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On the budget bill and the social security financing bill for the year 2021

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Main conclusions

As a result of the health crisis caused by the Covid-19 epidemic, uncertainties remain exceptionally high. They weaken the macroeconomic and public finance forecasting exercises and make it thorny for the High Council of Public Finance to assess the scenario of the draft budget bill for 2021.

In this context, the High Council considers that the level of activity that would be reached in 2021 in the Government's scenario (-2.7% compared to 2019), which is highly conditional on the development of the health situation, is plausible. It considers that the activity forecast for 2020 is cautious and, conversely, that the magnitude of the rebound expected in 2021 is voluntarist.

The High Council considers the Government's inflation forecast to be plausible, but somewhat low. The employment and wage bill projections for 2020 and 2021 are also plausible.

For 2020 and 2021, the High Council considers that compulsory levy forecasts are consistent with the macroeconomic scenario adopted and that public spending forecasts are likely. The nominal public balance forecast for 2020 and 2021 (-10.2 and -6.7 points of GDP respectively) is achievable, but this forecast is affected by the very strong uncertainties surrounding health conditions and macroeconomic developments.

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Under the terms of the Organic Law of December 17, 2012, the High Council must assess the consistency of the structural balance trajectory used in the draft budget bill for 2021 with that of the current programming law of January 22, 2018 for the years 2018 to 2022.

The High Council thus notes that the structural balance presented by the Government would deteriorate by 1.2 points of GDP between 2019 and 2021 and would reach -3.6 points of GDP in 2021. The structural balance projected for 2021 would therefore be 2.4 points lower than the one included in this programming law, representing a significant deviation as defined in the Organic Law of December 2012.

However, the High Council notes that the January 2018 programming law is now an outdated reference, both in terms of the macroeconomic scenario and the public finance scenario. In particular, the health crisis has affected the productive potential of the French economy. For informational purposes, the Government presents in the draft budget bill an estimation of potential GDP that has been sharply revised downwards compared with the one

of the programming law. Taking this new estimation into account would lead to a deterioration of more than one point of GDP of the structural balance in 2021.

Consequently, the High Council considers that a new public finance programming law, setting a new path for GDP and for potential GDP growth as well as for public finances, should be adopted as early as spring 2021.

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Finally, the High Council notes that the public debt ratio is projected to be 18 points of GDP above its pre-crisis level in 2021 and 22 points above the level forecast in the programming law. This sharp increase, resulting from a shock to economic activity that is as severe as it is unprecedented and from the fiscal response provided, comes after an almost uninterrupted decade of rising debt.

In a context of weakened potential growth making it more difficult to reduce the deficit, the medium-term sustainability of public debt is a key issue in France's financial strategy and calls for the utmost vigilance.