

**Opinion n° HCFP-2021-1  
on the general government structural balance presented in the budget  
settlement bill for 2020**

12 April 2021

1. The Government referred to the High Council of Public Finance on 7 April 2021, pursuant to Article 23 of Organic Law No. 2012-1403 of 17 December 2012 relating to the programming and governance of public finances, in order to assess whether the multi-year structural balance objectives are being met in 2020. The High Council, after deliberating on this matter at its meeting of 12 April 2021, adopted the present opinion.

**Summary**

*The High Council notes that the health crisis has led to unusual developments in public finances. This situation has led the High Council to consider, in its opinion on the first amending budget bill for 2020, that the exceptional circumstances mentioned in article 3 of the Treaty on Stability, Coordination and Governance (TSCG) have been met.*

*While these developments have made the public finance programming law in force - and in particular the estimate of potential GDP it includes - obsolete, this law remains the reference on which the High Council must, according to the terms of the organic law of December 2012, base this present opinion.*

*The High Council notes that, for a given potential GDP, these developments lead to a more conventional and debatable breakdown than usual of the public balance between its exceptional and temporary, structural and cyclical components.*

*In this respect, the High Council notes that the calculation methods for the one-off and temporary measures adopted by the Government lead to an improvement in the structural balance in 2020, in contrast to the very sharp deterioration in public finances that is expected to be persistent.*

*The High Council notes, however, that the structural deficits submitted by the Government for an opinion under Article 23 of the Organic Law, estimated at 2.3 and 0.9 points of GDP for 2019 and 2020 respectively, do not deviate significantly from the Public Finance Programming Law (LFPF) of January 2018, which forecast them at 1.9 and 1.6 points of GDP respectively. There is therefore no need to trigger the correction mechanism provided for in this article of the organic law.*

## I- Introductory remarks

### 1- On the subject of this opinion

2 Under the Article 23 of the organic law of 17 December 2012, “*the High Council of Public Finance gives an opinion on significant deviations, if any, from the trajectory observed in execution relative to the multi-year structural balance targets defined by the public finance programming law*”. A deviation is considered significant if it is at least 0.5% of GDP for a given year or at least 0.25% of GDP per year on average for two consecutive years. If the High Council were to identify such a deviation, this would trigger the “*correction mechanism*” within the meaning of Chapter IV of the organic law. The organic law further specifies that the structural balance must be estimated with the potential growth path submitted in the report attached to the programming law.

3 The High Council refers in this opinion to the public finance programming law of 22 January 2018 for the years 2018 to 2022<sup>1</sup>.

### 2- On the information submitted and the deadlines

4 The High Council received the referral file from the Government on 7 April 2021. This file contained the introductory article of the budget settlement bill for 2020 and in particular its summary table focusing on the actual and structural balances for all public administrations in 2020 (Appendix 1). The referral file was supplemented with detailed answers to a questionnaire previously addressed to the relevant administrations.

5 As permitted by article 18 of the organic law, the High Council held hearings of the relevant administrations’ representatives – Treasury and budget departments – on 8 April 2021.

## II- Remarks about the deviation from the programming law

### 1- Effective public and structural deficit for 2020

6 According to Insee, public deficit stood at € 211.5 billion in 2020, or 9.2 GDP points, after 2.3 points in 2018 and 3.1 points in 2019. The clear increase in public deficit in 2020 reflects the impact of the economic crisis following the Covid-19 pandemic. The decline in economic activity resulting from health measures led to a decline in revenue (-5%) while the emergency measures decided in four amending budget laws led to an increase in expenditure (+5.5% after +2.6% ; +7.1% excluding tax credits after +2.8%)

7 The structural budget balance is deduced from the general government balance by neutralizing the cyclical effects and the one-off measures. The steps of its estimation are detailed in appendix 2.

---

<sup>1</sup> Public finance programming law No 2018-32 of 22 January 2018 for 2018 to 2022

**Table 1: Deviation from the 2018-2022 programming law**  
(% of GDP or potential GDP)

	2018			2019			2020		
	LPFP (Jan. 2018)	PLR 2020 (April 2021)	Dev*	LPFP (Jan. 2018)	PLR 2020 (April 2021)	Dev*	LPFP (Jan. 2018)	PLR 2020 (April 2021)	Dev*
Nominal balance (1)	- 2.8	- 2.3	0.5	- 2.9	- 3.1	- 0.1	-1.5	-9.2	-7.7
Cyclical component (2)	- 0.4	0.0	0.4	- 0.1	0.2	0.3	0.1	-5.4	-5.6
One-offs* (3)	- 0.2	- 0.1	0.2	- 0.9	- 1.0	0.0	0.0	-2.9	-2.9
Structural balance (1)-(2)-(3)*	<b>- 2.1</b>	<b>- 2.2</b>	<b>-0.1</b>	<b>- 1.9</b>	<b>- 2.3</b>	<b>- 0.4</b>	<b>-1.6</b>	<b>-0.9</b>	<b>+0.7</b>

\* In % of potential GDP

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

Sources: 2018 public finance programming law No 2018-32 and budget settlement bill for 2019

8 The deficit observed in 2020 (9.2 points of GDP) is greater by 7.7 points than that provided for in the January 2018 programming law (1.5 GDP points). According to the Government's breakdown, this difference mainly comes from a decrease in cyclical balance of 5.6 points compared to the programming law. The sharp decline in GDP in 2020 brought the level of GDP way under the level of potential GDP, leading to an output gap of -9.1% after 0.3% in 2019. The Government considers that one-off measures led to a decline in balance of 2.3 points of potential GDP (see Table 2).

**Table 2: One-off operations, in € billion**

	2018	2019	2020
Health crisis	-	-	-72.8
- due to part-time unemployment	-	-	-27.4
- due to the emergency fond 'fonds de solidarité'	-	-	-15.9
- due to the national health insurance expenditure target ('Ondam')	-	-	-14.0
- due to exemptions from social security contributions	-	-	-7.9
Tax litigation (OPCVM, De Ruyter, Stéria, CVAE)	-0.7	-0.6	-1.9
Interests of litigation	-0.1	-0.2	-0.6
Tax conventions 'Conventions judiciaires d'intérêt public'	0.3	0.5	2.1
Transformation of 'CICE' into a tax credit	-	-21.2	-
Others	-1.4	-2.0	-0.4
<b>Effect on general government balance</b>	<b>-1.9</b>	<b>-23.5</b>	<b>-73.6</b>
<b>Effect on general government balance (points of potential GDP)</b>	<b>-0.1</b>	<b>-1.0</b>	<b>-2.9</b>

Source: Government

9. The structural balance in 2020 resulting from this estimation of the cyclical balance and from the estimation of one-off measures is better than expected and 0.7 point above the target set in the programming law (-0.9% of GDP in 2020, compared to a forecast of -1.6% in the programming law), and the structural deficit is lower than in 2019 (-1.4% GDP). This evolution is contradictory with the clear deterioration of public finances that is expected to be persistent (see below).

## 2- Deviation of the structural balance from the programming law

10. Under the organic law of December 17, 2012, the High Council gives an opinion on the consistency of the structural balance path observed in 2019 and 2020 with the latest programming law targets i.e. the one of January 2018 for the years 2018 to 2022.

11. When referring the first amending budget bill for 2020 to the High Council, the Government asked the High Council if the exceptional circumstances mentioned in article 3 of the Treaty on Stability, Coordination and Governance (TSCG) have been met. The High Council considers that the health crisis and its economic and financial consequences are unusual events beyond the control of the Government and therefore fall within the scope of “exceptional circumstances” as referred to in Article 3 of the TSCG. Under the article 23 of the organic law of December 17, 2012, the High Council must take these exceptional circumstances into consideration when reviewing the settlement bill.

### **Direct and indirect impact on compulsory levies of the six main exceptional income support measures of 2020**

In a recent study<sup>2</sup>, the High Council’s permanent secretariat sought to estimate the increase in revenue from compulsory levies in 2020 following the implementation of the six main exceptional income support measures. For this purpose, the direct and indirect impact of € 57.1 billion worth of measures<sup>3</sup> has been examined.

First, these exceptional measures were accompanied by a mechanical increase in compulsory levies of around €3.1 billion, or 5.4% of their gross cost. In particular, part-time unemployment allowances (gross cost of € 27.4 billion) increased the disposable income of households, leading to an increase in compulsory levies estimated at € 2.8 billion in 2020.

Second, these measures had a favourable indirect impact on revenue, via their effect on household and business demand, estimated between € 7.6 billion and € 15.7 billion, i.e. 13% to 28% of their gross cost. In particular, according to the different household consumption scenarios, the net amounts actually received by households in 2020 (€ 38.9 billion) would result in an increase in consumption from € 15.9 billion to € 33.1 billion and, as a result, compulsory levies of € 7.6 billion to € 15.7 billion.

<sup>2</sup> Permanent secretariat of the High Council of public finance, *Le coût net des mesures économiques et sociales exceptionnelles en 2020*, note d’étude n°2021-01.

<sup>3</sup> Part-time unemployment, emergency fund (‘fonds de solidarité pour les entreprises’), support measures to independent businesses, poor households, postponement of unemployment insurance reform, exemptions from social security contributions. The amount of these measures represents more than three quarters of the total amount of measures taken for the year 2020.

In total, for the year 2020, the main exceptional measures to support household and business income would have led, according to estimates by the permanent secretariat, to a direct and indirect increase in compulsory levies from € 10.7 billion to €1 8.8 billion, i.e. 18% to 33% of their gross cost.

Given the exceptional nature of the economic situation in 2020, and in particular the constraints that weighed on the consumption of certain goods and services, the immediate rate of return on public finances will have been lower than that which would be expected automatically in view of the usual fiscal multipliers and the structure of compulsory levies.

The measures taken have made it possible to preserve confidence, to keep in operation businesses which otherwise would have disappeared and to keep employees permanently employed while they would otherwise have lost their link with the labour market and seen their employability diminish. This should have a positive effect in return on public finances, but these are effects that play more in the medium to long term than in the short term.

12 As noted by the High Council in its previous opinions, the improvement for 2020 of the structural balance by the Government resulting from the conventions for classifying as one-off and temporary measures many of the retained support measures, for an amount of 2.9 points of potential GDP, is meaningless.

13 The choice to classify the majority of the support measures as one-off measures with no impact on the structural balance is indeed questionable. Some of these measures (part-time unemployment in particular) partially replace unemployment benefit expenditures, which are taken into account in the calculation of the cyclical balance. In addition, the Government does not take into account the fact that certain public operating and investment expenditures could not be carried out due to health restrictions and, on the contrary, improve, just as temporarily and exceptionally, the general government balance. Finally, the renewal in 2021 of numerous support measures relativizes their exceptional and temporary nature in 2020.

14 In addition to the Government's overestimation of the amount of one-off measures comes the obsolete nature of the programming law still in force and the uncertainty surrounding the level of potential GDP. The organic law of December 2012 provides that the forecast of potential GDP of this programming law constitutes the reference for evaluating the structural balance. Nevertheless, the health crisis should lead to a downward revision of the estimate of potential GDP for 2020 appearing in the programming law. The Government has thus already presented in the economic, social and financial report associated with the initial budget bill for 2021, a new estimate of potential GDP, lower by 1.5 point in 2020 than in the programming law. It is also on the basis of this new forecast that the stability programme draft, submitted at the same time to the High Council, is based.

15 In total, the estimate of the structural balance for 2020 on which the High Council must give its opinion is irrelevant<sup>4</sup>. A fairer assessment of the state of our public finances would require taking into account the necessary downward revision of potential GDP caused by the health crisis and significantly reducing the amount of exceptional and temporary measures.

16 According to the calculation assumptions used by the Government, the structural balance difference with the trajectory set by the programming law is -0.4 point in 2019 and +0.7 point of GDP in 2020. According to the Government's forecast, and in contradiction with the deterioration of public finances that is expected to be persistent, the structural balance would thus be better in 2020 as on average over the years 2019 and 2020 than the target set by the programming law. It does not therefore mark a significant deviation from the programming law.

---

<sup>4</sup> For the same reasons, the evaluation of the structural effort presented by the Government is also meaningless and is not presented in this opinion, unlike in previous years.

Without it being necessary to take into account the exceptional circumstances, there is therefore no need to trigger the "correction mechanism".

17. **The High Council notes that the health crisis has led to unusual developments in public finances. This situation has led the High Council to consider, in its opinion on the first amending budget bill for 2020, that the exceptional circumstances mentioned in article 3 of the Treaty on Stability, Coordination and Governance (TSCG) have been met.**

18. **While these developments have made the public finance programming law in force - and in particular the estimate of potential GDP it includes - obsolete, this law remains the reference on which the High Council must, according to the terms of the organic law of December 2012, base this present opinion.**

19. **The High Council notes that, for a given potential GDP, these developments lead to a more conventional and debatable breakdown than usual of the public balance between its exceptional and temporary, structural and cyclical components.**

20. **In this respect, the High Council notes that the calculation methods for the one-off and temporary measures adopted by the Government lead to an improvement in the structural balance in 2020, in contrast to the very sharp deterioration in public finances that is expected to be persistent.**

21. **The High Council notes, however, that the structural deficits submitted by the Government for an opinion under Article 23 of the Organic Law, estimated at 2.3 and 0.9 points of GDP for 2019 and 2020 respectively, do not deviate significantly from the Public Finance Programming Law (LFPF) of January 2018, which forecast them at 1.9 and 1.6 points of GDP respectively. There is therefore no need to trigger the correction mechanism provided for in this article of the organic law.**

\*

\* \*

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

Paris, 12 April 2021.

For the High Council of public finance,  
The First President of the Cour des comptes,  
President of the High Council of public finance

Pierre MOSCOVICI

## APPENDIX 1

### Draft introductory article

#### Structural balance and effective balance for the general Government for the year 2020

- ① The structural balance and the effective balance of all public administrations for the year 2020 are as follows (in points of GDP):

②

	2020 result	Budget bill for 2020		Programming law 2018-2022	
		Expected balances	Gap	Expected balances	Gap
Structural balance (1)	-0.9	-2.2	1.3	-1.6	0.7
Cyclical balance (2)	-5.4	0.1	-5.5	0.1	-5.6
One-off and temporary measures (3)	-2.9	-0.1	-2.9	0.0	-2.9
Effective balance (1+2+3)	-9.2	-2.2	-7.1	-1.5	-7.7

Explanatory statement of the article:

This article implements the provision provided for in article 8 of organic law n° 2012-1403 of December 17, 2012 relating to the programming and governance of public finances, by comparing the effective, cyclical and structural public balances achieved in 2020, based on national accounts conventions, to those provided for by law n° 2019-1479 of 28 December 2019 on finance for 2020 (hereinafter “ Budget bill for 2020”), on the one hand, and to those provided for by law n° 2018-32 of 22 January 2018 on the programming of public finances for the years 2018 to 2022 (hereinafter “Programming law 2018-2022”) on the other hand. The structural balance achieved for 2020 is calculated on the basis of the potential growth assumptions made in the Programming law for the years 2018-2022, or 1.25% for the year 2020.

In 2020, the public deficit stood at 9.2% of GDP, after 3.1% of GDP in 2019 (2.2% excluding transformation of the ‘CICE’ tax credits into reduction of employer social contributions, and 0.9% related to the ‘CICE’). This deterioration is entirely related to the effect of the health crisis and its economic impact, with the combined effect of the automatic stabilizers, which lead to a negative cyclical balance, and the discretionary support measures taken from March 2020 to deal with the pandemic and its consequences, classified as exceptional and temporary measures.

The latest forecasts from Insee for 2019 lead to a structural balance of -2.3 points, i.e. a difference of -0.4 pts compared to that underlying the Programming law for the years 2018-2022. By improving by 1.4 percentage points of GDP in 2020, the latter is back above the trajectory of the Programming law (-0.9% of GDP against -1.6%). Cumulatively over 2019 and 2020, the gap to the programming law reaches +0.3 percentage points of GDP. It should be noted that the gap measured in 2020 is to be linked in part to the choice made to classify the cost of exceptional support mechanisms in 2020 - partial activity, solidarity fund, exemptions and health expenditure in particular - into one-off and temporary measures. The 2020 structural balance level is also supported by compulsory levies, which have shown strong resilience in the face of declining activity. This resistance supports the structural balance by 0.6 point in 2020, with a backlash of the same order to be expected in 2021 under the assumption of a return of compulsory levies to a level in line with activity.

In accordance with Article 3 of the Treaty on the Stability, Coordination and Governance of Public Finances, the exceptional circumstances have been activated under the conditions provided for in Article 23 of the Organic Law of 2012, as noted in the opinion 2020-1 of March 17, 2020 from the High Council on the first amending budget bill for 2020.

Finally, in order to give more time to the parliamentary evaluation, the timetable for presenting the budget settlement law for 2020 has been brought forward. Thus, the data in this article is based on GDP on the quarterly accounts of Insee, the national accounts being made public in May.

## APPENDIX 2

### 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 growth<sup>3</sup>;
- **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**.