Haut Conseil des Finances Publiques

Opinion n° HCFP-2016-03
of the High Council of public finance on the budget bill
for 2017

September 24, 2016

On Saturday, 24 September 2016, the High Council of Public Finance (Haut Conseil des finances publiques, HCFP) delivered an opinion concerning the budget bill and social security financing bill for 2017, after deliberating on the realistic outlook of macroeconomic forecasts and the consistency of annual structural fiscal balance forecasts vis-à-vis the multi-year structural balance targets.

Main conclusions of the HCFP's opinion:

Macroeconomic scenario

Based on the information available, the High Council considers that the Government's growth forecast of 1.5% for 2016 is slightly high. The HCFP notes that most of the growth forecasts recently published lie below 1.5% for that year.

The Government maintains its April forecast of 1.5% for 2017. Meanwhile, most international governmental organizations and economic research institutes have revised their forecasts downwards (in September: 1.2% according to the "Consensus Forecasts" and 1.3% according to the OECD).

The High Council regards this growth forecast as optimistic given the downward risks that have materialized over the past few months (sluggish world trade growth, uncertainty from the Brexit vote, political climate in the world and in the European Union, impact of the terrorist attacks on tourism…).

The growth scenario has been built upon a number of favorable assumptions. In this way, it tends to deviate from the principle of prudence which enables better compliance with targets and commitments regarding public finance.

The inflation forecasts for 2016 (0.1%) and 2017 (0.8%) are reasonable.

Regarding employment and private-sector wage bill, the forecasts for 2016 are credible. For 2017, they are slightly high, which echoes the growth hypotheses.

Public Finance scenario

<u>The consistency of the structural balance path</u>

The structural deficit, structural adjustment and structural effort forecasts are close to the objectives endorsed in the multi-year public finance programming law of 2014. However, the structural deficits for 2016 and 2017 are 0.3 point greater than the targets set in the Stability Program of April 2016. Furthermore, structural adjustments and structural efforts are less than the minima required by European rules.

Moreover, the structural deficit estimates in the Stability Program and in the budget bill are substantially lower than those of international governmental organizations, which downplays the effort to provide in order to achieve structural balance on public finances in the medium term.

<u>Risks to Government revenues and expenditure</u>

The High Council is of the view that risks affecting government spending in 2017 are greater than in previous years: unrealistic nature of the costs savings on unemployment insurance, uncertainty about the achievement of the substantial expected savings on the ONDAM (National Objective of Healthcare Expenditure), uncertainty about the evolution of spending by central and local governments (especially in view of the surge in public wage bill), the possible effects of the recapitalizations of energy public companies on the fiscal balance…

To this must be added other risks affecting government revenues due to the favorable macroeconomic assumptions.

Therefore, the High Council considers that the reduction of the general government deficit set out in the 2017 budget bill (from -1.1 to -1.6 GDP point for the structural balance, and from -3.3 to -2.7 points for the nominal balance) is unlikely to be attained. Based on available information, the High Council is of the opinion that it is uncertain whether the Government will be able to bring back the nominal budget deficit below 3% of GDP by 2017.

Besides, the High Council points out that replacing tax cuts by tax credits, in order to cover some share of the additional expenditure announced for 2017, leads to the impact of this shortfall on the balance being deferred until 2018. The long-term spending pressures resulting from these additional measures jeopardize the budgetary consolidation path as of 2018.

Introductory remarks

1- On the scope of the opinion

In accordance with Article 14 of the Organic Law of 17 December 2012 on programming and governance of public finances, the High Council delivers an opinion on:

- The macroeconomic forecasts which the budget bill (PLF) and the social security financing bill (PLFSS) are based on,
- The consistency of the introductory article of the budget bill vis-à-vis the multi-year structural balance targets set in the public finance programming law (LPFP).

2- On the information submitted

The High Council of public finance received the referral file from the Government on 16 September 2016. The referral file contains the macroeconomic framework and specific information on public finances. The referral file was supplemented with answers to two questionnaires previously addressed to the relevant administrations, some of which sometimes remained unclear.

3- On the method of the High Council

The High Council analyzed the economic assumptions as well as the underlying economic mechanisms envisioned over the forecast horizon. The opinion relies on the latest statistics and information provided by the Government on economic policy measures adopted at the time.

The High Council also took into consideration all the forecasts and analyzes available.

It organized hearings with representatives of the relevant administrations (Directorate General of the Treasury, Directorate of Budget and Directorate of Social Security) as permitted by article 18 of the Organic Law. It also received the European Commissioner for Economic and Financial Affairs, Taxation and Customs. Moreover, it organized hearings with representatives of the OECD, Bank of France, CEPII, OFCE, COE-Rexecode and Xerfi.

I - Remarks about economic forecasts

1) Context and main questions in autumn 2016

a) World Trade revised downward in 2016

Global growth has been weak over the first semester because of the downturn in the USA and the increasingly degraded situation in several emerging countries, materializing some of the risks identified by the High Council in April 2016.

World trade has slowed sharply beyond what the global growth path suggested, particularly due to China and some long-lasting structural factors: near-zero growth is expected in 2016.

b) A stronger domestic demand in the Eurozone

In spite of this unfavorable environment, recovery has continued in the Eurozone, driven by the domestic demand with an annual increase rate of about 1 ¾ over the last quarters. Gains in purchasing power linked to the decrease in oil prices, budget constraints relaxed in some European countries, and the accommodating policy of the ECB contributed to the dynamism of the domestic demand, progressively being reinforced by job creation and renewed investment.

c) Yet, concerns about the continuation of this trend

Some questions arise from the signs of weakening growth in some Europeans countries as well as from the anxiety related to the Brexit vote on 23 June 2016.

The declining pound and the probable deterioration in the UK economy risk slowing down the economic activity in the Eurozone. Uncertainty related to the exit scenario of the UK from the EU and the political climate in several European countries could harm economic confidence[1] and thereby possibly impact investment and consumption.

2) The Government macroeconomic scenario

In its referral file, the Government has submitted a scenario of continued growth, underpinned by an increase in domestic demand.

"*After three years of moderate growth from 2012 to 2014, the French economy is enjoying a steady recovery since end of 2014, which should be consolidated in 2016 and 2017 (1.5% growth each of both years).[…]*

Intermittent growth over the first semester, in fits and starts, reflect partly some exceptional and temporary factors. Activity is expected to recover during the 3rd quarter. […]

In 2016, activity has been affected by the deterioration of the international environment but it would be more supportive in 2017 especially thanks to a rebound in demand in emerging economies. Cyclical difficulties in the USA are projected to fade away by summer […]

The British downturn will probably affect growth in the Eurozone without preventing ongoing recovery. […]

French domestic consumption would remain strong in conjunction with the purchasing power. Private investment would be a driving force for the progressive acceleration of activity. Corporate investment, supported by the temporary measure of "higher depreciation allowance for productive

[1] According to most studies conducted after the vote on Brexit (European Commission, ECB, OECD, DG of the Treasury...) the short-term impact on growth in the Eurozone should be around - 1/4 point by 2017.

investment" is expected to be very dynamic in 2016 and to decrease slightly afterwards, particularly because of the uncertainty climate generated by the vote on Brexit.[…]

Foreign trade would be less supporting [than it was in 2015] but would remain supported by measures to lower labor cost and the gradual recovery of external demand. […]

Market sector employment would rise, driven by the economic activity rebound and benefiting from active employment policies. […]

Inflation is expected to recover in 2017 (0.8%), especially impacted by the mechanical increase in volatile inflation. Core inflation would be stable around 0.7%. […]"

3) Assessment of the High Council

a) The GDP growth forecast is slightly high for 2016 and optimistic for 2017

The growth forecasts for 2016 and 2017 (1.5% for both years) are identical to those in the Stability Program of April 2016.

<u>In 2016</u>, with a carryover standing at 1.1% at the end of the first semester, a rise in GDP growth to the average rate of 1.5% would require a steep increase in the GDP over the 3rd and 4th quarters. Business climate, which reflects the answers of business leaders to business and consumers surveys, lies slightly above its long-term average. It points to a GDP growth of about +0.3 to +0.4% by quarter. Indicators available early this summer (industrial output, private consumption) suggest that this growth rate could be difficult to reach in the 3rd quarter.

Most recent growth forecasts, especially those of institutions heard by the High Council, are slightly lower than 1.5% (generally 1.3 or 1.4%). The Consensus Forecast is 1.4% in September.

Based on the information available, the High Council considers that the Government's growth forecast of 1.5% <u>for 2016</u> is slightly high. The HCFP notes that most of the growth forecasts recently published lie below 1.5% for that year.

<u>For 2017</u>, the Government's growth scenario is based on a more favorable evolution of international trade and a continued recovery of domestic demand.

The High Council notices that the world growth forecast of the Government (a bit more than 3% in 2017), which includes a moderate acceleration in the US economy following the economic setback and some early signs of an improvement in emerging economies, is a likely assumption. It is combined with a world trade growth somewhat above 3% in 2017 which is more uncertain, albeit still in line with other recent forecasts[2].

[2] IMF (July WEO update), OECD (June forecasts), World Bank (June forecasts), CPB (June forecasts)…

Within this framework, French external trade forecasts are plausible (i.e. stabilization of export performance, sustained but irregular increase in imports). The contribution of external trade to growth should remain negative (-0.2 point after -0.4 point in 2016).

Domestic demand forecasts are low. The Government predicts that increases in consumption and investment will remain strong in 2016 and hardly fall in 2017: 1.6% after 1.8% in 2016 for consumption and 3.5% after 3.8% in 2016 for corporate investment.

The purchasing power of available income (1.5% in 2017 after 1.9% in 2016) seems to be a strong assumption given the expected rise of inflation and slowdown in social benefits. It includes a substantial increase in property income, which is inadequately documented and unlikely to occur.

With regard to investment, the supporting factors considered are the improvement in the profit margins of non-financial corporations and the extension of the "higher depreciation allowance" measure until April 2017. However, the impact of uncertainty due to the vote in favor of Brexit and the deteriorating European political climate may be underestimated.

The Government maintains its April forecast of 1.5% <u>for 2017</u>. Meanwhile, most international governmental organizations and economic research institutes have revised their forecasts downwards (in September: 1.2% according to the "Consensus Forecasts" and 1.3% according to the OECD).

The High Council regards this growth forecast as optimistic given the downward risks that have materialized over the past few months (sluggish world trade growth, uncertainty from the Brexit vote, political climate in the world and in the European Union, impact of the terrorist attacks on tourism, …).

The growth scenario has been built upon a number of favorable assumptions. In this way, it tends to deviate from the principle of prudence which enables better compliance with targets and commitments regarding public finance.

b) Inflation rate assumptions are reasonable

<u>For 2016</u>, the Government maintains its 0.1% inflation forecast from the Stability Program of April 2016, which is consistent with indicators available in the summer: the year-on-year rate has been fluctuating around 0 for more than a year and stands at 0.2% in July.

<u>For 2017</u>, the inflation rate forecast (0.8%) is slightly below the Stability Program target of 1%. Oil products would stop contributing negatively to inflation (+0.1 point after another -0.3 point in 2017) under the assumption of Brent prices stabilized at 40€. Price increase would then return to near core inflation.

This inflation rate lies below most of the other available forecasts and especially that of the European Central Bank for the Eurozone in September (1.2%).

The inflation forecasts for 2016 (0.1%) and 2017 (0.8%) are reasonable.

c) Wage-bill forecasts are slightly high for 2017

The steady increase in **employment** anticipated by the Government involves in particular a gradual acceleration in market-sector employment (120,000 in 2016 and 160,000 in 2017). This dynamism reflects the movement in economic activity as well as measures to lower labor cost (tax credit for encouraging competitiveness and jobs, cuts in social contributions, recruitment subsidies), which encourage job creation.

Given what is known up to the 2nd quarter, the employment forecast for 2016 is realistic.

For 2017, the employment forecast is consistent with the anticipated GDP growth assumption. It is higher than the recently published Unédic forecast, which is built upon a lower growth rate.

As for the **private-sector wage bill**, the Government predicts a rise of 2.6% in 2016 and 2.7% in 2017. It was revised with respect to the Stability Program of April 2016 in order to account for the better-than-expected results for the first half of 2016 (2.4% year-to-year for the 2nd quarter and a 2% carryover).

Regarding employment and private-sector wage bill, the forecasts for 2016 are credible. For 2017, they are slightly high, which echoes the growth hypotheses.

II - Remarks about public finances

The High Council examined the consistency of annual structural fiscal balance forecasts vis-à-vis the multi-year structural balance targets. It then investigated the risks on revenues and expenditure.

1) Consistency with the multi-year structural targets

In accordance with Article 14 of the Organic Law of 17 December 2012, the High Council deliberates on the consistency of the introductory article of the budget bill vis-à-vis the multi-year structural balance targets set in the last public finance programming law (LPFP), in this case the programming law of 29th December 2014 for years 2014-2019.

In order to compare structural balance targets in the budget bill to those in the programming law, the assumptions of the latter should be used, especially the potential growth assumption (1.3% in

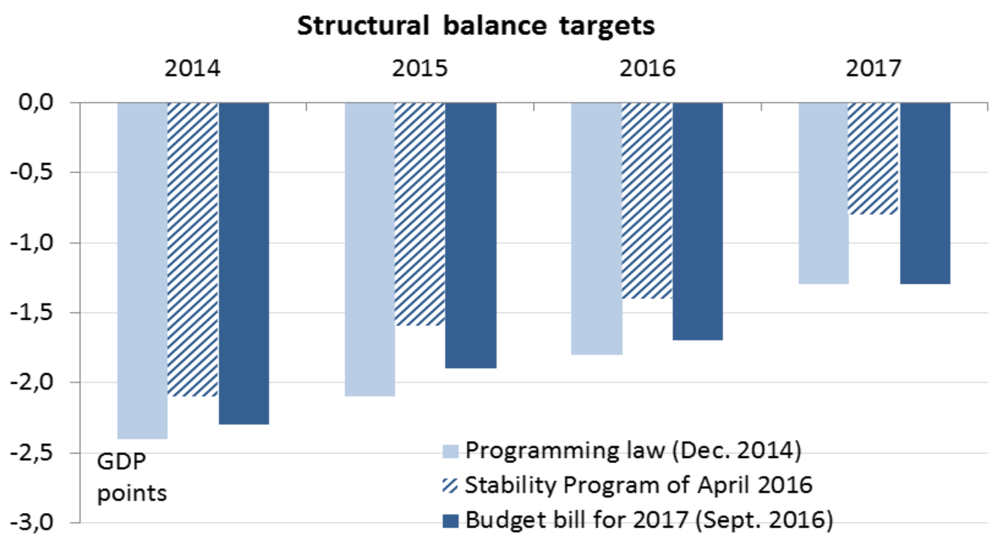
2016 and 2017 instead of 1.5% in the Stability Program of April 2016 and in the budget bill for 2017).

GDP/potential GDP points	Budget bill for 2017 (Sept. 2016)				Programming law (Dec. 2014)				Stability Program (Apr.2016)[3]			
	2014	**2015**	**2016**	**2017**	**2014**	**2015**	**2016**	**2017**	**2014**	**2015**	**2016**	**2017**
General government balance	-4	-3.5	-3.3	-2.7	-4.4	-4.1	-3.6	-2.7	-4.0	-3.5	-3.3	-2.7
Cyclical component	-1.7	-1.6	-1.6 (-1.5)	-1.6 (-1.4)	-1.9	-2	-1.7	-1.4	-1.9	-1.9	-1.8	-1.8
One-off and temporary measures	0	0	-0.1	-0.1	0	-0.1	-0.1	0	0	0	-0.2	-0.1
Structural component	**-2.3**	**-1.9**	**-1.6 (-1.7)**	**-1.1 (-1.3)**	**-2.4**	**-2.1**	**-1.8**	**-1.3**	**-2.1**	**-1.6**	**-1.3**	**-0.8**

Note: figures are rounded to nearest tenth, which can result in small discrepancies in the results.
Between brackets are the estimates calculated using the potential growth assumptions from the programming law
Sources: Budget bill for 2017, programming law of December 2014, Stability Program of April 2016 for 2016-2019

a) The anticipated structural deficit complies with the targets set in the programming law…

Using the potential growth assumptions from the programming law for 2014-2019, the structural deficit estimates are -1.7 GDP point in 2016 and -1.3 point in 2017. The objectives set out in this law were -1.8 and -1.3 point respectively.



Source: Budget bill for 2017, Stability Program of April 2016, programming law of 29th December 2014, HCFP calculations using potential growth from the programming law

The budget bill for 2017 complies with the multi-year structural balance targets set out in the programming law. However, in September 2016 the High Council concluded to the inconsistency

3 Potential growth assumptions are higher in the Stability Program than in the programming law (1.5% instead of 1.3% in 2016 and 2017).

of the programming bill with respect to France's European commitments, insofar as it only stipulated low structural adjustments over the first years.

These targets have subsequently been updated in the Stability programs of April 2015 and 2016 of the Government which better reflect France's European commitments. They represent a better reference than the programming law of 2014.

b) …but the structural deficit is higher than in the Stability Program in 2017

The last Stability Program submitted to the European Commission in April 2016 is forecasting -1.3 GDP point in 2016 and -0.8 point in 2017 for the structural balance. Computed using the same potential growth assumptions (1.5% in 2016 and 2017), forecasts associated to the budget bill for 2017 are -1.6 and -1.1 GDP point respectively.

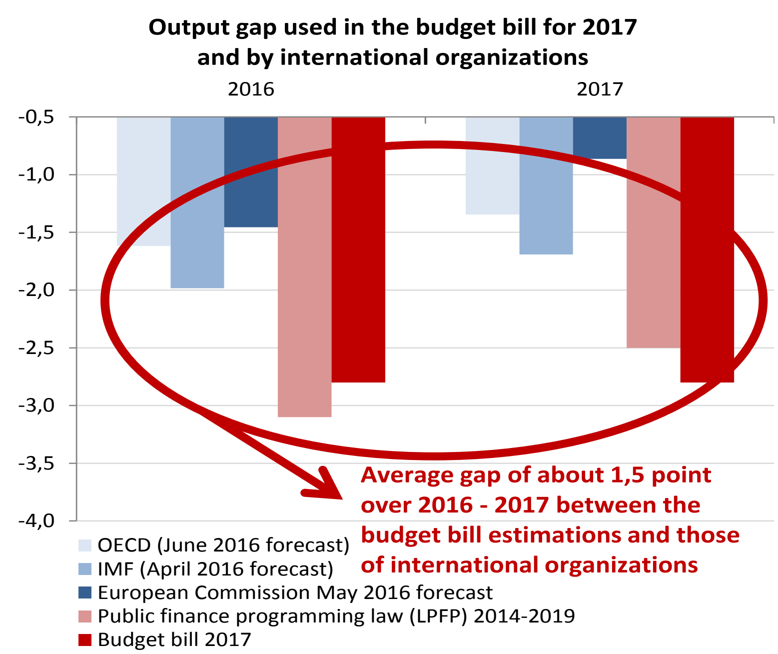
The structural deficit in the budget bill should thus exceed the objectives of the last Stability Program from April 2016 by 0.3 point in both years. This gap comes from revisions in the GDP growth rate over the past years[4].

[4] This gap stems from the revisions in the GDP growth rate in 2013, 2014 and 2015 as has been shown in the HCFP opinion n°2016-2 of 20 May 2016 concerning the structural balance of public administrations in 2015. This results in the nominal GDP being revised upwards by 0.6 point in 2015

Potential growth assumptions and their impact on the structural balance

In accordance with the Organic Law of 17 December 2012, the High Council refers to the potential growth set in the programming law of December 2014. The Government then raised its assumption by 0.2 point in the Stability Program of April 2016 concerning years starting from 2016. The 1.5% potential growth assumptions for 2016 and 2017 (instead of 1.3% in the programming law) have been retained in subsequent year and especially in this budget bill.

Meanwhile, international intergovernmental organizations have significantly revised downwards their potential growth and output gap assumptions regarding France.



Source: HCFP based on forecasts quoted in the graph

Based on potential growth assumptions from the Stability Program and the budget bill for 2017, the structural deficit is planned to reach -1.6% GDP in 2016 and -1.1% in 2017. International organizations employ fairly lower output gap assumptions so that their estimations lie above the Government's*:* in 2016, the structural deficit would be 1 GDP point higher according to the European Commission and ¾ point higher according to the OECD.

Therefore, the structural deficit estimation mentioned in the introductory article of the budget bill downplays the effort to provide in order to achieve structural balance on public finances in the medium term, under the potential growth assumptions of international organizations.

c) The structural adjustment and structural effort are close to those planned in the Programming law and the last Stability Program, but below the minimum prescribed by European rules

Structural adjustment and structural effort

Potential GDP points	Budget bill for 2017 (Sept. 2016)			Programming law (Dec. 2014)			Stability Program [5] (Apr.2016)		
	2015	**2016**	**2017**	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**
Structural adjustment	**0,4**	**0,3** (0,2)	**0,5** (0,4)	**0,4**	**0,3**	**0,5**	**0,4**	**0,4**	**0,5**
Structural effort	**0,5**	**0,4** (0,3)	**0,4** (0,3)	**0,6**	**0,2**	**0,3**	**0,7**	**0,5**	**0,3**
expenditure restraint (excluding tax credits)	0,5	0,5 (0,4)	0,4 (0,3)	0,5	0,4	0,5	0,8	0,7	0,6
new revenue measures	-0,1	-0,2	0	0,1	-0,1	-0,2	-0,1	-0,2	-0,3
Elasticity effects	0	-0,1	0	-0,1	0	0	-0,2	-0,2	0
Treatment of tax credits [6]	-0,1	0	0,1	-0,1	0	0,1	-0,1	0	0,1

Source: Budget bill for 2017, programming law of December 2014, Stability Program of April 2016
Note: figures are rounded to nearest tenth, which can result in small discrepancies in the results
Between brackets are the estimates calculated using the potential growth assumptions from the programming law

The structural adjustment (i.e. the variation in the structural deficit) should reach 0.3 GDP point in 2016 and 0.5 point in 2017, that is, slightly less than the objective set in the last Stability Program (0.4 and then 0.5 point). Computed with the potential growth assumptions of the programming law, it would represent only 0.2 point in 2016 and 0.4 point 2017 – slightly below the objectives of programming law (0.3 and 0,5 point) which were yet modest.

The structural effort, which represents the share of structural adjustment directly originating from an expenditure restraint or a new revenue measure, evolves close to the direction of the objectives set out in the Stability Program and in the programming law: 0.8 point over the two years just like in the Stability Program of April 2016; 0.6 point over two years with the potential growth assumptions of the programming law, instead of 0.5 point stipulated in that law.

The structural deficit, structural adjustment and structural effort forecasts are close to the objectives endorsed in the multi-year public finance programming law of 2014. However, the structural deficits for 2016 and 2017 are 0.3 point greater than the targets set in the Stability

---

[5] With potential growth forecasts from the Stability Program

[6] The cost of reimbursable tax credits (CICE, CIR) in national accounting corresponds to the acquired claim, whereas their cost in terms of effort in compulsory contributions is the budgetary amount that is imputed or charged. The decomposition of structural adjustment gives a gap term between the two measures. This gap was negative during the implementation of the CICE, since the claim was greater than the budgetary cost. In 2017, for the first time the budgetary cost should be higher than the claim, restitution of the CICE claims being possible after three years.

Program of April 2016. Furthermore, structural adjustments and structural efforts are less than the minima required by European rules[7].

Moreover, the structural deficit estimates in the Stability Program and in the budget bill are substantially lower than those of international governmental organizations, which downplays the effort to provide in order to achieve structural balance on public finances in the medium term.

2) Risks to revenues and expenditure

The High Council worked to identify risks threatening revenues and expenditure forecasts for 2016 and 2017 based on available information.

a) Revenues

For 2016, updated forecasts in the budget bill for 2017 are in line with the information available on the implementation of the budget during the course of the year.
In 2017, revenue should beneficiate from ongoing growth recovery. The Government anticipates a "spontaneous" progress of revenues, i.e. excluding tax credit, at a rate comparable to activity (which implies unitary tax elasticity). This unitary elasticity assumption seems plausible in the context of moderate recovery in economic activity. Nevertheless, the optimistic growth forecasts of the Government constitute a risk to revenues.

The Government decided to renounce the third step of the Responsibility Pact which involved the total repeal of the company social solidarity contribution (C3S) and a lowering of the corporate tax (IS) rate for a total amount of €5B. Offsetting these measures, the tax credit for encouraging competitiveness and employment (CICE) rate will increase from 6 to 7%[8]. The negative impact of this rise on the public balance will only become visible in 2018[9].

A new tax credit for home care employment in favor of retiree with non-taxable income will be introduced in 2017 while its €1B cost will be borne as of 2018.

---

[7]This structural adjustment could have been at least 0.5 point given the level of public debt (more than 60% of GDP). The European regulation n°1466/97 stipulates that the minimum structural adjustment should be at least 0.5 point and higher for countries above the 60% debt ceiling or with substantial risks to its sustainability.

[8] Moreover, a reduction in the corporate tax (IS) of €0.3B targeting small and medium-sized enterprises will be maintained.

[9] Under national accounting rules, tax credits are recorded in public accounts when the claim is recognized, i.e. at the moment when the tax credit request is approved by the tax administration. In this way, the increase in the CICE will only be recorded in public accounts in 2018, when enterprises will send their tax returns. By contrast, the removal of the C3S and the reduction in the corporate tax (IS) will be recorded in public administration accounts as soon as 2017.

Several other new measures introduced in the budget bill for 2017, which amount to €1.3B, result in the recognition date of some part of tax revenues being advanced by one year[10]. This non-recurring extra income will not occur in subsequent years.

Besides, the High Council points out that replacing tax cuts by tax credits, in order to cover some share of the additional expenditure announced for 2017, leads to the impact of this shortfall on the balance being deferred until 2018. The long-term spending pressures resulting from these additional measures jeopardize the budgetary consolidation path as of 2018.

b) Expenditure

Expenditure restraints have been significant in recent years. Volume growth has slowed down from 2.3% excluding tax credit between 2000 and 2009 to an average 0.8% between 2010 and 2015.

<u>In 2016</u>, the Government predicts a 1.4% increase in expenditure in the budget bill for 2017 instead of 1.1% in the Stability Program of April 2016.

Achievement of the expenditure targets of the Central Government and of health insurance is under greater strain in 2016 than it used to be in 2015[11,12]. Possible overspending may deteriorate the general government deficit in further years.

<u>For 2017</u>, the objective is set at 1.6% in value in the budget bill, instead of 1.1% in the Stability Program of April 2016.
Despite this upward revision, compliance with the expenditure objectives of the central Government will not be easy given existing pressures on budget implementation in 2016, recurring under-budgeting (on missions such as *Defense, Agriculture, food, forest and rural affairs, Solidarity, integration and equal opportunity)* which affects the building of the budget bill, lack of further significant and clearly documented cost savings in 2017, and the very rapid expansion in the wage bill (+4% with respect to the budget law for 2016, i.e. €3B) which may not be fully taken into account in the budget bill for 2017.

---

[10] « Tax on company cars collected by social administrations for the tax year to coincide with the calendar year, which generates additional revenues for 2017 (€0.2B), implementation of an advance payment of TASCOM (€0.1B), removal of accelerated amortization on software (€0.1B), strengthening in the 5th advance corporation tax payment (€0.5B), extension of the scope of the advance payment on the flat-rate tax fixed on investment income (€0.4B). (*Source : answers to the questionnaire of the High Council*)

[11] See also the Court of Audit's *June 2016 report on the situation and prospects of public finances* which mentions that "considering the extent of cost overruns already recorded or the risks of cost overruns identified by the Court in mid-June 2016, compliance with the objective on expenditure included in the expenditure norm in value, which was achieved in 2015 thanks to the reduction in transfers to the European Union and circumvention of the norm (€3B), will be particularly difficult to achieve in 2016".

[12] See also the Court of Audit's *Report on the enforcement of the social security financing law* of the 20th September 2016, the *Report on the social security accounts, 2015 results, 2016 and 2017 forecasts* of the 23rd September 2016.

What is more, the Government announced[13] recapitalizations of some energy companies, especially EDF for €4B (of which €3B to be covered by the central government) and Areva for €5B (direct and through a third party). Although their treatment in national accounts has not yet been decided, assuming that this will not affect the anticipated public balance in national accounts is optimistic.

A significant risk threatens social expenditure forecasts. Raising the ONDAM from 1.75% to 2% will only cover part of the estimated cost of tariff increases in the new medical convention and the payroll measures in hospitals (increase in the salary index for public service, new protocol on career paths and remunerations) borne by the health insurance. It will require additional cost savings in health insurance (€4.1B after €3.4B in 2016 and €3.2B in each of the two previous years) whose implementation is uncertain.
The Government's forecast of a cost saving related to the upcoming collective bargaining on unemployment benefits (Unédic convention) for an amount of €1.6B (0.1 GDP point) is unrealistic. It neglects the fact that those negotiations will be held in the course of 2017, which does not allow for a significant impact on the balance of Unédic in 2017.

Finally, the Government anticipates an overall increase in local governments' expenditure with a recovery of local investment in line with the electoral cycle. It should be noted that operating expenditure may also progress more rapidly than expected in the context of wage bill expansion (increase in the salary index for public service, new protocol on career paths and remunerations)

The High Council is of the view that risks affecting government spending in 2017 are greater than in previous years: unrealistic nature of the costs savings on unemployment insurance, uncertainty about the achievement of the substantial expected savings on the ONDAM (National Objective of Healthcare Expenditure), uncertainty about the evolution of spending by central and local governments (especially in view of the surge in public wage bill), possible effects of the recapitalizations of energy public companies on the fiscal balance…

To this must be added other risks affecting government revenues due to the favorable macroeconomic assumptions. Therefore, the High Council considers that the reduction of the general government deficit set out in the 2017 budget bill (from -1.1 to -1.6 GDP point for the structural balance, and from -3.3 to -2.7 points for the nominal balance) is unlikely to be attained. Based on available information, the High Council is of the opinion that it is uncertain whether the Government will be able to bring back the nominal budget deficit below 3% of GDP by 2017.

[13] See the Elysée press release of the 13th June 2015.