STABILITY PROGRAMME 2009-2012

France shares the view of its euro area partners that the public finances, structural economic reforms and the growth rate of our economies are closely linked.

The President of the French Republic was elected on this platform and this interrelationship. He addressed the Eurogroup on July 9, less than two months after his election, to stress the unreserved commitment of the new French government to reforms and consolidation of France's public finances. Two months later, a progress report was sent to the Eurogroup to announce the first concrete results of this commitment.

This Stability Programme discusses, adds to and explains many aspects of the progress report presented in September and factors in the parliamentary discussion of the Budget Bill and the Social Security Financing Bill for 2008 and the reforms introduced since.

The strategy followed by the French government is clear: controlling and reducing public spending while stimulating productive capacity. This approach reflects the recommendations of international organisations and most economists.

The purpose of the government's economic strategy of stimulating productive capacity is to restore full employment in order to boost growth over the long term. The structural adjustments adopted to achieve a sustainable recovery of growth are intended to promote the consolidation of the public finances.

The current public finance strategy is more clearly aimed at controlling public expenditure than any strategy pursued by France in the past. The commitment made by the President of the Republic to the Eurogroup on July 9 was to halve the real growth rate of general government expenditure, the only way to reduce public debt significantly and to preserve equity between the generations.

Combination of the government's economic and budget strategies will enable France to achieve the two objectives announced by the President of the French Republic to the Eurogroup: the first is to balance public finances by 2010, assuming growth of 3% or more during this period (or to balance public finances no later than 2012 in the case of lower growth); the second is to reduce public debt to 60% of GDP during the same period.

We are aware of the interest shown by our European partners in the recent changes in French policy. In economic terms, these changes largely reflect the Lisbon strategy. The many reforms described in this report illustrate the will of the French government to make rapid headway. Its wish to break with the past is courageous. It runs counter to certain entrenched interests but it is also massively supported by the vast majority of the French.

1. Economic outlook

1.1. Current situation and short-term outlook (2007-2008)

After the blip in the autumn of 2006, French economic growth picked up sharply, culminating in the third quarter of 2007 with an annualised growth rate of nearly 3% after a disappointing second quarter (+0.3%, in line with the average of the euro area). Growth was primarily driven by buoyant household consumption, with an annualised growth rate of almost 3% in the third quarter of 2007, up from just over 1% in the second quarter. Business investment also remained on track with growth carry-over of nearly 4.75% at the end of the third quarter of 2007, already exceeding the growth recorded in 2005 and 2006. In an international environment hurt by the American slowdown but still dynamic in Asia, the annualised growth rate of French exports increased by more than 6% in the first three quarters of 2007, contrasting favourably with the nearly flat performance recorded in the second half of 2006.

The labour market is improving significantly. The first three quarters of 2007 saw the creation of 212,000 market-sector jobs, already well beyond the total for 2006 (188,900 new jobs for the year). The unemployment rate, still 9.1% in the first quarter of 2006, dropped significantly to 8.1% in the second quarter of 2007.

The available economic information for the end of 2007 remains optimistic. Figures for the synthetic indicator of the industrial economic climate remain at their highest since the beginning of the decade. Fourth-quarter activity should moreover be underpinned by the first effects of the measures adopted under the new law on labour, employment and purchasing power ("TEPA law"). French growth in 2007, dented by disappointing second-quarter figures, can be expected to nudge the lower end of the bracket of 2% - 2.5% forecast in the Budget Bill for 2007.

France's international environment is likely to be stronger in 2008 as the economy begins to absorb the impact of the adjustments in the US real-estate sector. Asian activity should remain buoyed by growth in China and to a lesser extent in India. Growth in the euro area should slow down to 2.25% after 2.5% in 2007.

In France, growth in 2008 should be underpinned by the recovery of global trade, the first impact of the structural reforms implemented on the labour and goods markets and by the impact of the measures introduced by the law on labour, employment and purchasing power of 21 August 2007. Household purchasing power should be lifted by the upturn in employment, wage growth and lower charges on overtime. Once again buoyed by domestic demand, French growth should remain within in a bracket from 2% to 2.5% in 2008 with a median of 2.25%.

This is the median growth scenario for 2007 and 2008, considered most probable. It does not factor in major unforeseen developments. Stronger growth of activity is possible under the combined impact of faster structural growth of labour productivity in the euro area and lower interest rates. However, a less optimistic scenario cannot be ruled out entirely, e.g. owing to the potential contagiousness of the financial tensions observed in the summer of 2007.

1.2. Medium-term outlook (2009-2012)

The government has considered two macroeconomic scenarios for its pluriannual budget estimates.

The first, or baseline scenario, is built on a growth rate of 2.5% p.a. from 2009 onwards (after a range of 2% - 2.5% and a median of 2.25% in 2008) and a gradual increase in potential growth up to 2.5% by 2012.

This scenario factors in the consequences of the ageing process with the retirement of the first large groups of baby boomers, automatically reducing the economically active population. Moreover, it especially factors in the impact of the structural reforms on the labour market and on the goods and services markets, expected to enhance total factor productivity, and a sharp drop in the equilibrium unemployment rate, which would bring the French economy closer to full employment by the end of 2012.

Lastly, potential growth will be supported by reversal of the drop in the number of hours worked per capita observed since the beginning of the 1980s. The turnaround will be helped by the new rules on tax and social security exemptions for overtime and extra hours worked, effective from 1 October 2007.

The second scenario assumes that the government's structural reforms will have a faster impact. In this scenario, annual growth will already reach 3% in 2009 while underlying potential growth will become gradually stronger and also reach 3% by 2012.

This scenario assumes a larger increase in the employment rate than the first scenario. This increase would combine with the decrease in the structural unemployment rate mentioned in the first scenario. In the second scenario, the employment rate would come closer to the Lisbon objective of 70%. Potential growth would further be stimulated by faster accumulation of capital.

Table: macroeconomic scenario, 2009-2012

Average for 2009-2012	**Low-growth scenario**	**High-growth scenario**
GDP	2.5%	3.0%
Domestic demand	2.4%	2.9%
Household spending	2.8%	3.1%
General government spending	0.5%	0.5%
Gross fixed capital formation	3.2%	4.8%
o.w. businesses [1]	*3.9%*	*6.7%*
Contribution from inventories	0.1%	0.1%
Contribution from foreign exchanges	0.0%	0.0%
Exports	6.6%	7.1%
Imports	6.2%	6.7%
GDP deflator	1.6%	1.6%
Consumer price index	1.6%	1.6%
Private-sector wage bill	4.4%	5.0%
Average nominal private-sector wage per capita	3.5%	3.5%
Dependent employment in the private sector	0.9%	1.6%

[1] Non-financial companies and individual enterprises.

2. General government balance and debt

The President of the Republic presented France's objectives in this area to the Eurogroup on July 9: balancing public finances by 2010 if growth permits (in particular by using surplus revenue to deficit reduction only) and otherwise by 2012.

In accordance with the commitments accepted at the Eurogroup meeting of July 9, the French government gave its European partners at the Eurogroup meeting of September 14 a progress report on the preparation of the Stability Programme outlining France's strategy for its public finances and structural economic reforms.

Our public finance policy is transparently designed to control public expenditure within a very broad perimeter. The real growth rate of general government expenditure will be halved from 2009 onwards. Tight control of this magnitude is necessary to absorb our deficit and to reduce public debt significantly.

The combination of the government's economic and budget strategies will enable France to achieve the two objectives announced by the President of the French Republic to the Eurogroup: the first is to balance public finances by 2010 if growth permits; the second is to lower public debt to 60% of GDP during the same period.

Table 2: General government deficit and debt

	points of GDP	2008	2009	2010	2011	2012
Low-growth scenario	Public balance	-2.3	-1.7	-1.2	-0.6	0.0
	Public debt	64.0	63.2	61.9	60.2	57.9
High-growth scenario	Public balance	-2.3	-1.3	-0.3	0.5	1.3
	Public debt	64.0	62.5	60.0	57.2	53.4

2.1. Changes by sub-sectors of government

The financial situation of the general government would primarily be improved by lowering the **State**'s borrowing requirement by 1.4 point of GDP between the end of 2008 and the end of 2012 in the low-growth scenario and by 1.9 point of GDP in the high-growth scenario (see table 3). In order to achieve this reduction, State expenditures in real terms would be kept constant in both scenarios. This expenditure rule of “zero growth in real terms” will be applied to an enlarged perimeter of expenditures including standard budgetary expenditures, levies on revenue for local authorities and the European Union as well as taxes newly earmarked to specific operators and replacing charges in the State budget. Thus, the new expenditure rule is more stringent than the previous one. The State will therefore have to make more effort to comply with the new rule which will have a bigger impact on the real dynamic of expenditure.

The effort to establish lasting control over expenditure will be buttressed by a more effective and streamlined central government organisation, resulting from the reforms adopted as part of the general review of public policies (referred to as the "RGPP" - *révision générale des* *politiques publiques*), inter alia inspired by the Canadian drive to bring expenditure under control in the 1990s. The purpose of the RGPP is to replace marginal optimisation of resources with genuine strategic analysis. This approach will make it possible not to replace one in every two retiring civil servants in central government without lowering the quality of public service (see Sections 4 and 5).

As regards tax revenues, we have opted for a conservative estimate of tax elasticity. Consequently, the average growth of tax revenues is projected to match the trend of activity. More precisely, revenues are assumed to parallel activity in the low-growth scenario and to grow at a slightly higher pace in 2009 and 2010 in the high-growth scenario, which postulates a more dynamic growth (with an elasticity of only 1.1).

Thanks to the government's expenditure control, the balance of the **social security funds,** already close to equilibrium in 2008, would subsequently turn to a surplus of 0.5 point of GDP by 2012 in the low-growth scenario. In the high-growth scenario, additional revenue and a more significant decrease in unemployment benefits should strengthen the recovery and so lift the balance by an additional 0.5 point in 2012. This said, the general social security regime is expected to remain in deficit, even in the high-growth scenario, while health insurance should return to break-even in 2012 in the high-growth scenario. In the low-growth scenario, the same outcome would call for additional efforts to limit the national healthcare expenditure target – "ONDAM" - *Objectif National des Dépenses d'Assurance Maladie* – to a growth of 1.5% p.a in real terms. These financial forecasts reflect the current trend for family allowances and old-age insurance benefits. They do not factor in any measures which may be implemented following the retirement review in 2008.

The fiscal surplus of **central government agencies** would improve by 0.2 point of GDP from 2009 to 2012, thanks to the debt reduction of the defeasance structures. The pension reserve fund (FRR - *Fonds de Réserve pour les Retraites*) would continue to build up a surplus.

Lastly, the **local governments** would return to break-even in 2012 in the baseline scenario, i.e. an improvement of 0.2 point of GDP during the period from 2008 to 2012. In the high-growth scenario, the additional revenue would allow local authorities to generate a slight surplus (0.2 point of GDP). As regards local tax revenues, both scenarios are based on the conservative assumption that the tax rates will remain the same. The balance would primarily be improved by tight control over expenditure, which would increase at a slower pace than GDP growth. In line with the traditional electoral cycle of local government expenditure, investment would be lower at the start of the projected period. Moreover, the recently created *Conférence Nationale des Exécutifs* (National Conference of Executives) will involve local governments more closely in State decisions liable to have a financial impact on their accounts, particularly in the area of safety and environmental regulations. This will allow them to maintain tighter control over their expenses. In return, State financial transfers under the new stability contract will be indexed to prices only, which would share more evenly the expenditure burden between the State and local constituencies. This is expected to reduce the momentum of local expenditure.

Table 3: Deficit by sub-sector of the general government

	points of GDP	2008	2009	2012	2011	2012
Low-growth scenario	General government	-2.3	-1.7	-1.2	-0.6	0.0
	State	-2.2	-1.9	-1.6	-1.2	-0.8
	Central government agencies	0.1	0.2	0.2	0.3	0.3
	Local governments	-0.2	-0.2	-0.1	0.0	0.0
	Social security funds	0.0	0.1	0.3	0.4	0.5
High-growth scenario	General government	-2.3	-1.3	-0.3	0.5	1.3
	State	-2.2	-1.7	-1.1	-0.7	-0.3
	Central government agencies	0.1	0.2	0.2	0.3	0.3
	Local governments	-0.2	-0.1	0.0	0.1	0.2
	Social security funds	0.0	0.3	0.5	0.8	1.0

2.2. During the period from 2009 to 2012, the average annual improvement in the structural balance[2] generated by public expenditure control would range from 0.6 to 0.8 point of GDP, depending upon the scenario.

In both scenarios, real public expenditure would increase much more slowly than potential growth during the period from 2009 to 2012 (on average 1.1% versus potential growth of nearly 2.4% p.a. in the low-growth scenario and average potential growth of 2.8% in the high-growth scenario), accounting for nearly the entire structural improvement in the public accounts.

In this case, the structural improvement during the period from 2009 to 2012 would average nearly 0.6 point p.a. in the low-growth scenario. In the high-growth scenario, it would reach 0.8 point (see table 4). During the period from 2006 to 2008, the structural improvement (excluding one-off measures), should average about 0.5 point of GDP p.a.

[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.

Table 4: Change in the general government balance (in points of GDP): low-growth scenario and high-growth scenario

	points of GDP	**2008**	**2009**	**2010**	**2011**	**2012**
Low-growth scenario	Public balance	-2.3	-1.7	-1.2	-0.6	0.0
	Cyclically-adjusted balance (ex. one-off measures)	0.1	0.5	0.5	0.6	0.6
High-growth scenario	Public balance	-2.3	-1.3	-0.3	0.5	1.3
	Cyclically-adjusted balance (ex. one-off measures)	0.1	0.8	0.8	0.8	0.8

2.3. This strategy should allow France to bring public debt down below the threshold of 60% of GDP by 2010 if growth permits, and by 2012 otherwise.

The government's debt reduction strategy already allowed France to lower its debt ratio by 2.5 points of GDP in 2006, particularly by divesting general government non-strategic assets and maintaining an active cash management strategy. This approach will be continued. While debt is expected to remain flat in 2007 (with the public balance at the level which stabilises the debt ratio and limited asset disposals owing to the elections and tensions in the financial markets), it should once again decrease slightly in 2008 and more significantly in subsequent years, as the gap between the actual balance and the balance stabilising the debt ratio grows. These efforts will be maintained during the period from 2009 to 2012, allowing France to meet its commitment to return the general government balance to equilibrium and the public debt ratio to below the threshold of 60 points of GDP by 2012 at the latest and as early as 2010 in the high-growth scenario.

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 in which the French economy operates, which naturally remain subject to a number of risks. The international scenario underlying the projections is as follows:

- growth in global activity and global trade will remain close to their long-term trend in the baseline scenario and will be slightly more dynamic in the high-growth scenario, enhanced by the additional growth (0.4 point p.a.) generated in the EU by the implementation of structural measures intended to support growth (Lisbon strategy). World demand for France should thus increase at a growth rate of 6.3% p.a. in the low-growth scenario and 6.5% in the high-growth scenario.
- the exchange rate between the euro and the dollar is conventionally expected to remain at €1 = $1.37 during the entire period (also in line with the Budget Bill for 2008);
- in nominal terms, oil prices will remain at USD73/bbl through 2008 (consistent with the Budget Bill for 2008 presented in September); in real terms, they will remain at this level in subsequent years (i.e. the nominal price per barrel will increase by 1.6% p.a. from 2009 to 2012).

Our assumptions for the international environment, adopted on 26 September, are slightly different from those of the Commission, adopted in the beginning of October. 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 a change in the 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 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.

Table 5: 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 %)

	2009	2010	2011
GDP	0.2	¼	¼
Total employment (thousands)	16	37	42
Consumer prices	0.0	0.0	0.1
Government net lending (in points of GDP)	0.0	0.1	0.1

[1] Lasting increase of 1% in world demand occurring in early 2009.

A 1% increase in world demand for French goods and services could for example be due to a one-off increase in US growth of 0.66 point, taking into account its dissemination to the rest of the world economy. In the case of a stronger-than-expected slowdown of global demand, the orders of magnitude would be correspondingly lower.

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) but a smaller increase in expenditure. This would tweak overall government net lending by about 0.1 point of GDP.

b) Impact of a lasting increase in oil prices assuming no policy response

An increase in oil prices would raise imported inflation, which would directly lift consumer prices at constant exchange rates. Apart from this mechanical effect, inflation would also be driven by a corresponding rise in production costs and agreement to larger wage hikes to offset all or part of increased oil prices. Higher consumer prices and lower corporate profitability would combine to weaken activity.

Assuming constant European macroeconomic policies, traditional macroeconomic models suggest that a lasting increase in crude oil prices by $10 - e.g. from $70 to $80 - would lift activity by about 0.5 point and lower consumer prices by about 1 point after two to three years.

Table 6: Impact of a $10 increase in oil prices on the French economy [(2)]

(deviation from baseline scenario as a %)

	2009	2010	2011
GDP	-0.25	-0.5	-0.5
Consumer prices	+0.4	+0.8	+1.0
Government net lending/borrowing (in points of GDP)	-0.0	-0.3	-0.2

[(2)] Lasting increase of Brent price from $70 to $80 per barrel at the start of 2009.

A higher price per barrel should have a mixed impact on public revenue. On the one hand, weaker economic activity would have a negative effect on the general government's tax revenue until 2009, particularly revenue from income tax. On the other hand, revenues which are sensitive to inflation (such as VAT) would increase. The net impact on revenue would be roughly neutral. By contrast, the impact of increased spending, largely due to higher inflation and a deteriorating labour market, would already be felt in the second year. As a result, the public balance would decline by a significant 0.3 point of GDP in the second year and 0.2 point in the third.

c) Impact of a 10% appreciation of the euro against other currencies assuming unchanged economic policy

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

During the first 10 months of 2007, the effective exchange rate of the euro rose by 2.0% for France.

As in other countries of the euro area, inflation would be kept down by appreciation of the effective exchange rate.

Table 7: Impact of a 10% increase in the euro exchange rate on the French economy [(3)]
(deviation from baseline scenario as a %)

	2009	2010	2011
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 points of GDP)	-0.2	-0.3	-0.5

[(3)] At constant nominal interest rates.

Appreciation of the euro would weaken activity and inflation and consequently have a significant negative impact on most taxes and therefore on public finances. Moreover, a higher exchange rate would help 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 point of GDP from the first year. This phenomenon would be partly offset by lower expenditure (0.1 point of GDP during the first year) given that most expenditures are sensitive to inflation.

d) Impact of a 100 bp decrease in interest rates

A slower than expected recovery could spark a faster decrease of euro area interest rates. A decrease in both short and long term interest rates would buoy activity in three ways:

- capital expenditure would be supported by rate cuts: lower financial charges would strengthen corporate solvency and capital returns would improve;
- investment in housing would also be stimulated by cheaper credit; the rate cuts would moreover promote consumption over savings (substitution effect);
- if the cut in interest rates lowered the exchange rate, it would also boost activity through enhanced competitiveness vis-à-vis countries outside the euro area.

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

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

Table 8: Impact on the French economy of a 100 bp cut in interest rates in the euro area [(4)]

(deviation from baseline scenario as a %)

	2009	**2010**	**2011**
Without appreciation of the euro			
GDP	0.2	0.5	0.8
Total employment (thousands)	10	60	100
Consumer prices	0.0	+0.1	+0.2
Government net lending/borrowing (in points of GDP)	0.0	+0.2	+0.4

[(4)] Lasting 100 bp decrease in short and long term interest rates at the start of 2009 at constant exchange rates.

Public finances would be helped two ways by interest rate cuts. First, the cost of general government debt would go down due to lower financing and refinancing costs. Secondly, public accounts would improve owing to additional activity.

Stronger growth is mechanically reflected in higher tax and social security revenue. Moreover, nominal expenditure would be reduced by a better labour market and lower interest charges (about €1 billion less interest in the first year and about €3 billion in the third). However, nominal expenditure would be marginally raised by the sensitivity (or even the indexation) of most expenses to inflation (wage bill, benefits, etc.)

3.2. Comparison with previous programme

The updated version of the Stability Programme confirms the government's intention to restore the balance of public finances as rapidly as possible in a credible manner. By 2010, if economic growth reaches 3% or more, the public balance will be close to equilibrium and debt will be less than 60% of GDP. If economic growth is lower (low-growth scenario), the public balance will reach its equilibrium and debt will be under 60% of GDP by 2012 (see tables below).

Table 9a: Programme for 2006

	points of GDP	2007	2008	2009	2010	2011	2012
Low-growth scenario	Public balance	-2.5	-1.8	-0.9	0.0	n.a.	n.a.
	Public debt	63.6	62.6	60.7	58.0	n.a.	n.a.
High-growth scenario	Public balance	-2.5	-1.5	-0.2	0.8	n.a.	n.a.
	Public debt	63.6	61.9	58.9	55.1	n.a.	n.a.

Table 9b: Programme for 2007

	points of GDP	2007	2008	2009	2010	2011	2012
Low-growth scenario	Public balance	-2.4	-2.3	-1.7	-1.2	-0.6	0.0
	Public debt	64.2	64.0	63.2	61.9	60.2	57.9
High-growth scenario	Public balance	-2.4	-2.3	-1.3	-0.3	0.5	1.3
	Public debt	64.2	64.0	62.5	60.0	57.2	53.4

In the low-growth scenario, balance is restored two years after the projections in last year's programme. **This delay needs to be qualified in view of the following factors: the government reform programme and the measures undertaken to stimulate potential growth and therefore to bolster the path of France's public finances; the adoption of assumptions intended to strengthen the credibility of the Stability Programme; and the concrete measures already included in the Budget Bill and the Social Security Financing Bill for 2008 (see below)**:

- the short-term impact of the law on labour, employment and purchasing power (TEPA) on the public balance would bolster French growth (actual and potential);
- the annual improvement in the public balance from 2009 onwards, even if slightly less than in the previous programme, reflects more cautious public spending assumptions (particularly in the area of social security expenditure), which strengthens further the credibility of the programme, thus heightening its likelihood of success.

The French government is committed to these objectives for the entire term of its legislature. In addition to maintaining control over public expenditure, it plans to use revenue from growth exceeding the assumptions underlying the budget to debt reduction as long as debt remains above the threshold of 60% of GDP.

4. Public finance trend

4.1. Public spending

Table 10: Increase in public spending during the 2009-2012 period

(in real terms, average p.a.)	Low-growth scenario	High-growth scenario
Public expenditure	1.1%	1.1%
State (national accounting)	0.3%	0.3%
State in budget accounting	*0.0%*	*0.0%*
Central government agencies	0.2%	0.2%
Local governments	1.4%	1.4%
Social security funds	1.9%	1.9%

The entire general government - i.e. the State, the social security funds and the local governments - will contribute to an unprecedented effort to rationalise public spending, whose average annual growth rate will be halved during the programme period (down to 1.1% from an average of 2.25% in the last ten years). Expenditure is therefore expected to fall by 2.7 points of GDP during the period from 2008 to 2012, lowering public expenditure to less than 50 points of GDP.

State expenditure

The Budget Bill for 2008 reflects a spending increase of no more than projected inflation ("zero volume"). Growth of State expenditure will be capped at this maximum during the entire period, i.e. until 2012. Note that our inflation forecast is conservative and lower than the rate projected for the previous programme and that the zero volume spending growth norm is applied to a broader perimeter, which not only includes the net expenditure of the State's general budget but also:

- levies on revenue in favour of the European Union and local authorities (€69.6bn in the Budget Bill for 2008), mainly treated as State expenditure in the national accounting. In other words, the new expenditure scope considered for the State budget management has become closer to the definition of State public expenditure in the national accounting;
- transfers of new revenues to external entities (or increases in taxes already transferred) where they are substituting for budgetary expenditure. Such transfers will henceforth be included in the expenditure rule, limiting the impact of the transfer of State expenditure to operators[3].

Thus, a larger effort will be required to control expenditure than assumed in 2007. Despite the 1% decrease projected according to the previous expenditure rule, expenditure in the Initial Budget Act for 2007 would have increased by 0.2% according to the new "enlarged" norm. The stability projected for 2008 is therefore more stringent in real terms (comparison between Initial Budget Acts without changing the inflation assumption in the Budget Bill).

[3] which are mainly central government agencies.

Non-discretionary expenditure (including debt service and civil service pension payments) can be expected to increase significantly:

Table 11: Comparison of trends in terms of annual average and in real terms (like-for-like perimeter)

	2009-2012 Low-growth scenario	2009-2012 High-growth scenario
Expenditure under the general budget (excluding levies on revenue)	0.0%	0.0%
o.w. pension expenditures	3.4%	3.4%
o.w. debt service	2.4%	2.2%

During the period from 2000 to 2007, the average growth rate of debt service was kept down to 1.7% (in current euros) owing partly to low interest rates (partially linked with low inflation). This context gave the State the benefit of high refinancing savings. However, this period is has run its course, because of the rise of interest rates (see table 11), which will make the cost of debt service more dynamic: only debt reduction will therefore allow the government to bring down the very high proportion of interest payments in the State budget (almost 15%).

Pension expenditures are essentially determined by the following two factors:

- a price effect, reflected in the revaluation of pensions, which have been indexed to inflation since the reform of 2003 (thus decoupling their trend from wages);
- a volume effect, linked to the increasing number of pensioners, i.e. the annual gap between the number of retiring people and the number of deaths.

The trend of these expenditure items shows that future compliance with the spending growth norm calls for a real decrease in other general budget expenditures, i.e. a decrease of 1.3% p.a. in the low-growth scenario and 1.2% in the high-growth scenario (given a slightly slower increase in debt service owing to a faster reduction of the deficit).

The State's wage bill will be held down to a large extent by the fact that one out of every two civil servants going into retirement will not be replaced. The Budget Bill for 2008 projects faster staff cuts with the elimination of almost 23,000 full-time equivalent jobs, expected to generate gross savings of about €700m a year. The principle that half of all retiring civil servants must not be replaced will be applied during the period from 2009 to 2012.

Nevertheless, this pace can only be achieved by overhauling the internal organisation and ways of working of the ministries. The government will need to further optimise the efficiency of general budget expenditure in other areas (operating and intervention expenses), which will be achieved by structural reforms designed to produce substantial savings. This is the purpose of the ongoing general review of public policies (see the paragraph entitled "Governance of public finances").

Expenditure of the social security

In real terms, the expenditure of the social security funds should increase by 1.9% p.a. from 2009 to 2012, after a 1.6% increase in 2008. This growth rate factors in a limited increase in national healthcare expenditure (at most 2% in real terms from 2009 onwards, after 1.2% in 2008), relatively strong but temporary growth of pension expenditures despite the 2003 reform, slow growth of family allowances and declining unemployment benefits.

Table 12: Average trend of social security in nominal terms (2009-2012)

	Low-growth scenario	High-growth scenario
ONDAM	3.6	3.6
Family-housing	2.2	2.2
Old age	4.7	4.7
Unemployment	-4.0	-5.0
Total expenditure	**3.5**	**3.5**

Health benefits:

After three years of slow growth (2004-2006), ONDAM expenditure regained some momentum in 2007 (estimated at 4.2%), though well below the soaring increases observed prior to the 2004 reform (about 6 to 7% p.a.).

Towards the middle of the year the government activated the alert procedure in order to counter the overrun of the objective set by the Social Security Financing Act for 2007. As part of this procedure, it adopted a series of savings measures to cut spending by €1.2bn for the year (of which €0.4bn will already have an impact on 2007). These savings measures are part of the government's structural policy to control and improve the efficiency of healthcare spending, particularly reduced reimbursements for non-managed care, lower rates for certain radiological and biological services and further efforts to cut down unnecessary prescriptions.

The plan for 2008 is to step up these actions and to implement on 1 January 2008 a deductible for three types of expenses (with an annual cap of €50), i.e. pharmaceuticals (€0.5 per box), paramedical treatment (€0.5 per treatment) and health transportation (€2 per transportation). These deductibles will be used to finance key public health priorities such as the fight against cancer and Alzheimer's and improved palliative treatment. All these measures - mainly deductibles and efforts to cut down unnecessary prescriptions - are designed to raise the responsibility of the stakeholders - professionals and households - for fast-growing expenditure items. Deductibles alone will have a net yield of €0.85bn (not counting their moderating impact on behaviour, which could further enhance their financial impact). This will be in addition to the twelve-month effect of the series of measures adopted in the summer of 2007.

The Social Security Financing Bill for 2008 includes a series of structural provisions designed to bring down expenditure in the medium term, including better coordination of healthcare, the launch of a medical demographics regulation process, pilots to try out methods of alternative remuneration to the fee-for-service system, the development of personal contracts between the health insurance system and doctors, extension of the system to reach a prior agreement with practitioners and strengthening of economic/medical expertise capacities in the High Authority for Health.

Regarding healthcare establishments, the Social Security Financing Bill proposes to raise activity-based financing of public hospitals to 100% in 2008 (versus 50% in 2007). This measure will generate new resources for dynamic healthcare establishments and provide the least effective establishments with a strong incentive to adopt the necessary adjustment measures.

Lastly, ongoing supervision of the ONDAM throughout the year was tightened by the introduction of a contractual period of 6 months for the revaluation of fee rates. Application of these measures could moreover be suspended when the ONDAM target is likely to be overrun (in the meaning of the alert procedure).

The combination of these measures - Alert Committee and Social Security Financing Bill for 2008 - should allow the government to limit the nominal increase in ONDAM expenditure strictly to 2.8% in 2008 (1.2% in real terms). It is assumed that real growth will not exceed 2% p.a. (i.e. 3.6% in real terms) during the period from 2009 to 2012. This is an ambitious but realistic objective. Differences in productivity between healthcare establishments, healthcare consumption gaps between regions, and divergences between medical or consumption practices with countries comparable to France show the existence of savings opportunities. The measures included in the Social Security Financing Bill for 2008 reflect this effort to change behaviour and to introduce new regulation mechanisms. In a variant analysed in the pluriannual projections attached to the Social Security Financing Bill for 2008, additional regulation efforts would make it possible to reduce the increase in ONDAM expenditure to 1.5% p.a. in real terms during the period from 2009 to 2012.

Old-age benefits:

The 2008 pension review provided for in the 2003 reform will be key to tackling the large deficits of the retirement regimes expected by the Pension Steering Council (COR - *Conseil d'Orientation des Retraites*) out to 2020 and 2050. In the low-growth scenario, the deficit for the general old-age insurance regime would be roughly €10bn by 2012.

The ageing process should keep the trend of retirement benefits relatively dynamic during the programme period. Nevertheless, growth should be slightly less than the soaring increase observed or projected during the period from 2006 to 2008 (with an average of 3.3% p.a. in real terms), driven by the combined impact of two specific factors: the success of the early retirement system for people with long careers and the retirement of the first generations of baby boomers.

Starting 2009, the gradual extension of the contribution period (one additional quarter for every year, rising to 41 years of contributions by 2012) and the measures adopted to promote employment for older people should keep the average annual increase in old-age benefits at 3.1% in real terms during the period from 2009 to 2012. This average trend does not factor in any consolidation measures taken after the pension review in 2008, whose purpose is to determine what is needed to achieve a lasting equilibrium for the old-age insurance system.

Lastly, negotiations are underway to adjust retirement conditions under the special civil service regimes.

Other social security benefits

In 2008 and after, family benefits can be expected to increase relatively slowly as the child-rearing allowance reaches maturity and the existing increases in family allowances (at 11 and 16 years of age) are replaced by a single increase at 14 years.

Lastly, improvement of the French labour market should help reduce unemployment benefits in proportion to the contemplated growth scenario (-4.0% in the low-growth scenario and -5.0% in the high-growth scenario).

Local government expenditure

Following the electoral cycle, investment by local governments should continue to decline in 2009 and pick up in 2010. The spending growth rate should be limited, helped by closer involvement of local governments in relevant State decisions in decentralised areas of authority, management of regional and local public functions and the development and application of technical and environmental standards. Appropriation transfers from the State to local governments under the new stability contract would be pegged to inflation.

Expenditure of central government agencies

In both scenarios, the real expenditure of the central government agencies would on average increase by 0.2% 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

The Government's objective is to reform taxes and social security contributions in order to make the French economy more competitive and a source of stronger growth. The tax measures introduced by the law on labour, employment and purchasing power adopted in July have already significantly lowered tax and social security rates. Their purpose is to support growth by improving the value of labour and increasing purchasing power and by making the economy more competitive and attractive. They include exemption from social security charges and income tax on overtime and student jobs, an aggregate tax cap at 50% of income, tax relief on property loan interest, and lower succession and gift duties.

In the months ahead, the general review of taxes and social security contributions (RGPO - *Révision Générale des Prélèvements Obligatoires*) will provide the groundwork for a radical reform of the French tax system in order to make it more effective and more labour-friendly.

State revenues

The tax revenue projections include in particular the impact, from 2009 onwards, of the tax measures already adopted in August 2007 (implementation of the law on labour, employment and purchasing power).

To boost private R&D and to put taxes at the service of long term growth, the Budget Bill for 2008 proposes a reform of the research tax credit (CIR - *Crédit d'Impôt Recherche*), the first step towards a policy designed to strengthen the incentive to engage in R&D and innovation. The purpose of the reform is to strengthen and simplify the existing mechanism. The proposal in the Budget Bill limits the assessment basis of the CIR to the volume of corporate R&D spending (instead of its change) in order to encourage long-term investment in innovation.

The apparent elasticity of tax revenue has for several years exceeded unity. However, the low-growth scenario conservatively forecasts a unit average during the period from 2009 to 2012. The high-growth scenario is based on higher elasticities at the start of the period: elasticities are slightly higher than 1 in 2009 and 2010 to reflect the increased dynamism of activity.

Non-tax revenue projections for the period from 2009 to 2012 are conservatively lower than the levels forecast for 2007 and 2008.

Revenues of social security funds

For the period from 2009 to 2012, revenues of the social security funds would rise at an average annual rate of about 4.1% in the low-growth scenario and around 4.6% in the high-growth scenario.

In line with the years 2007-2008, the revenues of the social security funds would benefit from a dynamic assessment basis for social security levies. During the period from 2009 to 2012, the private sector wage bill would rise by 4.4% in the low-growth scenario and 5.0% in the high-growth scenario, after 4.8% in both 2007 and 2008.

Revenues of the social security funds would further be lifted by the measures included in Social Security Financing Bill for 2008 to stimulate employment of older people, including alignment of contributions for automatic early-retirement compensation with those for full-retirement compensation and an increase in social security levies on early retirement at companies. In 2008, revenues will moreover be stimulated by the introduction of a social security withholding on dividends.

Table 13: Average trend in nominal terms of social security revenue (2009-2012)

	Low-growth scenario	High-growth scenario
Contributions	4.3	4.8
Tax revenues	3.6	4.1
Transfers	4.1	4.6
Total revenues	**4.1**	**4.6**

Furthermore, new transfers of State tax revenues will be used to offset the Fillon exemptions in 2007 and exemption from social security contributions on overtime. These revenues should increase at almost the same pace as GDP.

Local government revenues

Taxes and social security contributions 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 consequent rise in the dependency ratio, the weight of certain expenses in national income, particularly pensions and health care, can be expected to increase in the years ahead. This trend will be exacerbated by the fact that modernisation of our social security systems has been postponed for too long.

In recent years, two major reforms were launched to cope with the ageing of the population: the retirement reform of 2003 and the health insurance reform of 2004.

The government intends to step up and extend structural reforms. The goal set by the President of the Republic is to implement large-scale structural reforms in order to raise the growth rate of the French economy by at least one point.

The French economy has a considerable margin for improvement. Consider, for instance, the level of per-capita GDP, which is significantly below that of the United States and our most dynamic European partners. The reasons why France is trailing the most advanced countries are well known. France's per-capita GDP is simply held back by failure to optimise our labour resources.

Per-capita wealth could be boosted by about 25% by raising France's low employment rate - especially among young and older workers - and average hours worked, among the lowest in the industrialised world.

France's challenge is therefore to make better use of labour resources while remaining at the vanguard of global innovation and technology. Achievement of this two-fold objective should allow France to gain one additional point of growth a year. This may seem an ambitious objective but it is not impossible: according to the IMF, if France were to approach the best international standards on the goods and services market and on the labour market, GDP would be raised by almost 16 points in the long term[4].

France is taking up this challenge with a comprehensive strategy. Better use of labour resources in France calls for reform of the labour market but not only. Broader reforms - particularly measures to make the products market more competitive - will raise the level of employment in the economy. Similarly, public and private investment in R&D needs to be stepped up and businesses need to be given an incentive to innovate in order to keep France at the leading edge of global technology.

These structural adjustments will trigger a lasting turnaround and so help the consolidation of public finances.

In July 2007, the government launched a range of reforms intended to:

- improve purchasing power and stimulate supply by:

    - foregoing revaluation of the guaranteed minimum wage (SMIC) in July 2007 beyond the indexation mechanism provided for by law. This decision encourages employment of unskilled labour and reflects the government's wish to implement a policy with a positive impact on all wages, not just the minimum wage.

    - launching in October a dialogue on employment, income and purchasing power with the unions, particularly ways to determine the minimum wage and the reform of minimum social benefits in order to help our poorest citizens to find employment;

[4] Everaert L., W. Schule, *"Structural Reforms in the Euro Area: Economic Impact and Role of Synchronization Across Markets and Countries"*, IMF, Working Paper No 06/137, June 2006.

- the bill currently before the National Assembly, intended to make the mass retail sector more competitive by adding all annual listing fees into the calculation of the loss-leading threshold. This is the second step of the reform introduced by the Galland law, of which the first step (Dutreil law of 2005) slowed down consumer price increases[5] and so provided support for household purchasing power. A further step has been announced for the months ahead, which will focus on the right of suppliers and retailers to negotiate general conditions of sale.

- preparing a "law on modernisation of the economy" for early 2008, based primarily on the recommendations of the *Commission pour la Libération de la Croissance Française* (Commission for Freeing Up French Growth) chaired by Jacques Attali and instructed to identify structural barriers to growth in order to eliminate persistent monopoly rents (particularly in the service sector) responsible for unfair price increases, and to make the French economy more competitive. A first interim report advises taking competition in the retail and hotel sectors even further by making commercial town planning part of general town planning and by restoring the right for retail suppliers and retailers to negotiate their rates freely.

- merging the operational networks of the ANPE (the French national employment agency) and Unedic (the French national unemployment benefit scheme). The bill for this measure is about to be submitted to Parliament.

- increase the rate of activity by aligning the special retirement regimes with the general civil service regime before the end of 2007, followed by the pension general review in 2008, whose priority will be to raise the rate of activity among older workers.
- stimulate expenditure on competitiveness, higher education and research, already reflected in:

  - the support for innovation and R&D provided by the business research tax credit reform included in the Budget Bill for 2008,

  - the adoption in August of the law on freedoms and responsibilities of universities, which reforms their governance and enhances their autonomy,

  - the adoption of a law authorising ratification of the London protocol on patents.
- make public spending more effective by:

  - merging the General Tax Directorate and the General Public Accounting Directorate,

  - reforming the geographical distribution of the courts,

  - merging intelligence services.

A quantitative evaluation of the impact of these structural reforms on potential growth shows that they meet the objective of raising growth by 1% over the long term.

France's employment rate was 62.3% in 2006, well up from the low of 58% reached in the middle of the 1990s. The French government intends to do everything it can to achieve the European objective in the Lisbon strategy, i.e. an overall employment rate of 70%. If the employment rate is raised from 62.3% today to 70% in 2012, the GDP growth rate will be boosted by more than 1% p.a. during the next five years.

[5] "*La concurrence, un outil en faveur de la croissance, de l'emploi et du pouvoir d'achat,*" Rapport économique, social et financier, volume 1, Perspectives économiques 2007-2008 et évolution des dépenses publiques.

The employment rate will be boosted by the many measures already taken or announced by the government (see above):

- the labour supply will benefit from the reform of rights to minimum social benefits, a larger income gap between beneficiaries of minimum social benefits and poor workers, and measures to stimulate employment among older workers as part of the retirement reform,
- demand for labour will be boosted by lower labour costs, including direct costs (social security charges) as well as indirect costs (rigidities in labour law, to be made more flexible with the reform of the employment contract),
- the reform of State-run employment agencies will make it easier to match supply to demand.

Moreover, increased competition on the goods and services market will generate productivity gains, technological innovation and new jobs. It will support household purchasing power by compressing corporate margins. It will lower the structural unemployment rate. Its cost for public finances is close to nil. The government has already included the first proposals of the Attali Committee in its law on the development of competition. The final report, to be presented to the government in December, will be used for reflection on the law on modernisation of the economy planned for 2008.

Quantitative simulations of the Ministry of the Economy, Finance and Employment suggest that high margins in a few market-sector services (retail trade, hotels and caterers, and financial services) will be roughly halved by increased competition, which could finally boost GDP by 1.2% and create 250,000 jobs.[6] Assuming a full effect of these measures by 2012, increased competition in these sectors would generate 0.25% additional growth and 50,000 extra jobs a year. The entire economy benefits from increased competition, not just the sector where competition is strengthened. These are cautious figures. For instance, they do not reflect the impact on innovation. They are consistent with the conclusions of the independent academics and experts of the Economic Analysis Council.

Simulations based on an IMF model[7] provide even higher orders of magnitude, suggesting that increased competition on the goods and services markets would raise GDP in time by 5% to 8%, i.e. 0.5% to 1% p.a. in the years ahead. Growth would primarily be driven by increased competition in the services market (and would finally account for 4% to 7% of activity) rather than the goods markets, where competition is already keen.

Overall, the available studies show that the reforms launched by the French government and their scope of application match the objective to raise potential growth by 1% in the long term. Note moreover that the reforms on the labour market and the goods and services market are launched simultaneously, which gives these markets the benefit of their complementary impact.[8]

These structural reforms will moreover make it easier to consolidate public finances. The completion of this process will lower *in fine* the tax burden for France's economic agents.

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6 Corresponding to the level observed in the most competitive countries. See Bouis R., "*Evaluation de l'impact macroéconomique de réformes sectorielles à l'aide d'un modèle à deux secteurs*", Cahier de la DGTPE, 2007/07.

7 Everaert L., W. Schule, *"Structural Reforms in the Euro Area: Economic Impact and Role of Synchronization Across Markets and Countries"*, IMF, Working Paper No 06/137, June 2006.

8 Nicoletti G. & S. Scarpetta, « Product Market Reforms and Employment in OECD Countries », *OECD Economics Department Working Papers n°472*, OECD Economics Department, 2005.

5.2. The achievement of our medium-term objective would allow us to provision for almost two-thirds of the liabilities implicit in the population ageing process

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

- first, the initial state 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 state of our public finances[9] 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.

The sustainability of France's public finances would be helped by achievement of the objectives of our pluriannual public finance strategy:

- the improvement in public finances projected for 2007 and 2008 with, first, a public balance above the stabilising debt balance in 2008 (-2.3%) and, secondly, measures to control debt implemented from 2005 to 2008, would lower the initial position of indicator S2 by half (see the table below), closing the tax gap by 0.7 point of GDP.
- moreover, achievement of the medium-term objective to balance the public accounts no later than 2012 would generate a primary surplus making it possible to frontload almost two-thirds of the projected increase in costs generated by the ageing process.

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

(in points of GDP)	**S2**	**Impact of initial position**	**Impact of ageing process**
Commission assessment, basis: 2005	4.0	1.4	2.6
Update, bases: 2008	3.3	0.7	2.6
Update, basis 2012	1.0	-1.6	2.6

Note: calculations for 2008 and 2012 are based on the low-growth scenario

To sum up, these estimates mean that balancing the public accounts, if possible in 2010 and in any event no later than 2012, would significantly strengthen the capacity of France's public finances to deal with the long-term challenge raised by the ageing process.

[9] Note that the French general government debt for 2005 was meanwhile revised upwards owing to Eurostat's reclassification of the SAAD (SNCF's special debt account) debt as public debt. Everything else being equal, this would have affected the initial situation of French public finances.

6. Governance of public finances

Innovation of the governance of public finances in general was stepped up in 2007.

6.1. Work of the *Conseil d'Orientation des Finances Publiques* (Public Finances Steering Council) and launch of a general review of public policies

Important initiatives to share the public finance objectives more broadly had already been launched in 2006, such as the institutionalisation of a *Conférence Nationale des Finances Publiques* (CNFP) and the creation of a *Conseil d'Orientation des Finances Publiques* (COFIPU). The work accomplished in 2007, particularly the COFIPU report prepared under the aegis of Gilles Carrez, general rapporteur of the Finance Committee of the National Assembly, has shown how useful these bodies are to helping all players assume ownership of public finance issues.

This decompartmentalisation drive was continued in 2007, focusing in particular on:

- organisation:
  - with the creation of a ministry for the budget, public accounting and the civil service to streamline the interfaces between supervision of the finances of each government service, civil service decisions and financing flows between government services; and
  - with the introduction of a *Conférence Nationale des Exécutifs Locaux* (National Conference of Local Executives) to promote involvement of local governments in decisions affecting them;
- procedures, with the replacement of the traditional "spending ceiling letters" by a government seminar in order to stimulate a collegiate approach to responsibility for public finance issues.

The development of such cross-functional approaches is being combined with efforts to clarify relations between public finance players. For instance, payment of the State debt to the general social security regime will remove a major complication from their financial relations. Moreover, the creation of the *Conférence Nationale des Exécutifs Locaux* ensures closer involvement of local governments in decisions affecting their budgets.

The improvement in the quality of general government deliberation can already be seen. The Budget Bill for 2008 is accompanied for the first time by a report on public expenditure and its trend. The purpose of this government initiative is to give both Parliament and our fellow citizens a new and better understanding of public finances.

This said, these measures are merely a prelude to larger action: on 10 July 2007, the Prime Minister launched a general review of public policies, referred to as the RGPP (*Révision Générale des Politiques Publiques*), whose purpose is to make an in-depth analysis of overall expenditure in order to:

- provide all citizens lastingly with better, more effective, faster and more efficient public services;
- deliver on the promise to achieve sustainable consolidation of public finances by introducing structural reforms based on analysis of overall expenditure.

Thus, the scope of the RGPP embraces not only all missions of the State and its operators but also several major intervention policies for which the State shares responsibility with the social partners or with other public partners, such as health insurance, family allowances and vocational training.

The method chosen by the government is to assess these missions (after having defined their objectives), which requires to examine their targeted and actual beneficiaries, to diagnose the effectiveness of policies and to determine whether there are negative side effects or windfalls. This method distinguishes in particular between the "production system" (i.e. personnel, operating and property expenditure) and "intervention expenditure" (particularly transfers and major investments).

The objective for personnel expenditure is to identify reforms enabling the government to meet its commitment to replace only half of all retiring civil servants and so to trim the workforce permanently. 50% of the productivity gains generated by these staff cuts will be returned to the civil servants themselves.

Recent experience with rationalisation of operating expenses has revealed the existence of savings opportunities: the savings produced by measures to modernise management of State property assets have been used to reduce debt.

As regards intervention expenditure, the purpose of the RGPP is to redefine public policy objectives, the sphere of intervention of the State and the targeted beneficiaries. The RGPP also aims to clarify the competences of the administrations, in particular to avoid overlaps during the implementation phase. Another cross-functional project focuses on relations between the State and local governments.

The general review of public policies is not an effort building on those that went before but a genuinely new initiative for at least three reasons:

- its oversight at the highest level: the final decisions will be taken by the President of the Republic within the framework of the *Conseil de la Modernisation des Politiques Publiques* (Public Policy Modernisation Council);
- the wish to cover all areas of public action as exhaustively as possible and thus all ministries and all major operators of the State;
- the ambition of this review, which analyses the legitimacy of the State's action and final objectives even before proposing reforms or new objectives. In some instances this challenges the very foundations of our action and our approach to public service.

This general review of public policies will strengthen France's public finance trajectory for the State, its operators and a significant fraction of social security spending. It should also result in a more rational and efficient approach to sharing competences between the State and local governments. The State will use the outcomes of the RGPP in preparing a pluriannual budget for the period from 2009 to 2011, thus providing an appropriate framework for the implementation of large-scale reforms in the State apparatus.

6.2. Statistical governance

The national statistics institute INSEE is responsible for methodological matters involving the compliance of French national accounting statistics practices with the European System of Accounts (ESA95). INSEE 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 budget acts 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 complete. 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 essentially based on estimates since the accounting figures of the regimes are not yet known. 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 a certain reliability.

ANNEX 1: Statistics tables

i. Low-growth scenario

Table 1a. Macroeconomic prospects

	ESA Code	Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3	Year X+4
		Level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g		2 - 2.5	2 - 2.5	2.5	2.5	2.5	2.5
2. Nominal GDP	B1*g	1 860 500	3.8	4.1	4.1	4.1	4.1	4.1
Components of real GDP								
3. Private consumption expenditure	P.3	1 055 233	2.0	2.5	2.8	2.8	2.8	2.8
4. Government consumption expenditure	P.3	437 858	1.6	0.7	0.5	0.5	0.5	0.5
5. Gross fixed capital formation	P.51	385 497	2.7	3.3	3.2	3.2	3.2	3.2
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		0.8	0.7	0.8	0.8	0.9	0.9
7. Exports of goods and services	P.6	498 391	3.6	5.7	6.6	6.6	6.6	6.6
8. Imports of goods and services	P.7	528 983	4.4	5.5	6.2	6.2	6.2	6.2
Contributions to real GDP growth								
9. Final domestic demand		-	2.2	2.3	2.4	2.4	2.4	2.4
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	-	0.1	0,0	0.1	0.1	0.1	0.1
11. External balance of goods and services	B.11	-	-0.3	0,0	0,0	0,0	0,0	0,0

Table 1b. Price developments

	ESA Code	Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3	Year X+4
		Level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator			1.8	1.8	1.6	1.6	1.6	1.6
2. Private consumption deflator			1.7	1.7	1.6	1.6	1.6	1.6
3. HICP[1]			1.4	1.7	1.6	1.6	1.6	1.6
4. Public consumption deflator			1.7	1.5	1.6	1.6	1.6	1.6
5. Investment deflator			2.5	2.2	1.6	1.6	1.6	1.6
6. Export price deflator (goods and services)			0,0	0.7	1.1	1.1	1.1	1.1
7. Import price deflator (goods and services)			-0.1	0.7	1.1	1.1	1.1	1.1

[1] Optional for stability programmes.

Table 1c. Labour market developments

	ESA Code	Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3	Year X+4
		Level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
1. Employment. persons1		25 548	1.1	1.1	0.8	0.8	0.8	0.8
2. Employment. hours worked2								
3. Unemployment rate (%)[3]								
4. Labour productivity. persons4			1,0	1.3	1.7	1.7	1.7	1.7
5. Labour productivity. hours worked5								
6. Compensation of employees	D.1	968 780	4.1	4.1	4.1	4.1	4.1	4.1
7. Compensation per employee		37.92	3,0	3,0	optional	optional	optional	optional

[1]Occupied population, domestic concept national accounts definition.

[2]National accounts definition.

[3]Harmonised definition, Eurostat; levels.

[4]Real GDP per person employed.

[5]Real GDP per hour worked.

Table 1d. Sectoral balances

% of GDP	ESA Code	Year X-1	Year X	Year X+1	Year X+2	Year X+3	Year X+4
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-2.3	-2.5	-2.3	-2.2	-2.1	-2.0
of which : - Balance on goods and services		-1.6	-1.6	-1.5	-1.4	-1.4	-1.3
- Balance of primary incomes and transfers		-0.6	-0.9	-0.8	-0.8	-0.7	-0.7
- Capital account		0.0	0.0	0.0	0.0	0.0	0.0
2. Net lending/borrowing of the private sector	B.9						
3. Net lending/borrowing of general government	EDP B.9						
4. Statistical discrepancy			optional	optional	optional	optional	optional

Table 2. General government budgetary prospects

	ESA Code	Year X-1 Level	Year X-1 % of GDP	Year X % of GDP	Year X+1 % of GDP	Year X+2 % of GDP	Year X+3 % of GDP	Year X+4 % of GDP
Net lending (EDP B.9) by sub-sector								
1. General government	S.13	-44.8	-2.4	-2.3	-1.7	-1.2	-0.6	0.0
2. Central government	S.1311	-36.3	-2.0	-2.0	-1.7	-1.4	-0.9	-0.5
3. State government	S.1312							
4. Local government	S.1313	-4.2	-0.2	-0.2	-0.2	-0.1	-0.1	0.0
5. Social security funds	S.1314	-4.2	-0.2	0.0	0.1	0.3	0.4	0.5
General government (S13)								
6. Total revenue	TR	944.2	50.7	50.4	50.1	50.0	50.0	50.0
7. Total expenditure	TE[1]	989.0	53.2	52.6	51.9	51.2	50.6	49.9
8. Net lending/borrowing	EDP B.9	-44.8	-2.4	-2.3	-1.7	-1.2	-0.6	0.0
9. Interest expenditure	EDP D.41	48.7	2.6	2.7	2.6	2.6	2.6	2.5
10. Primary balance[2]		3.9	0.2	0.5	0.9	1.4	2.0	2.5
11. One-off and other temporary measures[3]		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Selected components of revenue								
12. Total taxes (12=12a+12b+12c)		510.5	27.4	27.3	27.1	27.0	27.0	27.0
12a. Taxes on production and imports	D.2	285.0	15.3	15.1	15.1	optional	optional	optional
12b. Current taxes on income. wealth. etc	D.5	217.1	11.7	11.7	11.6	optional	optional	optional
12c. Capital taxes	D.91	8.4	0.5	0.4	0.4	optional	optional	optional
13. Social contributions	D.61	340.5	18.3	18.2	18.1	optional	optional	optional
14. Property income	D.4	15.6	0.8	0.8	0.8	optional	optional	optional
15. Other [4]		77.5	4.2	4.0	4.1	optional	optional	optional
16=6. Total revenue	TR	944.2	50.7	50.4	50.1	50.0	50.0	50.0
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)[5]		819.2	44.0	43.7	43.5	43.4	43.4	43.4
Selected components of expenditure								
17. Compensation of employees + intermediate consumption	D.1+P.2	337.7	18.2	17.8	17.5	17.2	16.9	16.6
17a. Compensation of employees	D.1	240.3	12.9	12.6	12.3	12.1	11.8	11.6
17b. Intermediate consumption	P.2	97.4	5.2	5.2	5.2	5.1	5.1	5.0
18. Social payments (18=18a+18b)		439.1	23.6	23.3	23.2	23,0	22.9	22.7
18a. Social transfers in kind supplied via market producers	D.6311. D.63121. D.63131	107.4	5.8	5.7	5.7	5.6	5.6	5.5
18b. Social transfers other than in kind	D.62	331.6	17.8	17.6	17.5	17.4	17.3	17.2
19=9. Interest expenditure	EDP D.41	48.7	2.6	2.7	2.6	2.6	2.6	2.5
20. Subsidies	D.3	26.3	1.4	1.3	1.3	1.3	1.3	1.2
21. Gross fixed capital formation	P.51	61.1	3.3	3.2	3.2	3.1	3.1	3.1
22. Other[6]		76.2	4.1	4.1	4.0	4.0	3.9	3.9
23=7. Total expenditure	TE[1]	989.0	53.2	52.6	51.9	51.2	50.6	49.9
p.m.: Government consumption (nominal)	P.3							

[1]Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

[2]The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

[3]A plus sign means deficit-reducing one-off measures.

[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

[5]Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.

[6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.

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=23 in Table 2)	TE[1]		

[1]Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

Table 4. General government debt developments

% of GDP	ESA Code	**Year X-1**	**Year X**	**Year X+1**	**Year X+2**	**Year X+3**	**Year X+4**
1. Gross debt[1]		64.2	64.0	63.2	61.9	60.2	57.9
2. Change in gross debt ratio		0,0	-0.2	-0.8	-1.3	-1.7	-2.3
Contributions to changes in gross debt							
3. Primary balance[2]		0.2	0.5	0.9	1.4	2.0	2.5
4. Interest expenditure[3]	EDP D.41	2.6	2.7	2.6	2.6	2.6	2.5
5. Stock-flow adjustment		-0.2	0.0	0.0	0.0	0.2	0.1
of which: - Differences between cash and accruals[4]							
- Net accumulation of financial assets[5] *of which:* *- privatisation proceeds*							
- Valuation effects and other[6]							
p.m.: Implicit interest rate on debt[7]		4.1	4.3	4.1	4.1	4.1	4.1
Other relevant variables							
6. Liquid financial assets[8]							
7. Net financial debt (7=1-6)							

[1]As defined in Regulation 3605/93 (not an ESA concept).

[2]Cf. item 10 in Table 2.

[3]Cf. item 9 in Table 2.

[4]The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

[5]Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

[6]Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant.

[7]Proxied by interest expenditure divided by the debt level of the previous year.

[8]AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted in stock exchange; including mutual fund shares).

Table 5. Cyclical developments

% of GDP	ESA Code	Year X-3	Year X-2	Year X-1	Year X	Year X+1	Year X+2	Year X+3	Year X+4
1. Real GDP growth (%)				2 - 2.5	2 - 2.5	2.5	2.5	2.5	2.5
2. Net lending of general government	EDP B.9	-3.0	-2.5	-2.4	-2.3	-1.7	-1.2	-0.6	0.0
3. Interest expenditure	EDP D.41		2.6	2.6	2.7	2.6	2.6	2.6	2.5
4. One-off and other temporary measures[1]		0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth (%)		2.1	2.1	2.1	2.2	2.2	2.3	2.4	2.5
contributions:									
- labour				0.3	0.3	0.4	0.5	0.6	0.7
- capital				0.8	0.9	0.8	0.8	0.8	0.8
- total factor productivity				1.0	1.0	1.0	1.0	1.0	1.0
6. Output gap		-0.4	-0.5	-0.6	-0.5	-0.2	-0.1	0.0	0.0
7. Cyclical budgetary component		-0.1	-0.2	-0.3	-0.2	-0.1	-0.1	0.0	0.0
8. Cyclically-adjusted balance (2 - 7)		-2.9	-2.3	-2.2	-2.1	-1.6	-1.1	-0.6	0.0
9. Cyclically-adjusted primary balance (8 + 3)			0.2	0.4	0.7	1.0	1.5	2.0	2.5
10. Structural balance (8 - 4)		-3.4	-2.5	-2.2	-2.1	-1.6	-1.1	-0.6	0.0
		"+0.5 on average per year"				**"+0.5 on average per year"**			

[1]A plus sign means deficit-reducing one-off measures.

Table 6. Divergence from previous update

	ESA Code	Year X-1	Year X	Year X+1	Year X+2	Year X+3	Year X+4
Real GDP growth (%)							
Previous update		2 - 2.5	2.25	2.25	2.25		
Current update		2 - 2.5	2 - 2.5	2.5	2.5	2.5	2.5
Difference				0.25	0.25		
General government net lending (% of GDP)	EDP B.9						
Previous update		-2.5	-1.8	-0.9	0.0		
Current update		-2.4	-2.3	-1.7	-1.2	-0.6	0.0
Difference		0.1	-0.5	-0.8	-1.2		
General government gross debt (% of GDP)							
Previous update		63.6	62.6	60.7	58.0		
Current update		64.2	64.0	63.2	61.9	60.2	57.9
Difference*							

* Non relevant : the previous update did not incorporate the requalification of the debt of the SAAD as public debt.

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

This table should preferably be included in the programme itself; if not. these assumptions should be transmitted to the Council and the Commission together with the programme.

	Year X-1	Year X	Year X+1	Year X+2	Year X+3	Year X+4
Short-term interest rate[1] (annual average)						
Long-term interest rate (annual average)						
USD/€ exchange rate (annual average) (euro area and ERM II countries)	1.35	1.37	1.37	1.37	1.37	1.37
Nominal effective exchange rate	110.4	110.7	110.7	110.7	110.7	110.7
(for countries not in euro area or ERM II) exchange rate vis-à-vis the € (annual average)						
World excluding EU. GDP growth	5.3	5	4.2	4.2	4.2	4.2
EU GDP growth	2.6	2.3	2.5	2.5	2.5	2.5
Growth of relevant foreign markets	4.7	6.4	6.6	6.6	6.6	6.6
World import volumes. excluding EU	5.6	7.9	7.1	7.1	7.1	7.1
Oil prices (Brent. USD/barrel)	68	73	74.1	75.3	76.5	77.7

[1]If necessary, purely technical assumptions.

ii. High-growth scenario

Table 1a. Macroeconomic prospects

	ESA Code	Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3	Year X+4
		Level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g		2 - 2.5	2 - 2.5	3.0	3.0	3.0	3.0
2. Nominal GDP	B1*g	1 860 500	3.8	4.1	4.6	4.6	4.6	4.6
Components of real GDP								
3. Private consumption expenditure	P.3	1 055 233	2.0	2.5	3.0	3.0	3.0	3.0
4. Government consumption expenditure	P.3	437 858	1.6	0.7	0.5	0.5	0.5	0.5
5. Gross fixed capital formation	P.51	385 497	2.7	3.3	4.8	4.8	4.8	4.8
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		0.8	0.7	0.8	0.9	0.9	0.9
7. Exports of goods and services	P.6	498 391	3.6	5.7	7.1	7.1	7.1	7.1
8. Imports of goods and services	P.7	528 983	4.4	5.5	6.7	6.7	6.7	6.7
Contributions to real GDP growth								
9. Final domestic demand		-	2.2	2.3	2.9	2.9	2.9	2.9
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	-	0.1	0.0	0.1	0.1	0.1	0.1
11. External balance of goods and services	B.11	-	-0.3	0.0	0.0	0.0	0.0	0.0

Table 1b. Price developments

	ESA Code	Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3	Year X+4
		Level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator			1.8	1.8	1.6	1.6	1.6	1.6
2. Private consumption deflator			1.7	1.7	1.6	1.6	1.6	1.6
3. HICP[1]			1.4	1.7	1.6	1.6	1.6	1.6
4. Public consumption deflator			1.7	1.5	1.6	1.6	1.6	1.6
5. Investment deflator			2.5	2.2	1.6	1.6	1.6	1.6
6. Export price deflator (goods and services)			0.0	0.7	1.1	1.1	1.1	1.1
7. Import price deflator (goods and services)			-0.1	0.7	1.1	1.1	1.1	1.1

[1] Optional for stability programmes.

Table 1c. Labour market developments

	ESA Code	Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3	Year X+4
		Level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
1. Employment. persons1		25 548	1.1	1.1	1.3	1.3	1.3	1.3
2. Employment. hours worked2								
3. Unemployment rate (%)[3]								
4. Labour productivity. persons4			1.0	1.3	1.7	1.7	1.7	1.7
5. Labour productivity. hours worked5								
6. Compensation of employees	D.1	968 780	4.1	4.1	4.6	4.6	4.6	4.6
7. Compensation per employee		37.92	3.0	3.0	optional	optional	optional	optional

[1]Occupied population, domestic concept national accounts definition.

[2]National accounts definition.

[3]Harmonised definition, Eurostat; levels.

[4]Real GDP per person employed.

[5]Real GDP per hour worked.

Table 1d. Sectoral balances

% of GDP	ESA Code	Year X-1	Year X	Year X+1	Year X+2	Year X+3	Year X+4
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-2.3	-2.5	-2.3	-2.2	-2.1	-1.9
of which : - Balance on goods and services		-1.6	-1.6	-1.5	-1.4	-1.3	-1.2
- Balance of primary incomes and transfers		-0.6	-0.9	-0.8	-0.8	-0.7	-0.7
- Capital account		0.0	0.0	0.0	0.0	0.0	0.0
2. Net lending/borrowing of the private sector	B.9						
3. Net lending/borrowing of general government	EDP B.9						
4. Statistical discrepancy			optional	optional	optional	optional	optional

Table 2. General government budgetary prospects

	ESA Code	Year X-1 Level	Year X-1 % of GDP	Year X % of GDP	Year X+1 % of GDP	Year X+2 % of GDP	Year X+3 % of GDP	Year X+4 % of GDP
Net lending (EDP B.9) by sub-sector								
1. General government	S.13	-44.8	-2.4	-2.3	-1.3	-0.3	0.5	1.3
2. Central government	S.1311	-36.3	2.0	-2,0	-1.5	-0.9	-0.4	0.1
3. State government	S.1312							
4. Local government	S.1313	-4.2	-0.2	-0.2	-0.1	0.0	0.1	0.2
5. Social security funds	S.1314	-4.2	-0.2	0.0	0.3	0.5	0.8	1.0
General government (S13)								
6. Total revenue	TR	944.2	50.7	50.4	50.3	50.3	50.3	50.2
7. Total expenditure	TE[1]	989.0	53.2	52.6	51.6	50.7	49.8	48.9
8. Net lending/borrowing	EDP B.9	-44.8	-2.4	-2.3	-1.3	-0.3	0.5	1.3
9. Interest expenditure	EDP D.41	48.7	2.6	2.7	2.6	2.5	2.5	2.4
10. Primary balance[2]		3.9	0.2	0.5	1.3	2.2	2.9	3.6
11. One-off and other temporary measures[3]		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Selected components of revenue								
12. Total taxes (12=12a+12b+12c)		510.5	27.4	27.3	27.2	27.3	27.2	27.2
12a. Taxes on production and imports	D.2	285.0	15.3	15.1	15.2	optional	optional	optional
12b. Current taxes on income. wealth. etc	D.5	217.1	11.7	11.7	11.6	optional	optional	optional
12c. Capital taxes	D.91	8.4	0.5	0.4	0.4	optional	optional	optional
13. Social contributions	D.61	340.5	18.3	18.2	18.1	optional	optional	optional
14. Property income	D.4	15.6	0.8	0.8	0.8	optional	optional	optional
15. Other [4]		77.5	4.2	4,0	4.1	optional	optional	optional
16=6. Total revenue	TR	944.2	50.7	50.4	50.3	50.3	50.3	50.2
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)[5]		813.1	44.0	43.7	43.7	43.7	43.7	43.7
Selected components of expenditure								
17. Compensation of employees + intermediate consumption	D.1+P.2	337.7	18.2	17.8	17.5	17.1	16.7	16.3
17a. Compensation of employees	D.1	240.3	12.9	12.6	12.3	12.0	11.7	11.4
17b. Intermediate consumption	P.2	97.4	5.2	5.2	5.2	5.1	5.0	4.9
18. Social payments (18=18a+18b)		439.1	23.6	23.3	23.1	22.8	22.5	22.3
18a. Social transfers in kind supplied via market producers	D.6311. D.63121. D.63131	107.4	5.8	5.7	5.6	5.6	5.5	5.4
18b. Social transfers other than in kind	D.62	331.6	17.8	17.6	17.4	17.2	17.0	16.8
19=9. Interest expenditure	EDP D.41	48.7	2.6	2.7	2.6	2.5	2.5	2.4
20. Subsidies	D.3	26.3	1.4	1.3	1.3	1.3	1.2	1.2
21. Gross fixed capital formation	P.51	61.1	3.3	3.2	3.2	3.1	3.0	3.0
22. Other[6]		76.2	4.1	4.1	4.0	3.9	3.9	3.8
23=7. Total expenditure	TE[1]	989.0	53.2	52.6	51.6	50.7	49.8	48.9
p.m.: Government consumption (nominal)	P.3							

[1]Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

[2]The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

[3]A plus sign means deficit-reducing one-off measures.

[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

[5]Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.

[6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.

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=23 in Table 2)	TE[1]		

[1]Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

Table 4. General government debt developments

% of GDP	ESA Code	**Year X-1**	**Year X**	**Year X+1**	**Year X+2**	**Year X+3**	**Year X+4**
1. Gross debt[1]		64.2	64.0	62.5	60.0	57.2	53.4
2. Change in gross debt ratio		0.0	-0.2	-1.6	-2.4	-2.9	-3.7
Contributions to changes in gross debt							
3. Primary balance[2]		0.2	0.5	1.3	2.2	2.9	3.6
4. Interest expenditure[3]	EDP D.41	2.6	2.7	2.6	2.5	2.5	2.4
5. Stock-flow adjustment		-0.2	0.0	0.0	0.0	0.2	0.1
of which: - Differences between cash and accruals[4]							
- Net accumulation of financial assets[5] *of which:* *- privatisation proceeds*							
- Valuation effects and other[6]							
p.m.: Implicit interest rate on debt[7]		4.1	4.3	4.1	4.1	4.1	4.1
Other relevant variables							
6. Liquid financial assets[8]							
7. Net financial debt (7=1-6)							

[1]As defined in Regulation 3605/93 (not an ESA concept).

[2]Cf. item 10 in Table 2.

[3]Cf. item 9 in Table 2.

[4]The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

[5]Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

[6]Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant.

[7]Proxied by interest expenditure divided by the debt level of the previous year.

[8]AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted in stock exchange; including mutual fund shares).

Table 5. Cyclical developments

% of GDP	ESA Code	Year X-3	Year X-2	Year X-1	Year X	Year X+1	Year X+2	Year X+3	Year X+4
1. Real GDP growth (%)				2 - 2.5	2 - 2.5	3.0	3.0	3.0	3.0
2. Net lending of general government	EDP B.9	-3,0	-2.5	-2.4	-2.3	-1.3	-0.3	0.5	1.3
3. Interest expenditure	EDP D.41		2.6	2.6	2.7	2.6	2.5	2.5	2.4
4. One-off and other temporary measures[1]		0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth (%)		2.1	2.1	2.1	2.2	2.5	2.8	2.9	3.0
contributions:									
- labour				0.3	0.5	0.7	0.9	0.9	0.9
- capital				0.8	0.9	0.9	0.9	1.0	1.0
- total factor productivity				1.0	1.0	1.0	1.0	1.0	1.0
6. Output gap		-0.4	-0.5	-0.6	-0.7	-0.2	-0.1	0.0	0.0
7. Cyclical budgetary component		-0.1	-0.2	-0.3	-0.2	-0.1	0.0	0.0	0.0
8. Cyclically-adjusted balance (2 - 7)		-2.9	-2.3	-2.2	-2.1	-1.2	-0.3	0.5	1.3
9. Cyclically-adjusted primary balance (8 + 3)			0.2	0.4	0.7	1.4	2.2	2.9	3.6
10. Structural balance (8 - 4)		-3.4	-2.5	-2.2	-2.1	-1.2	-0.3	0.5	1.3
		"+0.5 on average per year"				**"+0.8 on average per year"**			

[1]A plus sign means deficit-reducing one-off measures.

Table 6. Divergence from previous update

	ESA Code	Year X-1	Year X	Year X+1	Year X+2	Year X+3	Year X+4
Real GDP growth (%)							
Previous update		2 - 2.5	3	3	3		
Current update		2 - 2.5	2 - 2.5	3	3	3	3
Difference				0	0		
General government net lending (% of GDP)	EDP B.9						
Previous update		-2.5	-1.8	-0.9	0.0		
Current update		-2.4	-2.3	-1.3	-0.3	0.5	1.3
Difference		0.1	-0.5	-0.4	-0.3		
General government gross debt (% of GDP)							
Previous update		63.6	61.9	58.9	55.1		
Current update		64.2	64,0	62.5	60.0	57.2	53.4
Difference*							

* Non relevant : the previous update did not incorporate the requalification of the debt of the SAAD as public debt.

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

This table should preferably be included in the programme itself; if not. these assumptions should be transmitted to the Council and the Commission together with the programme.

	Year X-1	Year X	Year X+1	Year X+2	Year X+3	Year X+4
Short-term interest rate[1] (annual average)						
Long-term interest rate (annual average)						
USD/€ exchange rate (annual average) (euro area and ERM II countries)	1.35	1.37	1.37	1.37	1.37	1.37
Nominal effective exchange rate	110.4	110.7	110.7	110.7	110.7	110.7
(for countries not in euro area or ERM II) exchange rate vis-à-vis the € (annual average)						
World excluding EU. GDP growth	5.3	5	4.2	4.2	4.2	4.2
EU GDP growth	2.6	2.3	2.5	2.5	2.5	2.5
Growth of relevant foreign markets	4.7	6.4	6.6	6.6	6.6	6.6
World import volumes. excluding EU	5.6	7.9	7.1	7.1	7.1	7.1
Oil prices (Brent. USD/barrel)	68	73	74.1	75.3	76.5	77.7

[1]If necessary, purely technical assumptions.