Haut Conseil des Finances Publiques

Opinion No HCFP - 2024 - 3

On the draft budget bill and the draft social security financing bill for the year 2025

October 8th, 2024

Executive summary

The French Government has referred draft budget and social security financing bills for 2025 to the High Council of Public Finance. These confirm a second consecutive year of deterioration in the public balance for 2024 (forecast at 6.1 points of GDP), and forecast a reduction in the deficit to 5.0 points of GDP in 2025 thanks to a massive fiscal adjustment in 2025 (1.1 point of GDP). This would mark a trend reversal compared to the last two years.

The High Council notes that the public deficit for 2024, forecast at 4.4 points of GDP in the Finance Bill for 2024, then at 5.1 points of GDP in the Stability Program, is now forecast at 6.1 points, representing a deviation of 1.7 point of GDP from the initial forecast and a deterioration of 0.6 point compared to 2023. He stresses the need, reinforced by the major slippages in public finances in 2023 and 2024, to adopt cautious assumptions, particularly with regard to revenue forecasts or slowing local authority spending, when there are no robust mechanisms in place to do so. Finally, he regrets that the preparation of the draft budget bill and the draft social security financing bill for 2025 was not accompanied by more effective measures to curb spending in the second half of 2024.

*

The High Council considers the Government's forecasts for growth (1.1%), payroll (2.9% in the nonfarm market sectors) and inflation (2.1%) for 2024 realistic. It considers that the revenue, expenditure and hence public balance forecasts for 2024 are still subject to considerable uncertainty, but are consistent with the accounting and budgetary information available and with the macroeconomic scenario.

In contrast, it considers the macroeconomic scenario for 2025 to be fragile overall.

The growth forecast for 2025 (1.1%) initially appears a little high, given the restrictive stance of the associated public finance scenario, which translates in particular into a downturn in public demand and measures to increase compulsory levies by up to one point of GDP. To offset this restrictive impact, the growth forecast for 2025 is based on favourable assumptions for world trade, business investment and a fall in the household savings rate, which would correspond to a marked acceleration in activity without budgetary adjustment. Despite the support that lower interest rates could provide, such an acceleration appears optimistic in view of the indications given by the available business surveys.

The wage bill forecast for 2025 (2.8% in the nonfarm market sectors) is somewhat optimistic, due to both the employment forecast, in line with the assessment of GDP, and the average wage per head.

Finally, the inflation forecast (+1.8%) seems a little high, given the scale of the disinflationary trend observed since the beginning of the year.

*

With regard to the realism of the revenue and expenditure forecasts on which the draft budget bill and the draft social security financing bill for 2025 are based, the High Council notes that, despite its requests, the information it has been provided with is not sufficient to assess the very substantial measures planned to increase compulsory levies and curb spending. In particular, the details of the expected savings on the State budget and health insurance expenditure, as well as certain increases in compulsory levies (reduction in general contribution allowances, minimum taxation mechanism for individuals), are not documented. Lastly, as the details of the "resilience mechanisms" and other savings measures expected for local authorities have not been specified, the forecast of a sharp slowdown in the volume of operating expenditure by the public sector seems particularly fragile.

Furthermore, the balance presented in the introductory article of this draft bill (-5.2 points of GDP) is, for the first time, different from the one on which the High Council is asked to give its opinion (5.0 points of GDP), as some of the measures taken into account in the deficit forecast are not included in the budget bill at this stage, but are to be introduced by amendment during the parliamentary debate, for an additional effect of 0.2 points of GDP. The deficit target of 5.0 points of GDP in 2025 therefore depends on the Government's ability to implement them.

Nevertheless, the forecast for spontaneous revenue growth is consistent with the macroeconomic scenario.

All in all, the public deficit forecast of 5.0 points of GDP for 2025 is fragile due to the optimism of the macroeconomic scenario on which it is based, and the scale of the measures to be implemented, which are not yet documented.

*

The structural balance presented by the Government amounts to 4.5 points of GDP in 2025, after 5.7 points in 2024, representing a structural adjustment of 1.2 points. The difference between the projected structural deficit and that of the programming law would amount to 2.0 points of GDP in 2024 and 1.2 points of GDP in 2025. These deviations are well above 0.5 point of GDP, and suggest that they will be significant under the definition of the Organic Law when the High Council will examine the budget settlement bills for the relevant years.

The High Council notes that the structural adjustment of 1.2 point of GDP in 2025 implies a structural effort of 1.4 point (€42 bn), given the negative impact of 0.2 point of spontaneous growth in compulsory levies, at constant legislation, lower than that of GDP. This effort is based 70% on increases in compulsory levies (€30 bn, or one point of GDP) and 30% on expenditure (€12 bn, or 0.4 point of GDP).

These proportions differ from those used by the French Government, which, on the basis of different calculation methods, estimates the budgetary consolidation effort at €60 bn, broken down into €40 bn in spending cuts and €20 bn in tax increases.

The figure of €40 bn represents the effort required to reduce expenditure in relation to a trend estimated at a very high +2.8% in volume terms, well above both potential growth (+1.2%) and actual growth (+1.1%). The High Council is not in a position to assess the relevance of this estimate. As a result of this methodological choice, the 1.3 point of GDP

reduction in spending announced by the Government only reduces the weight of spending in GDP by 0.4 point.

The €20 bn in compulsory levies, meanwhile, do not take into account certain measures included in the draft budget (part of the increase in the domestic tax on final electricity consumption, for example). In addition, the reduction in exemptions from employer contributions, usually classified as an increase in revenues and compulsory levies, is shown here as a reduction in expenditure.

*

The High Council considers that the public finance programming law for the years 2023 to 2027, which was enacted less than a year ago, is an outdated reference, given the sharp deterioration in the public finance situation in 2023 and 2024. The trajectory of the National medium-term fiscal-structural plans (MTPs), which France must submit to the European Commission at the end of the month, is now a more relevant reference and must absolutely be respected.

Despite the fall in the debt ratio between 2020 and 2023 made possible by strong growth in GDP in value terms, France has seen its relative debt position within the eurozone deteriorate sharply in recent years, to become the third most indebted country in the zone behind Greece and Italy. According to Government forecasts, the debt-to-GDP ratio is set to start rising again in 2024 and 2025, returning to the peak reached during the health crisis, at almost 115 points of GDP. As a result of rising debt levels and long-term interest rates, the cost of general government debt would increase significantly, reaching 2.3 points of GDP in 2025 (i.e. nearly €70 bn in current terms), compared with 1.9 points of GDP in 2023 (i.e. €53 bn in current terms).

The medium-term sustainability of public finances calls for heightened vigilance and immediate, sustained efforts over the long term. It is imperative that France stays on track with its medium-term fiscal-structural plan, in order to keep control of its public finances and debt, while financing priority investments and ensuring that its growth potential is not overly affected.

Introductory remarks

1- On the scope of the following opinion

1. Pursuant to IV of the Article 61 of the amended organic law No 2001-692 of 1 August 2001 on the budget laws, the High Council of Public Finance issues an opinion on:

- the macroeconomic forecasts, on which the draft budget (PLF) and draft social security financing (PLFSS) bills are based;
- the consistency of the draft budget bill's introductory article with the multi-year targets for the structural balance and general government expenditure set in the draft public finance programming law (PFPL);
- the realism of the revenue and expenditure forecasts of the PLF and PLFSS.

2- On the information submitted

2. On October 2, 2024, the Government referred the macroeconomic forecasts and the introductory article of the PLF and PLFSS for 2025 to the High Council of Public Finances, with a view to issuing an opinion on October 8, 2024. This referral was accompanied by responses to the initial and supplementary questionnaires sent by the High Council to the relevant administrations.

3. The High Council points out that, in an exceptional context where the Government presenting the current PLF was formed on September 21, the public finance forecast for 2025 assumes the implementation of a large number of measures whose content remains partly unknown at this stage. In particular, the information provided to document the unprecedented savings envisaged in expenditure is very limited, especially for the State, for which €20bn in reduced appropriations have been announced, without the concrete details having been specified to the High Council. The same is true of the €5 billion in savings announced for health insurance expenditure. Consequently, the High Council's assessment of the realism of the revenue and expenditure forecasts can only be partial.

4. It also notes that the public finance forecast includes measures which are not included in the current draft bill, but which the Government intends to introduce by amendment during the parliamentary debate, amounting to 0.2 point of GDP. The result is an unprecedented discrepancy between the public finance forecast presented to the High Council, which leads to a deficit forecast of 5.0 points of GDP in 2025, and that presented in the introductory article of the draft bill, which shows a deficit of 5.2 points of GDP, which does not take these measures into account.

5. For the sake of consistency with the macroeconomic scenario discussed in this opinion, the public finance forecast examined here takes into account the additional measures announced underpinning the 5.0 points deficit scenario.

3- On the High Council's methodology

6. In order to assess the realism of the macroeconomic forecasts associated with the PLF and PLFSS for 2024, the High Council examined the Government's assumptions and the expected economic mechanisms. It relied on the last available statistics and on information provided by the relevant administrations, notably about the economic policy measures decided by the Government.

7. The High Council also drew on the latest forecasts produced by a range of national and international institutions, including the European Central Bank (ECB), the Banque de France,

the European Commission, the International Monetary Fund (IMF), the French National Institute for Statistics and Economic Studies (INSEE), the Organisation for Economic Co-operation and Development (OECD), as well as economic research institutes such as the French Economic Observatory (OFCE) and Rexecode.

8. The High Council held hearings with representatives of the French Treasury, and the Budget and Social Security departments. It also held hearings with representatives of INSEE, Banque de France, OFCE and Rexecode.

* *
*

9. Following a presentation of the international economic environment (I), the High Council gives its assessment of the macroeconomic forecasts associated with the PLF and draft social Security Plans (PLF and PLFSS) for 2025 (II), then of the consistency of the introductory article of the Budget and Social security financing bill with the multi-year guidelines for the structural balance and general government expenditure defined in the PFPL, and the realism of the revenue and expenditure forecasts of the PLF and PLFSS (III).

I- The international economic environment

10. After the strong post-Covid rebound observed in 2021 and 2022, the world economy has returned to a growth rate of around 3% annual average in 2023, and should grow at a similar pace in 2024. International organizations, as well as the French Treasury, are forecasting continued growth at this rate in 2025. Growth in the US and Chinese economies is expected to moderate, while that of the eurozone would recover.

Table 1: Annual world GDP volume growth forecasts (in %)

	Publication date	2023	2024	2025
French Treasury	**September 19th**	**3.2**	**3.2**	**3.4**
OECD	September 25th	3.1	3.2	3.2
Consensus Forecasts	September 9th	2.7	2.6	2.5
IMF	July 16th	3.3	3.2	3.3
World Bank	June 4th	2.6	2.6	2.7

Sources: French Treasury international scenario, September 2024; OECD economic outlook, September 2024; Consensus Forecasts, September 2024; IMF economic outlook, July 2024; World Bank economic outlook, June 2024.[1]

11. **The US economy**, which grew by +2.5% in 2023, should grow again in 2024 at a similar pace: the GDP growth carry-over for 2024 already stands at +2.3% at mid-year. A slowdown is expected between now and the end of the year, however, and most forecasts point to a

[1] NB: the methodology and scope for calculating world GDP differ from one international organization to another. Forecasts should not be compared with each other, but evaluated in terms of trends.

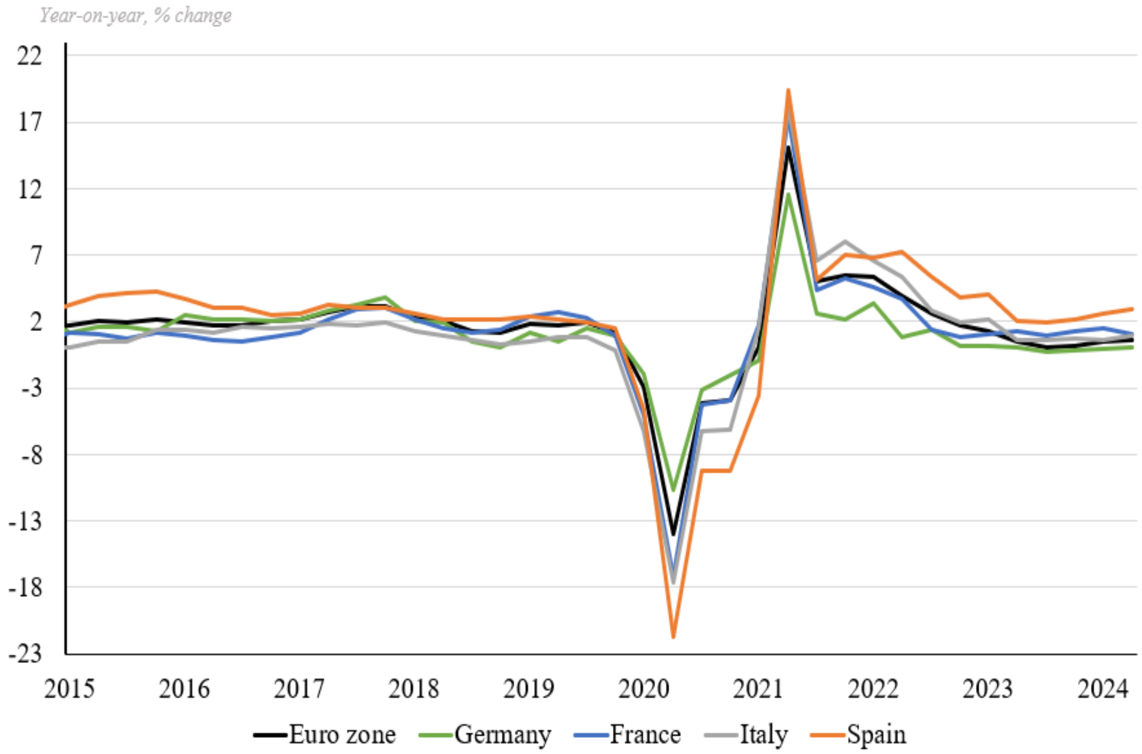
moderation in growth in 2025 (+1.7% on average according to economists' forecasts collected by Consensus Forecasts in September, after +2.5% in 2024). Household consumption is likely to slow, due to the ongoing downturn in job creation, reflected in a rise in the unemployment rate from 3.7% in December 2023 to 4.1% in September 2024, and weaker wage growth, and to the now limited downside potential of the savings rate, whose decline has underpinned household consumption for several quarters. Indeed, the Federal Reserve's decision to cut its key rates by 50 basis points at its September meeting reflects fears of a sharp slowdown in the US economy, which the expected further easing of monetary policy is designed to avoid.

12. **China**'s economic growth is also set to slow in 2025 (from +4.9% in 2024 to +4.4% according to Consensus Forecasts). It disappointed in the second quarter of 2024 (+0.7% quarter-on-quarter, after +1.5% in the first quarter). While the industrial sector remains dynamic, driven in particular by exports, service activities lack vigour due to domestic demand still held back by the persistent crisis in the real estate sector. In September, the Chinese Central Bank announced new measures to support activity, including a cut in key rates and reserve requirements.

13. **In the eurozone**, growth resumed in early 2024 (+0.2% in the 2nd quarter), driven mainly by foreign trade, while domestic demand continued to suffer from the fall in investment. However, economic conditions vary greatly from country to country. While activity appears to be on the right track in southern European countries, particularly Spain, which posted growth of +2.4% in mid-June, the German economy is still operating at a sluggish pace, with no growth recorded at the end of the first half of the year. Affected by rising energy prices, heightened international competition and shrinking export outlets, the German manufacturing sector is weighing on European activity. German business leaders remain pessimistic about the prospects for recovery: the IFO business climate survey continued to fall, dropping to 85.4 in September, its lowest level since January 2024.

14. Remaining tight labour markets in the Eurozone and falling inflation (+2.2% year-on-year in August) should enable real wage increases and gains in income purchasing power, fuelling a rebound in household consumption over the coming months. Household consumption and investment should also benefit from a more accommodating monetary policy. In the spring, the ECB embarked on a cycle of rate cuts, which has already resulted in a reduction of 50 basis points in the interest rate on the deposit facility. This easing could continue over the coming months as inflation gradually eases.

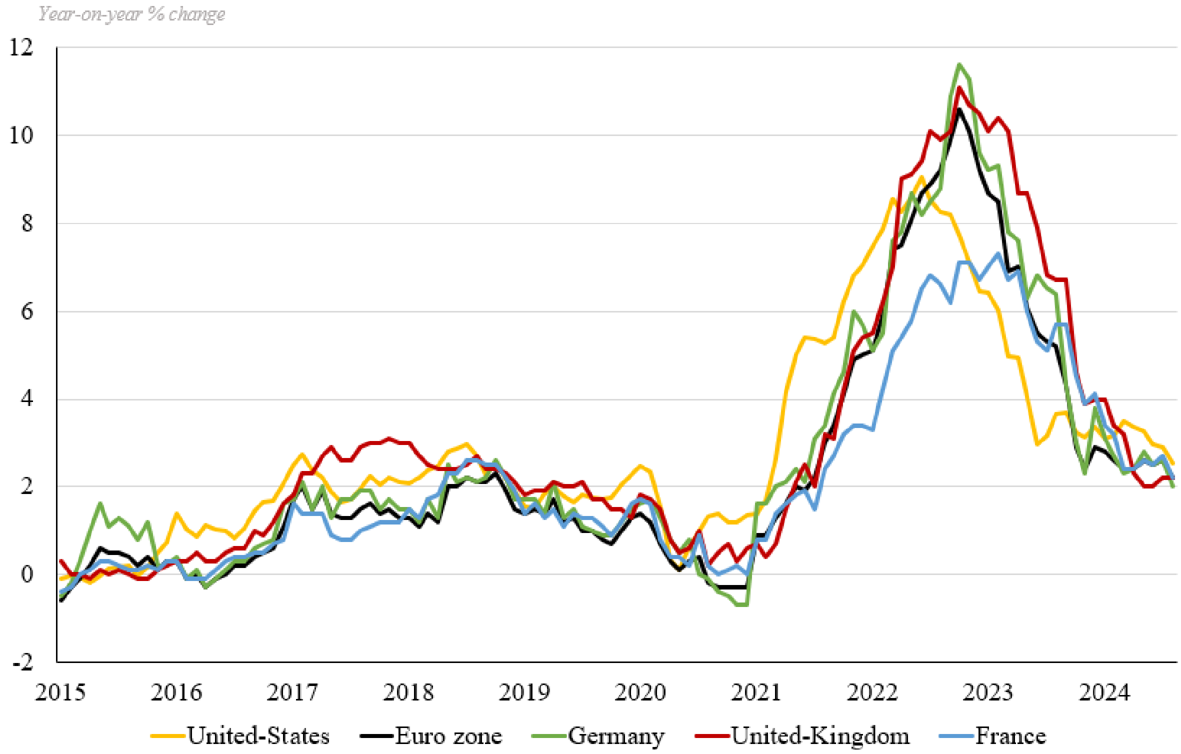
Figure 1: real GDP growth rates in the euro zone



Source: Eurostat

15. **The uncertainties surrounding the international economic outlook** appear to be balanced over the coming year. Geopolitical tensions remain very high, and there is considerable uncertainty over the economic policy to be followed in the United States after the November elections. In particular, further dismantling of the multilateral trading system is a risk. In the Eurozone, the outlook for the German economy remains uncertain, with the economy likely to move either towards recovery or back into recession. Lastly, faster-than-expected disinflation in both the US and the eurozone could further bolster household real income, leading to a faster-than-expected easing of interest rates.

Figure 2: Inflation in the United States, euro zone, Germany, France and the United Kingdom[2]



Source : OECD

II- Comments on the macroeconomic forecasts for 2024 and 2025

1- The Government's scenario

16. According to the Government's referral, *"[...] activity in France is expected to increase by +1.1% in 2024 and by +1.1% in 2025, with growth remaining slightly below its potential rate. [...] Activity in 2025 would be driven mainly by an acceleration in household consumption, thanks to the confirmed easing of inflation and past and present gains in real income. This would enable a moderate fall in the savings rate from an exceptionally high level. After the sharp fall of 2024, household and business investment would rebound slightly, benefiting from improved financial conditions. The international environment would be more favourable, allowing exports to accelerate. However, GDP growth in 2025 would still be +1.1%, due to a slower-than-expected recovery in household consumption and lower public spending. The impact on activity would remain contained, thanks to a budgetary adjustment focusing primarily on spending deemed inefficient and on agents with a high capacity to contribute."*

17. *"In 2024, inflation is expected to average +2.1% per year. [...] In 2025, inflation will continue to fall, to an annual average of +1.8%, driven mainly by service prices, which will rise as a result of increases in certain medical tariffs. Food prices are expected to remain stable overall, while energy prices are set to fall, particularly electricity prices as we gradually emerge from the energy crisis and the tariff shield. The price of manufactured goods is expected*

[2] HICP index for the eurozone, Germany, France and the UK.

to rebound slightly, assuming that the higher cost of sea freight is passed on to consumer prices".

18. "*Wage bill growth is expected to rise by +2.9% in 2024. Nonfarm payroll employment*[3] *would increase by +0.3% on annual average, while wages par head would also decelerate to +2.8%, in the wake of disinflation. [...] The wage bill would decelerate very slightly in 2025 (+2.8%). Nonfarm payroll employment would increase by only +0.1% on annual average, reflecting a partial recovery from the productivity losses of the crisis, and the average wage per head would slow further (+2.7%), but less sharply than prices.*"

2- Assessment of the High Council

19. The High Council assesses successively the assumptions for activity growth, inflation, employment and the private sector wage bill.

a) Economic activity growth

20. The Government forecasts average annual GDP growth of 1.1% in 2024, up 0.1 point on the Stability Program.

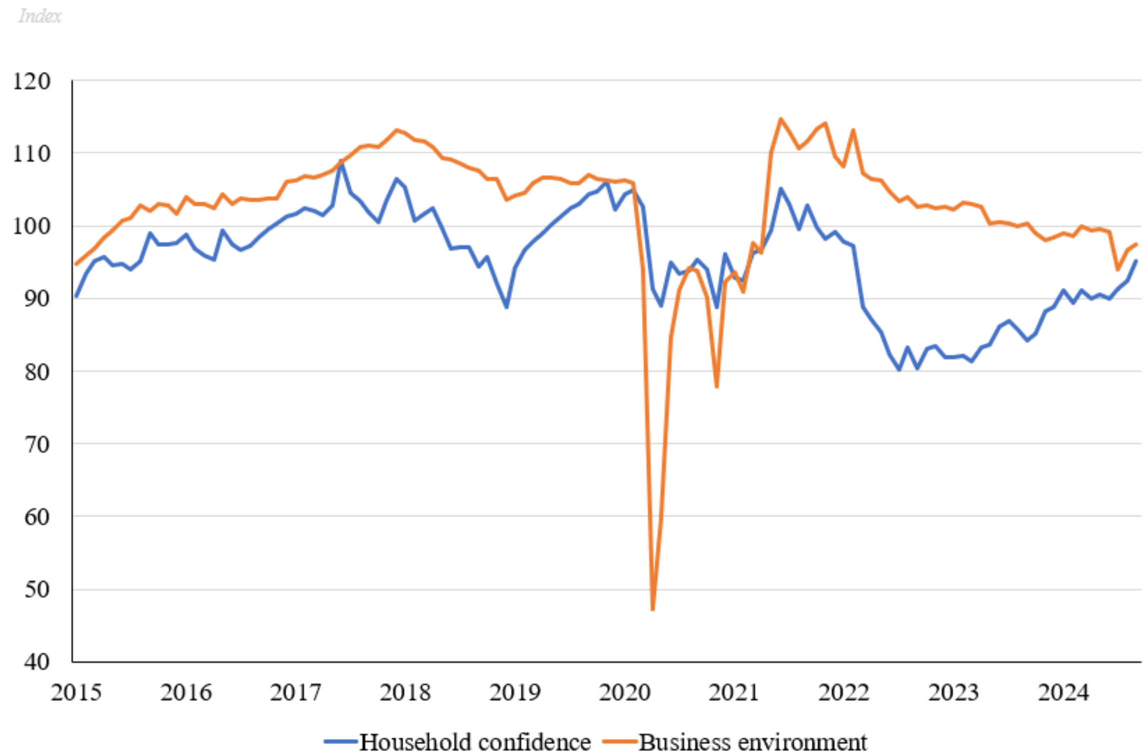
21. Activity grew moderately in the first half of 2024 (+0.3% in the 1st quarter, +0.2% in the 2nd quarter), driven mainly by the contribution of foreign trade and public demand, which remained much higher than forecast in the Stability Program[4]. Conversely, household consumption remained weak, and investment by both companies and households continued the decline which began at the end of 2023. At mid-year, GDP growth carry-over for 2024stands at +0.9%. The Government's forecast of 1.1% annual average growth in 2024 thus requires only modest quarterly growth in the second half of the year, which, beyond the impact of the Paris Olympic and Paralympic Games (JOP) on activity, seems achievable in view of the economic data available for the third quarter (INSEE surveys, August quarterly industrial production figures of 0.9% and household consumption of goods of 0.3%).

22. **The Government's growth forecast for 2024, which is slightly higher than that in the Stability Program and whose composition has changed significantly since April, is comparable to the consensus forecast of economists (Consensus Forecasts). It is considered realistic by the High Council.**

[3] According to INSEE estimates based on the employment survey, which differs slightly from employment in the national accounts.

[4] Public consumption was expected by the Government to rise by an annual average of 0.1% in the Stability Program. It is now forecast to rise by 2.7%. Public investment was expected to rise by 1.7%. It is now forecast to rise by 3.0%.

Figure 3: business environment indicator and household confidence in France



Source: INSEE

23. The Government expects growth to stabilize in 2025, at an annual average of +1.1%. This forecast has been revised downwards by 0.3 percentage point compared with the Stability Program. It is slightly lower than that of the OECD and the Banque de France (+1.2%), the European Commission and the IMF (+1.3%), higher than that of Rexecode (+0.7%) and OFCE (+1.0%), and identical to that of the September Consensus Forecasts (+1.1%).

Table 2: GDP growth forecasts for France in 2024 and 2025

	Publication date	2024	2025
Government	**October 2nd**	**1.1**	**1.1**
OECD	September 25th	1.1	1.2
Banque de France	September 17th	1.1	1.2
OFCE	September 13th	1.1	1.0
Rexecode	September 13th	1.1	0.7
Consensus Forecasts	September 12th	1.1	1.1
INSEE	September 9th	1.1	
IMF	July 16th	0.9	1.3
European Commission	April 30th	0.7	1.3

Source: PLF for 2025, forecasts by economic analysis organizations and institutes

24. The Government's scenario incorporates an unusually large structural fiscal adjustment of 1.2 point of GDP (after a positive impulse of 0.6 point in 2024). It thus assumes that, without budgetary adjustment, growth would have risen sharply in 2025, to a level of 1.7%, as estimated on the basis of the multiplier used by the Government to quantify the depressive effect of budgetary adjustment (0.5 in total), even though the carry-over left at the end of 2024 should be weak and the latest published economic indicators remain, on the whole, below their long-term average.

25. In fact, the fiscal policy stance adopted by the Government is more restrictive than that incorporated as an assumption in the scenarios of the institutes auditioned by the High Council. Thus, while the growth rate expected in 2025 is similar to that forecast by these institutes, its composition is significantly different, since only the Government forecasts a decline in consumption and investment by public administrations in 2025. Conversely, the Government's assumptions on private demand and foreign trade are on the whole more favourable, leading to a virtual inversion of growth factors in 2025 compared with 2024.

26. Some assumptions seem justified. The recent momentum in building permits and housing starts, which are the first positive sign of the fall in the cost of mortgages since the start of the year, may in fact point to a stabilization in household investment in 2025, even if the end of the “Pinel” scheme and the reintegration of depreciation into the capital gains tax base for non-professional furnished rentals may slow the recovery somewhat.

27. Others are more ambitious. The Government's forecast assumes, on the grounds of a fall in inflation perceived by households, a decrease in their savings rate, favourable to consumer spending in 2025: this fall in the savings rate, already expected by the Government for 2024, is possible in 2025, but the leading indicators, such as the share of households believing it is advisable to save at its historic high in September, do not point to it. The Government's forecast assumes a slight rebound in business investment, despite a sharp deterioration in their profit margins and the introduction of an exceptional corporate tax surcharge whose lifting date remains uncertain. It is also underpinned by a sharp rise in exports, driven by world trade growth expected to outstrip that of global activity, after two years in which this was not the case, and in a geopolitical context unfavourable to international trade. Lastly, it includes a positive contribution (0.1 point) from changes in inventories, which is possible but not guaranteed.

28. **For 2025, therefore, the High Council considers that the growth forecast (1.1%) is a little high given the restrictive stance of the associated public finance scenario, which translates into measures to increase compulsory levies by up to one point of GDP and a downturn in public demand. To offset this restrictive impact, the growth forecast for 2025 is based on favourable assumptions for world trade, business investment and a fall in the household savings rate, which would result in a very strong acceleration in activity without any fiscal adjustment. Despite the support that lower interest rates could provide, such an acceleration appears optimistic given the indications given by the available business surveys.**

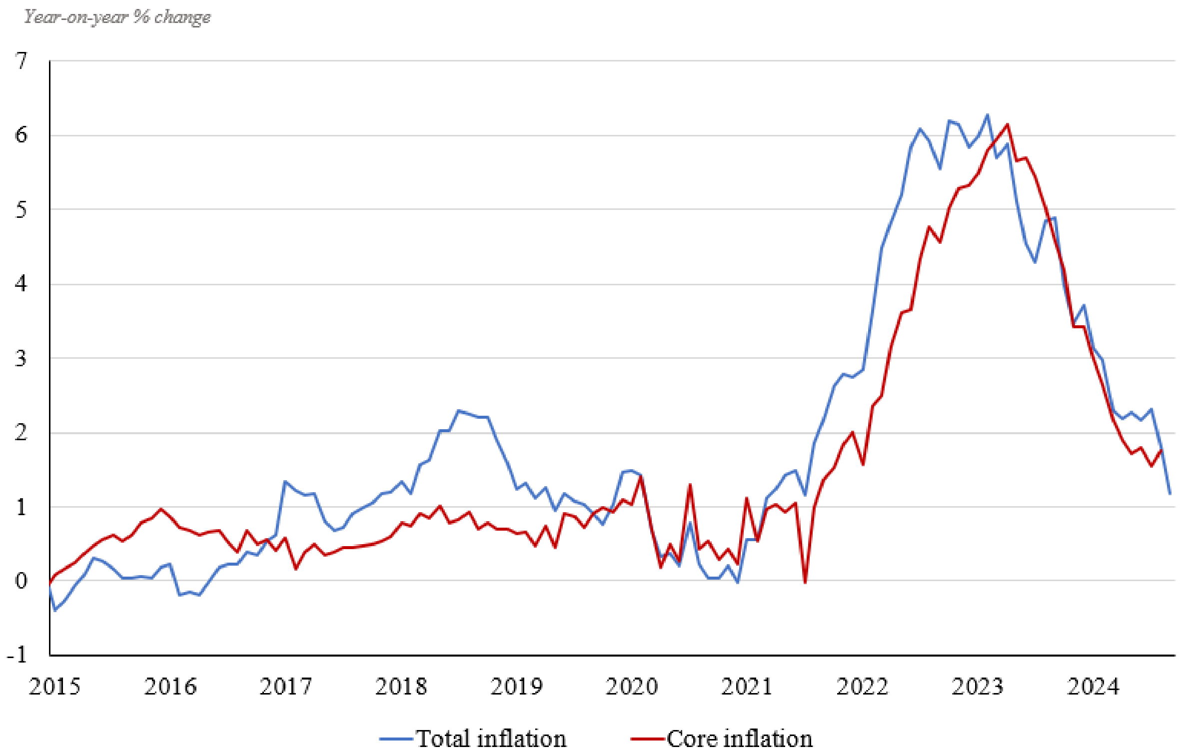
b) Rising consumer prices

29. The Government's inflation forecast for 2024 has been revised downwards compared with that in the Stability Program (-0.4 point, to a 2.1% annual average).

30. Since April, disinflation has continued. Oil prices have fallen, the year-on-year rise in food prices has weakened significantly (to 0.5% in September, compared with 1.2% in April and 9.7% a year earlier), and the year-on-year decline in manufactured goods prices has intensified (-0.3% in September). As a result of the transmission of past wage increases, service

prices continue to rise at a more sustained pace, but this slowed in September (2.5% year-on-year, after 3.0% in August), suggesting a clear moderation in year-on-year core inflation (after +1.7% year-on-year in August) and a fairly sharp fall over the month.

Figure 4: total and core inflation



Source: INSEE

31. The Government's core inflation forecast, revised to 1.9% from 2.2% in the Stability Program, is therefore plausible, but probably still a little high. The Government's total inflation forecast for 2024, close to other available forecasts (see Table 3), is also plausible, but subject to the vagaries of geopolitical tensions on oil prices.

Table 3: CPI inflation forecasts, annual average in %.

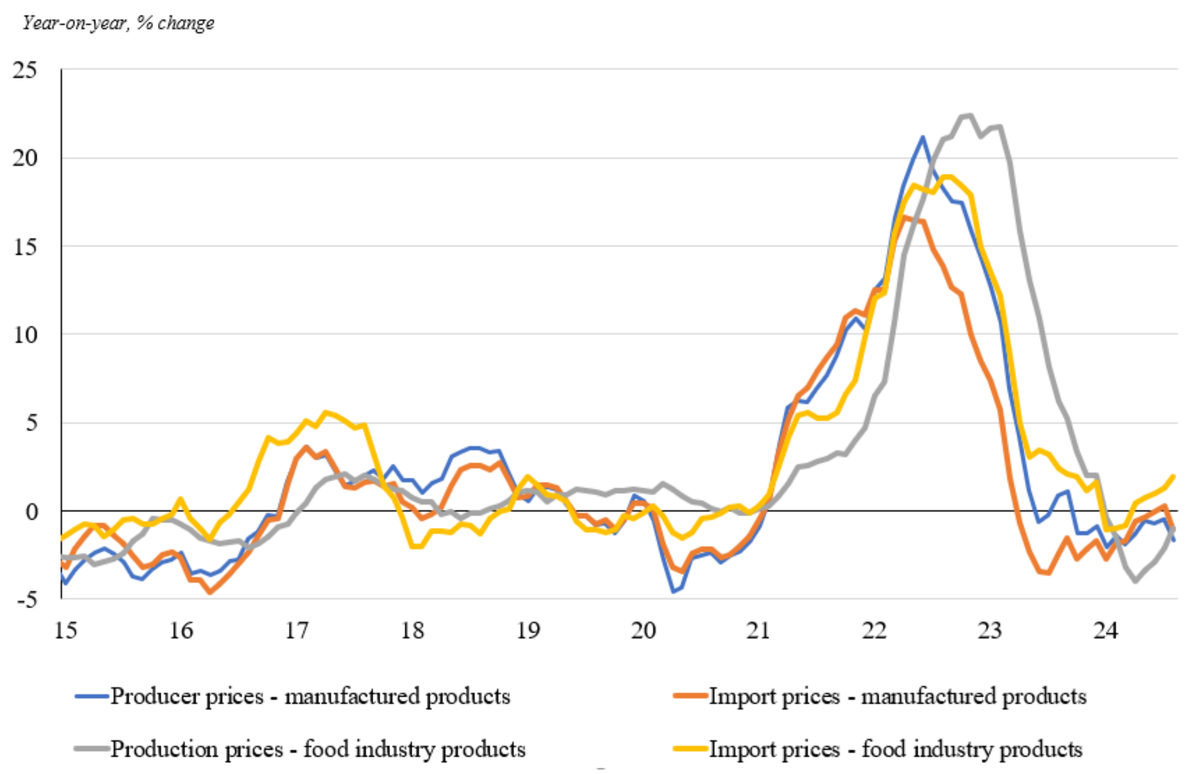
	Publication date	2024	2025
Government	**October 2nd**	**2.1**	**1.8**
Banque de France*	September 17th	2.2	1.3
OFCE	September 13th	2.2	1.7
Rexecode	September 13th	2.3	1.6
Consensus Forecasts	September 12th	2.3	1.8
INSEE	September 9th	2.1	

Sources: PLF for 2025, forecasts by economic analysis organizations and institutes

** Estimate based on HICP forecast (2.5% in 2024 and 1.5% in 2025)*

32. In 2025, assuming an oil price of $79.8 (€73.0) per barrel of Brent, and while disinflation has intensified over the recent period, the Government has revised its total inflation forecast upwards by 0.1 point compared with the Stability Program, to an annual average of 1.8%. However, several downward factors will be at work. Despite the revaluation of medical tariffs in December 2024, which will support healthcare prices, and a possible upward effect of rising labour costs at the the French minimum wage (SMIC) level, the moderation in wage increases observed since summer 2023 could lead to a slightly lower rise in service prices[5] in 2025 than expected by the Government (3.2% annual average in 2025, after 3.0% in 2024). The fall in energy prices, due in particular to the expected 10% drop in electricity prices in February 2025, and the stability of food and manufactured goods prices, as suggested by recent trends in their production and import prices (see graph 5), also point to a slightly sharper fall in inflation next year.

Figure 5: Production and Importation price



Source: INSEE

33. The Government's inflation forecast for 2025, which is at the top end of the range of available forecasts (see table 3), is therefore considered a little high by the High Council.

34. Furthermore, the Government forecasts a 1.7% rise in the GDP deflator in 2025, which is only 0.1 point lower than the consumer price index, despite the fact that the expected reduction in ECB key interest rates should weigh on the trend in the household consumption deflator and therefore on the GDP deflator (see box).

[5] Service prices rose by 2.5% year-on-year in September 2024, according to INSEE's provisional estimate.

35. **The Government's inflation forecast, measured by the consumer price index, is likely to be met in 2024. For 2025, this forecast, and even more so that of GDP price rises, is considered a little high by the High Council of Public Finances.**

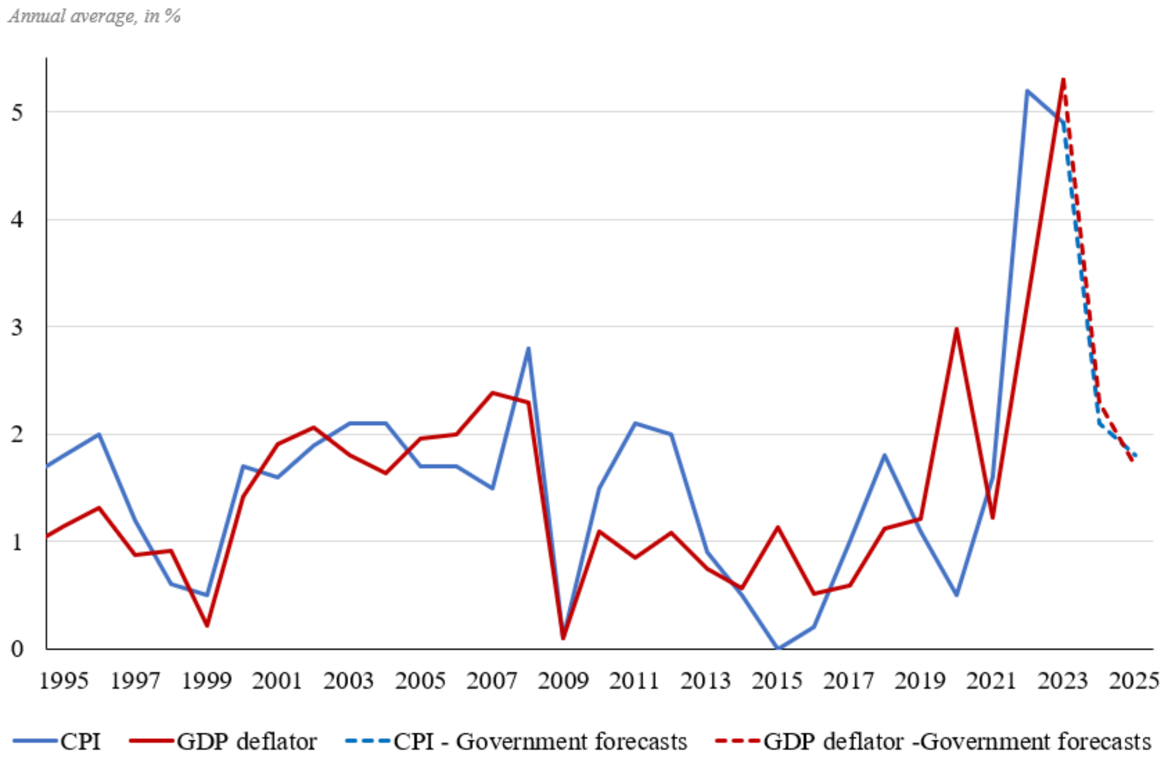
Box: an overestimated rise in the price of GDP in 2025

The Government forecasts a rise in the consumer price index (CPI) of 2.1% in 2024 and 1.8% in 2025.

However, another price index plays an important role in public finances: the GDP price or GDP deflator. It relates to the production of domestic value added (and associated taxes on products), unlike the CPI, which relates solely to the consumption of goods and services by French households, regardless of where they are produced. The GDP price is used to calculate the public finance ratios used in European governance[6].

As a general rule, CPI and GDP prices follow similar trends. However, these prices can diverge in certain periods: this was notably the case between 2020 and 2023, with differences of up to 2.5 points between their average annual growth rates in 2020.

Figure: change in GDP price and consumer price index



Sources: INSEE, PLF and PLFSS 2025

[6] Public balance as a share of GDP, used to judge whether a country has excessive deficits; structural adjustment as a share of potential GDP; debt-to-GDP ratio.

A note from the Permanent Secretariat of the High Council[7] shows that the following factors, for which forecasts are readily available, can explain a significant proportion of the difference in trends between the two variables:

- changes in short-term interest rates, which determine the prices of services provided by the banking system, which are included in household consumption but not in the CPI;

- changes in the value of the civil service index point, which is a key determinant of Government consumption and therefore, along with household consumption prices, of domestic demand prices;

- changes in the price of oil per barrel and in the euro/dollar exchange rate, which are important determinants of changes in the "terms of trade", i.e. the ratio between the price of exports and the price of imports, thus influence the gap between growth in the domestic demand deflator and growth in GDP prices.

The model, which also incorporates the purely statistical model of investment prices, predicts a gap of 0.1 point in 2024 and -0.4 point in 2025 between GDP and CPI price trends:

- In 2024, the impact of the average annual rise in short-term interest rates[8] and that of the moderate rise, relative to the CPI, in the value of the civil service index point and the price of GFCF[9], virtually offset each other;

- In 2025, the ECB's expected cut in interest rates should weigh on the trend in the household consumption deflator, and hence on the GDP deflator.

In 2024, the difference forecast by the Government between the GDP deflator and the CPI (0.2 point) is very close to these estimates.

For 2025, the difference is greater: the Government forecasts a gap of -0.1 point, compared with -0.4 point according to the above estimate. For a given CPI forecast, this means that the Government's GDP deflator growth forecast would be overestimated, with a favourable effect on nominal GDP and on public finance ratios expressed in GDP points.

c) Employment and wage bill in the private sector

36. The Government forecasts growth in the wage bill in the nonfarm market sector of +2.9% in 2024, unchanged from the forecast in the Stability Program.

37. For 2025, the Government revises its wage bill forecast downwards to +2.8%, i.e. -0.3 point compared with the Stability Program, due to a downward revision in employment.

[7] C. Lebrun, *Comprendre et prévoir les différences entre l'IPC et le déflateur du PIB*, Methodological note from the permanent secretariat of the High Council No 2024 – September 2nd 2024. This note is available (in French only) on the HCFP website.

[8] Although ECB key rates have been falling since June 12, 2024, they are on average higher in 2024 than in 2023.

[9] At the end of the 2nd quarter, the carry-over consumption deflator for all general government spending stood at 1.5%, the GFCF at 1.0%, and the household consumption deflator at 2.6%.

Table 4: wage bill in the nonfarm market sector (% change)

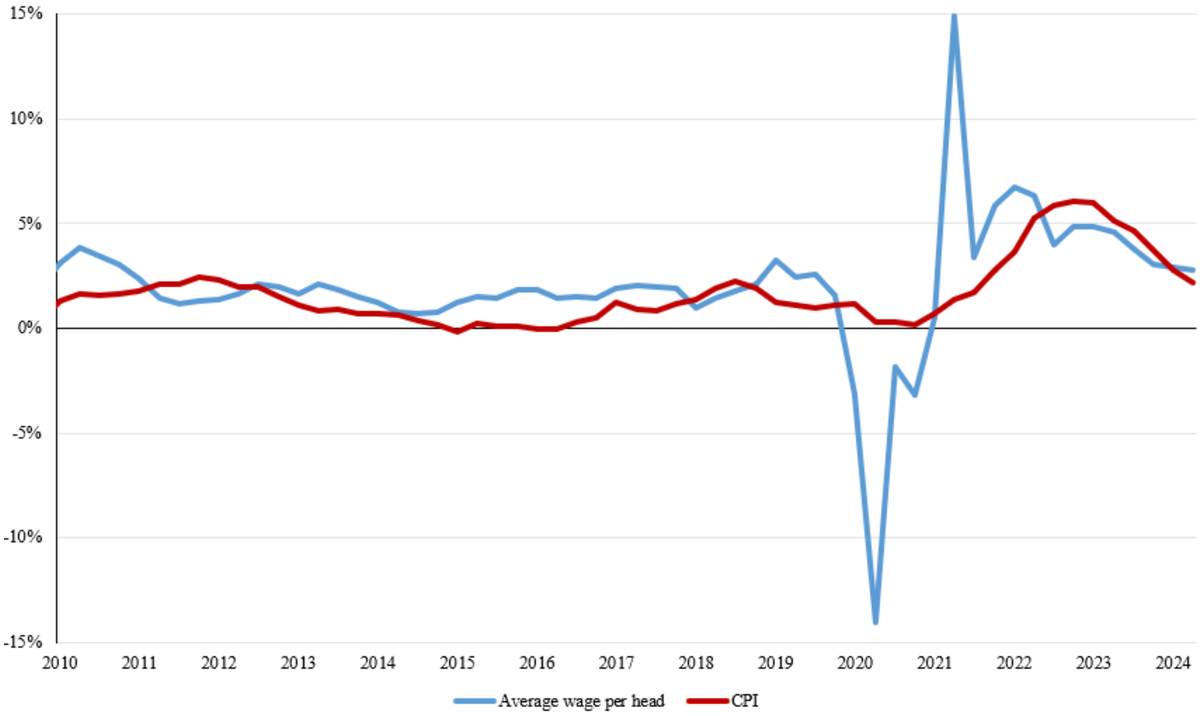
	2023	2024	2025
Payroll employment	1.2	0.3	0.1
Average wage per head	4.1	2.8	2.7
Wage bill	5.3	2.9	2.8

Sources: INSEE, PLF 2025

38. With regard to the average wage per head, the Government's forecast for 2024 appears plausible and close to those of the institutes interviewed by the High Council. The slowdown compared with 2023 is consistent with the fall in inflation and the expected decline in value-sharing bonus payments due to a less advantageous tax and social security regime (end of the lump-sum social security exemption).

39. In 2025, the Government's forecast (+2.7% after +2.8% in 2024) seems high, even if it is not out of reach. Growth in the average wage per head is set to continue declining in line with the rapid fall in inflation, even if the effect of the expected tightening of apprenticeship subsidies on the number of apprentices should mechanically push the average wage per head upwards somewhat.

Figure 6: growth in average wages per head in nonfarm market sectors and in consumer price levels (year-on-year)

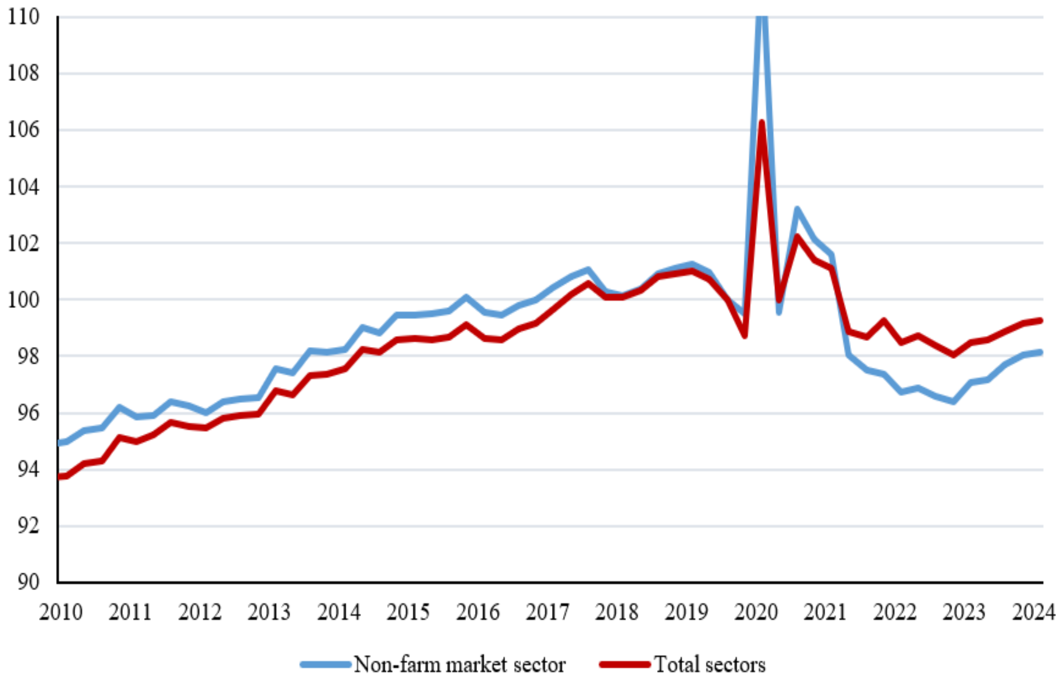


Source: INSEE

40. Job creation in the nonfarm market sectors has slowed, but remains positive in the first half of 2024. The forecast of weak employment growth of +0.3% in 2024 therefore seems plausible.

41. For 2025, the employment growth forecast, although moderate, seems a little high. On the one hand, the planned reduction in general social security contributions could begin to weigh on employment, leading to a stronger recovery in productivity gains than forecast by the Government (1.2% after 1.1% in 2024). On the other hand, in line with its assessment of GDP growth, the High Council considers the forecast growth in value added in the nonfarm market sectors to be somewhat high.

Figure 7: hourly productivity, base 100 in Q4 2019



Source: INSEE

42. **The wage bill forecast for 2024 is plausible. The forecast for 2025 is a little high, due to both the average wage per head and employment forecasts.**

III- Observations on the consistency of the introductory article of the PLF and PLFSS, with regard to the multi-year structural balance and general Government expenditure guidelines defined in the PFPL, and the realism of the revenue and expenditure forecasts of the PLF and PLFSS.

43. After presenting the Government's scenario (1), the High Council assesses the realism of the revenue and expenditure forecasts (2), then the consistency of the introductory article of

the budget bill with the multi-year targets for the structural balance[10] and general government expenditure set in the PFPL (3), and finally examines the expected changes in the public debt (4).

1- The Government's scenario

44. According to the Government's referral: "*In 2024, the projected public deficit would be 6.1% of GDP, after 5.5% in 2023, a deterioration of -0.6 point of GDP. This deterioration is entirely due to a decline in the structural balance, the cyclical balance being stable compared to 2023. [...] In 2025, the public balance would improve sharply compared to 2024, reaching -5.0% of GDP. The cyclical balance would be virtually stable, while the structural balance would improve by +1.2 point of GDP. This reduction in the deficit compared to 2024 would be mainly made possible by the measures included in the initial texts of the PLF and PLFSS 2025.*"

45. "*After having reached 45.0% of GDP in 2022 and 43.2% of GDP in 2023, the rate of compulsory levies would stand at 42.8% in 2024 and 43.6% in 2025.*

46. *After 56.4% in 2023, the public spending ratio (excluding tax credits) would rise to 56.8% of GDP in 2024, before declining to 56.3% of GDP in 2025.*"

47. "*The potential scenario used in this PLF has changed since the 2023-2027 PFPL, in order to take into account, the consequences of the revision of the GDP chronicle carried out by INSEE as part of the transition of the national accounts to base 2020. As the GDP chronicle has been revised upwards for the years prior to 2024, the diagnosis of the French economy's capacity to rebound, and therefore the output gap, has been revised. In addition, potential growth is now estimated at 1.20% per annum in 2024 and 2025, compared with 1.35% underlying the Stability Program.*"

1- Assessment of the realism of revenue and expenditure

48. The High Council assesses the realism of the revenue and expenditure estimates on the basis of the information available to it.

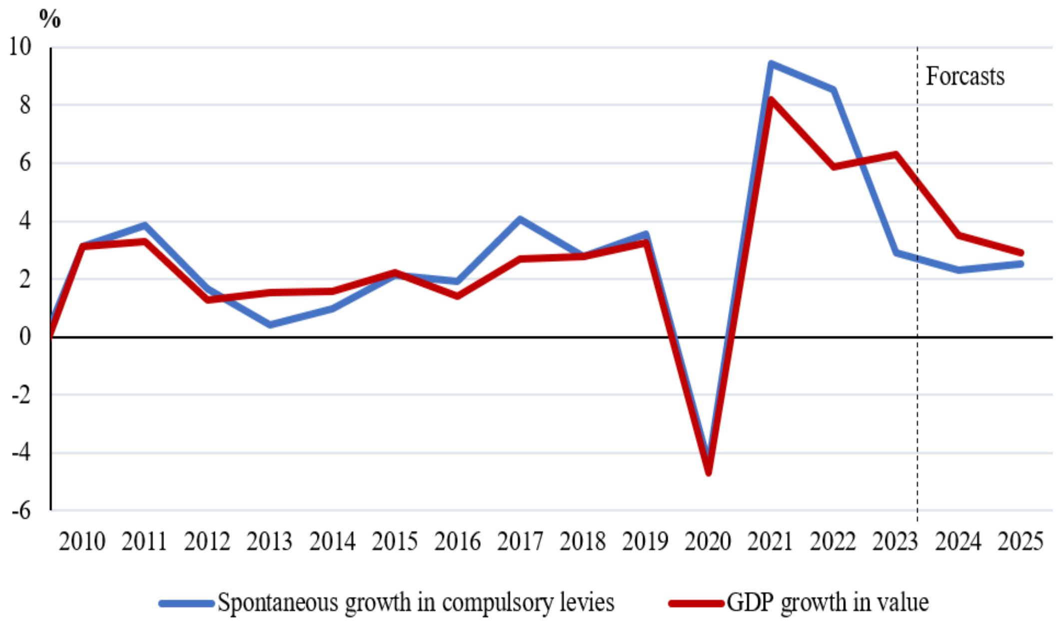
a) Government revenues

49. In 2024, according to the Government, taxes and social security contributions would increase by 2.6% to €1,250bn. This forecast from the PLF for 2025 has been revised downwards compared with the Stability Program (-€14.3bn), due to the weakness of tax revenues, particularly households' income tax and VAT, until the end of August 2024.

50. Spontaneous growth in compulsory levies in 2024 would then reach 2.3%, a rate significantly lower than GDP growth in value terms (+3.5%) and this for the second year running.

[10] The structural balance is defined as the general government balance adjusted for the direct effects of the economic cycle and exceptional events.

Figure 8: growth in GDP in value terms and in compulsory levies



Sources: INSEE, PLF for 2025

51. The forecast for spontaneous growth in VAT revenues in 2024 is significantly lower than in the Stability Program (+0.9% vs. +3.2%). This new forecast, consistent with the weak tax revenues recorded up to August, partly reflects weaker-than-expected growth in domestic demand and faster-than-expected disinflation, leading to a downward revision of the VAT tax base forecast. In addition, VAT receipts are growing at a slower rate than its tax base (forecast at +1.9%). VAT refunds and rebates, which rose rapidly in 2023, will again outpace gross VAT receipts in the first eight months of 2024.

52. Income tax (IR) revenues are expected to fall for the second year running in 2024, by -0.6%. This represents a significant revision in the evolution of income tax in 2024 compared with the Stability Program (+2.3%), reflecting the higher-than-expected reimbursements of the withholding tax in July.

53. The Government forecasts a spontaneous rise in social security contributions of 3.8% in 2024, a slightly higher rate than that of the total wage bill, both private and public. This forecast is plausible, given the expected decline in value-sharing bonuses exempt from contributions, due to the tightening of their social security regime, and the fact that per head wages are rising faster than the minimum wage (SMIC), which limits the reduction in contributions on low wages. The revaluation of the SMIC in November, which will lead to an increase in contribution reductions over the last two months of the year and has not been taken into account in the forecast, does however constitute a downside risk.

54. Against the backdrop of a slowing real estate market, the French Government forecasts a 12.6% drop in the duties on real property transactions this year. Even if a gradual upturn in sales of older real estate, aided by the ongoing fall in interest rates, seems to be in the offing, the Government's forecast seems high in view of the accounting data for the first 8 months, which show a decline of around 20% compared with the same period in 2023.

55. Lastly, the Government is forecasting a moderate rise in corporate income tax (+1.5%, of which +0.3% spontaneous), consistent with available data, but affected, as every year, by the

considerable uncertainty surrounding the “fifth instalment” paid in December on the basis of expected results for the current year.

56. For 2025, the forecast for compulsory levies is €1,311 bn, up €61 bn (+4.9%) on 2024, resulting from spontaneous growth of €31 bn (+2.5%), plus €30 bn in new measures, an amount that the High Council is unable to assess due to lacking information.

57. Spontaneous growth in taxes and social security contributions (i.e., excluding new measures) would remain slightly below GDP growth in value terms (+2.5% vs. +2.9%), i.e., an “elasticity” of less than 1 for the third consecutive year.

58. This forecast seems consistent with the macroeconomic scenario adopted.

59. The spontaneous increase in the VAT forecast (+2.2%) is conservative, as it is again lower than the growth in the tax base anticipated by the Government (+2.7%).

60. Spontaneous growth in social security contributions is forecast at 2.5%, which is cautious because it is lower than the growth in the wage bill, even though wages are expected to rise at a higher rate than the minimum wage. On constant field, the reduction in contributions on low-wage earners should therefore be less significant.

61. The forecast of a sharp rebound in spontaneous growth in personal income tax is possible, particularly in view of the real income gains expected in 2024, which, in contrast to the two previous years, should improve the balance paid on income from 2024 to 2025, thanks to the progressivity of the tax scale. However, the level of this rebound forecast by the Government, i.e. +5.8%, seems a little high.

62. The duties on real property transactions growth forecast (+7.1%) for 2025 also appears high. While a rebound seems likely thanks to the favourable impact of the ongoing reduction in the cost of mortgages, the scale of the rebound forecast by the Government assumes a rapid and vigorous market turnaround.

63. Spontaneous growth in corporate income tax, which is zero in the Government's forecast for 2025, is reasonable. According to the Government, the effects of the expected 1.3% rise in taxable income in 2025, which is lower than the rise in GDP in value terms, would be offset by a lower balance in respect of 2024, with taxable income expected to fall in 2024.

64. **For 2024, the High Council notes that the forecast for spontaneous growth in compulsory levies, which has been significantly revised downwards compared with the Stability Program, is consistent with the accounting data available up to August. For 2025, the spontaneous growth forecast is consistent with the macroeconomic scenario adopted, and therefore slightly high overall, given the optimistic growth and inflation forecasts used in this scenario.**

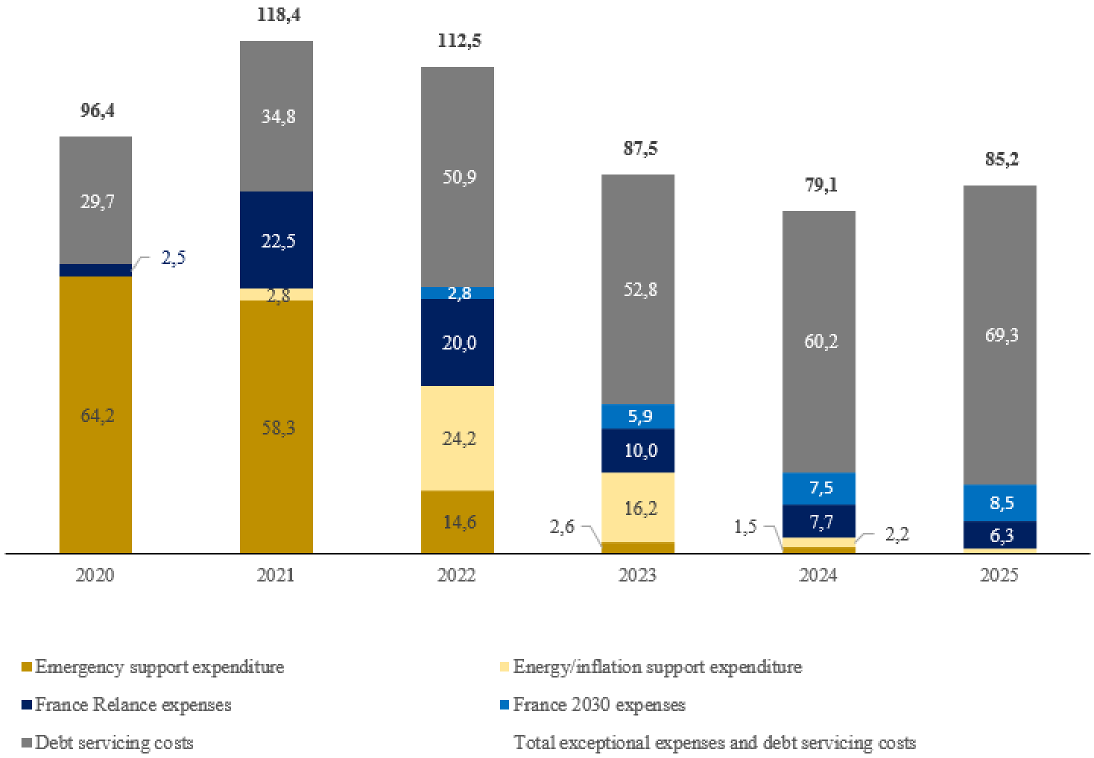
b) Expenditure

65. **In 2024**, according to the Government, public spending excluding tax credits will increase by 4.2% in value at current exchange rates to 56.8 points of GDP, 0.4 point of GDP higher than in 2023 (56.4 points of GDP). In volume terms, adjusted by the consumer price index excluding tobacco (IPCHT), they would increase by 2.1%, after falling by 1.0% in 2023. Adjusted by the GDP deflator, a price index more relevant to the analysis of public finances, public spending excluding tax credits would increase by 1.8%, after falling by 1.4% in 2023.

66. Exceptional expenditure, i.e. emergency support, inflation support, stimulus spending and the “France 2030” program, would reach €18.9 bn in 2024, then €15.9 bn in 2025, despite

the virtual extinction of inflation support and the end of emergency support spending. Conversely, the cost of debt would rise to €60.2 bn in 2024, then to €69.3 bn in 2025, more than double its 2020 level, under the combined effect of higher debt and higher interest rates. As a result, total exceptional expenditure and debt servicing costs would amount to €85.2 bn in 2025 (a higher level than in 2024, and only €40 bn less than the maximum level reached in 2021).

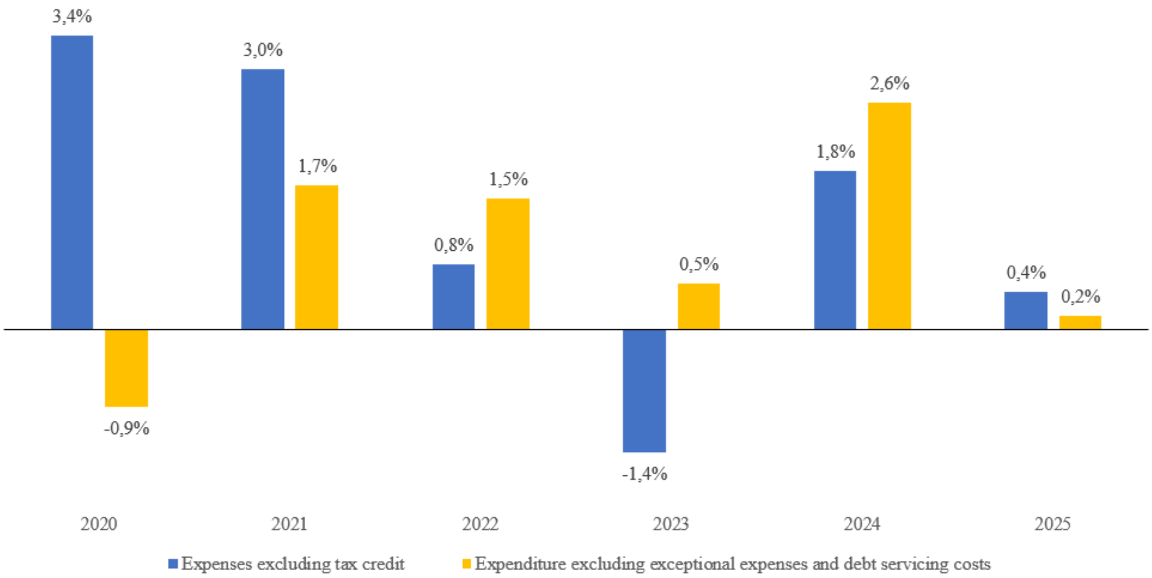
Figure 9: exceptional expenses and cost of debt between 2020 and 2025 (in €Bn)



Sources: INSEE, forecasts PLF and PLFSS for2025
Reading note: exceptional expenditure is made up of support expenditure linked to the health crisis and inflation, stimulus expenditure and France 2030 expenditure. Debt charges for general government are assumed to be equal to D41, including FISIM (financial intermediation services indirectly measured).

67. Excluding exceptional expenditure and the cost of debt, spending would increase by 2.6% in volume terms in 2024, deflated by the price of GDP, after rising by 0.5% in 2023. Thus, once the effect of exceptional expenditure and the debt burden on public spending have been neutralized, the rise in spending would be significantly higher in 2024 than in 2023.

Figure 10: Public spending in volume, deflated by GDP price (in %)



Sources: INSEE, forecasts PLF and PLFSS for2025
Reading note: exceptional expenditure is made up of support expenditure linked to the health crisis and inflation, stimulus expenditure and France 2030 expenditure. The cost of debt for general government is assumed to be equal to D41 including FISIM (financial intermediation services indirectly measured).

68. 68. Expenditure excluding tax credits forecast for 2024 has been revised sharply upwards (+€20.4 bn) compared with the April 2024 Stability Program forecasts, and would reach 56.8 points of GDP compared with 56.3 points of GDP in the Stability Program. More than half of this revision is due to the dynamism of local authority spending, as indicated by the accounting data available up to August, in both operating and capital expenditure. The second half is essentially due to government spending, which is expected to be higher than forecast in April, although below the initial Budget Law for 2024: the cancellation of appropriations decided at the start of the year was in fact offset by the substantial amount of appropriations carried over from 2023. Lastly, and more marginally, it is due to social security spending, with the dynamism of spending on outpatient care, and in particular on daily sickness benefits, leading to an upward revision of the Ondam[11] forecast.

69. **In view of the latest information available, the revised forecast for public spending excluding tax credits for 2024 is credible. This forecast reflects particularly sustained dynamism, especially excluding exceptional expenditure and debt servicing, and a significant upward revision compared with the forecasts in the April Stability Program.**

70. **In 2025**, the increase in expenditure excluding tax credits will fall significantly compared to 2024, with a rise of 2.1% in value and 0.4% in volume (the rise in volume being identical with a correction by the HICP and a correction by the GDP deflator). Public spending excluding tax credits will reach €1,693.3 bn, up €35.5 bn on 2024. As a percentage of GDP, it would fall to 56.3 points from 56.8 points in 2024. Excluding exceptional[12] expenses and the

[11] French national target for health insurance expenditure.
[12] Exceptional expenditure comprises emergency support, inflation support, stimulus spending and France 2030.

cost of debt, the increase in spending in volume terms would be 0.2%, compared with 2.6% in 2024.

71. Compared with the April forecasts contained in the Stability Program, public spending has been revised upwards, representing 56.3 points of GDP compared with 55.6 points of GDP forecast in the Stability Program. This increase is due partly to the resumption of the dynamism of local and government spending in 2024, and partly to savings in Social security administrations spending that are lower than forecast in April, partly offset by savings in spending detailed by sub-sector below.

72. For the Government, budget expenditures are forecast by the ceiling letters at the same level as the 2024 budget law, i.e. a saving on the balance estimated at €15.3 bn compared with a trend, the calculation methods of which have not been communicated to the High Council. They would be lowered by a further €5 bn by Government amendments introduced during the parliamentary debate. The savings in government spending introduced in the PLF 2025 would therefore total €20.3 bn, or 0.7 point of GDP. The Government's spending norm would be €3 bn lower than in 2024 (€486 bn after €489 bn), i.e. a 2.3% reduction in volume, which would represent the biggest reduction of the decade[13]. The High Council has not been informed of the breakdown of this effort between the various budgetary missions. Some missions would see their budget expenditures increase compared with 2024, in particular the Defense mission, as would the levy on revenues to the EU, which would concentrate the savings effort on the other missions. The realism of this effort is made particularly difficult to assess by the parsimony of the information received. In any case, the final target for the Government's spending norm will be difficult to achieve, given the scale of the reduction it implies compared with 2024.

73. In the field of the Social security administrations, the increase in Ondam would be limited to 2.8% compared with 2024, after a 3.3% increase in 2024 compared with 2023. Savings of around €4.9 bn would be implemented, compared with an estimated trend of 4.7%, supported by the new medical convention of June 2024, which sets the medical consultation fee at €30 from December 1, 2024, and by the 4% increase in CNRACL contribution rates for hospital civil service employers. Expenditure savings would be made up of unspecified measures at this stage: “efficiency measures” in the field of establishments and city professionals, compliance with the biology protocol signed on July 27, 2023, price cuts on healthcare products, and an increase in policyholder contributions going beyond the full-year effect of the doubling of fixed contributions and deductibles coming into force in 2024. The difficulty of generating savings of this magnitude, on which the High Council has little information, leads it to consider that the Ondam trajectory for 2025 appears highly optimistic. Excluding Ondam, other expenditure savings have been introduced in the Social security administrations field, in particular a postponement of the indexation of retirement pensions from January to July 2025, reducing expenditure by €3.5 bn in 2025 (and a further €0.5 bn in the government field), and measures relating to unemployment insurance for €0.4 bn.

74. For local public administrations, the Government forecasts continued strong growth in capital expenditure (+6.9%), but a marked slowdown in operating expenditure (+0.9% after +4.6%), driven by savings, estimated by the Government at €5 bn (0.2 point of GDP), through the introduction of “resilience mechanisms” aimed at smoothing local spending over the long term, despite €1.3 bn in additional expenditure due to the expected rise in CNRACL contributions for local civil servants. The details of these “resilience mechanisms” and other

[13] The Government's spending norm at constant scope has been rising steadily in volume terms from 2015 to 2021, following a 3.9% fall in volume terms in 2015.

cost-cutting measures have not been specified, and the forecast of a 0.9% decline in the volume of operating expenditure by the public sector seems particularly fragile.

75. Thus, the updated forecasts of expenditure growth excluding tax credits for 2025 imply major savings measures that are largely undocumented or poorly documented at this stage, particularly in the social security sector (for around €4.9 bn) and in the Government sector (limited information for €15.3 bn of savings, and no information for a further €5 bn). The details of the "resilience mechanisms" that would enable us to contain the rise in total expenditure by the public sector to 0.2% in volume, after 4.8% in 2024, have yet to be defined. Lastly, expenditure-saving measures in the ODAC field, which would make it possible to reduce spending by 1.0% in volume, adjusted for the IPCHT, after an increase of 3.6% in 2024 and 0.8% in 2023, will also require a significant effort, with some measures not yet documented.

76. **All in all, the public spending growth target set for 2025 appears particularly ambitious, and if it is to be achieved, the announced savings measures will have to be put in place quickly, although the details of how this will be achieved are as yet poorly defined.**

c) The general government balance

77. The Government's scenario forecasts an actual public deficit of 6.1 points of GDP in 2024, after 5.5 points in 2023, improving to 5.0 points in 2025. The deficit forecast for 2024 marks a deterioration of 1.7 point compared with the budget law for 2024 (4.4 points of GDP) and 1.0 point compared with the Stability Program (5.1 points of GDP). This is partly due to lower compulsory levies, to the voluntarist nature of certain assumptions, notably those concerning local authority spending, as noted by the High Council in its opinion on the Stability Program of April 2024[14], and to the lack of implementation of new measures announced as to be taken during the year.

78. The deficit forecast for 2025 (5.0 points of GDP) is fragile. In particular, it includes measures which are not included in the PLF, but which the Government plans to incorporate by amendment during the parliamentary debate, with the result that the introductory article of the PLF presents a public deficit 0.2 point of GDP lower than the forecast used in this opinion, at 5.2 points of GDP. It assumes the implementation of a large number of measures to curb spending and raise taxes, most of which are not well documented, and whose adoption is more uncertain than usual.

79. The public deficit in 2024, at 6.1 points of GDP, would be well above the threshold of 3 points of GDP set by the Stability and Growth Pact in force under the European Union's reformed economic governance framework[15], making it necessary to adopt immediate measures to reduce the deficit, both to meet our European commitments and to maintain control of our public finances.

[14] Opinion no. HCFP-2024-2 on the macroeconomic forecasts associated with the Stability Program for the years 2024 to 2027, available on the HCFP website, hcfp.fr.

[15] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on effective coordination of economic policies and multilateral surveillance of budgetary positions and repealing Council Regulation No 1466/97.

Table 5: decomposition of the public balance presented by the Government

In GDP points	**PLF for 2025 (Oct. 2024)**			*PFPL (December 2023)*		
	2023	**2024**	**2025**	***2023***	***2024***	***2025***
Public balance (1)	**-5.5**	**-6.1**	**-5.0***	***-4.9***	***-4.4***	***-3.7***
cyclical component (2)	-0.3	-0.4	-0.4	*-0.7*	*-0.6*	*-0.4*
One-off and temporary measures (3)	-0.1	-0.1	-0.1	*-0.1*	*-0.1*	*-0.1*
Structural balance (1-2-3)	**-5.1**	**-5.7**	**-4.5***	*-4.1*	*-3.7*	*-3.3*

Note: figures are rounded to the nearest tenth, which may result in slight discrepancies. Source: budget law for 2025, programming law of December 2023.

** The forecasts provided by the Government as part of the referral differ from those presented in the draft introductory article of the PLF for 2025.*

80. As the general escape clause of the Stability Pact was deactivated at the end of 2023, the Council of the European Union, acting on a proposal from the European Commission, adopted on July 23, 2024 a decision[16] establishing the existence of an excessive deficit in France due to non-compliance with the deficit rules for the year 2023[17]. The corrective arm of this procedure stipulates that the structural adjustment must be at least 0.5 point of GDP per year. According to the PLF 2025, the improvement in the public balance in 2025 compared with 2024 would be based entirely on an improvement in the structural balance of 1.2 point of GDP, while the cyclical deficit and the deficit linked to one-off and temporary measures would remain constant (-0.4 and -0.1 point of GDP respectively). The structural adjustment planned for 2025 would therefore comply with the requirements of the excessive deficit procedure.

81. The structural adjustment of 1.2 point of GDP in 2025 implies a structural effort of 1.4 point (€42 bn), taking into account the negative impact of 0.2 point of spontaneous growth in compulsory levies, at constant legislation, lower than that of GDP. This effort is based 70% on tax increases (€30 bn, or one point of GDP) and 30% on expenditure, which represents the contribution of spending to improving the structural balance (€12 bn, or 0.4 point of GDP). The expenditure effort corresponds to the impact on the expenditure ratio of the difference between the expenditure growth rate and potential growth in value. Thus, when the economic situation is neutral (GDP growth equal to potential growth) and revenues grow in line with GDP, the structural effort is equal to the variation in the deficit, and therefore measures the effort made to reduce it.

82. In this case, this structural effort is partly weakened (by -0.2 point of GDP) by growth in non-tax revenues and compulsory levies, at constant legislation, below that of GDP.

83. These proportions differ from those used by the French Government, which does not rely on the structural effort, but estimates that the budgetary consolidation effort amounts to €60 bn, i.e. €40 bn in spending cuts and €20 bn in tax increases.

[16] Council Decision 2024/0169 on the existence of an excessive deficit in France.
[17] Deficit of -5.5 points of GDP, above the reference value of 3 points of GDP, whose excess is neither considered exceptional within the meaning of the Treaty and the Stability and Growth Pact, nor temporary.

84. The figure of 40 Md€ represents the effort to reduce expenditure in relation to the trend. This trend, which the High Council is not in a position to assess, is estimated at a very high level of +2.8% in volume per year, a value well above both potential growth (+1.2%) and actual growth (+1.1%). It is the reference to this spending trend that explains why the Government's effort, quantified under this convention at 1.3 point of GDP, reduces the ratio of spending to GDP by only 0.4 point.

85. The €20 bn in compulsory deductions does not take into account certain measures included in the PLF (part of the increase in the domestic tax on final electricity consumption, for example). In addition, the reduction in exemptions from employer contributions, normally classified as revenue, is mentioned as a reduction in expenditure.

86. **The Government's public balance forecast of -5.0 points of GDP for 2025 implies a significant increase in compulsory levies and cost-cutting measures, not all of which have been documented and will be difficult to implement. There is a high risk that this target will be exceeded.**

87. **The structural balance presented by the Government amounts to 5.7 points of GDP in 2024 and 4.5 points in 2025, representing a structural adjustment of 1.2 point. Given the existence of an excessive deficit in France in the light of the results for 2023, the corrective arm of this procedure stipulates that the adjustment of the structural balance must be at least 0.5 point of GDP per year.**

88. **The High Council notes that the structural adjustment of 1.2 point of GDP in 2025 implies a structural effort of 1.4 point (€42 bn), 70% of which is based on measures to increase compulsory levies (€30 bn, i.e. one point of GDP) and 30% on expenditure, which represents the contribution of spending to improving the structural balance (€12 bn, i.e. 0.4 point of GDP).**

89. **These proportions differ from those adopted by the Government, which for its part does not rely on the structural effort, but estimates that the fiscal consolidation effort amounts to €60 bn, i.e. €40 bn in spending cuts (two-thirds) and €20 bn in higher compulsory levies (one-third).**

2- Assessment of consistency with the multi-year targets for the structural balance and general government expenditure

90. Under the terms of amended Organic Law No. 2001-692 of August 1, 2001 on the budget laws, the High Council is required to give its opinion on the consistency of the introductory articles, i.e. the general balance of the PLF and the PLFSS for 2025, with the multi-annual structural balance and expenditure guidelines referred to in Article 1 A of the Organic Law and defined in the current PFPL of December 18, 2023 for the years 2023 to 2027.

91. According to the same organic law, a structural balance deviation is considered significant when it represents at least 0.5% of GDP in a given year, or at least 0.25% of GDP per year on average over two consecutive years.

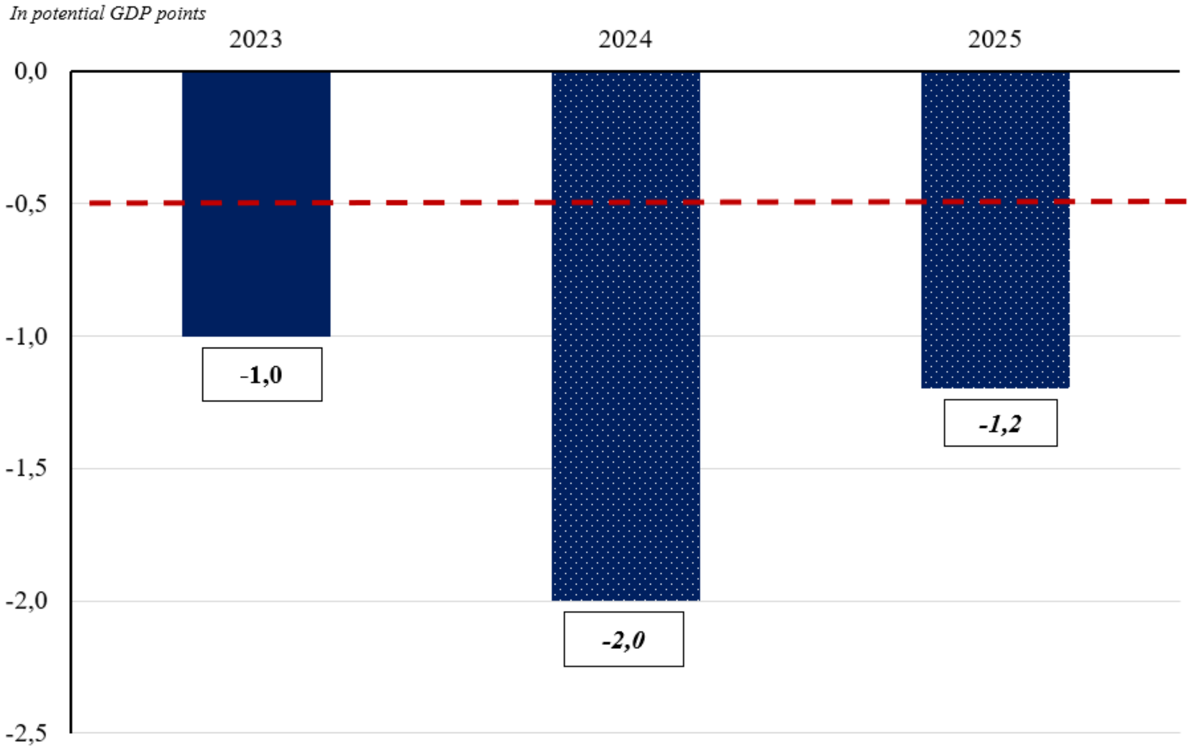
92. The potential scenario adopted by the Government in the PLF for 2025 has changed in relation to the PFPL. It considers the fact that the national accounts have been converted to a 2020 base since the enactment of the PFPL. Potential growth is now estimated at 1.20% per annum in 2024 and 2025, compared with +1.35% per annum in the PFPL.

93. As a result of the change in the basis of the national accounts, which entails changes in the scope of the transactions considered in the calculation of GDP, it does not appear possible

to calculate the structural balance presented in the PLF for 2025 within the potential framework of the PFPL. That's why, the structural balances presented in the PLF for 2025 and in the PFPL are assessed in two different potential frameworks.

94. On the basis of the potential GDP data in the PLF for 2025, the structural balance would amount to -5.7 points of potential GDP in 2024 and -4.5 points in 2025. The deviation of the structural balance from the programming law would amount to -2.0 points of potential GDP in 2024 and -1.2 point in 2025. The shift to base 2020 in the national accounts after the enactment of the PFPL can only explain less than half of these deviations[18]. These deviations are well above 0.5 point of potential GDP, and suggest that they will be significant under the definition of the Organic Law when the High Council will examine the budget settlement bills for the relevant years.

Figure 11: structural balance gap between PLF and PFPL



Note: the horizontal red line indicates the threshold of a significant deviation under the definition of the organic law.
Source: PLF for 2025, programming law of December 2023.

95. With regard to expenditure, the High Council must give its opinion on the consistency of the trajectory of the 2025 budget with the target for general government expenditure, expressed in volume, and the forecast, expressed in billions of current euros, for this expenditure in value terms, set out in the December 2023 PFPL.

96. The methodological changes associated with the changeover to the 2020 base for the national accounts after the enactment of the PFPL have significantly affected the level of public

[18] In 2023, these can be estimated at around half a point of GDP: according to INSEE, the change in base has increased the public deficit by just over 0.1 point of GDP; it has also led the Government to revise the output gap upwards, and therefore the cyclical component of the deficit downwards by 0.4 point of GDP.

expenditure and make it impossible to compare the levels of expenditure in value terms set out in the PFPL and in the PLF for the years 2024 and 2025. Changes in public spending in volume terms are more comparable, even if not entirely so.

97. Public spending excluding tax credits, deflated by the consumer price index excluding tobacco, was expected to fall by 1.3% in volume terms in 2023 in the PFPL[19], then to rise by 0.5% in 2024 and 0.8% in 2025 in the PLF. According to the PLF for 2025, after declining by 1.0% in 2023, spending[20] would rise sharply by 2.1% in 2024, then slow to +0.4% in 2025. Cumulatively since 2022, spending in volume terms would rise by 1.1% in 2024 and 1.5% in 2025 according to the PLF, compared with a 0.8% decrease in 2024 and a return in 2025 to the 2022 level forecasted in the PFPL. The cumulative difference between the PLF and the PFPL in terms of expenditure in volume since 2022 is therefore high, reaching 1.9% in 2024 and 1.5% in 2025.

Table 7: projected change in public spending in value and volume terms under the PLF and PFPL in %

	PLF for 2025 (Oct. 2024)				*PFPL (December 2023)*			
	2023	**2024**	**2025**	**2025/2022**	***2023***	***2024***	***2025***	**2025/2022**
Expenditure in value	3.8	4.2	2.1		*3.4*	*3.0*	*2.8*	
Expenditure in volume	**-1.0**	**2.1**	**0.4***	***+1.5***	***-1.3***	***0.5***	***0.8***	***0.0***
Deviation from the PFPL	***+0.3***	***+1.6***	***-0.4***	***+1.5***		/		/

Sources: PLF for 2025, programming law of December 2023.
Note: public spending excluding tax credits. Expenditure volumes are deflated by the CPI excluding tobacco.
** This forecast, provided by the Government in response to the High Council's referral, differs from the one presented in the draft introductory article of the PLF for 2025.*

98. The programming law for the years 2023 to 2027, adopted only a few months ago, is already an outdated reference, given the sharp deterioration in public finances in 2023 and 2024.

99. **Under the terms of amended Organic Law No. 2001-692 of August 1, 2001 on the budget laws, the High Council is required to give its opinion on the consistency of the trajectory of the structural balance and general government expenditure set out in the PLF for 2025 with that of the current PFPL of December 18, 2023 for the years 2023 to 2027.**

100. **The High Council notes that the structural balance presented by the Government would amount to -5.7 points of GDP in 2024 and -4.5 points in 2025. The difference between the projected structural deficit and that in the programming law would amount to 2.0 points of GDP in 2024 and 1.2 point of GDP in 2025. These deviations are well above 0.5 point of GDP, and suggest that they will be significant under the definition of the organic law when the High Council will examine the budget settlement bills for the**

[19] In 2014 national accounts.
[20] Expressed in 2020 national accounts base.

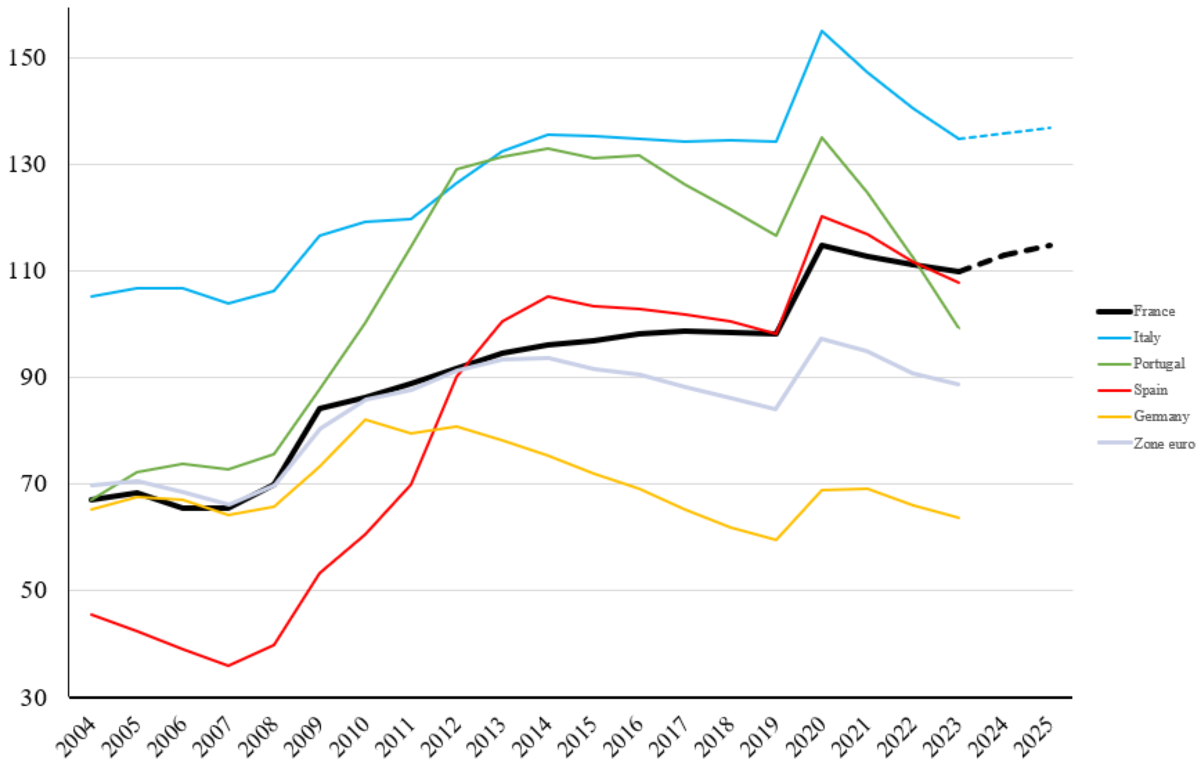
relevant years. The High Council notes that the cumulative differences in spending in volume terms between the PLF and the PFPL are high in 2024 and 2025.

101. **The High Council considers that the PFPL for the years 2023 to 2027, even though it was promulgated less than a year ago, is already an outdated reference, due to the sharp deterioration in the public finance situation in 2023 and 2024. The trajectory of the medium-term fiscal-structural plan, which France must submit to the European Commission at the end of the month, is now a more relevant reference.**

3- Public debt

102. Despite particularly high public deficit levels between 2021 and 2023 (-5.6 points of GDP on average), the public debt-to-GDP ratio fell by 5 points between 2020 and 2023, to 110 points of GDP, benefiting at its denominator from a significant increase in GDP in value terms due to the sharp rise in prices. However, the other Member States of the eurozone have made overall greater progress in reducing their debt. As a result, the gap between France's debt ratio and the eurozone average continued to widen between 2020 and 2023. France is now the third most indebted country in the eurozone, behind Greece and Italy.

Figure 12: Eurozone public debt-to-GDP ratio (in %)



Source: PLF for 2025, Italy's medium-term fiscal-structural plan, INSEE and Eurostat.
Note: the MTPs for Germany, Spain and Portugal had not been published at the time of writing.

103. According to Government forecasts, the debt-to-GDP ratio is set to rise sharply again in 2024 and 2025, returning in 2025 to the peak reached in 2020 during the health crisis, at almost

115 points of GDP. On the one hand, the public deficit would remain very high. On the other hand, the debt-stabilizing deficit would fall sharply, due to much lower nominal growth (+3.5% in 2024 and +2.9% in 2025, compared with +6.5% in 2023). As a result, the gap between the public deficit and the debt-stabilizing deficit would rise to 2.4 points of GDP in 2024 and 1.8 point in 2025, accounting for most of the sharp rise in the debt-to-GDP ratio.

Table 8: public debt and deficit

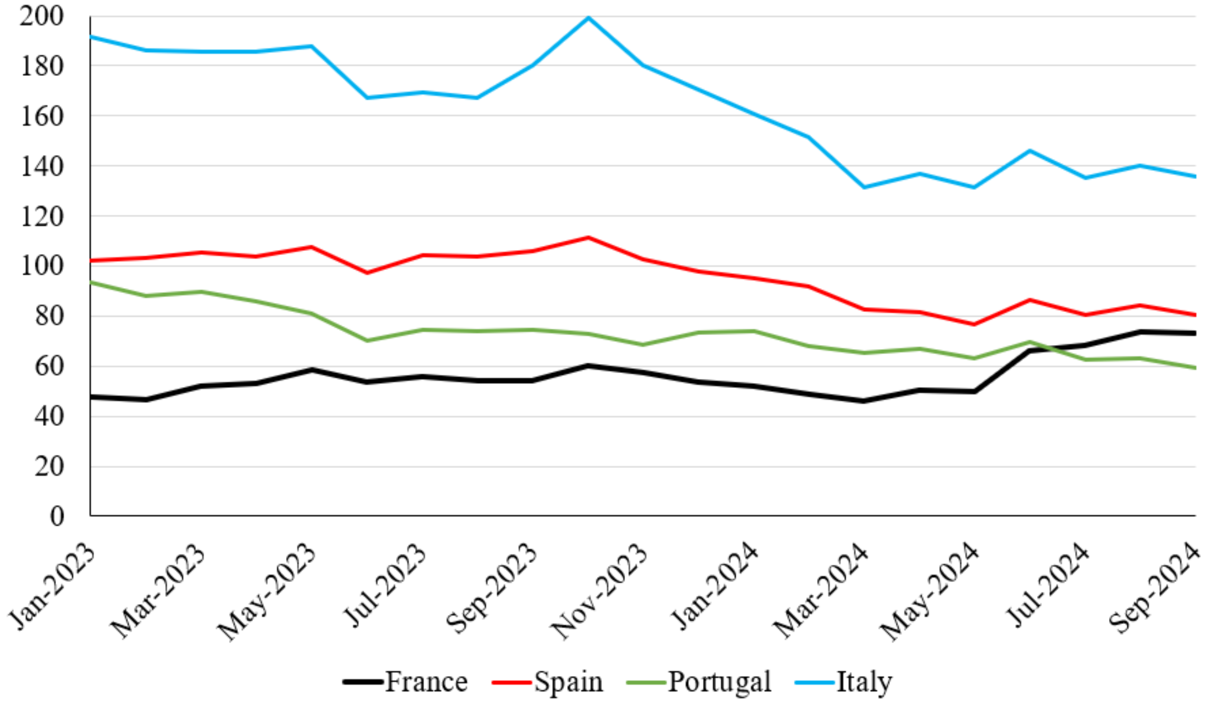
In GDP points	**2023**	**2024**	**2025**
Public deficit	**5.5**	**6.1**	**5.0***
Debt-stabilizing deficit	*6.6*	*3.7*	*3.2*
Public debt	**109.9**	**112.9**	**114.7**

Source: PLF for 2025.

** The forecast provided by the Government in its referral to the High Council differs from that presented in the draft introductory article of the PLF for 2025.*

104. The new debt trajectory is significantly worse than in the April 2024 Stability Program, and even more than in the December 2023 programming law. The PLF's forecast for the public debt-to-GDP ratio in 2025 is thus 1.5 point of GDP above that of the Stability Program published last April, and 5 points above that of the December 2023 PFPL.

Figure 13: spread between 10-year sovereign rates and those of Germany (in basis points)



Source: Banque de France.

105. A higher level of indebtedness increases the cost of debt, at a given interest rate, and therefore leaves less fiscal space to finance priority investments, in particular the ecological transition. This high level of debt also exposes public administrations more to the risk of rising interest rates.

106. As a result of increasing debt level and long-term interest rates, the general public debt burden is already set to rise sharply in 2024 and 2025, reaching 2.3 points of GDP (i.e. nearly €70 bn in current terms) in 2025, compared with 1.9 point of GDP in 2023 (i.e. €53 bn in current terms). The widening of the long-term interest rate differential with Germany since May (see chart), which has pushed France's 10-year rates above those of Portugal, will also contribute to a gradual increase in the general government interest burden.

107. **Despite a slight fall in the debt-to-GDP ratio, France's relative debt position within the eurozone has deteriorated over the last few years. It is now the third most indebted country in the zone, behind Greece and Italy. According to Government forecasts, the debt-to-GDP ratio is set to rise sharply again in 2024 and 2025, returning in 2025 to the peak reached during the health crisis, at almost 115 points of GDP.**

108. **The medium-term sustainability of public finances therefore calls for heightened vigilance and immediate, sustained efforts over the long term. It is imperative that France stays on track with its medium-term fiscal-structural plan, in order to keep control of its public finances and debt, while financing priority investments and ensuring that its growth potential is not overly affected.**

*

*   *

This opinion will be published in the *Official Journal* of the French Republic and attached to the budget bill for 2025 and the social security financing bill when it is submitted to the French Parliament.

Done in Paris, on October 08, 2024.

For the High Council of Public Finance,
The First President of the Court of Audit,
Chairman of the High Council of Public Finance

Pierre MOSCOVICI

Annex 1: Macroeconomic scenario attached to the budget bill for 2025

Economic forecasts for France (Deviation from the 2022-2027 stability programme)	2023	2024	2025
Goods and services, real terms[1]			
Gross domestic product (wda)	**1.1** (0.2)	**1.1** **(0.1)**	**1.1** **(-0.3)**
Final household consumption	0.9 (0.3)	0.7 (-0.9)	1.3 (-0.3)
Public final consumption	0.8 (0.3)	2.7 (2.6)	-0.2 (-0.9)
Grossed fixed capital formation	0.7 (-0.4)	-1.7 (-1.3)	0.4 (-0.3)
Of which: non-financial enterprises	3.1 (0.4)	-1.9 (-2.4)	0.6 (-0.3)
- general government	7.1 (2.6)	3.0 (1.3)	-0.7 (-0.9)
- households (excluding individual entrepreneurs)	-8.2 (-3.1)	-6.0 (-1.9)	0.4 (0.6)
Imports	0.7 (0.8)	-1.1 (-1.9)	2.6 (-0.5)
Exports	2.5 (1.0)	2.1 (0.0)	3.4 (-0.5)
Contributions to real GDP growth			
Private domestic demand (excluding inventories)	0.4 (-0.1)	-0.1 (-0.8)	0.8 (-0.2)
Public demand	0.5 (0.2)	0.8 (0.7)	-0.1 (-0.3)
Inventories	-0.4 (0.0)	-0.6 (-0.4)	0.1 (0.1)
Foreign trade	0.6 (0.1)	1.1 (0.7)	0.2 (0.0)
Prices and nominal aggregates			
Consumer prices inflation index	**4.9** (0.0)	**2.1** (-0.4)	**1.8** (0.1)
Core inflation	5.1 (0.0)	1.9 (-0.3)	1.8 (0.1)
Gross domestic product deflator	5.3 (-0.2)	2.3 (-0.3)	1.73 (0.0)
Nominal gross domestic product (wda)	6.5 (0.1)	3.5 (-0.1)	2.9 (-0.2)
Productivity, employment and wages			
Nonfarm Market sector:			
- Effective labour productivity	1.0 (1.1)	1.1 (0.1)	1.2 (0.2)
- Paid work (AA, head count) *	1.2 (-0.1)	0.3 (0.1)	0.1 (-0.6)
- Paid work (AA, in thousands) *	207 (-29)	50 (11)	20 (-113)
- Paid work (yoy, in thousands) *	84 (9)	27 (-45)	53 (-144)
- Average wage per head	4.1 (-0.1)	2.8 (0.1)	2.7 (0.4)
- Real average wage per head	-0.8 (-0.1)	0.6 (0.4)	0.8 (0.2)
- Wage bill	5.3 (-0.2)	2.9 (0.0)	2.8 (-0.3)
Total employment (AA)	1.1 (0.0)	0.7 (0.3)	0.3 (-0.3)
Total employment (yoy, in thousands)	253 (83)	134 (11)	100 (-169)
Non-financial corporate account			
Value added	7.9 (0.5)	0.5 (-2.6)	2.3 (-0.7)
Gross operating income	13.9 (3.1)	-4.3 (-7.2)	0.5 (-2.5)
Margin rate	**32.7** (0.0)	**31.2** (1.4)	**30.7** (-1.9)
Saving rate	21.7 (-0.5)	17.7 (-5.5)	17.1 (-6.0)
Investment rate	22.8 (-2.8)	22.6 (-2.9)	22.7 (-2.7)
Self-financing rate	95.3 (8.8)	78.4 (12.7)	75.6 (-15.4)
Households account			
Total wage bill	5.3 (-0.1)	3.2 (0.1)	2.4 (-0.4)
Gross disposable income	8.0 (0.7)	5.0 (1.3)	2.6 (0.1)
Purchasing power of gross disposable income	**0.8** (0.0)	**2.0** (0.9)	**0.8** (0.0)
Saving rate	17.0 (-0.6)	18.1 (0.9)	17.6 (1.1)
International context			
Global demand for France	-2.1 (0.1)	0.9 (-0.3)	3.6 (-0.1)
Euro-dollar exchange rate	1.1 (0.0)	1.1 (0.0)	1.1 (0.0)
Oil price (per Brent barrel in dollars)	82 (0.0)	82 (0.2)	80 (-2.4)

*Employment according to localized employment estimates

[1] *The data presented here are in the sense of INSEE's quarterly accounts*

Annex 2: Introductory Article of the 2025 Budget Bill

Article text:

Forecasts of the structural balance and the actual balance for general government as a whole, forecasts of the balance by sub-sector, the forecast, broken down by Government sub-sector, of the volume growth target and the forecast in billions of current euros of general government expenditure, forecasts of compulsory levies, expenditure and debt for 2025, the forecasts for 2025 for these same aggregates in the PFPL for the years 2023 to 2027, as well as the execution data for 2023 and the execution forecasts for 2024 for these same aggregates, are as follows:

As % of GDP unless otherwise stated	2023	2024	2025	2025
Initial Budget Law for 2025				PFPL 2023-2027
All public administrations				
Structural balance (1)	-5.1	-5.7	-4.7	-3.3
Cyclical balance (2)	-0.3	-0.4	-0.4	-0.4
Balance of one-off and temporary measures (3)	-0.1	-0.1	-0.1	-0.1
Actual balance (1+2+3)	-5.5	-6.1	-5.2	-3.7
Debt in the Maastricht sense	109.9	112.9	114.7	109.6
Mandatory levies rate (incl. EU net of tax credits - TC)[4]	43.2	42.8	43.6	44.4
Public expenditure (excluding IC)	56.4	56.8	56.5	55.0
Public expenditure (excluding in €bn)	1591	1658	1698	1668
Change in public expenditure excluding IC in volume (%)[1]	-1.0	2.1	0.7	0.8
Main investment expenditure (€bn)[2]	25	30	30	34
Central public administrations				
Balance	-5.5	-5.4	-4.8	-4.3
Public expenditure (excluding TC, in €bn)	646	654	669	658
Change in public expenditure excluding TC in volume (%)[3]	- 0.9	-0.6	1.1	1.9
Local public administrations				
Balance	-0.4	-0.7	-0.7	-0.2
Public expenditure (excluding TC, in €bn)	316	336	343	329
Change in public expenditure excluding TC in volume (%)[3]	2.4	4.8	0.2	0.2
Social security authorities				
Balance	0.4	0.0	0.2	0.7
Public expenditure (excluding TC, in €bn)	738	776	795	779
Change in public expenditure excluding TC in volume (%)[3]	-0.1	3.2	0.6	0.3

[1]At constant perimeter.
[2]As defined in the PFPL for 2023-2027
[3]At constant perimeter, excluding transfers between public administrations.

Explanatory memorandum to the article :

In accordance with article 1H of the French Organic Law no. 2001-692 of August 1, 2001 on Budget Laws, this article presents the forecast of the structural balance and the actual balance of general government for 2025.

It also sets out the forecast, broken down by Government sub-sector, of the volume growth target and the forecast in billions of current euros of general government expenditure, as well as the forecast of compulsory levies, expenditure and debt for general government as a whole. Lastly, it presents forecasts for the main general government expenditure items considered as capital expenditure within the meaning of the last paragraph of Article 1 A and 2° of Article 1 E of the LOLF. These are defined in the report appended to the PFPL.

In 2024, the public deficit is forecast at 6.1% of GDP, after 5.5% in 2023, a deterioration of -0.6 points of GDP.

This deterioration is entirely due to a decline in the structural balance, the cyclical balance being stable compared to 2023. In the absence of measures, the structural balance would have fallen by -1 point of GDP in 2024 compared with 2023, mainly due to (i) the spontaneous dynamism of local authority spending on both operating and capital expenditure, (ii) the trend in old-age benefits, supported by the 2024 revaluation based on 2023 inflation and unfavourable demographics, (iii) lower spontaneous growth in compulsory deductions than activity in value terms (iv) a rise in debt servicing costs due to past interest rate rises, and (v) an increase in spending on the future investment program. These effects would, however, be mitigated by the gradual phasing out of the exceptional measures taken to protect households and businesses from rising energy prices).

This spontaneous deterioration in the structural balance would be corrected by the Government's decision in February 2024 to cancel by decree €10 bn in ministry appropriations, and the expected moderation in local spending at the end of the year.

In 2025, the public balance would improve sharply compared with 2024, reaching -5.2% of GDP. In addition to the measures included in this text, the Government intends to submit to Parliament, during the debates, additional savings of 6½ Md€, including 5 Md€ in lower credit ceilings and 1½ Md€ in revenue from the greening of taxation, which would bring the public balance to -5.0% of GDP.

Taken as a whole, the Government's measures would lead to a 1½ point improvement in the structural balance. They will be aimed primarily at:

- a greater effort on State expenditure, compared with the ceiling letters initiated by the previous Government, which already provided for stability in the value of appropriations compared with the budget voted for 2024;

- control of social security spending, thanks in particular to (i) a 2.8% increase in the ONDAM, (ii) a shift in the indexation of retirement pensions from January to July, and (iii) changes in general tax breaks to encourage wage growth, while moderating their cost to public finances;

- the participation of local authorities in efforts to control the public balance, via various measures that will be included in the PLF 2025 and will be the subject of discussions with local authorities. These measures will also enhance the resilience of local authorities' public finances, as part of a multi-year self-insurance strategy;

- greater socio-fiscal fairness through (i) an exceptional mechanism to limit tax optimization for individuals, (ii) an exceptional levy on the profits of the largest companies, and (iii) a reduction in tax and social loopholes to increase the efficiency of the socio-fiscal system and combat windfall effects;

- a greening of the tax system, in particular by encouraging greater energy sobriety and a reduction in the use of carbon-based energies.

All in all, these recovery measures would mainly focus on reducing public spending, which would account for around two-thirds of the efforts made.

These measures would more than offset the spontaneous deterioration in the structural balance which, in the absence of these measures, would have amounted to -0.5 point of GDP in 2025, due to the rise in the cost of debt, the assumption that compulsory taxes will grow at a slightly slower rate than the growth in real activity, the vigorous growth in local authority investment linked to the electoral cycle, and the persistence of spontaneous growth in retirement pensions. These negative effects are partly offset by the final stage in the phasing-out of energy price caps.

The potential scenario used in this Finance Bill has changed since the 2023-2027 PFPL, in order to take account of the revised GDP forecast prepared by INSEE as part of the move to a 2020 base for the national accounts. As the GDP chronicle has been revised upwards for the years prior to 2024, the diagnosis of the French economy's capacity to rebound, and therefore the output gap, has been revised. In addition, potential growth is now estimated at 1.20% per annum in 2024 and 2025, compared with 1.35% underpinning the Stability Program.

The uncertainties surrounding these forecasts remain significant, given the uncertainties surrounding macroeconomic developments, and with a particularly marked uncertainty surrounding the landing of local spending in 2024.

In terms of comparison with the public finance targets set out in the PFPL 2023-2027, the switch in 2024 of the national accounts to base 2020, carried out independently by INSEE under Eurostat supervision, makes the exercise more complex, since this change in methodology has significantly affected public finance ratios. Firstly, the changeover of the national accounts to the 2020 base results in a 0.1 point increase in the deficit. This impact on the public balance is mainly due to the removal of the *Etablissement de Retraite additionnelle de la Fonction Publique* (ERAFP), which has a structural surplus, from the scope of general government. This reclassification alone has led to a deterioration in the public deficit of around €2.6 bn in 2023. The changeover to the 2020 base for the national accounts also entails methodological changes that significantly affect public finance ratios without impacting the balance, with a significantly higher level of public spending and revenues excluding compulsory levies. Two main effects account for this increase: (i) the integration of *SNCF Réseau*'s full account (for which only the balance was previously recorded), resulting in an increase of around €10 bn in revenues excluding compulsory levies and in expenditure in 2023, and (ii) a new treatment of corrections linked to research and development, resulting in an increase of around €4 bn in revenues excluding compulsory levies and in expenditure. On the expenditure side in particular, it is therefore the effects of the base change that largely explain the significant differences in the billion euro figure and in the GDP share of public spending.

In Bn€	Forecast implementation 2023	Forecast implementation 2024	Forecast 2025
Actual balance	-154.8	-179.1	-156.2 (-5.2 % du PIB)
Nominal GDP	2822.5	2920.7	3000.5

Annex 3: Introductory Article of the draft 2025 Social Security Financing Bill

Text of the article
The projected expenditure, revenue and balance of the social security administrations for 2024 and 2025 are as follows, in the national accounting sense:

(In points of gross domestic product)	2024	2025
Revenue	26.6	26.7
Expenses	26.6	26.4
Balance	0.0	+0.2

Explanatory memorandum:
In accordance with Article 1 of Organic Law No. 2022-354 of March 14, 2022 on Social Security Financing Laws, this article presents the forecast expenditure, revenue and balance of the Social Security funds for the current year and the coming year.

The PLFSS for 2025 forecasts a near-balanced balance for Social security funds in 2024, and a surplus in 2025.