Opinion n° HCFP - 2023 - 1

On the draft amending social security financing bill for the year 2023

18 January 2023

Executive summary

The Government has referred to the High Council of Public Finance the draft amending social security financing bill (PLFRSS) for 2023 concerning the pension reform.

The High Council notes the narrow scope of the referral. It is able to analyse the consequences of the pension reform project on public finances in 2023. With a net cost of around €0.4bn, they are not significant. Given the incomplete nature of the information provided by the Government, the High Council is not in a position to assess the medium-term impact of the pension reform on public finances.

Moreover, the High Council notes that the lack of adoption of the public finance programming bill does not allow it to verify the consistency of the public finance forecasts of the financial texts with the programming law. Beyond, this absence, which goes against France's European commitments, deprives public finances of a compass that is essential to their sound management and to the preservation of public debt sustainability.

The High Council notes that the Government has changed neither its macroeconomic scenario nor its public deficit forecast for 2023 since the 2023 Budget Bill adopted by the Council of Ministers on 26 September 2022.

The High Council considers that the growth forecast associated with the PLFRSS (+1.0%) remains high. While it is, according to the Government, justified by the resilience of the French economy in the third quarter of 2022 and by carry-over effect for 2023, it is still above the available estimates. Conversely, the inflation forecast (+4.2%) is slightly low, as is the wage bill forecast (+5.0%).

In its opinion of 26 September 2022, the High Council considered that the 2023 public balance could be lower than forecast by the Government (5.0 points of GDP). This risk, associated in particular with lower growth, is now counterbalanced by the recent fall in wholesale gas and electricity prices. If confirmed, this could reduce the net cost of schemes designed to cushion the impact of higher energy prices on households and firms.

According to the Government, the public debt ratio would decrease slightly in 2023 (111.2 points of GDP after 111.6 in 2022), mainly thanks to the mobilisation of the excess cash accumulated at the end of 2022.

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 need, in particular concerning climate change issues. The pension reform presented in this PLFRSS is not sufficient, on its own, to achieve such an objective. The medium-term sustainability of public finances will continue to require the utmost vigilance.

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, the Government has referred the draft amending social security financing bill (PLFRSS) for 2023 to the High Council of Public Finance, asking it to issue an opinion on:

- the macroeconomic forecasts, on which the draft amending social security financing bill for 2023 (PLFRSS) is based;
- the consistency of its introductory article with the multi-year targets for the structural balance and general government expenditure set in the draft public finance programming bill (LPFP);
- the realism of the revenue and expenditure forecasts of the PLFRSS.

2- On the information submitted

2. On 10 January 2023, the Government referred to the High Council of Public Finance the macroeconomic forecasts, the consistency of the introductory article of the PLFRSS 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 this draft. This referral was supported by replies to questionnaires sent by the High Council to the relevant administrations.

3- On the High Council's methodology

3. In order to assess the realism of the macroeconomic forecasts associated with the PLFRSS 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.

4. The High Council also based on the latest forecasts produced by a group of national and international institutions, including the European Central Bank (ECB), the Banque de France, the World Bank, the European Commission, the International Monetary Fund (IMF), the National Institute of Statistics and Economic Studies (INSEE), the Organization for Economic Co-operation and Development (OECD) and economic institutes such as the French Economic Observatory (OFCE) and Rexecode.

5. The High Council held hearings with representatives from the French Treasury and the Directorate of social security.

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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 draft amending social security financing bill for 2023 (II), and then of the public finance scenario (III) with a particular focus on the consequences of the pension reform.

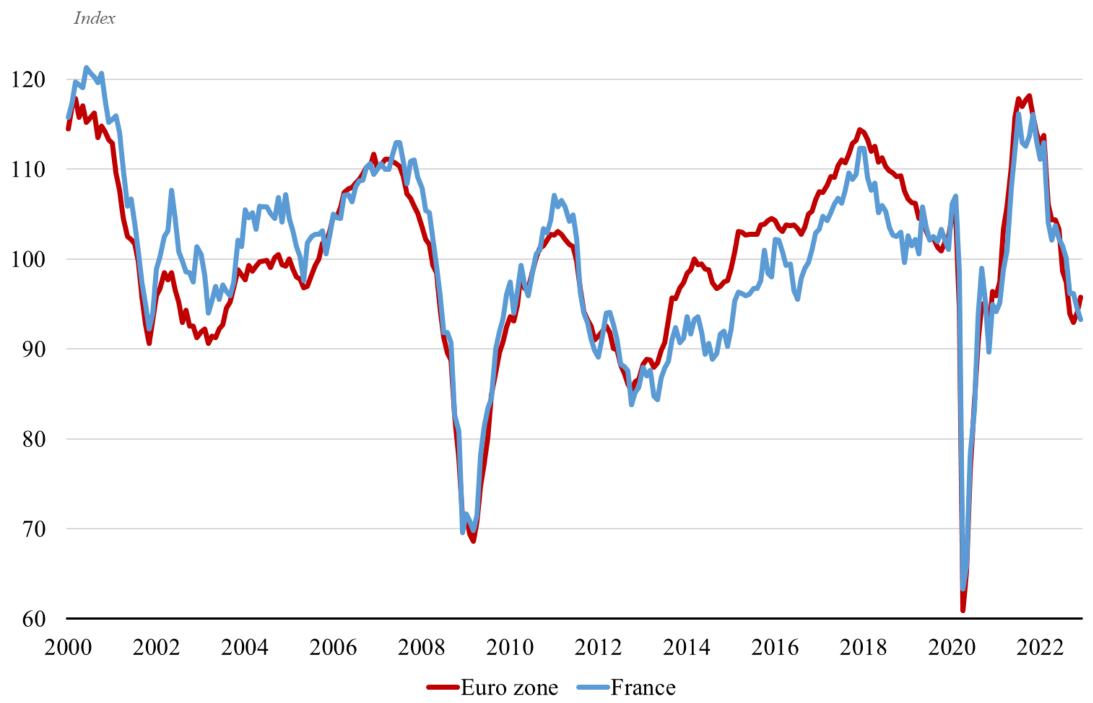
I. A global economy still subject to many uncertainties

7. Since the September 2022 opinion on the 2023 draft budget bill (PLF) and draft social security financing bill (PLFSS), the global economy has continued to face significant challenges. Despite the easing of tensions in global supply chains and the decline in commodity prices in the second half of 2022 due to weak Chinese demand, inflation has remained very high. However, it appears to have peaked in the U.S., although the core component still remains dynamic.

8. In many countries, persistent high inflation continued to weigh on real incomes. Also, it led central banks, in developed economies, to continue their monetary tightening. In the United States, between the beginning of September and the end of December, the Fed increased the range of its key interest rates by 200 basis points. They are now between 4.25% and 4.5%. Over the same period, the European Central Bank (ECB) raised its key interest rates by the same amount, bringing the interest rate on its main refinancing operations to 2.5%. Therefore, global financing conditions have tightened considerably.

9. In this context, the business climate deteriorated. The global composite Purchasing Managers' Index (PMI) fell for the fifth consecutive month in December, to 48.2. In the eurozone, European Commission surveys show consumer confidence at a very low level and a business climate, which is resilient, but deteriorating in industry.

Chart 1: economic sentiment indicator of the European Commission



Source: European Commission.

10. The global growth expected in 2023 has thus been revised downwards by international organizations over the last six months (by around 0.6 points of GDP). According to the latest available forecasts, it will be significantly lower than in 2022.

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

	Publication date	2022	2023
IMF	11 October	3.2	2 ;7
	26 July	*3.2*	*2.9*
OECD	22 November	3.1	2.2
	8 June	*3.0*	*2.8*
Consensus Forecasts	5 December	2.8	1.5
	12 September	*2.6*	*1.9*
World Bank	10 January	2.9	1.7
	7 June	*2.9*	*3.0*
The French Treasury	**9 September**	**3.3**	**3.1**

Sources: IMF economic outlook October and July 2022, OECD economic outlook November and June 2022, Consensus Forecasts December and September 2022, World Bank economic outlook January 2023 and June 2022, French Treasury international scenario September 2022.[1]

11. There are still many uncertainties weighing on the global economy. In the short term, mild weather and the efforts made by households and businesses to reduce energy consumption are keeping the risk of gas and electricity shortages at bay. However, tensions over gas supplies could reappear in the last months of 2023, leading to higher energy prices.

12. Financial risks are also significant. The rise in interest rates observed over the past several months is increasing the cost of debt for both households and companies, especially in countries where the proportion of variable-rate loans is high, and could lead to payment difficulties or even defaults.

13. Finally, health risks are always present with the recurrent emergence of new Covid-19 variants.

14. A more favourable scenario on the international level is nevertheless possible. A faster than expected fall in inflation, due to the recent decrease in commodity prices and the easing of supply tensions, would allow an easing of long-term interest rates and a recovery in confidence, which would be favourable to activity.

II. Observations on the 2023 macroeconomic forecasts

1- The Government's scenario

15. According to the Government's referral, "*the macroeconomic scenario underlying the 1st PLFRSS for 2023 is unchanged from that underlying the budget law and the social security financing law for the year 2023. In a context where economic uncertainty remains particularly high, the new information available since the finalization of the PLF 2023 is not such as to call into question the overall diagnosis concerning the outlook for 2023*."

16. "*The inflation figures, +6.2% in October and November, +5.9% in December according to the INSEE's provisional estimate, are moreover in line with the underlying scenario of the PLF*."

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

2- Appreciations of the High council

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

a) Activity growth

18. Recent economic information suggests that growth has faltered by the end of 2022 due to the impact of inflation and rising interest rates on households and business demand. The Government's forecast of 1.0% for 2023 therefore assumes an acceleration in activity during the year.

19. This assumption cannot be ruled out as there are positive signals: in view of the latest activity indicators, the French economy is showing resilience, employment remains dynamic, the risk of a disruption in electricity and gas supplies now seems limited over the next few months, the pressure on energy prices has been easing since the summer, and the slowdown in the German economy and more generally in the euro zone appears to be less pronounced than anticipated at the beginning of the autumn.

20. Nevertheless, the Government's growth scenario may seem optimistic: the international environment remains poorly oriented in 2023 (on 10 January 2023, the World Bank revised its forecast for global activity growth from 3.0% to 1.7% and for international trade growth from 4.3% to 1.6%). In addition, the recent deterioration of the health situation in China could weigh on its domestic demand and therefore its imports and thwart, at least in the short term, the recovery of production lines. Finally, the tightening of monetary policies should continue, particularly in the euro zone, and have an effect on demand over the next few quarters.

21. Investment could suffer from the rise in interest rates in the euro area, which was higher than anticipated in September (long-term real rates[2] rose by around 50 basis points over the period, while the rate on 3-month BTF[3] was already around 2.1% in January, whereas the PLF scenario did not foresee short rates reaching this level before the end of 2023), against a slowdown in activity and high uncertainty, particularly due to the war in Ukraine.

22. In fact, the Government's growth forecast is above all the forecasts of French and international economic institutes and the consensus of economists.

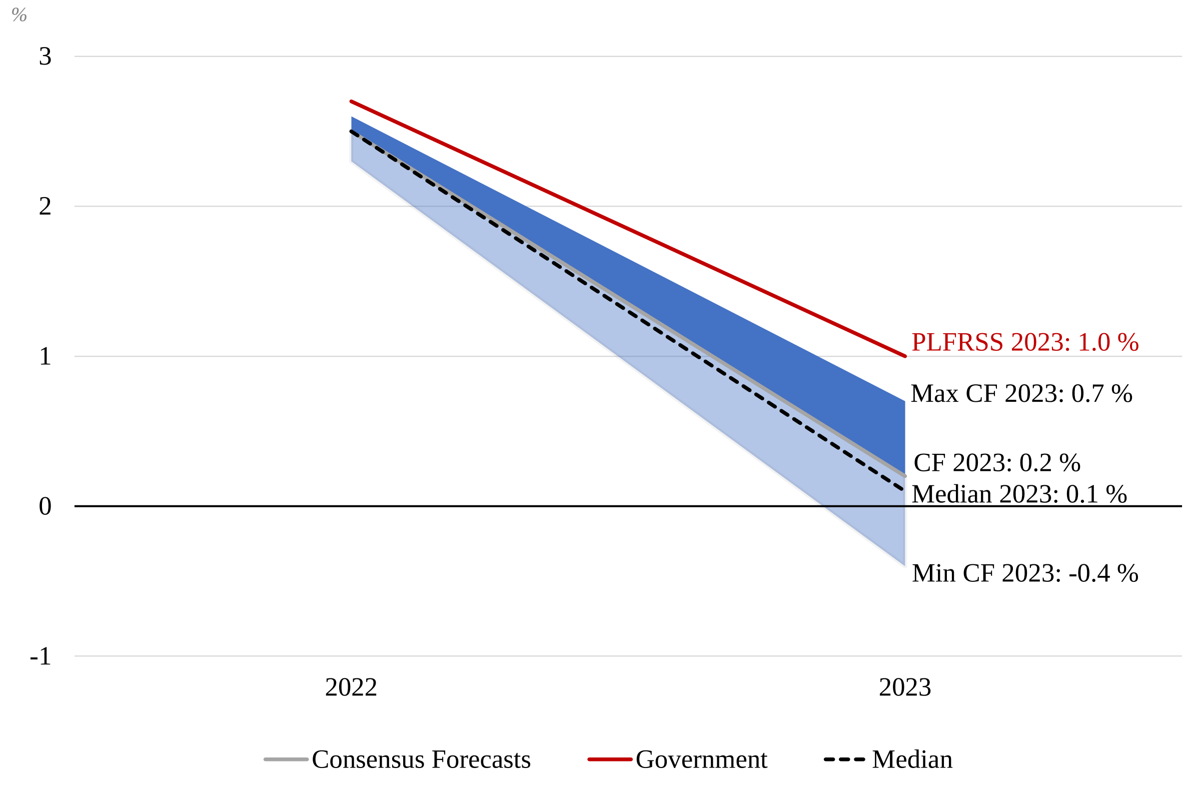
[2] Measured by the change in the yield of the 2028 and 2036 inflation-linked bonds (OATi) between September 2022 and early January 2023.
[3] Fixed rate Treasury bills with interest payable in advance.

Table 2: GDP growth forecasts for France in 2023

	Publication date	2023
IMF	11 October	0.7
OFCE	12 October	0.6
European Commission	11 November	0.4
OECD	22 November	0.6
Rexecode	14 December	-0.2
Banque de France	17 December	0.3
Consensus Forecasts	9 January	0.2
Government	**10 January**	**1.0**

Sources: Draft amending social security financing bill for 2023, OECD Economic Outlook November 2022, OFCE Policy Brief October 2022, Banque de France Macroeconomic Projections December 2022, Rexecode Outlook December 2022, Consensus Forecast January 2023, European Commission Autumn Forecast November 2022, IMF World Economic Outlook October 2022.

Figure 2: GDP growth forecasts for France in 2022 and 2023



Sources: December Consensus Forecasts (CF) for 2022, January CF for 2023, PLFRSS 2023.

23. **The High Council considers that the growth forecast associated with the PLFRSS (+1.0%) remains high. According to the Government, this is justified by the resilience of the French economy in the third quarter of 2022 and by the growth rate achieved in 2023. However, it underestimates the factors that are currently slowing down activity, in particular the high level of inflation and the ongoing tightening of monetary policies, and is therefore still above the available estimates.**

b) Increase in consumer prices

24. The Government expects consumer prices to rise by an annual average of 4.2% in 2023, following an increase of 5.2% in 2022. This lower inflation would be due to a lower increase in energy prices. The prices of food products, manufactured goods and services would increase at rates close to those observed in 2022, although slightly lower for food and manufactured goods.

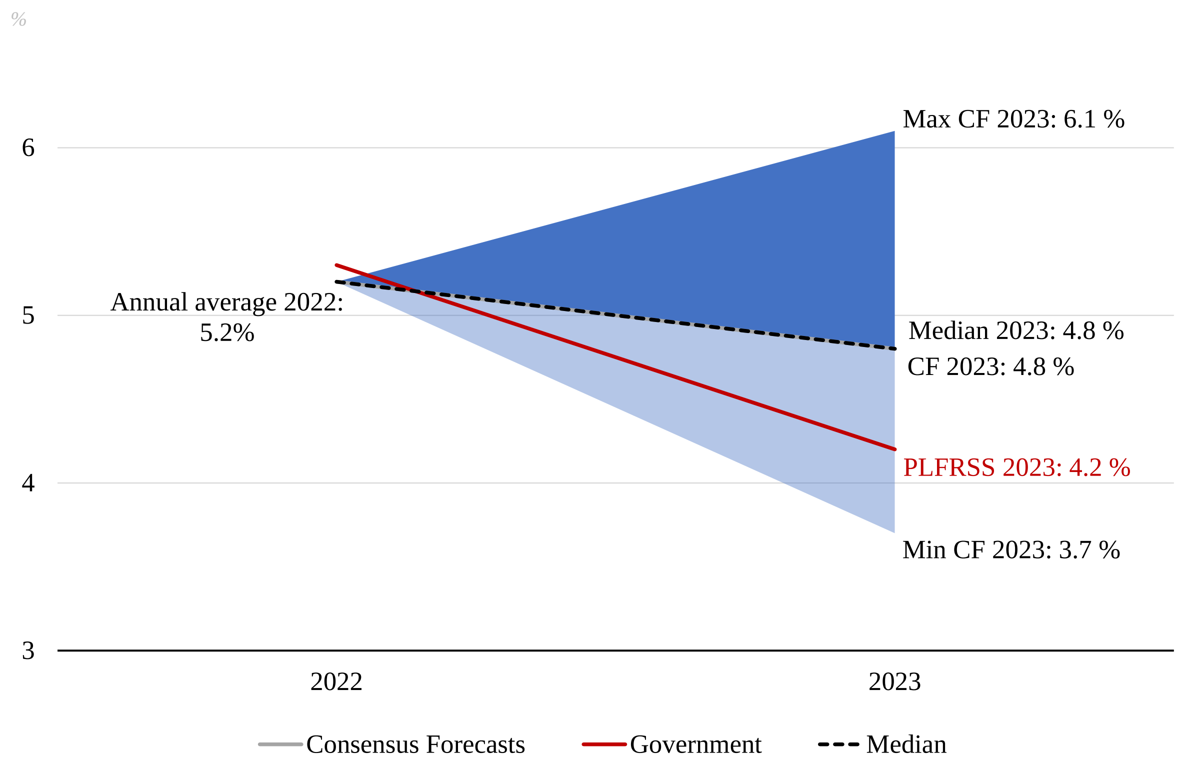
25. The Government's anticipated decline in inflation appears to be rapid. This inflation forecast for 2023 is indeed lower than the average of the January Consensus Forecasts, which stands at 4.8%.

Table 3: CPI inflation forecasts for 2023 as an annual average in %.

	Publication date	2023
OFCE	12 October	4.6
Rexecode	14 December	5.2
Banque de France *(CPI estimation from HICP forecast)*	17 December	5.5
Consensus Forecasts	9 January	4.8
Government	**10 January**	**4.2**

Sources: PLFRSS for 2023, forecasts by economic agencies and institutes.

Graph 3: inflation forecasts (CPI) in annual average in %



Sources: PLFRSS for 2023, Consensus Forecasts (CF) of January 2023, INSEE.

26. The Government's forecast for core inflation (+4.1% in yearly average in 2023, as in 2022) implies a sharp decline in comparison to recent trends[4]. However, the indexation of the minimum wage and the wage increases already negotiated, as well as the ongoing transmission of past increases in producer and import prices[5] to food and manufactured goods prices, should continue to support core inflation in 2023. Moreover, the expected trend in selling prices reported in the INSEE's monthly business survey (goods-producing industries) remains clearly on a rising dynamic.

27. However, inflation forecasts remain dependent on energy prices profile, which it is currently difficult to anticipate. The end of the "fuel rebate" on 31 December 2022, the 15% average increase in regulated gas tariffs on 1 January and electricity tariffs on 1 February are, in the short term, upward factors, whereas the recent falls in gas and oil market prices will have a downward effect.

28. **The evolution of prices, particularly energy prices, remains uncertain. However, the High Council considers that the inflation forecast for 2023 is somewhat low.**

c) Employment and payroll in private sector

29. The Government maintains its wage bill growth forecast in the non-agricultural market sectors as presented in the 2023 PLF with +8.6% in 2022 and +5.0% in 2023.

30. For 2022, this forecast is plausible but appears a little weak in view of the monthly Urssaf data from last October and the scale of job creation at the end of third quarter of 2022. The Banque de France thus forecasts stronger growth in the wage bill.

31. For 2023, the uncertainties remain high, but the Government's forecast of 4.2% growth in average wages per capita also seems weak in relation to the Banque de France's forecasts (+6.1%) and last INSEE's issue on the economic outlook (which forecasts an carry-over of already +4.0% at the end of the second quarter of 2023), particularly in relation to the underestimation of the inflation outlook.

32. Conversely, the risks surrounding the employment forecast are rather on the downside, due to the risks weighing on the growth forecast. However, these risks are of a lesser magnitude, due in particular to the delays in adjusting employment to activity.

33. **The High Council considers that the wage bill growth forecast for 2023 is somewhat low.**

III. Remarks on public finances forecasts

34. 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 introductory article of the draft amending social security financing bill with the multi-year targets for the structural balance of the general government (3) and lastly examines the expected changes in the public debt (4).

[4] If the core inflation index were to increase in each month of 2023 as it did in the last three months of 2022 (+0.4% on average), the core inflation would reach an annual average of 4.9% in 2023.

[5] Producer prices for the French market increased in November 2022 by 15.9% year-on-year for manufactured goods and by 20.2% year-on-year for food, beverages and tobacco-based products. Import prices rose by 10.2% year-on-year for manufactured goods and by 16.2% year-on-year for food, beverages and tobacco-based products in November 2022.

1- The Government's scenario

35. According to the Government's referral, "*The public balance forecast for 2023 in the introductory article of the bill stands at -5.0% of GDP, as in the forecast underlying the 2023 budget bill and in the forecast in the 2023 budget law of 30 December 2022, taking account of the amendments adopted during the parliamentary procedure.*"

36. "*The selected forecast is almost identical to the forecast underlying the 2023 budget law. Indeed, it differs only in respect of the pension reform, the impact of which is small for 2023 and close to the amount provisioned in the PLF. In particular, the macroeconomic scenario on which this forecast is based is identical to that on which the 2023 budget law is based.*"

37. "*The compulsory levy rate in 2023 would be 44.9%, compared with 44.7% in the PLF. This upward revision is mainly due to the introduction of the contribution on the infra-marginal rents of electricity producers, mitigated by the revision of the estimation of the revenue linked to the public service charges for energy. Symmetrically, the public expenditure ratio would be 56.9% in 2023, compared with 56.6% in the PLF, mainly due to the introduction of the* "*electricity buffer*"*, the increase in the amount of subsidies for companies facing sharp increase in electricity bills and the extension of the gas and electricity tariff caps.*"

38. "*As in the PLF, the cyclical balance would be -0.8% of GDP and the structural balance 4.0% of GDP in 2023.*"

2- Assessment of the realism of revenue and expenditure

39. The High Council has assessed the realism of the revenue and expenditure forecasts for 2023 on the basis of the information available to it, in particular by analysing the expected effects of the pension reform.

a) The consequences of the pension reform on expenditure and revenue forecasts

40. The information provided by the Government in the context of the referral enables the High Council to assess the impact of the pension reform on public finances in 2023, but not to assess its medium-term impact.

41. The High Council's analysis therefore only considers the effects of the reform for the year 2023, although these effects will gradually increase and the postponement of the legal retirement age will only be effective for part of this year.

42. In that respect, according to the High Council's analyses, raising the legal retirement age by three months from 1 September 2023 could lead approximately 50,000 people to postpone their retirement. The Government estimates that this would lead to a reduction in pension expenditure of €0.2 billion in 2023. This amount is consistent with the High Council's analysis, given the information available.

43. Conversely, this reform implies additional expenditure estimated by the Government at €0.6 billion in 2023, resulting from: the announced increase in the minimum contributory pension, the precise conditions of which have yet to be determined and the cost of which, net of any new funding, has been provisioned at €0.4 billion; measures on hard working conditions and occupational wear (+€0.1 billion); and measures in favour of transitions from work to retirement (+€0.1 billion). On the other hand, the reform should not lead to a significant increase in the expenditure of other benefits in 2023, such as disability pensions or the allowance for disabled adults, due to maintaining the legal retirement age of 62 for disabled or unfit people and due to its date of application.

44. Lastly, the reform is expected to generate additional revenues due to the continued employment of those who would have retired between September and December 2023 without the reform. These revenues should be low, due again to the application of the reform from 1st September 2023.

45. These new measures, combined with the revisions to the autumn forecasts (particularly for Agirc-Arrco pensions, which were revalued in November less strongly than the Government had forecast in the 2023 Social Security Financing Bill), lead to a pension expenditure forecast for the social security funds that is strictly identical to that in the 2023 social security financing bill.

46. **The High Council notes that the pension reform would have a very small impact on public finances in 2023 with a net cost estimated at €0.4 billion. It considers that the Government's estimate of this impact is realistic, even if some uncertainty surrounds the cost of the increase in the minimum contribution.**

b) Other expenditures

47. Public spending excluding tax credits would increase by 3.2% in 2023 in value, compared to +2.8% in the 2023 budget bill, to reach 56.9 points of GDP (after 57.7 points in 2022). In volume terms, due to the high inflation, they would decrease by 1.1% deflated by the consumer price index excluding tobacco, and by 0.4% deflated by the GDP index, which is more relevant for the analysis of public finances[6].

48. The additional public spending in 2023 compared to the PLF for 2023 (+0.3 point of GDP), which is €8bn, comes mainly from measures adopted by amendment to the PLF to support VSEs/SMEs with rising energy prices ("electricity buffer", reinforcement and simplification of the subsidies for companies facing sharp increase in energy bills[7]) at a cost of €6bn, and the extension of the energy prices cap for a cost of €1.2bn.

49. However, the public spending assumptions for 2023 remain subject to significant uncertainties linked to the evolution of gas and electricity prices, which determine the cost of energy prices caps. The Government's estimate of the cost of the energy prices caps is based on the same energy price assumptions as in the PLF for 2023, i.e. the forward market prices recorded between 15 July and 15 August 2022. However, forward prices for gas and electricity have fallen by half since that time. The cost of the energy prices caps could therefore be significantly reduced in 2023 if prices do not increase again.

50. As it considered in its opinion on the budget bill and social security financing bill for 2023, the High Council notes, on the other hand, that the forecast for certain expenditure is also affected by upward risks, albeit of lesser magnitude: expenditure within the scope of the Ondam[8], due to the small amount of the provision set aside for Covid-19 expenditure on vaccine purchases and the testing campaign; certain operating expenses that are difficult to compress or investment expenditure, due to high inflation.

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[6] The value of GDP, which measures the wealth generated, is a key determinant of a country's ability to repay its debts.

[7] The "electricity buffer" allows very small and small and medium-sized enterprises to reduce the price of electricity to €180/MWh on half the electricity consumed. The subsidies for companies facing sharp increase in energy bills compensates for part of the increase in the cost of electricity consumption for companies whose bill has risen by more than 50% compared to 2021 and whose share of energy expenditure in turnover is at least 3% (after taking the electricity buffer into account), has been extended until the end of 2023. Access to these subsidies, which have been underused up to now, has been simplified and payments accelerated.

[8] National target for health insurance expenditure.

51. The High Council notes that, if the sharp fall in gas and electricity prices were to be confirmed in the coming months, the cost of public spending to protect economic actors from the effects of energy inflation, which exceeds €35bn, could then be lower.

c) Other revenues

52. Revenues from compulsory levies would be 6.9 billion higher than forecast in the 2023 PLF, increasing by 3.9% (compared with 3.4% in the 2023 PLF). The rate of compulsory levies would then reach 44.9 points of GDP (+0.2 points compared to the 2023 PLF).

53. This upward revision of levies for 2023 compared to the 2023 PLF comes from two categories of revenue, linked to the rise in energy prices.

54. On the one hand, the Government, which estimated in the 2023 PLF that companies producing renewable energy would pay €19.2 billion (recorded as compulsory levies) as part of the public energy service (SPE)[9], has revised this additional revenue downwards, bringing it down to €15.0 billion in 2023. On the other hand, it adopted by amendment to the 2023 PLF a measure to tax "infra-marginal rents", which caps the income of electricity producers, and from which it expects €11bn in additional revenue in 2023.

55. The revenue forecast for 2023 remains subject to two main downside risks. First, as with the energy prices caps expenditure, the revenue assumptions for the SPE charges and the taxation of infra-marginal rents are based on electricity and gas prices in the summer of 2022, which have since fallen significantly. Secondly, growth could turn out to be weaker than expected by the Government, which would put pressure on tax revenues. Conversely, CSG, social security contributions and income tax revenues could be higher, as the Government's wage bill forecast for 2023 appears somewhat low.

56. For 2023, the High Council considers that the forecasts of compulsory levies are surrounded by significant uncertainties on the dynamics of energy prices and on the growth of activity, which could weigh on revenues. A more dynamic wage bill than forecast by the Government could partly offset these downward risks.

d) Public balance

57. The Government's scenario foresees an effective general government balance of -5.0 points of GDP in 2022 and 2023 (after -6.5 points of GDP in 2021), the latter being unchanged from the PLF for 2023.

[9] Companies supplying renewable energies were guaranteed a reference price by the State, as part of the public energy service, which was higher than the market price in order to ensure their profitability. Until 2021, this support for renewables was an expenditure in national accounts. As market prices have become higher than the reference prices, energy inflation has led to repayments to the State for 2022 and 2023, which are accounted for as revenue from compulsory levies.

Table 4: breakdown of the public balance presented by the Government

In points of GDP	**PLFRSS for 2023**		
	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: draft amending social security financing bill for 2023.
** in points of potential GDP*

58. The public balance forecast for 2023 is affected by risks going in opposite directions. On the one hand, weaker than expected growth would increase the deficit, all other things being equal. On the other hand, a lasting decline in energy prices, which would reduce the cost (net of SPE and taxation of infra-marginal rents revenues) of support measures for households and businesses, and a wage bill more dynamic than forecast by the Government, would improve the balance.

59. **In its opinion of 26 September 2022, the HCFP considered that the public balance in 2023 could be worse than forecast by the Government (5.0 points of GDP). This risk, associated in particular with weaker growth, is now offset by the recent fall in wholesale gas and electricity prices, which could reduce the net cost of measures designed to cushion the impact of higher energy prices on households and firms.**

3- Assessment of consistency with the multi-year targets for the structural balance

60. Under the terms of the organic law n° 2001-692 of 1 August 2001, as amended relating on finance laws, the High Council must give its opinion on the consistency of the structural balance trajectory selected in the PLFRSS for 2023 with that of the programming law in force.

61. As the public finance programming bill tabled by the Government on 26 September 2022 has not been adopted by Parliament, and as the previous programming law has reached the end of the period that it covers (2018-2022), the High Council cannot therefore verify the consistency of the introductory article of the PLFRSS with the multi-year balance targets, as provided for in the organic law (even though a comparison is possible with the public finance objectives presented in the public finance programming bill, included in the Economic, Social and Financial Report appended to the 2023 PLF).

62. The High Council reiterates the need for France to quickly adopt a public finance programming law. Requested by the organic and European frameworks, it is the essential multi-year steering instrument for good public management and credible budgetary and financial governance. Both the respect of France's European commitments and the restoration of sufficient fiscal space enabling a full response to any new major shock affecting the French economy require a gradual reduction in the level of the public deficit and the placing of the debt on a downward path. Such objectives are not unachievable, but they do require programming the effort for public account consolidation over several years.

63. For information purposes only, it may be noted that the structural balance set out in the introductory article of the PLFRSS for 2023 is in line with that projected in the draft LPFP presented in September 2022 by the Government at 4.0 points of GDP; it represents a slight improvement on the forecast for 2022 (-4.2 points of GDP).

64. Furthermore, the information provided by the Government shows that the impact of the reform on the accounts of the compulsory basic schemes and the FSV (Old Age Solidarity Fund) is, according to the Government, close to, but slightly lower (by €0.7 billion), by 2026, than what was planned in the LFSS for 2023, which is a priori consistent, concerning the content of the pension reform, with the LPFP draft.

Table 5: breakdown of the public balance presented in the PLFRSS for 2023 and in the draft LPFP for 2023-2027

In GDP points	**PLFRSS (jan. 2023)**	***Draft LPFP (sept. 2022)***
	2023	***2023***
Public balance	**-5.0**	**-5.0**
Cyclical component	-0.8	-0.8
One-off and temporary measures *	-0.2	-0.2
Structural balance *	**-4.0**	**-4.0**
Deviation from the draft LPFP	0	

Note: the numbers are rounded to the nearest tenth, which may result in slight discrepancies in the results of the operations.
** In potential GDP points.*
Source: PLFRSS for 2023, LPFP bill for September 2022.

4- The public debt

65. According to the Government's forecast, the public debt ratio would decrease slightly in 2023 (111.2 GDP points after 111.6 in 2022). Due to the absence of a revision of the GDP in value and of the deficit forecasts for 2023, this ratio is unchanged from the 2023 PLF.

66. The modest decline in the debt ratio in 2023 essentially reflects the mobilisation of the excess cash accumulated by the State at the end of 2022, while the public deficit is only set at a level that allows the debt ratio to be stabilised.

67. The pension reform would have a negligible impact on the debt ratio in 2023. It is only beyond the horizon of this opinion that this impact would become significant.

68. The High Council notes, however, that the debt trajectory in the LPFP draft already included the consequences of the implementation of a pension reform, the impact of which on public finances would be, as suggested by the government's estimated impact of the reform on the compulsory basic schemes and the FSV, close to what was forecast in the LPFP bill, but slightly less favourable. In its opinion n° HCFP-2022-5 on the LPFP draft, the High Council judged that the change in the debt trajectory targeted in this bill was limited and late, even though it was based on optimistic growth assumptions and the effort to control spending and

the planned increase in certain revenues (elimination of tax niches, fight against fraud) were poorly documented.

Table 6: general government debt and deficit

In GDP points	**2021**	**2022**	**2023**
Public balance	-6.5	-5.0	-5.0
Public debt	112.8	111.6	111.2

Source: draft amending social security financing bill for 2023.

69. **According to the Government, the public debt ratio would decrease slightly in 2023 (111.2 points of GDP after 111.6 in 2022), mainly through to the mobilisation of the excess cash accumulated at the end of 2022.**

70. **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 need. The pension reform presented in this PLFRSS is not sufficient, on its own, to achieve such an objective. The medium-term sustainability of public finances will continue to require the utmost vigilance.**

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This opinion will be published in the Official Journal of the French Republic and attached to the draft amending social security financing bill for 2023 when it is submitted to the National Assembly.

Done in Paris on 18 January 2023.

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

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Annex 1: Macroeconomic scenario associated with the draft amending social security financing bill for 2023

Economic forecasts for France PLFRSS 2023	2023
Goods and services, real terms[1]	
Gross domestic product (wda)	1
Final household consumption	1.4
Public final consumption	1.0
Grossed fixed capital formation	0.1
Of which: non-financial enterprises	0.9
General government	-1.6
households excluding individual entrepreneurs	-0.9
Imports	2.5
Exports	2.7
Contributions to real GDP growth	
Private domestic demand excluding inventories	0.8
Public demand	0.2
Inventories	0.0
Foreign trade	0.0
Prices and nominal aggregates	
Consumer prices inflation index	4.2
Core inflation	4.1
Gross domestic product deflator	3.6
Nominal gross domestic product	4.6
Productivity, employment and wages	
Market-sector excluding agriculture:	
-Effective labor productivity	0.3
-Salaried work (natural person)*	0.7
-Salaried work (AA, in thousands)*	132
-Salaried work (yoy, in thousands)*	71
-Average salary (natural person)	4.2
-Purchasing power of the average salary (deflated by CPI)	0.0
-Wage bill	5.0
Total emloyment (AA)	0.7
Total employment (yoy in thousands)	117
Non-financial corporate account	
Margin rate (GOS/AV)	32.1
Saving rate (savings/AV)	23.8
Investment rate (GFCF/AV)	25.1
Self-financing rate (savings/GFCF)	94.5
Households account	
Gross disposable income	5.1
Purchasing power of gross disposable income	0.9
Saving rate (savings/GDI)	16.3
Operations with the rest of the world	
Trade balance FAB-FAB (customs data, in % of GDP)	-5.6
Trade balance FAB-FAB (customs in billions of euros)	-154
International context	
Global demand for France	1.6
Euro-dollar exchange rate	1.02
Oil price of Brent baril in dollars	89
*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 draft amending social security finance bill for 2023

Text of the article:

The forecasts of the structural balance and the actual balance of the general government, the forecasts of the balance by subsector, the forecast, broken down by general government subsector, 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 bill for the years 2023 to 2027, are as follows:

As % of GDP unless otherwise stated	2023	2023
Amending Social Security Financing Bill for 2023		PLPFP 2023-2027
All public administrations		
Structural balance (1) (In points of potential GDP)	-4.0	-4.0
Cyclical Balance (2)	-0.8	-0.8
Balance of one-off and other temporary measures (3) (in potential GDP points)	-0.2	-0.2
Actual balance (1+2+3)	-5.0	-5.0
Debt in the Maastricht sense	111.2	111.2
Mandatory levies rate (incl. EU net of TCs)	44.9	44.7
Public expenditure (excluding TC)	56.9	56.6
Public expenditure (excluding TC, in €bn)	1572	1564
Change in public expenditure excluding TC in volume (%)[1]	-1.1	-1.5
Main investment expenditure (in €bn)[2]	25	25
Central government		
Balance	-5.8	-5.6
Public expenditure (excluding TC, in €bn)	647	636
Change in public expenditure in volume (%)[3]	-1.4	-2.6
Local public administrations		
Balance	0.0	-0.1
Public expenditure (excluding TC, in €bn)	305	305
Change in of public expenditure in volume (%) [3]	-0.6	-0.6
Social security funds		
Balance	0.8	0.8
Public expenditure (excluding TC, in €bn)	722	721
Change in of public expenditure in volume (%) [3]	-1.1	-1.0

[1] A constant field.

[2] As defined in the 2023-2027 LPFP.

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

Explanatory memorandum to the article:

The public balance forecast for 2023 in the introductory article of the bill stands at -5.0% of GDP, as in the forecast underlying the 2023 Budget Bill and in the forecast in the 2023 Budget law of 30 December 2022, taking into account the amendments adopted during the parliamentary procedure.

The selected forecast is almost identical to the forecast underlying the 2023 Budget Law. Indeed, it differs only in respect of the pension reform, the impact of which is small for 2023 and close to the amount provisioned in the PLF. In particular, the macroeconomic scenario on which this forecast is based is identical to that on which the 2023 Budget Law is based.

The stability of the 2023 deficit forecast since the 2023 Budget bill is the result of the compensation of several factors.

- In the sense of a widening of the public balance: the Government took additional measures by amendment to the PLF during the parliamentary procedure to support companies, local authorities and public establishments in the face of rising energy prices, with the introduction of (i) an "electricity buffer" for VSEs that do not benefit from the tariff cap, SMEs and local authorities, and (ii) increased and simplified access to subsidies for the companies facing sharp increases in energy bills. The revision of the costing of the energy mechanisms borne by the central government budget (extension of the gas and electricity tariff caps, lower revenue linked to the public service charges for energy) during the parliamentary procedure also contributed to the deterioration of the public deficit;

- In the sense of an improvement of the public balance: the introduction of the contribution on the infra-marginal rents of electricity producers by amendment during the parliamentary procedure would have a positive impact on the public balance and would almost compensate the aggravating factors mentioned above;

- The other changes to the forecast made during the parliamentary review of the PLF and PLFSS would offset each other: the deterioration in the balance due to the inclusion of smaller amendments made to the PLF and PLFSS (in particular the tax amendments affecting the childcare tax credit, the rate of corporation tax on SMEs and tobacco duties) would be offset by the upward revision of the forecast of compulsory levies for 2022 made at the time of tabling of the PLFR II for 2022.

- Finally, the pension reform for 2023 would be the only source of difference between the forecast underlying this PLFRSS and that of the budget law for 2023 of 30 December 2022. The reform is based on shifting the legal retirement age by three months per generation from September 2023 (from which disabled people are exempt) and accelerating the Touraine reform by one quarter per generation. This reform also contains measures to support certain groups, in particular small pensions, long careers and arduous work.

While these various changes do not substantially modify the public deficit forecast for 2023 compared with the PLF, they do result in an increase in the forecast of compulsory levies and public expenditure. Thus, the rate of compulsory levies in 2023 would be 44.9%, compared to 44.7% forecast in the PLF. This upward revision is mainly due to the introduction of the contribution on the infra-marginal rents of electricity producers, mitigated by the revision of the figures for revenue linked to energy public service charges. Symmetrically, the public expenditure ratio would reach 56.9% in 2023, compared with 56.6% forecast in the PLF, mainly due to the introduction of the "electricity buffer", the increase in the amount of aid available for companies facing high increases in electricity bills and the extension of the gas and electricity prices caps.

For 2022, the public balance forecast underlying the second amending budget law for 2022 of 1 December 2022, included in the introductory article of the budget law for 2023 of 30 December, is also -5.0%, which is identical to the forecast underlying the PLF for 2023, but slightly down (-0.1 points) compared with the second PLFR. This slight deterioration is mainly due to (i) the €1bn increase in the ONDAM in the context of the parliamentary procedure on the PLFSS for 2023, (ii) the vote of amendments during the parliamentary procedure on the second PLFR for 2022 (notably aid for wood heating, doubling of the Ukraine fund, credits for various infrastructures) and (iii) the upward revision of the costing of energy mechanisms borne by the central government’s budget (extension of the gas and electricity tariff caps, lower revenues linked to energy public service charges). However, these factors that worsen the public balance would be partially offset by the implementation from July 2022 of the contribution on the infra-marginal rents of electricity producers.

Potential growth selected in this draft amending social security financing bill is consistent with that set out in the 2023-2027 public finance programming bill. As in the PLF, the cyclical balance would be -0.8% of GDP and the structural balance 4.0% of GDP in 2023.

Uncertainties surrounding these forecasts are particularly large. Public finances are particularly sensitive to changes in energy prices, which have a strong impact on the cost of measures put in place to protect the French, primarily the energy price caps, as well as on certain revenues (notably the energy public service charge and the contribution on the infra-marginal rents of electricity producers).