

Country note, January 2019

Key messages:

- GDP has been progressing at a more moderate pace than anticipated in 2018 and could slow further in 2019. The Government forecast for 2019 might be too high.
- General Government deficit should be 2.7 points of GDP in 2018 in line with the Government forecast.
- Public deficit should reach 3.2% in 2019. This forecast was substantially changed in December, due to the announcement of 'emergency measures' the net cost of which is estimated at 0.4 point of GDP.
- This forecast for 2019 includes a one-off measure amounting to 0.9 point of GDP.

Macroeconomic outlook

GDP growth forecast for 2018 in the Draft Budget Law for 2019 presented in September 2018 was 1.7%. The High Council considered (at the time of the release of the Draft Budget Law) that this forecast was 'credible'. Since then, both the quarterly release for GDP in the 3rd quarter and the recent developments in the economy seem to indicate that a GDP growth around 1.5% in 2018 is more plausible. GDP growth forecast for 2019 by the Government is 1.7% in the Initial Finance Act. In September, the High Council considered that this forecast for 2019 was 'credible' in its opinion on the Draft Budget Law. Given the recent business cycle indicators, this forecast can now be considered somewhat high.

Short-term fiscal outlook (2018)

In its latest forecast in the Initial Finance Act for 2019, the Government forecasts a public deficit of 2.7 points of GDP in 2018 that is the same figure as in 2017. This forecast is 0.1 percentage point higher than in the Draft Budget Law of September, due to less dynamic tax and social security revenues than expected.

Medium-term fiscal outlook (2019 and beyond)

The public finance forecast for 2019 presented in September 2018 in the Draft Budget law was broadly in line with the targets of the January 2018 public finance programming law. However this forecast was substantially changed in December, due to the emergency measures announced in response to the movement of the "yellow vests" (cancellation of the increase in energy taxation, strong increase in support for low-wage earners, tax exemption and acceleration of exemptions from social security contributions on overtime working hours...). These measures lead to a marked increase in the headline deficit and to an absence of improvement of the structural deficit in 2019. The deficit should reach 3.2% in 2019, breaching again the 3% threshold. 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 0.9 point of GDP. Net of this measure, the forecast would be a deficit of 2.3% in 2019.

Fiscal framework and national fiscal rules

With the new public finance forecast released by the Government in December, the structural adjustment would be equal to zero both in 2018 and in 2019. Structural deficit should reach 2.3 points of GDP both in 2018 and 2019 compared with 2.1 and 1.9 points of GDP in the public finance programming law of January 2018. This new forecast is lower than the one published by the EC in November and is not in line with the recommendation addressed by the European Council to France as a country that stands in the preventive arm of the Stability Pact.

Chart 1: Business climate in France

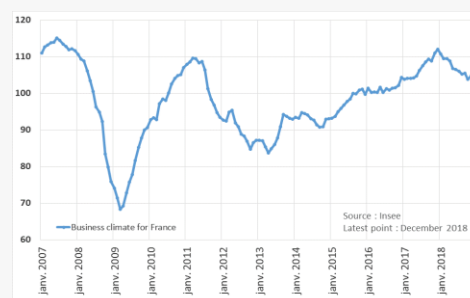


Chart 2: Decomposition of public balance

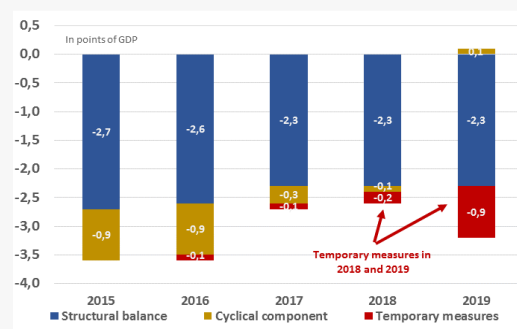
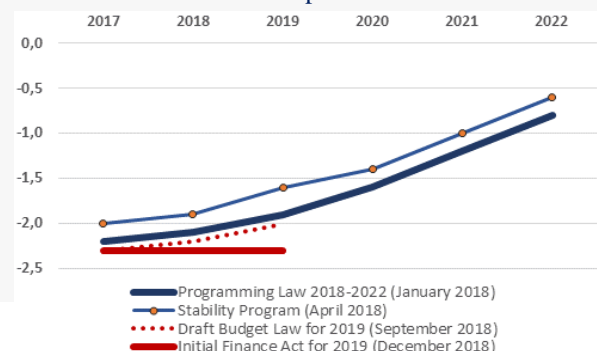


Chart 3: Structural balance path



Key indicator forecast

			2015	2016	2017	2018f	2019f	Sources
Real GDP growth	MoF est.	[%y-to-y]	1.1	1.2	2.2	1.7	1.7	1
	EC est.	[%y-to-y]	1.1	1.2	2.2	1.7	1.6	2
Output Gap	MoF est.	[%of GDP]	-1.5	-1.5	-0.6	-0.2	0.2	1
	EC est.	[%of GDP]	-1.4	-1.3	-0.3	0.1	0.5	2
GG Balance	MoF est.	[%of GDP]	-3.6	-3.5	-2.7	-2.7	-3.2	1
	EC est.	[%of GDP]	-3.6	-3.5	-2.7	-2.6	-2.8	2
Structural Balance	MoF est.	[%of GDP]	-2.7	-2.6	-2.3	-2.3	-2.3	1
	EC est.	[%of GDP]	-2.7	-2.7	-2.4	-2.5	-2.3	2
GG Debt	MoF est.	[%of GDP]	95.6	98.2	98.5	98.7	-	1

Sources:

1 - Ministry of Economic and finances, December

2 - EC Autumn economic forecast, November

f - forecast