Haut Conseil des Finances Publiques

Opinion n° HCFP-2024-2

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

16 April 2024

Executive Summary

The High Council has been referred in three stages, from April 9th to 11th, 2024, on the forecasts associated with the Stability Programme. It regrets that the Government's submission was late and incomplete, making difficult to have a precise understanding of the choices made, especially considering that France's public finances are in a worrying situation.

In its opinion of September 2023 on the draft law of the Public Finance Programming Law (LPFP) 2023-2027, the High Council considered that the Government's growth scenario was optimistic and the trajectory of public finances unambitious compared to France's European commitments. It highlighted that the underlying structural savings were still to be precised.

It emphasized that a modest change in the debt trajectory was exposing France to a risk of increased divergence with other Eurozone countries. It recalled the need to reduce debt to protect against a rise in interest charges and to have sufficient fiscal space to address future economic or financial shocks, as well as to meet the high public investment needs, particularly for the ecological transition. The risk of divergence has significantly increased in light of the results of the 2023 exercise.

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The Stability Programme presented by the Government significantly alters the trajectory of the Public Finance Programming Law (LPFP), enacted less than four months ago.

The Government has revised downward its growth trajectory for the period 2023-2025 by 0.8 percentage points, as recent trends have called into question the previous underlying assumptions about household savings and investment behaviours as well as corporate investment: after a growth of 0.9% in 2023 (compared to the 1% forecast in the LPFP), it now predicts growth of 1.0% in 2024 (down from 1.4%) and 1.4% in 2025 (down from 1.7%).

The Government also revised, but only marginally, its assessment of potential GDP, resulting in a negative output gap that persists until 2027. Maintaining a negative output gap over a long period (8 years since 2020) is a configuration never observed in ex post output gap assessments. This strengthen the High Council's diagnosis that the potential GDP trajectory used in the Government's forecast is overestimated. Therefore, there is a significant risk that the Government's assessment of potential GDP will be revised downward later on, leading to an upward revision of the structural part of the deficit.

The new public finance trajectory presented in this Stability Programme is significantly more deteriorated than in the public finance programming Law (LPFP). Starting in 2023, public deficit (5.5 percentage points of GDP) and public debt (110.6 percentage points of GDP) are much higher than projected in the LPFP (by 0.6 and 0.9 percentage points of GDP respectively). It is also the case in 2024, when the deficit (5.1 percentage points of

GDP) is expected to increase by 0.7 percentage points compared to the LPFP, despite taking into account saving measures in the forecast. The target for the public deficit in 2027 has also been raised (2.9 percentage points of GDP instead of 2.7 points), even though the Government maintains the goal of returning below 3 percentage points of GDP by that time. Given the deterioration in public finance forecasts in 2023 and 2024, this trajectory is much more demanding than the LPFP.

This trajectory leads to an increase in the debt-to-GDP ratio compared to 2023. It would reach 112 percentage points of GDP in 2027, which is 4 points higher than projected in the LPFP. France is thus delaying the reduction of its debt-to-GDP ratio and would remain for a sustained period among the three most indebted countries in the eurozone.

In light of the deterioration of the public balance recorded in 2023 compared to the LPFP forecast and lower growth assumptions, bringing the public deficit back below 3 percentage points of GDP in 2027 would require a massive structural adjustment between 2023 and 2027 (2.2 percentage points of GDP over four years), which, according to the information provided in the Government's request, would mainly rely on expenditure savings.

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The High Council considers that this forecast lacks of credibility: while such an expenditure effort has never been achieved in the past, its documentation remains incomplete at this stage, and its implementation requires the establishment of rigorous governance involving all stakeholders (the Central Government, local authorities, and social security), which is not currently in place.

The Government forecast also lacks consistency: the implementation of the planned structural adjustment will necessarily weigh on economic activity, at least in the short term, so that the Government's high growth forecasts for the period covered by the LPFP appear inconsistent with the magnitude of this adjustment.

Bringing the scenario into coherence would thus, with unchanged macroeconomic forecasts, require a more limited deficit reduction effort, or, with an unchanged deficit reduction objective, significantly lower growth forecasts and even greater expenditure efforts than those, albeit unprecedented, planned by the Stability Programme trajectory.

The High Council reiterates that the necessary deficit reduction primarily requires a coherent and credible strategy to reduce the weight of public expenditure in GDP, and a reassessment of the planned reductions in compulsory levies.

I. Introductory remarks

1. Pursuant to Article 61-VIII of the amended Organic Law No. 2001-692 of 1st August 2001 concerning Budget Laws, the High Council of Public Finances (HCFP) is referred by the Government of macroeconomic forecasts on which the Stability Programme project is based as part of the coordination of economic policies of the Member States of the European Union.

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

1- On the scope of this notice

3. According to the aforementioned Article 61-VIII, the High Council of Public Finances is consulted for its opinion on the macroeconomic forecasts underlying the Stability Programme.

4. This opinion also examines the associated public finance trajectory, given its close relationship with the macroeconomic scenario.

2- On the information transmitted and the deadlines

5. The High Council of Public Finances was consulted by the Government on 9 April 2024, regarding the macroeconomic framework of the Stability Programme project. This consultation was accompanied by initial responses to a questionnaire previously sent to the relevant administrations. The Government then provided additional information in two stages, on 10 April and 11 April.

6. **The High Council notes that this consultation was *in fine* late and incomplete, and it does not provide a precise understanding of the choices made by the Government.**

3- On the method used by the High Council

7. To assess the realism of the macroeconomic forecasts associated with the Stability Programme, the High Council relied on the latest available statistics as well as the information provided by the Government.

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

9. The High Council, as allowed by Article 61-IX of the organic law, conducted hearings with representatives from the French Treasury and the Budget Department, as well as with external organizations (Bank of France, OFCE, INSEE, and Rexecode) on the short and medium-term outlook for the French economy.

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10. After presenting the international context (II), the High Council outlines its observations on the forecasts for 2024 (III), then provides its assessment of the macroeconomic forecasts underlying the Government's Stability Programme for the years 2025 to 2027 (IV), and on the coherence of the macroeconomic and public finance scenarios (V).

II. International context

The global economy showed unexpected resilience in 2023.

11. While a significant slowdown in growth was expected earlier in the year[1] due to the decline in real incomes caused by the sharp rise in prices and the rapid and widespread tightening of monetary policies, the decrease in inflation combined with various fiscal support mechanisms for households helped sustain activity. However, growth remained heterogeneous across regions: strong in the United States and many emerging countries, notably China, it weakened in most European countries.

12. In the **United States**, growth was very dynamic in 2023, especially in the second half, driven by household consumption supported by the use of accumulated savings during the health crisis and a strong labour market. Additionally, business investment spending was robust due to the strength of public support measures.

13. In **China**, economic activity progressed favourably in 2023 due to the rebound in household consumption following the lifting of health restrictions as part of the "zero-Covid" policy shift. However, the Chinese real estate market continues to face significant challenges, as evidenced by the bankruptcy of the developer Evergrande in January, with debts totalling \$340 billion. Additionally, weakened consumer confidence and inadequate social protection measures have led to household over-saving, which dampens private consumption growth. Although still strong, China's GDP growth has slowed from around 7% annually in pre-Covid years to approximately 5% today.

14. The **eurozone**, being more exposed to the negative economic effects of the war in Ukraine, especially in energy markets, experienced moderate GDP growth in 2023 (+0.5%). It was hampered by the persistently high level of inflation and the ongoing tightening of the ECB's monetary policy. This resulted in a 450-basis point increase in its key interest rates between July 2022 and September 2023, the effects of which continue to impact economic activity, and especially weighs on household investment.

15. Despite resilient global economic growth, global trade in goods and services slowed down in 2023[2], primarily due to weak imports in advanced economies.

Growth is expected to remain moderate in 2024 and 2025.

16. The international economic institutions forecast nearly unchanged global GDP growth in 2024 and 2025 (see Table 1).

[1] In January 2023, the consensus of economists from Consensus Forecasts anticipated global GDP growth of 1.6% on average annually in 2023. It is now estimated at 2.6%. The IMF predicted growth of 2.9% on average annually, compared to an estimate of 3.2% in April 2024; the World Bank forecasted 1.7%, now revised to 2.6%. Finally, the OECD projected global growth of 2.6% in 2023 in March 2023 and revised it to 3.1% in February 2024.

[2] Global trade grew by 0.2% on average annually according to the World Bank (compared to 5.6% in 2022) and by 0.3% according to the IMF after 5.6% previously.

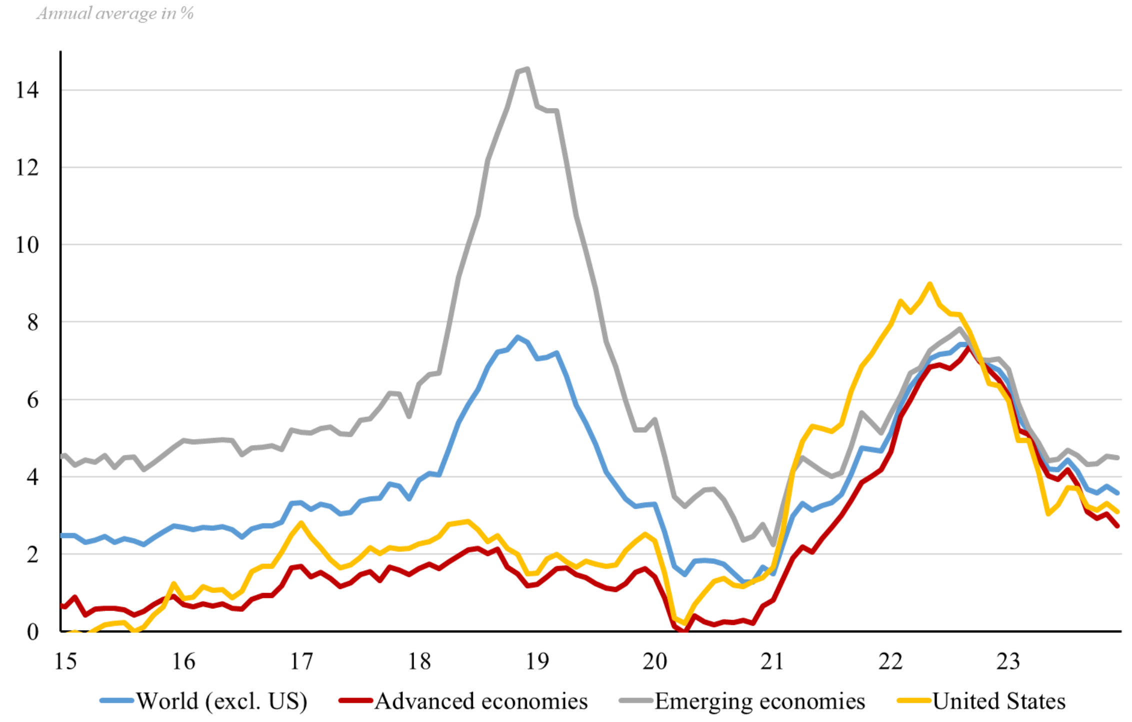
Table 1: French real GDP growth forecasts in volume (%, annual average)

	Publication date	2023	2024	2025
Government	**March 19th**	**3.1**	**3.1**	**3.2**
Consensus Forecasts	April 8th	2.6	2.4	2.5
OECD	February 5th	3.1	2.9	3.0
IMF	April 16th	3.2	3.2	3.2
World Bank	January 9th	2.6	2.4	2.7

Sources: International scenario of French Treasury March 2024, Consensus Forecasts March 2024, OECD Economic Outlook February 2024, IMF World Economic Outlook April 2024, Banque de France Macroeconomic Projections March 2024[3].

17. Global growth would remain below its pre-pandemic long-term average. The cyclical factors that had favoured the rebound in activity after the pandemic, such as the disappearance of bottlenecks, have dissipated and no longer have a positive impact. Additionally, the announced reduction in public deficits and the maintenance of interest rates at elevated levels by central banks would constrain activity. However, the easing of inflation should strengthen real incomes and promote consumption spending, especially in the eurozone. This could pave the way for a reduction in nominal policy rates during 2024, particularly in advanced economies.

Figure 1: Inflation



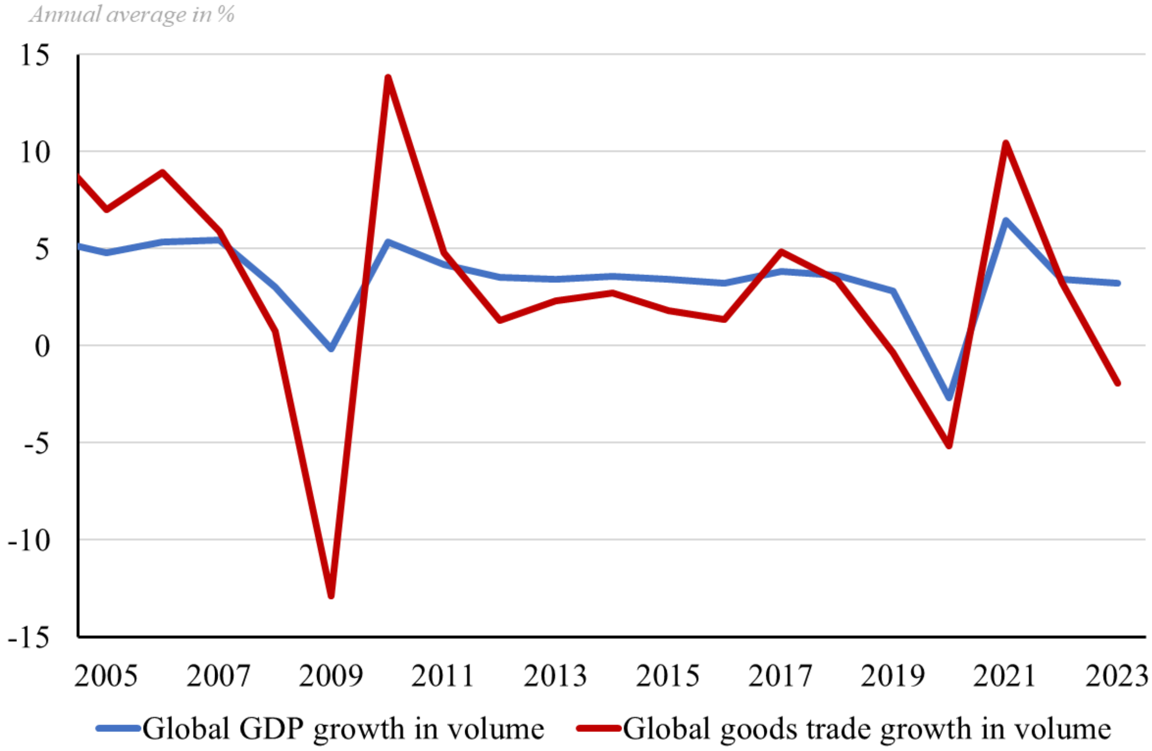
Source: Dallas Fed

[3] Note: The methodology and scope of calculation for global GDP vary between international organizations. Forecasts should not be compared directly but rather evaluated in terms of trends.

18. The evolution of global trade is one of the uncertainties in the forecast. Goods trade declined in 2023 despite positive global growth and easing supply chain tensions. A return to more synchronized growth between global trade and economic activity could support French exports, but the extent of this support remains uncertain.

19. **It seems that the international economic conditions are balanced for the next two years.** Geopolitical tensions remain high, and upcoming elections in the current year could impact activity in 2025. The pace of monetary policy easing is still uncertain and will influence the recovery. Additionally, more significant than expected decreases in savings rates and energy prices (gas and electricity) in the eurozone would be favourable for growth.

Figure 2: Global GDP growth and volume of global goods trade



Sources: Centraal Planbureau, International Monetary Fund

III. Comments on the 2024 forecasts

1- The Government's scenario

20. According to the Government's referral file, *"After growing by +0.9% in 2023, activity in France would increase by +1.0% in 2024 [...]. The acceleration of activity would be supported by the decrease in inflation, which would stand at +2.5% on average in 2024."*

21. *"Activity in 2024 would be mainly driven by the acceleration of household consumption, thanks to the decrease in inflation which would support real wages and also lead to a decrease in the savings rate. [...] Investment, especially that of households, would decrease due to high interest rates, weighing on activity."*

22. *"In 2024, inflation would decrease to +2.5% on average annually [with] a continued decrease in inflation for food and manufactured products. Energy prices would increase in*

2024 at a pace similar to 2023 [and] service prices would remain dynamic, without accelerating. [...] Core inflation would be +2.2% in 2024."

23. *"Wage growth would slow down again in 2024 (+2.9%), due to a slight increase in non-agricultural wage employment (+0.2% on average annually), not leading to job losses, and also a slowdown in the average wage per employee (+2.7%). [...]."*

2- Assessment of the High Council

24. The Government has revised its forecast for GDP growth in volume downwards by 0.4 percentage points in 2024 compared to the budget law, to 1.0%.

25. The Government's assumption for global growth in 2024 (3.1%) is close to that of international organizations. The Government notably forecasts eurozone growth of 0.7%, very close to the European Commission's February forecast (0.8%), slightly above the OECD forecast (0.6%), but below the IMF forecast (0.9%).

26. The Government's growth forecast for France in 2024 (1.0%) is higher than the average forecast of economists surveyed in April by *Consensus Forecasts* (0.7%) and above those of the IMF (0.7%) and OECD (0.6%). It is also higher than the forecasts of institutions consulted by the High Council (OFCE, Rexecode, and Banque de France). The government's forecast is close to that of the European Commission, although this forecast is already outdated (see table 2).

Table 2: French real GDP growth forecasts in volume (%, annual average)

	Publication Date	2024
Government	**April 9th**	**1.0**
Consensus Forecasts	April 8th	0.7
OFCE	April 5th	0.5
Rexecode	April 5th	0.4
Banque de France	March 14th	0.8
European Commission	February 15th	0.9
OECD	February 5th	0.6
IMF	April 16th	0.7

Sources: Stability Programme 2023-2027, OFCE Policy Brief April 2024, Rexecode, Banque de France Macroeconomic Projections March 2024, Consensus Forecasts March 2024, European Commission Winter Forecasts February 2024, OECD Economic Outlook February 2024, IMF World Economic Outlook April 2024.

27. The GDP growth forecast for 2024 is based on a weak carryover at the end of the fourth quarter of 2023, at 0.2%. Considering the latest business surveys published by INSEE, which indicate an improvement in the economic situation[4], the government's growth forecast for 2024 remains optimistic, although it is not beyond reach.

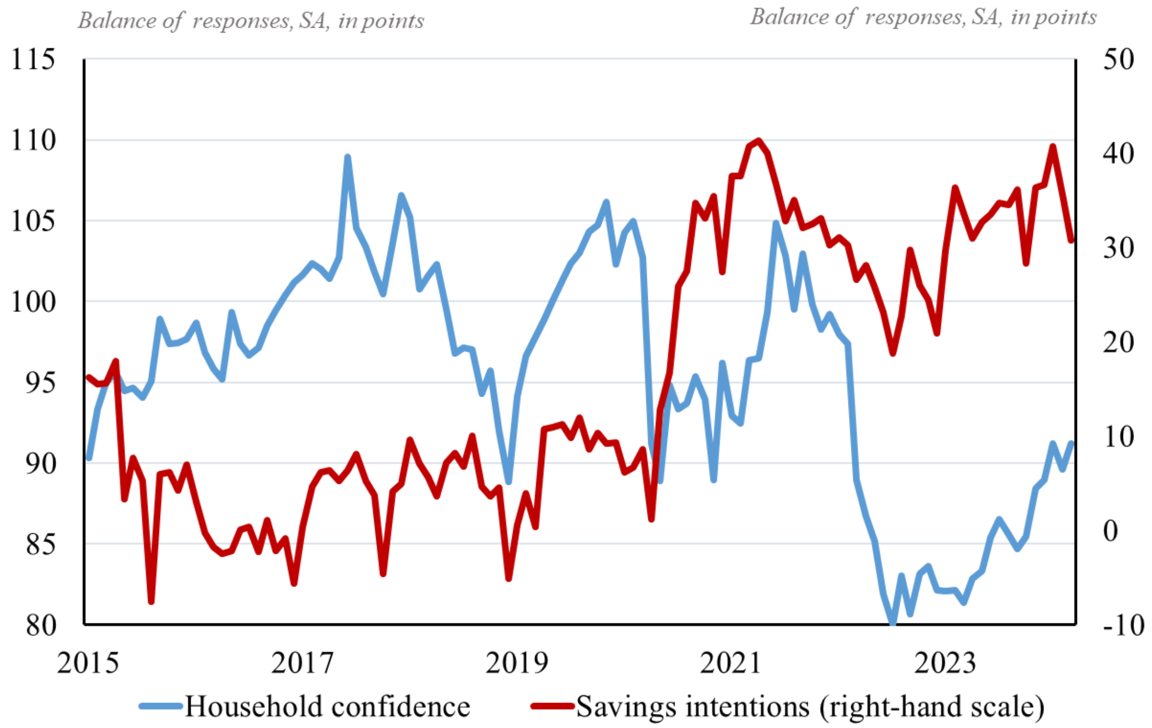
28. The High Council notes that most of the assumptions made by the Government for 2024 are also shared by the forecasters consulted: a rebound in household consumption linked to an increase in purchasing power, a decline in household investment due to higher borrowing costs and more difficult access to credit; a stronger growth in exports of goods and services despite a stabilization of global growth, thanks in particular to the recovery in aircraft deliveries.

[4] The business climate has been improving since November 2023 and returned to its long-term average by March 2024.

29. The Government, however, unlike the organizations that were consulted, expects an increase in business investment in 2024 (+0.5%), albeit revised downward compared to the Budget Law (-0.4 points), but that still appears optimistic given the past tightening of financing conditions, particularly in connection with the 450-basis point increase in the ECB's key interest rates from July 2022 to September 2023, which is expected to continue to have effects. The projected increase in household consumption is also higher than that expected by the Banque de France, OFCE, and Rexecode. It is based on a sharp drop in the savings rate to 17.2%, which is possible but not indicated by the low confidence of households and the proportion of households believing it is opportune to save, which remains near its historical highs.

30. The Government's forecast also assumes the implementation of additional tax and fiscal measures which, if fully implemented, would weigh on growth during the year.

Figure 3: household confidence and savings opportunity



Source: Insee

31. The Government's **inflation** forecast for 2024 (2.5% on average annually) has been slightly revised downward by 0.1 point compared to the draft budget for 2024. This revision was considered plausible by the High Council in its opinion rendered in September.

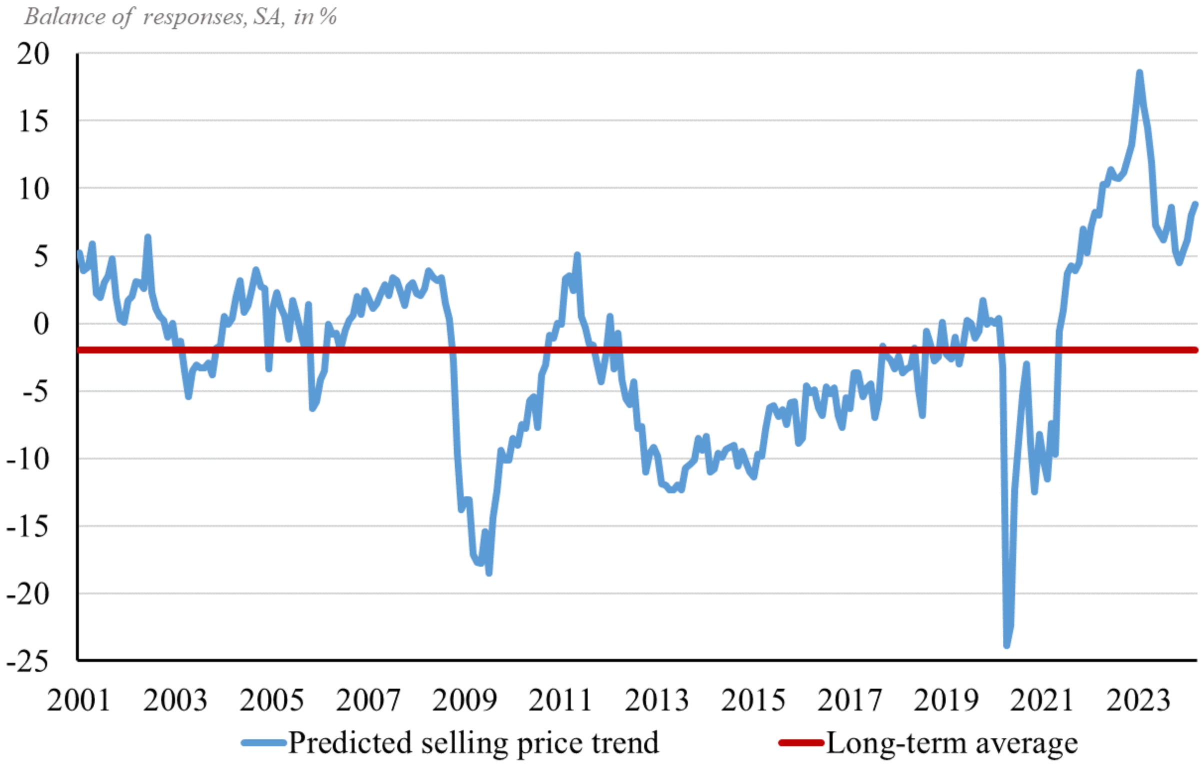
32. The expected slowdown in total inflation on an average annual basis is consistent with recent data[5].

33. It reflects a continued decline in underlying inflation on an average annual basis (to 2.2% in 2024, after 5.1% in 2023). This decline in underlying inflation has been significant since spring 2022: its year-on-year change dropped from 5.9% in March 2023 to 2.2% in March 2024.

[5] The year-to-date inflation rate as of the end of March 2024 stands at 1.6%. Achieving the government's forecast requires a monthly average increase of 0.23% in the consumer price index, which is close to the average observed in the past three months (0.3% on average).

34. However, this slowdown is expected to be more gradual now, notably because disinflation in services is currently limited by the progressive transmission of past wage increases. This is suggested by the component related to the expected prices in the INSEE business sentiment survey, which has been rising since November 2023 and is now above its long-term average.

Figure 4: The component related to expected selling prices in the monthly business survey in services conducted by INSEE



Source: Insee

35. The inflation forecast for 2024 falls within the range of available forecasts (see Table 3).

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

	Publication Date	2024
Government	**April 9th**	**2.5**
Consensus Forecasts	April 8th	2.5
OFCE	April 5th	2.4
Rexecode	April 5th	2.8
Banque de France (estimate from the HICP forecast)	March 12th	2.3

Sources: Stability Programme 2024-2027, Consensus Forecasts of April 2024, OFCE Policy Brief of April 2024, Rexecode, Banque de France macroeconomic projections of March 2024

36. The Government forecasts a 2.9% growth in the wage bill of non-agricultural market sectors in 2024.

37. This projection is based on an employment growth forecast of 0.2% in non-agricultural market sectors for 2024, with the average wage per employee (AWPE) expected to slow down significantly (+2.7% in 2024 after a growth of +4.2% in 2023).

Table 4: Non-agricultural market sector wage bill (percentage changes)

	2023	2024
Employment in the non-agricultural market sector	1.3	0.2
Average wage per capita	4.2	2.7
Average wage per capita excluding profit-sharing contribution	4.0	2.5
Wage bill	**5.5**	**2.9**
Wage bill excluding profit-sharing contribution	**5.3**	**3.9**

Source: Stability Programme 2024-2027

38. The employment forecast reflects an expected growth in value added of 1.2% in 2024 and productivity gains of 1.0% in 2024.

39. Forecasting productivity trends in the coming years is difficult. Recent studies[6] show that the significant decline in productivity compared to its pre-pandemic trend due to COVID-19 is partly explainable by exceptional factors (such as the rise in apprenticeships, increased employment rates among low-skilled workers, reduced disparity among less productive companies due to fewer bankruptcies during the pandemic, and labour hoarding), but it remains partially unexplained. As illustrated by the diversity of productivity assumptions adopted by the institutions that the High Council has consulted, there are various options to extend this unexplained portion in forecasting.

40. The Government assumes a rebound in productivity towards its pre-crisis trend. This choice can be considered reasonable: it is intermediate between continuing the recent trend of weakening productivity gains and, for example, the choice made by the Bank of France of a temporary rebound above the pre-pandemic trend due to the gradual dissipation of some of the exceptional factors that reduced it between 2020 and 2023, combined with the assumption of an unchanged underlying trend.

41. Given a value-added forecast that the High Council considers somewhat high, the employment forecast can therefore be viewed as somewhat optimistic.

42. The growth of average wage per employee surprised to the downside all forecasters in the second half of 2023. While the clear slowdown in AWPE (+0.6% on average per quarter compared to +1.0% in the first half) partly reflects the profile of minimum wage revaluations, it also indicates a lack of catch-up for the purchasing power losses of AWPE in non-agricultural trade branches recorded since 2022. Consequently, if the decline in inflation is expected to translate into a rise in AWPE purchasing power in 2024, it should remain very moderate.

[6] E. Heyer (2023) : « Comment expliquer l’évolution de l’emploi salarié depuis la crise Covid ? », OFCE Policy Brief, 180 (2023/1) and A. Devulder, T. Zuber, B. Ducoudré and M. Lemoine (2024) : « Comment expliquer les pertes de productivité observées en France depuis la période pré-Covid ? », Banque de France Bulletin 251/1 – March-April 2024.

43. The forecast of a 0.2% increase in AWPE purchasing power in 2024 is plausible.

Box: What is the salary outlook for 2024?

The evolution of wages in the second half of 2023 resulted in a significant overestimation of the average wage per employee (AWPE) in non-agricultural market branches (NAMB) in the Government's forecasts for 2023: projected at +5.3% in the PLF for 2024, the growth of AWPE in NAMB for 2023 is now estimated by Insee at +4.2%, and the entire difference comes from developments in the second half.

This overestimation was identified relatively early by the HCFP, based on initial data from Urssaf for the months of August and September. In its opinion on the end-of-year PLF, the Haut Conseil thus considered that the forecast for wage mass for 2023 was slightly high. However, this overestimation was not anticipated, so the opinion on the PLF for 2024 considered the evolution of AWPE in NAMB for 2023 to be plausible.

The use of an econometric model of AWPE involving its past evolution, that of the CPI, the unemployment rate, and some delays in its variation, slightly overestimates developments in the second half. Still, this overestimation is significantly lower than that of the Government's forecast and is not excessive given the precision of the resulting equation.

It reflects an under-indexing of wages to inflation in the short term and a lack of catch-up in the medium to long term in purchasing power losses that may result from high inflation. It anticipates a very slight increase in AWPE in NAMB in 2024 (0.2% compared to an increase of 0.4% in the Government's forecast associated with the PLF for 2024). Even though the Government's forecast appears somewhat optimistic in this context, the weaknesses affecting this model suggest that this difference is not significant.

44. **The High Council considers that the Government's growth forecast for 2024, revised downward from the 2024 budget law, remains optimistic, even though it is not out of reach. It is higher than the forecasts compiled by the High Council, even though it assumes the implementation of additional tax and fiscal measures that, if fully realized, would weigh on growth during the year.**

45. **It considers that the inflation forecast for 2024 (2.5%), which reflects the gradual easing of inflationary pressures caused by supply difficulties following the Covid crisis and the rise in prices of energy and agricultural products following the outbreak of the war in Ukraine, is realistic.**

46. **Finally, it notes that the forecast for wage growth in 2024 is subject to significant uncertainties due to the difficulty of understanding employment growth since the health crisis, but it is somewhat high because it is based on a slightly elevated forecast of economic growth itself.**

IV. Observations on the macroeconomic scenario for the years 2025 to 2027

47. The Stability Program forecasts for growth and inflation up to 2027 must be examined in light of France's potential output growth under unchanged use of production factors and the position of the French economy in the cycle. This is assessed based on the output gap, which represents the difference between observed volume GDP and potential GDP. Potential GDP is defined as the production that would be achieved once temporary shocks affecting the economy are eliminated, mobilizing production factors to their equilibrium levels. The output gap serves as an indicator: when negative, it signals the ability of economic activity to rebound, and when positive, it indicates a slowdown perspective.

A. Potential growth and the output gap

1- The Government's scenario

48. According to the Government, *"The scenario of potential growth underlying the Government's macroeconomic forecast has been revised over the past compared to the Public Finance Programming Law (LPFP). The permanent loss of potential GDP due to the health and energy crisis is revised slightly upwards (with a level shock of 1.5 percentage points instead of 1.25 percentage points in the last LPFP): successive shocks seem to indeed affect the French economy longer than expected, as reflected in the later recovery than anticipated last autumn. The output gap in 2023 would be -1.1 percentage points and would remain negative in 2024 (-1.5 percentage points) and 2025 (-1.4 percentage points). [...]"*

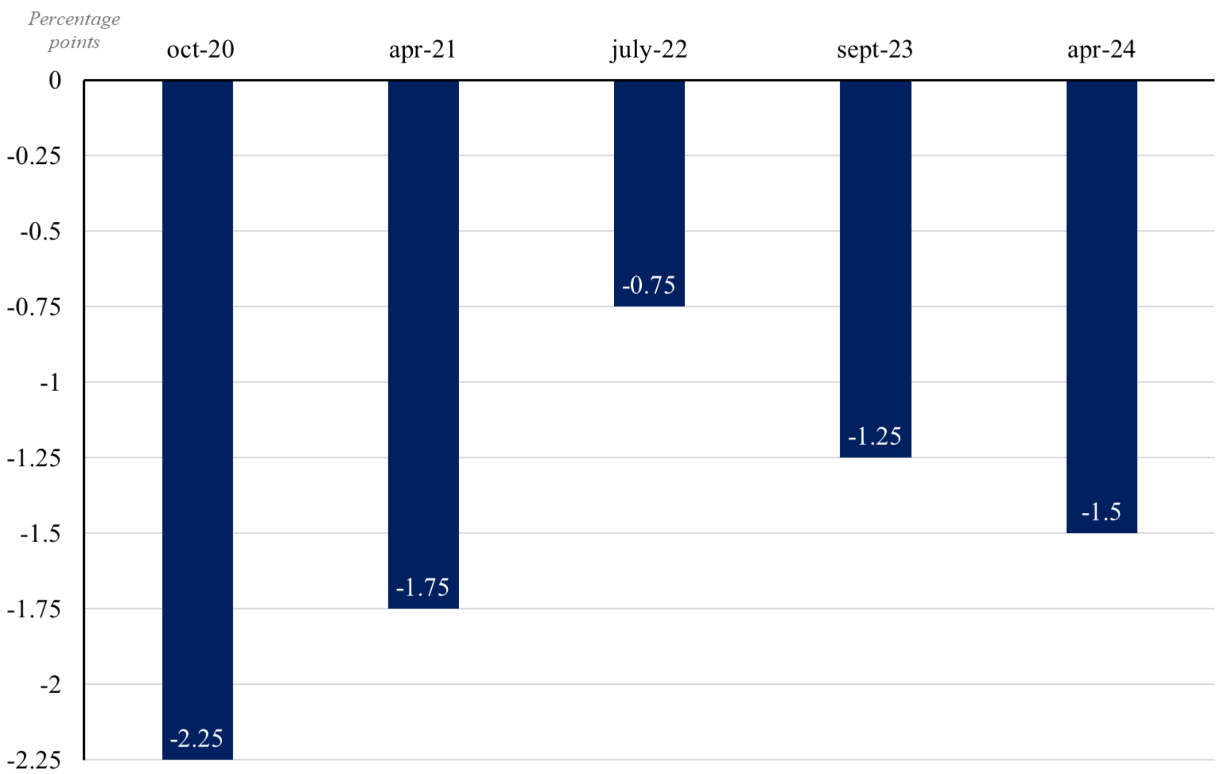
49. *"The potential growth would be +1.35% over 2023-2027, unchanged compared to the LPFP."*

2- Assessment of the High Council

50. The Government has marginally revised its scenario of potential GDP: its potential growth assumption is unchanged (1.35% per year between 2024 and 2027) but slightly adjusted its estimation of the potential GDP loss in level, to 1.5 percentage points instead of 1.25 percentage points in the LPFP 2023-2027 and 0.75 percentage points in its previous Stability Programme.

51. This is the fifth time since 2020 that the Government has adjusted its scenario of potential GDP based on past data to take account for the effects of the Covid-19 pandemic, the war in Ukraine, and the policies implemented to mitigate their impact on the economy, while assuming that these crises have not affected the future growth trajectory.

Figure 5: Permanent loss of potential GDP in level



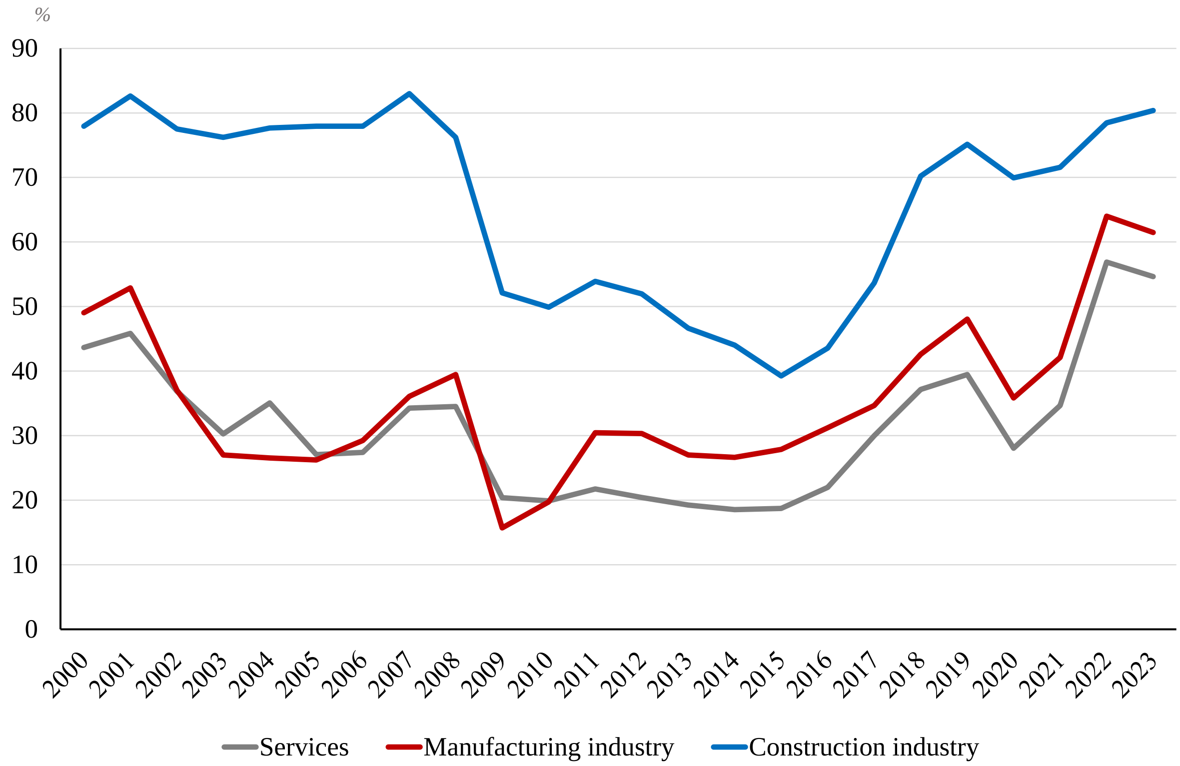
Source: Government

52. As a result, and despite slightly weaker actual growth than expected, the Government has slightly raised its estimate of the output gap in 2023 (to -1.1% instead of -1.2% in the LPFP 2023-2027). This assessment is close to that of the OECD (1.5%), but it is more negative than those of the IMF (0.9%) and the Bank of France (0.4%), while the European Commission even estimates that the output gap closed in 2023.

53. As regularly noted by the Haut Conseil, estimating such a pronounced output gap implies significant underutilization of productive capacities, which does not seem consistent with the recruitment difficulties faced by companies. These difficulties are greater than those recorded in 2019, a year marked by a significantly positive output gap, where labour market tensions had reached their highest level since 2011 due to both intense hiring activity and a shortage of labour.[7]

[7] V. Ducatel, M. Niang, F. Lainé et F. Chartier (2023) : « Les tensions sur le marché du travail en 2022 ». Dares Résultats n°59 November 2023.

Figure 6: Recruitment difficulties in France



Source: Insee

54. Finally, while the Government estimates that the permanent output loss following the crisis (1.5%) is almost exclusively attributable to productivity adjustments, recent estimates by the Banque de France and the OFCE assess the permanent loss of productivity at around 3 percentage points. There is a significant risk that this could lead to a further *ex-post* reduction in potential GDP and therefore an upward revision of the structural deficit.

55. The Government's estimate of potential growth (+1.35% per year from 2024 to 2027) is higher than those of the OECD for the period 2024-2025 (+1.1%) and the Banque de France for the period 2024-2026 (+1.2%). It is also higher than the IMF's forecast (+1.2% per year) and the European Commission's forecast (+0.9% per year) for the period 2024-2027.

56. The underlying scenario for the Government's potential growth forecast remains unchanged from the previous Stability Programme. It assumes a contribution from labour input between 0.3% and 0.4% between 2023 and 2027 (consistent with employment growth of around 0.5% to 0.6%), which integrates the overall expected impact on employment of a set of reforms. Some of these reforms have been implemented (pension reform, the 2023 unemployment insurance reform, the expansion of apprenticeships in vocational high schools, the transformation of Pôle emploi into France Travail, and the establishment of a public service for early childhood), while others are ongoing or announced (RSA reform, a new unemployment insurance reform).

57. The Government's forecast for employment growth is slightly overestimated. The anticipated effects on employment from the pension reform seem consistent with existing estimates, but those expected from the 2023 unemployment insurance reform rely on advantageous assumptions regarding the adjustment of the unemployment rate to the reduction in benefit duration and the likelihood of finding a job for those who would no longer be eligible for benefits. Regarding the law of December 18, 2023 for full employment and more

specifically the RSA reform, the Government has not provided details on the number of jobs included in its forecast. It has also not specified either the measures planned in the announced unemployment insurance reform or its implementation timeline.

58. The Government maintains its estimate of a contribution from total factor productivity to potential growth in line with the previous Stability Programme and the LPFP 2023-2027 (between 0.4 and 0.5 percentage points): *"The underlying assumption in the Stability Programme is therefore that of a productivity trend identical to the pre-crisis trend, excluding the effects of labour market reforms."*

59. The growth assumed for total factor productivity appears high. Firstly, it is based on an assessment of its pre-crisis trend that exceeds available estimates[8]. Secondly, the assumption of a productivity trend identical to the pre-crisis trend, excluding the effects of labour market reforms, seems optimistic, as the weakness in productivity since 2020 may partly be explained by a continuation of its slowdown since the 1980s.

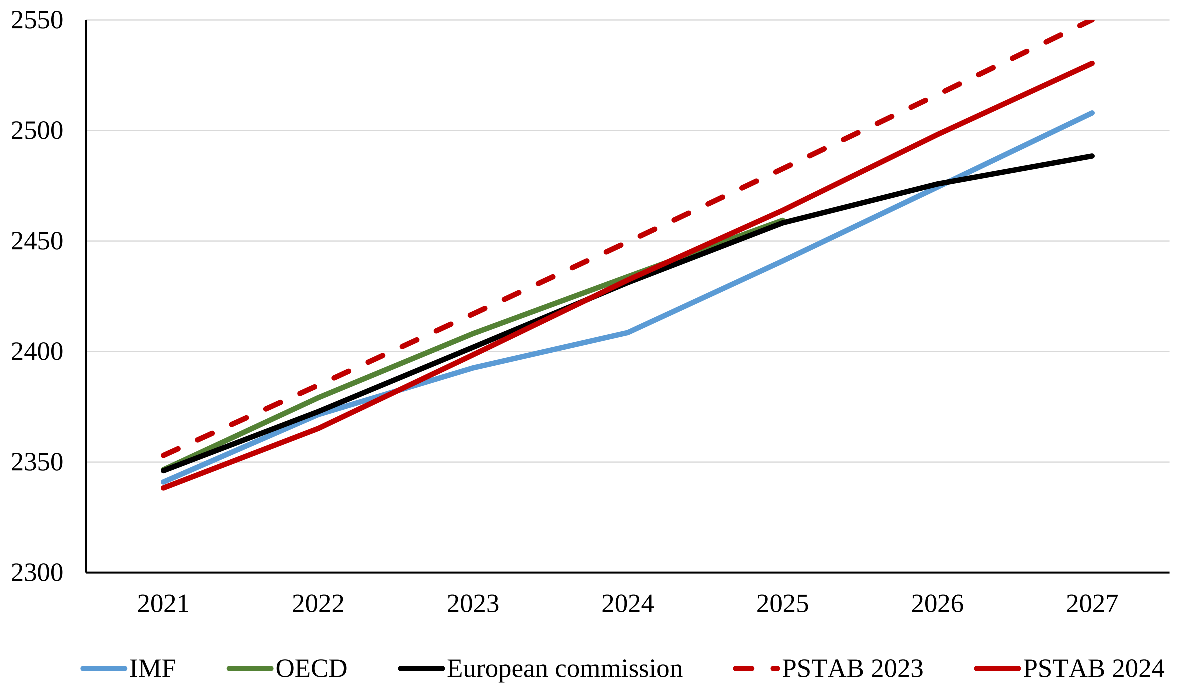
60. Lastly, the Stability Programme's scenario assumes a contribution from the capital factor to potential growth of 0.5-0.6 percentage points, consistent with the assumption of total factor productivity growth, but therefore optimistic.

61. There remain significant negative uncertainties related to (i) the lingering effects of the health crisis on the productive sector and the skill level of the workforce, and (ii) the magnitude of the constraints that the French economy will have to face in the long term (ecological transition, public and private indebtedness).

62. Overall, due to favourable choices both regarding the level of the output gap at the beginning of the period and future potential growth, the Government's trajectory for potential GDP remains higher than those of the IMF (by +0.9% in 2027) and the European Commission (by +1.7% in 2027).

[8] The estimation made in preparation for opinion No. 2022-5 of the HCFP on the initial version of the LPFP 2023-2027 assesses the contribution of total factor productivity (TFP) between 0.4 and 0.5. Furthermore, the available estimates from databases (Eu Klems ; Long Term Productivity) and from Goldin, I., Koutroumpis, P., Lafond, F., Winkler, J.'s (2024) "Why Is Productivity Slowing Down?" *Journal of Economic Literature*, evaluate the contribution of TFP between 0.1 and 0.3 for France.

Figure 7: Comparison of potential GDP forecasts in France (Potential GDP in billion euros in volume)



Source: European Commission Autumn Forecasts November 2023, OECD Economic Outlook November 2023, IMF World Economic Outlook April 2024, Stability Programmes 2023-2027 and 2024-2027.

63. **The High Council reiterates the observations made in its previous opinions. It considers that the assumptions regarding potential growth (1.35% per year from 2024 to 2027) and the output gap in 2023 (-1.1 percentage points of potential GDP) are advantageous. They assume significantly higher productivity gains than what was expected based on trends observed before the Covid-19 pandemic and an increase in total employment, particularly related to pension and unemployment insurance reforms, which appears to be overestimated.**

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

1- The Government's scenario

64. According to the Government, *"In 2025, growth would reach +1.4% and [...] would continue to be mainly supported by household consumption, benefiting from a more pronounced decrease in the savings rate than in 2024. [...]".*

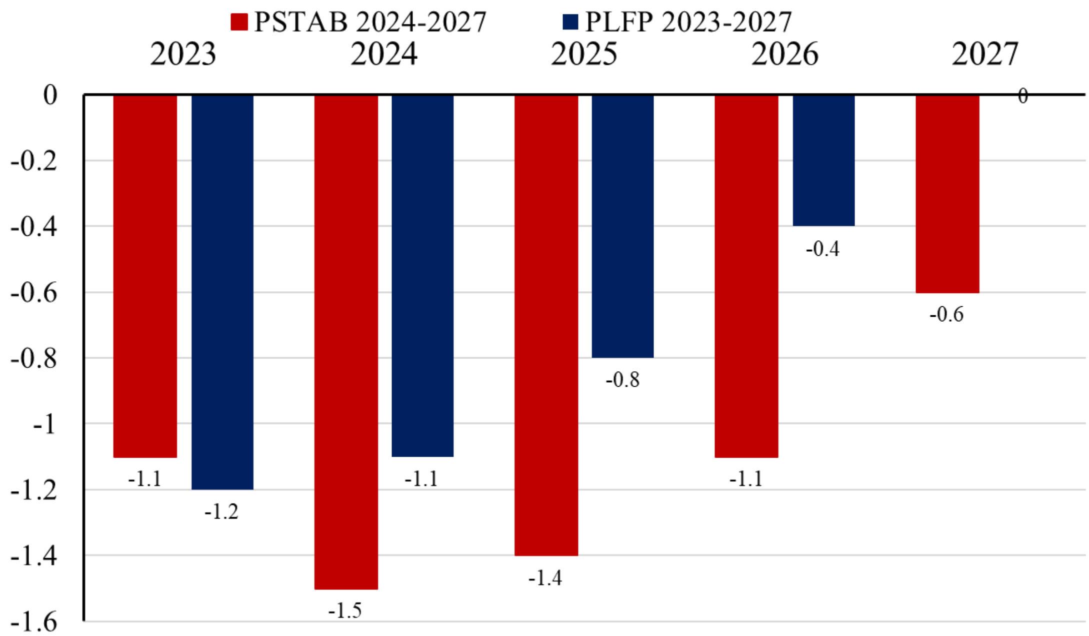
65. *"The growth rate would then exceed its potential pace (estimated at +1.35%) and would be +1.7% in 2026 and +1.8% in 2027. [...]".*

66. *"However, the growth rate in 2026 and 2027 would not be sufficient to completely close the output gap, which would be -0.6 percentage points in 2027."*

2- Assessment of the High Council

67. The Government has revised downward its growth forecast for 2025 by 0.3 percentage points compared to the LPFP (+1.4% instead of +1.7%), but maintained its forecasts for 2026 and 2027: +1.7% in 2026 and +1.8% in 2027. Overall, the Government's scenario is less optimistic throughout the trajectory compared to the previous scenario. Given the minor downward revision in the level of potential GDP, this results in maintaining a negative output gap in 2027 (-0.6 percentage points of potential GDP): unlike its previous forecast, the Government has not assumed a complete closure of the output gap.

Figure 8: Output gap in terms of potential GDP points



Source: Government

68. The Government's growth forecast of 1.4% for 2025 falls within the upper range of available estimates (between 1.2% for OECD, Rexecode, and OFCE, and 1.4% for the IMF). However, its forecast for the 2026-2027 period (1.7% and 1.8%, respectively) is more optimistic than current available forecasts, ranging from 0.5% for the European Commission to 1.5% in the IMF's April 2024 forecast, and standing at 1.3% according to the April 2024 *Consensus Forecasts*.

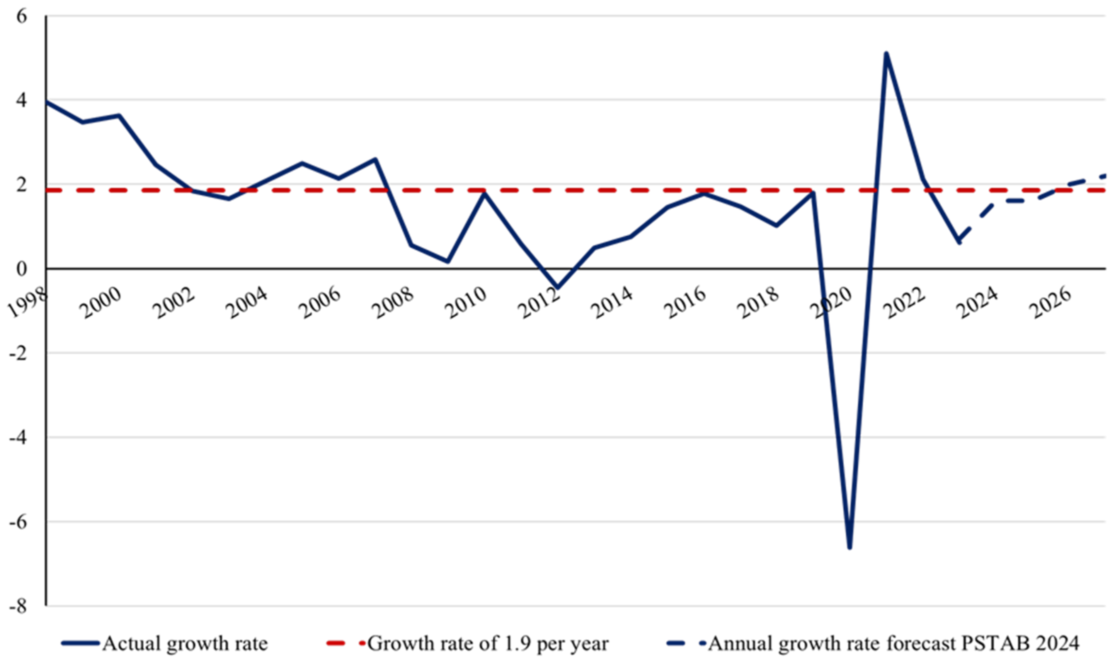
69. Furthermore, this forecast raises a twofold issue. Firstly, it implies the persistence of a negative output gap over a long period (8 years), a configuration that is never observed in *ex-post* evaluations of the output gap.

70. Secondly, this growth scenario is inconsistent with the associated public finance scenario. The effort outlined in the scenario for the years 2025 to 2027 would undoubtedly weigh on economic activity in the short term, and achieving the growth forecast in the stability program would require very favourable assumptions, particularly regarding savings rates and the international environment, which are possible but unlikely.

71. The Government's growth scenario is based on a very dynamic recovery in final household consumption expenditure (+1.6% in 2025, +2% in 2026, and +2.2% in 2027). This

sharp increase, significantly higher than the average observed in the years preceding the health crisis (+1% on average between 2010 and 2019), would result from both an improvement in purchasing power linked to optimistic assumptions about employment and productivity gains used to build the potential growth scenario. Additionally, as has been indicated to the High Council during administrative hearings, there is a proactive assumption of a reduction in the savings rate. In this regard, it is regrettable that the information provided does not allow for a precise assessment of the impact of public finance adjustments on the macroeconomic scenario.

Figure 9: Households actual final consumption (in volume)



Source: Insee

72. **The High Council considers the forecasted average annual growth rate of 1.6% for the years 2025 to 2027 to be high. It is based notably on an increase in household consumption, significantly higher than pre-health crisis levels, partly due to a potential but uncertain decrease in their savings rate.**

V. Observations on the public finance scenario for the years 2024 to 2027

73. The public deficit reached 5.5% of GDP in 2023, which is a deviation of 0.6 percentage points compared to the forecast in the draft budget for 2024 and the end-of-term budget for 2023. Particularly, the level of revenues was significantly lower than anticipated due to substantial shortfalls in corporate tax, VAT, and social security contributions, leading to a much lower elasticity of compulsory levies to GDP than expected (at 0.4).

74. The public debt-to-GDP ratio is nearly one percentage point higher in 2023 compared to the forecast in the 2024 budget, standing at 110.6%. This means that the deficit has widened more than anticipated. Additionally, on the denominator side, the GDP growth in value has been less significant than predicted**. Therefore, the starting point of the public finance**

trajectory in this Stability Programme is significantly worse compared to the public finance programming law.

75. Regarding revenues, the High Council notes that the Government assumes a reasonable hypothesis of a gradual return to a unitary elasticity of revenues (0.4 in 2023, 0.8 in 2024, 0.9 in 2025, and then 1.0 from 2026 onwards), which is its medium-term value. Consequently, all structural adjustment relies on an unprecedented control of expenditures, the credibility of which is far from guaranteed.

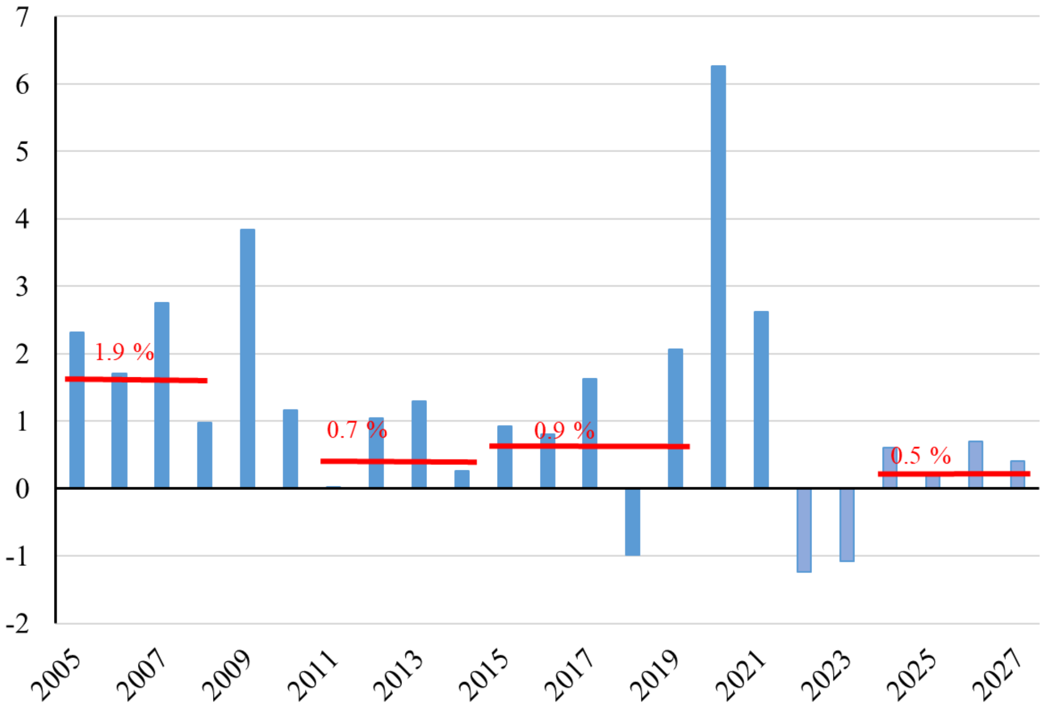
76. The Government also takes into account the implemented and planned increases in domestic consumption taxes on electricity (TICFE) and natural gas (TICGN), amounting to €6.7 billion in 2024. Additionally, it expects an exceptional contribution from energy companies and other measures on profits, totalling €3 billion, although these latter measures are not documented.

77. According to these assumptions, the ratio of compulsory levies (excluding tax credits) would increase from 43.5% of GDP in 2023 to 44.1% in 2026.

78. In order to reduce the deficit to 4.1% in 2025**, the Government plans a substantial structural adjustment over two years, amounting to 0.6 percentage points of GDP in 2024 and 0.9 percentage points of GDP in 2025**. In 2024, the adjustment would be achieved notably by 0.3 percentage points of GDP through cost-saving measures across various ministries, following the cancellation of €10 billion in credits in the State budget in February 2024. Local authorities would also contribute to this adjustment by 0.2 percentage points of GDP through a slowdown in their operating expenses. Without a binding mechanism, this adjustment is far from guaranteed. In 2025, the trajectory relies on a substantial adjustment, mainly in expenditures, of 0.9 percentage points of GDP, representing an effort of €27 billion, the details and effects of which must be documented in the next Budget Law, based on expenditure reviews underway. Given the savings generated by the expenditure reviews conducted so far, this requires a significant acceleration, which remains to be demonstrated.

79. According to the Government's forecast, public spending would follow a growth trajectory in volume much slower than that of GDP, averaging 0.5% per year over the period 2024-2027, which is a slower growth rate than in the previous two decades, even during the sovereign debt crisis between 2011 and 2014 (average of 0.7% per year). Overall, the ratio of public expenditure (excluding tax credits) would decrease over the period 2024-2027 to only return to its pre-crisis level of 2019 by 2027, at 54.5% of GDP.

Figure 10: Rate of growth of public expenditure in volume[9] (as a percentage)



Source: Insee, Stability Programme 2024-2027. 2020 Basis.

80. **The interest burden on public debt increases significantly over the entire period, rising from 1.7 percentage points in 2023 to 2.6 points in 2027.** The structural adjustment included in the Government's forecast (2.2 points) would therefore require a massive primary adjustment, that is excluding interest charges, of 3.2 points.

Table 5: Public balance (in percentage points of GDP)

	2023	2024	2025	2026	2027
General government balance (according to Maastricht criteria)	**-5.5**	**-5.1**	**-4.1**	**-3.6**	**-2.9**
Structural balance (% of potential GDP)	*-4.8*	*-4.2*	*-3.2*	*-2.9*	*-2.5*
Structural adjustment	-0.5	0.6	0.9	0.3	0.4
Primary structural adjustment	-0.7	0.8	1.2	0.5	0.7
As a reminder, general government balance (according to Maastricht criteria) forecasted in the LPFP	*-4.9*	*-4.4*	*-3.7*	*-3.2*	*-2.7*

Source: Stability Programme 2024-2027 (2020 Basis), LPFP 2023-2027 (2014 Basis)

81. Under these fragile assumptions, the public deficit would return below the 3% of GDP limit set by the Stability and Growth Pact at the very end of the trajectory (2.9% of GDP in 2027).

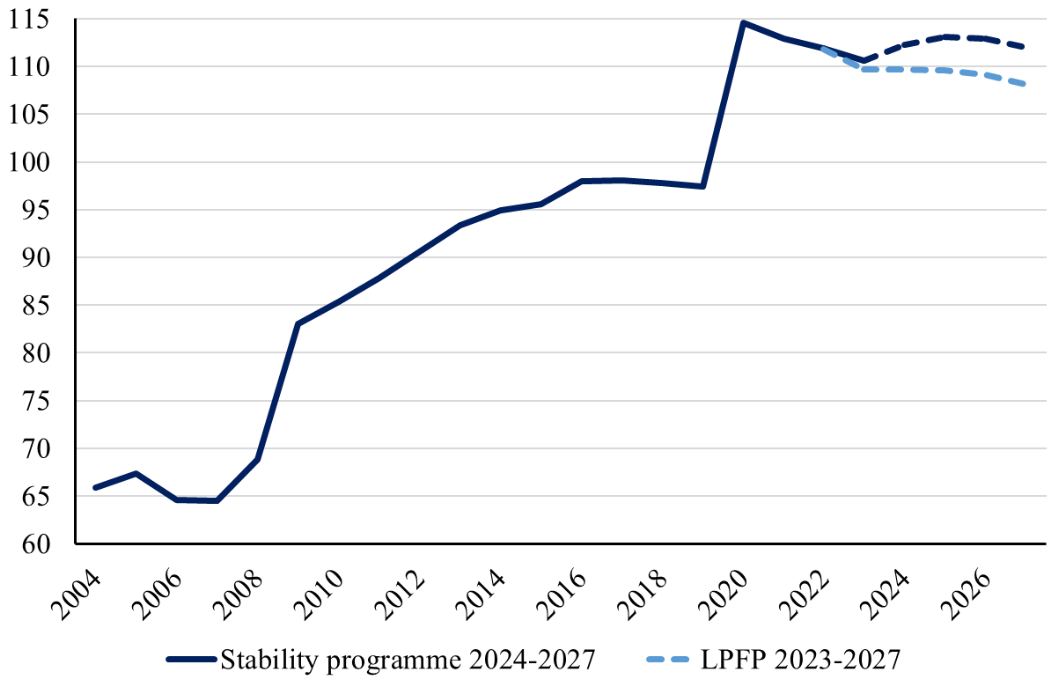
82. Moreover, while the primary structural balance deteriorated in 2023, future European budgetary rules stemming from the trilogue agreement between Parliament, Council, and

[9] Public spending excluding tax credits, emergency measures, and stimulus measures.

Commission in February 2024 foresee a primary structural adjustment of at least 0.25 percentage points of GDP per year for Member States with a public debt ratio exceeding 60% of GDP, such as France. The required structural adjustment would be even greater under the corrective aspect, where France might find itself given its deficit significantly above 3% of GDP, realized in 2023 as expected in 2024.

83. Despite the total growth forecast being somewhat optimistic according to the High Council and the announced fiscal adjustment being considerable, the ratio of public debt to GDP would still increase in 2024 and then remain relatively stable at a very high level, reaching an average of 112.5% of GDP between 2024 and 2027. This is because, on one hand, the nominal deficit would remain at a high level, and on the other hand, the deficit stabilizing the debt would decrease significantly from 2024 onwards, in line with the slowdown in GDP in value terms. The debt-to-GDP ratio forecast in 2027 in the Stability Program is 4 percentage points above that of the LPFP.

Figure 11: Trajectory of the public debt-to-GDP ratio (in %)



Source: Insee (base 2020), Stability Programme 2024-2027 (base 2020), LPFP 2023-2027 (base 2014)

*

84. **The new public finance trajectory presented in this Stability Programme is significantly more deteriorated than in the public finance programming Law (LPFP). Starting in 2023, public deficit (5.5 percentage points of GDP) and public debt (110.6 percentage points of GDP) are much higher than projected in the LPFP (by 0.6 and 0.9 percentage points of GDP respectively). It is also the case in 2024, when the deficit (5.1 percentage points of GDP) is expected to increase by 0.7 percentage points compared to the LPFP, despite taking into account saving measures in the forecast. The target for the public deficit in 2027 has also been raised (2.9 percentage points of GDP instead of 2.7 points), even though the Government maintains the goal of returning below 3 percentage**

points of GDP by that time. Given the deterioration in public finance forecasts in 2023 and 2024, this trajectory is much more demanding than the LPFP.

85. **This trajectory leads to an increase in the debt-to-GDP ratio compared to 2023. It would reach 112 percentage points of GDP in 2027, which is 4 points higher than projected in the LPFP. France is thus delaying the reduction of its debt-to-GDP ratio and would remain for a sustained period among the three most indebted countries in the eurozone.**

86. **In light of the deterioration of the public balance recorded in 2023 compared to the LPFP forecast and lower growth assumptions, bringing the public deficit back below 3 percentage points of GDP in 2027 would require a massive structural adjustment between 2023 and 2027 (2.2 percentage points of GDP over four years), which, according to the information provided in the Government's request, would mainly rely on expenditure savings.**

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87. **The High Council considers that this forecast lacks of credibility: while such an expenditure effort has never been achieved in the past, its documentation remains incomplete at this stage, and its implementation requires the establishment of rigorous governance involving all stakeholders (the Central Government, local authorities, and social security), which is not currently in place.**

88. **The Government forecast also lacks consistency: the implementation of the planned structural adjustment will necessarily weigh on economic activity, at least in the short term, so that the Government's high growth forecasts for the period covered by the LPFP appear inconsistent with the magnitude of this adjustment.**

89. **Bringing the scenario into coherence would thus, with unchanged macroeconomic forecasts, require a more limited deficit reduction effort, or, with an unchanged deficit reduction objective, significantly lower growth forecasts and even greater expenditure efforts than those, albeit unprecedented, planned by the Stability Programme trajectory.**

90. **The High Council reiterates that the necessary deficit reduction primarily requires a coherent and credible strategy to reduce the weight of public expenditure in GDP, and a reassessment of the planned reductions in compulsory levies.**

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

Paris April 16, 2024

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

Pierre MOSCOVICI

APPENDIX 1
Stability Programme macroeconomic scenario
-
French economic forecasts

	2023	2024	2025	2026	2027
Goods and services, real terms					
Gross Domestic Product	**0.9**	**1.0**	**1.4**	**1.7**	**1.8**
Private consumption expenditure	0.6	1.6	1.6	2.0	2.2
General government consumption expenditure	0.5	0.1	0.7	1.2	0.9
Gross fixed capital formation	1.1	-0.4	0.7	1.3	1.2
Imports of goods and services	-0.1	0.8	3.1	3.1	3.1
Exports of goods and services	1.5	2.1	3.9	3.5	3.5
Contributions to real GDP growth					
Final domestic demand excluding inventories	0.8	0.8	1.2	1.6	1.7
Change in inventories and valuables	-0.4	-0.2	0.0	0.0	0.0
Foreign trade	0.5	0.4	0.2	0.1	0.1
Prices and nominal aggregates					
Consumer Price Index	**4.9**	**2.5**	**1.7**	**1.75**	**1.75**
Gross Domestic Product Deflator	5.5	2.6	1.7	1.6	1.6
Nominal Gross Domestic Product	6.4	3.6	3.1	3.3	3.4
Employment and wages					
Whole Economy :					
-Employment (employed persons)[10]	1.1	0.4	0.6	1.1	1.4
-Employee wages (including employer contributions)	5.3	3.2	2.9	3.1	3.3
-Average employee wages (including employer contributions) per capita	4.1	2.9	2.3	2.0	1.9
Potential growth and output gap					
Potential GDP growth (%)	1.35	1.35	1.35	1.35	1.35
Output gap (% potential GDP)	-1.1	-1.5	-1.4	-1.1	-0.6

Source: Ministry of the Economy and Finance (April 2024).

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