Haut Conseil des Finances Publiques

OPINION OF THE HIGH COUNCIL OF PUBLIC FINANCE ON THE BUDGET BILL FOR 2016

September 25th 2015

On Friday, 25th September 2015, the High Council of Public Finance (Haut Conseil des finances publiques, HCFP) adopted an opinion concerning the Budget Bill for 2016. It deals with the macroeconomic forecasts on which the budget bill is based as well as the consistency of annual structural balance forecasts vis-à-vis the multi-year structural balance targets.

Main conclusions of the HCFP's opinion:

Macroeconomic scenario

Even if the conditions for a recovery are still in place, in particular the fall in the oil price, the depreciation of the euro and an accommodating policy-mix in the euro zone, concerns over emerging countries intensified over the summer.,. Growth forecasts for the euro zone were consequently revised downwards, despite positive trend surveys.

Given this context, and taking into account that the carry-over effect for the first semester of 2015 is currently estimated at 0.9%, the HCFP considers that the Government's growth forecast of 1.0 % for 2015 is likely to be realised.

As overall concerns have grown over the summer, the HCFP underscores that the growth forecast of 1.5 % for 2016 cannot be deemed "prudent" any longer, as had been the case last April. However, the HCFP considers that the forecast remains achievable, should growth be fuelled by domestic and European demand.

With respect to 2015, the inflation forecast of 0.1 % on an annual average basis is realistic. For 2016, the HCFP reckons that the inflation rate could be lower than the Government's forecast of 1.0 %. A weaker inflation would have a positive impact on household purchasing power but will make the reduction of the public deficit harder to carry out.

The HCFP considers that the employment forecasts for 2015 and 2016 are consistent with the growth forecast. The wage bill forecast for 2015 was judiciously revised upwards. However, the HCFP underscores that the increase of the wage bill might be somewhat smaller than the Government's forecast for 2016, which would have a negative impact on the social security receipts.

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Public finance scenario

With respect to 2016, the Government revised its estimate of potential growth upwards (from 1.3 % in the public finance programming law to 1.5 %). This review leads to a structural budget balance of -1.2% of GDP in 2016 and to a structural adjustment of 0.5 point of GDP.

Should the potential growth estimates of the programming law have been used, the structural budget balance would have amounted to -1.3% of GDP and the structural adjustment would have reached 0.4 point of GDP in 2016.

Even if the 17th December 2012 constitutional bylaw allows the Government to do so, the HCFP reiterates its reservation of principle – already voiced last April – on such a review of the assumptions on potential growth of the programming law. A review beyond the scope of the programming law makes it harder to analyse the evolution of the structural component of general government balance and hampers the transparency of fiscal policy. Under the same trajectory of nominal deficit, a higher potential growth assumption underestimates the structural balance.

Nevertheless, the HCFP notices that the trajectory of the structural balance so far surpasses the target set by the programming law. Under the reckoning conventions of the programming law, the structural deficit target set for the Budget Bill for 2016 is below the targeted structural deficit of the programming law by 0.5 point of GDP.

Besides, the HCFP calls attention to the fact that the sell-off of 4G licenses should be considered as "one-offs" when calculating the structural balance.

The HCFP reckons that the structural adjustment target for 2015 is likely to be achieved, subject to the continuation of a tight public expenditure control. The same would apply to the public balance, whose resorption would however remain moderate.

In 2016, public finance should benefit from the modest growth recovery. However, significant risks could jeopardise the carrying out of the targeted public expenditure slowdown in volume, deemed ambitious taking into account its former consolidation path. Not complying with the public expenditure target would lead to a deeper structural deficit.