Haut Conseil des Finances Publiques

Opinion n° HCFP-2020-2

on the macroeconomic assumptions of the Stability program for 2020 and on the second amending budget bill for 2020

14 April 2020

Main conclusions

The Government jointly referred the stability program and a second draft amending finance law (2nd PLFR) to the High Council on 9 April 2020, then made two amending referrals on 10 and 14 April in order to take account of new information that had become available in the meantime.

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The exceptionally high uncertainty resulting from the health crisis caused by the Covid-19 epidemic affects all macroeconomic forecasts and requires frequent revisions.

The High Council notes that the Government's assumption of the GDP impact of the movement and activity restraint measures (-3 GDP points per month) is in line with recent estimates for the first month of containment and that the scenario presented is constructed over an eight-week period of containment.

The High Council observes that this economic scenario is based on the strong assumption of a relatively rapid return to normal activity beyond May 11. In particular, it assumes that the economic policy measures taken in response to the crisis will preserve the economy's productive capacity and that both domestic and foreign demand will not suffer lasting consequences of the crisis.

Overall, the High Council notes that, if this strong assumption were not to be met, the fall in activity could be even greater than the Government's forecast of -8% in 2020.

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The High Council emphasises that the high uncertainties in the macroeconomic forecasts affect the public finance scenario presented in the 2nd PLFR, in particular with respect to tax and social security revenues. There are also significant risks to the level of expenditure, resulting in particular from the new schemes put in place or those that may be decided shortly to deal with the crisis. As a result, the public deficit could be worse than forecast by the 2nd PLFR (-9 points of GDP).

The High Council notes that the structural deficit for 2020, as estimated by the Government, would be the same as in 2019. However, the significance of this assessment in the current context is very limited. The estimation of the structural deficit could subsequently be reconsidered if some of the expenditure related to the health crisis were to be maintained and if the assessment of potential GDP were to be revised downwards.

The High Council notes that after an almost uninterrupted increase between 2008 and 2019, the debt ratio, which stood at 98 GDP points in 2019, would rise sharply in 2020 to 115 GDP points.

Introductory remarks

The High Council adopted the following opinion after deliberation at its meeting on April 14, 2020.

1- On the opinion's scope

The Government referred to the High Council of Public Finance on April 9, 2020, pursuant to Article 15 of Organic Law No. 2012-1403 of 17 December 2012 on the programming and governance of public finances, the introductory article of the second draft amending budget law (PLFR) for 2020 and, pursuant to Article 17, of the Stability Program.

The Government addressed to the High Council a first corrective referral file on April 10, 2020 to take into consideration the addition to the amending budget bill of several new measures and their consequences on the trajectories of public expenditure, deficit and debt.

Following the announcements of the president of the Republic in the evening of April 13, the Government addressed to the High Council a second corrective referral file on April 14 to take into account, in particular, the extension of lockdown until May 11 and its impact on macroeconomic and public finance forecasts.

Pursuant to Article 15 of aforementioned organic law, the opinion for the amending budget bill is about macroeconomic and public finance forecasting for the current year. Pursuant to Article 17 of this organic law, the High Council must deliver an opinion on the multi-year macroeconomic forecast on which the draft Stability Program is based, drawn up under the coordination of economic policies of Member states of the European Union[1].

In the current exceptional context, the format of Stability Programs to be submitted in April 2020 by Member states has been streamlined. In its last communication to the Member states and the independent fiscal institutions[2], the European Commission clarified that the Stability Programs only had to present the broad lines of the macroeconomic and public finance scenarios for 2020 and, if possible, for 2021, and indicate the main budgetary measures taken in response to the epidemic. The Government made the understandable choice of presenting scenarios for the sole year 2020.

Macroeconomic forecast associated with the draft Stability Program for 2020 and those associated with the second amending budget bill for 2020 being identical, this opinion concerns both texts.

The work of the High Council was affected by the constraints inherent in the period: short deadlines, the importance of the corrective referrals during the review linked to the changing nature of available information.

2- On the methodology used by the High Council

To assess the realism of the macroeconomic forecasts of the amending budget bill and the Stability Program, the High Council considered the latest available statistics and information provided by the Government in its referrals and the answers to questionnaires sent by the High Council.

[1] In principle, the Stability Program must be sent to the European institutions every year by 30 April at the latest (Article 4 of Regulation (EC) No 1466/97) and communicated to the French Parliament two weeks before (Article 14 of Law n.° 2010-1645 of December 28, 2010 for programming public finances for the years 2011 to 2014).
[2] Guidelines of the European Commission of March 30, 2020.

The High Council's opinion relies on the work of several institutions that have recently produced forecasts or analyses of the economic impact of the Covid-19 pandemic: the Organization for Economic Cooperation and Development (OECD), the French National Institute of Statistics and Economic Studies (Insee), the Banque de France, and forecasting institutes such as Rexecode or the French Economic Observatory (OFCE).

As permitted by article 18 of the constitutional bylaw, the High Council held hearings of the relevant administrations' representatives – General Directorate of the Treasury, Budget Directorate and Social Security Directorate –, following the initial referral file.

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As the High Council noted in its opinion on the first amending budget bill for 2020[3], the current health crisis results in unprecedented uncertainties which make any economic forecasting exercise difficult and in shocks that call for budgetary responses of unusual scope. Thus, the Government was led, within the framework of the second amending budget bill submitted to the High Council less than a month after the previous one, to substantially revise the macroeconomic scenario (with a drop of GDP for 2020 revised from 1% to 8%) and to largely revise upward its public deficit forecast (from 3.9 to 9.0 GDP points).

Besides, the High Council notes that this second amending budget bill for 2020 did not intend to reprogram all revenues and expenditure of public administrations following the health crisis. The second amending budget bill does not therefore mark the end of the process of the gradual adjustment of finance laws.

Following a short analysis of the global context (I), the High Council formulates its assessment, on the one hand, on the macroeconomic forecasts on which rely both the amending budget bill and the Stability Program of the Government (II), and, on the other hand, on the associated public finance forecasts.

I- A health crisis leading to a global economic crisis

The Covid-19 epidemic started in China at the end of 2019 before spreading very quickly around the world. Its economic effects have been first felt in China, and then, since March, in the rest of the world and especially in Europe.

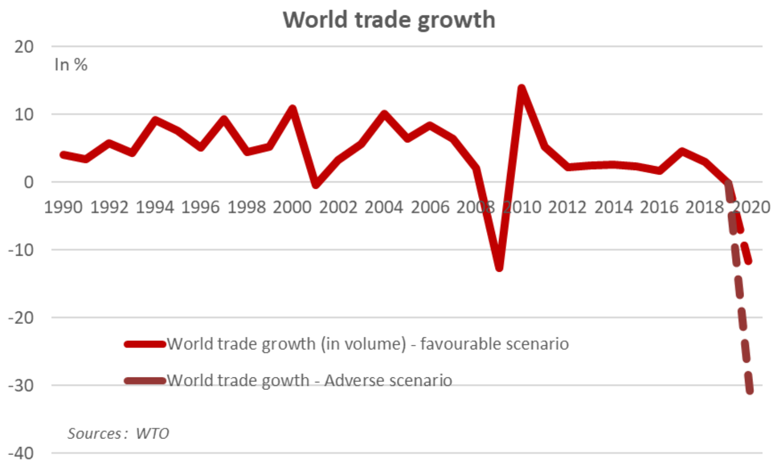
The health crisis and the implementation of measures of strict lockdown, restricting movement as well as activity in some economic sectors, have created supply and consumption shocks of exceptional magnitude. Except a couple of sectors subject to extra activity, household consumption and business investment are severely constrained. The production apparatus has been partially shut down both because of the lack of available workforce needed for its operation and because of the fall in demand and the disruption of supply chains.

These developments led to a fall in value of assets and tensions in the financial markets. The effects of the crisis are spreading internationally because of the interdependence of value chains and the interconnexion of financial markets. Numerous indicators, covering both supply

[3] Opinion N° HCFP-2020-1 of March 17, 2020.

and demand, testify to the magnitude of the shock (consumer and business surveys, confidence indexes, financial markets, unemployment insurance claims in the United States, etc.).

The most recent forecasts predict now very severe declines in activity worldwide. In its last forecast, published on April 8, 2020, the World trade organization (WTO) for example predicts a fall in global GDP of between 2.5% and 9%, with a downturn in global merchandise trade between 13% and 32%.



Faced with the decline in activity and the risk of a financial crisis, central banks have eased their monetary policies, in particular through interest rate cuts and new asset purchasing programs.

States also decided to pursue more expansionary economic policies[4], going beyond the effects of automatic stabilizers alone, for amounts greater than 10 points of GDP in the US as in average in the Euro zone. In addition to measures to support their health systems, most States have taken measures to safeguard their production apparatus and to support households[5] with high costs for the public finances. They also provided guarantees for bank loans and granted debt deferrals[6]. Besides, the European Union announced a support plan for its Member states, amounting to €540 billion, mainly in form of loans and guarantees capacity[7].

Beyond the uncertainties related to the health crisis, many other risks, although less significant, are at play and could be reinforced. The financial vulnerabilities linked to the increase in global debt over the last decade and the fragility of the economic situation in several emerging countries – increased for some of them by the low oil prices – pose a higher risk for global growth. Likewise, the rise of the effects of protectionist measures could continue. Conversely, several factors could favor the rapid recovery of activity, like the measures of economic support quickly decided in Europe. The already high level of savings in several European countries, including Germany and France, is moreover favorable to the purchasing power of European consumers and could boost the rebound in activity in the Euro zone.

[4] Cf. surveys of IMF and OECD.
[5] Rise of health expenditures (equipment purchase, health staff bonuses), measures promoting companies' access to liquidity through guarantees, measures to support small companies or exporting companies (Germany, France, United Kingdom in particular), tax deferral measures.
[6] These do not represent, at least for the time being, a cost to public finances. Nevertheless, calling guarantees or canceling claims would worsen the public balance.
[7] See in particular the Eurogroup communication of April 9, 2020.

II- Macroeconomic forecasts for 2020

1- The Government's scenario

According to the Government's referral, the "*economic scenario is set in a context of unprecedented uncertainty. […] This scenario only covers the year 2020 and presents only certain components. […] GDP would be going down -8% in 2020. In this scenario, the assumption is made that the health restriction measures in force since mid-March in France are to be maintained for a total duration of 8 weeks […] The restart towards trend levels would only be gradual at the end of the strict health restriction period.*

Household consumption would not return to its usual level until September. In this scenario, our main partners would adopt measures of comparable duration and scope, with similar economic effects. […] Investment in construction would be penalized by an almost complete closure of the sites during the restriction measures. Productive investment would suffer from the high uncertainty and the decline of activity. Tourist flows would be largely reduced and would reach very gradually their previous levels by the end of 2020. […] Exports would decrease in line with the fall in activity with our partners […] They would however fall slightly less than imports. […] Inflation, in the sense of CPI, would decrease to +0.5% in 2020 after +1.1% in 2019 under the effect of energy prices".

3- The High Council's assessment

The High Council notes that the scenario presented by the Government, less detailed than usual, does not include forecasts of employment, payroll, and household revenue.

Three main parameters are currently determining macroeconomic forecasts: the duration of lockdown, its impact on activity, and the strength of recovery from containment.

a) About containment's duration and strict restrictions of activity

The scenario presented by the Government in this amending budget bill is based on the assumption of a period of lockdown and activity restrictions up to May 11, i.e. a total duration of 8 weeks spread between the 1st quarter (2 weeks) and the 2nd quarter (6 weeks) of the year.

This scenario is naturally conditional on the realization of the assumptions about the evolution of the health situation that underlie it.

b) About the loss of activity due to containment and activity restrictions

The second amending budget bill for 2020 uses Insee's estimate of the negative impact of a month of containment on economic activity, i.e. 3 points of annual GDP leading to a total drop of 6 points for the lockdown period. During this period, measures restricting travel and activities would indeed lead to a severe fall in activity due to the combination of a supply shock (workers being unable to go to their workplace) and a demand shock (some activities are not allowed anymore and consumers are forced to reduce their consumption of non-essential goods and services). The loss of activity linked to these measures affect numerous sectors in varying proportions (very low for the production of food, almost complete for accommodation and catering).

The assumption of the impact of the containment's measures on activity selected in the second amending budget bill for 2020 is consistent with the various available assessments but they remain fragile.

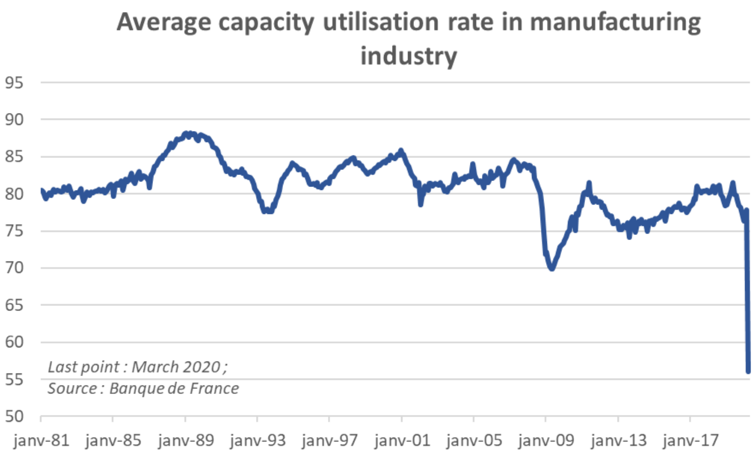
Table : Comparisons of estimated loss of activity (GDP) for a full month of lockdown by organization

Organisation	Date of publication	Impact on the activity (in %)	Impact on annual growth rate (in points of percentage)
Insee	2020/04/09	-36	-3
Bank of France	2020/04/08	-32	-2,7
Rexecode	2020/03/31		-3
French economic observatory (OFCE)	2020/03/30	-32	-2,6
OECD	2020/03/27	-25 (env.)	
Insee	2020/03/26	-35	-3

Sources : HCFP from publications by Insee, OECD, the French economic observatory and Rexecode

c) About the magnitude of the activity rebound at the end of the containment period

The Government's scenario assumes a fairly rapid return to normal after the 8 weeks of lockdown. After a decline in activity in the 1st quarter which would increase in the 2nd quarter, the economy would experience a marked recovery in the second half of the year. On the demand side, consumption would rebound, with household mobilizing during the second semester a share of the savings accumulated during the lockdown period.



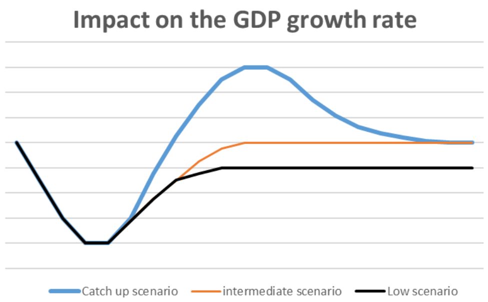
The High Council points out that the Government's scenario is based on the assumption that the loss of activity would only be temporary. The production apparatus would thus be able to restart without delay despite a brutal and massive interruption of its operation in some sectors, as evidenced by the drop in the utilization rate of production capacity in industry (see figure above). After falling far short of the trajectory it followed before the crisis, the GDP level would quickly return to it. In other words, loss of growth during the crisis would be completely compensated by extra growth in the following quarters. Hence, the growth trajectory used in this amending budget bill corresponds to a "catch-up" scenario in which the GDP level is not lastingly affected by the shock induced by the health crisis linked to the Covid-19 (see box).

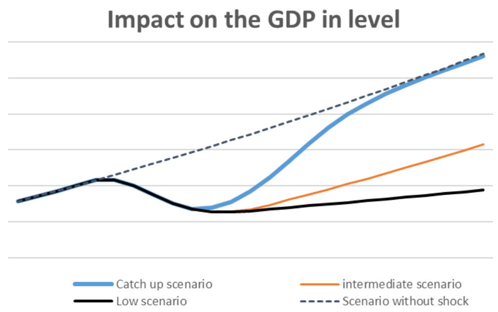
Theorical recovery paths after an economic crisis

The Covid-19 health crisis causes a large-scale and potentially lasting macroeconomic shock on global economy. The magnitude and duration of the effects of such a shock are hard to predict. The economic trajectory for upcoming years depends on the rebound of the demand of both households and companies. It also and mostly depends on how the shock will affect the available production capacities to meet this demand and their growth, via the growth of factors of production, which is due particularly to investment dynamics, and their productivity.

In the long term, the crisis can have a more or less marked impact on the level of capital stock, participation in the labor market, "structural" unemployment rate and the global productivity of factors. Regarding past crises, three types of scenarios of recovery path can be considered[8]:

- **a "catch-up" scenario:** after falling short of the trajectory it followed before the crisis, the GDP eventually returns to it. In this scenario, the functioning of the economy is only temporarily altered, and the production capacities are intact after the crisis. Loss of growth are completely compensated by extra growth in the following period.
- **an "intermediate" scenario:** GDP returns to a growth rate identical to the pre-crisis one but does not make up for the losses that occurred during the crisis, like bankruptcies caused by the crisis or the postponement of investment project cutting down production capacity. The GDP level is lastingly lower to that would have prevailed without a crisis. Investments, especially in Research and Development (R&D), return however to their pre-crisis growth rate and the potential growth is not affected.
- **a "low" scenario:** GDP growth rate declines lastingly compared to the pre-crisis one. Investments, especially in R&D, are durably affected this time, because of financing constraints as well as the necessary reallocation of means to thwart structural issues raised by the crisis. The potential growth declines. In such a scenario, the GDP level deviates gradually from the trajectory that would have prevailed without a crisis.





The extent of the effective rebound of activity depends on three main factors: the reopening process, the efficiency of the measures taken to support the recovery of economic activity along with the dynamism of domestic consumption, and the demand for France exports.

(i) The economic scenario presented by the Government assumes a fairly rapid recovery of economic activity beyond the period of strict lockdown. A very gradual implementation of the process of removing health restrictions, the principle of which was laid down on April 13 by the president of the Republic, is likely to limit the strength and speed of the economic rebound.

(ii) The recovery of economic activity is also conditional on the effectiveness of the support measures taken in both amending budget bills for 2020. Assuming a quick return to normal, the Government's scenario is indeed built on the double assumption that the partial

8 Beffy, M., Cabannes, P.-Y., Gaini, M., Lapègue, V., Pouliquen, E. (2010) *Quelle croissance de moyen terme après la crise ?* Insee, L'économie française édition 2010.

unemployment system implemented would durably prevent layoffs and that there would be no significant increase in business failures during and after the crisis, so that the latter could maintain their payroll at the pre-crisis level, which cannot be taken for granted.

(iii) In addition, the extent of the recovery of the household consumption, delayed because of the lockdown, is highly uncertain because of the possible persistence of cautious and wait-and-see behaviours, while part of the investment projects that were postponed by companies during the containment could be canceled, in particular due to the deterioration of their results and the rise of the uncertainties on growth prospects. The Government assumes that the removing of activity restrictions would be synchronized across all countries, which would enable French exports to rebound in the second semester. In case of desynchronization, the dynamism of French exports could be more limited than expected by the Government.

Regarding potential GDP, the amending budget bill and the Stability Program are built on the assumption that it will not be affected by the end of 2020 by the shock. Yet, even if the economic crisis linked to Covid-19 has some special characteristics (shock unrelated to the functioning of economies, temporary nature of lockdown measures), the depth of the loss of activity and its duration, uncertain at this point, could leave more lasting consequences and affect the production potential of the French economy this year.

The exceptionally high uncertainty resulting from the health crisis caused by the Covid-19 epidemic affects all macroeconomic forecasts and requires frequent revisions.

The High Council notes that the Government's assumption of the GDP impact of the movement and activity restraint measures (-3 GDP points per month) is in line with recent estimates for the first month of containment and that the scenario presented is constructed over an eight-week period of containment.

The High Council observes that this economic scenario is based on the strong assumption of a relatively rapid return to normal activity beyond May 11. In particular, it assumes that the economic policy measures taken in response to the crisis will preserve the economy's productive capacity and that both domestic and foreign demand will not suffer lasting consequences of the crisis.

Overall, the High Council notes that, if this strong assumption were not to be met, the fall in activity could be even greater than the Government's forecast of -8% in 2020.

III- Remarks on public finances

1- The Government's scenario

According to the Government's referent file, "*The forecast of general government balance for 2020 is revised down sharply to -9% of GDP against -2.2% in the initial finance law for 2020 and -3.9% in the first amending finance law adopted on March 23. The structural budget balance would amount to -2.0% of GDP as in 2019 and the structural adjustment to 0.0 points of GDP as in LFI 2020 and in the first LFR. […] the deterioration in growth prospects and the expected increase in the duration of lockdown have already led to an upward revision the cost of these measures from 0.5 point of GDP to 1.9 points of GDP […].*

The deterioration of the balance compared to the LFI 2020 can be explained by the cyclical balance and the effect of one-off measures […]. The spontaneous growth rate of *compulsory levies would be -7.1% compared to that of nominal GDP of -6.7%, i.e. an elasticity of 1.1. […] The public expenditure ratio would be revised up markedly, supported by the measures adopted to face the epidemic and because of the denominator effect due to the fall in GDP. It would reach 60.9% of GDP. Public expenditure would thus increase by 5.1% in value in 2020, after 2.3% in 2019. […] The public debt ratio in the sense of Maastricht would increase very sharply, reaching nearly 115 points of GDP, driven by the widening of deficit and the GDP contraction.*"

2- The High Council's Assessment

The second amending budget bill for 2020 is essentially limited to taking into account the impact of the health crisis on the State revenues and the opening of large-scale credits of an urgent nature mainly related on new State missions. It does not draw the consequences of the crisis on all the budgetary State missions, as well as on all the public administration expenditures, which is understandable in the context of current uncertainty. The information transmitted by the Government as part of this referral does not include any data by category of public administrations, whether on expenditure, revenue, or balance.

Revenues are undergoing a major downward revision, mainly linked to the effects of the macroeconomic scenario's revision. The projections of compulsory levies would generate significantly reduced revenues because of the fall in activity[9].

The amending budget bill expects the spontaneous evolution of compulsory levies to be slightly more negative than activity in 2020 (with an "elasticity"[10] of compulsory levies equal to 1.1). This assumption of maintaining an elasticity close to the unity, consistent with data observed during the 2009 recession, remains highly uncertain considering the brutality of the shock and its unprecedented nature.

Above all, in view of the foreseeable fragility of companies at the end of the crisis, part of the postponements of a few months of fiscal and social deadlines should give rise to the cancellation of debts, which are not included in the second amending budget bill and would further increase public deficit.

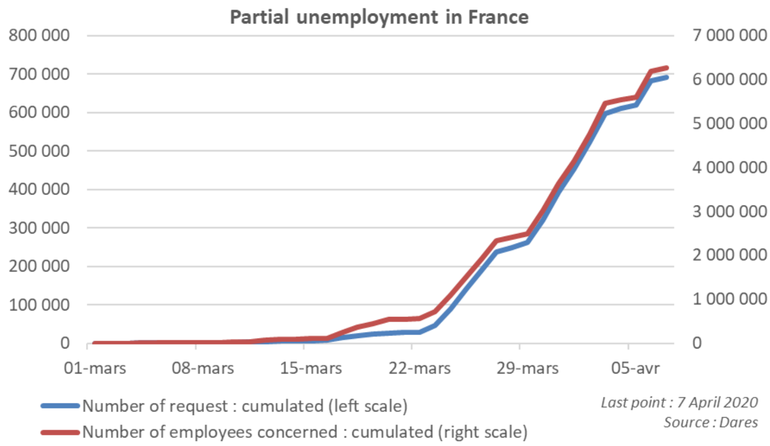
The forecast increase in value of **public expenditures** would be 5.3% against 1.7%[11] in the initial finance law, mainly due to the measures taken to respond to the crisis (€42 billion, i.e. 1.9 points of GDP including the measures of the first amending finance law). This second amending budget bill significantly revises the volume of exceptional spending, provided for €11.5 billion in the first amending finance law.

These €42 billion of additional budgetary expenditures are one of the components of the overall plan of €110 billion announced by the Government on April 14 which includes in

[9] At this point of the year, fiscal and social revenues receipts are not reliable enough to provide robust indications on the trends of the current year.
[10] The elasticity of a public revenue to its base measures the progression of this revenue, in %, when its base changes by 1%, given the legislation. If a decrease of 1% in the base reduces public revenue by 2% (respectively 0.5%), the elasticity will be 2 (respectively 0.5).
[11] At constant perimeter.

particular fiscal and social postponements and an early repayment of tax credits and tax claims benefitting companies, a priori without effect on public balance.

This amending budget bill opens credits on a limited number of items concerning the State. In particular, expenses linked to partial unemployment, provided for €8.5 billion for all public administrations in the first amending finance law, were increased to €24 billion[12]. They would be funded about two-thirds by the State and the remaining part by the Unédic (unemployment insurance). Given the number of employees for whom the partial unemployment plan has already been requested (8 million employees) and the extension to 8 weeks of the lockdown period, the cost of the plan might significantly exceed the €24 billion amount presented in the second amending budget bill for 2020.



Concerning the social security administrations (ASSO), the amending budget bill expects the National unemployment insurance's expenditures to rise with the funding of the partial unemployment and the postponement of the benefit reform which was due to come into force on April 1. Additional health spending directly linked to the health crisis would lead to an increase of €8 billion of the national health insurance (Ondam) expenditures target mainly relating to expenditures on equipment, staff bonuses and daily allowances (sickness and childcare)[13]. The second amending budget bill does not include support measures for artisans and shopkeepers recently announced by their complementary pension funds.

All in all, the general government balance would reach 9 points of GDP, i.e. a deterioration of 6.8 points of GDP compared to the initial finance law. Due to the activation of the general escape clause of the Stability and Growth Pact (cf. box below), this massive widening of the deficit does not, however, violate European rules in 2020.

[12] EU aid to finance partial activity would not reduce the public deficit. It would indeed consist of loans from the European Union, which do not correspond to revenues in national accounts.
[13] The High Council notes that while new spending on the State budget is subject to an amending budget bill, the increase, however high, of Ondam expenditures is not subject of an amending social security financing law.

The activation of the general escape clause of the SGP

Given the Covid-19 outbreak and on the proposition of the European Commission, the Council of the European Union announced on 23 March 2020 the activation of the "general escape clause". Introduced in 2011 as part of the reform of the Stability and Growth Pact, this clause can be activated in the case of "*an unusual event outside the control of the Member State concerned which has a major impact on the financial position of the general government or in periods of severe economic downturn for the euro area or the Union as a whole*"[14].

This clause does not suspend the procedures of the SGP. However, it allows Member states and the European union to take and coordinate budgetary measures necessary to cope with the "unusual event" while departing from the budgetary requirements that would normally apply. Concerning the preventive arm of the SGP, the States are "*allowed temporarily to depart from the adjustment path towards the medium-term budgetary objective […] provided that this does not endanger fiscal sustainability in the medium term*"[15]. Concerning the corrective arm of the SGP[16], the clause allows in particular the Council to revise a recommendation addressed to a Member state and to "*extend the deadline for the correction of the excessive deficit by one year as a rule*".

Besides, the second amending budget bill opens €20 billion in credits for capital contributions for companies in difficulty from the special allocation account State's financial contributions (*participations financières de l'État)*. The conventional assumption is made that each of these acquisitions of equity would meet the requirements (to act as a "wise investor") for these capital contributions not to be registered as public expenditures in national accounts.

Given the significant risks weighing on both the revenues and the expenditures of public administrations, the public deficit, although revised significantly upwards in the corrective referral of April 14, could be more degraded than expected by the amending budget bill.

The Government estimates that the deficit for 2020 would reach 9 points of GDP, a deterioration of 6 points compared to 2019, essentially related to the impact of the economic situation (5.3 points). According to the Government, temporary and exceptional measures include for the most part the total public expenditure decided to deal with the crisis, would amount to 1.7 points.

Consequently, the amending budget bill does not expect a deterioration of the structural budget balance[17] in 2020, which would remain at its 2019 level (at -2.0 points of GDP), as in the initial finance law. The structural balance would deviate by 0.4 point of GDP from the public finance programming law from January 2018. This estimation rests on the hypothesis that all the additional expenditure related to the management of the health crisis compared to the initial budget bill forecasts will not be perpetuated and can therefore be considered as one-off and temporary measures.

[14] Article 5 of Regulation (EU) 1466/97.
[15] Article 6 of Regulation (EU) 1466/97.
[16] Articles 3 and 5 of Regulation (EC) 1467/97.
[17] See the definition in appendix 3.

Decomposition of the general government public balance

In points of GDP	**2[nd] amending budget bill for 2020 (April 2020)**			*Programming law (January 2018)*		
	2018	**2019**	**2020**	***2018***	***2019***	**2020**
Nominal Balance	**-2,3**	**-3,0**	**-9,0**	***-2,8***	***-2,9***	***-1,5***
Cyclical component	0,0	0,0	-5,3	*-0,4*	*-0,1*	*0,1*
One-off measures	-0,1	-1,0	-1,7	*-0,2*	*-0,9*	*0,0*
Structural balance	**-2,2**	**-2,0**	**-2,0**	*-2,1*	*-1,9*	*-1,6*
Deviation from the programming law	***-0,0***	***-0,1***	***-0,4***			

Note : Figures being rounded to the nearest tenth, components may not add to the total. The public finance data in this amending budget bill differs from the budget bill for 2020 and from the previous amending budget bill due to the inclusion of data published by Insee at the end of March. These revisions led to revise the chronicle of deficit for the years 2017 to 2019 and, de facto, of structural deficit.
Source: 2020 amending budget bill and 2018 programming law.

Above all, this assessment of the structural deficit has a very limited significance, insofar as it is based on the evaluation of potential GDP for 2020 included in the programming law published in January 2018: this evaluation could be revised downwards in the future, given the magnitude of the economic shock of the current year and the potentially lasting consequences it could have on the production capacity of the French economy.

After an almost uninterrupted rise in the debt ratio between 2008 and 2019, which went from 68.8 points of GDP to 98.1 points in 2019, the debt ratio would again increase sharply in 2020 to reach 115 points according to the second amending budget bill for 2020[18]. Given the risks weighing on growth and on the nominal balance, the increase in debt could be even greater.

The High Council emphasises that the high uncertainties in the macroeconomic forecasts affect the public finance scenario presented in the 2nd PLFR, in particular with respect to tax and social security revenues. There are also significant risks to the level of expenditure, resulting in particular from the new schemes put in place or those that may be decided shortly to deal with the crisis. As a result, the public deficit could be worse than forecast by the 2nd PLFR (-9 points of GDP).

The High Council notes that the structural deficit for 2020, as estimated by the Government, would be the same as in 2019. However, the significance of this assessment in the current context is very limited. The estimation of the structural deficit could subsequently be reconsidered if some of the expenditure related to the health crisis were to be maintained and if the assessment of potential GDP were to be revised downwards.

[18] According to the initial finance law for 2020, the ratio debt to GDP should have stabilized slightly above 98 points of GDP, then fallen back.

The High Council notes that after an almost uninterrupted increase between 2008 and 2019, the debt ratio, which stood at 98 GDP points in 2019, would rise sharply in 2020 to 115 GDP points.

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This opinion has been published in the *Official Journal* of the French Republic and attached to the second amending budget bill the Stability Program transmitted by the Government to the European Commission and the European Council.

In Paris, the 14 April 2020.

For the High Council of public finance,
The Doyenne of Presidents of Chambers of the Court of Auditors,
First Acting President of the Court of Auditors,
Acting President of the High Council of Public Finance

Sophie MOATI

Appendix 1

Macroeconomic scenario for the Stability Program

	2019*	2020
Goods and services, real terms		
Gross domestic product	1,3	-8,0
Household final consumption	1,2	-10,0
Government consumption expenditure	1,3	2,2
Gross fixed capital formation	3,6	-11,0
Imports	2,2	-13,4
Exports	1,9	-12,9
Contributions to real GDP growth		
Final domestic demands excluding inventories	1,8	-7,3
Changes in inventories and net acquisition of valuables	-0,4	-1,0
Foreign trade	-0,1	0,2
Prices and nominal aggregates		
Consumer price index	1,1	0,5
Gross domestic product deflator	1,5	1,4
Nominal gross domestic product	2,8	-6,7
Employment and wages		
Non-farm market sectors :		
- Salaried employment (persons employed)	ND	ND
- Average wage per capita	ND	ND
- Wage bill	ND	ND
Total employments	ND	ND
Potential growth and output gap		
Potential growth in GDP	1,25	1,25
Output gap	0,0	-9,2

** Quarterly national accounts (detailed results of the 4th quarter 2019)*
Source : Minister of Economy and Finance (April 2020)

Appendix 2 : Article liminaire du deuxième projet de loi de finances rectificative pour 2020

La prévision de solde structurel et de solde effectif de l'ensemble des administrations publiques pour 2020 s'établit comme suit :

En points de produit intérieur brut (PIB)	Exécution 2019	LFI 2020	Prévision 2020
Solde structurel (1)	-2,0	-2,2	-2,0
Solde conjoncturel (2)	0,0	0,1	-5,3
Mesures exceptionnelles et temporaires (3)	-1,0	-0,1	-1,7
Solde effectif (1 + 2 + 3)	-3,0	-2,2	-9,0

Exposé des motifs

En 2019, le déficit s'est élevé à 3,0% du PIB, légèrement moindre que les 3,1% prévus en sous-jacent de la LFI pour 2020 et de la LFR pour 2019. Le solde structurel s'est établi à -2,0% du PIB en 2019, contre -2,2% prévu.
En 2020, la crise sanitaire inédite que traverse la France et ses répercussions économiques et financières constituent des « circonstances exceptionnelles » au sens de l'article 3 du Traité sur la Stabilité, la Coordination et la Gouvernance, ainsi que l'a estimé le Haut Conseil des Finances Publiques dans son avis n°HCFP-2020-1 relatif au premier projet de loi de finances rectificative pour l'année 2020. Dans ce contexte, la prévision de solde public pour 2020 est revue en baisse, à -9,0% du PIB, contre -2,2% prévu dans la LFI pour 2020 et -3,9% dans la LFR1. Le solde structurel serait stable en 2020 (-2,0 % comme en 2019). En effet, la dégradation du solde par rapport à la LFI et à la LFR1 s'explique par le solde conjoncturel et l'effet des mesures exceptionnelles et temporaires prises face à la crise du Covid-19. Dans le détail le solde 2020 est affecté par :

(i) La révision en baisse de la croissance de l'activité en raison du contexte de crise sanitaire. L'estimation de la croissance de l'activité a été revue à -8,0%, contre +1,3% dans la LFI pour 2020, dans le contexte de crise déclenchée par l'épidémie de Covid-19, ce qui affecte les recettes d'impôts et de cotisations. Le solde conjoncturel passe ainsi de +0,1 % du PIB en LFI 2020 à -5,3 % du PIB, soit une dégradation de -5,4 points.

(ii) Les mesures de lutte contre l'épidémie de Covid-19 et ses conséquences économiques et sociales, détaillées ci-après, pour 42 Md€, soit -1,9 points de PIB, traitées comme mesures exceptionnelles et temporaires.

(iii) En sens opposé, l'amélioration du solde structurel en 2019 (-2,0 % contre -2,2 % dans le PLF) se prolonge en 2020.

Les 42 Md€ de dépenses exceptionnelles maastrichtiennes face à la crise sanitaire, économique et sociale comprennent :

(i) Le financement des mesures exceptionnelles de chômage partiel pour 24 Md€ (8 ½ Md€ en LFR I), dont 16 Md€ à la charge de l'Etat et 8 Md€ des administrations de sécurité sociale (Unedic).

(ii) Le financement public du fonds de solidarité pour les entreprises pour 7,0 Md€, dont 6,25 Md€ à la charge de l'Etat (0,75 Md€ en LFR I).

(iii) Des dépenses exceptionnelles supplémentaires de santé estimées à 8 Md€ (2 Md€ en LFR I) incluant les dépenses nécessaires au matériel et aux masques, les mesures sur les indemnités journalières et le jour de carence, ainsi que les rémunérations exceptionnelles du personnel soignant et une première tranche de surcoûts liés à la crise.

(iv) Des crédits supplémentaires d'urgence pour 2 ½ Md€.

(v) Le décalage de la réforme de l'assurance chômage et la prolongation de droits pour les demandeurs d'emploi, pour ½ Md€.

Appendix 3: The methods for estimating the structural balance of public administrations

The structural balance estimate

To assess the public finance path, the structural budget balance is usually considered. The structural balance is the **public balance adjusted for the direct impact of the economic cycle and exceptional events**. The public balance is thus divided into two components:

- A **cyclical component,** which reflects the impact of the economic cycle on public administrations' expenditure and revenue;
- A **structural component,** being what the public balance would be if domestic production were at its potential level.

The calculation of the cyclical and structural components of the public balance is based on the potential GDP estimate. Potential GDP is the "sustainable" output, i.e. the quantity that can be produced without having positive or negative impacts on inflation. The cyclical component of the public balance results from the cyclical variations in public revenue and expenditure, considered as follows:

- **On the revenue side**, only compulsory levies are assumed to be cyclical. The cyclical parts of the income tax, corporate income tax, social security contributions and other mandatory contributions are calculated separately based on the observed levels, the estimated output gap and the elasticity of each tax category to GDP growth3;
- **On the expenditure side**, only the unemployment compensation expenses are considered dependent on economic conditions. Their cyclical share is estimated, as for revenue, based on their elasticity to the output gap and the amounts observed.

The structural balance is calculated as the difference between the nominal public balance and the cyclical component estimate. Given the fact that compulsory levies and cyclical expenses account for about half of GDP and that their average elasticity is close to one, the cyclical component of the public balance is equal to just over half the output gap (for France). **A final correction is made to the structural balance in order to exclude certain events or actions** that have no lasting impact on the public balance. **However, there is no comprehensive definition of one-off and temporary measures and their assessment is partly based on interpretation.**

The components of the structural adjustment

The variation of the structural balance is known as "structural adjustment". A positive structural adjustment reflects a budgetary policy directed towards the medium term objective (-0.4% for France as set by the programming law), when there initially is a deficit. Conversely, a negative structural adjustment reflects an expansionist budgetary policy, increasing the structural deficit.

In order to assess more sensibly the budgetary policy, the **structural adjustment is divided into two components**.

- **The structural effort, which measures the discretionary part of the structural adjustment, i.e. controlled by public decision makers, is made of**:
    - **the expenditure restraint**, which compares the public spending real growth(calculated with the GDP deflator) to the economy's potential growth. It has a positive contribution to the structural adjustment when public spending grows slower than potential GDP;
    - the new measures on compulsory levies.

- **The non-discretionary part** takes into account:

- the impacts of **changes in revenue elasticities**: since the cyclical component of the public balance is based on average elasticities, the structural balance includes the effects of elasticity fluctuations around the long-term average value;
- the **changes in revenues other than compulsory levies.**