Haut Conseil des Finances Publiques

Opinion n° HCFP - 2020 - 7

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

23 November 2020

Main conclusions

On 17 November 2020, on the basis of Article 16 of the Organic Law of 17 December 2012, the Government referred to the High Council a request for an opinion on a new forecast of GDP growth for 2021.

The High Council notes that this referral is not accompanied by a complete macroeconomic scenario. In the absence of information concerning, in particular, the composition of activity, price changes or employment, the High Council does not have all the necessary information to assess any macroeconomic forecast and, more specifically, the main determinants of public revenue.

He pointed out that the Government, on the basis of the drafting of Article 16 of the 2012 Organic Law, which is subject to interpretation, has chosen to adopt a narrow reading of this text by not presenting to the High Council new public finance forecasts (revenue, expenditure and balances). This raises a problem of consistency with the other articles of the Organic Law with regard to the missions entrusted to it in terms of public finance.

Without ignoring the difficulties created by the uncertainties surrounding the health and economic situation, the High Council regrets this choice, which does not allow it to deliver, in accordance with its mandate, a sufficiently informed opinion on the macroeconomic scenario, nor to assess the public finance scenario. It is therefore not in a position to assess the assumptions underlying the amendment to the introductory article of the draft budget bill for 2021, which the Government will have to submit to Parliament for a vote before its final adoption. It cannot therefore fully inform the democratic debate on public finances.

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Nevertheless, in the context of its referral, the High Council notes that, taking into account the latest available information on both the estimation of the macroeconomic impact of the current lockdown and the evolution of the health situation, the forecast of an 11% decline in GDP in 2020 now appears prudent.

He considers that a rebound limited to +6% in 2021 is consistent with a very gradual removal of health restrictions, leading to a very gradual but still partial return to normal activity in the second half of 2021.

1- The context and scope of the Government referral

1. On November 17, 2020, the Government referred to the High Council of Public Finance pursuant to Article 16 of Organic Law No. 2012-1403 of December 17, 2012 on the programming and governance of public finance, in order to give an opinion rule on the changes that the Government plans to make to the forecasts associated with the draft Budget Bill (PLF) and the draft Social Security Financing Bill (PLFSS) for 2021.

2. This article in fact provides that: "*When, in the course of Parliament's review of a public finance programming bill, a finance bill or a social security financing bill, the Government intends to revise the macroeconomic forecasts on which its draft was originally based, it shall inform the High Council of Public Finance without delay of the new status of its forecasts. Before the final adoption of the public finance programming law, the finance law or the social security financing law, the High Council shall issue a public opinion on these forecasts*".

3. The High Council, after deliberation at its meeting of November 20, 2020, adopted this opinion.

4. The High Council points out that the Government has provided it with only the real GDP growth forecast and not the complete macroeconomic scenario for 2020 and 2021 (composition of activity, inflation, employment, etc.). For example, the Government did not provide it with information on household consumption, which is the primary determinant of VAT revenues, or on the wage bill, even though the revision of the GDP growth rate should lead to a revision in the same direction of the growth rate of the latter and, consequently, of the public revenue forecast. The High Council is therefore not in a position to pronounce on the overall macroeconomic scenario.

5. In addition, the High Council has not received any information on possible measures to support the activity that the Government might decide in response to the changing health and economic situation. In particular, the High Council was not provided with information on the modalities of a possible extension in 2021 of the measures of the emergency and support[1] plan. However, some of these measures (partial activity, solidarity fund for businesses, etc.), which aim to cushion the macroeconomic shock caused by the health restrictions, have potentially a substantial amount and may therefore have a significant impact on the macroeconomic scenario. This lack of information therefore hampers the High Council's proper assessment of the macroeconomic scenario presented by the Government.

6. Moreover, the High Council of *Public Finance* notes that the government has not submitted new public finance forecasts, particularly the public balance and its breakdown, even though the revision of the macroeconomic scenario must necessarily lead to changes in the public finance scenario. The High Council is therefore not in a position to assess the amendment to the introductory article of the PLF for 2021, modifying the effective and structural public balances, which the Government will have to present and submit to the vote of Parliament before the PLF is finally adopted.

7. All in all, the High Council notes that the Government has adopted a narrow interpretation of the scope of the referral in the event of a revision of the macroeconomic scenario pursuant to Article 16 of the 2012 Organic Law, by transmitting only a partial statement of its new macroeconomic forecasts, whereas it could have decided to transmit a full macroeconomic and public finance scenario. This situation does not allow it to issue a fully

[1] As of the date of this opinion, the main measures would end respectively at the end of December (decree no. 2020-1319 of October 30, 2020 relating to partial activity) and at the end of November (decree no. 2020-1328 of November 2, 2020 relating to the solidarity fund for companies).

informed opinion on the Government's macroeconomic scenario, nor to assess, in accordance with its mandate, the public finance scenario, contrary to the cases of referrals relating to the draft budget bill for the coming year (Article 14 of the Organic Law of December 17, 2012) or draft amending budget bills for the current year (Article 15 of the aforementioned Organic Law).

8. **The High Council notes that this referral is not accompanied by a complete macroeconomic scenario. In the absence of information concerning, in particular, the composition of activity, price changes or employment, the High Council does not have all the necessary information to assess any macroeconomic forecast and, more specifically, the main determinants of public revenue.**

9. **He pointed out that the Government, on the basis of the drafting of Article 16 of the 2012 Organic Law, which is subject to interpretation, has chosen to adopt a narrow reading of this text by not presenting to the High Council new public finance forecasts (revenue, expenditure and balances). This raises a problem of consistency with the other articles of the Organic Law with regard to the missions entrusted to it in terms of public finance.**

10. **Without ignoring the difficulties created by the uncertainties surrounding the health and economic situation, the High Council regrets this choice, which does not allow it to deliver, in accordance with its mandate, a sufficiently informed opinion on the macroeconomic scenario, nor to assess the public finance scenario. It is therefore not in a position to assess the assumptions underlying the amendment to the introductory article of the draft budget bill for 2021, which the Government will have to submit to Parliament for a vote before its final adoption. It cannot therefore fully inform the democratic debate on public finances.**

2- The Government's activity forecast

11. According to the Government referral, "*New developments lead to a downward revision of the activity forecast for 2020 and 2021 compared to the initial PLF scenario. The GDP evolution forecast is revised to -11 per cent for 2020, compared to -10 per cent in the initial PLF, presented on September 28, and to +6 per cent for 2021, compared to +8 per cent in the initial PLF. The forecast for 2020 is unchanged from the PLFR No. 4. Activity in 2021 would thus be approximately -5.7% below its 2019 level, 3 pts below the forecast underlying the initial PLF.* "

3- Assessment of the High Council

12. The deterioration of the health situation during the fall and the measures taken to restrict activity to deal with it led the Government to revise, at the end of October, its activity forecast for 2020 in the 4th PLFR for 2020 compared to the PLF for 2021, prepared in September. The estimate of an 11% decline in GDP in 2020 in the 4th PLFR (-10% in the PLF) is not modified in the context of the present referral.

13. This same context also leads the Government to revise downward the forecast for 2021 compared to the PLF for 2021, anticipating the maintenance of stricter health conditions in the first half of 2021. According to the Government, the growth rate would be 6% instead of the 8% initially forecast for 2021. As a result, GDP in 2021 would be 5.7% below its 2019 level, instead of the 2.7% in the PLF for 2021.

14. As noted by the High Council in its opinion on the 4th PLFR, the uncertainties related to the health crisis caused by the Covid-19 epidemic remain exceptionally high, and they affect the forecasts for 2021 even more than those for 2020.

15. For 2020, the High Council had estimated in its opinion on the 4th PLFR[2] that the growth assumption was consistent with a marked deterioration in activity in the fourth quarter.

16. Insee and the Banque de France estimate[3], on the basis of the first available indicators, that activity in November should be around 12 to 13% lower than its level before the health crisis, a loss well below that recorded during the first lockdown in April (30%). For its part, the Government's forecast of an 11 percent decline in GDP in 2020 assumes a loss of activity of around 20 percent in November compared to its normal level. In light of the latest available information, this forecast now appears cautious.

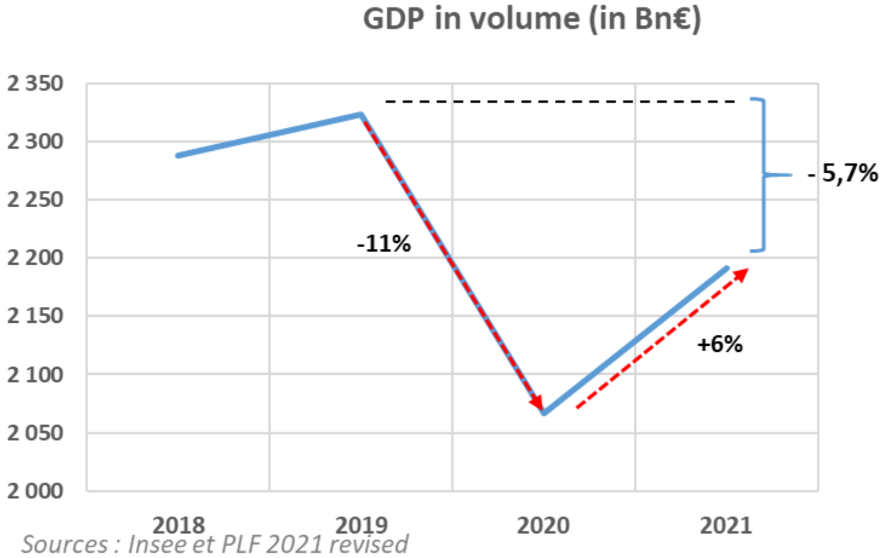
GDP growth forecasts for 2020 and 2021

	Date of publication	2020	2021	2021/2019
Government (revision to PLF 2021)	17/11	**-11**	**6**	**-5.7**
Insee	13/11	-9/-10		
Consensus Forecasts	13/11	-9.5	5.9	-4.1
Banque de France	9/11	-9/-10		
European Commission	5/11	-9.4	5.8	-4.1
IMF	2/11	-9.8	6	-4.4
Government (PLF 2021)	16/09	-10	8	-2.7

Source: HCFP based on forecasts by international organizations and economic institutes.
The column '2021/2019' presents for each forecast the level of GDP reached in 2021 compared to that observed in 2019.

17. For 2021, the Government's growth forecast is close to those published by international organizations or forecasting institutes since the presentation of the PLF for 2021, but, given a lower starting point for 2020, it translates into a significantly lower level of activity than that anticipated by forecasters (5.7 percent compared with 2019, compared with approximately -4 percent). Nevertheless, the forecasts published this fall do not take into account the latest available information and, in particular, the Government's announcement that certain health restrictions are likely to be maintained in early 2021.

[2] See opinion no. HCFP-2020-6 relating to the 4th draft amending finance act for the year 2020 of November 2, 2020.
[3] Point de conjoncture du 17/11/2020 (Insee), point de conjoncture française, November 9, 2020 (Banque de France).



Reading: The annual average GDP growth rate is 6% in 2021, bringing the GDP level 5.7% below its average level in 2019.

18. The outlook for activity in 2021 depends on the health scenario and the extent and duration of any restrictions on activities to combat the epidemic. In addition, the expected rebound in activity will also depend on the date on which a large-scale deployment of the vaccines under development will allow for the lifting of health restrictions. The extent of the scars the crisis will leave on production also remains uncertain. Finally, the scenario depends on possible support measures that could be implemented or extended to mitigate the effects of the health restrictions and of which the High Council was not informed in the context of this referral.

19. The Government's forecast thus assumes that significant health restrictions will be maintained at the beginning of the year. The estimate of the decline in activity resulting from the continuation of these measures remains fragile. Depending on the severity of the health restrictions, the loss of activity could range from the level reached in early September (4%) to the 12% to 13% loss estimated for November. The Government assumes that the loss will be in the order of 10% at the beginning of the first half of the year, gradually receding to 5% by the end of the semester.

20. The Government plans to gradually remove these restrictions during the second half of the year, resulting in more limited[4] losses of activity.

21. However, activity could be more robust in 2021 in a more favorable health scenario where sufficiently rapid vaccination would allow for an almost total lifting of health restrictions as early as the summer of 2021 and where the implementation at the beginning of 2021 of health restrictions that are significantly less stringent than those in effect since October 30 would be sufficient to keep the epidemic under control in the meantime.

[4] The Government thus specifies in its referral that the loss of activity compared to its normal level would gradually reduce in the first half of 2021, from 10% at the beginning of the semester to 5% at the end of the semester, which is consistent with the maintenance of significant health restrictions, but gradually diminishing. With an average loss of activity of around 7.5% in the first half of the year, the government's forecast is consistent with activity being around 4% below its normal level in the second half of 2021.

22. Activity may be lower in a scenario where operational or logistical difficulties delay vaccine deployment and where strict health restrictions would have to be imposed regularly to cope with successive waves of the epidemic.

23. **The High Council notes that, taking into account the latest available information on both the estimation of the macroeconomic impact of the current lockdown and the evolution of the health situation, the forecast of an 11% decline in GDP in 2020 now appears prudent.**

24. **He considers that a rebound limited to +6% in 2021 is consistent with a very gradual removal of health restrictions, leading to a very gradual but still partial return to normal activity in the second half of 2021.**

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This opinion will be published in the Official Journal of the French Republic and sent to Parliament.

Done in Paris, 23 November 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