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**NOTE**

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From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2019 National Reform Programme of France and delivering a Council opinion on the 2019 Stability Programme of France

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Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission Proposal COM(2019) 510 final.

## **COUNCIL RECOMMENDATION**

**of ...**

**on the 2019 National Reform Programme of France and delivering a Council opinion on the 2019 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<sup>1</sup>, 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<sup>2</sup>, 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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<sup>1</sup> OJ L 209, 2.8.1997, p. 1.

<sup>2</sup> 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 21 November 2018, the Commission adopted the Annual Growth Survey, marking the start of the 2019 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The priorities of the Annual Growth Survey were endorsed by the European Council on 21 March 2019. On 21 November 2018, on the basis of Regulation (EU) No 1176/2011, the Commission also 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 21 March 2019. On 9 April 2019, the Council adopted the Recommendation on the economic policy of the euro area<sup>3</sup> ('2019 Recommendation for the euro area') which sets out five euro-area recommendations ('the euro-area recommendations').
- (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 2019 Recommendation for the euro area, as reflected in recommendations (1) to (4) below. In particular, measures to use windfall gains to reduce public debt, to rationalise public expenditure and to focus economic policy related to investment in the specified areas will help address the second euro-area recommendation as regards rebuilding fiscal buffers, improving public finances and supporting investment. Measures to simplify the tax system and reduce regulatory restrictions will help address the first euro-area recommendation as regards the business environment. Finally, measures to improve employability will help addressing the third euro-area recommendation as regards the functioning of the labour market.

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<sup>3</sup> OJ C 136, 12.4.2019, p. 1.

- (3) The 2019 country report for France was published on 27 February 2019. It assessed France's progress in addressing the country-specific recommendations adopted by the Council on 13 July 2018<sup>4</sup>, 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 27 February 2019. The Commission's analysis led it to conclude that France is experiencing macroeconomic imbalances. The imbalances identified relate in particular to high public debt and weak competitiveness dynamics in a context of low productivity growth.
- (4) On 26 April 2019, France submitted its 2019 National Reform Programme and its 2019 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<sup>5</sup>, 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 the effectiveness of the ESI Funds to sound economic governance.

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<sup>4</sup> OJ C 320, 10.9.2018, p. 39.

<sup>5</sup> 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 preventive arm of the Stability and Growth Pact and subject to the transitional debt rule. In its 2019 Stability Programme, the government plans the headline deficit to increase from 2,5 % of gross domestic product (GDP) in 2018 to 3,1 % of GDP in 2019 and to gradually decline thereafter to 1,2 % of GDP in 2022. The planned increase of the headline deficit in 2019, which is confirmed by the Commission 2019 spring forecast, is mainly due to the one-off deficit-increasing impact of the transformation of the tax credit on employment and competitiveness into a permanent reduction of employers' social contributions. Based on the recalculated structural balance<sup>6</sup>, the medium-term budgetary objective — a structural deficit of 0,4 % of GDP — is not planned to be achieved over the period covered by the 2019 Stability Programme. According to the 2019 Stability Programme, the general government debt-to-GDP ratio is expected to increase from 98,4 % of GDP in 2018 to 98,9 % of GDP in 2019 and to decline thereafter to 96,8 % in 2022. The macroeconomic scenario underpinning those budgetary projections is plausible. At the same time, the measures needed to support the planned deficit targets from 2020 onwards have not been specified.
- (7) On 5 June 2019, the Commission issued a report under Article 126(3) of the Treaty, as the 2019 Stability Programme planned a headline deficit in breach of the 3 %-of-GDP Treaty reference value in 2019 and, based on notified data, the transitional debt rule was prima facie not complied with in 2018. The report concluded that, following an assessment of all the relevant factors, the deficit and debt criteria as defined in the Treaty and in Regulation (EC) No 1467/1997 should be considered as currently complied with.

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<sup>6</sup> Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology

- (8) On 13 July 2018, the Council recommended France to ensure that the nominal growth rate of net primary government expenditure<sup>7</sup> does not exceed 1,4 % in 2019, corresponding to an annual structural adjustment of 0,6 % of GDP. Based on the Commission 2019 spring forecast, there is a risk of a significant deviation from the recommended adjustment path towards the medium-term budgetary objective in 2019.
- (9) In 2020, in view of France's general government debt ratio above 60 % of GDP and projected output gap of 0,7 %, the nominal growth rate of net primary government expenditure should not exceed 1,2 %, in line with the structural adjustment of 0,6 % of GDP stemming from the commonly agreed adjustment matrix of requirements under the Stability and Growth Pact. According to the Commission 2019 spring forecast under unchanged policies, there is a risk of a significant deviation from that requirement in 2020. France is prima facie not forecast to comply with the transitional debt rule in 2019 and 2020. Overall, the Council is of the opinion that the necessary measures should be taken as of 2019 to comply with the provisions of the Stability and Growth Pact. It would be important to use any windfall gains to further reduce the general government debt ratio.
- (10) Efforts to consolidate government finances have only modestly reduced the public expenditure ratio, which at 56 % in 2018, remained the highest in the Union. A steady decrease in public debt will depend on the government's ability to curb its spending. Since 2017, the government has rolled out a renewed fiscal consolidation strategy over the five-year presidential term. Its success will depend on meeting planned expenditure targets defined for the central and local governments and for the healthcare system.

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<sup>7</sup> Net primary 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 four-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.

- (11) Expenditure on healthcare has steadily increased over time. Total expenditure was estimated at 11,5 % of GDP in 2017, the highest level among the Member States adhering to the Organisation for Economic Cooperation and Development (OECD). A new reform of the healthcare system was announced in the autumn of 2018 and a draft law was presented on 13 February 2019. Its success will depend on the set up of a clear legal and organizational framework that provides the right incentives and fosters collaboration between public and private actors. The announced reform of the healthcare system does not include a revision of the growth norm for healthcare expenditure (*Objectif National de Dépenses d'Assurance Maladie*, ONDAM). This spending norm covers a third of social security spending. Although this objective has been met since 2010, the ONDAM target has already been increased three times since 2017. It was increased for 2018-2020, from an initial target of 2,1 % growth to a revised target of 2,3 % in the budget law for 2018, and was further increased up to 2,5 % in the social security budget act for 2019. This will reflect to some extent the additional expenses to be incurred by ‘Ma santé 2022’.
- (12) At local level, public spending exceeded the planned growth target in 2017. Since 2014, the public expenditure of the local government in France is guided by an expenditure norm indicating yearly non-binding growth targets for both operating public expenditure and financing needs at local level (*Objectif d'évolution de la Dépense Locale*). In 2018, this expenditure norm was accompanied by legally binding contract agreements between the State and 71 % of the 322 biggest local authorities, valid in 2018-2020. The limited reduction in the number of municipalities, however, might hamper compliance with the expenditure norm. The territorial reform of 2014- 2016 reduced the number of regions by half, but the number of municipalities only slightly decreased and remained above 34 000, by far the highest in the Union.

- (13) Implementing the renewed fiscal consolidation strategy rolled out by the government for the five-year presidential term also requires the still not fully defined ‘Public Action 2022’ programme to be carried out. That programme aims to deliver substantial efficiency gains for government spending while improving the functioning of the national public administration. The government has given clear priority to methodological and process-related aspects, but has not focused on ex-ante and across-the-board quantification of potential savings. While this approach may stem from a complex reform process and the need to smoothen the public debate over sensitive issues, it also makes it difficult to assess in quantitative terms the overall strategy and its contribution to fiscal consolidation. In particular, it is not clear how exactly and with what timing the reform programme — including the Ministries’ transformation plans that include a wide set of varied measures — would contribute with concrete actions to the very specific objective of reducing the expenditure-to-GDP ratio by 2022. Overall, available information shows partial adherence to the guidance for spending reviews agreed in 2016 by the Eurogroup.
- (14) Sustainability risks for general government debt remain high in the medium term. The high general government debt and structural general government deficit pose sustainability challenges, especially in the medium term. A fiscal effort that translates into a decisive improvement in France’s structural primary balance would be essential to avert such risks. Reducing the general government debt ratio would also improve growth prospects and the resilience of the French economy.



- (15) The planned pension reform could help to decrease the general government debt over the medium term and therefore reduce debt sustainability risks. The budgetary equilibrium of the pension system is highly dependent on macroeconomic assumptions. According to the latest annual report by France's Pensions Advisory Council (*Conseil d'orientation des retraites*), pension expenditures were at 13,8 % of GDP in 2018 and are projected to reach 13,8 % in 2022, before remaining in a range between 11,8 % and 13,8 % by 2070 depending on the growth rate assumed for the evolution of GDP and employment over time. More than 40 different pension schemes co-exist in France. These schemes apply to different groups of workers and functions according to different sets of rules. A draft law is expected by the end of the year to progressively unify the rules of these schemes, with a view to simplifying the functioning of the pension system in particular to improve its transparency, fairness and efficiency.
- (16) The employment rate continued to increase and reached 71,3 % in 2018. The unemployment rate further declined, reaching 9,1 % in 2018, but remains well above the Union average (6,8 %) and the euro area average (8,2 %). In addition, the French labour market remains highly segmented. Almost 85 % of new hires are on temporary contracts and the transition rate to permanent contracts is among the lowest in the Union. Involuntary part-time work is also very high, at 42,3 % of total part-time work in 2018. The planned reform of the unemployment benefit system (*Unédic*) is aimed to tackle labour market segmentation by reducing incentives for hiring on very short-term contracts and recalls, and to reduce the debt of the system. Negotiations between social partners on the unemployment benefits system began in the autumn of 2018. The aim was to i) reduce the debt of the system, ii) review the incentives for the unemployed to take up work and iii) find an incentive mechanism to reduce incentives to hiring on very short-term contracts. However, social partners did not find an agreement on a new set of rules. The reform is now in the hands of the government, which is committed to announcing which measures will be retained by the summer 2019.

- (17) Labour market conditions for vulnerable groups remain comparatively more difficult than for other groups. The employment rate for non-EU-born people, at 57,5 % in 2018 (against 73,1 % of those born in France), is one of the lowest in the Union. Evidence shows that people with a migrant background tend to be disadvantaged during the recruitment process. Their geographical concentration in poor neighbourhoods is also a matter of concern. Inhabitants of the most deprived areas (such as *Quartiers prioritaires de la politique de la ville*), including people with a migrant background, continue to face difficulties on the labour market, with an unemployment rate of 24,7 % in 2017. Despite some policy action, the impact of socioeconomic and migrant background on educational performance remains high and hampers labour market integration.
- (18) Low-skilled and young people also remain at a disadvantage in the labour market. The unemployment rate of the low-skilled declined in 2017 for the first time since 2008, but at 16,2 % in 2018, it remains well above pre-crisis levels. Youth unemployment (ages 15-24) decreased by 1,6 percentage points in 2018 to 20,7 %, but is still well above the Union average of 15,2 %. The unemployment rate of low-skilled young people is still very high, at 35,6 % in 2018. Effective active support to find employment, including intensive job counselling and recruitment support, access to upskilling actions, innovative measures to reach out to the most vulnerable young people not in education, employment or training and firmer action on discriminatory practices, are all key to fostering equal opportunities on the labour market. The outermost regions are confronted with additional challenges and deserve particular attention.

- (19) As labour market conditions improve, several indicators point to skills mismatches. While unemployment and under-employment remain high, shortages of skilled workers are increasing, especially in specific sectors. Skill shortages and lack of competencies are key factors explaining unfilled job vacancies. According to data from France's *Pôle Emploi*, in 2017, out of 3,2 million registered job vacancies, 150 000 were cancelled due to the lack of candidates. Evidence suggests that, during the crisis and the subsequent recovery, an increase in skill mismatches contributed to unemployment declining at a slower rate and to higher long-term unemployment. Labour market outcomes of initial vocational education and training are improving. The government introduced a comprehensive set of actions in 2018 to increase access to initial and continuous training and revise the governance and financing of the vocational education and training system. Complementing these reforms, the skills investment plan (*Plan d'investissement dans les compétences*) aims to train and provide intensive guidance to 1 million young people not in employment, education or training and to 1 million low-qualified jobseekers over the period 2018-2022.
- (20) Overall, the French social protection system is effective in reducing inequality and poverty. The proportion of people at risk of poverty and social exclusion has further decreased to an historical low of 17,1 % in 2017, compared to an average of 22,4 % in the Union. However, income inequality remains well above the pre-crisis level. Moreover, upwards transition across income quantiles has gone down, especially for the lowest quintile. Some groups, among which single-parent families and people born outside the Union face an increased risk of poverty and social exclusion. Counselling for minimum income beneficiaries is not always sufficient, with wide territorial discrepancies. Further and better coordinated investments in social inclusion, as envisaged by the national strategy against poverty presented in September 2018, could help to tackle these challenges. While the performance of the health system is good overall, regional disparities in access to services could benefit from further investment, especially in the outermost regions.

(21) Despite recent initiatives, France has not been able to reduce its gap with the Union's innovation leaders according to the European Innovation Scoreboard. Investment in research and development has remained stable and new companies have difficulty growing. Overall, France is not on track to meet its total research and development intensity target of 3 % for 2020 and the level of research and development investment from the business sector is still far below the 2 % target. Public expenditure on research and development is above the Union average and includes a wide range of direct and indirect support schemes to business research and innovation efforts, including the research and development tax credit scheme (*Crédit d'Impôt Recherche*), which is one of the most generous among OECD countries. However, the overall performance of the research and development and innovation ecosystem does not yet match the large amount of public support. While the existing tools, including the *Crédit d'Impôt Recherche*, were recently evaluated, a comprehensive evaluation of the overall policy mix would help feed the implementation of future policy. The Innovation Council (*Conseil de l'innovation*), set up in July 2018, is tasked with supervising the simplification measures, which include better coordination between regional, national and European support to innovation. Closer links between science and business, in particular through knowledge transfer schemes, could also help spread innovation, as France continues to score below the Union average for public research and development financed by businesses. Support to competitiveness clusters (*pôles de compétitivité*) has been renewed for a fourth phase (2019-2022) and priority will be given to clusters organisations well connected with others structures at local level, focused on national industrial priorities and with a track record in Union projects. The Innovation and Industry Fund (*Fonds pour l'innovation et l'industrie*), financed through privatisations, will also help to provide funding for artificial intelligence. Timely development of related technologies, such as the Internet of things, 5G networks, high performance computing and, more generally, the data economy, will be one of the keys to the success of these initiatives. Major differences among regions also exist in terms of regional investment in research and development and innovation performance. Several rural regions or regions in industrial transition rank below the Union average. The outermost regions are at the low end of the scale.

(22) At present, France is performing well in energy and climate mitigation policy and remains on track to reach its 2020 greenhouse gas reduction target. However it needs to step up significantly its investment efforts to reach its 2020 renewables and energy efficiency targets, as well as its more ambitious 2030 climate and energy targets, in particular in the deployment of renewables and the energy efficient refurbishment of the building stock. As more than half of the current funding for those investments is publicly driven, economic and regulatory conditions would have to make the financing of projects more viable for the private sector in order to tap into significant investment opportunities. Accelerating the penetration of renewables in the heating and cooling sector represents a particularly large untapped potential. High investment needs also concern energy efficiency in buildings. This is particularly the case for the renovation of the housing sector, which accounts for a large share of the total climate investment gap, as the majority of the housing stock is old and contains 7 to 8 million thermal sieves (representing around 20 % of the total number of housing). The percentage of building stock reported to satisfy high-energy efficiency standards is lower for firms in France (25 %) than in the Union as a whole (39 %) in 2017. Significant regional differences prevail in the energy sector. Energy intensity is decreasing in almost all regions, but at differing paces, and considerable differences exist in the penetration of renewable energy. Additional investments in interconnections could contribute to greater integration of the internal Union energy market, while introducing more competition and facilitating the deployment of renewable energy, in particular with the Iberian Peninsula.

- (23) The 2018 national circular economy roadmap (*Feuille de Route pour l'Économie Circulaire*) is an ambitious policy framework for resource efficiency, whose implementation will hinge on ensuring the corresponding investments. Although the contribution of recycled materials to the overall material demand (circular material use rate) is well above the Union average (19,5 % versus 11,7 % in 2016), recycling rates for municipal waste are still slightly below the Union average (41,8 % versus 46,4 % in 2016). In this regard, the adoption of a law on the circular economy will be a step forward, including for a wider use of secondary raw materials, in particular plastics. New resource-efficient business models and production processes, including industrial symbiosis, need to be further promoted, in particular among small and medium-sized businesses. This can be facilitated by the development of innovative financial instruments and funding for eco-innovation.
- (24) Investments to improve connectivity, especially in more disadvantaged areas, could help address inequalities in France. France scores below the Union average for access to fast broadband network, and fast broadband take-up is low (20 % of households against 41 % in the Union on average in 2018). The use of mobile broadband services is also still below the Union average. Broadband coverage varies greatly across regions and remains limited in a few rural areas and outermost regions France's plan for ultra-fast broadband (*Plan France Très Haut Débit*) and related measures are expected to significantly contribute to the country reaching its connectivity targets. It will be essential to closely monitor the implementation of these measures, particularly in areas with poor coverage, given the predominantly decentralised approach and potential bottlenecks if not enough skilled workers are available to roll out the network.
- (25) Despite ongoing efforts to increase certainty for taxpayers (*Loi pour un État au service d'une société de confiance*, ESSOC law) and simplify the system, the French tax system continues to be complex, which weighs on the business environment. The tax code encompasses multiple rates systems and tax expenditures (tax credit, exemptions, tax reductions). This complexity often aims to achieve specific policy goals, like alleviating the tax burden on the most vulnerable households and incentivising or correcting specific behaviours. However, it risks resulting in a loss of readability, thus increasing compliance costs and legal uncertainty detrimental to France's attractiveness while creating loopholes.

- (26) Streamlining tax expenditures and reducing the number of small taxes could help further simplify the tax system. Total tax expenditure is estimated at 4 % of GDP in 2019. Unlike the previous multiannual framework, the current budgetary framework (2018-2022) does not provide a spending limit for tax expenditures. It sets instead a non-binding target of 28 % for the ratio of tax expenditures to the sum of net tax revenues and tax expenditures. While the budget law for 2018 planned a tax spending ratio below the target (28 %) set in the 2018-2022 multiannual budgetary framework, this ratio is set to increase in the future (25,5 % at the end of 2018 and 26 % in 2019).
- (27) The 2019 budget tables a decrease of the overall amount of tax expenditures below EUR 100 billion, putting an end to a five-year period of constant increases in volume. Between 2018 and 2019, however, the number of tax expenditures has increased from 457 to 474. In 2018, the Court of Auditors recommended streamlining the existing tax expenditures and pointed their lack of control and evaluation. Efforts to discontinue taxes which bring limited revenue or that are inefficient should be pursued. In the budget law for 2019, 26 taxes yielding low revenues have been cut, 20 were eliminated in 2019 for a total amount of EUR 132 million and 6 are to be eliminated in 2020 for a total amount of EUR 208 million. The elimination of small taxes is expected to continue in 2020 at the same pace.
- (28) Other taxes on production continue to weigh on businesses. Taxes on production stood at 3,1 % of GDP in 2016, higher than Italy (1,4 %), Spain (1,0 %) and Germany (0,4 %). Such taxes have different tax bases (turnover, added value, salaries, land and buildings) and can increase the overall cost of production. This could have a negative impact on competitiveness in particular for the manufacturing sector. The 2019 budget law cuts only one tax on production (*forfait social*) levied at national level and worth EUR 660 million per year (once fully implemented in 2020).

- (29) Despite progress and the adoption of ambitious reforms, barriers to entry persist and competition in business services and regulated professions remains low. The new OECD intra-EEA services trade restrictiveness index shows that the level of regulatory restrictiveness in France is higher than the European Economic Area (EEA) average in sectors such as accounting, legal services and distribution services. Main barriers arise in the form of restrictive authorisation requirements, reserves of activities, shareholding and voting rights requirements. In the retail sector, France has carried out a number of reforms to reduce the regulatory burden. However, a number of operational restrictions still affects the efficiency of retail businesses and puts them at a disadvantage compared to e-commerce. The 2019 National Reform Programme details new measures to strengthen competition in a few specific services sectors (such as driving schools, property management companies and the sales of automotive spare parts). On 4 April 2019, the Competition Authority presented its opinion to ease restrictions on the distribution of medicines while maintaining a high level of public health protection.
- (30) Barriers in services have led to low competition, high profit margins and prices, harming the competitiveness of the whole economy. Churn rates are lower in key business services in France compared to the rest of the Union. The lack of competition in services combined to high labour costs have helped to keep prices high, in particular in real estate transactions, housing, catering and legal and accounting services. Since the costs of these services are also borne by other firms using them as inputs, they represent an additional factor weighing on France's competitiveness, including on industry.



- (31) The PACTE law (*loi relative à la croissance et la transformation des entreprises*) aims to support the growth and transformation of firms. It will reduce the number of thresholds firms face as they grow, although remaining thresholds have become broader in scope and more costly to overcome. It also introduces a five-year transition period before considering that a threshold has been reached and encourages small and medium-sized businesses to use incentives and participation schemes for employees linked to a firm's performance. Finally, it provides simplified procedures to start or register businesses and introduces new rules to help entrepreneurs get a second chance. It also reduces the time and costs of insolvency procedures, in particular for small and medium-sized businesses, including by making them more predictable. According to the French administration's own estimates, the potential impact of the PACTE law on GDP is an increase of 0,32 % by 2025 and by 1 % in the longer term. Its full and timely implementation remains key to reap the benefits of this reform.
- (32) The programming of Union funds for the period 2021-2027 could help address some of the gaps identified in the recommendations, in particular in the areas covered by Annex D to the 2019 country report. This would allow France to make the best use of those funds in respect of the identified sectors, taking into account regional and territorial disparities and the special situation of the outermost regions.
- (33) In the context of the 2019 European Semester, the Commission has carried out a comprehensive analysis of France's economic policy and published it in the 2019 country report. It has also assessed the 2019 Stability Programme, the 2019 National Reform Programme and the follow-up given to the recommendations addressed to France in previous years. The Commission 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.

(34) In the light of this assessment, the Council has examined the 2019 Stability Programme and its opinion<sup>8</sup> is reflected in particular in recommendation (1) below.

(35) In the light of the Commission's in-depth review and this assessment, the Council has examined the 2019 National Reform Programme and the 2019 Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) to (4) below. Those recommendations also contribute to the implementation of the 2019 Recommendation for the euro area, in particular the first and second euro-area recommendations. Fiscal policies referred to in recommendation (1) contribute inter-alia to address imbalances linked to high government debt,

HEREBY RECOMMENDS that France take action in 2019 and 2020 to:

1. Ensure that the nominal growth rate of net primary expenditure does not exceed 1,2 % in 2020, corresponding to an annual structural adjustment of 0,6 % of GDP. Use windfalls gains to accelerate the reduction of the general government debt ratio. Achieve expenditure savings and efficiency gains across all sub-sectors of the government, including by fully specifying and monitoring the implementation of the concrete measures needed in the context of Public Action 2022. Reform the pension system to progressively unify the rules of the different pension regimes, with the view to enhance their fairness and sustainability.
2. Foster labour market integration for all job seekers, ensure equal opportunities with a particular focus on vulnerable groups including people with a migrant background and address skills shortages and mismatches.
3. Focus investment-related economic policy on research and innovation (while improving the efficiency of public support schemes, including knowledge transfer schemes), renewable energy, energy efficiency and interconnections with the rest of the Union, and on digital infrastructure, taking into account territorial disparities.

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<sup>8</sup> Under Article 5(2) of Regulation (EC) No 1466/97.

4. Continue to simplify the tax system, in particular by limiting the use of tax expenditures, further removing inefficient taxes and reducing taxes on production. Reduce regulatory restrictions, in particular in the services sector, and fully implement the measures to foster the growth of firms.

Done at Brussels,

*For the Council*

*The President*

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