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Recommendation for a

COUNCIL RECOMMENDATION

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

{SWD(2024) 600 final} - {SWD(2024) 610 final}

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 Articles 121(2) and 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 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,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investment, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it helps achieve the economic and social recovery and implement sustainable reforms and investment, in particular to promote the green and digital transitions and make the 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 EU and support the continued implementation of the European Pillar of Social Rights.

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

2 OJ L 306, 23.11.2011, p. 25 ELI: http://data.europa.eu/eli/reg/2011/1176/oj.

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.

(2) The REPowerEU Regulation[4], adopted on 27 February 2023, aims to phase out the EU's dependency on Russian fossil fuel imports. This would help achieve energy security and diversify the EU'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.

(3) On 16 March 2023, the Commission issued a Communication on the 'Long-term competitiveness of the EU: looking beyond 2030'[5], in order to inform policy decisions and create the framework conditions for increasing growth. The Communication frames competitiveness along nine mutually reinforcing drivers. Among these drivers, access to private capital, research and innovation, education and skills, and the single market emerge as paramount policy priorities for reform and investment to address current productivity challenges as well as to build up the long-term competitiveness of the EU and its Member States. On 14 February 2024, the Commission followed this Communication with the Annual Single Market and Competitiveness Report[6]. The report details the competitive strengths and challenges of Europe's Single Market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey[7], marking the start of the 2024 cycle of the European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 22 March 2024. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2024 Alert Mechanism Report, in which it identified France as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. On the same date, the Commission adopted an opinion on the 2024 draft budgetary plan of France. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 12 April 2024, as well as the proposal for the 2024 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 11 March 2024.

(5) On 30 April 2024, the EU's new economic governance framework came into force. The framework includes the new Regulation of the European Parliament and of the Council (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure and the amended Directive 2011/85/EU on the budgetary frameworks of Member States[8]. The objectives of the

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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 COM(2023) 168 final.

6 COM(2024) 77 final.

7 COM(2023) 901 final.

8 Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj) and Council Directive (EU) 2024/1265 of

new framework are public debt sustainability and sustainable and inclusive growth through gradual fiscal consolidation as well as reforms and investments. It promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State should submit to the Council and to the Commission a national medium-term fiscal-structural plan. National medium-term fiscal-structural plans contain the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 years or 5 years depending on the regular length of the national legislature. The net expenditure[9] path in the national medium-term fiscal-structural plans should comply with the requirements of Regulation (EU) 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period at the latest, or for it to remain at prudent levels below 60% of GDP, and to bring and/or maintain the government deficit below the 3% of GDP 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 Regulation (EU) 2024/1263, the adjustment period may be extended by 3 years at most. For the purpose of supporting the preparation of those plans, on [21 June] 2024, the Commission is set to provide Member States with guidance on the content of the plans and the subsequent annual progress reports that they will need to submit and, in accordance with Article 5 of Regulation (EU) 2024/1263, will transmit to them technical guidance on the fiscal adjustments (reference trajectories and technical information, where applicable). Member States should submit their medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. Member States should ensure the involvement of their national parliaments, and the consultation of independent fiscal institutions, of social partners and other national stakeholders, as appropriate.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. The full implementation of the recovery and resilience plans remains essential for delivering 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 issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(7) 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 Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 13 July 2021, the Council adopted its Decision on the approval of the assessment of the

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29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

9 Net expenditure as defined in Article 2 of Council Regulation (EU) 2024/1263 of 29 April 2024 (OJ L 2024/1263, 30.4.2024. ELI: http://data.europa.eu/eli/reg/2024/1263/oj). Net expenditure means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by Union funds revenue, (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.

recovery and resilience plan for France[10], which was amended on 14 July 2023 following Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[11] . The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that France has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(8) On 2 May 2024, France submitted its 2024 National Reform Programme and its 2024 Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. In accordance with Article 27 of Regulation (EU) 2021/241, the 2024 National Reform Programme also reflects France's biannual reporting on the progress made in achieving its recovery and resilience plan.

(9) The Commission published the 2024 country report for France[12] on 19 June 2024. It assessed France's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 and took stock of France's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed France's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(10) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for France. The main findings of the Commission's staff assessment of macroeconomic vulnerabilities for France for the purposes of that Regulation were published in April 2024[13]. On 19 June 2024, the Commission concluded that France is no longer experiencing macroeconomic imbalances. In particular, policy action has helped in reducing vulnerabilities, which had cross-border relevance, related to competitiveness in a context of low productivity growth, but efforts need to continue, while vulnerabilities related to high public debt remain. Price competitiveness has evolved favourably since 2021, in part due to lower inflation than in trading partners. However, cost competitiveness outcomes have been more mixed as labour productivity has been reined in by temporary factors in the aftermath of the COVID-19 crisis, including persistent labour hoarding in some key sectors, and policies aimed at increasing employment. These have resulted in robust employment growth in recent years. Labour productivity and competitiveness are expected to improve going forward, helped by planned investments and reforms, which should underpin debt deleveraging. Private sector debt increased markedly during the pandemic, but was accompanied by a rise in the household saving rate, and by increases in equity and the accumulation of liquidity buffers in firms, which are now being used. Credit for

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10 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).

11 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).

12 SWD(2024) 610 final.

13 SWD(2024) 100 final.

corporate investment remains dynamic despite the tighter financial conditions. Public debt-to-GDP has edged down somewhat with the recovery in GDP since 2021, to just over 110% in 2023. It is projected to remain broadly stable in 2024 but to increase again in 2025 amid continued large government deficits. The policy response to the identified vulnerabilities related to competitiveness in a context of low productivity growth has been broadly appropriate and should support productivity growth in coming years, but efforts need to continue. The implementation of the RRP will help to further address the competitiveness challenges while improving productivity growth. While policy action has been taken to strengthen public finances, more efforts are clearly needed to reduce the high public debt. The reformed Stability and Growth Pact, including the application of the Excessive Deficit Procedure, offers a suitable and strong surveillance mechanism to address the fiscal sustainability risks.

(11) Based on data validated by Eurostat[14], France's general government deficit increased from 4.8% of GDP in 2022 to 5.5% in 2023[15], while the general government debt fell from 111.9% of GDP at the end of 2022 to 110.6% at the end of 2023. As announced in the fiscal policy guidance for 2024[16], the Commission is taking the first step for the opening of deficit-based excessive deficit procedures on the basis of the outturn data for 2023, in line with existing legal provisions. On 19 June 2024, the Commission adopted a report under Article 126(3) of the TFEU[17]. That report assessed the budgetary situation of France, as its general government deficit in 2023 exceeded the reference value of 3% of GDP. The report concluded that in the light of this assessment, and after considering the opinion of the Economic and Financial Committee as established under article 126(4) TFEU, the Commission intends to propose in July to open an excessive deficit procedure, by recommending to the Council to adopt a Decision under Article 126(6) establishing the existence of an excessive deficit for France.

(12) On 12 July 2022, the Council recommended[18] that France ensure in 2023 a prudent fiscal policy, in particular by limiting the growth of nationally financed primary current expenditure below medium-term potential output growth[19], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. At the same time, France was recommended to stand ready to adjust current spending to the evolving situation. France was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. In 2023, according to the Commission estimates, the fiscal stance[20] was

14 Eurostat-Euro Indicators, 22.4.2024.

15 The increase in the deficit in 2023 was mainly driven by sizeable revenue shortfalls and, to a lesser extentlower than expected growth.

16 COM(2023) 141 final.

17 Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 19.6.2024, COM(2024)598 final.

18 Council Recommendation of 12 July 2022 on the National Reform Programme of France and delivering a Council opinion on the 2022 National Reform Programme of France, OJ C 334, 1.9.2022, p. 79.

19 Based on the Commission 2024 spring forecast, the medium-term potential output growth of France in 2023 is estimated at 6.4% in nominal terms, based on the 10-year average real potential growth rate and the 2023 GDP deflator.

20 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

contractionary, by 0.5% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a contractionary contribution to the fiscal stance of 0.3% of GDP and was in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.4% of GDP in 2023. Nationally financed investment amounted to 4.1% of GDP in 2023, representing an increase of 0.1 percentage points as compared to 2022. France financed additional investment through the Recovery and Resilience Facility and other EU funds. It financed public investment for the green and digital transitions, and for energy security, such as for the development and industrial deployment of renewable and low-carbon hydrogen solutions, innovation projects in sustainable agricultural systems, recycled materials, innovative buildings, digitalisation and decarbonisation of mobility as well as investments for the thermal renovation of buildings, which are partly funded by the Recovery and Resilience Facility and other EU funds.

(13) The key projections in the 2024 Stability Programme can be summarised as follows. The macroeconomic scenario underpinning the budgetary projections foresees real GDP growth at 1.0% in 2024 and 1.4% in 2025, while it projects CPI inflation at 2.5% in 2024 and 1.7% in 2025. The general government deficit is expected to decrease to 5.1% of GDP in 2024 and 4.1% of GDP in 2025, while the general government debt-to-GDP ratio is set to increase to 112.3% by the end of 2024 and 113.1% by the end of 2025. After 2025, the general government deficit is projected to decrease gradually to 3.6% of GDP in 2026 and 2.9% in 2027. Therefore, the general government balance is planned to go below the 3% of GDP deficit reference value in 2027. In turn, after 2025, the general government debt-to-GDP ratio is projected to decrease gradually to 112.9% in 2026 and 112.0% in 2027.

(14) The Commission Spring 2024 Forecast projects real GDP to grow by 0.7% in 2024 and 1.3% in 2025, and HICP inflation to stand at 2.5% in 2024 and 2.0% in 2025.

(15) The Commission Spring 2024 Forecast projects a government deficit of 5.3% of GDP in 2024, while the general government debt-to-GDP ratio is set to increase to 112.4% by the end of 2024. The decrease of the deficit in 2024 mainly reflects the withdrawal of most emergency energy-related measures and 0.3% of GDP expenditure savings adopted in February, partly offset by the brisk projected increase in interest payments on public debt to around 2.0% of GDP, pushed by higher rates on new issues. Moreover, the projection also includes the 0.1% of GDP impact of an exceptional tax on energy producers and financial profits. The increase of the debt-to-GDP ratio in 2024 mainly reflects the impact of a high primary deficit and rising interest payments, whereas the debt-reducing effect stemming from nominal growth would be more moderate than in recent years. Based on the Commission's estimates, the fiscal stance is projected to be contractionary by 1.1% of GDP in 2024.

(16) Expenditure amounting to 0.2% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.2% of GDP in 2023, according to the Commission Spring 2024 Forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-

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measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds. A negative (positive) sign of the indicator indicates an expansionary (contractionary) fiscal policy.

quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of France.

(17) On 14 July 2023, the Council recommended[21] that France ensure a prudent fiscal policy, in particular by limiting the nominal increase in net nationally financed primary expenditure[22] in 2024 to not more than 2.3%. When executing their 2023 budgets and preparing their Draft Budgetary Plans/budgets for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive deficit procedures based on the outturn data for 2023. According to the Commission Spring 2024 Forecast, France's net nationally financed primary expenditure is projected to increase by 1.8% in 2024[23], which is below the recommended maximum growth rate. This is in line with what was recommended by the Council.

(18) Moreover, the Council recommended that France take action to wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, France should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission Spring 2024 Forecast, the net budgetary cost[24] of emergency energy support measures is estimated at 0.9% of GDP in 2023 and projected at 0.2% in 2024, and 0.0% in 2025. In particular, the cap on regulated electricity prices, implemented via a decrease in the domestic tax on final electricity consumption (TICFE) and direct subsidies to compensate electricity suppliers, is assumed to remain in force in 2024. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 0.6% of GDP in 2024, whereas net nationally financed primary expenditure[25] provides a contractionary contribution to the fiscal stance of 1.0% of GDP in that year. The emergency energy support measures are projected to be wound down as soon as possible in 2023 and 2024. This is in line with what was recommended by the Council. Moreover, the related savings are projected to be fully used to reduce the government deficit. This is also in line with the Council recommendation.

(19) In addition, the Council also recommended that France preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions. According to the Commission Spring 2024 Forecast, nationally financed

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21 Council Recommendation of 14 July 2023 on the 2023 National Reform Programme of France and delivering a Council opinion on the 2023 Stability Programme of France, OJ C 312, 1.9.2023, p. 86.

22 Net primary expenditure is defined as nationally financed expenditure net of (i) discretionary revenue measures, (ii) interest expenditure, (iii) cyclical unemployment expenditure, and (iv) and one-offs and other temporary measures.

23 This takes into account 0.0% of GDP one-off measures in 2024, as well as -0.1% of GDP in 2023 relating to Court decisions.

24 The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

25 This contribution is measured as the change in general government primary expenditure, net of (i) the incremental budgetary impact of discretionary revenue measures, (i) one-offs, (iii) cyclical unemployment expenditure and (iv) expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

public investment is projected to remain stable at 4.1% of GDP in 2024. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to remain stable at 0.4% of GDP in 2024.

(20) Based on policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission Spring 2024 Forecast projects a government deficit of 5.0% of GDP in 2025. The decrease of the deficit in 2025 at unchanged policies mainly reflects the expected growth rebound. The general government debt-to-GDP ratio is set to increase to 113.8% by the end of 2025. The increase of the debt-to-GDP ratio is mainly driven by high primary deficits and rising interest payments.

(21) Tax expenditures in France are numerous and imply a heavy budgetary burden. The budget law for 2023 estimated that the budgetary cost of the 465 listed tax expenditures in 2022 amounted to EUR 88 billion (3.3% of GDP), excluding the effect of the tax credit on employment and competitiveness (*crédit d'impôt pour la compétitivité et l'emploi*, CICE), which was withdrawn in 2019. In particular, the tax credit on research (*crédit d'impôt recherche*, some EUR 7 billion), the tax credit for home employees (*crédit d'impôt pour l'emploi d'un salarié à domicile*, EUR 5.7 billion), the 10% allowance on pensions and retirement arrangements (*abattement de 10 % sur les pensions et retraites*, EUR 4.4 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 4.3 billion) were the largest ones in the 2023 budget law. Since 2013, despite many attempts to control the cost and number of tax expenditures, they have increased by more than 16% in real terms. While tax expenditures may be motivated by economic or social policy objectives, they are not necessarily the most cost-efficient instrument and may in some cases lead to severe economic distortions. As signalled by the French Court of Auditors, 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 in 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 context of the annual budgetary process. However, past attempts have shown limited success in reducing tax complexity and the budgetary cost associated with tax expenditures. As tax expenditures by definition fall outside the scope of the established budgetary controls on expenditure, their containment would require a similar degree of monitoring, complementary to the spending review initiated by the government under the recovery and resilience plan.

(22) At 57.3% of GDP in 2023, France's public expenditure remains well above the EU average. The Commission 2024 spring forecast projects a similar gap in 2024 and 2025. Hence, fiscal consolidation in France calls for decisive action on public spending. The new spending review mechanism, adopted with the 2023 budget law in the context of the recovery and resilience plan, has the potential to support such consolidation and public debt reduction. The main objective of this new mechanism is to conduct regular evaluations of public spending aiming to identify the most efficient expenditures favouring growth, social inclusion and the green and digital transitions, while attaining expenditure savings where inefficiencies are detected. A first report with concrete proposals was submitted to the Parliament in July 2023. However, the

translation into concrete and quantified saving measures in the 2024 budget law appears limited. Going forward, fiscal consolidation would benefit from regular integration of quantified expenditure saving targets from spending reviews into future annual and multiannual budgetary planning.

(23) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2 of Regulation (EU) 2021/241, 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, proceeding swiftly with the effective implementation of the plan, including the REPowerEU chapter, is essential to boost France's long-term competitiveness through the green and digital transition, while ensuring social fairness. To deliver on the commitments of the plan by August 2026, it is essential for France to continue the implementation of reforms and investments. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(24) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation (EU) 2021/1060, France is required to review each programme by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. This review forms the basis for the definitive allocation of the EU funding included in each programme. While France has made progress in implementing cohesion policy and the European Pillar of Social Rights, challenges remain. In 2023, France registered moderate growth across the country, albeit with significant persisting differences across regions, some of which show long-term sluggish growth. There are considerable development disparities between outermost and metropolitan regions, as well as between urban and non-urban areas. Accelerating the implementation of cohesion policy programmes is crucial. The priorities agreed in the programmes remain relevant. It is particularly important to continue supporting the research, development and innovation activities at regional level, in particular by boosting regional innovation ecosystems, strategic skills and attracting talent. The need to increase the digitalisation and innovation capacity of businesses, especially in regions in a development trap, also deserves specific attention. Priorities that contribute to the green transition remain key, with particular emphasis on the production of renewable energy, the development of smart energy systems and energy efficiency measures, and climate change adaptation. In the outermost regions, the supply of drinking water, wastewater treatment and municipal waste collection and management remain fundamental. The active inclusion of disadvantaged groups such as people with a migrant background remains important, as well as targeted investments in upskilling and reskilling in line with labour market needs and with particular attention to disadvantaged groups. It is also key to continue anti-poverty and social inclusion measures, with particular attention to children, access to affordable housing and the prevention of housing evictions. France could also make use of the Strategic Technologies for Europe Platform initiative to support industrial transformation. France could in particular further develop the skills, technologies and infrastructure needed and stimulate the involvement in new strategic value chains (net-zero industry, critical raw materials, decarbonisation of energy-intensive industries).

(25) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, France faces several additional challenges related to skills shortages, inequalities in the education system and the deterioration of educational outcomes, teachers' working conditions and training, and also challenges related to the business environment, research, development and innovation and the green transition. Tackling these challenges would help boost the skills of workers and learning outcomes and increase labour productivity. In addition, it could also improve the efficiency of French businesses, in turn increasing the competitiveness of the French economy. Further boosting competitiveness and labour productivity would also contribute to underpinning the sustainability of public finances.

(26) The shortage of skilled workers is among the main obstacles to recruitment. In 2022, this was particularly the case in industry, the ICT and health sectors as well as in occupations that require skills for the green transition[26]. In addition, 45% of French small and medium-sized enterprises (SMEs) reported finding it very difficult to hire staff with the right skills, against 38% in the EU. 83% of French firms cite labour and skills shortages as one of the main barriers to investment, against 81% in the EU. Moreover, the lack of adequate skills hampers investments in the decarbonisation of industry. Despite investment in upskilling and reskilling workers, also supported by the Recovery and Resilience Facility, difficulties remain, in particular in reaching the low-skilled[27] and targeting entries into training for priority sectors. The evaluation of past and recent investments, such as the Skills Investment Plan (*plan d'investissement dans les compétences*), highlights that only 25% of training concerns a priority sector and 20% of training targets occupations suffering from skills shortages. Also, only around 25% of low-qualified adults participated in learning in 2022. The effectiveness of measures that support upskilling and reskilling may suffer from the declining performance in the educational system, as basic skills form the basis to benefit from further education and training. While the Skills Investment Plan has been renewed until 2027, the means dedicated to it have decreased.

(27) 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 pupils. 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 vs 26.2% in the EU and 23.8% underperformed in science vs 24.2% in the EU. This results in scores around the EU average, which has also worsened considerably. The share of low-achieving students has increased significantly since 2018 in all three subjects. At the same time, there is a significant decline in the share of top-performing students, especially in mathematics and reading. The declining proficiency in basic skills is further pronounced among disadvantaged 15-year-old students, including those with a migrant background who face twice the risk of underachievement than their native-born peers with native-born parents. Improving the students' performance in basic skills is crucial, starting from an early age. Total expenditure on primary education in France is slightly lower than in the OECD on average[28]. Several measures were implemented in recent years to reduce inequalities at school, such as the halving of class size in 'priority education areas'.

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26 DARES, '*Les tensions sur le marché du travail en 2022'*, *Dares Resultats n°59*, November 2023.

27 Persons with at most lower secondary education (i.e. ISCED 0-2).

28 https://data.oecd.org/eduresource/education-spending.htm#indicator-chart.

While first evaluations point to the measure's positive impact on the educational outcomes of pupils, it does not benefit the 70% of disadvantaged pupils living outside the priority areas. In 2023, the Ministry of Education encouraged a better social mix in schools by setting a non-binding target to reduce social segregation in public schools by 20% by 2027 and signing a memorandum of understanding with private schools. Moreover, the measure adopted in September 2023, which introduced a weekly hour of differentiated teaching in French and mathematics for all pupils, has the potential to strengthen basic skills. However, the impact of these measures on learning outcomes still needs to be felt, and further evaluations will be warranted. Adapting resources and methods to local circumstances and students' needs could further help improve the performance and equity of the education system.

(28) Although teachers benefited from a pay rise in 2023, concerns over the attractiveness of the profession remain, and teacher shortages weigh on educational outcomes. France has one of the highest student/teacher ratios in the EU. 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 reinforcement of training in French and mathematics for primary teachers. Nevertheless, there is scope to further expand these measures, notably by better aligning initial and continuous training with the evolving needs of all students and providing teachers and schools with greater autonomy. In particular, while OECD report[29] shows that giving schools a high degree of autonomy can have a positive impact on pupils' performance (when coupled with accountability), the Court of Auditors warns that in practice head teachers have limited scope to adapt to students' needs and local circumstances[30].

(29) Despite several reforms for administrative simplification, firms in France still perceive the administrative burden as heavy, which weighs on innovation and productivity. According to a 2022 survey, 49% of businesses find the complexity of administrative procedures to be 'a very serious problem' (among the highest percentages in the EU and above the EU average of 33%)[31]. France estimates that the excessive number of rules costs at least 3% of GDP per year[32]. In line with the suggestions of stakeholders[33] to ease the administrative burden, priority could be given to limiting the number of documents that have to be submitted ('tell-us-only-once principle'), generalising the digitalisation of procedures while maintaining a point of direct contact with the administration. Priority could also be given to either replacing authorisation schemes with simple declarations of compliance with applicable conditions or, for the more sensitive sectors, simplifying authorisations by reducing decision times and adopting tacit approval where it is not yet applicable.

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29 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.

30 Cour des comptes, *Mobiliser la communauté éducative autour du projet d'établissement, Rapport public thématique*, 2023.

31 European Commission, Flash Eurobarometer 507, Businesses' attitudes towards corruption in the EU, Report, July 2022, p. 58.

32 See the simplification action plan of April 2024, available at https://presse.economie.gouv.fr/plan-daction-simplification/, p. 8.

33 See the final report of the consultation of January 2024, *Entrepreneuses, entrepreneurs : quelles mesures concrètes pour vous simplifier la vie ?*, available at https://www.economie.gouv.fr/actualites/mesures-consultation-simplification-entreprises.

(30) France provides substantial public funding to support business R&D and innovation. Among the EU countries, it devotes one of the highest shares of its GDP to support business R&D (0.45% of GDP in 2021)[34]. However, business R&D is stagnating and remains below the EU average (1.43% of GDP in 2022). According to the 2023 EIB Investment Survey, only 30% of French firms (99.8% of which are SMEs) invested in developing new products, processes and services. This is one of the lowest shares in the EU. Against a background of stagnating academia-business cooperation-related indicators[35] and declining attractiveness of academic careers, the Research Programming Law and other announced measures, some of which are included in the recovery and resilience plan, are expected to improve the efficiency of the research system by strengthening the link between science and the economy, and making research careers more attractive. Nevertheless, the impact of these measures will take time to materialise and then be visible in the indicators. A costly tax credit on research is in place, although evaluations revealed major weaknesses[36]. 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 support being concentrated on them. There is therefore scope to better target this R&D scheme in order to increase R&D output, while containing its costs. Other measures to support innovation are much smaller, but better target SMEs. They 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.

(31) In the French energy mix, the share of fossil fuels somewhat increased in 2022, while the share of renewables was a low 14.6%. In addition, France missed its EU objective for 2020 on renewable energy with a significant shortfall. Despite an increase in installed renewable capacity in 2022 driven by the significant increase in solar energy, France is lagging behind on deploying renewable energy, especially for electricity production and heating, with a view to the 2030 targets. In a context where the additional nuclear power plants announced would take time to build and electrification needs are expected to grow fast[37], the swift deployment of renewables would contribute to France's energy security of supply while reducing its dependence on fossil fuels. In March 2023, France enacted a law on the acceleration of renewable energy production, which entails a time-bound bottom-up identification of 'renewables acceleration areas' by the municipalities. Its swift implementation is warranted. However, by mid-April 2024 less than 20% of the municipalities had embarked on identifying these areas. Moreover, one of the implementing acts has still not set out the

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34 Commission calculations. The support is a sum of tax incentives amounting to 0.28% of GDP (OECD data, last updated in April 2024) and of direct support (through grants, etc.) amounting to 0.16% of GDP (Eurostat data, last updated on 17 March 2024).

35 Namely, public-private scientific co-publications as % of total number of publications (source: Science-Metrix, August 2023); public expenditure on R&D financed by businesses (national) as % of GDP (source: Eurostat, rd_e_gerdfund); and public expenditure on R&D financed by businesses (national) as % of total public expenditure on R&D (source: Eurostat).

36 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.

37 RTE (2023) *Bilan prévisionnel* 2023, French power system outlook (https://assets.rte-france.com/prod/public/2023-10/2023-10-02-bilan-previsionnel-2023-principaux-resultats.pdf), see in particular p. 31.

regionalised objectives of the multiannual energy plan (*programmation pluriannuelle de l'énergie*), which is not yet published. There is also still a need to simplify connection procedures to the distribution grid for self-consumption. Further investment in electricity grids and flexibility solutions such as storage are needed to integrate increased volumes of renewable energy and ensure security of supply.

(32) In view of the close interlinkages between the economies of euro area Member States and of their collective contribution to the functioning of the Economic and Monetary Union, in 2024 the Council recommended that the euro area Member States take action, including through their recovery and resilience plans, to implement the recommendation on the economic policy of the euro area. For France, recommendations (1), (2), (3) and (4) help implement the first, second, third and fourth euro area recommendations.

HEREBY RECOMMENDS that France take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[38] in 2025 to a rate consistent with putting the general government debt on a plausibly downward trajectory over the medium term and reducing the general government deficit towards the 3% of GDP Treaty reference value. Reduce the complexity of the tax system by better targeting tax expenditures, removing the least efficient ones and limiting their overall budgetary impact. Continue the efforts to enhance the quality of budgetary measures, including by setting up quantitative targets for expenditure savings in budgetary planning within the established framework for spending reviews.

2. Continue with the swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of their mid-term review, continue focusing on the agreed priorities, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

3. Further address skills shortages, including in green transition occupations, and foster participation in training, in particular among the low-skilled. Improve the performance and equity of the education system. Strengthen the teaching profession, including by improving working conditions and training.

[38] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

4. Improve the business environment by reducing the administrative burden. Foster business R&D intensity, including by better targeting public support schemes. Accelerate the energy transition by deploying renewable energies faster, including by adopting secondary legislation, setting up the 'renewables acceleration areas' and promoting storage technologies.

Done at Brussels,

For the Council
The President