France

Country note, June 2017

Key messages:

- **GDP growth is accelerating in 2017 and the 1.5% forecast of the Government seems likely.**
- **General government deficit in 2016 has reached 3.4% of GDP after 3.6% in 2015.**
- **Nominal deficit is supposed to be reduced under 3% of GDP in 2017 according to the Stability Program.**
- **Reaching this target seems optimistic if we refer to the EC latest forecast (3.2%) and should require additional measures and/or higher growth.**
- **The MTO (set at -0.4% of GDP in 2019) is unlikely to be reached according to EC estimates.**

Macroeconomic outlook

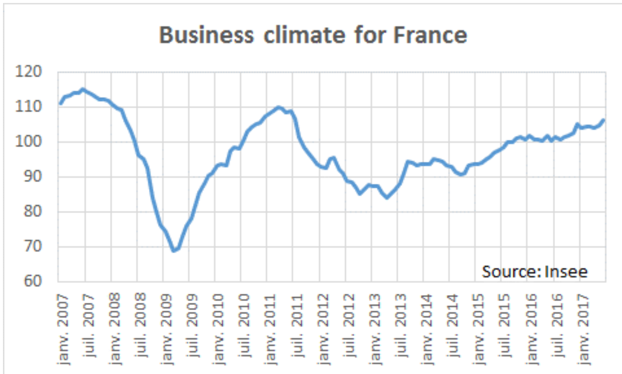
HCFP has endorsed the macroeconomic scenario underlying the Stability Program. The government growth forecast is 1.5 % for 2017 and 2018. These growth rates could be exceeded as business surveys have improved markedly since the end of 2016. Inflation forecasts (CPI) are around 1 % for 2017 and 2018.

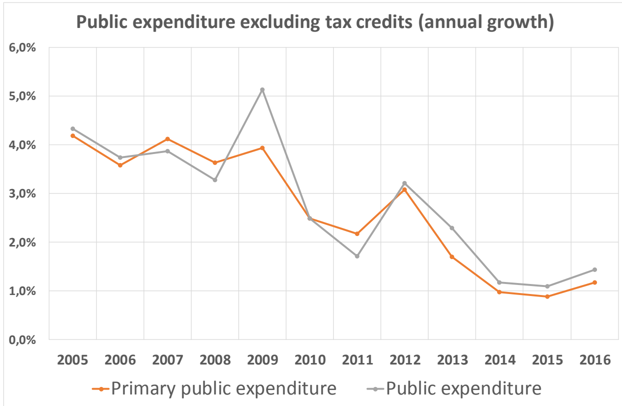
Short-term fiscal outlook

The general government deficit was 3.4 % of GDP in 2016, after 3.6 % of GDP in 2015. The structural adjustment in 2016 was equal to 0.3% according to the Government (0.2% according to EC estimate), in deceleration compared to the adjustment estimated for the period 2011-2014 (0.7 point on average).

The 2017 target is 2.8 % in the Stability program for 2017-2020. HCFP assessment is that this target is unlikely to be met without additional measures, as public expenditure growth seems underestimated. Furthermore, the planned recapitalization of the state-owned company AREVA with a public capital injection represents a negative risk for the 2017 deficit of around 0.1% of GDP.

The new Government asked the Court of auditors to carry out a public finance audit the results of which will be presented on 29 June.





Medium-term fiscal outlook

The latest Stability Program detailed the medium term strategy of the previous Government in order to continue the consolidation effort. The consolidation strategy is based exclusively on the expenditure side: the ratio of public expenditure on GDP should decrease by around 1 point of GDP between 2016 and 2018 as the result of the implementation of expenditure saving measures. However, the Stability Program has been presented before the Presidential election and the medium-term fiscal strategy of the new Government could be different. This strategy will be presented in detail in the forthcoming programming law in the autumn.

Fiscal framework and national fiscal rules

The assessment of the French Government in the Stability Program is based on an output gap that seems overestimated. As a consequence, this artificially increases the cyclical component of the deficit, which mechanically reduces the structural deficit estimate. Therefore, the effort to be made in the coming years to restore the equilibrium of the public finances in the medium term, is underestimated. By way of comparison, the structural deficit estimated by the European Commission for the year 2016 is 2.5% of GDP, which is 0.8 point higher than the current estimate made by the Government (see table). The High Council has highlighted this point in several of its recent opinions.

Key indicator forecast

		2015	2016	2017 f	2018 f	HCFP assessment
Real GDP growth – SP est.	[% y-to-y]	1.5	1.2	1,5	1,5	Likely
Real GDP growth – EC est.	[% y-to-y]	1.5	1.2	1.4	1.7	
GG Balance – SP est.	[% of GDP]	-3.6	-3.4	-2.8	-2.3	Optimistic
GG Balance – EC est.	[% of GDP]	-3.6	-3.4	-3.0	-3.2	
Structural Balance – SP est.	[% of P.GDP]	-1.9	-1.5	-1.0	-0.5	Underestimated
Structural Balance – EC est.	[% of P.GDP]	-2.7	-2.5	-2.3	-2.8	
Output Gap – SP est.	[% of P.GDP]	-2.8	-3.1	-3.1	-3.1	Overestimated
Output Gap – EC est.	[% of P.GDP]	-1.4	-1.3	-1.1	-0.6	
GG Debt – SP est.	[% of GDP]	95.6	96.0	96.0	95.9	
GG Debt – EC est.	[% of GDP]	95.6	96.0	96.4	96.7	

Sources: Stability Program (SP) 2017-2020, European Commission (EC) Spring forecast 2017

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