



Brussels, 16.11.2015
C(2015) 8103 final

COMMISSION OPINION
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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.
2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING FRANCE

3. On the basis of the Draft Budgetary Plan for 2016 submitted on 15 October 2015 by France, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.
4. France is currently subject to the corrective arm of the Pact. The Council opened the Excessive Deficit Procedure for France on 27 April 2009 and recommended France to correct the excessive deficit by 2012, a deadline which was extended to 2013 on 2 December 2009, to 2015 on 21 June 2013 and to 2017 on 10 March 2015. France should reach a headline deficit of 4.0 % of GDP in 2015, 3.4 % of GDP in 2016 and 2.8 % of GDP in 2017, which was deemed consistent with delivering an improvement in the structural balance of 0.5 % of GDP in 2015, 0.8 % of GDP in 2016 and 0.9 % of GDP in 2017. Delivering these efforts would require additional measures of 0.2 % of GDP in 2015, 1.2 % of GDP in 2016 and 1.3 % of GDP in 2017 based on the extended Commission 2015 winter forecast.
5. According to the Draft Budgetary Plan, real GDP will grow by 1.0% in 2015 after 0.2% in 2014, and will accelerate slightly to 1.5% in 2016, on the back of increasing private consumption. Inflation is forecast to accelerate from 0.1% in 2015 to 1.0% in 2016. The macroeconomic scenario underpinning the Draft Budgetary Plan is similar to that of the Stability Programme submitted in April 2015, although the composition of GDP growth has changed somewhat. The GDP growth assumptions for 2015-2016 contained in the Draft Budgetary Plan are close to the Commission 2015 autumn forecast. The Commission projects GDP growth to reach 1.1% in 2015 and 1.4% in 2016 and inflation to increase from 0.1% in 2015 to 0.9% in 2016. The Commission forecasts a higher contribution of net exports to growth in 2015 and does not expect a rebound in investment as early as 2016. Overall, the Draft Budgetary Plan is based on plausible macroeconomic assumptions.
6. Regulation (EU) No 473/2013 requires the Draft Budgetary Plan to be based on independently endorsed or produced macroeconomic forecasts. The High Council for Public Finances (HCPF) was established as a monitoring body attached to the French Court of Auditors and its independence is formally guaranteed by law. As required by law, the HCPF published on 30 September an opinion on the macroeconomic

forecasts underpinning the Draft Budgetary Plan as well as on the underlying budgetary strategy. In its opinion, the HCPF considered that the GDP growth forecast for 2015 as well as the achievement of the 2015 deficit target was plausible although a continued strict control of expenditure remained necessary. Concerning 2016, the HCPF considered that the GDP growth forecast was plausible but no longer prudent given the increase in uncertainty regarding the external environment since the summer. Moreover, it warned that the forecast for the total private sector wage bill in 2016 might be lower than projected by the government, which would weigh on social security contributions, and considered the inflation projection for 2016 optimistic, stressing that a lower-than-expected inflation would make the budgetary adjustment more difficult. Finally, the HCPF considered that significant risks surround the achievement of the headline deficit target in 2016 as the planned slowdown in public expenditure is particularly ambitious in light of past trends.

7. In 2014, the general government deficit reached 3.9% of GDP, i.e. 0.1 pp below the level notified in spring 2015 and 0.4 pp below the level projected at the time of the Council recommendation of 10 March 2015. In line with the Stability Programme, the Draft Budgetary Plan projects that the deficit will decrease to 3.8% of GDP in 2015 and 3.3% in 2016. This is consistent with a (recalculated) improvement in the structural balance of 0.2 pp of GDP in both 2015 and 2016.

The decline in interest expenditure over the period 2012-2015 (by 0.5% of GDP) has not been used to improve the structural balance (which amounted to 1.6% of GDP) as these windfall gains have been offset to a certain extent by the impact of lower-than-expected inflation on the primary deficit and they have been accompanied by a reduction in the planned structural primary effort. Looking forward, the planned improvement of the structural balance in 2016 does not rely ex ante on interest rate windfalls.

8. The Commission 2015 autumn forecast projects a deficit of 3.8% of GDP for 2015, in line with the Draft Budgetary Plan and the Stability Programme. For 2016, a deficit of 3.4% of GDP is expected and the difference with the Draft Budgetary Plan and the Stability Programme (0.1% of GDP) is mainly due to differences in the discretionary measures that have been taken into account in the Commission forecast. Risks to the budgetary targets are tilted to the downside and are related to the planned slowdown in public expenditure. In particular, the expenditure norm of the State is stricter than in 2015, which will make it more difficult to respect, and investment by local authorities could turn out stronger than expected. In terms of structural balance, the Commission 2015 autumn forecast projects an improvement of 0.1 pp of GDP in 2015 and 0.3 pp in 2016. Differences mainly relate to the one-off measures taken into account by the Commission for 2015 and 2016.
9. The ratio of general government debt to GDP reached 95.6% in 2014. The Draft Budgetary Plan expects this ratio to increase to 96.3% in 2015 and 96.5% in 2016. The Commission 2015 autumn forecast expects that public debt will rise to 97.1% of GDP in 2016. The difference with the Draft Budgetary Plan stems from lower nominal GDP growth and a slightly higher deficit.
10. The measures included in the Draft Budgetary Plan for 2016 mainly consist, on the revenue side, in the implementation of the tax and social security contribution reductions of the Responsibility and Solidarity Pact and, on the expenditure side, in expenditure cuts planned to amount to EUR 16 billion (0.7% of GDP) compared to trend growth. The latter consist in EUR 5.1 billion expenditure cuts by the central

state, EUR 3.5 billion by local authorities and EUR 7.4 billion by social security. The Commission has not taken into account measures amounting to approximately EUR 1.9 billion (0.1% of GDP) as they were insufficiently specified at this juncture. These mainly relate to a savings target of EUR 0.8 billion for a still to be negotiated reform of the unemployment benefit scheme and the lack of specification of part of the measures designed to compensate the tax cuts for households.

11. According to the Commission 2015 autumn forecast, the headline deficit in 2015 is projected at 3.8% of GDP, below the recommended headline target of 4.0% of GDP. The structural balance is expected to improve by 0.1% of GDP in 2015, falling short of the recommended effort of 0.5%. Also the change in the adjusted structural balance, which takes into account windfall revenues and changes in potential output growth, is projected to fall short of the recommended level by 0.3% of GDP. Similarly, the fiscal effort assessed on the basis of the bottom-up method is estimated to fall short of the recommended level by 0.4% of GDP in 2015. In 2016, the headline target of 3.4% of GDP is forecast to be met without margin. The structural balance is expected to improve by 0.3%, falling short of the recommended effort of 0.8%. Concerning the change in the adjusted structural balance, the gap vis-à-vis the recommended fiscal effort is expected to widen to 0.6% of GDP in 2016. Based on the bottom-up method, the fiscal effort is forecast to be missed by 0.5% of GDP in 2016. The cumulated shortfall over 2015-2016 would be 0.9% of GDP based on both the top-down and bottom-up metrics. Compared to the July 2015 Commission assessment of action taken, the fiscal effort has decreased by 0.2 pp of GDP in 2015 according to both metrics, mainly because of the classification of the auctioning of 4G licences as a deficit-reducing one-off measure. For 2016, the fiscal effort has increased by 0.3 pp of GDP compared to the July 2015 assessment according to both metrics, as the government has specified further the additional measures announced in the Stability Programme, offsetting the lower contribution of the cyclically-adjusted component of the deficit, and as a deficit-increasing one-off measures have been taken into account. Finally, under the usual no policy change assumption, the Commission 2015 autumn forecast projects the headline deficit to decline to 3.3% of GDP in 2017, the deadline for the correction of the excessive deficit.
12. The Draft Budgetary Plan contains measures that will reduce the tax burden on labour. They include the implementation of the second phase of the Responsibility and Solidarity Pact, consisting of reductions in employer social security contributions for wages comprised between 1.6 and 3.5 times the minimum wage, albeit with a delay of 3 months compared to earlier plans, as well as a reduction in the personal income tax for low-income households. Over the period 2014-2016, the tax wedge would be reduced by somewhat less than 2% of GDP. Concerning fiscal governance, continued progress has been made in improving the fiscal framework for local authorities, notably with the completion of the legislative process related to the territorial reform and a breakdown of the indicative spending norm (ODEDEL) per type of local authority in the Draft Budgetary Plan for 2016. Moreover, the first round of spending reviews linked to the budgetary procedure has shown that these reviews can potentially lead to substantial savings, although the savings generated so far have been limited. As regards pensions, substantial progress has been made to improve the sustainability of the complementary pension schemes. Regarding taxation, little effort has been made to simplify the tax system and improve its efficiency, while no progress has been made regarding the independent evaluation of the impact of key measures included in the Draft Budgetary Plan.

13. Overall, the Commission is of the opinion that the Draft Budgetary Plan of France, which is currently under the corrective arm, is broadly compliant based on the headline deficit target although the fiscal effort is projected to fall significantly short of the recommended level, according to all metrics. The budgetary strategy is based on the better-than-expected deficit outcome in 2014 and improving cyclical conditions, which puts at risk compliance with the Council recommendation of 10 March 2015. The Commission therefore invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2016 budget will be compliant with the SGP.

The Commission is also of the opinion that France has made some progress with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and invites the authorities to make further progress. A comprehensive assessment of progress made with the implementation of the CSRs will be made in the 2016 Country Reports and in the context of the Country Specific Recommendations adopted by the Commission in May.

Done at Brussels, 16.11.2015

For the Commission
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Member of the Commission

