FRANCE

STABILITY PROGRAMME 2012-2016

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1. Outline

France's economy regained momentum as soon as in 2010. This rebound was particularly marked in the first quarter of 2011, with economic growth of 0.9%, even though the economy slowed down at the end of 2011 as the international situation became unfavorable (earthquake in Japan, downgrading of the American sovereign credit rating, deepening crisis in Greece), leading to major tensions on financial markets and sovereign debt. However, France is the only leading western economy to have posted positive growth in every single quarter since the second quarter of 2009.

France's economy has been more resilient than others in Europe, but it suffers from the effects of the financial crisis, especially in 2012. More specifically, GDP growth stood at +0.2% in the fourth quarter of 2011 (compared to a 0.3% contraction for the euro area as a whole) and at +1.7% for the whole year. The decisive progress made under the leadership of European Heads of State and Government in curbing the Greek sovereign debt crisis and in providing the euro area with enhanced governance and effective firewalls, along with the two exceptional long-term refinancing operations put in place by the European Central Bank (ECB), greatly attenuated tensions on financial markets and laid the groundwork for a return to growth. The Government forecasts growth of 0.7% in France in 2012, followed by 1.75% in 2013, and assumes that the growth rate will stay at 2.0% in 2014, 2015 and 2016.

The Government upheld its unwavering commitment to reduce general government deficit, despite the worsening of the economic situation that started in the third quarter of 2011. On 24 August 2011, the Government decided to back up the revision of its growth forecast with an effort to trim the deficit by €11 billion in 2011 and 2012, and, on 7 November2011, it decided to cut another €17.4 billion between 2012 and 2016.

As was the case in 2010, and despite the unfavorable short-term economic outlook, the reduction in the 2011 deficit was larger than the Government's original target of 6% of GDP in the 2011 Budget Act, which was then reduced to 5.7% in the previous Stability Programme. In the end, the deficit notified for 2011 came to 5.2% of GDP, which represents a decrease of approximately €34 billion (25% of the deficit) compared to 2010. For the first time since 1960, general government expenditure was stabilized in real terms with +0.0% growth.

The better-than-expected outturn in 2011 made it possible to revise the projected deficit for 2012 to 4.4%, compared to 4.5% in the Initial Budget Act, despite the much gloomier short-term economic outlook caused by the financial crisis. The 2012 growth assumption has been trimmed from 2.25% in the Stability Programme submitted in 2011 to only 0.7%, followed by 1.75% in 2013 and 2.0% after that. Compliance with the trajectory for balancing public finances by 2016 is guaranteed by a plan for €115 billion in reductions between 2011 and 2016 based on realistic growth assumptions. In addition to the measures announced on 24August 2011, on 7 November 2011, and in February 2012, this plan relies in particular on maintaining or strengthening the budgetary rules that prevailed in 2011, reducing by €1 billion per year in nominal terms central government expenditure excluding interest and pensions, stabilizing total State expenditure in real terms, maintaining the National Healthcare Expenditure Target (ONDAM) at 2.5% and continuing to replace only one out of every two retiring civil servants. In terms of increasing revenues, the minimum revenue targets set in the

2011-2014 Multiyear Public Finance Planning Act (LPFP), were largely exceeded in 2011, and will be exceeded again in 2012 and 2013 thanks to the measures already documented.

The Government's strategy ensures that balanced public finances will be restored by 2016. It relies on enhanced governance that promotes ownership of the choices and objectives by all of the stakeholders: local governments, social security bodies and elected officials. This strategy complies with France's European commitments with regard to structural reforms. It maintains equity by having the households and businesses that have the greatest capacity to contribute carry the bulk of the burden. It supports growth by cutting general government debt, which is a prerequisite for growth, and by carrying on the structural reforms that are critical for improving France's potential growth. Its implementation will have to be responsive and closely monitored by the Government. In addition, the Parliament will be consulted through its Finance Commissions and asked for its opinion on the Stability Programme before it is submitted to the European authorities.

2. Macroeconomic scenario

2.1 Situation in 2011 and outlook for 2012 and 2013

France’s economic recovery continued in early 2011, even after the 2009-2010 stimulus plan ended. Growth was underpinned by the stock cycle and strong investment. The pace of business investment picked up and household investment started growing again. Starting in the third quarter of 2011, the international and domestic economic situation worsened as financial tension rose in the United States and then in the euro area. However, France’s economy show resilience and posted growth of 0.3% in the third quarter and 0.2% in the fourth quarter. It was the only large western country not to experience negative growth since the second quarter of 2009. Strong domestic demand, excluding inventory changes, and strong foreign trade underpinned this growth. Economic conditions in the euro area did however have an impact on household’s expectations. Consequently, households’ savings reached a historic high. In aggregate, **France’s economy grew by 1.7% in 2011**, which is in line with the growth forecast in the September 2011 budget bill.

In 2012, as world economic growth falters, France's economy is expected to slow down as in the other euro area countries, especially at the beginning of the year. Financial tensions had a negative impact on the economies of France’s leading trading partners and should result in slower growth of world demand for France’s exports. This demand is expected to grow by 2.8%, compared to 5.8% in 2011. Financial tensions also caused businesses to delay some of their investment and draw down their stocks, as the market prospects for their goods dimmed. On the other hand, households, having increased their precautionary savings, should start tapping into them to maintain their consumption, which will sustain demand. Despite further rises in oil prices at the start of the year, which brought the price of a barrel up to $119.50 (€91), the projected inflation for 2012, at 1.9%[1], is slightly lower than in 2011, owing to slower economic growth. In addition, the strong performance of exports, which have been boosted by the depreciation of the euro, along with a slowdown in imports, mean that foreign trade should make a positive contribution to growth. This would be combined with stabilization of European markets following the decisions made by the Heads of State and Government and by the European Central Bank. **GDP growth in 2012 would then be 0.7%.** The market-sector wage bill would grow by 2.5%, sustained primarily by a 0.6% increase in wages in real terms.

According to the Commission’s latest forecast (23 February interim forecasts), the French economy should grow by 0.4% in 2012, which is more than the 0.3% contraction anticipated in the euro area. The difference in the forecasts stems primarily from the pace of economic recovery, which could be more rapid that the Commission expected, as suggested by the latest available indicators. In March, INSEE’s measure of business confidence was up by 4 points and household confidence rose by 5 points. According to the INSEE short-term forecast in March, growth carry-over at the end of the first half of the year should be 0.5%, and growth would pick up in the second quarter.

The economy should bounce back with growth of 1.75% in 2013, as financial tensions ease. The recovery should be driven primarily by the external environment. As the economies

[1] Within the meaning of the Consumer Price Index.

of France's main trading partners recover, worldwide demand for its exports should bounce back (6.2%), and so should exports. The brighter outlook for markets and waning financial uncertainty should cause businesses to increase their investment and build up their inventories again. Assuming that the price of oil remains at its 2012 level, inflation should ease gradually to 1.8%, as the effects of past increases in commodity prices fade. As uncertainty dissipates, households should continue to reduce their level of savings, thus giving consumption a boost. The recovery would lead to 140,000 new jobs in the market sector over the year and the market-sector wage bill would grow by 3.2% in 2013.

This scenario is shrouded in uncertainty. The central assumption in the scenario is the resolution of financial tensions. It is conceivable that household and business confidence in the euro area could bounce back sooner and lead to a more pronounced economic recovery. On the other hand, further worsening of the financial situation in the euro area would batter confidence and worldwide demand for French exports. In addition, continuing rises in commodity prices, especially oil prices, could drag down household consumption and erode business earnings. On the other hand, a drop in oil prices, like the one seen in 2009, cannot be ruled out. It would boost the recovery by lifting households' purchasing power. On the whole, this scenario is conservative, assuming that growth will be equal to the level of potential growth in 2013.

2.2 Medium-term outlook (2014-2016)

The economic scenario used for multiyear fiscal planning is based on the assumption of 2.0% growth per year in 2014, 2015 and 2016, slightly higher than the potential growth rate. This assumption is conservative and only partially reduces the output gap, which has worsened since the crisis. This scenario corresponds to a gradual reduction of the large growth deficit accumulated in recent years. Potential growth would stand at 1.7% per year starting in 2011, after declining during the crisis. Productivity declined sharply during the crisis, but over the last several quarters, its growth has been more in line with the previous trend. In addition, according to INSEE projections, the labor force should grow by approximately ½% per year as a result of pension reform, among other factors.

Household debt is at relatively low levels, which means that their consumption should sustain growth, as their savings rate continues to decline. This is made possible by the particularly high level of household savings, the gradual consolidation of public finances and brighter prospects on the job market. The private-sector wage bill should grow by 4.0% per year, which is less than the increase in market-sector value added. This would allow business profits to rise again and businesses should maintain a high level of investment, underpinned by the elimination of the local business tax. Exports would grow in line with the growth trend for worldwide demand for French exports, boosted by reforms to improve the competitiveness of French businesses, such as the decline in taxes on labor, with the swap between VAT and social contributions, the elimination of the local business tax, reductions in red tape and the move to online administrative formalities, combined with reforms to improve businesses' capacity for innovation, with support for R&D through the research tax credit and the Invest for the Future programme. In view of more conservative growth assumptions than in the previous Stability Programme and greater competitiveness of French made goods, import should also slow down.

In aggregate, foreign trade should make a positive contribution to growth and the balance of trade should improve gradually over the forecast period.

Table 1 – Macroeconomic scenario, 2011-2016

Average annual growth rate, in %	2011*	2012	2013	Average 2014-2016
GDP	**1.7**	**0.7**	**1.75**	**2,0**
Household consumption	0.3	0.3	1.2	2.2
General government consumption	0.9	0.9	0.2	0,0
Gross fixed capital formation	2.9	0.9	2.9	2.4
o.w. non-financial businesses	4.3	0.6	4.1	3.4
Contribution from inventories	0.8	-0.4	0.2	0,0
Contribution from foreign trade	-0.1	0.4	0.2	0.2
Exports	5,0	3.4	5.2	6.2
Imports	4.8	1.6	4,0	5.1
GDP deflator	1.6	1.6	1.8	1.7
Household consumption deflator	2,0	1.9	1.8	1¾
Wage bill (non-farm market sector)	3.6	2.5	3.2	4,0
Average nominal wage per capita (non-farm market sector)	2.6	2.5	2.7	2.8
Salaried employees (non-farm market sector)	1,0	0,0	0.5	1.2

* INSEE quarterly accounts (adjusted for working days)

3. Public finance scenario

3.1 Overall strategy and medium-term objective

Three objectives guide the Government's public finance strategy:

1. **Reducing the government deficit to 4.4%[2] in 2012 and to 3.0% in 2013**, and restoring balanced public finances by 2016.
2. **Curbing and then rapidly reducing government debt,** which is hampering the growth of France's economy, increasing the country's dependence on financial markets and restricting the State's room for manoeuver.
3. **Strengthening the competitiveness of France's economy, growth and employment in order to preserve our social model,** by having everyone share the effort necessary to consolidate public finances equitably and fairly.

The Medium-Term Objective (MTO) within the meaning of France's European commitments is to restore the structural balance of public finances so that debt-to-GDP ratio can be reduced swiftly.

Table 2 – Multiyear public finance trajectory

(% of GDP)	2011	2012	2013	2014	2015	2016
Government balance	**-5.2**	**-4.4**	**-3.0**	**-2.0**	**-1.0**	**0.0**
General government expenditure	55.9	55.8	55.1	54.2	53.4	52.6
Government revenue	50.8	51.5	52.1	52.2	52.4	52.6
Government debt (Maastricht definition)	85.8	89.0	89.2	88.4	86.4	83.2
Government debt excluding financial support for the eu	85.1	86.6	86.5	85.4	83.3	80.4

This strategy complies with the ECOFIN Council's recommendations of December 2nd, 2009. It relies on a **major effort to contain public expenditure, and on targeted tax measures, aimed primarily at continuing to reduce the cost of tax expenditures and social security contribution exemptions**, in obedience with the commitments of the 2011-2014 Multiyear Public Finance Planning Act (LPFP). Indeed, the Government decided to avoid any across-the-board tax increases in light of the already significant tax burden before the crisis. Ultimately, in line with the documents published in November 2011, **the fiscal consolidation efforts required to maintain this trajectory, beyond trends in revenue and expenditure, will reach €115 billion between 2011 and 2016** (see Box 1), **with €41 billion in additional revenues and €74 billion in spending cuts.**

These efforts are largely underway or already documented under the measures taken in 2011 and 2012. The savings still to be achieved will have to come from all general government sectors.

The effort by the State exceeds the fiscal requirements set out in the Multiyear Public Finance Planning Act (LPFP). Expenditure, excluding debt service and pensions, will decrease by €1 billion each year in nominal terms starting in 2013, following a one-off cut of €2.7 billion in

[2] The government deficit forecast for 2012 was trimmed from 4.5% of GDP in the first 2012 Supplementary Budget Act to 4.4% of GDP.

2012. State operators will still have to contribute through notably continuing efforts to reduce their wage bills and their administrative and operating expenditures.

Local governments will have to do their share, as State transfers will be cut back beyond the freeze called for in the Multiyear Public Finance Planning Act (LPFP) and through the effect of the pay restraint measures applying to all three public subsectors, which will moderate their expenditure.

Social security administrations' efforts to contain healthcare expenditure made it possible to achieve the National Healthcare Expenditure Target (ONDAM) in 2010, for the first time since the target was created, and again in 2011. These efforts will go on, with a maximum growth target of only 2.5% per year between 2012 and 2016, which will require an additional cut of some €0.5 billion per year compared to the previous growth target of 2.8%. In addition, the 2010 pension reform, which was stepped up in 2011, will help reduce the growth of social expenditures substantially over the period covered by the Programme.

This strategy based on a combination of growth-conducive reforms and explained in detail in the National Reform Programme (NRP), along with strict and sustainable containment of government expenditure, will ensure that the government debt ratio, excluding financial support for the euro area, will start to decline as of 2013, and overall government debt will begin to fall as of 2014 given the calendar of the rise in European financial support for the euro area.

This structural adjustment strategy will be implemented **so as to enhance the efficiency of public finances.** This will require continued efforts to rationalize expenditure and, more specifically, carrying the General Review of Public Policies (RGPP) on, or scaling up the Invest for the Future Programme, that focuses expenditure on investments with high social and economic returns and maximizes the leverage effect of government intervention. With regard to revenues, the continuing reduction of tax expenditures and the least effective social security contribution exemptions, along with the €13.2 billion cut in employers' annual payroll contributions that was passed in February 2012 (anti-offshoring VAT) will help rationalize the tax system and promote policies that generate more growth and jobs.

At the same time, **the Government will enhance the governance of public finances**, in compliance with the European Treaty on Stability, Coordination and Governance, by establishing notably the golden rule to enshrine the target of structurally balanced public finances in the Constitutional.

Box 1 – Fiscal consolidation measures between 2011 and 2016

The revised Economic, Social and Financial report of November 2011 set out the efforts required to restore balanced public finances, beyond trends in revenue and expenditure. These measures make it possible to improve public finances by €115 billion in 2016, with two thirds coming from expenditure savings (see table below).

	2011	2012	2013	2014	2015	2016	Debt avoided in 2016
EXPENDITURE MEASURES (€ billion)							
State excluding pensions	**6.9**	**12.3**	**17.7**	**24**	**30**	**36**	**128**
o.w. wage bill savings	1.3	2.9	4.6	6	8	9	32
o.w. State and State operators' operating and intervention expenditure, and transfers to local governments	5.6	9.4	13.1	18	22	27	96
Social Security funds excluding pensions	**2.6**	**6.2**	**9.4**	**13**	**16**	**19**	**66**
o.w. savings under the National Healthcare Expenditure Target (and, in 2012, on the Social Protection Fund and Social Security fund management)	2.6	5.9	9.0	12	16	19	64
o.w. index-linking shortfall in 2012 on family and housing benefits		0.3	0.4	0.4	0.4	0.4	2
Pensions reform	**1.5**	**4.8**	**6.9**	**8**	**11**	**16**	**49**
Local governments	**0.2**	**0.6**	**0.9**	**1**	**2**	**2**	**6**
Total expenditure measures (excluding savings on debt service)	**11.2**	**23.9**	**35.0**	**46**	**58**	**74**	**248**
o.w. measures before 24 August	*11.0*	*21.1*	*30.3*	*39*	*50*	*64*	*215*
o.w. measures announced on 24 August		*1.0*	*1.0*	*1*	*1*	*1*	*5*
o.w. measures announced on 7 November	*0.2*	*1.8*	*3.7*	*6*	*7*	*9*	*28*
Share of the consolidation effort (excluding debt service):	***49%***	***46%***	***52%***	***57%***	***61%***	***64%***	***57%***
REVENUE MEASURES (€ billion)							
Measures documented before the announcements on 24 August	**10.4**	**12.4**	**12.4**	**12**	**12**	**12**	**73**
Measures announced on 24 August	**1.0**	**10.0**	**9.5**	**9**	**8**	**8**	**46**
New revenue measures announced on 7 November		**5.2**	**7.9**	**7**	**8**	**8**	**37**
Measures under the Multiyear Public Finance Planning Act			**3.0**	**6**	**9**	**12**	**30**
Total revenue measures	**11.4**	**27.6**	**32.8**	**35**	**38**	**41**	**185**
Share of the consolidation effort:	***51%***	***54%***	***48%***	***43%***	***39%***	***36%***	***43%***
Total consolidation effort	**21.6**	**51.5**	**67.8**	**81**	**96**	**115**	**434**
o.w. measures before 24 August	*21.6*	*33.5*	*45.7*	*58*	*71*	*88*	*318*
o.w. measures announced on 24 August	*1.0*	*11.0*	*10.5*	*10*	*9*	*9*	*51*
o.w. measures announced on 7 November		*7.0*	*11.6*	*13*	*15*	*17*	*65*
Debt service avoided: assumption: apparent rate seen from 2007 to 2010, or 3.94%, applied to the cumulative savings from previous years + 50% of the savings in the current year	**0.4**	**1.9**	**4.3**	**7**	**11**	**15**	
Total savings, including debt service	**23.0**	**53.4**	**72.1**	**88**	**107**	**129**	
Share of expenditure, including debt service	*50%*	*48%*	*54%*	*61%*	*65%*	*68%*	
Share of revenue in the total consolidation effort	*50%*	*52%*	*46%*	*39%*	*35%*	*32%*	

Out of the €115 billion, measures worth €72 billion were passed in the 2012 Budget Act and in the 2011 and 2012 Supplementary Budget and Social Security Budget Acts, including €39 billion in expenditure measures and €33 billion in revenue measures. In this way, the Government secured nearly two thirds of its commitment to consolidation efforts over 2011-2016. More specifically, with the €33 billion in revenues that are already passed, only a further €8 billion to be raised by future measures is left.

€115 billion consolidation plan for the period from 2011 to 2016

(€ billion)	Consolidated amounts 2011-2016
Expenditure	**74**
Measures already passed	39
Measures to be documented	35
Revenue	**41**
Measures already passed	33
Measures to be documented	8
Total	**115**

3.2 The trajectory of public finance at "unchanged policy"

In accordance with the revised Stability and Growth Pact adopted by France, this Stability Programme presents a scenario with a no-policy-change assumption for 2012 and 2013, which shows the spontaneous developments in the public balance that would occur if there were no changes in legislation or budget common practices. The scenario at unchanged policy incorporates the developments that stems from the laws and regulations already enforced, but does not consider the further measures to be implemented in order to meet the public finance targets.

This Programme uses the following assumptions to build the scenario at unchanged policy:

- The scenario considers revenue and expenditure measures already passed ("unchanged legislation" concept) under all legislation that has an impact on public finances and, more specifically, under Budget Acts, Social Security Budget Acts and Public Finance Planning Acts. The scenario at unchanged policy for this Programme includes the impact of measures in the 2012 Initial Budget Act, the 2012 Social Security Budget Act and the Supplementary Budget Act passed in February 2012, as well as the rules passed in the 2011-2014 Multiyear Public Finance Planning Act that will apply to future Budget Acts.
- The scenario also assumes no change in budget usual practices, such as index-linking of benefits (statutory minimum wage, pensions, etc.) and of taxes. It also incorporates statistically observed patterns, such as the pattern of the local government balance over the election cycle (including capital expenditure and local direct tax rates).

Beyond these general principles:

- two components are considered with regard to revenue in the scenario at unchanged policy: (i) spontaneous changes, depending on the economic climate and on tax elasticities observed in the past, and (ii) the multiyear impact of discretionary measures incorporated into the "unchanged policy" assumption (unchanged legislation, customary practices);
- expenditure is calculated according to current budget rules or, if they do not stem from any specific rules, in consistency with regular patterns, such as the local election cycle.

On the other hand, contrary to the Government scenario, the scenario at unchanged policy does not incorporate planned measures still to be passed.

The 2012 scenario at unchanged policy is based on a deficit of 4.4%, which is the same as the Government's projection, since all of the expenditure and revenue measures have already been passed.

The 2013 scenario at unchanged policy shows that additional measures worth €4.5 billion need to be adopted under future Initial Budget Acts and Social Security Budget Acts in order to meet the Government's 3% target. This need had already been identified in November 2011, and the efforts required to meet it were described and partly documented in the recovery plan of 7 November 2011. These efforts include:

- limiting the National Healthcare Expenditure Target to 2.5% (as opposed to 2.8% under the Multiyear Public Finance Planning Act and in the scenario with no policy change), which will require passing further measures to save €0.5 billion, in line with the trajectory set in November 2011;
- making a €1-billion cut each year in the State's fiscal expenditure under the "zero nominal growth" rule, which is in line with the trajectory set in November 2011 and largely documented already thanks to the savings decided under the General Review of Public Policies, which will have increasing returns until 2013;
- supplementary tax and social security contribution measures worth €3 billion.

3.3 Changes in the structural balance

Structural efforts of public finances (5.1 percentage points of GDP between 2010 and 2013) enables France to comply with the recommendation that the ECOFIN Council made on December 2nd, 2009, which was to achieve a structural adjustment of at least 4 percentage points of GDP between 2010 and 2013 (at least 1 point per year on average).

In 2011, the substantial reduction of the deficit (1.9 point) was entirely structural. This historic improvement in the structural balance stemmed primarily from the consolidation measures implemented since 2010, which contributed for 1.1 point to the reduction. The efforts were equitably shared between revenues and expenditures, with targeted tax and social security contribution hikes accounting for 0.8 point and containment of public spending in real terms (deflated by inflation, excluding extraordinary items and interest expenses) compared to potential growth, accounting for 0.6 point. The impact of this spending cut was diminished by 0.3 point by a sluggish GDP price index, with unfavorable terms of trade as oil price rose.

The remaining 0.7-point improvement in the structural balance stemmed from temporary factors, such as the withdrawal of the stimulus measures that are included in the structural deficit and the end of the temporary surplus cost incurred when the local business tax was eliminated. Non-discretionary items of the structural balance had globally little effect in 2011: the rise in interest expense was offset by a spontaneous dynamism in revenues that outstripped GDP growth.

In 2012, the improvement in the structural balance should again be very significant (1.2 point), as the Parliament passed tougher consolidation measures than in 2011[3] (1.3 point, after 1.1 point in 2011), equally spread between expenditures and revenues. The effort to contain expenditure (deflated by inflation) is also heightened (0.7 point, compared to 0.6 point in 2011). This reflects the large savings in State expenditures and under the National Healthcare Expenditure Target, as well as the preliminary effects of the pension reform. The terms of trade would be less unfavorable than in 2011 (-0.1 point, compared to -0.3 point). The effort to enhance revenues is also extensive (0.7 point) thanks to the measures announced in August 2011, November 2011 and February 2012. However, this effort has been partially neutralized by the economic slowdown, which saw growth sink to 0.7%, far below the potential growth rate. This can be seen not only in the deepening of the cyclical deficit (-0.4 point), but also in the negative contribution (-0.2 point) to structural adjustment caused by sluggish growth of non-tax revenues. On the other hand, low interest rates reduce the cost of debt service, improving the structural balance by 0.1 point.

In 2013, the reduction in the deficit will be structural (+1.4 points) in view of the expectation that growth will match potential growth. With the renewal of the commitments for 2013 (€1-billion reduction in State expenditures, excluding interest and pensions, a National Healthcare Expenditure Target annual growth at 2.5% and the faster pace of pension reform), the effort to contain expenditure in real terms (deflated by inflation) will still be important (+0.7 point). This effort in spending is greater than the new revenue measures already announced and largely passed in 2012 (0.5 percentage point of GDP). The macroeconomic climate will have little impact, with growth near its potential rate and the acceleration in certain revenues being partially offset by a conservative assumption about interest rate hikes and, consequently, higher interest expenses.

Between 2014 and 2016, the reduction of the deficit by 1 GDP point per year is made up of a 0.2-point cyclical contribution, as real growth is higher than potential growth, under a prudent catching-up assumption, and a 0.8-point contribution from structural adjustment. The latter contribution is made up of an average of 0.2 point from new revenue measures, stemming from the continuation of the strategy to streamline and reduce both tax expenditures and social security contribution exemptions, and 0.7 point from continuing efforts to contain expenditure in all general government sectors, excluding interest expense which will rise with interest rates (see Box 2).

Table 3 – Multiyear structural balance trajectory

(% of GDP)	2011	2012	2013	2014	2015	2016
Government balance	-5.2	-4.4	-3.0	-2.0	-1.0	0.0
Cyclical balance	-1.4	-1.8	-1.8	-1.7	-1.5	-1.3
Structural balance (as a % of potential GDP)	**-3.7**	**-2.6**	**-1.2**	**-0.3**	**0.5**	**1.3**
Variation in the structural balance (in percentage points	1.9	1.2	1.4	0.9	0.8	0.8

[3] Excluding the end of the stimulus plan and the end of the temporary cost of implementing the reform of the local business tax.

Box 2 – Yield assumptions and changes

The issue yields of France's sovereign debt have been very favourable in recent months. **In 2011, the average weighted issue yield on short-term securities stood at 0.81% and the yield on medium and long-term securities stood at 2.80%**. These historically low yields fell even further in the first quarter of 2012, with the average weighted issue yield standing at 0.19% for short-term securities in the first quarter and at 2.30% for medium and long-term securities. This is the result of three main factors:

- The credibility of France’s fiscal and tax policy and the resilience of its economy in the current phase of the business cycle have earned the confidence of international investors seeking to invest their liquidities in quality securities in a slackening economic environment.

- The demand for France’s sovereign securities has not been affected by financial tensions in recent months. Only one of the big three rating agencies changed its rating for France’s long-term debt.

- The European Central Bank’s accommodative monetary policy, with two exceptional long-term financing operations that greatly reduced financial tensions, and the strengthening of fiscal coordination and governance in the euro area enhanced France’s creditworthiness.

In this context, the yield assumptions for 2012 to 2016 in this Stability Programme are conservative. As the sovereign debt crisis eases, these assumptions are based on a scenario where short-term and long-term yields will gradually rise starting in 2012 and return to their pre-crisis levels by 2016. This puts the 10-year yield at 3.25% at the end of 2012, followed by a 25-basis-point rise each year to 4.25% at the end of 2016.

3.4 Changes in the government balance by sub-sector

Achieving the public finance targets will require each sub-sector to do its part in reducing the general government borrowing requirement by 2016.

Table 4 – General government lending capacity (+) / borrowing requirement (-)

(% of GDP)	2011	2012	2013	2014	2015	2016
Government balance, Maastricht definition	-5.2	-4.4	-3.0	-2.0	-1.0	0.0
o.w. primary balance	*-2.6*	*-1.8*	*-0.5*	*0.6*	*1.7*	*2.8*
State	-4.4	-3.6	-2.4	-1.7	-1.1	-0.6
o.w. primary balance	*-2.2*	*-1.5*	*-0.2*	*0.5*	*1.1*	*1.7*
Other central government bodies	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1
Local governments	0.0	0.0	-0.1	-0.1	0.0	0.0
Social security funds	-0.6	-0.5	-0.4	-0.1	0.3	0.6
o.w. primary balance	*-0.4*	*-0.3*	*-0.2*	*0.2*	*0.6*	*1.0*

The **central government** borrowing requirement (State and other central government bodies) will shrink by around 4 percentage points of GDP between 2011 and 2016 through efforts to contain expenditure that will be achieved by reducing the State budget expenditures, excluding interest and pensions, by applying the same cross-sector rules of the State to its operators, by reducing tax expenditures and by the catching up of revenues following their overreaction to the crisis.

In the central government sub-sector, the deficit of other central government bodies, and more specifically, the slight increase in the deficit between 2012 and 2015, reflects the profile of the Invest for the Future programme: after posting a surplus in 2010, when the initial appropriation was made, expenditure under the Invest for the Future programme will rise and peak in 2014, leading to a temporary worsening of the other central government bodies deficit.

The **local governments** balance will reach a low in 2013 and then improve, a pattern correlated with the “election cycle” : Capital expenditure will be relatively high in 2013, with the approach of local elections in 2014, and local direct tax rates will show only very moderate increases in the run-up to the elections. However, this spending and deficit pattern will be less pronounced that in earlier election cycles, in line with the spending restraint observed in 2010 and 2011. This restraint was aimed at limiting the borrowing requirement, as revenue growth was slower than in the past (not least because transfers from the State were reduced (excluding those from the VAT Compensation Fund[4]) under the measures to consolidate public finances.

The **social security funds**[5] balance will improve gradually over the period covered by this Stability Programme. The improvement will be achieved through efforts to contain spending (particularly with regard to healthcare insurance), the rise of the 2010 pensions reform impact, elimination of social security contribution exemptions during the period, as well as the

[4] The purpose of the VAT Compensation Fund (FCTVA) is for the State to pay flat rate compensation to local governments, groups of local governments and their public establishments for the VAT that they pay on their investment expenditure.
[5] These include the general social security fund, as well as the Social Security Debt Amortisation Fund (CADES), the Pension Reserve Fund, supplementary pension schemes and unemployment insurance.

reduction of spending on unemployment benefits and the increase in private-sector wage bills as the economy improves.

3.5 Change in general government expenditure

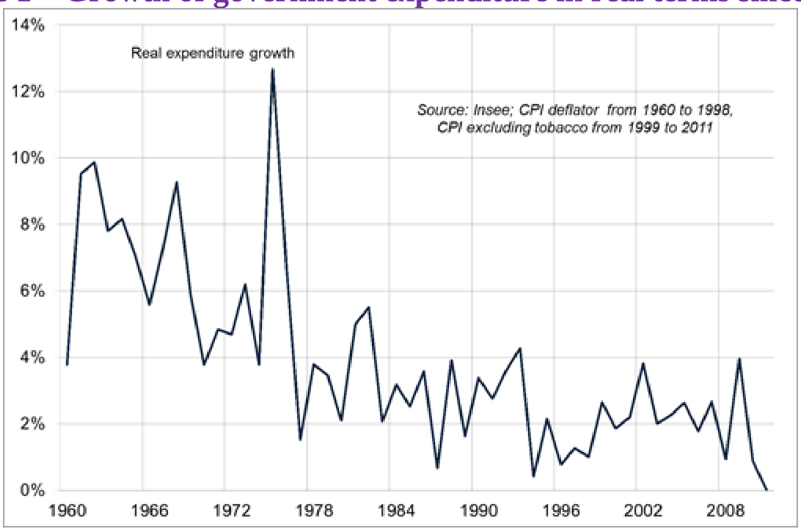
Table 5 – Change in general government expenditure

Average per year in real terms (*)	2012-2016
General government	**0.4%**
Central government (APUC)	-0.6%
Local governments (APUL)	0.6%
Social security funds (ASSO)	0.8%

(*) This is the average real expenditure growth for 2011-2012, 2012-2013, 2013-2014, 2014-2015 and 2015-2016 on a like-to-like basis and it includes transfers between general government sub-sectors.

The Government's strategy to restore balanced public finances in 2016 relies on a major effort to contain expenditure by each general government sub-sector. Growth of government expenditure in real terms will stand at 0.4% on average from 2013 to 2016, after rising by 0.3% in 2012 and remaining stable in 2011 (0.0%). Such efforts have not been seen since 1960 (see Figure 1). This growth rate is much lower than in previous years (2.4% from 1999 to 2007). It is a reasonable and realistic target in light of the results achieved in 2010 and 2011. The slower growth of expenditure in real terms has been made possible by determined efforts to reach targets set in 2007 and substantially tightened in 2010 : stabilisation and then reduction of the State's nominal expenditure, excluding interest and pensions ("zero nominal spending growth" rule), containment of healthcare expenditure, implementation of pensions reform and incentives for restraining local government operating expenditures.

Figure 1 – Growth of government expenditure in real terms since 1960



3.5.1 State expenditure

2011 Budget outturn better than planned

The 2011 Budget was drafted in compliance with two expenditure rules, which are set out in a dedicated article of the 2011-2014 Multiyear Public Finance Planning Act:

- stabilisation of budget appropriations and levies on revenues allocated to the European Union and local governments, excluding debt service and State civil service pensions, in current euro terms ("zero nominal spending growth" rule);
- when debt service and pensions are included, the annual increase in budget appropriations and levies on revenues must not be more than the inflation rate (“zero real spending growth” rule).

The freeze on nominal expenditure, excluding debt service and pensions, is particularly effective. This rule ensures that the savings on civil service pensions under the 2010 pension reform, which will be stepped up during the programme period, cannot be used to finance other expenditures. Instead, all of these savings will be used for structural consolidation of France’s public finances. Similarly, a pleasant surprise with regard to debt service, such as lower-than-expected inflation or interest rates, will not be used to finance other State expenditures.

Strict compliance with these two spending rules was achieved in 2011.

Expenditure covered by the “zero nominal spending growth” rule (excluding debt service and State civil service pensions) **came in at €0.2 billion under the ceiling set in the 2011 Initial Budget Act. This means that the budget outturn was better than with strict application of the rule. For the first time since 1945, State expenditure, excluding debt service and pensions, declined from one year to the next in nominal terms.** To meet this target, expenditure planning was adjusted to account for various unexpected needs arising during the year, such as the external operations in Libya and the impact of drought on agriculture, which were met by redeploying appropriations.

Spending under the “zero real spending growth” rule, including debt service and State civil service pensions, grew at a rate that was lower than the expected inflation rate under the 2011 Initial Budget Act. **As was the case for spending under the “zero nominal spending growth” rule, the outturn was better than with strict application of the rule.**

Strict control of State expenditure planning in 2012 and the following years is critical for achieving balanced public finances in 2016.

The 2011-2014 Multiyear Public Finance Planning Act called for stabilisation of budget appropriations in current euro terms (excluding debt service and State civil service pensions) and revenue transfers ("zero nominal spending growth" rule) for the entire period from 2011 to 2014.

In keeping with the measures announced by the Prime Minister on 24 August and 7 November 2011, the trajectory of spending under the “zero nominal spending growth” rule was tightened up compared to the 2011-2014 Multiyear Public Finance Planning

Act: following a one-off cut of €2.7 billion in 2012 to cope with slower growth[6], spending under the "zero nominal spending growth" rule will be cut by €1 billion per year from 2013 to 2016. This new expenditure target will be strictly enforced when drafting and executing future Budget Acts. It is critical for achieving balanced public finances in 2016.

This trajectory will call for **unprecedented efforts compared to earlier budgets.** In the Initial Budget Acts from 2006 to 2010, general budget appropriations and revenue transfers under the "zero nominal spending growth" rule increased by an average of some €2.9 billion each year, in accordance with the growth rate set under the "zero real spending growth" rule. In 2011, these appropriations were cut by €0.2 billion. Under the 2012 Initial Budget Act, they were cut by €1.5 billion compared to 2011. They were cut by another €1.2 billion when appropriations were cancelled in early 2012. They will be cut by €1 billion per year between 2013 and 2016.

These savings will rely on maintaining the policy on containing the wage bill, which is based on moderate individual wage increases and monitoring the headcount, containing operating expenditures (continuing the General Review of Public Policies, pooling support functions, cross-sector savings rules, etc.), and controlling investment and intervention expenditure.

Achieving expenditure reduction targets has been ensured by the major efforts in recent years to document savings measures, with the help of control bodies, as part of the General Review of Public Policies. These efforts will continue after 2013 and be backed up by a fresh policy review.

The three-year State budget

The 2013 Budget Bill will be drafted in accordance with the trajectory presented by the Prime Minister on 24 August and 7 November 2011. This means that expenditure, excluding debt service and pensions, will fall by €1 billion compared to 2012.

The efforts initiated under the 2011-2014 Multiyear Public Finance Planning Act regarding the headcount of State civil servants will continue with the policy of replacing only one of every two civil servants taking retirement, leading to the elimination of some 30,000 jobs. The efforts set out in the 2011-2013 three-year budget with respect to operating and intervention expenditure (with a 10% cut over three years) will be continued and even stepped up in certain cases. Revenue transfers to local governments and the European Union will also be involved in the effort to restore balanced public finances.

The 2013 Budget breakdown by programmes and missions will be presented to the Parliament during the public finance policy debate at the start of the third quarter, in keeping with the national procedure.

[6] The 2012 Budget Bill was drafted with a cut of €1.5 billion compared to the "zero nominal spending growth" rule. During the parliamentary debate on the 2012 Supplementary Budget Act promulgated in March, an amendment cut another €1.2 billion from the appropriations.

Box 3 – Expenditure reductions through structural reforms

Compliance with the rules governing State expenditures was achieved through structural reforms that radically modernised the State and its operators and rationalised intervention programmes.

Structures were modernised as part of the General Review of Public Policies (see 6.2.1). Local agencies of the State were reorganized and merged to enhance synergy between their tasks (e.g. creation of Regional Directorates for Businesses, Competition Policy, Consumer Affairs, Labour and Employment that bring local economic agencies together). Similarly, the map of judicial districts was adjusted for changes in the distribution of the population throughout the country. Several units were closed down or merged with nearby units. At the central level, the number of directors has been cut back drastically and several directorates have been merged (e.g. tax assessment and tax collection departments). The same reasoning has been applied to State operators (e.g. merger of the National Employment Agency and the Unemployment Insurance Agency to create Pôle Emploi).

State line functions have also been systematically audited and modernization plans have been drawn up. The Public Procurement Department is now implementing a dynamic policy to pool procurement and lower the State’s procurement costs. In a similar vein, an Interministerial Information System Directorate was set up to help rationalize the State's spending on data processing systems. The Ministry of Defence has created defence bases throughout the country that pool all of the support and general administration functions for all three branches of the armed forces in the same premises. The State and its operators have also implemented a policy to rationalise their buildings and premises to reduce rental costs and office space. The savings in operating expenditures will come to €3.5 billion in 2013, compared to 2008.

The wage bill has been contained under the policy of replacing only one of every two retiring civil servants. This rule is applied differently by various ministries, depending on policy needs and priorities. It is backed up by the structural reorganization mentioned above and by streamlining and computerizing a number of processes. This policy will produce cumulative savings of €4.6 billion by 2013 and help reduce the State wage bill (by €0.2 billion) in 2012 for the first time since 1945.

State intervention programmes have also been reviewed to improve its targeting and efficiency. The two three-year budgets document more than €6.9 billion in savings from these arrangements.

In aggregate, €15 billion in savings will be achieved in 2013. All of these reforms were backed up by greater efforts to improve service to users by increasing the number of real and virtual one-stop service shops to streamline administrative formalities for businesses and individuals.

3.5.2 Expenditure of other central government bodies

The other central government bodies classified as "State operators[7]" are directly involved in the containment of public expenditure, since the cross-sector rules applying to the State under the 2011-2013 three-year budget with regard to operations and headcount apply to them as well.

- These operators will have to make a collective effort to reduce their operating and intervention expenditure that is proportionate to the effort to be made by the State.
- The rule on replacing only one of every two civil servants taking retirement applies to the State operators as well. It will be adapted to their specific demographics and to policy priorities. The rule means a general headcount reduction of 1.5% per year for State operators, excluding higher education and research. It led to the elimination of some 2,600 jobs in 2011.

To achieve these savings, an audit of the key operators was undertaken in 2009 and will continue for the period covered by the Stability Programme. At the end of 2011, one quarter of the State operators' headcount (excluding universities) had been reviewed as part of this audit.

The ban on bank borrowing and issuance of debt securities with maturities over twelve months by other central government bodies also helps to contain their spending. This normative provision of the 2011-2014 Multiyear Public Finance Planning Act was backed up by an Order in November 2011 that defined its scope of application. It will also provide better control over aggregate general government debt.

Under these restrictions, the pattern of other central government bodies' expenditure between 2012 and 2016 primarily reflects disbursements under the Invest for the Future programme. The overall impact is attenuated by the management choices and the scale of asset building that does not count as expenditure in the national accounts[8]. After a first wave of calls for projects in 2010 and 2011, followed by a second wave, the implementation of the Invest for the Future programme has been gradual. In view of the exacting quality requirements for projects, the contract negotiations with the successful bidders need long time because of the complex and innovative nature of the projects. The assumption used in this Stability Programme is that expenditure for the Invest for the Future programme recorded in the national accounts will expand in 2012 (approximately €2.5 billion, versus €0.7 billion in

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[7] The salient features of State operators are that they carry on public service activities, are mostly financed by the State and are under the State's direct control. The population of State operators and that of Other Government Bodies are not exactly the same.

[8] Non-consumable allocations, loans, equity holdings and capital contributions, which account for two-thirds of the appropriations, will not have any impact on the government deficit: the former because the interest payments are backed by savings made elsewhere in the State budget and the latter because they are recognised as financial transactions in the system of national accounts. Only subsidies and repayable advances, accounting for one third of the appropriations, will have an impact on the government deficit. Repayments received later on the advances will be added to revenue.

2011[9]), peak in 2013-2014 at between € 3 billion and €4 billion, and then decline gradually. The impact on the government deficit will be €1.8 billion in 2012 and a bit less than €3 billion in 2013-2014, since some of this expenditure will be financed by the interest paid by the State that is secured through savings (spending rule).

3.5.3 Expenditure of the social security funds

The growth of social security benefits paid by the social security funds slowed from 3.6% in 2010 to 3.2% in 2011 as a result of a 0.3% dip in expenditure on unemployment benefits. On the other hand, benefit expenditure will expand at a slightly faster rate of 3.5% in 2012 as a result of the growth of unemployment benefits as the economy is slowing down, despite stricter containment of expenditure on healthcare insurance benefits (National Healthcare Expenditure Target at 2.5%) and indexation of family allowance and housing benefits limited to 1% under the measures announced on 7 November 2011. Old-age pension expenditure will grow at 4.0%, the same rate as in 2011, as the moderating effect of pensions reform corrected for price indexation (1.9% versus 2.3%) will be offset by a benefit adjustment to make up for inflation in 2011. In 2013, social benefits expenditure growth will slow to 2.9%. The attenuation of pension expenditure growth in real terms will continue as pension reform is implemented and the gradual improvement in the job market will slow the growth of unemployment benefits expenditure. Between 2014 and 2016, growth of benefits expenditure will be curbed at 2.7% on average, in particular as a result of the effect of the pensions reform passed in 2010, the implementation of healthcare insurance expenditure targets, and the expected consolidation of the improvement in the job market stemming from a gradual recovery from the crisis.

Table 6 – Change in expenditure of the social security funds

	2011	2012	2013	2014-2016*
National Healthcare Expenditure Target	2.9%	2.5%	2.5%	2.5%
Family-Housing	1.9%	2.0%	2.6%	2.3%
Old age	4.0%	4.0%	3.4%	3.0%
Unemployment	-0.3%	5.3%	2.0%	1.4%
Total expenditure	**3.2%**	**3.5%**	**2.9%**	**2.7%**

** Average annual growth rate, 2014-2016.*

Healthcare benefits

In 2011, the slowing of healthcare insurance expenditure growth first seen in 2008 continued and made it possible to achieve the National Healthcare Expenditure Target passed by the Parliament in the Social Security Budget Act for the second year in a row. The 2.9% growth in this expenditure was 0.6 percentage points lower than the average annual growth rate between 2007 and 2010. Compliance with the target passed relies in particular on stepping up efforts to

[9] These figures include spending by funds that are distinct from the State in the cash-based budgetary accounting system, but part of the State in the system of national accounts.

control unnecessary prescriptions, price cuts (for drugs, professionals in radiology and biological testing), continued inter-sector convergence between healthcare establishments and projects to improve efficiency in the sector. The measures implemented in 2010, following the recommendations from the working group chaired by Raoul Briet, also started to produce results by making it possible to track and monitor the National Healthcare Expenditure Target more closely, and by anticipating potential overshooting of the Target by setting aside a reserve of appropriations at the start of the year. The budget reserve of €0.5 billion set aside when setting the hospital target helped to achieve compliance with the expenditure targets.

For 2012, the National Healthcare Expenditure Target, which was initially set at 2.8%, in accordance with the original trajectory, was lowered to 2.5% in November. This effort relies on continuing efforts to achieve efficiency gains in the healthcare system and the resulting reductions in medial consumption. Savings measures worth a total of €2.6 billion are being taken to bring expenditure growth back into line with the target set. Some €1.0 billion in price cuts on healthcare products were decided, including €0.3 billion in cuts to the price of generic drugs. Fees for radiology and biological testing services have been cut and should also reduce expenditure by €0.3 billion. Medical oversight of expenditure should produce a further €0.6 billion in savings on private practice, as it did in 2011. Continued efforts to improve efficiency in hospitals should save healthcare insurance approximately €0.4 billion under the Performance Contract of the National Agency for the Efficiency of Healthcare and Medical and Social Institutions, through rationalization of hospital purchasing and through price convergence between the public and private sectors. Further measures to cut fees on the “additional list” (hip and knee replacements), and the fight against hospital fraud should produce savings of approximately €0.2 billion.

From 2013 to 2016, as the Government announced on 7 November 2011, the National Healthcare Expenditure Target will remain at 2.5% growth per year. Compliance with this target will require new annual measures for further savings of some €0.5 billion compared to the Multiyear Public Finance Planning Act, which set the target at 2.8%. Enhanced governance and monitoring of the National Healthcare Expenditure Target will facilitate compliance. An early warning committee will now approve the assumptions underlying the target set by the Social Security Budget Act and then, in the second quarter of the following year, it will assess compliance with the target. If overshooting of the National Healthcare Expenditure Target is expected to exceed the early warning threshold, which has been lowered to 0.5%, the Government will have to take corrective measures. This timetable will make it possible to identify potential overruns sooner and to implement the necessary measures to ensure compliance with the target for the year. The introduction of systematic reserves of appropriations also enhances the capacity for infra-annual monitoring of the target.

Old-age benefits

The pension reform passed in 2010 is aimed primarily at restoring the balance of the pension system in the medium term by increasing the minimum retirement age and raising the age for automatic entitlement to a full pension for all retirees. The full impact of this reform on expenditure will be felt in 2020. The impact will be enhanced in 2012 by the measure announced in the fourth quarter of 2011 and stepping up the implementation of the reform. Real expenditure growth for benefits, corrected for price indexation, will slow down over the period from 2.3% in 2011, to 1.9% in 2012, 1.6% in 2013, and then 1.3% on average from 2014 to 2016. The same effect will be seen in nominal terms, with annual growth of 3.0% from 2014 to 2016, down from 4.0% growth in 2011 and 2012, and 3.4% growth in 2013.

Other social benefits

Family and housing benefits expenditure grew by 1.9% in 2011 and will rise by 2.0% in 2012. Stronger real growth than in 2011 stems from the implementation of the mechanism unifying the supplement of family benefit for children over. The cost of this mechanism will start to be felt in 2012 and will be offset by the measure limiting to 1% the price indexation of family allowances and implementing the adjustments on 1 April instead of 1 January (measure passed in the 2012 Social Security Budget Act and the 2012 Pensions Budget Act). The inflationary impact of the increase in the basis used to calculate family allowances will be only 0.75% on average in 2012, compared to 1.5% in 2011. In this scenario, the growth of expenditure on other benefits would accelerate in 2013 (2.6%), and again between 2014 and 2016.

After posting slower growth in 2011, expenditure on unemployment benefits should increase in 2012 because of the temporary economic slowdown, and then be contained with 1.4% average growth each year from 2014 to 2016, as the labour market improves.

3.5.4 Expenditure of local governments

The local governments balance should be close to zero in 2016, with a marked slowdown in local government expenditure compared to the trend seen before 2008.

After falling sharply in 2010, investment posted 2.3% nominal growth in 2011. Its growth will be slightly faster than GDP growth in 2012 and 2013, in the run-up to local elections in 2014. In addition, the next cycle of local investment will be less dynamic than the previous one, which saw a marked rise in construction costs. Starting in 2014, local government investment is bound to slow down in accordance with the pattern seen in previous election cycles.

Local governments will also continue their efforts to curb current expenditure started in 2010 and 2011. They have to slow their current expenditure to cope with slower growth of their revenues stemming in part from the decrease in financial transfers to local governments. The local government reform passed in 2010 helps to rationalize local government expenditure, along with limiting the number of regulations that apply to them. The brighter economic outlook will lead to a sharply slower growth of certain expenditure covered by local governments, such as the Social Inclusion Benefit (*RSA socle*).

3.6 Changes in government revenues

In 2012, the aggregate tax and social security contributions rate should stand at 44.7% of GDP. It will then continue to rise over the entire period to reach 45.8% of GDP in 2016 with the new measures and the reconstitution of revenues lost during the crisis. Accordingly, the forecast is built on the assumption of 1.1-average elasticity in taxes and social security contributions in 2012, and then 1.0 on average from 2013 to 2016.

The Stability Programme also incorporates the impact of all of the measures already voted or enacted. There is a significant effort aimed at increasing public revenue in 2012, with new tax and social security contribution measures (as defined in the Multiyear Public Finance Planning Act) worth €16 billion, which goes far beyond the target of €3 billion. Many of these measures stem from consolidation plans announced on 24 August and 7 November 2011 to cope with the prospect of slower growth in 2012, along with the revenue measures announced in February 2012 and promulgated in March in the first 2012 Supplementary Budget Act. In particular, additional new measures worth 0.6 percentage point of GDP were passed in the various 2011 Budget Acts and Social Security Budget Acts, such as the elimination of index-linking of income tax rates, wealth tax rates and inheritance tax rates, or the extension of the holding period to qualify for the capital gains tax exemption on real property, the creation of an intermediate VAT rate of 7% and the one-off corporate income tax contribution for large corporations. These measures are backed up by new measures worth 0.2 percentage point of GDP in the two 2012 Budget Acts and the Social Security Budget Act, such as the creation of a tax on financial transactions, the introduction of a one-off tax on very high incomes and the reduction of the flat-rate General Social Security Contribution exemption for professional expenses. These measures account for 0.8 percentage point of GDP in the 0.9-point increase in the aggregate tax and social security contributions rate. In 2013, the effort to increase revenues will still be significant at 0.4 percentage point of GDP. Between 2013 and 2016, a further €8 billion in revenue increases will be implemented to ensure that the targets set out in the Multiyear Public Finance Planning Act are met in 2014, in line with the trajectory decided in November 2011.

In addition, **revenues excluding taxes and social security contributions** should be more or less steady at around 7% of GDP between 2012 and 2016.

For the entire period from 2012 to 2016, the anti-offshoring VAT reform introduced by the first 2012 Supplementary Budget Act will be neutral for aggregate taxes and social security contributions. It reduces taxes on labor and allocates new revenue to the social security funds.

3.6.1 State revenues

In 2012, net tax revenues for the State should rise sharply compared to 2011 to reach €272.9 billion. Despite the economic slowdown, this increase stems primarily from spontaneous catch-up of tax revenues following their downward overreaction in 2009, especially for corporate income tax and, to a lesser extent, for personal income tax.

At the same time, net tax revenues will be increased by the impact of new measures worth €10.4 billion, among which:

- the impact of tax measures introduced in the 2011 Initial Budget Act, and the two 2011 Supplementary Budget Acts, that primarily reduced tax exemptions, such as the reduction of the tax credit on solar power equipment, the 10% cut in a set of personal income tax credits and reductions, the reform of the tax breaks for home-buyers (elimination of the tax credit for home loan interest), the extension of the holding period to qualify for the capital gains tax exemption on real property, elimination of the consolidated global profit regime and restrictions on the ability of eligible corporations to carry losses forward and backward;

- the impact of tax measures introduced in the 2012 Initial Budget Act and the fourth 2011 Supplementary Budget Act passed following the announcements made on 24 August and 7 November 2011. These measures should increase the net tax revenues of the State by 0.3 percentage point of GDP, with the one-off contribution on very high incomes, no indexation of tax brackets (personal income tax, wealth tax and inheritance tax) in 2012 and 2013, a one-off corporate income tax contribution for large corporations and the introduction of an intermediate VAT rate of 7%;
- the impact of the first 2012 Supplementary Budget Act, which introduces a tax on financial transactions.

In 2013, the net tax revenues of the State, revenue from corporate income tax in particular, should rise faster than nominal GDP, as revenue continues to catch up as the economy recovers from the crisis. The measures announced in 2011 and 2012 will also help to increase revenue, especially no indexation of tax brackets for personal income tax, wealth tax and inheritance tax (€1.8 billion), the 15% reduction of personal income tax credits and cuts (€0.5 billion), the adjustment of energy savings subsidies (€0.3 billion), the retargeting of interest-free loans (€0.3 billion) and the implementation of the tax on financial transactions.

The programme for 2014 to 2016 is based on the assumption that the taxes and social security contributions collected by the State will increase more rapidly than nominal GDP growth, with an average elasticity of 1.1, as economic growth outstrips its potential. At the same time, the reduction of tax expenditures and social security contribution exemptions will continue in line with the overall effort defined in November 2011 for the period from 2011 to 2016.

3.6.2 Revenues of social security funds

In 2011, the revenues of the social security funds increased by 5.5%. The 4.2% growth of social security contributions outstripped the 3.6% growth of the private-sector wage bill. The change in the calculation rules of social security contribution reductions for low-paid workers added €1.8 billion to social security revenues in 2011, and the 0.1-percentage-point increase in the contribution rate for work accidents / occupational illnesses from 2.3% to 2.4% account for this difference. At the same time, the tax revenue of the social security funds was increased by the impact of new measures, such as the 6% increase in tobacco prices applied in July 2011, the 1.4-percentage-point increase in the social security levy on capital income and the increase in revenues allocated to financing the Social Security Debt Amortization Fund (CADES).

In 2012, **social security revenues** should show slower growth as the economy slows down (3.1% as opposed to 5.5% in 2011). As employment stabilises over the year, wage bill growth will be slower than in 2011, at 2.5% instead of 3.6%. In addition, the €5.0 billion that new measures will add to revenues are inferior to the €11.9 billion raised by new measures in 2011. More specifically, the growth of social security contributions will be much lower at 1.9%, compared to 4.2% in 2011. Social security contributions used to finance family allowances will decrease with the entry into force of the anti-offshoring VAT reform in the fourth quarter. Jobs paying less than 2.1 times the statutory minimum wage will be totally exempt, and jobs paying between 2.1 and 2.4 times the statutory minimum wage will be partially exempt. On the other hand, **tax revenues** will continue to show strong growth, as they did in 2011, with a 6.0% increase in income and asset tax revenues and an 11.2% increase in revenues from taxes on production. The recognition of all the revenue from the one-off tax on insurance companies' capitalization reserves in the 2011 national accounts will lower revenue growth under the Maastricht definition[10] in 2012.

The reduction of €13.2 billion in employers' social security contributions used to finance family allowances is fully offset by the 2-percentage-point increase in the social security contribution on capital income and the increase in the standard VAT rate from 19.6% to 21.2%.

Tax revenue growth will also be underpinned by other new measures, such as the reduction of the flat-rate Generalized Social Security Contribution (CSG) exemption for professional expenses from 3% to 1.75%, a further 2-percentage-point increase of the minimum tax on Social Security-exempt benefits paid by employers ("forfait social") to 8%, the extension of the holding period to qualify for the capital gains tax exemption on real property other than the main residence, a new tax on sugary drinks, higher liquor taxes, the adjustment of the tax rates on company cars, etc.

In 2013, the private-sector wage bill should post even faster growth of 3.2%, compared to 2.5% in 2012. The application of the anti-offshoring VAT reform for a full year will substitute social security contributions (the growth of which will slow down to 0.4%) for new tax revenues (growing by 8.7%), while promoting a recovery on the labor market.

From 2014 to 2016, as the economic recovery gains strength, the private-sector wage bill should grow by 4.0% annually, hence sustaining the growth of social security contributions. The containment of public-sector wage bill growth at 1.1% per year on average should slow aggregate revenue growth of the social security funds to an annual rate of around 3.8%.

3.6.3 Revenues of local governments

Following 2011, when local governments' tax revenues increased more rapidly than GDP, largely due to taxes on the transfer of properties against payments (DMTO), local governments' tax revenues should spontaneously grow at about the same rate as GDP **in 2012**. New measures worth €1.3 billion, such as an increase in local direct tax rates, will have a positive impact. This should bring local government tax revenue up to €122.9 billion in 2012. Moreover, the State's transfers to local governments (excluding the VAT compensation fund and compensation for the local business tax reform) will decrease by €0.2 billion. This move will involve local governments in the reduction of the State's expenditure, excluding debt service and pensions.

[10] The impact of the tax on funds that insurance companies put into their capital reserves was exceptional in 2011. The €1.7 billion in revenue collected from this tax in part in 2011 and in part in 2012 was all recognised in 2011 under the system of national accounts.

In 2013, local tax revenues should grow spontaneously at a slightly lower rate than GDP, with an elasticity of 0.8, because of the deceleration of the contribution on business value-added (due to the slower growth of value added in 2012). Property tax and residence tax revenues should spontaneously show slightly lower growth than GDP because of slower growth of investment in 2012. The impact of new measures should be virtually nil in the run-up to local elections. The aggregate local tax should work out to €126.3 billion with the containment of local public expenditure.

From 2014 to 2016, local government tax revenues should grow at nearly the same rate as GDP with average elasticity of slightly less than 1 over the period. Local direct tax rates should start rising again in 2015, once the 2014 elections are over.

3.7 Government debt and stock-flow adjustment

In 2011, the public debt ratio according to the Maastricht definition stood at 85.8% (or 85.1% when excluding financial support to the euro area), representing an increase of 3.5 percentage points of GDP compared to 2010. This increase stems primarily from a deficit that is still greater than the debt-stabilizing point (gap of 2.5 percentage points of GDP compared to the stabilizing point of 2.6% in 2011). To a lesser extent, the rise is also due to a positive stock-flow adjustment (1.0 percentage point of GDP). The repayment of the support that had been granted by the government to the private sector as part of the crisis-management measures, and the new asset allocation strategy for the Pension Reserve Fund in favour of government securities (consolidating effect) did not offset the loans granted to euro area countries facing difficulties, directly or through the European Financial Stability Facility, and the increase in general government cash balance.

In 2012, the aggregate debt ratio should rise by 3.2 percentage points of GDP, primarily as a result of the 2.4-points gap between the government deficit and the stabilizing point (still a large gap because of low gdp growth in 2012). The stock-flow adjustment should be positive overall (0.7 point). This primarily reflects the increase in financial support for the euro area with the implementation of the second bailout plan for Greece and the first capital endowment to the European Stability Mechanism (France committed to providing two payments of €3.3 billion). To a lesser extent it also reflects the financial transactions carried out as part of the Invest for the Future programme. These asset flows in 2012 will be only partially offset by a decrease in the general government cash balance and by privatisation proceeds allocated to reducing the State's debt.

In 2013, with a deficit at 3% of GDP and an economic recovery, the debt ratio, excluding financial support for the euro area, will start to decline from 86.6% to 86.5% of GDP and the overall increase in government debt will be much smaller at 0.2 percentage point of GDP to stand at 89.2%, solely as a result of continuing plans to provide financial support to the euro area[11].

[11] This programme assumes that €6.6 billion will be paid into the ESM capital in 2012, followed by annual payments of €3.3 billion for three years starting in 2013. The payment of a second tranche in 2013, according to the

Starting in 2014, the debt ratio will start to decline, as the government deficit is substantially higher than the stabilising point of approximately -3%. Consequently, after standing at 89.2% of GDP in 2013, the debt ratio will fall to 83.2% of GDP in 2016.

Table 4 – Decomposition of changes in the government debt ratio

(% of GDP)	2011	2012	2013	2014	2015	2016
Government debt (excluding support for the euro area	**85.1**	**86.6**	**86.5**	**85.4**	**83.3**	**80.4**
Government debt	**85.8**	**89.0**	**89.2**	**88.4**	**86.4**	**83.2**
Change in government debt	3.5	3.2	0.2	-0.9	-2.0	-3.1
Differential from stabilising point	2.5	2.4	0.0	-1.2	-2.1	-3.1
Government balance	*-5.2*	*-4.4*	*-3.0*	*-2.0*	*-1.0*	*0.0*
Government debt stabilising point	*-2.6*	*-1.9*	*-3.0*	*-3.2*	*-3.2*	*-3.1*
Stock-flow adjustment	1.0	0.7	0.2	0.3	0.1	-0.1

Box 4 – Impact of European financial assistance plans on government debt

As tensions started to emerge on European markets in the fourth quarter of 2009, three Member States belonging to the euro area had to call upon European solidarity in succession to finance their debts since markets were demanding interest rates that were too high. The Member States belonging to the euro area supported **Greece** in conjunction with the IMF in the second quarter of 2010. This support took the form of **€110 billion in bilateral loans scheduled until the middle of 2013. The EU put up €80 billion, of which €16.8 billion came from France**[12], and the IMF put up €30 billion. They also created the **European Financial Stability Facility** (EFSF) to provide assistance to any euro area country that requests it. This facility has a capacity of €440 billion, on top of the €60 billion in the European Financial Stabilization Mechanism (EFSM), an EU instrument backed by the EU budget and available to all 27 Member States.

The EFSF and the EFSM were used to support Ireland and Portugal. **Ireland** was the first to receive a total of €85 billion in support at the end of 2010, with **€17.7 billion from the EFSF, of which France's share was €3.9 billion**, under a programme running until the end of 2013. In the middle of 2011, Portugal received €78 billion in support, with **€26 billion from the EFSF, of which France's share was €5.7 billion**[13] under a programme to finance Portugal's general government until the middle of 2014.

In the third quarter of 2011, the sovereign debt crisis grew much worse. Tensions were revived by the downgrading of the United States' credit rating, fears that the Greek bailout would fail or that Greece would default and fears of contagion spreading the crisis to other euro area countries as their interest rates rose sharply. On 21 July, the European partners announced a new plan to support Greece that involved the private sector. The plan called for sharing the

decision of the Copenhagen Summit at the end of March 2012, will modify the profile of the debt trajectory but not make any difference at the end of the period.

[12] Of the €16.8 billion, €11.4 billion had already been disbursed at 31 December 2011.

[13] The Member States' guarantees for the EFSF loans are counted as part of their Maastricht debt in proportion to their central banks' subscriptions to the ECB capital: 20.39% for France, but since the Member States under programmes do not participate, the proportion is 21.83%.

burden of restructuring Greece's sovereign bond debt. The details were finalized at the summit of euro area Heads of State and Government on 26 October. The Eurogroup meeting of 20 February 2012 finally decided on the definitive parameters for the **second financial assistance programme for Greece**. In addition to reducing Greece's debt by more than €100 billion, after the private sector wrote off 53.5% of its nominal stock of Greek securities, the Member States belonging to the euro area and the IMF will provide €130 billion in financing, in addition to the undisbursed remainder from the first programme, which will cover the period from 2012 to 2014. This financing will be provided by the EFSF, which will also cover the remaining tranches of the bilateral loans granted to Greece, totaling €24.4 billion, plus €9.9 billion not yet disbursed by the IMF. Given the participation of IMF, **the Member States will guarantee a total of €144.7 billion, of which €31.6 billion will be provided by France** (whose undisbursed share under the first programme will be cancelled).

France has also agreed to finance or guarantee €52.5 billion (2.5% of GDP) in financial support for the peripheral countries by the end of 2014. Within the timeframe of this Stability Programme (2016), the first tranches provided to Portugal and Ireland should be repaid, for a total of €5.8 billion, which translates into a reduction of €1.2 billion in France's debt. The other tranches of the loan mature after the end of the forecasting timeframe for this Stability Programme, following the decision made on 21 July 2011 to extend the maturity on all of these loans to 15 years with a 10-year grace period (meaning a period with no repayments).

Since the EFSF and the EFSM are supposed to be shut down by the middle of 2013, the European Council of 16 and 17 December 2010 decided to establish a permanent tool to bolster the financial stability in the euro area, the **European Stability Mechanism**. The Treaty for the ESM was finalized and signed on 2 February 2012. Eurostat issued an opinion on 7 April 2011 based on the characteristics described in the Conclusions of the European Council of 24 and 25 March 2011 deeming that the liabilities of the ESM will not be counted as part of the Member States' Maastricht debt[14] and that **only their borrowing to finance their subscriptions to the paid up capital (€80 billion, which works out to €16.3 billion for France) would be recognized as debt**. The capital of the ESM will be subscribed in five tranches of €3.3 billion. The first two will be paid in 2012 adding to €6.6 billion to the debt in 2012, in accordance with France's commitment in the Supplementary Budget Act of 8 February 2012, and the declaration of intent by the Heads of State and Government of the European Council of 2 March 2011.

Ultimately the impact of financial support for the euro area on government debt will be €67.5 billion by 2016, of which €50.2 billion will come in 2012.

[14] The EMS is a permanent international institution established under public law, with a governance structure that is similar to those of international financial institutions (with a governing council, an executive board and a managing director), with capital of €80 billion (15% of its liabilities during the capitalisation period).

4. Compliance with the Stability and Growth Pact

4.1 Excessive Deficit Procedure (EDP)

On 2 December 2009, the ECOFIN Council issued a recommendation to France with a view to ending by 2013 the excessive government deficit observed in 2008.

In its 2010-2013 Stability Programme submitted in January 2010, France described its strategy for achieving a structural adjustment of more than 4 percentage points of GDP over the period from 2010 to 2013 that would bring the government deficit down to less than 3% of GDP by 2013 (at the time, the deficit target was 6% in 2011 and 4.6% in 2012). Consequently, **the ECOFIN Council deemed in its opinion of 13 July 2010 that France had complied with this recommendation**, and that no further measures were required at that point under the Excessive Deficit Procedure.

Since then, the Procedure has been suspended and France has continued its efforts to comply with the recommendation made in December 2009. As the Council requested in its opinion of 12 July 2011, France has taken care to document the savings necessary and take further measures as required by deteriorating macroeconomic conditions.

In 2011, France was ahead of schedule for the target trajectory set out in the April 2011 Stability Programme. The National Statistics Institute, INSEE notified a deficit of 5.2% (as opposed to the target of 5.7%), even though growth was weaker than expected when the Initial Budget Act was drafted, at only 1.7%, instead of 2%. These results confirm the validity and credibility of France's strategy for restoring balanced public finances and provide a perfect illustration of the scale of the efforts being made. The savings measures set out in the Initial Budget Act and the Social Security Budget Act, which were described in the previous Stability Programme, along with the measures announced on 24 August and 7 November 2011[15] to offset the deterioration of macroeconomic conditions over the entire trajectory, made it possible to achieve an improvement of 0.5 percentage point of GDP on the target of 5.7% set in under the previous programme.

The improvement even stands at 0.8 point on France's target of 6% under the January 2010 Stability Programme, even though growth was weaker than expected. The growth forecast in January 2010 was 2.5%. This figure was trimmed to 2.0% in the April 2011 Stability Programme and to 1.75% in August 2011. This extra structural effort testifies to France's responsiveness to short-term economic developments and its capacity to control the spending of the State and its operators, Social Security spending and local government spending. Furthermore, in keeping with the ECOFIN Council opinion of 12 July 2011 and Article 11 of the Multiyear Public Finance Planning Act, the surplus revenue from 2011 was allocated to reducing the deficit and paying off debt.

[15] The 2011 Initial Budget Act and Social Security Budget Act had drastically increased the effort to cut the cost of tax and social security contribution exemptions, the target for new revenue measure being raised by €2 billion (January 2010 level) to €11 billion. This floor is largely outperformed with the measures announced on 24 August. The new tax and social security contribution measures (as defined in the Multiyear Public Finance Planning Act) stood at €13.6 billion in 2011.

Box 5 – Public finance consolidation measures announced on 24 August 2011 and 7 November 2011

As the outlook for the global economy impaired in the third quarter of 2011, the Government announced further consolidation measures on 24 August 2011 worth a total €11 billion in 2012of which €1 billion were effective as early as 2011. They included €1 billion in savings on State spending in 2012, along with €10 billion in new revenue measures aimed at reducing tax and social security contribution exemptions by €5.6 billion in 2012 and increasing the contributions from large corporations and high income earners by €3.2 billion and raising sin taxes by €1.2 billion.

Following the further revision of the 2012 growth forecast, additional measures were announced on 7 November. More than half of them deal with government spending:

- €0.5 billion in additional savings on State spending, excluding pensions and interest expense, in 2012, followed by a €1-billion cut each year starting in 2013;
- the National Healthcare Expenditure Target was lowered from 2.8% growth to 2.5% growth starting in 2012 and in the following years, which represents an additional €0.5 billion in savings each year;
- the timetable for pensions reform was accelerated, producing a gain of €1.3 billion in 2016;
- new revenue measures, such as the introduction of an intermediate VAT rate of 7%, the increase in corporate income tax for large corporations in 2012 and 2013, no indexation of tax brackets for personal income tax and the wealth tax in 2012 and 2013 and the elimination of certain tax exemptions, will bring in more than €5 billion in 2012 and more than €8 billion in 2016.

The impact of the measures announced on 7 November will step up through 2016 to consolidate the multiyear trajectory of public finances. All in all, the amount of the deficit avoided in 2016 will be more than €115 billion with the efforts already set out in the December 2010 Public Finance Planning Act, such as freezing the earning index and other savings that specified the compliance with the State spending rules, the National Healthcare Expenditure Target, the floor for discretionary revenue measures and the pension reform.

In addition, the 2012 Draft Supplementary Budget Act of 8 February 2012 cancels a further €1.2 billion in appropriations to ministries, establishes a tax on financial transactions that will raise €0.5 billion in 2012, and new measures to fight tax fraud that will bring in €0.3 billion.

All in all, €2.7 billion will be cut from spending under the State budget, excluding debt service and pensions, in 2012.

In the following years, France will work to enhance its fiscal consolidation strategy, by developing and strengthening the measures underlying the multiyear trajectory, as requested by the Council in its opinion of July 2011. An additional €17.4 billion in consolidation efforts over the period from 2011 to 2016 was documented on 7 November 2011. In addition to the savings measures taken earlier, such as the General Review of Public Policies, pension reform and spending rules, the 24 August and 7 November 2011 plans will enable France to achieve an aggregate improvement of more than €115 billion between 2011 and 2016. This will result in a structural adjustment of 5.1 percentage points of GDP between 2009 and 2013, thus meeting the minimum structural adjustment of 4 percentage points of GDP requested by the Ecofin Council in its recommendation of 2 December 2009.

- **With regard to State spending,** the Multiyear Public Finance Planning Act already included mission-specific spending caps for the period covered by the 2011-2013 Three-Year Budget to document compliance with both spending rules and, more particularly the "zero nominal spending growth" rule for expenditure, excluding debt service and pensions. Compliance with these spending caps relies on a multiyear reform programme that includes the General Review of Public Policies and a series of savings on State intervention. Following the decisions announced on 24 August and 7 November 2011, and the new measures passed as part of the Supplementary Budget Act of March 2012, cuts in State spending were stepped up in 2012, with a further nominal reduction of €2.7 billion. Starting in 2013, a further cut of €1 billion each year will be made to spending covered by the "zero nominal spending growth" rule.
- **Governance of spending targets for Social Security funds** was improved by lowering the early warning threshold to ensure compliance with the multiyear National Healthcare Expenditure Target, which was set at 2.8% in the Multiyear Public Finance Planning Act. Under the measures announced on 7 November 2011, France decided to step up its efforts up until 2016, by lowering the National Healthcare Expenditure Target to 2.5% in 2012. The pension reform passed in 2010 will create substantial savings starting in 2012 and up until 2020. The measures announced on 7 November 2011 accelerated these gains.
- An annual floor of €3 billion was set for discretionary **revenue** measures taken between 2012 and 2014 under the Multiyear Public Finance Planning Act and the measures already passed by the Government will increase revenues by €16.2 billion in 2012, which is much more than the floor amount. For 2013, €4.1 billion in revenue increases have already been passed. The measures announced on 7 November 2011, such as the no-indexation of tax brackets of personal income tax, wealth tax and inheritance tax, along with the tax on financial transactions introduced under the Supplementary Budget Act of March 2012, will continue step up in 2013.

The excellent outturn in 2011 made it possible to adjust the deficit target for 2012 to 4.4% of GDP, as opposed to 4.5% in the 2012 Initial Budget Act. This is better than the 4.6% target under the April 2011 Stability Programme, despite lower than expected growth. The Government now assumes economic growth will reach 0.7%, as opposed to 1% in November 2011, and 1.75% in the Budget Bill tabled in October 2011, and 2.25% under the previous programme. The consolidation measures announced on 24 August and 7 November 2011, along with the measures passed in February 2012 have made it possible for structural measures to offset the expected deterioration of the cyclical deficit (see Box 5).

In 2013, the consolidation measures taken at the end of 2011 and in early 2012, which come on top of the measures already passed in December 2010 as part of the Multiyear Public Finance Planning Act and the rapidly intensifying effects of the 2010 pension reform, will strengthen France's commitment to bringing the deficit down to 3% of GDP, despite a lower growth forecast than under the previous programme. More specifically, the 2013 Budget Bill will be in line with the commitment made under the Multiyear Public Finance Planning Act with regard to tax revenues (primarily through the reduction of tax expenditures and social security contribution exemptions that have not proven their economic worth).

All in all, **the measures described in this Stability Programme will achieve** a structural adjustment of much more than 4 percentage points of GDP over the period from 2010 to 2013 and **bring the government deficit down to 3% of GDP in 2013**, even though economic conditions will have been less favourable than expected throughout the whole period. The ECOFIN Council's recommendation in December 2009 and its stipulations made in July 2010 have thus been completely fulfilled. **These efforts will continue up until 2016 in order to bring the government deficit down to zero and will total €115 billion between 2011 and 2016, with nearly two-thirds coming from spending cuts.**

Furthermore, in accordance with the ECOFIN Council’s recommendation, France will continue to implement measures aimed at:

- improving the quality of public finances by continuing with the General Review of Public Policies, the Invest for the Future Programme and the reduction of the least effective tax expenditures and social security contribution exemptions (see Part 6);
- improving public finance governance by enhancing the ownership and involvement of all of the stakeholders, by such actions as holding conferences on public finances before the Multiyear Public Finance Planning Acts are passed. The Parliament is also consulted on future European commitments. The Government presents the Stability Programme to the Parliament before submitting it to the European authorities. The on-going transposition of the Directive on requirements for budgetary frameworks (see Part 8) and the proposed “golden rule” constitutional reform (passed by the National Assembly and the Senate separately and now requiring passage by a joint session of both chambers), which shares in the same spirit with the European Treaty on Stability, Coordination and Governance, will underpin these practices;
- improving the long-term sustainability of public finances by passing the 2010 pension reform and other structural reforms that will boost the growth potential of the economy (see Part 7);
- strengthening control of government spending, especially with regard to healthcare expenditure by improving monitoring of the National Healthcare Expenditure Target in line with the recommendations of the working group chaired by Raoul Briet (see Part 8). Control of local government spending will also be improved by closer attention to local

government spending during the budget debate[16], by applying the same rules to State transfers as those applied to other general budget appropriations and by limiting the number of regulations that apply to them.

4.2 Compliance with the Stability Pact after 2013

The reform of the Stability and Growth Pact (SGP), which was finalized in October 2011 when the Council and the European Parliament adopted the five Regulations and one Directive in the "Six-Pack", introduced two new rules to supplement the central criterion of structural adjustment. One rule concerns public expenditures net of discretionary revenue measures under the preventive arm of the Pact[17] for countries that are not subject to an excessive deficit procedure and one criterion concerns general government debt under the corrective arm of the Pact[18].

4.2.1 Compliance with the debt criterion under the corrective arm of the Pact

The debt criterion has been added to the deficit criterion for triggering or ending an excessive deficit procedure. The debt criterion is aimed at ensuring that the debt ratio returns to the threshold of 60% of GDP at a satisfactory pace. Under the terms of Article 126 of the Treaty on the Functioning of the European Union, which calls for surveillance of the ratio of government debt to GDP when it exceeds the 60% threshold "*unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace*". The amended Regulation on the corrective arm of the Pact in the "Six-Pack" calls for the difference between the current debt ratio and the 60% target to be reduced by an average of one twentieth per year over three years.

However, countries, like France, that are currently in the Excessive Deficit Procedure, will be granted a three-year transitional period after the end of the procedure (2013 for France) during which the debt criterion is not applied, but where it is up to the country in question to show that the criterion will be met in the year when it first comes into force. In this context, **the public finance trajectory described in this Stability Programme ensures compliance with the debt criterion from 2014.** With the debt estimated at 88.4% of GDP in 2014, an average reduction of 1.4 percentage points of GDP per year is required to meet the criterion. The average reduction planned for 2015 and 2016 is 2.5 percentage points of GDP per year. The

[16] Article 108 of the 2012 Initial Budget Act stipulates, "*each year, the Government will table a report along with the Budget Bill. The report shall contain a presentation of the structure and changes to local governments' spending and a statement of their debts. For this purpose, regions,* départements *and municipalities or public establishments for inter-municipal cooperation with populations in excess of 50,000 shall provide the State representative with a report subject to the requirements set out in a decree issued following consultation with the Council of State on the basis of an opinion of the Local Finance Committee. Said report shall present budget guidelines, planned multiyear liabilities, the composition and change in debt, along with the composition and change in spending on personnel, subsidies, communication and real property.*"

[17] Regulation 1466/97 amended by Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011.

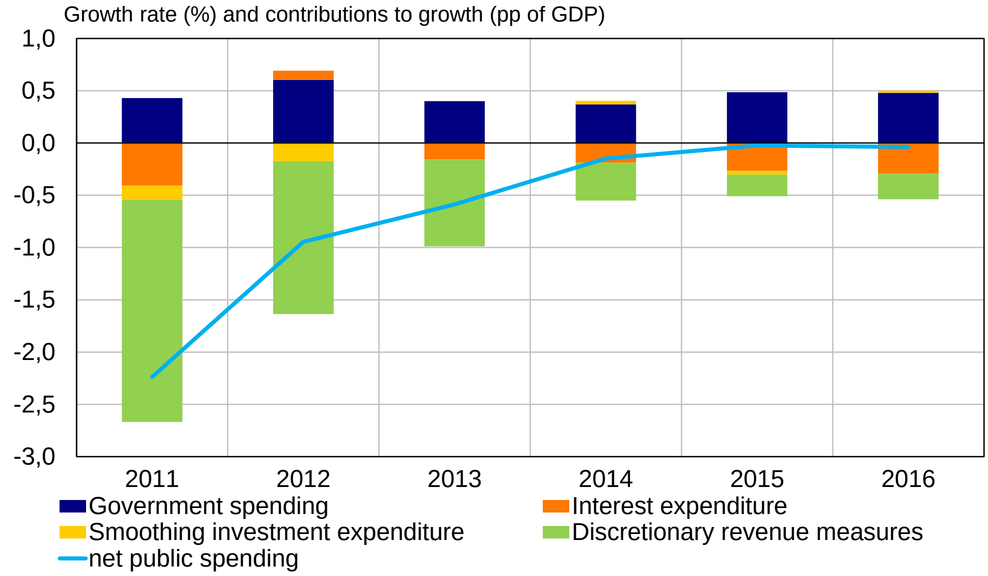
[18] Regulation 1467/97 amended by Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011.

trajectory towards restoring the balance of public finances in 2016 provides for a primary surplus in 2014, which far exceeds the debt-stabilizing balance.

4.2.2 Compliance with the expenditure benchmark net of new revenue measures

According to the expenditure benchmark under the preventive arm of the Stability and Growth Pact, real general government expenditure growth, net of discretionary revenue measures, should not, depending on the country's position with respect to its medium-term budgetary objective "*exceed a reference medium-term rate [or a lower rate for countries that have not reached their medium-term objective] of potential GDP growth, with increases in excess of that norm being matched by discretionary increases in government revenues*." This rule is part of an overall assessment that uses the structural balance as a benchmark. It makes it possible to focus on the structural adjustment components under the direct control of lawmakers: expenditure, excluding interest, and discretionary revenue measures. This concept corresponds to the approach used in the Public Finance Planning Acts, with caps on spending and floors for discretionary revenue measures.

Figure 2 – Compliance with the spending growth cap



More specifically, the expenditure benchmark is assessed under the following assumptions:

- The cap applies to general government expenditure, excluding interest expense, which is not discretionary, net of discretionary revenue measures. In addition, investment expenditure, which may be a very volatile component of expenditure, especially for small countries, is averaged over three years.
- Real general government expenditure growth is calculated using the GDP deflator.
- Benchmark GDP growth should be a ten-year average of the potential growth rate.
- The cap applies to real expenditure growth, net of discretionary revenue measures, requiring it to be slower than the benchmark GDP growth, and for countries that have

not achieved their medium-term objective, the difference in the growth rates should ensure structural adjustment of 0.5 percentage points of GDP each year.

- In France's case, assuming that the benchmark GDP growth rate is approximately 1.6% and in light of the level of primary expenditure as a percentage of GDP, the real expenditure growth rate, net of discretionary revenue measures, that will produce structural adjustment of 0.5 percentage points of GDP should be around 0.7%. Once the medium-term objective has been met, the spending growth rate that maintains the objective will be 1.6%.

The public finance trajectory described in this Stability Programme complies with the expenditure benchmark. Real expenditure growth will stand at 0.4% between 2012 and 2016, which is low enough to meet the expenditure benchmark even before taking discretionary revenue measures into account. This is consistent with a structural adjustment of 0.8 percentage points of GDP (see Part 3.3), which ensures compliance with the minimum adjustment of 0.5 points under the spending rule.

5. Sensitivity analysis and comparison to the previous programme

5.1 Sensitivity to external assumptions

The international scenario underlying the projections is as follows:

- oil prices remain at $119.50 per barrel after 2012[19];
- conventional assumption that the euro exchange rate is stable at $1.32 throughout the period;
- gradual return to growth in global activity and world trade in line with their long-term average starting in 2013. Demand for France's exports should grow by 6½% per year starting in 2014, which is its average growth over the last 25 years, following growth of 5.8% in 2011, 2.8% in 2012 and 6.2% in 2013.

The assumptions outside the European Union are very similar to those used by the Commission. The Stability Programme sets out below the estimated average expected impacts of stronger growth of demand for France's exports, rising oil prices, an appreciation of the euro and a temporary rise in interest rates. The effect of symmetrical shocks (weaker growth of export demand, etc.) can be derived by changing the sign.

5.1.1 Impact of stronger demand for France's exports

An increase in demand for France's exports would pass almost entirely on exports, and then spreads to the rest of the economy, primarily through increased corporate investment.

Assuming constant real interest rates, a permanent 1% increase in world demand would improve activity by about ¼ percentage points of GDP growth and create some 40,000 new jobs over three years. The impact on inflation would be low at constant exchange rates [20].

To illustrate the point, a 1% increase in world demand for French goods is equivalent to a temporary increase in US growth of about 1 point, given the importance of the American market in French exports of goods (7%) and the spill-over effects for the world economy.

Table 8 – Impact on the French economy of a 1% increase in demand for France's exports of goods(*)

(deviation from the baseline scenario in %)	**n**	**n+1**	**n+2**
GDP	0.2	0.2	¼
Total payroll employment (thousands)	9	27	40
Household consumption deflator	0.0	0.1	0.1
Public net lending/borrowing (in percentage points of GDP)	**0.0**	**0.1**	**0.1**

(*) Sustained 1% increase in export demand at the start of year n with no change in real interest rates.

[19] There is also a technical assumption that the oil price in € and in $ will rise by 1.75% per year as for 2014.
[20] In this variant, the oil price is considered to be exogenous and therefore it is not expected to respond to variations in demand for France's exports.

This shock combines a substantial increase in growth with an improvement in the job market, with relatively little effect on inflation. The stronger growth of tax bases and the wage bill would have a positive impact on tax revenues (VAT, personal income tax, social security contributions and other taxes and contributions). The slight effect on inflation triggered by this demand shock would have little impact on public expenditure growth, which would speed up less quickly than revenue. Ultimately, public net lending would improve by approximately 0.1 percentage points of GDP starting in the second year.

5.1.2 Impact of higher oil prices

A rise in oil prices would increase imported inflation, which in turn would raise consumer prices, at constant exchange rates. This automatic effect would be strengthened by the induced rise in businesses' production costs and labour costs, as wages quickly adjust to higher prices. The rise in consumer prices and the weakening of corporate profits would then converge to curb activity. This impact would also be felt in other net oil-importing countries, leading them to contribute less to the demand for France's exports. On the positive side, weaker sensitivity of production prices to oil prices in France compared to its main trade partners would result in price competitiveness gains for France. In addition, higher oil prices sustain the growth of net oil exporters by increasing their oil revenues.

A model including a macroeconomic balancing effect with the rest of the world suggests that a lasting $20 increase in the price of a barrel of oil, from $119 to $139, for example, and at constant real interest rates and exchange rates would lead to a contraction of 0 to 0.1 percentage points in activity and raise consumer prices by 0.3 percentage point in the first year compared to a situation with no increase in oil prices. After three years, the impact would be a contraction of 0.2% in activity and the loss of some 60,000 jobs.

Table 9 – Impact on France's economy of a $20 increase in oil prices (*)

(deviation from the baseline scenario in %)	**n**	**n+1**	**n+2**
GDP	-0.1	-0.2	-0.2
Total payroll employment (thousands)	-3	-28	-62
Household consumption deflator	0.3	0.8	1.2
Public net lending/borrowing (in percentage points of GDP)	**0.0**	**-0.1**	**-0.2**

(*) $20 increase in the price of a barrel of oil at the beginning of year n, with no change in real interest rates, endogenous reaction of the rest of the world.

The increase in oil prices would have a mixed impact on government revenue. On the one hand, the drop in economic activity would have a negative impact on general government tax revenues until the third year, especially revenue from corporate income tax. On the other hand, revenues sensitive to inflation and wage increases, such as the VAT, personal income tax and social security contributions, would increase in nominal terms. The overall net impact on revenue would be slightly positive. In contrast, the impact of increased spending, largely due to higher inflation and a less robust labour market, would already be felt in the second year and would last through the third year. Consequently, the government balance would deteriorate by 0.1 percentage points of GDP in the second year and by 0.2 points in the third year.

5.1.3 Impact of a 10% appreciation of the euro against all other currencies

If the euro appreciated against all other currencies, it would automatically weaken France's price competitiveness with countries outside of the euro area and slow activity in the other euro area countries. Export slowdown would affect both activity and employment. As in the rest of the euro area, inflation would be curbed by an appreciation of the effective exchange rate.

A model including a macroeconomic balancing effect with the rest of the world suggests that 10% appreciation of the euro against all other currencies, at constant real interest rates, would reduce activity by 0.6 percentage points and lower consumer prices by 0.5 percentage points in the first year compared to a situation with no appreciation of the euro. The impact after three years would be a 1.2-point decline in activity, some 150,000 job losses and a 1.2-point fall in consumer prices.

Table 10 – Impact on France's economy of a 10% appreciation of the euro against all other currencies (*)

(deviation from the baseline scenario in %)	**n**	**n+1**	**n+2**
GDP	-0.6	-1.0	-1.2
Total payroll employment (thousands)	-30	-85	-149
Household consumption deflator	-0.5	-0.7	-1.2
Public net lending/borrowing (in percentage points of GDP)	**-0.2**	**-0.4**	**-0.6**

(*) A 10% appreciation of the euro against all other currencies at the beginning of year n, with no change in real interest rates, endogenous reaction of the rest of the world.

An appreciation of the euro would have a negative impact on most taxes due to its adverse influence on activity and inflation. Furthermore, a stronger euro would reduce social security contributions, which are based on the total wage bill. This impact would be only partially offset by a decrease in expenditure stemming from lower inflation. All in all, the government balance would deteriorate by 0.4 percentage points of GDP in the second year and by 0.6 points in the third year.

5.1.4 Impact of a temporary 100-basis-point rise in short-term interest rates

A temporary rise in short-term interest rates and the consequent increase in long-term interest rates would hamper growth in three ways primarily.

- Productive investment would be affected by higher interest rates, since an increase in interest expense would make businesses less solvent and lower return on equity.

- Higher rates would promote savings at the expense of consumption by virtue of the substitution effect. They would also make home loans more expensive and thus discourage investment in housing.
- Higher interest rates would strengthen the euro and thus hinder growth through a loss of competitiveness vis-à-vis countries outside the euro area.

A 100-basis-point increase in short-term interest rates in the euro area lasting two years would reduce activity in France by 0.2 percentage points of GDP in the first year and by 0.3 points in the second year. The negative impact would be attenuated starting in the third year, as interest rates and exchange rates return to their pre-shock levels. However, consumer prices would still be 0.2 percentage points lower in the third year and the negative impact on employment would be strongest in the third year, with 45,000 job losses.

These evaluations take into account the effects of macroeconomic balancing with the rest of the world, and, in particular, the negative impact on France's economy caused by weaker demand from France’s partners in the euro area suffering from the same interest rate increases.

Table 11 – Impact on France’s economy of a 100-basis-point increase in short-term interest rates for two years (*)

(deviation from the baseline scenario in %)	**n**	**n+1**	**n+2**
GDP	-0.2	-0.3	-0.1
Total payroll employment (thousands)	-10	-36	-45
Household consumption deflator	-0.1	-0.1	-0.2
Public net lending/borrowing (in percentage points of GDP)	**-0.1**	**-0.2**	**-0.1**

(*) A 100 basis-point increase in short-term interest rates lasting for two years and occurring at the beginning of year n that has an impact on long-term interest rates and on the exchange rate and endogenous reaction of the rest of the world.

An increase in interest rates would adversely affect public finances in two ways. First, general government debt service would increase because the cost of financing the deficit and refinancing the stock of debt would rise. Secondly, lower growth would cause a deterioration of the public accounts.

In the first two years, lower demand and the deflationary impact of an interest rate shock would automatically reduce revenues from taxes and social security contributions. At the same time, job losses would increase expenditure on unemployment benefits and the temporarily higher interest rates would increase the cost of debt service. These effects would only be partially offset by the impact of lower inflation on other government spending, since some of such expenditure is determined by rules set in advance, such as the "zero nominal spending growth" rule and the National Healthcare Expenditure Target. The negative impact on the government balance would be lessened in the third year, but it would still be significant because the wage bill should still be lower than in the baseline scenario.

5.2 Comparison with the previous programme

Table 12 – Comparison of the 2012-2016 and 2011-2014 Stability Programmes[21]

	2010	2011	2012	2013	2014	2015	2016
2012-2016 Stability Programme (April 2012)							
Real GDP growth	1.5	1.7	0.7	1.75	2.0	2.0	2.0
Government balance (% of GDP)	-7.1	-5.2	-4.4	-3.0	-2.0	-1.0	0.0
Structural balance (% of potential GDP)	-5.6	-3.7	-2.6	-1.2	-0.3	0.5	1.3
Government debt (% of GDP)	82.3	85.8	89.0	89.2	88.4	86.4	83.2
Government debt, excl. support for the euro area (% of GDP)	82.1	85.1	86.6	86.5	85.4	83.3	80.4
2011-2014 Stability Programme (April 2011)							
Real GDP growth	1.6*	2.0	2¼	2½	2½		
Government balance (% of GDP)	-7.0	-5.7	-4.6	-3.0	-2.0		
Structural balance (% of potential GDP)	-5.1	-3.8	-2.9	-1.6	-0.9		
Government debt (% of GDP)	81.7	84.6	86.0	85.6	84.1		
European Commission's Autumn Forecasts (November 2011)							
Real GDP growth	1.5	1.6	0.6	1.4			
Government balance (% of GDP)	-7.1	-5.8	-5.3	-5.1			
Structural balance (% of potential GDP)	-5.7	-4.7	-4.0	-3.9			
Government debt (% of GDP)	82.3	85.4	89.2	91.7			

** quarterly accounts, unadjusted data*

The 2011 government deficit stood at 5.2 percentage points of GDP, marking an improvement of 0.5 points compared to the forecast in the previous Stability Programme (5.7 percentage points of GDP), and a 0.8 point improvement compared to the forecast in the 2011 Initial Budget Act, even though growth was weaker than expected. This improvement reflects the efforts with regard to revenues and expenditures that were greater than expected back in April 2011.

- **The expenditure and revenue efforts were greater than in the previous programme.** In particular, State expenditure, excluding debt service and pensions, declined for the first time. Implementation of the Invest for the Future programme was slower than expected and local government spending grew more slowly. In particular, local government investment expenditure rose by only 2.3%, as opposed to the forecast of 4.8% growth in the previous programme. The additional efforts to raise revenues stemmed from consolidation measures announced in August 2011 to offset the downward revision of the growth forecast. These efforts had a major impact in 2011. Rulings on tax disputes and on Community-level disputes helped to reduce the deficit.
- **Even though growth in 2011 was slower than forecast in the previous Stability Programme, the deficit reduction was greater than expected.** The consolidation measures announced on 24 August 2011 ensured that fiscal consolidation would continue, in keeping with France's commitments. Even though the growth forecast was trimmed from 2.0% to 1.7%, which led to slower growth of tax revenues than assumed in the previous Stability Programme, as economic conditions were more adverse than expected, the negative impact was partially offset by the components of growth. These components were more favourable for public finances. Private sector wage bill growth, as defined by the

[21] The two programmes are based on different versions of the national account system: base 2000 for the 2011-2014 programme and base 2005 for the current programme.

Social Security administration, was revised from 3.2% to 3.6%, leading to greater elasticity of taxes and social security contributions.

In 2012, the government deficit should stand at 4.4 percentage points of GDP, as opposed to the forecast of 4.6 points in the previous Stability Programme, despite a much gloomier outlook for growth.

- **Economic conditions are much more adverse for public finances in 2012 than expected back in April 2011.** The downward revision of the growth forecast from 2.25% to 0.7%, in view of the deterioration of conditions seen around the world and in the euro area since the third quarter of 2011, should slow spontaneous growth of tax and social security revenues and increase spending on unemployment benefits. The economic situation is also adverse for public finances because of the impact of higher oil prices on the terms of trade, since the growth of GDP deflator is slower than inflation, and because of the drop in the State's non-tax revenues, and, in particular, State revenue from dividends.

- **The consolidation measures announced by the Government to ensure compliance with the trajectory for deficit reduction** (see Box 5) **and the positive impact in 2012 of the improvement in the government deficit posted in 2011** offset the gloomier economic environment. The measures announced on 24 August 2011 should reduce the deficit by 0.5 percentage points of GDP and the measures announced on 7 November 2011 by 0.3 points. The additional measures in the 2012 Supplementary Budget Act of 14 March 2012 should produce a further reduction of 0.1 percentage points of GDP. All these measures correspond to an additional consolidation effort of 1.0 percentage point of GDP on top of the efforts planned back in April 2011. At the same time, government spending was lower than expected back in 2011, especially the spending of local governments and State operators, leading to a revision for the public spending forecast for 2012.

Box 6 – Comparison of the Government's 2012 forecast and the Commission's latest forecast

The differential of 0.9 percentage points of GDP between the 2012 deficit forecast compared to the Commission's forecast of 5.3% in November 2011, despite the similarity of growth forecasts for 2012 (0.6% for the Commission's latest growth and public finance forecasts[22], and 0.7% for the French Government) stems from a combination of two main factors:

- the positive impact in 2012 of the improvement in the government balance seen in 2011, which the Commission had not foreseen in its November 2011 forecast (the 2011 deficit came in at 5.2% of GDP, as opposed to the Commission forecast of 5.8%);
- the impact of consolidation measures that the Commission's Autumn Forecasts do not take into account: the measures announced on 7 November that the Commission could not incorporate into its forecast, as well as additional measures introduced under the Supplementary Budget Act of March 2012.

[22] 0.4% in the interim forecasts that only concern growth.

In 2013 and 2014, the government deficit will stand at 3.0, then 2.0 percentage points of GDP, as was forecast in the previous Stability Programme. Spontaneous government revenue growth will be lower than under the previous programme because economic growth will be slower than previously expected, at 1.75% instead of 2.5% in 2013 and at 2% instead of 2.5% in 2014. The GDP elasticity of taxes and contributions will also be lower at 1.0 instead of 1.1. The catching up of revenue that started in 2010, after revenues overreacted in 2009, will be hampered by less favorable than expected macroeconomic conditions. The nominal government deficit objectives will be met by stepping up structural adjustment in comparison to the previous programme.

- In addition to complying with the two State spending rules and the floor for discretionary revenue measures of €3 billion per year under the 2011-2014 Multiyear Public Finance Planning Act, which was already part of the previous Stability Programme, the measures taken by the Government in August and November 2011 (see Box 5) have made it possible to document the new revenue measures for 2013 and 2014 already and to exercise tighter control over government spending. The new measures include faster implementation of the pension reform passed in 2010, saving an extra €1 billion per year on State expenditure, and lowering the National Healthcare Expenditure Target from 2.8% growth under the previous programme to 2.5%.
- As was the case with the measures announced in November 2011, some of the measures passed in 2012 will have an impact over several years. More specifically, the tax on financial transactions will be fully implemented in 2013, raising €1.1 billion over the full year, estimation with the assumption of no change to the current tax base covering equities and high-frequency trading.
- New information has led to the trimming of certain public expenditure items, such as general government interest expense, because of historically low interest rates (see Box 2).

The government debt ratio (excluding loans to troubled euro-area countries) should start falling in 2013, as planned under the previous Stability Programme, after peaking at 86.6% of GDP in 2012. It should stand at 80.4% of GDP at the end of the programme. However, the projected aggregate debt ratio has been revised upwards in view of the lower GDP growth forecast for the period and the impact of rebasing the System of National Accounts[23]. The revision also stems from the bailouts for euro area States (bilateral loans to Greece at first, before the EFSF took over) and the capitalisation of the future European Stability Mechanism (see Box 4). This means that the government debt ratio, including financial support for the euro area, should stand at 89.2% of GDP in 2013, before it starts falling back in 2014 to reach 83.2% at the end of the programme.

[23] The rebasing of the accounts (to base 2005) also entails changes in the debt ratio, affecting both the nominal value general government liabilities and the GDP denominator.

6. Quality of public finances

6.1 General strategy

Improving the quality of public finances facilitates the implementation of fiscal consolidation policies. Enhancing the efficiency of government expenditure and revenue attenuates the impact of saving measures on the economy and maintains the quality of public services while reducing costs at the same time.

The consolidation measures taken in 2011 incorporated quality concerns to extend and strengthen the efforts made in this area in recent years as part of the General Review of Public Policies for the State and its operators, the reform of local governments and the rationalisation of healthcare delivery. Further reductions of government spending announced in August and November 2011 have maintained the appropriations for research in the State budget and the resources allocated to the future-oriented investments, which will stimulate the growth potential of France's economy. Cost-benefit analysis of revenue is leading to gradual reductions in the least effective tax and social security contribution exemptions, which helps to rationalize the tax and contribution system. The new revenue has little impact on gdp growth, since it affects income that is more likely to be saved rather than consumed. Furthermore, lowering social security contributions that add to labour costs, and substituting an increase in the standard VAT rate shifts taxation away from labour in accordance with the recommendations made to France.

6.2 Quality of public spending

6.2.1 The General Review of Public Policies and the continuation of a new policy review starting in 2013

More than 450 reform measures affecting all ministries have been taken since the General Review of Public Policies was launched. The purpose of these measures is to rationalise spending and improve service quality for users. Progress on the measures is monitored transparently and systematically. As of December 2011, 89% of the measures taken since 2007 had produced results that met the original targets, 10% had required corrective action and 1% were still significantly behind schedule. In addition, some thirty new measures were taken at the sixth meeting of the Public Policy Modernisation Council in December 2011. These measures focus primarily on cutting red tape, reducing processing times in certain departments and undertaking new audits of operators. They will boost the expected savings.

The reforms already announced should produce **savings of €15 billion by 2013**. The budget savings affect all spending by the State and its operators, including expenditure on wage bills, operating costs, investment and intervention programmes.

Table 13 – General Review of Public Policies

Cumulative savings compared to 2008 (bn€)	2009	2010	2011	2012	2013
Wage bill (excluding savings redistributed in the form of wage increases for civil servants)	0.9	1.8	2.6	3.6	4.6
Administrative expenditure	0.4	0.8	1.9	2.6	3.5
Intervention expenditure	1.3	1.7	5.0	6.1	6.9
Total	**2.6**	**4.3**	**9.5**	**12.3**	**15**

Gross budget savings from measures taken in 2008 alone, in the first phase of the General Review of Public Policies[24], came to €7 billion at the end of 2011. By adding the impact of the measures taken in 2010, during the second phase of the General Review of Public Policies, the aggregate gross savings come to **nearly €10 billion by the end of 2011**, and nearly €15 billion by 2013.

Headcount was reduced by eliminating 150,000 State civil servant jobs over the period, which is a radical change from previous budgets. Implementation of the rule that only one of every two retiring civil servants is replaced accounts for one third of the savings expected by 2013. All in all, the headcount reduction should produce annual savings of €4.6 billion in 2013 compared to 2008.

This effort to reduce headcount will save for the State more than €200 billion in discounted costs. The discounted cost of one State civil servant, corresponding to its years of service and its subsequent retirement is slightly more than €1.5 million.

As the Government announced on November, 25th, 2011, the efforts under the General Review of Public Policies will **continue after 2013** with a **new policy review** and with the **objective of restoring the balance of public finances by 2016**. The Review is one of the key **instruments for achieving the ambitious savings targets in all spending sectors**. Of the €115 billion in savings between 2011 and 2016, €75 billion stem from a reduction of general government expenditure, including €36 billion in the State budget. **The State and its operators cannot be the only contributors**; all general government bodies will have to undertake ambitious reforms. This process could build directly on the methodological progress and analytical work accomplished during the General Review of Public Policies.

Accordingly, all spending sectors will be stringently reviewed:

- operating expenditure: this calls for continuing the efforts made under the General Review of Public Policies with regard to the “staff” and “line” functions of the State and its operators;
- expenditure on intervention: in view of its growth, the effort necessary will require continuing systematic assessment of its effectiveness and consistency with other government support, such as tax expenditures;

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[24] Decisions in 2008. They correspond to the savings posted in 2009, 2010 and some of the savings in 2011 (the other savings stem from Phase 2 of the General Review of Public Policies: Decisions in 2010).

- wage bill: all factors affecting headcount and the wage bill must be assessed systematically to control expenditure growth.

Finally, **State support for local governments** should comply with a growth rule comparable to the one applied to other State appropriations, which led to a reduction of €0.2 billion in nominal spending in 2012 compared to 2011.

6.2.2 Higher education and research: the Government's budget priority

Higher education and research were a priority in the 2011-2013 three-year budget. In keeping with the commitment made by the President of the Republic, some €9 billion in additional funds, not including the stimulus plan and the Invest for the Future programme, will have been devoted to higher education and research between 2007 and 2012.

This effort paralleled major structural reforms, such as autonomy for universities, changes to the research tax credit, and making careers in higher education and research more attractive. It fostered initiatives for education and research and for developing social policies that help students succeed.

This effort also saved jobs in higher education institutions and research organizations, whereas all other ministries (except Justice) and other State operators saw headcounts and operating resources cut during the 2011-2013 programme period. One-off grants of resources were also made to universities and research bodies under the "Campus Plan" and the Invest for the Future programme.

6.2.3 Invest for the Future programme

The Invest for the Future programme plays its full part in improving the quality of public finances by concentrating government spending on **investments with high social and economic returns**. Total appropriations of €35 billion have been allocated for investment in higher education, job training, research, manufacturing and SMEs, sustainable development and the digital economy. Targeting of the most growth-oriented spending reflects the Government's determination to rationalize government action and make it more efficient. The private sector co-finances the programme and provides major leverage of government funds. The programme will stimulate France's growth potential and give rise to a surplus of government revenue in the long term.

In accordance with a timeline of calls for projects spread out over the 2010-2012 period, juries composed of international experts will select the projects to be awarded financing on the basis of their scientific merit, profitability and expected impact on potential growth. The pace of calls for projects was stepped up sharply in 2011, with nearly 50 calls being completed by the end of 2011, compared to 10 in 2010. The projects selected involve the "higher education, research and job training" priority (laboratories of excellence, biotechnology, facilities of excellence), as well as sustainable development (fourth-generation nuclear reactors, "EcoCités" mass transit), manufacturing (aeronautics, space, automotive manufacturing) and the digital economy.

An assessment phase was included from the outset. Governance of the Invest for the Future programme is based on evaluating government action, with monitoring of each project by the General Commission for Investment, which is responsible for running the programme under the authority of the Prime Minister. The operators responsible for implementing the projects provide close monitoring of government action and a supervisory committee, working in partnership with specialized internal and external audit teams, conducts periodic assessments of the scientific, economic, social and environmental efficiency of the appropriations.

6.2.4 Rationalizing healthcare expenditure

Many reforms have been implemented for years to improve the efficiency of healthcare delivery and the quality of **healthcare expenditure**. These reforms include efforts to control unnecessary prescriptions and the cost of medical treatment, a fee-for-service payment system for hospital activities and the creation of Regional Healthcare Agencies, which contribute to improving the coordination of care between hospitals and doctors in private practice. Furthermore, the procedure for building the annual National Healthcare Expenditure Target ensures consistency between the long-term changes in healthcare delivery and the short-term need to meet the target. The procedure is based on assessing structural changes, recurring efforts to improve efficiency and, as a last resort, on taking savings measures that produce quick results.

The Enhanced Drug and Healthcare Product Safety Act passed in December 2011 will help fight inefficient prescriptions by controlling prescriptions (other than for drugs requiring marketing approval from the drug safety authority), by combating conflicts of interest and by restricting medical consultations at hospitals. Finally, Article 12 of the Multiyear Public Finance Planning Act also amends the Public Health Code (Article L6141-2-1) by having the borrowing terms for hospitals set by decree published at the end of 2011. This decree restricts healthcare institutions' options for borrowing and using financial derivatives.

6.2.5 Rationalizing local government spending

The control and quality of local government spending will be enhanced by the local government reform passed in 2010. The reform strengthens cooperation between municipalities and clarifies the powers of the different levels of local government to reduce the main sources of inefficiency in local government while improving the service provided to the public. Furthermore, the freeze on State financial support for local governments between 2011 and 2013, which was tightened up under the 2012 Budget Act, with a cut of €0.2 billion compared to 2011, increases the involvement of local governments in the effort to consolidate public finances and incites local elected officials to rationalize local governments' operating expenditure. The involvement of local governments in controlling government spending is also the purpose of Article 108 of the 2012 Initial Budget Act, which stipulates: "*each year, the Government will table a report along with the Budget Bill. The report shall contain a presentation of the structure and changes to local governments' spending and a statement of their debts. For this purpose, regions,* departements *and municipalities or public* *establishments for inter-municipal cooperation with populations in excess of 50,000 shall provide the State representative with a report subject to the requirements set out in a decree issued following consultation with the Council of State on the basis of an opinion of the Local Finance Committee. Said report shall present budget guidelines, planned multiyear liabilities, the composition and change in debt, along with the composition and change in spending on personnel, subsidies, communication and real property.*"

The quality of local government spending will also be bolstered by better control of the regulatory requirements for local governments. The Parliament is examining a bill to simplify the requirements for local governments and a plan to enhance the powers of the Advisory Commission on Requirements Assessment is being discussed.

6.3 Quality of government revenues

6.3.1 Reforms undertaken up until 2011

The **General Review of the Tax and Social Security Contribution System** was initiated at the request of the President of the Republic in September 2007. It recommended recasting the architecture of the system to improve the efficiency and equity of taxation. These recommendations led to the reform of the research tax credit in 2008, the creation of the local economic contribution to replace the local business tax starting on 1 January 2010 and a series of environment-friendly tax incentives.

Tax policy was mobilized at the end of 2008 and throughout 2009 to cope with the crisis under the stimulus plan, alongside the other instruments of government intervention. Temporary measures to boost businesses' cash positions were taken (early reimbursement of VAT claims and corporate income tax credits), along with measures to support households' purchasing power (targeted personal income tax cuts).

Starting in 2011, the Government's fiscal consolidation strategy was organized around controlled spending and **targeted increases in revenues**. In view of the already high level of taxes and social contributions before the crisis, the Government opted to avoid an across-the-board tax increase and to rely on **reducing tax expenditures and social security contribution exemptions that are the least efficient economically speaking**. The 2011 Initial Budget Act changed various personal income tax exemptions.

The effort to reduce tax exemptions continued with the 24 August 2011 consolidation plan, which extended the holding period to qualify for the capital gains exemption on real property, eliminated the partial exemption from the tax on insurance policies for *contrats solidaires et responsables*, eliminated the 30% deduction from taxable corporate profits in France's Overseas Departments, increased the minimum tax on Social Security-exempt benefits paid by employers, the inclusion of extra hours when calculating general social contribution reductions, and brought energy industry social security contributions into line with the provisions of ordinary law.

The 7 November 2011 consolidation plan keeps on reducing the least efficient tax exemptions. It tightens up system-wide exemption rules, eliminates the Scellier tax incentive for buy-to-let investments in the new-build real estate sector as of 2013, concentrates interest-free loans on new housing and cuts the sustainable development tax credit.

This choice to reduce tax expenditures and social security contribution exemptions is fully warranted by the desire to rationalize our tax system in order to make it more **economically efficient**. The exemptions being reduced should be those that have failed to prove effective in producing the desired result. In order to enable lawmakers to make informed choices, the Government must present the Parliament with an assessment of the effectiveness and cost of each new tax expenditure in the three years after it is passed. The General Inspectorate of Finance produced a report in June 2011 that assesses the measures in force as of 1 January 2009 and highlights the least effective ones.

In the interest of equity, taxpayers with the highest incomes are also being asked to make an effort, with the introduction of an extra 1% contribution for the highest income bracket in 2010 and an increase on taxes and social security contributions on capital income. The reform of taxes on wealth and its income passed as part of the first 2011 Supplementary Budget Act of 29 July 2011, also eliminated the measure which capped personal tax bills at 50% of the taxpayers' income. At the same time, the wealth tax was simplified considerably with only two brackets, instead of six.

The consolidation plan of 24 August 2011 limited profitable companies' ability to carry deficits forward and back as part of the convergence between France and Germany, increased the share for fees and expenses applied to long-term capital gains on equities from 5% to 10%, introduced a one-off contribution for very high incomes and increased social security contributions on capital income.

The consolidation plan of 7 November extended this effort to make the tax system fairer by introducing a 5% increase in corporate income tax for large corporations in 2012 and 2013 and by raising the withholding tax on dividends from 19% to 21% and the withholding tax on interest from 19% to 24%, **in order to bring taxes on capital income into line with taxes on labour income**.

Various measures announced on 24 August 2011, such as the increase in tobacco prices and taxes on hard liquor, the introduction of a tax on sugary drinks and a revision of the tax rates on company cars, are aimed at **changing behaviour in the interest of public health and the environment.**

6.3.2 Outlook

The Supplementary Budget Act passed on 29 February 2012 implemented the decisions made by the President of the Republic. The Act is intended to overcome France's lack of competitiveness, which stems in part from higher taxes on labour than its main trading partners.

The "**anti-offshoring VAT**" was established to shift taxes away from labour to other bases, such as consumption and capital income, which are deemed to be less likely to cause economic inefficiencies. The lower cost of labour should produce a competitiveness gain compared to the current situation and bring France into line with the average level of tax on labour income in Europe.

The cost of labour is reduced by cutting the private-sector employers' social security contributions used to finance family programmes of the Social Security. The cut in employers' contributions will be equal to €13.2 billion for a full year and will be financed by raising the standard VAT rate from 19.6% to 21.2% and by increasing the social security contributions on investment income by 2 percentage points. This cut will benefit the sectors that are most exposed to international competition and boost the competitiveness of France's products. 80% of manufacturing jobs and 97% of agricultural jobs are in the scope of the reform.

The Supplementary Budget Act also introduced a **tax on financial transactions** intended to ensure that the financial sector contributes its fair share of the effort to consolidate public finances. This tax is intended to be a first step towards a European tax.

7. Sustainability of public finances

7.1 Continuation of structural reforms

At the European Council of 1 and 2 March 2012, the Heads of State and Government reaffirmed that the Europe 2020 Strategy is the right answer to current difficulties and that the five targets of the strategy will continue to guide the action of both the Member States and the Union to increase the employment rate, promote innovation, research and development, meet the energy and climate change targets and, finally, to improve educational attainment and reduce poverty.

The National Reform Programme provides a detailed description of the strategy implemented to meet these targets. In keeping with the 2011 NRP, France has opted to combine fiscal consolidation and policies with high growth potential to revive economic growth and support job growth. This approach addresses the negative social consequences of the crisis and is backed up by a series of measures to promote social cohesion.

The preliminary results for 2011 confirm the relevance of this strategy with regard to public finances: the 2011 State deficit was much smaller than initially expected, even though economic conditions were less favourable than expected. Nevertheless, considerable challenges still lie ahead. More specifically, the shrinking of France’s export market share has aggravated the current account deficit and points to a loss of competitiveness that calls for urgent remedies. This concern has guided the French Government’s structural reforms over the last five years and led to the introduction of the anti-offshoring VAT under the Supplementary Budget Act enacted in March 2012. These reforms aim to improve the efficiency and competitiveness of France’s economy. They are supplemented by recently initiated actions set out in the National Reform Programme.

Consequently, structural policies have been implemented to promote investment (e.g. elimination of the local business tax), to promote innovation and research (e.g. Invest for the Future programme and enhanced research tax credit), to stimulate French companies and to improve the non-price competitiveness of France’s economy. Major efforts have been made to cut red tape, such as the creation of the Red Tape Commissioner, who is responsible for evaluating each new regulation applying to businesses, and an arrangement to ensure that new rules only come into force on set dates, twice a year. SMEs’ access to public procurement contracts has also been improved, along with their access to international contracts by refocusing the action of Ubifrance on SMEs and by establishing sector policies that make major manufacturers partners with their sub-contractors. The issue of business financing, especially loans for SMEs, as regulations governing the financial sector are tightened up, also led to strengthening of government mechanisms for supporting private-sector initiatives, by shifting the priority to SMEs and intermediate-sized establishments. This policy relies on the equity investment instruments of the Caisse des Dépôts et Consignations and the Strategic Investment Fund, which are now deployed at the regional level, and on export support instruments. In view of the specific needs of this sector, an Industrial Bank was created. Businesses’ access to government support was strengthened by establishing one-stop shops for business support (Oséo, Caisse des Dépôts et Consignation, Strategic Investment Fund) and a helpline that guides businesses to the appropriate sources of support.

France passed measures to improve the labour market, including termination of contracts of employment by mutual agreement, the freelance entrepreneur system, simplification of payslips, shifting some of the taxes and contributions on labour to consumption to curb the rise of wage costs and promote price competitiveness (anti-offshoring VAT). Growth also depends on increasing the labour force participation rate so that the problem of labour market segmentation has been an important issue to address. Specific focuses have been put on the inclusion of young people, older workers and the long-term unemployed, as well as gender equity in the workplace.

France's national reform programme takes a combined approach to fiscal and structural issues in line with the commitments that France made under the Euro Plus Pact. It testifies to France's determination to contribute to the effectiveness of the Europe 2020 Strategy.

7.2 Estimated sustainability gap

The S2 indicator measures the public finance sustainability gap, meaning the immediate and lasting fiscal adjustment (in percentage points of GDP) that would be required, with a constant structural primary balance after that, to prevent long-term divergence from the government debt trajectory. The S2 indicator is the sum of two terms:

- the impact of the initial budget position, which corresponds primarily to the difference between the structural primary balance and the balance that would stabilise debt in the long term;
- the impact of the ageing population on expenditure for pensions, healthcare and long-term care starting in 2016 at unchanged policies.

Under a scenario with a constant structural primary balance from 2011 to 2015, a perennial structural adjustment of 4.3 percentage points of GDP would have to be achieved in 2016 to stabilise debt in the very long term, in view of the discounted cost of population ageing, which stands at 1.9 percentage points of GDP between 2016 and 2060.

Under the adjustment measures described in this programme for the period from 2011 to 2015, the sustainability gap should be zero in 2015, which means that the sustainability of public finances would be restored. The structural primary balance in 2015 will stand at 3.1%, which is 2.0 percentage points of GDP more than the primary balance that stabilises debt in the long term. This would reduce debt in the medium term and **provide enough flexibility to finance the long-term cost of the ageing population after 2016**, which has been estimated at 1.9 percentage points of GDP.

Pensions reform makes a significant contribution to improving sustainability, by lowering expenditure on pensions, increasing revenues and boosting potential growth (by expanding the labor force). The savings on pension expenditure is observable for the whole period from 2011 to 2060, but the rapidity of reform implementation, which was accelerated even further in November 2011, will mean that the savings is the highest in 2016. Consequently, the bulk of the savings from pension reform will lead to a structural balance in 2015 that is greater than it would have been without the reform. As of 2016, the change in expenditure on pensions in percentage points of GDP will produce a discounted ageing-related cost of 1.9 percentage points of GDP[25].

Table 14 – Public finance sustainability gap indicator S2 (percentage points of GDP)

Base year	2011	2015
Sustainability gap (S2 indicator)	**4.3**	**0.0**
o.w. impact of the initial budget position	2.4	-2.0
o.w. impact of the ageing population (as of 2016)	1.9	1.9

<u>Note:</u>

- *The 2011 S2 indicator is estimated on the basis of a counterfactual scenario where the structural primary balance is assumed to be constant for the duration of the programme (2011-2015), independently of the impact of the ageing population: it corresponds to the lasting fiscal adjustment that must be made in 2016 to stabilize the debt ratio in the very long term, in view of the impact of the ageing population after 2016;*
- *the 2015 S2 indicator is estimated on the basis of the 2015 structural primary balance expected under the programme. It corresponds to the lasting fiscal adjustment that must be made in 2016 to stabilise the debt ratio in the very long term, in view of the impact of the ageing population after 2016.*
- *The ageing-related expenditure figures for pensions, healthcare, long-term care and education, along with expenditure on unemployment benefits used to calculate the S2 indicator correspond to the latest published projections of the Ageing Working Group of the Economic Policy Council[26], plus the impact of the 2010 pensions reform and the stepping-up of the reform announced in November 2011.*

7.3 Contingent liabilities

The general government off-balance sheet liabilities are liabilities that cannot be evaluated with certainty and depend on future developments[27]. They may affect public finances eventually, and are **very closely watched by the Government and Parliament**. More specifically, the State's off-balance sheet liabilities must be described in detail in the State's General Financial

[25] In the previous Stability Programme, the discounted cost of ageing came to 1.7 percentage points of GDP, but it was calculated as of 2015, which meant it incorporated the impact of pensions reform, which is now included in the 2011-2016 structural adjustment. The one-year lag in the sustainability gap calculation automatically leads to a change in the shares of the two terms in the sustainability gap at the end of the programme, but it has no impact on the S2 indicator as a whole.

[26] See European Commission, 2009, "2009 Ageing Report: Economic and budgetary projections for the Eu-27 Member States (2008-2060)", *European Economy*, 2/2009.

[27] In the State accounting system, off-balance sheet liabilities are defined as contingent liabilities, meaning potential liabilities or else liabilities remaining at the end of the year that are not likely or certain to lead to a disbursement of funds.

Statement that is published each year[28]. The financial statement is certified by the Court of Auditors.

The main general government off-balance sheet liabilities are:

- **liabilities for future ageing-related expenditure** (pensions[29], healthcare, long-term care, education), where valuations depend on the demographic and macroeconomic outlook. The impact of these liabilities on the sustainability of France's debt is measured by calculating the S2 sustainability indicator (see Part 7.2). The 2010 pension reform has consequently enhanced the sustainability of France's public finances[30].
- **contingent liabilities** are liabilities that may or may not have to be paid, depending on future events. In most cases, these relate to **guarantees provided by the State** and to a lesser extent by local governments.

State guarantees cover a wide range of intervention to support economic activity or obtain financing for certain economic agents to whom market financing is not available. They include guarantees provided under clearly defined agreements, along with guarantees related to the general-interest functions of the State (insurance arrangements through the Central Reinsurance Fund, guarantees provided to COFACE to support exports, guarantees to protect savers, etc.) Generally speaking, the risk of such guarantees being called is small. Furthermore, to prevent excessive use of this instrument, **new State guarantees can only be granted under the terms of a Budget Act[31]**.

In 2010, total guarantees provided under clearly defined agreements stood at €138 billion at the end of the year, of which €91 billion were guarantees that the State provided to banks in 2008 as part of the rescue plan for the financial system (borrowers included Dexia and SFEF).

In 2011, the main new guarantee that the State provided was for Dexia in December. It was granted in coordination with Belgium and Luxembourg as part of the bank's restructuring[32]. In addition, France, along with the other Member States belonging to the euro area, has provided financial support for euro area States with financial difficulties, by guaranteeing the securities issued by the EFSF. Following a decision by Eurostat on 27 January 2011, the funds that the EFSF lends to these countries are recognised directly as part of the Maastricht debt of the Member States providing guarantees, proportionately to their guarantees.

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[28] This is a provision of Article 27 of the constitutional bylaw on budget acts of 1 August 2001. See *http://www.performance-publique.budget.gouv.fr/fileadmin/medias/documents/ressources/ Comptes/2010/Compte_General.pdf*

[29] These pension liabilities incorporate the State liabilities for civil servants' pensions, as well as those for all Social Security administrations.

[30] *See* Trésor-Economics no. 91, July 2011, "How will 2010 pensions reform contribute to the sustainability of public finances after the crisis?", Thomas Lellouch, Marie Magnien, Stéphane Sorbe.

[31] Article 34 of the constitutional bylaw on budget acts of 1 August 2001

[32] The guarantee provided for in the Supplementary Budget Act of December 2011 is a guarantee for securities issued on behalf of Dexia SA and DCL (Dexia Crédit Local, the Dexia subsidiary that handles loans to local governments in France). The guarantee is capped at €90 billion.

8. Institutional aspects and governance of public finances

8.1 Progress on transposition of the Directive on requirements for budgetary frameworks

As part of the New European Economic Governance, the Council of the European Union adopted a Directive on requirements for budgetary frameworks for the Member States on 8 November 2011.

This Directive is one of the six instruments in the “Economic Governance Package” adopted in the fourth quarter of 2011 to supplement and strengthen multilateral surveillance of economic and fiscal policies in Europe. It calls for improved dissemination of public finances data, more thorough documentation of economic and fiscal forecasts, setting quantified budget rules within general government, implementation of medium-term budgetary frameworks providing multiyear public finance planning and, finally, greater transparency and coordination of general government finances.

During the European Council meeting of 21 July 2011, France and the other countries in the euro area made a commitment to transpose the Directive into their national law by 31 December 2012, one full year ahead of the transposition deadline stipulated in the Directive. The interministerial work on the transposition of the Directive into French law started in January 2012 and is coordinated by the General Secretariat for European Affairs. This work is now done by the new interministerial working group created to undertake a more general examination of the national measures to implement the budgetary provisions in the six instruments of the “Economic Governance Package”, the two instruments currently under negotiation for strengthening economic and fiscal surveillance and the European Treaty on Stability, Coordination and Governance in the Economic and Monetary Union now in the course of ratification.

Many of the provisions under the Directive are already part of French law.

- With regard to producing and disseminating public finance data, the existing budget and public accounting systems already cover the entire general government sector, with a detailed methodology for compiling the National Accounts data. The financial data are subject to internal budgetary and accounting audit procedures, independent audits, including the yearly certification of the State financial statements and those of the Social Security administration by the Court of Auditors and the regional audit bodies’ audits and opinions of local governments' financial statements. Budget outturn data concerning the State are published monthly and work has started on periodic publication of existing infra-annual data for local governments and the Social Security administrations.

- With regard to macroeconomic and fiscal forecasts, the documents currently appended to the Budget Bills, in accordance with Article 50 of the Constitutional Bylaw on Budget Acts, contain much of the information required under the Directive: presentation of the assumptions used for the chosen scenario, comparison with scenarios from other forecasting bodies, sensitivity analysis with alternative assumptions. The comparison of these forecasts with the Commission’s forecasts has not been made yet, but it will be included in future budget documents, even though the relevance of this comparison should be kept in perspective, because of the time lag between the Commission's forecasts produced in early May and the French forecasts tabled with the Budget Bill transmitted to the Parliament before the first Tuesday in October.

- The Medium-Term Budgetary Framework is already in force, with the introduction of the Multiyear Public Finance Planning Acts since 2008. These set out four-year public finance plans[33]. The implementation of the acts and their coherence with the annual Budget Acts are monitored on a regular basis. The Government is required to report to Parliament on the enforcement of the Multiyear Public Finance Planning Act rules each year in the preparatory report for the public finance policy debate[34]. The Court of Auditors also produces a special report for the public finance policy debate. To meet the new requirements under the Directive, the upcoming reports appended to the multiyear plans will contain public finance trajectories at unchanged policies for comparison purposes.
- With regard to quantified budget rules, one rule applies to local government budgets (auto-financing of loan repayments out of cash flow, passing balanced "operating budgets" and "capital expenditure budgets", authorising debt financing for investment only) and the Multiyear Public Finance Planning Act sets special spending and revenue rules: two rules for central government spending (see Part 8.2), a target for healthcare insurance expenditure growth, spending caps for basic compulsory Social Security schemes and a floor for discretionary revenue measures on tax and social security contributions. These rules are monitored independently by the Court of Auditors in its reports on public finances and by the Early Warning Committee in the specific case of healthcare expenditure growth. The rules applying to local governments are supervised by the Prefects and the regional audit bodies. Finally, the Government is required to report on the enforcement of the Multiyear Public Finance Planning Act rules each year in the preparatory report for the public finance policy debate (see above). In addition, the Government has drafted a constitutional reform to enshrine the "golden rule" of balanced public finances in the Constitution, which would be binding for the annual Budget Acts. The reform was passed by both chambers of the legislature in 2011 and should be continued in accordance with the European Treaty on Stability, Coordination and Governance adopted in February 2012.
- With regard to coordination of general government finances, the drafting of the Multiyear Public Finance Planning Act relies on mechanisms for coordination between the different general government sub-sectors. Such mechanisms include the "Government Deficit Conferences" chaired by the President of the Republic, which play a more general role in

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[33] Two planning acts have been passed since 2008. The one currently in force was passed on 28 December 2010 and covers the period from 2011 to 2014.

[34] This monitoring is documented in the preparatory report for the public finance policy debate in accordance with Article 15 of the 2011-2014 Multiyear Public Finance Planning Act, which stipulates "Each year, the Government shall produce and submit to Parliament a report on the implementation of the current act before the public finance policy debate. This report shall explain any deviations from the commitments made in the latest Stability Programme submitted to the European Commission and implemented in this Act. (…) If the Government deems that there is a serious risk that Articles 4, 5, 6, 7, 8 or 9 will not be complied with in the current year, or in following years, this document shall indicate the measures that the Government intends to take to ensure compliance in the current year and in the following years."

sharing out the targets and commitments to restore public finances[35], and the working groups that meet in preparation for the vote on the Multiyear Public Finance Planning Act. After that, the annual June report to Parliament in preparation for the public finance policy debate is produced to present the strategy for the entire general government sector. During this debate, the Parliament examines the implications of the Multiyear Public Finance Planning Act for the current year and how it applies to different sub-sectors. The annual Initial Budget Act and Social Security Budget Act are drafted to be consistent with the multiyear framework, and this would be binding force with the future constitutional "golden rule". The implications by sub-sector are updated in the fourth quarter in the Economic, Social and Financial Report appended to the draft Budget Bill.

- With regard to the transparency of public finances, much of the budgetary information about taxes and social security contributions, the State's equity holdings, the State's off-balance sheet liabilities and those of its operators already exists and meets the requirements of the Directive. This information is covered in detailed appendices to the Budget Bills. The Court of Auditors certified the State's financial statements in accordance with Article 27 of the Constitutional Bylaw on Budget Acts, which establishes the principle that the "State's financial statements must be lawful, faithful and give a true and fair view of its net assets and financial situation." The Court of Auditors also examines the financial statements of the Social Security administrations.

8.2 Medium-term public finance planning

Based on the work of the working group chaired by Michel Camdessus in 2010, the Government presented in the second quarter of 2011 a bill to reform the Constitution to include provisions that improve the governance of public finances by enshrining a "golden rule" with binding force to all legal instruments dealing with public finances. **The proposed reform of the Constitution is in the spirit of the European Treaty on Stability, Coordination and Governance** within the Economic and Monetary Union. It calls for a new legal instrument called "Framework Laws on Balanced Public Finances", for the purpose of ensuring balanced general government accounts. These laws would be binding for the annual Initial Budget Act and Social Security Budget Act. They would contain a series of provisions that apply to such acts under the supervision of the Constitutional Council. In practice, this means that the Council would reject any Budget Act that does not comply with the objective of balancing public finances. **Both chambers of Parliament passed the proposed reform in identical terms on**

[35] The National Conference on the Deficit held two meetings, one in January 2010 and one in May 2010. The conclusions of the second meeting laid the groundwork for the public finance consolidation strategy that the Government has implemented since then, with an immutable public finance trajectory announced in the Stability Programme, based on a sustained effort to control spending by the State, local governments and social security funds, and an effort to improve revenue by reducing tax and social contribution exemptions, a freeze of State transfers to local governments in nominal terms (except for the VAT compensation fund and compensation for the local business tax) following the conclusions of the report by the working group on local government finances chaired by Gilles Carrez and Michel Thénault, a series of measures to ensure compliance with the National Healthcare Expenditure Target, following the report by the working group chaired by Raoul Briet, such as expanding the role of the Early Warning Committee and the gradual lowering of the alert threshold, and the launch of a constitutional reform to improve the governance of France's public finances.

13 July 2011. Consequently, the reform should be carried out in accordance with the European Treaty on Stability, Coordination and Governance adopted in February 2012.

Even with no change to the Constitution, the 2011-2014 Multiyear Public Finance Planning Act passed in December 2010 already incorporates many advances in governance of public finances. It anticipates much of the content of the future Framework Laws on Balanced Public Finances. The 2011-2014 Multiyear Public Finance Planning Act traces out a trajectory for “structural efforts” that caps spending and sets a floor for discretionary revenue measures on a perimeter that can be steered by the Government and put to a vote by the Parliament.

In addition, the Multiyear Public Finance Planning Act includes a catch-up mechanism if State spending or social expenditure deviate from the trajectory. The Multiyear Public Finance Planning Act sets spending caps that are levels and not growth rates for State budgetary expenditure (nominal and real amounts) and for the National Healthcare Expenditure Target. If there is a deviation in any given year, the nominal target for the following year is not changed and compliance requires a return to the initial trajectory.

Furthermore, several provisions of the Multiyear Public Finance Planning Act helped to ensure compliance with the plan, by such means as reducing the risk of sub-sectors that are not covered by spending caps being used to circumvent the plan:

- Article 12-1 bans Other Central Government Bodies from taking out loans with maturities of more than 12 months and Article 12, paragraph 2 imposes the same ban on healthcare institutions under the terms of a decree published at the end of 2011. This ban is legally binding on all these bodies.
- Article 7 freezes State transfers to local governments, excluding the VAT compensation fund and appropriations related to the reform of the local business tax.

In addition, Article 10 restricts the validity of new tax expenditures and social security contribution exemptions introduced after 1 January 2009 to four years.

8.3 Statistical governance

France’s national statistics institute (INSEE) is responsible for publishing the National Accounts, which include the main public finance aggregates in national accounting system. The national accounts are compiled in accordance with the European System of Accounts, ESA95. INSEE maintains regular contact with Eurostat to ensure compliance. In May 2011, the national accounts methods and concepts were recast: they were rebased and 2005 is now the new base year for macroeconomic data.

The **semi-final and final general government accounts** are compiled on the basis of detailed information. The main information source for the State is the budget outturn, supplemented by the State’s General Account (CGE) published by the Public Finances General Directorate (DGFiP). The restatement of the budget outturn as government net lending requires a series of adjustments to correct for some time lags and different treatments of certain transactions in budgetary accounting and in the system of national accounts. The construction of the “Other Central Government Bodies” account relies on importing the individual accounts of all these bodies into the system of national accounts. Local government data are taken from the individual budget accounts kept by the Treasury accountants, except for Other Local Government Bodies, where the diversity of legal structures means that their accounts are not uniform. The social security fund accounts are compiled on the basis of the accounts of the various Social Security funds, hospitals and UNEDIC (the unemployment insurance management association).

The information for the general government **provisional account** is not as complete. The closing of the State's fiscal year is in mid-January of the following year and the State's public accounts are completed towards the middle of March. Consequently, the data released on 1 April are liable to be revised slightly and, more specifically, the adjustments needed to enter them into the system of national accounts. The Other Central Government Bodies account includes estimates, but data from accounting sources cover approximately two thirds of revenue and spending. The preferred source for local governments is the data reported in the State accounting documents and direct, comprehensive and centralised data for regions, *départements* and virtually all municipalities. A number of estimates and forecasts are made to supplement these data. For the 1st April release, the social security fund accounts are mainly based on estimates, since the different schemes have not yet produced their financial statements. Nevertheless, a large number of provisional statements (General Social Security funds, unemployment insurance benefits, public hospitals, etc.) are used. The provisional accounts still provide a good estimate of the general government balance nonetheless and revisions of the balance for the final accounts usually come to less than 0.1 percentage points. Government debt under the Maastricht definition is compiled for the provisional account using accounting data from nearly all general government sub-sectors. The debt of general government sub-sectors is consolidated by means of the "securities survey" conducted by the *Banque de France* and the information that the Public Finances General Directorate gathers directly from the leading holders of government securities.

The transmission of the accounting data to INSEE is governed by an agreement between INSEE and the Public Finances General Directorate.

France's Parliament adopted the Economic Modernisation Act in July 2008. Article 144 of this Act enshrines the professional independence of government statisticians, thus ensuring the **independence of statistical production**. This change in the law was introduced following the European Statistics Code of Practice, adopted by the Statistical Programme Committee on 24 February 2005 and reiterated in the European Commission Recommendation of 25 May 2005 on the independence, integrity and accountability of national and Community statistical authorities. The first principle of the code deals with professional independence, stipulating that the independence of the statistical authority in producing and disseminating official statistics must be specified by law. For this purpose, Article 144 creates a Government Statistics Authority responsible for ensuring compliance with the European Statistics Code of Practice. Its powers cover all persons producing government statistics.

8.4 Status of this Stability Programme under internal procedures

Since 2011, Stability Programmes have been debated and voted on by Parliament by virtue of Article 14 of Act 2010-1645 of 28 December 2010, the 2011-2014 Multiyear Public Finance Planning Act: "*The Government shall send the draft Stability Programme to the Parliament at least two weeks before it is sent to the European Commission for the purposes of Article 121 of the Treaty on the functioning of the European Union. The Parliament shall debate the draft programme and vote on it*".

In 2011, the Senate debate and vote took place on 27 April and the lower chamber debate and vote took place on 2 May.

On 22 June 2011, the Finance Commissions of both chambers each passed a resolution on the Council's recommendation with regard to France's National Reform Programme and Stability Programme for the period from 2011 to 2014.

In 2012, the presidential elections (22 April and 6 May) and the general elections (10 and 17 June) meant that both chambers went into recess on 7 March 2012. This Stability Programme has been examined by the Finance Commissions of both chambers.

9. Annex

9.1 Statistical tables

Table 1a. Macroeconomic prospects

	ESA Code	2010 Level (Mn€)	2010 Rate of change	2011* Rate of change	2012 Rate of change	2013 Rate of change	2014 Rate of change	2015 Rate of change	2016 Rate of change
1. Real GDP	B1*g		1.5	1.7	0.7	1.75	2.0	2.0	2.0
2. Nominal GDP	B1*g	1 932 802	2.3	3.3	2.3	3.5	3.7	3.7	3.7
Components of real GDP									
3. Private consumption expenditure	P.3	1 124 201	1.4	0.4	0.4	1.2	2.2	2.2	2.2
4. Government consumption expenditure	P.3	479 894	1.2	0.9	0.9	0.2	0.0	0.0	0.0
5. Gross fixed capital formation	P.51	373 305	-1.2	2.9	0.9	2.9	2.4	2.4	2.3
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	746	-	-	-	-	-	-	-
7. Exports of goods and services	P.6	492 153	9.7	5.0	3.4	5.2	6.2	6.2	6.2
8. Imports of goods and services	P.7	537 498	8.8	4.8	1.6	4.0	5.1	5.1	5.1
Contributions to real GDP growth									
9. Final domestic demand		-	0.9	1.0	0.6	1.3	1.7	1.7	1.7
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	-	0.6	0.8	-0.4	0.2	0.1	0.0	0.0
11. External balance of goods and services	B.11	-	0.1	-0.1	0.4	0.2	0.2	0.2	0.2

** GDP components adjusted for seasonal variations and working days (from the quarterly accounts, March 2012)*

Table 1b. Price developments

	ESA Code	2010 Level	2010 Rate of change	2011* Rate of change	2012 Rate of change	2013 Rate of change	2014 Rate of change	2015 Rate of change	2016 Rate of change
1. GDP deflator		-	0.8	1.6	1.6	1.8	1.7	1.7	1.7
2. Private consumption deflator		-	1.2	2.0	1.9	1.8	1.7	1.7	1.7
3. ICP		-	1.5	2.1	1.9	1.8	1.75	1.75	1.75
4. Public consumption deflator		-	1.5	1.0	1.0	1.0	1.1	1.1	1.1
5. Investment deflator		-	1.2	2.8	2.2	2.1	2.0	2.0	2.0
6. Export price deflator (goods and services)		-	1.7	3.5	2.1	1.8	1.6	1.6	1.6
7. Import price deflator (goods and services)		-	4.0	5.3	2.9	1.4	1.6	1.6	1.6

** GDP components adjusted for seasonal variations and working days (from the quarterly accounts, March 2012)*

Table 1c. Labour market developments

	ESA Code	2010 Level	2010 Rate of change	2011* Rate of change	2012 Rate of change	2013 Rate of change	2014 Rate of change	2015 Rate of change	2016 Rate of change
1. Employment, persons[1]		26 679	0.2	0.6	0.3	0.5	0.8	0.9	0.9
2. Employment, hours worked[2]									
3. Unemployment rate (%)[3]									
4. Labour productivity, persons[4]		-	1.3	1.1	0.4	1.3	1.2	1.1	1.1
5. Labour productivity, hours worked[5]									
6. Compensation of employees	D.1	1039.2	2.1	3.5	2.0	1.9	3.3	3.3	3.4
7. Compensation per employee			2.0	2.9	1.7	1.5			

[1]Occupied population, domestic concept national accounts definition
[2]National accounts definition
[3]ILO definition
[4]Real GDP per person employed
[5]Real GDP per hour worked
** GDP components adjusted for seasonal variations and working days (from the quarterly accounts, March 2012)*

Table 1d. Sectoral balances

% of GDP	ESA Code	2010	2011*	2012	2013	2014	2015	2016
1. Net lending/borrowing vis-à-vis the rest of the world		-2.2	-2.6	-2.5	-2.1	-1.8	-1.6	-1.3
o.w. balance on goods and services		-2.3	-2.9	-2.7	-2.3	-2.0	-1.7	-1.4
o.w. balance of primary incomes and transfers		0.1	0.2	0.2	0.2	0.2	0.1	0.1
o.w. capital account		0.0	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	-7.1	-5.2	-4.4	-3.0	-2.0	-1.0	0.0
4. Statistical discrepancy								

** GDP components adjusted for seasonal variations and working days (from the quarterly accounts, March 2012)*

Table 2a. General government budgetary prospects

	ESA Code	2011 Level (Bn€)	2011 % of GDP	2012 % of GDP	2013 % of GDP	2014 % of GDP	2015 % of GDP	2016 % of GDP
Net lending (EDP B.9) by sub-sector								
1. General government	S.13	-103.6	-5.2	-4.4	-3.0	-2.0	-1.0	0.0
2. Central government	S.1311	-90.2	-4.5	-3.8	-2.5	-1.9	-1.3	-0.7
3. State government	S.1312							
4. Local government	S.1313	-0.9	0.0	0.0	-0.1	-0.1	0.0	0.0
5. Social security funds	S.1314	-12.5	-0.6	-0.5	-0.4	-0.1	0.3	0.6
General government (S13)								
6. Total revenue	TR	1014.8	50.8	51.5	52.1	52.2	52.4	52.6
7. Total expenditure	TE[1]	1117.9	55.9	55.8	55.1	54.2	53.4	52.6
8. Net lending/borrowing	EDP B.9	-103.1	-5.2	-4.4	-3.0	-2.0	-1.0	0.0
9. Interest expenditure	EDP D.41	51.5	2.6	2.5	2.6	2.6	2.7	2.8
10. Primary balance[2]		-51.6	-2.6	-1.8	-0.5	0.6	1.7	2.8
11. One-off and other temporary measures[3]		-	-	-	-	-	-	-
Selected components of revenue								
12. Total taxes (12=12a+12b+12c)		540.6	27.0	27.9	28.9	29.1	29.3	29.5
12a. Taxes on production and imports	D.2	305.1	15.3	15.7	16.0	16.1	16.2	16.2
12b. Current taxes on income, wealth, etc	D.5	225.2	11.3	11.8	12.4	12.5	12.7	12.8
12c. Capital taxes	D.91	10.3	0.5	0.4	0.4	0.5	0.5	0.5
13. Social contributions	D.61	375.9	18.8	18.7	18.2	18.2	18.2	18.2
14. Property income	D.4	15.9	0.8	0.7	0.7	0.7	0.7	0.7
15. Other[4]		82.3	4.1	4.2	4.2	4.2	4.1	4.1
16=6. Total revenue	TR	1014.8	50.8	51.5	52.1	52.2	52.4	52.6
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)[5]		876.3	43.8	44.7	45.2	45.4	45.6	45.8
Selected components of expenditure								
17. Compensation of employees + intermediate consumption	D.1 + P.2	373.8	18.7	18.6	18.1	17.6	17.2	16.7
17a. Compensation of employees	D.1	263.7	13.2	13.1	12.8	12.4	12.1	11.8
17b. Intermediate consumption	P.2	110.1	5.5	5.5	5.3	5.2	5.0	4.9
18. Social payments (18=18a+18b)		511.2	25.6	25.8	25.6	25.3	25.0	24.7
of which Unemployment benefits[6]		27.9	1.4	1.4	1.4	1.4	1.4	1.3
18a. Social transfers in kind supplied via market producers	D.6311 D.63121 D.63131	121.8	6.1	6.1	6.0	5.9	5.9	5.8
18b. Social transfers other than in kind	D.62	389.4	19.5	19.7	19.6	19.4	19.1	18.9
19=9. Interest expenditure	EDP D.41	51.5	2.6	2.5	2.6	2.6	2.7	2.8
20. Subsidies	D.3	29.6	1.5	1.5	1.4	1.4	1.4	1.4
21. Gross fixed capital formation	P.51	61.4	3.1	3.1	3.0	2.9	2.9	2.8
22. Capital transfers	D.9	14.3	0.7	0.7	0.6	0.6	0.6	0.6
23. Other[7]		76.2	3.8	3.7	3.7	3.7	3.6	3.5
24=7. Total expenditure	TE[1]	1117.9	55.9	55.8	55.1	54.2	53.4	52.6
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

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

[6] Includes cash benefits (D.621 and D.624) and in kind benefits (D.631) related to unemployment benefits

[7] D.29+D.4-D.41+D.5+D.7+P.52+K.2+D.8

Table 2b. Breakdown of revenue

	2011	2011	2012	2013	2014	2015	2016
	Level (Bn€)	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Total revenue at unchanged policies	1014.8	50.8	51.5	51.9	52.1	52.2	52.4
2. Discretionary revenue measures[1]		0.0	0.0	0.1	0.0	0.0	0.0

[1]As supplementary measures

Table 2c. Expenditure to be excluded from the expenditure benchmark

	2011	2011	2012	2013	2014	2015	2016
	Level (Bn€)	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue							
2. Expenditure fully matched by mandated revenue increases	22.7	1.1	0.8	0.4	0.2	0.1	0.1
3. Non-discretionary changes in unemployment benefit expenditure	2.5	0.1	0.2	0.2	0.1	0.1	0.1

Table 3. General government expenditure by function

% of GDP	COFOG code	**2010**	**2015**
1. General public services	1	6.9	
2. Defence	2	2.1	
3. Public order and safety	3	1.7	
4. Economic affairs	4	3.4	
5. Environmental protection	5	1.0	
6. Housing and community amenities	6	1.9	
7. Health	7	8.0	
8. Recreation, culture and religion	8	1.5	
9. Education	9	6.0	
10. Social protection	10	24.2	
11. Total expenditure (=item 7=23 in Table 2)	TE[1]	56.6	

[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	2011	2012	2013	2014	2015	2016
1. Gross debt[1]		85.8	89.0	89.2	88.4	86.4	83.2
2. Change in gross debt ratio		3.5	3.2	0.2	-0.9	-2.0	-3.1
Contributions to changes in gross debt							
3. Primary balance[2]		-2.6	-1.8	-0.5	0.6	1.7	2.8
4. Interest expenditure[3]	EDP D.41	2.6	2.5	2.6	2.6	2.7	2.8
5. Stock-flow adjustment		1.0	0.7	0.2	0.3	0.1	-0.1
of which:							
Differences between cash and accruals[4]							
Net accumulation of financial assets[5]							
o.w. privatization proceeds							
Valuation effects and other[6]							
p.m.: Implicit interest rate on debt[7]		3.3	3.0	3.0	3.0	3.2	3.4
Other relevant variables							
6. Liquid financial assets[8]							
7. Net financial debt (7=1-6)							
8. Debt amortization (existing bonds) since the end of the previous year							
9. Percentage of debt denominated in foreign currency							
10. Average maturity							

[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 or in case the debt-to-GDP ratio is above the reference value.

[5]Liquid assets (currency), government securities, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

[6]Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

[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	2011	2012	2013	2014	2015	2016
1. Real GDP growth (%)		1.7	0.7	1.75	2.0	2.0	2.0
2. Net lending of general government	EDP B.9	-5.2	-4.4	-3.0	-2.0	-1.0	0.0
3. Interest expenditure	EDP D.41	2.6	2.5	2.6	2.6	2.7	2.8
4. One-off and other temporary measures[1]		0.0	0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth (%)		1.7	1.7	1.7	1.7	1.7	1.7
contributions:							
- labour		0.3	0.4	0.3	0.3	0.3	0.3
- capital		0.6	0.6	0.6	0.6	0.6	0.7
- total factor productivity		0.7	0.7	0.7	0.7	0.7	0.7
6. Output gap		-2.8	-3.7	-3.6	-3.3	-3.0	-2.7
7. Cyclical budgetary component		-1.4	-1.8	-1.8	-1.6	-1.4	-1.2
8. Cyclically-adjusted balance (2 - 7)		-3.7	-2.6	-1.2	-0.4	0.4	1.2
9. Cyclically-adjusted primary balance (8 + 3)		-1.1	0.0	1.4	2.2	3.1	4.0
10. Structural balance (8 - 4)		-3.7	-2.6	-1.2	-0.4	0.4	1.2

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

Table 6. Divergence from previous update

	ESA Code	2010	2011	2012	2013	2014	2015	2016
Real GDP growth (%)								
Previous update		1.6	2.0	2 1/4	2 1/2	2 1/2	-	-
Current update		1.5	1.7	0.7	1.75	2.0	2.0	2.0
Difference		-0.1	-0.3	-1.55	-0.75	-0.5	-	-
General government net lending (% of GDP)	EDP B.9							
Previous update		-7.0	-5.7	-4.6	-3.0	-2.0	-	-
Current update		-7.1	-5.2	-4.4	-3.0	-2.0	-1.0	0.0
Difference		-0.1	0.5	0.2	0.0	0.0	-	-
General government gross debt (% of GDP)								
Previous update		81.7	84.6	86	85.6	84.1	-	-
Current update		82.3	85.8	89.0	89.2	88.4	86.4	83.2
Difference		0.6	1.2	3.0	3.6	4.3	-	-

Table 7. Long-term sustainability of public finances*

% of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure							
Of which: age-related expenditures	28.4	29.0	28.6	29.9	30.8	30.8	30.7
Pension expenditure	13.0	13.5	12.8	13.6	14.0	13.8	13.6
Social security pension							
Old-age and early pensions							
Other pensions (disability, survivors)							
Occupational pensions (if in general government)							
Health care	8.1	8.2	8.6	8.9	9.2	9.3	9.4
Long-term care (this was earlier included in the health care)	1.4	1.5	1.6	1.8	2.0	2.2	2.2
Education expenditure	4.6	4.6	4.6	4.7	4.6	4.7	4.6
Other age-related expenditures	1.2	1.2	0.9	0.9	0.9	0.9	0.9
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)							
Systemic pension reforms[1]							
Social contributions diverted to mandatory private scheme[2]	:		:	:	:	:	
Pension expenditure paid by mandatory private scheme[3]	:		:	:	:	:	
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	:		:	:	:	:	:

[1]Systemic pension reforms refer to pension reforms that introduce a multi-pillar system that includes a mandatory fully funded pillar.

[2]Social contributions or other revenue received by the mandatory fully funded pillar to cover for the pension obligations it acquired in conjunction with the systemic reform.

[3]Pension expenditure or other social benefits paid by the mandatory fully funded pillar linked to the pension obligations it acquired in conjunction with the systemic pension reform.

*Source: 2009 Report on Ageing by the Ageing Working Group, updated to adjust for the impact of the 2010 pensions reform.

**In 2009, the unconsolidated financial assets (except for FA7) of supplementary pension schemes (Agirc, Arrco, CNAVPL, ERAFP, Ircantec, RSI) and the Pension Reserve Fund (FRR) stood at 8.1 percentage points of GDP. Their consolidated assets stood at 7.8 percentage points of GDP.

Table 7a. Contingent liabilities

% of GDP	2010	2011
Public guarantees*	7.1	
Of which: linked to the financial sector	4.7	

**These are guarantees granted by the State in Budget Acts under clearly defined agreements*

Table 8. Basic assumptions

	2010	2011	2012	2013	2014	2015	2016
Short-term interest rate (annual average)[1]							
Long-term interest rate (annual average)[1]							
USD/€ exchange rate (annual average)	1.33	1.39	1.32	1.32	1.32	1.32	1.32
Nominal effective exchange rate	109.3	109.3	106.7	106.7	106.7	106.7	106.7
World excluding EU, GDP growth	5.9	4.2	4.2	4.5	4.2	4.2	4.2
EU GDP growth	2.0	1.6	0.1	1.3	1.9	1.9	1.9
Growth of relevant foreign markets	12.7	5.8	2.8	6.2	6 1/2	6 1/2	6 1/2
World import volumes, excluding EU	16.5	8.2	6.2	7.3	7.9	7.9	7.9
Oil prices (Brent, USD/barrel)	80	111	119.5	119.5	122	124	126

[1]If necessary, purely technical assumptions

9.2 Items included in the tax and contribution efforts underlying the Multiyear Public Finance Planning Act

	2011	2012	2013
2011 BUDGET ACT	**4.4**	**2.7**	**1.1**
No exemption from the capital gains tax on sales of securities	0.0	0.2	0.0
Elimination of the dividend tax credit	0.6	0.0	0.0
Elimination of the cap on the quota of fees and expenses on dividends	0.2	0.0	0.0
Elimination of the reduced VAT rate for combined "phone/Internet/TV" service packages	1.1	0.0	0.0
Revision of support for investment in solar power equipment	0.2	0.7	0.2
Revisions of income reporting procedures (marriage, civil union, divorce)	0.0	0.5	0.0
Concentrating investment support schemes on SMEs	0.0	0.1	0.0
Lowering the wealth tax reduction for investment in SMEs from 75% to 50%	0.1	0.1	0.0
Application of the company passenger car tax to vehicles registered in the N1 category	0.0	0.0	0.0
Elimination or reduction of exemptions on employers' social security contributions	0.8	0.3	0.0
Tax on insurance companies' capital reserves (tax on future flows)	0.2	0.0	0.0
A 10% cut in a set of personal income tax credits and reductions	0.0	0.4	0.0
Changes to research tax credit	0.0	0.2	0.0
Concentrating the tax credit for profit-sharing bonuses on companies with fewer than 50 employees	0.1	0.0	0.0
Additional 1% contribution on high incomes and on capital income	0.4	0.1	0.0
A 2% increase in the flat-rate tax on real property capital gains	0.1	0.0	0.0
Systemic tax on banks	0.5	0.1	0.3
Delaying the complete elimination of the annual flat-rate turnover tax until 2014	0.6	-0.2	0.0
Home buying reform	0.0	0.3	0.4
Gradual alignment of contribution rates for civil servants on those for private-sector employees	0.2	0.2	0.2
Immediate reimbursement of the research tax credits to SMEs	-0.6	0.1	0.1
Others	-0.1	-0.2	0.0
2011 SOCIAL SECURITY BUDGET ACT	**7.7**	**-1.5**	**-0.1**
Measures dealing with stock options and cloth cap pensions	0.2	0.0	0.0
Annualisation of general cuts in social security contributions	1.8	0.2	0.0
Tax on insurance companies' capital reserves ("exit tax" on stock)	1.7	-1.7	0.0
Annual capital gains tax on life insurance policies	1.6	-0.2	-0.2
Tax on solidarity-promoting and socially responsible healthcare insurance contracts	1.1	0.0	0.0
Increase in the minimum tax on SS-exempt benefits paid by employers from 4% to 6%	0.4	0.0	0.0
Restriction of the scope of the 3% deduction for professional expenses applied to the Generalized Social Security Contribution	0.0	0.0	0.0
Levying social security contributions on income paid by third parties	0.1	0.0	0.0
Increase of 0.2 percentage points in the 2% social security levyon capital income	0.2	0.0	0.0
Increase in work accident and occupational health insurance contributions	0.4	0.0	0.0
Gradual alignment of contribution rates for civil servants on those for private-sector employees	0.1	0.1	0.1
Others	0.1	0.1	0.0
Impact of the measures in the 2011 Budget Act and Social Security Budget Act on personal and corporate income tax	**0.0**	**-0.7**	**0.0**
Sub-total of new measures passed or decided in 2010	**12.1**	**0.5**	**1.1**
FIRST 2011 SUPPLEMENTARY BUDGET ACT	**-0.5**	**0.1**	**0.0**
Elimination of the reduction of duties on donations	0.1	0.1	0.0
Elimination of the tax cap	0.0	0.3	0.1
Net wealth tax rates	-0.4	-1.5	0.0
Generalisation of offsets under the tax cap	-0.2	0.4	-0.2
Provisions in favour of the lowest incomes	0.0	0.0	0.0
Extension of the statute of limitations from 6 to 10 years for donations	0.0	0.3	0.0
Increase in estate administration tax	0.0	0.3	0.0
Increase of 5 percentage points in the top two rates of inheritance taxes	0.0	0.2	0.0
Exit tax on capital gains	0.0	0.1	0.1
Taxes on trusts and measures to prevent abuse of property investment companies	0.0	0.1	0.0
Oil tax	0.1	-0.1	0.0
Increase in deduction per kilometre for professional vehicles	-0.1	0	0.0
Elimination of the tax on fish	0.0	-0.1	0.0
Others	0.0	0.0	0.0
2011 Supplementary Social Security Budget Act (contributions on profit-sharing bonuses)	**0.0**	**-0.1**	**0.0**
Impact of the minimum tax on SS-exempt benefits paid by employers	0.1	0.0	0.0
Impact of the Generalized Social Security Contribution and the Social Security Debt Repayment Contribution	0.1	0.0	0.0
Impact of social levy on dividends	0.0	0.0	0.0
Impact of flat-rate withholding tax	0.0	0.0	0.0
Impact of corporate income tax	-0.1	-0.1	0.0
Impact of personal income tax	0.0	0.1	0.0

SECOND 2011 SUPPLEMENTARY BUDGET ACT	**1.9**	**5.4**	**-0.4**
Change in the holding period to qualify for the capital gains tax exemption on real property	0.0	2.0	0.1
Elimination of the partial exemption from the special tax on solidarity-promoting and socially responsible insurance policies	0.1	1.0	0.0
Abolishment of consolidated global profit	0.6	0.1	0.0
Increase of 1.2% in social security contributions on investment income	0.2	1.1	0.0
Restriction of profitable companies' ability to carry losses forward and backward	0.9	1.0	-0.5
Increase in the quota for fees and expenses applied to long-term capital gains on equity shares	0.2	0.1	0.0
Creation of a luxury hotel tax	0.0	0.1	0.0
2012 INITIAL BUDGET ACT	**0.0**	**0.9**	**1.3**
Elimination of the 30% deduction for taxable earnings of businesses in France's overseas departments	0.0	0.1	0.0
A 15% cut in a set of personal income tax credits and reductions	0.0	0.0	0.5
Revision of support for improving energy efficiency	0.0	0.0	0.3
Retargeting of interest-free+ loans with means testing	0.0	0.0	0.3
Retargeting of deductions for expenses related to equities	0.0	0.0	0.1
Exemption of capital gains realised on the sale of a secondary residence when its proceeds are reinvested in the purchase of a main residence	0.0	-0.2	0.0
Changes to the "Scellier" tax incentive for buy-to-let investments in the new-build sector	0.0	0.0	0.0
Concentrating investment support schemes on SMEs	0.0	0.0	0.2
Abolishment of the 40% personal income tax deduction for holders of shares in listed property investment companies	0.0	0.1	0.0
Change in the registration duty base to finance the more flexible tax rules applying to capital gains on real property	0.0	0.2	0.0
Increase in tax on fuel oil	0.0	0.1	0.0
Introduction of a one-off contribution on very high incomes	0.0	0.4	0.0
Introduction of a tax on sugary drinks	0.0	0.2	0.0
Introduction of a tax on artificially sweetened drinks	0.0	0.0	0.0
Others	0.0	0.0	0.0
2012 SOCIAL SECURITY BUDGET ACT	**0.0**	**2.7**	**0.0**
Increase in the minimum tax on SS-exempt benefits paid by employers from 6% to 8%	0.0	0.4	0.0
Inclusion of extra hours when calculating general contribution reductions	0.0	0.6	0.0
Reduction of the professional expenses deduction from 3% to 1.75% for the Generalized Social Security Contribution	0.0	0.8	0.0
Increase in taxes and social security contribution on hard liquor	0.0	0.3	0.0
Revision of the tax rates on company cars	0.0	0.1	0.0
Harmonisation of the corporate social solidarity contribution tax base	0.0	0.2	0.0
Increase of the contribution rate on pharmaceutical companies' turnover from 1% to 1.6%	0.0	0.2	0.0
Severance pay: reduction from three times the Social Security ceiling to two times	0.0	0.2	0.0
Impact of the measures in the 2012 Budget Act and Social Security Budget Act on personal and corporate income tax	**0.0**	**0.0**	**-0.1**
Other measures	**0.1**	**0.7**	**0.0**
Increase in cigarette prices by 6% in 2011 and 2012	0.1	0.5	0.0
Aligning social security contributions in the energy sector (IEG) with ordinary law governing contributions	0.0	0.2	0.0
FOURTH 2011 SUPPLEMENTARY BUDGET ACT	**0.0**	**5.5**	**1.8**
End of index-linking of personal income tax, wealth tax and taxes on transfers	0.0	1.8	1.8
One-off corporate income tax contribution from large corporations	0.0	1.4	0.0
Creation of an intermediate VAT rate of 7%	0.0	1.9	0.0
Revision of the tax reform for mutual insurance companies	0.0	0.0	-0.1
Abolishment of corporate income tax exemption for insurance companies on solidarity-promoting and socially responsible policies	0.0	0.0	0.2
Increase of the withholding tax on dividends and interest to 24%	0.0	0.6	0.0
Abolishment of the tax on luxury hotels	0.0	-0.1	0.0
Others	0.0	0.0	0.0
Sub-total of new measures passed or decided in 2011	**1.5**	**15.2**	**2.7**
FIRST 2012 SUPPLEMENTARY BUDGET ACT	**0.0**	**0.4**	**0.4**
Tax on financial transactions	0.0	0.5	0.6
VAT on off-plan sales	0.0	-0.1	-0.2
Cuts in employers' social security contributions used to finance family allowances	0.0	-3.6	-9.6
Anti-offshoring VAT	0.0	2.9	7.7
Increase in the Generalized Social Security Contribution on capital by two percentage points	0.0	0.8	1.8
Sub-total of new measures passed or decided in 2012	**0.0**	**0.4**	**0.4**
Total new measures since 1 July 2010	**13.6**	**16.1**	**4.1**
Undocumented new measures			**3.0**
Total measures			**7.1**