Opinion n° HCFP-2022-2
on the first amending budget bill for 2022
July 4, 2022

Executive Summary

The Government referred to the High Council of Public Finance with the introductory article of the first amending budget bill (PLFR) for 2022 on June 29, 2022, expecting the High Council to issue an opinion two days later. Such a timeframe, which is in no way justified by urgency, is very tight given the complexity of the macroeconomic context and the scale of the measures contained in this PLFR. This makes it particularly difficult for the HCFP to carry out its mandate as provided for in the organic law.

The High Council considers that the Government's growth forecast for 2022 is not out of reach but is somewhat high. The inflation forecast for 2022 appears to be, on the contrary, somewhat under-estimated. The forecast for the 2022 wage bill is plausible.

The Government's forecasted public deficit is 5.0 points of GDP in 2022, which is unchanged compared to the initial finance law (LFI) but with revenues and expenditures almost €60 bn higher.

This forecast appears to carry mostly unfavorable risks.

On the expenditures side, the debt burden and interest payments might be higher, particularly those on inflation-indexed debt as a result of inflation exceeding expectations. Healthcare costs might end up higher as a result of recurring Covid waves. The cost of certain measures such as the cap on gas and electricity prices, which is sensitive to changes in the market price of energy, is shrouded with great uncertainty, given the volatility of these prices.

On the revenues side, the forecast assumes a growth rate of mandatory taxes and contributions at unchanged policy which is significantly higher than that of GDP. While this can be partly justified by the dynamism of the wage bill and consumer prices, the proceeds of certain taxes and mandatory contributions (duty on real property transactions, corporate income tax, domestic tax on petroleum products) are likely to be more adversely affected than expected by the unfolding downturn in the real estate market, the deterioration of corporate earnings, or a further decline in fuel consumption.

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

The structural balance presented in the PLFR for 2022 (-3.6 points of potential GDP) would improve by 0.8 point compared to 2021, exclusively as a result of the growth of mandatory taxes and contributions at unchanged policy which is much higher than that of GDP. However, it would still be 2.8 points lower than the forecast provided for in the programming law of January 2018, which the High Council recalls is now an outdated baseline.

The considerable increase of the debt interest expenditure for 2022 (+ €17.8 bn) compared with the LFI is a reminder that the greatest vigilance must be exerted to ensure the medium-term sustainability of public finances. While the economic consequences of the
war in Ukraine and the Covid-19 pandemic may justify transitory support measures, it will be necessary to implement measures intending to contain public spending and reach greater spending efficiency rapidly, in order to achieve a lasting reduction of the public debt.