

**Opinion n° HCFP-2020-3
on the general government structural balance presented in the budget
settlement bill for 2019**

24 April 2020

1. The Government referred to the High Council of Public Finance on 9 April 2020, pursuant to Article 23 of Organic Law No. 2012-1403 of 17 December 2012 relating to the programming and governance of public finances, in order to assess whether the multi-year structural balance objectives are being met in 2019. The High Council, after deliberating on this matter at its meeting of 22 April 2020, adopted the present opinion.

Summary

The High Council notes that the structural deficits, estimated at 2.2 points of GDP for 2018 and 2.0 points of GDP for 2019, do not deviate markedly from those forecast in the Public Finance Programming Law (LPFP) of January 2018, where they were foreseen at 2.1 and 1.9 GDP points respectively, and that there is therefore no need to trigger the correction mechanism provided for in Article 23 of the Organic Law.

In 2019, on the basis of the potential growth assumed in the LPFP 2018-2022 and current GDP growth estimates, the structural deficit is reduced by 0.2 percentage points of GDP, slightly below the target of 0.3 percentage points of GDP set in the programming law.

The High Council notes that this improvement in the structural balance is due to factors (usually described as "non-discretionary") which are not the result of actions by the government, and in particular to a GDP elasticity of compulsory levies higher than one.

The structural effort, which neutralises this elasticity effect, is negative, amounting to -0.1 points of GDP. The measures to reduce compulsory levies implemented in 2019 (for 0.4 points of GDP) weigh more heavily than the effort to contain expenditure (which is 0.2 points of GDP). In addition, the reduction in interest payments resulting from the fall in interest rates contributed to 0.3 percentage points to the expenditure effort.

The High Council underlines that, while the reduction in the structural deficit in 2019 is close to the path set out in the LPFP, the structural balance (-2.0 points of GDP) remains far from the medium-term objective (-0.4 points of GDP) established in that text.

I- Introductory remarks

1- On the subject of this opinion

Under the Article 23 of the organic law of 17 December 2012, “*the High Council of Public Finance gives an opinion on significant deviations, if any, from the trajectory observed in execution relative to the multi-year structural balance targets defined by the public finance programming law*”. A deviation is considered significant if it is at least 0.5% of GDP for a given year or at least 0.25% of GDP per year on average for two consecutive years. If the High Council were to identify such a deviation, this would trigger the “*correction mechanism*” within the meaning of Chapter IV of the constitutional bylaw. The constitutional bylaw further specifies that the structural balance must be estimated with the potential growth path submitted in the report attached to the programming law.

The High Council refers in this opinion to the public finance programming law of 22 January 2018 for the years 2018 to 2022¹.

2- On the information submitted and the deadlines

The High Council received the referral file from the Government on 9 April 2020. This file contained the introductory article of the budget settlement bill for 2019 and in particular its summary table focusing on the actual and structural balances for all public administrations in 2019 (Appendix 1). The referral file was supplemented with detailed answers to a questionnaire previously addressed to the relevant administrations on 27 March 2020.

As permitted by article 18 of the constitutional bylaw, the High Council held hearings of the relevant administrations’ representatives – Treasury and budget departments –, following the three referral files simultaneously submitted about the draft Stability Program, the second amending budget bill and the budget settlement bill.

II- Remarks about the deviations from the programming law

1- Effective public and structural deficits for 2019

According to Insee, public deficit stood at €72.1 billion in 2019, or 3.0 GDP points, after 2.3 points in 2018 and 2.9 points in 2017. The increase in public deficit in 2019 is attributable to the one-time and temporary effect of the accumulation, over the same year, of tax credits for competitiveness and employment (CICE), tax credits on the payroll tax (CITS), the apprenticeship tax credit, and the cuts in social contributions which are replacing them. This effect was already taken into account in the programming law.

The structural budget balance is deduced from the general government balance by neutralizing the cyclical effects and the one-offs. The steps of its estimation are detailed in appendix 2.

The High Council notes that the potential growth path and the method for calculating the structural balance set out in the introductory article of the budget settlement bill for 2019 are both consistent with those of the January 2018 LPPF.

¹ Public finance programming law No 2018-32 of 22 January 2018 for 2018 to 2022

Table 1 : Deviation from the 2018-2022 programming law
(% of GDP)

	2017			2018			2019		
	LPFP (Jan. 2018)	PLR 2019 (April 2020)	Dev.*	LPFP (Jan. 2018)	PLR 2019 (April 2020)	Dev.*	LPFP (Jan. 2018)	PLR 2019 (April 2020)	Dev.*
Nominal balance (1)	- 2,9	- 2,9	0,0	- 2,8	- 2,3	0,5	- 2,9	- 3,0	- 0,1
Cyclical component (2)	- 0,6	- 0,3	0,3	- 0,4	0,0	0,3	- 0,1	0,0	0,1
One-offs (3)	- 0,1	- 0,2	-0,1	- 0,2	- 0,1	0,2	- 0,9	- 1,0	- 0,0
Structural balance (1)-(2)-(3)*	- 2,2	- 2,4	-0,2	- 2,1	- 2,2	0,0	- 1,9	- 2,0	- 0,1

* Note : Figures being rounded to the nearest tenth, components may not add to the total.

Sources : 2018 public finance programming law No 2018-32 and budget settlement bill for 2019

The deficit observed in 2019 (3.0 points of GDP) is greater by 0.1 point than the one provided for in the January 2018 programming law (2.9 GDP points). This difference mainly comes from a structural balance more degraded than expected (a bit more than 0.1 point), partially compensated by a cyclical component slightly more favorable in 2019 than anticipated at the time of the programming law (a little less than 0.1 point).

The cyclical component of the deficit, calculated from the output gap (see definitions in appendix 2), is accordingly zero in 2019 against -0.1 point in the programming law, activity having been more sustained than expected at the time of the programming law establishment for 2017 and, more marginally, 2018.

One-off operations weigh on the public balance up to -1.0 GDP point according to the Government (- €23.4 billion), i.e. an amount close to what was foreseen in the public finance programming law (-0.9 point of GDP). These one-offs mostly correspond to the accumulation, over 2019, of the CICE, the CITS, the apprenticeship tax and the cuts in social contributions replacing them (€ 22 billion in total). Other operations are mainly due to the change in the national accounts registration for broadcasting licenses' sales for € 1.1 billion² and more marginally to various tax disputes.

² A change took place in May 2018 in the rules for recording in the national accounts the transfer of broadcasting licenses. Their product is now smoothed over the operating life of the licenses (i.e. a revenue of €0.4 billion in 2019) whereas it was previously recorded at the time of frequency releases (i.e. €1.1 billion in 2019). The new accounting method leads to a deterioration in the balances of 2018 and 2019. The choice to classify the change in accounting as a one-off measure contributes these two years to the improvement of the structural balance presented by the Government.

Table 2 : One-off operations, in € billion

	2017 ³	2018	2019
Replacement of CICE / CITS / apprenticeship tax by cuts in social contributions	0.0	0.0	-22.0
3 % contribution on dividends	-8.1	-0.4	0.1
Broadcasting licenses	0.0	-1.0	-1.1
EU expenditures	0.0	0.0	0.0
Interests of litigation	-1.1	-0.1	-0.1
Surcharge corporate income tax	4.9	0.1	0.0
Tax litigation (OPCVM, De Ruyter, Stéria, CVAE)	-1.1	-0.4	-0.1
Effect on general government balance	-5.4	-1.8	-23.4

Source: Government

The structural deficit, which corresponds to the difference between the effective deficit and its cyclical component after deducting one-offs, is thus estimated at 2.0 points of GDP in 2019, i.e. 0.1 above the target set by the January 2018 programming law.

The data included in the budget settlement bill for 2019 deviate for 2017 to 2019 from the data in the budget bill for 2020 because of new Insee assessments of public accounts. These revisions result in the improvement of both effective and structural deficits (see box below).

Changes between the budget bill for 2020 and the budget settlement bill for 2019 of the general government balance and its breakdown from 2017 to 2019

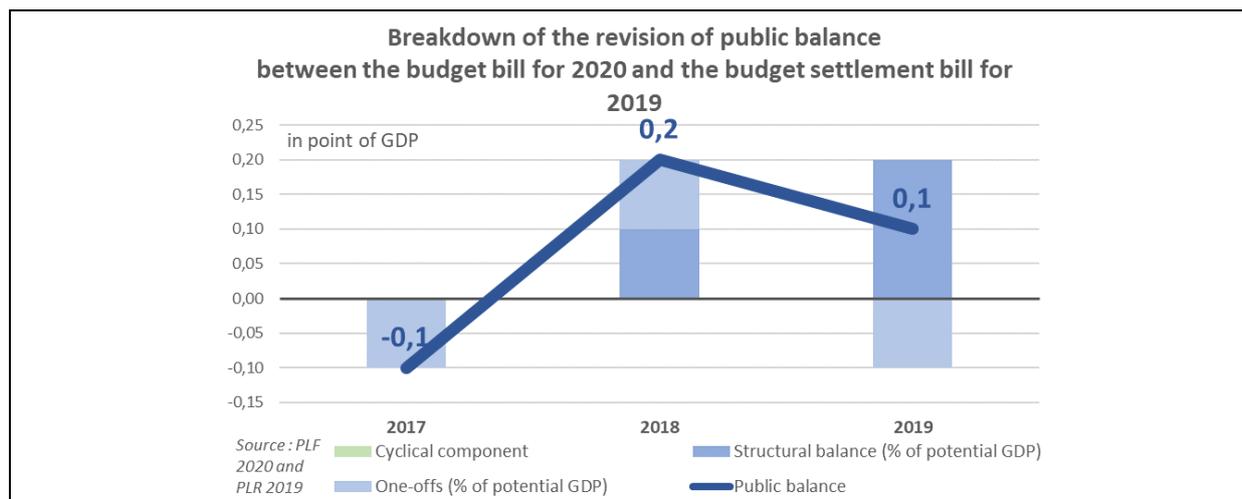
Insee released at the end of March 2020 its first assessment of public accounts for 2019 as well as new evaluations of public accounts for 2017 and 2018. Those data lead in particular to revise the profile of the effective and structural balances over the last years.

The public balance is therefore revised down 0.1 GDP point in 2017 and up 0.2 point in 2018 and is improved by 0.1 GDP point in 2019 compared to the budget bill forecast.

Since the GDP assessment remains the same at this point⁴, the cyclical balance has not been modified either and the effective balance's revisions are divided between the revisions of one-offs and the revisions of structural balance. The one-off measures taken into account by the Government have mostly been altered for 2017 and 2018 due to the accounting by Insee of almost all of the reimbursement of the 3 % tax in 2017 alone, while it used to be spread on both 2017 and 2018 financial years, and, for 2019, due to the inclusion of data now available on the impact of the transformation of CICE into cuts of contributions in 2019. One-offs thus degrade the balance down 0.1 point of GDP in 2017, improve it up equally in 2018 before reducing it again by 0.1 point in 2019 compared to the budget bill for 2020. The rest of the revisions about the effective balance is completely related to the structural balance, improved by 0.1 GDP point in 2018 and 0.2 point in 2019.

³ The High Council calls to mind that the Areva recapitalization in 2017 (€4.5 billion) is not among the one-time operations selected by the Government.

⁴ Given the change in calendar, the assessments of the cyclical balance, and then those of the resulting structural balance, are based on old estimates of GDP for 2017 and 2018 and the publication of detailed 4th quarter results by Insee on February 28, 2020 for 2019. These GDP estimates are subject to change, for 2019 alone, when the first estimate of the quarterly accounts for the first quarter of 2020 is published on April 30 and, for the years 2017 to 2019, with the annual accounts publication on May 29, 2020.



2- Deviation of the structural budget balance from the public finance programming law

Under the constitutional bylaw of December 17, 2012, the High Council gives an opinion on the consistency of the structural balance path observed in 2018 and 2019 with the latest programming law targets i.e. the one of January 2018 for the years 2018 to 2022. According to the same constitutional bylaw, a deviation of the structural deficit is deemed significant once it exceeds 0.5 point of GDP a year or 0.25 on average over two years.

The difference with the programming law path is zero in 2018 and stands at -0.1 GDP point in 2019. The average deviation over two years, given the approximation, is therefore of - 0.1 point per year on average. The calculated deviation is then below the trigger point of the correction mechanism, whether for 2019 alone or on average over 2018 and 2019.

The High Council notes that the structural deficits, estimated at 2.2 points of GDP for 2018 and 2.0 points of GDP for 2019, do not deviate markedly from those forecast in the Public Finance Programming Law (LFPF) of January 2018, where they were foreseen at 2.1 and 1.9 GDP points respectively, and that there is therefore no need to trigger the correction mechanism provided for in Article 23 of the Organic Law.

III- Remarks about the deviation of the structural budget balance and the structural effect

The High Council expresses the following observations about the structural adjustment and effort.

The estimated structural deficit declines from 2.4 points of GDP in 2017 to 2.2 points in 2018 and to 2.0 points in 2019, i.e. a variation of structural balance (also known as **structural adjustment**) of 0.3 point over two years. Over 2019 alone, the structural adjustment is of 0.1 point of GDP⁵.

⁵ Because of the rounding, there is a difference between the variation which results from the simple difference between 2.4 in 2017 and 2.0 in 2019 and the precise calculation made by the Government. The same situation applies for the variation between the 2018 and 2019 balances.

Table 3 : Breakdown of the change in structural budget balance (in GDP points) with the potential growth assumptions in the public finance programming law

	LPFP 2018-2022			PLR 2019			Difference (PLR - LPFP)		
	2017	2018	2019	2017 ⁶	2018	2019*	2017	2018	2019
Structural balance	-2.2	-2.1	-1.9	-2.4	-2.2	-2.0	-0.2	-0.0	-0.1
Change in structural balance	0.2	0.1	0.3	0.2	0.2	0.1	0.0	0.1	-0.2
Structural effort	0.0	0.2	0.3	0.0	0.1	-0.1	0.0	-0.1	-0.4
New tax measures	-0.1	-0.3	-0.1	0.0	-0.4	-0.4	0.1	-0.1	-0.3
Expenditure effort	0.0	0.4	0.4	-0.1	0.5	0.2	-0.1	0.1	-0.2
Treatment of tax credits	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Non discretionary component⁷	0.2	-0.1	0.0	0.2	0.1	0.2	0.0	0.2	0.2
Non-tax revenue	-0.2	-0.1	0.0	-0.1	0.0	-0.1	0.0	0.0	-0.1
Effects of compulsory levies elasticity	0.4	0.0	0.0	0.3	0.2	0.3	-0.1	0.2	0.3

Note : Figures being rounded to the nearest tenth, components may not add to the total.

*: Excluding France compétences, which represents a perimeter measure for 2019. If the creation of France compétences is taken into account, new tax measures would stand at -0.1 GDP point while the expenditure effort would be 0.3 point of GDP.

Sources : 2018 public finance programming law No 2018-32 and budget settlement bill for 2019

The structural effort: an indicator of discretionary measures that is not affected by compulsory levy elasticity effects

The elasticity of compulsory levies corresponds to the ratio of their growth rate to the rate of nominal GDP growth. The elasticity of compulsory levies to GDP fluctuates around its historical average, close to one. The calculation of the structural balance is based on a conventional assumption of unitary elasticity (see appendix 2). The difference between actual elasticity in a given year and unitary elasticity therefore has an impact on changes in the structural balance. This difference is therefore taken into account in the structural balance even though it is a non-discretionary component that is beyond the control of policy-makers and that is rather cyclical in nature — significant elasticity is generally seen in periods of steady growth.

An indicator such as structural effort is better able to reflect the discretionary measures decided by the public authorities and thus to reflect the fiscal stance. It can be broken down into an expenditure effort and a revenue effort. The structural effort in terms of revenue (defined as the amount of new tax measures), which is part of the structural effort calculation, is not affected by elasticity effects.

However, the structural expenditure effort partly traces developments that are not entirely in the hand of public authorities, such as the development of interest expense.

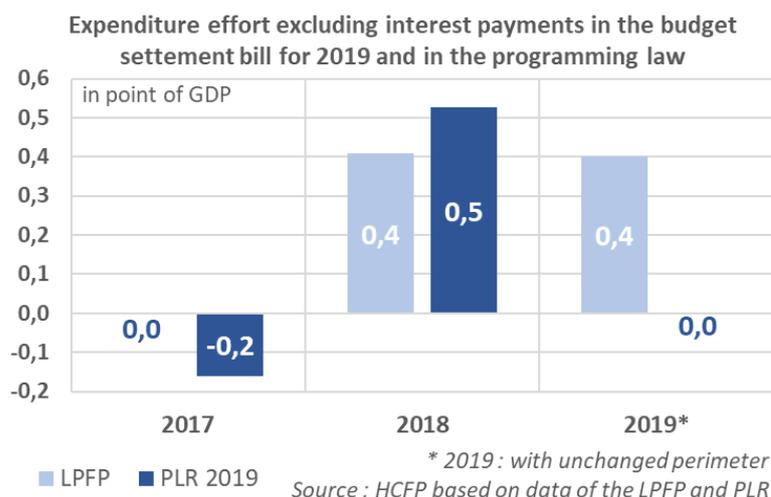
The **structural effort**, which aims to better reflect the action of public authorities (see box), is estimated at +0.1 point in 2018 and -0.1 point in 2019, while the programming law predicted +0.2 point in 2018 and +0.3 point in 2019 respectively. In 2019, the difference of -0.2 GDP point with the structural adjustment (0.1 point) mostly comes from a compulsory levies elasticity to the GDP (for +0.3 point) the effect of which is partially compensated by lower non-tax revenue (-0.1 point).

⁶ Excluding the impact of the recapitalization of Areva in 2017, the expenditure effort would be +0.1 in 2017 (against -0.1 point) and +0.3 point in 2018 (against +0.5), which would reduce structural adjustment and effort to zero in 2018.

⁷ See definition in appendix 3.

The expenditure effort is estimated at +0.2 GDP point in 2019 if the perimeter change due to the inclusion of *France compétences* in public administrations is neutralized (0.0 GDP point otherwise)⁸, below what was foreseen in the January 2018 programming law (+0.4 point).

Moreover, the interest expense contributed to improve by 0.3 GDP point the expenditure effort in 2019 compared to the programming law. Excluding interest expense, the structural expenditure effect would then be null in 2019 against 0.4 point in the public finance programming law.



New tax measures have an impact on the balance estimated at -0.4 point of GDP in 2019, i.e. a difference of -0.3 point to the programming law (-0.1 point). This difference mainly comes from measures taken during the parliamentary debate about the budget bill for 2019 following social movements at the end of 2018.

In 2019, on the basis of the potential growth assumed in the LFPF 2018-2022 and current GDP growth estimates, the structural deficit is reduced by 0.2 percentage points of GDP, slightly below the target of 0.3 percentage points of GDP set in the programming law.

The High Council notes that this improvement in the structural balance is due to factors (usually described as "non-discretionary") which are not the result of actions by the government, and in particular to a GDP elasticity of compulsory levies higher than one.

The structural effort, which neutralises this elasticity effect, is negative, amounting to -0.1 points of GDP. The measures to reduce compulsory levies implemented in 2019 (for 0.4 points of GDP) weigh more heavily than the effort to contain expenditure (which is 0.2 points of GDP). In addition, the reduction in interest payments resulting from the fall in interest rates contributed to 0.3 percentage points to the expenditure effort.

⁸ The structural expenditure effort is calculated as the increase of public expenditure in volume (excluding tax credits; 2.0 % -1.3 %) and the GDP potential growth (estimated at 1.25 % in volume in 2018 according to the 2018 LFPF), weighted by the share of public expenditure in the GDP. Public expenditure outside of tax credits accounting for 55 % of GDP, the expenditure effort is close to the half of the difference between the growth rate in volume of public expenditure and the one of potential GDP.

The High Council underlines that, while the reduction in the structural deficit in 2019 is close to the path set out in the LPFP, the structural balance (-2.0 points of GDP) remains far from the medium-term objective (-0.4 points of GDP) established in that text.

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

In Paris, the 24 April 2020.

For the High Council of public finance,
The Doyenne of Presidents of Chambers of the Court of Auditors,
First Acting President of the Court of Auditors,
Acting President of the High Council of Public Finance

Sophie MOATI

Appendix 1

Article liminaire du projet de loi de règlement pour 2019 Solde structurel et solde effectif de l'ensemble des administrations publiques de l'année 2019

① Le solde structurel et le solde effectif de l'ensemble des administrations publiques résultant de l'exécution de l'année 2019 s'établissent comme suit (en points de produit intérieur brut – PIB) :

②

	Exécution 2019	LFI pour 2019		LPFP 2018-2022	
		Soldes prévus	écart	Soldes prévus	écart
Solde structurel (1)	-2,0	-2,3	-0,3	-1,9	-0,1
Solde conjoncturel (2)	0,0	0,1	0,1	-0,1	0,1
Mesures ponctuelles et temporaires (3)	-1,0	-0,9	-0,1	-0,9	-0,1
Solde effectif (1+2+3)	-3,0	-3,2	-0,2	-2,9	-0,1

Exposé des motifs :

Le présent article met en œuvre la disposition prévue dans l'article 8 de la loi organique n° 2012-1403 du 17 décembre 2012 relative à la programmation et à la gouvernance des finances publiques, en comparant les soldes publics effectif, conjoncturel et structurel réalisés en 2019, fondés sur les conventions de la comptabilité nationale, à ceux prévus par la loi n° 2018-1317 du 28 décembre 2018 de finances pour 2019 (ci-après « LFI 2019 »), d'une part, et à ceux prévus par la loi n° 2018-32 du 22 janvier 2018 de programmation des finances publiques pour les années 2018 à 2022 (ci-après « LPFP 2018-2022 ») d'autre part. Le solde structurel réalisé pour 2019 est calculé sur la base des hypothèses de croissance potentielle retenues dans la LPFP 2018-2022, à savoir 1,25 % pour l'année 2019.

En 2019, le déficit public s'est établi à 3,0 % du PIB, après 2,3 % du PIB en 2018. Cette hausse est liée au coût temporaire de la bascule du CICE en allègement de charges, sans lequel le déficit aurait été de 2,1 % du PIB en 2019. L'ajustement structurel réalisé en 2019 s'établirait ainsi à +0,1 point de PIB.

Les dernières estimations de l'Insee concernant l'année 2018 conduisent à un solde structurel revu en hausse et quasiment en ligne avec celui sous-jacent à la LPFP 2018-2022 en 2018. En s'améliorant de 0,1 point de PIB en 2019, ce dernier reste proche de la trajectoire de la LPFP, avec un écart de solde structurel de seulement -0,1 point de PIB en 2019 par rapport à la programmation, malgré la mise en œuvre des mesures d'urgence décidée postérieurement à la LPFP. En cumul sur 2018-2019, l'écart à la programmation atteint 0,2 pt de PIB.

Les écarts éventuels entre le solde et la somme de ses composantes s'expliquent par l'arrondi au dixième des différentes valeurs.

Enfin, afin de donner plus de temps à l'évaluation parlementaire, le calendrier de dépôt du projet de loi de règlement sur 2019 est avancé. En conséquence, les données du présent article s'appuient s'agissant du PIB sur les comptes trimestriels de l'Insee, les comptes nationaux étant rendus publics au mois de mai.

Appendix 2

The methods for estimating the structural balance of public administrations

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 conditions. 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**.