

**Opinion n°HCFP-2018-4
on the amending budget bill for 2018**

31 October 2018

Under article 15 of the organic law n° 2012-1403 of 17 December 2012 on public finance planning and governance, the High Council of public finance (HCFP) delivers an opinion on the amending budget bill for 2018. The following opinion was adopted after deliberations on 31 October 2018.

Main conclusions

The High Council notes that the macroeconomic and public finance forecasts for 2018 are unchanged in the Government's scenario compared to those presented at the end of September in the budget bill for 2019.

In view of the most recent information and in particular the national accounts for the third quarter published by Insee after the Government's referral, the High Council considers that the GDP growth assumption of 1.7 % for 2018 is a bit high and that a GDP growth of 1.6 % is more likely to be achieved.

In terms of public finances, the risks appear to be balanced: VAT revenues could be slightly lower and local authorities' operating expenditure slightly less dynamic than expected. Uncertainties remain, as they do every year, particularly regarding the last corporate tax advance payment and the investment of local authorities.

Overall, the High Council considers that the public balance forecast of -2.6 % of GDP for 2018 is plausible in view of the information available.

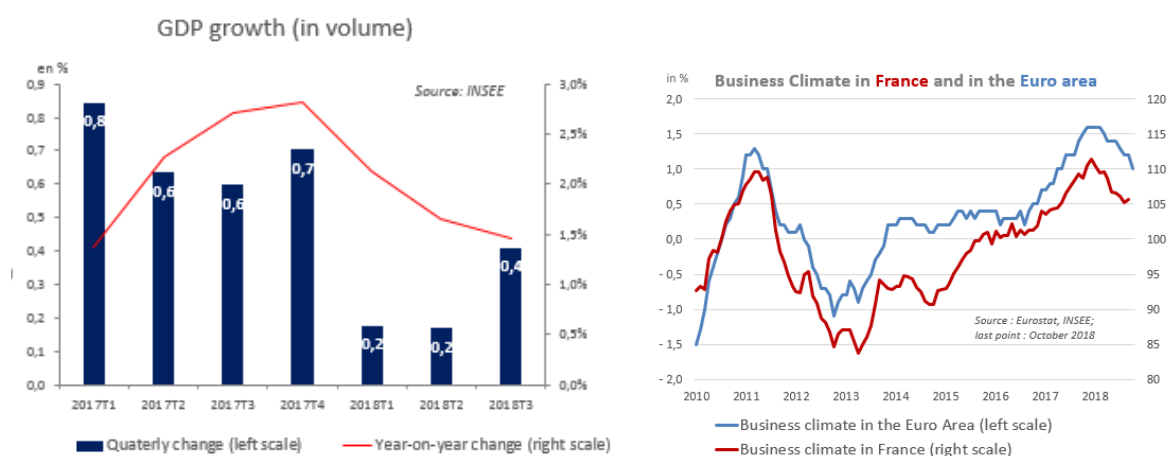
The High Council notes that the estimated structural deficit for 2018 is close to the path of the programming law (-2.2 % of GDP against -2.1 %). It notes that after having been negative in 2017, the structural effort will be almost zero in 2018, even though there is still a long way to go to bring the structural balance back to the medium-term objective.

Under article 15 of the organic law, the High Council of public finance (HCFP) assesses the realism of macroeconomic forecasts associated with the amending bill and the consistency of annual structural balance forecasts vis-à-vis the multi-year targets.

1. The macroeconomic forecasts for 2018

The economic assumptions selected in the budget bill for 2018 remain unchanged with respect to those of the 2019 budget bill presented at the end of September with a GDP growth in volume of 1.7%, an increase of consumption prices of 1.8% on annual average, an increase in the private wage bill of 3.5% in value (annexes 1 and 2).

In its 19 September 2018 opinion on the 2019 budget bill, the High Council had estimated that these assumptions were credible.



Insee's publication on 30 October of a 0.4 % GDP growth in the third quarter leads to think that the assumption of 1.7 % retained by the Government as the annual growth for 2018 is a bit high. Indeed, the carry-over in GDP growth of the third quarter, that is the annual average that would be recorded in 2018 if GDP remained stable in the fourth quarter is of 1.5 %. Under further revisions of growth estimates from Insee, the 1.7 % forecast supposes a growth of at least 0.6 % in the fourth quarter, which is not augured by the economic surveys. In this context, the High Council considers a GDP growth of 1.6 % in 2018¹ to be more likely.

The **private wage bill** forecast (3.5% in value) is in line with the latest information from the French National Insurance Contributions (ACOSS).

The forecast of the **consumption price index** (1.8 %) is plausible. The rise in oil price over the last weeks (80\$/barrel for an assumption of 73\$ in September forecast) could however lead to a slightly higher inflation in 2018.

2. The forecasts of receipts, expenditure and balance of public finances

The forecasts of receipts and public expenditure of the amending bill are slightly revised compared with forecasts associated with the 2019 budget bill.

Receipts are adjusted upwards for property transfer fees and for non-fiscal receipts; they are revised down for inheritance and gift taxes as well as estate assets tax (IFI).

VAT receipts collected on the first nine months of the year are moderate with respect to the forecast. The government expects a substantial recovery until the end of the year, stemming from the expected rebound of households consumption and the lower pace of refunds and tax

¹ See opinion HCFP 2018-3

reliefs than in 2017. The High Council considers that the magnitude of this recovery could be more moderate.

Other revenues forecasts are broadly in line with the available information (fiscal receipts collection, private wage bill forecasts of ACOSS).

As every end of the year, the last corporate tax advance payment bears high uncertainties.

The overall rise in **public expenditure** (credits tax excluded) for the 2018 amending bill is 1.6% in value. It is of 0.7 % in volume deflated by GDP price and 0.0 % when it is corrected by consumption price index (tobacco excluded). These evolutions are the same as those presented in the budget bill for 2019.

State's expenditure forecast for 2018 is identical to the one presented within the framework of the 2019 budget bill. The uncertainty on this forecast is low at this stage of the year.

The forecast of social security administrations' spending are in line with the latest information available (notably the October opinion of the alert committee on health insurance spending).

The operating expenses of local public administrations seen on the first nine months of 2018 are slightly lower than the forecast. As every year, a substantial uncertainty remains on their investment expenditure.

The nominal balance would slightly pick up between 2017 and 2018 of 0.1 point of GDP to reach -2.6 points of GDP.

The High Council deems plausible the forecasts of receipts, spending, and balance for 2018 regarding the information brought to its attention.

3. The consistency with the structural balance multiannual path

The improvement of 0.1 point in the nominal balance would result from increases of its cyclical components (0.2 point) and of the structural deficit (0.1 point), partially offset by a high negative contribution of one-off (-0.2 point) related to the refund of the 3% tax on dividends².

The decomposition of the 2018 public balance is the same than in the 2019 budget bill. The structural deficit estimated for 2018 is close to the planned path of the programming law for the years 2018 to 2022 (-2.2 points of GDP in 2018 against 2.1).

The structural adjustment, i.e. the structural balance variation, is projected to settle at 0.1 point of GDP (after 0.3 point in 2017). It would benefit again from a slightly positive effect of the elasticity of compulsory levies to GDP. This structural adjustment is not in line with the European Fiscal Compact rules, which provide an annual structural adjustment higher than 0.5 point of GDP.

² Those refunds have an impact on the deficit of 2018 because they are not offset by a specific measure as they were for the year 2017 (with the implementation of a temporary surtax on corporate tax). Other measures classified as one-offs concern refunds under litigations claims of foreign OPVCM and on dividends received from European subsidiaries (0.5 billion in total) as well as the consequences of the change of the Eurostat's doctrine on the recording of terrestrial licenses leading to spread them over the period of utilization (-1 billion).

The structural effort, i.e. the part of the structural adjustment directly related to expenditure control or new compulsory levies measures, will be close to 0 in 2018, the effort on expenditure being offset by the impact of fiscal easing.

Components of the public balance

In points of GDP	Amending Budget bill for 2018 (Oct 2018)		Programming law (Jan 2018)	
	2017	2018	2017	2018
Nominal balance	-2.7	-2.6	-2.9	-2.8
Cyclical composition	-0.3	-0.1	-0,6	-0.4
One-off measures	-0,1	-0.2	-0,1	-0.2
Structural balance	-2.3	-2.2	-2,2	-2.1

Note: Figures being rounded to the nearest tenth, components may not add to the total
Sources: amending budget bill for 2018, public finance programming law

Structural adjustment and structural effort in 2018 and 2019 as presented by the government

In points of GDP	Amending bill 2018 (oct 2018)		Programming law 2018-2022 (jan 2018)	
	2017	2018	2017	2018
Structural adjustment	0.3	0.1	0.3	0.1
Structural effort	-0.1	0.0	0.0	0.2
of which expenditure restraint (excluding credit tax)	-0.1	0.2	0.0	0.4
of which new measures on receipts	-0.1	-0.2	-0.1	-0.3
of which credit tax	0.1	0.0	0.1	0.0
Non-discretionary component	0.4	0.1	0.3	-0.1
of which compulsory levies elasticity	0.5	0.1		
of which non-tax revenues	-0.1	-0.1		

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

Source: 2018 amending budget bill, January 2018 programming law.

- Credit tax: compulsory levies are recorded on a cash basis, while credit taxes are recorded on an accrual basis. The difference between the two sets of accounts for tax credits is called "credit tax key". It has an impact on the structural adjustment measure.
- Expenditure restraint: corresponds to the gap between the evolution of spending in volume (deflated by GDP price) and potential GDP growth.
- Measures on receipts: corresponds to the amount of new compulsory levies measures

Source: amending bill for 2018 and programming law 2018-2022

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This opinion has been published in the Official Journal of the French Republic and attached to the amending budget bill for 2018.

Annex 1: the macroeconomic scenario attached to the 2018 budget bill

Economic forecasts for France		
	2017	2018
Goods and services, real terms	% , annual average	
Gross domestic product	2,3	1,7
Final consumption of households	1,0	1,1
Final public consumption	1,3	1,0
Grossed fixed capital formation	4,5	3,3
<i>Of which : Non-financial corporates</i>	4,1	3,7
<i>Public administrations</i>	1,4	4,6
<i>Households(excluding individual entrepreneurs)</i>	5,6	1,5
Imports	4,0	2,5
Exports	4,5	3,7
Contributions to real GDP growth	In points of GDP	
Private domestic demand (excluding inventories)	1,5	1,2
Public demand	0,4	0,4
Inventories	0,2	-0,2
External Trade	0,1	0,3
Prices and nominal aggregates	% , annual average	
Consumer prices inflation index	1,0	1,8
Core inflation	0,4	0,9
Gross domestic product deflator	0,7	0,9
Nominal gross domestic product	2,8	2,5
Productivity, employment and wages	% , annual average	
Market-sector (excluding agriculture) :		
- Productivity	0,7	0,4
- Payrolls	1,8	1,5
- Average salary	1,7	2,0
- Wage bill	3,5	3,5
Total employment	1,1	0,9

Source: ministry of economy and finance (September 2018)

Annex 2: introductory article of the 2019 amending bill

Prévision de solde structurel et solde effectif de l'ensemble des administrations publiques pour l'année 2018

La prévision de solde structurel et de solde effectif de l'ensemble des administrations publiques pour 2018 s'établit comme suit :

<i>En points de produit intérieur brut (PIB)</i>	Prévision 2018
Solde structurel (1)	-2,2
Solde conjoncturel (2)	-0,1
Mesures exceptionnelles et temporaires (3)	-0,2
Solde effectif (1 + 2 + 3)	-2,6

Note : L'écart entre le solde effectif et la somme de ses composantes s'explique par l'arrondi au dixième des différentes valeurs.

Exposé des motifs

Depuis le dépôt du projet de loi de finances (PLF) pour 2019, les informations nouvelles n'amènent pas à revoir la prévision de solde public pour 2018.

Les hypothèses macroéconomiques sont inchangées. Le Gouvernement continue d'anticiper une croissance de l'activité 2018 de 1,7 % en volume, très proche du consensus des économistes.

Le solde public en 2018 serait de -2,6 % du PIB, soit une prévision inchangée par rapport au projet de loi de finances pour 2019.

L'évolution du solde public en 2018 demeurerait portée par une amélioration du solde structurel qui passerait de - 2,3 % à - 2,2 % du PIB. Le solde conjoncturel s'améliorerait toujours, passant de - 0,3 % à - 0,1 % du PIB, du fait d'une croissance (1,7 %) supérieure à son potentiel (1,25 %), permettant une réduction de l'écart de production (de - 0,6 % du PIB potentiel en 2017 à - 0,2 % en 2018). Enfin, le solde des mesures exceptionnelles et temporaires se dégraderait de 0,2 point, sous l'effet des restitutions liées aux contentieux sur la taxe de 3 % sur les revenus distribués, qui ne sont plus compensées par la surtaxe d'IS comme en 2017.

Pour mémoire : solde public en Md€

	Exécution 2017	Prévision d'exécution 2018
Solde effectif	-61,4	-60,6
PIB nominal	2291,7	2349,8