STABILITY PROGRAMME: 2008-2010

The exceptional acceleration of the French economy in the first half of 2006 made it one of the fastest growing economies in the euro area. Then, activity stabilised mechanically last summer. The available economic information (industrial as well as services and construction sector surveys) suggests that activity is likely to rebound in the fourth quarter, definitely allowing **aggregate growth in 2006 to range within the announced bracket of 2% to 2.5%**. Activity can subsequently be expected to return to its underlying growth rate, still sustained by vigorous household consumption, allowing **GDP growth to remain between 2% and 2.5% in 2007.**

Looking beyond quarterly or monthly swings, a return to the dynamic underlying growth trend and the accompanying structural decrease in unemployment for the last eighteen months are not just due to a better international environment. **They also reflect the economic policy conducted by the government.**

The government has made extensive efforts to modernise the labour market, by means of the *Plan d'Urgence pour l'Emploi* (Employment Emergency Plan*)* and particularly the implementation of the *Contrat Nouvelles Embauches* (CNE, New Recruitment Contract) for businesses with fewer than 20 employees, but also to revive industrial and research policy *inter alia* by means of competitiveness clusters, the creation of the *Agence pour l'Innovation Industrielle* (AII, Industrial Innovation Agency) and the *Agence Nationale pour la Recherche (*ANR, National Research Agency) and finally to support growth of SMEs by making it easier for them to get financing and by adopting measures to help entrepreneurs sell their business.

However, France's economic progress is also driven by the policy implemented since 2002 in view of **consolidating public finances**, primarily through structural reforms to make public spending more effective:

- the **pension** reform in 2003 will reduce the overall funding needs of retirement regimes by more than half by 2020 and by just over one-quarter by 2050 (March 2006 report of the *Conseil d'Orientation des Retraites* - Pensions Steering Council);

- the **health insurance** reform launched in 2004, complemented by the measures adopted as part of the social security budget bills ("PLFSS") for 2006 and 2007, will make the French health system more effective and help restore health insurance accounts soundness.

- In addition to these two reforms, adoption of the Constitutional Bylaw on Budget Acts ("LOLF") and the Constitutional Bylaw on Social Security Budget Acts ("LOLFSS") will enable a rationalisation of public spending by introducing more transparency in the presentation of budget acts and by shifting to a public management system based on results and performance.

Continuation and extension of this policy, including compliance (since 2003) with the requirement to stabilise State spending in real terms, have allowed France to be the first of the four major European economies to bring back its deficit below 3% of GDP (as early as 2005).

These first achievements are obviously **not the end of the road**. Still high unemployment, still high sensitivity of growth to unforeseen cyclical developments and the restrictions put by high public debt on the government's investment and action capacity show that the government must continue its economic actions.

This is why the government set up a committee with representatives from all political backgrounds, headed by Michel Pébereau, to prepare a report on the state of public debt and ways to improve the situation. The final report, which was made available to the public, revealed the risks generated by the rising debt for the link between generations at the time of the demographic shock, the need to create budgetary room for manœuvre in order to reinvest in the future and, lastly, the resources needed to adapt the French economy to globalisation. It further concluded that it is necessary to adopt a multi-annual plan asking all stakeholders to help bring public finance back under control. Covered widely in the media, this report quickly produced results.

At the National Public Finance Conference chaired by the Prime Minister on January 11th, 2006 – barely one month after the Pébereau report on France's debt was handed to the Minister of the Economy, Finance and Industry - the government set two ambitious medium-term public finance objectives, which it has added to a multi-annual debt reduction plan and to France's Stability Programme for 2007 to 2009, i.e.:

- public accounts must return to balance by 2010;

- the public debt must fall below 60% of national wealth by the same deadline.

In June 2006, the government set out these objectives in greater detail when presenting the National Debt Reduction Commitment to Parliament. The 2008-2010 Stability Programme is naturally entirely in line with this determined policy to reduce debt and to consolidate public accounts.

1. In 2006-2007, the government's economic policy is to continue lowering the public deficit and to reduce debt ratio while supporting growth and purchasing power.

In 2006, the public deficit should continue to decrease to 2.7 points of GDP

Further reduction in the public deficit this year will be driven first by a structural effort on **spending** by reducing them by 0.5% of GDP. In this case, public spending would increase by 1.4% in real terms, well below the economic growth rate:

- for the fourth consecutive year, the **State**'s general budget expenditure will remain stable in real terms, in line with the objective of the Initial Budget Bill;

- the situation of the **social security accounts** continues to improve. Benefits are not expected to increase by more than 3.1% (net of the impact of perimeter changes) after 4.0% in 2005. In particular, the National Healthcare Expenditure Target ("ONDAM") should once again be significantly lower, with a 2.7% growth rate, i.e. about 1.5 points less than the growth of national wealth. Unemployment benefits should drop sharply by about 8%, reflecting the sharp decrease in unemployment;

- by contrast, **local government** expenditure can be expected to continue increasing at the same pace as in 2005 and could therefore contribute in the same proportion as social security spending to the increase in total expenditure, even though its scope is 2.5 times as small.

On the **revenue** side, the rate of taxes and social security contributions can be expected to remain stable at 44% of GDP. However, this seeming stability conceals two opposing trends:

- on one hand, **new measures** should lower the rate of taxes and social security contributions by 0.3% of GDP: revaluation of the *Prime pour l'Emploi* (PPE, earned income tax credit) ; the last step before the final elimination of the corporate surtax; relief from local business taxes on new investments, etc.;

- on the other hand, this trend should be offset by the **spontaneous dynamism** of tax and social security assessment bases. The dynamism of tax revenue is mainly explained by the strong growth of value added tax (helped by vigorous household consumption) and of corporate income tax (driven by a better-than-expected increase in corporate earnings). Net tax revenues are estimated to be about €5 billion higher than forecasted in the Initial Budget Bill.

In 2007, the public deficit should continue to decline to 2.5 points of GDP – i.e. the deficit at which debt ratio becomes stable - at a time when the rate of taxes and social security contributions is going down

Efforts to control public **spending** will be continued in 2007, which should contribute by 0.4% of GDP to the reduction of the deficit:

- **State** spending is likely to be even more tightly controlled in 2007. After a zero increase in 2006, general budget expenditure can be expected to decrease by 1% in real terms. The objective is to stabilise spending in nominal terms – and no longer just in real terms – by 2010 (see below);

- the increase in **social security spending** (net of the impact of perimeter changes) is expected to remain stable compared with 2006 (up by 3% after a 3.1% increase). Pension benefits should remain dynamic under the natural impact of the retirement of the baby-boom generations. By contrast, growth of most other benefits can be expected to slow down, helped by the health insurance reform in 2006. The National Healthcare Expenditure Target should increase by only 2.6% in 2007. Growth of family allowances slows down (up by 3% after 4.2% in 2006) and the "PAJE" child-rearing allowance scheme reaches maturity. Moreover, unemployment benefits should continue to decrease (- 6%) due to steadily declining unemployment;

- **local government** expenditure should continue to increase at a strong pace of over 3% in real terms.

The rate of general government **taxes and social security contributions** is expected to drop to 43.7%. This decrease will mainly reflect the tax reform in the 2006 Budget Bill, of which the impact will be felt primarily in 2007. Reform of the income tax scale will inter alia mean a tax gain of €3.9 billion for the taxpayer. Moreover, the earned income tax credit for low-income households, reformed as part of the Budget Bill for 2006, will be granted an additional appropriation of €0.5 billion in the Budget Bill for 2007, i.e. a total of €1.5 billion (€0.5 billion for 2006 and €1 billion for 2007). Thus, the maximum amount of the individual earned income tax credit has been raised from €538 to €714 in 2006 and to €948 in 2007, i.e. almost twice the earlier amount for full-time workers with the guaranteed minimum wage. Moreover, the local business tax reform will mean additional tax relief of €1.1 billion for businesses in 2007, rising to a total of €2.6 billion by 2010.

The average reduction in the structural deficit in 2006-2007 should be about 0.5% of GDP, in line with EU recommendations

In 2006, the entire reduction in the deficit (0.6% of GDP) will be structural in nature. As usual, this calculation does not include the 2005 lump-sum transfer payments for electricity and gas industries pension schemes, which corresponded to 0.5% of GDP. In 2007, the structural improvement should once again reach 0.4% of GDP.

The first phase of the National Debt Reduction Commitment should lower the public debt by at least 2% of GDP in 2006 and by a further 1% in 2007

This would lower the debt ratio from 66.6% at the end of 2005 to 64.6% at end-2006 and 63.6% at end-2007. This steep debt reduction curve is made possible by increased control of State spending, allocation of the entire tax gains (about €5 billion for 2006) to deficit and debt reduction, appropriation of the proceeds from asset sales to debt repayment, adjustment of general government cash management objectives and, more generally, improvement of current debt management by all public players.

2. France will continue to consolidate its public finances during the 2008-2010 period as part of the National Debt Reduction Commitment in order to restore the balance of public accounts and to bring debt back below 60% of GDP by 2010.

The National Debt Reduction Commitment (Engagement National de Désendettement) strategy is based on **three pillars**:
- **higher potential growth: the French economy should be able to grow by 3% to 4%.** To achieve this, we must first raise the employment rate, which is lower among young and older workers than in France's major partner countries. This is the purpose of the Employment Emergency Plan, the concerted action plan for older workers, the income tax reform programmed for 2007, the increased earned income tax credit and the introduction of various re-employment bonuses, designed to make work pay better than inactivity. However, this goal will also be achieved by allocating more budgetary resources to public investment for the future. This has been done by endowing the National Research Agency (ANR), the Industrial Innovation

Agency (AII) and the Agency for Financing Transport Infrastructures in France (AFITF) with exceptional funds to increase business investment in R&D. Last but not least, this is the objective of the local business tax reform, intended to make France more attractive. The report on "the intangible economy" presented in early December by Maurice Lévy and Jean-Pierre Jouyet to the Minister of the Economy, Finance and Industry proposes decisive measures to raise the level of France's potential growth;

- stricter control of public spending: towards a "better State". To do so, the parties involved need to contribute to this effort within the framework of their mission and within the limits of their resources. The government has already agreed, from 2007 onwards, to go beyond what is needed to stabilise State expenditure in real terms ("zero real spending growth rule") and to aim for the stabilisation of State expenditure in nominal terms ("zero nominal spending growth rule"). The Budget Bill for 2007 projects a 1% decrease in real State expenditure, thanks to gradual application of the LOLF to the budgetary processes and the completion of the first modernisation audits, which have already covered €120 billion worth of expenditure and identified areas of latent productivity gains. Subsequent audit cycles can be expected to generate additional productivity gains. In January 2006 the first National Public Finance Conference, attended by all public spending decision-makers, was organised to raise awareness of the need to control public spending across the boards (State, social security agencies, local government). On 20 June 2006, the first meeting of the *Conseil d'Orientation des Finances Publiques* (Public Finance Steering Council), the permanent working body of the Conference, identified the first targets for common analysis (ageing, local government spending, governance, optimisation of management of local treasuries, etc.). These will be the subject of proposals at the next conference in early 2007;

- an active policy to manage the cash position of the general government and to sell non-strategic government assets (on the principle that the proceeds will be used to reduce debt). Recent examples of this policy are the prudent reduction of Agency France Trésor's cash buffer since 1 January 2006, the privatisation of tollroad concessions and the disposal of public stakes in Alstom. From 2008 to 2010, the government intends to continue selling non-strategic assets, which would help reduce the public debt by €5 to 10 billion p.a..

The Government presents two economic scenarios

The Government has chosen to present two public finance scenarios for the 2008-2010 period as in the previous programme. **They differ in the level of economic growth considered.**

The first scenario (low-growth scenario) is cautious. Indeed, it only marginally takes into account the positive response of the economy to the measures announced by the Government in order to supply a lasting stimulus for employment and productivity. Furthermore, it does not take into account the possible consequences of new measures taken in this direction until 2010. **Growth should reach 2.25% p.a**., i.e. roughly the same level as potential growth. This first scenario provides a robust - because cautious - base for multiyear budget estimates, and particularly for tax and social security revenue projections.

The second scenario (high-growth scenario) consists in a more proactive approach. It factors in the consequences of the structural reforms implemented by the government for the last three years (pension reform, health insurance reform, income tax reform, local business tax reform, measures to make it easier to create a business, measures to adjust the 35-hour working week, Employment Emergency Plan, reform of Galland law on protection of small retailers, the law on confidence and modernisation of the economy, the LOLF, etc.). In the same spirit, it builds upon a number of adjustments in the goods market (as described in the National Reform Programme as part of the Lisbon strategy) and in the labour market. The economy will also fully benefit from the leverage generated by the coordination and cofinancing of projects produced by the regional competitiveness clusters, by the Industrial Innovation Agency, the National Research Agency and the AFITF. Lastly, certain recommendations in the report on the "intangible economy" are beginning to be implemented.
In this scenario, annual growth reaches 3% with a gradually higher underlying growth potential as employment and investment continue to gather momentum (the potential is projected to reach 3% during the period under review).

Pursuing efforts to control public spending

*Gradual implementation of **State** modernisation tools*

During the period from 2008 to 2010, the gradual implementation of the LOLF and application of modernisation audits foreshadow **substantial efficiency gains in public management**. The full impact of the LOLF will be felt starting 2007. Benchmark performance indicators are being measured for the first time in 2006 while State modernisation audits have revealed pools of potential savings.

These efficiency gains will allow the government not only to stabilise real expenditure in 2007 but also to go further. The Budget Bill for 2007 is based on a 1% decrease in real State spending and non-replacement of 15,000 civil servants. After 2007, full application of the LOLF and the widespread use of audits will **ensure stabilisation of nominal State expenditure in the medium term**.

This would speed up reduction of the State deficit, **lowered to either -0.9% or -0.6% of GDP by 2010, depending upon the scenario**.

Modernisation audits

With 127 modernisation audits already completed, covering a spending sphere of more than €120 billion, the government has the leverage needed to lower State expenditure in the Budget Bill for 2007 without reducing the quality of public service.

Launched in October 2005, this new method, based upon such audit principles as frequency, transparency (audit reports are published), an interministerial approach and operational features, has revealed very important levers to modernise the entire State and to achieve the productivity gains projected in the Budget Bill for 2007. This approach also helps the government make the most of the Constitutional Bylaw on Budget Acts ("LOLF") by strengthening the capacity of ministries and programme managers to assume responsibility for their budgets with the help of tools designed to achieve the objectives of their annual performance projects ("PAP"). The audits cover the main areas in which the State needs to be modernised, from optimisation of procedures to evaluation of the efficiency of public policies.

The reports published on the Performance Forum web site have already identified €3 billion worth of productivity gains over three years. About 40% of this figure is generated by procurement action plans while 20% reflects cross-functional audits, particularly of real estate holdings, new budgetary and accounting processes, payroll measures and pensions. The remaining 40% are the result of ministerial efforts in general. In other words, several reports have already culminated in concrete action plans allowing the government to:

- generate significant budget savings without lowering service quality. Indeed, in some cases, quality is even improved (teachers who are temporarily relieved from teaching duties, reforms implemented at the Ministry of the Economy, Finance and Industry under modernisation contracts);

- control expenditure despite steadily rising needs (judicial costs, genetic fingerprints, emergency accommodation, etc.).

- develop new sources of revenues and prevent certain expenses (collection of fines through the growing network of penalty enforcement offices).

This approach has already proven its value. It will be systematically maintained with regular launches of new audits.

The government particularly makes sure that action plans based on audit reports are actually implemented by the ministries and monitors their progress and quantitative and qualitative results. The first audit results can be found in the online government score board (www.performance-publique.gouv.fr).

*Steady efforts to keep **social security** expenditure down*

For all of the social security funds, it should be possible to limit the average real increase in social security spending to about 1% p.a. during the period from 2008 to 2010.

The slowdown of health insurance expenditure (still up 4% in nominal terms in 2005, compared with a nominal increase of just over 2.5% in 2006-2007) can be expected to continue during the programme period, inter alia helped by the growing impact of the health insurance reform implemented in 2005.

Unemployment benefits are expected to decrease, thanks to declining unemployment. The extent of this decrease naturally depends on the scenario considered.

Lastly, family benefits can be expected to start decreasing as "PAJE" child-rearing allowance scheme reaches maturity, whereas old age costs should remain dynamic as the baby boom generations are reaching retirement age.

***Local governments** are contributing to the debt-reduction effort*

During the programme period from 2008 to 2010, local governments' real expenditure is expected to rise by 2.0% p.a. After a slight reduction during the election period in 2008-2009, investment projects should start regaining momentum in 2010.

Increase in public spending during the 2008-2010 period

(in real terms, average p.a.)	Low-growth scenario	High-growth scenario
Public spending	0.6%	0.5%
o.w.:		
State (budget accounting)	-1.5%	-1.5%
State (national accounting)	-0.5%	-0.5%
Central government agencies	0.5%	0.5%
Social security funds	1.1%	1.0%
o.w.		
Healthcare expenditure target (ONDAM) (in nominal terms)	2.2%	2.5%
Local authorities	2.0%	2.0%

A steady reduction in the public deficit (see the graph on the following page)

Thus, the public deficit would be exactly balanced in 2010 in the low-growth scenario. The cyclically-adjusted balance should improve by 0.7% p.a., i.e. more then the 0.5% recommended by the Stability and Growth Pact. The deficit should mainly be reduced by efforts to lower public spending.

The improvement would be even more striking in the high-growth scenario, in which the public balance would go from a deficit of -2.5% of GDP in 2007 to a surplus of +0.8% of GDP in 2010 (the balance would in fact practically be reached in 2009 with a deficit of only -0.2% of GDP). The gap compared with the low-growth scenario is mainly due to higher public revenues linked to a more positive macroeconomic scenario.

Regardless of the scenario, public accounts should be balanced before the end of the decade.

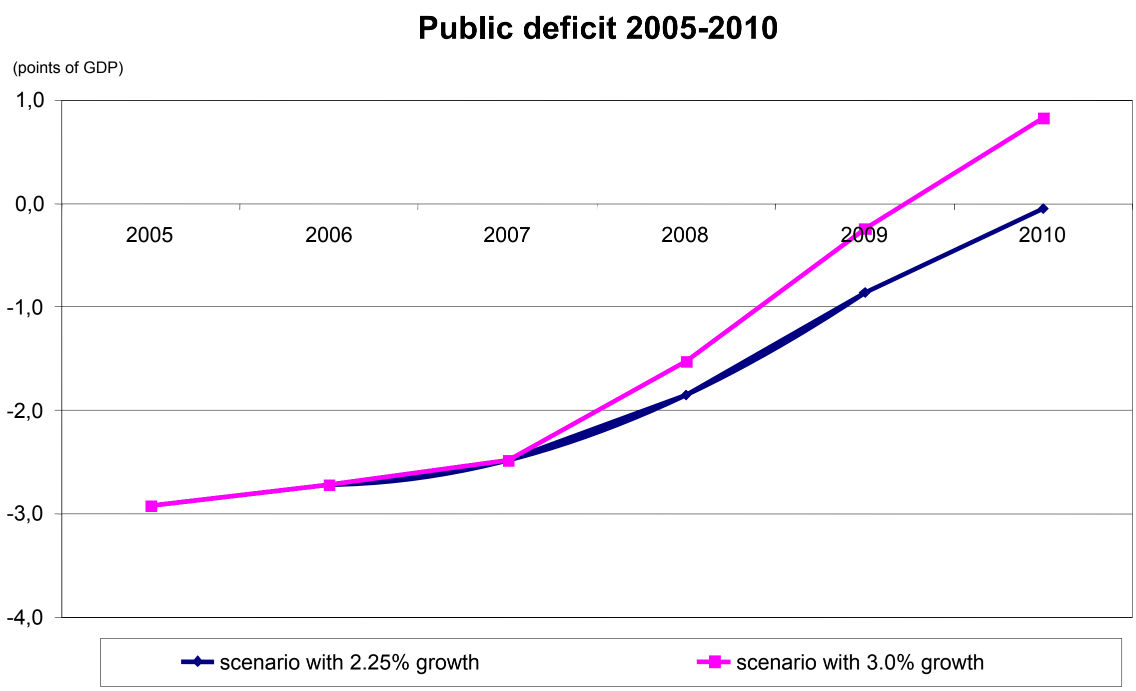
Rapid debt reduction *(see the graph on the following page)*

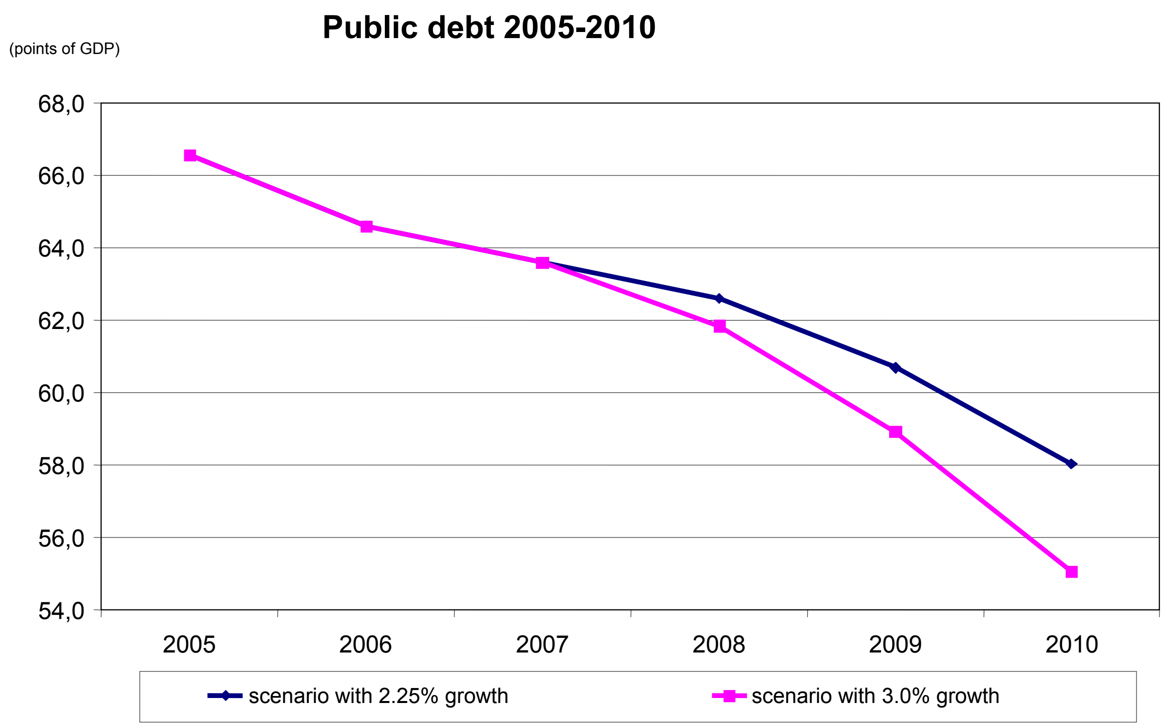
The debt ratio can be expected to reach 63.6% of GDP by the end of 2007, i.e. 3% less than at end-2005. During the period from 2008 to 2010, continued implementation of the debt reduction strategy will make it possible to strengthen this trend in both scenarios:

- in the low-growth scenario, the debt ratio will return to below 60% of GDP in 2010 (to 58%) and will already be very close to the limit in 2009 at 60.7%;

- in the high-growth scenario, the debt ratio will return to below 60% of GDP in 2009 (to 58.9%) and to 55.1% in 2010, i.e. the same level as in 1995.

Once the public accounts have returned to balance, **public debt will return to below 60% of GDP, and this before the end of the decade, regardless of the scenario.**




Public debt 2005-2010
(points of GDP)
68,0
66,0
64,0
62,0
60,0
58,0
56,0
54,0
2005
2006
2007
2008
2009
2010
scenario with 2.25% growth
scenario with 3.0% growth

1. Economic outlook

1.1. Current situation and short-term outlook (2006-2007)

The cyclical horizon began to improve for the French economy in the summer of 2005 when France, like all other countries in the euro area, took advantage of growing world trade, especially US and Asian imports. At the same time, domestic demand picked up sharply. In the first half of 2006, the French economy enjoyed an exceptional growth spurt followed by stabilisation of activity in the third quarter. The available information on the economic cycle (industrial, service and construction surveys) suggests that activity will start growing again in the fourth quarter. In all, French growth in 2006 should definitely range within the announced bracket of 2% to 2.5%.

While remaining dynamic, France's international environment should gradually lose its buoyancy in 2007. The American economy should experience a soft landing as household demand begins to weaken after several exceptional dynamic years. Activity in the euro area can also be expected to weaken slightly in the wake of more restrictive macroeconomic policies than in 2006.

Activity in France should continue to be buoyed by domestic demand and remain strong in 2007, once again rising in the bracket of 2% to 2.5%.

This is the median growth scenario for 2006 and 2007, considered most probable. It does not factor in major unforeseen international and domestic developments. Stronger growth of activity is possible, e.g. if the German economy slows down less than expected in 2007. By contrast, a worse scenario cannot be ruled out entirely, e.g. if American economic growth creates a negative surprise.

1.2. Medium-term outlook (2008-2010)

We have considered two alternative macroeconomic scenarios for the period from 2008 to 2010.

The first or low-growth scenario cautiously assumes growth of 2.25% p.a. and potential growth of the same order.

This scenario builds on recent trends but factors in two developments with opposing consequences for the labour force. First, the impact of the demographic ageing process and the retirement of the many baby boomers, automatically shrinking the labour force; and secondly, the INSEE's recent adjustment of its labour force projections in the light of immigration and a higher than expected birth rate, prompting review of potential growth in the long term.

This said, this scenario does not take into account the consequences of new measures to be adopted until 2010 to improve the employment rate and productivity.

The second scenario (high-growth scenario) consists in a more proactive approach. It assumes a growth rate of 3% p.a. for the 2008-2010 period with a steady increase in potential growth to 3% in 2010.

In this scenario, continuation of the structural reforms launched by the government would gradually strengthen potential growth out to the projection horizon.

This scenario assumes an increase in the employment rate due to a lower structural unemployment rate and a higher participation rate of the working-age population. Recent measures, particularly the different steps of the *Employment Emergency Plan (Plan d'urgence pour l'emploi)*, and relevant future measures would make it possible to achieve this result. Other factors would help support potential growth, particularly an increase in the number of per-capita hours worked, faster accumulation of capital, and **productivity gains** driven by the dissemination of new technologies and the impact of our measures to revive research (creation of the Industrial innovation Agency (Agence pour l'Innovation Industrielle), the National Research Agency (Agence Nationale pour la Recherche) and competitiveness clusters).

Table: macroeconomic scenario, 2008-2010

Average for 2008-2010	**Low-growth scenario**	**High-growth scenario**
GDP	2.25%	3.0%
Domestic demand	2.25%	2.9%
Household spending	2.5%	3.1%
General government spending	0.5%	0.5%
Gross fixed capital formation	2.9%	4.8%
o.w. businesses [1]	3.8%	6.8%
Contribution from inventories	0.1%	0.1%
Contribution from foreign exchanges	0.0%	0.0%
Exports	5.9%	7.1%
Imports	5.6%	6.7%
GDP deflator	1.75%	1.75%
Consumer price index	1.75%	1.75%
Private-sector wage bill	4.50%	5.25%
Average nominal private-sector wage per capita	3.75%	4%
Dependent employment in the private sector	.75%	1.25%

2. General government balance and debt

In the wake of the Pébereau report, handed to the Minister of the Economy, Finance and Industry on 14 December 2005, the Prime Minister chaired the first Nationale Public Finance Conference (Conférence Nationale des Finances Publiques) on 11 January 2006. The purpose of this Conference was to bring together all public spending players (the State, social security funds and local government) in order to make them aware of the absolute need to consolidate France's public finances as quickly as possible. The Prime Minister set two essential objectives during the Conference, i.e. restoring the balance of the public accounts and reducing public debt to below 60% of GDP by 2010. These objectives have already been factored into the 2008-2010 Stability Programme.

During the Budget Policy Debate (Débat d'Orientation Budgétaire) last June, these objectives were outlined in greater detail as part of the National Debt Reduction Commitment (Engagement National de Désendettement) presented by the government to Parliament.

[1] Non-financial corporations and unincorporated enterprises.

The years 2006 and 2007 will be an important phase in the government's debt reduction strategy, with the return of the public deficit to debt-stabilising level (2.5% of GDP in 2007) and the first decrease in the public debt ratio (by at least 2% of GDP in 2006 and a further 1% in 2007). After 2007, State and social security spending control should help keep the public accounts on track towards recovery with the objective to balance the accounts by the end of the programme or even to generate a surplus (in the high-growth scenario). Assuming conservatively that the government will sell assets estimated at €5 bn to €10 bn a year, the public debt ratio would in this case drop well below the 60% threshold in 2010 and even in 2009 in the high-growth scenario.

Table: General government deficit and debt

	points of GDP	**2007**	**2008**	**2009**	**2010**
low growth scenario	Public deficit	-2.5	-1.8	-0.9	-0.0
	Public debt	63.6	62.6	60.7	58.0
high growth scenario	Public deficit	-2.5	-1.5	-0.2	0.8
	Public debt	63.6	61.9	58.9	55.1

2.1. Changes by sub-sector of the general government

The financial situation of the general government should primarily be improved by lowering the State's net borrowing by 1.5 percentage point of GDP between 2007 and 2010 in the low-growth scenario. This reduction should primarily be due to the contained increase in State budget expenditure (see part 4). Revenue projections are based on the conservative assumption that revenues will parallel activity. In the high-growth scenario, the added tax revenue generated by the additional economic activity would make it possible to reduce the State deficit by an additional 0.3 percentage point of GDP out to 2010.

The **social security funds** are expected to record a surplus from 2008 onwards with the return to break-even of health insurance at the end of 2008 and the general regime at the end of 2009. The savings generated by control of the ONDAM target and the decrease in unemployment should help reverse the spending curve. The strong growth in the high-growth scenario can be expected to generate more revenue and lower unemployment benefits, which should improve the balance of the social security funds in 2010 by 0.4 percentage point of GDP more than in the low-growth scenario.

In the low-growth scenario, the balance of the **central government agencies** should improve by 0.2 percentage point of GDP during the period from 2007 to 2010. The defeasance structures are expected to continue paying off their debts during this period.

Lastly, the **local governments** should continue to report a marginal deficit (-0.1 percentage point of GDP) in 2010 in the low-growth scenario. In the high-growth scenario, the additional revenues would lead to the return of a marginal surplus of 0.1 percentage point of GDP. For local tax revenues, both scenarios are based on the conservative assumption that the voted tax rates will remain the same.

Table: deficit by sub-sector of the general government

	points of GDP	2007	2008	2009	2010
Low growth scenario	General Government	-2.5	-1.8	-0.9	-0.0
	State	-2.4	-2.0	-1.5	-0.9
	Central government agencies	0.1	0.2	0.3	0.3
	Local government	-0.1	-0.1	-0.1	-0.1
	Social security funds	-0.1	0.1	0.4	0.6
High growth scenario	General Government	-2.5	-1.5	-0.2	0.8
	State	-2.4	-1.9	-1.2	-0.6
	Central government agencies	0.1	0.2	0.3	0.3
	Local government	-0.1	-0.1	0.1	0.1
	Social security funds	-0.1	0.2	0.6	1.0

2.2. During the period from 2008 to 2010, the average annual improvement in the cyclically-adjusted balance[2] would be 0.7 to 1.0 percentage point of GDP, depending upon the scenario, and would entirely reflect measures to control public spending

In both scenarios, real public spending would rise far slower than potential growth between 2008 and 2010 (on average 0.6% against annual potential growth of almost 2.25% in the low-growth scenario and average potential growth of 2.7% in the high-growth scenario), explaining the structural improvement of the public accounts. The elasticity of taxes and social security contributions is conservatively considered to be unit elastic for the period from 2008 to 2010 and will not contribute to the structural improvement of the public accounts (including in the high-growth scenario).

In this case, the structural improvement during the period from 2007 to 2010 will average 0.7 point p.a. in the low-growth scenario. It would be over 0.8 point in the high-growth scenario (see table 2). Thus, the improvement of the structural balance during the period under review would exceed our European commitments, which call for an average structural improvement of 0.5% p.a. in order to reach the medium term objective.

Thus, the level of the structural balance would rise from -2.6 points of GDP in 2006 to balanced accounts in the low-growth scenario and to a surplus in the high-growth scenario (+0.7 percentage point of GDP).

Table 2. Change in the general government balance (in points of GDP): low-growth scenario and high-growth scenario

	points of GDP	2007	2008	2009	2010
Low-growth scenario	Public deficit	-2.5	-1.8	-0.9	0.0
	Cyclically-adjusted balance	0.4	0.7	0.8	0.7
High-growth scenario	Public deficit	-2.5	-1.5	-0.2	0.8
	Cyclically-adjusted balance	0.4	0.9	1.0	1.0

[2] The cyclically-adjusted balance is the general government balance adjusted for the effects of the economic cycle on the public accounts and for one-off measures.

2.3. Continued implementation of the National Debt Reduction Commitment during the period from 2008 to 2010 would make it possible to return public debt to below the threshold of 60% of GDP in 2010, or even in 2009 in the high-growth scenario.

The debt reduction strategy finalised in the beginning of 2006 is supported by three basic pillars: raising potential growth, continuing to rationalise public spending and pursuing an active policy to manage the cash position of the general government and to dispose of non-strategic assets. This strategy should begin producing results in 2006, when the debt ratio is expected to drop at least 2 points of GDP, and would be confirmed in 2007 with a further decrease of 1 percentage point of GDP. Continuation of these efforts during the period from 2008 to 2010 would allow the government to meet its National Debt Reduction Commitment to restore the general government balance and to lower the public debt ratio to below the threshold of 60 points of GDP by 2010. The contribution of non-strategic asset sales to the debt reduction effort is conservatively estimated at €5 bn to €10 bn p.a.

3. Sensitivity analysis and comparison with previous updates

3.1. Sensitivity to international assumptions

The macroeconomic scenarios of the Stability Programme are underpinned by a series of assumptions regarding the international financial environment of the French economy, which naturally remain subject to a number of risks. The international scenario underlying the projections is as follows:

- the nominal price of crude is expected to settle at $70/bbl at the end of 2006 and through 2007 (in line with the Budget Bill for 2007 presented in September) and to remain at this level in real terms (i.e. the nominal price per barrel will increase by 1.75% p.a. from 2008 to 2010);
- the exchange rate between the euro and the dollar is conventionally expected to remain at €1 = $1.28 during the entire period (also in line with the Budget Bill for 2007);
- global activity and global trade will continue to follow their long-term trend in the low-growth scenario and are slightly more dynamic in the high-growth scenario, mainly owing to the additional growth (0.4 percentage point p.a.) generated in the EU by the implementation of structural reforms designed to support growth (Lisbon strategy). World demand for France should thus increase with a growth rate of 6% p.a. in the low-growth scenario and 6.5% in the high-growth scenario.

These assumptions are barely different from those of the Commission. Nevertheless, it is possible to determine the impact of these differences on the French economy and, more generally, the impact of unforeseen factors connected with these assumptions. To do so, we will look at the consequences of a stronger increase in world demand for French goods and services, lower oil prices, a rising exchange rate and lower interest rates.

a) Impact of stronger growth of world demand for French goods and services

An increase in world demand for French goods and services is reflected almost entirely in exports, after which it spreads to the rest of the economy, primarily through increased corporate investment.

At constant nominal interest rates, a permanent increase of 1% in world demand would improve activity by about 0.25 percentage point of GDP and generate about 40,000 extra jobs after two to three years. The impact on inflation would be marginal at constant exchange rates.

A 1% increase in world demand for French goods and services could for example be due to an isolated increase in US growth of 0.66 percentage point, taking into account its dissemination to the rest of the world economy.

Table: Impact on the French economy of a 1% increase in world demand for goods and services from France (1)

(deviation from baseline scenario as a %)

	2008	2009	2010
GDP	0.2	0.25	0.25
Total employment (thousands)	16	37	42
Consumer prices	0.0	0.0	0.1
Government net lending (in GDP percentage points)	0.0	0.1	0.1

(1) Lasting increase of 1% in world demand occurring in early 2008.

This shock combines a significant increase in activity and improvement of the labour market with relatively low inflation and would have a highly positive impact on revenue (VAT, corporate and personal income tax, and social security contributions) whereas expenditure would increase at a slower pace. This would consolidate overall government balance by about 0.1 percentage point of GDP.

b) Impact of lower crude oil prices

Declining crude oil prices help lower imported inflation, directly slowing consumer prices. Apart from this mechanical effect, prices are also depressed by slowing growth of industrial production costs and by limiting wage hikes in combination with price decreases. Activity is stimulated by a combination of lower consumer prices and higher corporate profitability.

Assuming constant European macroeconomic policies, traditional macroeconomic models suggest that a lasting decrease in crude oil prices by $10 - e.g. from $70 to $60 - would lift activity by about 0.5 percentage point and lower consumer prices by about 1 percentage point after two to three years.

This disinflation would moreover make it possible to continue relaxing the monetary policy of the euro area, which would further stimulate demand.

Table: Impact of a $10 decrease in oil prices on the French economy (2)
(deviation from baseline scenario as a %)

	2008	2009	2010
GDP	0,25	0,5	0,5
Consumer prices	-0,4	-0,8	-1,0
Government net lending (in GDP percentage points)	0,0	0,3	0,2

(2) Lasting decrease of price of Brent from $70 to $60 per barrel at the start of 2008.

A lower price per barrel should have a mixed impact on public revenue. On the one hand, stronger economic activity would have a positive effect on the general government's tax revenue until 2009, particularly revenue from corporate tax. On the other hand, revenues sensitive to inflation (such as VAT) would decline. The net impact on revenue would be roughly neutral (and only marginally negative in 2010). By contrast, the impact of decreased spending, largely due to lower inflation and improvement of the labour market, would already be felt in the second year. As a result, the public balance would improve by a significant 0.3 percentage point of GDP in the second year and 0.2 in the third.

c) Impact of a 10% appreciation of the euro

A 10% appreciation of the euro with respect to other currencies would reduce French activity by about 0.7 percentage point during the first year due to a weaker competitive position on the export market and to our euro area partners' declining activity. The effect of reduced exports would be amplified by the usual multiplying and accelerating effects. This slowdown would also affect employment.

As in other countries of the euro area, inflation would be kept down by appreciation of the effective exchange rate, which would give the monetary authorities more room for manoeuvre.

Table: Impact of a 10% increase in the euro exchange rate on the French economy (3)
(deviation from baseline scenario as a %)

	2008	2009	2010
GDP	-0.7	-0.8	-0.8
Dependent employment (thousands)	-40	-114	-131
Consumer prices	-0.6	-1.4	-2.4
Government net lending/borrowing (in GDP p. points)	-0.2	-0.3	-0.5

(3) At constant nominal interest rates.

Appreciation of the euro would have a significant negative impact on taxes and therefore on public finances, owing to its negative consequences for activity and inflation. Moreover, a higher exchange rate would reduce social security contributions (based on the wage bill). Thus, the loss of revenue for the general government as a whole would be 0.3 percentage point of GDP from the first year. This phenomenon would be partly offset by lower expenditure (0.1 percentage point of GDP during the first year) on the assumption that most expenses are sensitive to inflation.

(d) Impact of a 100 bp increase in interest rates

A faster than expected recovery could entail a faster rise in euro-area interest rates. An increase in both short and long term interest rates would affect activity in three ways:

- capital expenditure would be hurt most by rate hikes: higher financial charges would weaken corporate solvency and capital returns would diminish.

- household investment in housing would also be limited by more expensive credit; rate hikes would moreover tend to favour savings over consumption (substitution effect).

- if the increase in interest rates triggered a higher exchange rate, it would also dent activity through loss of competitiveness vis-à-vis countries outside the euro area.

Assuming a constant exchange rate, a one-point increase in short and long-term interest rates of the euro area would reduce activity by nearly 0.25 point during the first year and 0.75 to 1 percentage point of GDP in the second year and third year. The ensuing inflation should remain very low.

These evaluations take into account the macroeconomic balance within the euro area, i.e. the negative impact of weaker demand from France's euro-area partners on the French economy.

Table: Impact on the French economy of a 100 bp increase in interest rates in the euro area (4)

(deviation from baseline scenario as a%)

	2008	2009	2010
GDP	-0.2	-0.5	-0.8
Total employment (thousands)	-9	-57	-105
Consumer prices	0.0	-0.1	-0.2
Government net lending/borrowing (in GDP p.points	0.0	-0.2	-0.4

(4) Lasting 100 bp increase in short and long term interest rates at the start of 2008 at constant exchange rates.

Public finances would be affected in two ways by interest rate hikes. First, the cost of general government debt would rise due to higher financing and refinancing costs. Secondly, public accounts deteriorate owing to weaker activity.

Slowing growth is mechanically reflected in lower tax and social security revenue. Nominal expenditure would be raised by a worsening labour market and rising interest charges (by about €1 billion in the first year and about €3 billion in the third). However, it would be marginally lowered by the sensitivity (or even the indexation) of most expenses to inflation (wage bill, benefits, etc.) and application of a strict inflation-indexing rule to growth of State expenditure.

3.2. Comparison with previous programme

The updated version of the Stability Programme shows that the projections of January 2006 have been respected or even exceeded.

Table: Low-growth scenario – Comparison of public finance trajectory in the current programme and the previous programme

		2006	2007	2008	2009	2010
2005 programme	public deficit	-2.9	-2.6	-1.9	-1.0	0.1
	public debt	66.0	65.6	64.6	62.8	59.9
		2006	**2007**	**2008**	**2009**	**2010**
2006 programme	public deficit	-2.7	-2.5	-1.8	-0.9	0.0
	public debt	64.6	63.6	62.6	60.7	58.0

Table: High-growth scenario – Comparison of public finance trajectory in the current programme and the previous programme

		2006	2007	2008	2009	2010
2005 programme	public deficit	-2.9	-2.2	-1.2	0.1	1.5
	public debt	66.0	64.8	62.6	59.3	54.8
		2006	**2007**	**2008**	**2009**	**2010**
2006 programme	public deficit	-2.7	-2.5	-1.5	-0.2	0.8
	public debt	64.6	63.6	61.9	58.9	55.1

First of all, the deficit objective for **2006** is now -2.7%, versus a projection of -2.9% in January 2006. In addition to compliance - for the fourth consecutive year - with the State real spending stabilisation objective, this improvement was driven by:

- first, the impact of the improvement in 2005 (estimated in January 2006 at -3.0% of GDP, compared with the -2.9% of GDP reported finally by INSEE and confirmed by Eurostat in the spring of 2006);

- secondly, allocation of the entire additional State revenue (about €5 bn over the Budget Bill) to reduce the deficit (and therefore debt); this windfall was generated by buoyant growth and once again higher-than-unit elasticity of tax revenues.

The results for **2007** can be expected to benefit fully from the positive developments in 2006. The objective has therefore been raised from -2.6% in January 2006 to -2.5%. The objective for 2007 has been adjusted slightly less than the objective for 2006, primarily because the available outlook for local government suggests that they will continue to record a deficit in 2007 (-0.1 percentage point of GDP) instead of returning to break-even as projected the year before.

The perspectives in the previous programme for 2006 and 2007 are now confirmed. Consequently, we are standing by our medium-term **public deficit** objective to balance the public accounts by 2010 without changing our strategy.

The National Debt Reduction Commitment has had a strong impact on **public debt** since January 2006. For instance, the objective to reduce the public debt ratio by at least 2 points of GDP in 2006, and a further 1 point in 2007 will allow us to reduce public debt by 2010 to below the level projected in the previous programme (in both scenarios).

4. Public finance trend

4.1. Public spending

Table: Increase in public spending during the 2008-2010 period

Increase in public spending during the 2008-2010 period

(in real terms, average p.a.)	Low-growth scenario	High-growth scenario
Public spending	0.6%	0.5%
o.w.:		
State (budget accounting)	-1.5%	-1.5%
State (national accounting)	-0.5%	-0.5%
Central government agencies	0.5%	0.5%
Social security funds	1.1%	1.0%
o.w.		
Healthcare expenditure target (ONDAM) (in nominal terms)	2.2%	2.5%
Local authorities	2.0%	2.0%

The National Debt Reduction Commitment reflects strict control of public spending, which would mean an average increase in real public spending of 0.6% p.a. in the low-growth scenario and 0.5% in the high-growth scenario[3]. In this case, public expenditure would grow at a much slower pace than activity, lowering its weight in national wealth from 52.9% in 2007 to 50.4% in 2010 in the low-growth scenario and to 49.2% in 2010 in the high-growth scenario.

State expenditure

The Budget Bill for 2007 projects an ambitious cut in State spending. Real spending will decrease for the first time by 1 point after four years of stable expenditure in real terms. This amount is in line with the commitments of the previous programme and corresponds to the government's National Debt Reduction Commitment.

In line with this commitment, the current programme provides for a 1.25% decrease in real State spending in 2008, 1.5% in 2009 and 1.75% in 2010, which means that nominal spending should remain stable in 2010.

In view of the rigidity factors of expenditure, this policy will require extensive redeployment and savings efforts. In the years ahead, the State budget will be burdened particularly by the following two charges: debt service and pension payments for civil servants.

Interest payments

[3] In the high-growth scenario, social security expenditure are slightly less dynamic owing to lower unemployment.

The stock of debt has increased rapidly in recent years, albeit almost without impact on the State budget owing to a very favourable rate trend as the high interest rate debt issued in the 1990s was paid-off and replaced by debt at low rates. Interest rates can be expected to rise thanks to the economic recovery, gradually erasing this positive effect.

Cost of debt over the 2002-2007 and 2007-2010 periods

	2002-2007	**2007-2010**
Change in interest payments *(as an annual average and in real terms, as a %)*	-1.6%	1.7 %

Interest payments can be expected to increase by about €0.7 billion p.a. in 2008, 2009 and 2010. The amount will nevertheless remain relatively low due to improvement of the debt ratio since 2006.

Pensions

Pension payments for civil servants and army personnel attached to the State will continue to outgrow the overall State budget at a rate close to the pace absorbed during the period from 2002 to 2007. In the Budget Bill for 2007, expenditure is up by €1.1 bn (constant euros), compared with an annual increase of about €1.2 bn p.a. during the entire period from 2008 to 2010 (also in constant euros).

Retirement pension payments by the State over the 2002-2007 and 2007-2010 periods

	2002-2007	**2007-2010**
Change in pensions payments *(as an annual average and in real terms, as a %)*	2.8%	3.0%

Other expenditures

The wage bill of State personnel accounts for 44% of State expenditure (excluding the cost of debt and pensions). The government will particularly make efforts to rationalise its workforce throughout the period under review. The Budget Bill for 2007 already provides for the non-replacement of 15,000 retiring State civil servants. Widespread use of State modernisation audits, which are already producing extremely encouraging results will allow us to achieve substantial productivity gains while improving public service quality.

As regards other expenses, implementation of the new Constitutional Bylaw on Budget Acts ("LOLF") in 2006 ensures greater accountability of managers for their budgets. Their margin for redeployment is an effective instrument to optimise allocation of public resources.

Expenditure of social security funds

Average trend of nominal social security benefits during the programme period (2008-2010)

	Low-growth scenario	**High-growth scenario**
ONDAM	2.2%	2.5%
Family	2.15%	2.15%
Old age	4.25%	4.25%
Unemployment	-3.5%	-5.7%
Housing	3.0%	3.0%

<u>*In line with the health insurance reform, the increase in health spending should remain contained*</u>

In 2005, growth of expenditure within the sphere of the National Healthcare Expenditure Target ("ONDAM") slowed to 4.0%, down from 4.9% in 2004. In 2006, growth of this expenditure should once again slow down significantly to 2.7%. This decrease, triggered by the health insurance reform (in 2002 the National Healthcare Expenditure Target soared by 7.1%) can be expected to continue in 2007, with an expenditure target of 2.5%.

The health insurance branch should continue to turn around during the programme period, helped by the growing impact of the health insurance reform implemented in 2004 and better control of social security finances under the new Constitutional Bylaw on Social Security Budget Acts ("LOLFSS"):

- spending on medical visits to private practices will be controlled primarily by changing the conduct of system participants. Health professionals will continue to control spending, particularly the conditions on which pharmaceuticals are prescribed and sick pays approved. The pharmaceuticals industry will also help restore the accounts along two lines. The first is to make sure pharmaceuticals are sold for a fair price, thanks to the development of generic drugs, price policies and bulk packagings for the chronically ill. The second is to encourage the efficient use of health products, especially by patients with long-term diseases.

- the structural reform of the hospital sector launched in 2002 is beginning to produce results, including a governance reform to strengthen player accountability; new planning rules; modernisation of budgetary and accounting management; and the gradual introduction of flat rates for every activity. Health establishments manage to control their expenses better in this entirely overhauled framework. Moreover, health establishments are committed to medical control of expenditure (e.g. under agreements on good hospital practices for antibiotics, statins and the prescription of drugs under compendial names; verification of hospital prescriptions for outpatients) and modernisation of their purchase policies.

- lastly, actions to combat fraud, abuse and waste will be stepped up with a slew of measures, including the use of personal medical files, tighter inspection of sick leave, verification of the resources of social security beneficiaries, better verification of the prerequisite to be a resident to be eligible for benefits, obligation to return the *carte vitale* health insurance card when leaving French territory, etc. Set up in October 2006, the National Committee Against Social Protection Fraud is responsible for organising the cooperation between the social security funds and the government services responsible for conducting these actions.

During the period from 2008 to 2010, we expect average growth of the National Healthcare Expenditure Target to be reduced to 2.2% in the low-growth scenario and to 2.5% in the high-growth scenario.

Other social security benefits

Unemployment benefits are expected to decrease on the back of declining unemployment. The proportions will nevertheless depend upon the contemplated growth scenario. **Family** allowances are likely to turn in better results than in recent years as the "PAJE" child-rearing allowance scheme reaches maturity and should return to a surplus by 2008.

Lastly, **old age** benefits should remain relatively dynamic as the baby-boom generations reach the retirement age. Early retirement of certain workers and the success of early retirement measures for people with long careers will aggravate expenditure in 2006 and 2007. This deterioration at the beginning of the period does not fundamentally affect the curve of the medium- and long-term projections produced by the Pensions Steering Council (Conseil d'Orientation des Retraites). In any event, the current programme does not prejudge such measures as will be taken during the first five-year review of retirement measures in 2008 in the light of the Pensions Steering Council report, which will analyse the impact of the pension reform of 2003 and any problems with fair distribution between social security beneficiaries according to their regime or even within a particular regime and the need for complementary measures.

Growth of Social security spending will therefore continue to drop significantly throughout the programme period. In the low-growth scenario, spending growth should average 1.1% in constant euros. However, this pace would gradually dwindle to 1.0% in 2010. In the high-growth scenario, social security spending would increase on average by 1.0% during the period. GDP growth will be marginally stronger than the National Healthcare Expenditure Target; however, this should be more than offset by lower unemployment benefits.

Local government expenditure

During the programme period from 2008 to 2010, local government expenditure should increase at an annual pace of 2.0% in constant euros in both scenarios. Investments can be expected to drop in 2008 and 2009, owing to the elections, and recover their momentum in 2010.

Expenditure of central government agencies

In both scenarios, the real expenditure of the central government agencies would on average increase by 0.5% p.a. The defeasance structures are expected to continue paying off their debt during the programme period, which would reduce their interest charges.

4.2. Revenues

State revenues

State revenues showed a significantly higher-than-unit **elasticity** to GDP in 2005 and 2006 (respectively 1.5 and, according to the projections at this stage, 1.8). The Budget Bill for 2007 forecasts elasticity of around 1.2. The programme projects a unit elasticity for subsequent years.

As regards **new measures**, the impact of already approved tax measures on revenue (particularly local business tax) should be about -0.1 percentage point of GDP in 2008 and nil in 2009-2010.

Revenues of social security funds

The revenues of social security funds would be lifted by the dynamic assessment basis of social security contributions, with a private-sector wage bill of 4.4% in the low-growth scenario and 5.2% in the high-growth scenario after 4.6% in 2007. The total wage bill (including both the private and public sectors) should be in line with GDP growth during the entire projection period.

From 2008-2010, revenues of the social security funds would rise at an average annual rate of about 4.0% in the low-growth scenario and around 4.5% in the high-growth scenario.

Local government revenues

Taxes collected by local governments are conventionally assumed to respond with unit elasticity to activity during the programme period. In practice, this means overall stability of local tax rates during the programme period.

5. Sustainability of public finances

5.1. Implementation of structural reforms

Under the impact of an ageing population and the rise in the dependency ratio expected to follow, the weight of certain expenditures in national income, particularly pensions and health care, can be expected to increase spontaneously in the years ahead. This trend will be aggravated by the fact that modernisation of our social security systems has been postponed for too long.

In addition to the "mechanical" impact of the ageing population, health expenditure will be determined by such demand factors as a rising standard of living and such supply factors as technological progress. Thus, during the last forty years, the weight of health expenditure in national wealth rose from 3.5% of GDP in 1960 to 7.8% of GDP in 2003.

In order to cope with the demographic ageing process, the government has launched three far-reaching reforms in recent years:

- the **pension** reform of 2003, which paves the way for the demographic shocks ahead by introducing the principle of dividing life expectancy gains between the working life and the retirement period. This reform is primarily intended to lengthen working years and the period of insurance payments. Evaluation of its consequences by the Pensions Steering Council (COR) suggests that this reform will reduce the overall borrowing requirement of the pension regimes by 0.9 percentage point of GDP in 2020 and by 1.2 percentage point of GDP in 2050;

- the **disability** and **dependency** reform of 2004, which introduced an additional day of work known as the "solidarity day", whose remuneration will be used to finance new actions. The solidarity contribution for autonomy of the elderly and disabled people will inter alia allow us to increase disability compensation benefits. This measure complements the reform of the long-term care allowance adopted in 2003, under which financial efforts were shared by the State, the *départements* (administrative districts) and the beneficiaries of the aid;

- the **health** insurance reform of 2004, which is also a source of large health savings by raising the accountability of all players in the healthcare system (health professionals with their own practice, professionals at health establishments, insureds, the pharmaceutical industry, social security funds, etc.). In line with these efforts, the main reform pillars are enriched every year with new measures.

In conclusion, recent analyses of the Economic Policy Committee show that the projected increase in old-age expenditure puts France in the average of European countries.

Table: Old-age expenditure projections of the Economy Policy Committee for France

	Total	Pensions	Health	Long term care	Unemployment	Education
Change 2010-2050 in points of GDP	3.2	1.9	1.5	0.2	-0.2	-0.2

5.2. The National Debt Reduction Commitment

Even without considering the future impact of the ageing process on public finances, the current situation of the budget is an important factor for the long-term sustainability of public finances: if the situation of the budget is already bad at the outset, it will itself have a snowball effect on the cost of debt. This is the entire reason for the National Debt Reduction Commitment accepted by the government.

Concretely, to determine the sustainability of public finances, the European Commission examines an indicator ("S2") which measures the immediate and sustained improvement of public finances required to make sure that existing debt will be covered in the long term by additional future revenues (i.e. this indicator measures the tax gap). This indicator reflects two factors:

- first, the initial situation of public finances which, if weak, can be expected to produce an explosive snowball effect;

- secondly, the potential deviation of the public accounts under the impact of the ageing process.

In a report entitled *The Long-Term Sustainability of Public Finances in the European Union,* published in October 2006, the Commission estimates this indicator at 4.0 points of GDP for France, including 1.4 points of GDP due to the initial situation and 2.6 points of GDP due to the future deviation triggered by the ageing process.

The starting point of the Commission evaluation is the budgetary situation in 2005. If we factor in the objectives of the National Debt Reduction Commitment (June 2006) we can see that they have a positive impact on the sustainability of public finances.

If we take the improvement in public finances projected for 2006 and 2007, with the public balance at the debt-stabilising level in 2007 (-2.5%) and a 3-point improvement of the debt ratio from 2005 to 2007 we can see that the impact of the initial position on the S2 indicator is halved (see the table below), i.e. a gain of 0.7 percentage point of GDP on the financing gap.

Moreover, continuation of the National Debt Reduction Commitment until the public accounts are balanced in 2010 will allow France to generate a primary surplus and so to frontload two-thirds of the projected deviation due to ageing.

Table: Calculation of a public finances sustainability indicator (S2)

Points of GDP	S2	Impact of initial position	Impact of ageing
Commission evaluation with 2005 as the initial year	4.0	1.4	2.6
Updated evaluation with 2007 as the initial year	3.3	.0.7	2.6
Updated evaluation with 2010 as the initial year	0.9	-1.7	2.6

Note: the calculations for 2007 and 2010 are based on the low-growth scenario

To sum up, these estimates mean that, if France achieves its objective to balance its public accounts by 2010, its public finances will be significantly better geared to deal with the long-term challenges raised by the ageing process. This is an important consideration for the age-related commitments to be included in the medium-term objective, as required by the new Stability Pact.

6. Governance of public finances

2006 has ushered in major innovations in overall governance of public finances.

6.1. National Public Finance Conference and Public Finances Steering Council

On 11 January 2006, barely one month after the report of the Pébereau commission on France's debt was handed to the Minister of the Economy, Finance and Industry, the Prime Minister chaired the first National Public Finance Conference. In addition to the government, this Conference was attended by representatives from the *Conseil Economique et Social* (Economic and Social Council), Parliament, associations of local elected officials, the social partners, social security funds and government services. This was the event at which the Prime Minister announced the National Debt Reduction Commitment for June 2006.

This first Conference was a major step toward more effective supervision of public finance management, establishing a general dialogue between the executive, the legislative, social security funds, the social partners and local elected officials.

In order to maintain this approach, the government, in line with the objectives set by the President of the Republic, adopted a decree (no. 2006-515 of 5 May 2006) to institutionalise this Conference and to institute a Public Finances Steering Council (Conseil d'Orientation des Finances Publiques).

The membership of the Public Finances Steering Council is similar to that of the Conference. It is an operational body, charged with preparing the Conference and as such particularly focusing on:

- description and analysis of the public finance situation;

- assessment of sustainability conditions and a proposed breakdown of objectives between government services;

- recommendations on all public finance issues, such as ways to improve the methodology used to project revenues.

The Council met on 20 June 2006 and is scheduled to meet again in early December 2006, ahead of the next National Public Finance Conference, to be held in the beginning of 2007. The Council is preparing its (publicly available) annual report for presentation to the Conference.

6.2. Parliamentary debate on the objectives of the Stability Programme before the Programme is forwarded to Brussels

The other advance in 2006 was to hold the traditional budgetary policy debate and the new social security finances policy debate at the same time in Parliament. For the purpose of this debate, held in spring, the government presented a report outlining the National Debt Reduction Commitment in the sphere of both the State and social security, concretely expressing its wish to achieve a more integrated management approach of public finances in general.

6.3. Statistical governance

INSEE is responsible for methodological matters involving the compliance of French national accounting statistics practices with the European System of Accounts (ESA95). The Institute maintains regular contact with Eurostat about these matters. Within the framework of the Treaty and specific regulations, the sources and methods used to evaluate national general government accounting data have been inventoried.

The **semi-final and final accounts** are prepared in the light of detailed information, particularly for the State and the central government agencies. For the State, the main accounting reference is the general account of the finance administration ("CGAF") published by the Public Accounting General Directorate. Restatement of the final outturn of the budget act as government net lending requires a series of corrections (timing differences, different treatments of certain transactions in the budgetary accounting and in the national accounting, etc.). The method used to evaluate the central government agencies' accounts is to restate the accounts of all these agencies. The consolidated account produced for the national accounts is prepared after transcription of the accounts of the individual central government agencies in the national accounting. Production of the local government accounts (S13131) is based upon the individual cash-based accounts kept by the public accounting officers. The documents used to prepare the accounts of local government agencies (S13132) are not homogeneous due to the number of different legal statuses. The accounts of the social security funds (ASSO) are based upon different accounting plans (social security scheme, general social security scheme, hospitals).

The information used to prepare the **figures of the current year (n-1) for the first notification in year (n)** is less homogeneous. For the State, the accounting year ends at the end of January in year n. The "public" accounts of the State are finalised towards the middle of March in year n, which means that the information used for notification purposes is likely to be reviewed, particularly the corrections needed to switch to accrual basis accounting. The central government agencies' accounts are partly based on projections. The accounting sources cover about 70% of revenue and expenditure. For the local governments, the accountants use information recorded in the accounting documents of the State and, since 2003, "direct" figures, which are exhaustive and centralised for the regions and *départements* (administrative districts) and based upon a sample for the communes. This is complemented by a number of estimates and forecasts. Lastly, for the first notification, the accounts of the social security funds are mainly based on estimates. The accounting documents of the regimes are not yet known at the moment of notification. Nevertheless, the availability of many - still provisional - accounting figures (benefits for the UNEDIC[*] and the general regime, sample of hospitals, etc.) makes it possible to prepare the accounts of the main organisations with certain reliability.

[*] UNEDIC : the joint labour-management unemployment benefit managing body.

ANNEX 1: Statistics tables

Table 1a. Macroeconomic prospects (scénario bas)

	ESA Code	Year X-1 level (*)	Year X-1 rate of change	Year X rate of change	Year X+1 rate of change	Year X+2 rate of change	Year X+3 rate of change
1. Real GDP	B1*g	1 782 630	2,0 - 2,5	2,0 - 2,5	2 1/4	2 1/4	2 1/4
2. Nominal GDP	B1*g	1 782 630	4,2	4,2	4,0	4,0	4,0
Components of real GDP							
3. Private consumption expenditure	P.3	1 019 246	2,8	2,7	2,5	2,5	2,4
4. Government consumption expenditure	P.3	420 334	1,8	0,3	0,5	0,4	0,7
5. Gross fixed capital formation	P.51	358 165	3,3	3,3	2,9	2,9	2,9
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		0,2	0,8	0,9	0,8	0,9
7. Exports of goods and services	P.6	487 316	7,9	6,2	5,9	5,9	5,9
8. Imports of goods and services	P.7	515 935	8,0	6,1	5,6	5,6	5,6
Contributions to real GDP growth							
9. Final domestic demand			2,7	2,3	2,1	2,1	2,1
10. Changes in inventories and net acquisition of valuables	P.52 + P.53		0,5	0,1	0,1	0,1	0,1
11. External balance of goods and services	B.11		-0,8	-0,2	0,0	0,0	0,0

(*) at current prices

Table 1a. Macroeconomic prospects (scénario haut)

	ESA Code	Year X-1 level	Year X-1 rate of change	Year X rate of change	Year X+1 rate of change	Year X+2 rate of change	Year X+3 rate of change
1. Real GDP	B1*g	1 782 630	2,0 - 2,5	2,0 - 2,5	3,0	3,0	3,0
2. Nominal GDP	B1*g	1 782 630	4,2	4,2	4,8	4,8	4,8
Components of real GDP							
3. Private consumption expenditure	P.3	1 019 246	2,8	2,7	3,1	3,1	3,0
4. Government consumption expenditure	P.3	420 334	1,8	0,3	0,5	0,4	0,7
5. Gross fixed capital formation	P.51	358 165	3,3	3,3	4,7	4,8	4,8
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		0,2	0,8	0,9	0,8	0,9
7. Exports of goods and services	P.6	487 316	7,9	6,2	7,1	7,1	7,1
8. Imports of goods and services	P.7	515 935	8,0	6,1	6,7	6,7	6,7
Contributions to real GDP growth							
9. Final domestic demand			2,7	2,3	2,8	2,9	2,9
10. Changes in inventories and net acquisition of valuables	P.52 + P.53		0,5	0,1	0,1	0,1	0,1
11. External balance of goods and services	B.11		-0,8	-0,2	0,0	0,0	0,0

Table 1b. Price developments (scénario bas)

	ESA Code	Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3
		level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator			2,0	2,0	1 3/4	1 3/4	1 3/4
2. Private consumption deflator			1,6	1,6	1 3/4	1 3/4	1 3/4
3. HICP			2,0	1,9	1 3/4	1 3/4	1 3/4
4. Public consumption deflator			1,8	1,6	1 3/4	1 3/4	1 3/4
5. Investment deflator			3,0	2,6	1 3/4	1 3/4	1 3/4
6. Export price deflator (goods and services)			1,2	1,0	1,2	1,2	1,2
7. Import price deflator (goods and services)			3,3	0,5	1,0	1,0	1,0

Table 1b. Price developments (scénario haut)

	ESA Code	Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3
		level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator			2,0	2,0	1 3/4	1 3/4	1 3/4
2. Private consumption deflator			1,6	1,6	1 3/4	1 3/4	1 3/4
3. HICP			2,0	1,9	1 3/4	1 3/4	1 3/4
4. Public consumption deflator			1,8	1,6	1 3/4	1 3/4	1 3/4
5. Investment deflator			3,0	2,6	1 3/4	1 3/4	1 3/4
6. Export price deflator (goods and services)			1,2	1,0	1,2	1,2	1,2
7. Import price deflator (goods and services)			3,3	0,5	1,0	1,0	1,0

Table 1c. Labour market developments (scénario bas)

	ESA Code	Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3
		level	rate of change	rate of change	rate of change	rate of change	rate of change
1. Employment, persons		25000 (*)	0,8	1,1	0,6	0,5	0,5
2. Employment, hours worked							
3. Unemployment rate (%)							
4. Labour productivity, persons			1,5	1,2	1,7	1,7	1,7
5. Labour productivity, hours worked							
6. Compensation of employees	D1	927 529	3,9	4,0	3,7	3,7	3,7

(*) thousand, annual average

Table 1c. Labour market developments (scénario haut)

	ESA Code	Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3
		level	rate of change	rate of change	rate of change	rate of change	rate of change
1. Employment, persons		25000 (*)	0,8	1,1	1,1	1,1	1,1
2. Employment, hours worked							
3. Unemployment rate (%)							
4. Labour productivity, persons			1,5	1,2	1,9	1,9	1,9
5. Labour productivity, hours worked							
6. Compensation of employees	D1	927 529	3,9	4,0	4,4	4,4	4,4

(*) thousand, annual average

Table 1d. Sectoral balances (scénario bas)

% of GDP	ESA Code	Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3
1. Net lending/borrowing vis-à-vis the rest of the world			-2,0	-1,8	-1,8	-1,7	-1,6
of which: - Balance on goods and services			-1,6	-1,5	-1,4	-1,3	-1,2
- Balance of primary incomes and transfers			-0,4	-0,3	-0,4	-0,4	-0,4
- Capital account			0,0	0,0	0,0	0,0	0,0
2. Net lending/borrowing of the private sector							
of which: - corporate sector							
- households and NPISHs							
3. Net lending/borrowing of general government			-2,7	-2,5	-1,8	-0,9	0,0
4. Statistical discrepancy			optional	optional	optional	optional	optional

Table 1d. Sectoral balances (scénario haut)

% of GDP	ESA Code	Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3
1. Net lending/borrowing vis-à-vis the rest of the world			-2,0	-1,8	-1,7	-1,5	-1,4
of which: - Balance on goods and services			-1,6	-1,5	-1,4	-1,2	-1,1
- Balance of primary incomes and transfers			-0,4	-0,3	-0,3	-0,3	-0,3
- Capital account			0,0	0,0	0,0	0,0	0,0
2. Net lending/borrowing of the private sector							
of which: - corporate sector							
- households and NPISHs							
3. Net lending/borrowing of general government			-2,7	-2,5	-1,5	-0,2	0,8
4. Statistical discrepancy			optional	optional	optional	optional	optional

Table 2 - General government budgetary prospects (scénario bas)

	ESA Code	2006	2006	2007	2008	2009	2010
		Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending (EDP B.9) by sub-sector							
1. General government	S.13	-48,5	-2,7	-2,5	-1,8	-0,9	0,0
2. Central government	S.1311	-41,3	-2,2	-2,2	-1,8	-1,2	-0,6
3. State government	S.1312						
4. Local government	S.1313	-1,5	-0,1	-0,1	-0,1	-0,1	-0,1
5. Social security funds	S.1314	-7,7	-0,4	-0,1	0,1	0,4	0,6
General government (S13)							
6. Total revenue	TR	901,8	50,6	50,4	50,2	50,3	50,3
7. Total expenditure	TE	950,3	53,3	52,9	52,0	51,1	50,4
8. Net lending/borrowing	EDP B.9	-48,5	-2,7	-2,5	-1,8	-0,9	0,0
9. Interest expenditure (incl. FISIM)	EDP D.41 incl. FISIM	46,6	2,6	2,6	2,6	2,5	2,5
pm: 9a. FISIM							
10. Primary balance		-1,9	-0,1	0,1	0,7	1,7	2,5
Selected components of revenue							
11. Total taxes (11=11a+11b+11c)		491,5	27,6	27,3	27,1	27,1	27,1
11a. Taxes on production and imports	D.2	276,6	15,5	15,4	15,3	15,3	15,3
11b. Current taxes on income, wealth, etc	D5	206,8	11,6	11,4	11,3	11,3	11,3
11c. Capital taxes	D91	8,1	0,5	0,5	0,5	0,5	0,5
12. Social contributions	D61	324,2	18,2	18,2	18,1	optional	optional
13. Property income	D4	12,4	0,7	0,8	0,9	optional	optional
14. Other (14=15-(11+12+13))		73,6	4,1	4,1	4,1	optional	optional
15=6. Total revenue	TR	901,8	50,6	50,4	50,2	50,3	50,3
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		779,8	43,7	43,5	43,3	43,3	43,3
Selected components of expenditure							
16. Collective consumption	P32						
17. Total social transfers	D.62 + D.63	417,6	23,4	23,2	22,9	22,6	22,3
17a. Social transfers in kind	P.31 =D.63						
17b. Social transfers other than in kind	D.62						
18.=9. Interest expenditure (incl.FISIM)	EDP D.41 incl. FISIM	46,6	2,6	2,6	2,6	2,5	2,5
19. Subsidies	D.3	25,9	1,5	1,4	1,3	1,3	1,2
20. Gross fixed capital formation	P51	58,4	3,3	3,3	3,2	3,1	3,2
21. Other (21=22-(16+17+18+19+20))		401,8	22,5	22,4	22,0	21,6	21,2
22=7. Total expenditure	TE	950,3	53,3	52,9	52,0	51,1	50,4

Table 2 - General government budgetary prospects (scénario haut)

	ESA Code	2006	2006	2007	2008	2009	2010
		Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending (EDP B.9) by sub-sector							
1. General government	S.13	-48,5	-2,7	-2,5	-1,5	-0,2	0,8
2. Central government	S.1311	-41,3	-2,2	-2,2	-1,7	-0,9	-0,2
3. State government	S.1312						
4. Local government	S.1313	-1,5	-0,1	-0,1	-0,1	0,1	0,1
5. Social security funds	S.1314	-7,7	-0,4	-0,1	0,2	0,6	1,0
General government (S13)							
6. Total revenue	TR	901,8	50,6	50,4	50,1	50,1	50,1
7. Total expenditure	TE	950,3	53,3	52,9	51,6	50,3	49,2
8. Net lending/borrowing	EDP B.9	-48,5	-2,7	-2,5	-1,5	-0,2	0,8
9. Interest expenditure (incl. FISIM)	EDP D.41 incl. FISIM	46,6	2,6	2,6	2,5	2,5	2,4
pm: 9a. FISIM							
10. Primary balance		-1,9	-0,1	0,1	1,0	2,2	3,3
Selected components of revenue							
11. Total taxes (11=11a+11b+11c)		491,5	27,6	27,3	27,1	27,1	27,0
11a. Taxes on production and imports	D.2	276,6	15,5	15,4	15,3	15,3	15,3
11b. Current taxes on income, wealth, etc	D5	206,8	11,6	11,4	11,3	11,3	11,2
11c. Capital taxes	D91	8,1	0,5	0,5	0,5	0,5	0,5
12. Social contributions	D61	324,2	18,2		18,1	optional	optional
13. Property income	D4	12,4	0,7	0,8	0,9	optional	optional
14. Other (14=15-(11+12+13))		73,6	4,1	22,3	4,0	optional	optional
15=6. Total revenue	TR	901,8	50,6	50,4	50,1	50,1	50,1
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		779,8	43,7	43,5	43,2	43,2	43,2
Selected components of expenditure							
16. Collective consumption	P32						
17. Total social transfers	D.62 + D.63	417,6	23,4	23,2	22,7	22,2	21,7
17a. Social transfers in kind	P.31 =D.63						
17b. Social transfers other than in kind	D.62						
18.=9. Interest expenditure (incl.FISIM)	EDP D.41 incl. FISIM	46,6	2,6	2,6	2,5	2,5	2,4
19. Subsidies	D.3	25,9	1,5	1,4	1,3	1,3	1,2
20. Gross fixed capital formation	P51	58,4	3,3	3,3	3,2	3,1	3,1
21. Other (21=22-(16+17+18+19+20))		401,8	22,5	22,4	21,8	21,3	20,7
22=7. Total expenditure	TE	950,3	53,3	52,9	51,6	50,3	49,2

Table 3. General government expenditure by function

% of GDP	COFOG Code	Year X-2	Year X+3
1. General Public services	1		
2. Defence	2		
3. Public order and safety	3		
4. Economic affairs	4		
5. Environmental protection	5		
6. Housing and community amenities	6		
7. Health	7		
8. Recreation, culture and religion	8		
9. Education	9		
10. Social Protection	10		
11. Total Expenditure (=item 7=26 in Table 2)	TE		

Table 4 General government debt developments (scénario bas)

% of GDP		**2006**	**2007**	**2008**	**2009**	**2010**
1. Gross debt		64,6	63,6	62,6	60,7	58,0
2. Change in gross debt ratio		-2,0	-1,0	-1,0	-1,9	-2,6
Contributions to changes in gross debt						
3. Primary balance		-0,1	0,1	0,7	1,7	2,5
4. Interest expenditure (incl. FISIM)		2,6	2,6	2,6	2,5	2,5
5. Stock-flow adjustment		-2,0	-1,0	-0,4	-0,4	-0,4
of which: - Differences between cash and accruals						
- Net accumulation of financial assets of which : - privatisation proceeds						
- Valuation effects and other						
p.m. implicit interest rate on debt		4,0	4,1	4,0	4,0	4,1
Other relevant variables						
6. Liquid financial assets						
7. Net financial debt (7=1-6)						

Table 4 General government debt developments (scénario haut)

% of GDP		**2006**	**2007**	**2008**	**2009**	**2010**
1. Gross debt		64,6	63,6	61,9	58,9	55,1
2. Change in gross debt ratio		-2,0	-1,0	-1,7	-2,9	-3,9
Contributions to changes in gross debt						
3. Primary balance		-0,1	0,1	1,0	2,2	3,3
4. Interest expenditure (incl. FISIM)		2,6	2,6	2,5	2,5	2,4
5. Stock-flow adjustment		-2,0	-1,0	-0,4	-0,4	-0,4
of which: - Differences between cash and accruals						
- Net accumulation of financial assets of which : - privatisation proceeds						
- Valuation effects and other						
p.m. implicit interest rate on debt		4,0	4,1	4,0	4,0	4,1
Other relevant variables						
6. Liquid financial assets						
7. Net financial debt (7=1-6)						

Table 5. Cyclical developments (scénario bas)

% of GDP	ESA Code	Year X-1	Year X	Year X+1	Year X+2	Year X+3
1. Real GDP growth (%)		2,0 - 2,5	2,0 - 2,5	2 1/4	2 1/4	2 1/4
2. Net lending of general government	EDP B.9	-2,7	-2,5	-1,8	-0,9	0,0
3. Interest expenditure (incl. FISIM recorded as consumption)	EDPD.41+FISIM	2,6	2,6	2,6	2,5	2,5
4. Potential GDP growth (%) (1)		2,1	2,2	2,2	2,2	2,2
contributions:						
- labour		0,2	0,3	0,3	0,3	0,2
- capital		0,8	0,8	0,8	0,8	0,9
- total factor productivity		1,0	1,0	1,0	1,0	1,1
5. Output gap		-0,2	-0,2	-0,1	0,0	0,0
6. Cyclical budgetary component		-0,2	-0,2	-0,2	-0,1	-0,1
7. Cyclically-adjusted balance (2-6) (including one-off)		-2,6	-2,3	-1,6	-0,8	0,0
8. Cyclically-adjusted primary balance (7-3)		0,1	0,3	1,0	1,7	2,5

Table 5. Cyclical developments (scénario haut)

% of GDP	ESA Code	Year X-1	Year X	Year X+1	Year X+2	Year X+3
1. Real GDP growth (%)		2,0 - 2,5	2,0 - 2,5	3,0	3,0	3,0
2. Net lending of general government	EDP B.9	-2,7	-2,5	-1,5	-0,2	0,8
3. Interest expenditure (incl. FISIM recorded as consumption)	EDPD.41+FISIM	2,6	2,6	2,5	2,5	2,4
4. Potential GDP growth (%) (1)		2,2	2,3	2,6	2,7	3,0
contributions:						
- labour		0,3	0,4	0,5	0,6	0,8
- capital		0,8	0,8	0,9	1,0	1,0
- total factor productivity		1,1	1,1	1,1	1,1	1,2
5. Output gap		-0,5	-0,6	-0,1	0,1	0,1
6. Cyclical budgetary component		-0,2	-0,2	-0,2	0,0	0,1
7. Cyclically-adjusted balance (2-6) (inclufing one-offs)		-2,5	-2,2	-1,3	-0,3	0,7
8. Cyclically-adjusted primary balance (7-3)		0,1	0,4	1,2	2,2	3,2

Table 6. Divergence from previous update (scénario bas)

	ESA Code	Year X-1	Year X	Year X+1	Year X+2	Year X+3
Real GDP growth (%)						
Previous update		2,0 - 2,5	2 1/4	2 1/4	2 1/4	
Current update		2,0 - 2,5	2,0 - 2,5	2 1/4	2 1/4	2 1/4
Difference						
General government net lending (% of GDP)	EDP B.9					
Previous update		-2,9	-2,6	-1,9	-1,0	
Current update		-2,7	-2,5	-1,8	-0,9	0,0
Difference		0,2	0,1	0,1	0,1	
General government gross debt (% of GDP)						
Previous update		66,0	65,6	64,6	62,8	
Current update		64,6	63,6	62,6	60,7	58,0
Difference		-1,4	-2,0	-2,0	-2,1	

Table 6. Divergence from previous update (scénario haut)

	ESA Code	Year X-1	Year X	Year X+1	Year X+2	Year X+3
Real GDP growth (%)						
Previous update		2,0 - 2,5	3,0	3,0	3,0	
Current update		2,0 - 2,5	2,0 - 2,5	3,0	3,0	3,0
Difference						
General government net lending (% of GDP)	EDP B.9					
Previous update		-2,9	-2,2	-1,2	0,1	
Current update		-2,7	-2,5	-1,5	-0,2	0,8
Difference		0,2	-0,3	-0,3	-0,3	
General government gross debt (% of GDP)						
Previous update		66,0	64,8	62,6	59,3	
Current update		64,6	63,6	61,9	58,9	55,1
Difference		-1,4	-1,2	-0,8	-0,4	

Table 7. Long-term sustainability of public finances

% of GDP	2000	2005	2010	2020	2030	2050
Total expenditure						
Of which: age-related expenditures						
Pension expenditure						
Social security pension						
Old-age and early pensions						
Other pensions (disability, survivors)						
Occupational pensions (if in general government)						
Health care						
Long-term care (this was earlier included in the health care)						
Education expenditure						
Other age-related expenditures						
Interest expenditure						
Total revenue						
Of which: property income						
of which: from pensions contributions (or social contributions if appropriate)						
Pension reserve fund assets						
Of which: consolidated public pension fund assets (assets other than government liabilities)						
Assumptions						
Labour productivity growth						
Real GDP growth						
Participation rate males (aged 20-64)						
Participation rates females (aged 20-64)						
Total participation rates (aged 20-64)						
Unemployment rate						
Population aged 65+ over total population						

Table 8. Basic assumptions (scénario bas)

	Year X-1	Year X	Year X+1	Year X+2	Year X+3
Short-term interest rate (annual average)	2,1	2,1			
Long-term interest rate (annual average)	3,5	3,9			
USD/€ exchange rate (annual average) (euro area and ERM II countries)	1,28	1,25	1,25	1,25	1,25
Nominal effective exchange rate	108,4	107,7	107,7	107,7	107,7
(for countries not in euro area or ERM II) exchange rate vis-à-vis the € (annual average)					
World excluding EU, GDP growth	4,8	4,6	4,2	4,2	4,2
EU-25 GDP growth	1,4	1,7	2,0	2,0	2,0
Growth of relevant foreign markets	4,2	6,0	6,0	6,0	6,0
World import volumes, excluding EU	7,3	7,7	7,1	7,1	7,1
Oil prices, (Brent, USD/barrel)	55,2	60,0	61,1	62,1	63,2

Table 8. Basic assumptions (scénario haut)

	Year X-1	Year X	Year X+1	Year X+2	Year X+3
Short-term interest rate (annual average)					
Long-term interest rate (annual average)					
USD/€ exchange rate (annual average) (euro area and ERM II countries)	1,28	1,25	1,25	1,25	1,25
Nominal effective exchange rate	108,4	107,7	107,7	107,7	107,7
(for countries not in euro area or ERM II) exchange rate vis-à-vis the € (annual average)					
World excluding EU, GDP growth	4,8	4,6	4,2	4,2	4,2
EU-25 GDP growth	1,4	1,7	2,4	2,4	2,4
Growth of relevant foreign markets	4,2	6,0	6,6	6,6	6,6
World import volumes, excluding EU	7,3	7,7	7,1	7,1	7,1
Oil prices, (Brent, USD/barrel)	55,2	60,0	61,1	62,1	63,2