Annexes to the 2005-2007 stability programme

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I. The macroeconomic scenarios

I.1. Current situation and short-term outlook

Since the autumn of 2002, activity in the euro zone and in France has been very sluggish. Disappointing the hopes of an upturn that had been formulated this past spring, the euro zone in fact saw its activity stagnate during the first half of 2003. The appreciation in the euro has continued to hold back exports. Moreover, in the face of international and financial tensions, wait-and-see attitudes have prevailed: the household saving ratio has remained high and investment has failed to pick up again, with firms continuing the adjustment of their balance sheets. It was not until the third quarter that European economic indicators began to show signs of improvement, especially in Germany and in France, in parallel with a very distinct improvement in the international economic situation. In these circumstances, activity in Europe and in France has shown substantial recovery during the second half of 2003.

Despite the relaxation of financing conditions and the substantial output gap that has built up in the European and French economies, the latter are likely during 2004 merely to return to a growth rate close to their potential. Foreign trade, on the assumption of a dollar/euro exchange rate of $1.10[1] and confirmation of world economic recovery should practically no longer have any impact on growth. Investment, despite the low level of interest rates, is unlikely to pick up more than modestly (1.9%) in 2004, still being held back by the need on the part of certain firms to consolidate their balance sheets. Household demand can be expected to return more in line with the evolution in its usual determinants (purchasing power of income, inflation and interest rates) without going so far as to absorb the saving "surplus" – partly unexplained – recorded since 2002. With earned income improving and in view of the positive effects of the tax cuts, household spending is expected to rise by 1.8% in 2004. All things considered, the French economy can be expected to grow by 1.7% in 2004.

Employment has stood up relatively well to the slowdown in the economy: in the market sector, dependent employment has stagnated, overall, since the end of 2001, with continuing net job creation in services and construction compensating for the persistent decline in industry. Allowing for the usual timelags, the upturn in growth should exert a positive effect on employment starting in the final months of 2003. The improvement would be more evident in 2004, with a year-on-year rise of 1.2%.

I.2. Outlook up to 2007

The potential growth of the French economy in the period to 2007 is expected to be 2¼%.

The potential growth of the French economy, which was roughly 2¼% per year in the early part of the 1990s, is estimated to have risen slightly as the decade went on, reaching almost 2½% in 2002, thanks to a reduction in structural unemployment and the strong investment growth at the top of the cycle. Growth in total factor productivity (the productivity of labour and capital combined) is thought, for its part, to have shown an upward tendency of the order of 1.1% per year.

[1] The 2004 Budget Bill is built on the conventional assumption that exchange rates are unchanged from their last known levels – i.e. 1 € = $1.10, the average for the second half of August.

Potential growth is nevertheless likely to weaken spontaneously in coming years, in view of the ageing of the population. It is in fact from 2005-2006 on that the large baby-boom population cohorts will start to reach retirement age and this will mean a slower rise in the labour force starting at that time. The structural reforms introduced by the government, notably for the labour market and retirement pensions, are intended to raise the labour force participation rate in order to cope with this slowdown. Taking conservative assumptions, the potential growth would then be 2¼% over the 2004-2007 period. In addition, the abolition of a public holiday that has recently been decided is estimated to raise potential activity by approximately 0.3 GDP points when fully effective. This effect could materialise progressively over time, so that the programme assumes that it will raise potential growth by 0.1 GDP points per year over the 2005-2007 period (see box 3, page 19).

The assumptions adopted for potential growth are conservative in view of the reforms launched to stimulate employment and innovation, which could well be a source of higher potential growth over the programme period .

An intentionally conservative scenario of 2½% actual growth per year has been adopted

Since 2001 French growth has fallen back below its potential rate. Following three years of weak growth, the French economy has built up a significant output gap, amounting to around 2½ GDP points in 2003. A further year of below-potential growth in 2004 would bring the figure close to 3 GDP points.

Such a situation opens up the prospect of a "catch-up" period in the medium term, meaning that growth should exceed its potential rate without inflationary pressures emerging. The assumption of an actual growth rate averaging 2.5% per year over the 2005-2007 period therefore seems intentionally conservative in the light of the output gap built up in recent years. This output gap would be only very partially reduced within the time-scale of the projection, being expected still to amount to 2½ GDP points in 2007.

This GDP growth rate of 2.5% on average over the 2005-2007 period would be mainly driven by final domestic demand. The contribution of inventories to growth would be only marginally positive, at a time when growth would merely be returning to its average rate. Consumption is expected to return to a growth rate of the order of 2¼% per year, in line with that of the purchasing power of income. Total investment is likely to pick up somewhat, reaching a growth rate of 3.6%. However, this growth would remain below the level seen in the most recent upswing (7% in 1998, for example). External trade would no longer hold back growth in 2005, but would thereafter make only a very small net contribution, since growth in France and in the euro zone would be at very similar rates. Inflation is expected to stabilise at 1½% per year over the 2005-2007 period, since the output gap would permit an improvement in activity without any acceleration in prices.

Faster growth remains a distinct probability

If the economy were to make up the bulk of its output gap by 2007, the additional margin of growth over and above its potential would be of the order of 1 GDP point per year, giving average annual GDP growth of better than 3%. A variant scenario based on growth of 3% is therefore also presented. Compared with the baseline scenario, it is consumption and, especially, corporate demand that would be more dynamic.

2005-2007 average	**Baseline scenario**	**Variant scenario**
GDP	2.5%	3.0%
Domestic demand	2.4%	2.9%
Household spending	2.3%	2.5%
General government consumption	1.2%	1.2%
Gross fixed capital formation	3.6%	4.8%
of which. corporate[2]	5.5%	7.4%
Contribution from inventories	0.1%	0.2%
Exports	5.6%	6.1%
Imports	5.6%	6.1%
GDP prices	1.5%	1.5%
Consumer prices	1.5%	1.5%
Total private-sector wage bill	4.0%	4.5%
Average nominal private-sector wage per head	3.1%	3.1%
Dependent employment in the private sector	0.9%	1.4%
Total employment	0.6%	1.0%

I.3. Sensitivity tests regarding the macroeconomic scenarios

The macroeconomic scenarios retained in the stability programme are based on a set of assumptions regarding the French economy's international, social and financial environment, which naturally remains subject to a number of risk factors. International forecasts for 2004 are based on the following assumptions, which, for the most part, have been conventionally carried forward over the 2005-2007 period:

- A very gradual return of world trade to its long-term growth trajectory. The United States would see growth of 2.4% in 2003 and 3.0% in 2004, compared with 2.8% and 3.8%, respectively, for these two years according to the latest forecasts by the European Commission[3]. Japanese growth is put at 2.8% in 2003 and 1.8% in 2004, compared with 2.6% and 1.7%, respectively. The growth forecasts for the euro zone are virtually identical: 0.5% in 2003 and 1.7% in 2004, compared with 0.4% and 1.8% according to the Commission. Overall, these differences are compatible with an assumption that world demand for French goods is slightly less dynamic than the Commission is assuming for 2004 (5.6% versus 6.6%).
- A crude oil price of US$28.7 per barrel in 2003, followed by an average of US$26.0 in 2004, compared with US$28.3 in 2003 and US$25.6 in 2004 according to the Commission.
- A stabilisation of the dollar/euro exchange rate at $1.10, compared with $1.16 for the Commission in 2004.

It is possible to assess the implications for the French economy if these alternative assumptions were to materialise, by recalling the consequences of more rapid growth in world demand for French goods, a fall in oil prices and an appreciation in the exchange rate, as well as those of a rise in interest rates.

[2] Non-financial corporate enterprises and unincorporated enterprises
[3] In the 'Economic Forecast : Autumn 2003' report.

A. Impact of more rapid growth in world demand for French goods

An increase in world demand for French goods begins by being felt virtually entirely by export sales, later spreading to the rest of the economy, via, in particular, higher levels of corporate investment.

Assuming no change in nominal interest rates, a permanent increase of 1% in world demand would therefore lead to an improvement in activity of about one-quarter point of GDP and additional jobs of the order of 30,000 after two to three years. The impact on inflation would be virtually nil for an unchanged exchange rate.

By way of illustration, an increase of 1% in world demand for French goods corresponds, for example, to a temporaty increase in United States growth of two thirds of point, when account is taken of spill-over effects on the entire world economy.

Impact on the French economy of a 1% rise in world demand for French goods (1)

(% deviation from the benchmark scenario)

	2005	2006	2007
GDP	0.2 / 0.3	0.3	0.2 / 0.3
Total employment (thousands)	5 / 10	25	30
Household consumption prices	0.0	0.0	0.0
Government net lending (GDP points)	0.0	0.1	0.1

(1) Lasting increase of 1% in world demand occurring at the beginning of 2005.

B. Impact of a decline in oil prices

A lasting decline in oil prices constitutes a positive supply-side shock for the French economy and its principal industrialised partners. Such a decline leads to a weakening of imported inflation and hence to a direct easing of consumer prices. In addition to this automatic effect, prices are pushed downwards by the slowdown in firms' production costs and by the indexing of wages on prices. The decline in consumer prices and the improvement in corporate profitability then combine to bolster activity.

Traditional macroeconomic models suggest that a lasting decline of 20% in oil prices expressed in USD – for example, from $25 to $20 – would lead, assuming unchanged European macroeconomic policies, to an increase in activity of roughly two-tenths of a percentage point and a fall in consumer prices of slightly over one-half of a point after two years.

This disinflation would, in addition, permit an additional easing of monetary policy in the euro zone, which would in turn further stimulate demand.

Impact on the French economy of a 20% fall in oil prices in dollar terms (1)

(% deviation from benchmark scenario)

	2005	2006	2007
GDP	0.1	0.2	0.2
Household consumption prices	-0.3/-0.4	-0.5/-0.6	-0.5/-0.6
Government net lending	0.0	0.0	0.1

(1) Fall in the price per barrel of Brent oil from 25 to 20 US dollars at the beginning of 2005.

C. Impact of a 10% appreciation in the euro exchange rate

A 10% appreciation in the exchange rate of the euro against other currencies would lead to a slowdown in activity in France of the order of 0.7 GDP points in the first year, operating through a deterioration in external competitiveness and a decline in activity in France's euro-zone partners. The impact of the fall in exports would be amplified by the usual multiplier and accelerator effects. Employment would also suffer from the slowdown.

Just as in the rest of the euro zone, however, inflation would be damped down by the appreciation in the effective exchange rate, giving a greater margin for manoeuvre on the part of the monetary authorities.

Through its effects on activity, the appreciation of the euro would have a substantial impact on tax bases and subsequently on VAT revenue. The loss of income for the whole of the general government sector would total 0.2 GDP points in the first year. This effect would be offset by a decline in expenditure, on the assumption of the indexing of expenditure on inflation at some stage.

Impact on the French economy of a 10% rise in the euro exchange rate(1)

(% difference from the benchmark scenario)

	2005	2006	2007
GDP	-0.7	-0.7	-0.7
Dependent employment (thousands)	-40	-100	-100
Household consumption prices	-0.6	-1.6	-2.4
Government net lending (+) /net borrowing (-) (GDP	-0.1	-0.1/-0.2	-0.1/-0.2

(1) At unchanged nominal interest rates.

D. Impact of a rise in interest rates of 100 basis points

A recovery that was more rapid than expected could lead to a more rapid rise in interest rates in the euro zone. A rise in both short and long-term rates would hamper activity via three channels: the cost of capital, the trade-off between consumption and saving and, potentially, the exchange rate.

- it is investment that would be most badly hit by the rise in interest rates: the resulting increase in financial costs would impair corporate solvency and the return on capital would diminish.

- investment in housing by households would also be restricted by dearer credit; at the same time, the rise in interest rates would tend to encourage saving at the expense of consumption (substitution effect).

- if it were to lead to an appreciation in the exchange rate, the rise in interest rates would also have an adverse effect on activity through competitiveness losses versus countries outside the euro zone.

With the exchange rate constant, a rise of one percentage point in short and long-term interest rates in the euro zone would reduce activity by almost ¼ of a GDP point in the first year and by ¾ to 1 point in the second and third years. The subsequent decline in inflation would remain very moderate, with domestic prices reacting only slightly to a diminution in activity.

These assessments take account of the macroeconomic dynamics within the euro zone, i.e. of the unfavourable incidence on the French economy of a fall in demand in euro-zone partner countries.

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

(% deviation from benchmark scenario)

	2005	2006	2007
In the absence of an appreciation of the euro			
GDP	-0.2	-0.7 / -1.0	-0.7 / -1.0
Total employment (thousands)	-7.5	-60 / -75	-60 / -75
Household consumption prices	0.0	-0.1	-0.2
Government net borrowing (GDP points)	-0.1	-0.2	-0.3/-0.5

(1) Lasting increase of 100 basis points in short- and long-term interest rates occurring at the beginning of 2005, with exchange rates remaining constant.

Public finances would be affected by a rise in interest rates via two channels. First, the debt service burden of the general government would rise because of the cost of refinancing and of financing the new deficits. Second, public accounts would be adversely affected by the weaker activity.

A rise of 100 basis points in interest rates would lead between now and 2007 to a rise in interest expense for the whole of general government.

Public revenue and expenditure would both be affected by the weaker activity.

- The diminution in growth automatically leads to a decline in tax and social security revenue. Revenue received by social security funds is not particularly sensitive to the composition of demand, being mainly based on the total wage bill. On the other hand, central government revenue is much more sensitive, since a slowdown in household demand severely limits VAT revenue, while a fall in exports leaves revenue from this source virtually unchanged.
- Nominal expenditure (excluding interest expense) would be increased by the deterioration on the labour market and reduced by the fact that most expenses are pegged to inflation (wage bill, benefits, etc.).

II GENERAL GOVERNMENT BALANCE

The public deficit is set to fall below the 3% threshold in 2005.

Starting from a deficit of 4.0% of GDP in 2003, the financial situation of general government should improve by 2.5 GDP points over the 2004-2007 period and so return to net borrowing of 1.5% of GDP in 2007, on the assumption of 2.5% annual GDP growth during the period. The preceding stability programme, presented at the end of 2002, was based on an improvement in the financial situation of general government amounting to 1.5 GDP points, with a public deficit of 1 GDP point in 2006. The improvement in the public accounts contained in the 2005-2007 multi-annual programme is therefore larger than in the preceding programme.

Containment of public expenditure should permit this sharp reduction in the public deficit. Central government expenditure (on a budget accounting basis) is expected to remain stable (0% growth) at constant prices over the programme period. Growth in health insurance expenditure would be in line with that of potential GDP, at 2.25% at constant prices.

If growth were to be higher than this, at 3% over the 2005-2007 period, this would make it possible to bring the public deficit down to 0.7 of a GDP point in 2007, thanks to higher tax and social security revenue, keeping similar assumptions regarding public expenditure with the exception of unemployment benefits, which would be smaller than in the 2.5% growth scenario.

Table 1: Key public finance indicators (2.5% growth scenario)

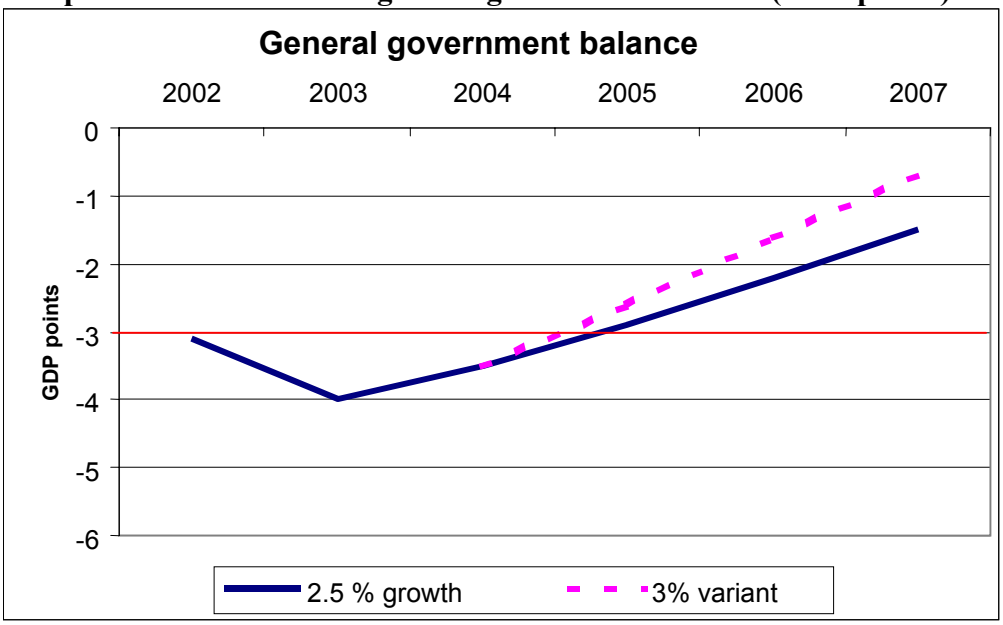
GDP points		**2.5% growth**		
	2004	**2005**	**2006**	**2007**
General government net borrowing	***-3.55***	***-2.9***	***-2.2***	***-1.5***
Expenditure	53.9	53.0	52.4	51.8
Revenue	50.4	50.2	50.3	50.3
Compulsory levies (including EU levies)	43.7	43.6	43.6	43.6

Table 2: Key public finance indicators (3% growth scenario)

GDP points		**3% growth**		
	2004	**2005**	**2006**	**2007**
General government net borrowing	***-3.55***	***-2.6***	***-1.6***	***-0.7***
Expenditure	53.9	52.8	51.9	50.9
Revenue	50.4	50.1	50.3	50.2
Compulsory levies (including EU levies)	43.7	43.5	43.6	43.6

Note: the tax and social security revenue of French general government differs from the compulsory levy rate because of the European contribution

Graph 1 - Evolution in the general government balance (GDP points)



Evolutions for individual sub-sectors of general government

The improvement in the financial situation of general government would be due mainly to a reduction in central government net borrowing amounting to 1.5 GDP points between 2004 and 2007. This reduction would stem mainly from the limits placed on growth in budget expenditure (0% at constant prices per year for the budgetary norm).

In 2003, the deficit of the social security funds is estimated to be 0.6 of a GDP point. In 2004, it should fall slightly to 0.5 of a GDP point. Thereafter, the evolution in the balance for the social security funds reflects the rapid return to equilibrium that should be made possible by the reform of the health insurance system due to come into force in the autumn of 2004. The situation regarding the social security accounts should show a greater improvement in 2005 than in the other years, as a result of two phenomena: first, 2004 will see only the very first stage of the implementation of the health insurance reform, which will not exert its full effects until 2005; second, retirement pension expenditure will accelerate in 2006 and 2007 because of the arrival at retirement age of the baby-boom cohorts. In the 2.5% growth scenario, the social security accounts return to equilibrium in 2007. In the 3% growth scenario[4], the balance for the social security funds returns to equilibrium as early as 2005 and shows a surplus of 0.4 of a GDP point in 2007.

The surplus in the case of central government bodies is expected to grow during the 2005-2007 period. Payments made by the social security debt repayment fund[5] to the government are expected to come to an end in 2006 while the debt of the defeasance structures should also decline during the period.

Finally, the financial situation of local government is expected to stabilise, with local authorities pursuing their policy of debt repayment.

[4] This scenario is based on the same expenditure assumptions as the 2.5% growth scenario, with the exception of expenditure on unemployment benefits, which are lower in the 3% growth scenario.
[5] CADES (*Caisse d'Amortissement de la Dette Sociale*).

Table 3 - Net lending (+) or borrowing (-) by sub-sector (2.5% scenario)

GDP points	2002	2003	2004	2005	2006	2007
General government	**-3.1**	**-4.0**	**-3.55**	**-2.9**	**-2.2**	**-1.5**
Central government	-3.8	-3.8	-3.7	-3.3	-2.7	-2.2
Central government bodies	0.7	0.2	0.4	0.5	0.5	0.5
Local government	0.2	0.2	0.2	0.2	0.2	0.2
Social security funds	-0.3	-0.6	-0.5	-0.2	-0.1	0.0

Table 4 - Net lending (+) or borrowing (-) by sub-sector (3% scenario)

GDP points	2002	2003	2004	2005	2006	2007
General government	**-3.1**	**-4.0**	**-3.55**	**-2.6**	**-1.6**	**-0.7**
Central government	-3.8	-3.8	-3.7	-3.3	-2.5	-1.9
Central government bodies	0.7	0.2	0.4	0.5	0.5	0.5
Local government	0.2	0.2	0.2	0.2	0.2	0.3
Social security funds	-0.3	-0.6	-0.5	0.0	0.2	0.4

Structural balance of general government

Over the programme period, the structural balance[6] is set to improve by at least ½ of a GDP point per year over the 2005-2007 period

The deterioration in the overall deficit in 2003 must not be allowed to conceal the structural effort to improve public finances that has been launched. This should result in an improvement in the structural balance of 0.1 of a point this year, with the scale of the discretionary consolidation measures (+ 0.5 of a GDP point) being itself masked by the low elasticity of tax revenue to GDP (see box 1). In 2004, the structural balance should again improve by 0.8 of a GDP point as a result of the consolidation measures introduced. **It would then improve by 1.8 GDP points between 2004 and 2007, returning to –0.2% in 2007, i.e. to virtual equilibrium.**

Over the programme period, public expenditure at constant prices is planned to evolve appreciably more slowly than potential growth (rising by 1.1% on average, compared with 2¼% excluding the impact of the abolition of the public holiday), which would make it possible to create room for manoeuvre on the expenditure side of 0.6 of a GDP point per year on average.

[6] The structural balance is the general government balance adjusted for the effects of the cycle on public accounts.

2.5% scenario	2004[7]	2005	2006	2007
Public deficit	-3.55%	-2.9 %	-2.2 %	-1.5 %
Structural deficit	-2.0 %	-1.4 %	-0.8 %	-0.2 %
Variation in the structural balance	0.8 %	0.6 %	0.6 %	0.6 %

In the 3% growth scenario, also based on potential growth of 2¼% (before taking into account the positive impact associated with the abolition of the public holiday), the path followed by the structural balance would be identical to that in the 2.5% scenario.

Box 1: Structural balance and discretionary variation ("structural effort")

The general government balance is affected by the position of the economy in the cycle. This means that there is a revenue shortfall and an expenditure surplus (especially expenditure related to unemployment benefits) when GDP is below its potential level and, conversely, there is a revenue surplus and a decline in expenditure when the reverse is true.

The usual indicator of the structural balance aims at adjusting the actual public balance for these cycle-related fluctuations. The method of evaluating the structural balance consists of calculating, in a first stage, the cyclical component of the public balance, in other words that part which is explained by the economic situation, using a methodology that is broadly common to all the international organisations. In practice, this calculation is based, in particular, on the assumption that cyclical revenues evolve at the same rate as GDP and that expenditure -- with the notable exception of unemployment benefits -- is not sensitive to the economic situation. The structural balance is then calculated as a "residual", i.e. the difference between the observed balance and its cyclical component.

This indicator provides an international benchmark for the assessment of the direction taken by fiscal policies. Once the impact of the economic situation has been eliminated, one is left with evolutions in the structural balance, including, in particular:

- the effort to keep expenditure under control, measured by the difference between the rise in expenditure and the potential growth: when public expenditure grows less fast than potential growth, the result is indeed a structural improvement in the public finances.
- the new measures concerning compulsory levies.

However, alongside these factors that are truly representative of the direction taken by fiscal policy, the structural balance includes others that are probably less relevant:

i) **The structural balance is affected by "elasticity effects" on the side of public revenue.** In practice, the assumption of unit elasticity between revenue and GDP[8] adopted for the calculation of the cyclical balance is in fact valid only on an average basis over an economic cycle. In the short term, there are substantial variations in this elasticity. In the case of central government, for example, there is a wide amplitude in the apparent elasticity of tax revenue, mainly as a result of the fluctuations in corporate tax revenue: as a result, the elasticity of net tax revenue can vary between zero and two. Adopting the assumption of unit elasticity is therefore tantamount to passing on in their entirety into variations in the structural balance these fluctuations in the elasticity of revenue, despite the fact that these fluctuations are largely explained by the situation in the economic cycle. The result is considerable confusion in the interpretation of variations in the structural balance.

[7] For a forecast of 1.7% actual growth in 2004.
[8] Signifying that a nominal rise of 1% in activity results in a 1% rise in public revenue.

ii) Other factors can also come into play, such as variations in **revenue excluding compulsory levies** (central government revenues of a non-tax nature, for example). By construction, these evolutions, being regarded as "non-cycle-related" affect the structural balance.

In order to consider only those factors whose structural nature is best established, it is therefore possible to remove from the structural balance the elasticity effects and the revenue excluding compulsory levies. The resulting indicator, which can be regarded as the "structural effort" or the "discretionary variation in the structural balance", reflects only the impact of containment of expenditure and the new measures regarding compulsory levies decided by the authorities.

The gap between the indicator of the variation in the structural balance and that of the "structural effort" can be considerable.

- For example, in 2000 and 2001, there was a discretionary relaxation of policy towards public finances, amounting to 2.1 GDP points, but because of the fact that the elasticity of revenue was temporarily well above unity (of the order of 2 for net central government tax revenue), the deterioration in the structural balance was "only" 1 point.

- Conversely, when the apparent elasticity of revenue is below unity -- as often happens in periods of economic slowdown -- the structural balance is correspondingly worsened. **This is what happened starting in 2002. In 2003, the discretionary effort in the direction of consolidation is thought to have reached 0.5 of a GDP point** (thanks to savings in government expenditure and the reform of the UNEDIC unemployment insurance fund). However, this effort seems set to result in an improvement of only 0.1 of a point in the structural deficit because the elasticity of revenue to GDP has been less than unity (0.3 in the case of central government tax revenue). In 2004, **the discretionary consolidation effort concentrated on the expenditure side is put at 0.9 of a GDP point,** which is not correctly reflected in the variation in the structural balance, once again, because of the low elasticity of revenue.

Table 2- Breakdown of the structural balance

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Observed balance	**-1.8**	**-1.4**	**-1.5**	**-3.1**	**-4.0**	**-3.55**	**-2.9**	**-2.2**	**-1.5**
Structural balance: absolute level	**-0.9**	**-1.6**	**-1.9**	**-2.9**	**-2.8**	**-2.0**	**-1.4**	**-0.8**	**-0.2**
Structural balance: annual change	**0.6**	**-0.7**	**-0.3**	**-1.0**	**0.1**	**0.8**	**0.6**	**0.6**	**0.6**
Discretionary change in the structural balance ("structural effort")	**-0.3**	**-1.3**	**-0.8**	**-0.7**	**0.5**	**0.9**	**0.7**	**0.5**	**0.6**
Gains due to the gap between the rises in expenditure and in GDP	0.0	-0.3	0.2	-0.3	0.3	0.7	0.7	0.5	0.5
New measures concerning compulsory levies 1/	-0.3	-1.0	-0.9	-0.4	0.2	0.2	0.0	0.0	0.1
Non-discretionary component	**0.9**	**0.7**	**0.5**	**-0.3**	**-0.4**	**-0.1**	**-0.2**	**0.0**	**0.0**
Effect of the spontaneous evolution in levies differing from GDP	1.0	0.6	0.5	-0.3	-0.2	-0.2	-0.1	0.0	0.0
Revenue excluding compulsory levies	-0.1	0.1	0.0	0.0	-0.2	0.1	-0.1	0.0	0.0

1/ These are all the new measures, including those resulting from decisions by local authorities and the social partners and from decisions taken prior to the year in question.

III. GENERAL GOVERNMENT EXPENDITURE

The strategy for managing public finances is based on strict control of public expenditure. This requires the establishment of targets for increases in real terms for all expenditure items of general government services, which the implementation of structural reforms at the level of central government and the health insurance system, in particular, should make it possible to achieve.

Average growth for public expenditure of 1.1% per year at constant prices.

Public expenditure is expected to rise at the rate of **1.1% at constant prices on average** over 2005-2007, which represents a substantial change from the tendency seen in the past 20 years. The updating of the programme therefore brings in targets that are stricter than in the preceding programme (1.3% at constant prices on average over 2004-2006).

In the 2.5% growth scenario, the ratio of expenditure to GDP would therefore be reduced by 2.1 points between 2004 and 2007. In the 3% growth scenario, the ratio is planned to fall by 3 GDP points.

Table 5 - Average annual growth in public expenditure at constant prices

(2.5% growth scenario)

	2005-2007 programme
Public expenditure, *of which*	**1.1%**
Central government (budget accounting)	0 %
Central government *(national accounts)*	0.3 %
Social security funds	1.7 %
Health insurance (falling under the scope of ONDAM)	*2.25 % (Potential GDP)*
Local government	2.0 %

Central government expenditure

General budget expenditure will be stabilised at constant prices over 2005-2007, representing slower growth than in the preceding programme (1% at constant prices over three years). Following this stabilisation achieved in 2003-2004, this commitment constitutes an unprecedented effort to keep central government expenditure under control, in a context that is nevertheless doubly constrained by stronger growth in unavoidable expenditure (debt service and pensions) and by the budgetary consequences of the incorporation of the financing fund for the reduction of employers' social security contributions and the 35-hour working week (FOREC) in the general budget. Structural reforms on a substantial scale will be implemented to cover these new charges and complete the financing of the major planning acts of the current legislature.

Debt service and pensions

Debt service will rise much more rapidly than total central government expenditure over 2005-2007: by 4.9 % per year on average at constant prices, compared with stabilisation for central government expenditure as a whole and an average rise of 1.3% in the past five years. The programme assumes a level of interest rates that is consistent with the assumption of recovery and "catch-up" of growth during the years covered by the programme.

Variation in bn €	2000	2001	2002	2003	2004	2005	2006	2007
Debt service	-0.4	+0.8	+0.3	+1.5	+0.3	+2.2	+3.0	+2.6
%	-1.1	2.1	0.8	3.9	0.8	5.7	7.4	6.1

The growth rate for pension expenditure reflects the acceleration in the number of retirements in the civil service. This rate will be 4.3% per year over the 2005-2007 period, compared with 3.6% in the last five years.

Variation in bn €		2001	2002	2003	2004	2005	2006	2007
Pensions		+0.5	+1.7	+1.1	+1.7	+1.9	+1.3	+1.8
%		1.5	5.3	3.1	4.7	5.1	3.2	4.4

The incorporation of the FOREC in the general budget

The clarifications provided by the 2004 Budget Bill include the budgetisation of the FOREC, an establishment responsible for compensating the social security regimes concerned for the contributions lost as a result of the measures involving reductions in contributions for the lower-paid and the reduction in working hours. The build-up of the reductions in social contributions leads to a trend rise in the employment budget amounting to €6 billion over 2005-2007.

Expenditure relating to civil service employment

Expenditure relating to civil service employment including pensions (accounting for 43% of expenditure in the general budget) is forecast to rise by 2.1% per year at current prices over 2005-2007. This will be less rapid than in the two preceding programmes, which provided for rises of 2.2% and 2.5%, respectively.

The increased number of civil servants taking retirement will be exploited to adapt recruitment to the evolutions in structures and tasks needed to improve the efficiency of public services.

Other expenditure

Primary expenditure excluding the civil service will amount to 43% of the central government general budget in 2004. The intention is to reduce this expenditure by 0.5% per year at current prices on average over the 2005-2007 period, thanks to the room for manoeuvre released by the reform of central government and the redefinition of the government's intervention policies.

In total, keeping the rise in central government expenditure in line with inflation, while at the same time financing the government's priorities (defence, home affairs, justice and official development assistance), will be made possible by the introduction of substantial structural reforms and renewed redeployment efforts.

Box 2- Changeover from general budget expenditure to national accounts expenditure

The scope of central government expenditure in the national accounting system does not match the scope of general budget expenditure in budgetary accounting. Two key factors contribute to the growth in expenditure in national accounting:

- **Certain levies on revenue** are treated as central government expenditures. These concern, for instance, the GNP-based resource that contributes to the financing of EU institutions;
- Central government expenditure also includes **imputed social security contributions,** i.e. contributions that the central government would have to pay to balance 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 rise significantly over the programme period. The impact of this correction on the central government balance is neutral;
- Other adjustments also increase growth in general budget expenditure with regard to national accounts, such as the changeover to accrual-basis accounting, debt cancellation for developing countries, expenditure in special Treasury accounts, and specific budgets.

Table 6 - Central government budget accounting and national accounts expenditure
(Contribution to growth in expenditure under the national accounting system)
(annual averages, constant prices, percentage points)

	2005-2007
General budget expenditure (like-for-like basis)	**0**
Levies on revenue in budget accounting	**0.2**
For local government	*0.1*
For the European Union (GNP-based resource)	*0.1*
Imputed social security contributions	0.3
Other adjustments	-0.2
Central government expenditure in national accounting	**0.3**

Social security funds expenditure

A large-scale reform of health insurance will be launched in 2004

Structural reform of the French social security system will continue in 2004. After the reform of the pension system in 2003, the government will be putting through a major project for 2004, namely reform of the health insurance system, which will help to bring the totality of the social insurance regimes into financial equilibrium in 2007.

The high level of compulsory levies in France, which weigh particularly heavily on labour, is an incentive not to rely on increases in compulsory levies in order to restore this equilibrium. The levers to be activated will therefore have to include attempts to bring expenditure growth under control, especially healthcare benefits, which have risen particularly strongly in the past.

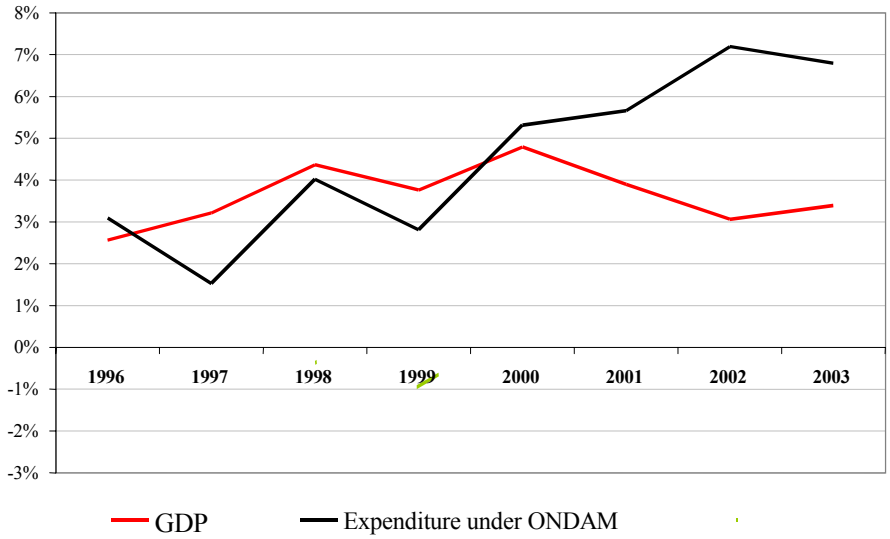
Much is at stake, financially, in the health insurance system

Bringing under control the rise in public expenditure on healthcare financed by the social security system (roughly three-quarters of total healthcare expenditure) is of decisive importance in achieving financial equilibrium in public finances as a whole, given the very large sums involved (€124.7 billion expected in 2003 for public healthcare expenditure falling under the scope of the national health insurance spending target according to the September 2003 report by the *Commission des Comptes de la Sécurité Sociale)*. With total healthcare expenditure, public and private, amounting to roughly 10% of GDP, France is one of the largest spenders on healthcare in the world. The compulsory levies devoted to healthcare, for their part, are of the order of 20% of total compulsory levies. These considerations explain why the rapid growth in public expenditure on healthcare (by 26% between 1999 and 2003) is a major and recurrent problem for public finances.

A far-reaching programme of consultation has been launched. The first stage consists of drawing up an agreed diagnosis in the framework of the newly-established Haut Conseil pour l'avenir de l'assurance maladie*. Set up by the Prime Minister on 13 October 2003, this* Haut Conseil *has been given the task of analysing in a precise manner the situation regarding health insurance. This body consists of 53 members, including representatives of the following groups: Parliament, the social partners, the healthcare professions, the basic and supplementary health insurance providers, users and experts. It is to submit a diagnosis by the begining of 2004. In addition, it will have a more lasting role, being called on to submit every year to the ministers responsible for health and social security a published report that will be communicated to Parliament.*

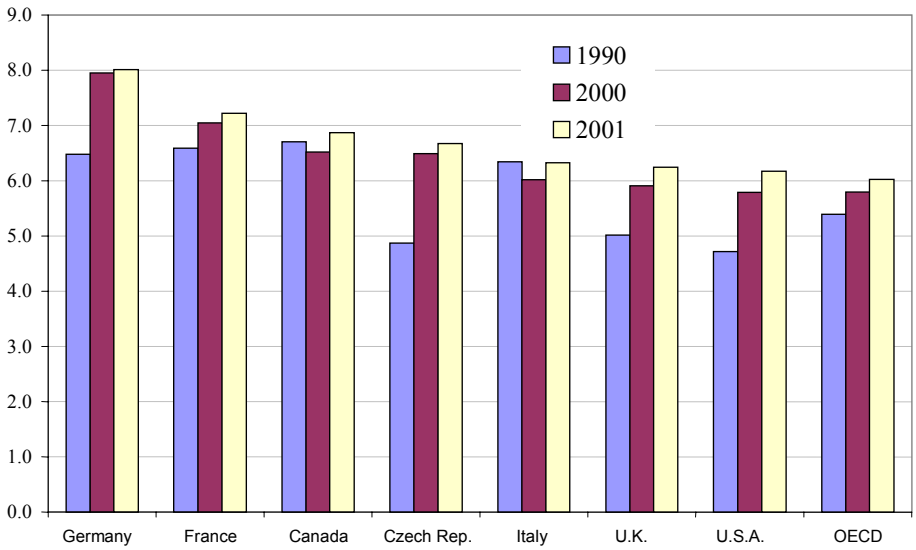
Given the recurrent slippage in health insurance expenditure, large-scale reform is now needed

In recent years, public expenditure on healthcare has risen much faster than GDP, as shown by the following graph.



Public expenditure on healthcare is higher in France than in most other countries with similar levels of development (and much higher than the OECD average). The following graph shows the ratios of public expenditure on healthcare to GDP in various OECD countries and the average for all OECD members. It shows that in the various countries, the level of this expenditure rose as a proportion of GDP between 1990 and 2001.

Public expenditure on healthcare in various OECD countries



Source: OECD health data 2003 (figures in GDP points).

When one relates ***total*** individual expenditure on healthcare to GDP per head for the different OECD countries, it turns out that France spends more per inhabitant than countries with similar levels of wealth.

Following the sharp increase in health insurance expenditure in the recent past, the government intends to improve the efficiency of the health system so as to maintain a high quality of care while at the same time bringing the rise in expenditure down to a rate compatible with the increase in French national wealth.

In order to do this, the reform will aim to introduce regulatory mechanisms that will raise awareness on the part of all involved, both on the supply and demand sides of healthcare: patients, healthcare professionals, healthcare establishments, health-related industries. The savings achieved will therefore be based on an analysis of clinical utility, with a triple concern for efficacy, quality and efficiency, on the lines of the policy being implemented regarding the reimbursement of medicines.

In these circumstances, the programme budgets for the rise in healthcare expenditure to be brought back to the rate of growth in potential GDP (i.e., 2.25% per year on average over the 2005-2007 period).

Other social security funds expenditure

The other risks covered by the social security system include old-age benefits, which will start to feel the initial impacts of the reform of the pension system (Law of 23 August 2003). These benefits are expected to increase by 2.8% at constant prices over the 2005-2007 period. The relatively modest growth predicted for 2005 will be succeeded by an acceleration as of 2006 with the arrival at retirement age of the large cohorts of "babyboomers".

Family benefits are expected to rise by 1.6% at constant prices.

Unemployment insurance expenditure should decline by 2.3% per year at constant prices under the more conservative 2.5% growth scenario. The improvement on the labour market, the new unemployment agreement, on top of the increase in contribution rates in 2003, are intended to permit a rapid return to equilibrium in the UNEDIC (unemployment insurance fund) accounts and then to generate surpluses for repaying the accumulated debt.

Evolution in the social security accounts

In 2003, the deficit of the social security system on a national accounts basis is equivalent to 0.6% of GDP. In 2004, this figure should fall slightly to 0.5%. Thereafter, the balance of the social security system is expected to improve, coming into balance in 2007, in conformity with the government's objective.

	2004	**2005**	**2006**	**2007**
Balance for the social security funds *(2.5% growth)* GDP points	-0.5	-0.2	-0.1	0.0
Balance for the social security funds *(3.0% growth)* GDP points	-0.5	0.0	0.2	0.4
Social expenditure (2.5% growth) (% increase at constant prices)	1.6	0.9	2.3	1.8

The improvement in the accounts of the social security system should be greater in 2005 than in the other years, as a result of two phenomena: first, 2004 will see the start of the application of the reform of the health insurance system, whose effects will not be fully felt until 2005; second, expenditure on pensions will accelerate in 2006 and 2007, because of the arrival of the baby-boom cohorts at retirement age.

In the 2.5% growth scenario, therefore, the social security accounts would be back in equilibrium in 2007. In the 3.0% growth scenario, equilibrium would already be reached in 2005 and there would be a surplus of 0.4 GDP points in 2007.

Box 3- Impact of the new plan for handicapped and dependent persons

The abolition of a public holiday in connection with the financing of the plans for handicapped and dependent persons submitted to Parliament in November has been taken up, following the communication to the French parliament of the multi-year programme annexed to the 2004 Budget Bill. This should improve the general government balance inasmuch as it also provides financing for arrangements already in existence that had not received specific financing (APA – long-term care allowance). This improvement in the balance would amount to €670 million in 2004, 630 million in 2005 and 320 million in 2006, the impact being neutral by 2007.

This measure should, in addition, increase the economy's supply potential. On the basis of an average of 220 working days per year (after taking account of weekends, public holidays and paid leave), the abolition of one public holiday should lead *prima facie* to an increase of 0.45% in annual working time. A conservative estimate, taking into account, among other things, independent workers (whose working time would be unaffected) and the closure of shops on Mondays, suggests that the actual increase in average annual working time would be only 0.3%. This should eventually lead to a gain in value added of the same order of magnitude.

Local government expenditure

Local government expenditure should grow by 2.0% per year at constant prices over the 2005-2007 programme period. Investment is expected to grow relatively briskly, by over 3% per year on average at constant prices. However, debt service is expected to decline thanks to the continuing repayment of debt by local authorities, while the total wage bill is expected to rise by 2.2% per year at current prices, as a result of the abolition of the youth employment scheme.

Expenditure by central government bodies

Expenditure by central government bodies will grow relatively modestly, mainly because of the decline in the accrued interest on social security debt and the progressive phasing out of the defeasance structures.

IV-TAXES AND SOCIAL SECURITY CONTRIBUTIONS

Substantial cuts in taxes and compulsory contributions were introduced in 2002 and 2003. These will continue in 2004: the continued easing of contributions targeted on the lower-paid and the reduction in the various income tax rates bring the total cost of such measures in the 2004 Budget Bill to €3.3 billion.

The programme incorporates pursuit of the reform consisting of the easing of social security contributions for an additional sum of €6 billion over the 2005-2007 period. The new measures are more closely targeted on the lower-paid. With the aids focused more closely on workers earning around the minimum wage, exemptions will be more effective in terms of job creation, while avoiding the dilutive effects that impaired the previous arrangements. In combination with the measures to relax the rules regarding working time, these new cuts should therefore help to reduce structural employment and raise the medium-term growth potential. The programme also takes into account the declines in revenue over the 2005-2007 period that should result from other measures already decided.

In the other direction, the programme takes into account the addition to the social security contributions linked to the financing of the new plans for handicapped and dependent persons and provides the financing, as in the preceding programme, for the increased levies that the government and other stakeholders (local authorities, social partners) may decide in the light of specific objectives.

In total, the rate of compulsory levies is expected to be stabilised at 43.6 GDP points over the programme period.

V. GENERAL GOVERNMENT DEBT

Table 7: Gross debt ratio of general government

GDP points	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
2.5% growth scenario							
Gross debt ratio	56.8	59.0	61.4	62.8	63.2	62.8	61.8
3% growth scenario							
Gross debt ratio	56.8	59.0	61.4	62.8	62.6	61.4	59.4

Source: For past years, INSEE, National Accounts for 2001.

The consolidated gross debt ratio for general government is likely to increase in 2003 as a result of the slowdown in growth and the cyclical deterioration in the general government balance. Public debt would accordingly amount to 61.4 GDP points. In 2004, the growth in the debt ratio is expected to slow down, bringing it to 62.8 GDP points. The improvement in the general government borrowing requirement, combined with the return of firmer growth, would permit this slowdown.

Debt as a share of GDP is expected to decline starting in 2006 in the 2.5% growth scenario. This reduction is crucial in view of the ageing of the population.

In the 2.5% growth scenario, the debt ratio is expected to fall by 1 GDP point between 2004 and 2007, from 62.8% of GDP to 61.8%. The actual primary balance would increase very markedly over the 2005-2007 period, whereas the stabilising balance would remain constant at around 0.5 of a GDP point, which would permit a gradual diminution in the debt ratio. The apparent cost of the debt, which represents an average of the nominal interest rates on current borrowing, would rise slightly over the period as a share of GDP. In the 3% growth scenario, the debt burden would decline by more than this, to 59.4 GDP points in 2007.

Table 8: Evolution in the debt ratio *(2.5% growth scenario)*

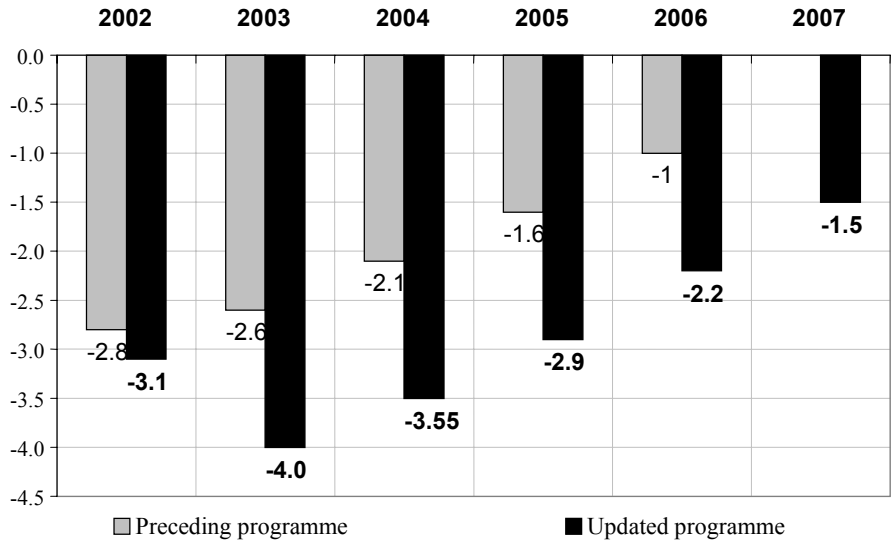
GDP points	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Debt ratio	59.0	61.4	62.8	63.2	62.8	61.8
Change in the debt ratio	2.1	2.4	1.5	0.3	-0.4	-1.0
Apparent cost of debt	5.4	5.0	4.7	4.7	4.8	4.9
Nominal GDP growth (%)	3.1	2.5	3.4	4.0	4.0	4.0
Actual primary balance	0.1	-0.9	-0.6	0.1	0.9	1.6
Stabilising primary balance	1.4	1.5	0.8	0.5	0.5	0.6
Debt service	3.2	3.1	3.0	3.0	3.0	3.1

Taking individual sub-sectors, the fall in the general government debt ratio would mainly take place as a result of the reduction of the central government deficit and, to a smaller extent, of the improved net lending by central government bodies (mainly the CADES, the Pension Reserve Fund and the defeasance structure of Crédit Lyonnais) and by local government.

VI. FROM ONE STABILITY PROGRAMME TO THE NEXT

The updated stability programme for the 2005-2007 period foresees a more rapid budgetary adjustment than its predecessor, despite a less favourable initial position.

Evolution in the public deficit from one programme to the next (2.5% scenarios)



For 2003, the preceding stability programme expected a deficit amounting to 2.6 GDP points. The updated programme foresees one of 4.0 GDP points. This deterioration in the public accounts of 1.4 GDP points is due to the fact that the starting point is less favourable than had been expected in 2002 and to weaker growth than had been expected in 2003. In fact, the public deficit turned out to be 3.1% of GDP in 2002, as against the 2.8% expected in the preceding programme. In addition, instead of the 2.5% GDP growth expected last year, actual GDP growth in 2003 is put at 0.5% in constant prices.

In 2004, the improvement in the actual balance is comparable to what was budgeted to in the preceding programme, despite a lower figure for economic growth (1.7%, compared with 2.5% in the preceding programme). The reduction in the structural balance is accordingly much greater (0.8 of a GDP point, compared with 0.4 last year).

Thereafter, over the 2005-2007 period, the improvement in the general government balance amounts to 2.0 GDP points, compared with 1.6 GDP points programmed last year for 2004-2006 in the 2.5% growth scenario. This greater improvement in the balance over the programme period is due almost entirely to additional efforts to bring public expenditure under control. In fact, the reduction of the ratio of public expenditure to GDP amounts to 2.1 points over three years (in the 2.5% growth scenario), compared with 1.8 GDP points in the preceding programme.

Public expenditure is set to rise by only 3.2% at constant prices over three years, compared with 3.9% in the preceding stability programme.

These greater efforts to bring public expenditure under control correspond to the undertakings made by the government and stem from the stabilisation in constant euros of central government expenditure, together with the implementation of health insurance reform.

Another factor will also help to reverse the tendency in public expenditure, namely, the ending in 2005 of the **build-up of the "fourth resource"** in the financing of the French contribution to the Community budget. Although neutral as regards the public deficit, this build-up helps to increase the apparent growth in central government expenditure in the national accounts. Its impact on the rise in central government expenditure over 2005-2007 will be small (0.1% per year on average), in contrast to the preceding 2004-2006 programme (0.3% per year on average).

Cumulative growth of real expenditure

At constant prices	2005-2007 programme	2004-2006 programme to
General government	**3.2%**	**3.9 %**
Central government (budget accounting)[1]	**0%**	**1%**
Central government (national accounts)[1]	**1%**	**2.4 %**
Social security funds[1]	5.3%	5.0 %
- of which, health benefits	*6.9%*	*7.7 %*
-of which, retirement pensions	*8.7%*	*7.1 %*
Local government	5.9%	6.6 %

[1] Unadjusted for changes in coverage

Finally, as regards revenue, the two successive stability programmes are very similar, with comparable diminutions of around 0.1% of GDP in the rate of compulsory levies over the programme period.

VII. LONG-TERM PUBLIC FINANCE GUIDELINES

This section extends the time horizon for the evaluation of public finances and re-situates the multi-year programme in a long-term framework, making it possible to capture the negative impact of population ageing on the sustainability of public finances and to measure the scale of structural reforms being implemented to soften this impact.

The pension reform voted in 2003 significantly improves the sustainability of public finances, being equivalent to a lasting structural adjustment of 1 GDP point, or 1.5 GDP points, taking account of the impact on potential growth.

The continual lengthening of life expectancy and the arrival at retirement age of the baby-boom cohorts can be expected to lead in coming decades to a rise in the dependency ratio[9]: whereas today 10 active workers finance 4 pensioners, in 2020, 10 active workers will have to finance 7 pensioners. These demographic evolutions herald a sharp increase in retirement pension costs for all regimes: from 12 to 16 GDP points in 2040 according to the estimates by the Retirement Guidance Council.

[9] Ratio of the population aged over 60 to the population of working age – between 24 and 60.

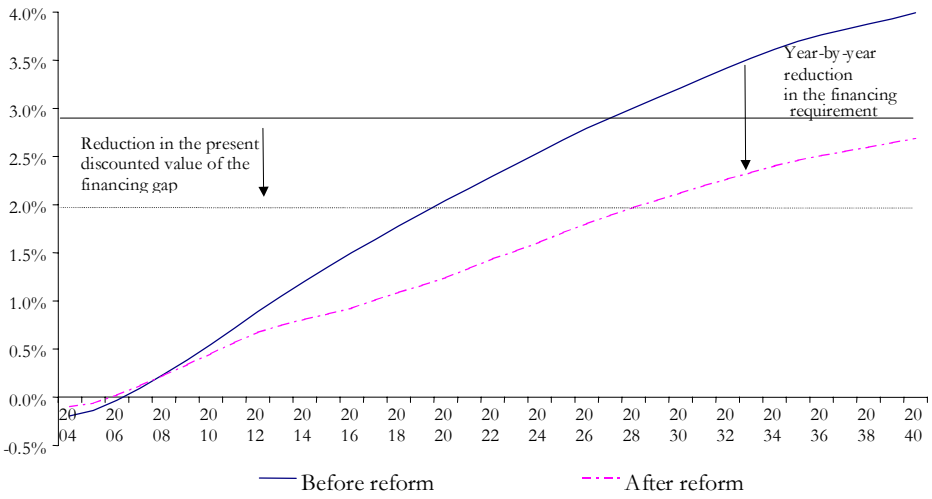
Given the considerable inertia inherent in pension expenditure and the necessarily gradual build-up of the corrective measures that might be envisaged, reform of the French pension system had become not only indispensable, but also a matter of urgency.

Faced with this foreseeable increase in pension expenditure, there were three levers that could be activated to ensure the equilibrium of pension schemes: altering the actual average age of taking retirement, an increase in the active population, reducing the level of pensions compared to that of wages and expanding the sources of financing. The August 2003 reform activates all these levers, but places emphasis on the lengthening of the contribution period, according to a mechanism that aims to keep constant from one generation to another the relationship between the time spent in work and the average duration of retirement.

In order to measure the financial implications of population ageing for public finances and for their long-term equilibrium, it is useful to base reflection on the present discounted value of the financing gap. This measures the immediate increase in revenue (for example through a rise in contributions) which, carried forward on an identical basis as a share of GDP in coming years, would place the retirement schemes on a sustainable path. This instrument summarises the projections of future increases in expenditure related to ageing by transforming year-by-year projections over the long-term into a single measure. The financing gap associated with the pension schemes prior to reform amounted to roughly 3 GDP points. The reform brings about a reduction of the financing gap of 1 GDP point.. **In terms of the long-term equilibrium of public finances, the overhaul of the pension system is equivalent to a lasting reduction of 1 GDP point in the structural deficit.**

Moreover, the favourable effects of the reform on the public accounts would go beyond the mere impact on the pension schemes themselves. The lengthening of the contribution period and the introduction of a "premium" for remaining at work will lead, everything else remaining equal, to an increase in the labour force of the order of 400,000 by 2040. This would eventually raise potential activity by around 2 GDP points and generate a lasting addition to public revenue (taxes and compulsory contributions). This additional gain would be equivalent to a lasting structural improvement of the order of 0.5 GDP points. In all, the reform would therefore be equivalent to a permanent structural adjustment amounting to 1.5 GDP points.

Financing requirements of the retirement pension schemes before and after reform



The ageing of the population is likely also to have an adverse effect on expenditure on health and care of dependent persons. The government intends to implement an ambitious health insurance reform.

Coming demographic evolutions can also be expected to lead to an increase in expenditure on health and care of dependent persons. According to the report by the Economic Policy Committee dated November 2003, expenditure on health and care of dependent persons can be expected to increase in France by between 1.7 and 2.5 GDP points by 2050[10]. Reform of health insurance constitutes a priority in coming months. Quite apart from the beneficial short-term impact on the situation of public finances today, such reform would produce a significant improvement in the sustainability of public finances.

[10] This evaluation takes into account only the impact of demographic evolutions on healthcare expenditure and excludes the non-demographic determinants of such expenditure.

VIII. KEY FIGURES AND MACROECONOMIC ASSUMPTIONS

VIII.1. 2.5% growth scenario

General government balance
(GDP points)

	2003	2004	2005	2006	2007
Net lending(+) / Net borrowing (-) (B9)					
General government	**-4.0**	**-3.55**	**-2.9**	**-2.2**	**-1.5**
Central government	*-3.8*	*-3.7*	*-3.3*	*-2.7*	*-2.2*
Central government bodies	*0.2*	*0.4*	*0.5*	*0.5*	*0.5*
Local government	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*
Social security funds	*-0.6*	*-0.5*	*-0.2*	*-0.1*	*0.0*
General government (S13)					
Revenue	50.3	50.4	50.2	50.3	50.3
Expenditure	54.3	53.9	53.0	52.4	51.8
Budget balance	-4.0	-3.55	-2.9	-2.2	-1.5
Net interest payments	3.1	3.0	3.0	3.0	3.1
Primary balance	-0.9	-0.6	0.1	0.9	1.6

General government gross debt

	2003	2004	2005	2006	2007
Gross debt	61.4	62.8	63.2	62.8	61.8
Annual change in gross debt	2.4	1.5	0.3	-0.4	-1.0

Divergence from previous programme
2.5% growth scenario

	2003	2004	2005	2006	2007
GDP growth					
Previous programme	2.5	2.5	2.5	2.5	-
Latest programme	0.5	1.7	2.5	2.5	2.5
Difference	-2.0	-0.8	0.0	0.0	-
Budget balance					
Previous programme	-2.6	-2.1	-1.6	-1.0	-
Latest programme	**-4.0**	**-3.55**	**-2.9**	**-2.2**	**-1.5**
Difference	-1.4	-1.4	-1.3	-1.2	-
Gross debt level (consolidated general government)					
Previous programme	59.1	58.9	58.3	57.0	-
Latest programme	61.4	62.8	63.2	62.8	61.8
Difference	2.3	3.9	4.9	5.8	

VIII.2. 3% growth scenario

General government balance
(GDP points)

	2003	2004	2005	2006	2007
Net lending (+) / Net borrowing (-) (B9)					
General government	**-4.0**	**-3.55**	**-2.6**	**-1.6**	**-0.7**
Central government	*-3.8*	*-3.7*	*-3.3*	*-2.5*	*-1.9*
Central government bodies	*0.2*	*0.4*	*0.5*	*0.5*	*0.5*
Local government	*0.2*	*0.2*	*0.2*	*0.2*	*0.3*
Social security funds	*-0.6*	*-0.5*	*0.0*	*0.2*	*0.4*
General government (S13)					
Revenue	50.3	50.4	50.1	50.3	50.2
Expenditure	54.3	53.9	52.8	51.9	50.9
Budget balance	-4.0	-3.55	-2.6	-1.6	-0.7

General government gross debt

	2003	2004	2005	2006	2007
Gross debt	61.4	62.8	62.6	61.4	59.4
Annual change in gross debt	2.4	1.4	-0.2	-1.2	-2.0

Divergence from previous programme
3% growth scenario

	2003	2004	2005	2006	2007
GDP growth					
Previous programme	2.5	3.0	3.0	3.0	
Latest programme	0.5	1.7	3.0	3.0	3.0
Difference	-2.0	-1.3	0.0	0.0	-
Budget balance					
Previous programme	-2.6	-2.0	-1.4	-0.5	
Latest programme	-4.0	-3.55	-2.6	-1.6	-0.7
Difference	-1.4	-1.5	-1.2	-1.1	-
Gross debt level (consolidated general government)					
Previous programme	59.1	58.5	57.3	55.4	-
Latest programme	61.4	62.8	62.6	61.4	59.4
Difference	2.3	4.3	5.3	6.0	-