Haut Conseil des Finances Publiques

Opinion n° HCFP - 2020 - 5

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

21 September 2020

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 high 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 set out 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However, the High Council notes that the January 2018 programming law is now an outdated reference, both in terms of the macroeconomic scenario and the public finance one. 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.

Accordingly, 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.

1. The Government referred to the High Council on 17 September 2020, pursuant to article 14 of Organic Law No. 2012-1403 of 17 December 2012 on public finance programming and governance, macroeconomic forecasts and public finance information on which budget bill and social security financing bill for 2021 are based. The High Council adopted the following opinion after deliberation at its meeting on 21 September 2020.

Introductory remarks

1- On the opinion's scope

2. Under article 14 of the constitutional bylaw of 17 December 2012 on public finance planning and governance, the High Council gives an opinion on:

- The macroeconomic forecasts, which the budget and social security financing bills are based on;
- The consistency of the budget bill's introductory article with the multi-year targets for public finances set in the public finance programming law.

2- On the information submitted

3. On 17 September 2020, the High Council was seized by the Government of the macroeconomic framework and elements of public finance information on which the PLF and PLFSS for 2021 are based. This referral was accompanied by replies to the questionnaires sent by the High Council to the competent authorities.

3- On the methodology used by the High Council

4. To assess the realism of the macroeconomic forecasts and public finance content of the budget and social security financing bills of 2021, the High Council analysed the Government's assumptions as well as the economic mechanisms within the forecast period. It relied on the last available statistics and information provided by the Government about its economic policy measures.

5. The High Council also drew on the latest forecasts produced by a group of bodies comprising international and national institutions, including the Organisation for Economic Co-operation and Development (OECD), the European Central Bank (ECB), the Institut National de la Statistique et des Études Économiques (Insee), the Banque de France and short-term research institutes such as Rexecode and the Observatoire français des conjunctures économiques (OFCE).

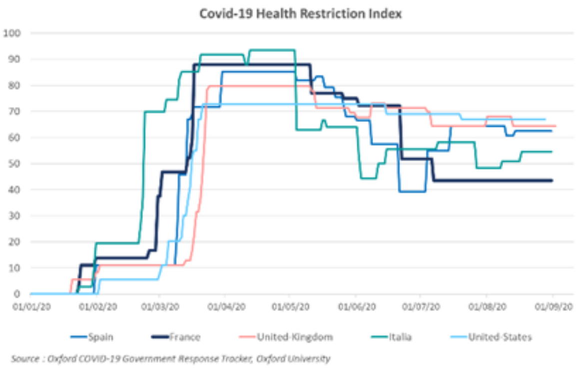
6. As permitted by article 18 of the constitutional bylaw, the High Council held hearings of the relevant administrations' representatives – Treasury, budget and social security departments. It also held hearings of experts and representatives of the Banque de France, the CEPII, Rexecode and the OFCE.

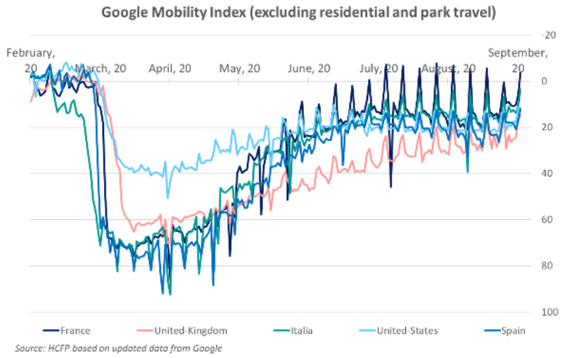
7. After a presentation of the global and European economic environment (I), the High Council makes its assessment of the macro-economic forecasts associated with the PLF and PLFSS for 2021 (II), and then on the public finance scenario (III).

I- A major economic shock in the first half of 2020 linked to the health crisis

1- A massive drop in the economic activity in the 2nd quarter

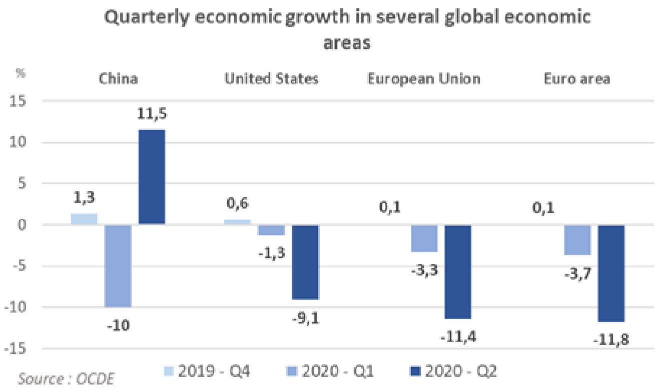
8. Putting in place health restrictions to curb the Covid-19 outbreak has limited activity in many economic sectors and led to a global economic recession of unprecedented magnitude since the Second World War.





9. As a result, GDP declined in most of the world's economies in the first quarter. The decline in GDP was even more pronounced in the second quarter, due to population containment measures that caused a double shock, on supply and demand, including the closure of non-essential activities and the impossibility of making certain consumption expenditures.

10. The fall in GDP presents a marked heterogeneity between countries depending on the duration and severity of health restrictions and the sectoral composition of their activity. The euro area countries most affected by the epidemic and which have imposed the most stringent health restrictions, such as France, Spain and Italy, have a GDP level in the 2nd quarter of 2020 compared to the 4th quarter of 2019 which is significantly lower than most other euro area and OECD[1] countries. Conversely, China, which faced the health crisis at the beginning of the 1st quarter, saw its GDP rebound in the second quarter.

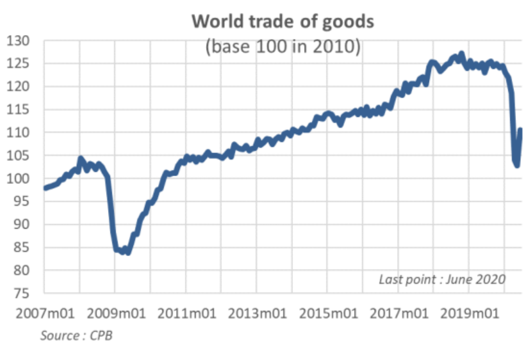


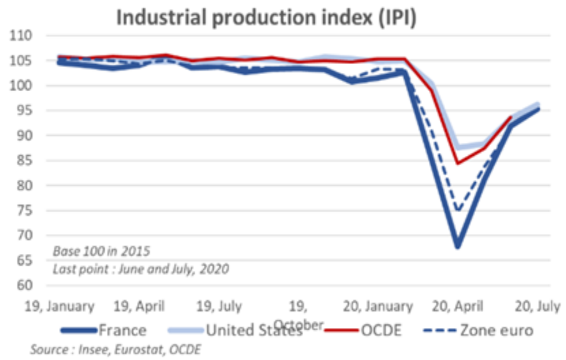
[1] Some of the differences between countries may, however stem from differences in the way quarterly accounts take into account the impact of the health crisis. This is particularly the case for non-market activity in volume terms, especially public services. Indeed, its estimation depends largely on conventions, the general principles of which are the same for all European countries, but which may differ in practice and thus affect the comparability of the GDP declines recorded in the first half of 2020.

11. In the same way, world trade has fallen sharply, but proportionally less in relation to activity than in recent crises. In particular, health restrictions have affected sectors of activity with little international trade.

2- In mid-2020, a strong but partial rebound in the global economy

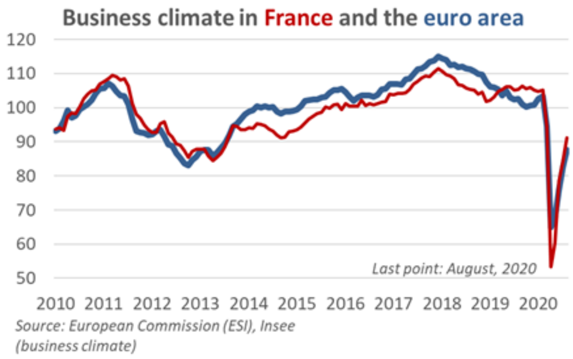
12. The gradual lifting of sanitary measures during the second quarter allowed a mechanical rebound in activity, which was accompanied by a recovery in world trade, visible as early as June.

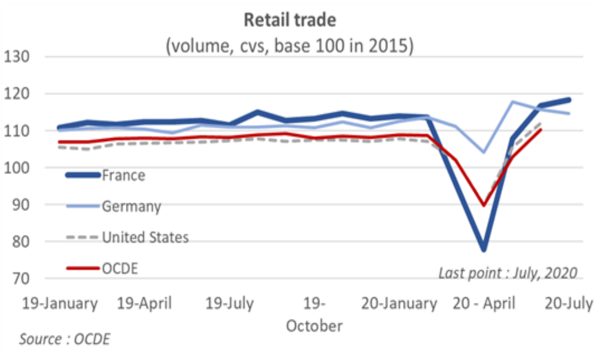




13. Nevertheless, the latest available data point to only a partial rebound in the world economy. Industrial production indices in the main OECD countries remain well below pre-crisis levels and in July, there was a slowdown in economic catch-up. Some service sectors (air transport, hotels, restaurants, etc.) continue to experience a more marked decline in activity.

14. Although household consumption of goods was dynamic at the beginning of the summer, with retail sales returning to their pre-crisis level, or even slightly beyond, as in Germany, restrictions continue to weigh on certain consumption of services (air transport, accommodation and catering). The overall savings accumulated during the months of confinement would not have started to be released in a context of persistent uncertainties about the evolution of the pandemic and the employment situation.





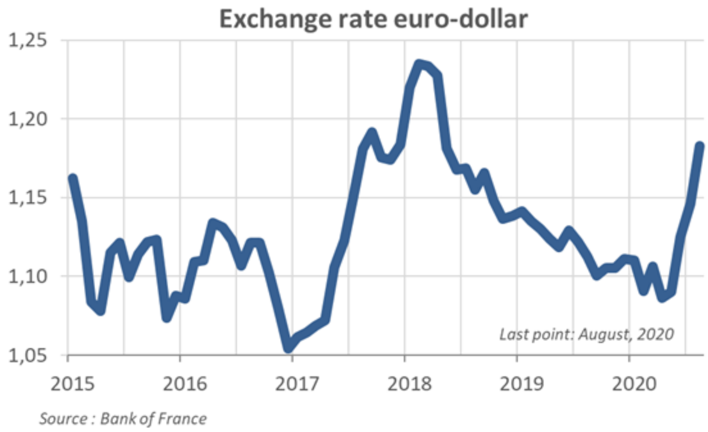
15. Business surveys and business climate indicators in August also point to an incomplete recovery in activity, which has not returned to pre-crisis levels.

16. Based on direct reports on activity, Insee estimates that French activity would still be 5% lower in August than at the end of 2019, this loss of activity compared to last year has significant sectoral disparities.

3- Significant risks to global and French economic activity

17. The prospects for growth in the global economy remain primarily subject to uncertainties surrounding changes in health conditions. In the short term, there is a risk that an increase in Covid-19 cases, particularly in Europe, will lead to further declines in people's mobility, whether they are the result of decisions made by governments[2] or by agents themselves. Increased health restrictions would disrupt some activities and could lead to a halt in the ongoing economic recovery or even a relapse. In the medium term, all the uncertainties about the possibility of developing a safe and effective vaccine and the speed of its eventual dispensation to the populations, which depend on the extent and speed of the return to normal activity and household demand, have not been lifted.

18. These uncertainties are compounded by the more usual, but more limited, risks of increased trade tensions, the conditions for the UK's withdrawal from the European Union (*Brexit*), the orientation of US fiscal policy, or the deepening of economic and financial difficulties in several emerging countries (notably Argentina, Turkey and India). A continuation of the rise of the euro, which has already appreciated by nearly 10% against the dollar since the beginning of 2020, could also weaken the recovery of the Eurozone.



19. Conversely, the fiscal stimulus plans of France's trading partners will contribute to the recovery of activity through an increase in external demand. As an example, Germany announced in June a €130 billion recovery plan aimed in particular at supporting consumption, while Italy presented in September a €209 billion stimulus package.

20. These national schemes are linked to the measures announced during the summer by the European Union. In particular, the *Next Generation EU*[3] programme, mobilizing a total of €750 billion to be allocated to member countries in the form of grants and loans, should support European and French activity. The European Central Bank, whose monetary policy was already very accommodating before the crisis, has been implementing a package of measures to provide increased monetary support since March (asset purchase programmes, provision of liquidity to banks through targeted long-term refinancing operations, etc.).

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[2] Israel has therefore decided to reimpose a 3-week national containment as of September 18, and several European countries (notably the United Kingdom and Spain) have already imposed new health restrictions.

[3] This financial instrument proposed by the European Commission is currently under discussion in the European Parliament. It will then have to be approved by the Member States before being implemented.

II- Observations on Macroeconomic Forecasts for 2020 and 2021

1- The Government's scenario

According to the Government's referral file[4], *"GDP would fall by 10% in 2020 and then rebound by +8% in 2021. This would put the activity in 2021 approximately 3% below its 2019 level. […] A fairly rapid rebound in activity in 2021, […] would put the economy on a path to return activity to its 2019 level by 2022.*

This scenario takes into account a resurgence of the epidemic in the fall of 2020, which would be accompanied by continued health restriction measures taken since August and prudent consumer behaviour. After a relatively calm summer on the epidemic front, which allowed a rapid resumption of activity, the return of health concerns in the autumn would affect consumption, which would return to a level close to that of early summer 2020 and would result in a 4th quarter more deteriorated than the 3rd. These slowdowns in activity would gradually fade at the beginning of 2021. Over the whole of 2021, in the absence of a vaccine or treatment, consumer behaviour would remain cautious and activity in certain leisure sectors would remain penalized.

Household consumption is expected to fall sharply over the whole of 2020 (-8%) but to remain supported by a relatively preserved aggregate income from the effects of the crisis. In 2021, compared to the year 2020 which was encumbered by 8 weeks of confinement, and thanks to a preserved purchasing power, consumption would rebound vigorously to +6.2%. […]

After having already decreased in 2019 (+1.1% after +1.8% in 2018), total inflation would decrease in 2020, to +0.5%, in particular because of the past decline in oil prices. Total inflation is expected to rise in 2021 but remain subdued at +0.7%, assuming oil price stability in the forecast.

In the Eurozone, where the epidemic has been particularly severe, activity is expected to decline in 2020 on an unprecedented scale. In 2021, despite significant fiscal and monetary measures, activity would be significantly below its 2019 level. With the exception of China, which is expected to rebound rapidly, the outlook for the other major emerging countries remains deteriorating. In this context, global demand for France is expected to fall sharply in 2020, to -11.0% (after +1.1% in 2019), and then to rebound only partially in 2021, to +6.5%."

2- The High Council's Assessment

21. The High Council will assess successively the assumptions of activity growth, inflation, employment and private sector payroll.

a) Economic growth

22. For 2020, the Government expects GDP to fall by 10% in volume terms, compared to an 11% decrease foreseen in the Third Amending Finance Bill (PLFR) for 2020, a forecast that the High Council considered prudent in its opinion on this PLFR[5]. For 2021, the Government expects activity to rebound by 8%. On average over 2021, GDP would still be 2.7% below its 2019 level.

23. Over the two years as a whole, the Government's forecasts are close to the other forecasts available but with slightly weaker growth in 2020 and slightly stronger growth in 2021.

[4] See annex 1.

[5] Opinion n° HCFP-2020-4 relating to the third PLFR.

24. The Government, like the main forecasting bodies, formulate their macroeconomic scenarios under the strong assumption of an improvement in the health situation, in France as in the rest of the euro area (cf. box). Moreover, the PLF for 2021 also assumes that the phase-in of the stimulus package (1.5 percentage points of GDP) has a significant effect on growth in 2021 (1.1 percentage points of GDP according to the Government).

GDP growth forecasts for 2020-2021

	France			**Euro Area**		
	2020	**2021**	**2021/2019**	**2020**	**2021**	**2021/2019**
OCDE (September 2020)	-9,6	6,8	-3,5	-7,9	6,1	-2,3
Banque de France / ECB (September 2019)	-8,7	7,4	-1,9	-8,0	5,0	-3,4
Rexecode (September 2019)	-9,0	7,1	-2,5	-7,5	5,4	-2,5
Consensus Forecasts (September 2019)	-9,6	7,2	-3,3	-7,9	5,7	-2,6
Government (PLF 2020 - September 2019)	**-10,0**	**8,0**	**-2,7**	**-7,9**	**6,3**	**-2,1**

Source : HCFP based on forecasts from international organisations and business and consumer organisations. The columns '2021/2019' present for each forecast the level of GDP reached in 2021 compared to that observed in 2019.

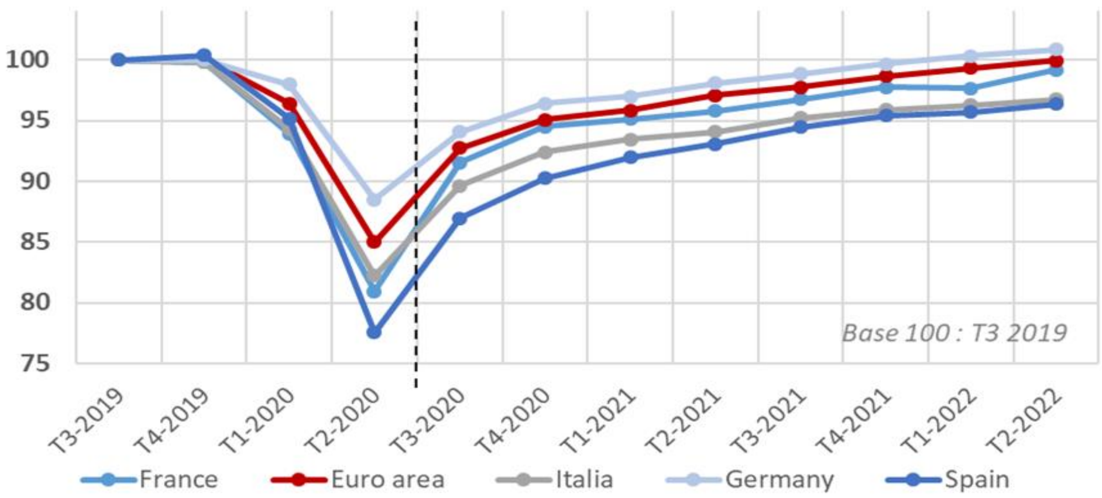
A rebound in activity with a similar profile in euro area countries

The drop in activity due to the impact of health restrictions has the same profile in most euro area economies: GDP fell sharply in the first half of 2020 and activity in the zone as a whole was almost 15% below its pre-crisis level at the end of the second quarter.

The expected rebound in activity also has a similar profile across euro area countries. According to the Consensus Forecasts quarterly forecasts, growth will be strong in the second half of 2020. At the beginning of 2021, activity would thus return to the euro area less than 5% below its pre-crisis level. The recovery would then continue at a slower pace in the individual countries.

In these forecasts, however, the extent of catch-up shows a certain heterogeneity between the euro area countries. While Germany would return to its pre-crisis level of activity at the beginning of 2022, other countries, including France, would still be below this horizon.

Consensus Forecasts GDP Forecast



Source : Consensus Forecasts (September, 2020)

25. The Government assumes that households will continue to build up precautionary savings to the detriment of consumption, in relation to the persistence of uncertainties about the health situation and labour market developments. Their saving rate would thus remain above the level observed in recent years in 2021. This additional savings would therefore be added to the €60 billion or more of constrained savings accumulated in the first half of the year[6]. The High Council notes that this assumption is prudent.

26. On the other hand, the contribution of foreign trade to growth could be slightly lower than the government's forecast for 2021. The PLF for 2021 effectively assumes a substantial, albeit partial, catch-up of exports in certain sectors directly affected by the health crisis (transport equipment and tourism). The persistence of uncertainty about the health situation in France's trading partners and potential lasting changes in behavior could limit this catch-up.

27. Moreover, the scenario assumes that business investment would return in 2021 to its pre-crisis level, under the effect of the rebound in activity, a return of the margin rate to a level slightly higher than the average observed between 2015 and 2018 thanks to the measures

[6] Measured as the increase in household savings in the first half of 2020 compared to the 2019 average, as shown in the quarterly accounts of the Insee.

decided in the context of the recovery plan, This includes the reduction of production taxes and sectoral support plans for conversion and innovation. There are several factors that could hold back the recovery of productive investment: the balance sheet structure of companies is, with the increase of the indebtedness, weakened and the prospects of outlets could be poor in some sectors durably affected by the crisis. The High Council therefore considers that the investment forecast is a little too high.

28. Finally, the scenario presupposes a strong rebound in public investment, which reflects in particular that of local public investment, which suffered in 2020 from the shutdown of many construction sites during containment, but would also benefit from significant support from the recovery plan. Given the delays inherent in the investigation of investment cases and the high level of utilization of production capacity in the building sector, the effect of the recovery plan on public investment (€6.6 billion expected in 2020) may be a little less strong in 2021 than expected by the Government.

29. **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.**

b) The rise in consumer prices index

30. According to the Government, the increase in the consumer price index would be 0.5% on average annually in 2020, after 1.1% in 2019, and then 0.7% in 2021. Core inflation[7] is projected to decline in 2020 and stabilize in 2021.

Consumer Price Index (CPI)

Changes in %	Government forecasts (annual average)		
	2019	**2020**	**2021**
Overall index	1,1	0,5	0,7
"Underlying" Index	0,8	0,5	0,5

Source : Government forecasts

31. In 2020, core inflation fell sharply during the lockdown, as a result of lower prices for many goods and services whose demand had fallen, but is again significantly positive since the end of containment[8]. Stabilization, at a very low level, of core inflation in 2021 means that the price increases in recent months are only one-off and that the gradual return to normal demand in the course of 2021 will not clash with reduced production capacity.

32. **Overall, the Government's inflation forecast is plausible, but somewhat low.**

c) Employment and private wage bill

33. Private sector payroll is an important determinant of government revenues. In the Government's forecast, it would fall sharply in 2020 (-6.9%) then rebound in 2021 (+6.5%).

[7] Increase in prices excluding volatile products and administered tariffs. By removing these products, core inflation better captures underlying trends in total inflation and is the only component of total inflation that can be predicted.
[8] The underlying inflation gain, that is to say the figure that would be reached over the whole of 2020 if the prices constituting the underlying index were broadly stable over the remainder of the year, reached 0.6% at the end of August, pointing to upside risks to the forecast of core inflation limited to 0.5% in 2020 and 2021.

Non-agricultural market sector wage bill (% change)

	2019	2020	2021
Number of market employees	1,5	-2,3	-0,8
Average income	1,9	-5,7	7,3
Wage bill	3,5	-6,9	6,5

Source: Government forecasts

34. These bumpy developments primarily reflect those of the per capita wage (-5.7% in 2020, then +7.3% in 2021). In fact, the partial activity scheme made it possible to keep many employees in employment in 2020, but part of their remuneration was taken over by the State and the Unédic so that the average wage paid by companies was significantly reduced. After neutralizing this effect, the Government's forecast assumes a growth of nearly 1 ½ % per year in the average wage per head, slightly lower than in previous years (1.8% on average).

35. This wage slowdown appears moderate in the face of the extent of the deterioration of the labour market, although it may be partly justified by the weakening of the link between unemployment and wages in recent years.

36. Employment in the non-agricultural market branches is projected to decline by 2.3% in 2020 on average over the year and by 0.8% in 2021. On average, these developments cover significantly different infra-annual trends: year-on-year, employment would fall more sharply in 2020 (-4.3%, or 750,000 jobs), before rebounding in 2021 (+1.9%, or +320,000 jobs).

37. The High Council notes that the usual forecasting methods are weakened by the health crisis and the introduction of new employment support measures, which have altered the previous link between employment and activity and therefore call for new methods of analysis (see box below). In particular, given the impact that the ongoing deterioration in the health situation could have on labour-intensive sectors, the Government's employment forecast for 2020 appears high.

38. In 2021, the Government scenario assumes a further decline in salaried market employment on an annual average (-0.8%), resulting in the return of productivity per capita to its 2019 level. However, productivity could be lower and therefore, with the Government's growth scenario, employment could be slightly higher. Productivity should suffer as a result of health measures taken by companies to protect their employees. It should also be affected by long-term partial activity.

The usual method of forecasting employment is weakened by the exceptional situation

The employment of the market branches is an important determinant of the trajectory of public finances, in particular because of its impact on social security contributions and income tax. It is thus the subject of particular attention by the High Council in its assessment of the bills submitted to it by the Government.

The expertise of the Government's forecast on this important variable is nevertheless made more difficult by the health crisis of 2020. Beyond the uncertainties of the activity itself, the tools economists usually use to predict employment are made unsuitable by several factors : the unprecedented scale of the fall in activity in the first half of the year as well as the rebound that followed; the impact of health measures on business productivity; the very high heterogeneity of sectoral developments that forbids ignoring the composition of the activity, while the latter plays a much weaker role in normal periods; the implementation of measures to accompany businesses and support activity financed by the public sector[9].

39. **The High Council considers the employment and payroll forecast for 2020 and 2021 plausible.**

III- Remarks on public finances forecasts for 2020 and 2021

40. The High Council assesses the risks relating to the public balance and then examines the consistency of the introductory article of the draft budget bill with the multi-year structural balance[10] targets.

1- The Government's scenario

According to the Government's referral file, *"The budget bill for 2021 (PLF 2021) and the social security financing bill for 2021 (PLFSS 2021) forecast a nominal balance of -10.2% of GDP in 2020 and -6.7% of GDP in 2021. […]*

The structural balance would recover in 2020 (level of -1.2 points of GDP, after -2.2 points in 2019), before deteriorating in 2021 (level of -3.6 points). […]

The rate of compulsory levies, after reaching 44.1% of GDP in 2019, would rise to 44.8% in 2020 and then fall sharply to 43.8% in 2021. These evolutions are to be put in direct relation with the effects of the crisis, which will certainly lead to a marked drop in compulsory levies in 2020, but to a lesser extent than activity, leading to an increase in the ratio; the rebound in activity in 2021 will be reflected symmetrically by a lesser rebound in revenue and therefore a decrease in the ratio. […]

The public expenditure ratio would rise sharply in 2020, supported by the measures adopted in response to the epidemic and because of the denominator effect linked to the decline in GDP. It would be 62.8% of GDP, excluding tax credits. Public spending would thus grow by 6.5% in value in 2020, after 2.2% in 2019 (restated for the integration of France Compétences in scope measurement). In 2021, this growth would be sharply reduced with the withdrawal of emergency measures, partly offset by those of the recovery plan: the increase in public spending would be reduced to 1.0% in value. Combined with the rebound in GDP, this slowdown would lead to a sharp drop in the public spending ratio to 58.5%, after the peak in 2020. This level would be higher than in 2019 (54.0% of GDP)."

2- Assessment of risks to the public balance

41. The Government's scenario predicts that the effective balance will go from -10.2 points of GDP in 2020 (compared with -11.4 points in the 3rd PLFR) to -6.7 points of GDP in 2021.

42. The PLF for 2021 revises the public balance forecast for 2020 to take into account the revision of the macroeconomic assumptions and the new measures to support activity decided upon as part of the emergency and recovery plans. The High Council has endeavoured to identify the main risks affecting the revenue and expenditure forecasts for 2020 and 2021 on the basis of the information available to it.

[9] A study note from the Permanent Secretariat of the High Council shows how all these factors can be taken into account in forecasting employment. It is available on the High Council's website (www.hcfp.fr).
[10] The structural balance is defined as the public balance adjusted for the direct effects of the economic cycle and temporary measures (see Annex 3).

a) Receipts

43. In 2020, compulsory levies would fall by 6.8% compared with 2019, i.e. a drop of €73 billion. The PLF for 2021 thus forecasts a smaller decline in compulsory levies than estimated in the third PLFR (-9.5%, that is. a fall of nearly €102 billion).

44. The revision of more than €28 billion for 2020 is mainly due to a less marked decline than expected by the 3rd PLFR in the return on corporate income tax (+€14 billion), VAT (+€8 billion), income tax (+€3 billion) and transfer duties for valuable consideration (+€3 billion).

45. This revision results from the inclusion of better-than-expected tax revenue data in the third PLFR. The fall in activity in the spring was indeed slightly less than estimated in the third PLFR. Moreover, the spontaneous evolution of compulsory levies (i.e., measured at constant legislation) was less strong than that of activity, so that the elasticity of copulsory levies to growth[11] is now forecast at 0.8 in 2020, compared with 1.0 according to the third LFRP. This revision is consistent with the latest information available on receipts of compulsory levies for the first eight months of the year.

46. For 2021, in the Government's scenario, compulsory levies would rebound by 5.8% compared to 2020, at a lower rate than that of economic activity (+8.3% increase in GDP in value terms).

47. The new measures would represent €- 7.4 billion and mainly reflect the reduction in production taxes (- €10 billion in 2021[12]) and the continued elimination of the housing tax (€-2.4 billion) and the reduction in corporate income tax (€-3.7 billion). These reductions would be partially offset by the repercussions in 2021 of temporary exemptions from contributions for companies in the sectors most affected by the health crisis (€5.2 billion in 2020)[13]. The Government's scenario assumes that these exemptions will not be extended in 2021.

48. Consistent with the scenario adopted for 2020, the Government's scenario assumes that the spontaneous evolution of compulsory levies would also be lower than that of GDP in 2021 (elasticity of 0.8). Thus, over the two years 2020 and 2021 as a whole, the spontaneous growth of compulsory levies would be equivalent to that of GDP and thus, beyond the strong jolts in 2020 and 2021 caused by the profile of activity, close to long-term behavior. However, the exact amount of European funding, which is supposed to improve the public deficit by €17.3 billion in 2021 in the government's forecast, remains uncertain.

49. **For 2020 and 2021, the High Council considers that the forecasts for compulsory levies are consistent with the macroeconomic scenario adopted.**

[11] The elasticity of a public revenue to its base measures the progression of this revenue, in %, when its base evolves by 1%, for a given legislation. If a 1% drop in the tax base reduces public revenue by 2% (respectively 0.5%), the elasticity will thus be 2 (respectively 0.5).

[12] This €10bn reduction in the corporate value added tax (CVAE) and property taxes for industrial establishments would be partially offset by the mechanical increase in the yield on corporate income tax for €1.4bn. The net decrease in compulsory levies would thus amount to €8.6 billion.

[13] This reduction in social security contributions has been recorded as new measures that will be reduced in 2020.

b) Public expenditure

50. In 2020 and at constant field, the overall increase in expenditure excluding tax credits presented in the PLF for 2021 is 6.5 percent in value, or 4.7 percent in volume (deflated by GDP prices).

51. Compared to the 3rd PLFR, the 2021 PLF for 2020 forecasts a net increase in expenditures of approximately €2 billion, resulting from additional expenditures under the emergency and support plan (+ €7 billion) partially offset by lower local expenditures.

52. While the 3rd PLFR provided for health expenditures exceeding by €8 billion the national health insurance target (Ondam) set for 2020 by the initial finance law, the excess is revised upwards by the PLFSS for 2021 to €10.1 billion. This latest assessment is still surrounded by considerable uncertainty, particularly concerning the final cost of the test campaigns and the extent of the rebound in urban care after the sharp drop recorded during the containment period. Given the evolution of the health situation at the beginning of September 2020, a further upward revision of expenditure on the Ondam field is possible.

53. Conversely, the PLF forecast for 2021 foresees a decrease in local public investment in 2020 (€-4.9 billion in 2020 compared to 2019) more marked than in the 3rd PLFR (€-2.4 billion).

54. Finally, in view of their consumption during the summer, the expenses associated with the emergency and support plan, such as those related to the partial activity[14], could prove to be slightly lower than budgeted, provided that the health situation remains under control.

Public expenditure growth in the 2021 budget bill
(excluding tax credit, constant field[15])

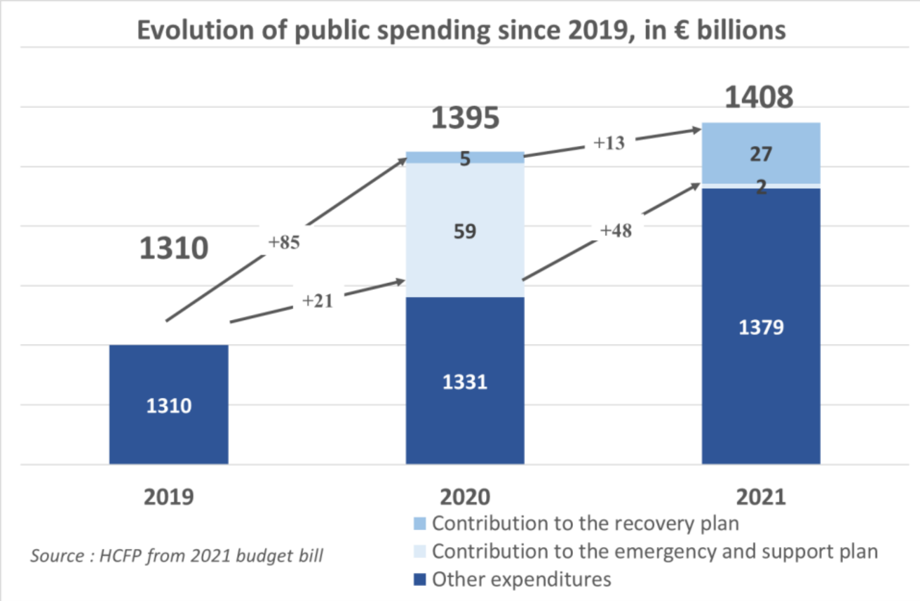
In %	**2019**	**2020**	**2021**
Public expenditure in value (excluding tax credits)	2.7	6.5	1.0
Of which contribution of the emergency and support plan	*0.0*	*4.6*	*-4.2*
Of which contribution of the recovery plan	*0.0*	*0,2*	*1.8*
Of which other expenditures	*2.7*	*1.8*	*3.3*
GDP deflator	1.2	1.8	0.3
Public expenditure in volume (GDP deflator)	1.5	4.7	0.7

Source: High Council of public finance based on data from ministry of economics and finances

LFR3 expenditures included in the recovery plan are included in the line "Emergency and Support Plan" but not in the line "Recovery Plan".

55. In 2021, at constant field, public spending would increase by 1.0 percent in value, or 0.7 percent in volume (deflated by GDP prices). While, according to the government, emergency and business support spending would be very low (€2 billion), spending related to the recovery plan would amount to €27 billion in national accounts[16].

[14] The Court of Auditors, in its June 2020 report on the situation and outlook for public finances, indicated that "*the cost of the system could turn out to be slightly less than that provided for in PLFR 3*".
[15] Boundary changes relate in particular to the expenditure of the France compétences establishment and the rebudgeting of tax credits in the areas of apprenticeship and energy transition.
[16] Expenditure measures would amount to €34bn on a cash accounting, with an additional €10bn in production tax cuts.



Note : expenditures excluding tax credits, at constant field.

56. The PLF for 2021 brings State expenditure to €489 billion[17] at current field, a slight decrease of €18 billion compared to 2020 (after an increase of €67 billion between 2019 and 2020[18]). The repercussions of the emergency and support plan (- €51 billion) would be partially offset by the increase in the recovery plan (+ €22 billion), the increase in budgetary appropriations (+ €3 billion), the increase in financial transfers to the European Union[19] (+ €3.5 billion) and local authorities (+ €3 billion), as well as State guarantees on bank loans to companies (+ €1.3 billion).

57. Social security spending is expected to slow down in 2021 (+1.5% at current field), after rising sharply in 2020 (+5.7%).

58. The national health insurance expenditure target (Ondam), up 3.5% in 2021 after a 7.6% increase in expenditure in this field in 2020, includes a forecast expenditure of €4.3 billion to deal with the health crisis, in particular to continue testing for Covid-19, to make masks available to certain categories of people and to undertake a possible vaccination campaign.

59. In addition, the July 2020 agreements known as the Health Segur agreements should result in additional expenditures of €7.3 billion in 2021, including salary increases (€5.75 billion, within Ondam) and an investment program (approximately €1.6 billion), for a total contribution to Ondam's growth of 3.5 points in 2021.

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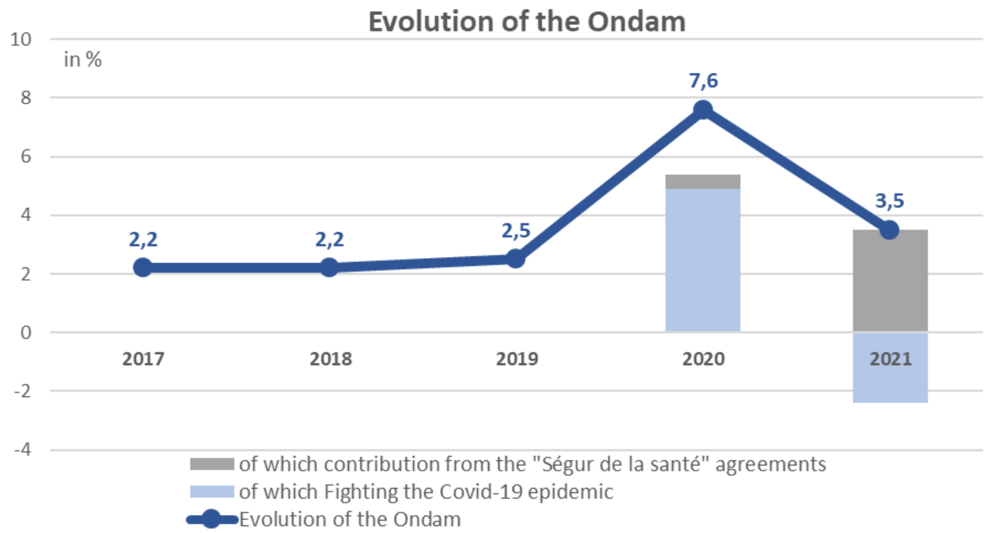
[17] Field of the total government expenditure target (Odete).
[18] More precisely between the execution of 2019 and the LFR n°3 of 2020.
[19] The levy on European Union revenue would increase by €3.5 billion between 2020 and 2021, to reach €26.9 billion, due to the withdrawal of the United Kingdom from the Union (+€2.1 billion), the change in the rules for calculating national contributions, which would represent an increase in expenditure of €0.7 billion, and the consequences of the recession on the European Union's traditional own resources, which would amount to €0.7 billion.



Source : Ministry for Solidarity and Health

60. Expenditure by local governments, which are mainly made up of local authorities, is expected to grow sharply in 2021 (+3.4% at constant field) under the effect of the rebound in local investment (+7.9% in 2021, after -9.2% in 2020), which seems plausible given a financial situation that is relatively unaffected by the negative impact of lockdown.

61. Across all public administrations, some expenditures may turn out to be lower than expected by the PLF for 2021. In particular, the implementation of investments under the stimulus package could be slower than expected, resulting in a carryover of spending to 2022 and beyond. In addition, interest expense[20] could be slightly lower than in the PLF forecast for 2021.

62. Conversely, health care spending could be higher than expected. The PLF for 2021 includes a budget of €4.3 billion to address the health crisis in 2021 (compared to estimated spending of €10.1 billion for 2020), which could be insufficient. For example, the expenses associated with a possible vaccination campaign could turn out to be much higher than those planned in the PLFSS 2021 (€1.5 billion).

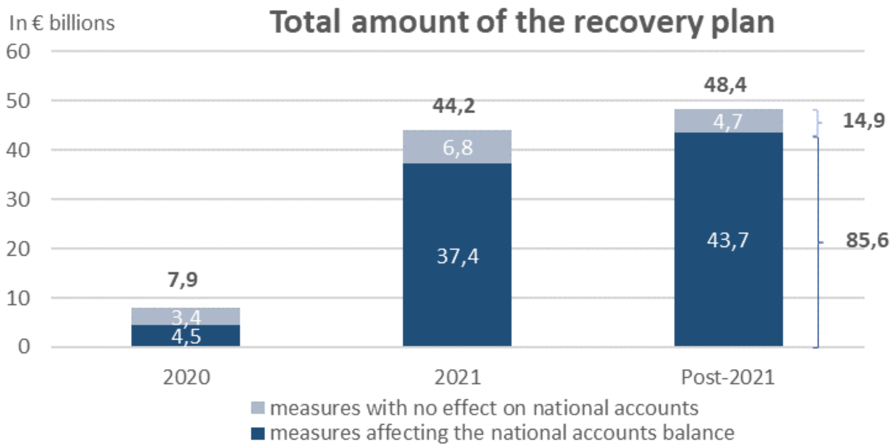
63. Overall, there are both upward and downward risks to general government spending.

64. **For 2020 and 2021, therefore, the High Council considers that public expenditure forecasts are likely.**

c) Public balance

65. The government's scenario forecasts that the effective balance will fall from -10.2 GDP points in 2020 to -6.7 GDP points in 2021. A slower recovery in activity would mechanically lead to an increase in the public deficit. Conversely, the deficit could be reduced by a slower than expected implementation of the stimulus plan, which would result in a postponement of part of the deficit to later years.

[20] The 10-year interest rate assumptions used in the Government's scenario (0.20% at the end of 2020 and 0.70% at the end of 2021) are higher than the average forecast of the economists surveyed by the "Consensus Forecasts" in September 2020 (0.0% by September 2021).



Source : 2021 budget bill

66. Despite the expected sharp rebound in activity in 2021, the public balance would remain in total significantly worse than its pre-crisis level (-3.0%) and above the excessive deficit procedure trigger criterion. However, the triggering of the opt-out clause of the Stability and Growth Pact, announced on March 23rd, 2020 (see Appendix 5), allows member states to deviate from the normally applicable fiscal requirements, due to "unusual circumstances".

67. **The High Council considers that the nominal public balance forecast for 2020 and 2021 (-10.2 and -6.7 GDP points respectively) is achievable, but this forecast is affected by the very high uncertainties surrounding health conditions and macroeconomic developments.**

3- Assessment of consistency with the multi-year structural balance orientations

68. Under the terms of the organic Law of December 17 2012, the High Council must rule on the consistency of the structural balance trajectory used in the PLF for 2021 with that of the current programming law of January 22nd, 2018 for the years 2018 to 2022. According to the same organic law, a structural balance deviation is considered significant when it represents at least 0.5 percent of GDP in a given year or at least 0.25 percent of GDP per year on average over two consecutive years.

69. The High Council must therefore refer to the potential growth as established by the programming law in force. The structural balance is thus calculated in the PLF for 2021 with the same potential growth assumption (1.25% in 2019 and 2020, 1.30% in 2021) as in the programming law.

Breakdown of the public balance presented by the Government

In GDP points	**Budget bill for 2021 (sept. 2020)**			*Programming law (janvier 2018)*		
	2019	**2020**	**2021**	***2019***	***2020***	***2021***
Nominal balance	**-3,0**	**-10,2**	**-6,7**	***-2,9***	***-1,5***	***-0,9***
Cyclical component	0,2	-6,5	-2,8	*-0,1*	*0,1*	*0,3*
One-off measures	-1,0	-2,6	-0,2	*-0,9*	*0,0*	*0,0*
Structural balance	**-2,2**	**-1,2**	**-3,6**	*-1,9*	*-1,6*	*-1,2*
Deviation from the programming law	***-0,3***	***+0,4***	***-2,4***			

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

Source : 2021 budget bill and 2018 programming law.

70. With these potential GDP data, the structural balance would deteriorate between 2019 and 2021 by 1.2 points to -3.6 points of GDP[21]. The structural balance in 2021 would deviate significantly from the objective set out in the January 2018 program law: -3.6 points in PLF versus -1.2 points in LPFP (see Appendix 4). The difference in the structural balance forecast for 2021 compared with the January 2018 programming act, which is still in force today, amounts to -2.4 points of GDP, and is therefore significant within the meaning of the 2012 organic law.

71. The High Council notes, however, that the January 2018 programming law is now an outdated benchmark, both in terms of the macroeconomic scenario and public finances. In particular, the calculation of the structural balance on which the High Council is called upon to give its opinion is still based on the estimate of potential GDP used in this law adopted two years before the crisis.

72. However, the scale of the shock to the French economy should have a lasting impact on the productive apparatus. The impact of the crisis on investment, and therefore on the tangible and intangible capital that contributes to the economy's production capacity, as well as on human capital, should in fact reduce potential GDP relative to its pre-crisis trend, and therefore the French economy's capacity to rebound. In the documents provided to the High Council, the Government already considers[22] that the level of potential GDP should be revised downwards by 1.5 points in 2020 and then by more than 2.0 points in 2021 compared to the assumptions of the LPFP.

73. The downward revision of potential growth would lead, all other things being equal, to a reduction in the cyclical component by more than 1 point in 2021 and a corresponding increase

[21] The High Council of Public Finance noted in its opinion no. HCFP-2020-1, at the request of the government, that the conditions referred to in Article 3 of the Stability Treaty were met for triggering the cause of "exceptional circumstances". Moreover, the agreements adopted by the government largely deprived the calculation of the structural balance for 2020 of any significance (see box). Consequently, the structural balance is not, exceptionally, the subject of analysis in this opinion.

[22] This estimate of potential growth should be revised in the light of the analytical work that will be carried out at a later date, particularly with a view to a new programming law.

in the structural deficit as estimated with the potential growth hypothesis of the LPFP (-4.8 points of GDP instead of -3.6 points of GDP).

Decomposition of the public balance with the government's updated potential GDP assumption

In points of GDP	**2019**	**2020**	**2021**
Nominal balance	**-3,0**	**-10,2**	**-6,7**
Cyclical component	0,2	-5,7	-1,6
One-off measures	-1,0	-2,7	-0,2
Structural balance	**-2,2**	**-1,9**	**-4,8**

Source : Government forecasts

A lack of significance in the evaluation of the structural balance for 2020

The High Council notes that the breakdown of the public balance in 2020 and its evolution between 2020 and 2021 are difficult to interpret due to the exceptional nature of economic developments and the conventions adopted by the Government. This leads to an improvement in the structural balance in 2020, even though the Government has provided very substantial budgetary support to economic activity.

The evaluation of the structural balance is thus affected by the choice of recording the measures as temporary or structural expenditures. On the one hand, all the measures taken to address the health crisis were recorded as temporary measures in 2020 (of the order of 3 GDP points). On the other hand, the measures of the recovery plan are included in the structural balance (additional expenditure and cuts in compulsory levies, for a total of around 4 GDP points over the entire period of the recovery plan).

The structural balance is moreover improved by the impact on revenues of the income support measures for households and companies contained in the emergency plan, even though these measures are considered exceptional and one-off and therefore do not worsen the structural balance.

Consequently, the structural balance estimates presented by the Government in the PLF for 2021 can only be interpreted for the year 2021 in comparison with the year 2019. In fact, unlike 2020, the breakdown of the public balance in 2021 is only marginally affected by the choices made by the Government regarding the division between the cyclical and structural components of the deficit.

74. **Under the terms of the organic Law of 17 December 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 programming law in force, that of January 22 , 2018 for the years 2018 to 2022.**

75. **The High Council thus notes that the structural balance presented by the government would deteriorate by 1.2 percentage points 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 set out in the January 2018 programming law still in force, representing a significant difference within the meaning of the December 2012 organic law.**

76. **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**

finances one. In particular, the health crisis has affected the productive potential of the French economy. For information purposes, the government presents in the draft budget bill an estimation of potential GDP that has been sharply revised downwards compared with the one in the program law. Taking this new estimate into account would lead to a deterioration of more than one percentage point of GDP in the structural balance in 2021.

77. **Accordingly, 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.**

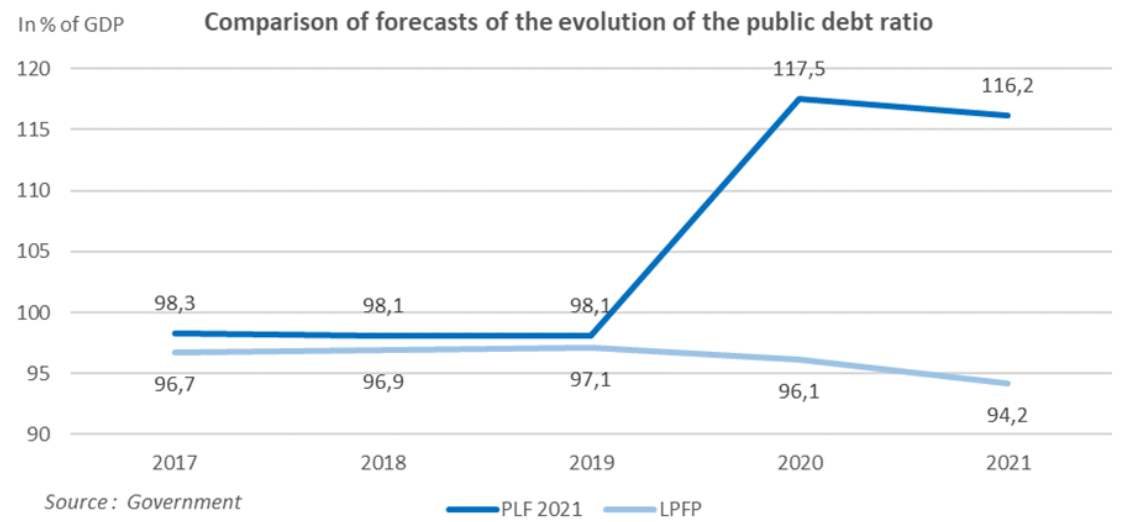
4- The public debt

78. Finally, the High Council notes that the public debt would reach 117.5 GDP points in 2020, an increase of nearly 20 points compared to the initial budget law for 2020.

Evolution of public debt and deficit forecasts for the year 2020

In points of GDP	PLF	PLFR 1	PLFR 2	PLFR 3	PLF 2021
Public balance	-2,2	-3,9	-9	-11,4	-10,2
Public debt	98,7	102,9	115,2	120,9	117,5

79. According to the government's scenario, the public debt ratio would fall slightly in 2021 to 116.2 GDP points. This prospect of a decline in the public debt ratio, limited in 2021 and linked to the marked rebound in GDP, is fragile and could be called into question[23]. In any case, the government's scenario would place the public debt 22 points above that projected in the 2021 program law.



80. **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 that projected in the program 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.**

[23] It would be sufficient, for example, for the level of GDP to be higher in 2020 and lower in 2021 than projected by the Government.

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

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This opinion will be published in the Official Journal of the French Republic and attached to the budget bill for 2021 when it is submitted to the National Assembly.

Done in Paris, 23 September 2020.

For the High Council of public finance,
The first president of the Court of Auditors,
President of the High Council of public finance

Pierre MOSCOVICI

Annex 1: the macroeconomic scenario attached to the 2021 budget bill

Economic forecasts for France	2019	2020	2021	2021/2019
Goods and sercices, real terms				
Gross domestic product (wda)	**1.5**	**-10**	**8**	-2.7
Final consumption of households	1.5	-8.0	6.2	-2.3
Public final consumption	1.7	0.8	3.1	3.9
Grossed fixed capital formation	4.3	-14.5	14.9	-1.8
Of which : non-financial corporates	3.7	-17.0	17.2	-2.7
public administrations	7.7	-3.7	12.1	8.0
households (excluding individual	1.5	-14.6	12.6	-4.0
Imports	2.6	-11.5	8.2	-4.3
Exports	1.8	-18.5	12.6	-8.3
Contributions to real GDP growth				
Private domestic demand (excluding inventories)	1.5	-7.8	6.4	
Public demand	0.7	0.0	1.3	
Inventories	-0.4	1.8	0.3	
External Trade	2.7	-8.4	8.3	
Prices and nominal aggregates				
Consumer prices inflation index	**1.1**	**0.5**	**0.7**	
Core inflation	0.8	0.5	0.5	
Gross domestic product deflator	1.2	1.8	0.3	
Nominal gross domestic product (wda)	2.7	-8.4	8.3	
Productivity, employment and wages				
Market-sector excluding agriculture :				
Salaried work (natural person)	1.5	-2.3	-0.8	
Salaried work (AA, in thousands)	220	-396	-128	
Salaried work (yoy, in thousands)	261	-751	323	
Average salary (natural person)	1.9	-5.7	7.3	
Purchasing power of the average salary	0.8	-6.1	6.6	
Wage bill	3.5	-7.9	6.5	
Total emloyment	1.0	-1.7	-0.4	
Total employment (-)	334	-917	434	
Non-financial corporate account				
Value Added	4.1	-12.7	11.6	
Gross operating product	10.0	-23.8	25.3	
Markup rate	**33.2**	**29.0**	**32.5**	
Saving rate	23.2	19.7	23.1	
Investment rate	24.5	23.6	25.1	
Self-financing rate	94.6	83.8	92.2	
Households account				
Total wage billl	2.9	-5.7	5.2	
Gross disposable income	3.1	0.0	2.3	
Purchasing power of gross disposable income	**2.1**	**-0.5**	**1.5**	
Saving rate	15.0	21.4	17.8	
Operations with the rest of the world				
Trade balance FAB-FAB (customs data)	-2.4	-3.6	-2.8	
Trade balance FAB-FAB (in billions of euros)	-57	-79	-68	
International context				
Global demand for France	1.1	-11.0	6.5	
Euro-dollar exchange rate	1.12	1.13	1.16	
Oil price (per Brent baril in dollars)	64	42	44	

Source : Ministry of economy and finance (September 2020), Working day adjusted data.

Annexe 2 : introducy article of the 2021 budget bill

Text of the article :

The forecasts for the structural balance and the effective balance of all public administrations for the year 2021, the execution for the year 2019 and the forecast execution for the year 2020 are as follows:

(In gross domestic product points)

	2019 execution	2020 forecast execution	2021 forecast
Structural balance (1)	-2,2	-1,2	-3,6
Cyclical balance (2)	0,2	-6,5	-2,8
One-off and temporary measures (3)	-1,0	-2,6	-0,2
Effective balance (1 + 2 + 3)	-3,0	-10,2	-6,7

Explanatory statement of the article:

This article presents, in accordance with Article 7 of the Organic Law n°2012-1403 of December 17, 2012 relating to the programming and governance of public finances, the forecast of the structural balance and the effective balance of all public administrations for 2021. It also presents these same balances for the years 2019 (execution) and 2020 (forecast of execution).

The draft finance bill for 2021 (PLF 2021) foresees a nominal balance of -10.2% of GDP in 2020 and -6.7% of GDP in 2021.

The latest joint forecasts for 2020 and 2021 are those made public in the preparatory report for the 2021 public finance policy debate (DOFP) published on June 30, in which the public balance was forecast at -11.4% of GDP in 2020 - unchanged from the 2020 PLFR III, filed on June 10 - then -5.5% in 2021. In particular, these forecasts included all the emergency measures introduced up to the PLFR III 2020, and were based on a decline in GDP of 11% in 2020 and a rebound in activity of 8% in 2021. The implementation forecast for the year 2020 alone was then updated in the third amending finance bill for 2020, with a slightly revised balance of -11.5 percent of GDP. Since these publications, the forecasts have been revised.

Indeed, the forecast for PLF 2021 takes into account the updated public finance data published by Insee on August 28, with a limited impact on the public accounts; revised macroeconomic forecasts that now assume a decline in GDP revised to -10% in 2020 and a rebound of +8% in 2021; as well as the measures announced since the filing of the DOFP, in particular the Recovery Plan and the “Ségur” of health.

The change from the forecasts in the DOFP preparatory report to the trajectory of PLF 2021 is mainly due to:

- The upward revision of growth for 2020. The higher level of activity of about 1 point each year leads to a revision of the cyclical component of the deficit by +½ points in 2020 and in 2021 ;
- Beyond this effect, the tax increases have led to a marked resilience of compulsory levies revenues in 2020, for about +0.7 points of GDP and symmetrically a lesser rebound in 2021, so that the cumulative effect over the two years has no effect on the 2021 forecast;

- Taking into account the recovery measures announced by the government on September 3 to enable the economy to return as quickly as possible to its pre-crisis level of wealth, the public balance in the national accounts would decrease in the short term by 0.1 points in 2020 and -0.8 points in 2021 (net European financing figures).
- Taking into account the new national health insurance spending target for 2021 (Ondam 2021) and the wage increases adopted as part of the Ségur of health, for -0.4 points of GDP in 2021 ;
- Other revisions include the inclusion of expenditure for claims on loans guaranteed by the State and the EIB, introduced as part of the emergency measures, and a major revision of payments to the European Union that incorporates, in particular, the decisions of the July Council, for -0.3 point of GDP in 2021.

The public deficit of -10.2 points of GDP in 2020 and -6.7 points in 2021 can be broken down as shown in the table in the article:

- The cyclical balance would become strongly negative in 2020, after having been close to zero between 2018 and 2019 as a result of the economic recession, and would then fall sharply in 2021 with the rebound in activity.
- The balance of exceptional and temporary measures includes measures to combat the Covid-19 epidemic, but does not include stimulus measures (see below).
- The structural balance would recover in 2020 (level of -1.2 points of GDP, after -2.2 points in 2019), before deteriorating in 2021 (level of -3.6 points). In particular, revenues would be more resilient than activity in 2020, supporting the structural balance, and then rebound less strongly than activity in 2021, reducing the structural balance in 2021 as a result. Structural adjustment should therefore preferably be read cumulatively over 2020 and 2021. In 2021, the structural balance is also marked by the measures adopted since the DOFP: recovery plan, Ségur de la santé, Ondam 2021.

The structural balance level in 2019 is therefore slightly lower than that projected in the program (-2.2 points versus -1.9 points). In 2020, it would be higher than the projected level (-1.2 points vs. -1.6 points) before declining in 2021 (to -3.6 points vs. -1.2 points in the program).

The assumptions used to calculate the structural balance are those set out in the public finance programming law for the years 2018 to 2022. The potential growth used for this calculation is therefore unchanged from that of the Public Finance Programming Law (LPFP) 2018-2022, i.e. 1.25% in 2020 and 1.3% in 2021. The one-off and temporary measures incorporate the emergency measures adopted in the three corrective financial texts tabled since mid-March, that is -2.6 points of potential GDP, due to the very one-off nature of these measures, but do not include the stimulus measures, which are recorded in the structural balance.

As a reminder:

In billions of euros	2019 execution	2020 forecast execution	2021 forecast
Effective balance	-73,0	-227,7	-160,7
Nominal GDP	2425,7	2223,0	2407,8

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 growth[24];
- **On the expenditure side**, only the unemployment compensation expenses are considered dependent on economic conditions[25]. 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.

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[24] This effect is evaluated on the basis of the average "elasticities" of each tax category with respect to the output gap. The elasticities used are those estimated by the OECD.

[25] As for other expenditures, they are either discretionary in nature or no link with the economic situation can be clearly and reliably identified.

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**.

Annex 4 : Structural adjustment and structural effort presented by the Government

Structural adjustment and structural effort presented by the Government

In points of potential GDP	**2021 Budget bill (sept. 2020)**				*Programming law (janvier 2018)*			
	2019	**2020**	**2021**	**Cumulation 2019-21**	***2019***	***2020***	***2021***	***Cumulation 2019-21***
Structural adjustment	**0,0**	**1,1**	**-2,5**		***0,3***	***0,3***	***0,4***	
Structural effort	**-0,2**	**0,8**	**-2,7**		***0,3***	***0,4***	***0,5***	
of which effort in expenditure (excluding tax credits)*	-0,1	1,1	-2,3		*0,4*	*0,5*	*0,5*	
of which new revenue measures*	-0,1	-0,6	-0,4		*-0,1*	*-0,5*	*0,0*	
of which key on tax credits**	0,0	0,4	0,0		0,0	0,4	0,0	
Non-discretionary component	**0,2**	**0,2**	**0,3**		***0,0***	***-0,1***	***-0,1***	

Source : 2021 budget bill, January 2018 programming law.
Note : Figures being rounded to the nearest tenth, components may not add to the total.
** : The numbers in the table are current field. Once the symmetrical impact of the creation of France Compétences has been restated in terms of expenditure and revenue in 2019 (€6.3 billion perimeter), the effort in terms of compulsory levies and expenditure will reach -0.3 pt and +0.1 point of GDP 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 "credit tax key", affects the structural adjustment measure. In 2020, the high level of this "key" is linked to the removal of the CICE. It reflects the significant difference between the still significant payments made in previous years and the near disappearance of receivables.*

Annex 5 : The triggering of the general escape clause of the Stability and Growth Pact

In the health context linked to the Covid-19 epidemic and on a proposal from the Commission, the Council of the European Union announced on March 23, 2020 the triggering of the "general escape clause". Introduced in 2011 as part of the reform of the Stability and Growth Pact, this clause can be activated in the event of “an unusual circumstance beyond the control of the Member State concerned which has appreciable effects on the financial situation of public administration or in a period of severe economic recession affecting the euro area or the whole of the Union”[26].

This clause does not suspend the procedures of the Stability and Growth Pact. Nevertheless, it allows Member States and the European Union to take and coordinate budgetary measures necessary to cope with the "unusual circumstance" by departing from the budgetary requirements normally applicable. In the case of the preventive arm of the Stability and Growth Pact, States are thus "authorized to temporarily deviate from the adjustment trajectory with a view to achieving the medium-term budgetary objective [...] provided that the medium-term budgetary sustainability is not jeopardized”[27]. Furthermore, within the framework of the corrective arm of the Pact[28], the clause allows the Council of the European Union in particular to revise a recommendation addressed to a member state and to “extend, in principle by one year, the period provided for the correction excessive deficit”.

[26] Article 5 du règlement n°1466/97 du Conseil du 7 juillet 1997

[27] Article 6 du règlement n°1466/97 du Conseil du 7 juillet 1997.

[28] Article 3 et 5 du règlement (CE) n°1467/97 du 7 juillet 1997.