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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2017 National Reform Programme of France and delivering a Council opinion on the 2017 Stability Programme of France

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2017) 509 final.

COUNCIL RECOMMENDATION

of …

on the 2017 National Reform Programme of France

and delivering a Council opinion on the 2017 Stability Programme of France

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,

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,

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[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 16 November 2016, the Commission adopted the Annual Growth Survey, marking the start of the 2017 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 9-10 March 2017. On 16 November 2016, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report, in which it identified France as one of the Member States for which an in-depth review would be carried out. On the same date, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area, which was endorsed by the European Council on 9-10 March 2017. On 21 March 2017, the Council adopted the Recommendation on the economic policy of the euro area ('Recommendation for the euro area').[3]

(2) As a Member State whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, France should ensure the full and timely implementation of the Recommendation for the euro area, as reflected in recommendations (1) to (4) below.

3 OJ C 92, 24.3.2017, p. 1.

(3) The 2017 country report for France was published on 22 February 2017. It assessed France's progress in addressing the country-specific recommendations adopted by the Council on 12 July 2016, the follow-up given to the country-specific recommendations adopted in previous years and France's progress towards its national Europe 2020 targets. It also included an in-depth review under Article 5 of Regulation (EU) No 1176/2011, the results of which were also published on 22 February 2017. The Commission's analysis led it to conclude that France is experiencing excessive macroeconomic imbalances. In particular, France is characterised by weak competitiveness and high and increasing public debt, in a context of low productivity growth. The need for action to reduce the risk of adverse effects on the French economy and, given its size and cross border relevance, on the economic and monetary union is particularly important.

(4) On 28 April 2017, France submitted its 2017 National Reform Programme and its 2017 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(5) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds (ESI Funds) for the 2014-2020 period. As provided for in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council,[4] where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of that provision in guidelines on the application of the measures linking effectiveness of the ESI Funds to sound economic governance.

[4] Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

(6) France is currently in the corrective arm of the Stability and Growth Pact. In its 2017 Stability Programme, the Government plans to correct the excessive deficit by 2017, in line with the Council Recommendation of 10 March 2015 under the excessive deficit procedure, with a headline deficit of 2,8 % of GDP. The headline deficit is planned to decline further to 1,3 % of GDP in 2020. The medium-term budgetary objective — a structural deficit of 0,4 % of GDP — is planned to be achieved by 2019. However, the recalculated[5] structural balance is projected to reach -1,2 % of GDP in 2020 and therefore the medium-term objective would not be reached by the programme horizon. According to the 2017 Stability Programme, the general government debt-to-GDP ratio is expected to decrease from 95,9 % of GDP in 2018 to 93,1 % of GDP in 2020. The macroeconomic scenario underpinning those budgetary projections is plausible. At the same time, the measures needed to support the planned deficit targets from 2018 onwards have not been sufficiently specified.

(7) On 10 March 2015, the Council recommended France to put an end to the excessive deficit situation by 2017 and to achieve a general government deficit of 2,8 % of GDP, consistent with an improvement in the structural balance of 0,9 % of GDP, in 2017. Based on the Commission 2017 spring forecast, the headline deficit is projected to reach 3,0 % of GDP in 2017, in line with the Treaty reference value, but above the target recommended by the Council. For 2018, under unchanged policies, the headline deficit is projected at 3,2 % of GDP, thus exceeding the Treaty reference value and pointing to risks to the durable correction of the excessive deficit. Moreover, the recommended fiscal effort is not projected to be delivered over the period covered by the excessive deficit procedure as the consolidation strategy pursued by France relies primarily on improving cyclical conditions and a continuation of the low-interest-rate environment, which are outside the control of the authorities.

[5] Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

(8) For 2018, should a timely and durable correction eventually be achieved, France would become subject to the preventive arm of the Stability and Growth Pact and to the transitional debt rule. In the light of its fiscal situation and in particular of its debt level, France is expected to further adjust towards its medium-term budgetary objective of a structural deficit of 0,4 % of GDP. According to the commonly agreed adjustment matrix under the Stability and Growth Pact, that adjustment translates into a requirement of a nominal growth rate of net primary government expenditure[6] which does not exceed 1,2 % in 2018. It would correspond to an annual structural adjustment of 0,6 % of GDP. Under unchanged policies, there is a risk of a significant deviation from that requirement in 2018. There is also a risk that France will not comply with the transitional debt rule in 2018, as the structural balance is projected to deteriorate by 0,5 % of GDP as opposed to the minimum linear structural adjustment of 0,4 % of GDP. Overall, the Council is of the opinion that France needs to stand ready to take further measures to ensure compliance in 2017 and that further measures will be needed as of 2018 to comply with the provisions of the Stability and Growth Pact. However, as foreseen in Regulation (EC) No 1466/97, the assessment of the budgetary plans and outcomes should take account of the Member State's budgetary balance in the light of the cyclical conditions. As recalled in the Commission Communication on the 2017 European Semester accompanying these country-specific recommendations, the assessment of the 2018 Draft Budgetary Plan and subsequent assessment of 2018 budget outcomes will need to take due account of the goal of achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of France's public finances. In that context, the Council notes that the Commission intends to carry out an overall assessment in line with Regulation (EC) No1466/97, in particular in light of the cyclical situation of France.

[6] Net government expenditure comprises total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure. Nationally financed gross fixed capital formation is smoothed over a 4-year period. Discretionary revenue measures or revenue increases mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.

(9) The public expenditure-to-GDP ratio in France is one of the highest in the Union. The expenditure ratio is projected to reach 56,2 % of GDP in 2017, 9,7 percentage points higher than in the Union. France has followed an expenditure-based consolidation strategy that has relied mainly on declining interest rates and cuts in public investment. However, it is unlikely that the low-interest-rate environment will prevail in the medium term and the cut in productive public investment could harm future economic potential. In contrast, the spending reviews have identified a number of possible efficiency gains that have not been implemented. The spending reviews identified a fraction — less than 2 % — of the overall planned expenditure savings of EUR 50 billion over the period 2015-2017. However, only part of them has translated into actual measures in the 2016 budget, while the measures in the 2017 budget Act relied on those already identified in the spending review exercise of 2015. Savings derived from spending reviews could significantly increase by widening the expenditure areas under review and by implementing a multi-annual strategy to fully translate the identified savings into concrete budgetary measures.

(10) High social security contributions combined with high level of taxes weighing on companies can discourage private investment and hamper companies' growth and new hires. Policy measures to reduce labour costs have continued to be implemented, with the start in April 2016 of the second phase of reductions in employers' social security contributions planned under the solidarity and responsibility pact. In addition, the Government has increased for 2017 the tax credit for competitiveness and employment (CICE) from 6 % to 7 %. These measures to reduce the labour tax wedge have improved France's competitiveness since 2013 but accumulated past losses have not yet been recovered. At the average wage, in 2015 France had the highest employers' social security contribution in the Union as a share of total labour costs paid by the employer, even though it is on a declining trend. The recent evaluations of these measures highlighted their positive effect on employment and firms' profit margins but further evaluations are needed to fully assess their impact on wages, investment, employment and firms' margins. Recent evaluations also suggest that the consolidation of labour cost reduction schemes and their transformation in permanent reductions in social contributions would optimise their effects on employment and investment.

(11) At 38,4 % as of 1 July 2016, the effective average corporate tax rate was the highest in the Union and other taxes on production are also particularly high. However, France has adopted steps to reduce the statutory corporate income rate to 28 % in 2020. At the same time, the tax burden continues to fall less on consumption than in other Member States. In 2014, France ranked 27th in the Union for tax revenues from consumption as a percentage of total taxation. The VAT system is characterised by a middle-ranking standard rate and low reduced rates applied to a large base. The complexity of the tax system may be a barrier to a well-functioning business environment. France has a high tax burden coupled with many tax breaks, reduced rates and a great number of tax schemes resulting in increased compliance costs and uncertainties, in particular for businesses. Total tax expenditure is sizeable in France at more than 3 % of GDP. The administrative cost to tax authorities of collecting taxes is also high and is above the Union average.

(12) In 2016, the unemployment rate decreased to 10,1 %. Unemployment is higher among young people, the low-skilled and those not born in the Union. Ongoing governance reforms are key to aligning training opportunities with employment prospects and economic needs. In parallel, jobseekers, less qualified workers and SME employees face persistent difficulties in having access to training. Ensuring their participation and the relevance of training provided may require strengthening existing measures and rebalancing resources. Young people, and among them the least qualified, still face difficulties entering the labour market. In this context, measures taken to support apprenticeships have translated into positive results so far. But the initial vocational education and training offered, specifically when school-based and in some tertiary sectors, is not sufficiently linked to employment opportunities. Moreover, pupils from a disadvantaged background are more often steered towards initial vocational education, which also accounts for the large majority of early drop outs, contributing to high educational inequalities. The impact of socioeconomic status on students' performance is the highest in the OECD.

(13) In 2016 only 54,5 % of non-EU-born people of working-age were in employment. The non-EU-born female employment rate (45,4 %) was one of the lowest in the Union. The employment gap between non-EU-born and French-born people increased to 17,5 percentage points in 2016 (23,7 percentage points for women). The poor performance of non-EU-born people pulls down the overall employment rate and represents a chronic underutilisation of labour. Second-generation immigrants also face adverse employment outcomes that are not explained by differences in age, education and skills. Moreover, gaps in educational outcomes are persistent, as second-generation immigrants are only partially catching up. In order to address this challenge, a comprehensive strategy is necessary, including in particular specific measures on language skills, upskilling and training, job counselling and other targeted active labour market policies. Effective access to services is key to promoting labour market participation, as well as action against discriminatory practices affecting the hiring of non-EU-born and second-generation immigrants.

(14) Since 2013 the French minimum wage has followed its indexation rules. In a context of weak inflation and slowing wage growth, its growth has been lower than reference wages. While the minimum wage is high compared with the median wage, the cost of labour at the minimum wage has been reduced by exemptions from social contributions. Increases in the minimum wage induce wage increases for most categories of workers and risk creating upward wage compression. While indexation of the minimum wage is important to preserve workers' purchasing power, the current indexation mechanism might contribute to delaying the necessary overall wage adjustment. Moreover, in the current context of high unemployment, there are risks that the cost of labour at the minimum wage hampers employment opportunities for low-skilled people. The group of independent experts annually assesses the minimum wage in France and provides non-binding opinions on its development. Their opinion on ad-hoc hikes has always been respected so far and is playing an important role to control the use of such ad-hoc hikes.

(15) With the law of August 2016 on labour, social dialogue and professional pathways, France introduced measures aimed at improving firms’ capacity to adjust to economic cycles and at reducing segmentation. The law clarifies rules on economic dismissals, extends the scope of majority company-level agreements and increases the effectiveness of collective bargaining. Persistently high levels of unemployment have put a strain on the sustainability of the unemployment benefit system. In that regard social partners reached in March 2017 an agreement on a new unemployment benefit convention, endorsed by the Government, which aims at reducing the annual deficit by EUR 1,2 billion.

(16) Although France has improved its overall regulatory performance, the business environment continues to be middle-ranking in comparison to major competitors. In particular, despite continued simplification efforts, businesses are still faced with a high regulatory burden and fast-changing legislation. This is one of the main obstacles to private investment. With the simplification programme, France has taken steps to reduce red tape for businesses, but one fifth of the measures adopted before 2016 had not yet been implemented by May 2017. At the same time, threshold effects continue to affect the development of firms with implications for their economic and market performance. Increased social and fiscal obligations applicable to firms above a certain number of employees may discourage them from expanding to a size that would allow them to export and innovate. These threshold effects can, in turn, affect firms’ productivity, competitiveness and internationalisation. Indeed, according to empirical evidence, the 10- and 50-employee thresholds are particularly costly for employers, while the French economy is characterised by a disproportionally low share of companies above those thresholds, suggesting a link between the two phenomena.

(17) Competition in services has improved in a number of sectors, but some economically important sectors, such as accountancy, architecture, homecare services, accommodation and food services, taxi and private-hire vehicle services, are still characterised by low competition and/or regulatory obstacles. Barriers remain in place for these services, in particular excessive regulatory requirements, and these discourage entry or limit effective competition. Reducing these barriers could allow existing firms or new ones, making use of new technological and digital developments, to increase their competitiveness and/or enter markets, and lead to benefits for consumers through lower prices and better-quality service. To this end, as part of a package of measures to tackle barriers in services markets, in January 2017 the Commission has launched a mutual evaluation exercise inviting Member States to conduct evaluation of the respective barriers they have in place to limit access to certain professions.

(18) Innovation in France does not match the performance of Europe's innovation leaders. A high degree of complexity remains and overall coordination is a challenge. The discrepancy between the amount of public support granted and France's middling innovation performance raises questions about the efficiency of public support mechanisms. In particular, cooperation between public research and companies is suboptimal and weighs on the economic output of the innovation system.

(19) In the context of the 2017 European Semester, the Commission has carried out a comprehensive analysis of France's economic policy and published it in the 2017 country report. It has also assessed the 2017 Stability Programme, the 2017 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 socioeconomic policy in France, but also their compliance with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.

(20) In the light of this assessment, the Council has examined the 2017 Stability Programme and its opinion[7] is reflected in particular in recommendation (1) below.

(21) In the light of the Commission's in-depth review and this assessment, the Council has examined the 2017 National Reform Programme and the 2017 Stability Programme. Its recommendations made under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) to (4) below,

HEREBY RECOMMENDS that France take action in 2017 and 2018 to:

1. Ensure compliance with the Council recommendation of 10 March 2015 under the excessive deficit procedure. Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of France's public finances. Comprehensively review expenditure items with the aim to make efficiency gains that translate into expenditure savings.

2. Consolidate the measures reducing the cost of labour to maximise their efficiency in a budget-neutral manner and in order to scale up their effects on employment and investment. Broaden the overall tax base and take further action to implement the planned decrease in the statutory corporate-income rate.

3. Improve access to the labour market for jobseekers, in particular less-qualified workers and people with a migrant background, including by revising the system of vocational education and training. Ensure that minimum wage developments are consistent with job creation and competitiveness.

[7] Under Article 5(2) of Regulation (EC) No 1466/97.

4. Further reduce the regulatory burden for firms, including by pursuing the simplification programme. Continue to lift barriers to competition in the services sector, including in business services and regulated professions. Simplify and improve the efficiency of public support schemes for innovation.

Done at Brussels,

For the Council
The President