Haut Conseil des Finances Publiques

France

Country note, January 2018

Key messages:

- **GDP growth is still accelerating and the 1.7% forecast for 2017 by the Government will be exceeded.**
- **The High Council considers that the deficit forecast, set at 2.9% of GDP by the Government for 2017, is plausible.**
- **The structural effort would be very small in 2017 and 2018, despite the fact that the structural balance is still far from its MTO.**
- **The achievement of the MTO is deferred beyond the term of the new programming bill (2022).**

Macroeconomic outlook

Business surveys have improved markedly since the end of 2016. The government growth forecast in its 2018 budget bill is 1.7 % for 2017 and 1.7% in 2018. The High Council considers the Government's macroeconomic scenario (GDP growth, inflation, employment and private sector payrolls forecasts) to be cautious for 2017 and 2018. Quarterly growth has been 0.6 % for the first three quarters of 2017, and the latest Insee forecast is an annual growth of 1.9 % in 2017. The High Council regards the inflation forecast for 2017 and for 2018 (1.0 %) as reasonable.

Short-term fiscal outlook

The general government deficit was 3.4 % of GDP in 2016, after 3.6 % of GDP in 2015. According to the Government, it would be 2.9 % in 2017 and 2.8 % in 2018, taking into account the consequences of the reimbursement of the tax on dividends (0.2 point of additional deficit in 2018). The High Council considers that these forecasts are plausible. But it notes that the structural effort would be very small in 2017 and 2018, despite the fact that the structural balance is still far from its medium term objective, and that improving economic conditions build a more favorable basis for the realization of such an effort.

The EC Autumn forecast is close to the Government's one, but it does not include some elements: the cost in 2017 of the planned recapitalization of the state-owned company AREVA with a public capital injection ; the financial consequences in 2018 of the reimbursement of the tax on dividends and, in 2019, the budgetary effect of the replacement of the CICE by a permanent cut in social security contribution (which should increase the nominal deficit by 0.9 point of GDP only for that year).

Medium-term fiscal outlook

The latest multiyear public finance programming bill (for the years 2018 to 2022) presented this autumn detailed the medium term strategy of the new Government in order to continue the consolidation effort. The consolidation strategy is based exclusively on the expenditure side as tax cuts are planned on the period. The ratio of public expenditure to GDP (excluding tax credit) would decrease by around 2.5 points between 2016 and 2020 as the result of the implementation of expenditure saving measures. On the same period, the fiscal burden would decrease by 0.8 point of GDP.

The debt ratio (96.3 % of GDP in 2017) would almost stabilize in 2018 and start declining only in 2020. A significant reduction of the public deficit is still needed to start a durable reduction of the debt to GDP ratio.

Fiscal framework and national fiscal rules

The output gap estimate has been substantially revised downwards by the Government, by comparison with previous financing laws (-1.5 % in 2016 instead of -3.1 %). The High Council considers the new estimate more realistic. This revision leads to higher structural deficit estimates (-2.5 % rather than -1.5 % of GDP for 2016).The High Council emphasizes that the annual structural adjustment planned in the programming law is lower than the one provided by article 5 of the European Regulation n°1466/97. The achievement of the MTO (set to -0.4 % of GDP in the programming bill) is therefore deferred beyond the term of the program.

Chart 1: Business climate in France

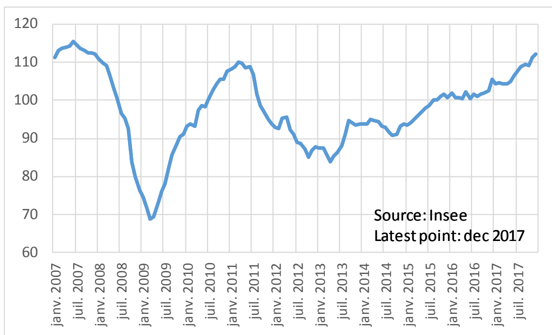


Chart 2: Structural adjustment path

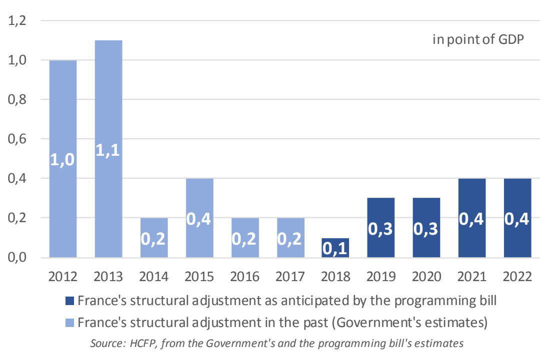
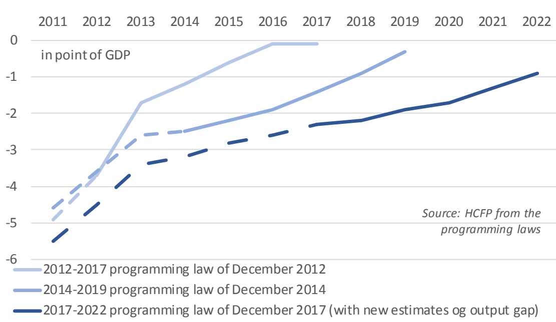


Chart 3: Structural balance path



Key indicator forecast

			2015	2016	2017 f	2018 f	2019 f	2020 f	HCFP assessment
Real GDP growth	MoF est.	[% y-to-y]	1,1	1,2	1,7	1,7	1,7	1,7	Cautious
	EC est.	[% y-to-y]	1,1	1,2	1,6	1,7	1,6	-	
Output Gap	MoF est.	[% of GDP]	-1,5	-1,5	-1,1	-0,7	-0,2	0,2	Realistic
	EC est.	[% of GDP]	-1.4	-1,2	-0,8	-0,2	0,1	-	
GG Balance	MoF est.	[% of GDP]	-3.6	-3.4	-2,9	-2,8	-3 (-2,1[a])	-1,5	Plausible (17 and 18)
	EC est.	[% of GDP]	-3,6	-3,4	-2,9	-2,9	-3,0	-	
Structural Balance	MoF est.	[% of GDP]	-2,7	-2,5	-2,2	-2,1	-1,8	-1,6	
	EC est.	[% of GDP]	-2,7	-2,6	-2,4	-2,7	-3,0	-	
GG Debt	MoF est.	[% of GDP]	95.6	96,3	96,8	96,8	97,1	96,1	

[a] : excluding the temporary effect of the replacement of CICE by a reduction in social contributions

Sources: Budget bill and ***programming bill for the years 2018 to 2022.*** *European Commission (EC) Autumn forecast 2017*