



Opinion n° HCFP-2019-4
on the amending budget bill for 2019
31 October 2019

Under article 15 of the organic law n° 2012-1403 of 17 December 2012 on public finance planning and governance, the High Council of public finance (HCFP) delivers an opinion on the amending budget bill for 2018. The following opinion was adopted after deliberations on 31 October 2019.

Main Conclusion

The High Council notes that the Government's macroeconomic forecasts for 2019 associated with the draft amending finance bill (PLFR) for 2019 are unchanged from those presented at the end of September in the draft finance bill (PLF) for 2020.

In the light of the most recent information, the High Council considers that the inflation and wage bill assumptions are plausible. The GDP growth forecast, slightly higher than most available forecasts, remains achievable. However, given the growth estimate for the third quarter (+0.3%) published by Insee on 30 October, it assumes an acceleration in activity in the fourth quarter (growth of at least 0.5%).

The High Council notes that tax revenues may be somewhat higher than expected by the Government. On the other hand, it notes the existence of a risk of an excess on local authorities' expenditure, mainly on investment. In total, the High Council considers that the forecast of total government revenue, expenditure and balance for 2019 are plausible in the light of the information available to it.

As it had already pointed out in its opinion on the budget bill for 2020, the High Council notes that the structural balance path is moving increasingly away from that of the Public Finance Programming Law (LPFP). It notes that the average deviation of the structural balance from the programming law projected for the years 2018 and 2019 (-0.2 percentage points of GDP) is close to the threshold for triggering the correction mechanism provided for in Article 23 of the 2012 Organic Law (-0.25 percentage points on average over two years).

1. Under the terms of Article 15 of Organic Law No. 2012-1403 of 17 December 2012 on public finance programming and governance, the High Council was asked by the Government on 26 October 2019 to deliver an opinion on the macroeconomic forecasts associated with the draft amending finance law (PLFR) for 2019 and on the consistency of this draft law with the multi-year structural balance path.

1. Macroeconomic forecasts for 2019

2. The economic assumptions underlying the amending draft budget bill for 2019 are unchanged from those of the draft budget bill for 2020 presented at the end of September, with in particular, on an annual average, real GDP growth of 1.4%, consumer price inflation of 1.2% and private wage bill growth of 3.3% in value terms (see Annexes 1 and 2).

3. In its opinion of 23 September 2019 on the budget bill for 2020, the High Council considered that the growth forecast for 2019 was achievable¹ and that the forecasts for inflation, employment and wage bill for 2019 were consistent with the information then available.

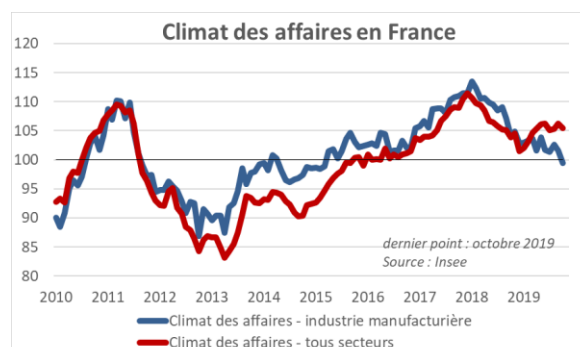
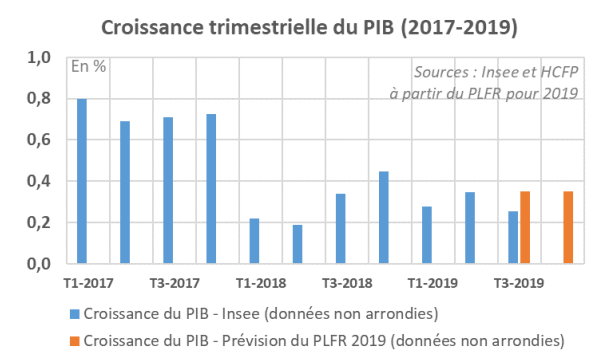
4. The Government's **GDP growth** forecast for 2019 (+1.4%) is slightly higher than most available forecasts.

GDP growth forecasts for 2019

OECD (September 2019)	1,3
Banque de France (September 2019)	1,3
Rexecode (September 2019)	1,3
OFCE (October 2019)	1,3
IMF (October 2019)	1,2
Consensus forecasts (October 2019)	1,3
Government forecast (PLFR 2019- October 2019)	1,4
<i>Reminder: 2020 Budget bill - September 2019</i>	<i>1,4</i>

Source: High Council of public finance from different institutions forecasts

5. In its publication of 30 October following the Government's referral, Insee estimates GDP growth at 0.3% in the third quarter. The carry-over of growth in the 3rd quarter - i.e. the average annual growth that would be recorded in 2019 if GDP were stable in the 4th quarter - is 1.2%.



6. Abstracting from future revisions by Insee of growth estimates, the Government's forecast of 1.4% assumes growth in the 4th quarter of at least 0.5%, achievable although slightly higher than the growth rate observed in the recent period (0.3% per quarter since the beginning of 2019).

7. The forecast of the private wage bill (+3.3% in value) is consistent with the latest information from Acoss.

8. The projected increase in the consumer price index (+1.2%) is plausible, given the carry-over at the end of October (+1.0%) and the evolutions expected by the end of the year (with in particular the expected increase in tobacco prices on 1 November).

9. **The High Council notes that the macroeconomic forecasts for 2019 are unchanged in the Government's scenario compared to those presented at the end of September in the budget bill (PLF) for 2020.**

¹ See HCFP No 2019-3 opinion

10. In the light of the most recent information, the High Council considers that the inflation and wage bill assumptions are plausible. The growth forecast, slightly higher than most available forecasts, remains achievable. However, given the growth estimate for the third quarter (+0.3%) published by Insee on 30 October, it assumes an acceleration in activity in the fourth quarter (growth of at least 0.5%).

2. Revenue, expenditure and public finance balance forecasts

11. The amending budget bill's 2019 public revenue and expenditure forecasts for 2019 are slightly modified compared to the 2020 budget bill.

12. The expected amount of **public revenue** in amending budget bill for 2019 is slightly higher than that used for the 2020 budget bill (+€1.1 billion), due to modest adjustments for certain compulsory levies (income tax, transfer taxes, property wealth tax).

13. As in previous years, there is uncertainty about the amount of the last corporate tax advanced payment. In addition, with respect to income tax, the procedures for recording the at the source levy tax in national accounts have yet to be defined by Insee in collaboration with Eurostat, which also creates uncertainty as to the exact amount of income tax revenue expected in 2019.

14. The trends in VAT and transfer tax revenues received by local public administrations observed over the first nine months of the year are higher than the Government's forecast. The forecast of other tax revenues and social security contributions is generally consistent with the information available.

15. The High Council considers in total that the revenues could *in fine* be somehow higher than in the Government's forecast.

16. The increase in **public expenditure** (excluding tax credits) recorded in the amending budget bill for 2019 is 1.7% in value terms, an increase identical to that presented in the budget bill for 2020.

17. The State expenditure forecast for 2019 is €0.5 billion higher than that presented under the budget bill for 2020: whereas the April 2019 stability program and the budget bill for 2020 provided for a reduction of €1.5 billion in "controllable"² expenditure compared to the finance law (€262.9 billion) to partially finance the measures decided by the Law on Economic and Social Emergency Measures (MUES) of 24 December 2018, the FDP for 2019 limits this reduction to €1.0 billion.

18. The expenditure forecasts of the social security funds are in line with the latest information available, in particular the opinion of 15 October 2019 of the Alert Committee on compliance with the national health insurance expenditure target (Ondam).

19. Local government expenditure in the first nine months of 2019 was higher (+1.9% for operating and +15.3% for investment excluding *Société du Grand Paris*) than the Government's forecast for the year as a whole (+1.5% and +8.2% respectively). While a slowdown in investment spending is likely at the end of the year, its magnitude remains highly uncertain and

² "Piloteable" expenditure corresponds to State expenditure, excluding in particular the cost of the debt, the contribution to the Pensions special allocation account, transfers to local authorities, the levy on revenue for the European Union, to which is added the capped part of the assigned taxes. See Article 9 of the Public Finance Programming Act for the years 2018 to 2022.

there is a significant risk that it will be less pronounced than expected by the Government. Operating expenditures could also be slightly higher than expected.

20. The public balance is expected to deteriorate sharply between 2018 and 2019 (from -2.5 to -3.1 percentage points of GDP), due to the temporary additional cost of transforming the CICE into a reduction in employer contributions. Excluding this effect, the government balance would improve to -2.3 percentage points of GDP.

21. **The High Council notes that tax revenues may be somewhat higher than expected by the Government. On the other hand, it notes the existence of a risk of an excess on local authorities' expenditure, mainly on investment. In total, the High Council considers that the forecast of total government revenue, expenditure and balance for 2019 are plausible in the light of the information available to it.**

3. Consistency with the multi-year structural balance trajectory

22. The structural balance³ is estimated at -2.2 percentage points of GDP in 2019, after -2.3 points in 2018. The structural adjustment, i.e. the change in the structural balance, would thus amount to 0.1 percentage point of GDP, an amount unchanged compared to the budget bill for 2020 forecast but lower than the January 2018 Public Finance Programming Law (0.3 point). This adjustment would also be below that provided for by the rules of the European Budget Pact⁴ (at least 0.5 percentage points of GDP).

Public balance decomposition presented by the Government

<i>In point of GDP</i>	Amending budget bill for 2019 (November 2019)		<i>Programming Law (January 2018)</i>		<i>Deviation</i>	
	2018	2019	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>
Public balance	-2,5	-3,1	-2,8	-2,9	0,2	-0,1
Cyclical component	0,0	0,0	-0,4	-0,1	0,3	0,1
One-off measures	-0,2	-0,9	-0,2	-0,9	0,0	0,0
Structural balance	-2,3	-2,2	-2,1	-1,9	-0,1	-0,3

Note: as figures are rounded to the nearest tenth, this may result in slight differences in the results of operations.

Source: Amending budget bill for 2019, programming law of January 2018.

23. The difference between the level of the structural balance forecast and that of the programming law would be -0.3 points in 2019 after -0.1 point in 2018, representing an average of -0.2 points over the two years.

³ See Annex 3 for a definition of the concepts used in this part.

⁴ Extract from Article 5 of European Regulation No 1466/97: "For Member States with a debt level exceeding 60% of GDP or which are exposed to significant risks related to the overall sustainability of their debt, the Council and the Commission shall examine whether the annual improvement in the cyclically-adjusted budget balance, net of one-off and other temporary measures, is greater than 0.5% of GDP. »

Structural adjustment and structural effort presented by the Government

<i>In point of potential GDP</i>	Amending budget bill for 2019 (November 2019)		<i>Programming Law (January 2018)</i>		<i>Deviation</i>	
	2018	2019	2018	2019	2018	2019
Structural adjustment	0,1	0,1	0,1	0,3	0,1	-0,2
Structural effort	0,1	0,0	0,2	0,3	0,0	-0,2
of which expenditure restraint (excluding tax credits)	0,3	0,3*	0,4	0,4	-0,1	-0,1
of which new measures in revenue	-0,2	-0,3*	-0,3	-0,1	0,1	-0,2
of which tax credit key**	0,0	0,1	0,0	0,0	0,0	0,0
Non-discretionary component	0,0	0,1	-0,1	0,0	0,1	0,1

Source: Amending budget bill for 2019, programming law of January 2018.

Note: as figures are rounded to the nearest tenth, this may result in slight differences in the results of operations.

* These data neutralize the effect of the creation of France compétences on January 1, 2019⁵. At current field level, the effort in expenditure and the effort in compulsory levies (new revenue measures) would be 0.1 point and -0.1 point respectively in 2019.

** In national accounts, tax credits are recorded on the basis of claims filed and not refunds charged to the budgetary balance. The difference between refunded tax credits and tax credit receivables, known as the "tax credit key", affects the structural adjustment measure.

24. The structural effort, i.e. the part of structural adjustment directly linked to an expenditure effort or new tax measures, would be zero in 2019⁶ (compared to 0.3 percentage point under the programming law).

25. The effort made on expenditure⁷ would be 0.3 percentage point of GDP, of which 0.2 point would be due to the reduction in interest expenditure. This effort would be offset by the impact of tax cuts (0.3 percentage points of GDP), which are higher than those planned under the programming law (0.1 percentage point). The measures adopted during the parliamentary debate on the budget bill for 2019 and enshrined in the Law on Economic and Social Emergency Measures⁸ have reduced the expected amount of compulsory contributions.

26. The public debt-to-GDP ratio is expected to increase from 98.4 percentage points of GDP in 2018 to 98.8 percentage points in 2019. The public balance in 2019 (-3.1 points of GDP) would indeed be higher than the stabilizing balance (-2.6 points).

27. **As it has already pointed out in its opinion on the budget bill for 2020, the High Council notes that the structural balance path is moving increasingly away from that of the Public Finance Programming Law (LFPF). It notes that the average deviation of the structural balance from the programming law projected for the years 2018 and 2019 (-0.2**

⁵ In 2019 and 2020, the field of public administrations in national accounts was extended by the creation of *France Compétences* (law of 5 September 2018), whose mission consists in ensuring the financing, regulation, control and evaluation of the system of vocational training and apprenticeship.

⁶ The structural effort is revised downwards by 0.1 percentage point compared to the forecast in the 2020 budget bill. The structural adjustment is unchanged due to an equivalent upward revision of the non-discretionary component (in line with the revision of the expected amount of tax revenue compared to that used for the 2020 budget bill)

⁷ This effort is measured by comparing the increase in public expenditure excluding volume tax credits with potential GDP growth. It must be weighted by the weight of public expenditure in GDP. Given the share of public expenditure in GDP, the expenditure effort is almost half of this gap.

⁸ The measures include the cancellation of the increase in energy taxation, the exemption from taxes and social security contributions for overtime work and the cancellation of the CSG increase for pensions under €2,000.

percentage points of GDP) is close to the threshold for triggering the correction mechanism provided for in Article 23 of the 2012 Organic Law (-0.25 percentage points on average over two years).

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This opinion has been published in the Official Journal of the French Republic and attached to the amending budget bill for 2019.

In Paris, the 31 October 2019.

For the High Council of public finance,
The First president of the court of auditors,
President High Council of public finance

A handwritten signature in blue ink, reading "Didier Migaud", followed by a horizontal line.

Didier MIGAUD

Annex 1 : Macroeconomic scenario of the amending budget bill for 2019

France economic forecasts		
	2018	2019
Goods and services, real terms	Moyenne annuelle, en %	
Gross domestic product	1.7	1.4
Final consumption of households	0.9	1.2
Final public consumption	0.8	0.8
Grossed fixed capital formation	2.8	2.9
Of which : Non-financial corporates	3.9	3.3
Public administrations	2.4	5.3
Households(excluding individual entrepreneurs)	2.0	0.8
Imports	1.2	2.2
Exports	3.5	2.3
Contributions to real GDP growth	En point de PIB	
Private domestic demand (excluding inventories)	1.0	1.1
Public demand	0.3	0.4
Inventories	-0.3	-0.2
External Trade	0.7	0.0
Prices and nominal aggregates	Moyenne annuelle, en %	
Consumer prices inflation index	1.8	1.2
Core inflation	0.8	0.9
Gross domestic product deflator	0.8	1.3
Nominal gross domestic product	2.5	2.7
Productivity, employment and wages	Moyenne annuelle, en %	
Market-sector (excluding agriculture) :		
- - Productivity	0,3	0,0
- - Payrolls	1,7	1,5
- - Average salary	1,7	1,8
- - Wage bill	3,4	3,3
Total employment	0,9	0,9
Non-financial corporate account	Moyenne annuelle, en %	
Value Added	3,0	3,5
Gross operating product	1,3	7,6
Markup rate	31,2	32,4
Saving rate	22,6	23,8
Investment rate	24,1	24,5
Self-financing rate	93,4	97,3
Households account	Moyenne annuelle, en %	
Total wage bill	2,9	2,9
Gross disposable income	2,7	3,3
Purchasing power of gross disposable income	1,2	2,0
Saving rate	14,2	14,8
Operations with the rest of the world	Moyenne annuelle, en %	
Trade balance FAB-FAB (customs data)	-2,5	-2,3
Trade balance FAB-FAB (in billions of euros)	-59	-56
International context	Moyenne annuelle, en %	
Global demand for France	3,8	2,0
Euro-dollar exchange rate	1,18	1,12
Oil Price (per Brent barrel in dollars)	71	53

Working day adjusted data unless otherwise stated

Annex 2 : introductory article of the 2019 amending budget bill

Prévision de solde structurel et solde effectif de l'ensemble des administrations publiques pour l'année 2019

La prévision de solde structurel et de solde effectif de l'ensemble des administrations publiques pour 2019 s'établit comme suit :

(1) <i>En points de produit intérieur brut (PIB)</i>	(2) Exécution 2018	(3) Prévision 2019
(4) Solde structurel (1)	-2,3	-2,2
(5) Solde conjoncturel (2)	0,0	0,0
(6) Mesures exceptionnelles et temporaires (3)	-0,2	-0,9
(7) Solde effectif (1 + 2 + 3)	-2,5	-3,1

Exposé des motifs

Depuis le dépôt du projet de loi de finances (PLF) pour 2020, les informations nouvelles, tant en dépenses qu'en recettes, ne conduisent pas à revoir significativement la prévision de solde public pour 2019. Celle-ci tient notamment compte d'un effort significatif fait par le Gouvernement pour réduire d'un milliard d'euros la norme de dépenses controllables de l'État par rapport à la prévision de la loi de finances initiale, conformément à ses engagements pris dès le mois de décembre 2018, afin de financer, pour partie, les mesures d'urgence économiques et sociales.

En outre, les hypothèses macroéconomiques sont inchangées par rapport au PLF. Le Gouvernement continue d'anticiper une croissance de l'activité 2019 de 1,4 % en volume, soit un niveau proche de son rythme potentiel mais légèrement supérieur à celui-ci.

Au total, le solde public effectif en 2019 serait de -3,1 % du PIB, comme prévu dans le solde 2019 révisé sous-jacent au PLF 2020. Il est affecté de manière ponctuelle et temporaire par le double-coût pour les finances publiques de la bascule du crédit d'impôt pour la compétitivité et l'emploi (CICE) en allègements pérennes de cotisations sociales (0,8 point de PIB). La croissance légèrement supérieure à son rythme potentiel conduirait à une légère amélioration conjoncturelle du solde public. L'ajustement structurel de +0,1 point de PIB serait porté par un effort en dépense de +0,3 point, une fois neutralisé l'impact de la création de France Compétences. En recettes, les mesures nouvelles en prélèvements obligatoires pèseraient sur l'ajustement à hauteur de -0,2 point (après correction d'un effet légèrement inférieur des crédits d'impôt en comptabilité nationale par rapport à la comptabilité budgétaire).

Pour mémoire : solde public en Md€

	Exécution 2018	Prévision d'exécution 2019

Solde effectif	-59,5	-73,8
PIB nominal	2353,1	2416,9

Annex 3: estimating the general government structural balance

The structural balance estimate

To assess the public finance path, the structural budget balance is usually considered. The structural balance is the **public balance adjusted for the direct impact of the economic cycle and exceptional events**. The public balance is thus divided into two components:

- A **cyclical component**, which reflects the impact of the economic cycle on public administrations' expenditure and revenue;
- A **structural component**, being what the public balance would be if domestic production were at its potential level.

The calculation of the cyclical and structural components of the public balance is based on the potential GDP estimate. Potential GDP is the “sustainable” output, i.e. the quantity that can be produced without having positive or negative impacts on inflation. The cyclical component of the public balance results from the cyclical variations in public revenue and expenditure, considered as follows:

- **On the revenue side**, only compulsory levies are assumed to be cyclical. The cyclical parts of the income tax, corporate income tax, social security contributions and other mandatory contributions are calculated separately based on the observed levels, the estimated output gap and the elasticity of each tax category to GDP growth³;
- **On the expenditure side**, only the unemployment compensation expenses are considered dependent on economic conditions⁴. Their cyclical share is estimated, as for revenue, based on their elasticity to the output gap and the amounts observed.

The structural balance is calculated as the difference between the nominal public balance and the cyclical component estimate. Given the fact that compulsory levies and cyclical expenses account for about half of GDP and that their average elasticity is close to one, the cyclical component of the public balance is equal to just over half the output gap (for France). **A final correction is made to the structural balance in order to exclude certain events or actions** that have no lasting impact on the public balance. **However, there is no comprehensive definition of one-off and temporary measures and their assessment is partly based on interpretation.**

The components of the structural adjustment

The variation of the structural balance is known as “structural adjustment”. A positive structural adjustment reflects a budgetary policy directed towards the medium term objective (-0.4 % for France as set by the programming law), when there initially is a deficit. Conversely, a negative structural adjustment reflects an expansionist budgetary policy, increasing the structural deficit.

In order to assess more sensibly the budgetary policy, the **structural adjustment is divided into two components.**

- **The structural effort, which measures the discretionary part of the structural adjustment, i.e. controlled by public decision makers, is made of:**
 - **the expenditure restraint**, which compares the public spending real growth (calculated with the GDP deflator) to the economy's potential growth. It has a positive contribution to the structural adjustment when public spending grows slower than potential GDP;
 - the new measures on compulsory levies.
- **The non-discretionary part** takes into account:
 - the impacts of **changes in revenue elasticities**: since the cyclical component of the public balance is based on average elasticities, the structural balance includes the effects of elasticity fluctuations around the long-term average value;
 - the **changes in revenues other than compulsory levies**.