



**COUNCIL OF
THE EUROPEAN UNION**

**Brussels, 5 June 2014
(OR. en)**

**9935/14
ADD 5**

**ECOFIN 491
UEM 144**

COVER NOTE

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date of receipt: 5 June 2014
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Competitiveness General Secretariat of the Council of the European Union

Subject: Stability Programme of France for the period 2014-2017

Delegations will find attached the second part of the Stability Programme of France for the period 2014-2017 in English.

4. Excessive Deficit Procedure (EDP)

4.1 Excessive Deficit Procedure

Efforts to ensure compliance with the Council recommendations

On 21 June 2013, the ECOFIN Council addressed a recommendation to France to end by 2015 the excessive deficit that has existed since 2008. The recommendation set nominal deficit targets of 3.9% of GDP in 2013, 3.6% in 2014 and 2.8% in 2015. These targets are consistent with structural adjustment of 1.3 points of GDP in 2013, 0.8 points of GDP in 2014 and 0.8 points of GDP in 2015.

In response to the draft budget submitted in September 2013 and based on November 2013 forecasts, the European Commission's communication to the Council on 19 November 2013 stated that France could be considered to have taken effective action in compliance with the Council recommendation of 21 June 2013, while also pointing out a number of risks relating to its forecasts. The Eurogroup meeting on 22 November validated the main thrusts of the draft budget, endorsing France's fiscal strategy.

The Commission identified a risk of non-compliance with the time limit established in the Council's recommendation for correcting the excessive deficit given that its winter 2014 forecast shows a deviation of France's government balance from the targets set in the June 2013 recommendation. The Commission addressed a specific recommendation to France on 5 March 2014, asking it to adopt additional corrective measures. The Government will take the necessary steps to comply with its fiscal commitments and to ensure that the government deficit returns to 3% of GDP in 2015 (see details of the corrective measures in 2014 in Box 2, section 3.4).

The 2013 deficit reported in the interim by France's national statistics institute (INSEE) stands at 4.3% of GDP. However, government spending growth seems to have been much slower than the Commission anticipated in its winter 2014 forecast. This has major consequences for the assessment of effective action in accordance with the Commission's methodology.

This result shows that the Government has the capacity to meet its expenditure reduction objectives. As announced in January 2014, central government expenditure, along with healthcare expenditure, was below the target set. The published statistics show that spending control was even tighter (see Section 3.2) for both social (unemployment benefits in particular) and central government agencies' expenditure, and that the cost of debt servicing turned out to be lower than projected in the draft budget. This tighter control of spending offset some of the decline in tax revenues since the fourth quarter of 2013. This decline stems from two consecutive years of very weak growth and remains beyond the Government's control.

This means that structural adjustment in 2013 came out at 1.1 points of GDP¹⁰. It was greatly diminished by adverse elasticity effects, which contributed -0.5 points of GDP. Were it not

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¹⁰ Based on potential growth outlined in the 2012-2017 Public Finance Planning Act.

for these effects, the aggregate structural adjustment as defined by the 2012-2017 Public Finance Planning Act, would have reached 1.6 points of GDP. This means that the measures introduced since 2012 did in fact make it possible to comply with the Council recommendation for 2013.

Compliance in **2014** with the June 2013 recommendation will be ensured by the measures introduced since May 2012. More specifically, the effort required this year has already been stepped up in the 2014 draft budget by nearly 0.4 points of GDP compared to the projections in the 2012-2017 Public Finance Planning Act of December 2012. In view of the larger-than-expected structural deficit in 2013, this effort will be supplemented by additional measures totalling some €4 billion in 2014. These measures mean that the adjustment will comply with the recommendation calling for a structural effort of 0.8 points of GDP to achieve a nominal deficit of 3.8% of GDP.

The 2015 government deficit will stand at 3% of GDP and structural adjustment should reach 0.8 points of GDP.

The Government has chosen not to carry out an over-adjustment, which would have negative consequences for future growth. At the same time, the Government complies with the fiscal consolidation effort of 0.8 points that the recommendation calls for in 2014 and 2015. Therefore, the Government upholds the 2015 time limit for correcting the excessive deficit.

Box 12 - Fiscal consolidation measures for 2013 and 2014 introduced since the previous Stability Programme

The measures introduced since 2012 enabled us to get a tight rein on spending in 2013. More rigorous multiyear planning under the Public Financial Planning Act produced results with regard to expenditure covered by the national healthcare expenditure growth target and central government expenditure, excluding debt servicing and pensions. Healthcare spending (Ondam) was €1.4 billion under target in 2013, rising by only 2.4% instead of the 2.7% projection passed in the fourth quarter of 2012. Central government expenditure excluding debt servicing and pensions, was €0.1 billion under the target set in the Initial Budget Act and €3.4 billion if we look at aggregate central government expenditure. The initial growth forecast was 2.6% in the 2013 draft budget and 2.5% in the 2014 draft budget. In the end, however, spending grew by only 2.0% in nominal terms in 2013 (see Section 3.6.1). Revenue increased by some €25 billion as a result of the recovery measures introduced since May 2012, and, more specifically, the measures under the 2012 second and third Supplementary Budget Acts, the 2013 Initial Budget Act and the 2013 Social Security Budget Act, for a total of €29 billion in discretionary measures in 2013. These measures primarily targeted the most affluent households and largest corporations and the financial sector to safeguard investment and jobs. The effort to reduce the structural deficit in 2013 was deemed “substantial” by the French Government Audit Office in its public annual report. The effort was particularly noteworthy because it was accomplished against the backdrop of falling inflation and a euro area recession.

The measures outlined by the Government in the 2014 Budget Act and the 2014 Social Security Budget Act **made it possible to continue the fiscal consolidation efforts** started in May 2012. These measures called for spending efforts amounting to €15 billion.

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This ambitious budget will be **rigorously met in 2014**: for example, the suspension of the green tax on heavy goods vehicles has been offset by limiting the expenditure of the French Transport Infrastructure Agency (AFITF) and by a supplementary central government transfer of €0.8 billion that will be fully financed by savings on management costs during the fiscal year. Similarly, **additional consolidation measures worth some €4 billion in 2014 will be implemented by the third quarter to uphold our fiscal objectives in full compliance with our commitments**. The March 2014 labour-management agreement on the unemployment insurance system will contribute nearly €0.5 billion. Furthermore, the savings achieved in 2013 will be consolidated, particularly in the case of the expenditure covered by the national healthcare expenditure growth target (Ondam). Measures to delay the increase of certain benefits until October 2015 will initially result in savings of nearly €0.4 billion in 2014.

Since the last Stability Programme, the 2014 Initial Budget Act and the 2014 Social Security Budget Act, along with pension reform, have produced an increase in the tax burden of around 0.4 points of GDP:

- Most of the additional effort by households falls on the most affluent, such as the exceptional tax on very large salaries and compensation packages, the removal of the income tax exemption for pension increases and the further lowering of the cap on family deductions;
- Large corporations also contributed to the additional effort with the increase in the corporate income tax surcharge;
- An increase in old-age pension contributions was also introduced to finance pension reform;
- The reduced VAT rate has remained at 5.5% in the end, instead of being cut to 5.0% as originally planned;

The *départements* have been given the option of increasing duties payable on real property sales (DMTO);

- The transition to cleaner energy has been backed with a new climate and energy tax and enhanced incentives for greener cars.

4.2 Convergence towards the medium-term budgetary objective

The medium-term budgetary objective set in the 2012-2017 Public Finance Planning Act is to achieve a balanced budget in structural terms. The Act also sets out the adjustment path for achieving this objective. This path is the benchmark for this Stability Programme, which complies with the requirements of the preventive arm of the Stability and Growth Pact.

Once a country exits the excessive deficit procedure, the Growth and Stability Pact requires structural adjustment of at least 0.5 points of GDP per year until the medium-term budgetary objective has been attained¹¹.

The structural balance adjustment path described in this Stability Programme is compatible with these requirements, since it calls for structural adjustment of 0.5 points per year in 2016-2017, after bringing the deficit back down below 3% in 2015 (see Section 3.4). This

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¹¹ Article 5 of Regulation 1466/97 as amended.

adjustment path complies with the rules of the Stability and Growth Pact and leads to attainment of our medium-term objective of a balanced budget in structural terms in 2017 (- $\frac{1}{4}$ points of GDP). If we strip out the Responsibility and Solidarity Pact, the budget should balance in structural terms in 2016, in keeping with the forecast in the Public Finance Planning Act.

The adjustment path will be set out in detail in a future Multiyear Public Finance Planning Act.

5. Sensitivity analysis and comparison to previous programmes

5.1 Sensitivity analyses

The pace of France's economic recovery and underlying spontaneous public finance developments will depend on global demand for French exports, fluctuations in euro exchange rates and changes in interest rates.

The international scenario underlying the projections is as follows:

- Oil prices remain at \$107 per barrel after 2014.
- The euro exchange rate is stable at US\$1.36 starting in 2014.
- The growth rates of the global economy and world trade gradually return to their long-term average. Global demand for French exports should increase by 6.5% in 2015, which is its long-term average, compared to growth of 1.9% in 2013 and 4.8% in 2014.

The euro exchange rate assumptions are the same as in the Commission's 2014 winter forecast. In contrast, however, the Commission expects a barrel of oil to cost US\$104.1 in 2014 before falling to US\$99.6 in 2015. The Commission also expects global demand for French exports to grow by 4.5% in 2014 and 5.7% in 2015.

In addition to providing figures about how the assumptions concerning export demand, exchange rates, oil prices and interest rates will affect growth, inflation and the government deficit in nominal terms (see Tables 1 to 4), this section assesses the main upside and downside risks surrounding the forecast.

Uncertainty about the expected economic recovery of France's leading trading partners

After two years of weak growth in the euro area, demand for French exports started to pick up again in the second quarter of 2013. This trend should gather strength as global growth picks up speed, particularly in the euro area.

The recovery in world demand could even be stronger than expected, if the euro area economy bounces back more rapidly than the latest business surveys could lead us to expect. In a rosier scenario, where global demand growth in 2014 returns to its average historical trend of around 6.5% per year seen between 2000 and 2008, the stronger recovery of foreign trade would lead to a substantial jump in GDP and improve the job market without any significant increase in inflation. In this case, France's aggregate growth would be 0.3 points higher in 2014 and 0.1 point higher in 2015. The stronger growth of taxable expenditure and payrolls will have a positive impact on revenue from taxes and

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contributions. The minor impact on inflation of this upturn in demand would cause little change in expenditure growth, which should be slower than revenue growth. Ultimately, the government's net lending would rise by approximately 0.1 point of GDP starting in 2015.

On the other hand, the problems of some emerging economies at the end of 2013 and the beginning of 2014, with falling exchange rates (Russia, India, Brazil, Turkey), tighter monetary policy (Brazil, Indonesia, Turkey) and rising political and social instability (Turkey, Ukraine), point to slower-than-expected growth in those countries, which could hamper the recovery of France's exports.

How will a return to more standard monetary policy affect interest rates?

The United States Federal Reserve announced tapering of its asset purchases in December 2013 in view of robust US economic growth. Even though this announcement was unexpected, the financial markets took it quite well. The Stability Programme forecasts assume a gradual return to more standard monetary policy, starting with the United States, which will lead to a gradual and moderate rise in interest rates as economic growth picks up.

A resurgence of financial tension cannot be ruled out in the run-up to the second phase of monetary policy normalisation. If central banks are unable to provide clear forward guidance, sovereign yields could over-react with big jumps that hamper the recovery of the advanced economies and undermine the emerging economies that are most vulnerable to a sudden stop in the capital inflow, such as India, Turkey and Brazil. However, this risk needs to be looked at in perspective, since central bankers are likely to remain vigilant about over-reaction and they have enhanced their forward guidance strategies. In particular, the ECB has expressed its concern about the euro's strength and the level of inflation.

How could the euro move against our partners' currencies?

The Stability Programme forecasts assume that the euro will remain stable against all other currencies and, more specifically, that the euro/dollar exchange rate will stabilise at US\$1.36 starting in the second quarter of 2014.

The Federal Reserve's tapering of its asset purchases and the internal vulnerabilities of emerging economies led to major depreciation of some emerging currencies in the second half of 2013 and the beginning of 2014.

Changes in capital flows in 2014 caused by bad news coming from emerging markets or central banks' difficulties in providing clear forward guidance on interest rates as monetary policy returns to a more standard stance could lead to further depreciation of emerging countries' currencies, driving up the euro and hampering France's economic growth in the short term.

On the other hand, a faster-than-expected monetary policy normalisation in the US could cause the dollar to appreciate, triggering a corresponding depreciation of the euro. In a scenario with a 10% depreciation of the euro against the dollar in 2014, this decline in the exchange rate would automatically improve France's price competitiveness outside of the euro area and boost economic growth for our euro area partners. The resulting jump in exports would give a short-term boost to both growth and jobs. As in the rest of the euro area, higher import prices would increase inflation. On the whole, the French growth rate would be 0.1 point higher in 2014 and in 2015.

Higher growth and inflation resulting from a depreciation of the euro would have a positive impact on revenue from most taxes and therefore on public finances. A lower exchange rate

would also increase social security contributions (which are based on payrolls). Only part of this increase in revenue would be offset by higher spending, some of which is linked to inflation. The overall improvement in the government balance would be gradual, coming out at 0.1 point of GDP in 2015.

What uncertainties surround the behaviour of domestic private-sector agents?

Businesses' more favourable expectations for economic growth could produce a scenario with faster growth. Employment would improve, boosting wages and household income. This could mean that household consumption posts stronger growth.

Uncertainty persists about businesses' behaviour. Businesses could pass on more of the savings from the Competitiveness and Employment Tax Credit in their selling prices. This would lead to greater price-competitiveness gains that boost exports and curb domestic inflation. On the other hand, businesses could respond to a faster-than-expected rise in long-term interest rates by using the tax credit to pay down their debts and improve their profit margins. This behaviour could hit households' income and consumption, causing businesses to restrict their investment.

Table 14 - Impact on France's economy of a 1% increase in world demand (*)

<i>(deviation from the baseline scenario in %)</i>	n	n+1	n+2
GDP growth	0.2	0.2	¼
Total jobs created (thousands)	9	27	40
Household consumption deflator	0.0	0.1	0.1
Net government lending/borrowing (in % points of GDP)	0.0	0.1	0.1

(*)Sustained 1% increase in export demand at the start of year n with no change in real interest rates

NB: An increase in global demand would boost exports which would feed through to the rest of the economy, increasing business investment in particular.

Table 15 - Impact on France's economy of a 10% appreciation of the euro against all other currencies (*)

<i>(deviation from the baseline scenario in %)</i>	n	n+1	n+2
GDP growth	-0.6	-1.0	-1.2
Total jobs created (thousands)	-30	-85	-149
Household consumption deflator	-0.5	-0.7	-1.2
Net government lending/borrowing (in % points of GDP)	-0.2	-0.4	-0.6

(*) A 10% depreciation in the value of the euro against all other currencies at the beginning of year n, with no change in real interest rates, endogenous reaction of the rest of the world.

NB: A stronger euro would hamper growth in the short term by harming France's price competitiveness outside of the euro area and by slowing the economic growth of its euro area partners.

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Table 16 - Impact on France's economy of a \$20 increase in oil prices (*)

<i>(deviation from the baseline scenario in %)</i>	n	n+1	n+2
GDP growth	-0.1	-0.2	-0.2
Total jobs created (thousands)	-3	-28	-62
Household consumption deflator	0.3	0.8	1.2
Net government lending/borrowing (in % points of GDP)	0.0	-0.1	-0.2

(*) \$20 increase in the price of oil per barrel at the beginning of year n, with no change in real interest rates, endogenous reaction of the rest of the world.

NB: With no change in exchange rates, an increase in the price of oil would have an inflationary impact. The resulting increase in consumer prices and decrease in corporate profits would weaken growth.

Table 17 - Impact on France's economy of a 100-basis-point increase in short-term interest rates for two years (*)

<i>(deviation from the baseline scenario in %)</i>	n	n+1	n+2
GDP growth	-0.2	-0.3	-0.1
Total jobs created (thousands)	-10	-36	-45
Household consumption deflator	-0.1	-0.1	-0.2
Net government lending/borrowing (in % points of GDP)	-0.1	-0.2	-0.1

(*) A 100-basis-point increase in euro area short-term interest rates lasting for two years and occurring at the beginning of year n that has an impact on long-term interest rates and on the value of the euro and endogenous reaction of the rest of the world.

NB: An increase in central bank interest rates would hamper growth by restricting business investment and the return on capital. It would promote savings over consumption and lead to a further appreciation of the euro. However, this scenario fails to account fully for the impact of a rise in long-term interest rates that could result, for example, from a change in expectations regarding US monetary policy.

5.2 Comparison to previous programmes

5.2.1 Comparison with the previous Stability Programme

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Table 18 – Comparison with the previous Stability Programme

	2012	2013	2014	2015	2016	2017	
2014-2017 Stability Programme (April 2014)							
Real GDP growth (in %)	0.0	0.3*	1.0	1.7	2 ¼	2 ¼	
Government balance (% of GDP)	-4.9	-4.3	-3.8	-3.0	-2.2	-1.3	
Structural balance (% of potential GDP)	-4.0	-2.9	-2.1	-1.2	-0.8	-¼	
<i>Structural adjustment (% of potential GDP)</i>		1.1	1.1	0.8	0.8	0.5	0.5
Government debt (% of GDP)	90.6	93.5	95.6	95.6	94.2	91.9	
Government debt, excl. support for the euro area (% of GDP)	88.2	90.4	92.4	92.5	91.2	89.0	
2013-2017 Stability Programme (April 2013)							
Real GDP growth (in %)	0.0	0.1	1.2	2.0	2.0	2.0	
Government balance (% of GDP)	-4.8	-3.7	-2.9	-2.0	-1.2	-0.7	
Structural balance (% of potential GDP)	-3.7	-2.0	-1.0	-0.2	0.2	0.5	
<i>Structural adjustment (% of potential GDP)</i>		1.2	1.8	1.0	0.7	0.5	0.2
Government debt (% of GDP)	90.2	93.6	94.3	92.9	90.7	88.2	
Government debt, excl. support for the euro area (% of GDP)	87.8	90.6	91.1	89.8	87.8	85.3	

* Change in quarterly accounts, adjusted for seasonal variations and working days

The structural adjustment in **2013** was smaller than the level set under the 2013 Stability Programme. This difference stems primarily from weak elasticity of 0.2, compared to 0.9 under the previous Stability Programme. To a lesser extent, the structural effort was hampered by falling inflation, which ate into the expenditure savings effort, despite similar growth in nominal terms. On the other hand, the discretionary measures produced less tax and contribution revenue than expected, leading to a smaller structural effort than forecast in the April 2013 Stability Programme. The cyclical component of the balance was virtually the same as in the previous programme. GDP growth was in line with expectations at 0.3%¹² compared to 0.1% in the 2013 Stability Programme. The government balance in nominal terms improved by 0.6 points of GDP, which was less than forecast in the previous programme (1.1 points of GDP).

In 2014, the outlook for growth has been trimmed to 1.0% compared to 1.2% in the previous Stability Programme, but is higher than the previous government forecast of 0.9% growth. The reduction of the government deficit by 0.5 points of GDP from 4.3% of GDP in 2013 to 3.8% in 2014 will be slightly less than the reduction of 0.8 points forecast in the previous Stability Programme. This can be explained by the smaller structural adjustment, despite the larger savings on expenditure. The reduction will be in line with the projections for the 2014 draft budget.

In 2015, the adjustment of 0.8 points of GDP in nominal terms will be smaller than the adjustment of 0.9 points of GDP forecast in the previous Stability Programme. This can be explained by a less favourable economic environment, with real growth of 1.7% instead of 2.0%. However, the structural adjustment will be very similar: the larger savings on expenditure will finance the net cost of the measures in the Responsibility and Solidarity Pact and the added cost of one-off and other temporary measures in 2015 (see Box 3).

In 2016-2017, the aggregate adjustment of 1.7 points of GDP in nominal terms will be greater than the adjustment of 1.3 points forecast in the previous Stability Programme. This will be the result of a greater structural adjustment of 0.5 points of GDP each year and an upwards revision of the cyclical adjustment following the revision of the growth forecast to account for the impact of the Responsibility and Solidarity Pact.

¹² Adjusted for seasonal variations and working days.

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5.2.2 Comparison with the European Commission's 2014 winter public finance forecasts

In its winter forecast published on 25 February 2014 before this Stability Programme was published, the European Commission forecast that France's government deficit would stand at 4.2% of GDP in 2013, 4.0% in 2014 and 3.9% in 2015 under its usual no-policy-change assumption and growth rates very similar to the ones used by the Government in this Stability Programme, namely 0.3% in 2013, 1.0% in 2014 and 1.7% in 2015.

The Commission's deficit forecast is similar to the deficit published by France's national statistics institute (INSEE) for 2013, but more pessimistic than the Government's forecast for 2014. The Commission forecast is for a deficit of 4.0% of GDP in 2014, compared to the Government forecast of 3.8%.

In 2013, despite a deficit forecast that was very close to the actual deficit, the Commission overestimated expenditure growth in nominal terms, forecasting 2.5% compared to 2.0% in the INSEE statistics published on 31 March 2014. This differential between the latest Commission forecast and the outturn has an impact on the excessive deficit procedure. The underspending boosts the savings effort on expenditure, thereby raising the indicators that the Commission uses to assess effective actions on a "bottom-up" basis.

In 2014, the differential between the Commission scenario and the Stability Programme scenario stems from the fact that the Commission's forecasts do not factor in the additional savings recently announced by the Government amounting to €4 billion.

In 2015, the Commission's forecasts are not comparable to the Government's, since the Commission's adjustment path, computed on the basis of a no policy change assumption, does not incorporate all of the effects of the rules in force governing central government and healthcare expenditure, or the Government's announcements of expenditure measures in this Stability Programme, such as the reduction of central government expenditure, the reduction of transfers to local government, the lowering of the national healthcare expenditure growth target, and the delay in the increase of social benefits, other than minimum social benefits, until October 2015. Nor does the Commission's forecast incorporate the impact on revenue of the Responsibility and Solidarity Pact.

Table 19 – Comparison with the European Commission's forecasts

	2012	2013	2014	2015
2014-2017 Stability Programme (April 2014)				
Real GDP growth (in %)	0.0	0.3*	1.0	1.7
Government balance (% of GDP)	-4.9	-4.3	-3.8	-3.0
Structural balance (% of potential GDP)	-4.0	-2.9	-2.1	-1.2
<i>Structural adjustment (% of potential GDP)</i>	<i>1.1</i>	<i>1.1</i>	<i>0.8</i>	<i>0.8</i>
Government debt (% of GDP)	90.6	93.5	95.6	95.6
Government debt, excl. support for the euro area (% of GDP)	88.2	90.4	92.4	92.5
European Commission's winter forecast (February 2014)				
Real GDP growth (in %)	0.0	0.3	1.0	1.7
Government balance (% of GDP)	-4.8	-4.2	-4.0	-3.9
Structural balance (% of potential GDP)	-3.6	-2.8	-2.3	-2.7
<i>Structural adjustment (% of potential GDP)</i>	<i>1.1</i>	<i>0.9</i>	<i>0.5</i>	<i>-0.3</i>
Government debt (% of GDP)	90.2	93.9	96.1	97.3

* Change in quarterly accounts, adjusted for seasonal variations and working days

6. Quality of public finances

6.1 Quality of government expenditure

6.1.1 Ongoing spending review process (MAP)

The ongoing spending review process (MAP) was launched in 2012 and is slated to continue until 2017. The objective is to inform decision-making and assist with the implementation of structural reforms affecting all general government sectors. Based on a consultative and transparent approach, the aim is to increase the efficiency and effectiveness of all public services. This will require public policy assessments (*évaluations de politiques publiques*, EPP) aimed at achieving a common vision of policy issues and objectives. The assessments will cover all public policies during the President's term. This will also require modernisation programmes drawn up by the ministries themselves and designed to identify users' needs and streamline how the government entities are organised and how they operate.

Four meetings of the Interministerial Committee supervising the spending review process (CIMAP) have already been held. They resulted in the launch of 61 public policy assessments, covering more than 30% of public expenditure. Some public policy assessments made it possible to identify needed reforms and substantial savings. The 2014 Initial Budget Act and Social Security Budget Act implemented several of the decisions made on the basis of assessments submitted at the third meeting of the CIMAP:

- **Refocusing economic intervention on four priorities: innovation, industry, investment, and international development.** Business subsidies will be streamlined. The new focus will produce €635 million in savings in 2014 via a lowering of the cap on certain earmarked taxes, reducing their working capital and cutting tax and social expenditure;
- **Thoroughly reforming family policy:** the measures implemented in response to the report produced by the Vice-Chairman of the High Council for the Family, Bertrand Fragonard, will produce gains of **€1.2 billion in 2014, €1.4 billion in 2015 and €1.6 billion in 2016;**
- Reforming the policy that promotes sandwich courses, which will ultimately result in savings of €550 million.

The fourth meeting of the Committee held on 18 December 2013 launched 12 new public policy assessments (see Box 13). They will contribute to the Government's efforts to streamline government expenditure and will help document the reforms that improve efficiency and effectiveness in areas where room for improvement has been identified.

Box 13 – Details about the assessments announced on 18 December at the fourth meeting of the CIMAP

At the meeting of the CIMAP held on 18 December 2013, the Government launched 12 new public policy assessments that cover all areas of public expenditure (central government, local government, social security funds) in line with the previous assessments. The table below lists the highly important subject areas covered. The Government's objective for these assessments is to achieve savings of €3 -€4 billion in 2015-2017.

Ministry	Areas of assessment and objectives
Housing and Regional Equality	<p>Housing policy Streamlining government housing policy tools</p>
Social Affairs and Health	<p>Developing outpatient surgery Increasing the proportion of outpatient procedures without overnight hospital stays to improve patient comfort, to optimise the use of operating theatres and resources and working conditions for staff; target set of more than 50% of surgical procedures on an outpatient basis by 2016.</p>
	<p>Promoting generic drugs Increasing generic drugs' share of the French drug market to one-quarter by 2017. Defining actions aimed at private practitioners and hospital doctors and at patients to increase confidence in generic drugs.</p>
Industrial renewal	<p>Business support and subsidies: streamlining tools and arrangements for businesses Harmonise the support system for businesses throughout the country regardless of their location. Streamlining and refocusing support after the initial assessment.</p> <p>Supervision of businesses: more effective, less burdensome Drawing up a comprehensive list of all supervision of businesses and coordinating, supplementing and improving this supervision to make it more effective.</p>

Ministry	Areas of assessment and objectives
Interior	<p>Organisation of political elections</p> <p>Examining ways and means of moving to a paperless campaign and optimising the management of all election operations, from assistance for candidates to centralisation of election results and post-election operations.</p>
Ecology, Sustainable Development and Energy	<p>Local management of household waste</p> <p>Completing the preparations for the “2014-2020 Waste Plan” announced at the environmental conference.</p> <p>Optimising the financing for this public policy by improving coordination between local and central government and businesses to reduce the policy’s estimated cost of €8 billion (French Government Audit Office, 2011).</p>
Culture and Communication	<p>Developing the proprietary resources of cultural establishments under the central government’s authority</p> <p>Developing dynamic self-funding policies (sponsorships, ticket sales, facilities rentals, trademark licensing, engineering services, etc.) to enable a larger number of cultural establishments to increase their financial autonomy.</p>
Higher Education and Research	<p>Involving universities in life-long learning</p> <p>Identifying the obstacles to universities’ and public higher education institutions’ involvement in life-long learning for workers.</p> <p>Doubling the number of trainees and the revenue from such training in the next five years.</p>
Foreign Affairs and International Development	<p>Improving the coherence, impact and terms of our development assistance in the area of healthcare</p> <p>Assessing the amount of French financing allocated to development assistance in the area of healthcare and its impact.</p> <p>Ensuring the visibility and transparency of France’s financial contribution and striking a balance between bilateral and multilateral assistance.</p>
Justice	<p>Improving user relations from reception to trials</p> <p>Reducing waiting times for the 7 million people who use the justice system each year. Improving working conditions for staff and cutting costs by improving caseload management.</p>

Decentralisation, State Reform and the Civil Service	Pooling local government resources at municipal level Facilitating pooling of resources within intermunicipal cooperation establishments.
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Furthermore, government performance is improving. Efforts to modernise public procurement will produce €910 million in savings in the hospital sector (through the PHARE programme) between 2012 and 2014 and €2 billion in savings for central government and its agencies between 2013 and 2015. Furthermore, the modernisation of central government infrastructure and optimisation of retirement fund support functions will produce efficiency gains for users and generate savings.

At the same time, the **government has drawn up an administrative streamlining programme for 2014, 2015 and 2016 which was presented in July 2013.** The "Tell Us Once" programme (*Dites-le nous une fois*) will reduce the amount of red tape businesses have to deal with. To this end, 17 procedures have already been simplified. For example, since 1 January 2014 more than 100,000 businesses have benefited from the removal of the requirement for them to declare the contribution made to construction ("1% for housing"); the equivalent requirement for farming businesses has also been abolished. Accounting requirements for SMEs have been reduced. Two enabling acts empowering the Government to use a fast-track procedure to cut red tape have already been passed.

A new organisation has been introduced to speed up the streamlining of administrative procedures for businesses. An enabling act empowering the Government to use a fast-track procedure to simplify formalities for businesses was passed in December 2013. An Administrative Streamlining Board co-chaired by the Member of Parliament Thierry Mandon and business leader Guillaume Poitrinal was set up to propose measures to cut red tape. The Board came up with a preliminary set of 50 proposals and submitted a report in April 2014. All of its proposals have been approved by President Hollande and most of these measures will take effect immediately or by 31 December 2014.

The effort to reduce red tape also applies to individuals, through, for example, the extension of the validity of national identity cards from 10 to 15 years or the introduction of paperless tax stamps. **More generally speaking, the Government's objective is to make Internet the main channel of communication for France's citizens by 2016 for all of their administrative needs.**

6.1.2 Public investment evaluation

Budgetary constraints make it all the more necessary to prioritise public investment projects to select those with the best overall cost-benefit ratio. The Government has launched a reform to renovate the system for overseeing public investments, with a special focus on enhancing the role of cost-benefit analyses to optimise the social and economic return on each euro of public funds invested. Article 17 of the 2012-2017 Public Finance Planning Act extends the cost-benefit analysis requirement to all major civilian public investment projects and not just transport sector projects. The same Article requires a second opinion from independent experts on the largest projects.

The decree of 23 December 2013 implementing the Act specifies the contents of the cost-benefit analyses for projects receiving at least €20 million from central government and its public establishments, and requires a prior second opinion from independent experts for projects receiving more than €100 million in public financing and for which public financing accounts for 5% of the total sum invested in the project. The General Commission for Investment (CGI), which answers directly to the Prime Minister, oversees the second-opinion process. The analyses and second opinions are submitted to Parliament. The Government is also working on improving the procedures for examining projects to provide a more clearly defined structure for the stages in the decision-making process.

At the same time as these governance changes are taking place, the General Commission for Strategy and Planning (CGSP) published a report in September 2013 that was drafted by the group chaired by Professor Emile Quinet on "Cost Benefit Assessment of Public Investments"⁸. The report updates and supplements the benchmarks for cost-benefit calculations and improves the analysis methods by drawing on the latest techniques available. More specifically, the report provides guidance for expanding the application of cost-benefit analyses to sectors other than transport, where they are already widely used.

The key role of cost-benefit analyses in the Invest for the Future Programme

The Invest for the Future programme is a two-stage spending scheme designed to ensure high social and economic returns on public investments. The first stage was launched in 2010. The second stage, worth €12 billion, was passed as part of the 2014 Budget Act. It focuses on two strategic objectives: enhancing our competitiveness to create jobs and ensuring the sustainability of our economic development. The €12 billion will be invested starting in 2014.

Projects are examined following a strict cost-benefit analysis methodology and selected using the following process: following calls for projects, panels of top experts select which projects will receive financing. Their selection is based on scientific excellence, profitability and their expected impact on potential growth. Ex ante and ex post evaluation of each

⁸ http://www.strategie.gouv.fr/blog/en/wp-content/uploads/2014/04/CGSP-CALCUL_SOCIOECONOMIQUE_english.pdf

project is planned from the outset. Therefore, the Invest for the Future programme entails the evaluation of the measures implemented. Each project is monitored by the General Commission for Investment, which is responsible for overseeing the Programme. The Commission coordinates the drafting of the specifications for calls for projects and supervises the examination of investment projects. It produces opinions and proposals and oversees analysis of the investments. It also produces an annual report on the execution of the Programme. The bodies responsible for implementing the projects monitor expenditure closely. They are now required to conduct analyses of the scientific, economic, social and environmental effectiveness of the Programme under the oversight of a supervisory committee and in partnership with specialised external teams. The simplicity and speed of all of these procedures will be improved under the second phase of the Programme approved as part of the 2014 Budget Act.

6.1.3 Streamlining healthcare expenditure

Deployment of the national health strategy and the ensuing structural reforms of the healthcare system will produce efficiency gains that make it possible to curb expenditure without jeopardising the quality of care or transferring costs to households or supplementary health insurance.

The strategy relies on using all of the available leverage in three areas:

- Reorganising treatment: the idea is to adapt the patient's entire treatment process by coordinating the actions of healthcare providers. This will start by strengthening primary care. Hospital stays will be reduced as much as possible while ensuring the quality of care by developing outpatient surgical procedures, using alternatives to hospitalisation, providing support for patients returning home, and limiting first-time hospital stays and rehospitalisations.
- Ensuring that drug expenditure is more targeted based on the continuing promotion of generic drugs and prescription thereof, conducting campaigns to promote the correct use of drugs across all healthcare sectors and applying a pricing policy that ensures fair compensation for innovative products.
- Making treatments more effective, mainly by reducing the number of unnecessary treatments and tests.

The strategy will provide support for multi-disciplinary structures with GPs at the centre to coordinate the treatment provided by the various healthcare providers for each patient. The role of the public hospital system will be reaffirmed and will focus on its core function: providing more efficient and more patient-centred care. At the same time, financial obstacles to accessing care will be removed by making supplementary health insurance generally available and by expanding the direct settlement system. These changes will be backed up by renewed research in the field and the promotion of appropriate initial and ongoing professional training. Finally, the use of technological innovations in medicine will be encouraged, including the roll-out of telemedicine for inpatient and outpatient care, and the creation of a public health information service.

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These structural objectives will be broken down into annual targets under the national healthcare expenditure growth target (Ondam). The latest estimates of expenditure covered by the national healthcare expenditure growth target show underspending of €1.4 billion compared to the target set in the 2013 Social Security Budget Act. For the fourth year in a row, the outturn is lower than the initial target.

In view of underspending in 2013 and the early economic data reported at the start of 2014, the target for 2014, which had already factored in underspending of €650 million compared to the original 2013 target, should be met again as announced by the early warning committee on 11 April. Furthermore, the underspending in 2013 will be consolidated to ensure that expenditure growth does not exceed 2.4% in 2014.

The adjustment path for 2015-2017 calls for further progress, with a national healthcare expenditure growth target of 2% on average over the period resulting in additional savings of €3 billion. Compliance with this medium-term adjustment path will rely on continuing efforts in the market for healthcare goods and services. These efforts will be underpinned by improved treatment through increased regulation of care to break down the divisions between private practitioners, hospitals and the healthcare and social service sectors as part of the national health strategy.

6.1.4 Streamlining local government expenditure

In addition to keeping a tighter lid on the growth in local government expenditure (see Section 3.6.5), the Government considers improving the quality of local government finances a priority.

To this end, the President of the Republic assigned Alain Lambert and Martin Malvy, two former ministers who currently hold elective mandates and are members of the Local Finance Committee, the task of making proposals to reform the current local and regional government organisational set-up by identifying "*ways and means of improving control over local government expenditure*". They submitted their findings on 16 April 2014, which included 53 practical proposals⁹ that aim at fully involving local and regional governments in the fiscal consolidation effort as well as improving their organisational set-up.

The streamlining of local government expenditure is already underway, with the reform of local government organisation through the Act on modernising local government and strengthening metropolitan areas. This Act creates a local governance pact for urban areas that is an effective tool for harmonising local government powers. The Act also encourages balanced local development through the creation of clusters in rural areas and small and medium-sized towns. It also encourages the pooling of services at municipal level to curb expenditure.

⁹ *Pour un redressement des finances publiques fondé sur la confiance mutuelle et l'engagement de chacun*, Martin Malvy and Alain Lambert, April 2014 (the French version of the report can be downloaded from: <http://www.elysee.fr/assets/Uploads/Rapport-Lambert-Malvy.pdf>).

The reform of local government will continue with a decentralisation act later this year. Several measures in the Act are bound to produce savings by clarifying the scope of intervention of the different layers of local government and by introducing provisions that will foster associations between them.

In his general policy speech to Parliament, the Prime Minister announced that the €11-billion cut in central government transfers to local government would be accompanied by structural reforms. This will both make the cut sustainable and improve the efficiency of local government expenditure. More specifically, the Prime Minister announced:

- A reform of the general operating transfer starting in 2015 to ensure better distribution of central government transfers;
- The elimination of the *clause générale de compétence*. This means that the regions and *départements* will each have specific powers;
- The launch of local government reform with the aim of streamlining local administrations. The reform will entail halving the number of regions, with a new map to be drawn up by 1 January 2017. The future of the *département* councils will also be debated. The Prime Minister proposed eliminating these councils by 2021. And a new map of intermunicipalities based on community catchment areas will come into effect on 1 January 2018.

6.2 Quality of government revenue

The reduction in the tax burden on labour which began in 2013 will continue until 2017.

The Competitiveness and Employment Tax Credit, which will rise from 4% to 6% in 2014, has lowered the cost of labour. The tax credit has been financed through expenditure savings, changes in VAT rates and the gradual phasing in of green taxation. The Responsibility and Solidarity Pact calls for further labour cost reductions. This will make the overall structure of France's taxes and social security contributions more geared towards promoting growth, improving competitiveness and creating jobs.

Businesses will become more competitive as taxes that weigh heaviest on activity levels are abolished and corporate income tax is cut. Taxes on turnover that do not take into account how much value has been created will gradually be phased out. The turnover tax (IFA), which was inefficient, has been abolished, and the corporate social solidarity contribution (C3S) will be phased out by 2017. The exceptional corporate income tax payment for large corporations will be maintained in 2015 before being abolished in 2016. The standard rate of corporate income tax will be lowered from the current 33.33% to 28% in 2020, with a preliminary cut in 2017. This will enhance France's appeal and continue to reduce the bias in favour of corporate financing through debt which began when deductible loan interest payments were capped. This measure was passed as part of the 2013 Initial Budget Act, with a cap equivalent to 85% of net financial expenses for FY 2013 and 75% for FY 2014. In addition, the tax incentives for business investment have been maintained. The research tax credit has been made a long-term fixture and its computation method has become more flexible (the requirements regarding jobs for young researchers were eased

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and the eligible expenditure was extended to include international industrial property protection). Finally, some minor, complex taxes that generate little revenue will be abolished.

In addition to the measures to promote employment in the Responsibility and Solidarity Pact, the Government reinstated the cost-of-living adjustment of personal income tax rates in 2014, following a two-year stabilisation, **to enhance social justice and support the purchasing power of the least well-off households**. Along similar lines, the Government also increased the tax relief ceiling for low-income taxpayers (under the “*décote*” mechanism) by 5% more than the inflation rate. **As part of the Responsibility and Solidarity Pact, solidarity measures to boost the purchasing power of the least well-off households will total €5 billion by 2017, with €0.5 billion coming into effect in 2014.**

Consumption taxes have been reformed for greater efficiency. The reduction in the gap between the intermediate (raised from 7% to 10%) and standard rate of VAT (raised from 19.6% to 20%) has helped to reduce tax expenditure. The focus of some lower VAT rates, such as for personal services, is now placed on activities that help the most vulnerable individuals. In addition, the environmental slant of the tax system has been strengthened through the introduction of a carbon component in the current energy tax base in accordance with the guidelines established by the Green Tax Committee. This carbon component will gradually be expanded. At the same time, several tax incentives that are harmful for the environment will be reviewed and the base for the general tax on polluting activities (TGAP) has been extended to include seven new air pollutants.

Several tax and social security expenditure schemes have been changed or eliminated to render the system more fair, straightforward and efficient. In addition to narrowing the gap between value-added tax rates, the personal income tax base was broadened to increase tax fairness. In keeping with the recommendations of the Fragonard Report on family benefits, the family deduction was capped at €1,500 instead of €2,000 for each half-unit in the 2014 Initial Budget Act. The income tax exemption on the pension bonus for parents with three or more children has also been abolished, along with the tax exemption on the share of supplementary group health insurance premiums paid by the employer.

Tax governance has been reformed to make the tax system more efficient, simpler and more conducive to growth. Better governance, based on numerical targets, revamped procedures and broad consultation will help establish a more sustainable tax environment:

- A reduction in the least effective tax and social security contribution exemptions will continue beyond 2014, with enhanced governance of tax expenditure programmes under the 2012-2017 Public Finance Planning Act. The Act requires a freeze on tax exemptions in nominal terms (Article 14), a time limit on any new tax or social contribution exemptions (Article 16) and ex-post assessments (Article 18). Consequently, as part of the preparations for the draft budget, the Government introduced a new tax consultation process that entails a joint analysis of the effectiveness and efficiency of each tax expenditure programme in conjunction with the ministries that use these programmes to supplement their budgets to propose any reforms deemed necessary. The 2014 Budget Act has helped abolish a first raft of inconsequential tax expenditure programmes.

- **In January 2014, the previous Government launched consultations on an overhaul of the tax system affecting both households and businesses.** In 2013, the Entrepreneurship Conference resulted in a revamped and stable tax and regulatory framework that facilitates business creation and development to promote jobs through reform of the capital gains tax on securities, the introduction of an SME share savings plan (*PEA-PME*) and an increase in the maximum deposit on share savings plans. This approach was extended to reforms affecting all household and business taxation: two working groups made up of labour and management representatives, experts and elected officials from the majority and the opposition were created. The groups submitted their respective findings at the end of March and the beginning of April. This work was the basis for the Responsibility and Solidarity Pact that was subsequently presented by the current Government.

The fight against tax evasion, which has been a priority for France on the international stage, has been stepped up through the introduction of further measures in the 2014 Initial Budget Act on top of those introduced at the beginning of the President's term. These include important provisions to fight aggressive tax planning, an extension of the VAT self-assessment system to the construction sector and the creation of a rapid response mechanism for large-scale cross-border evasion. A total of more than 60 provisions to step up the fight against tax evasion and avoidance have been introduced since the supplementary draft budget in the third quarter of 2012.

Box 14 – Tax expenditure consultation process

The first **tax expenditure** consultation process took place in 2013. Staff from the Ministry for Finance and from the relevant ministries meet to discuss tax expenditure programmes and earmarked taxes. They also examine proposals to eliminate or change certain tax provisions based on expert analyses. This consultation process has provided an innovative framework for streamlining public policies. It will continue in 2014 and is likely to be extended.

This tax consultation process is part of the framework established by the 31 December 2012 Public Finance Planning Act for 2012-2017. The Act calls for a stabilisation of nominal aggregate tax expenditure, with the exception of the Competitiveness and Employment Tax Credit. The total cost of tax expenditure programmes came to €72 billion in 2012 and this cost is estimated at €70 billion in 2014, excluding the Competitiveness and Employment Tax Credit. The tax consultation process is an opportunity to perform an in-depth examination of the consistency of tax exemption rules and to identify ways of making structural savings. Before meeting, the ministries are invited to take part in an evaluation phase during which they assess the efficiency of tax expenditure programmes within their areas of competence and come up with proposals for reducing their costs.

The process occurs at the same time as the budget consultation process where budget appropriations are negotiated; the aim is to have a harmonised and consistent approach to public expenditure. Consequently, consultations may be based on an aggregate analysis of budget

appropriations and tax expenditure programmes within each ministry's remit, making it possible to identify ways of streamlining the relevant policies in each sector.

In addition to discussing tax expenditure programmes, the 2014 tax consultation process will also be an opportunity to examine earmarked taxes and low-yield taxes that often involve complicated compliance procedures for taxpayers and are expensive for the Treasury to collect. Numerous taxes that generate inadequate revenue or serve no clear purpose will be eliminated in keeping with the findings of the Business Tax Conference and the Prime Minister's announcement. Ways of transforming or pooling inefficient tax measures will also be discussed. This streamlining of earmarked taxes will supplement the initiatives started in 2012 to cap earmarked taxes and reincorporate them into the general budget. The cap introduced in 2012 has been revised and extended. In 2014, it will be applied to 57 earmarked taxes amounting to more than €5 billion in real terms and will now be covered by the rules governing central government expenditure.

The tax consultation process will help ensure a consistent and coordinated approach is taken to steering the public finance adjustment path in terms of both expenditure and revenue. It should help to improve the transparency and efficiency of France's tax system while identifying ways of achieving sustainable savings, thus helping to restore structural equilibrium.

7. Sustainability of public finances

7.1 Sustainability of general government debt

7.1.1 Impact of the ageing population on public finances

Increased life expectancy should lead to a large increase in the proportion of the population over the age of 65. This proportion is expected to climb to over one-quarter of the French population by 2060¹⁰. However, a strong birth rate, improvement in the older worker participation rate and the reforms made so far, have placed France in a strong position to deal with this issue compared to its European partners.

In the short term, the recent economic downturn combined with the wave of baby boomers reaching retirement has put a strain on the financial balance of the pension system. Several pension reforms were introduced ahead of the 2013 reform. They have helped to restore the balance but do not guarantee the schemes' long-term sustainability. Our retirement system is also facing increasing demands for greater fairness.

With this in mind, the government passed a bold pension reform in 2013 with the aim of restoring the financial balance by 2020. In the short and medium term, fiscal efforts that are borne equally by workers, businesses and pensioners will help to address this issue. There are plans to moderately raise employers' and employees' social security contributions, which will be offset to avoid increasing the cost of labour, and to abolish the tax exemption on the pension bonus for parents with three or more children. However, these efforts will not affect the least well-off pensioners. In the long term, the number of years of service required to obtain a full pension will be raised to 43 in 2035, which will help guarantee the sustainability of the system. Raising the contribution period will be one of the measures that will ensure that the actual retirement age keeps on rising as life expectancy increases, with the longevity gains divided between longer working lives and a longer retirement period. At the same time, maintaining the statutory retirement age at 62 means that those who started working when they were very young will not be penalised since the early retirement scheme for long careers was adjusted and extended by the Decree of 2 July 2012 and by the Decree of 19 March 2014.

This reform increases the transparency and improves the governance of the pension system by setting up a Pension Steering Committee (*Comité de suivi des retraites*) with the task of examining the finances of the various pension schemes and ensuring compliance with the solidarity and social justice objectives established for the pension system. The Committee will rely on indicators provided by the Pensions Advisory Council to produce an annual opinion and to issue warnings in the event of any significant deviations from the baseline scenario. The Committee will make recommendations to the Government about the measures to be taken where appropriate. This governance arrangement draws inspiration from the success of the Warning Committee for healthcare expenditure. It will ensure that

¹⁰ Insee Première, "Population projections for 2060: one-third of the population aged over 60", no. 1320, October 2010
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the Government's financial targets for old-age benefits are met, while guaranteeing that pensioners enjoy a satisfactory standard of living.

This reform is also designed to produce a fairer system. The creation of a personal account for employees exposed to harsh working conditions enables them to receive vocational training, work part-time or take early retirement. The reform also aims to reduce gender inequality through improved accounting for maternity leave, plans to overhaul family benefits for pensioners and submission of this issue to the Pension Steering Committee for consideration.

Supplementary schemes in the private sector are also part of the plan to restore the long-term financial balance of the pension system. Labour and management representatives adopted remedial measures as part of the national multisector agreement signed on 13 March 2013. On the expenditure side, this agreement calls for lower cost-of-living adjustments for pensions in 2013, 2014 and 2015. Adjustments are to be one point below the inflation rate in 2014 and 2015, with the stipulation that this rule cannot result in a pension cut. Given the low inflation rate, this rule has resulted in a pension freeze in 2014. On the revenue side, the contribution rate will be raised by 0.1 point on 1 January 2014 and 1 January 2015.

7.1.2 Sustainability gap

A country's public finances are sustainable when it is able to meet its financial obligations without having to cut expenditure or increase revenue in the long-term. A public finance sustainability gap is normally assessed by estimating the immediate and lasting fiscal adjustment (in points of GDP) that would be required to avoid a long-term increase in the government debt-to-GDP ratio, with no change in the structural primary balance (meaning the structural balance excluding interest expenditure). This indicator is the sum of two terms:

- The impact of the initial budget position, which corresponds primarily to the difference between the structural primary balance and the balance that would stabilise debt in the long term.
- The impact of the ageing population on expenditure on pensions, healthcare, long-term care and unemployment benefits starting in 2017 based on a no-policy-change assumption. Work carried out by the Member States and the European Commission produced a harmonised estimate of this impact at the European level¹¹.

With no reduction in the government deficit, meaning a constant structural primary balance from 2013 to 2017, a long-term structural adjustment of 2.5 percentage points of GDP would have to be achieved in 2018 to stabilise debt in the very long term, in view of the expected increase in ageing-related expenditure. The discounted additional cost is estimated at 0.8 points of GDP between 2018 and 2060. The expenditure savings set out in this

¹¹ See European Commission, 2012, "2012 Ageing Report: Economic and budgetary projections for the EU-27 Member States (2010-2060)", European Economy, 2/2012

programme will reduce the necessary adjustment stemming from the initial budget position by nearly 3 points of GDP, leading to a substantial improvement in the sustainability gap indicator to -0.5 points of GDP.

Table 20 - Fiscal sustainability gap indicator S2 (percentage points of GDP)

Base year	2013	2017
Sustainability gap (S2 indicator)	2.5	-0.5
o.w. impact of the initial budget position	1.6	-1.4
o.w. impact of the ageing population (as of 2018)	0.8	0.8

Note:

The 2013 S2 indicator is estimated on the basis of a counterfactual scenario, where the structural primary balance is assumed to be constant for the duration of the Programme (2013-2017) independently of the impact of the ageing population: it corresponds to the long-term fiscal adjustment that would have to be made in 2018 to stabilise the debt-to-GDP ratio in the very long term in view of the impact of the ageing population after 2018;

The 2017 S2 indicator is estimated on the basis of the 2017 structural primary balance expected under this programme. It corresponds to the long-term fiscal adjustment that would have to be made in 2018 to stabilise the debt-to-GDP ratio in the very long term in view of the impact of the ageing population after 2018.

The data on ageing-related expenditure (pensions, healthcare, long-term care, education, unemployment) and expenditure on unemployment benefits underlying the calculation of the S2 indicator are taken from the Fiscal Sustainability Report by the European Commission (January 2013¹²) and factor in the 2013 pension reforms.

Box 15 – Fiscal consolidation measures under the 2014 pension reform

Financial consolidation of the pension system is one of the prime objectives of the Pension Reform Act published in the Official Journal of the French Republic on 21 January 2014. The reform introduces many measures aimed at ensuring a rapid return to financial equilibrium for the pension system, as well as guaranteeing its medium and long-term sustainability.

In the short term, pension reform will make it possible to bring the pension system back into equilibrium by 2020. This rapid return to equilibrium relies on an effort to increase resources that is shared equally by all economic agents. Employees' and employers' pension contribution rates will both be raised gradually by 0.3 points between 2013 and 2017, while pensioners will also have to share in the effort through the taxation of the pension bonus for the parents of three or more children and postponement pension increases from April to October. These measures will produce an aggregate reduction of €4.1 billion in the old-age pension system deficit as of 2014 and €8.1 billion in 2020. This means basic pension schemes will achieve financial balance by 2020. However, the increase in employers' pension contributions does not call into question the Government's policy of reducing the cost of labour. The increase in 2014 will be fully offset by an identical reduction in family contributions.

¹² See European Commission, 2012, "Fiscal Sustainability Report 2012," European Economy, No. 8/2012
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After 2020, the financing effort will be based on a structural measure increasing the contribution period required to receive a full pension. Longer life expectancy makes it necessary to work longer to ensure the sustainability of the pension system. Therefore, the reform calls for the full-pension contribution period to be increased by one-quarter every three generations, until it reaches 43 in 2035. This increase will affect everyone in the pension system. It should help improve the balance of basic pension schemes by €5.4bn in 2030 and by €10.4bn in 2040. This improvement, along with the short-term measures, ensures the equilibrium of pension schemes until 2040. After 2040, relatively strong population growth will ensure the long-term sustainability of the system.

All in all, the adjustment effort will be evenly divided between reducing expenditure and increasing revenue. In 2040, nearly half of the planned €21.6bn in consolidation measures will be paid for through savings on expenditure.

Table 21 – Impact of the 2013 reform on all pension schemes

Amounts in constant 2011 euros (billions)	2014	2020	2030	2040
Impact of consolidation measures	4.1	8.1	15.0	21.6
Effort by pensioners	2.0	3.2	3.7	4.2
o.w. postponement of pension increases until 1 October	0.5	1.9	2.2	2.6
o.w. taxation of the 10% pension bonus	1.2	1.3	1.5	1.7
Increase in employees' social security contributions*	1.1	2.3	2.8	3.4
Increase in employers' social security contributions*	1.1	2.3	2.8	3.4
Savings on management costs	0.0	0.2	0.3	0.3
Increase in the contribution period after 2020	0.0	0.0	5.4	10.4

* Public-sector and private-sector pensions

7.2 Contingent liabilities

General government off-balance sheet liabilities cannot be evaluated with certainty and depend on future developments. If a given event occurs, the central government's liability may be invoked. These liabilities may eventually affect public finances. Therefore, they are very closely monitored by the Government and Parliament. More specifically, central government off-balance sheet liabilities are described in detail in the central government's General Financial Statement that is published each year. This financial statement is certified by the French Government Audit Office. The main general government off-balance sheet liabilities are:

- liabilities for future ageing-related expenditure (pensions, healthcare, long-term care, education), where valuations depend on the demographic and macroeconomic outlook. The impact of these liabilities on the sustainability of debt is measured by calculating a sustainability gap indicator (see Section 7.1.2).
- contingent liabilities are liabilities that may or may not have to be paid, depending on future events. In most cases, these relate to guarantees provided by the central government and to a lesser extent by local government.

Central government guarantees cover a wide range of actions to sustain or preserve economic activity or to provide financing for certain economic agents when market financing

is inadequate. These guarantees are given under clear-cut agreements and they include central government loan guarantees, guarantees related to general interest functions (insurance mechanisms operated through the central reinsurance fund, export loan guarantees through COFACE, guarantees to protect savings, etc.), liability guarantees (e.g. for France's share of ESM callable capital) and central government financial commitments for co-financing projects and providing development assistance. Generally speaking, the risk of such guarantees being invoked is small. Furthermore, no new central government guarantees can be given other than in a Budget Act, as stipulated in the Constitutional Bylaw on Budget Acts. This rule was introduced to reduce the use of such guarantees.

At the end of 2012, the aggregate outstanding central government guarantees under clear-cut agreements, meaning all central government loan guarantees, came to €163 billion¹³ compared to €124 billion in 2011. The reduction in the guaranteed amounts for debt issuance by SFEF (*Société de financement de l'économie française*) from €53 billion in 2011 to €24 billion in 2012 was more than offset by the increase in guarantees given to the EFSF (European Financial Stability Facility) which rose from €7 billion in 2011 to €58 billion in 2012, to the unemployment insurance scheme (Unedic), which increased from €2 billion in 2011 to €10 billion in 2012, and to Dexia, which rose from €17 billion in 2011 to €27 billion in 2012. It should be noted that the debt of the unemployment insurance scheme, which is part of general government, is already included in Maastricht debt. Furthermore, following a decision by Eurostat on 27 January 2011, the funds that the EFSF lends to Member States in difficulty are recognised directly as part of the Maastricht debt of the Member States providing the guarantees, in proportion to the amount provided.

In 2013, the main new central government loan guarantees or amendments to central government guarantees concerned the CIF group. The central government signed a memorandum of understanding with various entities in the CIF group on 27 November 2013 implementing a final guarantee for the group covering €5.6 billion in domestic debt and €6.6 billion in external debt. The outstanding loan amounts guaranteed for Dexia come to €33.6 billion, and those for Banque PSA Finance stood at €1.2 billion.

The use of this type of guarantee has increased since the crisis, particularly in developed economies, but without necessarily being a long-term arrangement. It requires the central government to be more vigilant about risks that could be transferred to the public sector. The fiscal risks that the central government incurs through these guarantees, which serve a general interest purpose, must be assessed beforehand and be subject to ongoing monitoring and control.

France does this in three ways:

First, through a decision-making process, where, under the terms of Article 34 of the Constitutional Bylaw on Budget Acts, **Parliament's authorisation must be obtained in the Budget Act for any new guarantee scheme**. The legislation must include a precise definition of the guarantee scheme being created. When seeking authorisation from Parliament, the risks incurred must be described exactly, and, according to Constitutional Council precedent, such

¹³ Source: 2012 central government financial statements
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authorisation is not valid unless there is a guarantee limit or a mechanism to maintain financial control of the scheme. The preliminary assessments are very detailed and public information. Such vigilance and transparency is rarely matched by our OECD partners.

Secondly, in conjunction with the other entities concerned during the budget-making process, **off-balance sheet liabilities are subject to centralised fiscal monitoring** at least twice a year to assess the risk of the guarantees being invoked. In addition, more specific information, which is also public, is provided as part of the various draft budgets, along with many reports on specific topics submitted to the Finance Committees of both chambers of Parliament. Some of the reports are required under the terms of the Budget Act that establishes the guarantee scheme concerned.

Thirdly, the **notes to the Central Government Financial Statements on Central Government Liabilities** provide a comprehensive inventory of guarantees given and other off-balance sheet liabilities incurred by the Ministry for Finance in conjunction with the other ministries concerned.

This inventory gives France a major advantage in terms of the materiality of its accounting compared to its partners. This accounting item is audited annually by the French Government Audit Office, which highlighted the improved quality of the accounting of this item in its audit report on the 2012 central government financial statements published in May 2013. The Parliament also monitors this item periodically. Accordingly, the Senate Finance Committee held a hearing on the central government's off-balance sheet liabilities on 15 May 2013. Minutes of the proceedings were posted on the Senate website.

7.3 Ongoing structural reforms

As the **National Reform Programme** explains in detail, the Government is determined to continue with its bold reforms to promote a stronger, more balanced and more inclusive growth. The Responsibility and Solidarity Pact announced by President Hollande is the keystone of the Government's strategy which aims to support jobs and competitiveness through social dialogue and consultations with all stakeholders. The Pact also includes solidarity measures to foster greater social justice. These measures are designed to support the purchasing power of the least well-off households.

With the main objective of reducing unemployment, the French economic strategy is built on three pillars:

- **(i) fiscal consolidation:** the Government intends to continue reducing structural deficits, with the priority on expenditure savings against the backdrop of radically overhauled governance, a pension reform that reinforces the long-term sustainability of the system and a reorganisation of local government structures;
- **(ii) making businesses competitive again:** the Government intends to make French businesses competitive again on international markets and make France a more attractive investment destination through the continued reduction of labour costs

and taxes under the Responsibility and Solidarity Pact, red-tape cutting and support for innovation;

- **(iii) labour market reform, boosting the purchasing power of the least well-off households and reducing inequality:** the Government is continuing its action to boost employment and reduce labour market segmentation in consultation with labour and management representatives, through major structural reforms to improve employment security (unemployment insurance, training) and to increase companies' ability to adapt to economic shocks, along with measures targeted to benefit the most vulnerable population groups, such as young people and older workers. The first way to improve purchasing power is through growth and employment. But the Government is also implementing targeted policies to raise the purchasing power of the lowest incomes, reduce inequality and fight social exclusion and poverty.

These reforms should improve the growth potential of France's economy in the medium term, thereby reinforcing the sustainability of public finances.

8. Institutional aspects and fiscal governance

8.1 New fiscal governance structure fully in place

In 2012, France brought its national law into compliance with the Treaty on Stability, Coordination and Governance (TSCG, which entered into force on 1 January 2013) by adopting the Constitutional Bylaw 2012-1403 of 17 December 2012 on public finance planning and governance. In so doing, France also made preparations for the adoption of Regulation No 473/2013 of 21 May 2013, which is part of the "Two-Pack"¹⁴, when it was still being discussed. This Regulation entered into force on 30 May 2013.

The Constitutional Bylaw has reinforced several aspects of fiscal governance. It confirms the central role now played by the notions of structural balance and structural efforts, which reflect the size of the adjustment made more accurately than nominal targets while avoiding the pro-cyclical bias of headline balance targets. It also provides a constitutional framework for **public finance management based on a multiyear adjustment path in accordance with the provisions introduced as part of the 2008 constitutional reform. Consequently, the contents of public finance planning acts** are defined by law. The acts define a path for annual headline balances and structural balances over several years, along with guidelines to achieve the medium-term budgetary objective defined in the TSCG which sets the lower limit for the structural deficit at 0.5% of GDP. The Public Finance Planning Acts set the expenditure ceilings for central government general budget items and the national healthcare

¹⁴ The term "Two-Pack" commonly refers to two Regulations intended to improve and strengthen economic governance in the euro area. One of the Regulations deals with strengthening the monitoring and assessment of the draft budgetary plans of euro area Member States and, more specifically, those that are subject to an excessive deficit procedure (Regulation No 473/2013 of 21 May 2013). The other Regulation in the Two-Pack strengthens economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (Regulation No 472/2013 of 21 May 2013).

expenditure growth target (Ondam). In addition, the Constitutional Bylaw enhances the information provided to Parliament: budget acts¹⁵ now include an introductory article that presents the structural balance and the headline balance for the general government. This introductory article makes it possible to steer public finances at the general government level during Parliamentary debates.

The Constitutional Bylaw of 17 December 2012 also introduced institutional changes by founding the High Council on Public Finances which was officially inaugurated on 21 March 2013. This Council meets the TSCG requirements and the guidelines set out in the Communication from the Commission of 20 June 2012 on the common principles on national fiscal correction mechanisms. The Council is an independent body that:

- gives its opinion on the macroeconomic forecasts underpinning the proposed budget acts and the Stability Programme;
- gives its opinion on the macroeconomic forecasts and potential gross domestic product estimate underpinning the draft Public Finance Planning Act, and assesses the consistency of the planned programme with France's medium-term objective and European commitments;
- assesses the consistency of the introductory article, which must now be included in budget acts, with the multiyear projections of the structural balance set out in the Public Finance Planning Act;
- identifies potential deviation of the budget outturn from the multiyear forecast during the debate on the draft Budget Review Act. Where appropriate, the High Council states whether there are any "exceptional circumstances" that could justify the deviation.

The decisions of the High Council on Public Finances are made public in an opinion attached to the relevant draft legislation.

The High Council handed down its first opinion in April 2013 on the macroeconomic forecasts underpinning the 2013-2017 Stability Programme. It then gave its opinion on the 2012 draft Budget Review Act, confirming that there was no major deviation between the outturn and the multiyear forecasts in the Public Finance Planning Act. In its opinion on the draft budget and draft social security budget for 2014, the High Council found that the underlying growth forecast was plausible. More recently, the High Council on Public Finances issued its opinion on the 2013 draft Supplementary Budget, finding that the Government's growth forecast was realistic.

The High Council on Public Finances emphasised the quality of its interaction with government bodies, as in the example of its opinion on the draft budget and draft Social Security budget for 2014. In the same opinion, it also stated that it had received satisfactory responses to its requests for further information.

¹⁵ The Initial Budget Acts and Supplementary Budget Acts, the Supplementary Social Security Budget Act and the Budget Review Act. The Social Security Budget Act does not include an introductory article because it is debated and adopted at the same time as the Budget Act.

The creation of this new body now provides Parliament and outside observers with an independent assessment of the Government's macroeconomic and public finance forecasts. This outside expertise contributes to the transparency of budget acts, which nourish the democratic debate. Furthermore, the Constitutional Council indicated that it would use the opinions of the High Council on Public Finances to assess the constitutionality of draft budget acts, particularly with regard to their probity. The Constitutional Council's intention, as expressed in its decision on the Treaty for Stability, Coordination and Governance (Decision 2012-653 DC of 9 August 2012), was confirmed in its decision on the Constitutional Bylaw on Public Finance Planning and Governance (Decision 2012-658 DC of 13 December 2012). The Constitutional Council put this doctrine into practice for the 2014 Social Security Budget Act (Decision 2013-682 DC of 19 December 2013). It rejected the complaints about the probity of the Social Security Budget Act on the basis of the opinion issued by the High Council on Public Finances on 20 September 2013.

In accordance with other provisions in the Two-Pack and with its own national legislation, France has also enhanced the contents of the Economic, Social and Financial Report. This report now includes detailed data about changes in taxes and government spending. France also complies with the stricter requirements for economic and budgetary reporting to the Commission and to the Council. Consequently, in 2013, the Economic, Social and Financial Report appended to the 2014 draft budget should be taken as the "draft budgetary plan", the report on effective action taken in response to the Recommendation of June 2013 issued under the excessive deficit procedure as well as for the "economic partnership programme". This Stability Programme also should be taken as the interim report on in-year budget execution required under Article 10 of Regulation (EU) 473/2013.

8.2 Continuing reform of European fiscal governance – the Two-Pack

Two Regulations, referred to as the "**Two-Pack**" and dealing with budgetary surveillance of the euro area Member States, came into force on 30 May 2013. These Regulations supplement the new economic and budgetary governance² introduced by the "Six-Pack" in 2011 and the Treaty on Stability, Coordination and Governance (TSCG) in 2012.

Regulation No 472/2013 strengthens economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability. More specifically, it codifies into EU law the rules applying to Member States receiving financial assistance under a macroeconomic adjustment programme, as is the case for Greece, Portugal and Cyprus at this time, and provides for enhanced surveillance of countries experiencing or threatened with serious financial difficulties. It also introduces a new post-programme surveillance arrangement that is now applied to Ireland and Spain, which exited their programmes in December 2013 and January 2014. **Consequently, the first Regulation in the "Two-Pack" does not apply to France.**

Regulation No 473/2013 strengthens budgetary coordination and surveillance for all Member States in the euro area. Therefore, it applies to France in particular and its provisions include:

- **A common budgetary timeline for all euro area Member States** with publication of a national medium-term fiscal plan (Stability Programme for France) by 30 April, publication of a draft budgetary plan for the forthcoming year (Economic, Social and Financial Report appended to the draft budget for France) by 15 October and adoption of the forthcoming year's budget by 31 December;
- Stronger budgetary coordination in the euro area through **ex-ante monitoring of national budgets by European institutions** based on this common budgetary timeline. The Commission now issues an opinion on the euro area Member States' draft budgetary plans by 30 November, which leaves enough time to take its opinions into account before the plans are adopted at national level. The Commission's opinions are not legally binding, but failure to comply could lead to an acceleration of the excessive deficit procedure, where appropriate. In its opinion of 15 November 2013, **the Commission assessed that France's draft budgetary plan was compliant with the rules of the Stability and Growth Pact**, but with no margin. On the other hand, the Commission assessed that the draft budgetary plans of five countries¹⁶ presented non-compliance risks and called upon those countries to take the necessary measures. These conclusions were endorsed by the Eurogroup meeting on 22 November 2013, which concluded that the pace of fiscal consolidation in the euro area was satisfactory. The Eurogroup also committed itself to making regular assessments of the relevance of the fiscal consolidation strategy in the euro area in relation to the macroeconomic situation. Furthermore, the Regulation gives the Commission the possibility of requesting that a Member State revise its draft budgetary plan within two weeks if it identifies particularly serious non-compliance with the rules of the Stability and Growth Pact. No such requests were made to any Member State in 2013.
- A requirement for euro area Member States **to report on their national debt issuance plans to the Commission and the Eurogroup.**
- A requirement for **the establishment of independent bodies** with responsibility for (i) producing or endorsing the macroeconomic forecasts underpinning Stability Programmes or draft budgets and (ii) ensuring compliance with the budgetary rules, including the rule instituting the correction mechanism provided for under the terms of the TSCG. In France, the High Council on Public Finances (HCPF) has the task of issuing an opinion identifying any major deviations from the adjustment path defined in the Public Finance Planning Act that could trigger the correction mechanism, barring exceptional circumstances. The High Council also issues an opinion about the plausibility of the macroeconomic forecasts that the Constitutional Council uses to assess the probity of the Budget Acts (see the Decision of 13 December 2012 on the Constitutional Bylaw on public finance planning and governance, along with the Constitutional Council's opinion of 19 December 2013 on the 2014 Social Security Budget Act). In the case of the 2014 draft budget, **the HCPF's opinion of 20 September 2013 found that the growth forecasts were plausible.**

¹⁶ Spain, Italy, Luxembourg, Malta and Finland

- Reinforced **surveillance of Member States subject to an excessive deficit procedure**
 - Member States that are subject to a recommendation under the excessive deficit procedure must present an **economic partnership programme** to the Commission and to the Council. The programme describes the structural reforms that the Member State plans to take to ensure an effective and lasting correction of the excessive deficit. France, which was subject to a new recommendation in June, presented its economic partnership programme as part of the Economic, Social and Financial Report on 1 October.
 - **The Commission may request closer monitoring**, which consists of six-monthly or quarterly reports (depending on the stage of the excessive deficit procedure) on the measures adopted or planned to correct the excessive deficit, as well as on in-year budget execution. For France, this six-monthly report corresponds precisely to this Stability Programme and the Economic, Social and Financial Report. For Member States subject to an excessive deficit procedure, the Commission may also request an **independent audit of the public accounts of all general government sub-sectors**.
 - **The Commission also has the power to issue warnings of its own accord**. If it identifies a risk of non-compliance with the deadline recommended by the Council to correct the excessive deficit, the Commission may address a public recommendation to the Member State to initiate corrective measures. **On 5 March 2014**, based on its own forecasts made in February 2014 which show France's government balance deviating from the targets set in the Recommendation of June 2013, **the Commission issued a recommendation to France of its own accord**. It issued a similar recommendation to Slovenia. Compliance with the June 2013 recommendation is guaranteed by the consolidation measures introduced since May 2012. These measures, which include the supplementary adjustment effort presented in the draft Supplementary Budget, mean that France will comply with the adjustment path recommended by the Council (see Section 4.1).

8.3 Statistical governance

France's national statistics institute (INSEE) is responsible for publishing the national accounts, which include the main public finance aggregates in the national accounts. Until now, France's national accounts have been prepared in compliance with the European System of Accounts ESA 95, implemented as "base 2005" in French accounts. INSEE maintains regular contact with Eurostat to ensure compliance. This year, INSEE is rebasing the accounts to incorporate the new rules stemming from the switch to ESA 2010. Consequently, INSEE will present ESA 2010 accounts with 2010 as the base year in its May 2014 publication. However, the data reported on 31 March 2014 and in this Stability Programme are still reported under ESA 95 but incorporate the changes in scope and

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methodology for the 2010 base that are not related to the new ESA. The first report under ESA 2010 will be published at the end of September 2014.

The **semi-final and final** general government accounts, published with lags of two years and three years respectively, are compiled on the basis of detailed accounting information. The main information source for the central government is the budget outturn, supplemented by the central government's financial statements published by the Public Finances Directorate General. Restating the budget outturn as government net lending requires a series of adjustments to correct for some time lags and for the difference in treatment of certain transactions in budgetary accounting and in the national accounting system. Putting together the "Other central government bodies" account, which mainly covers central government agencies, involves posting adjustment entries in each of the agencies' individual accounts to convert them to comply with the national accounting system. Local government sector data (APUL) are taken from the individual management accounts kept by Treasury accountants. The accounts of the social security funds (ASSO) are compiled from the accounts of the various funds, public hospitals and private hospitals providing public healthcare services, the unemployment insurance agency (UNEDIC) and Pôle Emploi, France's public employment service agency, along with the supplementary retirement scheme management bodies (such as AGIRC and ARRCO).

The data available for the **provisional** general government account, published three months after the end of the year, are not as exhaustive. The central government's budget cycle ends in mid-January of the following year and the central government's public accounts are closed towards the middle of March of the following year. Consequently, the data published on 31 March of the following year are virtually final and any minor revisions made later relate primarily to the adjustments required to bring them into line with the national accounts. The agencies' accounting data comprises approximately two-thirds of revenue and expenditure, with the remainder made up of forecasts. The favoured sources for local government are the data reported in the central government's accounting documents and direct, comprehensive and centralised data for the regions, *départements* and virtually all municipalities. For the 31 March publication, the social security funds' accounts are partially based on estimates as the financial statements not available on that date. Nevertheless, a large number of provisional data (e.g. from the general social security funds, unemployment insurance benefits, public hospitals, etc.) are used. The provisional accounts are therefore a reasonably accurate estimate of the general government balance and adjustments for the final accounts tend to be fairly minor¹⁷.

Government debt under the Maastricht definition is compiled using accounting data from the large majority of the general government sub-sectors, including for the provisional accounts. The debt of general government sub-sectors is consolidated based on the "securities survey" conducted by the Banque de France and the information that the Public Finances Directorate General gathers directly from the main holders of government securities.

¹⁷ France is one of the European Union countries that make the fewest revisions to their general government balance after the first release. (See European Commission survey: "How reliable are the statistics for the Stability and Growth Pact?" L.G. Mora and J.N. Martins, Economic Papers No. 273, February 2007, European Commission).

The transfer of the accounting data to INSEE is governed by an agreement between INSEE and the Public Finances Directorate General.

France's Parliament adopted the Economic Modernisation Act in July 2008. Article 144 of this Act enshrines the professional independence of government statisticians, thus ensuring the **independence of statistical output and government statisticians**. The enshrinement of this principle into law was a response to the European Statistics Code of Practice adopted by the Statistical System Committee on 24 February 2005 and reiterated in the European Commission Recommendation of 25 May 2005 on the independence, integrity and accountability of national and Community statistical authorities, which was revised in September 2011. The Code's first principle on professional independence states that the independence of the statistical authorities in producing and disseminating public statistics must be specified in law. To this end, Article 144 created a Public Statistics Authority responsible for ensuring compliance with the European Statistics Code of Practice. It covers all entities producing public statistics.

8.4 Status of this Stability Programme under internal procedures

Stability Programmes are debated and voted on by Parliament by virtue of Article 14 of the 2011-2014 Public Finance Planning Act of 28 December 2010. This Article, which was not abrogated by the 2012-2017 Public Finance Planning Act of 31 December 2012, stipulates: "The Government shall send the draft Stability Programme to the Parliament at least two weeks before it is sent to the European Commission for the purposes of Article 121 of the Treaty on the Functioning of the European Union. The Parliament shall debate the draft programme and vote on it".

In compliance with the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, the High Council on Public Finances (HCPF) was instituted by the Constitutional Bylaw of 17 December 2012 on public finance planning and governance. Article 17 of the Constitutional Bylaw stipulates that the HCPF shall issue an opinion on the macroeconomic forecasts underpinning this Stability Programme. "The Government shall refer the macroeconomic forecasts underpinning the Stability Programme drawn up for the purposes of coordinating the economic policies of the Member States of the European Union to the High Council on Public Finances, which shall issue its opinion at least two weeks before the deadline for submitting the Stability Programme to the Council of the European Union and to the European Commission. This opinion shall be attached to the Stability Programme when it is submitted."

The High Council on Public Finances (HCPF) will adopt its opinion on the macroeconomic forecasts relating to the Stability Programme for 2014 to 2017 on Wednesday, 23 April 2014. This opinion will be attached to the Stability Programme when it is submitted to the Council of the European Union and to the European Commission on 7 May 2014.

9. Notes on methodology and statistical tables

9.1 Statistical appendix

Table 1a. Macroeconomic prospects

	ESA code	2012	2013	2013*	2014	2015	2016	2017
		Level in €bn	Rate of change	Rate of change	Rate of change	Rate of change	Rate of change	Rate of change
1. Real GDP	B1 ^g		0.0	0.2	1.0	1.7	2 ¹⁴	2 ¹⁴
2. Nominal GDP	B1 ^g	2,032.3	1.5	1.4	2.2	3.2	3.9	3.9
Components of real GDP								
3. Private consumption expenditure	P.3	1,172.3	0.4	0.8	0.8	1.6	2.2	2.2
4. Government consumption expenditure	P.3	502.7	1.4	1.8	0.4	0.8	0.1	0.5
5. Gross fixed capital formation	P.51	401.8	-1.2	-2.1	0.2	1.3	3.3	3.4
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52+P.53	0.5	-	-	-	-	-	-
7. Exports of goods and services	P.6	557.6	2.4	0.8	3.4	4.7	6.9	6.9
8. Imports of goods and services	P.7	602.6	-1.1	0.8	3.1	4.1	5.7	5.7
Contributions to real GDP growth								
9. Final domestic demand excluding inventories		-	-0.1	0.2	0.6	1.4	1.9	2.0
10. Changes in inventories and net acquisition of valuables	P.52+P.53	-	-0.9	0.1	0.3	0.2	0.0	0.0
11. External balance of goods and services	B.11	-	1.0	0.0	0.0	0.1	0.3	0.3

*Seasonally and working-day adjusted data taken from the quarterly accounts (March 2014) apart from GDP which corresponds to the March 2014 publication. 2013 GDP growth based on seasonally and working-day adjusted data stands at 0.3% according to INSEE data for Q4-2013.

Table 1b. Price developments

	ESA code	2012	2012	2013*	2014	2015	2016	2017
		Level	Rate of change	Rate of change	Rate of change	Rate of change	Rate of change	Rate of change
1. GDP deflator			1.5	1.1	1.2	1.5	1.7	1.7
2. Private consumption deflator			1.8	0.6	1.1	1.5	1.7	1.7
3. HICP			2.0	0.9	1.2	1.5	1.75	1.75
4. Public consumption deflator			1.2	0.4	0.5	0.7	0.9	0.9
5. Investment deflator			1.7	0.5	0.9	1.9	2.1	2.1
6. Export price deflator (goods and services)			1.2	-0.1	0.0	0.8	1.5	1.5
7. Import price deflator (goods and services)			1.9	-0.8	-0.5	0.6	1.5	1.5

*Seasonally and working-day adjusted data taken from the quarterly accounts, March 2014

Table 1c. Labour market developments

	ESA code	2012	2012	2013	2014	2015	2016	2017
		Level	Rate of change	Rate of change	Rate of change	Rate of change	Rate of change	Rate of change
1. Employment, persons¹		26,956	0.0	-0.2	0.6	0.7	0.9	0.9
2. Employment, hours worked²								
3. Unemployment rate (%)³								
4. Labour productivity, persons⁴			0.0	0.4	0.4	1.0	1.3	1.3
5. Labour productivity, hours worked⁵								
6. Compensation of employees (including employers' contributions)	D.1	1,097.4	2.1	1.4	2.1	2.5	3.3	3.7
7. Compensation per employee (including employers' contributions)			2.1	1.7	1.5	1.8		

1 Occupied population in thousands, national accounts definition

2 National accounts definition

3 ILO concept

4 Real GDP per person employed

5 Real GDP per hour worked

Table 1d. Sectoral balances

as a % of GDP	ESA code	2012	2013	2014	2015	2016	2017
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-2.2	-1.6	-1.4	-1.2	-0.9	-0.5
o/w. Balance on goods and services		-2.2	-2.0	-1.7	-1.5	-1.2	-0.9
o/w. Balance of primary incomes and transfers		0.1	0.4	0.3	0.3	0.3	0.3
o/w. Capital account		-0.1	0.0	0.0	0.0	0.0	0.0
2. Net lending/borrowing of the private sector	B.9						

3. Net lending/borrowing of general government	EDP B.9						
4. Statistical discrepancy							

Table 2a. General government budgetary prospects

	ESA code	2013	2013	2014	2015	2016	2017
		Level in €bn	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending/borrowing (EDP B9) per sub-sector							
1. General government	\$ 13	-87.6	-4.3	-3.8	-3.0	-2.2	-1.3
2. Central government	\$ 1311	-65.9	-3.2	-3.1	-3.1	-2.7	-2.1
3. State government	\$ 1312						
4. Local government	\$ 1313	-9.2	-0.4	-0.4	-0.2	-0.2	-0.2
5. Social security funds	\$ 1314	-12.5	-0.6	-0.2	0.3	0.6	1.0
General government (5.13)							
6. Total revenue	TR	1,087.9	52.8	52.9	52.6	52.4	52.2
7. Total expenditure	TE ¹	1,175.5	57.1	56.6	55.6	54.5	53.5
8. Net lending/borrowing	EDP B.9	-87.6	-4.3	-3.8	-3.0	-2.2	-1.3
9. Interest expenditure	EDP D.41	47.2	2.3	2.4	2.5	2.6	2.7
10. Primary balance²		40.4	-1.9	-1.4	-0.5	0.4	1.4
11. One-off and other temporary measures³		-0.3	0.0	0.0	-0.1	-0.1	0.0
Selected components of revenue							
12. Total taxes (12a+12b+12c)		590.8	28.7	28.6	28.6	28.6	28.5
12a. Taxes on production and imports	D.2	325.0	15.8	16.1	16.2	16.2	16.1
12b. Current taxes on income, wealth etc.	D.5	255.3	12.4	12.0	11.9	11.9	11.9
12c. Capital taxes	D.91	10.5	0.5	0.5	0.5	0.5	0.5
13. Social contributions	D.61	398.9	19.4	19.5	19.1	18.9	18.9
14. Property income	D.4	13.7	0.7	0.7	0.7	0.8	0.8
15. Other⁴		84.5	4.1	4.1	4.2	4.1	4.1
16=6. Total revenue	TR	1,087.9	52.8	52.9	52.6	52.4	52.2
NB: tax burden (B.2+ D.5+ D.61- D.612+ D.91- D.995)		945.2	45.9	45.9	45.6	45.4	45.3
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1+P.2	391.2	19.0	18.7	18.4	17.8	17.4
17a. Compensation of employees	D.1	273.3	13.3	13.2	12.9	12.5	12.2
17b. Intermediate consumption (including financial intermediation)	P.2	117.9	5.7	5.5	5.5	5.3	5.2
18. Social payments⁵ (18a-18c+18b)		541.9	26.3	26.2	25.8	25.5	25.1
of which unemployment benefits		30.3	1.5	1.4	1.4	1.3	1.2
18a. Social transfers in kind supplied via market producers	D.6311 D.63121 D.63131	124.1	6.0	6.0	6.0	5.9	5.8
18b. Social transfers other than in kind	D.62	417.8	20.3	20.2	19.8	19.6	19.3
19=9. Interest expenditure	EDP D.41	47.2	2.3	2.4	2.5	2.6	2.7
20. Subsidies	D.3	30.6	1.5	1.5	1.5	1.5	1.5
21. Gross fixed capital formation	P.51	65.0	3.2	3.1	2.8	2.7	2.6
22. Capital transfers	D.9	14.8	0.7	0.7	0.7	0.7	0.6
23. Other⁷ (23=24-17-18-19-20-21-22)		84.9	4.1	4.1	4.0	3.9	3.6
24=7. Total expenditure	TE ¹	1,175.5	57.1	56.6	55.6	54.5	53.5
NB: government consumption (nominal)	P.3						

1 Adjusted for net flow of swap-related flows, so that TR-TE=EDP B.9.

2 The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

3 A plus sign means deficit-reducing one-off measures.

4 P.11+P.12+P.131+D.39+D.74+D.9

5 Including those collected by the European Union and including an adjustment for uncollected taxes and social contributions (D.995).

6 Includes cash benefits (D.621 and D.624) and in kind benefits (D.631) related to unemployment benefits.

7 D.29+D.4+D.41+D.5+D.7+P.52+K.2+D.8

* Excluding taxes collected by the European Union

NB: In the table, expenditure and revenue are presented in EDP format which differs slightly from national accounting due to the treatment of swap-related gains and losses

Table 2b. No-policy change projections

	2013	2013	2014	2015	2016	2017
	Level in €bn	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Total revenues with at unchanged policy	1,087.9	52.8	52.9	52.9	53.0	53.1
2. Total expenditure at unchanged policies	1,175.5	57.1	56.8	56.1	55.4	54.7

Table 2c. Amounts to be excluded from the spending expenditure benchmark

	2013	2013	2014	2015	2016	2017
	Level in €bn	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue						
2. Cyclical unemployment benefit expenditure	2.8	0.1	0.2	0.1	0.1	0.1
3. Effect of discretionary revenue measures	29.4	1.4	0.1	-0.3	-0.2	-0.1
4. Revenue increases mandated by law						

Table 3. General government expenditure by function

% of GDP	COFOG code	2012	2016
1. General public services	1	5.9	
2. Defence	2	1.9	
3. Public order and safety	3	1.8	
4. Economic affairs	4	3.7	
5. Environmental protection	5	1.1	
6. Housing and community amenities	6	1.9	
7. Health	7	8.3	
8. Recreation, culture and religion	8	1.4	
9. Education	9	6.1	
10. Social protection	10	24.4	
11. Total expenditure	TE ¹	56.6	

1 Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9

Table 4. General government debt developments

% of GDP	ESA code	2013	2014	2015	2016	2017
1. Gross debt ¹		93.5	95.6	95.6	94.2	91.9
2. Change in gross debt ratio		2.9	2.2	0.0	-1.4	-2.3
Contributions to changes in gross debt ratio						
3. Primary balance ²		-1.9	-1.4	-0.5	0.4	1.4
4. Interest expenditure ³	EDP D41	2.3	2.4	2.5	2.6	2.7
5. Stock-flow adjustment		-0.2	0.4	0.0	0.0	0.0
<i>of which</i>						
- differences between cash and accruals ⁴						
- Net accumulation of financial assets ⁵						
- privatisation proceeds						
- Valuation effects and other ⁶						
NR: Implicit interest rate on debt ⁷		2.6	2.6	2.7	2.8	3.0
Other relevant variables						
6. Liquid financial assets ⁸						
7. Net financial debt (=1-6)						
8. Debt amortization						
9. Percentage of debt denominated in foreign currency (%)						
10. Average maturity						

1 As defined in Regulation 3605/93; (not an ESA concept)

2 See item 10 in Table 2.

3 See item 9 in Table 2.

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4 The differences concerning interest expenditure, other expenditure and revenue may be posted here where material or if the debt-to-GDP ratio is above the reference value.
5 Liquid assets (currency), government securities, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets may be posted here where material or if the debt-to-GDP ratio is above the reference value.
6 Changes due to exchange rate movements and operations in secondary markets may be posted here where material or if the debt-to-GDP ratio is above the reference value.
7 Calculated as the ratio of gross interest expenditure to gross outstanding debt on 31 December of the previous year.
8 FA1, FA2, FA3 (consolidated at market value), FA511 (listed equities), FA52 (mutual fund units or shares)

Table 5. Cyclical and structural developments

% of GDP	ESA code	2013	2014	2015	2016	2017
1. Real GDP growth		0.2*	1.0	1.7	2.4	2.4
2. Net lending of general government	EDP B.9	-4.3	-3.8	-3.0	-2.2	-1.3
3. Interest expenditure	EDP D.41	2.3	2.4	2.5	2.6	2.7
4. One-off and other temporary measures¹		0.0	0.0	-0.1	-0.1	0.0
5. Potential GDP growth (as a %)		1.4	1.5	1.5	1.6	1.6
contributions:						
- labour		0.3	0.3	0.3	0.3	0.3
- capital		0.6	0.6	0.6	0.6	0.6
- total factor productivity		0.5	0.6	0.6	0.6	0.6
6. Output gap		-2.8	-3.3	-3.1	-2.5	-1.8
7. Cyclical budgetary component		-1.4	-1.7	-1.6	-1.3	-0.9
8. Cyclically-adjusted balance (8=2-7)		-2.9	-2.1	-1.4	-0.9	-0.3
9. Cyclically-adjusted primary balance (9=8+3)		-0.5	0.3	1.1	1.7	2.4
10. Structural balance (10=8-4)		-2.9	-2.1	-1.2	-0.8	-0.3

* According to the March 2014 publication. 2013 GDP growth based on seasonally and working-day adjusted figures reached 0.3% according to INSEE data for Q4 2013

¹ A plus sign means deficit-reducing one-off measures.

Table 6. Divergence from previous update

	ESA code	2013	2014	2015	2016	2017
Real GDP growth						
2013-2017 Programme		0.1	1.2	2.0	2.0	2.0
2014-2017 Programme		0.2*	1.0	1.7	2.4	2.4
Difference		0.1	-0.2	-0.3	4	4
General government net lending (% of GDP)	EDP B.9					
2013-2017 Programme		-3.7	-2.9	-2.0	-1.2	-0.7
2014-2017 Programme		-4.3	-3.8	-3.0	-2.2	-1.3
Difference		-0.5	-0.8	-1.0	-1.0	-0.6
General government gross debt (% of GDP)						
2013-2017 Programme		93.6	94.3	92.9	90.7	88.2
2014-2017 Programme		93.5	95.6	95.6	94.2	91.9
Difference		-0.1	1.3	2.7	3.5	3.7

* According to the March 2014 publication. 2013 GDP growth based on seasonally and working-day adjusted figures reached 0.3% according to INSEE data for Q4-2013

Table 7. Long-term sustainability of public finances*

% of GDP	2010	2015	2020	2030	2040	2050	2060
Total expenditure							
<i>o/w: Age-related expenditure</i>	31.4	31.0	31.0	31.6	32.3	32.2	32.0
Pension expenditure	14.6	14.3	14.3	14.7	15.0	14.9	14.9
<i>of which Social Security pension</i>							
<i>of which Old-age and early pensions</i>							
<i>of which Other pensions (disability, survivors)</i>							
<i>of which Occupational pensions (if in general government)</i>							
Healthcare	8.0	8.3	8.5	8.9	9.3	9.4	9.4
Long-term care	2.2	2.2	2.1	2.0	2.3	2.2	2.0
Education	5.0	4.9	4.8	4.7	4.6	4.6	4.6
Other age-related expenditure (unemployment)	1.7	1.4	1.3	1.2	1.1	1.1	1.1
Interest expenditure							
Total revenue							
<i>o/w: property income</i>	0.8	0.8	0.9	0.8	0.7	0.7	0.7

<i>o/w: pension contributions (or social contributions if appropriate)</i>							
Pension Reserve Fund assets							
<i>o/w: consolidated public pensions fund assets (assets other than government liabilities)</i>							
Systemic pension reforms¹							
Social contributions paid to private compulsory pension schemes ²							
Pension expenditure paid by private compulsory pension schemes ³							
Assumptions							
Labour productivity growth							
Real GDP growth							
Labour force participation rate male (aged 20-64)							
Labour force participation rate female (aged 20-64)							
Total labour force participation rate (age 20-64)							
Unemployment rate							
Population aged 65 and over in the total population							

1 Systemic pension reforms refer to reforms that introduce a switch to a multi-pillar system, including a compulsory fully-funded pillar.

2 Social contributions or other revenue received by the compulsory fully-funded pillar to cover the pension obligations it acquired in conjunction with the systemic reform.

3 Pension expenditure or other social benefits paid by the compulsory fully-funded pillar linked to the pension obligations it acquired in conjunction with the systemic reform.

* Source: The 2012 Ageing Report, 2012, European Commission Ageing Working Group, which takes into account 2013 pension reforms

Table 7a. Contingent liabilities

% of GDP	2011	2012	2013
Public guarantees*	124	163	
<i>o/w for the financial sector</i>			

* These are guarantees granted by the government in Budget Acts under clearly defined agreements.

Table 8. Basic assumptions

	2013	2014	2015	2016	2017
Short-term interest rate (annual average)¹	0.2	0.3	0.5	0.9	1.4
Long-term interest rate (annual average)	2.2	2.4	3.0	3.5	4.0
USD/€ exchange rate (annual average)	1.33	1.36	1.36	1.36	1.36
Nominal effective exchange rate (base 1995 = 100)	110.8	113.2	113.2	113.2	113.2
Global GDP growth excluding EU	3.6	4.2	4.4	4.4	4.4
EU GDP growth	0.1	1.6	1.9	1.9	1.9
Growth of relevant foreign markets	1.8	4.8	6.5	6.5	6.5
World import volumes excluding the EU	3.9	4.9	6.2	6.2	6.2
Oil prices (Brent, USD/barrel)	109	107	107	109	111

¹ Euribor 3-month rate

9.2 Methodological appendix: Structural analysis of government balance

Role of potential growth

Potential GDP is the level of output that can be sustained without putting a strain on the factors of production and, more specifically, without putting pressure on prices and wages. This notion is used to guide the conduct of budgetary policy (medium-term growth) and monetary policy (inflation risk). Unlike GDP or inflation, **potential growth cannot be observed so it must be estimated.**

There are different methods for estimating potential growth, such as the direct potential GDP method based on filtered trend values of actual GDP, or the **production function** method that breaks GDP down into its various components (labour, capital, productivity). This is the method that is generally used by international organisations and that was used when drawing up the 2013-2017 Public Finance Planning Act: differences in the estimates stem from the different treatment applied to each component.

Structural balance

The value of the structural balance lies in the fact that it separates the part of the government balance that depends directly on cyclical developments and the part that is independent of them, which is therefore the part where policy decisions can have an impact. **This means that calculating the structural balance relies intrinsically on the definition of the business cycle and, accordingly, the gap between GDP and potential GDP.** More specifically, we observe that revenue is lower and expenditure is higher (particularly on unemployment benefits) when GDP is below its potential level and, conversely, that revenue goes up and expenditure contracts when GDP is higher than its potential level.

The government balance for each year can be broken down into:

- a cyclical component that captures the impact of the business cycle stage on the government balance, i.e. the different revenue and expenditure items affected by the business cycle);
- a structural component that corresponds to an estimate of what the balance would be if GDP were equal to its potential;
- one-off and other temporary measures, which are excluded from the assessment of the structural balance, because they have no lasting impact on the deficit.

On the expenditure side, only expenditure on unemployment benefits is assumed to be cyclical. Other expenditure is all assumed to be structural, either because it is discretionary, or because its relationship to the business cycle is difficult to measure.

On the revenue side, we assume that all taxes and contributions are cyclical, whereas other revenue (e.g. interest and dividends) is assumed to be non-cyclical.

We quantify the cyclical component of the government balance **on the basis of average historical elasticities (conventional elasticities)** of these expenditure and revenue items to cyclical changes. These elasticities are based on an econometric

estimate by the OECD¹⁸, except in the case of social security contributions, whose elasticity is based on an in-house estimate by the Directorate General of the Treasury, which produced a very similar result to that of the OECD estimate. Revenue is broken down into four categories of taxes and contributions (personal income tax, corporate income tax, social security contributions and other taxes and contributions) since the reaction of the tax bases to cyclical changes can vary greatly depending on the tax under consideration. **On average, the aggregate conventional elasticity of taxes and contributions is very close to one.**

In practice, France's cyclical balance is about half of the difference between GDP and potential GDP. This is because cyclical items account for about half of France's GDP and the average elasticity of taxes and contributions is about 1.

Example: The deficit in 2013 is estimated at -4.3 points of GDP. The output gap is estimated at approximately -2.8 points of potential GDP. If GDP was equal to its potential, it would mean -1.4 points of GDP in extra revenue according to the rule of thumb and the estimated cyclical deficit does in fact match this number. Since one-off and other temporary measures had no impact in 2013, the structural deficit corresponds to the difference between the government deficit and the cyclical deficit, making it 2.8 points of GDP.

The change in the government balance, therefore, results from the change attributed to cyclical changes, structural adjustment and the impact of one-off and other temporary measures. Structural adjustment is the result of a structural effort, which measures the discretionary component of the balance controlled directly by the Government, and a "non-discretionary" component (see below).

Structural effort

The structural balance needs to be supplemented with another public finance analysis tool: structural effort.

Each year, the (instantaneous) actual elasticities of taxes and contributions to cyclical changes fluctuate around their historical mean. Some of the fluctuations are significant. For example, in 2009, tax revenue, especially revenue from corporate income tax, dipped in an over-reaction to cyclical changes. In practice, the differential between instantaneous elasticity and conventional elasticity is passed on in full in changes in the structural balance, even though the differential corresponds to a non-discretionary component of changes in the government balance. This means that it is beyond the control of policy-makers and yet it is still incorporated into the structural balance.

To overcome this contradiction, the structural effort corresponds to the change in the structural balance that can be attributed to discretionary factors.

Therefore, the change in the structural balance can be broken down into:

- A discretionary component called "structural effort", and
- A non-discretionary component.

¹⁸ "Measuring cyclically-adjusted budget balances for OECD countries", N. Girouard and C. André, IECD Economics Department, Working Paper no 434, 2005.

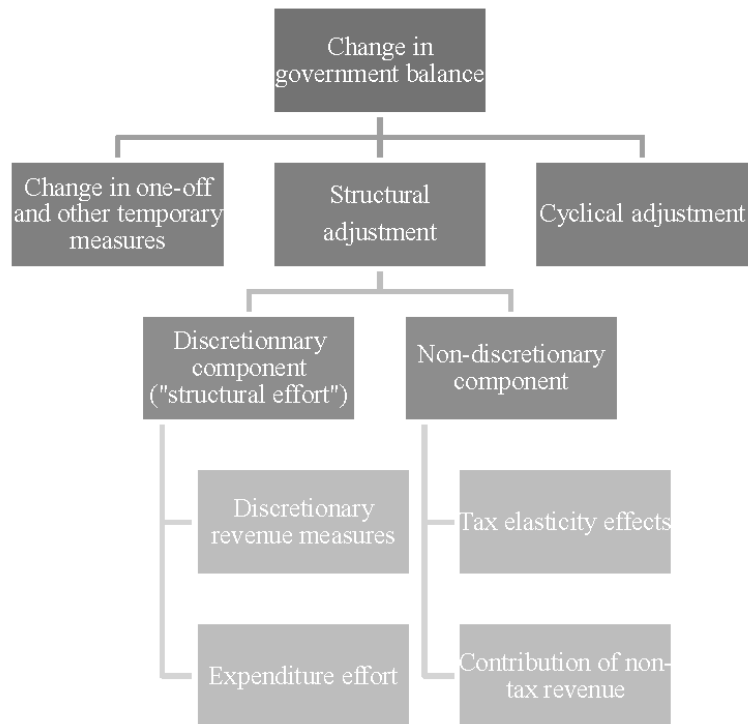
The structural effort can then be broken down into a revenue effort (discretionary revenue measures) and an expenditure effort.

- **Discretionary revenue measures** are decided and implemented by the government authorities.
- **Expenditure effort** is measured in relation to potential growth: an expenditure effort implies that real structural spending growth (adjusted by the GDP deflator) is lower than potential growth, and vice-versa.

This means that, for the same expenditure growth in nominal terms, a downward revision of the GDP deflator reduces the expenditure effort.

The non-discretionary component of the change in the structural balance has two terms:

- **The contribution of non-tax revenue**, which is assumed to be non-discretionary (equal to the change in the ratio of non-tax revenue to potential GDP).
- **“Tax elasticity effects”**, which measure the impact of the differential between the instantaneous elasticities and conventional elasticities of taxes and contributions.



9.3 In-year progress report on correction of the excessive deficit and compliance with the Recommendation

As part of the excessive deficit procedure, France must now provide data on in-year budget execution every six months. This data covers the period up to France's planned exit from the excessive deficit procedure in 2015. This is a new provision under the Two-Pack. Article 10 of Regulation 473/2013 in the Two-Pack states that the report must include "the budgetary impact of discretionary measures taken on both the expenditure and the revenue side, targets for the government expenditure and revenues, and information on the measures adopted and the nature of those envisaged to achieve the targets". The content of these reports is stipulated in detail in a delegated act (Regulation 877/2013).

This appendix has been attached to the 2014-2017 Stability Programme in fulfilment of this requirement. Table 3a along with the boxes in Part 3 and the section on the excessive deficit procedure are designed to fulfil the Recommendation addressed to France on 5 March 2014.

Tables 1a, 1b, 3b

These tables cannot be filled out at this point in the year. No quarterly data are available yet, not even for the first quarter of 2014.

Table 1c

See Tables 2a and 5 in the Statistical Appendix

Table 2

See Table 2a in the Statistical Appendix

Table 3a: Expenditure

Measure	Description (sub-sector)	ESA code	Status	Budgetary impact (discretionary measures, €bn)
				2014
Central government expenditure rule (excluding local government transfers)	Central government	-	Adopted	7.0
Reduction in local government transfers	Local government	-	Adopted	1.5
Ondam capped at 2.4% in 2014	Social security funds	D63	Adopted	3.0
Family allowance measures, 2014 Initial Budget Act	Social security funds	D62	Adopted	0.1

Administrative costs, 2014 Social Security Budget Act	Social security funds	P2, D1	Adopted	0.5
2013 pension reform (pension increase delayed until 1 st October)	Social security funds	D62	Adopted	0.8
2013 pension reform (pension increase delayed until 1 st October)	Central government	D62	Adopted	0.2
Agirc-Arrco deindexation (2013 agreement)	Social security funds	D62	Implemented	0.5
Reduction in expenditure to finance suspension of the eco-tax on HGVs	Central government /other central government bodies	-		0.8
2014 additional corrective measures (see Box 2)	Central government/Social security funds	-	Supplementary budget act before third quarter of 2014	4.0
Total				€19bn

Table 3a: Revenue

Stability Programme Measures		
	2013	2014
Total	29.4	1.5
Responsibility and Solidarity Pact (financed elsewhere)		-0.5
Central government	0.0	-0.5
Solidarity measures for the least well-off households		-0.5
2014 Initial Budget Act/2014 Social Security Budget Act/Pension reform/2013 Supplementary Budget Act	-0.2	7.3
Central government	-0.1	6.6
Phasing out of exceptional corporate income tax payment for large corporations	0.2	2.5
Abolition of the tax exemption for pension bonuses		1.2
Lowering of the cap on family deductions from €2,000 to €1,500		1.0
Removal of income tax exemptions for employer contributions to collective supplementary pension schemes		1.0
Green taxes		0.5
Other measures	-0.3	0.3
Social security funds	0.0	0.8
Other measures (excl. tax disputes)	29.9	-5.0
Central government	16.1	-9.4
Social security funds	12.0	2.2
Other central government bodies	1.4	0.9
Local government	0.3	1.2
Tax disputes	-0.3	-0.3
Withholding tax disputes (<i>précompte mobilier</i>)	0.0	
UCITS dispute	-0.3	-0.3

Table 4

See Table 4 in the Statistical Appendix