

## OPINION OF THE HIGH COUNCIL OF PUBLIC FINANCE ON THE STABILITY PROGRAMME 2015-2018

**On Monday, 13<sup>th</sup> April 2015, the High Council of Public Finance (Haut Conseil des Finances Publiques, HCFP) adopted an opinion concerning the stability programme for 2015-2018 to be submitted by French Government to European authorities before 30<sup>th</sup> April. It deals with the macroeconomic forecasts on which the stability programme is based.**

### **Main conclusions of the HCFP's opinion:**

*For several months now, France and the Eurozone have been benefiting from positive factors, among which the fall in the oil price and the depreciation of the euro stand as front liners, that coming together should strengthen short and medium term economic growth perspectives. The policy mix is also more supportive, thanks to the new monetary policy measures of Quantitative Easing decided by the ECB and to the fiscal stance whose average pace has recently strongly slowed down in several European countries.*

*Even if the triggers of an economic recovery are there, driving in particular the strengthening of household consumption, they did not yet convert to a visible recovery of production. Beyond the ongoing bounce-back, morphing into a long-lasting recovery will depend on the behavior of economic agents and will rely on an upturn in investment, which is not visible yet. The extent and the persistence of the economic recovery are still unpredictable, in a context of rising financial risks. This environment advocates for a public finance scenario based on prudent macroeconomic assumptions.*

*The HCFP considers that the Government growth forecast of 1% in 2015, unchanged since the budget bill for 2015, is now prudent, thanks to a more favorable environment resulting from strong falls in both the oil price and the euro. Inflation and wage forecasts have been judiciously revised downwards.*

*The HCFP considers that the growth forecasts for the years 2016 to 2018 are prudent, despite the financial risks. They are meant to ensure the credibility of the nominal trajectory of public balances.*

*Nevertheless, the HCFP wonders whether it is relevant to take on a negative output gap (gap between effective and potential production) which stays very large over a decade, and which would hardly shrink until 2018. This is not consistent with the macroeconomic scenario of the Government which is based on the acceleration of investment, inflation and wages. The HCFP reckons that a lower assumption on potential growth would have allowed a progressive reduction of the output gap. Under the same trajectory of nominal deficit, it would have led to a less important structural adjustment.*

*The HCFP finally regrets that the potential growth forecast, whose estimation is highly uncertain, has already been revised only a few months after the adoption of the programming budget law in December 2014. This review makes the split between the cyclical and the structural components of public balance difficult to estimate and makes it harder to analyse fiscal policy.*

**The full version of HCFP's opinion is available in French on its website: [www.hcfp.fr](http://www.hcfp.fr)**

*The High Council of public finance (Haut Conseil des finances publiques, HCFP) is required to assess the realism of macroeconomic forecasts presented by the Government and to check the consistency of the structural balance trajectory with French commitments to reach structural balance in the mid-term. The HCFP is an independent body from the government and parliament. It is attached to the French supreme audit institution (Cour des comptes) and chaired by the Head of the Court.*