Haut Conseil des Finances Publiques

Opinion n° HCFP-2022-6
on the second amending budget bill for the year 2022

27 October 2022

Summary

The High Council considers that the Government's forecasts for growth (+2.7%), inflation (+5.3%) and wage bill growth (+8.6% in the market sectors) for 2022, unchanged from those in the 2023 Budget Bill, are credible in the light of the information available to it at the time this opinion was written.

However, the High Council regrets that, contrary to the practice of previous years, the timetable for referrals led it to issue its opinion the day before the publication by Insee of the national accounts for the third quarter, since these would have been an important piece of information for assessing the Government's forecasts, in accordance with the mandate given to the High Council by the organic legislator.

The Government's forecast of a public balance for 2022 of -4.9 points of GDP, which is an improvement of one tenth of a point of GDP compared to the forecast in the 2023 Budget Bill, is plausible. However, it is affected by significant uncertainties, both in terms of expenditure and revenue (particularly regarding the cost of the energy prices cap, public service charges for energy and corporate tax revenue).

The structural balance would be -3.6 points of GDP using the level of potential GDP of the now obsolete Public Finance Programming Law 2018-2022, and -4.2 points of GDP using the new estimates of potential GDP presented in the Public Finance Programming Law for 2023-2027. The gap for 2022 with the structural balance forecast in the 2018-2022 Public Finance Programming Law (-0.8 points of GDP), as well as with the medium-term objective that France has set itself (-0.4 points of GDP), would thus be high. This difference does not only reflect the impact of the health crisis on potential GDP and on emergency and then recovery spending, but also the increase in some spending not directly linked to this crisis.

The ratio of public debt to GDP is expected to fall by 1.3 percentage points in 2022, thanks to the still strong economic growth in 2022, which affects the denominator, and to increased mobilisation of the State's cash flow, which reduces the need to issue new debt. However, France will still be among the most indebted countries in the euro area in 2022. The High Council reminds that a return to debt levels that ensure France has sufficient fiscal space is necessary to be able to cope with macroeconomic or financial shocks and public investment needs. This requires a collective effort based on controlling expenditure and seeking greater efficiency.

1. Pursuant to Article 15 of Organic Law 2012-1403 of 17 December 2012 on the programming and governance of public finances, the Government referred the matter to the High Council on 21 October 2022 for an opinion on the macroeconomic forecasts associated with the 2nd Amending Budget Bill (PLFR) for 2022 and on the consistency of this bill with the multiannual structural balance path.

2. In order to assess the realism of the macroeconomic forecasts associated with the 2nd Amending Budget Bill, the High Council based itself on the latest available statistics and on the information provided by the Government in its referral and in the replies to the questionnaires sent by the High Council.

3. The High Council regrets, however, that the Government asked it to submit its opinion the day before the publication of the third quarter national accounts by Insee. Taking these results into account would have enabled it to better assess the realism of the Government's economic forecasts.

4. As permitted by Article 18 of the 2012 Organic Law, the High Council held hearings with representatives of the relevant administrations (Directorate General of the Treasury and Directorate of the Budget) following the referral.

5. The High Council also drew on the work of Insee, the Banque de France, Rexecode and the French Economic Observatory (OFCE).

1. Macroeconomic forecasts for 2022

1- The Government's scenario

6. According to the Government's referral file, "*The macroeconomic scenario underlying the 2nd Amending budget bill for 2022 is unchanged from that underlying the 2023 Budget Bill, which assumed GDP growth of 2.7% for 2022. The new information available since the finalisation of the 2023 Budget Bill is in fact consistent with the macroeconomic scenario for 2022.*

7. *Inflation stood at +5.6% year-on-year in September, with the decline from August (-0.3 pts) reflecting a sharp slowdown in energy prices, against a backdrop of falling oil prices and the increase in the fuel rebate on 1 September. The September figure is consistent with the underlying scenario of the PLF, which assumed inflation close to 6% until the end of 2022, for an annual average increase of +5.3%.*"

2- Assessment of the High Council

8. For 2022, the Government continues to forecast an increase in real GDP of 2.7%. In its opinion on the draft Budget Bill (PLF) and the draft social security financing bill (PLFSS) for 2023, the High Council considered that this forecast was plausible, particularly in view of the growth achieved in the first two quarters and the latest forecasts by Insee, the Banque de France, international financial institutions and the consensus of economists.

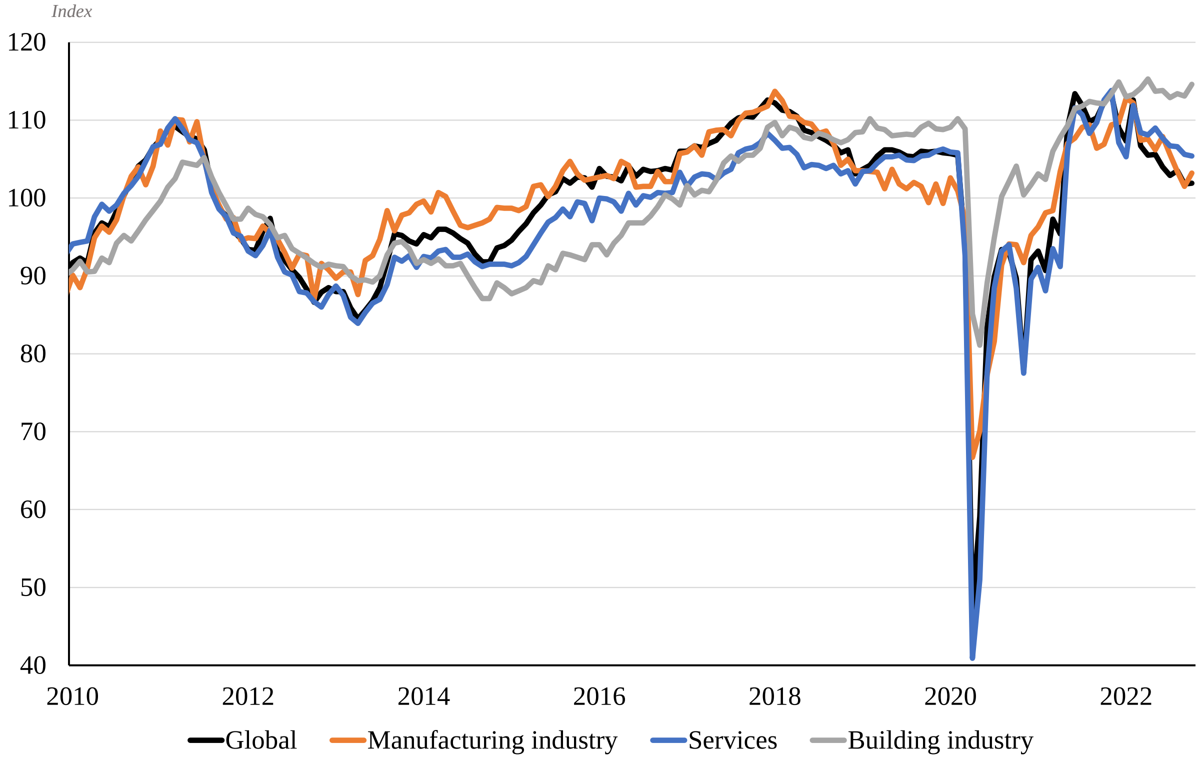
Table 1: GDP growth forecasts for France in 2022

	Date of publication	2022
The Banque de France	15 September	2.6
Rexecode	19 September	2.6
OECD	26 September	2.6
Insee	6 October	2.6
Consensus Forecasts	10 October	2.5
IMF	11 October	2.5
French Economic Observatory	12 October	2.6
Government	**21 October**	**2.7**

Source: Amending budget bill for 2022, OECD Economic Outlook September 2022, OFCE Policy Brief October 2022, Banque de France Macroeconomic Projections September 2022, Rexecode Outlook September 2022, Insee Economic Outlook October 2022, Consensus Forecasts October 2022, IMF World Economic Outlook October 2022.

9. The latest consumers and business surveys by Insee and the Banque de France show the resilience of activity and suggest that growth will continue by the end of the year, albeit at a moderate pace. Therefore, in view of the carry-over for GDP growth at the end of the second quarter and before the publication of the quarterly accounts, which will have occurred after the drafting of this opinion, the High Council considers that the Government's forecast remains plausible.

Graph 1: Business environment



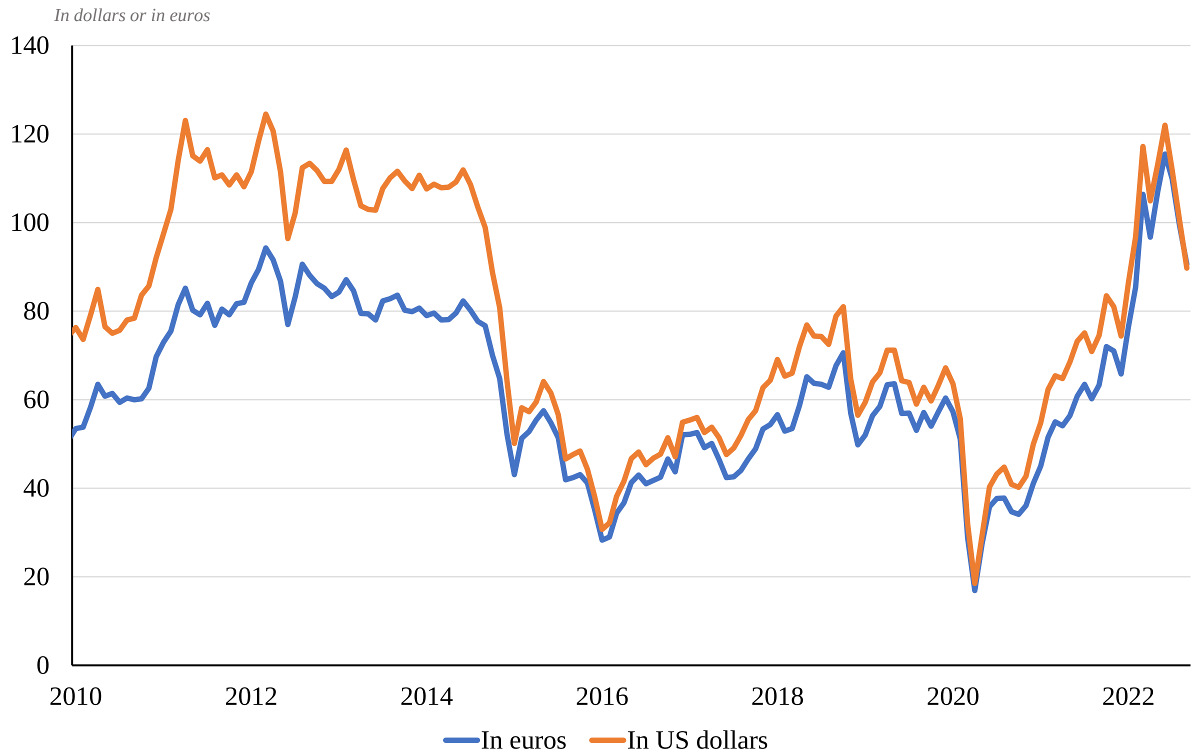
Source: Insee

10. The risks of energy supply disruptions and a possible impact of higher gas and electricity prices on industrial production are, however, significant downside risks for growth in the fourth quarter, and thus for 2022.

11. The Government still forecasts an average annual increase in the consumer price index of 5.3% for 2022.

12. Since the presentation of the Budget Bill (PLF) for 2023 in mid-September, inflationary pressures have eased slightly, against the backdrop of a slowing global economy. The price of Brent crude oil has stabilised at around USD 90, which is lower than the average price of USD 102 in the first three quarters. Gas and electricity prices also fell sharply.

Graph 2: Oil prices (barrel of Brent)



Source: Insee

13. The easing of tensions in supply chains continued, as suggested by the further decline in September of *the Global Supply Chain Pressure Index* constructed by the New York Federal Reserve, and by the decline in October in the components related to supply difficulties in the Insee business surveys.

14. According to surveys published by Insee, recruitment difficulties stopped worsening in October in the manufacturing and construction sectors. However, they remain at a historically high level and continue to increase in the services sector. Moreover, the transmission of production cost increases to consumer prices continues, particularly to food prices, which keep rising sharply in September (+1.1% over one month).

15. In this context, the Government's inflation forecast for 2022 remains credible. It is close to other available forecasts and consistent with the 5.1% carry-over effect recorded at the end of September. However, this forecast still depends on the evolution of energy prices, which have been particularly volatile since the start of the war in Ukraine and have fallen sharply for some of them since mid-September (gas and electricity prices).

Table 2: inflation forecasts for 2022 as an annual average in %.

	Date of publication	2022
Rexecode	9 September	5.3
The Banque de France	14 September	5.2
Insee	6 October	5.2
Consensus Forecasts	10 October	5.4
The French Economic Observatory	12 October	5.1
Government	**21 October**	**5.3**

Source: PLFR2 for 2022, forecasts by economic agencies and institutes

16. The Government maintains its forecast of an 8.6% increase in the wage bill of the non-agricultural market sectors in 2022. This forecast remains plausible in view of the monthly Urssaf data for July and August, which have been published since the High Council's opinion on the 2023 Budget Bill.

*

17. **The High Council considers that the Government's forecasts for growth (+2.7%), inflation (+5.3%) and wage bill growth (+8.6% in the market sectors) for 2022, which are unchanged from those in the 2023 Budget Bill, are credible in the light of the information available at the time this opinion was written.**

18. **The High Council regrets, however, that, contrary to the practice of previous years, the timetable for referrals led it to issue its opinion the day before the publication by Insee of the national accounts for the third quarter, since these would have been an important piece of information for assessing the Government's forecasts, in accordance with the mandate given to the High Council by the organic legislator.**

2. Estimates of Government revenue, expenditure and general government balance

1- The Government's scenario

19. According to the Government's referral file, "*The public balance forecast for 2022 stands at -4.9% of GDP, slightly better than in the 2023 Budget Bill (PLF) and the Stability Programme, where the forecast was -5.0%. This slight improvement would be due to both new information on revenues and expenditure since the submission of the PLF.*

20. *Compared with the 2023 Budget Bill, a slight increase in revenue is expected based on the most recent accounting data, due to revisions of the forecast for (i) social security contributions on capital, due to dynamic capital gains, (ii) transfer duties as reflected in the accounting data, and (iii) income tax, based on the latest tax information available on the withholding tax and the third tax roll. Conversely, the forecast for VAT revenue is revised downwards, mainly because of less dynamic accounting data than expected in August and September.*

21. *The latest available information on expenditure also contributes to improving the public balance. In particular, public spending would be revised slightly downwards compared to the forecast for 2022 underlying the 2023 PLF, due in particular to the end of the year scheme for State budget appropriations and a downward revision of the EU Budget. Conversely, stimulus spending, net of EU funding, would be more dynamic in 2022 than forecasted in the 2023 PLF*."

2- Assessment of the High Council

22. The High Council has sought to assess the realism of the government revenue, expenditure and balance forecasts on the basis of the information available.

a) Revenue

23. According to the Government, revenue from tax and social contributions will reach €1,194.9 billion in 2022, an increase of 7.9% compared to 2021, which is a growth rate significantly higher than that of the nominal GDP (+5.6%). The tax and social security contributions ratio would thus increase by 0.9 points compared to 2021, reaching 45.2 points of GDP in 2022.

24. The amount of mandatory levies has been slightly revised upwards in the 2nd Amending budget bill (PLFR), by €0.8bn, compared to the amount posted in the Budget Bill for 2023.

25. This increase is due in particular to an upward revision (+€1.3 billion) of social security levies on capital, linked mainly to a larger increase in capital gains on securities in 2021 than expected in September.

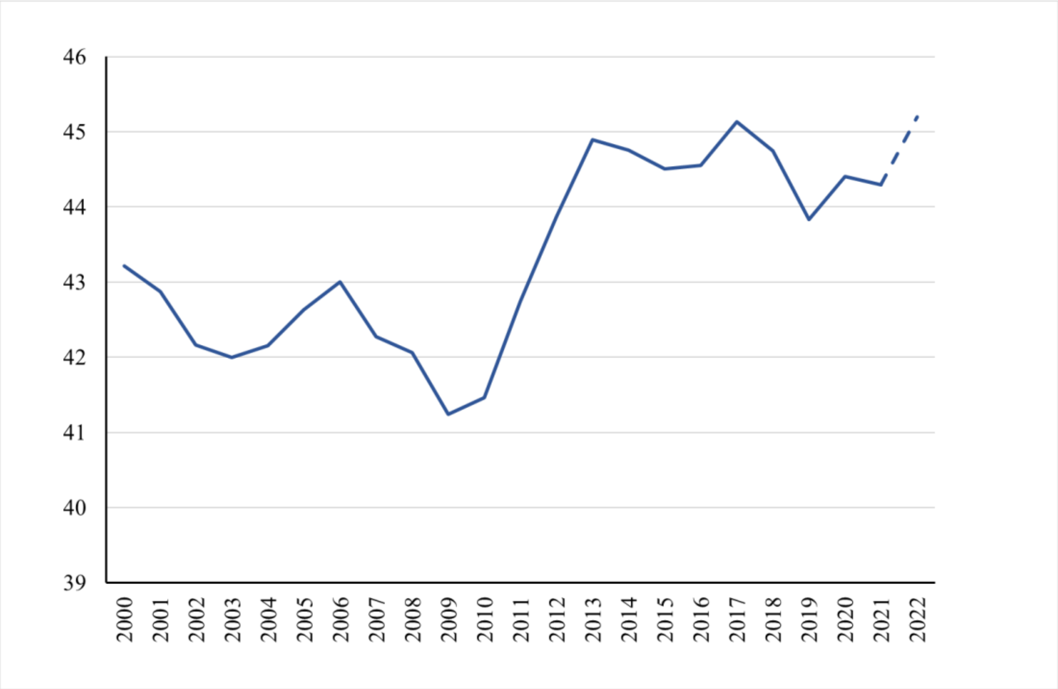
26. Income tax revenues would also be slightly higher (+€0.6bn) than forecasted in the 2023 Budget Bill. Income tax growth would be 11.1% in 2022, a plausible figure given the data for the first nine months and the latest information provided by the tax authorities.

27. As the High Council pointed out in its opinion on the 2023 Budget Bill, the initial forecast of a 3.9% drop in duties on real property transactions (DMTO) in 2022 was based on the assumption that there would be a sharp drop in receipts in the second half of the year, which has not yet materialised. The data available up to September indicate an increase of 5.0% over the first nine months compared with 2021. The Government now expects revenues to rise slightly in 2022 (+0.1bn€, or +0.5% compared to 2021). However, the Government's forecast implies a sharp drop in the amount of transactions over the last three months. It therefore appears to be still low.

28. Conversely, VAT revenues, whose growth had previously exceeded the estimated growth in tax base, were disappointing in August and September. The Government has thus reduced its revenue growth forecast to 9.0% in 2022, i.e. -1.9 billion euros compared to the amount forecasted in the 2023 Budget Bill. This forecast appears plausible, in line with the expected growth in taxable employment (+9.4%).

29. The Government has not changed its forecast for corporate tax revenues. As is the case every year, risks affecting this forecast are important, due to the inherently uncertain yield of the "fifth instalment" paid in December.

Graph n° 3: tax ratio (in GDP points)



Source: Insee, Government forecast

30. European funding under the European Recovery and Resilience Facility (€11.6bn planned for 2022 by the Government) is conditional, among other things, on the achievement of certain milestones and targets, and in particular the adoption of a public finance programming law. The risk that some of these funds will not be paid out in 2022 cannot therefore be completely ruled out.

31. The other forecasts of mandatory levies remain unchanged compared to the 2023 Budget Bill and the latest information available does not lead to questioning them.

32. In particular, the Government maintains its forecast that mandatory levies will increase by €9.6 billion due to the classification of energy public service charges as revenue. The compulsory levies are indeed increased by the repayment made by the operators due to market prices that are now higher than the reference prices, whereas, in normal times, the flows go the other way to ensure the profitability of renewable energy production. However, there is considerable uncertainty surrounding the amount of this revenue, which depends on the evolution of energy prices over the coming months.

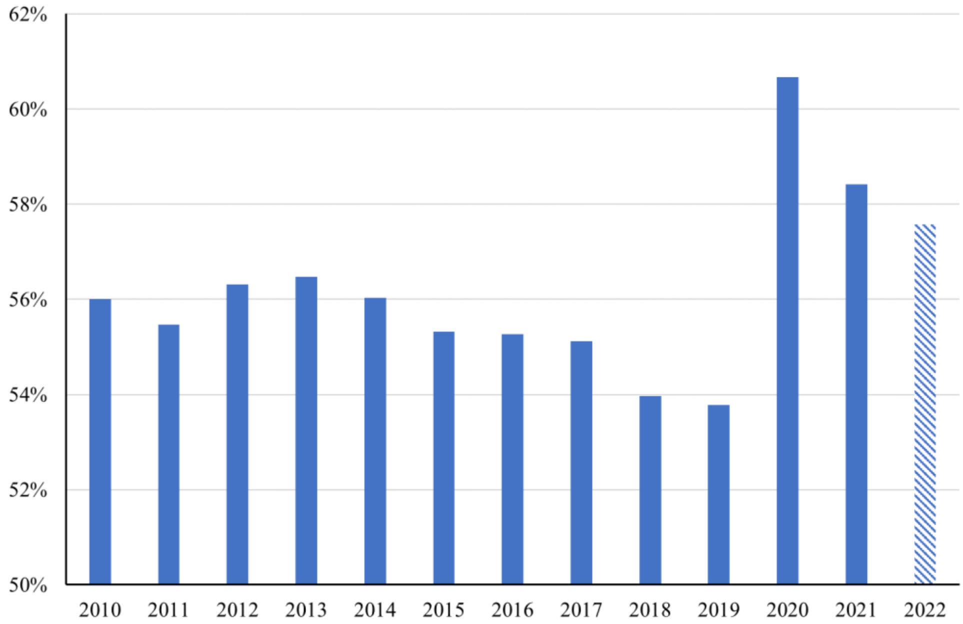
33. **The High Council considers that the forecast of tax and social contributions for 2022 thus adjusted is plausible. However, there is still considerable uncertainty about the size of the revenue for the public energy service, which is highly dependent on the inherently uncertain evolution of energy prices by the end of the year, and to a lesser extent, about the yield of the "fifth instalment" of the corporate tax. Finally, the risk that part of the European funds under the European Recovery and Resilience Facility will not be paid out for 2022 cannot be completely ruled out.**

b) Expenditures

34. Public spending (excluding tax credits) is expected to increase by 4.1% in value in 2022, which is a slight downward revision (-0.9 Bn€) compared to the 4.2% forecast in the 2023 Budget Bill. In real terms, it will fall by 1.2% adjusted for changes in consumer prices excluding tobacco, but will rise by 1.3% adjusted for the GDP deflator, which is relevant for the analysis of public finances[1]. Public spending is expected to reach 57.6 points of GDP in 2022, a level well above that reached before the health crisis (53.8 points in 2019).

35. Excluding exceptional support expenditure in the face of the health and energy crises and stimulus expenditure, public spending, deflated by the consumer price index excluding tobacco[2], would increase by 0.8% in volume, but by 3.4% deflated by GDP prices.

Graph n° 4: Public expenditure as a percentage of GDP



Source: Insee, Government forecast

36. This adjustment in public spending forecasts is explained by the adjustment in State spending. Indeed, the increase in spending linked to the stimulus plan (+€2.1 bn) would be more than offset by the downward revision of appropriations under the end of the year scheme (€1.8 bn), due in particular to the lower cost of claims on State-guaranteed loans (-€0.7 bn), by lower payments to the European Union (-€0.7 bn) and by the lower than expected cost of building up the gas security stock (-€0.7 bn). However, the savings on payments to the European Union could turn out to be lower than expected if new European Union aid to Ukraine, currently under discussion, were to be decided and paid before the end of the year. In addition, the evolution of gas prices continues to pose both upside and downside risks to expenditure.

[1] The value of GDP, which measures the wealth produced, is a key determinant of a country's ability to repay its debts.
[2]Deflator used by the Government.

37. The expenditure forecast for local authorities and social security administrations, unchanged since 2023 Budget Bill, is consistent with the information available. As mentioned in the 14 October opinion of the Ondam alert committee, a sharp rise in the number of Covid infections, which is a risk that has not yet come true, could nevertheless result in Ondam expenditures being higher than the amount envisaged in the Government's forecast.

38. **The High Council considers that the new public expenditure forecast for 2022 is reasonable. Uncertainties continue to affect the forecast of gas price cap spending and health spending, as well as, as usual at this time of year, local spending, in particular investment, for which a large part of the accounting records have not yet been made.**

c) The general government balance

39. According to the Government, the general government balance would be -4.9 points of GDP, a slight improvement on the forecast in the 2023 Budget Bill (-5.0 points of GDP). Taking into account the above assessment elements on the revenue and expenditure side, the Government's balance forecast is plausible.

40. The improvement in the general government balance between 2021 (-6.5 points of GDP) and 2022 results from the dynamism of revenues and not from an effort to control public spending. The withdrawal of emergency measures linked to the health crisis is in particular more than offset by new expenditure to combat inflation and the rise in energy prices.

41. **The Government's forecast of a public balance for 2022 of -4.9 points of GDP is plausible.**

3. Consistency with the multi-annual structural balance path

1- The Government's scenario

42. According to the Government's referral file, "*Using the potential framework and the methodology for calculating the structural balance set out in the Public Finance Programming Law 2018-2022 of 22 January 2018, the structural balance would stand at -3.6% of potential GDP in 2022. Using the potential framework and the methodology for calculating the structural balance provided for in the 2023-2027 public finance programming bill tabled in Parliament on 26 September 2022, the structural balance would stand at -4.2% of potential GDP in 2022, as in the Budget bill (PLF) for 2023.*"

2- Assessment of the High Council

43. According to the Government, the structural budget balance[3] would be -3.6 points of GDP in 2022, after -4.5 points in 2021. This level of structural balance in 2022 is far from the one projected in the Public Finance Programming Law (PFPL) for 2018-2022, but the reference path of the PFPL has become obsolete following the health crisis. In 2022, the estimated structural deficit would thus be 2.8 percentage points higher than that forecast in the 2018-2022 PFPL, i.e. a "significant" deviation within the meaning of the organic law of December 2012.

44. However, the High Council found in March 2020 that the "conditions (...) for the definition of exceptional circumstances" were met, in accordance with Article 23 of the 2012 organic law on the programming and governance of public finances. Similarly, in March 2020, the European Commission triggered the general derogation clause of the Stability and Growth Pact, which allows Member States to deviate temporarily from the adjustment path towards the medium-term objective, provided that medium-term fiscal sustainability is not jeopardised.

45. The exceptional circumstances clause, like the general derogation clause, is still in force. Pursuant to Article 23 of the Organic Law, the High Council will have to take it into account in its opinion on the 2022 Settlement Bill.

Table 3: Breakdown of the public balance presented by the Government

(potential GDP framework of the Public Finance Programming Law 2018-2022)

In GDP points	**Amending Budget bill n°2 For 2022 (october 2022)**		*Public Finance Programming Law (january 2018)*		*Gap*	
	2021	**2022**	***2021***	***2022***	***2021***	***2022***
General Government balance	**-6.5**	**-4.9**	***-0.9***	***-0.3***	***-5.6***	***-4.6***
Cyclical component	-2.0	-1.2	*0.3*	*0.6*	*-2.3*	*-1.7*
One-off and temporary measures	-0.1	-0.1	*0.0*	*0.0*	*-0.1*	*-0.1*
Structural balance	**-4.5**	**-3.6**	***-1.2***	***-0.8***	***-3.3***	***-2.8***

Note: Figures are rounded to the nearest tenth, which may result in slight discrepancies in the outcome of operations.
Source: Amending Finance Bill No.2 for 2022, Programming Act of January 2018.

46. With the new potential framework proposed by the Government in its Public Finance Programming Law for 2023-2027, the structural balance would be -4.2 points of potential GDP in 2022. This new estimate is based on a reassessment of potential GDP, which is lower due to the health crisis (by ¾ of a GDP point according to the Government). The structural component of the public deficit is consequently estimated to be larger. The deviation from France's medium-term objective (set at -0.4 point of GDP in the 2018-2022 PFPL and in the draft 2023-2027 PFPL) is also higher.

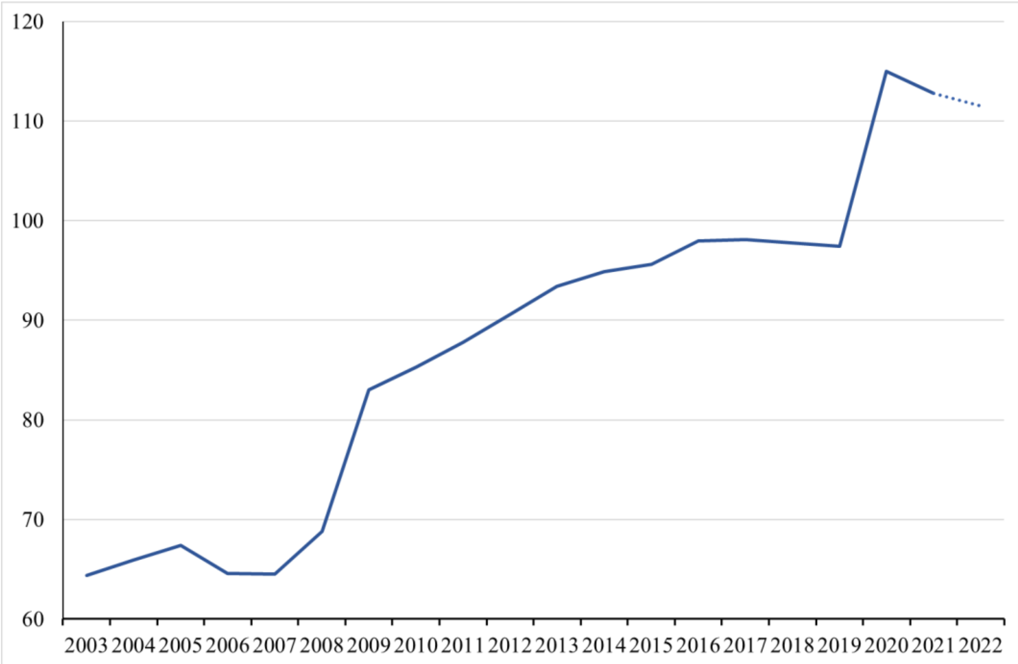
47. The structural adjustment, i.e. the change in the structural balance compared to 2021, would be +0.9 points of GDP whatever the potential GDP path adopted. This net improvement in the structural balance results exclusively from the favourable impact of the elasticity of tax and social contributions to growth. The structural effort, which better

[3] See Annex 2 for a definition of the concepts used in this section.

reflects the Government's action, is even slightly negative, despite the withdrawal of the emergency measures linked to the health crisis, the cost of which decreases from €62 billion in 2021 to €15 billion in 2022.

48. As in the Budget Bill for 2023, the public debt-to-GDP ratio would fall from 112.8 points of GDP in 2021 to 111.5 points in 2022, down by 1.3 points. This decrease in the debt ratio is not the result of an effort to consolidate the public accounts - since the deficit, although decreasing compared to 2021, remains high (4.9 points of GDP) - but of the solid economic growth of GDP in 2022, higher than the potential growth, and a decrease in the State's cash position.

49. **Graph n° 5: Public debt trajectory (in GDP points)**



Source: Insee, Government forecast

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50. **The structural balance would be -3.6 points of GDP using the level of potential GDP of the 2018-2022 Public Finance Programming Law, which is now obsolete, and -4.2 points of GDP using the Government's new estimates of potential GDP presented in the 2023-2027 PFPL. The gap for 2022 with the structural balance forecast in the 2018-2022 PFPL (-0.8 points of GDP), as well as with the medium-term objective that France has set itself (-0.4 points of GDP), would thus be high. These differences do not only reflect the impact of the health crisis on potential GDP and on certain expenditures as well as the effect of the energy crisis on these, but also an increase in certain expenditures not directly linked to these crises.**

51. **The ratio of public debt to GDP would be down by 1.3 points in 2022, due to the still strong economic growth in 2022 which affects the denominator and to a decrease in the State's cash position which reduces the need to issue new debt. However, France**

will still be among the most indebted countries in the euro area in 2022. The High Council reminds that a return to debt levels that ensure France has sufficient fiscal space is necessary to be able to cope with macroeconomic or financial shocks and public investment needs. This requires a collective effort based on controlling expenditure and seeking greater efficiency.

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This opinion will be published in the Official Journal of the French Republic and attached to the draft amending finance bill for 2022 when it is submitted to the National Assembly.

Done in Paris on 27 October 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

Annex 1: Draft introductory

Structural balance forecast and actual balance of the general government for the year 2022

The forecast for the structural balance and the actual balance of the general government for 2022 is as follows:

(In points of gross domestic product)(*) Potential framework PFPL 2018-2022

	Implementation 2021	Prévision 2022
Structural balance (1)	-4.5	-3.6
Cyclical balance (2)	-2.0	-12
One-off and temporary measures (3)	-0.1	-0.1
Actual balance (1 + 2 + 3)	-6.5	-4.9

(*) The amounts shown in this table are rounded to the nearest tenth of a point; as a result of the application of this principle, the rounded amount of the actual balance may not be equal to the sum of the amounts included in its calculation.

Explanatory Memorandum

The public balance forecast for 2022 stands at -4.9% of GDP, slightly better than in the 2023 Budget Bill (PLF) and the Stability Programme, where the forecast was -5.0%. This slight improvement would be due to both new information on revenues and expenditures since the submission of the Budget Bill. The macroeconomic assumptions are unchanged from the Budget Bill: activity growth of +2.7% in volume terms is still expected for 2022.

Using the potential framework and the methodology for calculating the structural balance provided for in the Public Finance Programming Law 2018-2022 of 22 January 2018, the structural balance would stand at 3.6% of potential GDP in 2022. Using the potential framework and the methodology for calculating the structural balance provided for in the 2023-2027 public finance programming bill tabled in Parliament on 26 September 2022, the structural balance would stand at -4.2% of potential GDP in 2022, as in the 2023 PLF.

Compared with the 2023 Budget Bill, a slight increase in revenue is expected based on the most recent accounting data, due to revisions to the forecast for (i) social security contributions on capital, due to dynamic capital gains, (ii) transfer duties, due to the good performance of accounting data, and (iii) income tax, based on the latest tax information available on the withholding tax and the third issue. Conversely, the forecast for VAT receipts has been revised downwards, due in particular to less dynamic accounting data than expected in August and September.

The latest available information on expenditure also contributes to improving the public balance. In particular, public spending would be revised slightly downwards compared to the forecast for 2022 underlying the 2023 Budget Bill, due in particular to the end of the year scheme for State budget appropriations and a downward revision of the EU Levy on revenue. Conversely, stimulus spending, net of EU funding, would be more dynamic in 2022 than forecast in the 2023 Budget Bill.

Annex 2: Methods of estimating the general government structural

The calculation of the structural balance

To assess the trajectory of public finances, it is usual to consider the structural balance, which corresponds to the public balance corrected for the direct effects of the economic cycle and exceptional events. The public balance is thus separated into two:

- a **cyclical component** representing the impact of the economic cycle on general government expenditure and revenue;
- a **structural component** corresponding to what the public balance would be if the economy were at its potential level.

The identification of the cyclical and structural components of the public deficit is fundamentally based on the estimation of potential GDP. Potential GDP represents the level of output that the economy can sustain over the long term without putting pressure on the factors of production, capital and labour.
In concrete terms, the identification is done by calculating the cyclical shares of public revenues and expenditures. These are evaluated as follows:

- **On the revenue side,** only compulsory levies are assumed to be cyclical. The cyclical level of income tax, corporate tax, social security contributions and other compulsory levies is calculated separately from the effects of the output gap on these taxes[4]
- **On the expenditure side,** only unemployment compensation expenditure is considered to be cyclically[5] dependent. The cyclical share is estimated, as for the revenues, from the effects of the output gap on these expenditures.

The cyclical component of the deficit is thus calculated. **This component is deducted from the actual balance to obtain an estimate of the structural balance**.

A final adjustment is made to the structural balance in order to exclude certain events or measures which, because of their exceptional nature, do not have a permanent impact on the public balance. This adjustment was originally introduced to neutralise the effect of the sale of UMTS licences at the end of the 1990s and the various payments received by the State (IEG, La Poste, France Telecom) which contributed to an exceptional increase in revenue. **However, there is no precise definition of exceptional measures and their identification is partly a matter of interpretation.** While stressing that the one-off and temporary nature of the measures must be assessed on a case-by-case basis, the government is proposing a set of criteria to help understand the concept in an annex to the programming law.

The composition of the structural adjustment

The change in the structural balance from one year to the next is called the "structural adjustment".

[4] 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.
[5] As regards other expenditure, either it is discretionary or no clear and reliable link with the business cycle can be demonstrated.

To analyze the fiscal policy stance, **the change in the structural balance can be broken down** as follows:

- **Structural effort, which measures the share of the structural adjustment attributable to "discretionary" factors, i.e., factors that can be controlled by policymakers:**
    - **the expenditure effort,** which compares the growth rate of public expenditure in volume (deflated with the price of GDP) with the potential growth of the economy. It contributes to a positive structural adjustment when spending increases less rapidly than the potential GDP ;
    - the quantum of **new measures in compulsory levies.**

- **The "non-discretionary" part** of the structural adjustment, which takes into account:
    - effects related to **changes in revenue elasticities:** since the cyclical component is calculated with average elasticities, the structural balance includes any fluctuations in elasticities in a given year if they differ from their long-term average;
    - **changes in revenues excluding compulsory levies.**

Annex 3: The general escape clause of the Stability and Growth Pact

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 case of *"an unusual event outside the control of the Member State concerned which has a major impact on the financial position of the general government or in periods of severe economic downturn for the euro area or the Union as a whole*[6]. In the case of the preventive part of the Stability and Growth Pact, "*Member States may be 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*"[7]. Moreover, in the context of the corrective part of the Pact[8], the clause allows the Council of the European Union to recommend a revised path to a member state.

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

While the Commission was still anticipating in March 2022 that the general escape clause could be deactivated in 2023, it finally decided to extend it for another year in its communication of May 23rd, 2022, in the framework of the European semester.The clause would thus be deactivated in 2024. The Commission stressed that the context of the war in Europe, the increase in energy prices and the persistent disruption of supply chains had not allowed the European economy to return to normality, as the economic situation remained affected by a high level of uncertainty, significant downside risks and the need for Member States to adopt, if required, budgetary measures to address the economic consequences of the war in Ukraine.

In this context, the Commission also indicated that it would formulate after the summer of 2022 its guidelines on possible amendments to the rules of the European economic governance.

[6] Article 5 of the Council Regulation n°1466/97 of 7 July 1997.
[7] Articles 5(1) and 9(1) of the Council Regulation n°1466/97 of 7 July 1997.
[8] Articles 3 and 5 of the regulation (EC) n°1467/97 of July 7, 1997.