France

Country note, July 2018

Haut Conseil des Finances Publiques

Key messages:

- **GDP is still progressing at a robust but more moderate pace in 2018.**
- **The deficit is below 3 percentage points of GDP in 2017, allowing France to exit the excessive deficit procedure.**
- **The reduction in the structural deficit in 2017 stems from a particularly high elasticity of receipts to GDP. The High Council considers that the deficit forecast, set at 2.3% of GDP by the Government for 2018, is plausible.**
- **The achievement of the MTO is currently deferred beyond the term of the new programming bill (2022).**

Macroeconomic outlook

The Government's growth forecast for 2018 is 2.0% in the Stability Program, revised upwards compared to the draft finance bill. The High Council considers that the sequence described in the Government's scenario is plausible and the forecast for 2018 is realistic: continued strong growth in business investment in response to high capacity utilisation rates, slightly accelerating consumption supported by income dynamics, slowing household investment. However, the economic information published since the Stability Program shows a slowdown in activity. GDP growth in the first quarter has been weak (0.2 % after four quarters at 0.7 %) and the business surveys indicators, which had sharply improved since the end of 2016, have softened in recent months while remaining at a high level in June 2018. The latest Insee forecast is an annual growth of 1.7 % for 2018. The High Council regards the inflation forecast for 2018 (1.4 %) as reasonable. Concerning the medium term, the High Council considers that the scenario of GDP growth remaining continuously above potential growth until 2022 is optimistic.

Short-term fiscal outlook

The general government deficit was 2.6 % of GDP in 2017, after 3.4 % of GDP in 2016. Based on potential growth under Programming law 2018-2022, the structural deficit is estimated at 2.2 % of GDP in 2017, a decrease of 0.3 point from 2016. However, the structural effort, which aims to measure the share of this improvement resulting from government action (expenditure savings or tax rises), is slightly negative. Indeed, the reduction in the structural deficit stems from a particularly high elasticity of receipts to GDP. According to the Government, the general government deficit would be 2.3 % in 2018. The High Council considers that this forecast is plausible. But it notes that the structural effort would be very small in 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.

Medium-term fiscal outlook

The multiyear public finance programming law (for the years 2018 to 2022) presented last autumn and updated in the latest Stability Program detailed the medium term strategy of the new Government in order to continue the consolidation effort. The 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-to-GDP ratio has reached 96.8 % of GDP in 2017. The decline in the deficit and the return to more sustained growth have not yet been sufficient to reduce the debt ratio. According to the Stability Program, the debt ratio would start decreasing in 2018. However, 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 High Council emphasizes that the annual structural adjustment planned in the programming law and in the Stability Program is below the minimum set 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

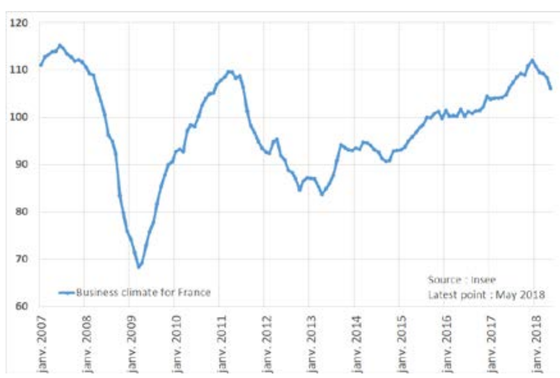


Chart 2: Structural adjustment and structural effort

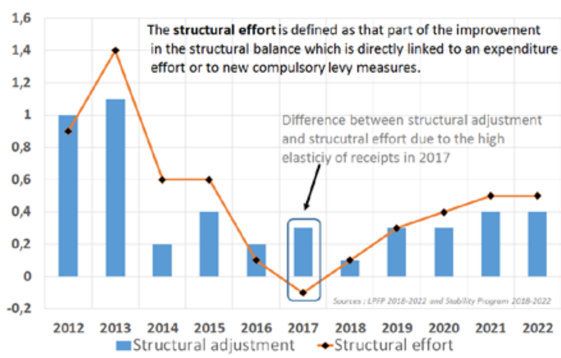
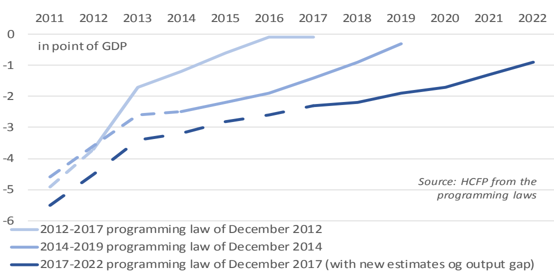


Chart 3: Structural balance path



Key indicator forecast

			2015	2016	2017	2018 f	2019 f	2020 f	HCFP assessment
Real GDP growth	MoF est.	[% y-to-y]	1,1	1,2	1,8	2,0	1,9	1,7	Realistic (2018)
	EC est.	[% y-to-y]	1,1	1,2	1,8	2,0	1,8	-	
Output Gap	MoF est.	[% of GDP]	-1,5	-1,5	-0,9	-0,2	0,4	0,9	Realistic
	EC est.	[% of GDP]	-1.4	-1,3	-0,7	0,1	0,6	-	
GG Balance	MoF est.	[% of GDP]	-3,6	-3,4	-2,6	-2,3	-2,4	-0,9	Plausible (2018)
	EC est.	[% of GDP]	-3,6	-3,4	-2,6	-2,3	-2,8	-	
Structural Balance	MoF est.	[% of GDP]	-2,7	-2,5	-2,0	-1,9	-1,6	-1,4	
	EC est.	[% of GDP]	-2,7	-2,6	-2,1	-2,1	-3,1	-	
GG Debt	MoF est.	[% of GDP]	95,6	96,6	96,8	96,4	96,2	94,7	

*Sources: **Stability Program for the years 2018 to 2022.** European Commission (EC) Spring forecast 2018*

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