

Annexes to the 2003-2005 stability programme

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I. Macroeconomic assumptions of the 2003-2005 stability programme

I-1. The present state of the French economy

With growth in excess of 3% p.a., the French economy appears to have made up for the weak demand of the last few years. This multiyear programme assumes that the French economy will continue on its growth potential path over the 2003-2005 period. Two scenarios for growth are proposed: the first for annual growth at 2.5% p.a. between 2002 and 2005, and the second for 3% growth p.a. starting in 2003, based on positive assumptions concerning- a decline in structural unemployment, increased participation rate, and strong capital expenditure. In both scenarios, moderate inflation of 1.5% p.a. is retained for the 2003-2005 period.

Renewed strength in demand in the French economy

Benefiting from strong foreign trade and firm domestic demand, the French economy grew 3.1% in 2000¹. In 2001, growth is expected to be slightly above 2%. At the beginning of the year, the U.S. economic slowdown and the consequent effect on the worldwide economic environment, particularly in Europe, began to weigh on the French economy. French exports of goods and services registered a downturn, and French businesses sharply reduced their inventories and capital expenditure. Consumer demand, however, has held up well.

After a temporary slowdown lasting a few quarters, the French economy should return to a level near its growth potential. Adversely affected by recent negative developments, France's international environment should improve gradually, following declines in oil and food prices, an easing of monetary policies and tax-cut measures in the U.S. and Europe. In France, discretionary measures to reduce the total tax burden will provide an *ex-ante* boost to activity of about 1.5% of GDP for the 2001-2002 period, following the boost of more than 1% of GDP in 2000.

The purchasing power of French households should improve significantly following tax cuts and increases in real wages, coupled with the continued positive impact of the reduction of the French working week on employment. Corporate capital expenditure will decline in response to weaker demand and profits. However, this slowdown should be limited owing to easing monetary and financial conditions. Capacity utilization rates in 2000 and continued demand for new technology equipment should also provide a further boost to the recovery of the latter once demand picks up.

Employment in the market sector has registered exceptionally strong growth in recent years, with unemployment falling to 8.7% in the spring of 2001. The strong performance reflects growth in activity and positive job-growth trends, particularly in response to the implementation of the reduced working week in France (RTT). The number of wage earners in the market sector nevertheless registered a downturn in the spring of 2001, reflecting weaker growth and delays experienced in changing over to the shorter working week. After an average of 3.3% in 2000 and 2.8% in 2001, employment in the market sector should fall back to 1.7% growth in 2002.

The tragic events of 11 September and their international repercussions contributed to the downward pressure on growth in the U.S. and Europe, and, by extension, France. The impact of this pressure on French growth is nevertheless difficult to quantify with precision. The deterioration registered in economic surveys in the U.S. and Europe may have added downward pressure in the last few weeks. At the same time, traditional macroeconomic models suggest that a significant decline in interest rates and the fall in oil prices should partially offset this initial decline.

¹ Source: Annual national accounts; according to the quarterly national accounts, GDP growth in 2000 reached 3.5%.
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The 2.5% growth forecast for 2002 is further at risk with the current slowdown in world trade. However, an anticipated rebound in activity should result in an effective growth rate exceeding 2.5% starting in 2003, in line with recent forecasts of international organizations (OECD, European Commission).

I-2. Two growth scenarios for 2003-2005

Potential growth for France is near 2.5%.

The growth potential of the French economy has improved recently in response to the improved performance of the labour market and a sharp recovery in investment. It has increased from approximately 2¼% p.a. in the mid-1990s to 2½% in recent years. Reduced tax and social charges, particularly in favour of unskilled workers, has contributed in recent years to a significant decline in structural unemployment while the participation rate has continued to show strong growth.

The French economy should continue to continue on its potential growth path over the 2003-2005 period.

Two scenarios for growth are proposed:

- **The first scenario assumes potential growth around 2.5% p.a.** Corporate investment will increase at approximately 6% p.a., enabling the capacity utilization rate to return to its historical average by 2005. Moreover, this potential growth rate implies a continued decline in structural unemployment (though at a moderate pace) in response to the recent acceleration in the reduction of taxes and social security charges on employment and the opening up of markets for products.
- **The second scenario proposed would raise France's growth potential to approximately 3% p.a.** This reinforced potential growth would result from increased corporate capital expenditure offsetting the slowdown in investments experienced over the last few quarters, especially if the risk factors associated with this forecast materialize. Furthermore, recent measures to improve the level of wages and reduce unemployment traps, particularly the earned-income tax credit (*prime pour l'emploi*), will add to the labour pool above and beyond increases resulting from the expected demographic shift.

Activity will benefit from sustained growth in an environment of low inflation.

French economic growth will reflect the performance of the euro area, which is expected to continue on its potential growth path. Inflation will stabilize at approximately 1.5% p.a. over the 2003-2005 period, while overall demand should remain in line with supply. The strong growth in both scenarios is based on growth in final domestic demand, as the contribution from net exports of goods and services and inventories is expected to be nil.

In the scenario for growth at 2.5%, household consumption will increase in line with disposable income which will grow at the same pace as business activity, i.e. 2.5% p.a. In the scenario for growth at 3%, household consumption will outpace the increase in disposable income, resulting in a decline in the savings rate by households of approximately 0.5 points over the period.

<i>2003-2005 average</i>	Scenario at 2.5%	Scenario at 3%
GDP	2.5%	3.0%
Domestic demand	2.6%	3.1%
Household consumption	2.6%	3.1%

General government consumption	1.1%	1.1%
Gross fixed capital formation	4.1%	5.2%
- o.w. businesses ²	6.3%	8.1%
Contribution of inventories	0.0%	0.0%
Export of goods and services	6.1%	6.6%
Import of goods and services	6.6%	7.0%
GDP prices	1.5%	1.5%
Consumer prices	1.5%	1.5%
Private sector wage bill	4.2%	4.9%
Nominal average private-sector wage per capita	3.1%	3.1%
Private sector wage earners	1.1%	1.8%

I-3. Sensitivity tests regarding the macroeconomic scenarios

The macroeconomic scenarios retained in the multiyear programme are based on a series of assumptions concerning the French economy's international, social and financial environment, which are naturally subject to a certain number of risk factors. The forecasts for 2002 are based on the following assumptions, which, for the most part, have been extended over the 2003-2005 period:

- A progressive return of world trade to its long-term path of growth,
- Oil price of US \$23 per barrel,
- Interest rates in line with the assumptions retained by the Commission.

It is possible to assess the impact of some of these risks on the French economy, in light of the consequences of a slowdown in world demand for French goods and services, a decline in oil prices, and the reduction of interest rates in the euro area.

A. Impact of a weaker world demand for French goods and services

A slowdown in world demand for French goods and services begins by affecting export sales almost exclusively, and then filters through the rest of the economy, particularly in the form of lower levels of corporate capital expenditure.

At constant nominal interest rates, a permanent 1% downturn in world demand would shave economic activity by about one-quarter point of GDP and lead to the loss of around 30,000 jobs after two to three years. The impact on inflation would be almost nil (at fixed exchange rates).

By way of example, a 1% contraction in world demand for French goods and services could be caused by a temporary slowdown in U.S. growth of 0.75 points and its spillover effect on the entire world economy.

² Non-financial corporate enterprises and unincorporated enterprises
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Impact of a 1% decrease in world demand for French goods and services on the French economy (1)

(Deviation from benchmark scenario as a %)

	2003	2004	2005
GDP	-0.2/-0.3	-0.3	-0.2/-0.3
Total employment (in thousands)	-5/-10	-25	-30
Household consumption prices	0.0	0.0	0.0
Net lending (in GDP points)	0.0	-0.1	-0.1

Source: calculations by the Forecasting Directorate

(1) This durable decrease in world demand by 1% would take place in the beginning of 2003.

B. Impact of a decline in oil prices

A durable decline in oil prices will provide a positive supply shock for the French economy and its principal industrial partners. A fall in oil prices will result in a drop in imported inflation, having a direct curbing effect on consumer prices. In addition to this automatic mechanism, prices will be pulled down by the slowdown in businesses' production costs and wage indexation on prices. The combined impact of declining consumer prices and improved profitability of businesses will provide a boost to activity.

Under traditional macroeconomic models, a durable 20% decline in oil prices in U.S. dollars (for example from US \$23 to US \$18), provided that European macroeconomic policies remain unchanged, would translate into an increase in activity of approximately two-tenths of a percentage point and a decline in consumer prices of slightly more than one-half of a percentage point at the end of two years.

This disinflation would also permit a further easing of monetary policy in the euro area, providing further stimulus to demand.

Impact of a 20% decline in oil prices on the French economy in U.S. dollars (1)

(Deviation from benchmark scenario in %)

	2003	2004	2005
GDP	0.1	0.2	0.2
Household consumption prices	-0.3/-0.4	-0.5/-0.6	-0.5/-0.6
Net lending	0.0	0.0	0.1

Source: calculations of the Forecasting Directorate

(1) This decline in the price of a barrel of Brent oil from US \$23 to US \$18 would take place in early 2003.

C. Impact of a 100 bp decrease in interest rates

Downward pressures on the international environment and the outlook for activity in the euro area could contribute to a further decrease in European interest rates.

A decrease in both short and long rates would consolidate activity and add inflationary pressure in three ways: cost of capital, a shift from savings to consumption, and exchange rates:

- capital expenditure would benefit most from lower rates: lower financial charges would improve corporate solvency and raise return on capital employed.
- home investments would also benefit from lower loan interest. Higher interest rates would also encourage savings efforts (substitution effect).
- depreciation of the euro due to lower interest rates would also weigh on activity by making France less competitive vis-à-vis countries outside the euro area.

At a fixed exchange rate, a 100 basis point decrease of short and long rates in the euro area would boost economic activity by nearly a quarter of a GDP point in the first year and by three-quarters to one point in the second and third years. The impact on inflation would remain marginal since domestic prices hardly respond to consolidation of economic activity.

These assumptions factor in the effects of the macroeconomic dynamics within the euro area, i.e. the positive impact on the French economy of stronger demand among its euro-area partners.

Impact of a 100 bp decrease in interest rates in the euro area on the French economy (1)

(Deviation from benchmark scenario as a %)

	2003	2004	2005
Without an appreciation of the euro			
GDP	0.2	0.7/1.0	0.7/1.0
Total employment (in thousands)	7.5	60/75	60/75
Household consumption prices	0.0	0.1	0.2
Net lending (% of GDP)	0.1	0.2	0.3/0.5

Source: calculations on the Forecasting Directorate

(1) This durable decrease of 100 bp in short- and long-term interest rates should take place in the beginning of 2003 on the basis of a fixed exchange rate.

Lower interest rates affect public finance in two ways. First, the debt service burden of the general government decreases because the cost of refinancing existing debt and financing new deficits goes down. Second, the boost given to economic activity leads to an improvement in the public accounts.

Based on debt maturity, an interest rate decrease of 100 basis points would lower interest expense for the general government by roughly 0.2 GDP points by 2005.

Public revenue and expenditure would both be affected by stronger activity:

- stronger growth automatically generates higher tax and social security revenue. The revenue gains of Social security funds are not particularly sensitive to the nature of the impact since they are mainly based on the wage bill. This contrasts with central government revenue, which is much more sensitive to the type of change involved: for instance, VAT revenue is boosted by a spurt in household demand but is hardly affected by rising export sales.
- nominal expenditure (excluding interest expense) would be reduced by improvement of the labour market and aggravated by the fact that most expenses are pegged to inflation (wage bill, benefits, etc.).

II. General government expenditure

The updated multiyear public finance programme is based on defining a target for aggregate general government expenditure increases. The current multiyear programme therefore confirms the effort to control growth in public expenditure.

General government expenditure should increase by 4% p.a. at constant prices over the 2003-2005 period. This is a lower rate than what was forecast in the previous programme (4.5% for the 2002-2004 period). Growth in GNP-based fourth own resource to finance the community budget, already significant in 2002, is the primary reason for this difference. Excluding EU financing, total spending is in line with the previous programme.

Cumulative growth in real expenditure: 2003-2005

<i>At constant prices</i>	2003-2005 programme
General government	4.0%
Central government (budget accounting) ²	1.0%
Central government (national accounts) ^{1,2}	2.2%
Social security funds ²	4.5%
<i>of which: - Health care</i>	5.5%
- <i>Retirement pensions</i>	5.8%
- <i>Other</i>	1.5%
Local government	6.6%

¹ Cf. box in section II: items for changeover from general budget expenditure to national accounts expenditure.

² On a like-for-like basis

The government's efforts to control general government expenditure make it possible to reduce the weight of these charges in GDP and create the leeway necessary to balance the general government's books and to lower taxes and social security contributions. The weight of public expenditure in GDP should decrease by 1.8 GDP points over three years, in the 2.5% growth scenario.

In the 2.5% growth scenario, such leeway would permit a return to a balanced situation at the end of the period after achieving a virtual balance in 2004, with net borrowing representing 0.5% of GDP. At the same time, the total tax burden would be reduced by 0.3 GDP points over the 2002-2005 period.

Slower expenditure growth than in the 2002-2004 programme

The multiyear programme presented last year projected an average increase in general government real expenditure of 1.5% p.a. The targets of this updated version are close to last year's. The rate of increase in expenditure is nevertheless slightly lower: general government spending should increase on average by 1.3% p.a. at constant prices over the 2003-2005 period.

The major components of the reform in the financing of the European Union will be implemented in 2002, which explains the significant level of spending over the 2002-2004 period reported in the previous programme. In effect, EU resources based on national wealth (GNP-based fourth own resource) are recorded as an expense in the European system of accounts (SEC95). The progressive shift of EU resources to GNP-based fourth own resource, at the expense of the transfer of receipts, has naturally led to an increase in general government expenditure in 2002. The disappearance of this phenomenon primarily reflects the more moderate increase in spending in this programme.

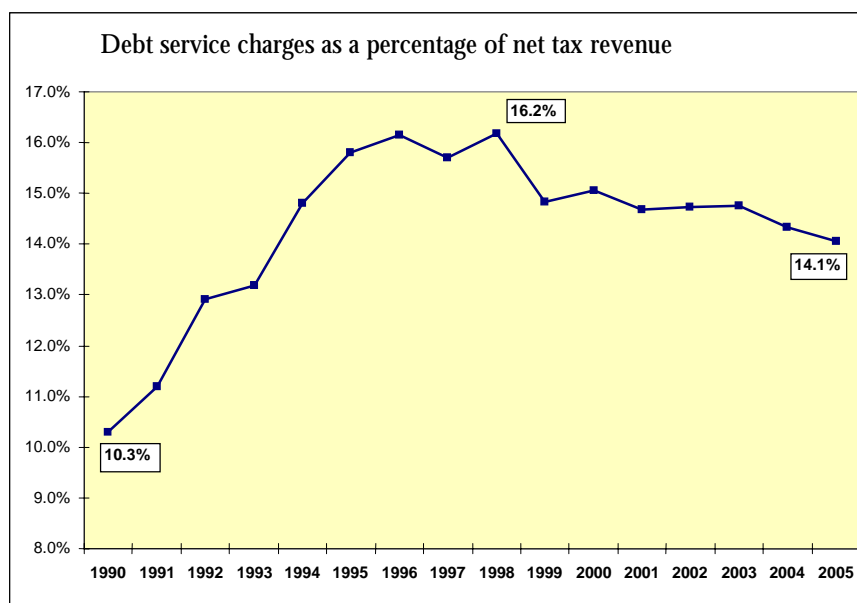
Central government expenditure

General budget expenditure will increase by 1% at constant prices over the 2003-2005 period, comparable with the previous update. Priorities will be financed in part through an effective control of expenditure in the civil service sector and in part through adjustments in social security expenditure as improvements in structural unemployment are achieved.

Debt service charges

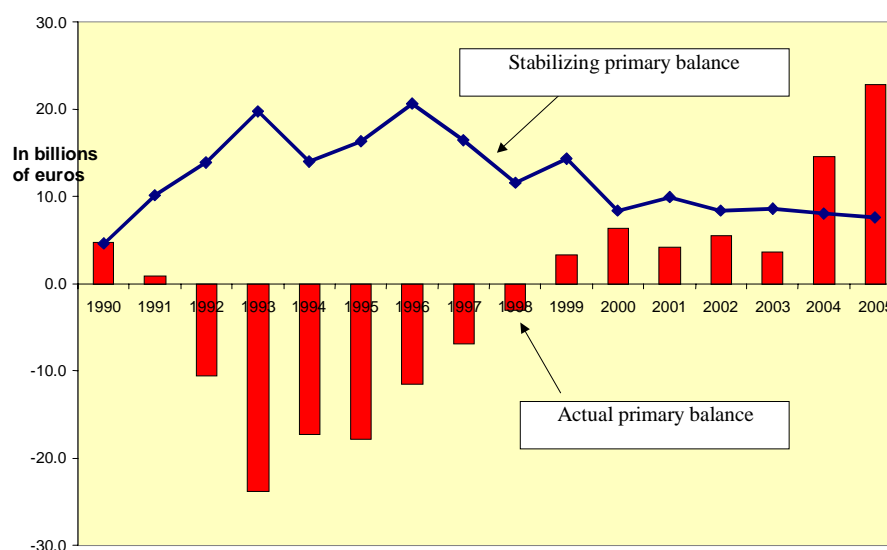
Debt service charges should increase faster than total central government expenditure over the 2003-2005 period: + 1.2% p.a. at constant prices compared with + 0.3%.

As a percentage of net tax revenue, debt service charges should continue to decline over the 2003-2005 period to nearly 14% in 2005, compared with 16% in 1998 (graph 1).



The programme is based on interest rates that are consistent with the other macroeconomic assumptions. Starting in 2004, the actual balance should exceed the balance that makes it possible to stabilize the share of central government debt in GDP (graph 2). The share of central government debt in GDP would in this way decline for the first time since 1980.

Actual primary balance compared with the stabilizing primary balance: 1990-2005



Civil service expenditure

Civil service expenditure – including retirement pensions - should increase by 2.5% p.a. at market prices over the 2003-2005 period. This increase should mean steady improvement in the purchasing power of the average civil-service wage. The increase in the number of civil servants retiring will provide an opportunity to adjust recruitment to more effectively respond to the new needs of central government, as missions are redefined with the goal of providing improved public service. This trend will presume an improvement in public service efficiency by reforming the missions and the organization of central government, which is what the new Constitutional bylaw on budget acts aims at.

Other expenditure

Primary expenditure excluding civil service spending will account for 42.2% of the general budget of central government in 2002. The phase-out of special measures in favour of employment following improvements in structural unemployment should free-up significant resources to finance government priorities over the next three years, with an average increase in primary expenditure of approximately 1% p.a. at market prices.

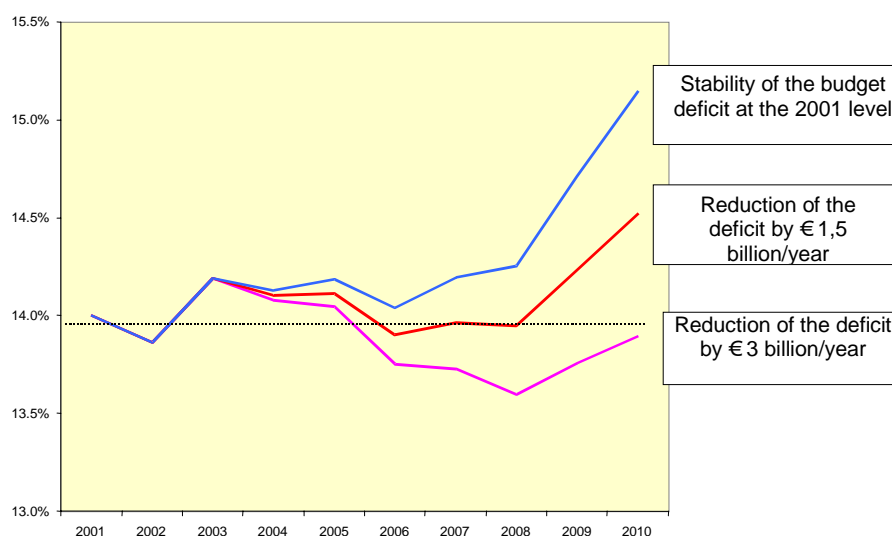
Rate of the reduction in the central government deficit and debt service charges

Debt services charges currently account for 14% of the central government budget, compared with 5% in 1980. In order to stabilize the weight of debt service charges in the general budget by 2010, the budget deficit should be reduced by approximately € 4 billion per year. This is the objective under the current programme, which targets the division of the central government deficit by almost two, with a reduction of € 4.5 billion p.a..

<i>(In billions of euros)</i>	2002	2005	2002-2005 deviation
Budget balance*	- 30.5	- 17.1	- 13.4

* *Forecast outturn*

Change in debt service charges as a percentage of the central government budget



Changeover from general budget expenditure to national accounting expenditure

The scope of central government expenditure in the national accounting system does not match the scope of general budget expenditure in budgetary accounting as confirmed by the Constitutional bylaw on budget acts of 1 August 2001. Two key factors contribute to the growth in expenditure in national accounting

- **Levies on revenue** are treated as central government expenditure. These concern for instance the offsetting of the impact of the reform of the local business tax and the GNP-based fourth own resource allocated to EU institutions financing

*The central government expenditure also includes imputed **social security contributions**, i.e. contributions that the central government would have to pay to balance the civil service and military pension schemes if it did not pay the benefits itself. Given the increase in the number of retirements, this expenditure is likely to increase significantly over the programme period.*

Other adjustments also increase the growth in spending of the general budget in the national accounting system, such as changeover to accrual basis accounting, debt cancellation for developing countries, expenditure in special Treasury accounts, and specific budgets.

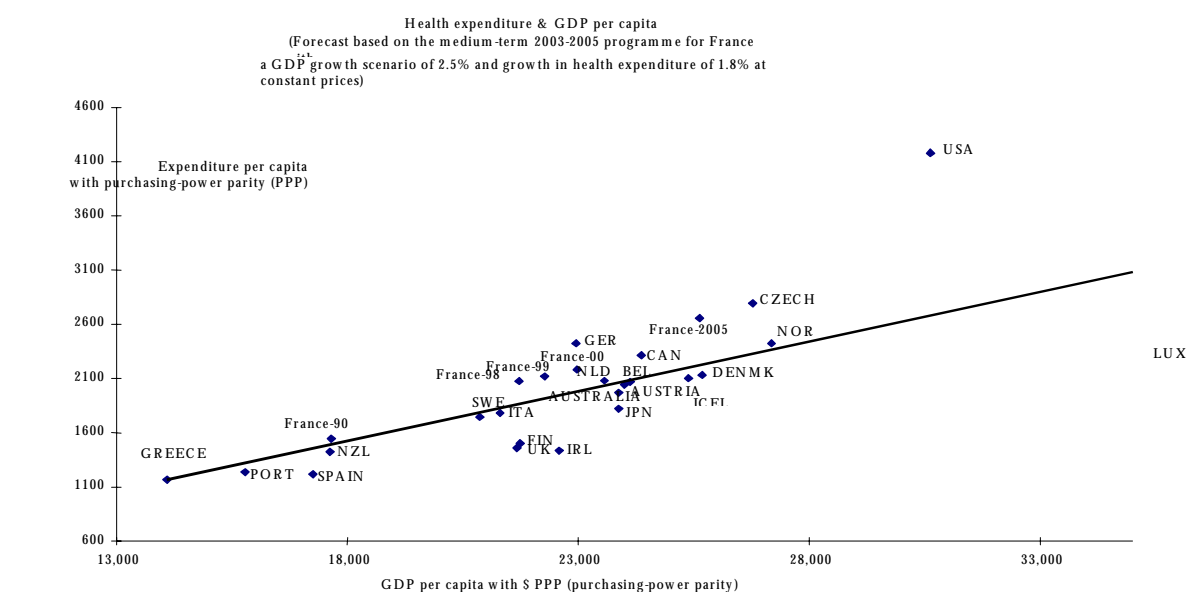
**Central government expenditure: changeover from budgetary accounting to national accounting
(Contribution to growth in expenditure under the national accounting system, at constant prices)**

	2002	2003	2004	2005
General budget expenditure (like-for-like basis)	0.5	0.5	0.1	0.4
Levies on revenue	2.1	0.6	0.8	0.1
- for local government	1.2	0.6	0.1	0.1
- GNP-based fourth own resource	0.9	0.0	0.7	0.0
Imputed social security contributions	0.2	0.2	0.2	0.2
Adjustments for accrual-basis accounting	-0.5	0.0	0.0	0.0
Real transactions of the Treasury ³	0.0	-0.1	-0.4	0.0
Other	0.0	-0.2	-0.1	-0.1
Central government expenditure in national accounting (like-for-like basis)	2.4	1.0	0.6	0.6

Social security funds expenditure

Social security expenditure will increase on a like-for-like basis by 1.5% p.a. at constant prices on average until 2005, in line with the growth rate of the previous update. This performance will require continuation of the spending control efforts made since 1997.

For the **health-care sector**, the cumulative growth target of 5.5% at constant prices over the 2003-2005 period reflects the continuation of efforts to reduce spending in this area. This trend is compatible with a service of high quality, given the structural reforms undertaken to improve the performance of the system (Cf. graph 3). Health care expenditure has increased at a rapid pace in recent years, highlighting difficulties in implementing an effective system of regulation. Despite this, measures taken in areas relating to hospital services, the organization of the health insurance administration, and reforms concerning prescription drugs should gradually produce positive results and contribute to reduction in the growth of spending to a level below that of 2000.



³ The annual change in the balance of the Treasury's real transactions follows the time profile of debt cancellations in favour of heavily indebted countries (significant until 2003, and sharply reduced thereafter).

Expenditure for the general **old-age** insurance scheme should grow around 2.2% p.a. at constant prices. This reflects the relatively low growth in the beginning of the period, comparable to 2000 and 2001, and the smaller population pool represented by the pre-baby-boom generation (born during World War II) reaching retirement age. For all insurance funds, old-age benefits will increase at constant prices at an average rate of 1.9% p.a..

Through a broad-based consultation with management and labour organizations, on 21 March 2000 the Prime Minister announced the principles designed to preserve the pay-as-you-go retirement systems until 2020: a consultative and progressive approach, respectful of the diversity and identity of the different schemes, equity and solidarity between schemes, greater flexibility to better take into account individual choice, and anticipation of the demographic shift to share costs fairly among generations after 2020. A special body was created, the *Conseil d'Orientation des Retraites* (Advisory Council for Retirement Pensions), including representatives of labour organizations as well as members of Parliament, to develop a broad consensus over time concerning the strategic direction to be adopted in the area of retirement schemes.

Within this framework, a pension reserve fund (*Fonds de Réserve pour les retraites*, or FRR) was created by the 1999 Social Security Budget Act to reduce the impact of the demographic shift (which will affect retirement schemes) by building up reserves between now and 2020. This reserve fund also receives the income from the sale of the government's stakes in savings banks (€ 0.7 billion per year from 2000 to 2003), and proceeds from the sale of third-generation mobile telephone licenses, as well as a portion of the proceeds from the sales of companies (ASF in 2002, for example).

Family benefits should remain stable at constant prices over the period, particularly in response to weaker economic demographic trends and a mechanical decrease in the weight of means-tested benefits at a time of growing employment and income.

Lastly, as the labour market continues to improve, benefits paid by the **unemployment insurance systems** should be reduced by about 3% at constant prices over the period. The impact of a new unemployment insurance agreement to facilitate a more rapid return to employment by job seekers no longer weighs on the spending dynamic of the 2003-2005 period, thus contributing to a moderation in social spending in this update in relation to the 2002-2004 programme.

Local government expenditure

Local government expenditure should grow slightly more than 2% p.a. at constant prices over the programme period, which is in line with the average growth for 2001 and 2002. The strong increase in local spending in relation to the last programme (an additional 0.3% p.a.) reflects the cost of the new long term care allowance (*allocation personnalisée d'autonomie*, or APA) by the *départements* combined with the growth in the total wage bill in relation to the previous programme.

Investment by local government will remain relatively dynamic over the programme period. At constant prices, average annual growth in spending will be approximately 3% and concentrated at the end of the programme period, reflecting an investment cycle between two elections. Structural factors will provide further impetus to local spending: investments in treatment facilities for water and household waste and the contracts between the State and the regions (*contrats de plan*) continue to contribute to a growth in expenditure. The wage bill will also see dynamic growth, particularly in response to the application of the reduced working week in the civil service at the local level and the permanent recruitment of beneficiaries of youth

employment programmes (*emploi jeunes*). Debt service charges will decrease as the local government continues to reduce its debt. In effect, local government managed to achieve a balanced budget for the period.

Expenditure by central government bodies

Expenditure by central government bodies was modest, in particular due to the decrease in accrued interest expenses on the social security debt and the progressive phasing-out of the defeasance structure.

III. General government balance

In 2004, general government net borrowing will be close to balance with a deficit of 0.5% of GDP in the scenario for growth at 2.5% p.a., as in the previous update. The financial situation of general government will further improve in 2005 to achieve a balanced position as it continues the deficit-reduction efforts that it has been pursuing since 1997. In 1997, the general government had a deficit of 3.5 GDP points⁴; in 2000, it represented only 1.4 GDP points.

In the scenario for growth at 3% p.a., general government net borrowing would be nil starting in 2004. On this basis, it could achieve a potential surplus of 0.7 GDP points in 2005, half of which may be allocated to further reduction of the debt and the other half to further cuts in taxes and social security contributions.

Improved control of public expenditure would contribute to notable reductions in the public deficits. Spending would increase by 1.3% at constant prices between 2003 and 2005, i.e. significantly less than GDP growth. Between 2002 and 2005, the weight of expenditure in GDP would decline by 1.8% of GDP in the scenario for growth at 2.5% and 2.4% of GDP in the scenario for growth at 3%.

⁴ Excluding the France Télécom payment.
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Key indicators of public finance

% of GDP	2.5% growth			
	2002	2003	2004	2005
General government (excluding proceeds from UMTS licenses) balance	-1.4	-1.3	-0.5	0.0
General government expenditure	52.3	51.6	51.1	50.5
Revenue	50.9	51.3	50.6	50.5
<i>Taxes and social security contributions</i>	44.5	44.2	44.2	44.2
<i>Other revenue</i>	6.9	6.6	6.7	6.7

% of GDP	3% growth			
	2002	2003	2004	2005 ⁵
General government (excluding UMTS) balance	-1.4	-1.0	0.0	0.3
General government expenditure	52.3	51.4	50.5	49.7
Revenue	50.9	50.4	50.5	50.0
<i>Taxes and social security contributions⁶</i>	44.5	44.2	44.2	43.8
<i>Other revenue</i>	6.9	6.6	6.7	6.6

Note: Because of the EU levy, there is a divergence between the tax and social security revenue of the French general government and the tax and social security rates.

Balances by sub-sectors

The sharp improvement in general government net borrowing reflects, in particular, a reduction in central government net borrowing by 1.3 GDP points between 2002 and 2005. This achievement is due above all to the improved control of central government spending, which should decline by 1 GDP point on a like-for-like basis over this period. At constant prices, spending will increase by only 1% over three years. At the same time, the reduction in taxes and social security contributions would primarily weigh on central government.

Net lending of social security funds improved sharply between 1997 and 2000, helped by an improvement in the employment situation. Net lending of this sub-sector would stabilize, in the scenario for growth at 2.5%, at 0.6 GDP points.

Local government net lending will remain stable on an overall basis in this period while central government bodies net lending will improve slightly as the social security debt is transferred to the Social Security Debt Repayment fund, known as CADES (*Caisse d'Amortissement de la Dette Sociale*).

⁵ Fifty percent of the net borrowing generated starting in 2005 will be allocated to debt reduction and fifty percent to further reductions in taxes and social security contributions.

⁶ Tax and social security levies include those in favour of the EU. In consequence, total general government revenue are less than total tax and social security levies and other general government revenue.

Net lending/borrowing of general government

% of GDP				Scenario for annual growth at 2.5%		
	2000	2001	2002	2003	2004	2005
General government (including UMTS)	-1.4	-1.3	-1.3	-1.3	-0.5	0.0
General government (excluding UMTS)	-1.4	-1.4	-1.4	-1.3	-0.5	0.0
General government	-2.2	-2.2	-2.2	-2.2	-1.4	-0.9
<i>Central government: State</i>	-2.4	-2.4	-2.4	-2.4	-1.7	-1.2
<i>Central government bodies</i>	0.2	0.2	0.2	0.2	0.3	0.3
Local government	0.3	0.4	0.3	0.3	0.3	0.3
Social security funds	0.6	0.4	0.5	0.6	0.6	0.6

Net lending/borrowing of general government

% of GDP				Scenario for growth at 3%		
	2000	2001	2002	2003	2004	2005
General government (including UMTS)	-1.4	-1.3	-1.3	-1.0	0.0	0.3
General government (excluding UMTS)	-1.4	-1.4	-1.4	-1.0	0.0	0.3
General government	-2.2	-2.2	-2.2	-2.0	-1.2	-0.6
<i>Central government: State</i>	-2.4	-2.4	-2.4	-2.3	-1.5	-0.9
<i>Central government bodies</i>	0.2	0.2	0.2	0.3	0.3	0.3
Local government	0.3	0.4	0.3	0.4	0.3	0.3
Social security funds	0.6	0.4	0.5	0.7	0.8	0.6

Structural balance of general government

In the scenario for growth at 2.5% p.a., which is compatible with growth potential of 2.5%, the structural balance of general government will improve by 0.4 GDP points p.a. over the 2002-2005 period. It will improve from -1.4 GDP points in 2002 to a balanced budget in 2005, following the same path as the actual balance of general government. In effect, the output gap (fully closed-up in 2001) subsequently remains nil, as growth is equal to its potential rate over the entire 2002-2005 period.

The scenario for growth at 3% also gives for each year over the 2003-2005 period a rate of growth which is equal to the potential growth rate. Accordingly, the output gap remains nil over the entire period, as in the preceding scenario. Assuming a higher growth potential, the structural improvement to public finances is more rapid. The structural balance would accordingly increase from -1.4 GDP points in 2002 to a balanced situation in 2004. 2005 should show a surplus, with net lending of 0.3 GDP points.

IV. Tax and social security contributions cuts

Tax and social security cuts will reach nearly €22 billion by 2005. These reductions will result primarily from the impact of the tax package for 2002 and 2003, the government's growth stimulus package (*plan de consolidation de la croissance*), and exemptions from social security contributions granted in connection with the implementation of the 35-hour working week.

Tax cut measures and the tax reform will still represent 9 billion over the 2002-2005 period.

In 2002-2003, the last two phases of the three-year tax reduction plan presented by the government on 31 August 2000 will enter into force. This plan follows tax reductions decided in the initial Budget Act for 2000 (concerning VAT on home investments) and those adopted in the additional 2000 Budget Act (for VAT, the residence tax and income tax).

While the first measures implemented under the plan mainly concerned indirect taxes (such as a reduction in the domestic duty on petroleum products [TIPP] that benefited taxpayers starting at the end of 2000), reductions in tax and social security charges will be increased over the 2002-2005 period through significant cuts in direct taxes for both individuals and businesses.

For private individuals, the tax reform will first of all take the form of lower income-tax rates. In addition to the reductions implemented in 2000 and 2001, the tax rates of the first four and the last two tax brackets will be reduced between now and 2003 by 1.25% and 0.75, respectively, for a total cost of €3.3 billion. By the end of the reform in 2003, the total income-tax reduction will represent €6.6 billion, conferring upon virtually all households, on a consistent revenue basis, a tax reduction 10% higher compared to the reduction granted in 1999. The implementation of an earned-income tax credit (*Prime pour l'Emploi*, or PPE) highlights the government's commitment to improving the income of low-wage earners and reducing unemployment traps.

For companies, the reduction of the tax burden will also be significant, in particular for small- and medium-sized companies, which will see their tax rate reduced in 2002 from 25% to 15% for profits of up to FF 250,000. The standard corporation tax rate (currently 35.3%) will be reduced to 33.3% in 2003 following the elimination of the exceptional 10% surtax on companies instituted in 1995. This latter tax will be lowered to 6% in 2001 and 3% in 2002 before being eliminated altogether in 2003. These tax reduction measures in favour of companies are in addition to the elimination of the wage component from the local business tax assessment base. The gross cumulative cost of the latter measure over the 2003-2005 period will approach €2 billion.

Additional tax measures are provided for in the growth stimulus plan announced on 16 October 2001.

These measures are meant to promote consumer spending and business investment. First of all, they concern the doubling of the earned-income tax credit in 2001 (initially scheduled in 2002), increased to FRF 3,000 (on the basis of the minimum wage). Finally, to support business investment, an upfront 30% amortization mechanism was created for investments between 17 October 2001 and 31 March 2002. The cost of this measure in 2003 should be €0.7 billion.

Exemptions in social security contributions will continue over the 2002-2005 period, and at the end of the programme period will top 7 billion.

The relief in employer's social security contributions granted by the government as part of the changeover to a shorter working week will continue to increase during the period covered by the multiyear programme for 2002 to 2005. Cumulative reductions during this period should represent €7.2 billion.

The reductions in social security contributions will also increase over the 2002-2005 period within the framework of the agreement with France's unemployment insurance organisation, UNEDIC, and should represent €1.1 billion.

Local taxes should contribute modestly to the total tax burden as they tend to stabilise.

The sound financial situation of local government and the general stability of local direct tax rates in 2001 suggest that local government will continue to limit tax increases during the period covered by the multiyear public finance programme.

Reductions in tax and social security contributions over the 2002-2005 period

<i>In billions of euros</i>	Cumulative reductions: 2002-2005
Total tax package (net tax receipts)*	-9.0
Impact of the reform of the local business tax (gross amount)	-4.4
Exemption from social security contributions in connection with the implementation of the 35-hour working week	-7.2
Lower UNEDIC contributions	-1.1
Total tax and social security reductions	-21.8
In GDP points	1.3

* Including the positive impact of the reform of the local business tax

V. General government debt

Over the programme period, the general government debt ratio should continue to improve significantly and drop below the 1995 level. Public debt should be lowered by a combination of two factors. First, the actual public deficit will decrease sharply. Secondly, the public deficit at which debt remains stable as a fraction of GDP rises in proportion to growth. The debt ratio can therefore be expected to improve by over 1 GDP point p.a. In the 2.5% growth scenario from 1999 to 2005, the debt ratio would improve by 5.7 GDP points, dropping from 58.5 GDP points in 1999 to 52.8 GDP points in 2005 (excluding revenue from UMTS licences). In the 3% growth scenario, the debt ratio would fall to 51.4 GDP points in 2005.

Gross debt ratio of general government (excluding UMTS)

<i>In GDP points</i>	1997	1998	1999	2000	2001	2002	2003	2004	2005
2.5% growth scenario									
Gross debt ratio	59.3	59.5	58.5	57.6	57.1	56.3	55.7	54.5	52.8
3% growth scenario									
Gross debt ratio	59.3	59.5	58.5	57.6	57.1	56.3	55.3	53.6	51.4

When the apparent cost of debt is higher than the economic growth rate, it takes a primary surplus to improve the debt ratio. The primary surplus at which the ratio becomes stable decreases as the gap between the apparent cost of debt and nominal growth closes. In 1999, the actual primary surplus exceeded the surplus at which the ratio becomes stable, thanks to the narrowing of this gap since 1997 and diminution of the public deficit. While the apparent cost of debt will cease to decrease during the period under review,⁷ the primary surplus will continue to improve and help lower the weight of debt.

General government debt developments (2.5% growth scenario)

<i>% of GDP</i>	2001	2002	2003	2004	2005
Debt ratio	57.1	56.3	55.7	54.5	52.8
Change in the debt ratio	-0.5	-0.8	-0.6	-1.2	-1.7
<i>Contribution of the deficit</i>	1.4	1.4	1.3	0.5	0.0
<i>Contribution of flow of claims</i>	0.3	0.2	0.4	0.4	0.5
<i>Contribution of GDP</i>	-2.2	-2.4	-2.2	-2.2	-2.1
Apparent cost of debt	5.7%	5.6%	5.6%	5.7%	5.8%
Nominal GDP growth	3.9%	4.2%	4.0%	4.0%	4.0%
Actual primary balance	1.8	1.8	1.8	2.6	3.1
Stabilising primary balance	1.0	0.8	0.9	0.9	0.9
Interest payments	3.2	3.2	3.1	3.1	3.1

⁷ Interest payments are relatively insensitive to interest rate fluctuations since a large fraction of debt consists of issues with maturities of over 5 years.

The general government debt ratio will mainly improve because of the decrease in the central government deficit and the improvement in net lending of central government bodies (mainly CADES, the Social Security Debt Repayment fund, and the defeasance structures of Crédit Lyonnais) and local government. The gross debt level of social security funds should decline only slightly over the period under review, as part of their surplus should be used by social security funds to buy assets. Fifty percent of the surplus of the retirement pension reserve fund will be invested in government securities, and do help lower the general government's consolidated gross debt.

VI. Three-year stability programme and Budget Act

The multiyear public finance programme presented at the end of 2000 set spending growth targets for all general government units, expressed at constant market prices. This target was broken down by general government sub-sector.

On average over 2000-2002, total general government expenditure should increase slightly more rapidly than announced in the multiyear programme. This overrun solely concerns 2002, where the 2.2% increase in public expenditure at constant market prices exceeds by 0.6% the target set forth in the multiyear programme. Conversely, in 2001, the outturn of central government expenditure should be slightly less than was forecast, after being on target in 2000. One half of the divergence in 2002 reflects a more rapid increase in the GNP-based resource; the other half is the result of other general government expenditure.

General government expenditure: divergence from previous update

<i>Change at constant market prices</i>	2000		2001		2002		2000-2002 average	
	2001 Budget Bill	Outturn	2001 Budget Bill	Current projection	2002-2004 Programme	Current projection	2001 Budget Bill & 2001-2003 Programme	Current projection
General government	1.0	1.0	1.8	1.7	1.6*	2.2	1.5	1.6
Central government (budget accounting)	0.0	0.0	0.3	0.3	0.3*	0.5	0.2	0.3
Social welfare payments and transfers by social security funds	2.0	1.8	3.0	2.8	2.1	2.3	2.4	2.3
<i>of which health benefits</i>	<i>3.3</i>	<i>3.9</i>	<i>2.6</i>	<i>3.1</i>	<i>1.8[†]</i>	<i>2.3</i>	<i>2.6</i>	<i>3.1</i>
Local government	2.1	2.0	2.0	1.4	1.8	2.8	2.0	2.1

*In the scenario of a straight-line increase in expenditure over 2002-2004.

In the national accounting system, European Community resources are treated as taxes levied by the EU (particularly intra-Community VAT) or as central government expenditure (GNP-based resource). In light of the addition of new member countries to the EU, finance procedures are expected to change significantly in favour of the GNP-based resource. This changeover consequently results in more dynamic public expenditure even if the total contribution of France is not affected. In the 2002-2004 programme, the changeover was to be implemented progressively over 2002 and 2003. It is now expected to be much more rapid and focused primarily on 2002. This factor explains approximately 0.3% of the increase in expenditure growth, corresponding to half the overrun in public expenditure growth in 2002.

In 2001, central government expenditure will increase at the pace announced in the previous multiyear programme, i.e. 0.3% at constant market prices. In 2002, this increase might be slightly higher (0.5% at constant market prices). This trend is, however, in line with the spending growth targets set forth in the multiyear public finance programme, which projected a 1% increase in central government expenditure over three years. Accordingly, for the 2000-2002 period covered

by the first programme submitted, the actual growth in central government expenditure will be 0.8%: 0% in 2000, 0.3% in 2001 and 0.5% in 2002.

Over the 2000-2002 period, social welfare payments and transfers by social security funds should increase slightly less quickly than projected in the multiyear programme. The implementation of a prescription drug reform ("*plan médicament*") should contribute to reversing the trend of rising health insurance spending starting in 2002. Despite this, it will nevertheless be slightly above the programme's target (1.8%). In addition, higher-than-expected inflation in 2001 will reduce the increase in spending at constant market prices this year, though in 2002 spending in this area will be back on track.

Local government expenditure should increase more than was projected in the multiyear public finance programme for 2002-2004: +2.1% p.a. (at constant market prices) on average over the 2000-2002 period, instead of 2.0%. After a pause in investment in 2001 following a period of strong investment in 2000, local government expenditure in an environment characterised by a healthy financial situation should see a rebound as a result of the implementation of the 35-hour working week and the expansion of the long term care allowance (APA).

VII. From one stability programme to the next

This programme adopts most of the assumptions chosen for the programme submitted last year. For the medium term, the projected results are also very similar. For instance, in 2004 the general government net borrowing should be in line with the target announced in the previous programme (0.5% of GDP in both programmes in the 2.5% growth scenario) and would continue to improve to a balance in 2005.

Expenditure should be slightly less dynamic than was projected in the previous programme and their weight in GDP should drop by 1.8 GDP point, compared with 1.5 GDP point last year (in the 2.5 % growth scenario). Overall, in the 2.5 % growth scenario, the balance should improve by 1.4 GDP point between 2003 and 2005, compared with 0.5 GDP points in the previous programme between 2002 and 2004.

Change of weight of expenditure, revenue, tax and social security contributions, and net lending in GDP over the programme period in the 2.5 % growth scenario

<i>In GDP points</i>	2002-2004 programme	2003-2005 programme
Expenditure	-1.5	-1.8
Revenue	-1.0	-0.4
Balance	-0.5	-1.4

Slightly less dynamic expenditure than last year

This programme uses similar targets to last year's. The spending growth rate nevertheless is slightly lower: general government expenditure should rise on average by 1.3% over the 2003-2005 period, whereas the multiyear programme submitted last year predicted real annual growth in general government expenditure of 1.5%. This divergence can be attributed to three factors.

Cumulative growth in real expenditure from 2003 to 2005

<i>At constant market prices</i>	2002-2004 programme	2003-2005 programme
General government	4.5%	4.0%
Central government (budget accounting) ¹	1.0%	1.0%
Central government (national accounting) ¹	4.3%	2.2%
Social security funds ¹	4.8%	4.5%
- <i>Health benefits</i>	5.5%	5.5%
- <i>Retirement pensions</i>	5.8%	5.8%
- <i>Other social security spending</i>	2.5%	1.5%
Local government	5.2%	6.6%

¹ On a like-for-like basis.

The UNEDIC agreement concluded in the summer of 2000, which covers the 2001-2003 period, provides for a significant improvement in unemployment benefits while providing incentives to a return to activity through a return to work plan (PARE). The impact of these measures on unemployment insurance spending dynamism is no longer reflected in the 2003-2005 period, though still manifest in 2002.

The introduction of the reform in European Union financing, which for the most part took place in 2002, will "weigh" less on spending over the 2003-2005 period, as the European system of accounts records EU resources that are based on national wealth under central government expenditure. As a consequence, the progressive EU resources shift to GNP-based fourth own resource naturally contributes to growth in general government expenditure: the impact of this changeover is currently expected in 2002 above all. In the previous update, it was expected that the impact of this changeover would be spread over a longer period, principally 2002 and 2003.

Growth in local government expenditure is also more dynamic than was forecast in the previous update, reflecting the cost of the new long term care allowance (APA) and growth in the total wage bill as the beneficiaries of the youth employment scheme are transferred to the regular payroll. In the previous update, a fast exit from the youth employment scheme was expected.

Finally, debt relief granted by the central government to foreign countries (recorded as expenses in the national accounts) results in a moderate reduction in the growth of public expenditure in this update, reflecting the "withdrawal" by 2005 from the debt initiative for highly indebted poor countries (HIPC).

After adjustments for these factors, total growth in general government expenditure is in line with the previous update.

**Breakdown of the cumulative growth of general government expenditure
over the programme period
(contributions to growth in general government expenditure)**

	2002-2004 stability programme	2002-2004 stability programme
Growth in expenditure	4.5	4.0
New UNEDIC agreement	0.25	0.0
Increase in GNP-based fourth own resource	0.7	0.3
Additional local expenditures	0.0	0.25
Other*	0.0	-0.1
Other expenditure	3.55	3.55

*Primarily, debt relief in favour of foreign countries.

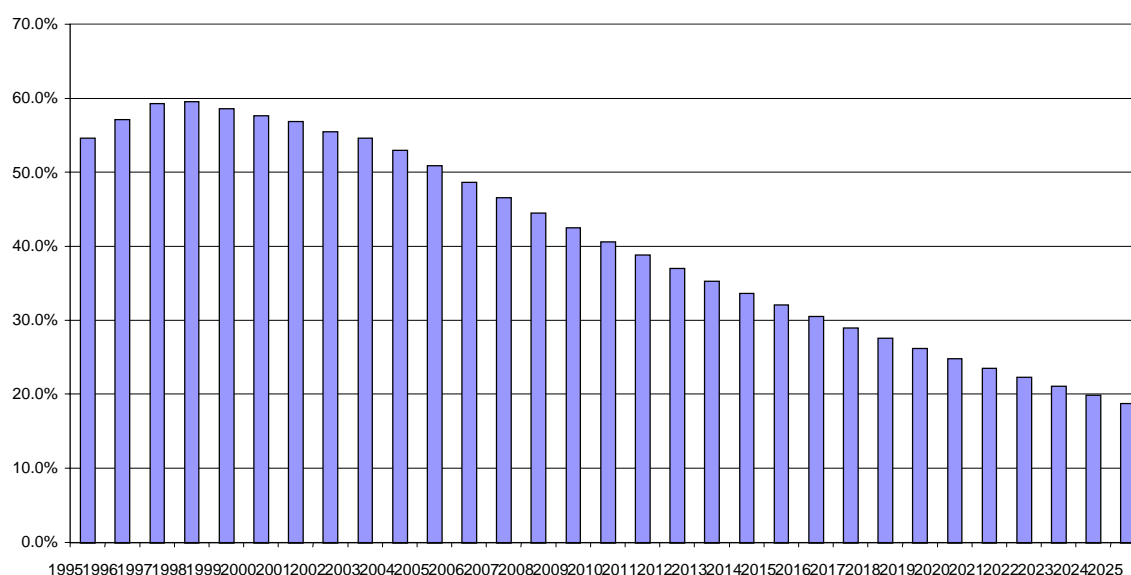
VIII. Long-term public finance guidelines

VIII-1. Reducing the debt burden

While France has a relatively low debt compared with many of its European partners (less than 60% of GDP), it was later in implementing a debt reduction strategy (the latter was launched in 1999). This strategy needs to be maintained in the long term, both to prevent interest expense from crowding out other expenditure of greater use to growth or distribution of revenue, and to reduce the debt burden passed on to future generations.

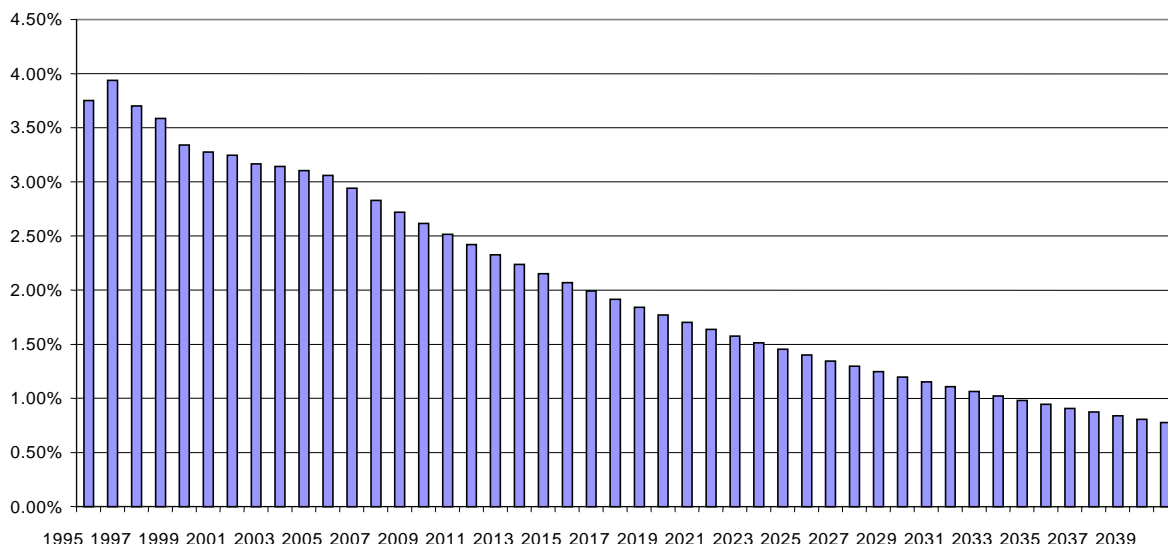
A scenario in which the general government achieves a balanced budget starting in 2005 highlights how the debt-reduction strategy works. In this scenario, a structural balance in public finance would be achieved over the entire period, regardless of any economic fluctuations, and the reduction in the debt ratio would only be driven by economic activity. In just under 30 years, this ratio would return to its level in the beginning of the eighties, i.e. 20% of GDP.

Evolution of the general government debt ratio, achieving a structural balance starting in 2005 (% of GDP)



The ageing of the population should have a significant impact on public finance (see below, Change in public spending related to ageing trends in the years ahead). These simulations have assumed that adjustments will be implemented to maintain balanced public finances despite this unfavourable demographic trend. However, the reduction in interest payments will provide considerable leeway to finance, in part, the additional primary expenditure related to the aging of the population: representing more than 3% of GDP in 2002, interest payments will represent only three-quarters of one point of GDP in 2040 if the balance is maintained over this period.

Evolution of interest payments with lasting achievement of balance starting in 2005 (% of GDP)



VIII-2. Change in public spending related to aging trends in the years ahead

The work of the *Conseil d'Orientation des Retraites* and the European Commission's Ageing Working Group, or AWG, has demonstrated that most compulsory pension schemes will be financially impacted by demographic trends. Starting in 2006, the baby-boom generations will start to reach retirement age. On the basis of the existing legislative environment, the financial situation of pension schemes will progressively deteriorate under the combined influence of this "grandpa boom" and the increase in the average lifespan.

Today, there are four retired people for every ten workers. In 2020, on the basis of existing legislation, there will be more than five retired people, and seven in 2040. In consequence, pension benefits will increase much more quickly than contributions, highlighting the serious challenges that pension schemes will face. The date when these difficulties will appear is not certain as it depends in large part on such factors as growth, unemployment, and interest-rate trends in the coming years. A favourable macroeconomic scenario could delay the impact of the demographic shift, but by itself is not sufficient to guarantee the long-term future of retirement systems.

The work of the AWG has shown that by 2040 retirement benefits will increase by approximately 4% of GDP, comparable to the figure proposed by the *Conseil d'Orientation des Retraites*.

Furthermore, it would appear that the impact of the aging of the population is also felt on other types of expenditure, such as those related to health and care for dependent persons. Despite the considerable uncertainties regarding this impact, the European Commission's Ageing Working Group has estimated an increase in expenditure of 1.7% to 2.5% of GDP on the basis of demographic trends alone.

Overall, these two items represent a potential increase in primary expenditure of approximately 6% of GDP by 2040 due to the aging of the population. In light of general trends, potential savings in other primary public expenditure items are possible: favourable unemployment trends could also contribute to reducing expenditure related to employment, and family benefits should follow demographic trends. However, it is highly likely that these savings will provide only a limited contribution to offset the increase in retirement and health expenditure.

**Evolution of primary expenditure related to ageing (Ageing Working Group)
(% of GDP)**

	2000	2040	Change
Health and assistance to dependent persons	6.9	8.6 - 9.4	1.7 - 2.5
<i>Health</i>	<i>6.7</i>	<i>7.9 - 8.6</i>	<i>1.2 - 1.9</i>
<i>Assistance to dependent persons</i>	<i>0.7</i>	<i>1.2 - 1.3</i>	<i>0.5 - 0.6</i>
Retirement pensions	12.1	15.8	3.7

IX. Key figures

IX-1. 2.5% growth scenario

General government budgetary developments (excluding UMTS)

% of GDP	2001	2002	2003	2004	2005
Net lending by sub-sectors (B9)					
General government	-1.4	-1.4	-1.3	-0.5	0.0
Central government: State	-2.4	-2.4	-2.4	-1.7	-1.2
Central government bodies	0.2	0.2	0.2	0.3	0.3
Local government	0.4	0.3	0.3	0.3	0.3
Social security funds	0.4	0.5	0.6	0.6	0.6
General government (S13)					
Total receipts	51.1	50.9	50.3	50.6	50.5
Total expenditure	52.5	52.3	51.6	51.1	50.5
Budget balance	-1.4	-1.4	-1.3	-0.5	0.0
Net interest payments	3.2	3.2	3.1	3.1	3.1
Primary balance	1.8	1.8	1.8	2.6	3.1

General government debt developments (excluding UMTS)

% of GDP	2001	2002	2003	2004	2005
Gross debt level	57.1	56.3	55.7	54.5	52.9
Change in gross debt	-0.5	-0.8	-0.6	-1.2	-1.6
Contributions to change in gross debt					
Primary balance	-1.8	-1.8	-1.8	-2.6	-3.0
Interest payments	3.2	3.2	3.1	3.1	3.1
Flow of claims	0.3	0.2	0.4	0.4	0.5
Nominal GDP growth	-2.2	-2.4	-2.2	-2.2	-2.1

Divergence from previous update

2.5% growth scenario

% of GDP	2001	2002	2003	2004	2005
GDP growth					
Previous update	3.0	2.5	2.5	2.5	-
Latest update	2.3	2.5	2.5	2.5	2.5
Difference	-0.7	0.0	0.0	0.0	0.0
Budget balance excluding UMTS					
Previous update	-1.0	-	-	-0.5	-
Latest update	-1.4	-1.4	-1.3	-0.5	-
Difference	-0.4	-	-	0	-
Gross debt level (consolidated general government) excluding UMTS					
Previous update	57.2	55.9	54.7	53.0	-
Latest update	57.1	56.3	55.7	54.5	52.9
Difference	-0.1	0.4	1.0	1.5	-

Macroeconomic assumptions: 2.5% growth scenario

Internal assumptions

Growth and associated factors

	2001	2002	2003	2004	2005
GDP growth at constant market prices	2.3	2.5	2.5	2.5	2.5
GDP level at current market prices	3.9	4.2	4.0	4.0	4.0
GDP deflator	1.6	1.7	1.5	1.5	1.5
HICP change	1.7	1.6	1.5	1.5	1.5
Employment growth	2.1	1.3	0.6	0.6	0.6
Labour productivity growth	0.2	1.2	1.9	1.9	1.9
Sources of growth: percentage changes at constant prices					
Private consumption expenditure	2.6	2.7	2.6	2.6	2.6
Government consumption expenditure	2.2	1.9	1.1	1.1	1.1
Gross fixed capital formation	3.3	2.3	4.0	4.2	4.1
Changes in inventories and net acquisition of valuables as a % of GDP	0.3	0.3	0.2	0.2	0.2
Exports of goods and services	3.5	4.1	6.1	6.1	6.1
Imports of goods and services	2.7	4.1	6.6	6.6	6.6
Contribution to GDP growth					
Final domestic demand	2.5	2.5	2.5	2.5	2.5
Changes in inventories and net acquisition of valuables as a % of GDP	-0.6	0.0	0.0	0.0	0.0
External balance of goods and services	0.3	0.1	0.0	0.0	0.0

Basic assumptions

	2001	2002	2003	2004	2005
Short-term interest rate (annual average)	4.3	3.5	4.0	4.0	4.0
Long-term interest rate (annual average)	4.9	4.8	4.8	4.8	4.8
USD/€exchange rate	0.90	0.90	0.90	0.90	0.90
World excluding EU, GDP growth	2.2	2.9	3.0	3.0	3.0
U.S.	1.4	1.9	2.8	2.8	2.8
Japan	-0.4	0.4	1.0	1.0	1.0
EU-15 GDP growth	2.0	2.3	2.5	2.5	2.5
Growth of relevant foreign markets	2.7	5.4	6.0	6.0	6.0
World import volumes, excluding EU	2.0	5.8	6.0	6.0	6.0
Oil prices (Brent, USD/barrel)	25.8	23.3	23.0	23.0	23.0

IX-2. 3% growth scenario

General government budgetary debt (excluding UMTS)

% of GDP	2001	2002	2003	2004	2005
Net lending by sub-sectors (B9)					
General government	-1.4	-1.4	-1.0	0.0	0.3
Central government: State	-2.4	-2.4	-2.3	-1.5	-0.9
Central government bodies	0.2	0.2	0.3	0.3	0.3
Local government	0.4	0.3	0.4	0.3	0.3
Social security funds	0.4	0.5	0.7	0.8	0.6
General government (S13)					
Total receipts	51.1	50.9	50.3	50.5	50.0
Total expenditure	52.5	52.3	51.4	50.5	49.7
Budget balance	-1.4	-1.4	-1.0	0.0	0.3
Net interest payments	3.2	3.2	3.1	3.1	3.0
Primary balance	1.8	1.8	2.1	3.1	3.3

General government debt developments (excluding UMTS)

% of GDP	2001	2002	2003	2004	2005
Gross debt	57.1	56.3	55.3	53.6	51.8
Change in gross debt	-0.5	-0.8	-1.0	-1.7	-1.8
Contributions to change in gross debt					
Primary balance	-1.8	-1.8	-2.1	-3.1	-3.3
Net interest payments	3.2	3.2	3.1	3.1	3.0
Flow of claims	0.3	0.2	0.5	0.7	0.8
Nominal GDP growth	-2.2	-2.4	-2.5	-2.4	-2.3

Divergence from previous update 3% growth scenario

	2001	2002	2003	2004	2005
GDP growth					
Previous update	3.0	3.0	3.0	3.0	3.0
Latest update	2.3	2.5	3.0	3.0	3.0
Difference	-0.7	-0.5	0.0	0.0	0.0
Budget balance					
Previous update	-1.0	-0.6	-0.4	0.2	-
Latest update	-1.4	-1.4	-1.0	0.0	0.3
Difference	-0.4	-0.8	-0.4	-0.2	-
Gross debt level (Consolidated general government)					
Previous update	57.2	55.9	54.7	53.0	-
Latest update	57.1	56.3	55.3	53.6	51.8
Difference	-0.1	0.4	0.6	0.6	-

Macroeconomic assumptions: scenario for growth at 3%

Growth and associated factors

	2001	2002	2003	2004	2005
GDP growth at constant market prices	2.3	2.5	3.0	3.0	3.0
GDP level at current market prices	3.9	4.2	4.5	4.5	4.5
GDP deflator	1.6	1.7	1.5	1.5	1.5
HICP change	1.7	1.6	1.5	1.5	1.5
Employment growth	2.1	1.3	1.1	1.1	1.1
Labour productivity growth	0.2	1.2	1.9	1.9	1.9
Sources of growth: percentage changes at constant prices					
Private consumption expenditure	2.6	2.7	3.1	3.1	3.1
Government consumption expenditure	2.2	1.9	1.1	1.1	1.1
Gross fixed capital formation	3.3	2.3	5.0	5.3	5.4
Changes in inventories and net acquisition of valuables as a % of GDP	0.3	0.3	0.2	0.2	0.2
Exports of goods and services	3.5	4.1	6.6	6.6	6.6
Imports of goods and services	2.7	4.1	6.7	7.0	7.4
Contribution to GDP growth					
Final domestic demand	2.5	2.5	3.0	3.0	3.0
Changes in inventories and net acquisition of valuables as a % of GDP	-0.6	0.0	0.0	0.0	0.0
External balance of goods and services	0.3	0.1	0.0	0.0	0.0