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Opinion n° HCFP-2023-9
On the end-of-year budget bill for the year 2023

27 October 2023

Executive summary

The Government has not changed its macroeconomic scenario for 2023 from the one associated with the 2024 budget bill (PLF). The High Council considers that the Government's growth forecast for 2023 (+1.0%) is achievable, in an economic context that is nonetheless darkening. The inflation forecast (+4.9%) is still considered as plausible. However, the wage bill growth forecast in the non-agricultural market sector (+6.5%) now seems a little high given its slowdown over the summer.

The High Council considers that the Government's forecast of a general government balance for 2023 of -4.9 percentage points of GDP, also unchanged from the estimate associated with the PLF for 2024, is plausible. The remaining risks for the end of the year, in terms of both expenditure and revenue forecasts, appear to be relatively balanced.

According to the Government, the structural balance will be -4.1 percentage points of potential GDP in 2023, after -4.2 percentage points in 2022, representing a very modest structural adjustment of 0.1 percentage point of potential GDP. The level of the structural balance in 2023, identical to the one presented by the Government in the public finance programming bill (PLPFP) 2023-2027 revised in September 2023, remains very far from the medium-term objective for the structural balance (-0.4 percentage point of potential GDP), and the nominal deficit would exceed 3 percentage points of GDP, whereas the European Commission has announced that it intends to deactivate the general escape clause of the Stability Pact at the end of 2023.

The public debt-to-GDP ratio would fall by 2 percentage points in 2023, benefiting at its denominator from significant GDP growth in value terms, mainly due to high inflation. The High Council notes, however, that France would continue to see its debt position eroding within the eurozone, with the fall in the public debt ratio being faster in many eurozone countries, including some of the most indebted (such as Spain and Portugal). The High Council points out that the return to debt levels enabling France sufficient fiscal space is required to be able to cope with future macroeconomic or financial shocks, and with the public investment needs required in particular by the ecological transition.

1. Pursuant to Article 16-V of the amended Organic Law n°2001-692 of 1 August 2001 on budget laws, the Government referred to the High Council of Public Finance on 20 October 2023 the matter of issuing an opinion on the macroeconomic forecasts associated with the 2023 end-of-year budget bill (PLFFG), on the realism of revenue and expenditure forecasts and on the consistency of this bill with the multiannual structural balance path.

2. In order to assess the realism of the macroeconomic forecasts associated with the end-of-year budget bill and the public finance forecasts, the High Council based itself on the latest available statistics and on the information provided by the Government in its referral and in the replies to the questionnaires.

3. As permitted by Article 61-IX of the Organic Law on budget laws, the High Council held a hearing with representatives of the relevant administrations (French Treasury and the Budget Department) following the referral.

4. The High Council also drew on the work of INSEE, the Banque de France, Rexecode and the Observatoire français des conjonctures économiques (OFCE), the European Commission, the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF).

1. Macroeconomic forecasts for 2023

1- The Government's scenario

5. According to the Government's referral, "*The macroeconomic scenario underlying the PLFG 2023 is unchanged from that underlying the budget bill for 2024, which assumed GDP growth of 1.0% for 2023. The new information since the finalisation of the budget bill for 2024 is in fact consistent with the macroeconomic scenario of the PLF.*

6. *Inflation stood at +4.9% year-on-year in September, identical to August, but with contrasting trends by component. While energy prices rose sharply, notably due to the rise in oil prices, food prices (down in monthly variation for the first time since October 2021) confirmed their rapid decline, and service prices were less dynamic than expected. The September figure is therefore consistent with the underlying scenario of the PLF, which assumed annual average inflation of +4.9%.*"

2- Assessment of the High Council

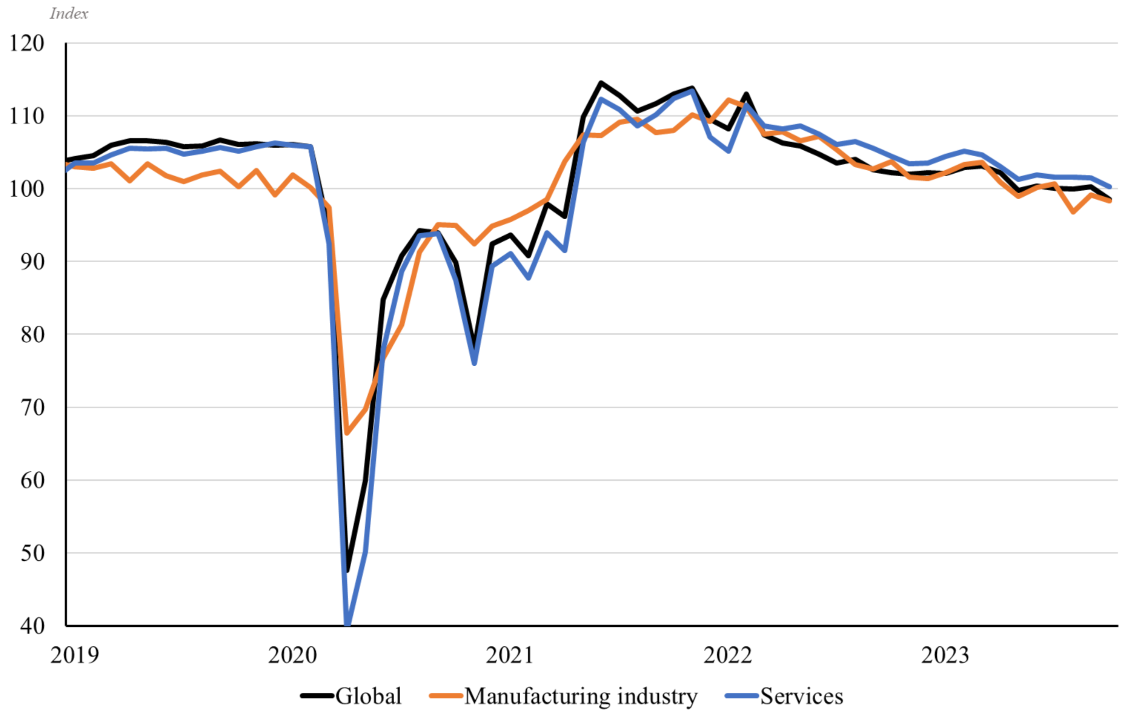
7. For 2023, as in the budget bill (PLF) for 2024, the Government forecasts real GDP growth of 1.0% as an annual average.

8. This forecast was judged as plausible by the High Council of Public Finance in its opinion published in September. The economic data published since then confirms that this forecast is achievable, but suggests that this diagnosis should be slightly nuanced.

9. Thus, the available data on activity for the third quarter do not, at this stage, indicate any marked downturn following the strong GDP growth observed in the second quarter (+0.5% compared to the first quarter). While output in the services sector fell back in July (-0.8%), industrial production rose slightly (the carry-over for the third-quarter at the end of August was 0.2%, following a rise of +1.0% in the second quarter) and household consumption of goods rebounded (carry-over of 0.8% at the end of August, after a fall of 0.6% in the second quarter).

10. However, the business surveys deteriorated slightly, particularly those published by INSEE for October, which show a deterioration in the business climate in most sectors. In manufacturing industry, the balance of opinion on past production fell sharply, reaching its lowest level since July 2020, as did the balance of opinion on personal production expectations, down by almost 12 points. The business climate, which had been virtually unchanged since May, fell below its long-term level.

Figure 1: business climate



Source: INSEE

11. Given the 0.8% carry-over at the end of the second quarter, the Government's forecast assumes a 0.3% increase in activity in the third and fourth quarters. This moderate growth rate is achievable, but is slightly higher than the forecasts made by INSEE and the Banque de France (+0.1% then +0.2%).

Table 1: GDP growth forecasts for France in 2023 as an annual average in %

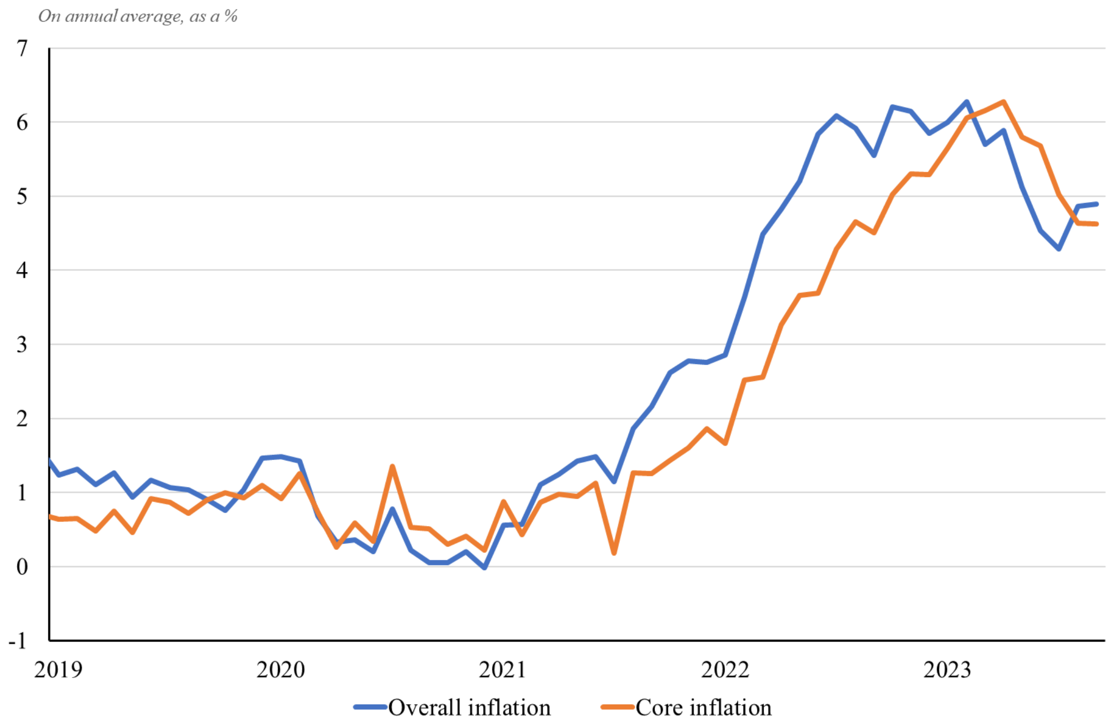
	Date of publication	2023
Government	**19 October**	**1.0**
OFCE	17 October	0.9
INSEE	12 October	0.9
FMI	10 October	1.0
Rexecode	9 October	0.9
Consensus Forecasts	9 October	0.8
OECD	19 September	1.0
Banque de France	18 September	0.9
European Commission	11 September	1.0

Sources: end-of-year budget bill for 2023, OECD Economic Outlook September 2023, OFCE Policy Brief October 2023, Banque de France Macroeconomic Projections September 2023, INSEE Economic Outlook October 2023, Consensus Forecasts October 2023 (including Rexecode), IMF World Economic Outlook October 2023, European Commission Economic Outlook September 2023.

12. The Government continues to forecast an increase in the consumer price index of 4.9% in 2023 as an annual average.

13. The High Council considered this forecast plausible in its opinion on the 2024 draft budget bill, but pointed out the risk of it being exceeded due to oil price trends.

Figure 2: overall and core inflation



Source: INSEE

14. Indeed, the price of oil, which has been on an upward trend since the end of June, rose significantly in September, against a backdrop of great geopolitical uncertainty. It remained close to 90 dollars (or 85 euros) for the first fortnight of October, a level higher than the average

observed since the start of the year (82 dollars, 76 euros) and the Government's forecast for the end of the year (86.1 dollars, 78.7 euros).

15. However, given the carry-over at the end of September, the Government's inflation forecast for 2023 is consistent with a moderate rise in prices over the rest of the year[1], which seems plausible in view of the recent moderation in core inflation and provided that oil prices remain close to their October level by the end of the year[2].

Table 2: inflation forecasts for 2023 as an annual average in %

	Date of publication	**2023**
Government	**19 October**	**4.9**
OFCE	17 October	5.2
INSEE	12 October	5.0
Rexecode	9 October	5.0
Consensus Forecasts	9 October	5.0
Banque de France (estimate drawn from the HICP forecast)	18 September	4.9

Sources: end-of-year budget bill for 2023, forecasts by economic agencies and institutes

16. The Government maintains its forecast of 6.5% for wage bill growth in the non-agricultural market sector in 2023. This forecast now appears a little high in view of the monthly Urssaf data for July and August, which show a significant slowdown (+5.4% year-on-year in July and August 2023, compared with +6.6% in the first half of the year). If this slowdown were to be confirmed by the end of the year, wage bill growth in the non-agricultural market sectors would be more likely to be around 6.0% in 2023.

*

17. **The High Council considers that the Government's growth forecast for 2023 (+1.0%) is achievable, in an economic context that is nonetheless darkening. The inflation forecast (+4.9%) is still considered plausible. However, the wage bill growth forecast in the non-agricultural market sector now seems a little high given its slowdown over the summer.**

[1] Considering rounding, a monthly rise of 0.17% from October to December is enough to keep inflation at an annual average of 4.9% over 2023.

[2] Assuming that the price of Brent remains at its mid-October level (90 dollars) until the end of the month, the monthly average would be 88.9 dollars in October (84.2 euros), compared with 92.7 dollars in September (86.8 euros).

2. Forecasts of general government revenue, expenditure and balance

1- The Government's scenario

18. According to the Government's referral, "*The general government balance remains forecast at -4.9% of GDP, as in the 2024 budget bill and the stability programme.*

19. *Compared with to 2024 budget bill the most recent accounting information has led to movements in the revenue forecasts that offset each other overall. In addition, the end-of-year bill forecasts lower expenditure than anticipated under the 2023 budget law and the 2024 budget bill. Overall, based on the latest information available, the forecast of -4.9% of GDP should be maintained.*"

2- Assessment of the High Council

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

a) Revenue

21. According to the Government, revenue from compulsory levies will reach €1,240.7bn in 2023, up 3.7% in value terms compared with 2022, *i.e.* growth well below that of GDP in value terms (+6.8%). As a result, the rate of compulsory levies will fall by 1.4 percentage points relative to 2022, to 44.0 percentage points of GDP in 2023.

22. The amount of compulsory levies has been revised slightly downwards in the PLFFG, by €0.5bn, compared with the PLF for 2024 forecast.

23. This difference is due in particular, for €0.2 billion, to slight decreases in expected revenues from the contribution on electricity producers' infra-marginal rents and to gains on public energy service charges (CSPE), linked to the continued fall in market prices in September 2023. Revisions are still possible, however, given the uncertainties surrounding price trends on the wholesale electricity markets in the last quarter of 2023.

24. As the High Council pointed out in its opinion on the PLF for 2024, the initial forecast of a 16.0% fall in duty on real property transactions (DMTO) in 2023 could still be considered somewhat optimistic given the downward trend in the property market. Accounting data from August and September led the Government to revise its real estate scenario and forecast a 20% fall in DMTO in 2023, i.e. a drop of €0.9bn compared with the PLF 2024. This forecast now seems plausible, even if a continuation in the final months of the year of the downward trend seen since the start of the year could lead to a fall slightly over 20% for the year as a whole.

25. Income tax revenues have also been revised downwards (by €0.7bn) compared with the forecast in the 2024 budget bill, due to lower-than-expected capital gains on securities in 2022, which will affect the tax balance for 2022, and to a downward revision of the forecast for capital gains on real estate in 2023, in line with the deterioration in the forecast for DMTO. At this stage of the year, there is little uncertainty about the revenue from income tax.

26. Conversely, VAT revenues have been revised slightly upwards (+€0.6bn), due to better than expected accounting data for July-August in the 2024 budget bill. This forecast is plausible given the expected change in the taxable base between now and the end of the year.

27. There is also a revision in the forecast of the balance of the account for advances to local authorities (+€0.4bn), due to an upward revision of the property tax collection rates in previous years. Revenues from the special tax on insurance policies have also been revised upwards (+€0.2bn) compared with the 2024 budget bill.

28. The Government has not changed its forecast for corporate income tax revenues. As in previous years, this forecast is subject to considerable uncertainty due to the inherently uncertain revenue from the "5th advance payment" paid in December.

29. The other forecasts for compulsory levies remain unchanged from those in the 2024 PLF. Because of the slightly too high wage bill forecast (see above), expected revenues from social security contributions and social security levies on earned income may be slightly overestimated, by around one tenth of a percentage point of GDP. In addition, the Government has considered the consequences of the downward revision of capital gains on securities and real estate on income tax revenues, but not on social security contributions on capital. As a result, the latter may be slightly overestimated.

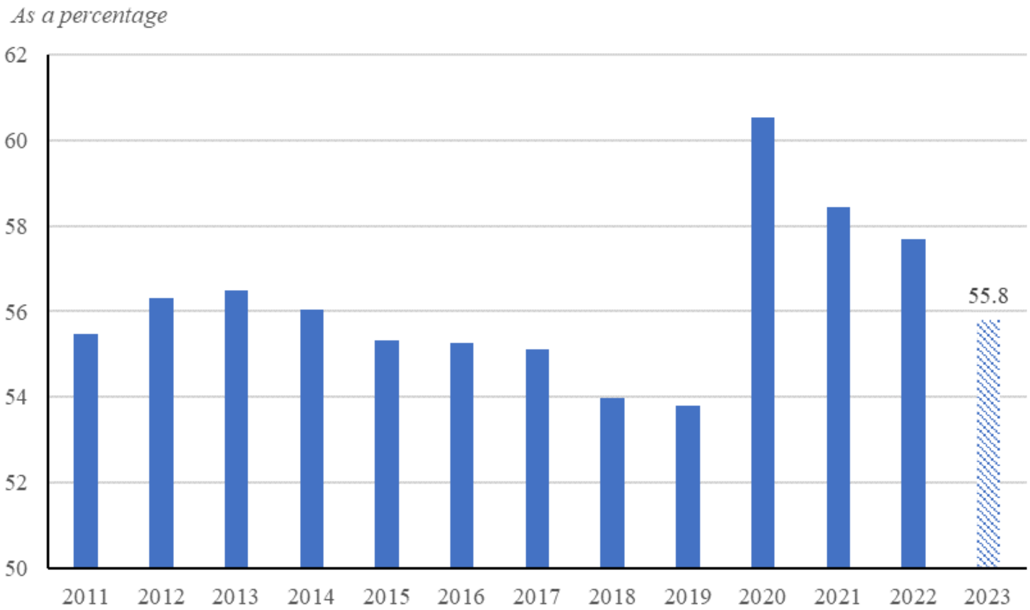
30. On the other hand, the Government has not revised its forecast for inheritance duties. This forecast seems low given the dynamism of the accounting data up to September, which suggest that revenues will be around €1bn higher than forecast in the PLFFG.

31. **The High Council considers that the adjusted tax and social security contributions forecast for 2023 is plausible overall. The forecast revenue from social security contributions and social security levies on earned income appears to be slightly too high in relation to the slightly high forecast for the wage bill. However, conversely, the forecast for revenues from inheritance duties appears to be low. Taken together, these various risks are much smaller than the uncertainties that remain, particularly with regard to corporate income tax revenues.**

b) Expenditures

32. The forecast for public expenditure has been revised slightly downwards compared with the forecast underlying the 2024 PLF: public expenditure is expected to increase by 3.3% in value terms in 2023, compared with 3.4% in the PLF. In real terms, it would therefore fall by 1.4% deflated by the CPI excluding tobacco and by 2.3% deflated by the GDP deflator. Public expenditure would therefore amount to 55.8 percentage points of GDP in 2023 (compared with 55.9 percentage points forecast in the PLF for 2024).

Figure 3: public spending as a percentage of GDP



Sources: INSEE, Government forecast

33. The downward revision of the public expenditure forecast compared with the PLF for 2024 is mainly driven by general government expenditure (€1.7 bn). This is partly explained by an under-utilisation of stimulus package appropriations (revised downwards by €1 bn).

34. Social security and local government expenditure will respectively decrease by 0.5% and increase by 1.0% in real terms, as forecast in the PLF for 2024. However, these forecasts are still subject to uncertainties. For example, the recent strong growth in non-hospital healthcare expenditure, which has already led in the 2024 social security financing bill to an increase of €1.0bn in the Ondam[3] sub-target for 2023, creates the risk of an additional, moderate, overspending of the 2023 budget, as mentioned in the 13 October opinion of the *Ondam* alert committee. But the main risk relates to local government expenditure: even if the latest accounting data from local authorities does not call the forecast into question, significant discrepancies are often observed once the latest expenditure (mainly investment) has been accounted for.

35. **The High Council considers that the public spending forecast for 2023 is plausible, with the remaining uncertainties at the end of the year broadly balanced out.**

c) The general government balance

36. According to the Government, the general government balance will be -4.9 percentage points of GDP in 2023, an estimate identical to that in the PLF for 2024. Given the above assessment of revenue and expenditure, the Government's balance forecast is plausible.

37. The slight deterioration in the general government balance between 2022 (-4.8 percentage points of GDP) and the forecast for 2023 (-4.9 percentage points of GDP) results from the

[3] National health insurance expenditure target.

deterioration in the cyclical balance (from -0.5 percentage point of GDP in 2022 to -0.7 percentage point in 2023) due to the slowdown in growth.

38. The High Council notes that, for these two years, the general government balance remains significantly above the limit of 3 percentage points of GDP set by the Stability and Growth Pact.

39. **The Government's forecast of a general government balance for 2023 of - 4.9 percentage points of GDP is plausible.**

3. Consistency with the multi-annual structural balance path

1- The Government's scenario

40. According to the Government's referral, "*Using the potential framework and the methodology for calculating the structural balance provided for in the 2023-2027 public finance programming bill amended at the National Assembly in September 2023, the structural balance would stand at -4.1% of potential GDP in 2023, as in the 2024 PLF*."

2- Assessment of the High Council

41. According to the Government, the structural balance[4] would be -4.1 percentage points of potential GDP in 2023, after -4.2 percentage points in 2022, *i.e.* a very modest structural adjustment of 0.1 percentage point of potential GDP. Pursuant to Article 61-V of the Organic Law, the High Council is required to give its opinion on "the consistency of the bill, particularly its introductory article, with the multi-year structural balance targets defined in the public finance programming law", which it cannot do in the absence of a programming law in force at the time of the referral.

42. The High Council notes that the level of the structural balance in 2023 remains identical to that presented by the Government in the public finance programming bill (PLPFP) 2023-2027 revised in September 2023, which was being debated in Parliament at the time of the referral. The structural balance remains far from the medium-term objective for the structural balance (-0.4 percentage point of potential GDP) set in the PLPFP.

43. The quasi-stability of the structural balance between 2022 and 2023 conceals large-scale movements in opposite directions. The fall in emergency spending (-€11.8 bn), stimulus spending (-€8.4 bn) and spending linked to the energy crisis (-€3.8 bn) and the fall in interest expenses (-€3.7 bn) due to lower inflation in France and the eurozone, improve the balance. However, this positive effect is offset in particular by the fall in the rate of compulsory levies, which worsened the balance by €36.5 bn, due both to a growth elasticity of compulsory levies of less than 1 (0.6) and to discretionary tax cuts, such as the first instalment of the suppression of the CVAE (a tax on value-added by firm) for €4.2 bn or the final instalment of the suppression of the residence tax for €2.8 bn.

44. Structural adjustment thus remains below the requirements of the preventive arm of the Stability and Growth Pact, which stipulates that it must in principle be higher than 0.5 percentage point of GDP for countries whose debt exceeds 60 percentage points of GDP.

45. Nevertheless, in March 2020, the European Commission triggered the general escape clause of the Stability and Growth Pact, which still allows Member States to deviate temporarily from

[4] See Appendix 2 for a definition of the concepts used in this section.

the adjustment path towards the medium-term objective, provided that medium-term fiscal sustainability is not jeopardised.

46. The Commission has announced that the general escape clause will be deactivated at the end of 2023. The requirements of the Stability and Growth Pact should then apply in full, in particular as from the notification in March 2024 of the public deficits for 2023. If the current negotiations are successful, these will be the new rules. Otherwise, the current rules would apply. In particular, the Commission will examine whether countries with deficits higher than 3 percentage points of GDP should be considered as having excessive deficits and should be subject to the measures provided for in the texts.

Table 3: Breakdown of the general government balance presented by the Government

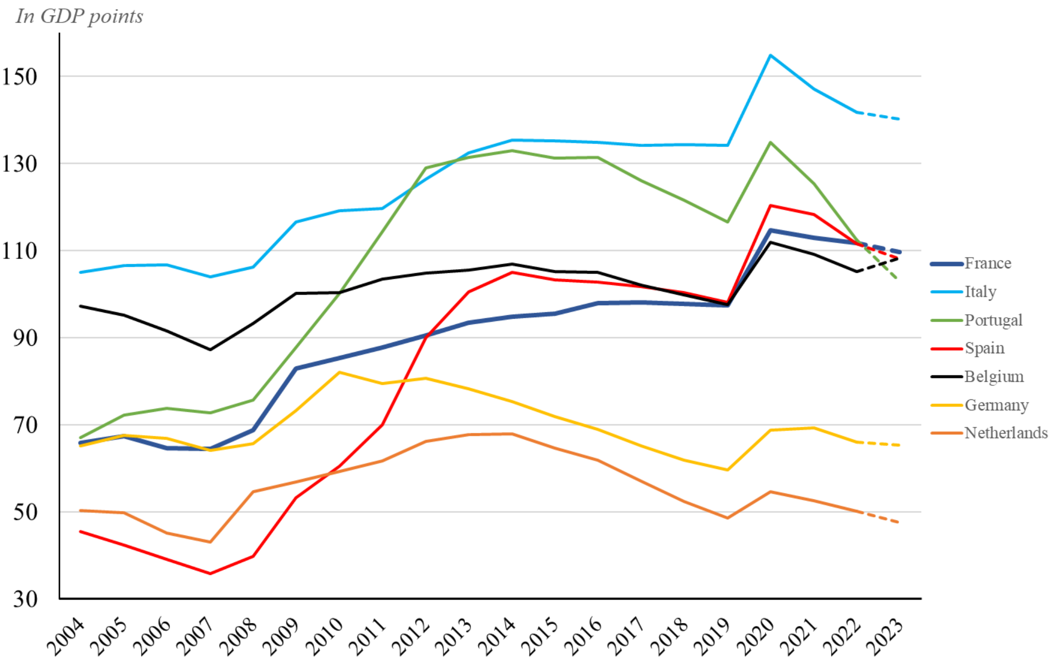
In GDP points	**End-of-year budget bill for 2023 (October 2023)**		**PLPFP revised (September 2023)**	*Gap (A-B)*
	2022	**2023 (A)**	**2023 (B)**	***2023***
General Government balance	**-4.8**	**-4.9**	**-4.9**	***0.0***
Cyclical component	-0.5	-0.7	-0.7	*0.0*
One-off and temporary measures*	-0.1	-0.1	-0.1	*0.0*
Structural balance*	**-4.2**	**-4.1**	**-4.1**	***0.0***

Sources: end-of-year budget bill for 2023, PLPFP 2023-2027 revised
Note: Figures are rounded to the nearest tenth, which may result in slight discrepancies in the outcome of operations.
** As a % of potential GDP*

47. As in the PLF for 2024, the public debt-to-GDP ratio would fall from 111.8 percentage points of GDP in 2022 to 109.7 percentage points in 2023, a fall of 2 percentage points. On the denominator side, the ratio benefits from significant GDP growth in value terms (+6.8%), mainly due to high inflation. Thus, although the public deficit is very high, at 4.9 percentage points of GDP, it is more than two points lower than the deficit required to stabilise the debt.

48. France would nevertheless continue to see its debt position eroding within the eurozone. According to the draft budgetary plans submitted in October 2023, Spain and Portugal, which had a higher debt ratio than France in 2022, should reach a lower ratio in 2023 thanks to a much stronger debt reduction dynamic (-3.5 percentage points and -9.5 percentage points of GDP respectively).

Figure 4: changes in public debt



Sources: Eurostat, national draft budgetary plans, Government forecast

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49. **According to the Government, the structural balance will be -4.1 percentage points of potential GDP in 2023, after -4.2 percentage points in 2022, representing a very modest structural adjustment of 0.1 percentage point of potential GDP. The level of the structural balance in 2023, identical to that presented by the Government in the 2023-2027 public finance programming bill revised in September 2023, remains very far from the medium-term objective for the structural balance (-0.4 percentage point of potential GDP), and the nominal deficit would exceed 3 percentage points of GDP, whereas the European Commission has announced that it intends to deactivate the general escape clause of the Stability Pact at the end of 2023.**

50. **The public debt-to-GDP ratio would fall by 2 percentage points in 2023, benefiting at its denominator from significant GDP growth in value terms, mainly due to high inflation. The High Council notes, however, that France would continue to see its debt position eroding within the eurozone, with the fall in the public debt ratio being faster in many eurozone countries, including some of the most indebted (such as Spain and Portugal).**

51. **The High Council points out that a return to debt levels enabling France sufficient fiscal space is required to be able to cope with future macroeconomic or financial shocks, and with the high public investment needs required in particular by the ecological transition.**

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This opinion will be published in the Official Journal of the French Republic and attached to the end-of-year budget bill for 2023 when it is submitted to the National Assembly.

Done in Paris, on October 27, 2023.

For the High Council of Public Finance,
The First President of the Cour des comptes
Chairman of the High Council of Public Finance

Pierre MOSCOVICI

Annex 1: Introductory Article of the 2023 end-of-year budget law for 2023

Text of the article:

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

As % of GDP unless otherwise stated	2022	2023	2023
End-of-year budget law for 2023			LPFP 2023-2027
All public administrations			
Structural balance (1)	-4.2	-4.1	-4.1
Cyclical balance (2)	-0.5	-0.7	-0.7
Balance of one-off and temporary measures (3)	-0.1	-0.1	-0.1
Actual deficit (1+2+3)	-4.8	-4.9	-4.9
Debt in the Maastricht sense	111.8	109.7	109.7
Mandatory levies rates (incl. EU net of tax credits - TC)	45.4	44.0	44.0
Public expenditure (excluding IC)	57.7	55.8	55.9
Public expenditure (excluding in €bn)	1523	1573	1575
Change in public expenditure excluding IC in volume (%)[1]	-1.1	-1.4	-1.3
Main investment expenditure (€bn)[2]		25	25
Central public administrations			
Balance	-5.2	-5.3	-5.4
Public expenditure (excluding TC, in €bn)	625	629	631
Change in public expenditure excluding TC in volume (%)[3]	-0.1	-3.9	-3.6
Local public administrations			
Balance	0.0	-0.3	-0.3
Public expenditure (excluding TC, in €bn)	295	312	312
Change in public expenditure excluding TC in volume (%)[3]	0.1	1.0	1.0
Social security authorities			
Balance	0.4	0.7	0.7
Public expenditure (excluding TC, in €bn)	704	730	730
Change in public expenditure excluding TC in volume (%)[3]	-2.4	-0.5	-0.5

[1] At constant perimeter.
[2] As defined in the public finance programming law for 2023-2027.
[3] At constant field, excluding transfers between public administrations.

Explanatory memorandum to the article:

The general government balance forecast for 2023 underlying the end-of-year budget bill for 2023 (PLFG) takes into account the latest revenue and expenditure information since the submission of the budget bill for 2024 (PLF 2024). Macroeconomic assumptions are unchanged from the 2024 PLF: economic activity is still expected to grow by +1.0% in volume terms in 2023.

The general government balance remains forecast at -4.9% of GDP as in the PLF 2024 and the Stability Programme. Using the potential framework and methodology for calculating the structural balance set out in the public finance programming bill 2023-2027 amended at the National Assembly in September 2023, the structural balance would stand at -4.1% of potential GDP in 2023, as in the PLF 2024.

Compared to the PLF 2024, the most recent accounting feedback has led to movements in the revenue forecasts that offset each other overall. In addition, the end-of-year budget scheme forecasts lower-than-anticipated expenditure underlying both the 2023 budget law and the 2024 budget bill. All in all, the latest available information justifies maintaining the forecast of -4.9% of GDP.

Annex 2: Methods of estimating the general government structural balance

The calculation of the structural balance

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

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

The identification of the cyclical and structural components of the public deficit is fundamentally based on the estimation of potential GDP. Potential GDP represents the level of output that the economy can sustain over the long term without putting pressure on the factors of production, capital and labour.

The methodology for calculating the structural balance has been simplified in the Public Finance Programming Bill (PLPFP) for the years 2023 to 2027. It is now close to the one used by the European Commission.

The cyclical component is now the product of the output gap and an apparent semi-elasticity to the output gap, set at an average value over the entire period covered by the programming law[5]. The value used for the period 2023-2027 is 0.57 and is based on:

- the elasticities estimated by the OECD. In concrete terms, the cyclical shares of public revenue and expenditure are evaluated as follows:
    - **On the revenue side,** only compulsory levies are assumed to be cyclical;
    - **On the expenditure side,** only unemployment compensation expenditure is considered to be cyclical[6].
- the average weight of taxes in total revenue over 2008-2017, the average weight of unemployment expenditure in total expenditure, and the average weight of total revenue and total expenditure in GDP over the same period.

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

A final adjustment is made to the structural balance in order to exclude certain events or measures which, because of their exceptional nature, do not have a permanent impact on the general government balance. This adjustment was originally introduced to neutralise the effect of the sale of UMTS licences at the end of the 1990s and the various payments received by the

[5] The method used for the 2018-2022 programming law required a new calculation of the apparent semi-elasticity of the cyclical balance to the output gap each year.

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

State (IEG, La Poste, France Telecom) which contributed to an exceptional increase in revenue. **However, there is no precise definition of exceptional measures and their identification is partly a matter of interpretation.** While stressing that the one-off and temporary nature of the measures must be assessed on a case-by-case basis, the Government is proposing a set of criteria to help understand the concept in an annex to the programming law.

The composition of the structural adjustment

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

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

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

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

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

Introduced in 2011 as part of the reform of the Stability and Growth Pact, the general escape clause can be activated in the event of "*an unusual event outside the control of the Member State concerned which has a significant impact on the financial position of the general government or in the event of a severe economic downturn affecting the euro area or the Union as a whole*"[7]. In the case of the preventive arm of the Stability and Growth Pact, States are "*allowed to deviate temporarily from the adjustment path towards the medium-term budgetary objective [...] provided that medium-term fiscal sustainability is not jeopardized*"[8]. Furthermore, under the corrective arm of the Pact[9], the clause allows the Council of the European Union to recommend a revised path to a Member State.

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

While the Commission still anticipated in March 2022 that the general escape clause could be deactivated in 2023, it finally decided to extend it for an additional year in its communication of 23 May 2022 in the framework of the European semester. The Commission stressed that the context of war in Europe, rising energy prices and persistent disruptions in supply chains had not allowed the European economy to return to normal, with the economic situation remaining characterised by high uncertainty, significant downside risks, and the need for Member States to adopt, if necessary, budgetary measures to address the economic consequences of the war in Ukraine.

The Commission has announced that the clause should be deactivated at the end of 2023.

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