Haut Conseil des Finances Publiques

**Opinion n° HCFP-2021-3**

**on the first amending budget bill for 2021**

31 May 2021

## Main conclusions

***The Government referred to the High Council of Public Finance the introductory article of the first amending budget bill (PLFR) for 2021. It once again emphasizes the very short deadlines within which it has to deliver its opinion on the PLFR's macroeconomic and structural balance forecasts. Originally set to five days, the High Council's examination period was reduced to less than three days following the corrective referral file.***

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***The High Council notes that the Government's growth forecast for 2021 (+5%) is unchanged from the one included in the Stability programme of last April. In a context of persistently high uncertainty and in the light of the latest business cycle information, the High Council considers this growth forecast to be realistic.***

***It also considers that the employment and wage bill forecasts are rather prudent. Inflation could also turn out to be somewhat higher than the forecast in the PLFR.***

***The High Council notes that the forecasts of general government revenue, expenditure and public balance for 2021 have been revised and take into account the extension of a number of support measures. It notes that the public deficit is expected to reach 9.4 points of GDP in 2021, deteriorating by 0.2 points compared to 2020, despite the expected rebound in growth. The revision of the public finance scenario since the April 2021 Stability programme has not led to a revision of the macroeconomic scenario.***

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***Under the terms of the Organic Law of 17 December 2012, the High Council must give its opinion on the consistency of the structural balance trajectory adopted in this PLFR for 2021 with that of the current programming law of 22 January 2018 for the years 2018 to 2022.***

***The High Council points out once again that the January 2018 programming law is an outdated reference, both in terms of the macroeconomic and public finance scenarios.***

***Beyond the difficulties in interpreting the level and evolution of the structural balance, notably due to the different treatment in the recording of support measures between 2020 and 2021 (from temporary to structural), the High Council notes that the structural balance presented in this document by the Government would deteriorate by 5 points between 2020 and 2021 to reach -6.3 points of GDP in 2021. The structural balance forecast for 2021 would thus be 5.1 points worse than the one set out in the January 2018 programming law.***

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***The High Council notes that the data presented in this PLFR show the very deteriorated situation of France's public finances in 2021. According to the forecast in the amending budget bill, the public debt ratio would increase by 20 points of GDP between 2019 and 2021, reaching more than 117 points of GDP. With the deficit level expected to be higher in 2021 than in 2020, the path to deficit reduction and the sustainability of public finances are key issues in France's fiscal strategy and calls for the utmost vigilance.***

# Introductory remarks

1. The High Council has adopted the following opinion after discussions at its meeting on 31 May 2021.

## 1- On the scope of the following opinion

2. The Government referred to the High Council of Public Finance on 27 May 2021, in application of 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 first amending budget bill (PLFR) for 2021 to issue an opinion on the associated macroeconomic forecasts as well as on the consistency of this bill with the multi-year structural balance trajectory defined by the programming law of January 2018 (LPFP).

3. On 29 May 2021, the High Council received a corrective referral file aimed at taking into consideration the publications of Insee’s National accounts of 28 May 2021.

4. While the organic law of 17 December 2012 sets a minimum period of one week for the examination of annual finance bills, it does not establish a time duration for amending budget bills, which makes this corrective referral compliant with the organic law but greatly complicates the task of the High Council.

5. **The High Council once again emphasizes the very short deadlines within which it has to deliver its opinion on the PLFR's macroeconomic and structural balance forecasts. Originally set to five days, the High Council's examination period was reduced to less than three days following the corrective referral file.**

## 2- On the methodology used by the High Council

6. In order to assess the realism of the macroeconomic forecasts associated with the amending budget bill, the High Council considered the latest data and statistics available and the information provided by the Government within the referral file and within the answers to the High Council’s questionnaires.

7. As allowed by Article 18 of the organic law, the High Council organized hearings with representatives of the competent administrations (Treasury General Directorate, Directorate of Budget) after the initial referral as well as representatives of Insee. Moreover, the High Council based its opinion on the work of Banque de France, the European Commission, the European Central Bank, the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD).

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8. First, the High Council formulates its assessment on the macroeconomic forecasts on which the first amending budget bill is based (I). Second, the High Council formulates its assessment on the associated public finance forecasts (II).

# I. Observations on macroeconomic forecasts for 2021

## 1- The Government's forecasts

9. According to the Government's initial referral file of 27 May 2021 "*The macroeconomic scenario on which the amending budget bill for 2021 is based is identical to that of the 2021-2027 Stability Programme, which assumes a GDP growth of 5% for the year 2021*". On the one hand, "*the cyclical information published since the finalization of the Stability Programme is not such as to question this forecast at this stage*". On the other hand, "*the recent developments in the health situation and the lifting of restrictions are in line with the scenario underlying the Stability Programme*."

10. According to the Government's corrective referral file of 29 May 2021, after the publications by Insee of the annual National accounts for 2020 and of the quarterly National accounts for the first quarter of 2021, "*The latest figures published by Insee do not question the forecasts for 2021 of the Stability Programme's macroeconomic scenario, included in the referral. […] Business investment has shown resilience and remains well oriented after Q1, supported by the measures taken; consumption remains affected by health restrictions, and the contribution of foreign trade is negative. The growth overhang for 2021 at the end of Q1 is now around 3½%, revised down by around ½ point compared to that on the basis of which the other forecasts were built. Given the rebound expected in the second part of the year when health restrictions have been largely lifted, such growth overhang is compatible with annual growth of 5%.* "

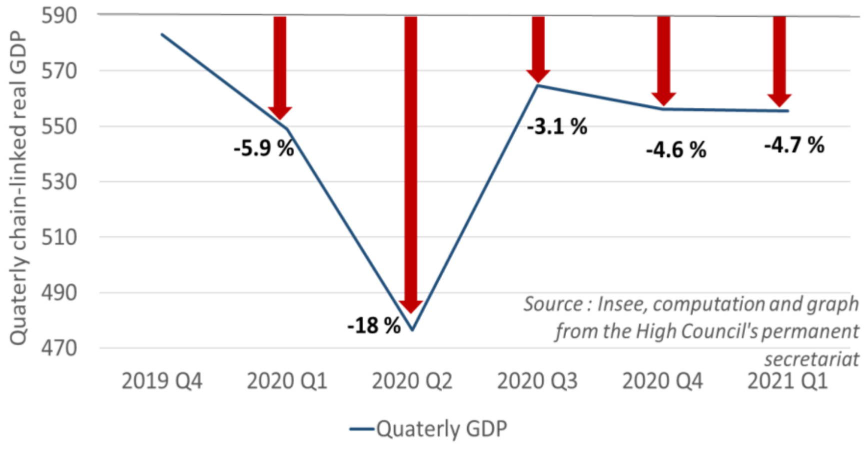
11. The Government underlines that "*[The] uncertainty around these forecasts thus remains particularly high and the forecast adopted for the Stability Programme remains within the range of forecasts, given the available data. Finally, the April inflation figure (+1.2% year-on-year according to Insee's final results of May 12) confirms the forecast underlying the Stability Programme, which was +1.1% in annual average for the year 2021*."

## 2- Elements of context

12. The Government's macroeconomic scenario for 2021 is unchanged from that presented in April 2021 in the Stability programme for the years 2021 to 2027. The growth forecast is maintained at +5.0% for 2021. Indeed, the Government considers that economic information published since the Stability programme does not question this forecast.

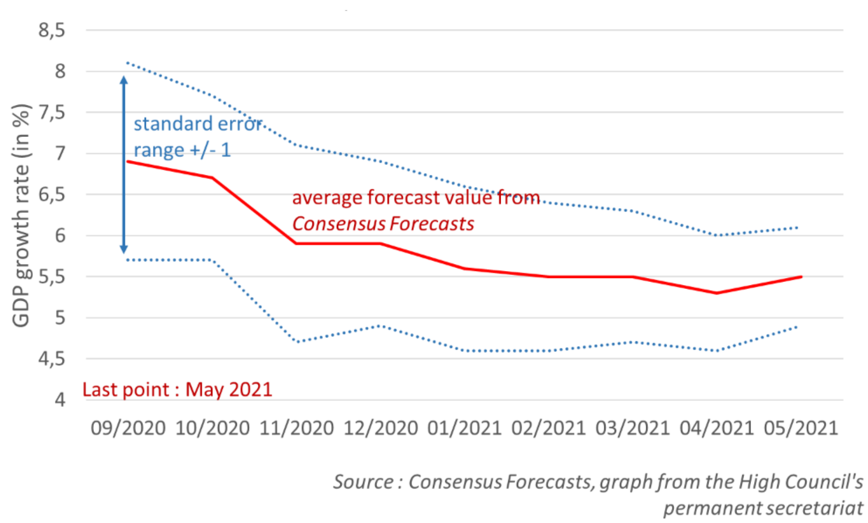
13. The Government's growth forecast for 2021 would lead to a loss of activity of -3.4% on average over the year, compared to the level reached in the 4th quarter of 2019; the loss of activity stood at -4.7% in the first quarter of 2021.

**Graph 1: quarterly GDP levels and gaps to the level of Q4 of 2019**




14. The Government's forecast is lower than the latest forecasts published by the IMF (+5.8%), the OECD (+5.8%), the European Commission (+5.7%) and the Consensus Forecasts of May 2021 (+5.5%). The Consensus Forecasts takes into consideration, at least partially, the cyclical information for the months of April and May, reflecting a less marked impact than expected from the restrictions on travel and activity in April and May; it does not, however, take into consideration the publication by Insee of detailed accounts of 28 May 2021, which show a more marked weakness in activity in the first quarter.

**Graph 2: variation of the Consensus Forecasts's growth forecasts for 2021 and their spread**



## 3- Assessment of the High Council

15. In its opinion No. 2021-02 related to the macroeconomic forecasts associated with the Stability programme's draft for the years 2021 to 2027, the High Council considered that the Government's growth forecast for 2021 was "*consistent with the health scenario adopted, based on a gradual lifting from May 2021 of restrictions on activities and travel*". At the same time, he noted that the scenario was surrounded by uncertainties related to the evolution of the health situation.

16. The Government's scenario is in line with the cyclical information published since this opinion. In particular, the slight contraction of the GDP in the 1st quarter (-0.1%) as it appears in the estimate of Insee published after the initial referral, reflects the near stability of the cyclical situation at the beginning of the year envisaged by the High Council in its opinion on the Stability programme[1]; it brings the growth overhang for 2021 to +3.5% at the end of the 1st quarter.

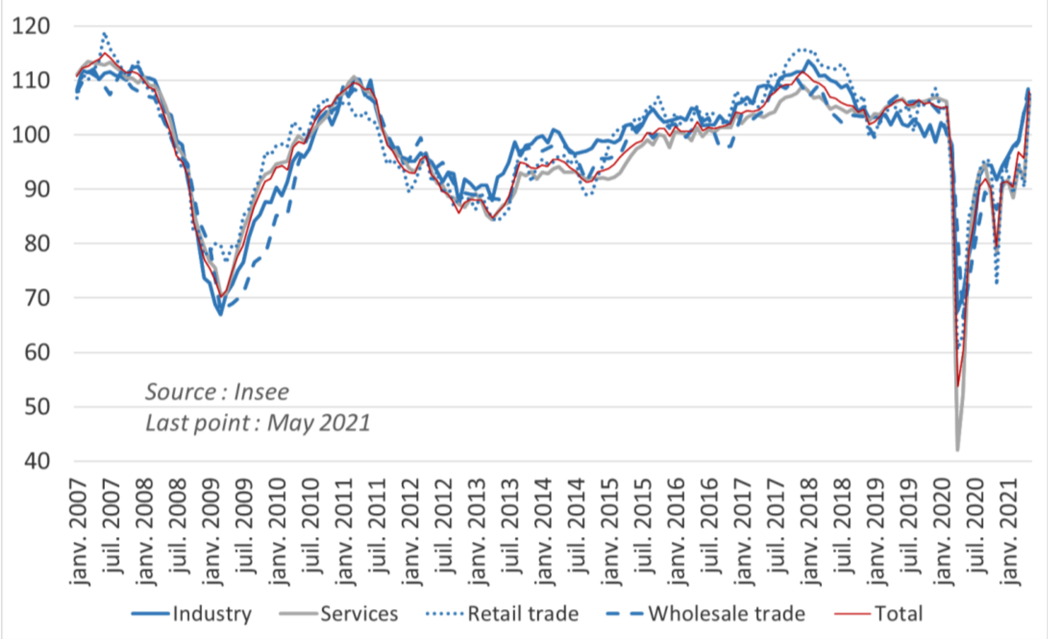
17. On the other hand, despite the restrictions on movement and activity, activity in April fared better than expected. Thus, the loss of activity compared to the last quarter of 2019 would stand in April at -6% according to Insee and Banque de France, while a more pronounced decrease than in November 2020 (which was around -7.5% according to Insee and -7% according to Banque de France) was expected by a majority of forecasters due to the closing of schools for a few days.

18. With the gradual lifting of restrictions on travel and activity in May and June, activity is expected to rebound sharply. In its economic situation at the beginning of May, Insee forecasted a gradual recovery of activity leading to a loss of activity in June reduced to -2.5% compared to the 4th quarter of 2019. If activity stabilizes at this level on average in the second half of the year, growth would be close to 5%.

19. The business surveys published at the end of May by Insee could point to a faster absorption of activity losses, leading to a slightly higher growth for the year 2021. The business climate in the private sector increased sharply in May, and stands at a higher level than before the crisis. In particular, surveys carried out in services improved sharply in May, those in industry and construction continued to recover. Household confidence in the economic situation also increases in May, and high frequency data such as search engine queries and credit card payments lead to predict upturn in consumption with the lifting of restrictions.

[1] In its opinion of 13 April 2021 on the Stability programme, the High Council pointed out that *"available cyclical information, notably the decrease in industrial production in February, the downturn in consumption of goods in February and the fall in registration in March, as well as contrasting message from monthly outlook survey, is coherent with a stagnation or a decrease in GDP in the first quarter of 2021."*

**Graph 3: business climate indicators according to Insee**




20. The economic situation is nevertheless surrounded by significant uncertainties. The evolution of the health situation remains the main risk for the rebound of activity. The risk of a rebound in the pandemic cannot be totally ruled out. In such a scenario, further restrictions on movement and activity would again slow down the economy. On the contrary, household consumption could further support activity if households mobilized in 2021 the additional savings accumulated since the start of the crisis, whereas the Government's scenario is based on a lasting higher saving rate than its pre-crisis level. Moreover, the signals in terms of business investment are not unequivocal: the overall situation of businesses is rather favorable, thanks in particular to the support provided by public measures, but liquidity or solvency risks may emerge, particularly in sectors most affected and in companies that were already weakened before the crisis.

21. The international environment also remains surrounded by uncertainties. On the one hand, the growth forecast from the Consensus Forecasts has been revised upwards in recent months, for both the world (+5.7% in the Consensus Forecasts of May against +5.3% in that of March) and the euro zone (respectively +4.2% versus +3.8%). A faster recovery in global tourism and trade in services would also provide additional support to the French economy. On the other hand, a worsening of disruptions to international supply chains could affect the recovery[2]. An acceleration in the rise of long-term interest rates, in a context of rising inflation in the United States, could also limit the extent of the recovery by leading to tighter financing conditions for the economy.

22. **The High Council notes that the Government's growth forecast for 2021 (+5%) is unchanged from the one included in the stability programme of last April. In a context of persistently high uncertainty and in the light of the latest business cycle information, the High Council considers this growth forecast to be realistic.**

[2] Entrepreneur answers do not yet allow measuring an impact on the overall economy. See the Banque de France analysis in its economic outlook of May: 210510_point-de-conjoncture.pdf (banque-france.fr).

23. In its opinion on the Stability programme, the High Council considered that the employment and wage bill forecasts for 2021 were consistent with the activity scenario. They now appear rather prudent: the growth overhang in salaried employment in the private sector at the end of the 1st quarter stands at +0.9% against an annual growth forecast of +0.1% in the Government's scenario.

24. Moreover, in its April opinion on the Stability programme, the High Council estimated that inflation could be higher in 2021 than forecasted by the Government (+1.1%). This assessment is reinforced by the latest available information. The inflation overhang at the end of May stands at +1.2% (that of core inflation at the end of April at +0.6%). The recent rise in the prices of raw materials and imported industrial inputs should support the rise in the prices of finished products by being gradually transmitted along the production chains. Thus, the latest business surveys show unusually high pressures on prices at the production stage. In addition to this, the Consensus Forecasts published in May forecasts inflation of +1.3% for 2021.

25. **The High Council considers that the employment and wage bill forecasts are rather prudent. Inflation could also turn out to be somewhat higher than the forecast in the PLFR.**

# II- Observations on public finances

## 1- Government forecasts

26. According to the Government[3], *"The forecast of general government balance for 2021 now stands to -9.4% of GDP […] against -9.0% of GDP in the Stability programme for 2021-2027 (PSTAB). […] The structural budget balance would be revised down sharply in connection with the revised nominal budget balance. Thus, it would stand to -6.3% of GDP in 2021, against -5.5% in the PSTAB according to the potential framework of the LPFP (respectively -7.3% and -6.7% in the revised potential framework)"*.

27. *"The deterioration is mainly explained by the extension of support measures implemented to tackle the Covid-19 pandemic and the funding of their graduated and progressive phasing-out after the crisis."* The Government forecasts an increase in *"tax revenue of +€2.2 billion compared to the Stability programme. […] We notice therefore a spontaneous evolution of compulsory levies of -0.8% compared to a nominal GDP of -1.0%."* Thus, *"the public expenditure ratio excluding tax credits would reach 60.6% of GDP in 2021 (against 60.4% in the PSTAB) and the rate of compulsory levies would reach 43.3% in 2021 (against 43.5% in the PSTAB)"*. Furthermore, the Government indicates that *"the debt ratio is estimated at 115.1% of GDP in 2020, against 115.7% in the forecast of March, and is expected to reach 117.2% in 2021 against 117.8% in the account of 26 May."*

[3] Figures have been updated after the corrective referral.

## 2- Assessment of the High Council

28. Contrary to the macroeconomic framework, the forecasts of public finances have been revised in the amending budget bill compared to the Stability programme in order to take into account the extension of support measures implemented to tackle the Covid-19 pandemic.

### a) Tax revenues

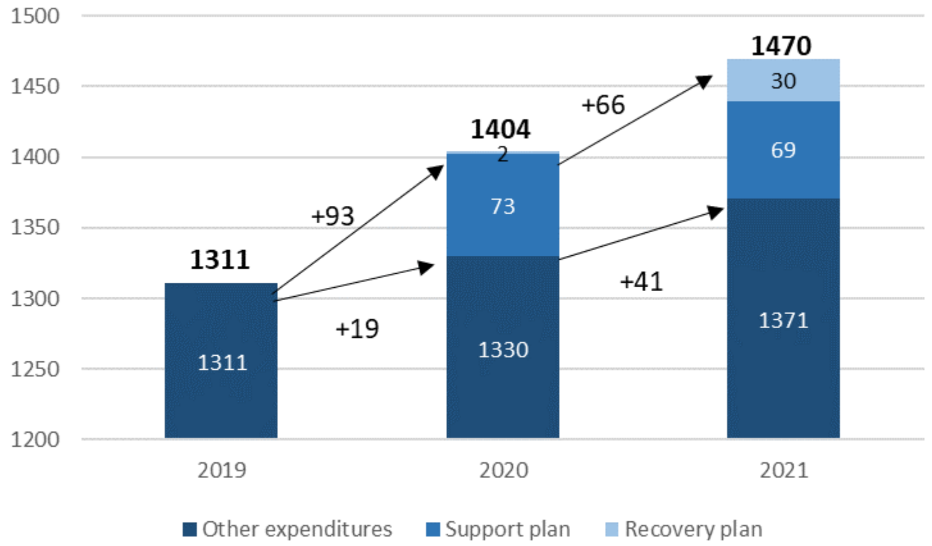
29. The Government forecasts that compulsory levies would spontaneously increase (+4.0%) at a slower pace than nominal GDP (+5.3%) in 2021, which corresponds to an elasticity equal to 0.8. It is due to the existence of relatively inert tax bases (retirement pensions, capital revenue and capital stock, public servant wages) in period of strong growth.

30. Those forecasts are coherent with the macroeconomic framework, however, revenue could be slightly higher if GDP, prices and private wage bill turn out to be higher than the prudent forecast included in the amending budget bill. However, those estimations are surrounded by great uncertainties due to the difficulty to estimate the outcome of certain taxes (corporate taxes, transfer taxes) and to risks weighing on the macroeconomic outlook due to the evolution of the health situation.

### b) Expenditures

31. In the context of the extension of some health restrictions, a set of support measures for household and corporate incomes has been extended or revised. Accordingly, the level of public expenditure is revised up markedly compared to the finance law and reaches 60.6 GDP points in 2021 according to the amending budget bill. Compared to 2020, public expenditures grow by €66 billion (i.e +4.7%), this evolution is mostly driven by "ordinary" expenditures (+€41 billion) and, to a lesser extent, by support and recovery expenditures (+€25 billion).

**Graph 4: Evolution of public expenditures from 2019 (in €bn)**




*Source: High Council of Public Finance from administration data.*

*Footnote: the cost associated with part-time unemployment (€14.7 billion in national accounts) is divided as follow: €3.2 billion for the recovery plan and €11.5 billion for the support plan.*

32. In particular, credits opened as part of the mission of the emergency plan to face the health crisis are markedly increasing, from €6.0 billion in the initial finance law to a total amount of €44.7 billion in this amending budget bill. Most of those credits have been opened through regulation provision of credit deferrals from 2020 to 2021 (+€28.8 billion). Programs from the solidarity fund (+€6.7 billion) and part-time unemployment (+€0.5 billion) have been abounded by the decree in advance of 18 May 2021. This increase have been neutralised in budget terms by the decrease in funds allocated to state's financial participations (-€7.2 billion). This amending budget bill supplements the increase in funds allocated to the solidarity fund and part-time unemployment to a total amount of €9.8 billion. Credits opened as part of the solidarity fund amount in total to €30.5 billion.

**Table 1: budget credits of the mission emergency Plan 'Plan d'urgence' (in €bn)**

| *In points €bn* | **Finance law for 2021** | **Deferrals** | **Decree in advance** | **Amending budget bill** | **TOTAL** |
|---|---|---|---|---|---|
| *Part-time unemployment (P356)* | *0.0* | *2.5* | *0.5* | *2.2* | *5.2* |
| *Solidarity fund for companies (P357)* | *5.6* | *14.6* | *6.7* | *3.6* | *30.5* |
| *Reinforcement of state's participation (P358)* | *0.0* | *11.7* | *-7.2* | *0.0* | *4.5* |
| *Compensation for exemptions (P360)* | *0.0* | *0.0* | *0.0* | *4.0* | *4.0* |
| *Sanitary equipment to face the Covid crisis (P366)* | *0.4* | *0.1* | *0.0* | *0.0* | *0.5* |
| **Emergency plan to face the health crisis** | **6.0** | **28.8** | **0.0** | **9.8** | **44.7** |

*Source: Government*

33. This amending budget bill is also an opportunity to adjust forecasts of expenditures for other sub-sectors of public administrations and notably those of social security administrations. In line with the High Council analyses[4], national health insurance expenditure (Ondam) would rise (+€9.6 billion compared to the objective voted in the LFSS for 2021 and +€0.5 billion compared to the Stability programme) essentially due to the vaccination campaign, detection test and supplementary expenditures of healthcare institutions and medical and social facilities. Unemployment insurance expenditures would increase due to a higher than expected cost of part-time unemployment benefits and also due to maintained rights to unemployment benefits until the end of June.

34. The level of expenditures in 2021 is still highly uncertain and will depend on the timing of support measure lifting, or even on the adoption of new measures in case of a pandemic outbreak in the second semester.

### c) The effective public deficit

35. The forecast of public deficit is 9.4 points of GDP in 2021, that is, 0.2 point higher than in 2020. This deterioration is explained by a steady growth in expenditures (+3.6% in real terms)

[4] In its opinion n°HCFP-2020-5 on the budget bill and the social security financing bill for the year 2021, the High Council had noted that *"health care spending could be higher than expected […] For example, the expenses associated with a possible vaccination campaign could turn out to be much higher than those planned in the PLFSS 2021."*

despite a more favourable macroeconomic environment than in 2020. Thus, compared to the Stability programme of mid-April, the amending budget bill forecasts a public deficit deteriorated by €10.4 billion, which corresponds to 0.4 point of GDP.

36. The level of deficit in 2021 is surrounded by two sets of risk working in opposite direction. On the one hand, the deficit could be reduced by a stronger economic rebound, which would rise the compulsory levies, or a lower rise in operating expenditures which would decrease the level of expenditures. On the other hand, a deteriorated health situation could widen the deficit, as well as the adoption of additional support measures to household and corporate revenue[5].

37. **The High Council notes that the forecasts of general government revenue, expenditure and public balance for 2021 have been revised and take into account the extension of a number of support measures. It notes that the public deficit is expected to reach 9.4 points of GDP in 2021, deteriorating by 0.2 points compared to 2020, despite the expected rebound in growth. The revision of the public finance scenario since the April 2021 stability programme has not led to a revision of the macroeconomic scenario.**

### d) The structural deficit

38. Under the terms of the Organic Law of 17 December 2012, the High Council must give its opinion on the consistency of the structural balance trajectory adopted in this PLFR for 2021 with that of the current programming law of 22 January 2018 for the years 2018 to 2022. Under the provisions of the same Organic Law, a deviation in structural balance is regarded as important when it amounts to at least 0.5% of GDP within a given year or at least 0.25% of GDP on annual average over two consecutive years.

39. However, the exercise of this mandate comes in the context of the health crisis, which has led to the triggering of the general escape clause of the Stability and Growth Pact (see appendix 4). At the national level, the High Council of public finance has noted in its opinion n°HCFP-2020-1, on the request of the Government, that the conditions mentioned in article 3 of the Treaty on Stability, Coordination and Governance for activating the clause of "exceptional circumstances" have been met.

40. The High Council must base its opinion on the potential growth as included in the current programming law. The structural balance is thus calculated in the finance law for 2021 under the same hypothesis of potential growth (1.25% in 2019 and 2020, 1.30% in 2021) that the one included in the programming low.

41. Using those data on potential growth, the structural balance[6] would amount to -6.3 points on GDP in 2021, after -1.3 point in 2020. The structural adjustment, that is to say the **variation** of structural balance, would be -5.0 points of GDP, a deterioration of 2.6 points compared to the forecast of the finance law for 2021.

[5] As shown by the postponement of the reform on fiscal expenditure applicable to non-road gas-oil from July 1st to January 1st 2023, which might be included in this amending budget bill by means of amendment.
[6] See appendix 3 for definition of notions used in this section.

**Table 2: Breakdown of the public balance in the 1st amending budget bill**

| *In GDP points* | **1st amending budget bill for 2021 (June 2021)** | | | ***Programming law (January 2018)*** | | |
|---|---|---|---|---|---|---|
| | **2019** | **2020** | **2021** | ***2019*** | ***2020*** | ***2021*** |
| **General government balance** | **-3.1** | **-9.2** | **-9.4** | ***-2.9*** | ***-1.5*** | ***-0.9*** |
| Cyclical component | 0.4 | -5.0 | -3.0 | *-0.1* | *0.1* | *0.3* |
| One-off measures* | -1.0 | -2.9 | -0.1 | *-0.9* | *0.0* | *0.0* |
| **Structural balance *** | **-2.5** | **-1.3** | **-6.3** | ***-1.9*** | ***-1.6*** | ***-1.2*** |
| ***Deviation from the programming law*** | -0.6 | 0.3 | -5.1 | | | |

*Footnote: Figures being rounded to the nearest tenth, components may not add to the total.*
**: in potential GDP points*
*Footnote 2: The upward revisions of real growth of activity by Insee for years 2018, 2019 and 2020 imply a new estimation of output gap. As a result, the cyclical component of general government balance is revised up by approximately +0.4 point in 2020 compared the budget settlement law for 2020, with a corresponding fall of the same magnitude in structural balance.*
*Source: 1st amending budget bill for 2021, programming law of January 2018.*

42. The exceptional nature of the economic evolutions makes the breakdown of general government balance difficult, in order to show its structural component and its evolution between 2020 and 2021. Moreover, emergency and support measures have been treated differently between 2020 and 2021, which makes comparison of structural balance between the two years irrelevant.

43. Indeed, in 2020 the choice was made to record emergency measures (of the order of 3 points of GDP) as temporary measures. Thus, it does not enter the evaluation of structural balance in 2020. As noted by the High Council[7], it results in an improved structural balance in 2020, even though the Government provided a massive budgetary support to economic activity[8]. Such improvement contradicts the marked deterioration of public finance in 2020.

44. In 2021, emergency measures are no more considered as temporary measures and are therefore included in the structural balance. It contributes to the very strong deterioration of structural balance observed in 2021, of the order of 5 points of GDP, which does not properly reflect the evolution of the situation of public finances. A significant part of the measures included in the structural balance are, in fact, temporary and should come to an end by the end of the year.

45. The High Council points out once again that the January 2018 programming law is an outdated reference, both in terms of the macroeconomic and public finance scenarios. In

[7] See the opinion of the High Council of public finance n°2021-1 on the general government structural balance presented in the budget settlement bill for 2020.
[8] Some of those measures (notably part-time unemployment) are substituting to unemployment benefits, which are take into account in the computation of cyclical balance. Moreover, the Government does not take into account the fact that some operating and investment public expenditures could not be made due to health restrictions and enhance on the contrary the general government balance on a temporary and exceptional basis. Finally, the renewal of numerous support measures in 2021 relativize their exceptional and temporary nature in 2020.

particular, the computation of structural balance, on which the High Council must delivers its opinion, is still based on the estimation of potential GDP included in this law adopted two years before the crisis.

46. The Government has revised down to 1.5 point in 2020 and to more than 2.25 points in 2021 the level of GDP compared to the assumptions of the LPFP[9]. The downward revision of potential growth would lead, other things being equal, to a decrease of 1 point in cyclical component in 2021 and would rise by the same amount the structural deficit as estimated with the assumption of potential growth included in the LPFP (-7.3 points of GDP instead of -6.3 points of GDP).

**Table 3: breakdown of general government balance taking into account the revised assumption on potential GDP**

| *In GDP points* | **2020** | **2021** |
|---|---|---|
| **General government balance** | **-9.2** | **-9.4** |
| Cyclical component | -4.4 | -2.0 |
| One-off measures | -3.0 | -0.1 |
| **Structural balance** | **-1.8** | **-7.3** |

*Source: 1st amending budget bill for 2021.*

47. **Under the terms of the Organic Law of 17 December 2012, the High Council must give its opinion on the consistency of the structural balance trajectory adopted in this PLFR for 2021 with that of the current programming law of 22 January 2018 for the years 2018 to 2022.**

48. **The High Council points out once again that the January 2018 programming law is an outdated reference, both in terms of the macroeconomic and public finance scenarios.**

49. **Beyond the difficulties in interpreting the level and evolution of the structural balance, notably due to the different treatment in the recording of support measures between 2020 and 2021 (from temporary to structural), the High Council notes that the structural balance presented in this document by the Government would deteriorate by 5 points between 2020 and 2021 to reach -6.3 points of GDP in 2021. The structural balance forecast for 2021 would thus be 5.1 points worse than the one set out in the January 2018 programming law.**

**e) The public debt**

50. Finally, the public debt-to-GDP ratio would continue to rise from 115.1 points of GDP in 2020 to 117.2 points of GDP in 2021 due to a still very high level of public deficit. As pointed out in its opinion on the PLF for 2021, the High Council highlights that, in the context of weakened potential growth making deficit reduction more difficult, sustainability of public finances in the medium run calls for the utmost vigilance.

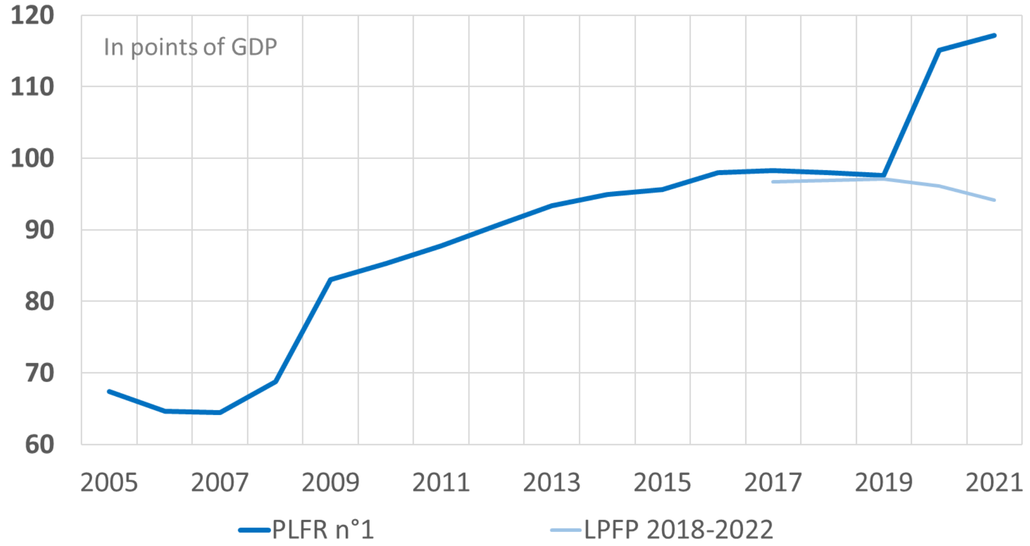
[9] This revised potential framework has been notably used in the Stability programme 2021-2027.

**Table 4: Debt and public deficit**

| *In GDP points* | **2019** | **2020** | **2021** |
|---|---|---|---|
| **General government balance** | -3.1 | -9.2 | -9.4 |
| **Public debt** | 97.6 | 115.1 | 117.2 |

*Source: Insee and PLFR1 (1st amending budget bill for 2021).*

**Graph 5: Trajectory of debt-to-GDP ratio**



*Source : Insee ; PLFR n°1 and programming law of January 2018*

51. **The High Council notes that the data presented in this PLFR show the very deteriorated situation of France's public finances in 2021. According to the forecast in the amending budget bill, the public debt ratio would increase by 20 points of GDP between 2019 and 2021, reaching more than 117 points of GDP. With the deficit level expected to be higher in 2021 than in 2020, the path to deficit reduction and the sustainability of public finances are key issues in France's fiscal strategy and calls for the utmost vigilance.**

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This opinion will be published in the *Official Journal* of the French Republic and attached to the first amending budget bill.

Paris, 31st May 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: macroeconomic scenario associated with the first amending budget bill for 2021

| | 2020* | 2021 |
|---|---|---|
| **Goods and services, real terms** | | |
| Gross domestic product | **-8.2** | **5.0** |
| Household final consumption | -7.3 | 4.0 |
| Government consumption expenditure | -3.1 | 5.9 |
| Gross fixed capital formation | -10.3 | 8.3 |
| Imports | -11.5 | 7.5 |
| Exports | -16.3 | 8,2 |
| **Contributions to real GDP growth** | | |
| Final domestic demand excluding inventories | -7.1 | 5.5 |
| Changes in inventories and net acquisition of valuables | 0.3 | -0.5 |
| Foreign trade | -1.4 | 0.0 |
| **Prices and nominal aggregates** | | |
| Consumer price index | **0.5** | **1.1** |
| Gross domestic product deflator | 2.2 | 0.3 |
| Nominal gross domestic product | -6.2 | 5.3 |
| **Employment and wages** | | |
| Non-farm market sectors : | | |
| - Salaried employment (persons employed) | -1.5 | 0.1 |
| - Average wage per capita | -4.0 | 4.9 |
| - Wage bill | -5.2 | 4.9 |
| Total employment | -0.9 | 0.4 |
| **Potential growth and output gap** | | |
| Potential growth in GDP | **-0.30** | **0.60** |
| Output gap | **-7.7** | **-3.7** |

** 2020 : Quarterly national accounts*

*Source : Ministry of Economy, Finance and Recovery (April 2021).*

**Appendix 2: introductory article of the first amending budget bill for 2021**

The forecast for the structural balance and the effective balance of all public administrations for 2021 is as follows:

| *In gross domestic product (GDP) points* programming law framework* | 2020 result | 2021 forecast |
|---|---|---|
| Structural balance (1) | -1.3 | -6.3 |
| Cyclical balance (2) | -5.0 | -3.0 |
| One-off and temporary measures (3) | -2.9 | -0.1 |
| Effective balance (1+2+3) | -9.2 | -9.4 |

(*) The amounts in this table are rounded to the nearest tenth of a point; it follows from the application of this principle that the rounded amount of the effective balance may not be equal to the sum of the amounts used in its calculation.

**Explanatory statement:**

This article presents, in accordance with Article 7 of the Organic Law n°2012-1403 of December 17, 2012 related to the programming and governance of public finances, the forecast of the structural balance and the effective balance of all public administrations for 2021.

The public balance forecast for 2021 now stands at -9.4% of GDP, compared with -8.5% of GDP in the budget law for 2021 (LFI) and -9.0% in the Stability Programme (PSTAB) for 2021-2027.

The revision of the public balance since the last forecast associated with the Stability Programme is mostly explained by the strengthening of support and recovery measures to face the Covid-19 pandemic, and stands as such, in national accounts terms:

- An increase of the budget allocated to part-time unemployment in 2021 (€3.7 billion) leading to a total support in 2021 of €14.7 billion for the State and Unedic (compared to €11.0 billion set in the Stability programme) [10];
- An increase of €3.6 billion of the Solidarity Fund (Fonds de solidarité), or €3.8 billion in national accounts terms, in order to take into account the straightening and the envisioned end of measures, leading to a total of public spending of the Solidarity fund of €26.0 billion for 2021 (compared to €22.2 billion set in the Stability programme, figures taking into account supports measures for various sectors (mountains, sports, culture, public services);

[10] Compared to the Stability programme, less spending related to long-term part-time unemployment (APLD) and more spending related to exceptional part-time unemployment (« activité partielle exceptionnelle »).

- In the opposite way, the update of the forecast related to exemptions and support measures of social security contributions would improve the balance of to €1.1 billion in 2021 compared to the forecast set in the Stability programme;
- In the scope of the Recovery plan, the support of hiring and apprenticeship support measures for €2.6 billion more than forecasted in the Stability programme, allowed by the lower consumption of long-term part-time unemployment budget (APLD) than expected. Excluding these revisions to apprenticeship measures and APLD, the increase in budget of the Recovery plan would reach €0.5 billion, coming from an acceleration of spending within the budget of the Recovery plan (€100bn);
- An allocation for accidental and unforeseeable expenses (DDAI) of €1.5 billion
- An increase of support measures to workers who are also unemployed (€0.9 billion), leading to a total of €1.9 billion;
- An increase in public health insurance of €0.5 billion for a total of €13.9 billion of one-off spending (compared to €13.4 billion in the Stability programme);
- The easing of carryback parameters, for €0.4 billion of additional cost.

The forecast includes a +€2.2 billion revision of spontaneous revenue given the current available information on revenue.

The structural balance would stand at -6.3% of GDP in 2021, against -5.5% in the Stability programme (-3.8% in the budget law for 2021). The structural breakdown of the balance in this article is based on the potential growth assumptions of the programming law of 2018. One-off and temporary measures excluded from the structural balance are those described in the programming law, as well as the losses related to the BEI and PGE public guarantees.

**Methodological details:**

The scale of the crisis makes certain methodological issues related to the breakdown of the public deficit significant and details could be usefully given on the figures presented in this article.

Potential GDP corresponds to the trajectory of activity that is sustainable without tensions in the economy. The assumptions related to the calculation of potential GDP are described in the programming law of 22 January. The gap between the actual level of output (actual GDP) and the potential level is called the "output gap". This indicates the position of the economy in the economic cycle. In 2020 and 2021, this gap is negative and unusually large.

Each year, the public balance can be broken down into:
- a cyclical component (reflecting the impact of the position in the cycle on the public balance);
- one-off and temporary measures, which, because they do not affect the deficit in the long term, are excluded from the assessment of the structural balance;
- a structural component.

The public balance is expressed in relation to the actual GDP for the year 2021, such as €2,425.6 billion. This ratio is mentioned in Article 126 of the TFUE.

The structural balance and the balance of one-off and temporary measures are expressed in points of potential 2021 GDP such as €2,553.8 billion. The structural balance in points of potential GDP is the ratio that would be observed when the GDP returns to its potential level, and once the effects of one-off and temporary measures have disappeared. This property would not be true if it were related to the actual GDP. These concepts derive from European fiscal rules, the Stability and Growth Pact as well as the Treaty on stability, coordination and governance (TSCG), of which the organic law of 17 December 2012 related to the programming and governance of public finances makes application in national law.

Between the deficit expressed in points of actual GDP, the structural balance and exceptional and temporary measures expressed in points of potential GDP, the last component is a residual: this is the cyclical component presented in the introductory article. Thus, the differences between actual and potential GDP play within the cyclical component, which is legitimate as the gap between these two figures is cyclical.

## Appendix 3: Methods for estimating the general government structural balance

*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[11];
- **On the expenditure side**, only the unemployment compensation expenses are considered dependent on economic conditions[12]. 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.

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[11] This effect is evaluated on the basis of the average "elasticities" of each tax category with respect to the output gap. The elasticities used are those estimated by the OECD.

[12] As for other expenditures, they are either discretionary in nature or no link with the economic situation can be clearly and reliably identified.

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**.

## Appendix 4: The escape clause of the Stability and Growth Pact

The amending budget bill for 2021 comes in the context of the Covid-19 pandemic which has led to activation for more than a year of the "general escape clause" of the Stability and Growth Pact. On a proposal from the Commission, the Council of the European Union announced on 23 March 2020 the activation of this clause. While it does not suspend the rules of the Stability and Growth Pact, it nonetheless allows Member States and the European Union to take and coordinate the necessary budgetary measures to face the health crisis by deviating from the usual fiscal requirements.

In its communication of 3 March 2021, the European Commission indicated that, considering its forecasts of Winter 2021 that forecasted a return of the GDP to its level of 2019 in 2022, it was necessary to "*continue applying the general escape clause in 2022 and to deactivate it as of 2023*"[13]. A new communication could be issued in June 2021 as part of the European Semester spring package detailing the Commission's guidelines on the Stability programmes of the Member States.

Introduced in 2011 as part of the reform of the Stability and Growth Pact, the general escape clause can be activated in the case of "*an unusual circumstance beyond the control of the Member State concerned having significant effects on the financial situation public administrations or in a period of severe economic recession affecting the euro area or the Union as a whole*"[14]. In the case of the preventive arm of the Stability and Growth Pact, States are thus *"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]. Furthermore, within the framework of the corrective arm of the Pact[16], the clause allows the Council of the European Union in particular 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."*[17]

[13] COM(2021) 105 final, 1_en_act_part1_v9.pdf (europa.eu).
[14] Article 6 of council regulation (EC) No 1466/97 of 7 July 1997.
[15] Article 6 of council regulation n°1466/97 of 7 July 1997.
[16] Article 3 and 5 of council regulation (CE) n°1467/97 of 7 July 1997.
[17] Council regulation (EU) No 1177/2011