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Opinion n° HCFP - 2023 - 8

On the draft budget bill and the draft social security financing bill for the year 2024

22 September 2023

Executive summary

The High Council considers that the Government's macroeconomic scenario for 2023 is plausible. Thanks to stronger-than-expected growth in the 2nd quarter, the Government's forecast (+1.0% annual average), unchanged, is no longer above the range of available estimates. The inflation forecast, albeit still a little low, and the wage bill forecast are also plausible.

The public deficit forecast for 2023 (4.9 percentage point of GDP) is plausible, particularly given the information available for the first seven months of the year, even if some tax receipts and the amount of some expenditure, notably investment by local authorities, remain uncertain.

For 2024, the High Council considers that the growth forecast (+1.4%), higher than that of the consensus of economists (+0.8%) and the organisations it held hearings with, is high. For all demand components (consumption, investment, exports), the Government is more optimistic than these organisations. In particular, the growth forecast assumes that the tightening of credit conditions has already had most of its impact, particularly on household investment. The High Council notes the significant uncertainties surrounding the analysis of the economic situation, due in particular to the current difficulties in understanding many behaviours (high household savings rate, low productivity, for example).

The inflation forecast for 2024 (+2.6%) is plausible. However, there is a risk that it will be exceeded, due in particular to the recent trend in oil prices. The wage bill forecast for the non-agricultural market sectors (+3.9% excluding the profit-sharing contribution) is also plausible, the optimistic nature of the employment forecast being offset by an assumption of a slowdown in per capita wages which seems too marked.

The public deficit forecast for 2024 (4.4 percentage point of GDP) combines mainly favourable assumptions and appears optimistic. The forecast for taxes and social security contributions is driven upwards by the high activity growth forecast and, beyond that, by favourable assumptions on some tax receipts (growth in VAT higher than that of its tax base, halt in the decline in revenues from the duty on real property transactions). In addition, expenditure is likely to turn out higher than forecast, particularly in terms of the cost of energy devices and healthcare spending (Ondam).

While the Government's scenario is characterised by the end of the health and energy crises, the High Council notes that, despite the end of support measures, spending will continue to rise significantly in 2024, more than recommended by the European Union (nominal increase in net primary expenditure of 2.6%, against a recommended ceiling of 2.3%), and this although the European Commission has announced the end of the general escape clause in the Stability Pact as of 2024. While the significant rise in interest expenditure contributes to increasing public expenditure, the budget bill contains few structural savings measures, despite the first round of spending reviews in 2023, and forecasts a quasi-stability of the rate of compulsory levies.

As a result, the Government forecasts that the public debt ratio, after a decline in 2023 thanks to unusually strong GDP growth in value terms, will not decrease in 2024. The expected stabilization of the debt ratio in 2024 is fragile, as it is based on growth and expenditure optimistic forecasts. Thus, France, which has seen its relative debt position within the euro zone deteriorate in recent years, would maintain a high level of debt in 2024.

The medium-term sustainability of public finances therefore continues to call for the utmost vigilance. 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 high public investment needs required in particular by the ecological transition.

Introductory remarks

1- On the scope of the following opinion

1. Pursuant to IV of the Article 61 of the amended organic law no 2001-692 of 1 August 2001 on the finance laws, the High Council of Public Finance issues an opinion on:

- the macroeconomic forecasts, on which the budget (PLF) and social security financing bills (PLFSS) are based;
- the consistency of the budget bill's introductory article with the multi-year targets for the structural balance and general government expenditure set in the public finance programming law (PFPL);
- the realism of the revenue and expenditure forecasts of the PLF and PLFSS.

2- On the information submitted

2. On 15 September 2023, the Government referred to the High Council of Public Finance the macroeconomic forecasts and the introductory article of the PLF and PLFSS for 2024. This referral was accompanied by responses to questionnaires sent by the High Council to the relevant administrations.

3- On the High Council's methodology

3. In order to assess the realism of the macroeconomic forecasts associated with the PLF and PLFSS for 2024, the High Council examined the Government's assumptions and the expected economic mechanisms. It relied on the last available statistics and on information provided by the relevant administrations, notably about the economic policy measures decided by the Government.

4. The High Council also drew on the latest forecasts produced by a range of national and international institutions, including the European Central Bank (ECB), the Banque de France, the European Commission, the International Monetary Fund (IMF), the French National Institute for Statistics and Economic Studies (INSEE), the Organisation for Economic Co-operation and Development (OECD), as well as economic research institutes such as the Observatoire français des conjonctures économiques (OFCE) and Rexecode.

5. The High Council held hearings with representatives of the French Treasury, and the Budget and Social Security departments. It also held hearings with representatives of INSEE, Banque de France, OFCE and Rexecode.

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6. After a presentation of the global economic environment (I), the High Council provides its assessment of the macroeconomic forecasts associated with the PLF and PLFSS for 2024 (II), and then of the consistency of the introductory article of the PLF and PLFSS with the multi-year targets for the structural balance and general government expenditure set in the public finance programming law, and the realism of the revenue and expenditure forecasts of the PLF and PLFSS (III).

I- The international economic environment

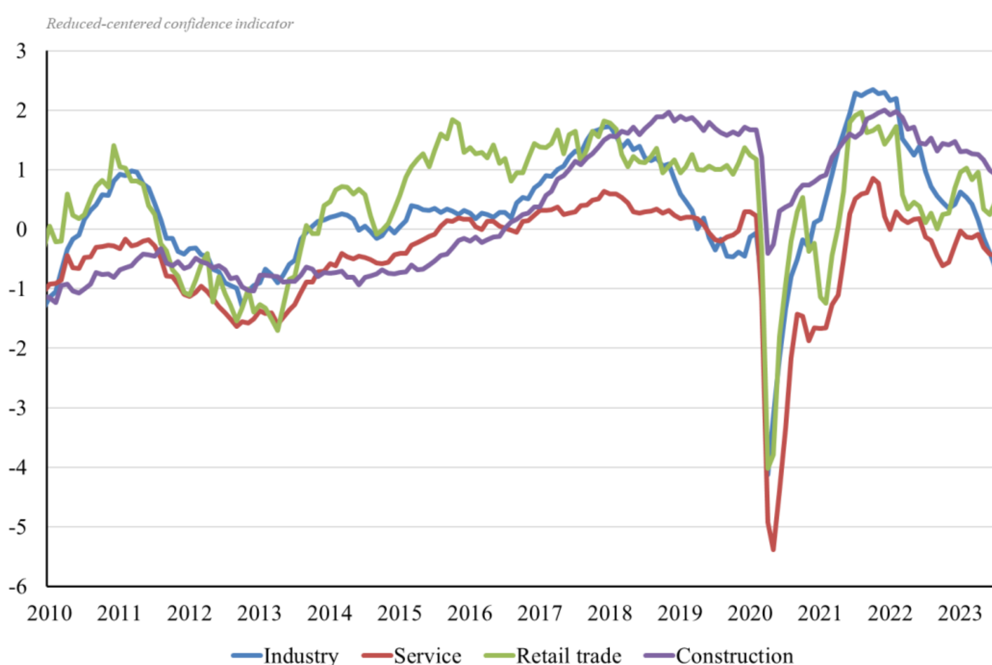
7. After weakening in 2023, global economic growth should not rebound in 2024, penalised by declining but still high inflation and restrictive monetary policies in developed countries.

8. In the United States, despite the Federal Reserve raising Fed Funds rates to 5.375% at the fastest pace in 40 years, growth proved resilient in the first half of 2023. Over 3 million jobs have been created in the last 12 months, and the unemployment rate remains at a historically low level (3.8% of the working population in August). Rising employment and falling inflation have supported growth in real household income and thus consumption, which has also been boosted by a sharp fall in the savings rate. The scale of fiscal support for infrastructure and reindustrialization (Inflation Reduction Act and Chips Act of the Biden administration) also stimulated investment. The ongoing deterioration in the financial situation of households, who have already drawn heavily on the savings accumulated during the health crisis to fuel their consumption, as well as monetary tightening and its effects on the granting of credit, should, however, weigh on growth in the US economy in 2024. The Consensus Forecasts published in September forecast it at 0.8%.

9. The rebound in Chinese growth that followed the withdrawal of restrictions to combat the Covid-19 epidemic proved short-lived. Concerns about the real estate sector and the employment situation are weighing on household consumption and business investment, with agents preferring to increase their savings rate and reduce their debt. The exacerbation of geopolitical tensions has led to a fall in foreign investment and a weakening of exports. The recent trend in consumer prices (+0.1% year-on-year in August, after -0.3% in July) and the over-indebtedness of some major players in the property sector, as well as local authorities, should continue to weigh on the Chinese economy in the quarters ahead, especially as the Chinese authorities seem reluctant to stimulate growth. As a result, China is unlikely to be the driving force behind the global economy in 2024.

10. At the same time, euro zone economies are going through a slowdown phase. Indicators published over the summer (see in particular the confidence indicators in Figure 1) signal that activity could be contracting in several European countries. The ECB's rate hike of 450 basis points since July 2022, which now brings the rate on the deposit facility to 4%, is gradually affecting economies: the interest rate of credit distributed by the financial sector has risen significantly, and demand for credit has fallen, in line with a decline in investment and a deterioration in the real estate market.

Figure 1: European Commission business surveys in the euro area (economic sentiment indicators)



Source: European Commission
Note: the confidence indicators published by the European Commission have been centered-reduced (mean and standard deviation calculated over the period 1995-2019).

11. In Germany, in particular, the outlook has deteriorated considerably over the next few months, and the various economic research institutes are forecasting a contraction in GDP for 2023[1] as a whole. German industry is affected by the slowdown in some of its major export markets, and energy-intensive sectors such as chemicals are suffering from a loss of competitiveness. Growth is expected to return in 2024, but at a low level of between 1% and 1.3%. Activity in Germany would be driven by a rebound in consumption, thanks to the combination of strong wage growth and falling inflation, which would support household purchasing power.

12. Overall, after slowing in 2023, global growth is expected to remain broadly unchanged in 2024 (see Table 1).

[1] On Thursday September 7, Munich's Ifo economic institute forecast a 0.4% contraction in business activity for 2023. On Wednesday September 6, the Kiel Institute for International Economics forecast a 0.5% decline, and the Essen Institute 0.6%. The Commission predicts a decline of 0.4%.

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

	Publication date	2022	2023	2024
DG Treasury	**12 September**	**3.5**	**3.0**	**3.0**
OECD	19 September	3.3	3.0	2.7
Consensus Forecasts	11 September	2.9	2.4	2.1
IMF	25 July	3.5	3.0	3.0
World Bank	6 June	3.1	2.1	2.4

Sources: DG Treasury international scenario September 2023, OECD economic outlook September 2023, Consensus Forecasts September 2023, IMF economic outlook July 2023, World Bank economic outlook June 2023[2]

13. The outlook for global economic growth remains subject to a number of uncertainties. Geopolitical tensions, and in particular the continuing conflict in Ukraine, are likely to make commodity prices more volatile, as illustrated by the recent rise in oil prices from $80 at the end of July to $90 in mid-September following OPEC+'s decision to restrict its oil supply (see Figure 2). Moreover, the speed and extent of the downturn in inflation, which determines the future path of central bank interest rates, remains uncertain, as do the effects of the rate hikes already implemented on growth and inflation. At last, while health risks have declined significantly, they have not completely disappeared.

Figure 2: oil prices (barrel of Brent)

Source: INSEE

[2] Note: the methodology and scope for calculating world GDP differ from one international organisation to another. Forecasts should not be compared with each other, but assessed in terms of trends.

II- Comments on the macroeconomic forecasts for 2023 and 2024

1- The Government's scenario

14. According to the Government's referral, "*On annual average, activity [in 2023] would grow by +1.0%, unchanged from the PSTAB. [...] 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. Exports are also expected to perform well, benefiting from a rebound in global demand and the continued partial recovery of lost performances: the contribution of foreign trade is thus expected to be slightly positive, with imports also dynamic due to the rebound in consumption. On the other hand, investment is likely to suffer from the rise in real interest rates, slowing to +0.3% after +1.6%".*

15. *"Inflation (as defined by the CPI) is set to slow slightly in 2023, to an annual average of +4.9% (after +5.2% in 2022). However, its composition would change significantly compared with 2022. [...] Inflation would fall significantly in 2024, to +2.6%. The normalization of inflation would be largely due to a slowdown in food and manufacturing prices. [...] The contribution of energy would remain limited. Services would thus become the main contributors to inflation, particularly those most responsive to wage dynamics (hotels & catering, household services, etc.)."*

16. *"Private wage bills in non-agricultural market sectors (BMNA) are expected to grow by +6.5% [in 2023], driven mainly by dynamic wage growth. On an annual average basis, non-agricultural market paid employment is expected to benefit from dynamic job creation throughout 2022, while remaining sluggish in 2023 (+1.3% annual average). [...] The wage bill is expected to slow in 2024 (+3.6%), reflecting the slowdown in wages linked to the fall in inflation, and sluggish employment growth on an annual average basis, with reforms to support employment (notably the continued roll-out of apprenticeships, the initial effects of the reform of the contracyclical nature of unemployment insurance and pension reform) only beginning to have an impact at the end of the year. Non-agricultural wage bill employment will thus increase by +0.5% on annual average. Nominal average wage per capita (SMPT) is set to slow significantly to +3.1% following the inflation (with significant mechanical effects on the French minimum wage (SMIC)), penalised by productivity that is far less dynamic than real wages in cumulative terms since 2019."*

2- Assessment of the High Council

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

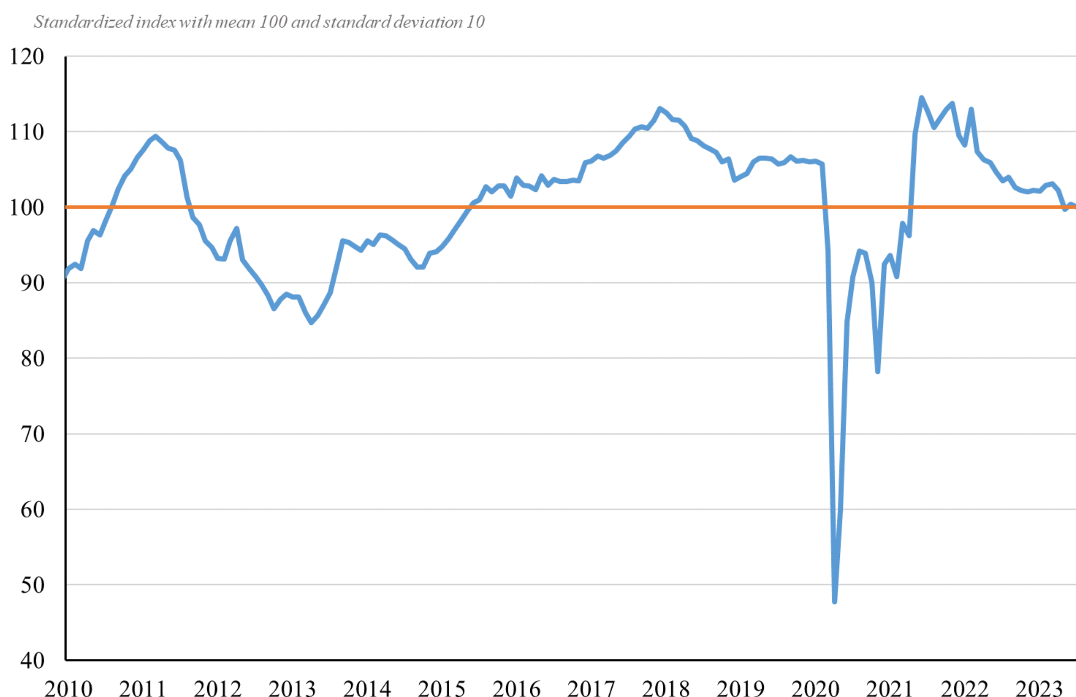
a) Economic activity growth

18. The Government forecasts average annual GDP growth of 1.0% in 2023, unchanged since the Stability Programme, and 1.4% in 2024, revised down by 0.2 pp compared with the Stability Programme.

19. Economic activity in the second quarter, up 0.5% quarter-on-quarter, was stronger than expected, bringing the carryover to 0.8% at the end of the first half. However, the French economy seems to have entered a slowdown phase. The international environment is deteriorating, particularly among our European partners, as the tightening of monetary policy begins to have an impact beyond the real estate sector, which has already been severely affected.

The economic data available for the third quarter (INSEE and PMI surveys) show a downturn in business managers' expectations, and household confidence is struggling to recover. The Government's forecast of 1% growth in 2023, comparable to that of the European Commission, remains however plausible, as a slightly positive quarterly growth over the last two quarters is sufficient to achieve it.

Figure 3: business climate indicator in France



Source: INSEE

20. The Government expects growth to improve in 2024, to an annual average of 1.4%. This forecast is accompanied by a rebalancing of the components of demand in favour of consumption (+1.8%), supported by the rise in purchasing power (+1.3%), higher than that adopted by the other forecasters with witch the High Council held hearings with[3], and by a slight decrease in the savings rate (-0.4 pp, to 18.2%), which, to the contrary, is lower than that of the other institutes[4]. Investment, particularly by companies, is forecast to grow, albeit moderately, despite the tightening of the ECB's monetary policy. The Government forecasts a slightly positive contribution from foreign trade, driven in particular by a rebound in global demand for France (+3.0% after -0.5% in 2023).

21. The Government's forecast for 2024 is higher than all available forecasts. It is slightly higher than that of the OECD (+1.2%), the European Commission (+1.2%) and the IMF (+1.3%). It is significantly higher than that of the September consensus of economists (Consensus Forecasts) (0.8%, with forecasts ranging from 0.3% to 1.3%) and of the institutions consulted by the High Council (Banque de France, Rexecode, OFCE), which forecast French economic growth of between 0.4% and 0.9%.

[3] Rexecode forecasts a 0.1% decline in real gross disposable income (GDI), compared with an increase of 0.3% forecast by OFCE and 0.9% by Banque de France.

[4] The savings rate would fall by 0.5 pp for Rexecode (from 18.4 pps of GDI in 2023 to 17.9 pps in 2024), by 0.8 pps for the Banque de France (from 18.2 to 17.4) and by one percentage point for the OFCE (from 18.6 to 17.6).

Table 2: GDP growth forecasts for France in 2023 and 2024

	Publication date	2023	2024
Government	**15 September**	**1.0**	**1.4**
OECD	19 September	1.0	1.2
Banque de France	18 September	0.9	0.9
OFCE	15 September	0.9	0.8
Rexecode	13 September	0.9	0.4
Consensus Forecasts	11 September	0.8	0.8
European Commission	11 September	1.0	1.2
INSEE	7 September	0.9	
IMF	25 July	0.8	1.3

Source: 2024 budget bill, forecasts by economic analysis organisations and institutes

22. A detailed comparison of the scenarios proposed by the institutes the High Council held hearings with shows that, whatever the GDP component, the Government's growth forecast is in the upper range of forecasts. This is particularly the case for household consumption, government consumption and total investment. Overall, the contribution of domestic demand excluding inventories, expected by the Government at 1.4 pps in 2024, is much higher than that recorded by the other institutes the High Council held hearings with.

23. Some of the Government's assumptions appear fragile. For example, the Government's forecast assumes that the tightening of credit conditions, linked to the gradual tightening of monetary policy by the ECB over the last year or so, will have a limited impact on business investment in 2024, and will lead to a much smaller decline in household investment in 2024 than in 2023, in contrast to the forecasts of the institutes the High Council held hearings with.

24. **The Government's growth forecast for 2023 is plausible. Thanks to stronger-than-expected growth in the 2nd quarter, it is now close to other available forecasts.**

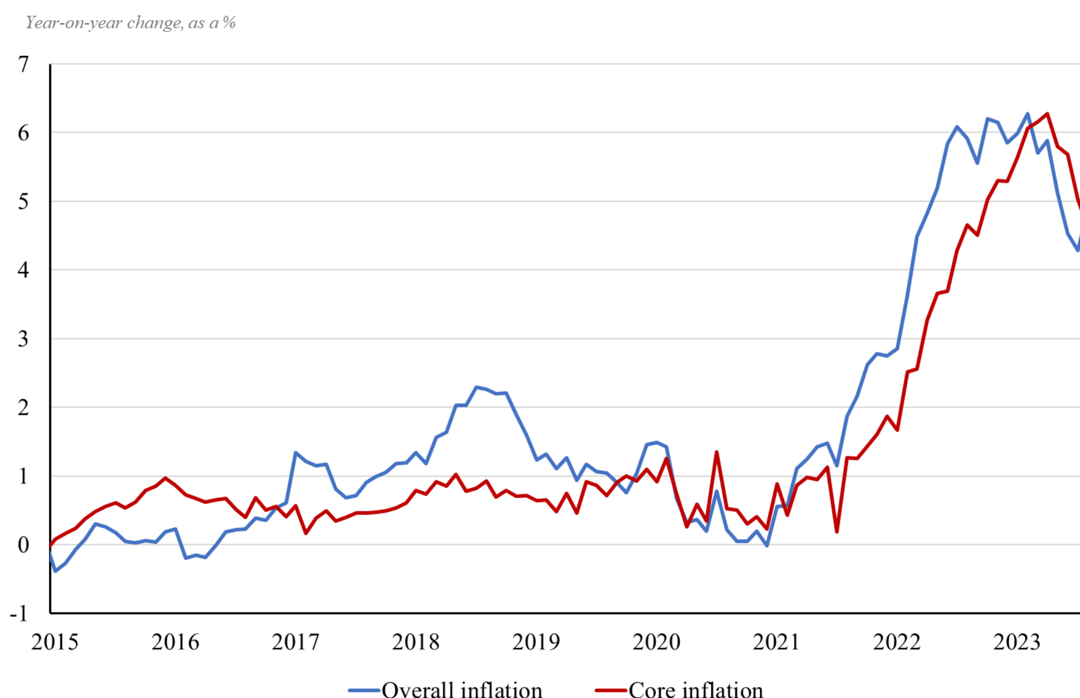
25. **For 2024, the High Council considers that the growth forecast (+1.4%), higher than that of the consensus of economists (+0.8%) and the organisations it held hearings with, is high. For all demand components (consumption, investment, exports), the Government is more optimistic than these organisations. In particular, the growth forecast assumes that the tightening of credit conditions has already had most of its impact, especially on household investment. The High Council notes the significant uncertainties surrounding the analysis of the economic situation, due in particular to the current difficulties in understanding many behaviours (high household savings rate, low productivity, for example).**

b) The rise in consumer prices

26. As in the Stability Programme, the Government forecasts an annual average increase in the consumer price index (CPI) of 4.9% in 2023. This unchanged forecast is the result of an upward revision in the projected rise in services prices (+0.5 pp, to 3.1%) and a downward revision in energy prices (-3 pps, to 5.1%). Core inflation is thus expected to be slightly higher than anticipated in April (at 5.1% annual average).

27. The downturn in core inflation, observed in April, was slightly later than that in overall inflation, which peaked in February (see Figure 4). At the end of August, it was forecast at 5.1% for 2023.

Figure 4: overall and core inflation



Source: INSEE

28. The Government's underlying inflation forecast for 2023 thus assumes a quasi-stabilization of the underlying index over the last four months of the year, which is not incompatible with its recent trend (+0.1% over the last three months). The total inflation forecast is close to the other available forecasts (see Table 3). It is therefore judged plausible by the High Council, even if it is likely to be slightly exceeded, due in particular to the recent rebound in oil prices.

29. For 2024, assuming an oil price of $86.1 (78.7 euros) per barrel of Brent, overall inflation is forecast at an annual average of 2.6%. Core inflation would fall to 2.4%, compared with the 2.7% forecast in the Stability Programme. The decline in food and manufacturing inflation is set to continue, as the transmission of past declines in production costs to consumer prices remains incomplete at this stage. Service prices are expected to rise by 3.1% year-on-year (+0.2 pp compared with the Stability Programme), a rate close to that observed since February and much higher than that recorded prior to the health crisis (+1.8% on average from 1995 to 2019), due to more dynamic wage increases.

30. The Government's inflation forecast for 2024 is within the range of available forecasts (see Table 3), the magnitude of which reflects a high degree of uncertainty concerning the dynamics of energy and food prices in particular, with the scale and speed of the effect of negotiations between producers and distributors on these prices remaining highly uncertain.

Table 3: inflation forecasts (CPI) on annual average in%

	Publication date	2023	2024
Government	**15 September**	**4.9**	**2.6**
Banque de France (estimate from HICP forecast)	18 September	4.9	2.4
OFCE	15 September	5.2	3.6
Rexecode	13 September	5.1	3.0
Consensus Forecasts	11 September	5.0	2.7
INSEE	7 September	5.0	

Source: 2024 budget bill, forecasts by economic analysis organisations and institutes

31. **Against this backdrop, the inflation forecasts for 2023 and 2024 are plausible, even if they are subject to a risk of being exceeded due in particular to the recent trend in oil prices.**

c) Employment and wage bill in the private sector

32. The Government forecasts wage bill growth in the market sector of 6.5% in 2023, an increase of 0.4 pp compared with the Stability Programme. This revision is essentially attributable to the upward revision of paid employment in the market sector (+0.4 pp).

33. For 2024, the Government is also raising its wage bill forecast to +3.6%, *i.e.* +0.2 pp compared with the Stability Programme, due to an upward revision of per capita wages (+0.3 pp), which more than offsets a lowering of assumptions on employment dynamics (-0.2 pp).

Table 4: wage bill in the non-agricultural market sector (changes in%)

	2023	2024
Numbers of paid employees	1.3	0.5
Average wage per capita	5.3	3.1
Average wage per capita excluding value-sharing bonus	5.1	3.4
Wage bill	6.5	3.6
Wage bill excluding profit-sharing contribution	6.3	3.9

Source: 2024 budget bill

34. In terms of the average wage per capita, the Government's forecast appears plausible for 2023, but a little low for 2024, well below that of the institutes the High Council held hearings with. It thus seems to underestimate the delayed effects of inflation on wages.

35. The Government's forecast is based in particular on the assumption of significant profit-sharing contribution (PSC) payments in the 2nd half of 2023, which would contribute 0.2 pp to the growth in average wages in 2023, limiting growth in average wages subject to social security contributions and income tax to +5.1% in 2023. For 2024, the Government anticipates a decline in bonus payments, which would weigh on average wage growth (-0.3 pp). As a result, average per capita wages excluding PSC will rise more rapidly (+3.4%) in 2024.

36. The number of paid jobs created in the non-agricultural market sectors in 2023 has been revised upwards compared with the Stability Programme, to reach an annual average of +1.3%, reflecting once again weaker-than-expected productivity gains. This scenario does, however,

reflect a slight upturn in productivity gains in the second half of 2023. In 2024, the Government assumes a return to high productivity gains (+1.2% annual average). As a result, despite a 1.6% increase in market value added, market paid employment is expected to grow by an annual average of just 0.5% in 2024.

37. However, employment growth for 2024 still seems a little high. Indeed, the optimistic nature of the growth forecast affects the employment forecast in the same way. Even assuming productivity gains half as high - a more realistic assumption in view of the sluggish productivity trend seen over the past three years, a phenomenon that is more or less general in the eurozone (see box) - growth close to that of the consensus (+0.8% in 2024) would still imply less dynamic employment. As a result, the Government's wage bill forecast could be achieved, but with higher average wage growth and lower employment.

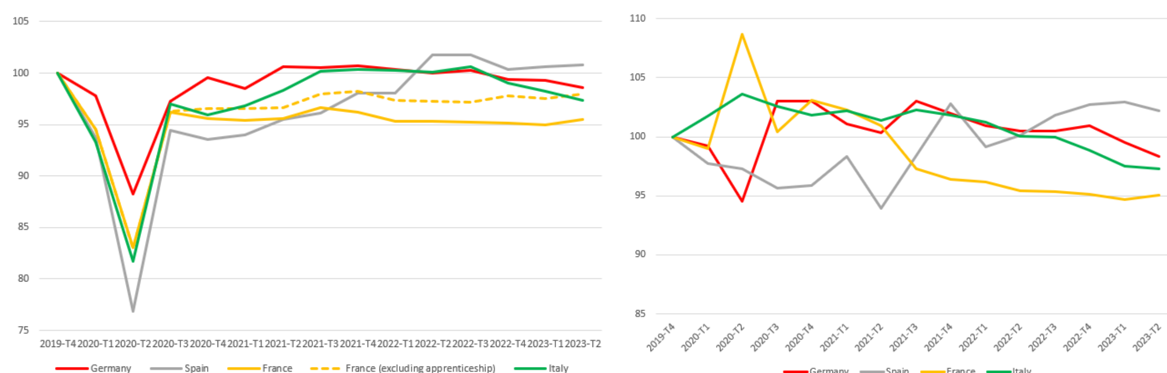
Box: productivity trends in France and the euro zone since the outbreak of the health crisis

France stands out from its main European neighbours for the scale of its productivity losses since the outbreak of the health crisis. In the 2nd quarter of 2023, productivity per capita in the market sectors was down by 4.5% in France compared with its level at the end of 2019[5], compared with a more limited decline in Germany (-1.4%) and Italy (-2.7%), while it even slightly exceeded (+0.8%) its pre-crisis level in Spain.

This difference in per-capita productivity dynamics between France and the other European economies may be due at least in part to differences in apprenticeship dynamics (+450,000 beneficiaries of apprenticeship contracts in the private sector in France since the end of 2019, *i.e.* more than a third of the jobs created since the crisis, compared with stabilization or even decline in the other three main eurozone economies over the period). However, under the extreme assumption of zero productivity for apprentices, the apprenticeship boom recorded since 2020 would only contribute 2.5 percentage points to the loss in productivity per head in France's market sectors since the crisis: even under this maximalist assumption, productivity per head in France remains 2.0% below its end-2019 level, a smaller decline than that recorded by Italy.

[5] Productivity did, however, rebound by +0.6% in France in the last quarter, but it is still too early to determine whether this marks the beginning of a lasting return to pre-crisis productivity trends, or a temporary phenomenon linked in particular to the productivity cycle mechanism (employment having begun to adjust to past weakness in activity at the very moment when growth surprised on the upside).

Figures 1a and 1b: labour productivity per capita (1a, left) and hourly (1b, right) in market sectors, 2019Q4=100



Scope: non-agricultural market sectors excluding real estate, paid employment
Source: Eurostat, Dares, calculations by the permanent secretariat of the HCFP

An analysis of the dynamics of hourly labour productivity, which considers changes in working hours, reveals more uneven trends, but does not qualitatively alter this diagnosis: as with per-capita productivity, only Spain has an increase in hourly productivity compared with the end of 2019 (+2.2%), while Germany and Italy show a decline of 1.7% and 2.7% respectively over the period, and France continues to record the sharpest drop (-5.0%).

So, whatever the metric used (per capita or hourly), the main European economies - with the exception of Spain, where productivity seems to have stalled in recent quarters - are suffering from productivity that is lower than its pre-crisis level, and whose trend has been sluggish or even declining for the past two years. Even if specific factors (such as apprenticeship) explain the downturn in France, these results suggest that it is also due to factors in common with its main neighbours (which could be linked to energy inflation, the impact of the health crisis on skills, or the constraints of the ecological transition), and which appear to be fairly persistent.

38. **The wage bill and employment forecasts for 2023 are plausible. The wage bill forecast for 2024 is also plausible, the optimistic nature of the employment forecast being offset by an assumption of a slowdown in per capita wages which seems too marked.**

III- Observations on the consistency of the introductory article of the PLF and PLFSS, with regard to the multi-year structural balance and general government expenditure guidelines defined in the PFPL, and the realism of the revenue and expenditure forecasts of the PLF and PLFSS.

39. After presenting the Government's scenario (1), the High Council assesses the realism of the revenue and expenditure forecasts (2), then the consistency of the introductory article of the budget bill with the multi-year targets for the structural balance[6] and general government expenditure set in the public finance programming law (3), and finally examines the expected changes in the public debt (4).

[6] The structural balance is defined as the general government balance adjusted for the direct effects of the economic cycle and exceptional events.

1- The Government's scenario

40. According to the Government's referral, "*In 2023, the public deficit is forecast at 4.9% of GDP, compared with 5.0% forecast in the 2023 finance law (LFI), after 4.8% in 2022. [...] In 2024, the general government balance would improve on 2023, reaching -4.4% of GDP, as forecast in the 2023-2027 stability programme.*"

41. "*Tracking these changes, after having reached 45.6% of GDP in 2022, the rate of compulsory levies adjusted for the effects of the the tariff cap on gas and electricity prices would be 44.4% in 2024, stable compared with 2023.*

42. *After 57.7% in 2022, the public spending ratio (excluding tax credits) would fall to 55.9% of GDP in 2023, then to 55.3% in 2024.*"

43. "*Potential growth would be 1.35% in both 2023 and 2024. The estimated output gap considers the effects of the Covid crisis and the consequences of the Russian invasion of Ukraine.*"

44. *"With growth set at 1.4%, the cyclical balance would be virtually stable. The improvement in the forecast balance is therefore due to a 0.5 pp of GDP improvement in the structural balance in 2024, mainly as a result of the gradual withdrawal of temporary measures relating to higher energy prices, stimulus measures and support measures. This effect would be partially offset by the rise in interest expenditure on debt, reflecting the effects of higher interest rates."*

2- Assessment of the realism of revenue and expenditure

45. The High Council assesses the realism of the revenue and expenditure estimates on the basis of the information available to it.

a) Government revenues

46. In 2023, according to the Government, compulsory levies will increase by 3.7% to €1,241.1 bn. This PLF forecast for 2023 has been revised slightly downwards compared with the Stability Programme (-€6.1 bn), due in particular to some tax receipts being lower than anticipated in April, and to new measures whose budgetary impact, forecast as slightly favourable in April (+€0.3 bn), has become clearly negative (€4.0 bn), notably due to gains on energy public service charges (recorded as revenue) and lower-than-expected revenues from the contribution on electricity producers' infra-marginal rents[7].

47. In 2023, revenues from taxes and social contribution would grow spontaneously (+4.0%), significantly less than GDP in value terms (+6.8%), resulting in a revenue elasticity well below unity (0.6), after two years of particularly high elasticity.

48. Analysis of the main taxes does not reveal any significant bias for 2023.

49. The forecast for spontaneous growth in VAT revenues in 2023 is lower than in the Stability Programme (+4.1% compared with +5.8%), *i.e.* an increase well below that of the taxable base (+5.8%), supported by accounting data for the first seven months of the year. The difference may be linked to companies' increased cash needs in a context of rising interest rates.

[7] Until 2021, CSPEs, which supported renewable energies by guaranteeing rates higher than market prices, constituted an expense in national accounting. Rising energy prices will lead to repayments to the Government in 2022 and 2023, which will be accounted for as compulsory levies. The contribution on infra-marginal rents taxes electricity producers on their revenues resulting from market prices above the break-even point of the most costly production methods.

50. The forecast growth in income tax revenues in 2023 (+1.9%) marks a clear slowdown compared with 2022 (+13.1%), due to the increase in earned income in 2023 subject to the withholding tax, to tax reduction measures of a higher amount than in 2022, and to the impact on the balance for 2022 of a revaluation of the tax scale in line with inflation that exceeds the growth in average earned income. However, the slowdown may turn out to be slightly less marked than forecast by the Government, due in particular to the dynamism of withholding taxes at source on income from financial assets.

51. Against a backdrop of falling prices and, above all, transaction volumes, the anticipated decline in 2023 in duty on real property transactions (DMTO) has increased significantly compared with the Stability Programme (-16.0% compared with -6.0%), but could be even greater in view of the accounting data for the first seven months of the year and the ongoing deterioration in the real estate market.

52. On the other hand, spontaneous growth in inheritance duties (+6.6%) appears to be lower than that shown by the data for the first half of the year.

53. In 2024, the forecast for compulsory levies (at €1,292.2 bn, *i.e.* +4.1% on 2023) is very close to that for GDP in value terms (+4.0%). New measures would reduce tax revenues by €1.5 bn.

54. This forecast appears high, due in particular to an optimistic activity growth assumption. This bias is particularly pronounced for those taxes whose tax bases are most closely correlated with GDP, in particular VAT, as well as corporate income tax via the 5th advance payment of the corporate income tax and the domestic tax on final electricity consumption (TICFE).

55. The VAT dynamic (+4.8%) also seems a little high compared with the growth in taxable employment anticipated by the Government (+3.8%). It is based on an optimistic assumption of partial correction of the opposite direction gap that appeared in 2023. The fact that VAT's elasticity to its taxable base was less than 1 in 2023, after several years of elasticity greater than 1, does not necessarily justify a catch-up in 2024.

56. Moreover, the forecast stability of DMTO revenues seems optimistic given the current downward trend in real estate prices and transaction volumes.

57. The forecasts for social security contributions on earned income and replacement income, and for income tax, appear to be consistent with the Government's forecast of wage bill growth for 2024, which the High Council considers plausible (see above). However, the forecast for social security contributions appears a little high, as it is almost identical to that for the wage bill, while the revaluation of the SMIC (minimum wage) should still be significant in 2024, thereby pushing up reductions in contributions.

58. **For 2023, the High Council considers that the forecasts of compulsory levies are plausible. For 2024, revenues appear to be slightly overestimated. They are boosted by the forecast of high growth in business activity and, beyond that, by favourable assumptions on some tax revenues (growth in VAT greater than that of its tax base, halt in the decline in duty on real property transactions).**

b) Expenditure

59. In 2023, public spending excluding tax credits would rise by 3.4% in value, to 55.9 pps of GDP (versus 57.7 pps in 2022). In real terms, adjusted for the consumer price index

excluding tobacco (CPI excluding tobacco), they would decrease by 1.3%[8]. This decline is due to the almost full extinction of spending linked to the health crisis, and to the lower cost of inflation-linked measures and stimulus spending. Excluding these items, public spending would increase by 5.4% in value and 0.5% in volume.

60. Public spending in 2023 would be lower than announced in the Stability Programme in April 2023: the cost of energy-related measures has been sharply revised downwards[9], as have ministry appropriations, which more than offsets the €3 bn upward revision of the Ondam[10]. The latter stems from a number of measures taken during the year (civil service point increase, category upgrades in hospitals) and stronger-than-expected spontaneous growth in outpatient care.

61. Expenditure by local authorities is expected to rise by 5.8%, an increase consistent with the accounting data available at the end of August 2023, but higher than previously forecast: local authorities have been affected by the rise in energy costs and by the 3.5% increase in the civil service point in mid-2022, which will therefore have a full-year impact in 2023, as well as by its increase on July 1, 2023, while their investment is more dynamic than usual at the same stage in the municipal electoral cycle.

62. The updated public spending forecast for 2023 is plausible.

Box: the impact of support measures to deal with the energy crisis on public finances

Two measures linked to electricity price trends will have a potentially significant impact on public finances in 2024: the tariff cap on electricity prices and the public energy service charges (CSPE).

The tariff cap on electricity prices, like on the gas prices, is a measure to support consumers, limiting their energy bills, adopted in response to the energy crisis from winter 2021/2022. For customers affected by these measures, the Government has paid the price difference between the regulated tariffs that would have prevailed in the absence of the measure (the so-called "non-frozen" tariff) and the so-called "frozen" tariffs, *i.e.* those paid by consumers. These measures represent a significant cost for public finances, amounting to €18.2 billion in 2023 according to the PLF 2024, an amount essentially attributable to the tariff cap on electricity. This cost is also difficult to assess *ex ante*, due to the volatility of market prices. As a result, it has been revised downwards by half between the PLFRSS presented in January 2023 and the PLF.

The electricity prices cap has been extended until the beginning of 2025. The regulated "non-frozen" tariff for the sale of electricity (TRVE) depends on market prices via two components: market prices, smoothed over one or two years on the one hand, and the last two months of the year on the other. For its two volatile components, the non-greenhouse TRVE set in February 2024 will depend on market prices in the last few months of 2023. There is still considerable uncertainty as to the cost of the system in 2024. It will depend both on the non-frozen TRVE and on the level chosen by the Government for the "frozen" TRVE. The cost of the measure would be around €3 billion in 2024 if the price for delivery in 2024 (base product) were to fall by the end of the year from its August level. In this scenario, the cost of the measure would be

[8] They would fall even further (- 2.2%) if deflated by the GDP deflator, a price index more relevant to the analysis of public finances. From 2024 onwards, the two deflators are close, so the text of the opinion only gives figures deflated by consumer prices excluding tobacco.

[9] Downward revision of €4.6 bn on the tariff cap on electricity prices, €2 bn on the electricity bill payment assistance scheme and €1.0 bn on the electricity cushion.

[10] National health insurance expenditure target.

concentrated in January 2024 alone, since the "non-frozen" rate would join the "frozen" rate in February. Conversely, if a new shock were to occur on this market (price at €360/MWh at the end of 2023), the cost of the measure would reach around €13.5 billion. The Government's estimate of the cost of the measure at €2.8 billion is therefore at the lower end of the range. The cost of the tariff cap on electricity prices forecast by the Government therefore seems a little low.

At the same time, CSPEs are the charges borne by the Government in connection with support schemes for renewable energies (RE). These schemes are designed to guarantee the profitability of renewable energy production, either directly through feed-in tariffs set in advance, or indirectly by compensating producers for the difference between the average market price and a reference tariff. CSPEs are therefore a system that pre-existed the recent energy crisis, but whose cost to public finances has been strongly affected by it. In 2022 and early 2023, market prices became significantly higher than guaranteed tariffs, resulting in substantial savings compared with the normal cost of the scheme, since the support mechanisms are symmetrical overall. As with the energy prices cap, the impact of the CSPE on public finances has been significantly revised. Estimated at €23.8 bn in the PLFRSS, the CSPE gain in 2023 has been revised downwards in the PLF for 2024 to €8.6 bn, given the downturn in market prices compared with the peak recorded in summer 2022. Most of the CSPE gain in 2023 is already determined by past prices: the final impact on public finances should be close to this latest estimate.

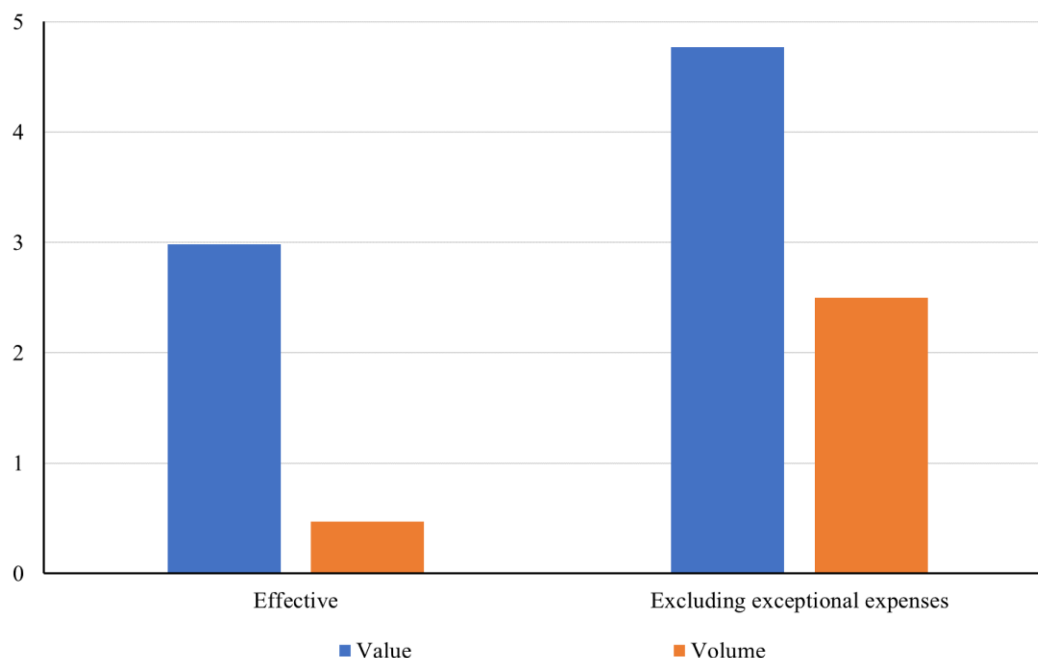
On the other hand, there is considerable uncertainty for 2024. In the PLF for 2024, the Government estimates CSPE gains at €6.7 bn in 2024, a forecast that appears consistent with forward prices observed in August 2023 (around €160/MWh for delivery in 2024). Two polar price scenarios at the end of 2023 (at €60/MWh or €360/MWh) would lead to a range between zero cost and a gain of €20 billion.

According to the PLF for 2024, public finances would record a net gain of €3.9 bn from the two measures in 2024 (after a cost of €7.3 bn in 2023), but given the somewhat low estimate of the cost of the tariff cap on electricity prices, the Government's forecast appears somewhat optimistic. Moreover, depending on market price trends, the impact on public finances could range from a net gain of €6.5 bn to a net cost of €3 bn.

There are, however, other measures linked to the energy crisis that have a negative impact on public finances, such as the reduction in the domestic tax on final electricity consumption (TICFE), leading to a still positive net cost of all support measures according to the PLF.

63. By 2024, spending would have risen by 3.0% in value, but 0.5% in real terms. The increase would be even more marked (4.8% in value and 2.2% in real terms) once exceptional support measures are neutralized.

Figure 5: changes in public spending in 2024 (in%)



Source: 2024 budget bill

64. As a result, despite the end of support measures, spending will continue to increase significantly in 2024, even more than recommended by the European Union. In the country recommendation sent to France as part of the "European semester" last June, the Council of the European Union asked France to cap the nominal increase in nationally-financed net primary expenditure at 2.3% in 2024, whereas the Government is forecasting an increase of 2.6% for the same perimeter.

65. State expenditure as included in the so called "State expenditure delineation" (SED)[11] would fall slightly (€491 bn after €496 bn in 2023). The very sharp reduction in the cost of measures to support rising energy prices would be almost offset by increases in spending due to the implementation of Government policies, such as: policies to promote the ecological transition (+€7.0 bn in 2024); the consequences of measures to make the French education system more attractive (+€3.1 bn); or the expected effects of increases in appropriations for ministries falling within the scope of a sectoral programming law (defence, justice, research, interior).

66. In national accounting terms, the general government's expenditure would increase overall, driven by a sharp rise in interest expense on its debt (+0.3 pp of GDP in national accounting terms between 2023 and 2024, *i.e.* an increase of almost €10 bn) due to higher interest rates.

67. The Government forecasts an increase in local government expenditure of 0.9% in real terms and 3.4% in value. This would be driven by continued growth in operating expenditure, as a result of wage increases (rise in the civil service point on July 1, 2023, which will have an

[11] This aggregate covers the vast majority of the Government's expenditure, as well as capped assigned taxes for third parties other than local authorities and social security. Interest expenditure and the contribution to CAS pensions are excluded.

impact in 2024, as well as categorical and index-based measures taking effect on January 1, 2024), and by continued strong growth in local authorities' investment.

68. The rise in public spending as a whole is also underpinned by the dynamism of social security spending, which is affected by inflation with a slight delay due to indexation mechanisms based on past inflation: basic pensions will be revalued by 5.2% on January 1, 2024, and family benefits by 4.6% on April 1, 2024. Supplementary pensions could also be significantly revalued on November 1, 2023, as part of negotiations between the social partners. This revaluation would therefore have a major impact on spending in 2024. In addition to these various revaluations, there is the effect of the pension reform, which, in 2024 as in 2023, would cost more than it brings in (cost of €2.2 bn for savings of €2.0 bn), mainly due to the revaluation of small pensions.

69. This forecast increase in public spending is subject to several possible overruns. Firstly, the cost of the tariff cap on electricity prices, maintained in 2024, is highly dependent on future prices on wholesale markets (see box), and the forecast of the cost of the measure according to the PLF 2024 seems low in light of prices observed in recent months. Secondly, the Government is forecasting a sharp slowdown in *Ondam* (+3.2% after +4.8%), assuming an easing in the spontaneous trend in outpatient care, which seems optimistic, and a savings package of €3.5 bn. This level of savings has been achieved in the past, but seems more difficult to achieve against a backdrop of tensions, particularly in the hospital sector and on drug supply.

70. **In 2024, public spending is likely to turn out to be higher than forecast, particularly in terms of the cost of energy devices and healthcare spending (*Ondam*).**

c) The general government balance

71. The Government's scenario forecasts an actual general government balance of -4.9 pps of GDP in 2023, unchanged from 2022, and -4.4 pps of GDP in 2024. The balance forecast for 2023 calls for no comment. The forecast for 2024 may be somehow overestimated, due in particular to expected revenues, which could be lower if economic growth is less strong than forecast by the Government, and to some expenditure components that appear to be underestimated (notably healthcare spending and the cost of energy measures).

72. The High Council also notes that, for these two years, the general government balance remains significantly above the limit of 3 pps of GDP set by the rules of the Stability Pact.

73. The European Commission has announced that the general escape clause of the Stability Pact, activated in 2020 and having led to a *de facto* suspension of the applicable rules, will be deactivated at the end of 2023. It indicated that it would open excessive deficit procedures as early as spring 2024 on the basis of the 2023 results.

Table 5: breakdown of the general government balance presented by the Government

In GDP pps	**Budget bill for 2024 (Sept. 2023)**		
	2022	**2023**	**2024**
General government balance	**-4.8**	**-4.9**	**-4.4**
Cyclical component	-0.5	-0.7	-0.6
One-off and temporary measures	0	0	0
Structural balance	**-4.2**	**-4.1**	**-3.7**

Source: 2024 budget bill

74. The structural balance would stand at -4.1 pps of GDP in 2023, improving in 2024 to -3.7 pps of GDP. The structural deficit would remain very high, however, and far from the medium-term budgetary objective (MTO) set for France at -0.4 pp of GDP. However, the Government indicates that the primary structural adjustment would be in line with European recommendations for 2024.

75. The improvement in the structural balance still falls short of the requirements of the preventive component of the Stability and Growth Pact, as structural adjustment should in principle exceed 0.5 pp of GDP for countries whose debt exceeds 60% of GDP.

76. In fact, the improvement in the nominal and structural deficit of 0.5 pp of GDP in 2024 can be explained by the very sharp reduction in measures to support households and businesses to cope with high energy prices (in particular thanks to the gradual withdrawal of the tariff cap on energy prices), which will help to improve the balance by almost 0.7 pp of GDP, while the rise in interest charges will lead to a deterioration of 0.3 pp of GDP.

77. **The public deficit forecast for 2024 (4.4 pps of GDP) combines mainly favourable assumptions and appears optimistic. The forecast for taxes and social contribution is driven upwards by the high activity growth forecast and, beyond that, by favourable assumptions on some tax receipts (growth in VAT greater than that of its taxable base, halt in the decline in duties on real property transactions). In addition, expenditure is likely to turn out higher than forecast, particularly in terms of the cost of energy devices and healthcare spending (*Ondam*).**

78. **While the Government's scenario is characterised by the end to the health and energy crises, the High Council notes that, despite the end of support measures, spending will continue to rise significantly in 2024, more than recommended by the European Union (nominal increase in net primary expenditure of 2.6% against a recommended ceiling of 2.3%), even though the European Commission has announced the end of the general escape clause in the Stability Pact as of 2024. While the significant rise in interest expenditure contributes to increasing public expenditure, the budget bill contains few structural savings measures, despite the first round of spending reviews in 2023, and forecasts for a quasi-stability of compulsory levies rate.**

3- Assessment of consistency with the multi-year targets for the structural balance and general government expenditure

79. Under the terms of Organic Law no. 2001-692 of August 1, 2001, as amended relating to finance laws, the High Council is required to give its opinion on the consistency of the structural balance and expenditure trajectory set out in the PLF for 2024 with that of the current programming law, which it cannot do in the absence of an adopted programming law covering the year 2024.

80. At the same time, the Government has informed the HCFP of its intention to amend the public finance programming bill to be tabled in Parliament in September 2022, and has referred the associated new forecasts to the HCFP (see opinion no. HCFP-2023-7 on the revised public finance programming bill for the years 2023 to 2027). The amendments envisaged by the Government would modify the public finance programming bill so that it is consistent with the introductory article of the PLF and PLFSS for 2024, particularly with regard to the multi-year targets for the structural balance and public expenditure.

4- The public debt

81. According to Government forecasts, the public debt ratio will fall by two percentage points in 2023, to 109.7 pps of GDP, then remain stable in 2024. In 2023, the ratio will benefit from strong GDP growth in value terms (+6.8%), due to both high inflation and the end of the post-Covid economic rebound. This strong growth lightened the debt ratio inherited from the past. The general government balance is thus two percentage points higher than the balance needed to stabilize the debt. By 2024, the debt ratio will no longer be falling. In fact, the debt ratio would still benefit from strong GDP growth in value terms, but this would be less than in 2023 (+4.0%), so that the general government balance, although improving, would be at the debt-stabilizing level.

Table 6: public debt and general balance

In GDP pps	**2022**	**2023**	**2024**
General government balance	-4.8	-4.9	-4.4
Public debt	111.8	109.7	109.7

Source: 2024 budget bill

82. **The Government forecasts that the public debt ratio, after a decline in 2023 thanks to unusually strong GDP growth in value terms, will not decrease in 2024. The expected stabilization of the debt ratio in 2024 is fragile, as it is based on growth and expenditure optimistic forecasts. Thus, France, which has seen its relative debt position within the euro zone deteriorate in recent years, would maintain a high level of debt in 2024.**

83. **The medium-term sustainability of public finances therefore continues to call for the utmost vigilance. 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 budget bill for 2024 and the social security financing bill when it is submitted to the National Assembly.

Done in Paris, on 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 attached to the budget bill for 2024

Economic forecasts for France (deviation from the 2022-2027 stability programme)	2022	2023	2024
Goods and services, real terms[1]			
Gross domestic product (wda)	**2.5** (-0.1)	**1.0 (0.0)**	**1.4 (-0.2)**
Final household consumption	2.1 (-0.6)	-0.2 (-0.4)	1.8 (-0.1)
Public final consumption	2.6 (-0.1)	0.7 (-0.6)	1.4 (0.5)
Grossed fixed capital formation	2.3 (0.0)	1.6 (-0.5)	0.3 (-0.6)
Of which: non-financial enterprises	3.8 (0.5)	3.2 (-0.6)	0.9 (-0.5)
General government	1.5 (0.9)	5.7 (2.3)	1.3 (1.0)
households (excluding individual entrepreneurs)	-1.2 (-1.5)	-5.0 (-2.3)	-2.2 (-1.8)
Imports	8.8 (-0.3)	0.3 (-2.8)	3.1 (0.1)
Exports	7.4 (0.3)	2.1 (-1.4)	3.5 (-0.1)
Contributions to real GDP growth			
Private domestic demand (excluding inventories)	1.7 (-0.3)	0.2 (-0.3)	1.0 (-0.2)
Public demand	0.7 (0.0)	0.4 (0.0)	0.4 (0.2)
Inventories	0.8 (0.1)	-0.1 (-0.2)	0.0 (0.0)
Foreign trade	-0.6 (0.1)	0.6 (0.6)	0.1 (0.0)
Prices and nominal aggregates			
Consumer prices inflation index	**5.2 (0.0)**	**4.9 (0.0)**	**2.6 (0.0)**
Core inflation	3.9 (0.0)	5.1 (0.1)	2.4 (-0.3)
Gross domestic product deflator	3.0 (0.0)	5.7 (0.3)	2.5 (-0.2)
Nominal gross domestic product (wda)	5.5 (-0.2)	6.8 (0.3)	4.0 (-0.3)
Productivity, employment and wages			
Market-sector excluding agriculture:			
Effective labour productivity	-0.1 (0.0)	0.0 (-0.1)	1.2 (0.0)
Paid work (AA, head count) *	3.3 (-0.1)	1.3 (0.4)	0.5 (-0.2)
Paid work (AA, in thousands) *	583 (-6)	227 (65)	94 (-27)
Paid work (yoy, in thousands) *	326 (10)	123 (63)	137 (-64)
Average wage per capita	5.6 (-0.1)	5.3 (0.1)	3.1 (0.3)
Purchasing power of the average salary	0.4 (-0.1)	0.4 (0.2)	0.4 (0.2)
Wage bill	9.3 (0.1)	6.5 (0.4)	3.6 (0.2)
Total employment (AA)	2.7 (0.0)	1.1 (0.3)	0.5 (-0.1)
Total employment (yoy, in thousands)	455 (17)	195 (52)	193 (-41)
Non-financial corporate account			
Value added	8.2 (0.0)	8.3 (0.4)	3.5 (-0.1)
Gross operating income	0.9 (-0.6)	11.3 (1.4)	3.7 (-1.5)
Margin rate	**31.7** (-0.3)	**32.6** (0.0)	**32.7** (-0.4)
Saving rate	22.2 (-1.6)	23.4 (-1.1)	23.0 (-1.9)

Investment rate	25.9 (0.3)	25.6 (-0.4)	25.6 (-0.9)
Self-financing rate	85.9 (-7.1)	91.4 (-2.7)	89.9 (-4.0)
Households account			
Total wage bill	8.3 (0.2)	6.4 (0.5)	3.4 (0.1)
Gross disposable income	5.1 (-0.4)	7.6 (1.4)	4.0 (-0.1)
Purchasing power of gross disposable income	**0.2** (0.0)	**1.3** (0.8)	**1.3** (-0.2)
Saving rate	17.4 (0.8)	18.6 (1.8)	18.2 (1.7)
International context			
Global demand for France	5.5 (-0.2)	-0.5 (-2.1)	3.0 (0.5)
Euro-dollar exchange rate	1.05 (0.00)	1.09 (0.00)	1.09 (0.00)
Oil price (per Brent barrel in dollars)	101 (0)	82 (-1)	86 (3)

*Employment according to localized employment estimates

[1] *The data presented here are in the sense of INSEE's quarterly accounts*

Annex 2: Introductory Article of the 2024 Budget Bill

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 2024, the forecasts for 2024 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 2021 and the execution forecasts for the year 2023 of these same aggregates, are as follows:

As % of GDP unless otherwise stated	2022	2023	2024	2024
Initial Budget Law for 2023				LPFP 2023-2027
All public administrations				
Structural balance (1)	-4.2	-4.1	-3.7	-3.7
Cyclical balance (2)	-0.5	-0.7	-0.6	-0.7
Balance of one-off and temporary measures (3)	-0.1	-0.1	-0.1	-0.1
Actual balance (1+2+3)	-4.8	-4.9	-4.4	-4.5
Debt in the Maastricht sense	111.8	109.7	109.7	111.3
Mandatory levies rate (incl. EU net of tax credits - TC)[4]	45.4	44.0	44.1	44.2
Public expenditure (excluding IC)	57.7	55.9	55.3	55.6
Public expenditure (excluding in €bn)	1523	1575	1622	1600
Change in public expenditure excluding IC in volume (%)[1]	-1.1	-1.3	0.5	-0.6
Main investment expenditure (€bn)[2]		25	30	28
Central public administrations				
Balance	-5.2	-5.4	-4.7	-5.2
Public expenditure (excluding TC, in €bn)	625	631	639	637
Change in public expenditure excluding TC in volume (%)[3]	-0.1	-3.6	-1.4	-2.5
Local public administrations				
Balance	0.0	-0.3	-0.3	-0.1
Public expenditure (excluding TC, in €bn)	295	312	322	314
Change in public expenditure excluding TC in volume (%)[3]	0.1	1.0	0.9	0.1
Social security authorities				
Balance	0.4	0.7	0.6	0.8
Public expenditure (excluding TC, in €bn)	704	730	761	747
Change in public expenditure excluding TC in volume (%)[3]	-2.4	-0.5	1.7	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.
[4] Adjusted for the energy prices cap effects, the rate of compulsory levies would be 45.6% of GDP in 2022, then 44.4% of GDP in 2023 and 2024.

Explanatory memorandum to the article:

This article presents, in accordance with Article 1H of the organic law No. 2001-692 of 1 August 2001 on finance laws, the forecast of the structural balance and the actual balance of the general government for 2024. It also presents the forecast, broken down by sub-sector of public administration, of the volume growth target and the forecast in billions of current euros of general government expenditure and the forecast of mandatory levies, expenditure and debt of general government. Finally, it presents the forecasts for the main general government expenditure considered as investment expenditure within the meaning of the last paragraph of Article 1 A and 2° of Article 1 E of the LOLF. The latter are defined in the report annexed to the public finance programming bill.

The general government balance forecast is – 4.9% of GDP in 2023, as set out in the Stability Programme.

The near-stability of the general government balance between 2023 (-4.9% of GDP) and 2022 (-4.8% of GDP) is the result of a slight widening of the cyclical balance (-0.2 pt), due to activity growth forecast at +1.0%, below potential growth of 1.35%, as well as a slight improvement in the structural balance (+0.1 pt), which is explained by movements that offset each other overall, notably:

- In terms of improving the general government balance: (i) the virtual disappearance of emergency and support spending, which was still high in 2022, and the decline in stimulus spending, which has now passed its peak, (ii) the cost of all measures adopted to deal with rising energy prices and inflation, net of lower energy utility charges, will still be very high in 2023, but lower than in 2022, (iii) the cost of public debt will fall in 2023, as it will take several years for the full effect of rising interest rates to materialize in interest expense, (iv) local government operating expenditure will be contained (projected increase in line with inflation).
- In the direction of a widening deficit: (i) the government's tax measures to support purchasing power, competitiveness and employment, in particular the completion of the abolition of the residence tax on principal residences and the continued reduction in the CVAE (a tax on value-added by firm), and (ii) the backlash against the very dynamic trend in revenues in 2022. In particular, corporate income tax revenues excluding the CICE (tax credit for competitiveness and jobs) will reach an exceptional level in 2022 due to the double effect (advance payments and balance) of the strong growth in taxable income in 2021, then fall back sharply in 2023.

In 2024, the general government balance would improve on 2023, reaching -4.4% of GDP, as set out in the 2023-2027 Stability Programme. With growth set at 1.4%, the cyclical balance would be virtually stable. The improvement in the forecast balance is therefore due to a 0.5 pp of GDP improvement in the structural balance in 2024, mainly as a result of the gradual phasing out of temporary measures related to higher energy prices, stimulus measures and support measures. This effect would be partially offset by the rise in interest expense on debt, reflecting the effects of higher interest rates.

Taking these trends into account, after having stood at 45.6% of GDP in 2022, mandatory levies rate adjusted for the effects of the energy prices cap would be 44.4% in 2024, stable compared with 2023. After 57.7% in 2022, the public expenditure ratio (excluding tax credits) would fall to 55.9% of GDP in 2023, then to 55.3% in 2024.

The potential scenario adopted in this Finance Bill is consistent with that which will be adopted in the amended Public Finance Programming Bill, with potential growth of 1.35% in both 2023 and 2024. The estimated output gap considers the effects of the Covid crisis and the consequences of the Russian invasion of Ukraine.
The uncertainties surrounding these forecasts remain considerable. Public finances are sensitive to the vagaries of macroeconomic trends, and in particular to variations in energy prices, which have a major impact on the cost of measures put in place to protect the French, first and foremost the energy prices cap.

In Bn€	Forecast implementation 2022	Forecast implementation 2023	Forecast 2024
Actual Balance	-126.8	-138.8	-128.3
Nominal GDP	2639.1	2818.1	2930.8

Annex 3: Introductory Article of the 2024 Social Security Financing Bill

Text of the article:

Social security expenditure, revenue and balance forecasts for the years 2023 and 2024 are as follows, in the national accounting sense:

(In Gross Domestic Product pps)	2023	2024
Revenue	26.6	26.6
Expenditure	25.9	26.0
Balance	0.7	0.6

Explanatory memorandum to the article:

This article presents, in accordance with Article 1 of the organic law No. 2001-692 of 14 March 2022 on social security financing law, the expenditure, revenue and balance forecasts for the social security funds (ASSO) for the current year and the coming year.
The social security financing bill for 2024 forecasts a surplus balance for the Social security funds' scope in 2023 and 2024, of +0.7% and +0.6% of GDP respectively.

Annex 4: 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*"[12]. 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"*[13]. Furthermore, under the corrective arm of the Pact[14], 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.

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