Haut Conseil des Finances Publiques

Opinion n° HCFP-2023-7

On the revised public finance programming bill for the years 2023 to 2027

22 September 2023

Executive Summary

The Government has modified the macroeconomic assumptions of the public finance programming bill, on which the High Council had issued an opinion in September 2022. In accordance with the organic law, the Government has referred to the High Council on these, as well as the associated public finance trajectory.

The estimates of the output gap and the potential growth form the basis of the 2023-2027 macroeconomic scenario. In both cases, they appear optimistic. Despite a slight upward revision compared with the previous draft, the High Council considers that the Government's estimate of the output gap for 2023 (-1.2% instead of -1.4%) remains optimistic. At an annual average of 1.35% over the period, the unchanged figure for potential growth is higher than other available forecasts, and assumes in particular an impact of labour market reforms that the High Council considers to be too strong and too rapid.

The associated growth scenario is also optimistic.

In 2024, the growth forecast (+1.4%), although revised downwards by 0.2 points compared with the project presented in September 2022, is higher than that of the economists' consensus (+0.8%), notably because it assumes that the tightening of credit conditions has already produced most of its effects.

Over the remainder of the programming period, the macroeconomic scenario enabling to reach the expected level of potential GDP by 2027 is based on favourable assumptions, with a continued decline in the household savings rate to support consumption, a persistently high rate of business investment and a positive contribution from foreign trade.

Based on macroeconomic assumptions that the High Council considers to be optimistic, the general government balance path forecasts a gradual decline in the deficit, which would be brought down to 2.7 points of GDP in 2027, a slightly improved level compared with that presented in September 2022, despite the fact that the weight of the interest burden has increased considerably and the rate of compulsory levies remains almost identical to that presented at the time. In addition to the impact of the pension and unemployment insurance reforms, this path assumes the achievement of significant structural savings in expenditure, which the Government indicates can only be specified at the end of the ongoing spending review.

The Government has revised its public finance targets for 2027 compared with the project presented in September 2022, in favour of debt reduction, which the High Council has repeatedly put forward. Nevertheless, the trajectory presented by the Government remains unambitious in terms of France's European commitments. The draft programming law makes no provision for a rapid return to the objective of balanced public finances. Even though growth assumptions remain optimistic, the modest change in debt trajectory exposes France to the risk of further divergence with the rest of the euro zone.

The High Council points out that a return to debt levels that guarantee France sufficient fiscal space is necessary to enable it to cope with future macroeconomic or financial shocks, and with the high public investment needs required in particular by the ecological transition. To ensure the sustainability of public finance, the declared strategy of compulsory levies

makes it all the more imperative to control public spending, supported by spending reviews currently underway leading to effective savings.

Introductory remarks

1- On the scope of the following opinion

1. On September 15, 2022, the Government referred to the High Council of Public Finance pursuant to Article 61 – VI of the amended organic law no 2001-692 of the August 1, 2001, on the budget laws, in order to give its opinion on the changes that the Government plans to make to the forecasts associated with the public finance programming bill for the years 2023 to 2027[1].

2. Article 61 VI of the aforementioned organic law stipulates that: "*When, during the parliamentary examination of a public finance programming bill, a budget bill or a social security financing bill, the Government intends to revise the macroeconomic forecasts on which its project was initially based, it shall inform the High Council for Public Finance without delay of the new state of its forecasts. Before the final adoption of the public finance programming law, the budget law or the social security financing law, the High Council issues a public opinion on these forecasts*". The present opinion therefore examines the new trajectory of the public finance programming bill for the years 2023-2027, modified in relation to the initial bill.

2- On the information submitted and the timeline

3. On September 15, 2023, the Government referred to the High Council of Public Finance on the changes to the macroeconomic forecasts underlying the public finance programming bill for the years 2023 to 2027, with a view to issuing an opinion on September 22, 2023.

4. This referral file was accompanied by detailed answers to a questionnaire sent to the relevant authorities beforehand.

3- On the High Council's methodology

5. In order to assess the realism of the macroeconomics forecasts associated with the public finance programming bill, the High Council based itself on the latest available statistics as well as on the information provided by the Government.

6. The High Council has 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 for Statistics and Economic Studies (Insee), the Banque de France and several economic institutes such as Rexecode and the French Economic Observatory (OFCE).

7. The High Council held hearings with representatives of the French Treasury, and the Budget and Social Security Departments. The High Council also interviewed organisations outside the finance administration (Insee, Banque de France, Rexecode and OFCE) on the outlook for the French economy.

[1] Opinion no. HCFP-2022-5 on the public finance programming bill for the years 2023 to 2027, dated September 21, 2022, can be consulted on the website.

The role of public finance programming laws in the governance of public finance

Introduced into the national legal order by the 2008 constitutional revision, the main function of public finance programming laws (PFPL) is to define the multi-year orientations of public finances with the objective of balanced public accounts.

Their role in the governance of French public finances has been gradually strengthened and formalised. In this way, the organic law of December 17, 2012, which transposes the Treaty on Stability, Coordination and Governance (TSCG) into national law, stipulates that PFPL shall set the medium-term objective for public administration provided for by this treaty and determine a multi-year trajectory for the general government balance in order to achieve this objective. It also creates the High Council of public finance, which is responsible for assessing the consistency of the draft budget bill and social security financing bills with the multi-year structural budget balance guidelines defined in the PFPL. In addition, the High Council of Public Finance has to identify whether there are "significant deviations" between the execution of the past year and these multi-annual guidelines. In this case, the Government must present corrective measures to return to a structural balance path of public accounts. PFPL cover a minimum period of three years. They may include rules relating to the management of public finances and to the information and control of Parliament. The purpose of these rules may be to control expenditure, revenue and the balance or use of public debt.

The framework of the public finance programming laws has been clarified and completed by the organic law of December 28, 2021, which also integrates the organic provisions governing PFPL into the organic law of August 1, 2001 regarding budget bills.

Although the creation of PFPL marked an undeniable progress in the governance of public finances by placing their management in a multi-year framework, and although their role has continued to be strengthened in law, they are not sufficient, on their own, to ensure the control of public finances. Since their introduction into the public finance governance framework, five programming laws have been adopted (2009-2012, 2011-2014, 2012-2017, 2014-2019 and 2018-2022). Their objectives are non-binding, based on generally optimistic and quickly obsolete assumptions and have rarely been achieved. Since 2008, the situation of French public finances has clearly deteriorated, contrary to the objectives constantly stated in the programming laws.

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8. The High Council first sets out its observations on the estimate of potential GDP (I), then on the macroeconomic forecasts on which the public finance programming bill for the years 2023 to 2027 is based (II), before commenting on the consistency of the public finance programming with the medium-term objective set out in the bill and France's European commitments (III).

1. Observations on the estimate of potential GDP

9. The High Council must give its opinion on the revised estimate of potential GDP used by the Government in this new draft programming law. This estimate plays a fundamental role in the construction of the macroeconomic scenario.

10. Indeed, potential GDP is defined as the output that would be obtained once the temporary shocks affecting the economy have been eliminated, by mobilizing the production factors at their equilibrium level (*i.e.* without causing inflationary or deflationary pressures). Without any knowledge of the shocks that will affect the economy in the future, this is the level towards which effective GDP can be expected to converge over the horizon of the programming law. Actual growth over the period under consideration therefore depends on potential growth,

which is itself the result, on the one hand, of expected growth in the factors of production (capital and employment) and in their productivity, and, on the other hand, of the closing of the initial gap between observed GDP and potential GDP, known as the output gap: when this gap is negative, forecast growth must be higher than potential growth, and conversely, when it is positive, lower than the latter.

1- The Government's forecast

11. According to the Government's referral file, *"The potential scenario is little changed from the initial version of the Public finance programming law. The permanent loss in potential GDP in 2020-22 is revised slightly upwards, reflecting both higher productivity losses in the past in the new annual accounts, and a later-than-anticipated rebound in productivity. [...] The permanent loss linked to the succession of health and energy crises, previously estimated at just under a point, would be revised upwards to just over a point (revision of -½ pt, from -1 ¼ pt of GDP instead of -¾ pt in September 2022). From 2023 onwards, potential growth would be 1.35%, with the economy's productive capacity supported by the Government's reforms. In particular, these will help to increase the labour supply and achieve full employment by 2027."*

12. *"Actual growth over the 2025-2027 period would be higher than its potential rate of 1.35%, closing the output gap in 2027."*

2- Assessment of the High Council

13. The Government has readjusted its potential growth trajectory to consider a stronger impact from the health and energy crises than in the initial version of the public finance programming bill presented in September 2022. It now estimates that the loss of potential GDP in level amounts to 1 ¼ percentage point of GDP instead of ¾ pp in the public finance programming bill 2023-2027 and in the 2023-2027 Stability Programme, but without changing its potential growth forecast of 1.35% per year over the 2023-2027 period.

14. As a result, the Government estimates an output gap of -0.9% in 2022, instead of -1.1 % in the public finance programming bill 2023-2027[2]. The output gap would widen to -1.2 % in 2023, then gradually close to zero in 2027.

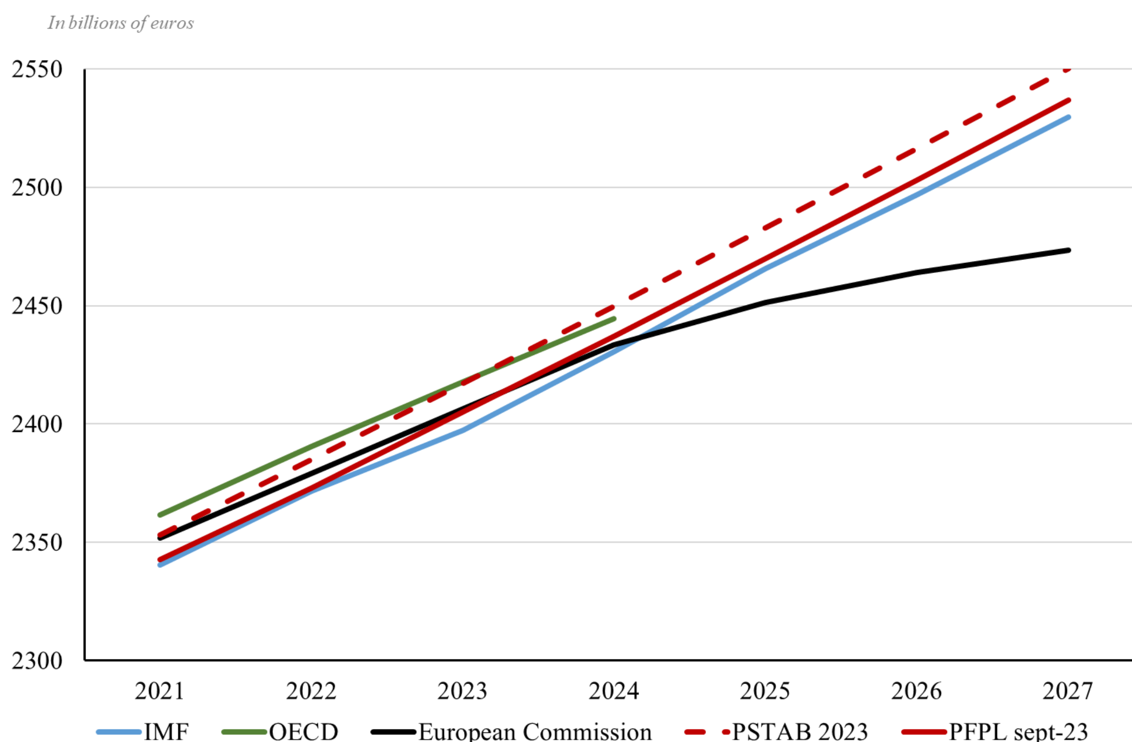
15. The Government's assessment of the output gap is in line with that of the Banque de France (-0.9%), and lies between that of the OECD, which forecasts a much wider output gap (-1.5%), and that of the IMF (-0.7%). By contrast, the European Commission and Rexecode forecast a positive output gap in 2022.

16. The Government maintains its forecast for potential growth, set at 1.35% from 2023. This is the highest of the available forecasts. For the period 2023-2024, it is close to that of the OFCE (1.3%), but higher than that expected by the OECD (1.1%). It is also higher than the Banque de France forecast (1.2%) for the 2023-2025 period. Over the 2023-2027 programming horizon, the Government's potential growth forecast is close to that of the IMF (1.3%), and higher than those of the European Commission (0.8%) and Rexecode (1.2%).

17. At the end of the period, the Government's potential GDP trajectory remains higher than that of the European Commission (+2.3%) and the IMF (+0.3%).

[2] The revision of the output gap results from the 0.5% downward revision of the level of potential GDP and the 0.3% downward revision of the level of GDP, due for 0.1 points to INSEE's revisions of its GDP growth estimates for 2020 and 2021, and for 0.2 points to the Government's forecast error for 2022.

Figure 1: comparison of potential GDP forecasts in volume in France



Source: Spring economic forecasts from the European Commission (May 2023), the OECD (June 2023), the IMF (April 2023), the Government's 2023-2027 Stability Programme and the September 2023 public finance programming law

18. The breakdown of potential growth between its various components – total factor productivity (TFP), labour and capital - is the same as that presented in the initial version of the public finance programming bill, on which the High Council expressed its opinion in Opinion no. 2022-05.

19. More specifically, the Government keeps its estimate of a contribution from TFP (between 0.4 and 0.5 points) in line with trends prior to the health crisis, slightly lower than that in the 2018-2022 PFPL. It is also maintaining its estimate for the contribution of capital (between 0.5 and 0.6 points), up on its pre-crisis trend, which is based on the assumption that business support measures (lower corporate income tax (CIT), stimulus plan, France 2030, abolition of the corporate value-added contribution) will result in an increase in investment, despite tighter financing conditions.

20. With regard to the labour factor, the Government estimates a contribution of between 0.3 and 0.4 points between 2023 and 2027, up on the PFPL 2018-2022. Potential employment forecasts include the expected overall effect of reforms (*i.e.* the pension reform, the new unemployment insurance reform, the extension of apprenticeships to vocational high schools, the transformation of Pôle Emploi into France Travail, the RSA reform) as assessed by the Government.

21. The government has not included the latest INSEE labour force forecasts in its assessment of the impact of the pension reform. These forecasts would lead to a slight increase in labour force growth, but are based on assumptions that are slightly favourable in terms of the adjustment of activity behaviour among senior citizens. With regard to the impact of the new

unemployment insurance reform, the Government has provided details of its forecast of 100,000 to 150,000 jobs created in the medium term. This estimate is based on a marked reduction in unemployment, in line with available evaluations of similar reforms. It is also based on the optimistic assumption that the reduction in unemployment would be fully reflected by an equivalent increase in employment, with no increase in inactivity. As it stated in its opinion no. 2023-6 on the Stability Programme, the High Council therefore considers that, overall, the impact of the unemployment insurance reform on potential growth is overestimated.

22. The High Council notes that the Government has revised its estimates of potential GDP downwards by half a point over the period as a whole, but still considers that both the output gap assumption for 2022 (0.9%) and the potential growth assumption (1.35% per year from 2023 to 2027) are optimistic, notably because the latter assumes significant and rapid effects from its reforms.

23. **The estimates of the output gap and potential growth form the basis of the 2023-2027 macroeconomic scenario. In both cases, they appear optimistic. Despite a slight upward revision compared with the previous draft, the High Council considers that the Government's estimate of the output gap for 2023 (-1.2% instead of -1.4%) remains optimistic. At an annual average of 1.35% over the period, the unchanged figure for potential growth is higher than other available forecasts, and assumes in particular an impact of labour market reforms that the High Council considers to be too strong and too rapid.**

2. Observations on the macroeconomic scenario for the years 2024 to 2027

1- The Government's scenario

24. According to the Government's referral: "*Activity is expected to grow by +1.0% [...] in 2023, unchanged from the PSTAB*[3]*. [...] In 2024, activity is expected to accelerate to +1.4%, with contrasting dynamics depending on the demand item, following on from the second half of 2023. The main support for activity would be the gradual acceleration in household consumption, in parallel with the normalization of inflation.*"

25. *"Actual growth over the 2025-2027 period would be higher than its potential rate of 1.35% [...]. Growth averages 1.7% over the 2024-2027 period, with a slightly higher rate in 2027 (1.8%), reflecting the gradual dissipation of constraints linked to the health crisis and the conflict in Ukraine."*

26. *"Inflation (in CPI terms) will slow slightly in 2023, to an annual average of +4.9% (after +5.2% in 2022). [It] will fall significantly in 2024, to +2.6%."*

27. *"Inflation would gradually fall back to its estimated long-term level of 1.75% as the transmission of past commodity price rises ends and wages slow (in the wake of the slowdown in inflation already underway). By 2026, it would return to +1.75% in the CPI sense, a level consistent with the ECB's target of 2% for the euro area in the HICP sense."*

[3] Stability Programme.

2- Assessment of the High Council

a. Observations for the years 2023 and 2024[4]

28. For 2023, the High Council considers the growth forecast to be plausible.

29. It considers that the forecast for 2024 (+1.4%), which is higher than the consensus of economists (+0.8%), is high, in particular because it assumes that the tightening of credit conditions has already had most of its impact, and that all components of demand will drive growth in 2024.

30. That of inflation (+2.6%) and the wage bill in the non-agricultural market sectors (+3.9 % excluding the profit-sharing contribution) is plausible. With regard to the latter, on the one hand, the optimistic assumption of high growth in activity has a positive impact on the employment forecast, and therefore on the wage bill; on the other hand, the Government assumes a slightly too strong rebound in labour productivity and a marked slowdown in per capita wages, which have a negative impact on the wage bill forecast. These two effects offset each other overall.

b. Observations for the years 2025 to 2027

31. The macroeconomic scenario adopted by the Government for the years 2025 to 2027 presented in the public finance programming bill is very close to the one included in the 2023-2027 Stability Programme, on which the High Council expressed its opinion in Opinion no. 2023-6.

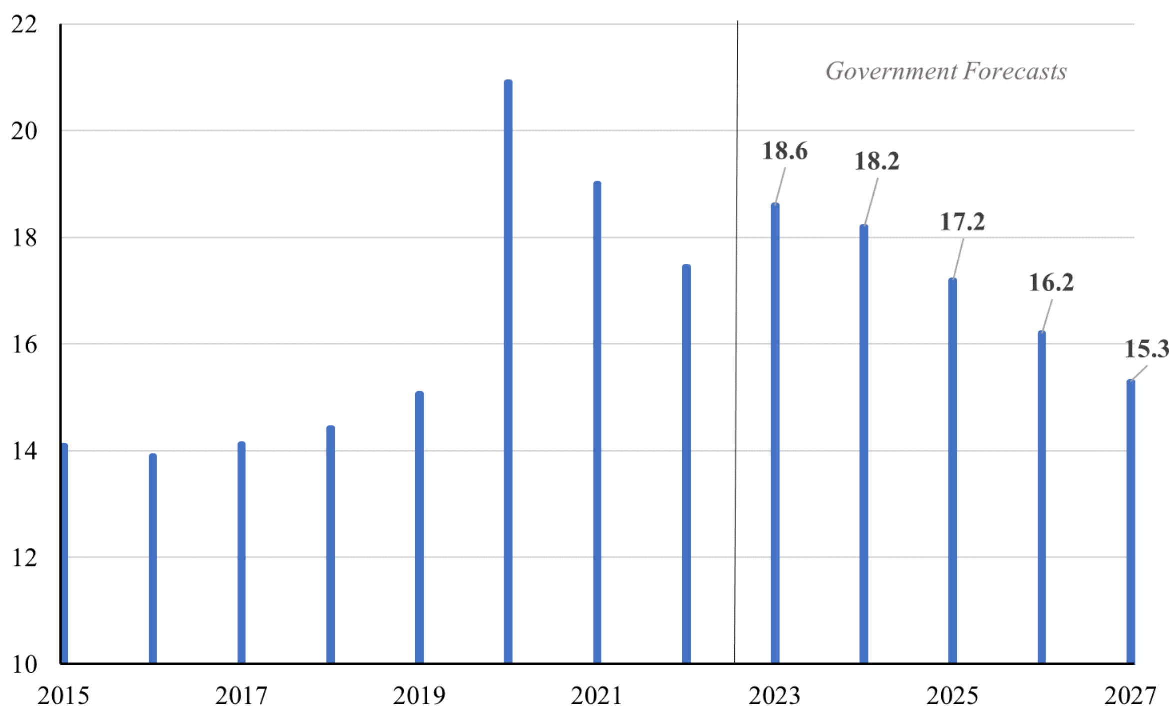
32. GDP growth assumptions from 2025 to 2027 are unchanged from those in the Stability Programme. The Government forecasts higher-than-potential growth over the entire 2025-2027 period: GDP growth is expected to reach 1.7% in 2025 and 2026, then 1.8% in 2027, compared with potential growth estimated at 1.35% per year over the same period. In this context, the output gap, estimated at -1.2% of potential GDP in 2023, would gradually narrow, closing in 2027.

33. This closing of the output gap over the period is based first and foremost on the dynamism of household consumption (+2.2% per year over the 2025-2027 period) as a result, on the one hand, of the increase in purchasing power linked in particular to the fall in inflation and a dynamic wage bill (+3.4% per year over the period) supported by strong job creation (+1.3% per year on average), and, on the other hand, a gradual return of the household savings rate to its pre-crisis level.

34. The household saving rate is forecast to fall over the entire period, extending and amplifying the 0.4 point drop forecast for 2024. It would thus fall by one point a year on average, from 18.2% in 2024 to 15.3% in 2027, a level very close to the pre-crisis savings rate. This scenario assumes that the factors that have pushed the household savings rate above its 2010 level since the health crisis are temporary in nature, but nothing allows today to confirm that this is the case.

[4] Observations relating to the Government's macroeconomic forecasts for 2023 and 2024 will be presented in detail in Opinion no. 2023-8 on the budget bill and social security financing bill for 2024, which will be published on September 27.

Figure 2: household saving rate in France



Sources: Insee, revised public finance programming bill 2023-2027

35. GDP dynamism also depends on the rate of business investment remaining high, and on foreign trade making a positive contribution over the period as a whole. While none of these assumptions can be ruled out, each is subject to downside risks. The Government's scenario is therefore based on a combination of favourable assumptions.

36. Maintaining the business investment rate at its historic high (over 25% throughout the period) also seems optimistic, at a time when the ECB has embarked on a cycle of monetary policy tightening in the eurozone, making financing conditions less favourable. The ecological transition could, however, support investment in the years ahead.

37. Lastly, the Government anticipates that foreign trade will make a positive contribution of 0.1 points per year to growth. This forecast assumes a sustained dynamic in world trade over the period as a whole (+3.2% in world demand addressed to France), despite high uncertainty linked to the accumulation of geopolitical, financial and health risks, and the need for central banks to curb demand in order to keep inflation under control. It is also based on a partial recovery from the loss of export market share since the health crisis. Such a recovery is possible, particularly in sectors such as aeronautics, which suffered from the supply difficulties that followed the health crisis, but it would represent a break with the trend observed since the early 2000s, especially in the current context where the appreciation of the euro zone's real effective exchange rate is weighing on European price competitiveness.

38. All in all, the Government's forecast for GDP growth between 2025 and 2027 is subject to essentially downward risks, even in the absence of unforeseeable shocks such as the health crisis or the war in Ukraine. In addition, the massive effort to control primary public spending implied by the trajectory presented by the Government, which would mark a clear break with the trends of previous decades, is likely to weigh on activity over the entire period.

39. The Government forecasts that inflation will fall to an annual average of 2.0% in 2025, then to 1.75% in 2026 and 2027. These forecasts have not been revised since the Stability Programme presented in April, and have been marginally revised compared with the previous public finance programming bill (2.1% expected in 2025).

40. The disinflationary sequence should indeed continue, due to the delayed adjustment of wage increases to falling inflation. However, while the weight of services in the CPI is high (50.1% in 2023), the rise in their prices (3.0% year-on-year since February) is more than a point above the pre-health crisis pace (1.8% on average per year from 1995 to 2019) and could prove more persistent than expected in the Government's scenario, in a context where actual growth would exceed that of potential GDP.

41. **In 2024, the growth forecast (+1.4%), although revised downwards by 0.2 percentage point compared with the project presented in September 2022, is higher than that of the economists' consensus (+0.8%), notably because it assumes that the tightening of credit conditions has already produced most of its effects.**

42. **Beyond that, over the remainder of the programming period, the macroeconomic scenario enabling to reach the expected level of potential GDP by 2027 is based on favourable assumptions, with a continued decline in the household savings rate to support consumption, a persistently high rate of business investment and a positive contribution from foreign trade.**

3. Observations on the public finance programming

1- The Government's scenario:

43. The revised public finance programming bill for 2023-2027 contains an effective deficit trajectory identical to that forecast in the Stability Programme presented in April 2023. The actual general government balance forecast at -4.9 pps of GDP in 2023 would be gradually reduced to -2.7 pps of GDP in 2027. The structural budget balance path is also practically identical to that forecast in the Stability Programme, with a slightly higher structural deficit over the period as a whole (+0.1 pps of GDP).

Table 1: effective, cyclical and structural budget balance path between 2023 and 2027

	2023	2024	2025	2026	2027
Effective balance (in GDP pps)	**-4.9**	**-4.4**	**-3.7**	**-3.2**	**-2.7**
Cyclical balance (in GDP pps)	-0.7	-0.6	-0.4	-0.2	0.0
Temporary measures (in potential GDP pps)	0.0	0.0	0.0	0.0	0.0
Structural budget balance (in potential GDP pps)	-4.1	-3.7	-3.3	-2.9	-2.7
Structural adjustment	***0.1***	***0.5***	***0.4***	***0.3***	***0.2***

Source: revised public finance programming bill 2023-2027

2- Consistency of the public finance trajectory with France's European commitments

44. In March 2020, the European Commission triggered the general escape clause of the Stability and Growth Pact due to the exceptional circumstances resulting from the health crisis. This clause allows Member States to deviate from the budgetary requirements normally applicable until the end of 2023. The European budgetary rules are due to reapply from 2024, although the current reform process is due to be completed shortly.

45. In the meantime, the previous European rules set out in the Stability and Growth Pact and the Treaty on Stability, Coordination and Governance continue to apply.

Reform of European economic governance rules

Under the terms of the Stability and Growth Pact and the Treaty on Stability, Coordination and Governance signed by France in 2012, the Member States of the European Union are committed to complying with common budgetary rules. Under these rules, the budgetary situation of Member States must converge towards their medium-term objective (MTO), close to structural balance, by reducing their structural deficit by at least 0.5 points of GDP per year, as long as they have not reached this MTO. The coordination of budgetary policies is based on the April submission by each Member State of its Stability Programme, presenting in particular the evolution of its general government balance, debt ratio and public spending over the next three years. Countries whose debt ratio exceeds 60 points of GDP must reduce the gap between this rate and the 60% reference value by 1/20th per year. A procedure may be triggered in the event of an excessive deficit, which could in principle lead to financial sanctions.

In view of the Covid-19 pandemic, in 2020 the European Commission triggered the derogation clause of the Stability and Growth Pact, which allows Member States to temporarily deviate from these requirements due to exceptional circumstances. The Commission has announced that this clause will be terminated at the end of 2023[5].

At the same time, a reform of European economic governance rules was launched, due to intrinsic weaknesses identified before the health crisis (risk of procyclicality, illegibility of rules, overly uniform treatment of different member states' situations, insufficient implementation) as well as the high level of public debt inviting a review of the de facto unsuitable rules in force for many member states.

[5] Communication from Commission, *Budget policy guidelines for 2024,* March 8, 2023, COM (2023) 141 final

In April 2023, the Commission proposed changes to European legislation along these lines, which included the following major developments:

- European surveillance of budgetary policies would be based primarily on trends in primary public spending net of new tax measures, rather than on trends in the structural balance,
- Member States would present a programme for the growth of net national public spending, a trajectory which, for the most heavily indebted countries, should ensure that the debt ratio is on a sustainable downward slope by the end of the adjustment period at the latest,
- These medium-term plans, in principle lasting 4 years, would also set out the structural reforms and public investments envisaged, with the possibility of extending their duration to 7 years. They would be proposed by each Member State, assessed by the Commission and then endorsed by the Council.
- The excessive deficit procedure for breaches of the 3% of GDP reference value would be maintained. A procedure would also be initiated against Member States with high debt levels who deviate from the path set out in their medium-term plan. Financial sanctions would be made more easily enforceable.

The Commission's reform project, which aims to promote national ownership, includes provisions designed to strengthen the role of independent national budget institutes, and thus of the HCFP in France. The latter would be entrusted with new missions, particularly in the area of public debt sustainability analysis.

The Commission hopes to reach agreement with the Council within the next few months, on texts which should nevertheless include some adjustments to its initial proposals.

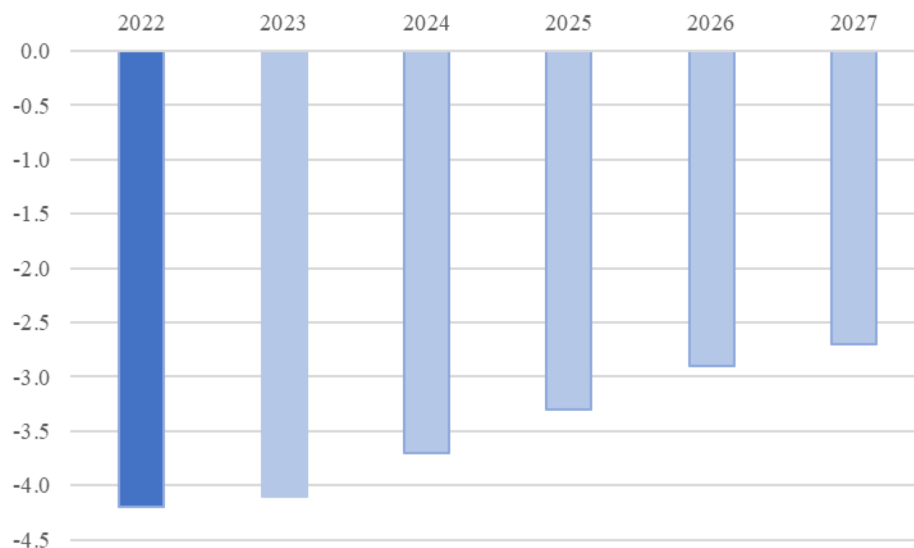
46. The High Council had pointed out that the initial public finance programming bill presented in September 2022 was not very ambitious in terms of France's European commitments.

47. In this respect, France's situation has deteriorated over the last ten years in terms of relative indebtedness within the eurozone. It is now one of only six eurozone countries with debt in excess of 100 percentage points of GDP, while twelve have debt of less than 80 pps of GDP. According to the Government's forecast, which is very close to the one presented in the Stability Programme, the public debt ratio will fall by two points in 2023 to 109.7 pps of GDP, thanks to a balance stabilizing the debt that is two points lower than the general government balance. It will then be practically stable from 2024 to 2026, before falling again at the very end of the programming period to reach 108.1 points of GDP in 2027. This trajectory will not be enough to halt the relative erosion of France's debt position within the eurozone.

48. The Government's revised trajectory is slightly more voluntarist than the initial project, with an actual deficit in 2027 forecast at 2.7 pps of GDP, instead of the initial 2.9 points of GDP. However, the objective of returning below the European limit of 3 points of GDP has not been brought forward in time.

49. The expected structural adjustment, *i.e.* the change in the structural budget balance, would be 0.5 pp of GDP in 2024, mainly due to the gradual phasing-out of energy prices cap and support measures. Thereafter, the structural adjustment would be slightly less significant, gradually reducing to just 0.2 pp of GDP in 2027.

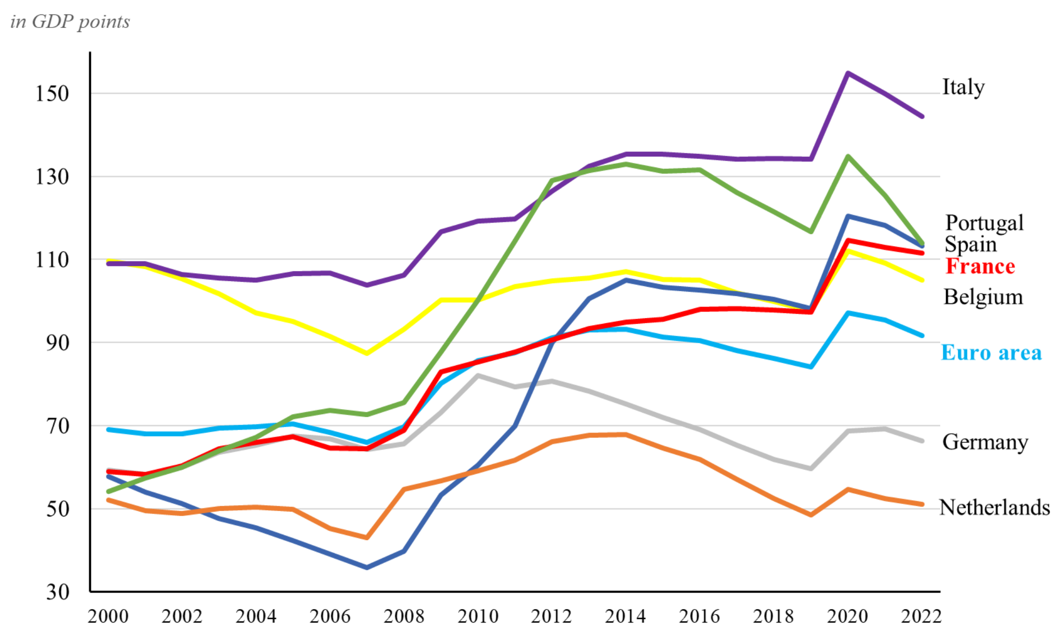
Figure 4: general government structural budget balance (% of potential GDP)



Source: revised public finance programming bill for the years 2023 to 2027

50. The High Council observes that, after five years, the public finance trajectory set out in the draft programming law results in a deficit that is a long way from the medium-term objective of -0.4 pp of GDP set by the same bill. As the planned structural adjustment is less than 0.5 pp of GDP per year, it does not appear at first sight to be in line with current European provisions, which stipulate that Member States with a debt of over 60 pps of GDP must make an annual structural adjustment of more than 0.5 pp of GDP until they reach their medium-term objective.

Figure 5: public debt trajectories in the euro area



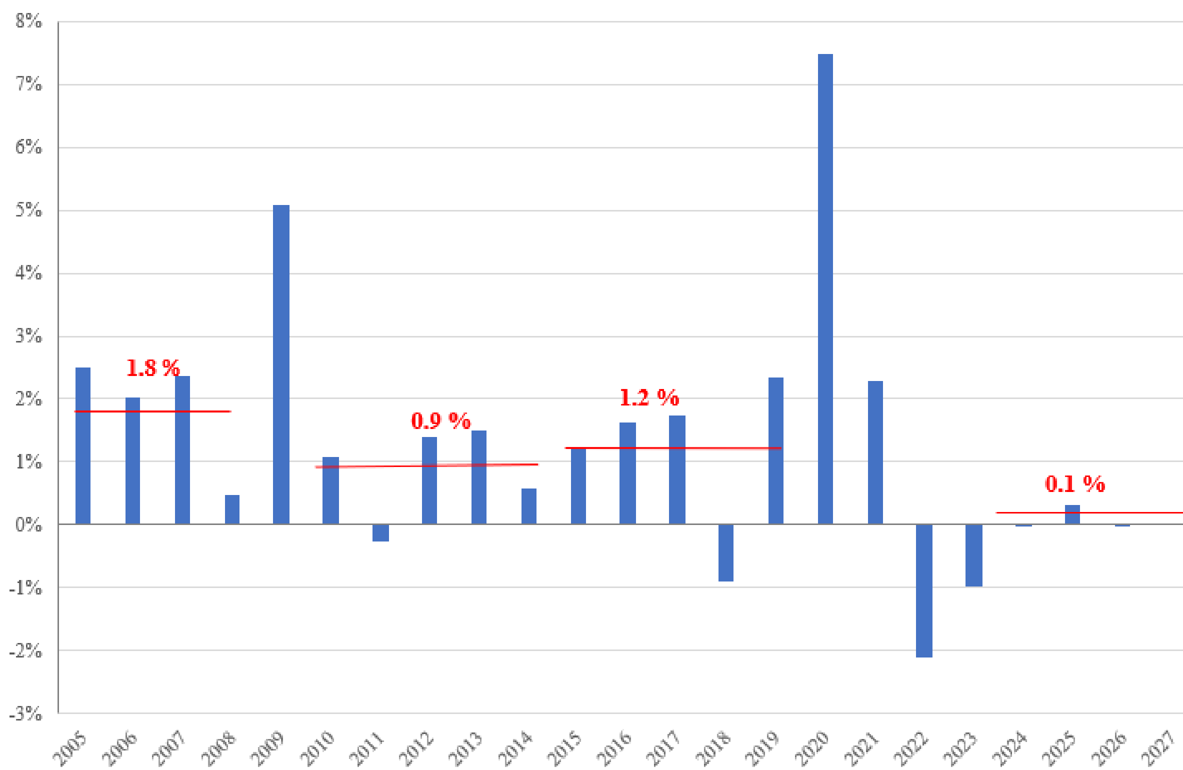
Source: Eurostat

3- The assessment of the High Council:

51. According to the Government, **public spending** excluding tax credits will fall in volume terms in 2023 (by 1.3%) due to the reduction in exceptional measures linked to the rise in energy prices, and the discontinuation of support spending to deal with the health crisis. Once these measures have been neutralized, spending will increase in volume by 0.5%.

52. They would then grow less rapidly than GDP over the 2023-2027 period (+0.6% in volume on average versus 1.6%), enabling the expenditure ratio to fall by 2.1 GDP pps between 2023 and 2027, returning to its 2019 level (53.8%). Excluding interest expenses, they would be practically stable in volume terms over the period (+0.1%), representing a far more ambitious trajectory than that achieved in the past (see Figure 6).

Figure 6: growth rate of public expenditure (excluding interest expense) in volume (%)

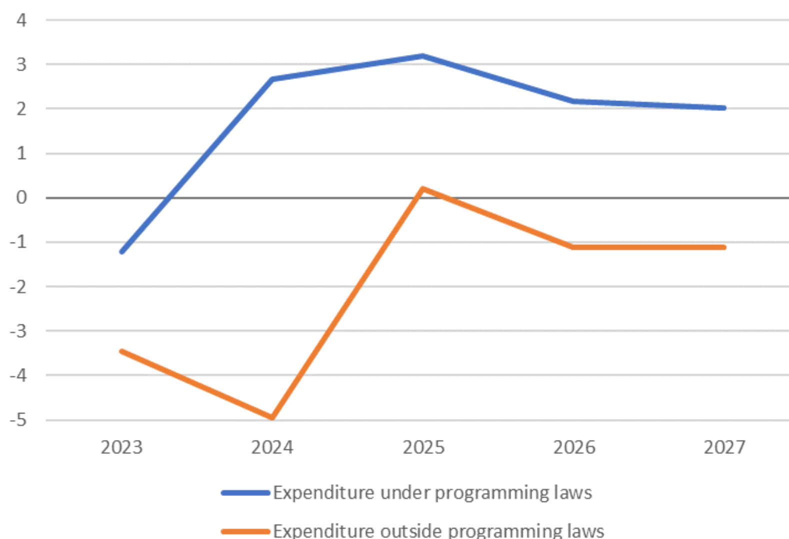


Source: revised public finance programming bill for the years 2023 to 2027

53. The updated public finance programming bill still calls for a marked reduction in State spending over the medium term. Indeed, budget expenditure included in the so called "State expenditure delineation (SED)" would increase in value by an average of 1.1% over the period 2024-2027, representing a 0.9% drop in volume over the period. This trend would to be driven by opposing factors. Firstly, upward factors: the appropriations of several budgetary missions will continue to rise sharply, in application of the sectoral programming laws already voted or under discussion (military, justice, Ministry of the Interior, research) as well as for the needs of the ecological transition. As a result, government expenditure falling within the scope of the SED but outside the sectoral programming laws will require a major effort to control: it should decrease in volume by an average of 1.8% to meet the overall SED objective.

Figure 7: change in real public spending under and outside sectoral programming laws over the 2023-2027 period

In %



Source: revised public finance programming bill for the years 2023 to 2027, calculations by the permanent secretariat of the High Council of Public Finance
Note: the change in real public spending was calculated using the consumer price index excluding tobacco.

54. This control of spending would also fall on local authorities, whose operating expenditure would decrease by an average of 0.5% per year over the period 2024-2027. Although the High Council of Local Public Finance has been set up, no binding mechanism has been introduced, unlike in the previous PFPL 2018-2022. This trajectory also assumes a decline in their investments in 2026 and 2027 (election and post-election years), whereas the increase in investments committed to the ecological transition, supported by a dedicated fund, could be less sensitive to the electoral cycle.

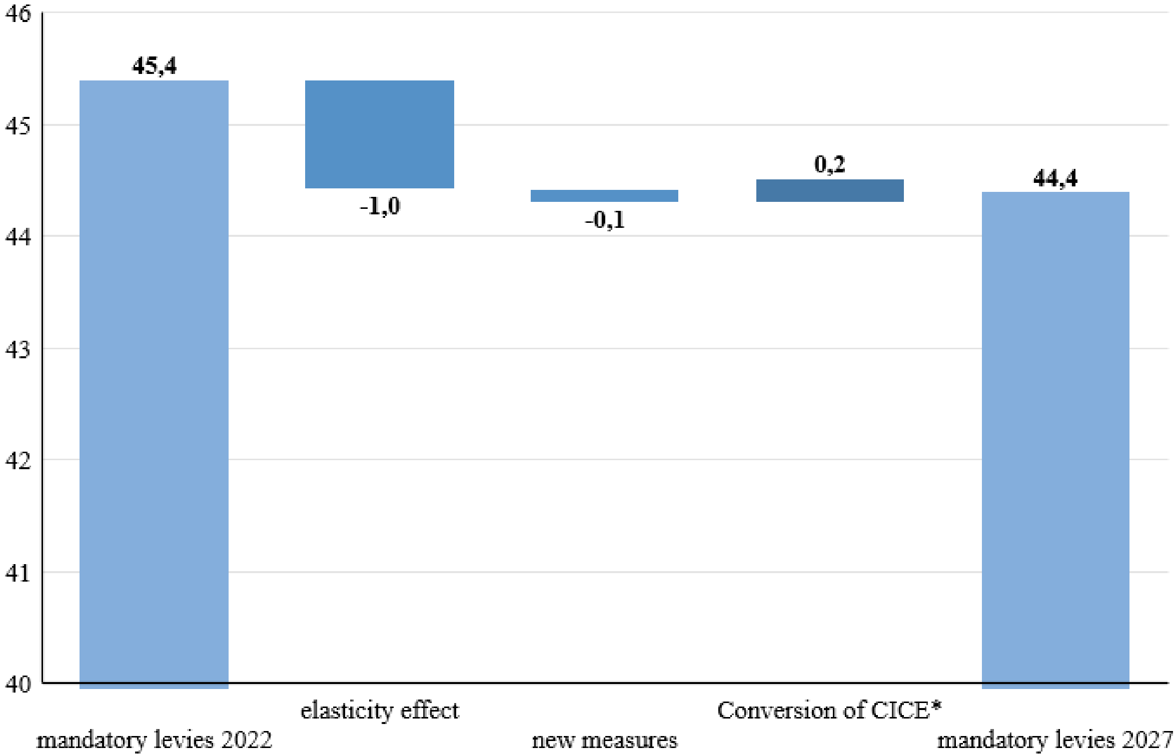
55. On average, social security spending will increase by 0.8% in real terms over the 2024-2027 period, *i.e.* at a slower pace than economic activity. This scenario is based on the impact of the gradual implementation of the pension reform enacted in the spring, but also on an increase in expenditure under the *Ondam* limited to 2.9% at the end of the period. This trajectory does not, however, show any gradual increase in the cost of dependency care, despite the rise in needs linked to the loss of autonomy resulting from the aging of the population.

56. Lastly, compliance with the trajectory presupposes the realisation of a significant amount of savings, which are still poorly documented to date: the Government expects €12 bn in permanent savings by 2025, divided between the general government and the social sphere, from the spending reviews, despite the disappointing nature of the first spending reviews carried out during this five-year period, followed by the same amount of additional savings in subsequent years. The lack of detail on the nature of these savings makes it impossible for the High Council to judge the realism of the spending trajectory, or to assess its impact on the macroeconomic scenario.

*

57. After reaching an all-time high of 45.4 pps of GDP in 2022, due to spontaneous revenue growth far outstripping that of economic activity (elasticity of 1.6), the taxes and social contribution would fall to 44.0 pps of GDP in 2023, with constant-legislation taxes growing at a much slower pace than GDP (elasticity of 0.6) and new measures reducing revenues by €4.0 bn. In 2024, the rate of compulsory levies would be practically stable, at 44.1 pps of GDP, with an elasticity close to unity and new measures reducing taxes by €1.5 bn. From 2025 onwards, spontaneous tax revenues are assumed to increase at the same pace as economic activity. In 2025, however, the rate of compulsory levies would rise by 0.3 pp to 44.4 pps, mainly due to the end of the energy prices cap. The rate of compulsory levies would then be stable in 2026 and 2027. However, trends in asset prices, particularly real estate prices, could lead to lower revenues from certain taxes (DMTO, DMTG, property wealth tax, etc.).

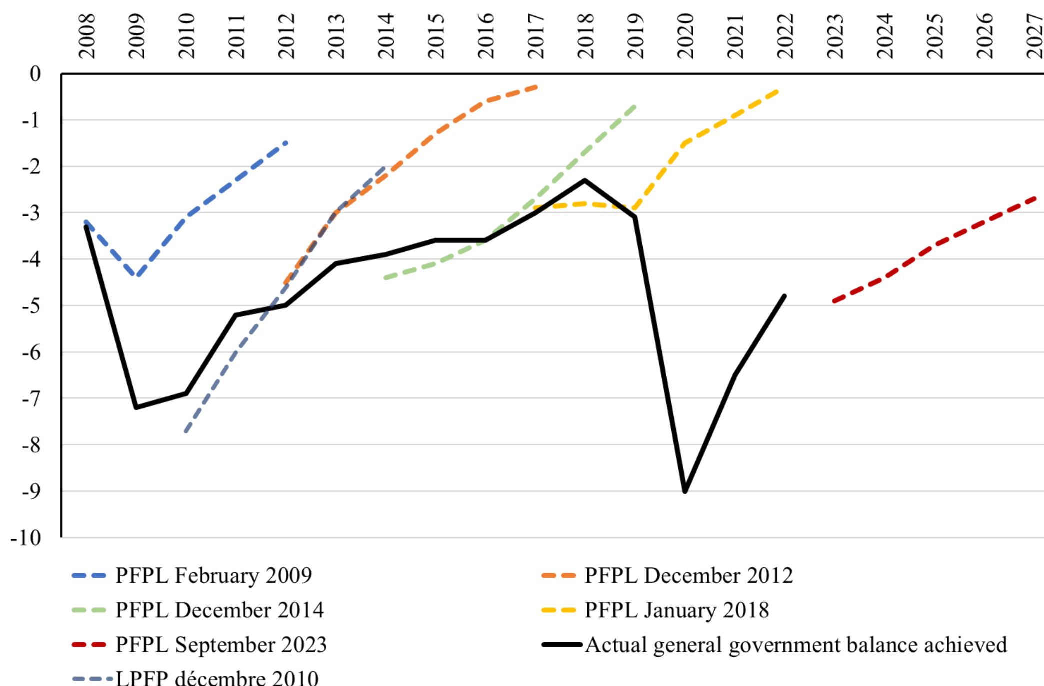
Figure 8: change in the rate of compulsory levies between 2022 and 2027 (in GDP points)



** Tax credit for competitiveness and jobs*

Source: revised public finance programming bill for the years 2023 to 2027, calculations by the permanent secretariat of the High Council of Public Finance

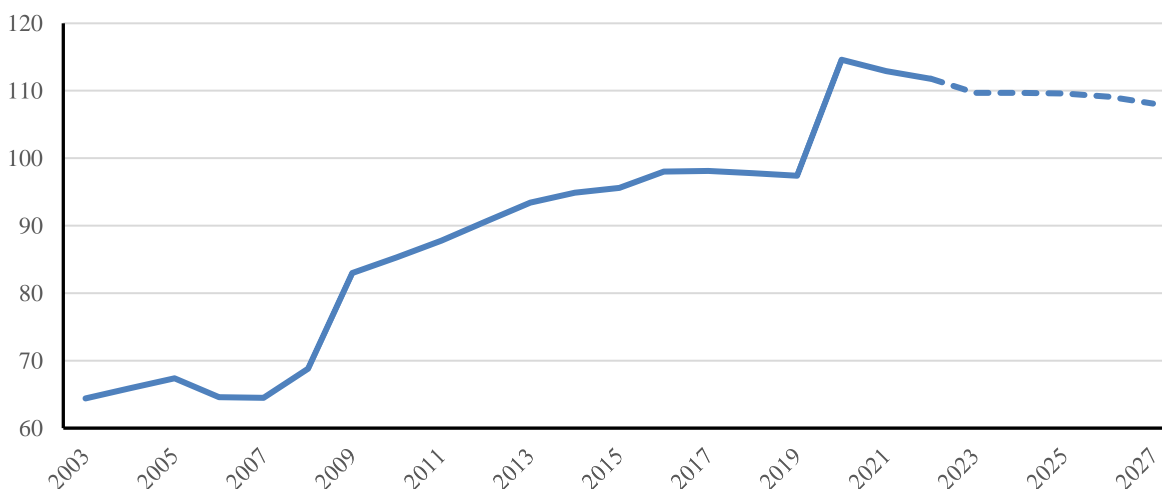
Figure 9: actual general government balance (% of GDP)



Source: Insee, previous programming laws, revised public finance programming bill for the years 2023 to 2027

58. As a percentage of GDP, public debt would fall by 3.7 pps between 2022 and 2027, to 108.1 pps in 2027. The Government has revised its targets compared with the first version of the public finance programming bill, to take greater account of the need to reduce debt. However, the reduction in debt remains weak and will not be sufficient to improve France's relative position within the eurozone, which has deteriorated in recent years. Besides, the expected reduction is fragile, since it is based on an optimistic growth forecast and a demanding spending target, compliance with which is not currently backed by concrete measures.

Figure 10: French public debt path, actual and forecast (in GDP points)



Source: Insee, revised public finance programming bill for the years 2023 to 2027

59. **Based on macroeconomic assumptions that the High Council considers to be optimistic, the general government balance path forecasts a gradual decline in the deficit, which would be brought down to 2.7 points of GDP in 2027, a slightly improved level compared with that presented in September 2022, despite the fact that the weight of the interest burden has increased considerably and the rate of taxes and social contribution remains almost identical to that presented at that time. This path assumes the achievement of significant structural savings in expenditure, which the Government indicates can only be specified at the end of the current spending review.**

60. **The Government has revised its public finance targets for 2027 compared with the project presented in September 2022, in favour of debt reduction, which the High Council has repeatedly put forward. Nevertheless, the trajectory presented by the Government remains unambitious in terms of France's European commitments. The draft programming law makes no provision for a rapid return to the objective of balanced public finances. Even though growth assumptions remain optimistic, the modest change in debt trajectory exposes France to the risk of further divergence with the rest of the euro zone.**

61. **The High Council points out that a return to debt levels that guarantee France sufficient fiscal space is necessary to enable it to cope with future macroeconomic or financial shocks, and with the high public investment needs required in particular by the ecological transition. To ensure the sustainability of public finances, the declared strategy of compulsory levies makes it all the more imperative to control public spending, supported by spending reviews currently underway leading to effective savings.**

* *

This opinion will be published in the *Official Journal of the French Republic* and submitted to the Parliament.

Done in Paris, September 22, 2023.

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

Pierre MOSCOVICI

ANNEX 1
Macroeconomic scenario of the revised public finance programming bill 2023-2027

Main assumptions of the 2022-2027 macroeconomic scenario*						
	2022	**2023**	**2024**	**2025**	**2026**	**2027**
GDP (*)	2.5	1.0	1.4	1.7	1.7	1.8
GDP deflator	3.0	5.7	2.5	1.8	1.6	1.6
CPI excluding Tobacco	5.3	4.8	2.5	2.0	1.8	1.8
Private sector wage bill (**)	3.3	1.3	0.5	1.1	1.4	1.4
Average wage per capita (**)	5.6	5.3	3.1	2.3	2.0	2.0
Potential growth	1.25	1.35	1.35	1.35	1.35	1.35
Potential GDP (in € bn 2010)	2 373	2 405	2 437	2 470	2 503	2 537
Output gap (% of GDP)	-0.9	-1.2	-1.1	-0.8	-0.4	0.0

Note: Data expressed as annual growth rates, unless otherwise specified

(*) Data adjusted for working days.
(**) Non-agricultural market sectors

ANNEX 2
Public finance scenario of the revised public finance programming bill 2023-2027

As a % of GDP unless otherwise specified	2022	2023	2024	2025	2026	2027
All general government						
Structural budget balance (1) (in potential GDP points)	-4.2	-4.1	-3.7	-3.3	-2.9	-2.7
Cyclical balance (2)	-0.5	-0.7	-0.6	-0.4	-0.2	0.0
Balance of one-off and temporary measures (3) (in potential GDP points)	-0.1	-0.1	-0.1	-0.1	0.0	0.0
Actual balance (1+2+3)	-4.8	-4.9	-4.4	-3.7	-3.2	-2.7
Public expenditure (excluding IC)	57.7	55.9	55.3	55.0	54.4	53.8
Public expenditure (excluding IC, in €bn)	1523	1575	1622	1668	1705	1744
Change in public spending excluding IC in volume (%)	-1.1	-1.3	0.5	0.8	0.5	0.5
Aggregate capital expenditure (in €bn)						
Change in aggregate capital expenditure in volume (%)						
Compulsory levies rate (incl. EU net of CIs)[1]	45.4	44.0	44.1	44.4	44.4	44.4
Maastricht debt	111.8	109.7	109.7	109.6	109.1	108.1
Central government						
Balance	-5.2	-5.4	-4.7	-4.3	-4.2	-4.1
Public expenditure (excluding IC, in €bn)	625	631	639	658	678	696
Change in public spending excluding IC in volume (%)	-0.1	-3.6	-1.4	1.9	1.5	1.2
Local government						
Balance	0.0	-0.3	-0.3	-0.2	0.2	0.4
Public expenditure (excluding IC, in €bn)	295	312	322	329	329	331
Change in public spending excluding IC in volume (%)	0.1	1.0	0.9	0.2	-1.9	-1.0
Social security funds						
Balance	0.4	0.7	0.6	0.7	0.9	1.0
Public expenditure (excluding IC, in €bn)	704	730	761	779	798	817
Change in public spending excluding IC in volume (%)	-2.4	-0.5	1.7	0.3	0.7	0.6

[1]Adjusted for the energy prices cap effects, rate of compulsory levies would be 45.6% of GDP in 2022, then 44.4% of GDP in 2023 and 2024.