

**OPINION OF THE HIGH COUNCIL OF PUBLIC FINANCE ON THE
MACROECONOMIC ASSUMPTIONS OF THE
STABILITY PROGRAMME 2016-2019**

On Tuesday, 12 April 2016, the High Council of Public Finance adopted an opinion concerning the macroeconomic assumptions of the Stability programme for 2016-2019 to be submitted by French Government to European authorities before 30th April.

Main conclusions of the HCFP's opinion :

After two years of stagnation in 2013 and 2014, the euro zone has experienced a moderate recovery for one year (with an annual growth rate slightly higher than 1,5%).

This rising growth is driven by three simultaneous factors: lower energy prices, a depreciating euro, and the reduction of budget cuts. In addition, the more expansive monetary policy induces exceptionally low interest rates. Lastly, tensions on financial and credit markets, which penalized peripheral euro zone countries, have eased substantially.

Nevertheless, the European recovery may not be able to resist further deteriorations in the extra-European economic environment (slowdown in Chinese growth, hardships of oil-producing countries, risk regarding the ability of the US economy to sustain its current pace of growth in the medium term) or emerging barriers to growth in Europe (re-establishment of border controls, possible exit of the United Kingdom from the European Union, geopolitical risks and terrorist threats).

The growth forecasts submitted by the Government remain unchanged in accordance with the initial 2016 Budget Act for 2016 (1,5%), and with the Stability programme of April 2015 for 2017 and 2018 (respectively 1,5% and 1¾%). Concerning 2019, a growth of 1,9% is expected by the Government.

With regard to 2016, the High Council of Public Finance considers that the Government forecast, although situated in the upper range of economic forecasts, remains attainable. The 2,3% increase in the wage bill expected by the Government seems a little high. The downward revision of the inflation forecast made by the Government appears justified and the annual average consumer price inflation should be close to zero in 2016.

With regard to 2017, 2018 and 2019, the High Council considers that the GDP growth scenario is plausible, even if the hypothesis of an accelerated growth at the end of the period is fragile. The High Council also points out the downward risks attached to this scenario, both related to the world growth or to the euro zone.

However, the potential growth submitted by the Government seems overestimated, in particular in 2016-2017, and the persistence of a significant output gap throughout the period is unlikely.

The High Council considers that this important output gap, higher than most existing estimates, tends to maximize the cyclical component of the deficit and to underestimate the structural deficit. The High Council emphasizes the fact that this underestimation minimizes the effort needed in order to reach a balance in public finances in the medium term.