Haut Conseil des Finances Publiques

Opinion n° HCFP-2019-1

on the macroeconomic assumptions of the 2019-2022 Stability programme

9 April 2019

Summary

The Stability programme is submitted every year by mid-April in the context of the European semester. The High Council of Public Finance observes that this Stability programme has been designed independently of the future developments that might follow the "Great National Debate". Moreover, the way how Brexit will be implemented is a major risk upon growth prospects.

With these reservations, the High Council considers that the growth, employment and payroll forecasts for 2019, which have been revised downwards since the last budget bill, are realistic. The inflation forecasts are plausible.

The High Council deems the Government's estimates of potential growth and output gap for the years 2019 to 2022 reasonable, as they are within the available estimation range.

However, as in April 2018, it points out that the uncertainty surrounding the estimates of output gap is significant. Particularly, the tension and inflation indicators provide divergent messages. Indeed, although capacity utilization rates in manufacturing and recruitment difficulties are above their long-term average at the beginning of 2019, underlying inflation, which faintly fluctuates and stays at a low level, does not show any signs of tension.

The High Council stresses that the Government's growth forecasts for the years 2020 to 2022 has been revised downwards since the Stability programme of April 2018, which had been considered "optimistic" by the High Council. The adopted scenario, which states an actual growth being close, but slightly above the potential growth until 2022, corresponds to a stable output gap around zero. The High Council notes that this scenario is a more reasonable basis for multi-year public finance programming.

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The High Council of Public Finance notes that the Government chose to build a more credible medium term macroeconomic scenario.

However, it points out that, due to the revision of the macroeconomic scenario and to the more significant tax reduction in comparison with the previous Stability programme, the current one leads to a significantly lower reduction of actual and structural deficits in 2022 and, as a consequence, of public debt. Therefore, a rigorous respect of public expenditure objectives is even more required.