Haut Conseil des Finances Publiques

Opinion n° HCFP-2017-6

on the second amending budget bill for the year 2017

10 November 2017

Under article 15 of the constitutional bylaw n°2012-1403 of 17 December 2012, the Government referred to the High Council of public finance (Haut Conseil des finances publiques, HCFP) on 3 November 2017, its macroeconomic forecasts and the introductory article of its second amending budget bill for the year 2017. After its deliberations on 8 November 2017, the High Council delivered the following opinion.

Main conclusions

The macroeconomic scenario attached to the second amending budget bill for the year 2017 is unchanged since the 2018 budget bill.

The High Council considers that the new information available since its opinion on the 2018 budget bill in September confirms that the growth and wage bill forecasts for 2017 are cautious. Given the carry-over growth from the third quarter, there now is a quite strong likelihood that the 2017 growth will exceed the Government's forecast. The High Council regards the inflation forecast for 2017 as realistic.

It considers that revenues from compulsory levies could still be slightly higher than the Government's estimate for 2017, subject to uncertainties on the receipts of some taxes and on the national accounting treatment of several measures.

The High Council notes that there are still risks on the public expenditure forecast for 2017, which has been slightly revised upwards from the forecast attached to the 2018 budget bill. The main uncertainty is on local investment spending.

Subject to the aforementioned uncertainties, the High Council considers that the public deficit forecast at 2.9 point of GDP for 2017 is plausible. It emphasizes that a significant reduction of the public deficit is still needed to start a durable reduction of the public debt to GDP ratio.

The High Council notes that the structural effort would be almost inexistent in 2017 and very low in 2018, despite the fact that the structural balance is still far from its medium term objective, and that improving economic conditions build a more favorable basis for the realization of such an effort.

Introductory remarks

1- On the opinion's scope

Under article 15 of the constitutional bylaw of 17 December 2012 on public finance planning and governance, the Government referred to the High Council the introductory article of its second amending budget bill for 2017. Under article 15, the High Council gives an opinion on:

- the macroeconomic forecasts which this amending budget bill is based on;
- the consistency of the amending budget bill's introductory article with the multi-year targets for public finances set in the public finance programming law.

The referral only covers the amending budget bill for 2017, even though the Government announced that the 2018 public balance included in the 2018 budget bill should be revised downwards by 0.2 point of GDP, due to the Constitutional Council's invalidation of the 3 % tax on dividends. Article 16 of the 2012 constitutional bylaw imposes to refer the currently discussed budget bill for the next year to the High Council only when the macroeconomic scenario is revised. The constitutional bylaw does not prescribe anything when only the public finance forecasts are revised.

The High Council points out that a revised public finance path under an unchanged macroeconomic scenario does not imply a referral, despite the fact that it may have an impact on the structural balance.

2- On the information submitted

The Government referred to the High council of public finance on 3 November 2017 the introductory article of the second amending budget bill and its macroeconomic forecasts. The referral file was supplemented with detailed answers to questions addressed in advance to the relevant administrations. Moreover, the High Council held hearings of the Treasury and budget department on 6 November 2017.

The High Council considered the last available forecasts and analysis, in particular those of the OECD (*Interim Economic Outlook*, 20 September), of the IMF (*World Economic Outlook*, 10 October), of the European Commission (*Autumn forecasts*, 9 November), and of the Insee (9 October), as well as the November *Consensus forecasts*.

The High Council payed attention to the State's revenues and expenditure until end of September. It also took note of the forecasts of the Commission of Social Security Accounts (28 September) and the Unédic (25 October), of the last opinion of the Alert Committee on the evolution of health insurance expenditure (10 October) and, concerning local authorities, of the 2017 publication of La Banque Postale (September).

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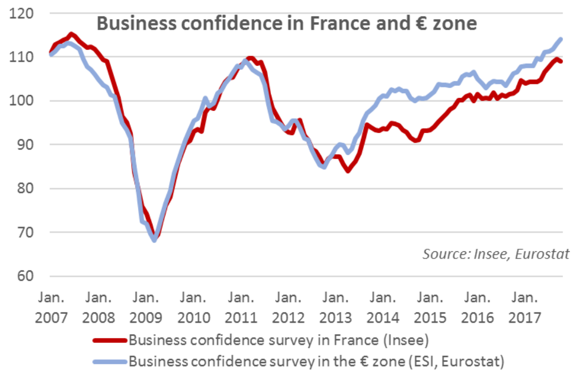
This second amending budget bill is being presented a few days after the first one, which has been discussed in the Council of Ministers on November 2, and on which the High Council has published an opinion on the same day. The first amending budget bill created an exceptional contribution on corporate tax in order to offset the foreseen cost in 2017 due to the Constitutional Council's invalidation of the 3 % tax on dividends. Unlike the first amending budget bill, this second amending budget bill updates the public finance forecasts and takes into account the end-of-year budgetary management.

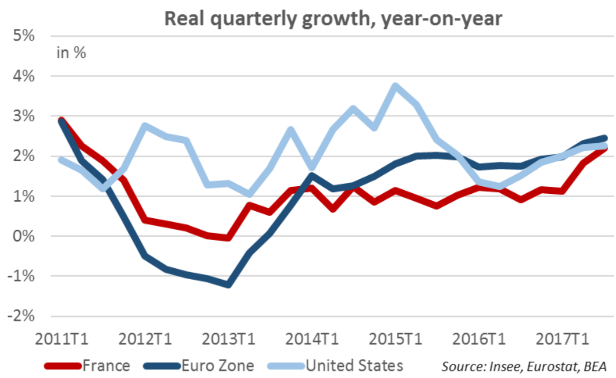
The High Council presents its assessment of the macroeconomic forecasts attached to this amending budget bill (I) and then of the public finance scenario (II).

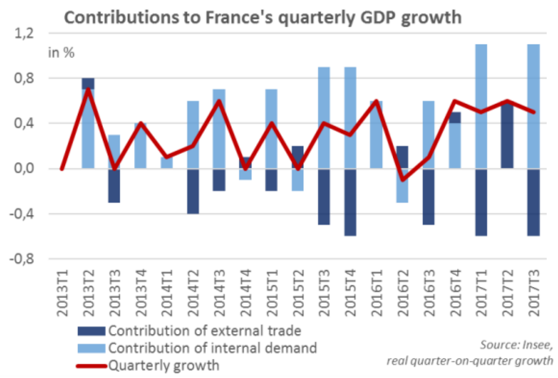
I. Remarks on the economic forecasts

1- The global environment

The improvement in international economic conditions observed since the end of 2016 keeps on, as confirmed by the latest economic data, both in the euro zone and in the rest of the world. In its October release, the IMF forecasts a 3.6 % global growth (+ 0.1 percentage point since the July publication). The euro zone's growth outlook has improved since the beginning of the year: the latest forecast for 2017 of the European Commission and the European Central Bank is a 2.2 % growth (from 1.7 % in May and 1.9 % in June respectively). The OECD and the IMF now forecast a 2.1 % growth (from 1.8 % in June and 1.9 % in July respectively).







2- The Government's scenario

According to the referral file, *"the macroeconomic scenario attached to the second amending bill for 2017 is identical to that attached to the 2018 budget bill and to the first amending budget bill for 2017, with a 1.7 % GDP growth in 2017"*.

3- The High Council's assessment

a) The forecast of GDP growth is unchanged, at 1.7 % in 2017

The Government's growth forecast is close to other available forecasts, if anything slightly lower.

In its October release, the Insee forecasts a 1.8 % annual growth. The latest forecasts of other institutions are 1.6 % for the IMF and the European Commission[1], 1.7 % for the OECD and COE-Rexecode, and 1.8 % for the OFCE. The *Consensus forecasts* average is 1.7 % in November 2017.

After the third quarter GDP release, the carry-over growth now stands at 1.7 %. It would lead to a 1.8 % growth annually, under the assumption of a fourth quarter growth alike the one of the previous quarters and their estimates staying unchanged. In the first three quarters, the contribution of external trade seems less favorable than in the Government's scenario, and the economic activity rather supported by internal demand.

b) The forecast of the nominal private wage bill growth is unchanged at 3.3 %

The latest information from Insee and ACOSS confirms that this forecast is cautious.

c) The inflation forecast stays 1 %

The Government's inflation forecast for 2017 is 1.0 % annually, consistent with the *Consensus forecasts* average in November and the Insee's forecast.

The High Council considers that the new information available since its opinion on the 2018 budget bill in September confirms that the growth and wage bill forecasts for 2017 are cautious. Given the carry-over growth from the third quarter, there now is a quite strong likelihood that the 2017 growth will exceed the Government's forecast. The High Council regards the inflation forecast for 2017 as realistic.

II. Remarks on the public finance forecasts

1- The Government's scenario

The revenue and expenditure forecasts for 2017 have been only slightly adjusted since the 2018 budget bill.

The scheme presented in the first amending budget bill for 2017 – an exceptional contribution on corporate tax meant to offset the cost due to the invalidation of the 3 % tax on dividends – should have a 0.4 billion € negative impact on the public balance.

Besides, on the revenue side, compulsory levies forecasts have been revised upwards by 1.4 billion € since the 2018 budget bill, notably on VAT (+0.9 billion €) and transaction fees (+0.4 billion €).

Public expenditure have also been revised upwards, by 0.5 billion €. Their nominal increase is therefore up to 1.9 % in 2017, from 1.8 % in the 2018 budget bill. Local spending (+1.4 billion €) and ministries' spending (+0.6 billion €) have been revised upwards since the 2018 budget bill. This increase is partly offset by the reduction of the contribution to the European Union in the State's budget (-1.5 billion €).

The public balance forecast for 2017 is still -2.9 points of GDP, unchanged from the 2017 forecast attached to the 2018 budget bill. The public spending to GDP ratio increases to 54.7 % (+0.1 percentage point since the 2018 budget bill), whereas the compulsory levies to GDP ratio is unchanged, at 44.7 % of GDP.

[1] When adjusted for working days, these two forecasts correspond to a growth close to 1.8 %.

2- The consistency with the multi-year structural balance targets

Under the constitutional bylaw of 17 December 2012, the High Council gives an opinion on the consistency of the amending budget bill's structural balance path with the targets of the last programming law.

Components of the public balance

In points of GDP or potential GDP	**Second amending budget bill (Nov. 2017)**	
	2016	**2017**
Public balance	-3,4	-2,9
Cyclical component	-0,8	-0,6
One-off and temporary measures	-0,1	-0,1
Structural balance	**-2,5**	**-2,2**

Note: figures being rounded to the nearest tenth, sum totals can be slightly different
Source: second amending budget bill for 2017

The cyclical, one-off and structural components for 2017 are identical, in points of GDP, to those attached to the 2018 budget bill. As in its opinion on the 2018 budget bill, the High council notes that the comparison with the 2014 programming law is not relevant anymore, and that the consistency with the targets of the programming bill currently discussed holds by construction.

3- Structural adjustment and structural effort in 2017

Structural adjustment and structural effort

In points of potential GDP	**Second amending budget bill (Nov. 2017)**		**2018 budget bill (Sept.2017)**
	2016	**2017**	**2017**
Structural adjustment	**0.2**	**0.3**	**0.2**
Structural effort	**0.1**	**0.1**	**0.1**
of which expenditure restraint (excluding tax credits)	0.2	0.0	0.1
of which tax credit key	-0.1	-0.1	-0.1
of which new tax measures	0.1	0.1	0.1
Non-discretionary component	**0.1**	**0.2**	**0.1**
of which elasticity effect of compulsory levies	0.2	0.4	0.3
of which revenues other than compulsory levies	-0.1	-0.2	-0.2

Note: figures being rounded to the nearest tenth, sum totals can be slightly different.
Tax credit key: difference between the collection and the claims on tax credits.
Expenditure restraint: difference between the real growth of expenditure (using the GDP deflator) and potential GDP.
Source: second amending budget bill for 2017

The structural adjustment, i.e. the variation of the structural balance, would be 0.3 point of GDP in 2017; it was forecasted at 0.2 in the 2018 budget bill. It does not comply with

European Regulation 1466/97[2], which provides a structural adjustment higher than 0.5 point of GDP per year.

This improvement since the 2018 budget bill is due to an increase in revenues. The macroeconomic scenario being unchanged, higher revenues result in an increased elasticity of compulsory levies to GDP, at 1.4 in the second amending bill from 1.3 in the 2018 budget bill.

The High Council points out that the components of the nominal balance may vary if GDP estimates are revised in the next months. Should the 2017 growth be higher than forecasted by the Government, and under unchanged revenues and expenditure, the cyclical component of the deficit would be smaller. Therefore, the structural deficit would be higher and the structural adjustment lower to the same extent.

The structural effort, which is the part of the structural adjustment directly due to expenditure restraint or new tax measures, would be very low in 2017 (0.1 point of GDP). The expenditure restraint would even be below the 2018 budget bill estimate: it would be 0 (instead of 0.1 in the 2018 budget bill). This results from the revision upwards of the nominal public spending growth to 1.9 %, from 1.8 % in the 2018 budget bill[3].

The High Council notes that the structural effort would be almost inexistent in 2017 and very low in 2018[4], despite the fact that the structural balance is still far from its medium term objective, and that improving economic conditions build a more favorable basis for the realization of such an effort.

4- Revenues and expenditure

The revenue and expenditure forecasts for 2017 of this second amending budget bill have been only slightly adjusted since the 2018 budget bill.

a) Revenues

Based on the observed tax collection since the beginning of the year, the revenue forecasts are revised upwards in this amending budget bill, by 1.4 billion € since the 2018 budget bill (of which 0.9 billion € on VAT).

Despite this revision, the Government's forecasts could still underestimate public revenues. The VAT collection, which has grown by more than an annualized 5 % on the first nine months of 2017, seems to be growing faster than forecasted in the amending budget bill (4 %). Furthermore, the wage bill estimate, on which the social contribution forecasts are based, is cautious.

As usual, there is a substantial uncertainty weighing on the last corporate tax advance payment, as well as, for this year, on the exceptional contribution created by the first amending budget bill for 2017.

A further uncertainty, of another kind, weighs on the national accounting treatment of the 3 % tax on dividends repayments, as noted by the High Council in its opinion on the first amending budget bill[5].

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[2] Article 5 of Regulation 1466/97: "For Member States faced with a debt level exceeding 60 % of GDP or with pronounced risks of overall debt sustainability, the Council and the Commission shall examine whether the annual improvement of the cyclically-adjusted budget balance, net of one-off and other temporary measures, is higher than 0,5 % of GDP."

[3] Deflated by the price of GDP, real spending growth is close to potential growth.

[4] Forecasted at 0.2 point in the 2018 budget bill. See opinion HCFP-2017-4 of 24 September 2017.

[5] Opinion n° HCFP-2017-5 of 30 October 2017. These repayments are registered on the revenue side (negatively).

Subject to these uncertainties, the High Council considers that revenues from compulsory levies could still be slightly higher than the Government's estimate for 2017.

b) Expenditure

In this second amending budget bill for 2017, total expenditure excluding tax credits is forecasted to grow by 1.9 % in nominal terms and 1.1 % in real terms (using the GDP deflator). This increase is slightly higher than what has been presented in the 2019 budget bill.

The budget appropriations of ministries is 0.6 billion € higher than the estimate for 2017 attached to the 2018 budget bill. This makes up a 3 billion € increase since the 2017 budget bill, despite the expenditure restraint measures taken during summer. It still requires respecting rigorously the end-of-year budgetary management scheme. On the contrary, there should be a substantial reduction in the contribution to the European Union (-1.5 billion €). In the end, the State's expenditure is revised downwards, by 0.9 billion € since the 2018 budget bill.

Concerning social security, *"spending within the ONDAM framework could comply with the target of the social security financing bill for 2017"*, according to the Alert Committee. The forecast on unemployment benefits attached to the second amending budget bill is close to that published by the Unédic in October.

The forecasts on local authorities have been revised in order to take into account the higher than expected growth of local investment spending, observed on the first nine months of the year. A large share of local investment spending being reported only at the end of the year, there still is a substantial uncertainty weighing on these forecasts.

The High Council notes that there are still risks on the public expenditure forecast for 2017, which has been slightly revised upwards from the forecast attached to the 2018 budget bill. The main uncertainty is on local investment spending.

c) The balance

Subject to uncertainties on the national accounting treatment of several measures, involving high amounts, the High Council considers that the public deficit forecast of 2.9 point of GDP for 2017 is plausible.

For 2018, the Governments announced a revision of the public deficit from 2.6 to 2.8 point of GDP, taking into account the impact of the 3 % tax on dividends repayments. The improvement of the public balance between 2017 and 2018 would then be only about 0.1 point of GDP, despite favorable economic conditions.

The High Council notes that such a deficit does not allow the public debt to GDP ratio to stabilize in 2017 and that this ratio would almost stabilize only in 2018, thanks to a higher nominal GDP growth.

The High Council emphasizes that a significant reduction of the public deficit is still needed to start a durable reduction of the public debt to GDP ratio.

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This opinion has been published in the *Official Journal* of the French Republic and attached to the second amending budget bill for 2017.

Annex 1: the macroeconomic scenario attached to the second amending budget bill for 2017

Economic forecasts for France

	2016	2017
Goods and services, real terms	%, annual average	
Gross domestic product (wda*)	**1.1**	**1.7**
Final consumption of households	2.3	1.3
Final public consumption	1,3	1.2
Gross fixed capital formation	2,8	3.0
of which: non-financial corporates	*3,6*	*3.7*
public administrations	*-0,1*	*-1.1*
households (excluding individual entrepreneurs)	*2,4*	*4.2*
Imports	4,2	3.6
Exports	1,8	2.5
Contributions to real GDP growth	in points of GDP	
Private domestic demand (excluding inventories)	1,8	1.4
Public demand	0,3	0.2
Inventories	-0,1	0.4
External trade	-0,8	-0.4
Prices and nominal aggregates	%, annual average	
Consumer prices inflation	**0,2**	**1.0**
Core inflation	0,6	0.4
Gross domestic product deflator	0,4	0.8
Nominal gross domestic product	1,6	2.5
Productivity, employment and wages	%, annual average	
Market-sector (excluding agriculture):		
- Productivity	0.1	0.3
- Payrolls	1.1	1.6
- Average salary	1.2	1.7
- Wage bill	2.4	3.3
Total employment	0.8	1.0

** Working days adjusted*
Source: Ministry of Economy and Finance

Annex 2: introductory article of the second amending budget bill for 2017

Prévision de solde structurel et solde effectif de l'ensemble des administrations publiques pour l'année 2017

	Prévision 2017
Solde structurel (1)	-2,2
Composante conjoncturelle (2)	-0,6
Mesures exceptionnelles et temporaires (3)	-0,1
Solde effectif (1 + 2 + 3)	-2,9

En points de produit intérieur brut (PIB)

Exposé des motifs

Depuis le dépôt du projet de loi de finances (PLF) pour 2018, les informations nouvelles n'amènent globalement pas à revoir la prévision de solde public pour 2017.

Les hypothèses macroéconomiques sont inchangées. Le Gouvernement continue de tabler sur une croissance de l'activité 2017 de 1,7 % en volume.

Le solde public en 2017 serait de 2,9 % du PIB, soit une prévision inchangée par rapport au projet de loi de finances pour 2018 et au premier projet de loi de finances rectificative. Cette stabilité serait le résultat de plusieurs facteurs qui amélioreraient légèrement le solde (+0,4 Md€) sans pour autant changer la prévision de solde en point de PIB. Ainsi, les nouvelles informations disponibles depuis le dépôt du PLF, conduisent à considérer une prévision de recettes fiscales revue à la hausse en 2017, tandis que le prélèvement sur recettes à destination de l'Union européenne serait exécuté à un niveau plus bas que prévu. Ces effets positifs seraient en partie compensés par une révision à la hausse de la prévision d'exécution des dépenses de l'État, et par la prise en compte de remontées comptables dynamiques sur la dépense locale.

L'évolution du solde public en 2017 demeurerait portée par une amélioration du solde structurel qui passerait de - 2,5 % à - 2,2 % du PIB. Le solde conjoncturel s'améliorerait toujours de - 0,8 % à - 0,6 % du PIB, du fait d'une croissance supérieure à son potentiel (1,7 % contre 1,25 % en volume), permettant une réduction de l'écart de production (de - 1,5 % du PIB potentiel en 2016 à - 1,1 % en 2017).

Quant à elles, les mesures exceptionnelles et temporaires pèseraient toujours sur le solde nominal à hauteur de 0,1 point de PIB en 2017. Ces mesures intègrent l'impact en comptabilité nationale de l'annulation de la contribution de 3 % sur les revenus distribués d'une part et de la surtaxe IS prévue dans le premier PLFR d'autre part, qui se neutralisent mutuellement et sont donc sans impact sur le solde.