Haut Conseil des Finances Publiques

Opinion n° HCFP-2022-4

On the draft budget bill and the draft social security financing bill for the year 2023

21 September, 2022

Executive summary

The High Council judges that the Government's forecasts for growth (+2.7%), inflation (+5.3%) and wage bill growth (+8.6% in the non-agricultural market sectors) for 2022 are credible. It considers that the general government balance forecast (-5.0 points of GDP) is prudent, given the dynamism of tax and social contribution receipts until July. For 2023, the High Council considers that the Government's growth forecast (+1.0%), which is higher than that of a majority of forecasters, is, due to several fragile assumptions, somewhat high. The forecasts for inflation (+4.2%) and wage bill growth in the non-agricultural market sectors (+5.0%) are plausible.

The High Council considers that the general government balance for 2023, while being affected by the sizeable uncertainty surrounding macroeconomic developments and in particular energy prices, could be worse than expected due to the underestimation of some expenditures.

The High Council notes that the planned public deficit for 2023 would not decrease from 2022 and that the structural adjustment would be limited to 0.2 points of potential GDP. Once the impact of the withdrawal of exceptional expenditures in response to the health and energy crises is neutralized, public spending is expected to increase in volume terms (+0.7%). This is due in particular to a €24 billion increase in the appropriations of the ministries (employment, interior, justice, defense in particular) and to an increase in health insurance expenditure (Ondam) - excluding expenditure linked to the health crisis - that is still higher than before the health crisis.

Overall, although based on optimistic assumptions, the Government forecasts for 2023 a mere stability of the actual public deficit, a limited improvement of the structural balance and a quasi-stability of the debt ratio. The consolidation of public finances thus looks slow and very uncertain in 2023.

The medium-term sustainability of public finances therefore continues to call for the utmost vigilance. The High Council points out that the return to debt levels guaranteeing France sufficient fiscal space is required to be able to cope with macroeconomic or financial shocks and public investment needs. It implies a collective effort to contain public expenditure and improve its efficiency.

Introductory remarks

1- On the scope of this opinion

1. Pursuant to IV of the article 61 of the organic law n° 2001-692 of 1 August 2001 on the finance laws as amended by the organic law n° 2021-1836 of 28 December 2021 on the modernisation of public finance management, the High Council of Public Finance issues an opinion on:

- the macroeconomic forecasts, on which the budget (PLF) and social security financing bills (PLFSS) are based;
- the consistency of the budget bill's introductory article with the multi-year targets for the structural balance and general government expenditure set in the public finance programming law;
- the realism of the revenue and expenditure forecasts of the PLF and PLFSS.

2- On the information submitted

2. On 15 September 2022, the Government referred to the High Council of Public Finance the macroeconomic forecasts, the consistency of the introductory article of the PLF and PLFSS for 2023 with the multi-year targets for the structural balance and general government expenditure, and the realism of the revenue and expenditure forecasts set in these two drafts. This referral was supported by replies to questionnaires sent by the High Council to the relevant administrations. However, only part of the information has been transmitted to the High Council, so its assessment of the realism of the expenditure forecasts cannot be as precise as necessary to fully fulfil the mandate it received from the organic legislator.

3- On the High Council's methodology

3. In order to assess the realism of the macroeconomic forecasts associated with the PLF and PLFSS for 2023, the High Council examined the Government's assumptions and the expected economic mechanisms. It relied on the last available statistics and on information provided by the relevant administrations, notably about the economic policy measures decided by the Government.

4. The High Council also drew on the latest forecasts produced by a group of national and international institutions, including the European Central Bank (ECB), the Banque de France, the European Commission, the International Monetary Fund (IMF), the Institut National de la Statistique et des Études Économiques (Insee), the Organization for Economic Co-operation and Development (OECD) and economic institutes such as the Observatoire Français des Conjonctures Économiques (OFCE) and Rexecode.

5. The High Council held hearings with representatives from the French Treasury, the budget department and the social security department. It also held hearings with representatives of Insee, the Banque de France, OFCE and Rexecode.

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The new mandate of the HCFP

Established by the organic law No. 2012-1403 of 17 December 2012 in the wake of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) signed in March 2012, the High Council of Public Finance is responsible for informing, through its public opinions, the legislator and, more generally, the public debate on the realism of macroeconomic assumptions and compliance with the public finance trajectory. It is also responsible for triggering the correction mechanism in case of a significant deviation of the structural balance from the path set in the public finance programming law (LPFP). The Constitutional Council has ruled that its opinion is considered in assessing the sincerity of the public finance programming law and finance or social security financing laws (Decision No. 2012-658 DC of 13 December 2012).

The tasks assigned to the High Council have been expanded by the organic law 2021-1836 of 28 December 2021 on the modernization of public finance management. Its provisions shall be implemented as of the finance laws for 2023, and therefore as of the PLF for 2023 to which this opinion relates.

The mandate of the High Council has been strengthened regarding finance and social security financing laws: it now pronounces not only on the consistency of the introductory article with the multi-year structural balance targets but also on the realism of the revenue and expenditure forecasts of the finance and social security financing bills for the year. It also examines the consistency of the preliminary article with the general government expenditure target set in the public finance programming law.

Parliament also extended the mandate of the High Council of Public Finance to examine the compatibility of sectoral programming laws affecting public finances with the expenditure targets set in the current programming law. This extension is intended to ensure greater consistency between the sectoral programming laws and the public finance programming law.

Despite the extension of the High Council's missions, the organic law has not changed the time limits of referring cases to the High Council of Public Finance.

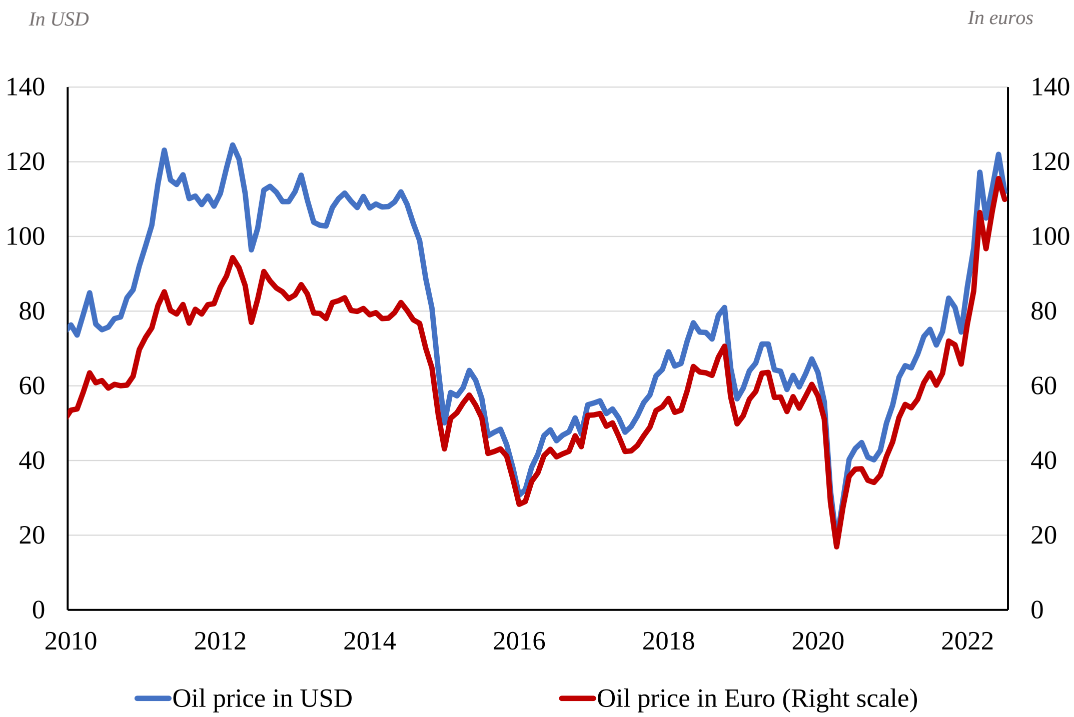
6. After a presentation of the global and European economic environment (I), the High Council provides its assessment of the macroeconomic forecasts associated with the budget and social security financing bills for 2023 (II), and then of the public finance scenario (III).

I. A worsening international economic environment

1- Global activity penalised by inflationary pressures and the tightening of monetary policies

7. The global economy continues to suffer from the consequences of the war in Ukraine, and in particular from strong tensions on the commodities markets. While some commodities prices are falling as fears of recession increase (for example, Brent crude oil returned to its February price, close to $90 in early September), gas and electricity prices have risen sharply as a result of the risk of disruption to Russian gas supplies.

Figure 1: oil prices (barrel of Brent)

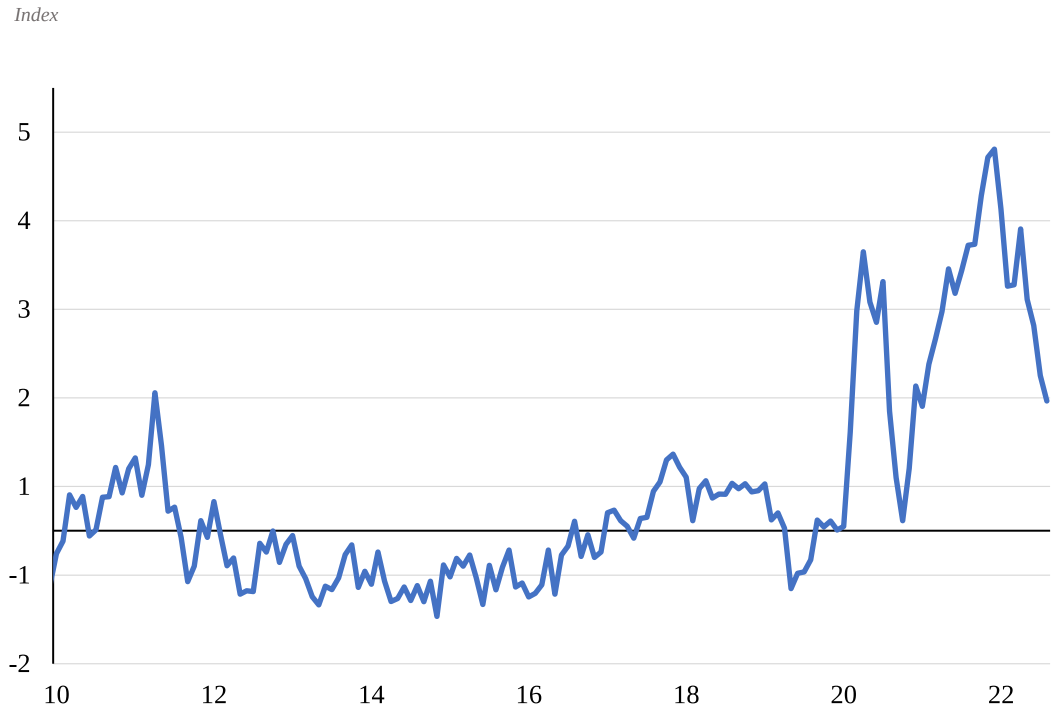


Source: Insee

8. The global economy also continues to be affected by the Covid-19 pandemic, which is still disrupting supply chains, notably due to the containment measures regularly imposed in China. These restrictions, combined with the crisis in the construction sector and lower credit growth, weighed on Chinese activity, which fell sharply in the second quarter (-2.6% quarter-on-quarter), despite the support measures implemented. The United States also saw a decline in GDP in spring (-0.6% at an annualized quarterly rate in the second quarter, after -1.6% in the first quarter), mainly due to a fall in investment spending, while household consumption increased thanks to a fall in the savings rate, helped by the strength of the labor market.

9. Net job creation remains dynamic in both the US and the euro zone. While supply difficulties seem to have decreased slightly on a global scale (as indicated, for example, by the Global Supply Chain Pressure Index produced by the Federal Reserve (Fed) in New York), recruitment difficulties are becoming more pronounced.

Figure 2: pressures on supply chains (global aggregate index)

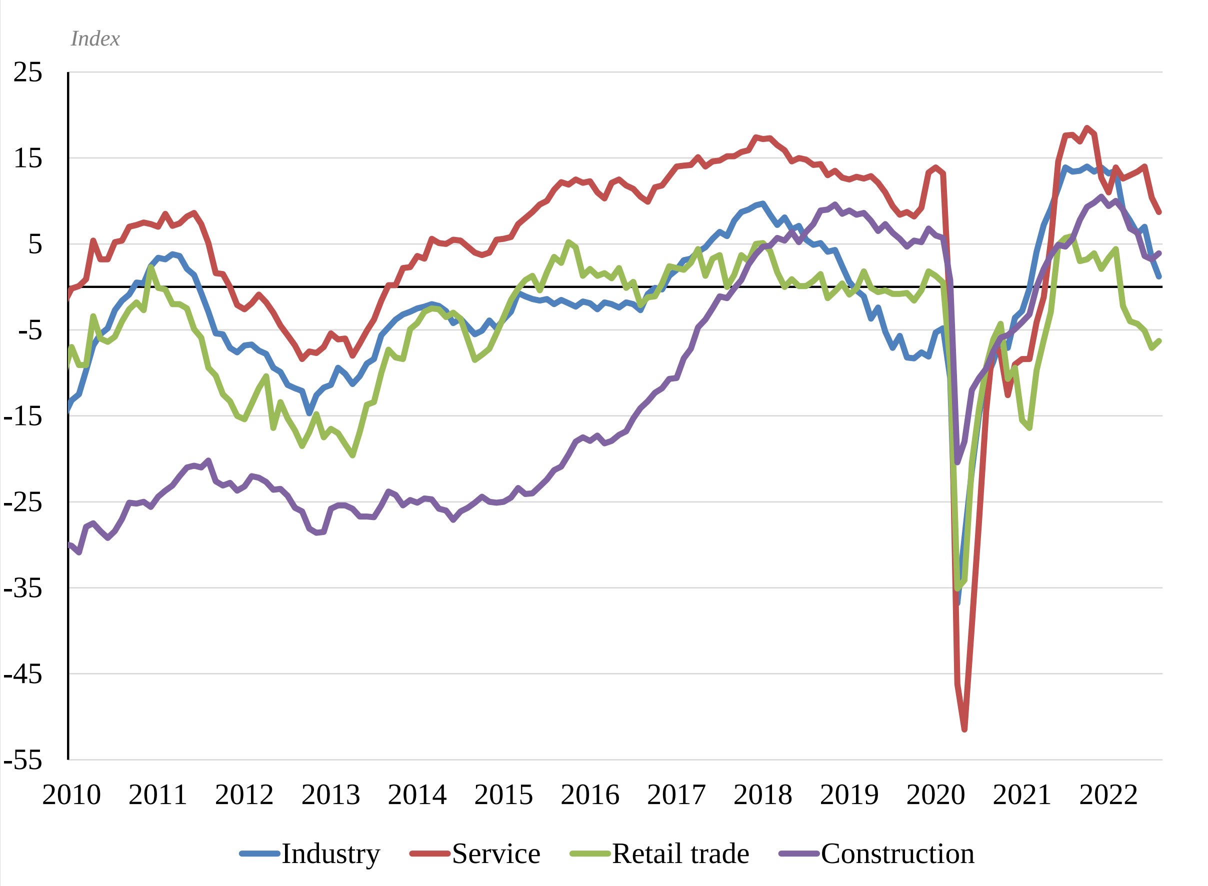


Source: New York Federal Reserve

10. These supply constraints drive up production costs and, in their wake, consumer prices. Inflation has thus reached high levels, at 8.3% year-on-year in August in the United States and 9.1% year-on-year in August in the euro zone, leading central banks to tighten their policies. In the United States, the Fed has already raised its key interest rate band by 225 basis points since March. The European Central Bank (ECB) raised rates by 50 basis points in July and 75 basis points in September. The shift in the timing of rate hikes on both sides of the Atlantic led to a sharp depreciation of the euro, which fell to a 20-year low against the dollar in early September, contributing to rising inflation in the euro area. Both the ECB and the Fed have announced a continuation of the monetary tightening cycle in the coming months.

11. All in all, the accumulation of external shocks, the high level of inflation due to the gradual spread of production cost increases and the monetary tightening carried out by the Fed and the ECB should weigh on global activity over the coming quarters. The latest business surveys also show a decline in the outlook for activity in both the manufacturing and service sectors. In the euro zone, they show a strong disparity between countries. This was also the case for GDP growth in the second quarter: it remained strong for the euro zone as a whole (+0.8%) thanks to the lifting of restrictions caused by the health crisis, but heterogeneous among countries (from -1.3% in Estonia to +2.6% in the Netherlands). Future growth rates will depend in particular on the dependence on Russian gas, which is stronger in Germany and Italy than in France and Spain.

Figure 3: European Commission business surveys in the euro area (economic sentiment indicators)



Source : European Commission

12. In this context, international organizations have revised their world growth forecasts downwards since the beginning of the year, by around 1.5 percentage points in 2022 and 1.0 percentage point in 2023. World GDP is now expected to grow by about 3% in 2022 and 2023, after an increase of about 6% in 2021 (see Table 1).

Table 1: annual volume growth forecasts for world GDP (in %)

	Date of publication	2021	2022	2023
World Bank	7 june	5.7	2.9	3.0
OECD	8 june	5.8	3.0	2.8
IMF	26 july	6.1	3.2	2.9
Consensus Forecasts	12 september	5.8	2.6	1.9
DG Treasury	**9 september**	**6.1**	**3.3**	**3.1**

Source: World Bank economic outlook June 2022, OECD economic outlook June 2022, IMF economic outlook July 2022, Consensus Forecasts September 2022, DG Treasury international scenario September 2022[1].

[1] The methodology and scope for calculating world GDP differ between international organisations. Forecasts should not be compared with each other, but assessed in terms of trends.

2- An expected slowdown in world trade growth

13. Growth in world trade in goods and services is expected to be lower in 2022 than in 2021, and may weaken slightly further in 2023.

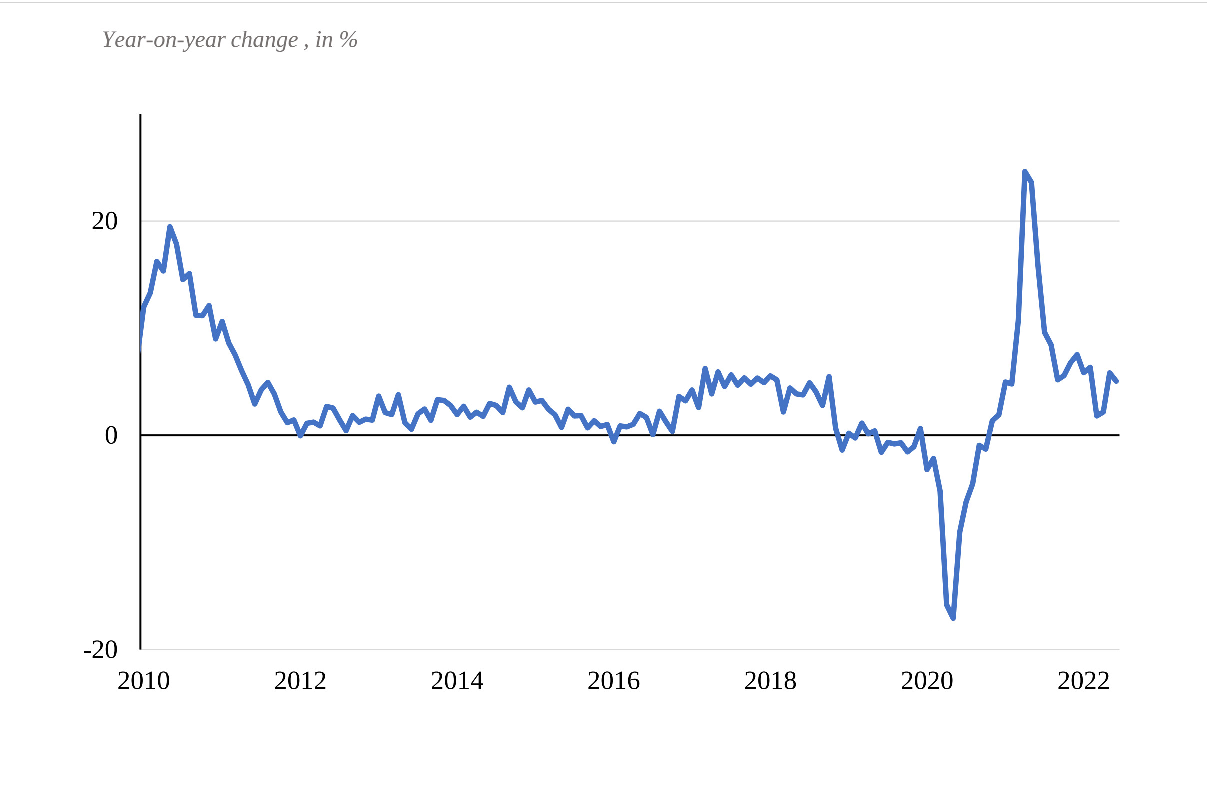
Table 2: forecast annual growth of world trade in goods and services in volume (in %)

	Date of publication	2021	2022	2023
World Bank	7 june	10.3	4.0	4.3
OECD	8 june	10.0	4.9	3.9
IMF	26 july	10.1	4.1	3.2
DG Treasury	**9 september**	**12.5**	**5.2**	**3.6**

Source: World Bank economic outlook June 2022, OECD economic outlook June 2022, IMF economic outlook July 2022, DG Treasury international scenario September 2022.

14. World trade in goods could profit from a slight easing of supply tensions, but will be adversely affected by less dynamic global activity. World trade in services should benefit from the vaccination of a larger share of the population, favoring a reduction in health constraints, but will be affected by geopolitical tensions.

Figure 4: growth of world trade in goods in volume



Source: *Centraal plan bureau of the Netherlands*

3. Main risks

15. Global prospects remain highly uncertain, due to risks surrounding the energy supplies of the euro zone countries. In the event of a disruption, the gas stocks built up so far will only cover part of the needs. The situation would be even more difficult if the winter were cold. Production could then be severely disrupted and the risk of recession would be high.

16. The health risks have not disappeared completely. The emergence of a new variant or the decline in vaccine effectiveness over time could lead to new epidemic waves that would again weigh on the business.

17. Finally, financial risks have increased. The adjustment of monetary policies in the context of an inflationary shock is always delicate and the "soft landing" of the American and European economies, targeted by central banks and included in the forecasts of both international organizations and the Government, is, from experience, difficult to achieve. The current tightening, which aims to slow down activity in order to bring inflation back to the central banks' target, carries the risk of an economic recession. Moreover, it could exacerbate the economic and financial difficulties of several emerging countries, thereby amplifying the global economic slowdown. Conversely, an easing of pressure on commodity prices and supplies could lead to a faster than expected fall in inflation, an easing of interest rates and a faster than expected rebound in growth.

II. Comments on the macroeconomic forecasts for 2022 and 2023

1- The Government's scenario

18. According to the Government's referral, "*On average, activity [in 2022] would grow by +2.7%, a forecast that has been revised upwards compared with that of the first amending finance bill for 2022 (PLFR 2022) due to the good results of the second quarter, which raised the growth rate to 2.5%. […]. In 2023, growth in activity would be reduced to +1.0%*".

19. "*Inflation (as defined by the CPI) is expected to reach +5.3% in annual average in 2022 (after +1.6% in 2021), due in particular to the dynamism of energy prices. [...] Underlying inflation would reach +4.1% in 2022, after +1.1% in 2021, due to the delayed effects of the spread of commodity price increases on consumer prices for some food and manufactured products. […] Inflation is expected to fall in 2023, to +4.2%, while remaining supported by core inflation. Total inflation would still be high at the beginning of the year and would gradually decline. […] Core inflation would be stable in 2023, at +4.1%, due in particular to a spike in manufactured goods and food inflation between the end of 2022 and the beginning of 2023, and services prices that would remain dynamic*."

20. "*The private wage bill of the non-agricultural market sector (BMNA) is expected to grow by 8.6% [in 2022], reflecting the dynamism of employment and wages and also the accounting impact of the end of partial activity. It would be supported by very high average annual employment growth (+2.9%) [...] Adjusted for partial activity, wages would accelerate but at a lower rate than inflation. This reflects both a composition effect and a delayed adjustment of wages to price increases. This "economic" average wage per capita (SMPT), including bonuses, should thus increase by 3.6%. [...] The growth of the wage bill will slow down in 2023 (+5.0%) due to a lower increase in employment, linked to the slowdown in*

activity, while wages will accelerate. Non-agricultural paid employment is expected to increase by an annual average of 0.7%. The economic SMPT would accelerate to +4.1% due to the past rise in inflation in 2022, which would continue to affect negotiations, and the dynamics of prices in 2023."

2- Assessment of the High Council

21. The High Council assesses successively the assumptions for activity growth, inflation, employment and the private sector wage bill.

a) Economic activity growth

22. For 2022, the Government expects real GDP to grow by 2.7%, revising its forecasts upwards by 0.2 percentage points compared with the 2022-2027 Stability Programme presented last July. For 2023, the Government forecasts activity growth of 1.0%.

23. GDP rebounded by 0.5% in the second quarter of 2022 after a contraction of -0.2% in the first quarter, bringing the carry-over effect on growth for 2022 to 2.5% at the end of the first half of the year. The economic institutes that the High Council haqs interviewed now expect, like the Government, a growth rate of slightly more than 2.5% in 2022. However, there are major uncertainties regarding activity at the end of the year, given the risk to gas supplies and the level of electricity production in France and Europe.

24. While the Government's forecasts for 2022 are close to the other available forecasts (Insee, OFCE, Rexecode, Banque de France), they differ significantly for 2023. The institutes forecast a growth rate in 2023 from 0 to 0.6%, reflecting a clear slowdown, or even a decline, in activity over the coming winter, followed by a very moderate rebound. The consensus of economists reported in the September Consensus Forecasts publication shows a sharp decline in the growth forecast for 2023 to 0.6%. It is worth noting that the latest forecasts for the German economy now anticipate a recession in 2023 (IFO, Kiel Institute, Consensus Forecasts) whereas the Government's international scenario forecasts German growth of 0.8%.

Table 3: GDP growth forecasts for France in 2022

	Date of publication	**2022**	**2023**
OECD	8 june	2.4	1.4
European Commission	14 july	2.4	1.4
IMF	26 july	2.3	1.0
Insee	7 september	2.6	
Rexecode	9 september	2.6	0.0
Consensus Forecasts	12 september	2.5	0.6
Banque de France	14 september	2.6	0.5
OFCE	14 september	2.6	0.6
Government	**15 september**	**2.7**	**1.0**

Source: 2023 budget bill, OECD Economic Outlook June 2022, OFCE, Banque de France Macroeconomic Projections September 2022, Rexecode, Insee Short term Forecast September 2022, Consensus Forecasts September 2022, European Commission Summer Forecasts July 2022, IMF World Economic Outlook Update July 2022.

25. The Government's growth forecast for 2023 assumes that consumption will remain strong (+1.4%), supported by measures to increase purchasing power and a slight drop in the savings rate (16.3% compared to 16.7% in 2022). This development cannot be taken for granted in a context marked by a high level of uncertainty, household confidence at historically low levels and a rising rate of return on savings.

26. The expected stabilization of investment (+0.1%) also seems fragile. It assumes, on the one hand, that corporate investment continues to grow (+0.9%) despite a lacklustre demand outlook and tighter financing conditions and, on the other hand, that household investment only registers a small decline (-0.9%), even though interest rates have risen sharply over the last twelve months (by around 200 basis points for nominal long-term rates and 150 basis points for real long-term rates) and access to property loans is becoming more difficult.

27. Finally, foreign trade is expected to slow down in parallel with the world economy, with a near zero contribution to French growth. The economic slowdown of our main trading partners could, however, be more pronounced than anticipated in the Government's international scenario, due to the decline in household purchasing power resulting from high inflation and the accentuation of the tightening of monetary policies. The evolution of French exports would then be more unfavorable.

28. The Government's growth forecast is also subject to significant downside risks. The main one is linked to the evolution of the conflict in Ukraine and its consequences. The Government's scenario does not consider any major difficulties with regard to energy, and in particular any disruption of gas supplies in France or among our European partners. It is also based on the assumption of a moderate deceleration of the world economy and does not include the prospect of a recession that could result from energy tensions or a sudden tightening of financial conditions. Finally, unfavorable health conditions linked to an epidemic rebound or persistent difficulties in production and supply chains cannot be excluded.

29. **The High Council considers that the Government's growth assumption for 2022 (+2.7%), which has been revised upwards since the presentation of the Stability Programme, following the publication of better-than-expected national accounts for the second quarter, is plausible.**

30. **It notes the high degree of uncertainty surrounding the growth outlook for 2023 due to the geopolitical situation and the almost general tightening of monetary policies. It considers that the Government's forecast (+1.0%), which is higher than that of the majority of forecasters due to several fragile assumptions, is a little high.**

b) The rise in consumer prices

31. According to the Government, the consumer price index is expected to rise by an annual average of 5.3% in 2022. It was expected to be 5.0% in the PLFR1 for 2022. This revision is explained in particular by a more sustained increase in the prices of services than anticipated by the Government at the time of the PLFR1 for 2022.

32. The expected increase in 2022 in the underlying index (4.1% on annual average) assumes a monthly increase in the underlying index of 0.5% until December, similar to that observed over the past six months and consistent with the current environment. The continued transmission of production cost increases to consumer prices, the recent depreciation of the euro and pressure on recruitment will support inflation, while the withdrawal of the public broadcasting contribution will somewhat limit the rise in service prices.

33. Against this background, the inflation forecast for 2022 is considered credible by the High Council. It is close to the other forecasts available for 2022 and is consistent with the 5.2% inflation rate recorded at the end of August. However, it remains dependent on the evolution of oil prices until the end of the year, which have been volatile in the recent period.

34. Inflation expectations for 2023 have been revised sharply upwards to an annual average of 4.2% from 3.2% in the Stability Programme. The dispersion of available forecasts for 2023 is wide, reflecting the high uncertainty associated with this exercise. The Government's forecast is higher than the September Consensus Forecasts (3.6%), but lower than those of the OFCE (4.5%) and Rexecode (4.8%).

Table 4: inflation forecasts (CPI unless otherwise stated) for 2022 and 2023 on annual average in %

	Date of publication	**2022**	**2023**
Insee	7 september	5.3	
Rexecode	9 september	5.3	4.8
Consensus Forecasts	12 september	5.5	3.6
Banque de France	14 september	5.2	4.2
OFCE	14 september	5.2	4.5
Government	**15 september**	**5.3**	**4.2**

Source: budget bill for 2023, forecasts by economic analysis organizations and institutes

35. Several factors will continue to work in opposite directions next year. Price increases should be supported by the ongoing acceleration of wages, especially in services, as well as by the decided increases in gas and electricity prices. The depreciation of the euro (-11% since the end of 2021 against the dollar) will also continue to push up the prices of imported products[2], as will the continued pass-through of production cost increases to consumer food and services prices. Conversely, weaker global growth could lead to a rapid decline in commodity prices and

[2] In the 2022-2027 Stability Programme, it is estimated that a fall in the exchange rate of the euro against all currencies of 10% at the beginning of year N has an effect on household consumption prices of 0.6 points in year N, 1.1 points in year N+1 and 1.6 points in year N+2.

the slowdown in demand in France could limit the ability of companies to pass on cost increases in their prices.

36. **The Government's inflation forecast for 2022 (+5.3%) and 2023 (+4.2%) is credible.**

c) Employment and wage bill in the private sector

37. The Government forecasts a growth in the wage bill in the market sector of 8.6% in 2022, almost unchanged (+0.1 point) compared to the Stability Programme. However, the composition of the wage bill dynamic has changed significantly. The projected growth in per capita wages has been revised downwards and that of employment upwards (+5.5% and +2.9% respectively, compared with +5.8% and +2.5% in the Stability Programme).

38. For 2023, the Government has raised its forecast more significantly than in July. The wage bill should increase by 5.0%, i.e. 1.3 points more than in the Stability Programme, in a context where growth has been revised downwards by 0.4 points but inflation upwards by 1.0 points. The wage and employment assumptions contribute equally to this revision (+0.6 points for both variables compared to July). The average wage per capita would thus grow by 4.2% and employment by 0.7% in 2023.

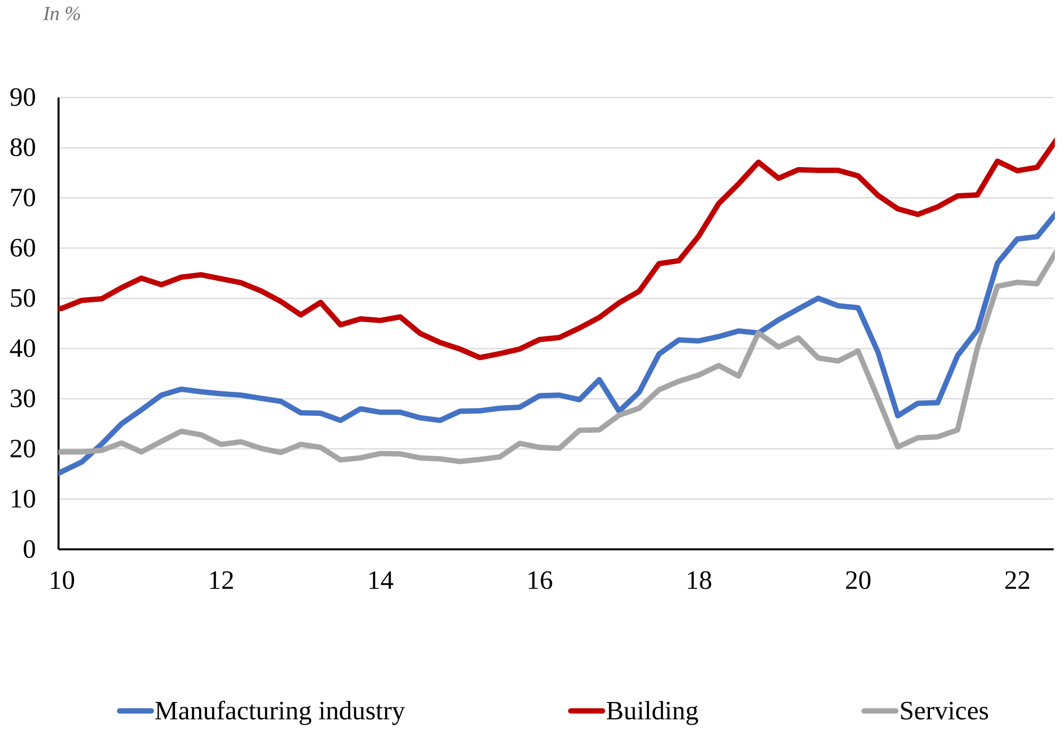
Table 5: wage bill in the non-agricultural market sector (changes in %)

	2022	**2023**
Numbers of paid employees	2.9	0.7
Average wage per head	5.5	4.2
Wage bill	8.6	5.0

Source: budget bill for 2023

39. Regarding the average wage, the Government's forecast implies a somewhat uneven dynamic. The average wage per capita increased by 0.9% per quarter in the first half of 2022 (4.5% achieved). The forecast of +5.5% in 2022 and +4.2% in 2023 implies an acceleration in the second half of 2022 (+1.3% per quarter) and then a deceleration in 2023 (+0.9% per quarter, i.e. the pace of the first half of 2022). Given the Government's inflation scenario and its delayed effects on wages, this dynamic seems plausible, but a little low, in a context where labour market tensions give employees significant bargaining power (see Graph 5).

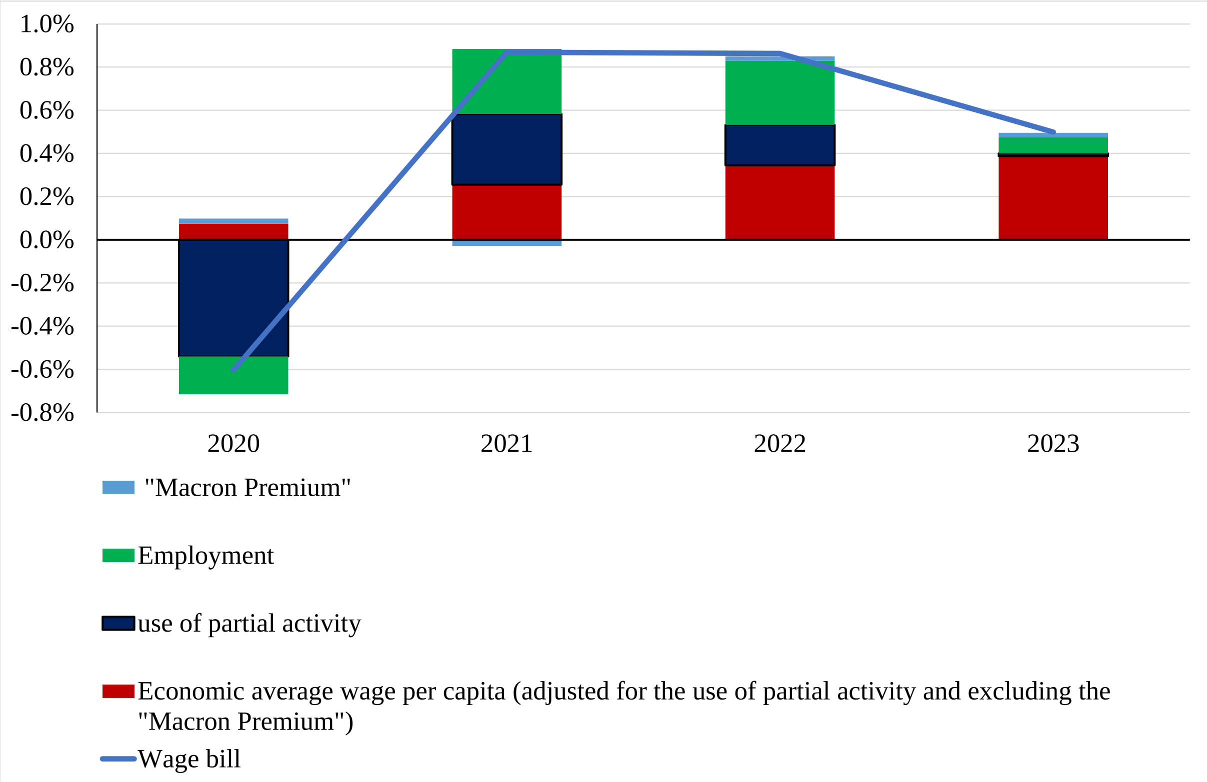
Figure 5: recruitment difficulties in France



Source : Insee

40. An economic approach to the average wage per capita takes into account the amounts received by employees in the market sector by reintegrating into the "economic average wage per capita" the amounts received under the partial activity scheme (they are not subject to contributions and are recorded in national accounts as social benefits paid to households). It has a smoother profile than the national accounts indicator. It is also possible to identify, in the evolution of the average wage, what corresponds to the value sharing premium scheme (formerly known as the "Macron premium"), which is not subject to social security contributions or income tax (subject to a limit).

Figure 6: contributions to the evolutions of the wage bill



Scope: Non-agricultural market sectors

Source: Insee, Government, High Council of Public Finance calculations

41. The economic average wage per head would contribute by 3.5 points to the evolution of the wage bill in 2022 and by 3.9 points in 2023. In 2022, the end of the partial activity scheme would support the dynamics of the wage bill (by reintegrating into the wage bill amounts that were excluded) by 1.9 points and very marginally in 2023 (+0.1 points). The value sharing premium would contribute by 0.2 points to the growth of the wage bill in 2022 and 2023.

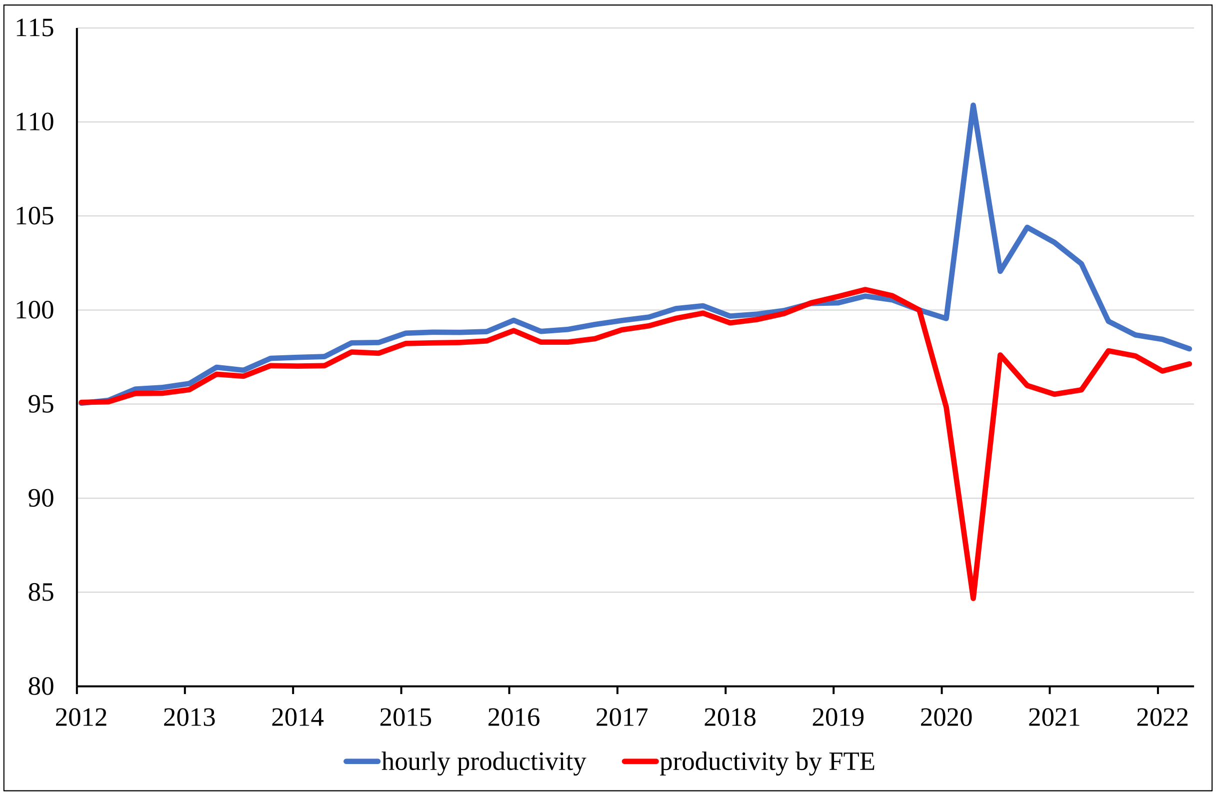
42. Job creations have been significantly revised upwards compared to the Stability Programme, reflecting an assumption of lower productivity gains (+0.3 points for both years) than in the Stability Programme in 2022 and 2023. This scenario thus appears more in line with recent productivity trends.

43. Forecasting the labour productivity which, given economic growth, determines the evolution of employment is particularly difficult due to numerous phenomena specific to the current period. Thus, while it is accepted that the significant development of apprenticeships weighs on productivity gains3, the extent of this effect has not yet been measured. Moreover, the Covid crisis may have led to a drop in the number of posted workers, replaced by resident jobs, or to the regularisation of undeclared work, thus overestimating real job creation and reducing apparent productivity as measured by official statistics. It is therefore difficult today to distinguish between these phenomena and a further slowdown in the underlying trend in the recent weakness of productivity gains, following the slowdown in the early 2010s. However,

[3]Apprentices are only part-time in the company they work for and are probably less immediately productive than more experienced employees, but to an unknown extent.

the Government's forecast, which assumes a rapid return, excluding employment policies, to the productivity growth rate registered before the health crisis, could lead to a slightly sharp decline in job creation for a given growth in activity.

Figure 7: labour productivity trends since 2012



Scope: non-agricultural market sectors

Source: National Accounts, High Council of Public Finance

44. **Although the growth forecast for 2023 is somewhat high, the High Council considers that the wage bill and employment forecasts for 2022 and 2023 are plausible.**

III. Comments on the public finance forecasts for 2022 and 2023

45. After presenting the Government's scenario (1), the High Council assesses the realism of the revenue and expenditure forecasts (2), then the consistency of the preliminary article of the draft budget bill with the multi-year targets for the structural balance[4] and general government expenditure set in the public finance programming law (3), and finally examines the expected changes in the public debt (4).

1- The Government's scenario

46. According to the Government's referral, "*In 2023, the public deficit will remain at 5.0% of GDP, as in 2022.*"

[4] The structural balance is defined as the public balance adjusted for the direct effects of the economic cycle and exceptional events (see Annex 3).

47. “*After having reached 44.3% of GDP in 2021, the tax and social contribution revenue ratio would increase to 45.2% of GDP in 2022, also raised by the accounting treatment in revenue of the gains on the historical public service charges for energy, then would fall to 44.7% in 2023. […] The elasticity in 2023 is still very well below (0.6) but is slightly closer to 1 than in the Stability Programme, with a growth composition that is more favourable to social revenues.*”

48. *“The public expenditure ratio would fall to 57.6% of GDP in 2022, after 58.4% in 2021, and to 56.6% in 2023.”*

49. *“The potential growth included in this finance bill is consistent with that of the public finance programming bill; from 2022 onwards, potential growth would be 1.35%, a level identical to that projected for this horizon in the 2018-2022 LPFP.”*

50. *“All in all, the cyclical balance is estimated at a close level in 2022 (0.6% of GDP) and 2023 (-0.8% of GDP), and the structural balance would improve slightly (-4.0% of GDP in 2023 after -4.2% in 2022).”*

51. *“ Expenditure and revenue are revised upwards in similar proportions since the Stability Programme. […] The updated forecasts consider the revised macroeconomic environment, with real growth revised to +2.7% in 2022 and +1.0% in 2023, compared with +2.5% and +1.4% in the Stability Programme, an upward revision of inflation with significant upward effects on both revenue and expenditure, and the taking into account of the Government's arbitrations since July.”*

2- Assessment of the realism of revenue and expenditure

52. The High Council assesses the realism of the revenue and expenditure estimates on the basis of the information available to it.

a) Government revenues

53. In 2022, according to the Government, taxes and social security contributions would increase by 7.8% to €1194.1 bn. This forecast in the PLF for 2023 is significantly higher (+€19.2 bn) than the forecast in the PLFR1 for 2022 due to stronger activity growth (€18.2 bn of additional GDP in value terms, leading to an increase in revenue of €9.1 bn) and the inclusion of €10.1 bn of new measures, mainly the treatment in revenue of the gains on public service charges for electricity (€9.6 bn euros)5.

54. The change in revenues in 2022 compared to 2021 would mainly result from their growth at unchanged policy (+8.2%), which is higher than that of GDP in value terms (+5.6%), due to the strong growth of several taxes and social security contributions (VAT, corporate income tax, income tax, CSG-CRDS), which can be expected from tax receipts until July.

55. The analysis of the main taxes, while it does not reveal any major bias for 2022, nevertheless indicates that the risks are likely to be on the rise for 2022.

56. The forecast for « spontaneous » growth in VAT revenues for 2022 is higher than in the LFR1 (+10.5% compared to +9.8%), more than the growth in taxable employment (+9.4% compared to +9% in the PLFR1), but below the growth in net VAT revenues recorded over the first seven months of the year (around +12% compared to the same months of 2021).

[5] The financing of the major missions of the public service for energy, including in particular support for renewable energies, constituted an expense in national accounting until 2021. The maintenance of high energy prices leads to repayments to the State for 2022 and 2023, which are accounted for as revenue from mandatory levies.

57. The forecast for "spontaneous" growth in income tax revenues in 2022, at +11.4%, is consistent with the wage bill scenario, but lower than the revenue recorded in the first seven months of the year (around +16% compared to the same months in 2021).

58. The forecast for corporate income tax revenue, up sharply in 2022 (+24.6% in "spontaneous" growth compared to 2021), reflects the dynamism already observed in the payments of corporate income tax instalments for 2022 and the balance for 2021, supported by the very strong growth in taxable profit in 2021 (+41%). It nevertheless assumes a limited drop (-3%) in taxable profit in 2022, in connection with the reduction in the margin rate of companies, and lower payments of corporate income tax instalments at the end of the year.

59. The forecast for revenues from the duty on real property transactions in 2022 is down by 3.9% compared to 2021. It assumes a very sharp drop in receipts at the end of the year compared to 2021, after a 6.5% increase in the first seven months of the year compared to the same months in 2021. This is possible given the signs of a slowdown in real estate transactions, but the magnitude of the decline seems a little steep.

60. The estimated effect of the increase in property tax rates of €0.4 bn in 2022, i.e. around 1%, seems to be below the trend of rate increases by local authorities.

61. In 2022, revenue from social security contributions is expected to grow by 6.8% at constant legislation, i.e. less than the wage bill, which is the main basis of revenue (8.4%). The Government explains this difference by the dynamic evolution of low-wage social contributions exemptions due to the strong increase in the SMIC (approximately +5% on average per year between 2021 and 2022): the additional cost of these exemptions nevertheless seems a little high.

62. In 2022, social security contributions revenues are expected to increase by +7.3%, which is very close to the increase in the total wage bill (+7.6%).

63. In 2023, the taxes and social security contributions forecast (at €1,234.2 bn, i.e. +3.3% compared to 2022) is lower than the GDP growth forecast in value terms (+4.6%), i.e. an elasticity of less than unity due to the net slowdown expected by the Government in some major taxes, which seems justified.

64. This is particularly the case for income tax in 2023: the revaluation of its schedule on the basis of inflation, which is significantly higher than the growth rate of per capita income, particularly wages, should slow down its evolution.

65. This is also the case for the corporate income tax forecast (-16.2% in « spontaneous » evolution) due to the impact of the drop in taxable income expected in 2022 on the balance of 2022 paid in 2023 and the payments of instalments for 2023. The forecast also assumes an increase in taxable profits of 8% in 2023, which would support the 5th payment of instalment for 2023 and cushion the fall in the corporate income tax revenues.

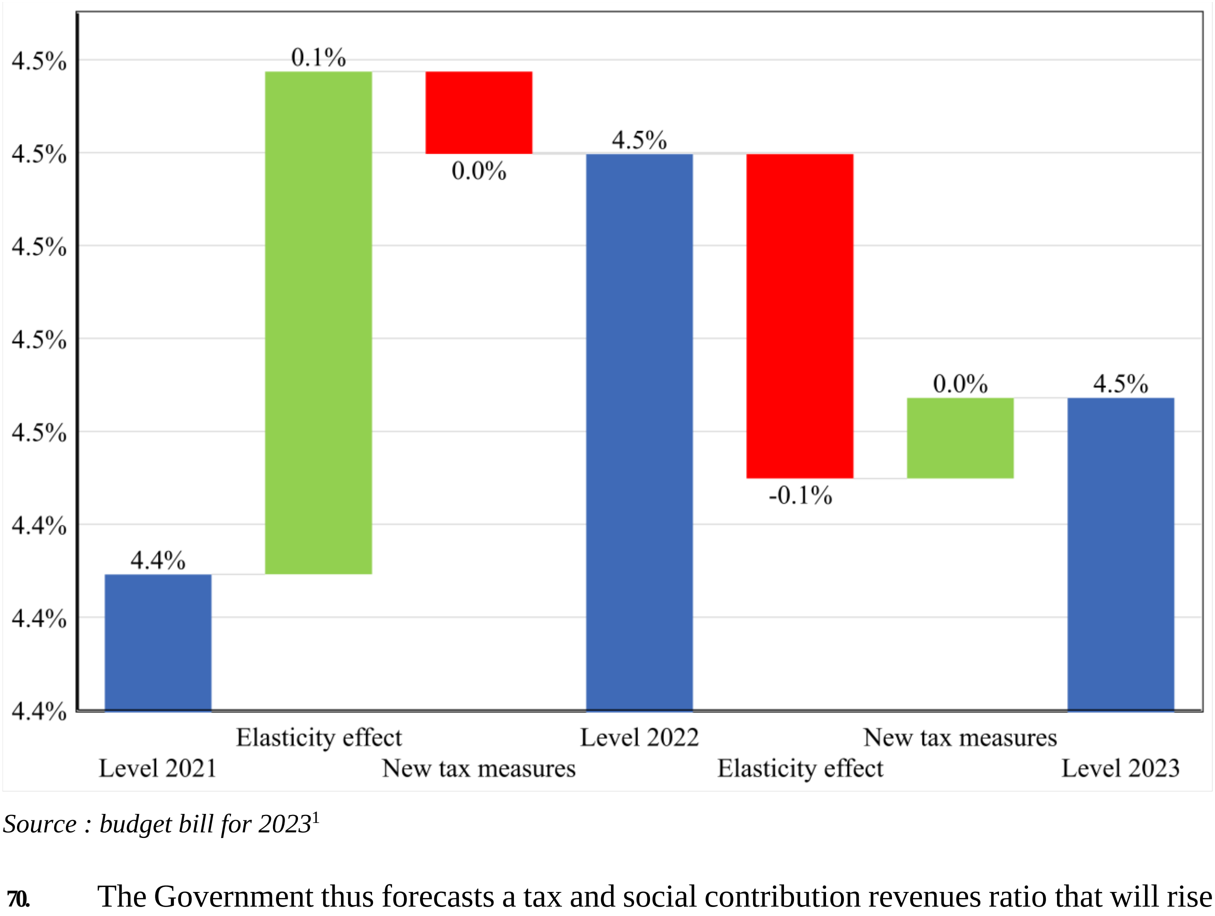
66. Similarly, the expected decline in revenues from the duty on real property transactions (-3.7%) seems justified by the current slowdown in real estate transactions and could even be higher, in response to the expected sharp tightening of financing conditions. The forecasts for VAT revenues, social security contributions and social security levies appear to be consistent with the growth of their respective bases, whose evolution is close to GDP in value.

67. However, the level of taxes and social security contributions in 2023 (and in particular VAT and corporate income tax) is likely to be affected by a lower growth in activity than the Government had forecast, although it could be supported by a stronger than expected base in 2022.

68. The new measures would cancel each other out over the two years 2022 and 2023 (-€4.7 bn in 2022, +€4.8 bn in 2023). The main measures to reduce taxes over these two years are the decline in levies on electricity consumption as part of the tariff cap on gaz and electricity prices (€7.4 bn in 2022 and €2 bn in 2023), the reduction in the corporate income tax rate to 25% (€2.9bn and then €0.4 bn), the abolition of the housing tax (€2.8 bn then €2.8 bn), the reduction in the CVAE[6] (€4 bn in 2023), the abolition of the audiovisual licence fee (€3.2 bn in 2022), and the switch to a contemporary payment of the tax credit for personal services (€0.4 bn then €1.6 bn)

69. The main tax increase measures are the treatment of revenue from gains on public service for energy charges (€9.6 bn in 2022 and €9.6 bn in 2023, bringing the total increase to €19.2 bn over the two years) and the continuation of CICE reimbursements (€1.7 bn in 2022 and €5.6 bn in 2023, with no effect on the public balance[7]), as well as the tax returns on certain tax cuts.

Figure 8: breakdown of changes in the tax and social contribution revenues ratio



Source : budget bill for 2023[1]

70. The Government thus forecasts a tax and social contribution revenues ratio that will rise in 2022 (from 44.3 points of GDP in 2021 to 45.2 points), then fall to 44.7 points in 2023.

71. **For both 2022 and 2023, the High Council considers that the taxes and social security contributions forecasts are consistent with the macroeconomic scenario.**

[6] A tax on value-added by firm.

[7] The Tax Credit for competitiveness and jobs is in fact recorded in cash in the compulsory levies, whereas it is the claim, which is now almost zero, that is recorded in the calculation of the public balance.

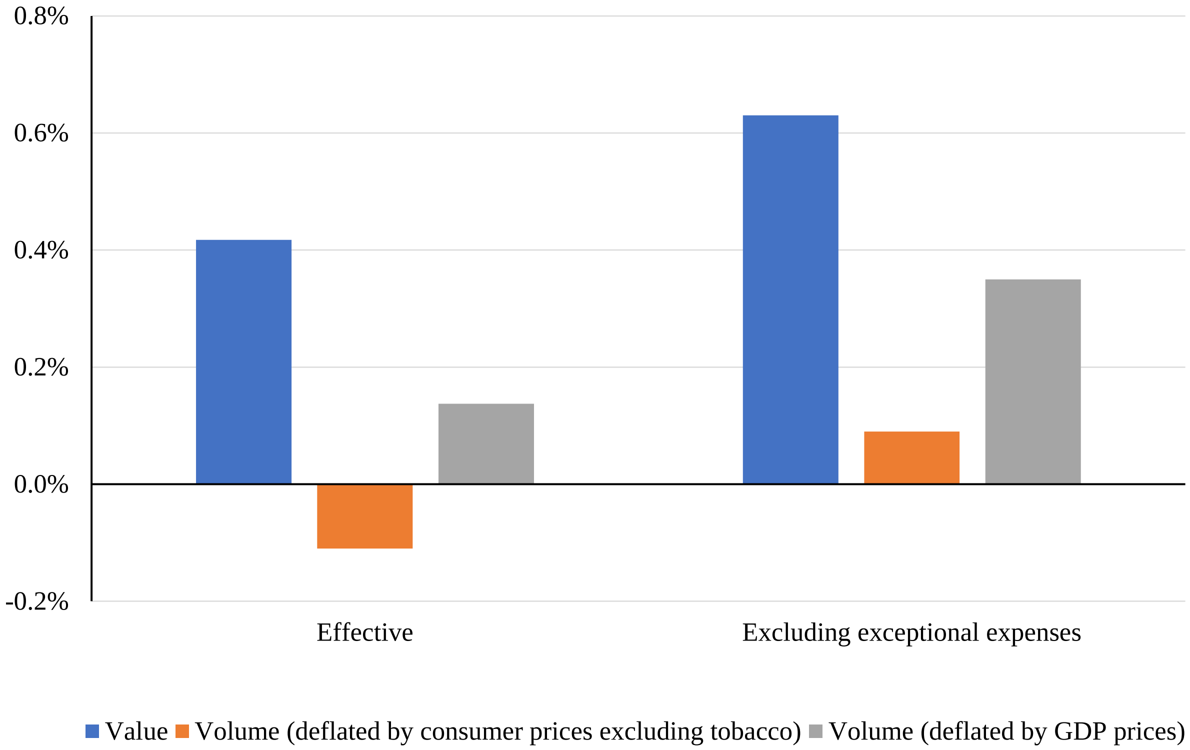
However, the tax receipts data tend to indicate slightly higher revenues in 2022, while for 2023 the risks are more balanced: revenues could suffer from a lower activity growth than forecast by the Government, but conversely be supported by a stronger than expected base in 2022.

b) Expenditure

72. In 2022, public spending excluding tax credits should increase by 4.2% to reach 57.6 points of GDP. Adjusted for the evolution of consumer prices excluding tobacco, it will fall by 1.1% in volume. Nevertheless, using the GDP deflator, which is relevant for the analysis of public finances, they should increase by 1.4% in volume.

73. This growth remains sustained despite the sharp fall in support spending in response to the health crisis (€15.9 bn in 2022 after €61.6 bn in 2021). Once the spending linked to the health crisis, the stimulus package and the measures taken to deal with the rise in energy prices are neutralised, public spending will increase by +0.9% in volume once deflated by the consumer price index excluding tobacco and +3.5% by GDP prices.

Figure 9: growth of public expenditure in volume in 2022



Source : budget bill for 2023

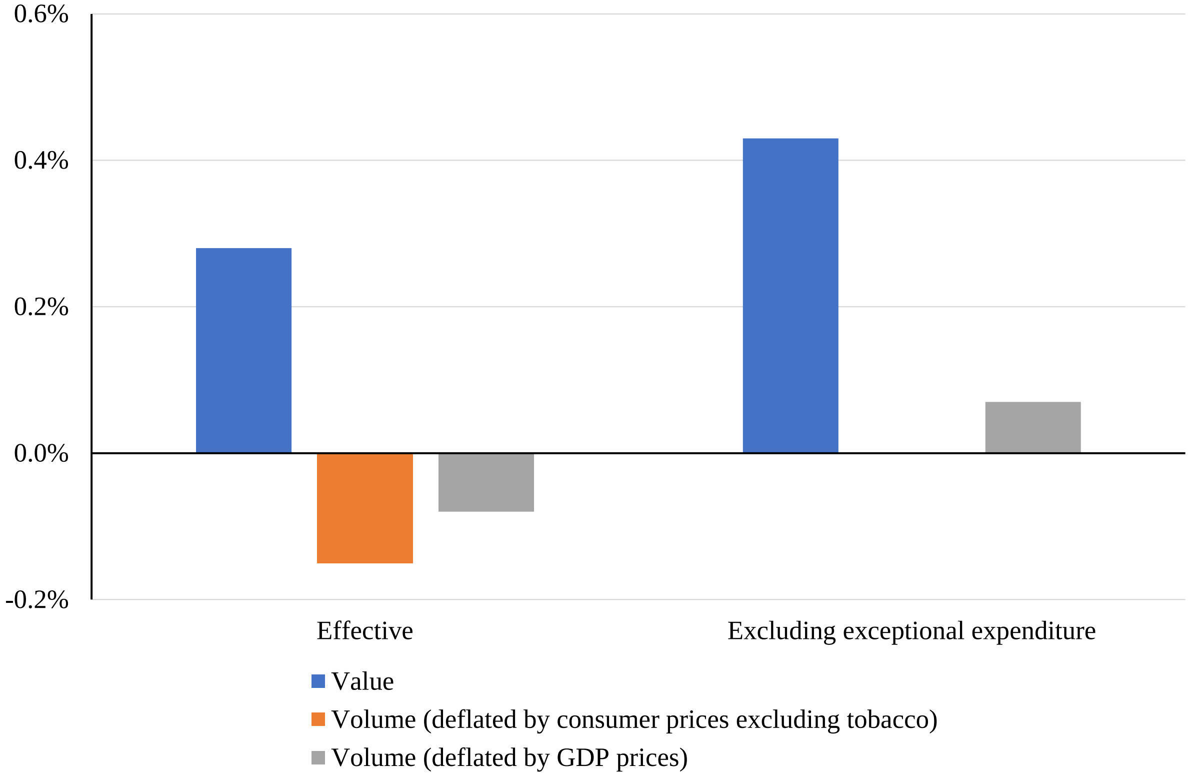
74. Local authority spending is expected to increase by slightly more than 5% in 2022, which seems plausible given the dynamics at work (effect of rising prices on purchases, particularly energy and food, increase in the civil service index point, strong growth in investment) which are also reflected in the Banque Postale forecasts. State expenditure is still uncertain in 2022, particularly due to the cost of the tariff cap on gas and eletricity prices, which depends on energy prices that are particularly volatile due to the geopolitical context and

sensitive to the temperatures that will be recorded at the end of the year. Social expenditure does not call for any comment.

75. In 2023, according to the Government, public spending should slow down (+2.8%), which with high inflation, should lead to a drop in public spending in volume (-1.5% with the consumer price deflator excluding tobacco and -0.8% with the GDP deflator). This fall is explained by the decline in exceptional expenditure due to the health and recovery crisis.

76. Once this expenditure is neutralised, public spending will be stable in volume taking into account consumer prices excluding tobacco, but will increase by 0.7% in volume with GDP prices. Expenditure within the scope of the Ondam (+3.7% excluding expenditure linked to the health crisis) is expected to grow faster than before the health crisis, while, driven by the increase in appropriations of several ministries (employment, interior, justice, defence in particular), state expenditure within the very broad scope of the new "norm"[8], is expected to rise by €24 bn.

Figure 10: growth of public expenditure in volume in 2023



Source : budget bill for 2023

77. The public spending assumptions for 2023 are still affected by the strong uncertainties relating to the cost of the tariff cap on gas and eletricity prices, which can have both upward and downward effects. There are also risks of overruns on some expenditure. In particular, expenditure within the scope of the Ondam includes a provision of only €1 bn for Covid 19 expenditure on vaccine purchases and the testing campaign. This provision, which assumes a massive drop in testing expenditure (a 20-fold reduction compared to 2021), is likely to be

[8] Perimeter that includes the majority of state expenditure (but the debt burden is excluded) and capped taxes allocated to third parties other than local authorities and social security.

highly insufficient. In addition, the continued high inflation in 2023, for the second year in a row, could lead to a higher than expected increase in certain operating or investment expenditures that are difficult to compress, while the forecast assumes no increase in the civil service point.

78. **The High Council notes that the expenditure forecast for 2022 submitted by the Government is reasonable in light of the information provided. For 2023 nevertheless, it notes that the growth of public expenditure forecast by the Government shows a decrease in volume (-1.5% taking into account consumer prices excluding tobacco). However, once the impact of the fall in exceptional expenditure in response to the health and energy crises is neutralised and adjusted for the GDP price, which is more relevant for judging the impact of expenditure on the public finance situation, public expenditure is on the rise (+0.7% in volume). This is due in particular to the increase of €24 billion in additional credits for the ministries (employment, interior, justice, defence in particular) and to a growth in the Ondam still higher than before the health crisis.**

79. **Beyond the uncertainties surrounding this forecast, due in particular to the dependence of the cost of the tariff cap on electricity and gas prices on energy market prices, the High Council considers that some expenses could be underestimated.**

c) The General Government Balance

80. The Government's scenario forecast an actual general government balance of -5.0 GDP points in 2022 and 2023 (after -6.5 GDP points in 2021). In 2022, the revenue forecast appears to be somewhat low given the observed tax receipts and the expected evolution of the wage bill, and the forecast for the public balance at -5.0 points of GDP is therefore somewhat prudent.

81. For 2023, public finance forecasts are highly uncertain, as is the macroeconomic framework forecast. Revenues in 2023 could be negatively affected by lower-than-expected growth but benefit from a favorable revenue base effect over 2022. The level of public expenditure appears highly uncertain, with risks being more on the upside both in terms of the evolution of the energy crisis and the health situation. In view of all these risks, the deficit forecast for 2023, which is characterised by a high degree of uncertainty, appears to be somewhat underestimated.

82. In any case, the public deficit remains particularly deteriorated in 2022, despite a growth rate in volume that remains solid (2.7% in the Government scenario). For 2023, the public deficit is also very deteriorated and does not improve, in a context of slowing activity and high inflation leading to support for companies and households. In total, for these two years, the public balance is 2 points higher than the limit of 3 points of GDP stipulated by the European budgetary rules.

83. The structural balance would be slightly less deteriorated, at -4.0 points of GDP in 2023. However, it would still be far from the medium-term objective that France has set itself (-0.4 points of GDP) and which is once again included by the public finance programming bill for the years 2023 to 2027. It is also based on a favourable estimate of the output gap (-1.1 points in 2022 and -1.4 points in 2023), as noted by the High Council in its opinion on the draft programming law (published in parallel to this opinion).

Table 6: breakdown of the public balance presented by the Government

In GDP points	budget bill for 2023 (sept. 2022)		
	2021	**2022**	**2023**
Public balance	**-6.5**	**-5.0**	**-5.0**
Cyclical component	-1.4	-0.6	-0.8
One-off and temporary measures	-0.1	-0.1	-0.2
Structural Balance	**-5.1**	**-4.2**	**-4.0**

Source : budget bill for 2023

84. However, the triggering of the escape clause of the Stability and Growth Pact, announced on 23 March 2020, allows Member States, due to exceptional circumstances, to deviate from the normally applicable budgetary requirements "provided that medium-term fiscal sustainability is not jeopardised", in principle until the end of 2023. However, the Commission indicated in its communication of 23 May that it would review the possibility of opening excessive deficit procedures on the 2021 outcome in autumn 2022 and on the 2022 outcome in spring 2023.

85. **For 2022, the general government balance forecast at -5.0 GDP points is prudent. For 2023, the general government balance forecast, stable compared to 2022, is characterised by the great uncertainty surrounding macroeconomic developments and in particular energy prices, but the High Council considers that the deficit could ultimately be higher than expected due to the underestimation of certain expenditures.**

3- Assessment of consistency with the multi-year targets for the structural balance and general government expenditure

86. Under the terms of the organic law n° 2001-692 of 1 August 2001 as amended relating to finance laws, the High Council must give its opinion on the consistency of the structural balance and expenditure trajectory adopted in the PLF for 2023 with that of the current programming law, which it cannot do in the absence of a programming law covering the year 2023.

87. Furthermore, the consistency of the introductory article of the PLF and PLFSS with the multi-year targets for the structural balance and general government expenditure defined in the draft public finance programming law for the years 2023 to 2027, which was submitted to it in parallel, is automatically ensured and therefore does not call for any comment.

4- The public debt

88. According to the Government's forecasts, the public debt ratio would decrease in 2022, by 1.3 points of GDP, and then slightly in 2023, by 0.3 points of GDP. In 2022, the ratio benefits from economic growth that is still strong, so that the public balance is higher than the balance stabilizing the debt by about one point, and from the fact that the cost of the tariff cap on electricity and gas prices, included in the calculation of the public deficit in the sense of national accounts, does not lead to an equivalent disbursement in 2022. In 2023, the debt ratio would

still decrease, but slightly: with the decline in growth, the public deficit would be at the level that stabilizes the debt, but the corresponding additional debt requirements are again expected to be slightly below the public deficit in national accounts[9].

89. The fall in the debt ratio between 2021 and 2023 is thus due to temporary factors, which are likely to reverse in the future. Moreover, its level remains very high and leaves little room for manoeuvre to cope with any new shock.

Table 7 : Government debt and deficit

In GDP points	**2021**	**2022**	**2023**
Public balance	-6.5	-5.0	-5.0
Public debt	112.8	111.5	111.2

Source : budget bill for 2023.

90. **According to the Government, the public debt ratio would fall in 2022 and, more marginally, in 2023, thanks to temporary factors. With a public deficit, both actual and structural, expected to improve little or not at all in 2023, the targeted recovery of public finances is very slow.**

91. **The medium-term sustainability of public finances therefore continues to call for the utmost vigilance. The High Council points out that the return to debt levels guaranteeing France sufficient fiscal space is required to be able to cope with macroeconomic or financial shocks and public investment needs. It implies a collective effort to contain public expenditure and improve its efficiency.**

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This opinion will be published in the Official Journal of the French Republic and attached to the Finance Bill for 2023 when it is submitted to the National Assembly.

Done in Paris, 21 September 2022.

For the High Council of Public Finance,
The First President of the Court of Audit,
Chairman of the High Council of Public Finance

Pierre MOSCOVICI

[9] The Government did not provide the High Council with information on the origin of this gap.

Annex 1: Macroeconomic scenario attached to the budget bill for 2023

Economic forecasts for France (*deviation from the 2022-2027 Stability Programme*)	2020	2021	2022	2023
Goods and services, real terms[1]				
Gross domestic product (wda)	**-7.9** (0.0)	**6.8** (0.0)	**2.7** (0.2)	**1.0** (-0.4)
Gross domestic product (no wda)	**-7.8** (0.0)	**6.8** (0.0)	**2.7** (0.2)	**0.8** (-0.4)
Final household consumption	-6.8 (0.0)	5.2 (0.0)	2.5 (-0.3)	1.4 (-0.5)
Public final consumption	-4.0 (0.0)	6.4 (0.0)	2.4 (1.0)	1.0 (0.5)
Grossed fixed capital formation	-8.4 (0.0)	11.4 (0.0)	2.3 (-0.5)	0.1 (-0.7)
Of which: non-financial enterprises	-6.9 (0.0)	11.4 (0.0)	1.4 (-0.6)	0.9 (-1.1)
General government	-5.4 (0.0)	2.7 (0.0)	6.7 (-1.1)	-1.6 (1.2)
households (excluding individual entrepreneurs)	-11.9 (0.0)	17.0 (0.0)	1.5 (0.3)	-0.9 (-0.9)
Imports	-13.0 (0.0)	7.8 (0.0)	6.6 (0.0)	2.5 (-0.5)
Exports	-17.0 (0.0)	8.6 (0.0)	6.8 (-0.2)	2.7 (-0.8)
Contributions to real GDP growth				
Private domestic demand (excluding inventories)	-5.4 (0.0)	5.3 (0.0)	1.6 (-0.2)	0.8 (-0.4)
Public demand	-1.1 (0.0)	1.7 (0.0)	0.8 (0.2)	0.2 (0.1)
Inventories	-0.2 (0.0)	-0.3 (0.0)	0.3 (0.3)	0.0 (0.0)
Foreign trade	-1.1 (0.0)	0.1 (0.0)	0.0 (-0.1)	0.0 (-0.1)
Prices and nominal aggregates				
Consumer prices inflation index	**0.5** (0.0)	**1.6** (0.0)	**5.3** (0.3)	**4.2** (1.0)
Core inflation	0.6 (0.0)	1.1 (0.0)	4.1 (0.2)	4.1 (0.2)
Gross domestic product deflator	-2.8 (0.0)	1.3 (0.0)	2.8 (0.5)	3.6 (0.3)
Nominal gross domestic product (wda)	-5.3 (0.0)	8.2 (0.0)	5.6 (0.7)	4.6 (-0.1)
Productivity, employment and wages				
Market-sector excluding agriculture:				
Effective labor productivity	-7.8 (0.0)	3.8 (0.0)	0.3 (-0.3)	0.3 (-1.5)
Salaried work (natural person)*	-1.2 (0.0)	2.8 (0.0)	2.9 (0.4)	0.7 (0.6)
Salaried work (AA, in thousands)*	-204 (-5)	471 (1)	511 (73)	132 (106)
Salaried work (yoy, in thousands)*	-294 (-0)	787 (7)	211 (126)	71 (48)
Average salary (natural person)	-4.4 (0.0)	5.5 (-0.7)	5.5 (-0.4)	4.2 (0.6)
Purchasing power of the average salary	-4.8 (0.0)	3.8 (-0.7)	0.2 (-0.6)	0.0 (-0.4)
Wage bill	-6.0 (0.0)	8.7 (0.0)	8.6 (0.1)	5.0 (1.3)
Total emloyment	-0.4 (0.0)	2.4 (0.3)	2.2 (0.6)	0.7 (0.6)
Total employment (-)	-176 (-0)	972 (149)	319 (205)	117 (80)
Non-financial corporate account				
Margin rate	**31.8** (0.0)	**34.3** (0.0)	**31.9** (0.3)	**32.1** (-0.7)
Saving rate	21.9 (0.0)	26.9 (0.0)	23.3 (-0.5)	23.8 (-1.7)
Investment rate	24.7 (0.0)	25.6 (0.0)	25.4 (-0.2)	25.1 (-0.6)
Self-financing rate	88.8 (0.0)	105.3 (0.0)	91.7 (-1.1)	94.5 (-4.7)
Households account				
Gross disposable income	1.1 (0.0)	4.0 (0.0)	4.9 (-0.2)	5.1 (0.7)
Purchasing power of gross disposable income	**0.2** (0.0)	**2.3** (0.0)	**0.0** (-0.4)	**0.9** (-0.3)
Saving rate	20.9 (0.0)	18.7 (0.0)	16.7 (-0.1)	16.3 (0.1)
Operations with the rest of the world				
Trade balance FAB-FAB (customs data, in % of GDP)	-2.8	-3.4	-5.9	-5.6
Trade balance FAB-FAB (customs in billions of euros)	-65	-85	-156	-154
International context				
Global demand for France	-5.8	11.5	-5.5	1.6
Euro-dollar exchange rate	1.14 (0.00)	1.18 (0.00)	1.06 (-0.03)	1.02 (-0.05)
Oil price (per Brent baril in dollars)	42 (0)	71 (0)	103 (-7)	89 (-9)

*Employment according to localized employment estimates

[1] *The data presented here are in the sense of Insee's quarterly accounts*

Annex 2: Introductory Article of the 2023 Finance Bill

Text of the article:

The forecasts of the structural balance and the actual balance of the general government, the forecasts of the balance by sub-sector, the forecast, broken down by general government sub-sector, of the volume target and the forecast in billions of current euros of general government expenditure, the forecasts of compulsory levies, expenditure and debt for the general government for the year 2023, the forecasts for 2023 of these same aggregates of the public finance programming law for the years 2023 to 2027, as well as the execution data for the year 2021 and the execution forecasts for the year 2022 of these same aggregates, are as follows:

As % of GDP unless otherwise stated	2021	2022	2023	2023
Initial Budget Law for 2023				LPFP 2023-2027
All public administrations				
Structural balance (1)	-5.1	-4.2	-4.0	-4.0
Cyclical balance (2)	-1.4	-0.6	-0.8	-0.8
Balance of one-off and temporary measures (3)	-0.1	-0.1	-0.2	-0.2
Actual Balance (1+2+3)	-6.5	-5.0	-5.0	-5.0
Debt in the Maastricht sense	112.8	111.5	111.2	111.2
Mandatory levies rate (incl. EU net of CIs)	44.3	45.2	44.7	44.7
Public expenditure (excluding IC)	58.4	57.6	56.6	56.6
Public expenditure (excluding in €bn)	1461	1522	1564	1564
Public expenditure (excluding IC, in €bn) Change in public expenditure excluding IC in volume (%)[1]	2.6	-1.1	-1.5	-1.5
Main investment expenditure (€bn)[2]			24	24
Central public administrations				
Balance	-5.8	-5.4	-5.6	-5.6
Public expenditure (excluding IC, in €bn) Change in public expenditure excluding IC in volume (%)[3]	597 4.1	629 0.0	636 -2.6	636 -2.6
Local public administrations				
Balance	0.0	0.0	-0.1	-0.1
Public expenditure (excluding IC, in €bn) Change in public expenditure excluding IC in volume (%)[3]	280 2.8	295 0.1	305 -0.6	305 -0.6
Social security authorities				
Balance	-0.7	0.5	0.8	0.8
Public expenditure (excluding IC, in €bn) Change in public expenditure excluding IC in volume (%)[3]	683 1.3	700 -2.6	721 -1.0	721 -1.0

[1]A constant field.

[2]As defined in the public finance programming law for 2023-2027

[3]A constant field, excluding transfers between public administrations.

Explanatory memorandum to the article:

This article presents, in accordance with Article 1H of the organic law No. 2001-692 of 1 August 2001 on finance laws, the forecast of the structural balance and the actual balance of the general government for 2023. It also presents the forecast, broken down by sub-sector of public administration, of the volume growth target and the forecast in billions of current euros of general government expenditure and the forecast of compulsory levies, expenditure and debt of general government. Finally, it presents the forecasts for the main general government expenditure considered as investment expenditure within the meaning of the last paragraph of Article 1 A and 2° of Article 1 E of the LOLF. The latter are defined in the report annexed to the public finance programming bill.

The 2023 budget bill (PLF 2023) projects a nominal balance of -5.0% of GDP in both 2022 and 2023, unchanged from the Stability Programme and the amending budget bill. The sources of revisions have been significant since then, but are broadly offsetting.

The updated forecasts consider the revised macroeconomic environment, with real growth revised to +2.7% in 2022 and +1.0% in 2023 compared with +2.5% and +1.4% respectively at the time of the Stability Programme, an upward revision of inflation with significant upward effects on both revenue and expenditure, and the considering of Government decisions since July.

In detail, the following factors are the main sources of revision since the Stability Programme:

- Tax revenues excluding new measures have been revised upwards (+0.2 percentage points of GDP in 2022, +0.5 percentage points in 2023). In detail: (i) in 2022, GDP growth in value terms has been revised upwards. Revenue growth, excluding measures, is expected to be higher than activity, as was already forecast in the Stability Programme; this trend is confirmed by the latest available tax data; (ii) in 2023, the Stability Programme assumed a marked contraction in revenue excluding measures, linked in particular to the end of the double effect of the strong growth in tax revenue in 2021 on IS revenue in 2022 and to the composition of GDP (in particular, growth in the wage bill below that of nominal GDP). The 2023 elasticity is still very sub-unitary (0.6) but is slightly less far from unity than in the stability programme with a composition of growth that is more favourable to social security revenues.
- The cost of the measures taken to protect the French from the effects of inflation has been revised upwards due to the more unfavourable expectations of forward market prices, the indicators conventionally used to estimate the cost of the measures (-0.2 pt of GDP on the balance in 2023).

- The upward revision of inflation leads to an increase in the forecast for social benefits and local expenditure; in addition, other state expenditure is revised upwards (-0.3 pt of GDP on the balance in 2023).
- Health expenditure under the Ondam is revised upwards in both years (impacting the 2022 and 2023 balance by -0.1 pt of GDP, including exceptional provisions to combat the Covid-19 epidemic).
- The end of August update of the public accounts by Insee and its impact on the 2022 balance (-0.1 pt of GDP).
- The abolition of the CVAE in two years, compared with the assumption of a complete abolition from 2023 in the Stability Programme (+0.2 pt of GDP in 2023).

The potential growth retained in this finance bill is consistent with that in the public finance programming bill; from 2022 onwards, potential growth would be 1.35%, a level identical to that projected for this horizon in the 2018-2022 PSSA. The output gap estimated for 2022 considers the effects of the health crisis. Overall, the cyclical balance is estimated to be close in 2022 (-0.6% of GDP) and 2023 (-0.8% of GDP), and the structural balance would improve slightly (-4.0% of GDP in 2023 after -4.2% in 2022).

The uncertainties surrounding these forecasts are particularly significant. Public finances are very sensitive to the vagaries of macroeconomic developments and in particular to variations in energy prices, which have a strong impact on the cost of the measures put in place to protect the French, first and foremost the tariff cap on electricity and gas prices.

In Bn€	Forecast implementation 2021	Forecast implementation 2022	Forecast 2023
Actual Balance	-163.3	-131.2	-137.6
Nominal GDP	2500.9	2642.0	2762.8

Annex 3: The Stability and Growth Pact's escape clause

In March 2020, the Covid-19 epidemic led to the entry into force of the "general escape clause" of the Stability and Growth Pact, at the initiative of the European Commission.

Introduced in 2011 as part of the reform of the Stability and Growth Pact, the general escape clause can be activated in the event of "an unusual event outside the control of the Member State concerned which has a significant impact on the financial position of the general government or in the event of a severe economic downturn affecting the euro area or the Union as a whole". In the case of the preventive arm of the Stability and Growth Pact, States are "allowed to deviate temporarily from the adjustment path towards the medium-term budgetary objective [...] provided that medium-term fiscal sustainability is not jeopardized". Furthermore, under the corrective arm of the Pact, the clause allows the Council of the European Union to recommend a revised path to a Member State.

Thus, since 2020, the Commission has continued to examine the budgetary situation of Member States with respect to the deficit and debt criteria as part of the surveillance procedures of the Stability and Growth Pact. In particular, in May 2022, it adopted a report on 18 Member States, including France, under Article 126(3) of the Treaty on the Functioning of the European Union, but did not open an excessive deficit procedure.

While the Commission still anticipated in March 2022 that the general derogation clause could be deactivated in 2023, it finally decided to extend it for an additional year in its communication of 23 May 2022 in the framework of the European semester. The clause would thus be deactivated in 2024. The Commission stressed that the context of war in Europe, rising energy prices and persistent disruptions in supply chains had not allowed the European economy to return to normal, with the economic situation remaining marked by high uncertainty, significant downside risks, and the need for Member States to adopt, if necessary, budgetary measures to address the economic consequences of the war in Ukraine. However, the Commission has indicated that it will review the possibility of opening excessive deficit procedures on the 2021 outcome in autumn 2022 and on the 2022 outcome in spring 2023.

The Commission is expected to provide guidance on possible changes to the European economic governance rules in the near future.

[9]Article 5 of Council Regulation 1466/97 of 7 July 1997.
[10]Article 6 of Council Regulation 1466/97 of 7 July 1997.
[11]Articles 3 and 5 of Council Regulation (EC) No 1467/97 of 7 July 1997.