

Key messages:

- GDP growth forecast for 2019 in the Stability Program is 1.4%. The High Council considers that this forecast is realistic.
- The Government's growth forecasts for the years 2020 to 2022 correspond to a stable output gap around zero. The High Council notes that this scenario is a reasonable basis for multi-year public finance programming.
- Public deficit should reach 3.1% of GDP in 2019 (2.1 % excluding one-offs). The public finance medium term forecast was substantially changed, and the path of the latest stability program is less rigorous than that of the public finance programming law of January 2018.

Macroeconomic outlook

GDP growth forecast for 2019 in the Stability Program presented in April is 1.4%. The High Council considered that this forecast, which has been revised downwards since the last budget bill, was 'realistic'. Insee's latest business surveys are compatible with the growth forecast of the Government. The Government's growth forecasts for the years 2020 to 2022 state an actual GDP growth being close, but slightly above, the potential growth until 2022. It corresponds to a stable output gap around zero. The High Council notes that this scenario is a reasonable basis for multi-year public finance programming.

Short-term fiscal outlook

In its latest Stability Program, the Government forecasts a public deficit of 3.1 points of GDP in 2019. However, it should be noted that the 2019 deficit includes a one-off measure in relation with the transformation of the Competitiveness tax credit into a permanent reduction in social contributions for firms that represents 0.8 point of GDP. The structural balance is estimated at -2.3 % of GDP in 2018 and -2.2 % in 2019 according to the latest Government forecast (June 2019).

Medium-term fiscal outlook

The path of the April 2019 Stability Program is less rigorous than that of the January 2018 public finance programming law and the April 2018 Stability Program. This revision results in a further postponement, well beyond 2022, of the planned date for the return to the medium-term objective and a much smaller than expected reduction in the ratio of debt to GDP.

Furthermore, the public finance trajectory of the Stability Program is weakened, in 2020 and beyond, by the decisions announced in April at the end of the great national debate (in particular the announced reduction in income tax by 5 Bn€). The Government has indicated its intention to offset these measures by eliminating tax expenditure and savings in public spending. According to the Court of Auditors in its June report on *the situation and outlook of public finances*, taking into account the announced measures could thus worsen the government deficit forecast for 2020 by between 0.1 and 0.3 percentage point of GDP, depending on the degree of compensation provided.

Fiscal framework and national fiscal rules

If the path planned by the 2019 Stability Program were to be followed, the gap between the structural deficit observed and that of the LFPF would exceed 0.25 point per year on average in 2020 and 2021 and should be considered as "significant". It would involve the High Council triggering the correction mechanism as provided for in the Organic Law.

Chart 1: Business climate in France

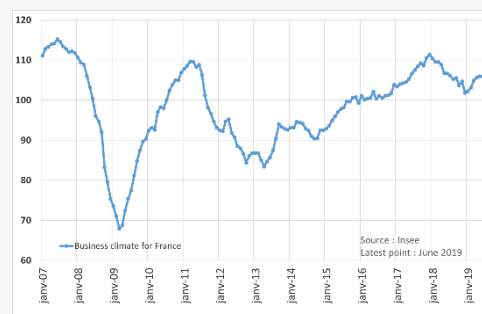


Chart 2: GDP growth and output gap

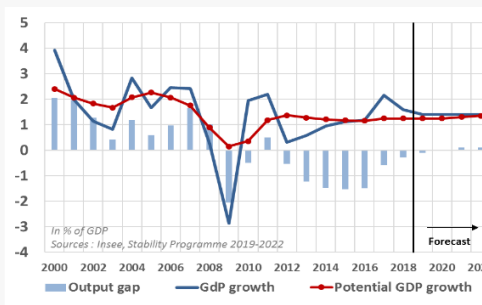
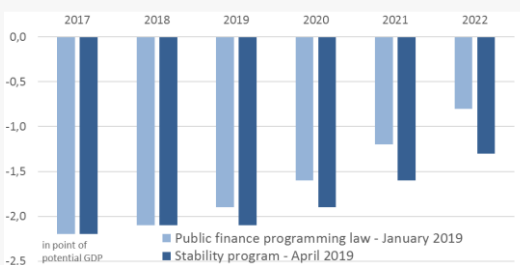


Chart 3: Structural balance paths



Key indicators forecast

			2016	2017	2018	2019f	2020f	Sources
Real GDP growth	MoF est.	[%y-to-y]	1.2	2.2 (2.3*)	1.6 (1.7*)	1.4	1.4	1
	EC est.	[%y-to-y]	1.2	2.2	1.6	1.3	1.5	2
Output Gap	MoF est.	[%of GDP]	-1.5	-0.6	-0.3	-0.1	0.0	1
	EC est.	[%of GDP]	-1.0	0.0	0.4	0.5	0.7	2
GG Balance	MoF est.	[%of GDP]	-3.5	-2.8	-2.5	-3.1	-2.0	1
	EC est.	[%of GDP]	-3.5	-2.8	-2.6	-3.1	-2.2	2
Structural Balance	MoF est.	[%of GDP]	-2.6	-2.4	-2.1	-2.1	-1.9	1
	EC est.	[%of GDP]	-2.8	-2.7	-2.6	-2.6	-2.5	2
GG Debt	MoF est.	[%of GDP]	98.0	98.4	98.4	98.9	98.7	1
GG Debt	EC est.	[%of GDP]	98.0	98.4	98.4	99.0	98.9	2

Sources:

1 - Ministry of Economy and Finances, Stability Program, April 2019

2 - EC Spring economic forecast, May 2019

f - forecast

*: Results from the annual national accounts, May 2019