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Public expenditure growth under "unchanged policy"

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Summary

Public expenditure growth is generally broken down into two components: the "trend", sometimes referred to as "unchanged policy", and the "measures" that are adopted in relation to it. This breakdown is important because it is used to characterize public finance policy choices. Their underlying principles must therefore be carefully explained, both conceptually and in terms of their empirical evaluation.

1/ Several notions of "unchanged policy" must be distinguished. They do not have the same meaning nor the same usage.

The concept of "unchanged policy" can first refer to the path that tends to keep stable the weight of expenditure in GDP. *With this approach the trend growth of public expenditure is therefore equal to potential growth. Using this concept offers many advantages: it is well-established, simple, enshrined in organic law, and internationally recognized. By nature, it ensures a link between the effort made relative to the trend (the measures) and the evolution of the public-expenditure-to-GDP ratio. It is also the only approach where the effort made adequately reflects the actual stance of fiscal policy (expansionary, neutral, or restrictive).*

A different notion of "unchanged policy" refers to the path that preserves past policy orientations and may be implemented by extrapolating past trends. This is what is referred to here as the "medium-term trend". *The "medium-term trend" differs from potential growth for two reasons. First, past average expenditure growth may differ from potential growth. Second, this approach may take on board medium-term changes, such as demographic factors, which inflect mere extrapolations of previous trends, either positively or negatively. The medium-term trend is useful when formulating a multiyear strategy, as it highlights the gap between a scenario in which measures and policies in place are maintained and a 'target' or programming scenario. The magnitude of this gap indicates the savings to be sought in a review of public spending to be implemented over several years.*

Finally, a variation on the previous concept, referred to here as the "short-term path", takes into account not only medium-term trends but also measures deemed to be already acquired in the context under consideration ("done deals") and other more technical or "one-off" factors that affect short-term forecasts. *In particular, this can be the latest expenditure forecast for the following year*

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[1] Permanent Secretariat of the High Council of Public Finance. The authors would like to thank the members of the High Council of Public finance and of the French Treasury for their proofreading of this note.

(N+1), ahead of the draft budget bill ("PLF") and the draft social security financing bill ("PLFSS"). This approach is therefore context-specific and the short-term oriented. It gives insight on the quantum of additional measures to include into the budget bills, as well as on their breakdown, in order to achieve the expenditure target for year N+1. Beyond that time frame, the impact of "done deals" and other short-term evolutions fades out and the short-term path eventually coincides with the medium-term trend.

2/ Conceptually, these various notions of "unchanged policy evolution" do not have the same limitations either.

In the traditional approach based on potential growth, the limitation is that the expenditure effort does not correspond to the sum of the measures introduced in budget bills, *even though this approach does correspond to a specific meaning of "unchanged policy" (stable public-expenditure-to-GDP ratio in terms of both total expenditure and expenditure per expenditure items).*

In the other two approaches (medium-term trend or short-term path), the key limitation is that there is no correspondence between the amount of measures shown and the policy stance effectively pursued. *Indeed, in the typical case where the estimated path is dynamic, it is possible that despite the adoption of austerity measures, the expenditure ratio continues to increase structurally.*

This limitation applies to overall spending as well as to each category of spending, and points to a risk of misuse. *It is incorrect to draw conclusions about the actual direction of policy and its distribution among public policies directly from reading the adjustment measures and their distribution. At most, the measures can be interpreted as an assessment of the change brought to the policy stance. Furthermore, the short-term path already includes additional savings or expenditure measures that have been implemented before the draft budget bills. The consolidation measures shown therefore correspond only to the additional measures presented in the draft budget bill/social security financing bill, or considered to be underlying them. The removal of a previously planned additional expenditure measure appears, for example, as a saving, even if this measure has not yet been implemented.*

3/ Empirically speaking, assessing medium-term trend or short-term path requires numerous conventional choices, which are inherently debatable.

Two methods are commonly used to assess medium-term trend, leading to different results depending on how they are implemented: *a retrospective method based on past developments, and a prospective method based on expenditure determinants or already established policy objectives. Conventional choices are required: the scope of action for each method, the selected time-periods for computations using the "retrospective method", or even the assumptions made on the determinants of public expenditure for the "prospective method".*

In the case of the short-term path, other considerations also come into play. *In particular, the short-term path may include a large number of short-term factors that are considered to be exogenous in regard to the PLF/PLFSS. These include growth in contributions to the European Union budget or "spontaneous" growth of local government expenditure. Since information and assumptions regarding these factors are bound to change, the short-term path is by nature variable. It fluctuates over time for a given year, or from one year to the next for a given point in time. A "counterfactual" scenario for the PLF/PLFSS is also required, which means that additional assumptions are made. These assumptions are necessarily conventional. The conventions chosen influence the intensity and distribution of the efforts shown.*

Finally, interactions between the medium-termshort-term paths and the economic scenario should be carefully clarified. *On the one hand, the path is conditional on the inflation forecast and evolves with it, in value but also probably in volume, at least in the short term. On the other hand, the use of the path to assess the amount of adjustments required assumes that the economic effects of the*

adjustments, and thus their impact on public finances, have been anticipated in the economic assumptions underlying the path.

At a minimum, transparent documentation of the various assumptions is required. *However, it should be borne in mind that even when well documented, the chosen valuation remains conventional, and the results are quite sensitive to such choices.*

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Three different approaches of "unchanged policy" path of public expenditure

Definition	Relevance	Limitations
Potential growth		
Expenditure growth consistent with medium-term stability in the ratio of public expenditure to GDP.	The only method that ensures a clear link between expenditure fiscal effort and the actual growth long-term evolution of the public-expenditure-to-GDP ratio. Simplicity. Consistency with the well-established approach of structural effort.	No direct link with the amount of measures to be included in financial texts or with the actual determinants of expenditure. Uncertainty in assessing potential growth.
"Medium-term trend"		
Path based on the extrapolation of past growth trends. It can also incorporate medium-term factors (demographic changes, environmental transition) that can either increase or decrease the forecast.	Assessment of the magnitude of savings required under a medium-term recovery plan, relative to a path extending past policies.	No correlation between aggregate effort relative to the trend and changes in the ratio of expenditure to GDP. No correlation between the "efforts" made by each sub-sector and the actual changes in their respective expenditures. Empirical evaluation choices are often conventional in nature.
"Short-term path"		
"No-policy-change" scenario that also includes new measures and other factors that are deemed to be already "established" in this specific context.	Assessment of the amount of consolidation measures needed in a specific context, particularly in the short term, typically measures to be included in the draft budget bill/draft social security budget to achieve the expenditure target for year N+1..	No correlation between aggregate effort relative to the path and changes in the ratio of expenditure to GDP. No correlation between the "efforts" made by each sub-sector and the actual changes in their respective expenditures. Empirical assessment choices are often conventional in nature. Perishable nature: the assessment is valid at a given moment, for a given year.

The concept of "unchanged policy" is often used in public finance analysis. Evolutions in public finances are then divided into two components: the "unchanged policy" trajectory and "the measures" modifying this trajectory.

When it comes to public revenue, this breakdown coincides with the fairly well-established split between spontaneous changes in revenue, reflecting tax base growth and elasticities of levies relative to that base, and impacts of new measures. Given its more established nature, the issue of a path under "unchanged policy" for public revenue will not be discussed any further in this note[2].

When it comes to public expenditure, the concept of "unchanged policy", and as a corollary that of "measure", can have different meanings. A standard approach, implemented by France in calculating the structural effort as planned in the organic law identifies the evolution of expenditure under "unchanged policy" trajectory with potential growth. However other meanings of the concept of "unchanged policy" exist. Specifically, since the introduction of the 2024 draft budget bill, the French government has introduced another breakdown in addition to the standard approach of structural effort, leading to very different results.

This observation calls for clarification of the possible concepts of unchanged policy trajectories both in terms of their meaning and uses, and in terms of the calculation methods used to explain the underlying assumptions and their implications. This note addresses these various points[3]. Conceptual differences between the different approaches are reviewed in the first part (I), and some illustrations of the impact of methodological choices on the results for short-term path and medium-term trend are provided in the second part (II). This note also aims to foster discussion between the High Council of Public Finance and administrations on the topic, which is mentioned in the plan of action for the improvement of the monitoring and the transparency of public finances forecast[4].

I. "Unchanged policy" trajectory: which concepts for which uses?

Three understandings of "unchanged policy"[5] are identified here, with neither the same meaning, nor the same relevance for the managing of public finances. Moreover, with each understanding comes an assessment of discretionary measures, corresponding to the gap between the path under "unchanged policy" and the actual path. If, for example, public expenditure increases at a slower rate in the actual path than under "unchanged policy", the measures put in place have a positive expenditure fiscal effort. But depending on the meaning of "unchanged policy" that is being used, the interpretation of "measures" and "efforts" is not the same either.

[2] However, some points regarding the "short-term path" are also relevant when it comes to revenue and can have a significant impact in practice. This includes limitations due to the incorporation of "done deals" into the path.
[3] The European Commission also refers to a "no-policy-change" scenario, see Report on Public Finances in EMU 2016, Part II.1, Institutional Paper 45, Dec. 2016. See also Chapter IV of the 2016 report on the state of public finances and their perspectives by the Cour des Comptes (June 2016).
[4] The plan of action, which was introduced by the minister of the economy and the minister of public accounts on March 3rd 2025, stipulates that a "methodological note will be published by the Ministry of the Economy. It will offer a definition of the trends in public expenditure and revenue. Its application in quantifying the recovery effort planned for 2026will be included in the referral file on budget laws of the HCFP so that the latter can make an informed assessment."
[5] Or "constant policy", see "La croissance tendancielle des dépenses publiques", on Fipeco

I.1. "Unchanged policy" understood as stabilization of the weight of expenditure in GDP: potential growth

This first understanding of "unchanged policy" refers to the path that should keep the public-expenditure-to-GDP ratio constant. Strictly speaking, the path that stabilises the weight of public expenditure in GDP varies greatly from one year to the next due to cyclical variations. However, on average over several years, GDP growth is equal to potential growth. The trend in public expenditure that is consistent with a stable public-expenditure-to-GDP ratio over time is therefore potential growth. This reasoning applies in both value and volume.

In this approach, measures are evaluated on an aggregated basis, without specifying their content, by comparing actual expenditure growth with potential growth. When public expenditure grows more slowly than potential growth, the fiscal policy is contractionary. On the contrary, if the growth of public expenditure exceeds potential growth, the fiscal policy is expansionary and it supports activity beyond its average growth. This approach is thus consistent with the analysis of the effects of fiscal policy on the economic situation. Efforts in terms of public expenditure and revenue can be seen as an assessment of expenditure and revenue "shocks" that are likely to affect growth and economic equilibrium through usual fiscal multipliers.

Moreover, public expenditure can be broken down by institutional subsectors (central government, local government, social security administrations) or by type of expenditure. Each category then contributes a positive or negative expenditure fiscal effort, depending on whether its growth rate is below or above potential growth. It is thus possible to obtain a breakdown of expenditure fiscal effort by institutional subsectors or by expenditure category[6].

This approach, which has long been in use in French economic administration, is enshrined in French organic law through structural effort calculations[7]. Total structural effort is the sum of expenditure fiscal effort and of new compulsory levies. It constitutes the "discretionary" part of the structural balance, it is a commitment of the multiyear public finance programming, and its assessment is presented each year in the Economic, Social and Financial Report alongside the draft budget bill. Finally, European fiscal rules, which were revised in 2024, rely on net expenditure growth, which is also linked to structural effort, though it is distinct from it[8].

Overall, using potential growth as a benchmark for expenditure has many advantages. However, there are also two notable limitations. First, potential growth is not an observable quantity, so the assessment is subject to a margin of uncertainty. Second, the assessment of expenditure efforts and their distribution among sub-sectors or public policies is not directly linked to the decisions taken by public authorities, nor more generally to the actual determinants of expenditure. In particular, the ratio of public expenditure to GDP may tend to increase "spontaneously." In this case, achieving zero effort already requires corrective measures to be taken. It is this observation that leads us to consider other possible notions of "unchanged policy."

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[6] See Duchêne S. et D. Lévy (2003), "Solde « structurel » et « effort structurel » : un essai d'évaluation de la composante « discrétionnaire » de la politique budgétaire", DP Analyses économiques N°18. See also Guyon T. et S. Sorbe (2009), "Solde structurel et effort structurel : vers une décomposition par sous-secteur des administrations publiques", French Treasury working papers, N°2009/13.

[7] Article 1A of the amended organic law n°2001-692 of August 1st 2001 on budget laws: "The public finance programming law determines the structural effort for each fiscal year of the programming period. Structural effort is defined as the impact of new measures on public revenue and on the contribution of public expenditure to the change in the structural balance."

[8] Net expenditure growth only considers new measures in public revenue. However, for public expenditure, it relies on the growth of real expenditure.

I.2. "Unchanged policy" understood as continuity of public policy orientations: the "medium-term trend"

The public-expenditure-to-GDP did not remain stable over the long term. For instance, it has increased by around four percentage points over the past four decades. As a result, the past growth in public expenditure exceeded average GDP growth, and therefore also potential growth.

Taking this observation into account, another possible approach to the concept of unchanged policy is to make a reasonable extrapolation of past trends[9]. This approach is referred to here as a "medium-term trend".

This approach can be implemented purely retrospectively, by statistical extrapolation from the past. In a more forward-looking way, it can also consider foreseeable evolutions of socioeconomic factors that have a significant impact on public expenditure. In this regard, the effects of demographic changes on some areas of public expenditures (old age, health, family, and education) are often highlighted. Finally, new policy directions on expenditure that have already been established can also be considered, such as a planned increase in defence expenditure.

Such a "medium-term trend" therefore makes it possible to show what the future path of public expenditure would be under a "no-policy-change" assumption, that is assuming that current public policies remain constant, or even taking into account new policies that have already been established.

This concept can be useful for elaborating a multiyear strategy for public finances. Indeed, it reveals the gap between the "no-policy-change" path and planning objectives that are consistent with fiscal consolidation and debt sustainability. This gap therefore provides an order of magnitude of the savings to be sought when reviewing public expenditure, which should be implemented over several years to ensure planning objectives are met.

However, two important limitations of this approach should be noted:

(i) The scale of the measures taken cannot be interpreted as an assessment of the actual direction of the policy pursued. Indeed, in the typical case where the assessed trend is more dynamic than potential growth, the expenditure ratio may continue to increase structurally despite the adoption of austerity measures[10]. In this case, it would be wrong to conclude from a reading of the measures alone that the policy is restrictive from a macroeconomic point of view, when in fact it tends to support activity. At most, therefore, the amount of the measures can be interpreted as an assessment of the change in the policy pursued. However, the actual orientation of the expenditure policy as a whole must be assessed using the method of the expenditure effort underlying the structural effort.

Furthermore, this observation not only applies to the overall public expenditure, but also to each category of expenditure. As a result, the distribution of austerity measures relative to the medium-term trend does not provide any information about the actual allocation of public expenditure, since the latter also depends on the relative dynamism of the trends in the various categories of expenditure. It is therefore not obvious that the fairness of the distribution of efforts between sub-sectors or public policies can be judged on the basis of the distribution of savings measures.

(ii) The practical assessment of a medium-term trend must be based on numerous conventional choices, which are by nature debatable (see Part II). Transparent documentation of the assumptions is

[9] This is the approach taken by the Cour des Comptes in its latest "Rapport sur la situation et les perspectives économiques". The trend in public expenditure growth is equal to the average growth from the years 2015 to 2019. This amounts to 1% per year in volume for the "centre" of public expenditure (excluding the debt burden and exceptional expenses).

[10] For example, health insurance expenditures are often more dynamic than potential growth even though there are saving measures in place.

therefore required. But even when well documented, the assessment retains a conventional dimension, and the results are quite sensitive to the choices made. This is another reason to put into perspective the interpretation that can be made of the efforts presented as deviations from this trend.

I.3. "Unchanged policy" understood as the state of the public expenditure forecast ahead of the yearly financial legislation: "short-term path"

The medium-term trend aims to capture trends over three to ten years in the future. Its evolution, which is by nature "smooth", disregards shocks that only temporarily impact public expenditure. It is possible to create a "short-term path", in particular when debating draft budget bills (PLF) and draft social security funding bills (PLFSS).

In this specific context of debating PLF/PLFSS, the "short-term path" stands out in two particular areas. First, new measures that are considered as being established before the PLF/PLFSS, for example because they result from prior budget or funding bills or other provisions, are already incorporated into the path. From the PLF/PLFSS, they are considered a "done deal". Second, not all categories of public expenditure have the same status in regard to the PLF/PLFSS. Some categories such as fiscal credits are directly set by these bills or are subject to specific targets (e.g. the National Healthcare Growth Target), while other categories are only indirectly impacted by the PLF/PLFSS (e.g. local government expenditures) or are impacted on the short-term. This may lead to incorporating into the short-term path change determinants that create volatility from one year to the other, such as local investment or European budget contributions.

The concept of a short-term path is useful when communicating specifically on the scale and the breakdown of measures that should be incorporated in the PLF/PLFSS to ensure the targeted path of public expenditure. This amount is equal to the difference between the short-term path and the target growth of public expenditure. It is a key piece of information for the operational management of public finances by the relevant administrations and decision makers. It is especially useful during debates and negotiations aimed at ensuring that the targeted path is met[11].

However, the short-term path has several limitations. First, as with the medium-term trend, using this approach the fiscal policy stance cannot be assessed using the sum of measures (see **boxed text** for an illustration). In addition to the difficulties mentioned above, the measures set out in the PLF/PLFSS only correspond to the additional measures presented in these texts or considered to be underlying them. The decision not to proceed with previously planned additional expenditure is treated as a saving.

Another limitation is the "perishable" nature of the concept. The short-term path differs from one year to the other, or even over the course of a given year, due to "done deals" and other technical developments affecting short-term forecasting. For example, planned expenditure for the 2026 budget includes a sharp increase in the contribution to the European Union budget. However, this increase is not expected to be repeated on the same scale in future years. Other examples of sensitivity to assumptions are given in **part II**.

[11] When using a similar approach to the current year, the short-term path is simply the latest expenditure forecast. On the contrary, beyond the year after the next, "done deals" and other specific short-term developments tend to attenuate. As the time horizon expands, the short-term path catches up with the medium-term trend.

Structural expenditure fiscal effort included in the 2025 PLF and projected savings

The 2025 PLF of October 2024 illustrates the mismatch between the scale of implemented measures relative to the short-term path and the actual direction of the fiscal policy:

- the structural effort planned for 2025 amounts to 1.4 percentage point of potential GDP, including 1.0 percentage point of structural effort in revenue (71% of the total effort) et 0.4 point of structural effort in expenditure (29% of the total effort);
- compared to the short-term path, the measures announced in the PLF/PLFSS amount to 1.9 percentage point of potential GDP, including 0.8 percentage point of effort in revenue (40% of the total) and 1.2 percentage point of expenditure savings (60% of the total).

The actual fiscal policy is characterised by an increase in compulsory levies rather than by a decrease in expenditure. This is what emerges from the established method of structural effort. However, the message from the deviation from the short-term path approach is different: the effort on expenditure appears to be greater, both in absolute terms and relative to the effort on revenue.

I.4. Interactions with the economic scenario

The links between the "unchanged policy" scenarios and the economic forecast scenario require particular attention, in a medium-term approach and even more so in the short term.

Firstly, the "unchanged policy" path depends on economic assumptions and therefore differs with them. Notably unemployment benefits depend on the economic context[12]. The trend in expenditure is mostly dependent on the inflation assumption: a change in the forecasted inflation leads to a modification of the trend in value, but also in volume, at least in the short-term[13]. For a same target path in volume, the amount of savings to present therefore depends on the retained inflation forecast.

Secondly, when using the trend to determine the amount of adjustments required, it is important to bear in mind that, once adopted, adjustments affect economic assumptions and, in turn, public finances. One possible way to get around this difficulty[14] is to build the public finance trend using an economic scenario that incorporates the effects of adjustements, including in advance when these have not yet been decided. However, this approach introduces a degree of approximation into the assessment of the trend as long as the measures are not known.

* * *

[12] Public revenue is even more dependant to growth and its composition.

[13] Social benefits are revaluated according to the inflation rate from the past year. If the hypothetical inflation for the following year increases, the benefits trend in value will not be affected, and in the trend in volume will decrease.

[14] This method is currently used by the French Treasury, according to information provided to the Secretariat.

II. Sensitivity of the "unchanged policy" trajectory to methodological choices: illustrations

This section looks into some methodological choices affecting medium or short-term paths, and illustrates the sensitivity of empirical evaluations to these choices.

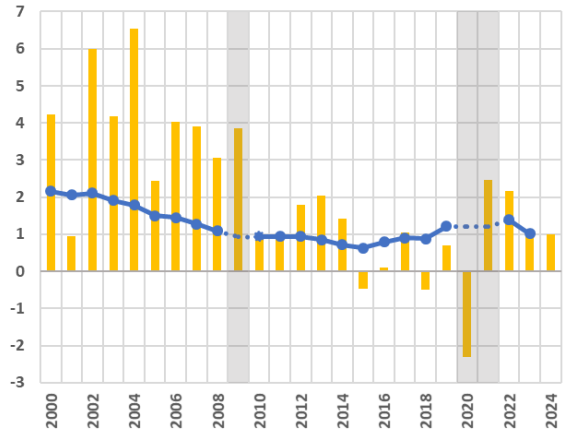
II.1. Retrospective method and dependency of the "unchanged policy" trajectory to the time period

Historical (or retrospective) methods apply to a specific expenditure its average past growth rate over a selected time period. This method is natural to build a medium-term baseline scenario but raises the issue of selecting a specific time period, especially when the past growth has been uneven.

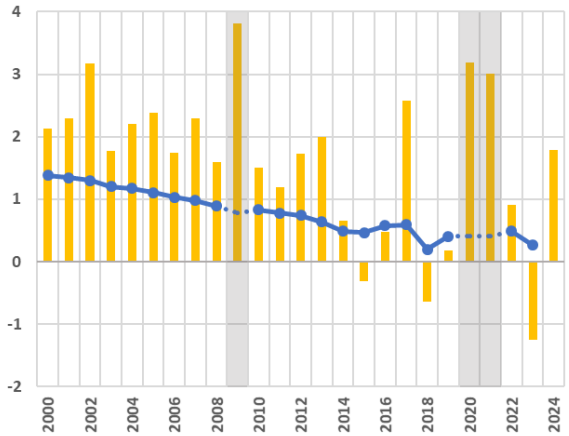
At the aggregate level, public expenditure growth has slowed down, from an average of more than 2% in volume in the 2000s, and 1% between 2010 and 2019, with sharp movements in the recent years (**figure 1a**). Average growth depends closely on the chosen time frame. The first difficulty lies in the crisis years (2009, 2020-21). These could be removed on the grounds that the support measures deployed in these contexts do not seem to characterize the long-term trend, but this choice remains debatable. Excluding financial and Covid crisis years, a time span from 2000 to 2024 leads to an average growth in volume of 1% per year. However, a time span beginning in the 2010s leads to a much more moderate increase in volume.

Figure 1. Average growth rate of public spending in %, from the starting year to 2024 (excluding crisis years)

a. Government expenditure



b. Operating expenditure[15] of local government



Reading: government expenditure has increased by 1.7% in volume in 2012 and by an average of 0.7% per year over the 2012-2024 period, excluding crisis years (2009, 2020, 2021).
Notes: changes in volume are measured using the GDP deflator. The crisis years are 2009, 2020, and 2021.
Sources: Insee, authors' computations.

What applies to aggregate expenditure is also reflected in its components. This is illustrated here by the operating expenditure of local government, which grew much more steadily during the 2000s than from the 2011 onwards (**figure 1b**). For example, the average growth rate for 2005-2024 is +1.5%

[15] Defined as total expenditure minus investment expenditure.

per year in volume (excluding crisis years), compared with +0.7% for 2014-2024. Whether financial and Covid crisis years are included is another factor that affects the results. Depending on the reference period chosen, the trend obtained differs significantly, as do the savings associated.

II.2. Prospective method and dependency to the expenditure scope

The prospective method is based on the underlying determinants of public expenditure. This method is used when the change rate of expenditure is affected by clearly identified factors, such as the effects of demographic changes on pensions and healthcare. The trend then reflects the projected evolution of these factors considering the current policy framework.

However, this method raises the question of which projection assumptions to use for the expenditure determinants. In addition, the scope of expenditure adapted to the prospective method is not well defined. While social benefits are the most standard, other expenditure components may also be suitable such as education expenditure, whose change rate in the medium term is also linked to demographic changes. However, education expenditure can also be considered "discretionary", as can central government appropriations. For discretionary expenditure, other approaches can be used such as a retrospective method (see **II.1.**), an estimate of the "done deals" based on already enacted legal commitments and spending targets already set (particularly in the case of sectoral programming laws), or the choice of potential growth (although for certain expenditures, historical trends differ significantly from potential growth). Overall, there are a number of choices to be made, whether on the boundaries between the various methods or on the specific setting of each one.

In practice, the medium-term trend can vary significantly depending on how expenditure is classified under the prospective method and other methods. This is the case, for example, when defining the trend of expenditures affected by demographic changes (aging, dependency, health, education). The European Commission's Ageing Report 2024[16] provides medium-term projections of the weight of these expenditures in GDP at the level of EU Member States, which can serve as a baseline for the prospective method. For the years 2025-2030, projections show an increasing share of retirement pensions as well as health and dependency expenditure (+0.06 percentage points of GDP per year, **figure 3**). On the other hand, the share of education expenditure is projected to decline, accentuating its historical trend (-0.05 percentage points of GDP per year between 2025 and 2030). Taking education expenditure into account thus moderates the projected growth over the period 2025-2030 (1.2% per year in volume including education, compared to 1.4% excluding education). In addition, we can see that the projected and historical growth in education expenditure differ significantly from potential growth.

Furthermore, applying the prospective method to this expenditure scope leads to a different growth trend than with the retrospective method. For example, with a forecasted GDP growth at around 1.2% per year in volume over the 2025-2030 period (forecasts from the annuel progress report 2025 of the MTP for 2025-2029), the increase in the share of GDP accounted for by the old-age and health care expenditure implies that these would grow by an average of 1.4% per year in volume. This is more than the trend observed in recent years (1.2% per year over 2015-2025).

[16] European commission (2024), 2024 Ageing Report. Economic and Budgetary Projections for the EU Member States (2022-2070), Institutional Paper 279, April 2024. The projections used here correspond to the *baseline* scenario. In particular, the weight of health expenditure is mostly dependant on demographic factors, and to a lesser extent on other factors (technological factors, health as a superior good).

Figure 3. Past and projected old-age, health and education expenditure

	Weight in GDP in %			Change per year (pp of GDP)		Change per year in volume (in %)	
	2015	2025	2030	2015-2025	2025-2030	2015-2025	2025-2030
Old age (10.2)	13.5	13.1	13.2	-0.04	+0.02	0.8	1.2
Health and illness (10.1, 7.2 et 7.3)	9.0	9.7	9.9	+0.07	+0.04	1.8	1.6
Total	**22.5**	**22.9**	**23.2**	**+0.03**	**+0.06**	**1.2**	**1.4**
Education (9)	5.2	4.9	4.6	-0.04	-0.05	0.4	0.2
Total, including education	**27.8**	**27.8**	**27.8**	**0.00**	**+0.01**	**1.1**	**1.2**

Notes: expenditure shown here are computed according to the classification by function used by INSEE (*Classification of the Functions of Government*, or *Cofog*) with the codes in parentheses. In particular, the "Health and illness" category covers the following functions*: Sickness and disability* (10.1), *Outpatient services* (7.2) and *Hospital services* (7.3). The weight in GDP of these categories is derived from INSEE's annual national accounts until 2024 and, from 2025 onwards, is extrapolated from the projections in the 2024 Ageing Report relating to retirement expenditure (line "Old age"), health and long-term care expenditure (line "Health and illness") and education expenditure. Changes in volume are in terms of the GDP deflator and are based for the period 2025-2030 on the trajectory presented in the APR 2025 of the MTP.
Sources: INSEE until 2024, Ageing Report 2024 from 2025 onwards, APR 2025 of the MTP, authors' computations.

II.3. Dependency of the "unchanged policy" trajectory to the combination of methodological choices

The above points are now illustrated through the construction of a medium-term trend for public expenditure. The approach is based on the classification of expenditure by function[17]. The exercise is carried out on primary expenditure[18] in volume. Three medium-term trends are therefore constructed.

1/ In the first trend, expenditure sensitive to demographic changes evolves according to the projections of the 2024 Ageing Report, as seen above. This is relevant for old-age, health and sickness, and education expenditures. Social protection expenditure relating to family, unemployment, housing, and social exclusion is also included and is assumed to follow population growth in volume terms (+0.3% per year in the 2024 Ageing Report). For other expenditure functions, the growth trend reflects the past, i.e., the 2012-2019 period as an illustration. Overall, based on these assumptions, the growth trend in primary expenditure would be 1.1% per year.

2/ The second medium-term trend is based on similar assumptions but with a different scope. Only expenditures affected by aging (old-age, survivors' pensions, health, and illness) are assumed to follow the projections in the 2024 Ageing Report. All other expenditures, including education and other social protection expenditures (family, housing, social exclusion), are assumed to follow the average growth of 2012-2019. The growth trend therefore obtained for total primary expenditures is 1.2% per year.

3/ Finally, the third trend is based on the same assumptions as the previous one, but also includes expenditure of the 2024-2030 military programming law (+0.1 percentage point to the overall trend). As these expenditures reflect the priorities of current policy guidelines, it seems logical to take them into account if the goal of the trend is to highlight the savings that need to be made as part of a medium-

[17] *Classifications of the functions of Government, Cofog*. This classification, which defined on an international basis, classifies kinds of expenditure according to their objectives, whereas classifying expenditure by its nature (wage bill, investment…) rather reflects means. There are ten divisions in the classification: General public services, Defence, Public order and safety, Economic affairs, Environmental protection, Housing and community amenities, Health, Recreation, culture and religion, Education, and Social protection.
[18] Interest expenses require specific modelling which is not detailed here. A historical method is poorly suited as market conditions in the years to come are different than those from the 2010s.

term recovery plan. In total, the primary expenditure growth trend would be 1.3% per year under these assumptions.

Thus, depending on the methodological choices adopted, the growth trend therefore obtained differs, ranging from 1.1% to 1.3% per year in the illustrations above (**figure 4**). Other scope choices could be made, such as including the investments needed for a low-carbon transition, which are not included in the law but are nevertheless part of a government strategy[19]. These investments would contribute to an increase of +0.15 percentage points in expenditure growth trend[20].

More generally, the possible combinations of choices are numerous – the scope of expenditure covered by the various methods, the choice of reference periods, whether or not to include expenditure of the military programming law and low-carbon public investment, etc… The medium-term trend varies greatly depending on the methodological choices (**figure 5**). It is particularly more dynamic when it incorporates, even partially, the changes observed in the 2000s. Regardless of this choice, the growth trend may differ by nearly 0.5 points depending on the other assumptions (use of the prospective method, inclusion of military and low-carbon expenditure).

Figure 4. Illustrations of medium-term trends for primary expenditure in volume

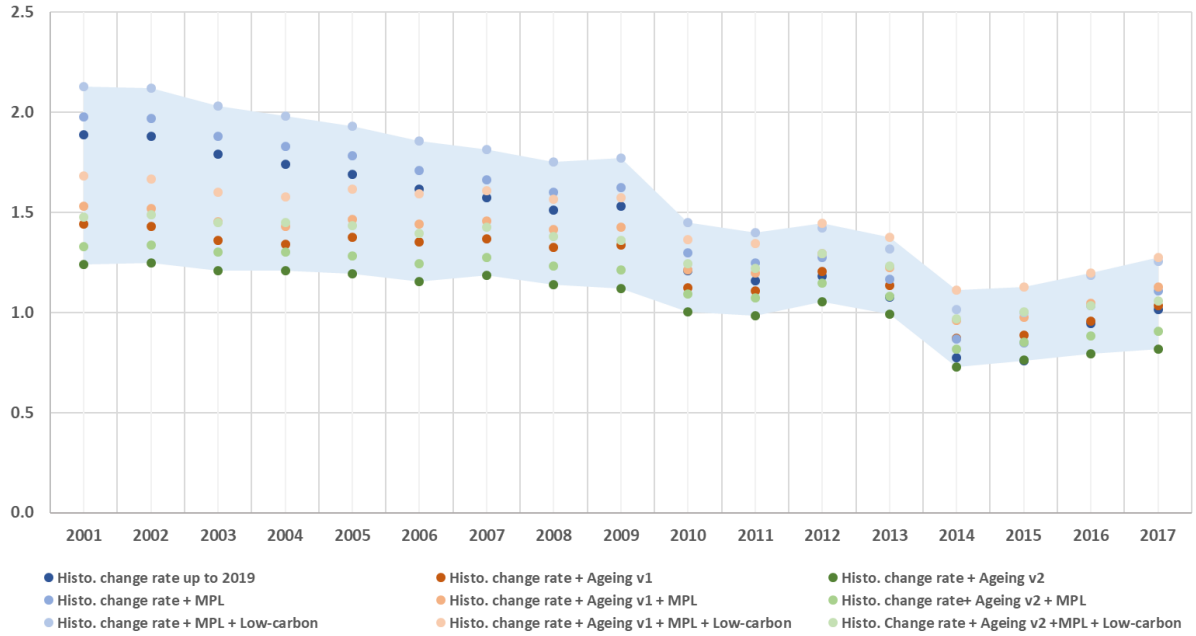
		Trend n°1		Trend n°2		Trend n°3	
Primary government expenditure by function (COFOG)	**Weight 22-23**	**% change per year**		**% change per year**		**% change per year**	
01 - Gen. Pub. serv. excluding debt s	8%	0.6	*Average 2012-2019*	0.6	*Average 2012-2019*	0.6	*Average 2012-2019*
02 - Defense	3%	1.0	*Average 2012-2019*	1.0	*Average 2012-2019*	1.0	*Average 2012-2019*
03 - Public order and safety	3%	1.3	*Average 2012-2019*	1.3	*Average 2012-2019*	1.3	*Average 2012-2019*
04 - Economic Affairs	12%	2.0	*Average 2012-2019*	2.0	*Average 2012-2019*	2.0	*Average 2012-2019*
05 - Environmental protection	2%	1.6	*Average 2012-2019*	1.6	*Average 2012-2019*	1.6	*Average 2012-2019*
06 - Housing and comm. Amenities	2%	-1.6	*Average 2012-2019*	-1.6	*Average 2012-2019*	-1.6	*Average 2012-2019*
07 - Health	16%	1.6	*Ageing (health, dependency)*	1.6	*Ageing (health, dependency)*	1.6	*Ageing (health, dependency)*
08 - Recreation, culture and religion	3%	0.2	*Average 2012-2019*	0.2	*Average 2012-2019*	0.2	*Average 2012-2019*
09 - Education	9%	0.2	*Ageing (education)*	0.5	*Average 2012-2019*	0.5	*Average 2012-2019*
10 - Social protection	42%	1.0		1.3		1.3	
10.1 - Sickness and disability	*5%*	*1.6*	*Ageing (health, dependency)*	*1.6*	*Ageing (health, dependency)*	*1.6*	*Ageing (health, dependency)*
10.2 - Old age	*24%*	*1.2*	*Ageing (pensions)*	*1.2*	*Ageing (pensions)*	*1.2*	*Ageing (pensions)*
10.3 - Survivors	*2%*	*1.2*	*Ageing (pensions)*	*1.2*	*Ageing (pensions)*	*1.2*	*Ageing (pensions)*
10.4 - Family and children	*4%*	*0.3*	*Population (2023-2030)*	*0.1*	*Average 2012-2019*	*0.1*	*Average 2012-2019*
10.5 - Unemployment	*3%*	*0.3*	*Population (2023-2030)*	*1.3*	*Average 2012-2019*	*1.3*	*Average 2012-2019*
10.6 - Housing	*1%*	*0.3*	*Population (2023-2030)*	*0.7*	*Average 2012-2019*	*0.7*	*Average 2012-2019*
10.7 - Social exclusion n.e.c.	*2%*	*0.3*	*Population (2023-2030)*	*4.2*	*Average 2012-2019*	*4.2*	*Average 2012-2019*
Integration of the MPL (point contribution)		**-**		**-**		**0.1**	
Primary government expenditure	**100%**	**1.4**		**1.2**		**1.3**	
Including low-carbon investments		1.6		1.4		1.4	

Note: the changes shown here are in volume, as measured with the GDP deflator. MPL: military programming law.
Sources: INSEE, Ageing Report, authors' computations.

[19] Multiyear strategy for financing the ecological transition, published in October 2024, see "Stratégie Pluriannuelle des Financements de la Transition Écologique" (SPAFTE).

[20] Investments may cover various functions (housing and community amenities for thermal insulation etc…). Functions covered here correspond to the SPAFTE trajectory until 2027, and for the years 2028 to 2030 to the net investment needs identified in the report "The economic implications of climate action" published in 2023 by J. Pisani-Ferry and S. Mahfouz, under the assumption that a third of the needed investment would be covered by public expenditure.

Figure 5. Medium-term trend growth rates of primary expenditure in volume, according to possible combinations of methodological choices, in % per year



Reading: based on average trends observed between 2012 and 2019 and projections from the 2024 Ageing Report applied to old-age and health care spending, primary expenditure is expected to increase by 1.2% per year in volume (dark brown), or by 1.4% when including military programming expenditure and low-carbon investments (light brown).

Note: this graph shows the growth trend in primary expenditure by volume, obtained using a given combination of methodological choices applied to expenditure functions ("cofog"):

Histo. change rate: default change rate based on the average historical change rate over the period A-2019 (A is the year on the x-axis);

Ageing v1: expenditure related to ageing (old age, health and illness) evolving according to the projections in the 2024 Ageing Report;

Ageing v2: expenditure related to ageing, education and family, housing and social exclusion evolving according to the projections in the 2024 Ageing Report;

MPL: incorporating expenditure included in the 2024-2030 military programming law;

Low-carbon: incorporating the necessary public investment for the low-carbon transition.

Sources: INSEE, Ageing Report, authors' computations.

II.4. Sensitivity of the short-term path to specific choices: examples

The above areas of concern apply equally to the construction of a medium-term trend and of a short-term path. However, additional questions arise in the case of short-term paths. In order to present the growth path of expenditure before "PLF and PLFSS debates", it is necessary to specify what a counterfactual PLF/PLFSS would look like "if policy remained unchanged," which is necessarily conventional.

Thus, with regard to government budget appropriations for example, it is possible to consider that the "default" growth path is the one set out in the multi-year public finance programming law, which would be in line with the spirit of the programming and consistent with a European provision[21]. However, an empirical historical approach may also be preferred (average of past rates of change). A third option is to base the short-term path on potential growth, on the grounds of neutrality, even though

[21] The n02024/1265 directive stipulates that "annual budget legislation shall be consistent with the national budgetary objectives over the medium term … Any departure should be duly explained".

the argument for neutrality seems stronger when applied to expenditure as a whole rather than selectively to part of it. All of these options, and others, are defendable from a certain point of view.

Furthermore, constructing the short-term path requires assumptions about changes in the expenditure of entities belonging to the public administration but whose spending choices do not fall directly within the scope of the draft budgetary plan ("PLF") or the draft social security financing bill ("PLFSS"). This is especially the case for local government expenditure. Consequently, the discretionary choices made by these entities in terms of expenditure, investment, or operations are incorporated into the short-term path[22].

It should also be noted that including an additional expenditure in the short-term path on the grounds that it has already been decided or announced means that waiving this measure will be recorded as a saving, even though it has never been implemented. This is a point to bear in mind when interpreting the savings efforts.

The construction of the National Healthcare Expenditure Growth Target (NHEGT) illustrates this point. The NHEGT target (+3.4%) in the 2025 Social Security Financing Bill is the result of a three-level construction:

- The first level (known as "spontaneous") is the natural evolution of health insurance expenditure, taking into account current policies and incorporating "usual" developments (changes in drug prices and wages in accordance with current agreements and conventions, medical cost control, fraud prevention, etc.). This trajectory can be seen as a medium-term trend. Its projected growth in the 2025 Social Security Financing Bill is +2.8%.

- The second level (known as the "trend") adds to the previous level the new expenditure found in the draft social security financing bill in preparation ("done deals" and additional "positive" measures in the Social Security Financing Bill). The projected change in the 2025 Social Security Financing Bill then rises to +5.0% due to new measures (€6.2bn).[23]

- The third level is obtained by deducting planned savings measures from the previous level, *i.e.* €4.3bn in the 2025 Social Security Financing Act, resulting in the voted target (+3.4%).

The target growth rate (+3.4%) is ultimately presented as the result of significant cost-cutting measures (+€4.3bn) applied to a very dynamic trajectory (+5.0%), as the latter already incorporates new positive measures. However, it could also be presented as the result of a less dynamic path (+2.8%) combined with a net positive effect of the measures when considered as a whole.

* * *

Overall, a variety of normative choices are possible in different areas. While some of these choices may seem more reasonable than others, none is clearly superior. This calls for transparency, but also puts into perspective the concept itself.

[22] With more precision, there are the discretionary choices made by these entities under specific assumptions regarding how their resources will evolve. These assumptions include transfers from the central government or changes in how revenue is assigned. Computing the trend in local government expenditure therefore requires to clarify these assumptions, which can be done according to various approaches, and therefore relies on normative choices.

[23] Appendix I of the Social Security Financing Bill for 2025 n°2025-199 of February 28th, 2025.