Haut Conseil des Finances Publiques

# Opinion n° HCFP-2023-6

## on the macroeconomic forecasts associated with the Stability Programme for the years 2023 to 2027

April 25, 2023


## Executive Summary

**The High Council of Public Finance considers that the Government's growth forecasts for 2023 and 2024 in the Stability Programme, unchanged compared to those in the draft public finance programming bill submitted in September 2022, are not out of reach, but appear optimistic.**

**Although year-on-year inflation is expected to start falling in the course of 2023, the decline expected by the Government appears to be rapid, so that the inflation forecasts, revised upwards for 2023 (to 4.9%) but downwards for 2024 (to 2.6%), seem to be somewhat underestimated.**

**The High Council considers that the forecast for wage bill growth for 2023 (6.1%), revised upwards by one point, is plausible, but that the forecast for 2024 (3.4%) is somewhat low.**

**As it indicated in its opinion on the draft public finance programming bill for the years 2023 to 2027, the High Council considers that the growth forecast (1.7% on average per year over the period 2025-2027) is high. It is based in particular on an increase in household consumption that is significantly higher than that recorded before the health crisis, explained in part by the decline in their savings rate, which is possible but not a given. These forecasts for growth and private consumption are based on favourable assumptions for potential growth (1.35% per year over 2023-2027) and for the output gap in 2022 (-1.1 percentage point of potential GDP). These assumptions involve significant productivity gains, higher than recent trends would suggest, and an increase in total employment, notably related to pension and unemployment insurance reforms, which appears to be overestimated.**

**This scenario is thus much more favorable than that of the European Commission, whereas this one is expected to guide the public spending targets that should be set from 2024 onwards when the reform of European governance of public finances currently under discussion will be adopted.**

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**While the High Council of Public Finance had noted the "unambitious" nature of the deficit and debt targets set out in the draft public finance programming bill for the years 2023 to 2027, it notes that the Government has revised these targets for 2027 to better take into account the necessity to reduce public debt, which the High Council has repeatedly emphasized.**

**The High Council notes, however, that this public finance path is based on an unchanged macroeconomic scenario, including a favorable growth assumption, without which the public deficit would remain higher by 2027 and the public debt ratio would start to rise again from 2024.**

**Moreover, this trajectory calls for the implementation, over several years, of efforts to curb public spending on a greater scale than those implemented in the past, although their timing and concrete details are still vague. It also assumes that the announced measures to reduce compulsory levies will not be fully implemented or that they will be offset by increases in other compulsory levies or reductions in tax expenditures.**

**The High Council notes that while the Stability Programme makes it possible to set public finance objectives, it cannot replace a programming that is currently lacking. It therefore reiterates its call for the rapid adoption of a public finance programming law. This law should outline a credible path for reducing public debt, based on realistic macroeconomic assumptions and a clear and documented strategy for curbing public spending and for compulsory levies.**

# Introductory remarks

1. Pursuant to Article 61-VIII of the Organic Law no. 2001-692 of August 1, 2001 on Budget Acts, as amended, the Government shall submit to the High Council of Public Finance the macroeconomic forecasts on which the draft Stability Programme drawn up for the coordination of the economic policies of the Member States of the European Union is based.

2. The Stability Programme must be transmitted each year to the European institutions before April 30 (Article 4 of Regulation (EC) No. 1466/97) and communicated to the French Parliament two weeks before (Article 14 of Law No. 2010-1645 of December 28, 2010 on the programming of public finances for the years 2011 to 2014).

## 1- On the scope of this notice

3. Under the terms of the above-mentioned Article 61-VIII, the High Council of Public Finance is asked to give its opinion on the macroeconomic forecasts on which the Stability Programme is based.

4. This opinion also examines the associated public finance path, given its close links to the macroeconomic scenario.

## 2- On the information transmitted and the deadlines

5. On April 20, 2023, the Government referred the macroeconomic framework of the draft Stability Programme to the High Council of Public Finance. This referral was accompanied by detailed responses to a questionnaire sent in advance to the competent administrations.

6. The period of barely six days allowed to the High Council to give its opinion on an important text is extremely short, without any urgency to justifiy it.

## 3- On the method used by the High Council

7. In order to assess the realism of the macroeconomic forecasts associated with the Stability Programme, the High Council based itself on the latest available statistics as well as on the information provided by the Government.

8. The High Council also relied on the latest forecasts produced by a range of international and national institutions: the European Commission, the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the European Central Bank (ECB), the French National Institute of Statistics and Economic Studies (INSEE), the Bank of France, and business cycle institutes such as Rexecode and the French Observatory of Economic Conditions (OFCE).

9. As permitted by Article 61-IX of the Organic Law, the High Council held hearings with representatives of the Treasury and Budget Departments, and with outside organizations (Banque de France, OFCE, INSEE and Rexecode) on the short- and medium-term outlook for the French economy.

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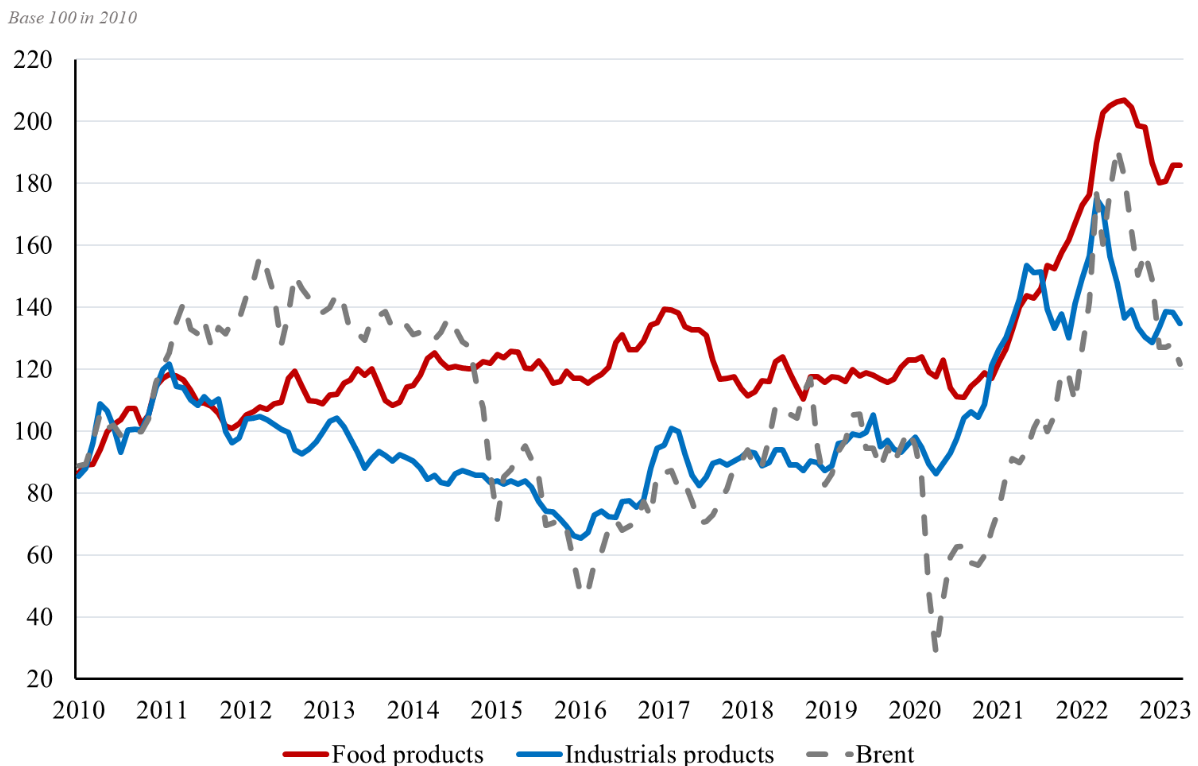
10. The High Council first presents its observations on the forecasts for 2023 and 2024 (I), and then gives its assessment of the macroeconomic forecasts on which the Government's Stability Programme for the years 2025 to 2027 is based (II).

# I. International context

11. Economic activity was more resilient than expected to the energy crisis that followed the start of the war in Ukraine and the resulting inflationary shock. Since the beginning of 2023, positive signs have begun to appear, pointing to an improvement in the economic situation: business surveys indicate a stabilization or a rebound in activity, commodity prices have been falling for several months and the Chinese economy has begun to reopen. The risk of recession is receding in 2023 and a recovery in growth in the major economies seems likely in the second half of the year.

**Figure 1: Commodity prices in euros**




*Source: INSEE*

12. This improvement is primarily the result of the evolution of energy prices, which have fallen significantly since the summer of 2022: the price of crude oil (Brent) has dropped from more than $110 per barrel in July 2022 to around $85 in April 2023, while the price of gas has fallen by a factor of 5 in Europe over the same period. Gas and electricity supply disruptions did not materialize during the winter thanks to good weather, reduced energy consumption and supplier diversification. At the same time, labor markets remain generally buoyant and are supporting income growth, partially offsetting the loss of purchasing power that many households have experienced as a result of higher prices.

13. The US economy continued to grow at the end of 2022, albeit at a slightly more moderate pace, supported in particular by household consumption. The labor market remains tight, with high job creation, a low unemployment rate and dynamic wage growth. Although inflation appears to have peaked in mid-2022, it has been slow to come down: in March, consumer price inflation was 5.0% year-on-year and core inflation was 5.6%. As a result, the Federal Reserve is continuing to raise its key interest rates to 4.75-5.00%. This monetary

tightening could lead to a slowdown in the U.S. economy over the next few months and limit the recovery expected in 2024.

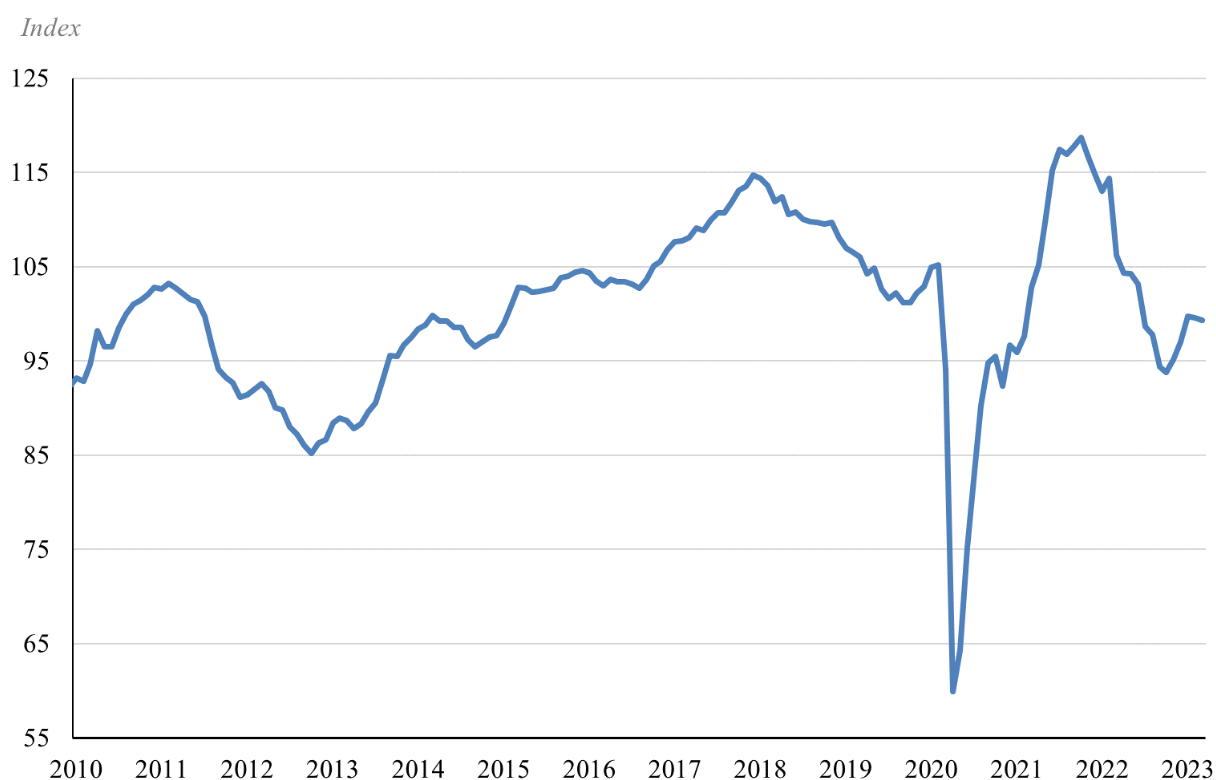
14. In the eurozone, lower energy prices and a buoyant labour market have helped to avoid recession in the winter of 2022-2023. Growth is expected to remain weakly positive in 2023 and 2024, including in Germany, where the economic outlook has been revised upwards (the latest report of the Council of Five Wise Men forecasts growth of 0.2% in 2023 and 1.3% in 2024). As a result of the drop in energy prices, inflation in the euro zone fell in March for the fifth consecutive month to 6.9% year-on-year. However, this slowdown in overall price indices was not accompanied by a decline in core inflation, which rose again in March to 5.7% year-on-year. In the euro zone as a whole, wages, particularly in services, are rising sharply, which should support inflation in the coming months.

15. After a year of weak growth in 2022, economic activity in China should strengthen in 2023 and support the global economy. The abandonment of the zero Covid policy has led to a rebound in private demand and the service sector since the beginning of the year, and household consumption could benefit from significant catch-up effects in the coming months.

16. Financial conditions have tightened significantly since the beginning of 2022. Central banks are tightening their monetary policies, leading to a sharp rise in sovereign rates since the beginning of 2022. In particular, the ECB raised its deposit rate by 50 basis points (bps) and then by 300 bps, i.e. an increase of 350 bps in one year, and statements by members of the ECB's Executive Board suggest that monetary tightening will continue in order to act on inflation. Fears about the health of financial institutions following the failure of three banks in the United States, including Silicon Valley Bank, the emergency takeover of Credit Suisse by UBS and the turbulence on the markets have temporarily increased financing costs and should reduce the supply of credit in the longer term.

17. The improvement in the economic outlook therefore remains fragile. The impact of monetary policy changes on activity and inflation is surrounded by uncertainty. Rising interest rates could increase financial vulnerabilities associated with high leverage and put pressure on asset prices. In addition, pressures on global energy markets could also re-emerge next winter as Asian demand rises, leading to further price spikes and higher inflation. Finally, the uncertainties caused by the war in Ukraine remain high.

**Figure 2: Economic Sentiment Indicator (ESI) in the Eurozone published by the European Commission**




*Source: European Commission*

# II. Comments on the 2023 and 2024 forecasts

## 1- The Government's scenario

18. According to the Government's referral, « *After the strong increase of +2.6 percent in 2022, activity in France is expected to rise by +1.0 percent in 2023 and +1.6 percent in 2024. [...] Inflation is expected to remain high on average in 2023, at +4.9% (after +5.2% in 2022), with a gradual slowdown in year-on-year inflation from mid-year onwards, and then to fall back to +2.6% in 2024.* »

19. The referral indicates that « *on average, household consumption is expected to grow very modestly over the year. Household investment is expected to decline, mainly as a result of tighter financial conditions and normalization after the exceptional years of 2021 and 2022. Conversely, activity should benefit from the resilience of business investment, supported in particular by lower taxes on production, and from the support of public demand. [...] In 2024, growth should return to above its trend rate (+1.6%), supported by a rebound in purchasing power, which should benefit from wage income that is more dynamic than prices, and partial catch-up effects on household consumption [...] and foreign trade, which should make a slightly positive contribution [...].* »

## 2- Assessment of the High Council

20. The Government forecasts **real GDP growth** of 1.0% in 2023 and 1.6% in 2024.

21. The Government's global growth forecasts (2.8% in 2023, 3.0% in 2024) are close to those of international organizations. In particular, they are identical to those of the IMF in April 2023 and very close to those of the OECD in March (2.6 percent in 2023, 2.9 percent in 2024). Moreover, the Government has expected eurozone growth of 0.8% in 2023 and 1.5% in 2024, similar to the IMF and OECD forecasts (0.8% and 1.4%) and those of the European Commission in February (0.9% and 1.5%).

22. The Government's forecast for growth in France in 2023, to the contrary, is higher than the average of the forecasters surveyed in April by Consensus Forecasts (0.5 percent) and higher than the upper bound of the forecasts it collects (0.8 percent). The Government's forecast is thus the highest of the forecasts collected by the High Council (see Table 1).

**Table 1: French real GDP growth forecasts**
**(%, annual average)**

| | Publication date | 2023 | 2024 |
|---|---|---|---|
| European Commission | 1er February | 0.6 | 1.4 |
| OECD | 17 March | 0.7 | 1.3 |
| Banque de France | 20 March | 0.6 | 1.2 |
| Rexecode | 22 March | 0.2 | 0.6 |
| *Consensus Forecasts* | 11 April | 0.5 | 1.0 |
| IMF | 11 April | 0.7 | 1.3 |
| OFCE | 13 April | 0.8 | 1.2 |
| **Government** | **20 April** | **1.0** | **1.6** |

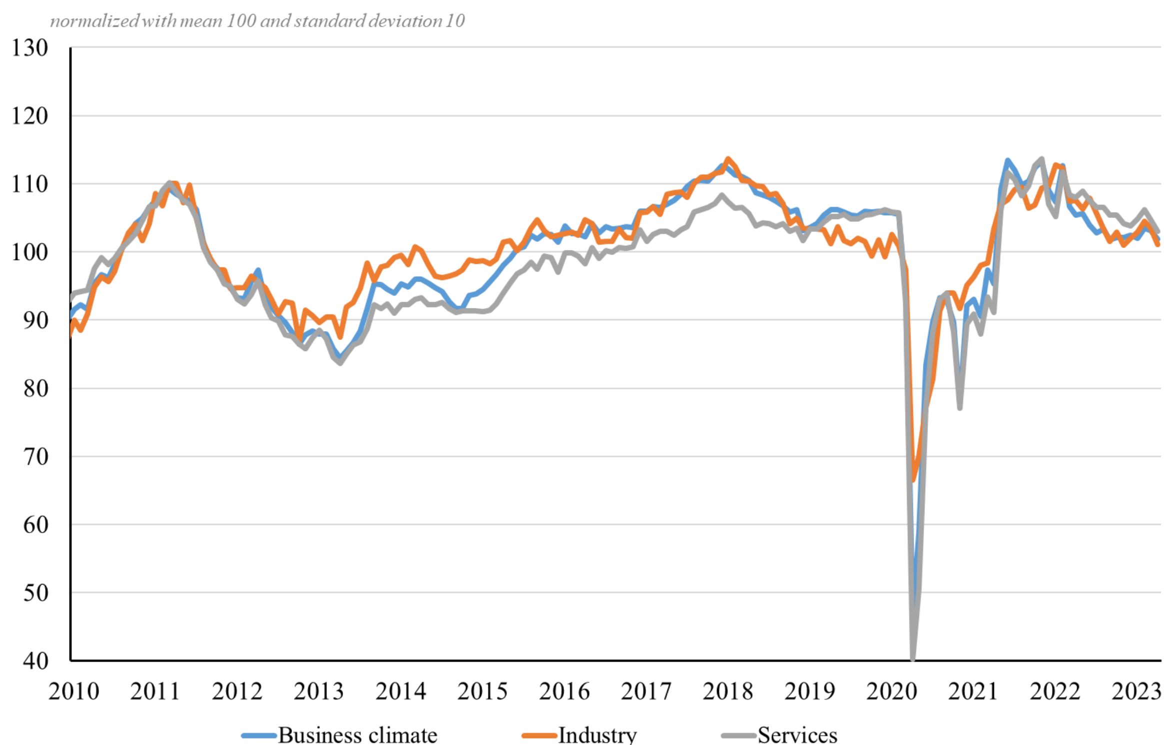
*Sources: European Commission Winter Forecasts February 2023, OECD Economic Outlook March 2023, Banque de France Macroeconomic Projections March 2023, Rexecode, Consensus Forecasts April 2023, IMF World Economic Outlook April 2023, OFCE Policy Brief April 2023, Stability Programme 2023-2027.*

23. The forecast for GDP growth in 2023 is based on a limited carry-over effect at the end of the fourth quarter of 2022, of 0.3%, which is much weaker than at the end of 2021 for 2022 (2.3%). While the business surveys published by INSEE indicate moderate growth in the first half of the year, consistent with available forecasts[1], growth expected by the Government in 2023 assumes a significant recovery in the second half of the year[2], which appears high.

[1] The Banque de France forecasts real GDP growth of 0.2% in the first quarter and INSEE of 0.1% in the first quarter and 0.2% in the second.

[2] Achieving the Government's forecast for 2023 (+1.0%), based on the forecasts of the latest INSEE business survey for the first and second quarters (0.1% and 0.2% respectively), implies GDP growth of 0.6% per quarter in the second half of the year.

**Figure 3: Business climate in France**




*Source: INSEE*

24. The High Council notes that most of the features of the Government forecast for 2023 are shared by other forecasters: a decline in household investment as a result of higher credit costs and more difficult access to real estate credit; a more moderate increase than in 2022 in exports of goods and services in a context of slower world growth, but normalization of aircraft deliveries; a smaller contribution from changes in inventories after the substantial restocking observed in 2022 because of fears of supply difficulties.

25. However, the Government expects investment by non-financial corporations to grow at a particularly brisk pace (+3.8% on average per year), which, despite the reduction in production taxes (the first part of the abolition of the company value-added contributions - CVAE), seems high in view of the ongoing tightening of financing conditions and the expected slowdown in both external and domestic demand. The projected increase in household consumption is close to that anticipated by the Banque de France, but higher than that expected by OFCE and Rexecode. It is based on an increase in the real household gross disposable income, which appears to be overestimated, due in particular to a somewhat low inflation forecast.

26. The Government's growth forecast for 2024 (+1.6%) is also stronger than that of the April Consensus Forecasts (+1.0%) and is at the very top of the wide range of other available forecasts (0.5% to 1.6%). It is essentially based on a strong increase in household consumption (+1.9%), made possible by a drop in the savings rate (16.8% compared to 16.5% in 2023), but also by a sustained increase in the households real income, due in particular to an inflation forecast that appears somewhat low (see below). The Government thus forecasts an increase in the real household gross disposable income of 1.5% on average per year in 2024, which is higher than the Banque de France's forecast (+1.2%) and much higher than that of OFCE (+0.3%) and Rexecode (-0.2%).

27. The Government's **inflation** forecast for 2023 (4.9% annual average) has been revised upward by 0.7 percentage points from the previously unchanged forecast in the 2023 budget bill submitted to the High Council in September 2022 (4.2%).

28. While the total inflation carry-over effect at the end of March for 2023 is already 4.0%, reaching the Government's forecast implies a clear slowdown in the monthly increase in consumer prices (to +0.2% on average) compared to that observed in recent months (+0.6% on average over the past six months and +0.8% over the past three months).

29. Such a significant decline, despite the easing of pressure on commodity prices, seems unlikely, while food prices should continue to rise as a result of the transmission of past increases in production costs, and services prices will continue to be supported by strong wage growth, related to recruitment difficulties and compensation for high inflation (past and future increases in the minimum growth wage (Smic) in particular).

30. This forecast is thus lower than the other forecasts available for 2023 (see table 2), particularly the most recent ones (OFCE, Consensus Forecasts, Rexecode).

31. For 2024, the Government is forecasting an increase in the consumer price index of 2.6% on average per year, a forecast that has been revised down by 0.4 percentage points from that of the draft public finance programming bill for the years 2023 to 2027, even though other forecasters have, on the whole, revised their forecasts upward for 2024[3].

32. The Government's forecast is based on both a decline in volatile inflation (food and energy), which seems plausible given the decline in commodity prices and supply constraints, and a rapid decline in core inflation (from 5.0% to 2.7%), which assumes very limited second-round effects, which is a favorable assumption, while the Government is forecasting high wage increases in 2023 (+5.2% for the per capita average wage in the private sector excluding agriculture).

33. Thus, the inflation forecasts for 2023 and 2024 appear to be somewhat underestimated, as has been the case regularly over the past two years (see box), even if the uncertainties surrounding the future evolution of consumer prices remain significant.

**Table 2: CPI inflation forecasts in France**

**(%, annual average)**

| | Publication date | 2023 | 2024 |
|---|---|---|---|
| Banque de France (estimate from the HICP forecast) | 20 March | 4.9 | 2.5 |
| Rexecode | 22 March | 5.5 | 3.1 |
| *Consensus Forecasts* | 11 April | 5.3 | 2.7 |
| OFCE | 13 April | 5.8 | 3.8 |
| **Government** | **20 April** | **4.9** | **2.6** |

*Sources: Banque de France macroeconomic projections of March 2023, Rexecode, Consensus Forecasts of April 2023, OFCE policy brief of April 2023, Stability Programme 2023-2027.*

**A look back at the inflation forecasts for 2022 and 2023**

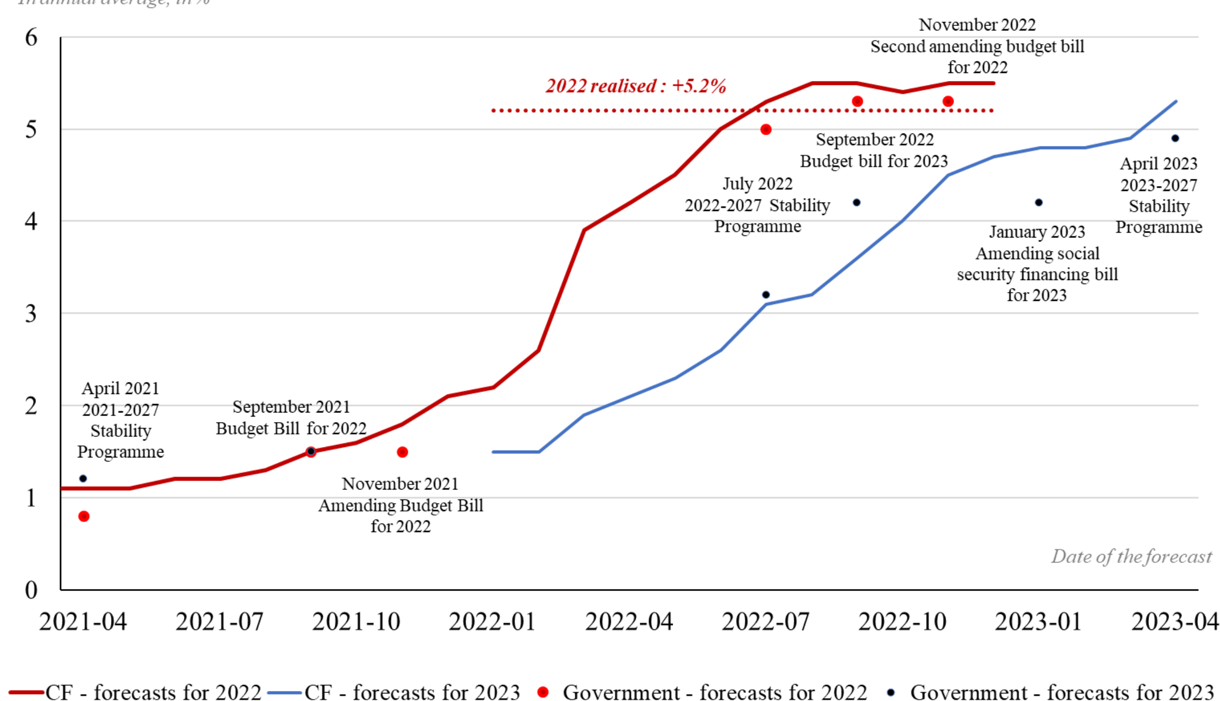
*For the past two years, both the Government's inflation forecasts and those of Consensus Forecasts have been revised upwards significantly during the year.*

[3] The Consensus Forecasts inflation forecast for 2024 was 2.2% in January and 2.7% in April.

In the Stability Programme published in April 2021, inflation was expected to average 0.8% annually in 2022. As a result of the imbalances left by the health crisis, and then the war in Ukraine, it has been revised upwards over the months, reaching 5.3% in the draft budget bill for 2023, a level close to that finally observed on average for the year, estimated at 5.2% by INSEE. The Consensus Forecasts followed the same trajectory overall. However, they exceeded the Government's forecasts in November 2021.

The same scenario seems to be emerging for 2023. Expected to be 1.2% in the 2021-2027 Stability Programme, inflation is now forecast at 4.9% in the Stability Programme for the years 2023 to 2027, compared to the Consensus Forecasts forecast of 5.3%.

**Evolution of the Government's inflation forecasts and Consensus Forecasts for the years 2022 and 2023**




To note: The Government's Sept. 2021 forecast for 2023 is for the CPI excluding tobacco.

*Sources: Consensus Forecasts, Governmen*

34. In its opinion on the draft amending social security financing bill (PLFRSS) for 2023, the High Council considered that the **assumption** of 5.0% **growth in the private sector wage bill** in 2023 was somewhat low, in particular because of a forecast of the change in the per capita average wage (4.2%) that was lower than the other available forecasts and the inflation outlook for 2023. Consistent with the upward revision of the inflation forecast, the projected increase in the wage bill has been raised to 6.1% for 2023. This revision is mainly due to the revision of the per capita average wage (from 4.2% to 5.2%). For 2024, the Government forecasts a growth in the wage bill of 3.4% and in the per capita average wage of 2.8%.

35. The forecast for 2023 is now plausible. However, the per capita average wage growth of 5.2% and 2.8% in 2023 and 2024, respectively, implies a very sharp slowdown during 2024. As a result, the average wage forecast for 2024 appears somewhat low, especially given the still

strong rise in inflation expected for 2023 and the usual lags in the transmission of past inflation to wages.

36. The employment forecast for the private sector excluding agriculture for 2023 has also been revised slightly upward (0.9% compared to 0.7% in the PLFRSS 2023), reflecting almost zero productivity gains (0.1%). This forecast is higher than that of the main economic forecasting organizations, which all expect a sharper slowdown in the labor market, and even job losses in 2023, partly due to a lower growth forecast. In a context where productivity gains remain almost non-existent and where economic indicators show no sign of employment downturn, the Government's forecast remains plausible.

37. In 2024, the forecast for employment in the private sector excluding agriculture (0.7 %) is affected by both over- and underestimation factors. The growth in activity, considered somewhat high by the High Council, thus supports the overestimation of employment. Conversely, the productivity assumption, which appears to be high in the private sector (1.2%) compared to the trend observed since the outbreak of the health crisis, is consistent with an underestimation of employment. All in all, these factors could cancel each other out.

38. **The High Council considers that the Government's growth forecasts for 2023 and 2024 in the Stability Programme, unchanged from those in the draft public finance programming bill tabled in September 2022, are not out of reach, but appear optimistic. They are the highest, for these two years, of the forecasts identified by the High Council.**

39. **Even if the year-on-year price increase should begin to decline during 2023, the decrease expected by the Government appears to be rapid, so that the inflation forecasts, revised upwards for 2023 (to 4.9%) but downwards for 2024 (to 2.6%), appear to be somewhat underestimated.**

40. **The High Council considers that the forecast of wage bill growth for 2023 (6.1%), revised upwards by one point, is plausible, but that the forecast for 2024 (3.4%) is somewhat low.**

# III. Observations on the macroeconomic scenario for the years 2025 to 2027

41. The Stability Programme's forecasts for growth and inflation up to 2027 must be examined in the light of the potential growth that France can achieve with unchanged use of production factors and the position of the French economy in the cycle. The latter is assessed on the basis of the output gap, corresponding to the difference between observed real GDP and potential GDP. Potential GDP is defined as the output that would be obtained once the temporary shocks affecting the economy have been eliminated, by mobilizing the factors of production at their equilibrium level. The output gap is thus an indicator of the capacity of economic activity to rebound when it is negative, and a sign of a potential slowdown when it is positive.

## A. Potential growth and the output gap

### 1- The Government's scenario

42. According to the Government’s referral, « *The potential scenario underlying the Government's macroeconomic forecast has not been revised since its 2022 update. Notably,*

*this scenario includes a total impact of the covid crisis on potential GDP in ¾ pt. levels. [...] Starting in 2022, potential growth would be +1.35%, identical to the pre-crisis forecast level. The productive capacity of the economy would be supported by past and future reforms and government investments, which would notably contribute to increasing labor supply and reaching full employment.*»

43. « *The output gap would then stand at -1.3 percentage points in 2024. [...] Thereafter, growth would be above its potential pace of 1.35% over the 2025-2027 period, at the end of which the output gap would be completely closed.* »

### 2- Assessment of the High Council

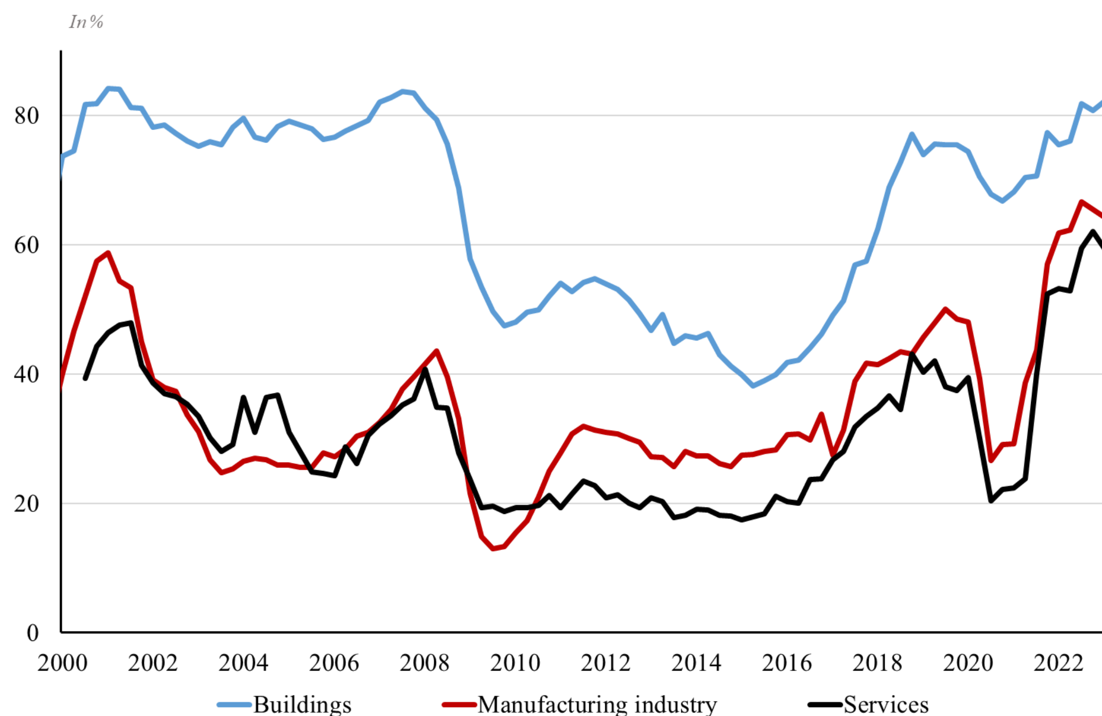
44. The Government has maintained the potential growth path published in the Economic, Social, and Financial Report for 2023 based, in particular, on growth assumptions of 1.35% per year between 2023 and 2027 and a loss in potential GDP in level due to the health crisis of ¾ point.

45. The Government also retained its estimate of a very large output gap in 2022 (-1.1 point), adjusting the trajectory between 2023 and 2025 at the margin because of slightly weaker growth in 2022 than expected.

46. This assessment of the output gap is at the lower end of the range of international organizations (0.2% for the European Commission, -0.7% for the IMF and -1.5% for the OECD).

47. Moreover, such a wide output gap estimate reflects a significant underutilization of factors of production that is not consistent with the current tensions in the labor market. The latter are at an all-time high and of a magnitude greater than those recorded in 2019, a period marked by a clearly positive output gap. While the Government justifies its assumption in particular by the potential for a rebound in production in certain sectors (automotive, aeronautics), the level of recruitment difficulties suggests that there is little room for a sustainable increase in production for the economy as a whole.

**Figure 4: Recruitment difficulties in France**




*Source: INSEE*

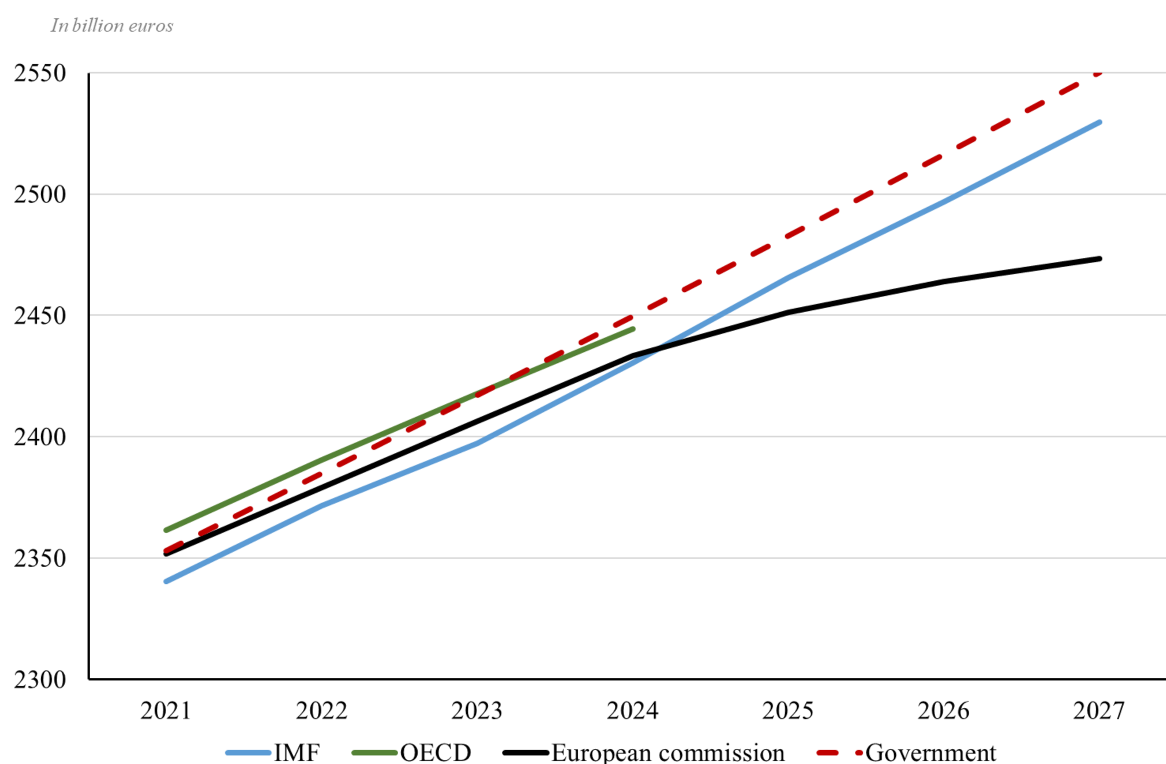
48. The Government's estimate of potential growth (1.35% per year over 2023-2027) is close to that of the IMF (1.3%) and OFCE (1.2-1.3% per year over the period 2022-2024), but higher than those of the European Commission and the OECD (1.1% on average over 2023-2024) and Rexecode, which estimates potential growth at 0.9%.

49. The Government's potential growth forecast is also higher than the estimate, close to 1%, that can be made by replicating the methodology presented by the Treasury's Directorate General in preparation for the opinion on the draft public finance programming bill 2023-2027, based on the latest INSEE labor force projections and extending the pre-crisis productivity trend, while taking into account the effects of the pension and other reforms announced or under implementation[4].

50. Overall, due to favorable choices regarding both the level of the output gap at the beginning of the period and potential growth thereafter, the Government's potential GDP path is higher than both that of the European Commission (+3.1% in 2027) and that of the IMF (+0.8% in 2027).

[4] See note by the HCFP permanent secretariat: Potential growth over the medium term, July 2022, https://www.hcfp.fr/node/22.

**Figure 5: Comparison of potential GDP forecasts in France (potential GDP in €bn in volume)**




*Source: European Commission Autumn Economic Forecasts (November 2022), OECD Economic Outlook (November 2022) and IMF World Economic Outlook (April 2023) and Government Stability Programmeme 2023-2027.*

51. In particular, the Government estimates the contribution of labor to potential growth at 0.3-0.4% between 2023 and 2027, assuming that the impact of a series of reforms (of the active solidarity income, pensions, unemployment insurance, job-training, creation of France Travail, etc.) would more than compensate for the slowdown in the working-age population projected by INSEE. The Government has put forward a target of 100,000 to 150,000 jobs created in the medium term as a result of the application of the new reform of unemployment insurance since 1 February 2023, and 200,000 jobs by 2027 as a result of the pension reform. The effect of the pension reform put forward by the Government - which would account for about one-third of the estimated contribution of labor to potential growth - seems consistent with existing estimates of the medium-term impact of raising the legal retirement age, but assumes very rapid adjustment of the labor market to the resulting increase in the labor force participation rate of older workers. With regard to the impact of the unemployment insurance reform, the High Council did not receive detailed information on the number of jobs created provided by the Government. In support of its calculation, the Government refers to an unpublished study of the Ministry of Labor. In its evaluation of the reform, Unédic notes that, while a reduction in the duration of unemployment rights leads to a reduction in the average duration of unemployment, the available studies do not allow for a conclusion on the total effect on employment. The High Council therefore considers that the impact of all these reforms on potential growth is overestimated.

52. In addition, there are still significant negative risks, common to all available assessments of potential growth, linked to (i) the impact of the health crisis on the productive sector and the

skill level of the workforce, (ii) the importance of the constraints facing the French economy in the medium term (ecological transition, public and private debt).

53. Consequently, the High Council reiterates the assessment it made in its opinions on the previous Stability Programme and on the draft public finance programming bill for the years 2023 to 2027, according to which the Government's estimate of potential growth is optimistic.

54. **The High Council considers that the Government's assumptions for potential growth (1.35 per cent per year over 2023- 2027) are optimistic and that the estimate of an output gap in 2022 (1.1 percentage point of potential GDP) is too high. These assumptions assume significantly higher productivity gains than recent trends suggest, and an increase in total employment, notably related to the pension and unemployment insurance reforms, which appears overestimated.**

## B. Observations on the macroeconomic scenario for the years 2025 to 2027

### 1- The Government's scenario

55. According to the Government, « *Growth would be +1.7% in 2025 and 2026 and +1.8% in 2027.* »

56. « *Over the period 2023-2027, non-agricultural market wage employment would be dynamic, under the effect of employment measures [...] On average between 2023 and 2027, 185,000 market wage jobs would be created each year, making it possible to reach full employment by 2027.* »

57. In its referral, the Government states that « *Inflation would decline to +2.0% in 2025, due to a gradual normalization of wages, facilitated by the anchoring of inflation expectations. From 2025, inflation would be +1.75%, a level consistent with the European Central Bank's target.* »

58. The Government nevertheless states that « *The evolution of international commodity and energy prices remains uncertain. [...] The level of interest rates and the extent of their impact on the economy are also a major uncertainty. [In addition, the financial turmoil in the United States and Switzerland has heightened the risks to financial markets, although the swift reactions of the supervisory authorities in these countries and recent developments seem to rule out contagion to the global financial system as a whole. [...] There are also positive risks to this forecast. For example, an accelerated normalization of the household savings rate, or a faster recovery of lost export performance, for example in connection with the continued decline in supply tensions, would help to boost growth further early in the forecast horizon. Finally, while a stronger rebound in China's activity would weigh on commodity prices, it would have a knock-on effect on global activity and trade, particularly for some of our direct partners like Germany.* »

### 2- Assessment of the High Council

59. The macroeconomic scenario used as a reference to determine the budgetary trajectories for the years 2025-2027 is similar to the one presented in the draft public finance programming bill for the years 2023 to 2027, on which the High Council gave its opinion in opinion n° 2022-5.

60. The assumptions for growth from 2025 to 2027 are unchanged from those in the draft public finance programming bill 2023-2027. Real GDP growth rate would thus be 1.7% in 2025 and 2026 and 1.8% in 2027, i.e., a growth rate of 1.6% on average per year over the horizon of

the Stability Programme. The Government's forecast for real GDP growth is higher than that published by the IMF in April 2023 (1.4% on average per year between 2023 and 2027) and that of Consensus Forecasts (1.2% on average per year).

61. The Government's scenario thus assumes that the French economy will grow above its potential from 2024 onwards, allowing the output gap to close completely by 2027.

62. The Government's growth scenario is based primarily on a sustained increase in household final consumption expenditure (+1.9% on average per year between 2025 and 2027). This strong increase, which is much higher than that recorded in the years preceding the health crisis (1% on average between 2010 and 2019), stems both from an increase in real household gross disposable income, related to the optimistic assumptions on employment and productivity gains that were used to construct the potential growth scenario, and from a decline in the savings rate, which is possible but not certain.

63. This growth scenario is also based, to a lesser extent, on a significant increase in general government consumption (+1.3% on average between 2025 and 2027), revised upwards significantly compared to the draft public finance programming bill, which did not foresee any increase in 2025, and for the years 2026 and 2027, increases of 0.6% and 0.8% respectively. This sharp increase seems difficult to reconcile with the effort made on public spending as a whole.

64. **The High Council considers that the actual growth forecast for the years 2025 to 2027 (+1.7 percent on average per year) is high. It is based in particular on a high increase in household consumption, well above that recorded before the health crisis, explained in part by the decline in their savings rate, which is possible but not given.**

65. **This scenario is thus much more favorable than that of the European Commission, which is expected to guide the spending targets that should be set from 2024 onwards when the reform of European governance of public finances currently under discussion will be adopted.**

## C. Impact of the macroeconomic scenario on public finances

66. The High Council notes that the Stability Programme includes more ambitious objectives than the draft public finance programming bill presented in September 2022 (PLPFP 2023-2027), in terms of the deficit (2.7 pps. of GDP instead of 2.9 pps.) and of the reduction of the debt ratio by 2027 (-3.3 pps. instead of -0.6 pps.). The latter would first fall by one point in 2023, thanks to the expected high inflation, which mechanically reduces the debt burden inherited from the past through a "denominator" effect; it would then be almost stable from 2024 to 2026, and then fall again by almost one point in 2027, thanks to the expected reduction in the public deficit.

67. This downward revision of the public deficit and debt targets is consistent with the necessity to reduce public debt, which the High Council has repeatedly emphasized, most recently in its opinion on the 2022 settlement bill[5].

68. The projected structural deficit over the period is also slightly lower than that in the 2023-2027 PLPFP: after stabilizing at 4.0 percentage points of potential GDP in 2023, it is expected to improve gradually, falling to 2.6 percentage points in 2027 (compared with 2.8 pps in the PLPFP).

[5] https://www.hcfp.fr/liste-avis/avis-ndeg2023-5-loi-de-reglement-2022

**Table 3: general government balance (in points of GDP)**

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|
| **General government balance** | **-4.7** | **-4.9** | **-4.4** | **-3.7** | **-3.2** | **-2.7** |
| Structural budget balance (% of potential GDP) | *-4.0* | *-4.0* | *-3.6* | *-3.1* | *-2.8* | *-2.6* |
| *Structural adjustment* | 1.0 | 0.0 | 0.4 | 0.4 | 0.3 | 0.2 |
| *As a reminder, the public balance (in the Maastricht sense) forecast in the PLPFP* | *-5.0* | *-5.0* | *-4.5* | *-4.0* | *-3.4* | *-2.9* |

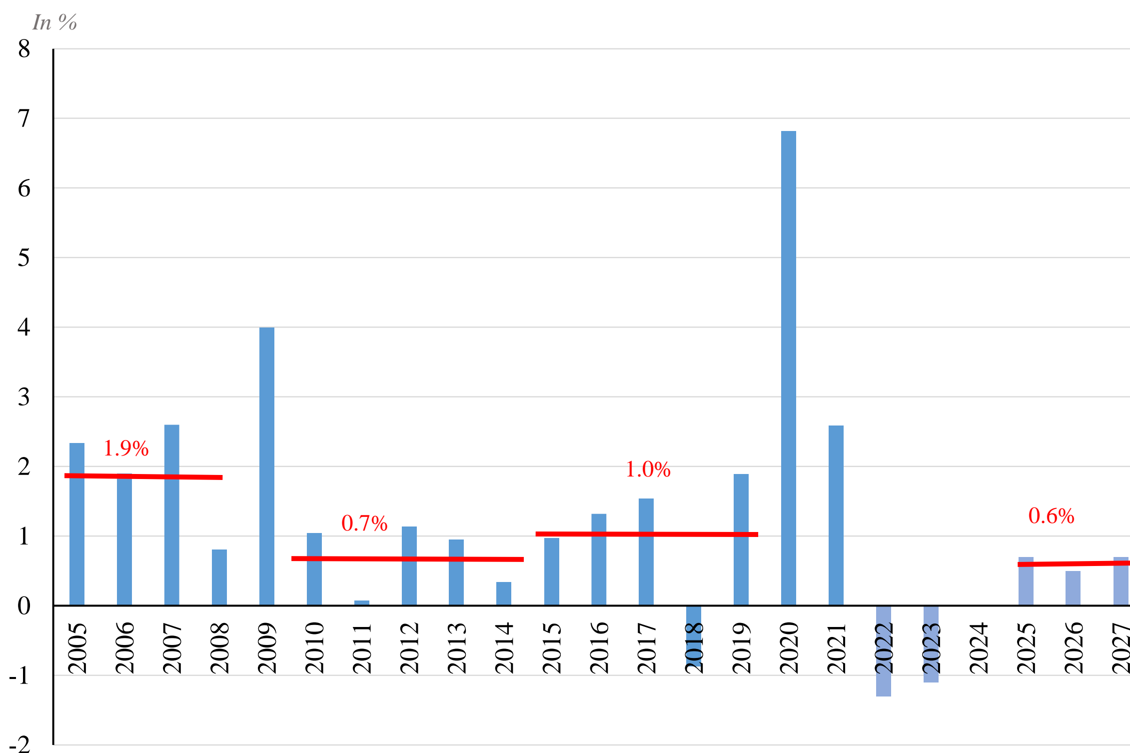
*Source : Stability Programme 2023-2027*

69. The Stability Programme expects a decline in the ratio of public spending to GDP of 4.0 percentage points (excluding tax credits): it would fall from 57.5% of GDP in 2022 to 53.5% in 2027. The ratio of public spending to GDP would, however, remain above its 2019 level (53.8 % of GDP) until 2026, when it would still stand at 54.0 % of GDP.

70. A little more than half of the decline in this ratio would take place over the period 2023-24, largely as a result of the phasing out of emergency support spending and anti-inflation support measures. Public spending would then resume a slower growth path in volume terms than GDP, averaging 0.6% per year over the period 2025-2027, i.e., less than the growth recorded over the previous two decades, but comparable to that of the period 2010-2014, which was marked by the crisis in the euro zone. This increase in public spending is higher than that assumed in the 2023-2027 PLPFP (+0.4% per year over the period 2025-2027). However, it is largely attributable to the upward revision of interest charges on the public debt (+0.3 pps. of GDP on average per year over the period 2025-2027, compared with the PLPFP assumptions).

71. According to the information provided to the High Council, efforts to curb public spending will be based primarily on the pension reform (€8 billion in net savings expected by the Government by 2027), on the implementation of the guidance letter sent to ministries in order to identify savings with the objective of reducing spending by 5%, and on the planned spending reviews, for which no savings measures have yet been documented.

**Graph 6: Growth rate of public spending in volume[6] (in %)**




*Source: INSEE, Stability Programme 2023-2027*

72. In the Stability Programme forecast, the rate of compulsory levies[7] (PO) falls sharply in 2023, then is broadly stable until 2027.

73. The decline in the rate of compulsory levies reflects a spontaneous change, i.e., at constant legislation, that is much lower than that of GDP in nominal terms (4.3% versus 6.5%), which the Government justifies in particular by a sharp slowdown in corporate income tax, a decline in transfer taxes, in line with the ongoing turnaround in the real estate market, and a growth in the wage bill that is lower than that of GDP in nominal terms. This forecast seems a little low: while the real GDP forecast is somewhat high, this overestimation of compulsory levies is more than offset by the impact of the likely underestimation of inflation and payroll.

74. Beyond this, the Stability Programme assumes a quasi-stability in the tax rate, assuming a return to the medium-term behavior of spontaneous tax growth in line with that of GDP, and a slightly positive impact of new measures, which implies that the announced tax cuts will not be implemented, or that they will be offset by increases in other taxes.

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75. The Stability Programme is an obligation arising from participation in Economic and Monetary Union. It is submitted to the European Commission each year for examination and evaluation, in order to verify, in particular, the conformity of the member state's economic policy with the rules and objectives of the Union.

76. The general escape clause of the Stability and Growth Pact, which allows for a temporary deviation from the normally applicable budgetary requirements, is maintained until the end of 2023. In the context of its deactivation as of 2024, the European Commission

[6] Including emergency and stimulus measures.

[7] Net of tax credits.4

considered it necessary to agree on principles to guide Member States in the preparation of their Stability or Convergence Programmes in 2023[8]. It invited them to set budgetary targets that guarantee that the government deficit will not exceed 3 percentage points of GDP or will be reduced to below 3 percentage points of GDP over the period covered by the stability or convergence programme and to provide credible guarantees that in the medium term the government deficit will remain below 3 percentage points of GDP on a no-policy-change basis.[9].

77. The reduction in both the general government deficit and the structural deficit targeted by the Stability Programme remains insufficient to meet these objectives, since it would not leave sufficient margins to keep the general government deficit below three percentage points of GDP in the event of a cyclical shock, even one of relatively moderate magnitude, an exogenous interest rate shock, or weaker than expected potential growth.

78. The targeted reduction in the public debt ratio is also fragile: it assumes not only that the planned curb in public spending and planned absence of a net reduction in taxes and social security contributions, between 2024 and 2027, will be implemented, but also that te optimistic growth scenario retained by the Government comes true[22].

79. **While the High Council of Public Finance had noted the "unambitious" nature of the deficit and debt targets set out in the public finance programming bill for the years 2023 to 2027, it notes that the Government has revised these targets for 2027 to take better account of the necessity to reduce public debt, which the High Council has repeatedly emphasized.**

80. **The High Council notes, however, that this public finance path is based on an unchanged macroeconomic scenario, including a favorable growth assumption, without which the deficit would remain higher by 2027 and the debt ratio would start to rise again from 2024 onwards.**

81. **Moreover, this trajectory calls for the implementation, over several years, of efforts to curb public spending, on a greater scale than those that have been implemented in the past, although their timing and concrete details remain vague. It also assumes that the announced measures to reduce compulsory levies will not be fully implemented, or that they will be offset by increases in other compulsory levies.**

82. **The High Council notes that, while the Stability Programme makes it possible to set public finance objectives, it cannot replace a programming that is currently lacking. It therefore reiterates its call for the rapid adoption of a public finance programming law. This should set out a credible trajectory for reducing public debt, based on realistic macroeconomic assumptions and a clear and documented strategy for curbing public spending and for compulsory levies.**

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This opinion will be published in the *Journal officiel* of the French Republic and attached to the Stability Programmem when it is sent by the Government to the Council of the European Union and to the European Commission.

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[8] As the stability programs of other European countries were not available at the time this opinion was finalized, it was not possible to compare the French path with that presented by the other major countries in the euro zone.

[9] European Commission, Communication from the Commission to the Council, Budgetary Policy Guidelines for 2024, COM (2023) 141 final of March 18, 2023.

Paris April 25, 2023.

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

Pierre MOSCOVICI

# APPENDIX 1
## Macroeconomic scenario for the Stability Programme

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|
| **Goods and services, real terms** | | | | | | |
| **Gross Domestic Product** | **2.6** | **1.0** | **1.6** | **1.7** | **1.7** | **1.8** |
| **Private consumption expenditure** | 2.8 | 0.2 | 1.9 | 1.9 | 1.9 | 1.9 |
| **General government consumption expenditure** | 2.7 | 1.3 | 0.9 | 1.3 | 1.4 | 1.3 |
| **Gross fixed capital formation** | 2.3 | 2.1 | 0.9 | 1.8 | 1.1 | 1.3 |
| **Imports of goods and services** | 9.1 | 3.1 | 3.0 | 3.5 | 3.3 | 3.3 |
| **Exports of goods and services** | 7.1 | 3.5 | 3.6 | 3.9 | 3.9 | 3.9 |
| **Contributions to real GDP growth** | | | | | | |
| **Final domestic demand excluding inventories** | 2.7 | 0.9 | 1.4 | 1.7 | 1.6 | 1.6 |
| **Foreign trade** | -0.7 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| **Prices and nominal aggregates** | | | | | | |
| **Consumer Price Index** | **5.2** | **4.9** | **2.6** | **2.0** | **1.75** | **1.75** |
| **Gross Domestic Product Deflator** | 3.0 | 5.4 | 2.7 | 1.8 | 1.6 | 1.6 |
| **Nominal gross domestic product** | 5.7 | 6.5 | 4.3 | 3.6 | 3.3 | 3.4 |
| **Employment and wages** | | | | | | |
| **Whole Economy :** | | | | | | |
| **- - Employment (employed persons)[10]** | 2.4 | 0.8 | 0.6 | 0.8 | 0.8 | 0.8 |
| **- Employee wages (including employer contributions)** | 7.5 | 5.6 | 3.5 | 3.6 | 3.2 | 3.3 |
| **- Average employee wages (including employer contributions) per capita** | 5.0 | 4.8 | 3.0 | 2.8 | 2.4 | 2.5 |
| **Potential growth and output gap** | | | | | | |
| **Potential GDP growth (%)** | **1.35** | **1.35** | **1.35** | **1.35** | **1.35** | **1.35** |
| **Output gap (% potential GDP)** | **-1.1** | **-1.5** | **-1.3** | **-0.9** | **-0.5** | **0.0** |

*Source: Ministry of Economy and Finance (April 2023)*

[10] Employed population, in thousands, in the national accounts sense