.28% of GDP in France, compared to the EU average of 0.1%. France's business R&D intensity stood at 1.44% in 2023 (at the same level as in 2012), below the EU average (1.49%).

[24] OECD (2020), 'How effective are R&D tax incentives? New evidence from the OECD microBeRD project', Directorate for Science, Technology and Innovation Policy Note, OECD, Paris.
Conseil d'analyse économique (2022), Focus N°090-2022 'Renforcer l'impact du Crédit d'impôt recherche' Philippe Aghion, Nicolas Chanut et Xavier Jaravel.

Finances) in March 2024[25], in the 2025 budget law, the research tax credit scheme was refocused somewhat on R&D expenditure, namely by excluding expenditure linked to technology watch and intellectual property from the eligible expenditure base. Also, doubling of the tax base for the hiring of post-doctoral researchers under the scheme was discontinued. While these measures should lead to some savings[26] (estimated at 5% of the annual tax expenditure of this tax credit), they are not expected to significantly increase business R&D outcomes, as they only marginally alter the scope of the scheme. Allocating a larger share of the aid to innovative SMEs, mid-cap companies and start-ups and facilitating their uptake of the scheme[27] could boost R&D efforts, since those firms are more financially constrained. Other existing measures to support innovation include, in particular, the innovation tax credit and the status of young innovative companies (*Jeunes Entreprises Innovantes*), which provides social and fiscal benefits for start-ups that meet specific R&D intensity and growth criteria. They better target SMEs, but have a much smaller budget (around EUR 332 million for the innovation tax credit and EUR 314 million for the tax and social expenditure benefiting young innovative companies[28] in 2024). The benefits accruing from access to those more targeted measures were reduced more significantly relative to their size than the research tax credit, pursuant to the amendments introduced by the 2025 budget law and the Social Security Financing Law for 2025.

(29) Closer links between science and business, particularly through knowledge and technology transfer schemes, are key for generating innovation. However, the complexity of France’s technology transfer and research valorisation ecosystem, as highlighted in the 2019 evaluation report on the ‘Investments for the future’ programme, represents a significant barrier. France scores significantly below the EU average for public R&D financed by businesses, a situation that has not improved since 2019. The ecosystem’s strong segmentation and the suboptimal performance of key actors such as technology transfer acceleration companies (*Sociétés d'accélération du transfert de technologies*, SATT), institutes for technological research (*Instituts de Recherche Technologique*), and university hospital institutes (*Instituts Hopitalo-Universitaires*) are areas of concern[29]. However, since 2019, no major reform of the SATT model has been carried out. More recently, the university innovation hubs (*pôles universitaires d’innovation*) initiative was introduced in 2023 to strengthen

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25 The General Inspectorate of Finance. Expenditure review: support to businesses, March 2024, available at: https://www.igf.finances.gouv.fr/files/live/sites/igf/files/contributed/Rapports%20de%20mission/2024/2023-M-105-03%20Rapport%20Aides%20aux%20entreprises.pdf

26 Savings are estimated at 5% (General Report No. 144 (2024-2025), Volume II, Booklet 1, deposited on November 21, 2024 available at: Projet de loi de finances pour 2025: Les conditions générales de l'équilibre financier (article liminaire et première partie de la loi de finances) - Sénat).

27 Lignau (DGE, 2024) reported that among the start-ups created since 2016, only 44% benefited from the research tax credit scheme in 2017-2021, although they used it more than other schemes such as the young innovative company status or the innovation tax credit.

28 2024 Finance Bill: Research and Higher Education Legislative Reports. General Report No. 128 (2023-2024), Volume III, Annex 24, deposited on November 23, 2023, available at: Projet de loi de finances pour 2024: Recherche et enseignement supérieur - Sénat.
See also the State of Higher Education, Research, and Innovation in France 2024, No. 17, June 2024, topic No. 23, available at: Les jeunes entreprises innovantes - état de l'Enseignement supérieur, de la Recherche et de l'Innovation en France n°17.

29 Monitoring Committee for Investments for the Future. Evaluation of the First Wave of the Future Investment Program (PIA, 2009-2019), November 2019, available at: *Le PIA, un outil à préserver, une ambition à refonder*.

local innovation ecosystems, building on existing organisations and schemes. To improve innovation outcomes, the effectiveness of the knowledge and technology transfer ecosystem needs to be increased. This can be achieved by targeting concrete results, such as a sizeable increase in patent filings, intellectual property protection, and business creation. Simplifying the ecosystem, for instance by streamlining the roles of existing entities or boosting collaboration between them, could also yield better outcomes.

(30) While integrating digital technologies should enable companies to improve their products and services, and boost competitiveness, French SMEs continue to lag behind in terms of digitalisation, with only 68.5% of them achieving a basic level of digital intensity in 2024, below the EU average of 72.9%. This gap is also significant in light of the EU's Digital Decade target of 90% by 2030. For instance, the share of French SMEs making e-sales is lower than the EU average (17.6% and 23.1%, respectively), which contrasts with a significantly higher share of French consumers buying goods or services online, across all age groups, compared to the EU average. Furthermore, the adoption of advanced digital technologies, such as artificial intelligence (AI) and cloud services among French businesses, particularly SMEs, trails behind the EU average. The EU target of 75% companies using cloud services, performing big data analysis or using AI appears far out of reach given the current uptake rates. In September 2018, France put in place the digital transformation plan focused on industry covering measures until 2023 and amounting to EUR 1.3 billion, including a subsidy for the adoption of new advanced digital technologies by industrial SMEs and mid-cap companies financed under the EU Recovery and Resilience Facility[30]. France Num, the key public initiative for the digital transformation of SMEs, was created in 2018 and has been strengthened since. It provides diagnostics and training, and lists a network of partners willing to support businesses in their digitalisation efforts. However, its role as a mere intermediary – connecting businesses with digital solution providers and acting as a documentation centre – limits its ability to directly impact the digitalisation of SMEs. Moreover, the existence of over 100 different territorial financial aids with different eligibility criteria and the multitude of relevant authorities complicates the landscape for SMEs seeking support[31]. Further improving the effectiveness of public support for digitalisation is warranted. It would be beneficial to streamline available support schemes and better align the type of support with business needs while favouring technologies most likely to boost productivity growth[32], such as AI. Additionally, introducing a quality rating for listed digital solution providers in the network of France Num, possibly based on user feedback, could help SMEs make informed decisions.

(31) Aside from the COVID-19 period – during which greenhouse gas (GHG) emissions fell artificially – France had been steadily reducing its GHG emissions in gross terms by more than 3% per year since 2019. This downward trend enabled the country to meet its second carbon budget (2019-2023), as set out in the second national low-

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30 Direction Générale des Entreprises (2024). La numérisation des entreprises industrielles en France : un soutien à la demande et à l'offre de solutions technologiques. Les Thémas de la DGE n°24. November, page 8.

31 Senate, extraordinary session 2018-2019, Information report made on behalf of the delegation of businesses on the support for the digital transition of SMEs: how can France catch up on its delay?, by Ms. Pascale Gruny (Senator), available at: [Projet de loi de finances pour 2021: Économie - Sénat.]

32 [Rapport CNP (2025) | Un monde en mutation – Productivité, compétitivité et transition numérique], page 188.

carbon strategy, which aims to achieve a 40% reduction by 2030 (compared to 1990). Between 2022 and 2023, France even accelerated its decarbonisation efforts, achieving a 5.8% drop in gross emissions. However, this momentum slowed significantly in 2024: according to Citepa[33] estimates, emissions fell by 1.8%, reaching 366 $MtCO_2$-eq, well short of the annual decrease needed to achieve its climate ambition. To stay aligned with the next carbon budget (2024-2028) under the third low-carbon strategy (SNBC-3), which supports France's 2030 target of halving gross GHG emissions, France must reduce its emissions by 5% annually until 2030. While the energy sector and industry are maintaining their emissions reduction trajectory, the transport and building sectors require additional efforts to meet the third carbon budget under SNBC-3. Transport remains the main source of GHG emissions[34] in France and is the only sector whose emissions increased between 1990 and 2023. In 2024, according to the most recent estimates of Citepa, GHG emissions from the transport sector decreased by less than 1% compared to 2023. Accelerating the decarbonisation of road transport, in particular, which represents a very significant share of total transport emissions[35], is essential to meet emissions reduction targets, both for passenger and freight transport. Adequate incentives and support schemes, together with the deployment of the necessary infrastructure, are needed so that the share of zero-emission vehicles continues to increase at pace, with a specific focus on vulnerable transport users[36] and on heavy-duty vehicles. Freight transport in France remains largely road based (85%) with rail and inland waterways accounting for only 10% and 2% respectively, below the EU averages[37]. To support a modal shift from road to rail and inland waterways, France needs to complete the Trans-European Transport Network (TEN-T) to increase capacity and network density. Accelerating deployment of the European Rail Traffic Management System, currently operational on just 10% of its core TEN-T network[38], would also improve interoperability, efficiency and safety of the EU railway system. Inland waterways also offer high decarbonisation potential and could be tapped further by improving river information services' interoperability, data availability, and terminal density.

(32) The residential sector's final energy consumption has been stagnating since 2015, and GHG emissions of residential and tertiary buildings have decreased by 1.1% only in 2024 compared to 2023, according to the most recent estimates (by Citepa). France is experiencing delays in the pace of energy renovation of buildings and the replacement of oil and gas boilers with cleaner solutions such as heat pumps, compared to national plans[39]. France needs to step up its efforts to close the gap to achieve a meaningful

[33] Citepa (*Centre Interprofessionnel Technique d'Études de la Pollution Atmosphérique*) is the French organisation mandated to produce the national greenhouse gas and air pollution inventories submitted to the UN and EU.

[34] Representing 34% of total emissions (excluding international bunkers such as international aviation and shipping).

[35] In 2023, it accounted for 94% transport sector emissions, excluding international bunkers such as international aviation and shipping (Livre | Chiffres clés du climat 2024, page 56).

[36] As defined in Regulation (EU) 2023/955 of the European Parliament and of the Council of 10 May 2023 establishing a Social Climate Fund and amending Regulation (EU) 2021/1060, that is transport users who spend a larger part of their income on energy and transport, who, in certain regions, do not have access to alternative, affordable mobility and transport solutions, and who may lack the financial capacity to invest in the reduction of fossil fuel consumption.

[37] In the EU, freight transport by rail accounted for 16.6% and by inland waterways for 4.9% in 2022.

[38] In contrast, for instance, with Belgium (at 79%) and Spain (27%).

[39] As pointed out by the General Secretariat of Ecological Planning (SGPE) in December 2024, (Les Rencontres avec les partenaires du SGPE, December 2024, page 11).

contribution to its 2030 reduction target for energy consumption of buildings, in line with the SNBC-3. To support energy renovation demand, it would be beneficial to both streamline national schemes and stabilise their funding, including by leveraging private financing, paying particular attention to the most vulnerable households and to deep renovations.

(33) In 2023, France was still below its 2020 binding renewable energy target[40]. As part of its medium-term fiscal-structural plan and to underpin an extension of the fiscal adjustment period, France committed to implement a reform addressing this challenge. However, the relevant commitments would not fully address it. In particular, while previously France had set a target for renewable energy for 2030 in the Energy-Climate Law of 2019, it now lacks a firm updated commitment to comply with the current EU 2030 targets. Combined with delays in implementing new permitting rules, this situation creates uncertainty for investors. Conversely, providing such certainty would attract new investments, stimulate local job creation and boost green technology production, which would contribute to a thriving French market. France needs to accelerate the permit granting process and adopt several implementing acts under the French Renewable Energy Acceleration Law. The process of designating 'renewables acceleration areas' is slow: roughly two years after its adoption (by July 2024), only 34% of municipalities had designated 'renewables acceleration areas'. Ensuring adequate staffing of authorising administrations could accelerate this process. Furthermore, there is still a need for clear and shorter deadlines for projects outside the 'renewables acceleration areas', as well as the introduction of one-stop shops for renewable energy permitting.

(34) The increasing curtailment of renewables and negative price occurrences in 2023 and 2024 point to the constraints on electricity grids and the increased need for demand-side flexibility and storage[41], including thermal storage. Further deployment of such flexibility solutions is necessary to integrate increased volumes of renewable energy into the grid and ensure security of energy supply. Electricity system operators RTE and Enedis have recently announced major investment plans to develop the grid over the next 15 years[42]. However, RTE's plan is still in its consultation phase. In recent years, France has commissioned interconnection projects with Italy (Savoie-Piedmont), and more are planned in the coming years, such as the Celtic Interconnector and the Bay of Biscay project. The timely finalisation and implementation of these investment plans would facilitate investments in renewables and accelerate decarbonisation. It is also crucial that long-term planning takes into account interconnections with neighbouring countries, particularly with the Iberian peninsula, to boost EU market integration. France's cross-border electricity interconnection level was 5.6% in 2024, significantly below the EU target of 15%[43] for 2030.

(35) While the share of companies reporting recruitment difficulties declined in 2024 and the first quarter of 2025 with the slowdown of the economy, the lack of adequately trained workers remains one of the two main barriers to recruitment, together with

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40 In 2023, with a share of 22.3% of renewable energy in its gross final energy consumption, France was still below its 2020 binding renewable energy target of 23%.

41 Bilan électrique 2024 | RTE

42 RTE présente les grandes orientations de sa stratégie de transformation du réseau de transport d'électricité à l'horizon 2040 | RTE.

43 Defined as import capacity over installed generation capacity in a Member State.

labour shortages, according to a recent survey, especially in key sectors such as the automotive, construction and care sectors[44]. France has invested significantly in upskilling and reskilling workers, with the support of the Recovery and Resilience Facility, leading to a slight increase in the number of adults participating in training (49.2% in 2022, against 48.4 in 2016). However, these programmes have not always been successful at increasing the participation of low-skilled people and older workers. These programmes have also had a limited impact on participation in training for priority sectors (ICT, health, construction, the green transition). The evaluation of past and recent investments, such as the Skills Investment Plan (*plan d'investissement dans les compétences*), highlights that only 25% of the training offer concerns a priority sector and 20% of the training offer targets occupations suffering from skills shortages. Also, only around 25% of low-qualified adults participated in learning in 2022.

(36) Despite high public spending on education, the French education system recently registered a noticeable decline in performance, further marked by the significant impact of the socio-economic background of students. French students at primary and secondary level underperform in mathematics and science compared to their EU peers[45], and the share of low-achieving 15-year-old students has increased significantly since 2018 in mathematics, reading and science[46], while the share of top-performing students declined. France also has some of the highest socio-economic gaps in the EU. Improving students' performance in basic skills is crucial, starting from an early age. While first evaluations show that halving class sizes in 'priority education areas' has had a positive impact on the educational outcomes of students, 70% of disadvantaged students attend schools located outside the priority areas and are therefore not eligible for support. Allocating additional resources in a more gradual way and fostering collaboration between disadvantaged schools and local actors could be beneficial to address the needs of low performing or disadvantaged students. In 2023, the Ministry of Education took measures to encourage a better social mix in public and private schools, and introduced a weekly hour of differentiated teaching in French and mathematics for all students. However, frequent policy changes have resulted in insufficient time for implementation and evaluation and reduced ownership by the teaching community. Making better use of existing data and evaluations, better collaborating with the education community, and respecting the pedagogical autonomy of schools and teachers could help design a more effective basic skills strategy.

(37) Although teachers benefited from a pay rise in 2023, and it is too early to evaluate its impact, concerns over the attractiveness of the profession remain, and teacher shortages weigh on educational outcomes. Fewer and fewer candidates take the competitive recruitment exams in relation to the number of open positions, making these exams less selective, especially in mathematics and for primary teachers in some academies[47]. Several factors may explain the declining attractiveness of the profession. In 2022, 63% of post-secondary students cited working conditions, including class size (among the largest in the EU), workload, mobility rules, and salary as reasons for not

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44 France Travail - Enquête besoin en main-d'œuvre 2025.

45 2023 Trends in International Mathematics and Science Study (TIMSS) survey.

46 According to the 2022 Programme for International Student Assessment (PISA) survey, 28.8% of 15-year-olds underperformed in mathematics in France vs 29.5% in the EU, 26.9% underperformed in reading compared to 26.2% in the EU and 23.8% underperformed in science vs 24.2% in the EU.

47 France Stratégie, 2024, Working in Public Service: The Challenge of Attractiveness.

wanting to become a teacher[48]. In addition, increasing the reliance on temporary teachers with lower levels of qualifications and experience and lower access to training than permanent ones could affect teaching quality. Steps have been taken to improve teaching conditions, including the strengthening of training in French and mathematics for primary teachers. Nevertheless, there is scope to further expand these measures, in particular by reducing class sizes using the decline in the number of children, and by better aligning initial and continuous training with the changing needs of all students[49] and providing teachers and schools with greater autonomy[50]. In particular, the Court of Auditors warns that in practice, head teachers have limited scope to adapt to students' needs and local circumstances[51]. Consulting teachers and the wider teaching community on current plans to reform initial education could also increase ownership and attractiveness.

(38) Children in France face a higher risk of poverty and social exclusion compared to the rest of the population (26.2% vs 20.5% in 2024) and to other EU countries (26.2% vs 24.2% in 2024). The risk of child poverty and social exclusion has also increased significantly in the last years[52], despite easing in 2024, and the share of French children living in jobless households reached 9% in 2024, one of the highest rates in the EU. Single-parent families, often led by single mothers, face significant and specific challenges in finding work[53], and among those who work, one in five were at risk of poverty in 2024. One of the main barriers they face is access to early childhood education and care. France has one of the largest gaps in access to childcare between advantaged and disadvantaged children in the EU (41.6 percentage points vs 15.8 percentage points). In 2023, 77% of families living in poverty could not afford childcare. While the overall share of children having access to childcare is relatively high in France, availability and costs differ widely across the French territory[54]. In addition, families working non-standard hours or who are unemployed struggle to find suitable childcare[55], which hampers their job search and training efforts. Addressing specific barriers to work and improving access to early childhood education and care would help parents receive training, enabling better job opportunities, and improve children's educational outcomes in the short to long term, with stronger impacts on disadvantaged children[56].

(39) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, in 2025, the Council recommended that the euro-area Member States take

[48] Cour de Comptes, Devenir enseignant : la formation initiale et le recrutement des enseignants des premier et second degrés, Rapport public thématique, 2023.

[49] Education : comment mieux orienter la dépense publique, Conseil d'analyse économique, 2025, available at : Éducation : comment mieux orienter la dépense publique.

[50] Lastra-Anadón, C. and S. Mukherjee (2019), "Cross-country evidence on the impact of decentralisation and school autonomy on educational performance", OECD Working Papers on Fiscal Federalism, No. 26, OECD Publishing, Paris, https://doi.org/10.1787/c3d9b314-en.

[51] Cour des comptes, Mobiliser la communauté éducative autour du projet d'établissement, Rapport public thématique, 2023.

[52] In metropolitan France (for which we have comparable time series), the share of children at risk of poverty or social exclusion increased from 24.1% in 2019 to 25.7% in 2023.

[53] Sénat (2024). Familles monoparentales: pour un changement des représentations sociétales.

[54] CNAF-ONAPE, L'accueil des jeunes enfants - Édition 2024.

[55] Cour des Comptes, La politique d'accueil du jeune enfant, December 2024.

[56] OECD (2025), Reducing Inequalities by Investing in Early Childhood Education and Care, Starting Strong, OECD Publishing, Paris, https://doi.org/10.1787/b78f8b25-en.

action, including through their recovery and resilience plans, to implement the 2025 Recommendation on the economic policy of the euro area. For France, the recommendations (2), (3), (4) and (5) help implement the first euro-area recommendation on competitiveness, while the recommendations (4) and (5) help implement the second euro-area recommendation on resilience, and the recommendation (1) helps implement the third euro area recommendation on macro-economic and financial stability set out in the 2025 Recommendation.

HEREBY RECOMMENDS that France take action in 2025 and 2026 to:

1. Reinforce overall defence spending and readiness in line with the European Council conclusions of 6 March 2025. Adhere to the maximum growth rates of net expenditure recommended by the Council on 21 January 2025, with a view to bringing an end to the situation of an excessive deficit. Implement the set of reforms and investments underpinning the extended adjustment period as recommended by the Council on 21 January 2025.

2. In view of the applicable deadlines for the timely completion of reforms and investments under Regulation (EU) 2021/241, ensure the effective implementation of the recovery and resilience plan, including the REPowerEU chapter. Accelerate the implementation of cohesion policy programmes (ERDF, JTF, ESF+), building, where appropriate, on the opportunities offered by the mid-term review. Make optimal use of EU instruments, including the scope provided by the InvestEU and the Strategic Technologies for Europe Platform, to improve competitiveness.

3. Further simplify regulation, reduce administrative burden and regulatory restrictions on firms, in particular in the services sector. Strengthen business R&D intensity by better targeting public support schemes that incentivise business R&D and promote diffusion of innovation, and by making the ecosystem that supports collaboration between academia and businesses more effective. Improve SME digitalisation, including by improving the effectiveness of existing public support measures dedicated to this objective.

4. Accelerate the reduction of greenhouse gas emissions by removing barriers and providing incentives to increase the demand and supply of low-emission transport modes and vehicles, by stepping up energy efficiency and reducing reliance on fossil fuels in buildings through incentivising deep renovations. Accelerate the deployment of renewable energy projects including by further streamlining permitting procedures and by completing the setting up of the ‘renewables acceleration areas’. Promote demand-side flexibility and storage technologies, and ensure sufficient investment in electricity grid capacity including in cross-border interconnections.

5. Further address skills shortages by supporting access to training for low-skilled and older people and improving the labour market relevance of the training offer. Improve educational outcomes and reduce inequalities in education including by ensuring that all disadvantaged students benefit from improved educational support. Strengthen the teaching profession, including by improving working conditions and initial and continuous training of teachers. Prevent and reduce child poverty, by removing barriers that hinder parents' labour market integration and access to quality early childhood education and care for the most disadvantaged households.

Done at Brussels,

For the Council
The President