NATIONAL REFORM PROGRAMME OF FRANCE

APRIL 2012

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Introduction

At the European Council of 1 and 2 March 2012, the Heads of State and Government reaffirmed that the Europe 2020 Strategy is the right answer to current difficulties and that the five targets set out for the strategy will continue to guide the action of both the Member States and the European Union to increase the employment rate, promote innovation, research and development, meet the energy and climate change targets and, finally, to improve educational attainment and reduce poverty.

The National Reform Programme (NRP) is designed to meet these goals. In keeping with the 2011 NRP, France has opted to combine fiscal consolidation and policies with high growth potential to revive economic growth and support the labour market. This approach addresses the negative social consequences of the crisis and is backed up by a series of measures to promote social cohesion. The actions set out are in keeping with the integrated guidelines for the efforts of the European Union and its Member States.

The preliminary results for 2011 confirm the relevance of this strategy with regard to public finances: the 2011 central government deficit was significantly smaller than initially forecast. Yet, considerable challenges still lie ahead. More specifically, the shrinking of France's share of the export market has aggravated the current account deficit and points to a loss of competitiveness that calls for urgent remedies. This fact has guided the structural reforms that the French government has undertaken over the last five years. These reforms aim to improve the efficiency and competitiveness of France's economy. They are supplemented by the actions recently initiated or considered that are set out in this National Reform Programme.

The policies described in this Programme to promote investment, innovation and research boost the performance of French companies and improve the non-price competitiveness of the French economy.

In the labour market, France has adopted such measures as shifting taxation from labour to consumption to curb the rise of payroll costs and promote price competitiveness. Growth also depends on increasing the labour force participation rate, which has brought the problem of labour market segmentation into especially sharp focus. The accent is now on the inclusion of young people, older workers and the long-term unemployed, as well as gender equity in the workplace.

France's National Reform Programme takes a combined approach to fiscal and structural issues in line with the commitments that France made under the Euro Plus Pact, which testifies to France's determination to contribute to the effectiveness of the Europe 2020 Strategy. It also testifies to the French government's determination to carry out the recommendations adopted by the European Council of July 2011[1]. These recommendations focused on:

- reducing fiscal deficits;
- combating labour market segmentation;
- enhancing measures to support return to employment;
- enhancing the efficiency of the tax system;
- removing unjustified restrictions on regulated trades and professions, in particular in services and the retail sector.

The National Refrom Programme is underpinned by France's determination to contribute to social and tax harmonisation in the European Union. During the drafting process, this National Reform Programme was sent to the various stakeholders: local government bodies, the Economic, Social and Environmental Council, employer organisations and trade unions and the National Council on Policies for Combating Poverty and Social Exclusion. The involvement of local governments in implementing the National Reform Plan is critical. Local governments account for 71.5%[2] of public investment in France and they play a key role in delivering quality services that are accessable to all. The opinions and remarks of all of the stakeholders have been enclosed with this Programme and sent to the European Commission. The National Reform Programme has also been submitted for consultation to the French National Assembly and Senate, along with the Stability and Growth Programme, before being sent to the Commission. François Baroin, the Minister for the Economy, Finance and Industry, and Valérie Pécresse, the Minister for the Budget, Public

[1] See Annex
[2] Source: SNA, INSEE, 2010 data, base 2005

Accounts and State Reform, testified to the Finance Commissions of both chambers of the legislature on April 11 as part of the European semester. This programme has also been enriched by the dialogue with the European Commission in recent months following the adoption of its Annual Growth Survey.

1. Targets

In keeping with the five major Europe 2020 targets, France is committed to continuing its efforts to achieve the national targets by 2020:

1. Achieving an employment rate of 75% for the population aged 20 to 64

In 2011, France's employment rate for the 20-to-64 age group stood at 69.1%. Before the crisis hit, the employment rate peaked at 70.7% in the second quarter of 2008. Reaching the target employment rate of 75% for the 20-to-64 age group by 2020 depends primarily on a recovery in the labour market once the crisis is over, on falling unemployment and on a return to the pre-crisis employment rate. After that, structural changes will contribute to reaching the target, once the cyclical unemployment has been reduced. These changes will largely be achieved by actions to promote jobs and continuing employment for the youngest and oldest members of the labour force, as well as active labour market policies to fight all types of discrimination. Women's employment is still a major challenge across all sectors, particularly in terms of their labour force participation rate. Therefore France has decided to set a specific sub-target of achieving an employment rate of 70% for women between the ages of 20 and 64 by 2020. The employment rate for women in this age group stood at 64.9% in 2010.

2. Investing 3% of GDP in research and development

As its national Europe 2020 Strategy target, France is aiming to have R&D expenditure represent 3% of GDP by 2020. According to the latest available data, France's R&D investment increased significantly in 2008 and 2009: domestic research and development expenditure stood at 2.26% of GDP in 2009[3], which virtually matched the level reached in 2002. The estimated data for 2010 show the same effort of 2.26%[4].

France's R&D expenditure target for 2020 is an ambitious one, but it is realistic considering the measures taken that will bear fruit in the coming years (Invest for the Future programme, second phase of innovation clusters, research tax credit and development of the digital economy). Success in reaching this target depends greatly on the level of private sector R&D expenditure, which depends in turn on a combination of national measures and European Union initiatives (EU Patent, removing obstacles to mobility for researchers, upholding an ambitious industrial policy for the EU, etc.) Achieving this target will require action by each Member State and the European Union. Another way of measuring a country's research effort is to look at the proportion of researchers in the labour force. This proportion is rising and stood at 8.3% in 2009, versus 8.1% in 2008. On this criterion, France beats the average for the 27 European Union members (6.5%) and the OECD average (7.2%).

3. Reducing greenhouse gas emissions by 14% in sectors outside the EU ETS Phase III[5], increasing the share of renewables to 23% of final energy use and, indicatively, reducing final energy use to approximately 130 MTOE.

As part of the EU Energy-Climate Package, the target of reducing the EU's emissions by 20% between 1990 and 2020 will be achieved by the European target of reducing emissions in sectors covered by the ETS Directive by 21% combined with the target of reducing emissions in other sectors by 10%. In keeping with the burden-sharing arrangement underlying its national targets for emission reductions outside the ETS, France has committed to reducing its emissions by 14% between 2005 and 2020. In 2010, the reduction in greenhouse gases stood at 6.6% compared to 1990. The difference in this reduction compared to the forecast of 10% presented in last year's National Reform Programme stems primarily from a change in the inventory methodology used by the United Nations.

[3] Semi-final results in 2009 (DIRD)

[4] Source: MESR - DGESIP/DGRI – SIES. The semi-final results from DIRD in 2010 will be released at the end of 2012

[5] Phase 3 of the EU Emissions Trading System

France’s target with regard to renewable energy sources is the same as that in the National Plan of Action for Renewable Energy sent to the European Commission in the third quarter of 2010. This target is 12.4% of final energy use in 2009 and 12.8% in 2010.

France opted for sector-specific energy efficiency targets (targets for construction or transportation, for example), measured in terms of final energy use, in accordance with Directive 2006/32/EC on energy end use efficiency and energy services, as well as the energy saving certificates system established in France, which is one of the pillars of France's energy efficiency policy. Consumers seem to have a clearer grasp of the notion of final energy use. As an indication, final energy use should stand at between 128 and 131 MTOE by 2020, as opposed to the prior trend that would have resulted in consumption of 163 MTOE, without the measures that France adopted following the Grenelle Environment Forum.

4. Reducing the school dropout rate to 9.5% and achieving a rate of higher education attainment of 50% in the population aged 17 to 33.

Reducing the dropout rate is a priority. Between 2000 and 2008, France saw a decline in the proportion of 18-24-year-olds “who have only secondary education or a lower level and who are no longer in education and training”. It fell from 13.3% to 11.8%. In 2010, the proportion increased again to approximately 12.5%. However, this is still lower than the European average of 14.1% in 2010.

In 2010, the provisional data showed that 43.5% of the French population aged 30 to 34 held higher education degrees, placing France above the European average of 33.6% and in ninth place among the 27 Member States. The annual performance plan appended to the 2010 budget for research and higher education sets a target of 50% of the 17-to-33 age group to achieve higher education degrees by 2013 (compared to 46.8% in 2010). This age group seems likely to give the most accurate measurement of changes in the proportion of higher education degrees between 2010 and 2020. Consequently, it is a helpful supplement to the EU benchmark age group of 30-34 years.

5. Reducing poverty by one third by 2012 and then reassessing this target in light of the progress achieved

The European poverty reduction target is defined as a decrease of 20 million people at risk of poverty or social exclusion[6] between 2007 and 2017. In 2009, France ranked among the European countries with relatively low poverty and exclusion rates, as defined by the indicator for the new European target (19%, versus 23.5% for the EU and, more specifically, 20% for Germany, 23% for Great Britain and 25% for Italy).

The national fight against poverty calls for a reduction of the rate anchored at a point in time by one third over the five years from 2007 to 2012.[7] Between 2007 and 2009, the monetary poverty rate anchored at a point in time declined steadily (the base year for income was 2006). In 2009, it stood at 11.8% of the French population.[8] The profile of the poor has changed little since 2007. The relative poverty rate is still higher for single-parent families, people living on their own, and large families and immigrants, whereas the risk of poverty decreases with age as a general rule.

[6] Defined as people affected by at least one of the following three factors: relative monetary poverty (threshold 60% of median income), poor living standards and low work intensity (under 20% of potential working hours).
[7] Under Act 2008-1249 on universal income support, the target will be revised in 2012, depending on the progress achieved, and then set for 2012-2017.
[8] See the 2011 progress report to Parliament on the target of cutting poverty by one-third in five years.

Table – The Europe 2020 Strategy Targets for France

Targets	National Targets		
	2010 or latest available data for France	France's 2020 National Targets	Europe's 2020 Targets
Employment rate for the population aged 20 to 64	69.1% (2011)	75% with a 70% employment rate for women	75%
Share of GDP devoted to R&D expenditure	2.26%[9]	3%	3%
Greenhouse gas emissions reduction	6.6%[10] (EU ETS + outside EU ETS, compared to 1990)	14% (outside EU ETS, compared to 2005)	20% (EU ETS + outside EU ETS, compared to 1990)
Renewable energy as a share of final energy use	12.8%	23%	20%
Energy efficiency – reduction of energy use	163 MTOE (final energy use scenario, outside Grenelle agreement)	From 128 to 131 MTOE (Grenelle agreement projection for final energy use in 2020)	20%
School dropout rate	12.5%	9.5%	less than 10%
Proportion of 30-34 age group with higher education degrees	43.3%	50%	at least 40%
Reduction of the population at risk of poverty or social exclusion	19%[11] (poverty and social exclusion rate in 2009)	Reduction of the poverty rate anchored at a point in time from 2007 to 2012	Reduction by 20 million people at least (16%)

[9] Semi-final results in 2009 (DIRD)
[10] With the methodology change last year
[11] Within the meaning of the three cumulative criteria defined by the European Council (see footnote 6).

2. Macroeconomic scenario

Situation in 2011 and outlook for 2012 and 2013

France's economic recovery continued in early 2011, after the 2009-2010 stimulus plan ended. Growth was underpinned by the stock cycle and strong investment. The pace of business investment picked up and household investment started growing again. Starting in the third quarter of 2011, the international and domestic economic situation worsened as financial tension rose in the United States and then spread to the euro area. However, France's economy continued to post growth of 0.3% in the third quarter and 0.2% in the fourth quarter. It was the only leading western country not to experience negative growth since the second quarter of 2009. Firm domestic demand, excluding stock effects, and strong foreign trade underpinned this growth. Economic conditions in the euro area did have an impact on households' expectations, however. Consequently, households' savings reached a historic high. In aggregate, **France's economy grew by 1.7% in 2011**, which is in line with the growth forecast in the September 2011 budget bill.

In 2012, as world economic growth falters, France's economy is expected to slow down as in the other euro area countries, especially at the beginning of the year. Financial tensions had a negative impact on the economies of France's leading trading partners and should result in slower growth of world demand for France's exports. This demand is expected to grow by 2.8%, compared to 5.8% in 2011. Financial tensions also caused businesses to delay some of their investment and draw down their stocks, as the market prospects for their goods dimmed. On the other hand, households, having increased their precautionary savings, should start tapping into them to maintain their consumption, which will sustain demand. Despite fresh rises in oil prices at the start of the year, which took the price of a barrel up to $119.50 (€91), the projected inflation for 2012 is 1.9%[12], slightly lower than in 2011, owing to slower economic growth. In addition, the strong performance of exports, which have been boosted by the depreciation of the euro, along with a slowdown in imports, mean that foreign trade should make a positive contribution to growth. This would be combined with stabilisation of European markets following the decisions made by the Heads of State and Government and by the European Central Bank. **In this case, GDP growth in 2012 would be 0.7%.** Market-sector payrolls would grow by 2.5%, sustained primarily by a 0.6% increase in wages in real terms.

According to the Commission's latest forecast (23 February interim forecasts), the French economy should grow by 0.4% in 2012, in contrast to a contraction of 0.3% in the euro area. The difference in the forecasts stems primarily from the pace of economic recovery, which could be more rapid that the Commission expected, as suggested by the latest available indicators. In March, INSEE's measure of business confidence was up by 4 points and household confidence rose by 5 points. According to the INSEE economic survey in March, growth will pick up again starting in the second quarter and stand at 0.5% at the end of the first half of the year.

The economy should bounce back with growth of 1.75% in 2013, as financial tensions ease. The recovery should be driven primarily by external events. As the economies of France's main trading partners recover, worldwide demand for its exports should grow by 6.2%. The brighter outlook for markets and waning financial uncertainty should cause businesses to increase their investment and build up their stocks again. If the price of oil remains at its 2012 level, inflation should ease gradually to 1.8%, as the effects of past increases in commodity prices are absorbed. As uncertainty dissipates, households should continue to reduce their level of savings, thus giving consumption a boost. The recovery would lead to 140,000 new jobs in the market sector over the year and market-sector payrolls would grow by 3.2% in 2013.

This scenario is shrouded in uncertainty. The central assumption in the scenario is the resolution of financial tensions. It is conceivable that household and business confidence in the euro area will bounce back sooner and lead to a more pronounced economic recovery. On the other hand, further worsening of the financial situation in the euro area would batter confidence and worldwide demand for French exports. In addition, continuing rises in commodity prices, especially oil prices, could drag down household consumption and erode business earnings. On the other hand, a drop in oil prices, like the one seen in 2009, cannot be ruled out. It would boost the recovery by lifting households' purchasing power. On the whole, this scenario is conservative, assuming that growth will be equal to the level of potential growth in 2013.

[12] Within the meaning of the Consumer Price Index.

Medium-term outlook (2014-2016)

The economic scenario used for multiyear fiscal planning is based on the assumption of 2.0% growth per year in 2014, 2015 and 2016, slightly higher than the potential growth rate. This assumption is conservative and only partially offsets the worsening of the output gap since the crisis. It corresponds to gradual reduction of the large growth deficit accumulated in recent years. Potential growth would stand at 1.7% per year starting in 2011, after declining during the crisis. Productivity declined sharply during the crisis, but over the last several quarters, its growth has been more in line with the previous trend. In addition, according to INSEE forecasts, the labour force should grow by 0.5% per year as a result of pension reform, among other factors.

Household debt is at relatively low levels, which means that their consumption should sustain growth, as their savings rate continues to decline. This is made possible by the particularly high level of household savings, the gradual consolidation of public finances and brighter prospects on the job market. Private-sector payrolls should grow by 4.0% per year, which is less than the increase in market-sector value added. Businesses could see their profits rise again and a high level of investment, underpinned by the elimination of the local business tax. Exports would grow in line with the growth trend for worldwide demand for French exports. France’s exports will get a boost from reforms to improve the competitiveness of French businesses, such as the decline in taxes on labour, with the anti-offshoring VAT, the elimination of the local business tax, reductions in red tape and the move to online administrative formalities, combined with reforms to improve businesses' capacity for innovation, with support for R&D through the research tax credit and the Invest for the Future programme. In view of more conservative growth assumptions than in the previous Stability Programme and greater competitiveness of French made goods, import growth should also slow down. In aggregate, foreign trade should make a positive contribution to growth and the balance of trade should improve gradually over the forecast period.

Table 1: Macroeconomic scenario, 2011-2016

Average annual growth rate in percentage	2011*	2012	2013	Average 2014-2016
GDP	**1.7**	**0.7**	**1.75**	**2.0**
Household consumption	0.3	0.3	1.2	2.2
General government consumption	0.9	0.9	0.2	0.0
Gross fixed capital formation	2.9	0.9	2.9	2.4
o.w. non-financial businesses	4.3	0.6	4.1	3.4
Contribution from inventories	0.8	-0.4	0.2	0.0
Contribution from foreign trade	-0.1	0.4	0.2	0.2
Exports	5.0	3.4	5.2	6.2
Imports	4.8	1.6	4.0	5.1
GDP deflator	1.6	1.6	1.8	1.7
Household consumption deflator	2.0	1.9	1.8	1¾%
Payrolls (non-farm market sector)	3.6	2.5	3.2	4.0
Average nominal wage per capita (non-farm market sector)	2.6	2.5	2.7	2.8
Salaried employees (non-farm market sector)	1.0	0.0	0.5	1.2

* INSEE quarterly accounts (adjusted for working days)

3. Macroeconomic reforms

Guideline 1: ensuring the quality and the sustainability of public finances

The structural reforms designed to ensure the quality and sustainability of public finances, under **Guideline 1** of the Council of the European Union, are described in the 2012-2016 French Stability Programme (see Part 6 "Quality of public finances" and Part 7 "Sustainability of public finances").

Three objectives guide the government's public finance strategy.

- **Reducing the government deficit to 4.4%[13] in 2012 and 3.0% in 2013**, and achieving balanced public finances in 2016, in keeping with the multiyear public finance strategy announced in November 2011 and the commitments made at that European level. All sub-sectors of government will contribute to this effort (central government and its agencies, Social Security funds and local governments).
- **Reversing, then rapidly reducing government debt**, which is a drag on the growth of the French economy and makes the country more dependent on financial markets.
- **Maintaining employment, the competitiveness of France's economy and social justice**, by ensuring that everyone bears a fair share of the effort needed to consolidate France's public finances through targeted measures that do not hamper growth.

What follows is a summary of the main reforms.

Ensuring the quality of public finances

Improving the quality of public finances is particularly crucial during a period of fiscal consolidation. Enhancing the efficiency of public expenditure and revenue limits the impact of savings measures on the economy and maintains the quality of public services while reducing costs at the same time.

France has stepped up its efforts in recent years. The focus has been on rationalising expenditure, as the General Public Policy Review continues and is extended to government agencies, local government reform and various measures to increase the efficiency of healthcare delivery, through the creation of regional health agencies or healthcare expenditure control, for example. At the same time, maintaining research expenditure in the government's three-year budget and the Invest for the Future programme stimulates the economy's potential for growth. Cost-benefit analysis[14] of revenue is leading to gradual reductions in tax expenditures and the least effective social security contribution exemptions, which helps to rationalise the tax and social security contribution system. In addition, the reform shifting some social security financing from taxes on labour income to less distorting taxes, which was passed by Parliament in February, will enhance France's competitiveness by lowering labour costs.

Ensuring the sustainability of public finances

Sustainable public finances are also a key component of any reform strategy, since they ensure the sustainability of France's economic policy and its capacity to carry out future reforms. Two major reforms should be mentioned in this regard.

The constitutional reform bill

The working group chaired by Michel Camdessus in 2010 produced a report that led to a constitutional reform bill that both chambers of Parliament passed last summer. Its enactment now requires a vote by a joint session of both chambers. The spirit of the reform is consistent with the Intergovernmental Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. More specifically, the reform introduces a new legal instrument called "balanced-budget framework laws", which include provisions

[13] The government deficit forecast for 2012 in the 2012 budget act has been revised from 4.5% of GDP to 4.4% of GDP.

[14] See the report by the Committee to Evaluate Tax Expenditures and Social Security Contribution Exemptions http://www.economie.gouv.fr/files/rapport-comite-evaluation-depenses-fiscales-et-niches-sociales.pdf.

governing budget acts and social security budget acts with the goal of ensuring balanced general government sector accounts within a given timeframe. Consequently, this reform must be carried out in keeping with France's European commitments. It will contribute a great deal to balancing public accounts in the long term.

Pensions reform

The pensions reform adopted at the end of 2010 opted for raising the retirement age by two years from 60 to 62 and the age for retirement on a full pension with no minimum years of service requirement from 65 to 67. This measure will reduce pension expenditure growth and contribute to a gradual increase in the labour force, thereby enhancing potential labour market participation and, ultimately, a rise in public revenue in the long term. Consequently, it leads to a significant improvement in the sustainability of public finances. The reform is backed up by measures to bring some of the rules applying in the public sector into line with those in the private sector. These measures affect both expenditure and revenue and raise targeted new revenues that do not increase labour costs.

A governance and alert body, the Pension Scheme Steering Committee (COPILOR), which is made up of representatives of Parliament, the central government, labour, management, pension schemes and the Pension Guidance Council (COR), now monitors these pension schemes. The Committee's task is to ensure compliance with the main principles of an unfunded pension system and to steer the financial trajectory of the schemes. For this purpose, it must produce an opinion on the financial situation of the schemes each year and propose corrective measures if there is a serious risk of slippage. The 2010 reform also calls for the Committee to organise a national discussion in 2013 on the objectives and characteristics of a systemic reform of old-age pensions. This discussion will address the requirements for setting up a point system or a notional accounts system.

The 2012 social security budget act[15] will enhance the impact of the 2010 reform. The reform parameters are still the same. The legal retirement age will rise to 62 for the generation born in 1955, instead of 1956, and the age for retirement on a full pension will rise to 67 for the generation born in 1955, instead of 1956. To achieve this, the intervals used to implement the reform have increased from the initially planned four months per generation to five months.

The faster pace of the reform since the end of 2011 means that the 2010 pensions reform contributes fully to France's planned medium-term consolidation of public finances, which is described in the 2012-2016 Stability Programme. This ambitious reform has enabled the government to set the goal of achieving a balanced pension system in 2018 and ensuring the future of the unfunded retirement pension system.

Guidelines 2 and 3: addressing macroeconomic imbalances and reducing imbalances in the euro area

Internal and external macroeconomic imbalances (competitiveness gaps between EU Member States, rising private and public sector debt, worsening current account imbalances, etc.) have played a major role in the economic crisis that has rocked Europe and, more specifically, the euro area, since 2011. A major challenge for European economic policy in coming years is to overcome these imbalances and to prevent new ones. As part of this effort, the first round of the new procedure for surveillance of macroeconomic imbalances takes place in the first half of 2012.

Under this procedure, the European Commission published the First Alert Mechanism Report on 14 February 2012. The analysis relies on a scoreboard with eight macroeconomic indicators (along with two supplementary indicators). An alert threshold is assigned to each indicator. The report identifies countries showing signs of imbalances. Such countries are then subjected to an in-depth analysis to establish officially whether an imbalance exists. France, along with 11 other European Union Member States (including 7

[15] Act 2011-1906 of 21 December 2011 on Social Security Financing for 2012

members of the euro area), was subjected to in-depth analysis. If an imbalance is identified, the European Council in June will adopt recommendations that may be "preventive" or "corrective", if the imbalance is deemed excessive. In the latter case, failure to apply the recommendations and corrective actions may lead to financial penalties for members of the euro area.

The Commission's scoreboard shows that France has breached the alert threshold for the 5-year change in export market shares (-19.4% vs. the alert threshold of -6%), as well as the alert threshold for the supplementary public debt indicator (82% vs. the alert threshold of 60%). Nearly all of the Member States breached the latter threshold. France has also breached the alert threshold for the private sector debt indicator (160% of GDP) (see the full scoreboard published by the Commission).

France has breached the alert threshold for only one of the eight main indicators, namely export market share. However, its big loss of export market share, combined with the continuing deterioration of its current account balance, reveals France's slipping price and non-price competitiveness over the years. The National Industry Conference, made up of labour and management representatives, also analysed this situation and came up with proposals to improve the competitiveness of businesses.

With these problems in mind, the French government has been engaging in reforms to enhance the efficiency and competitiveness of the economy for five years now. Pensions reform has boosted labour force participation rates, and the demand for labour has been underpinned by the policy moderating the minimum wage. The labour market is more flexible, following the introduction of contract terminations by mutual agreement and enhanced support for job seekers. At the same time, research, innovation and higher education have been stimulated with the research tax credit, autonomy for universities, the Invest for the Future programme and innovation clusters. Competition has also been enhanced (Economic Modernisation Act, granting of a fourth mobile telephone license, etc.) and administrative costs have been reduced (individual entrepreneur scheme, one-stop service for business formalities, etc.) At the same time, the tax and social security financing system has been recast to favour growth (withdrawal of the local business tax).

The French authorities have recently supplemented this coherent series of reforms through actions implemented or under consideration in this National Reform Programme, which will contribute to a lasting improvement in the efficiency and competitiveness of the French economy. They focus on the cost of labour and the cost of capital, on more flexibility in the economy, on innovation and human capital, and on business financing. The various measures, by boosting potential output, produce competitiveness gains that will improve France's foreign trade position. They are long-term reforms and their effects will gradually come to be felt in the coming years.

With regard to labour market reforms under Guideline 7 (see below), France's employment policies have contributed to more moderate rises in wage bills and stimulated job growth (maintaining the reductions in social security contributions on low-paid jobs and curbing minimum wage increases). France recently adopted a reform that shifts some of the burden for funding social security from taxes and contributions on labour to less distorting taxes (VAT and social levy on investment income) in response to **Recommendation 4** of the Council of the European Union. This shift will lower labour costs and improve the cost competitiveness of France's economy. The implementation of French-style flexicurity is moving ahead, with the creation of a job security contract in July 2011 designed to help redundant employees find new jobs. An increase in resources for short-time working arrangements was announced in January 2012, along with the start of bargaining to open the way for competitiveness-job security agreements.

Policies to promote investment, innovation and research enhance the non-price competitiveness of French businesses, as does keener competition in several sectors.

New measures, such as a National Seed Capital Fund and support for rebuilding the industrial base, have encouraged business investment (see Guideline 6 below).

The many measures to promote innovation introduced over the years, under the Invest for the Future programme, for example, are still in force. Five new projects were qualified as "Excellence Initiatives" at the start of 2012. New innovation clusters have been created too (see Guideline 4 below).

Several recently implemented measures to promote competition should also stimulate the French economy. These measures include the gradual opening of the passenger rail services to competition and the entry of a fourth operator into the mobile telephone market (see Guideline 6 below).

University reform is continuing to foster the development of a highly qualified workforce (see Guideline 4 below). By the end of 2012, all French universities will be autonomous, as 77 of the country's 80 universities already were at the beginning of 2012. The creation of research and higher education clusters is accelerating. The Operation Campus projects will also get under way in 2012. This reform is combined with the development of training/work experience contracts to facilitate the entry of young people into the labour market and to provide a better match between skills and labour market needs (see Guideline 8 below).

Macroeconomic Imbalance Procedure Scoreboard for France

Indicator	*Thresholds*	*France's score in 2010 (latest available data)*
Current account balance 3 year average as a % of GDP	+6%/-4%	-1.7
Net international investment position as a % of GDP	-35%	-10
Real effective exchange rate % change over 3 years based on HICP/CPI	+/-5% for euro area countries +/-11% for other countries	-1.4
Export market shares in value, % change over 5 years	- 6%	-19.4
Nominal unit labour cost % change over 3 years	+/-9% for euro area countries +/-12% for other countries	7.2
House price index Eurostat deflator for final household consumption expenditure, year-on-year % change	6%	5.1
Private sector credit flow as a % of GDP	15%	2.4
Private sector debt as a % of GDP	160%	160
General government sector debt as a % of GDP, annual level	60%	82
Unemployment rate three-year average	10%	9

4. Microeconomic reforms/sector-specific policies

Guideline 4: optimising support for R&D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy

France is maintaining its efforts to promote higher education and research to achieve the target R&D expenditure reaching 3% of GDP by 2020. The level reached in 2010 is estimated at 2.26%, compared to 2.12% in 2008. France made targeted commitments under the Euro Plus Pact to strengthen and modernise higher education and research.

Optimising support for R&D and innovation

The French government's R&D and innovation policy is part of a strategic framework that combines tax incentives, provisions for organising and strengthening relations between stakeholders (businesses, universities and research centres) and direct subsidies for R&D projects with the goal of stimulating excellence in public research and supporting private sector R&D investment.

Research Tax Credit

The 2011 Budget Act extended the early reimbursement of Research Tax Credits for SMEs. In addition, an instruction published on 23 February 2012 facilitates the use of the Research Tax Credit by businesses by defining the eligible R&D activities. The Research Tax Credit helped maintain business research expenditure, despite the crisis. Some 16,000 businesses claimed the Research Tax Credit for 2009, as opposed to 10,000 in 2007. Private sector R&D expenditure in France rose from 1.31% of GDP in 2007 to 1.38% in 2010, after falling steadily since 1993.

Modernising university research and strengthening the excellence of public research

By the end of 2012, all French universities will be autonomous, as 77 of the country's 80 universities already were at the beginning of 2012 and their resources will increase by €237 million. In addition, 41 university foundations and public-private partnerships are operating in 2012. The Operation Campus sites are becoming operational, with the launch of 17 projects in 2011, and 106 projects in 2012. In addition, the creation of 22 research and higher education clusters made up of 59 universities and 68 other partners is strengthening the critical mass of higher education institutions and synergy with research activities. These combinations may take the form of a merger resulting in a single institution, as was the case for the universities of Strasbourg, Aix-Marseille and Nancy-Metz. In addition to the 8 "Excellence Initiatives," the Invest for the Future programme also led to the creation of Excellence Laboratories (€1bn for the entire action) and "Excellence Infrastructures" (€340m for the first phase in 2011 and €210m for the second phase).

The European Association for Quality Assurance in Higher Education (ENQA) evaluated France's university and research evaluation body, AERES [16], in 2010. The quality of the French body's evaluation was recognised and it was included in the European Quality Assurance Register for Higher Education (EQAR) in May 2011, less than 5 years after its inauguration.

To increase the attractiveness of the French system, gender parity on universities' boards of directors has recently been encouraged[17].

National Research and Innovation Strategy

The National Research and Innovation Strategy was supplemented by defining local strategies ("STRATER") to develop a local vision of the higher education, research and innovation system up to 2020 and to provide a common frame of reference for the various local stakeholders. In 2011, a series of local strategy diagnoses were produced for the regions of metropolitan France[18]. They are designed to be a basis for future strategic choices. A strategic roadmap for France's overseas departments and territories was also published (STRATOM). A new strategic roadmap for research infrastructures was produced in 2012. These efforts build on the regional innovation strategies used to foster local innovation clusters. On the

[16] Resarch and Higher Education Evaluation Agency
[17] Decree 2011-1008 of 24 August 2011 – Art.9
[18] http://www.enseignementsup-recherche.gouv.fr/cid56061/strater.html

international front, strategic partnership agendas were signed with China and India and two other projects are under way with developed Asian countries and with Brazil.

Strengthening the knowledge triangle

Strengthening the knowledge triangle, meaning interactions between higher education, public research and innovative companies' R&D, is a key to providing the impetus for the development of public sector and private sector research.

Education and public research side

The "Excellence Initiatives" programme selected 8 world-class pluridisciplinary university clusters (3 "Excellence Initiatives" in July 2011 and 5 in February 2012) to receive more than €3bn in extra funding over the next ten years with the goal of joining the ranks of the best international universities and making France more attractive for talented young people and private-sector investment. An "Innovative Education Initiative" with funding of €150m was launched at the end of 2011 as a commitment to education in the future.

Public research and business side

April 2011 saw five-year qualifications granted to 34 research centres (including 10 new laboratories) following a call for applications for "Carnot 2 Institutes". These institutes have a consolidated research budget of €1.9bn, plus nearly €350m in partnership revenue and €60m in annual government grants for technology resourcing. Under the Invest for the Future programme, this action was consolidated with 4 new projects selected in February 2012 to strengthen co-operation between public research and SMEs, on the one hand, and between public research and international research, on the other hand.

Technological Research Institutes and Institutes of Excellence in Decarbonised Energies are being created under the same programme. Plans currently call for 8 Technological Research Institutes and 2 Institutes of Excellence in Decarbonised Energies to be created and other Institutes of Excellence in Decarbonised Energies are to be approved. This will involve further funding of €1bn over the next ten years for a total of 18 projects.

Five Technology Transfer Acceleration Companies were recognised in May 2011 and provided with €330m in funding. Four new companies selected in December 2011 will receive a total of €226m in financing. This arrangement will be supplemented with the creation of six Thematic Technology Transfer Consortia, which will each receive funding of €10m over the next ten years.

At the same time, €350m will be used to finance innovation cluster projects, including structurally important R&D projects (€300m) or pooled platforms for innovation (€50m). An independent consortium was asked to conduct an evaluation of the second phase of the cluster policy, which started in November 2011. The findings will be released in the second quarter of 2012.

Business and education side

Employability and business knowledge will be the focus of university teaching. Three "teaching benchmarks" (sets of skills and knowledge that students must acquire) have been developed by working groups made up of representatives of the employers' association, MEDEF, the government and universities (business knowledge, entrepreneurship, economic intelligence). For example, at the end of 2011, all higher education institutions had established entrepreneurship referral contacts for students. This move concerned nearly 300 institutions, including 70 universities. In addition, 20 "student entrepreneurship clusters" were created.

Releasing the potential of the digital economy

The "Digital France 2012" plan launched in 2008 aimed to push France to the front ranks of the major digital economies. The plan calls for providing everyone in France with access to digital networks and services, developing the production and supply of digital content, diversifying digital usage and digital services, and modernising governance of the digital economy ecosystem. Ninety-five per cent of the 154 measures under the plan have been completed or are in progress. At the digital conference of 30 November 2011, France set itself goals for access (Very-High-Speed Internet access for 100% of the population in 2025, 70% in 2020), services (cloud computing, smart grids, e-health) and citizens' dealings with the government (moving all administrative formalities online and open access to public sector data). The government decided to raise €4.5bn under the Invest for the Future programme to develop this sector, carry out these actions and fulfil the goals of the Digital Agenda for Europe.

Infrastructures

The shift from terrestrial broadcast television to full digital service was completed on 30 November 2011. The channels freed up by the end of analogue broadcasting (the "digital dividend" in the 800 MHz band) were auctioned off to mobile telephone operators for a total of nearly €3.6bn. The auctions firmly established the fourth mobile telephone operator, with its own network, thus enhancing competition in this sector. Furthermore, when the fourth generation mobile telephone licences were awarded in September and December 2011, the winning operators signed a clause requiring them to host mobile virtual network operators (MVNOs). This clause ensures greater technical and pricing autonomy for MVNOs with regard to their host mobile network operators.

The number of French residents with landline-based broadband access continued to increase, rising to 21.8 million broadband subscribers at the end of September 2011, marking a 6% increase in one year. The Invest for the Future programme will raise €2bn to fund the "National Very-High Speed Programme" announced in July 2010 and validated by the European Commission in October 2011 in order to meet the targets set by the President of the Republic (70% of households with high-speed connections in 2020 and 100% in 2025). The National Programme entered its operational phase in mid-July 2011 and includes €1bn in loans to operators and €900m in subsidies for local communities to overcome the digital divide.

Innovative digital uses, services and content

The Invest for the Future programme will raise €2.5bn for R&D on uses, innovative digital content and applications such as cloud computing, digitisation, e-learning, e-health, smart transport systems, smart cities, network security and smart grids, as well as for R&D on basic digital technologies, such as nanotechnologies and embedded software. Some twenty calls for research and innovation projects were made in 2011, and 55 projects relating to the various themes were selected, involving nearly 350 partners.

Developing digital businesses

As part of the Invest for the Future programme, a venture capital fund named FSN PME was set up in June 2011 and endowed with €400m to make equity investments in innovative digital SMEs.

Guideline 5: improving resource efficiency and reducing greenhouse gases

France intends to continue its efforts to develop a sustainable economy that respects the environment. The reduction of greenhouse gas emissions in 2010 stood at 6.6% compared to 1990. There was a slight increase of 1.5% in emissions in 2010 compared to 2009, following the sharp cut of 4.2% achieved between 2008 and 2009. This increase stemmed from strong economic growth and a colder winter than in 2009. Efforts to green the tax system and the analysis of environmentally harmful government subsidies are closely aligned with the proposals set out in the Flagship Initiative for a Resource-Efficient Europe under the Europe 2020 Agenda.

Fostering resource efficiency by protecting the environment and biodiversity

Greening the tax system

France continued its major effort to green its tax system, which started in 2008, by making changes to several items in the 2012 Budget Act to enhance their environmental effectiveness and strengthen incentives. The threshold for the annual green tax on cars was lowered to 190g of CO_2 emissions per kilometre (compared to 240g before) and the green tax on purchases of new large-engined cars[19] has been raised to return the green car tax/rebate scheme to balance in 2012. Several "water" taxes for non-domestic water pollution and modernisation of catchment and pumping networks have also been increased, and the domestic tax on specific uses of domestic fuel oil (primarily in construction and agriculture) has been increased from €5.66 to €7.20 per hectolitre. Incentives to improve household energy efficiency, such as tax credits and interest-free loans, have been revised to encourage householders to undertake coherent home improvements to enhance energy efficiency[20].

Furthermore, the implementation of the eco-tax on heavy goods vehicles should be completed in the period from 2012 to 2014. This tax was introduced in Article 153 of the 2009 Budget Act and will concern lorry traffic on the national road network. Implementation is slated for the middle of 2013, with a trial in Alsace, followed by nationwide application. The expected €1.2bn annual revenue expected from the eco-tax will help fund the development of alternative transportation infrastructures.

Report on government subsidies that are harmful for biodiversity

France carried out major work in 2011 to identify and analyse environmentally harmful government subsidies[21]. The report by the Committee to Evaluate Tax Expenditures and Social Security Contribution Exemptions stressed the environmentally harmful effects of tax exemptions on certain uses of fossil fuels. The government also asked the Strategic Analysis Centre to publish a report on government subsidies that are harmful for biodiversity[22], which was released in October 2011. With this report, France carried out the commitments undertaken under Articles 26 and 48 of the Grenelle I Environmental Act to revise its tax system and is fully in line with the objectives of the strategic plan adopted in Nagoya in October 2010 by the Conference of the Parties with regard to eliminating subsidies that are harmful for biodiversity. The report provides avenues for reforming government subsidies and taxes, some of which have inspired the changes recently adopted following budget bill debates. For example, the lower VAT rate applied to all pharmaceutical products for plants was restricted to products eligible for use in organic farming.

Implementation of the 2010-2013 National Sustainable Development Strategy

In 2011, support was provided for the implementation of the Strategy by the stakeholders who took part in its development (government agencies, NGOs, elected officials, businesses, etc.) The first report to Parliament on the implementation of the 2010-2013 National Sustainable Development Strategy[23] was also published in 2011. The report recounts the implementation of the strategic choices and tracks all of the sustainable development indicators established under the Strategy.

Sustainable production and consumption

Environmental labelling of consumer products is a key factor for reducing environmental impacts, along with sustainable production (eco-design, resource efficiency).

Under the terms of the Grenelle II Environmental Act, a national one-year trial was initiated on 1 July 2011 involving more than 160 companies (producers and/or distributors) that voluntarily provide environmental impact information about their products to consumers. The results of the trial will be reported to Parliament in 2013 so that it can assess the usefulness of full implementation of the scheme.

Another key issue is mainstreaming sustainable consumption and production into governance. For this purpose, the Grenelle II Environmental Act calls for France to phase in sustainable development disclosure requirements for government and local government (starting in 2012 for municipalities with more than 50,000 inhabitants), businesses (starting in 2012 for large corporations and listed companies and in 2014 for companies with more than 500 employees and more than €100m in total assets or sales), and portfolio

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[19] The green car tax rates for the top three brackets increased as of 1 Janaury 2012 (from €750 in 2011 to €1,300 in 2012 for vehicles emitting 181 g to 190 g of CO2/km, from €1,600 to €2,300 for vehicles emitting 191g to 230 g, and from €1,600 to €3,600 for vehicles emitting more than 231 g).

[20] For more details, see http://www.developpement-durable.gouv.fr/L-eco-pret-a-taux-zero-en-13.html

[21] http://www.economie.gouv.fr/files/rapport-comite-evaluation-depenses-fiscales-et-niches-sociales.pdf

[22] http://www.strategie.gouv.fr/content/rapport-les-aides-publiques-dommageables-la-biodiversite

[23] http://www.diplomatie.gouv.fr/fr/IMG/pdf/Rapport_SNDD.pdf

management companies, which will be required to include a social and environmental impact chapter in their annual reports.

Quality transportation infrastructures

The Grenelle I Environmental Act calls for the drafting of a National Transportation Infrastructure Plan (SNIT). The government presented a draft plan in October 2011. Now that it has been approved by the Economic, Social and Environmental Council, at the end of February 2012, the Plan should be submitted to Parliament. The Plan sets out the central government's long-term orientations for developing, modernising and maintaining the infrastructure networks under its responsibility, while reducing their environmental impact and promoting economic development. Infrastructure projects will be subject to social and economic evaluation and prioritisation. This will make it possible to establish a sustainable financing plan in light of the constraints on public finances as a whole.

Reducing greenhouse gas emissions through climate and energy policies

At a time when all countries are discussing their energy choices, energy efficiency, along with the development of renewable energy sources and the improvement of nuclear safety, has become a pillar of energy policy. A programme of practical actions to enhance energy efficiency was submitted on 16 December 2011, following a round table on the subject[24]. The programme includes 27 measures, some of which have been operational since the beginning of 2012, such as:

- a loan with a 2% interest rate for small businesses to finance energy savings improvements, which should lead to aggregate energy savings ranging from 4.5 MTOE to 5.5 MTOE by 2020;
- subsidies for modernising street-lighting in small municipalities that should cut their electricity consumption by approximately 50%;
- regulatory requirements for lighted signs and a review of lighting for non-residential buildings that should result in aggregate energy savings ranging from 1.5 MTOE to 2.5 MTOE between 2012 and 2020;
- voluntary agreements: the first such agreement was signed with supermarket chains on 16 January 2012 and should result in energy savings ranging from 1 MTOE to 1.5 MTOE by 2020.

All of these measures should enhance France's contribution to the EU's headline target of improving energy efficiency by 20% by 2020, improve the competiveness of France's businesses, reduce households' energy bills, with a special focus on the most vulnerable households, and strengthen the government's role as a driver and model of change.

[24] http://www.developpement-durable.gouv.fr/IMG/pdf/4-_Fiche_Programme_d_actions_Efficacite_energetique.pdf

Guideline 6: improving the business and consumer environment, and modernising the industrial base in order to ensure the full functioning of the internal market

To make the internal market work better and in keeping with **Recommendation 5** of the Council of the European Union, France has undertaken reform of regulated professions. It has also continued implementing reforms involving the opening up of network industries to competition and administrative modernisation in keeping with the commitments made under the Euro Plus Pact. Measures were also taken to modernise the industrial base.

Reforming regulated professions

The government implemented reforms in 2011 to open up regulated professions to competition in response to **Recommendation 5** of the Council of the European Union. The Act of 28 March 2011 on modernisation of the legal professions and certain regulated professions was aimed at promoting inter-professional ownership of legal and accounting firms. It also created private deeds for solicitors, as a complement to notarised deeds. The problem of the quota system for taxi licenses is being eased with the growth of car-and-driver services, which, unlike taxis, must be booked in advance. This activity was deregulated in 2009 under the Tourist Industry Act. Since 2009, 2,600 companies have been registered and the number of new companies registered is climbing each year.

Opening up network industries to competition and modernising administration

The government implemented reforms in 2011 in keeping with its commitments under the Euro Plus Pact.

Opening up competition

France completed work on the transposition of the “Services” Directive into national law in August 2011. Several reforms aimed at simplifying and streamlining access to service businesses were adopted in 2011. They concerned voluntary sales of furniture at public auctions, personal services and regulated professions.

The **Electricity** Market Reorganisation Act of December 2010 allows alternative electricity providers to access some of the electricity generated by EDF’s legacy nuclear facilities at a regulated price that reflects the business conditions of the facilities. This access has been open since July 2011 and will foster competition. The other aspect of the reform is the establishment of a generating capacity market. The implementing instruments for this reform should be published in 2012. The regulated prices will be eliminated in 2015, except in the case of the regulated “blue” prices for small users.

At the national **railway** conference in December 2011, the option of gradual and controlled opening up of passenger services to competition was discussed, starting with regional network services and inter-regional services, which could start running in 2014. The requirements for opening up high-speed passenger services to competition will be discussed later as part of the fourth rail package. A new entity that includes all of the rail industry stakeholders will be set up in the first half of 2012 to enhance the competitiveness of rail and foster the projects that are already in progress under the Invest for the Future programme, such as the "Railenium" research project aimed at developing new rail infrastructure components that are longer lasting, smarter and more innovative.

The arrival of the fourth 3G **mobile telephone operator** (Free Mobile) on 10 January 2012 enhanced competition for the benefit of consumers and businesses. It contributed to a 5% reduction in telephone charges in 2011 and further reductions are expected in 2012[25]. Mobile virtual network operators have increased their market share substantially from 5.1% in metropolitan France in 2008 to 11.3% in 2011. Much of this growth can be attributed to the MVNO-hosting clauses that the government introduced in the new license auctions (see Guideline 4 above).

France adopted the Banking and Financial Regulation Act of 22 October 2010, which enhances competition in the **retail banking services** market. This reform strengthens the rules of conduct for credit institutions, transparency and consumer protection. It should stimulate competition to make the market work better. The

[25] Price index - INSEE

act will come into force on 1 January 2013. The government has also urged banks to commit to greater transparency and ease of comparing prices to limit the cost of defaults by vulnerable customers. Following the report by Deputies Mallié, Branget and Debré, banks made major commitments to favour small businesses by cutting the commissions charged on card payments by nearly 50%. These measures will take full effect on 1 April 2012 and should ultimately benefit consumers.

Following up consumer credit reform

The Consumer Credit Reform Act of 1 July 2010 came into force on 1 May 2011. The purpose of the act was to enhance consumer protection by developing "responsible lending", which entails stricter consumer disclosure requirements and prior analysis of borrowers' solvency. It regulates revolving credit and speeds up excessive debt procedures. The reform has already had a significant impact. Production of revolving credit lending by specialised institutions (with credit cards and revolving credit facilities) decreased by 6.1% in 2011, whereas personal loans (conventional loans, but not intended for the purchase of a specified good), which are less costly for consumers, increased by 8.3% to the same population of borrowers.

The reform of the usury rules, which was included in the Consumer Credit Reform Act, has been in force since 1 April 2011. This reform has narrowed the interest rate differential between revolving credit facilities and personal loans. The French government is following these reforms very closely.

Modernising and simplifying administration

Merging the local offices of government agencies dealing with businesses has made the "one-stop service" principle more efficient. A public interest grouping was created to bring together the central government and the heads of the networks of local business formality centres. In November 2011, 31 of the 100 activities requiring authorisation benefited from physical "one-stop service" windows. The perceived complexity of business formalities declined by a quarter between 2008 and 2011[26].

The national conference on cutting red tape held in 2011 led to 96 new measures that are now being implemented, such as the secure digital filing cabinet that enables businesses to provide all of the information required by various administrations once and for all. Another measure is the introduction of common entry into force dates, since 1 October 2011. This means that all laws and regulations concerning businesses come into force on the same date, so that business are better informed about regulatory changes affecting them and better able to make the necessary adaptations.

The job of the government "Red Tape Commissioner" is to ensure the quality of preliminary evaluations carried out by government ministries and to work with them to find the simplest solutions when developing new measures. The Commissioner supervises proposals affecting businesses from the point of view of simplification and legal stability. Close cooperation with Parliament resulted in several hundred operational measures concerning most aspects of economic life being subjected to impact studies and then adopted.

Improving the business environment

The reforms under way stimulate investment and job creation, guarantee competitiveness on goods and services markets and ensure that the internal market works fully.

The **freelance entrepreneur** scheme is a success, with 738,000 individuals signed up in 2011 and a limited substitution effect, since 90% of the entrepreneurs would not be doing business without the scheme[27]. The limited liability Sole Proprietorship scheme has also been a success since it came into force on 1 January 2011. This scheme protects the unincorporated entrepreneur's personal assets.

The renewal of the FSI France Investment programme announced in June 2011 will improve **financing for businesses and consumers**. The FSI, the *Caisse des dépôts et consignations* and the Invest for the Future programme have committed to investing €5bn in innovative SMEs, with a special focus on market segments where private-sector investors are reluctant to invest. This means seed capital, venture capital and small growth-capital deals. The leverage effect on private-sector financing should produce aggregate investment of more than €20bn in French SMEs. The Credit Mediator will continue to help businesses find credit. Since the

[26] BVA poll of 1,600 businesses (May 2011)

[27] See *Le Régime de l'auto-entrepreneur, bilan après une année de mise en œuvre,* p. 9, http://www.pme.gouv.fr/auto-entrepreneur/bilan/rapport-bilan-2009.pdf

inception of the Credit Mediator, 15,000 businesses that were turned down for loans were able to raise a total of €3.7bn in loans.

The French government continued to implement reforms to strengthen the **stability of the financial sector** in 2011. For example, the reform of supervisory architecture under the Banking and Financial Regulation Act of 22 October 2010 is now in force. This reform united the supervision of banks and insurance under the Prudential Supervisory Authority (ACP), enhanced the powers of the French financial markets authority (AMF) and created the Financial Regulation and Systemic Risk Council. These reforms will continue in 2012 with the transposition and/or enforcement of the European Directives and Regulations now being finalised.

The legislative reform simplifying the **rules on personal services** was completed in 2011. Mandatory authorisations for services for vulnerable persons have been curtailed and the reporting requirements for other personal services providers have been simplified.

France supports the **social and solidarity sector** (215,000 businesses), especially inclusion through economic activity, which creates jobs and improves the business environment. In 2011, the Invest for the Future programme distributed €18m to some thirty financial partners and about sixty businesses. The €1.8m "Jeun'ESS" programme to help young people develop local projects and trials to support local communities and innovation was granted a further €1m.

Modernising the industrial base to make it innovative, competitive, low-emission and resource efficient

Improving competitiveness and fostering sustainable innovation

Under the Invest for the Future programme, €2.85bn were used to finance sector-specific actions (sustainable transportation, renewable energy sources and green chemistry, the circular economy and smart grids). Another €1bn was used to apply the conclusions of the industry summit (including €500m in "green soft loans" and €300m for industry structuring). The National Seed Capital Fund used €100m of its €400m to finance start-ups created by higher education institutions, and another €50 to create the "France Patents" fund.

Supporting restructuring and reindustrialisation projects

At the end of 2011, the government was supporting 20 investment projects worth more than €344m, and the creation of 1,525 jobs with a €77m reindustrialisation subsidy. The National Local Revitalisation Fund (FNRT), which lends in areas affected by restructuring, has already lent SMEs €87.8m to finance their projects.

The Regions' contribution to economic development

France's regions support economic development through the investment policies and public services that they manage. They have allocated €3.1bn to set up and operate Regional Express Transportation and €6.1bn in 2010 to other infrastructure and public works projects.

They also provide support for French SMEs and small businesses. They invested €1.9bn in 2010 to promote the development and adaptation of economic players.

The European Regional Development Fund (ERDF)

In the financial framework for 2007-2013, the ERDF is one of the two cohesion policy funds. It covers 46 regional and interregional programmes under two objectives and one programme. These include 26 programmes for "Regional Competitiveness and Employment" in metropolitan France, 8 for "Convergence" in France's overseas departments and 12 for "European Territorial Cooperation". The programmes over this period represent a total of slightly more than €8.5bn in European appropriations. The budget commitment ratios[28] for ERDF programmes as of 1 March 2012 stood at 67% for "Competitiveness" programmes (or €3.84bn), 58% for "Convergence" programmes (or €1.32bn) and 64% for "Territorial Cooperation" programmes (or €368m).

ERDF programmes focus on the Europe 2020 targets. Five themes account for nearly 85% of the funds budgeted: "R&D, Innovation and Entrepreneurship" (45%), "ICT" (8%), "Energy" (11%), "Environment" (11%) and "Sustainable Transportation" (8%). Businesses are big beneficiaries of ERDF budgets, accounting for nearly one third of the recipients. This strong focus on R&D, innovation and businesses is in line with European strategic priorities, national priorities for 2007-2013 (NSRF) and regional priorities.

ERDF action for R&D and innovation at the regional level

Measures to support "RDT, innovation, entrepreneurship" (EU classification) guide ERDF programming in virtually all regions and this trend should be maintained with the implementation of the Regional Innovation Strategies (see Guideline 4). Innovation in the broadest sense accounted for nearly 45% of funds under EU programmes at the national level and more than 50% of the EU funds in France's eight regions (€4.7bn from ERDF out of €15.7bn in total). If we include "ICT", which accounts for 8% of the funds under the EU programmes, projects relating to the "knowledge-based economy" account for 52% of the ERDF financing. The funding by "actions" breaks down into 43% for RDT and innovation and 40% for entrepreneurship.

ERDF and business financing: growing use of financial engineering

Financial engineering means designing, assessing and managing financial instruments for the purpose of catalysing public and private-sector funds for projects that the central government and its partners deem to be priorities in order to overcome a credit crunch. In the wake of the Regional Innovation Strategies, RDT, innovation and entrepreneurship seem to be the favoured areas for developing reimbursable assistance (loan guarantees, loans, private equity). In addition to specific schemes, such as JEREMIE (an innovative financial arrangement offered by the European Investment Bank to facilitate SMEs' access to financing), deployed by the Auvergne, Languedoc-Roussillon and Provence-Alpes-Côte-d'Azur regions, there were nearly 180 financial engineering deals in place as of 31 December 2011 to finance ERDF "Competitiveness" Operational Programmes with a total cost of nearly €400m. In 2012, several of France's regions are considering setting up seed capital funds or co-investment funds, often in conjunction with similar nationwide initiatives, such as the National Seed Capital Fund and the National Strategic Investment Fund.

[28] The budget commitment ratio is the ratio of total appropriations committed to the total budget.

5. National Plan for Employment and Combating Poverty and Social Exclusion

Guideline 7: increasing labour market participation, reducing structural unemployment and promoting job quality

In 2011, the employment rate for the 20-to-64 age group was 69.1%, similar to the 2010 rate. France has undertaken reforms to promote labour market participation by all groups and to develop “flexicurity” tools in order to reach the Europe 2020 target of a 75% employment rate for 20-to-64-year-olds and to remove the obstacles to a properly functioning labour market. The National Plan for Employment is part of France's response to the Council of the European Union's recommendations on combating labour market segmentation (**Recommendation 2**), on stepping up active labour market policies (**Recommendation 3**) and on moving away from labour towards other taxes (**Recommendation 4**). The Plan is also in line with the commitments made under the Euro Plus Pact dealing with competitiveness and employment.

Increasing labour market participation and demand for labour

Shifting taxes away from labour to consumption

As of 1 October 2012, taxes and contributions levied on labour will be shifted to other areas, as employers’ social security contributions, used to finance family benefits on wages up to 2.4 times the statutory minimum wage, are cut and taxes on consumption are increased. The standard VAT rate will rise from 19.6% to 21.2%, increasing revenue by €10.6bn. Taxes on investment income will rise as well. The social security contribution levied on investment income will increase from 3.4% to 5.4%, increasing revenue by €2.6bn.

This reform will have no net effect on public finances, but it will lower the cost of labour by shifting taxes and contributions away from labour towards less distorting taxes, and enhance the cost competitiveness of France's economy. On the French market, the VAT increase affects products made in France as well as imports, whereas the cut in social security contributions affects only products made in France. On the export market, only goods made in France will benefit from the lower cost of labour and they will not be affected by the increase in the VAT. This reform is part of the French government’s response to the Council of the European Union’s **Recommendation 4**.

Jobs for older workers

France has one of the lowest employment rates for older workers (55-64 age group) in the EU, standing at 41.4% in 2011, but the overall trend shows an increase of 4.4 percentage points between 2003 and 2011[29]. The French government introduced several measures to enhance the effects of pensions reform in 2011 in response to the Council of the European Union’s **Recommendation 3**. More industry-wide agreements to promote jobs for older workers were signed, increasing the number by 9 compared to the same period last year. The government introduced an additional subsidy for job-training contracts offered to job seekers over the age of 45 in the middle of 2011. Support for companies hiring job seekers over the age of 45 under job-training contracts contributes to the reskilling of job seekers. In 2006, 2,200 job-training contracts were signed for over-45s, 4,330 were signed in 2011. The various policies implemented are starting to pay off: the employment rate for older workers was up by 2.8 percentage points between the fourth quarter of 2010 and the fourth quarter of 2011 (or 3.0 percentage points after correcting for demographic effects)[30].

Gender equality in the workplace

The Pensions Reform Act 2010-1330 of 9 November 2010 requires companies with 50 or more employees to adopt a collective bargaining agreement in favour of job equality, or, failing that, a unilateral plan of action. Failure to comply as of 1 January 2012 could lead to a fine equal to up to 1% of the total wage bill. The purpose of this provision is to improve the integration of women in the workplace and to secure their career paths, thus promoting the maintenance of women in employment.

[29] Source: INSEE employment survey, provisional data for 2011
[30] Same source

The act of 27 January 2011 on gender equity on boards of directors and supervisory boards and job equality requires private-sector companies and public-sector entities to have at least 40% of the seats on their boards filled by each gender within six years. The percentage of women sitting on the boards of CAC 40 companies rose from 10.5% in 2009 to 20.8% in 2011.

The bill of 1 March 2012 on access to civil service jobs and improving the terms of employment for contract workers in the civil service, on combating discrimination and various civil service provisions calls for a 40% quota to be phased in by 2018 for women in senior civil service positions. The quota will apply to new appointments and lead to a percentage of women to be appointed each year or over several years: 20% in 2013, 30% in 2015 and 40% in 2018.

The target of adding 200,000 new childcare solutions by the end of 2012 was set in 2009 to improve the work-family life balance. This target is close to being reached, with 85% of the new childcare solutions in place after the first three years of the plan. The 200,000 solutions break down into 100,000 extra places in child-care centres and 100,000 extra places with child-minders, with actions to make the profession more attractive and an increase of the number of children that child-minders can take on from three to four.

Pluriannual agreement between the government, the unemployment insurance agency and Pôle Emploi

The agreement signed on 11 January 2012, which constitutes a new roadmap for the Public Employment Service (Pôle Emploi), sets three priorities:

- personalising services by offering enhanced support starting in the first month, and then in the fourth and ninth months, to prevent jobseekers from getting mired in long-term unemployment;
- improving local coordination with local public employment services by promoting priority local partnerships with Regional Directorates for Business, Competition, Consumption, Labour and Employment, Regional Councils and approved joint vocational Training Funds (OPCA);
- continuing efforts to optimise resources: indicators have been established to measure the effectiveness of resources allocated to Pôle Emploi in terms of actual numbers of job seekers returning to employment.

In this manner, the new agreement is part of the French government's response to the Council of the European Union's **Recommendation 3** on improving the organisation of the decision-making process of the public employment service.

The job seeker’s likelihood of finding work and degree of autonomy are the foundations of the personalised support approach that the adviser uses to recommend (or not recommend) enhanced support. To enhance the effectiveness of the support function, the new Agreement increases human resources for job seeker support by redeploying 2,000 full-time equivalents, which represents a 30% increase in the time each agent spends on support. Furthermore, 1,000 agents will be hired for one year under temporary contracts, following the decisions made at the Crisis Summit called by the President of the Republic on 18 January 2012.

Training

The number of job seekers entering training courses financed by Pôle Emploi increased from 120,000 in 2010 to 140,000 in 2011. 73% of the job seekers completing training courses found a job in the six months following the end of their course.[31]

Long-term unemployment

The Crisis Summit held on 18 January 2012 and attended by the President of the Republic, trade unions and employer organisations called for stronger action in favour of the long-term unemployed, including more systematic personalised support, greater use of subsidised contracts and more training programmes (see Guideline 8 below). In 2011, 51,000 subsidised employment contracts were signed in the market sector (Job Initiative Contracts, CUI-CIE) and 380,000 subsidised contracts were signed in the non-market sector (including Job Support Contracts, CUI-CAE).

Short-time working

[31] Source: Pôle emploi, *Repères & Analyses* n°36, « Sortants de formation », survey February 2012

Following the Crisis Summit meeting of 18 January 2012, the government, labour and management organisations revised and simplified the rules governing short-time working. A Decree published on 29 February 2012 calls for an increase in the specific benefit paid to employees working short hours, with a total budget of €100m, and cuts the minimum period to qualify for long-term short-time working to two months. The government also decided to eliminate the prior government authorisation required for short-time working. Management and labour representatives signed two agreements on these issues on 13 January and 6 February 2012. A total of €180m in additional funding will be provided in 2012. The European Social Fund will also be tapped for the actions carried out by the Joint Fund for career path security, support for forward-looking labour market management, skills training and the widest access to basic knowledge.

Strengthening industrial relations and modernising wage bargaining

This aspect of the government's strategy is a response to the Council of the European Union's **Recommendation 2** and is in line with the commitments made under the Euro Plus Pact regarding competitiveness and employment.

Wage Bargaining Oversight Committee

Industrial relations have been enhanced by the action of the Wage Bargaining Oversight Committee, which urges management and labour to adopt industry-specific pay scales where the lowest wages are at least equal to the statutory minimum wage. Consequently, as of 30 November 2011, 91% of the industries in the general sector, 87% of industries in the metalworking sector and all but one of the industries in the construction sector had pay scales where the lowest wages matched the statutory minimum wage.

Competitiveness-job security agreements

Following the Crisis Summit of 18 January 2012, the Prime Minister sent a letter dated 30 January 2012 to management and labour organisations inviting them to talks on temporary mutually agreed mechanisms for flexible working hours and wages that enable companies to ajust to variatons in economic growth. The talks will focus on bargaining procedures, the validity of the agreements and their term. The talks will also deal with how such agreements will affect other agreements and, more specifically, existing contracts of employment. Management and labour have already started these talks.

Enhancing career path security and improving working conditions

Recent reforms introduced by the government to establish a form of "flexicurity" are fully in line with the Council of the European Union's **Recommendation 2** and the commitments made under the Euro Plus Pact.

"Flexicurity"

New flexicurity tools will make the labour market more flexible and enhance career path security. Act 2011-893 of 28 July 2011, which establishes the Career Path Security Contract, was adopted in 2011. This contract applies to redundancy procedures initiated in companies with fewer than 1,000 employees after 1 September 2011. It provides for personalised attention, support measures and actions to promote entrepreneurship. The purpose of the Act is to organise the return to employment process through retraining or through the creation of a new business or the rescue of an existing business, as the case may be. For the term of the contract, except when gainfully employed, the contract holder receives a special career security benefit equal to 80% of the benchmark daily wage, or 98% of the net wage. The contract holders are treated as trainees undergoing vocational training.

Working conditions

As part of the second Occupational Health Plan 2010-2014, nearly all of France's regions adopted a Regional Occupational Health Plan focussing on prevention.

The Pensions Reform Act of 9 November 2010 required all companies in certain categories to reach an agreement or draft a plan of action for the prevention of harsh working conditions. As of 1 January 2012, the companies concerned that fail to comply with this requirement will be liable to a fine.

The Act also requires employers to identify the occupational risk factors defined in a decree and related to severe physical constraints, harsh working environments and working rythms that are likely to have lasting, identifiable and irreversible consequences for employees' health.

Guideline 8: developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning

The policies to improve workforce skills are in line with France's commitments under the Euro Plus Pact. In addition, government measures, such as the extension of the "Train-Don't-Fire" schemes announced at the Crisis Summit on 18 January 2012, are a response to the Council of the European Union's **Recommendation 3**.

Developing a skilled workforce responding to labour market needs

The integration of young people into the labour market, and more especially, young people with no vocational skills or educational attainments, is a major issue for employment policy. Training/work-experience contracts and stepping up such measures as apprenticeship contracts and job-training contracts are still the preferred means of facilitating this integration.

Accordingly, in January 2011, the government set the target of achieving a substantial increase in the number of young people with training/work experience contracts from 600,000 to 800,000 in 2015. Several actions were carried out in 2010 and 2011 to help reach this target. At the end of December 2011, 629,000 young people had training/work experience contracts (apprenticeship and job-training contracts). In the space of one year 32,000 additional contracts were signed.

The Job Training and Career Path Security Act of 28 July 2011 simplifies these arrangements to facilitate their use by companies and employees. A training/work-experience website was opened in October 2011 to facilitate contacts between employers and potential employees, and to cut the red tape involved in hiring young people under training/work-experience contracts. The supplementary budget act for 2011 also changed the rates of the supplementary apprenticeship contribution by increasing the quota for trainees from 3% to 4% (the supplementary budget bill for 2012 increases it to 5%) and by modulating the rate of the supplementary apprenticeship contribution according to the number of trainees hired. The increased hiring requirement is backed up by a new bonus for employers who surpass the requirement. At the same time, the procedures for enforcing the tax and surtax will be overhauled.

The government has also introduced a new subsidy for SMEs with fewer than 250 employees so that they can hire an additional trainee under the age of 26[32].

Goals and Means Contracts for modernising apprenticeships in partnership with the regional councils have underpinned the growth of training capacity by providing €1.4bn in the first round (2005-2010). The second round (2011-2015) will increase the volume of training provided by raising the appropriations to €1.7bn.

In addition, the Invest for the Future programme calls for €500m to be spent on improving the living conditions of trainees under training/work-experience contracts (€250m) and improving the relevance of the training system (€250m). To date, 6 projects have been funded under this programme, for a total of €40m, and approximately 1,000 additional apprenticeships have been created.

A Decree dated 4 May 2011[33] implementing lifelong career guidance calls for merging local career guidance structures.

Management and labour organisations have also made jobs for young people a priority, as can be seen in the National Inter-industry Agreement signed on 7 April 2011 on support for young job seekers for access to employment. One year after the agreement was signed, the Joint Steering Committee for the Agreement heard a positive report on the results of the Agreement at its meeting on 30 March 2012. The Agreement is aimed at two groups: young school dropouts and young graduates having trouble finding work. In the

[32]Decree 2011-523 of 16 May 2011 on support for hiring more young people under apprenticeship contracts or job-training contracts in small and medium-sized enterprises
[33] Decree 2011-487 of 4 May 2011 implementing Article L. 6111-5 of the Labour Code

specific case of young dropouts handled by local services, as of the end of December 2011, more than 21,000 young people had undergone a "check-up" and nearly 8,300 found a job following intensive support action.

In keeping with the decisions made at the Crisis Summit on 18 January 2012, the Decree of 7 February 2012 provides for a subsidy for very small businesses (fewer than 10 employees) that hire young people under the age of 26. Businesses that hire a young person full or part time, on a temporary or permanent contract between January and July 2012 are exempted from their employer's contributions on wages for one year.

Promoting education and lifelong learning

At the Crisis Summit held on 18 January 2012, new training measures for job seekers were announced in response to the Council of the European Union's **Recommendation 3**.

This resulted in €40m for new places in the "Train-Don't-Fire" schemes and a bigger contribution from approved joint Vocational Training Funds and the Joint Career Path Security Fund (FPSPP). The objective for the Operational Preparation for Employment scheme (POE) was set at 60,000 trainees in 2012. This scheme is run by Pôle Emploi with the aim of training job seekers to meet the needs of an employer who commits to hiring them after they complete their training.

In addition, the central government will release €150m for action in two areas:

- Pôle Emploi will offer all long-term unemployed (jobless for more than two years) a solution in the form of training, subsidised contracts or support in returning to employment;
- In addition, the overall effort to train job seekers has been increased substantially, with the prolongation of the Training Completion Benefit (R2F) in 2012. This benefit is paid to job seekers in training programmes that last longer than their unemployment benefits. The cost to the government is €9m in 2012 for the 30,000 job seekers concerned.

The regions in metropolitan France spent more than €10.7bn on primary, secondary and higher education, vocational training, apprenticeships and health and social training in 2010.

Guideline 9: improving the performance of education and training systems at all levels and increasing participation in tertiary education

The French government has set two ambitious targets for 2020 in terms of higher education: reducing the school dropout rate to 9.5% and increasing the proportion of the population aged 17 to 33 years holding higher education degrees to 50%. Meeting these two targets relies on improvements to the primary and secondary education system, with the development of individualised guidance up to and including higher education, strengthening synergy with research in education and encouraging mobility of students and teachers. These actions are totally in line with the Youth Initiative.

Providing quality primary and secondary education for all

France has undertaken a policy to improve the performance of its education system.

Combating dropping out

The new policy to combat dropping out relies on two tools, one to identify dropouts and the other to take care of dropouts:

- Dropouts are identified by setting up an interministerial information-sharing system that has been operational throughout the country since May 2011. The system identified 223,000 young school dropouts in November 2011;
- Dropouts are monitored and supported through hubs that coordinate the action of education and youth employment players. 372 hubs for monitoring and supporting dropouts have been set up under the responsibility of the Department Prefects. Their action is already producing results: since May

2011, the hubs have made 165,000 contacts, conducted 89,900 interviews and found solutions for 58,500 dropouts, including 7,100 who are in jobs.

Secondary school reform

The reform of general and technical secondary schools has been under way since the start of the 2010 school year and will take effect at the beginning of the 2011 school year for the junior class and at the beginning of 2012 for the senior class. The purpose of the reform is to provide more personal, progressive and continuous guidance. Switching directions and changing curricula will be facilitated. The reform is also aimed at striking a new balance between the different curricula and types of diploma in order to diversify the options for educational excellence. At the start of the 2011 school year, the number of juniors in the literary curriculum increased by 6%.

Integrated science and technology education

Integrated teaching of science and technology is one of the flagship measures of the government's "New Ambition for Science and Technology Teaching" plan launched on 31 January 2011. This experimental programme is being deployed for pupils in the first two years of middle school to facilitate the transition between elementary school and middle school and to enhance the coherence between science and technology teaching. The measure was introduced in 102 middle schools at the start of the 2011 school year.

Equal opportunity and scholastic success measures

Boarding Houses of Excellence are designed for middle school and secondary school pupils who do not have the right environment at home or in their local school to achieve their full potential. This measure is also designed to enhance social diversity in schools. At the start of the 2011 school year, 13 Boarding Houses of Excellence were added to the 13 opened in 2009 and 2010. In addition, there are nearly 550 schools (middle schools and secondary schools) that provide “Boarding Houses of Excellence" in their existing residential programmes. A total of 10,300 boarding house beds are available, with the objective of reaching 20,000 beds in 2014. The Invest for the Future programme has spent €400m on Boarding Houses of Excellence.

Several nationwide education trials have been initiated since 2010. At the start of the 2011 school year, the *CLAIR* programme for ambition, innovation and success in middle schools and secondary schools, which was introduced in schools serving underprivileged children in 2010, was extended to elementary schools and middle schools in the “Ambition Success” scheme and became the **ECLAIR programme**. At the start of the 2011 school year, the ECLAIR programme covered 325 schools (297 middle schools and 28 secondary schools) plus more than 2,000 elementary schools.

“**Success Ladders**” (*cordées de la réussite*) are partnerships between higher education institutions and middle schools and secondary schools, especially those in underprivileged areas. At the start of the 2011 school year, 312 projects qualified as "Success Ladders". This means that the target of 300 qualified projects set out under the “Suburban Hope Stimulation” plan was exceeded. Government financing for the 2011-2012 university session has been increased by €1m to stand at €6.6m.

The government made a very substantial effort for scholarships to **finance tuition costs**: increased scholarship amounts, a tenth month for scholarships (at a cost of €160m over two years), an additional level, periodic adjustment of maximum household income levels and scholarship amounts.

Continuation of the Pluriannual Plan for Success in Undergraduate Degrees

The Pluriannual Plan for Success in Undergraduate Degrees was launched in 2007 with the goal of having 50% of an age group attain a higher education degree. Implementation of the Plan represents an aggregate effort of €730m over five years. The allocation for 2011 and 2012 is €211m.

Benchmark bachelor degree competency standards will be implemented in 2012 under the terms of the Decree of 1 August 2011. These benchmarks concern the competence that degree holders must acquire in their chosen field, and the linguistic, cross-disciplinary and pre-vocational competence required.

Encouraging mobility of students and teachers

In elementary and secondary schools

Language learning is one of the priorities of the secondary school reform in progress since 2010. The dual targets are having each secondary school graduate master two living languages and having each secondary school forge a lasting partnership with a foreign school based on genuine educational cooperation. The government also decided in January 2012 to set the goal of having each student make an individual language-learning trip before graduating. Two circulars on student mobility were published for this purpose in August 2011. They provide a frame of reference for each school following consultations with local governments, which provide much of the financing for school trips.

In addition, the Jules Verne programme started in the 2009-2010 school year. This programme sends teachers at all grade levels to spend a school year in another country. It resulted in 380 teachers travelling to more 20 countries.

In higher education

The government introduced international mobility subsidies for university students, who may obtain a scholarship of €400. The scholarships are attributed using social criteria. The 2012 budget for these scholarships is €25.7m, representing an increase of €2m compared to 2011. The programme has also promoted the development of international partnership diplomas (such as joint diplomas) by adapting its regulations (Circular of 11 May 2011 on the legal form of such diplomas).

The government has also continued to seek bilateral agreements on mutual recognition of diplomas to facilitate further studies at universities in partner countries. There are currently nine higher education diploma recognition agreements in Europe, with Germany, Spain, Poland, Italy and others. Three future agreements are currently under negotiation with the Czech Republic, Romania and the Principality of Andorra.

France ranks second in terms of outward mobility under the Erasmus programme, behind Spain and in front of Germany. By 2013, more than 450,000 French university students will have been through the programme since 1987, of which more than 200,000 between 2007 and 2013.

Guideline 10: promoting social inclusion and combating poverty

The National Strategy for Combating Poverty set the target of reducing the poverty rate anchored at a point in time by one third over the five years from 2007 to 2012. Between 2007 and 2009, the monetary poverty rate anchored at a point in time declined steadily (the base year for income was 2006). At the same time, the relative poverty rate with the poverty line at 60% of the median income (€954 in 2009) stood at 13.5% of the population of metropolitan France. The government is applying a comprehensive strategy to remedy the problems of the most vulnerable and ensure their social integration. This strategy covers three major issues: employment and labour market participation; access and tenure in housing; upholding fundamental rights. In addition, the French government submitted its National Roma Integration Strategy under the terms of the Commission's Communication of 5 April 2011 and the Conclusions of the 19 May 2011 European Council.

Improving labour market participation by those the farthest from it

Assessment of the Inclusion Benefit

The conclusions of the National Evaluation Committee were presented at the National Evaluation Conference for the Inclusion Benefit (RSA, *revenu de solidarité active*) on 15 December 2011. They constitute a preliminary assessment of the Inclusion Benefit one and a half years after it was introduced.

In December 2011, 1.83 million households in metropolitan France were receiving the Inclusion Benefit, of which 654,000 were receiving the In-work Income Supplement (*RSA activité*). This figure includes 209,000 households with little income from work that receive both the social inclusion benefit (*RSA socle*) and the In-work Income Supplement and 445,000 households that receive the "In-work Income Supplement" only, in addition to their income from work.

However, the degree of implementation has not been uniform for each of the components of the Inclusion Benefit Scheme. The number of people receiving the social inclusion benefit, which replaced the former minimum integration income (RMI) and single parent benefit, increased. The growth of the In-work Income Supplement on its own genuinely reflects the new component of the Inclusion Benefit Scheme and it has been much slower, with even slower growth since the middle of 2010. The Inclusion Benefit Scheme is only reaching part of the target population. At the end of 2010, the number of people receiving the Inclusion Benefit (including the Enhanced Inclusion Benefit component, which is the former single parent benefit) is equivalent to the number of people receiving the former minimum integration income plus the single parent benefit at the end of 2008. This shows that, despite the crisis in 2008, there was no "explosion" of the number of people in the benefit scheme.

According to a special survey of 15,000 households[34] conducted by the National Evaluation Committee in 2010, the estimated non-take-up rate (proportion of eligible persons who do not take up the Inclusion Benefit is 35% for the social inclusion benefit (as it was for the former minimum integration income) and 68% for the In-Work Income Supplement on its own. Lack of specific knowledge about the benefit scheme, the impression of "getting by financially" and, to a lesser degree, unwillingness to depend on welfare or fear of red tape are given as reasons for not taking up the benefit.

The In-Work Income Supplement increases the income of those who receive it. Regardless of the household structure, the benefit always results in a greater gain from returning to employment compared to not participating in the labour market. The annual median income of households receiving the In-work Income Supplementincreased by 7%. It is estimated that the In-work Income Supplement has lifted 150,000 persons above the poverty line, which represents a decrease of 2% in the number of poor people. However, the failure to take up the benefit greatly diminishes its impact on poverty. If all eligible households took up the benefit, 400,000 persons would be lifted above poverty line by the Inclusion Benefit.

The experts in charge of assessing the Inclusion Benefit for the National Evaluation Conference did not wish to include the "Youth Inclusion Benefit in their evaluation. This benefit was introduced in September 2010 and was deemed to be too recent. It came into force after the Evaluation Committee started its main work.

Changes to the Inclusion Benefit Scheme

One year after the Inclusion Benefit was introduced nationwide, and in light of the preliminary assessments, a simplification plan designed to make it work better was introduced in July 2010. The plan included ten measures structured around three themes: ensuring the target population's access to information, enhancing oversight of the scheme and improving dialogue between the various stakeholders, and making the Inclusion Benefit a key instrument of workforce integration. To date, most of the actions under this plan have been completed.

Two bodies were set up under the simplification plan. They are run by the central government and bring together the Association of France's Departments, the Department-level Councils, the national operators of the benefit scheme and the central government directorates involved in order to discuss proposed changes. An Operational Commission was set up on 5 May 2011 to propose solutions in terms of working practices or legislative changes to the problems encountered in implementing the scheme under the current laws and regulations. An Information Sharing Oversight Committee was set up on 6 January 2011. It opened the way for progress on changes to computer systems and, more specifically, on establishing interfaces for sharing data between the institutional players (Departments, Family Allowance Funds and Farm Social Security Funds and Pôle Emploi). This work also led to finalisation of a Decree[35] published on 30 December 2011 dealing with data sharing, especially for sharing data between Pôle Emploi and Departments about guidance and support provided to people on the benefit.

The coordination between the poverty reduction target and the labour market integration target needs to be improved by applying the lessons learned from the implementation of a new integration instrument financed by central and local governments in the form of subsidised contract for a seven-hour working week paid at the statutory minimum wage, which was introduced in January 2012 on a voluntary basis by certain Departments.

[34] This is the segment of the population with income from paid work under or just above the threshold for the Inclusion Benefit.
[35] Decree 2011-2096 of 30 December 2011

In another change to the scheme, the Inclusion Benefit was opened up to young job seekers and wage earners under the age of 25 in 2010[36]. The latest figures show that the number of households receiving the Youth Inclusion Benefit stood at 9,437 (CNAF data, end November 2011).

Promoting access and tenure in housing for the homeless and people in substandard housing

In 2011, a larger share of the quota of housing units reserved by the central government in the subsidised rental housing stock and a share of the housing units reserved by the employers' housing funds were set aside as self-contained units for people coming out of homeless shelters and households with statutory housing entitlement. The development of special needs or temporary housing arrangements through intermediation in the private rental housing stock was continued. The focus has also been on making existing housing structures more efficient. The first nationwide cost survey of the sector and the support plan for the players (central government agencies and NGOs) should contribute to this purpose as the programme to renovate homeless shelters continues (€20m in the 2011 budget of the National Housing Agency).

The risk of energy poverty came under close scrutiny. An energy poverty observatory was set up in 2011 (gathering statistics, analysing households' situations, tracking this phenomenon in public and private-sector housing and in access to mobility). A recent Decree[37] makes the procedure for applying subsidised gas and electricity rates automatic, thereby reducing the spending of the lowest-income households on necessities.

Upholding the fundamental rights of the most vulnerable and promoting their access to autonomy and exercise of the civic rights and duties

The National Council on Policies to Combat Poverty and Social Exclusion submitted its report titled "*Recommendations for improving the participation of the poor and excluded in the development, implementation and evaluation of public policy*[38]" to the government in October 2011. A new panel of poor or vulnerable people will be inaugurated on an experimental basis in 2012.

A National Advisory Council for Users of Government Assistance (CCPA) was also set up. It provides a discussion forum for the poor. In a similar vein, the Departmental Liaison Committes for Pôle Emploi and its users were recently reactivated, along with a National Committee that may be called on to give its opinion about Pôle Emploi's Strategic Plan.

In addition Regional Programmes for Access to Preventive Treatments and Healthcare for the Poor are being developed. A methodological guide was offered to Regional Health Agencies in 2011. In addition, the means-tested threshold for obtaining a benefit for supplementary health insurance was raised to 135% of the threshold used to determine eligibility for the supplementary health insurance coverage under the universal health insurance scheme as of 1 January 2012.

The adjustment plan for certain social benefits paid to vulnerable groups, such as the Adult Disability Benefit and the Old Age Benefit, has led to a 25% increase in these benefits over five years and was continued in 2011. These benefits increased from €621 to €777 per month between 2007 and 2012.

The government is also continuing its action to promote access to jobs for the disabled. A large-scale training operation by the central government's offices and the Departmental Disability Centres (MDPH) is designed to move beyond local approaches when paying the Adult Disability Benefit to ensure equal treatment throughout France. A trial was started in ten Departments on a voluntary basis in 2011 to test a new process for assessing the employability of disabled persons.

A decree dated 16 June 2011 has enshrined Food Aid in the Social Action and Family Code. A Decree dated 19 January 2012 sets out the eligibility rules for private-sector organisations seeking public funds and the procedures for access to European and French food aid, along with the statistical data used to supervise such arrangements. The relevant orders are being finalised. These rules set the framework for consolidated food aid, adapting it to the needs and constraints of recipients and making implementation procedures more transparent.

[36] Decree 2010-961 of 25 August 2010
[37] Decree 2012-309 of 6 March 2012
[38] http://www.cnle.gouv.fr/Mme-Bachelot-Narquin-recoit-le.html

The European Social Fund "Competitiveness and Employment 2007-2013" Operational Programme

The European Social Fund (ESF) is one of the two structural funds for the Community's cohesion policy. In Metropolitan France, the ESF is organised around a single operational programme and more than 80% is managed by local offices in France's 22 regions. The total funding for the programme stands at €4.5bn for seven years. Nearly 3.5 million participants have benefited from the programme. For more than 30% of the participants, the actions co-financed by the ESF led to a job, access to training or completion of certified training. As of 31 January 2012, funding of €3.4bn has been budgeted.

Increasing labour market participation, reducing structural unemployment and promoting quality jobs (*€1.2bn, or 35.2% of the amounts budgeted*)

The action of the ESF is aimed at three objectives: increasing the supply of jobs, especially for young people, older workers and women (36% of the allocation), contributing to the support of job seekers (16%) and providing security for job transitions and careers (48%).

More specifically, the action of the ESF translates into major efforts to integrate young people in the job market, in keeping with the European Commission's initiative, by developing apprenticeships and training/work experience courses, the "Defence Second Chance" programme for disadvantaged young people and support for programmes providing help and guidance for young people.

The ESF is being tapped under the measures that the President of the Republic announced on 18 January 2012 concerning the action of the Joint Fund for career path security, skills training and the widest access to basic knowledge.

In 2011, the rate of employment for young people supported by the reception and guidance structures stood at 27%, compared to the target of 30%. The proportion of women entrepreneurs receiving support under the programme stood at 39.8%, outstripping the target of 38% set out in the Operational Programme.

Developing a skilled workforce responding to labour market needs and promoting lifelong learning (*€1.3bn, or 37.4% of the budgeted amounts*)

The action of the ESF is focused and unskilled employees and job seekers, as well as older workers. In 2011, 71.4% of the job seekers receiving training were unskilled, which is close to the target of 76%.

Promoting social inclusion and combating poverty (*€0.9bn or 27.4% of the budgeted amounts*)

The ESF is being tapped for the Autonomy Contract in line with the actions launched by the Interministerial Committee on Cities. In 2011, the rate of job seekers finding employment after completing a local plan for integration and employment stood at 36%, which is close to the expected target of 42%.

5. Appendix

Recommendations of the Council of the European Union of 12 July 2011

COUNCIL RECOMMENDATION

on the National Reform Programme 2011 of France and delivering a Council opinion on the updated Stability Programme of France, 2011-2014

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[39], and in particular Article 5(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

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

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States[40], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 12 January 2011, the Commission adopted the first Annual Growth Survey, marking the start of a new cycle of economic governance in the EU and the first European semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy.

(4) On 25 March 2011, the European Council endorsed the priorities for fiscal consolidation and structural reform (in line with the Council's conclusions of 15 February and 7 March 2011 and further to the Commission's Annual Growth Survey). It underscored the need to give priority to restoring sound budgets and fiscal sustainability, reducing unemployment through labour market reforms and making new efforts to enhance growth. It requested Member States to translate these priorities into concrete measures to be included in their stability or convergence programmes and national reform programmes.

[39] OJ L 209, 2.8.1997, p. 1.

[40] Maintained for 2011 by Council Decision 2011/308/EU of 19 May 2011 on guidelines for the employment policies of the Member States (OJ L 138, 26.5.2011, p. 56).

(5) On 25 March 2011, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time to be included in their stability or convergence programmes and their national reform programmes.

(6) On 3 May 2011, France submitted its 2011 stability programme update covering the period 2011-2014 and its 2011 national reform programme. In order to take account of the interlinkages, the two programmes have been assessed at the same time.

(7) France was relatively less affected than other Member States by the economic and financial crisis, with a decline of 2,7 % in GDP in 2009, partly due to sizeable economic stabilisers and the resilience of household consumption. The banking sector also proved to be resilient. In 2010, the economy recovered and, overall, GDP growth came out at 1,5 %. However, the economic crisis has substantially impacted France's public finances. Due to the automatic stabilisers and discretionary fiscal stimulus, the general governement deficit rose from 3,3 % of GDP in 2008 to 7,5 % in 2009. Similarly, the crisis has exacerbated the insufficient utilisation of labour and the structural weaknesses of the French labour market, where there was a relatively high level of unemployment of 9,7 % in 2010. In addition, the trade balance of goods has gradually deteriorated during the last decade, highlighting the challenges of French companies in terms of cost and non-price competitiveness.

(8) Based on the assessment of the updated stability programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections is favourable, especially as expected growth levels remain well above the potential growth in later years. After a better-than-expected deficit of 7 % of GDP in 2010, the stability programme plans to bring it down to 3 % of GDP in 2013, which is the deadline set by the Council for correcting the situation of excessive deficit, and to continue consolidation thereafter. Starting from a debt of 82 % of GDP in 2010, the debt ratio is set to increase until 2012 (86 %), after which it will decline slightly. The deficit and debt adjustment paths are subject to risks, which include the possibility of a macroeconomic scenario that could turn out to be less favourable, the fact that the measures are not sufficiently specified to reach the targets from 2012 onwards, and the fact that targets have often been missed in the past, notwithstanding the better-than-expected outcome in 2010. Therefore, it cannot be ensured that the excessive deficit will be corrected by 2013 unless further measures will be taken as needed. The medium-term objective of a balanced budget in structural terms will not be reached within the stability programme period. The average annual fiscal effort over the 2010-2013 period as recalculated by the Commission services according to the commonly agreed methodology is slightly below what was included in the Council Recommendation of 2 December 2009 (‘above 1 % of GDP’).

(9) Implementation of fiscal consolidation remains a major challenge. Avoiding expenditure slippages by means of a strengthened fiscal effort based on fully specified measures is vital to re-establishing a sustainable fiscal position, especially since the 2013 target does not provide any safety margin below the 3 % of GDP threshold. Moreover, as specified in the 2011-2014 Multiyear Public Finance Planning Act voted in December 2010 it would be appropriate to use all windfall revenues to accelerate the deficit and debt reduction. According to the Commission's latest assessment, the risks with regards to long-term sustainability of public finances appear to be medium. To improve the long-term sustainability of public finances, France adopted a new pension reform in 2010. The planned measures, including the gradual increase in the minimum retirement age from 60 to 62 and in the statutory retirement age from 65 to 67, as well as the phasing out of early retirement schemes, should have an impact on the low employment rate of older workers. Moreover, the pension system is expected to be in balance by 2018. A deficit is likely to appear thereafter unless further measures are taken. The latest pension reform has also created a new public body, the ‘Comité de pilotage des régimes de retraite’, which is in charge of presenting annual assessments of the budgetary situation of pension accounts and, if there is any likelihood of a deterioration, of proposing corrective measures.

(10) The current employment protection legislation is still too strict: the conditions for economic dismissals are subject to legal uncertainty. This is leading to labour market outcomes where workers on indefinite labour contracts (the majority of the labour ‘stock’) benefit from a relative degree of security and workers on temporary labour contracts (the majority of the inflow into the labour market) are exposed to uncertainties. Hence, the share of temporary contracts is significantly higher for young workers, and there are few transitions from temporary contracts to permanent contracts. This segmentation also applies to access

to vocational training. There is consequently a high turnover and a limited accumulation of human capital in these workers. Young workers and the low-skilled are therefore exposed to disproportionate risks in the labour market. The aim of the Renewal of Social Dialogue Act and of the 2008 Labour Market Modernisation Act was to modernise social dialogue and to address the issue of labour market dualism. The latter Act notably introduced a new procedure for terminating permanent contracts by mutual agreement (*rupture conventionnelle*) which is now increasingly used.

(11) The French unemployment rate was slightly above the EU average in 2010 and long-term unemployment is on the rise (3,9 % in 2010 versus 2,9 % in 2008). In this context, public employment services should play an important role in supporting the unemployed in their search for a job. In France, the new one-stop shop public employment service *Pôle Emploi* has so far shown mixed results. In 2009-2010, in the context of the crisis and of a significant increase in the number of job seekers, its main objective was mainly focused on the merger of the two pre-existing administrative entities. Outsourcing of placement services has so far yielded mixed results in achieving the return to work targets set by *Pôle Emploi*. At the same time, *Pôle Emploi* resources dedicated to individualised support of job seekers remain underdeveloped (71 full-time equivalents per 10000 unemployed, which is significantly below the levels recorded in some peer countries).

(12) The French current account deficit has gradually deteriorated during the last decade, reflecting the decline in the trade balance of goods, partly due to a decrease in labour cost competitiveness after the single minimum wage was reintroduced in the 2003-2005 period (the previous reform of the 35 hours working week had resulted in five different minimum levels). Some improvements have been made to the indexation procedure (creation of an advisory commission of independent experts, elimination of discretionary hikes) leading to a moderation of the increase in the minimum wage. As a result, the proportion of employees that are paid the minimum wage has decreased substantially, enabling better wage differentiation. The French minimum wage is still among the highest in the EU when compared to the median salary even if the tax-wedge is much lower than for the average salary due to cuts in employers' social security contributions.

(13) France has one of the highest tax and social security burdens on labour in the EU, while the tax on consumption remains relatively low. Moreover, environmental tax revenues as a share of GDP are also below the EU average. Rebalancing the tax system, including for example by switching taxation from labour towards consumption and the environment, is likely to have a beneficial effect on jobs as well as on environmental objectives.

(14) Tax and social security exemptions (including *niches fiscales*) in France are very high. In addition, understanding and exploiting the benefits of the system requires firms and households to invest in extensive expertise. While tax expenditures are used to implement a given economic policy, there has not been so far a systematic assessment whether they have managed to fulfil the objectives pursued although a review is planned to be carried out in 2011 according the 2009-2012 Multiyear Public Finance Planning Act. In the past, their substitutability with public expenditures has allowed the French authorities to formally meet existing spending rules, although further shifts are no longer possible as stated in Article 9 of the 2011-2014 Multiyear Public Finance Planning Act. A discretionary increase in tax revenue (mainly through the reduction of tax expenditures) by around 0,75 % of GDP over the period 2011-2013 is foreseen by the French authorities. The precise tax expenditures to be abolished have only been partly identified as from 2012.

(15) Competition in the retail sector is still hampered by administrative restrictions on the opening of large retail outlets, and a ban on resale below cost. In the services sector, there are still barriers to competition for several regulated professions, which could be tackled either by reviewing the entry conditions, or by gradually doing away with certain quotas (*numerus clausus*) and the exclusive rights that these professions hold.

(16) France has made a number of commitments under the Euro Plus Pact. On the fiscal side, France has undertaken to swiftly implement the 2010 pension reform. With a view to strengthening fiscal sustainability, France will also change its constitution to introduce binding multiannual budget planning. To increase labour participation, various measures are being considered to increase active labour market policies (e.g. apprenticeship to ease the school-to-work transition of younger workers, additional childcare facilities by 2012 to improve female employment prospects, strengthening of the public employment services for jobseekers). The competitiveness measures focus on improving the higher education system and promoting

research and development (R&D) and innovation (*investissements d'avenir*), as well as reducing the administrative burden by implementing a comprehensive programme of administrative simplification. These commitments refer to three of the four areas of the Pact, leaving out the financial sector. Although they are taken in those areas where the main challenges lie, many of them (particularly those concerning fiscal governance or support to higher education and R&D) are confirmations of existing public policies/reforms. The reform agenda does not seem fully consistent with the extent of the macroeconomic challenges faced in the labour market or the business environment. In addition, the envisaged constitutional reform is subject to political uncertainty. These Euro Plus Pact commitments have been assessed and taken into account in the recommendations.

(17) The Commission has assessed the stability programme and national reform programme, including Euro Plus Pact commitments for France. It has taken into account not only their relevance to sustainable fiscal and socio-economic policy in France but also their conformity with EU rules and guidance, given the need to reinforce the overall economic governance of the EU by providing EU-level input into future national decisions. In this light, the Commission considers that the fiscal consolidation strategy needs to be made more specific, for 2012 and beyond, in order to ensure that the excessive deficit is corrected by 2013 and the debt is brought onto a downward path. Any windfall revenues should be used to accelerate the deficit and debt reduction, as specified in Article 11 of the 2011-2014 Multiyear Public Finance Planning Act. A shift from labour towards environmental and consumption taxes, and a streamlining of tax expenditure, would bolster fiscal and environmental objectives and improve the business environment. Further steps in 2011-2012 should focus on adapting the employment protection legislation to reducing the dualism of the labour market, and on strengthening public employment services in order to provide comprehensive support to jobseekers. Existing policy on minimum wage moderation should be pursued. Competition should be fostered in regulated professions and retail trade.

(18) In light of this assessment, also taking into account the Council Recommendation under Article 126(7) of the Treaty on the Functioning of the European Union of 2 December 2009, the Council has examined the 2011 update of the stability programme of France and its opinion[41] is reflected in particular in its recommendation 1 below. Taking into account the European Council conclusions of 25 March 2011, the Council has examined the national reform programme of France,

HEREBY RECOMMENDS that France take action within the period 2011-2012 to:

1. Ensure the recommended average annual fiscal effort of more than 1 % of GDP over the period 2010-2013 and implement the correction of the excessive deficit by 2013, in line with the Council recommendations under the EDP, thus bringing the high public debt ratio on a downward path, and ensure adequate progress to the medium-term objective thereafter; specify the necessary corresponding measures for 2012 onwards, take additional measures if needed and use any windfall revenues to accelerate the deficit and debt reduction as planned; continue to review the sustainability of the pension system and take additional measures if needed.

2. Undertake renewed efforts, in accordance with national practices of consultation with the social partners, to combat labour market segmentation by reviewing selected aspects of employment protection legislation while improving human capital and upward transitions; ensure that any development in the minimum wage is supportive of job creation.

3. Encourage access to lifelong learning in order to help maintain older workers in employment and enhance measures to support return to employment. Step up active labour market policies and introduce measures to improve the organisation, decision-making, and procedures of the public employment service to strengthen services and individualised support provided to those at risk of long-term unemployment.

4. Increase the efficiency of the tax system, including for example through a move away from labour towards environmental and consumption taxes, and implementation of the planned reduction in the number and cost of tax and social security exemptions (including "niches fiscales").

[41] Foreseen in Article 5(3) of Regulation (EC) No 1466/97.

5. Take further steps to remove unjustified restrictions on regulated trades and professions, in particular in services and the retail sector.

Done at Brussels,

For the Council

The President