EUROPEAN
COMMISSION

Brussels, 13.5.2015
COM(2015) 260 final

Recommendation for a

COUNCIL RECOMMENDATION

On the 2015 National Reform Programme of France

and delivering a Council opinion on the 2015 Stability Programme of France

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THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission[3],

Having regard to the resolutions of the European Parliament[4],

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:

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

(2) On 13 July 2010, the Council, on the basis of the Commission's proposals, adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and on 21 October 2010 it adopted a decision on guidelines for the employment policies of the Member States. Together these form

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 COM(2015) 260.
4 P8_TA(2015)0067, P8_TA(2015)0068, P8_TA(2015)0069..

the 'integrated guidelines' which Member States were invited to take into account in their national economic and employment policies.

(3) On 8 July 2014, the Council adopted a Recommendation on France's National Reform Programme for 2014 and delivered its opinion on France's updated Stability Programme for 2014. On 28 November 2014, in line with Regulation (EU) No 473/2013[5], the Commission presented its opinion on France's draft budgetary plan for 2015[6].

(4) On 28 November 2014, the Commission adopted the Annual Growth Survey[7], marking the start of the 2015 European Semester of economic policy coordination. On the same day, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report[8], in which it identified France as one of the Member States for which an in-depth review would be carried out.

(5) On 18 December 2014, the European Council endorsed the priorities for boosting investment, accelerating structural reforms and pursuing responsible growth-friendly fiscal consolidation.

(6) On 26 February 2015, the Commission published its 2015 country report for France[9]. This assessed France's progress in addressing the country-specific recommendations adopted on 8 July 2014. The country report also includes the results of the in-depth review under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that France is experiencing excessive macroeconomic imbalances which require decisive policy action and specific monitoring. In particular, in a context of low growth and low inflation, coupled with poor company profitability, and given the insufficient policy response so far, risks stemming from the deterioration in both cost and non-cost competitiveness and from high and rising indebtedness, in particular public debt, have increased significantly. The need for action to reduce the risk of adverse effects on the French economy and, given its size, of negative spillovers to the economic and monetary union, is particularly great.

(7) On 30 April 2015, France submitted its 2015 National Reform Programme and its 2015 Stability Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.

(8) France is currently in the corrective arm of the Stability and Growth Pact. In its 2015 Stability Programme, the government plans to correct the excessive deficit by 2017, in line with the Council recommendation of 10 March 2015 and to reach the medium-term objective – a structural deficit of 0.4 % of GDP – by 2018[10]. While the government plans to respect the headline deficit targets set by the Council, the fiscal effort planned in 2016 and 2017 is below the recommended level. In its 2015 Stability Programme the government expects the public debt-to-GDP ratio to peak at 97% in 2016 before receding to 95.5% of GDP in 2018. The macroeconomic scenario underpinning these budgetary projections is plausible. However, measures to support the planned deficit targets from 2016 onwards have not been sufficiently

[5] OJ L 140, 27.5.2013, p. 11.
[6] C(2014) 8805 final.
[7] COM(2014) 902.
[8] COM(2014) 904.
[9] SWD(2015) 29 final.
[10] Compared to the previous Stability Programme, the government has revised its medium-term objective from a structural deficit of 0.25% of GDP to 0.4%. The medium-term objective is set to be achieved one year later than foreseen in last year's Stability Programme.

specified. Based on the Commission's 2015 spring forecast, the headline deficit target for 2015 will be 3.8% of GDP thereby respecting the target of 4% of GDP. However, the fiscal effort expected for that year will be lower than the one recommended by the Council.[11] Regarding 2016, under a no-policy-change scenario, the Commission forecasts that the headline deficit will reach 3.5% of GDP, above the recommended target of 3.4% of GDP, and that the fiscal effort will not be delivered. Therefore, further structural measures will be needed for 2016. Based on its assessment of the Stability Programme and taking into account the Commission's 2015 spring forecast, the Council is of the opinion that there is a risk that France will not comply with the provisions of the Stability and Growth Pact.

(9) It will be crucial to intensify spending reviews and identify large areas of expenditure cuts so that they can deliver the expected results. France should make sure that spending reduction targets take account of the close-to-zero rate of inflation. At the same time, the savings resulting from the lower-than-expected costs of the public debt due to lower interest rates should be channelled to reducing the deficit. In addition, sizeable short-term savings cannot be achieved without curbing significantly the increase in social security spending, which represented 26 % of GDP in 2014, accounting for nearly half of all public sector expenditure. Healthcare expenditure savings of EUR 11 billion are planned for 2015-2017, but further efforts are needed to limit expenditure increases in this area. In particular, there is scope to implement further cost-containment policies in the area of pharmaceutical prices and hospital spending. The pension system may face increasing deficits in the coming years and previous pension reforms will not suffice to eliminate the system's deficit. In particular, the deficit arising from schemes for state officials and employees of state-controlled companies continue to weigh on the overall pension deficit. Moreover, the macroeconomic situation has a large impact on the sustainability of the pension system, in particular the situation of complementary pension schemes. Decisive action is needed to restore the financial health of the complementary pension system.

(10) France has undertaken a reform of local administration aimed at increasing the efficiency of the system. It should continue to implement the planned reduction in grants from central government and strengthen the control of local government expenditure by capping the annual increase in local government tax revenue, taking into account existing ceilings on a number of local taxes. Action is also needed to contain the rise in the administrative costs of local authorities.

(11) Policy measures have been taken to reduce labour costs and improve firms' profit margins through the EUR 20 billion tax credit for competitiveness and employment and the EUR 10 billion additional cuts in employers' social security contributions planned under the responsibility and solidarity pact. These two measures account for 1.5 % of GDP and should contribute to reducing the gap between France and the euro area average in terms of labour tax wedge. Implementation of these measures should continue in 2016 but, given their high cost for the public budget, it is important to assess their effectiveness at company level. This evaluation should take particular account of the rigidities affecting the labour and product markets, especially those affecting wages. The cost of labour at the minimum wage remains high compared with other Member States. The minimum wage continues to evolve in a manner that is not conducive to competitiveness and job creation. In addition, in a context of low

[11] The assessment of effective action taken under the Excessive Deficit Procedure will be made after 10 June 2015.

inflation, its automatic indexation may lead to wage increases beyond what is necessary to preserve purchasing power.

(12) France should take decisive action to remove the regulatory thresholds in labour law and accounting regulations that limit the growth of French firms, in particular SMEs. Overall, there is scope for increasing competition in the services sector, in particular in professional services, retail trade and network industries. A number of regulations and tariffs for regulated professions constrain economic activity. New measures for improving competition in legal professions have been adopted through the recent law on growth, economic activity and equal opportunities, and their implementation will be crucial to ensure that barriers are removed on the ground. France should also take action to remove barriers in other sectors, in particular the health sector. The *numerus clausus* principle for access to health professions is still hampering access to services and could be reviewed without jeopardising quality and safety.

(13) In 2014, the tax-to-GDP ratio stood at 45.8 %, one of the highest in the EU. Corporate tax rates are high and weigh negatively on French companies' investment. The effective tax rate paid by a company on average stands at 38.3 %, among the highest in the EU. In addition to the announced abolition of the corporate social security contribution and the reduction in the statutory rate to 28 % in 2020, France should increase efforts in the short term to make corporate taxation conducive to growth and investment. Efforts are needed to simplify the tax system by removing inefficient taxes. Over 100 taxes have been identified as yielding little or no revenue and removing these could simplify procedures for companies and households.

(14) The French unemployment rate remained high in 2014 and long-term unemployment deteriorated, reflecting poor economic growth. The overall unemployment rate stood at 10.2 %, as compared with 10.3 % in 2013 and 7.5 % in 2008, particularly hitting young people, older workers and the low-qualified. France suffers from labour market segmentation, with fixed-term contracts accounting for an increasing proportion of new hires. Targeted efforts to reduce the level of segmentation, in particular through higher social contributions for very short-term contracts, have failed to curb this trend. Reviewing the legal framework governing labour contracts could help to reduce the segmentation. Recent reforms have created only limited scope for employers to depart from branch-level agreements. This limits companies' ability to modulate the workforce according to their needs. Sectors and companies should be given flexibility to determine case by case and after negotiations with social partners whether working time should depart from 35 hours a week. The law creating the *accords de maintien de l'emploi* has not brought the expected results. Very few companies have made use of the new arrangements for company-level agreements to increase the flexibility of working conditions. This scheme should be reviewed to give companies more scope to adapt wages and working time to their economic situation.

(15) The long-lasting deterioration in the labour market has affected the unemployment benefit system, calling into question the sustainability of the model. The new convention on the unemployment benefit system introduced on 1 July 2014 is insufficient to reduce the deficit. The various measures introduced produced EUR 0.3 billion in savings in 2014. They are expected to reduce the deficit by a further EUR 0.8 billion in 2015, from EUR 5.2 to EUR 4.4 billion, leading to a further increase in the system's debt to EUR 25.9 billion. Structural measures are needed to ensure the viability of the system. In particular, eligibility conditions, the

degressive structure of benefits and the replacement rates for workers with the highest wages should be reviewed.

(16) In the context of the European Semester, the Commission has carried out a comprehensive analysis of France's economic policy and published it in the 2015 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to France in previous years. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in France but also their compliance with EU rules and guidance, given the need to strengthen the overall economic governance of the European Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations 1 to 6 below.

(17) In the light of this assessment, the Council has examined France's Stability Programme, and its opinion[12] is reflected in particular in recommendation 1 below.

(18) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations 1 to 6 below.

(19) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On the basis of this analysis, the Council has issued specific recommendations for the Member States whose currency is the euro. France should also ensure the full and timely implementation of these recommendations,

HEREBY RECOMMENDS that France take action in 2015 and 2016 to:

1. Ensure effective action under the excessive deficit procedure and a durable correction of the excessive deficit by 2017 by reinforcing the budgetary strategy, taking the necessary measures for all years and using all windfall gains for deficit reduction. Specify the expenditure cuts planned for these years and provide an independent evaluation of the impact of key measures.

2. Step up efforts to make the spending review effective and identify savings opportunities across all sub-sectors of general government, including on social security and local government. Take steps to limit the rise in local authorities' administrative expenditure. Take additional measures by March 2016 to bring the pension system into balance, in particular ensuring that the financial situation of complementary pension schemes is sustainable over the long term.

3. Ensure that the labour cost reductions stemming from the tax credit for competitiveness and employment and from the responsibility and solidarity pact are sustained, in particular by implementing them as planned in 2016. Evaluate the effectiveness of these schemes in the light of labour and product market rigidities. Reform, in consultation with the social partners and in accordance with national practices, the wage-setting system to ensure that wages evolve in line with productivity. Ensure that minimum wage developments are consistent with the objectives of promoting employment and competitiveness.

4. By the end of 2015, reduce regulatory impediments to companies' growth, in particular by reviewing the size-related criteria in regulations to avoid threshold

12 Under Article 5(2) of Council Regulation (EC) No 1466/97.

effects. Remove the restrictions on access to and the exercise of regulated professions, beyond the legal professions, in particular as regards the health professions as from 2015.

5. Simplify and improve the efficiency of the tax system, in particular by removing inefficient tax expenditure. To promote investment, take action to reduce the taxes on production and the corporate income statutory rate, while broadening the tax base on consumption. Take measures as from 2015 to abolish inefficient taxes that are yielding little or no revenue.

6. Reform the labour law to provide more incentives for employers to hire on open-ended contracts. Facilitate take up of derogations at company and branch level from general legal provisions, in particular as regards working time arrangements. Reform the law creating the *accords de maintien de l'emploi* by the end of 2015 in order to increase their take-up by companies. Take action to reform the unemployment benefit system in order to bring the system back to budgetary sustainability and provide more incentives to return to work.

Done at Brussels,

For the Council
The President