Eurogroup

**Brussels, 24 November 2020**
**(OR. en)**

**EG 31/20**
**ADD 1**

**EUROGROUP 31**
**ECOFIN 1055**
**UEM 380**

**COVER NOTE**

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| From: | Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director |
| date of receipt: | 18 November 2020 |
| To: | Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union |
| No. Cion doc.: | SWD(2020) 858 final |
| Subject: | COMMISSION STAFF WORKING DOCUMENT Analysis of the Draft Budgetary Plan of France Accompanying the document COMMISSION OPINION on the Draft Budgetary Plan of France |
| Enclosed: | SWD(2020) 858 final |

Delegations will find attached document SWD(2020) 858 final.

EUROPEAN
COMMISSION

Brussels, 18.11.2020
SWD(2020) 858 final

# COMMISSION STAFF WORKING DOCUMENT

## Analysis of the Draft Budgetary Plan of France

*Accompanying the document*

**COMMISSION OPINION**

**on the Draft Budgetary Plan of France**

{C(2020) 8508 final}

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## EXECUTIVE SUMMARY

- After growth of 1.5% of GDP in 2019, economic activity is set to contract sharply in 2020, by 10% according to the Draft Budgetary Plan and by 9.4% according to the Commission autumn forecast. For 2021, the Draft Budgetary Plan projects GDP to expand by 8%. In turn, the Commission projects GDP to grow by 5.8% in 2021.
- In the Draft Budgetary Plan, the headline balance is expected to deteriorate sharply in 2020, reaching a deficit of 10.2% of GDP and improving to a deficit of 6.7% of GDP in 2021. In 2021, this includes assumed grants from the Recovery and Resilience Facility (RRF) of 0.7% of GDP, which are included in the revenue projections. According to the Commission, France is projected to have a headline deficit of 10.5% of GDP in 2020 and 8.3% of GDP in 2021. For the time being, since the submission of the Recovery and Resilience Facility and subsequent approval are only expected to take place in 2021, the Commission forecast includes only 0.2% of GDP pre-financing of Recovery and Resilience Facility grants in the budgetary projections for 2021 and treats them as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact.
- Deficit-increasing emergency measures adopted in 2020 to fight the pandemic and to assuage its adverse socio-economic effects amount to 2.9%[1] of GDP. They comprise, among others, extraordinary healthcare expenditure, funding of a broad partial unemployment scheme and subsidies to support small and medium-sized enterprises. Liquidity measures and public guarantees aimed to support firms, amount to about 18.1%[2] of GDP and do not entail immediate significant budgetary impact. Overall, the measures taken by France in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.
- The planned new measures to support the recovering economic activity amount to 0.2% of GDP in 2020 and to 1.6% in 2021. For 2021, these include expenditure measures estimated at 1.1% of GDP and revenue measures of 0.4% of GDP. These measures target the promotion of youth employment, the acceleration of the environmental transition, competitiveness and the increase in public research and development.
- Public debt stood at 98.1% of GDP at end of 2019. On 20 May 2020, the Commission has prepared a report under Article 126(3) TFEU analysing whether France was compliant with the deficit and debt criteria of the Treaty. Overall, the analysis suggested that the deficit and debt criteria as defined in the Treaty and in Regulation (EC) No 1467/1997 were not fulfilled. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its

[1] This figure is net of EUR 4.1 billion savings in healthcare expenditure execution and of the EUR 1 billion special contribution from the supplementary health insurance providers.

[2] This figure includes the guarantees provided by France in the context of EU-wide initiatives, such as SURE and the EIB's Pan-European Guarantee Fund, and of IMF. It also includes advances and compensation for tax revenue losses to local authorities. Liquidity measures and guarantees excluding these items amount to 17.5% of GDP.

extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

- According to the Draft Budgetary Plan, the public debt-to-GDP ratio is planned to rise to 117.5% of GDP in 2020, before declining to 116.2% in 2021. In its autumn forecast, the Commission projects public debt to reach 115.9% of GDP in 2020 and to increase further, to 117.8% in 2021.
- Most of the measures set out in the Draft Budgetary Plan of France are supporting economic activity against the background of considerable uncertainty. However, some measures appear not to be temporary or matched by offsetting measures, namely a permanent reduction in taxes on production and the increase of healthcare personnel's wages, amounting together to 0.7% of GDP according to the Commission forecast, which are not matched by offsetting measures. Given the level of France's government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, it is important for France to ensure that, when taking supportive budgetary measures, fiscal sustainability in the medium term is preserved. At the same time, it would be useful to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

## 1. INTRODUCTION

This document assesses the economic and budgetary projections contained in the 2021 Draft Budgetary Plan of France (hereafter called the Plan), which was submitted on 15 October 2020 in compliance with Regulation (EU) No 473/2013.

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact and on 23 March 2020 the Ministers of Finance of the EU Member States agreed with the Commission assessment. The clause facilitates the coordination of budgetary policies in times of severe economic downturn. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

Public finances in 2021 are also expected to be influenced by the proposed establishment of the Recovery and Resilience Facility (RRF), alongside the proposal for the reinforced long-term budget of the EU for 2021-2027. The RRF is envisaged to provide a total envelope of €672.5 billion in loans and non-repayable financial support (grants) to support the implementation of investments and reforms in the EU Member States. The 2021 Draft Budgetary Plan of France takes into account the implementation of the reforms and investments, and their associated costs, envisaged under the Recovery and Resilience Facility (RRF).

On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as France's general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference value and France did not make sufficient progress towards compliance with the debt reduction benchmark in 2019. The report concluded that the deficit criterion was not fulfilled and that the debt criterion was not complied with. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

As the debt ratio was 98.3% of GDP at the end of 2017 (the year in which France corrected its excessive deficit), and exceeded the 60% of GDP reference value, during the three years following the correction of the excessive deficit France is subject to the transitional arrangements until 2020 to make sufficient progress towards compliance with the debt reduction benchmark. As the debt ratio is projected to be 117.5% of GDP at the end of 2020, France is subject to the debt reduction benchmark as of 2021.

## 2. Macroeconomic developments underlying the draft budgetary plan

The French economy is deeply impacted by the COVID-19 pandemic. To contain it, the government introduced generalised lockdown measures and border controls on March 17th for 8 weeks. Those measures started being gradually relaxed as of May 11th. The lockdown and the ensuing health protocols after the lifting of restrictions have entailed a large impact on economic activity. After expanding by 1.5% in 2019, the 2021 Draft Budgetary Plan forecasts a GDP contraction of 10.0% in 2020.[3] These projections embed a 2-percentage-point downward revision to GDP growth compared to the 2020 Stability Programme for France, with all domestic demand components but public consumption falling sharply and with also a negative contribution to growth by net exports.[4] For 2021, the Plan projects GDP to grow by 8%. The macroeconomic and fiscal outlook continue to be affected by high uncertainty due to the COVID-19 pandemic.

The abrupt drop in economic activity over the first two quarters of 2020 is set to be followed by a brisk recovery, especially in the third quarter of 2020. According to the Plan, private consumption and investment will rebound strongly. In particular, the partial winding down in the third quarter of the sizeable increase in household savings observed over the first semester of 2020 underpins the projected rebound of private consumption. Investment is also projected to rebound strongly in the second half of 2020 and to continue to sustain the recovery in 2021. Nevertheless, job losses, value chain disruptions, high uncertainty and liquidity constraints are expected to prevent a faster recovery of investment. In turn, net exports' contribution

[3] Not calendar-adjusted.

[4] Following the adoption of new lockdown measures and enhanced fiscal support, on 4 November 2020 the French government presented the fourth amended Budget Law for 2020. This amendment considerably revises downwards the macroeconomic projections contained in the Draft Budgetary Plan and the fiscal targets therein. In particular, GDP is now set to contract by 11% in 2020.

to growth is expected to turn positive, whereas inventories are envisaged to weigh on growth. According to the Draft Budgetary Plan, the fiscal measures adopted by the government to mitigate firms' liquidity difficulties and to support households' income will be key to support the rebound. The recovery is expected to be uneven across sectors though, with the manufacturing sector resuming activity more quickly than the services sector, especially transport and food and accommodation services, where restrictions are expected to remain in place for longer.

This scenario differs somewhat from the Commission's projection in that the Plan projects a deeper contraction in 2020, followed by a brisker rebound. Specifically, according to the Commission 2021 autumn forecast, GDP is projected to decline by 9.4% in 2020, before rebounding by 5.8% in 2021.[5] According to the Commission forecast, private consumption and investment are projected to take the lead of the recovery in 2021, whereas the negative contribution of net exports to growth is expected to narrow significantly.

In its opinion[6], the High Council of Public Finances (HCPF) considers that the government's projections for 2020 are prudent, whereas for 2021 the macroeconomic projections are considered as upbeat. The HCFP also highlights the level of activity projected for 2021 will largely depend on the evolution of the pandemic.

[5] The cut-off date of the Commission forecast was the 22nd of October. Since then, the first Insee estimate for the third quarter turned out to be significantly better than expected by the Commission, whereas the newly announces lockdown measures to contain the spread of the pandemic will weigh on the fourth quarter more strongly than foreseen in the Commission autumn forecast.

[6] Haut Conseil des Finances Publiques (2020), Avis nº HCFP-2020-5 relatif aux projets de finances et de financement de la sécurité sociale pour l'année 2021.

## Table 1. Comparison of macroeconomic developments and forecasts

| | 2019 | 2020 | | | 2021 | | |
|---|---|---|---|---|---|---|---|
| | COM | SP | DBP | COM | SP | DBP | COM |
| Real GDP (% change) | 1.5 | -8.0 | -10.0 | -9.4 | n.a. | 8.0 | 5.8 |
| Private consumption (% change) | 1.5 | -10.0 | -8.4 | -7.7 | n.a. | 6.5 | 5.1 |
| Gross fixed capital formation (% change) | 4.2 | -11.0 | -14.5 | -10.9 | n.a. | 14.9 | 10.8 |
| Exports of goods and services (% change) | 1.9 | -12.9 | -18.5 | -17.7 | n.a. | 12.6 | 6.6 |
| Imports of goods and services (% change) | 2.5 | -13.4 | -11.5 | -11.6 | n.a. | 8.2 | 6.3 |
| *Contributions to real GDP growth:* | | | | | | | |
| - Final domestic demand | 2.2 | -7.3 | -7.8 | -7.5 | n.a. | 7.7 | 6.5 |
| - Change in inventories | -0.4 | -1.0 | 0.0 | -0.1 | n.a. | -0.7 | -0.6 |
| - Net exports | -0.2 | 0.2 | -2.1 | -1.8 | n.a. | 1.0 | -0.1 |
| Output gap[1] | 1.9 | -7.5 | -8.2 | -8.3 | n.a. | -1.4 | -3.9 |
| Employment (% change) | 1.1 | n.a. | -1.7 | -1.8 | n.a. | -0.4 | -0.2 |
| Unemployment rate (%) | 8.5 | n.a. | 0.0 | 8.5 | n.a. | 0.0 | 10.7 |
| Labour productivity (% change) | 0.3 | n.a. | -8.3 | 1.3 | n.a. | 8.4 | -1.1 |
| HICP inflation (%) | 1.3 | 0.6 | 0.6 | 0.5 | n.a. | 0.8 | 0.9 |
| GDP deflator (% change) | 1.2 | 1.4 | 1.8 | 2.8 | n.a. | 0.3 | 0.5 |
| Comp. of employees (per head, % change) | -0.2 | n.a. | 0.0 | 5.5 | n.a. | 0.0 | -1.6 |
| Net lending/borrowing vis-à-vis the rest of the world (% of GDP) | -0.8 | n.a. | -2.9 | -3.1 | n.a. | -1.2 | -2.9 |

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

*Source:*

*Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations*

## 3. RECENT AND PLANNED FISCAL DEVELOPMENTS

On 20 July 2020 the Council addressed recommendations to France in the context of the European Semester. In the area of public finances and in line with the general escape clause, the Council recommended France to take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, France should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

### 3.1. Deficit developments

The Draft Budgetary Plan projects a headline deficit of 10.2% of GDP in 2020. This projection embeds a sizeable revision with respect to the Stability Programme of April 2020, where the deficit was planned at 9% of GDP. While additional measures would add 1 percentage point to the deficit and the envisaged economic contraction is deeper than in the Stability Programme, the budgetary execution is proving better than expected. In particular, corporate income tax receipts have been especially high as payments by instalment are gauged based on 2019's profits, which were particularly high. Moreover, the partial unemployment scheme, deployed to contain the negative effects on employment derived from the lockdown and activity restrictions measures, has proved effective to assuage the effects on income and consumption. This helped sustain income tax and VAT receipts. Furthermore, due to the eight-week lockdown and to restrictions thereafter, public consumption and investment fell substantially. All in all, higher than expected tax revenues, jointly with lower spending execution are projected to offset a large share of the deficit increase that would result from the deterioration of the macroeconomic conditions and the adopted deficit-increasing emergency and recovery measures. In turn, the Commission 2020 autumn forecast projects a slightly higher deficit, of 10.5% of GDP despite a smaller GDP contraction by some ½ percentage point.

The revenue-to-GDP ratio in the Plan is higher by around ¾% of GDP than the one projected in the Commission forecast, with a somewhat different composition of revenue categories. In particular, despite a similar decline in nominal terms of proceeds from indirect taxation and social contributions, the Plan posts higher ratios over GDP of these items, due to a projected deeper GDP contraction. In turn, similar direct tax revenue-to-GDP ratios in both projections conceal, however, a somewhat more resilient evolution in levels in the Commission forecast.

The public expenditure-to-GDP ratio is higher in the Draft Budgetary Plan by ½ percentage point, mainly due to public consumption items and, to a lesser extent, public investment. However, the Commission projections embed a stronger cyclical increase in social benefits. As for the macroeconomic forecasts, any budgetary projection in the current circumstances is subject to a high degree of uncertainty.

The deterioration in the structural balance estimated by the Commission, as opposed to the improvement in the Plan's (recalculated) structural balance[7], is mainly due to the fact that the Plan considers COVID-19-related measures as one-offs.[8]

For 2021, the Plan projects a deficit at 6.7% of GDP. It assumes grants of 0.7% of GDP under the Recovery and Resilience Facility and expenditure of 1.1% of GDP related to the French recovery plan (*France Relance*).[9]

The deficit improvement in the Plan with respect to 2020 is explained by the expected economic rebound and the phasing out of the temporary COVID-19-related measures. The Plan projects an expansionary fiscal stance, mainly due to the recovery measures. However, a mechanical reading of traditional indicators is not well suited at the current juncture to assessing the fiscal stance. The introduction and subsequent withdrawal of sizeable temporary emergency measures distort the

[7] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology. The estimates of the structural budget balance are affected by high uncertainty due to the economic consequences of the COVID-19 pandemic.

[8] The Commission has not classified COVID-19-related measures as one-off in its autumn 2020 forecast because the one-off classification does not appear to be the best suited for several of the measures taken in response to the COVID-19 pandemic. The Commission has a well-developed set of principles for defining what is a one-off measure for the purpose of fiscal surveillance. That methodology is relatively restrictive, for example excluding compensatory payments to households or businesses not directly triggered by the pandemic and for which the government has a larger degree of discretion. Moreover, given the large uncertainties on the duration and the impact of certain measures, most measures would not qualify as one-off in an ex ante assessment. The Commission favours taking into account such measures as part of its application of the Stability and Growth Pact under the activation of the General Escape Clause.

[9] This is a broader EUR 100 billion recovery plan mostly to be engaged over the period 2020-2022 and presented by the government early in September.

picture, as the corresponding changes in the level of public spending from one year to the next affect the indicators used to assess the fiscal stance. Excluding the temporary emergency measures from the calculation of the fiscal stance indicators provides a more representative assessment of the underlying fiscal support to economic activity.

In turn, the Commission 2020 autumn forecast projects a higher headline deficit, of 8.3% of GDP. The difference between both sets of projections is mainly explained by the assumed Recovery and Resilience Facility-related grants in the Plan of 0.7% of GDP and a less optimistic growth projection for 2021. For the time being, since the submission of the Recovery and Resilience Facility and subsequent approval are only expected to take place in 2021, the Commission forecast includes the EUR 4 billion pre-financing of Recovery and Resilience Facility grants in 2021[10] as a financial transaction with no impact on the budget balance in 2021, but with a public debt-reducing impact. On the expenditure side, in line with its no-policy change assumption, the Commission forecast includes all measures sufficiently detailed and credibly announced in the Draft Budgetary Plan, including the expenditure related to the to the French recovery plan (*France Relance*) of 1.1% of GDP. [11]

The revenue-to-GDP ratio in 2021 is almost 1 percentage point lower in the Commission forecast. This mainly reflects the assumed treatment of RRF-related grants described above. Apart from this, the Plan assumes higher revenues from social security contributions and lower proceeds from direct taxes than the Commission. In turn, the expenditure-to-GDP ratio is around ¾ percentage point higher in Commission’s projections mostly due to higher social spending.

Some risks to the budgetary targets in the Plan for 2021 have already materialised. These relate to the additional support measures announced following the new lockdown, not included in the Plan. On 4 November 2020 the French government presented the fourth amended Budget Law for 2020. This amendment considerably revises downwards the macroeconomic projections contained in the Draft Budgetary Plan and the fiscal targets for 2020 therein. In particular, the general government deficit is revised from 10.2% of GDP in the Plan to 11.3%, due to the expansion of the envelope of COVID-19-related measures by around 1% of GDP.

[10] The amount of pre-financing is based on the Council Presidency compromise proposal for the RRF Regulation (11538/20) of 7 October 2020, on which the Council Presidency obtained a mandate for conducting the negotiations with the European Parliament.

[11] Given the limited information on the use of Recovery and Resilience Facility (RRF), the approach to its incorporation in the 2020 autumn forecast is based on technical assumptions, following to the extent possible the customary no policy-change assumption that the Commission uses in its forecast. The approach is explained in detail in Box I.4.3 of the European Commission’s Economic Forecast Autumn 2020 (*https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf*). The forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of the (forthcoming) draft Recovery and Resilience Plans. Thus, in principle only measures planned for 2021 were included. No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

As in other countries, the government has provided public guarantees to sustain economic activity and sectors particularly hit by the pandemic. Should these guarantees be called, this will be reflected in public debt and deficits in the future. The Plan also incorporates medium-term budgetary projections until 2025. According to them, the public deficit is projected to reduce gradually to 4.9% of GDP in 2022, 4.0% in 2023, 3.4% in 2024 and to 2.9% of GDP in 2025. These projections are based on a constant structural annual adjustment of 0.5% of GDP each year. In turn, public debt is envisaged to peak in 2024 at 117.8% of GDP and to start declining only in 2025, when it would reach 117.4% of GDP.

Finally, the draft budget bill for 2021[12] contains an annex that, for the first time, assesses in a comprehensive way the environmental impact of the State's budget. In particular, the document implements a new classification of budgetary and fiscal expenditure items, referred to as green budget, and identifies environmentally-relevant fiscal resources. Based on a new methodology applied to the central government total expenditure rule for 2021, the green budget identifies about EUR 38 billion (1.6% of GDP) of expenditures with only favourable environmental impact.[13] Expenditures with both favourable and unfavourable impacts amounts to about EUR 5 billion (0.2% of GDP), while those with only unfavourable impacts amount to EUR 10 billion (0.4% of GDP). Fiscal resources with an environmental dimension[14], would amount to about EUR 65 billion (2.7% of GDP) in 2021, mostly comprising taxes.

[12] This corresponds to the budgetary document putting forward revenues and expenditure for the State for the upcoming year, based on a given budgetary and financial equilibrium. It is linked to but differs from the Draft Budgetary Plan.

[13] Along at least one of six pre-defined environmental dimensions.

[14] The definition of public environmental resources is specific to the methodology applied by the French authorities; given the absence of a commonly agreed definition for green fiscal resources at the EU level.

## Table 2. Composition of the budgetary adjustment

| (% of GDP) | 2019 | | 2020 | | | 2021 | | | Change: 2019-2021 |
|---|---|---|---|---|---|---|---|---|---|
| | COM | DBP | SP | DBP | COM | SP | DBP | COM | DBP |
| **Revenue** | **52.6** | **52.6** | **52.9** | ***53.4*** | **52.6** | **n.a.** | ***52.5*** | **51.6** | **-0.1** |
| *of which:* | | | | | | | | | |
| - Taxes on production and | 16.8 | 16.8 | n.a. | *17.3* | 16.9 | n.a. | *16.6* | 16.6 | -0.2 |
| - Current taxes on income, | 13.1 | 13.1 | n.a. | *13.2* | 13.0 | n.a. | *12.5* | 12.7 | -0.6 |
| - Capital taxes | 0.6 | 0.6 | n.a. | *0.7* | 0.7 | n.a. | *0.6* | 0.6 | 0.0 |
| - Social contributions | 16.8 | 16.8 | n.a. | *16.9* | 16.7 | n.a. | *16.9* | 16.7 | 0.1 |
| - Other (residual) | 5.2 | 5.2 | n.a. | *5.3* | 5.4 | n.a. | *5.9* | 5.1 | 0.7 |
| **Expenditure** | **55.6** | **55.6** | **61.9** | **63.6** | **63.1** | **n.a.** | **59.2** | **59.9** | **3.6** |
| *of which:* | | | | | | | | | |
| - Primary expenditure | 54.1 | 54.1 | n.a. | 62.3 | 61.7 | n.a. | 57.9 | 58.7 | 3.8 |
| *of which:* | | | | | | | | | |
| Compensation of employees | 12.3 | 12.3 | n.a. | 13.7 | 13.4 | n.a. | 12.9 | 12.9 | 0.6 |
| Intermediate consumption | 4.9 | 4.9 | n.a. | 5.8 | 5.6 | n.a. | 5.3 | 5.7 | 0.4 |
| Social payments | 25.4 | 25.4 | n.a. | 30.0 | 30.2 | n.a. | 27.4 | 27.7 | 2.0 |
| Subsidies | 2.8 | 2.8 | n.a. | 2.8 | 2.7 | n.a. | 2.3 | 2.6 | -0.5 |
| Gross fixed capital formation | 3.7 | 3.7 | n.a. | 3.9 | 3.9 | n.a. | 4.2 | 3.9 | 0.5 |
| Other (residual) | 5.1 | 5.1 | n.a. | 6.1 | 6.0 | n.a. | 5.8 | 6.0 | 0.7 |
| - Interest expenditure | 1.5 | 1.5 | n.a. | 1.3 | 1.4 | n.a. | 1.3 | 1.2 | -0.2 |
| **General government balance (GGB)** | **-3.0** | **-3.0** | **-9.0** | **-10.2** | **-10.5** | **n.a.** | **-6.7** | **-8.3** | **-3.7** |
| **Primary balance** | **-1.6** | **-1.6** | **n.a.** | **-8.9** | **-9.1** | **n.a.** | **-5.4** | **-7.1** | **-3.8** |
| One-off and other temporary measures | -0.9 | -0.9 | -1.7 | -2.9 | -0.1 | n.a. | -0.2 | -0.2 | 0.7 |
| **GGB excl. one-offs** | **-2.1** | **-2.1** | **-7.3** | **-7.3** | **-10.3** | **n.a.** | **-6.5** | **-8.1** | **-4.4** |
| Output gap[1] | 1.9 | 2.4 | -7.5 | -8.2 | -8.3 | n.a. | -1.4 | -3.9 | -3.9 |
| Cyclically-adjusted balance[1] | -4.2 | -4.5 | -4.2 | -5.0 | -5.3 | n.a. | -5.8 | -5.8 | -1.3 |
| **Structural balance (SB)[2]** | **-3.3** | **-3.6** | **-2.5** | **-2.1** | **-5.1** | **n.a.** | **-5.6** | **-5.7** | **-2.0** |
| Structural primary balance[2] | -1.9 | -2.2 | n.a. | -0.8 | -3.8 | n.a. | -4.3 | -4.5 | -2.2 |

Notes:

[1] Output gap (in % of potential GDP) and cyclically-adjusted balance according to the DBP/Programme as recalculated by Commission on the basis of the DBP/Programme scenario using the commonly agreed methodology.

[2] Structural (primary) balance corresponds to cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

*Source:*

*Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations*

### 3.2. Debt developments

In the Draft Budgetary Plan, the public debt-to-GDP ratio is planned to rise by 19.4 percentage points, to reach 117.5% of GDP at the end 2020. The snowball effect will entail a sizeable debt-increasing impact with respect to 2019, driven by the considerable contraction in nominal GDP. Likewise, the primary deficit will add almost 9 additional percentage points to the debt ratio, due to the COVID-19-related measures and, more importantly, to its cyclical component. The stock-flow adjustments will also contribute to increasing the debt, though only slightly because of the sizeable contribution of issuance premia.[15]

For 2021, the Plan projects the debt ratio to dwindle by around 1¼ percentage points, to 116.2% of GDP. The debt-increasing effect from the primary deficit,

[15] The fourth amended Budget Law for 2020 presented last 4 November now projects the public debt-to-GDP ratio at 119.8% of GDP in 2020.

although lower compared to 2020, is set to be largely offset by the projected brisk economic rebound through the snowball effect, while the debt-increasing contribution from interest payments is projected to remain broadly stable with respect to the previous year. The stock-flow adjustments will add around 1 percentage point to the debt ratio, mostly due to the funds deployed to provide loans and capital injections to strategic companies in the context of the COVID-19 outbreak. The sizeable amount of public guarantees provided and taken up so far implies the possibility that some of these being called and thus a significant downward risk to the government balance in 2021 and subsequent years.

The debt projections in the Draft Budgetary Plan are somewhat higher than in the Stability Programme due to the higher primary deficits projected in the Plan and the downward revision to the macroeconomic scenario compared to last spring.

### Table 3. Debt developments

| (% of GDP) | 2019 | 2020 | | | 2021 | | |
|---|---|---|---|---|---|---|---|
| | | SP | DBP | COM | SP | DBP | COM |
| **Gross debt ratio**[1] | **98.1** | **115.2** | **117.5** | **115.9** | **n.a.** | **116.2** | **117.8** |
| Change in the ratio | 0.1 | 17.1 | 19.4 | 17.8 | n.a. | -1.3 | 1.9 |
| Contributions[2]: | | | | | | | |
| **1. Primary balance** | **1.6** | **n.a.** | **8.9** | **9.1** | **n.a.** | **5.4** | **7.1** |
| **2. "Snow-ball" effect** | **-1.2** | **n.a.** | **10.0** | **8.2** | **n.a.** | **-7.7** | **-5.7** |
| *Of which:* | | | | | | | |
| Interest expenditure | 1.5 | n.a. | 1.3 | 1.4 | n.a. | 1.3 | 1.2 |
| Real growth effect | -1.4 | 8.4 | 10.7 | 9.8 | n.a. | -8.7 | -6.3 |
| Inflation effect | -1.2 | -1.5 | -2.0 | -3.0 | n.a. | -0.3 | -0.5 |
| **3. Stock-flow adjustment** | **-0.3** | **1.0** | **0.2** | **0.2** | **n.a.** | **1.0** | **0.5** |
| *Of which:* | | | | | | | |
| Cash/accruals difference | | n.a. | n.a. | | n.a. | n.a. | |
| Net accumulation of financial | | n.a. | n.a. | | n.a. | n.a. | |
| of which privatisation proceeds | | n.a. | n.a. | | n.a. | n.a. | |
| Valuation effect & residual | | n.a. | n.a. | | n.a. | n.a. | |

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

*Source:*

*Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations*

In turn, the Commission 2020 autumn forecast projects a relatively different evolution for both years. The debt ratio is also expected to rise briskly in 2020, although to a lower level than in the Draft Budgetary Plan. This is due to a smaller contraction of nominal GDP, despite similar general government deficits. In 2021, the public debt ratio is expected to increase further, outpacing the level projected in the Plan. This is mainly due to a higher primary deficit than planned by the French authorities.

## 4. MEASURES UNDERPINNING THE DRAFT BUDGETARY PLAN

The Draft Budgetary Plan focuses on the policy response undertaken in the context of the COVID-19 outbreak in 2020 and the measures planned to sustain the recovery in 2020 and 2021. Supportive fiscal measures should be tailored to the specific situation of each Member State, but as a rule, they should be well targeted and temporary. Their use and effectiveness should be regularly reviewed by the national authorities. Depending on the development of the pandemic, emergency fiscal measures should to be adjusted and combined with other measures that improve economic fundamentals, support the green and digital transition and have a positive impact on demand.

### 4.1. Measures in 2020

In response to the COVID-19 pandemic, and as part of a coordinated Union approach, France adopted in 2020 timely budgetary measures to increase the capacity of its health system, contain the pandemic, and provide relief to those individuals and sectors that have been particularly affected. According to the Plan, those measures amount to 2.9%[16] of GDP. The expenditure measures include the funding of a partial unemployment scheme amounting to 1.4% of GDP; 0.4% of GDP additional expenditure[17] to strengthen healthcare services, health insurance allowances and compensation of healthcare personnel; the creation of a solidarity fund and other support measures amounting to 0.8% of GDP to provide direct support to small and very small enterprises as well as self-employed. On the revenue side, measures in 2020 include exemptions of social security contributions and advanced reimbursements of carry-back losses in the corporate income tax amounting to 0.3% of GDP.

Beyond the emergency measures in response to the COVID-19 pandemic, France also adopted measures under the umbrella of *France Relance* worth EUR 4.5 billion (0.2% of GDP) in 2020. These measures mainly include hiring bonuses, additional public investment and subsidies to businesses.

In addition, France announced measures that, while not having any direct impact on the deficit, contributed to providing liquidity support to businesses, which the Plan estimates at 18.1% of GDP.[18] Those measures include tax and social charges deferrals for companies; accelerated refund of tax and VAT credits; creation of a dedicated reserve for direct support to strategic companies via equity investment (altogether amounting to 3.3% of GDP) and loan guarantees (14.7%[19] of GDP). Based on available information, the take-up of the guarantees as of October 2020 is estimated at 5.6% of GDP.

Overall, the measures taken by France in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.

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[16] See footnote 2.
[17] Idem
[18] See footnote 3.
[19] Idem

## 4.2. Measures in 2021

For 2021, the Plan presents a set of new measures aimed at supporting the envisaged recovery, including by providing a positive impact on aggregate demand and employment, improving economic fundamentals and supporting the green and digital transition.

These measures are part of *France Relance*. They are mainly temporary and concern expenditure, although the most sizeable one is a permanent reduction in taxes on production that is not matched by any offsetting measure. This revenue measure, together with the permanent increase in mainly healthcare wages, amount to 0.7% of GDP in 2021 according to the Commission forecast. The Plan contains additional measures to reinforce the healthcare system, in particular investments worth 0.1% of GDP as foreseen under the so-called Ségur Agreement concluded in July 2020 with social partners.

A number of measures provide incentives for employment, including by increasing the employment chances of unemployed and inactive workers, as well as by supporting the retention of workers by solvent businesses. For example, the Plan extends the partial activity scheme for an amount of EUR 6.6 billion in 2021. It puts special emphasis on measures to promote youth employment via the promotion of apprenticeship and work-study contracts, hiring subsidies and reinforced support to job seeking, for an overall amount of EUR 3.8 billion. Additional EUR 1.3 billion are devoted to professional training, with an explicit link made to the implementation of the partial activity scheme.

Other measures directly support public and private investment and address objectives of the European Green Deal and the Digital Agenda for Europe. For example, out of the EUR 30 billion to promote the green transition included in *France Relance*, the Plan includes measures amounting to EUR 6.6 billion to support building renovations to improve energy efficiency, reduction of industrial emissions, the agricultural transition, green technologies and greener energy sources, including hydrogen, biodiversity, sustainable mobility and the circular economy in 2021.

The Plan also incorporates measures aimed to enhance potential growth and competitiveness. On the expenditure side, these include measures for EUR 4 billion aimed to accelerate the digitalisation of firms and of public administration, reduce technological dependence on other countries, enhance business financing. These measures also include support for cultural sectors. On the revenue side, the plan embeds a EUR 10 billion permanent reduction in taxes on production, promoting a growth-friendlier tax system. An additional cut in taxes on production worth EUR 10 billion is also planned in 2022.

The measures in the Plan provide support to businesses with positive prospects of financial solvency. Within the overall response strategy, ad hoc plans were designed and targeted to the sectors hardest hit by the COVID-19 outbreak, namely the tourism, automotive and aeronautics sectors. These sectoral plans combine a broad range of measures such as tax exemptions (namely in the tourism sector), loans, guarantees and direct investments, giving preference to the green and digital transition.

Liquidity measures, namely in the form of guarantees on loans are also expected to continue to play an important role.

All the measures are presented in sufficient detail in the Plan and thus included in the Commission forecast, with no difference in their assessment.

In its opinion of 29 September 2020, the High Council of Public Finances (HCFP) considered that the fiscal plans for 2020 and 2021 are attainable, although subject to the high uncertainty underlying the macroeconomic projections and the health situation.

Overall, based on the information presented in the Draft Budgetary Plan and taking into account the Commission 2020 autumn forecast, most of the measures planned by France in 2021 are supporting economic activity against the background of considerable uncertainty. However, some measures appear not to be temporary or matched by offsetting measures. Given the level of France’s government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, it is important for France to ensure that, when taking supportive budgetary measures, fiscal sustainability in the medium term is preserved.

At the same time, it would be useful to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

It is anticipated that France will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament.

**Table 4.1.a. Main discretionary measures reported in the Draft Budgetary Plan**

| List of measures | Description | ESA Code (Expenditure /Revenue component) | Adoption Status | Budgetary impact (% of GDP - change from previous year – positive sign for deficit-increasing measures) | | |
|---|---|---|---|---|---|---|
| | | | | | 2020 | 2021 |
| 1 | Temporary unemployment scheme | D62 (Expenditure) | Partially adopted | | +1.4 | -1.0 |
| 2 | Solidarity fund, subsidies to SMEs, VSEs and self-employed in the worst hit sectors | D39 (Expenditure) | Adopted | | +0.4 | -0.4 |
| 3 | Special healthcare expenditure growth target | D1, D62, P2, D632 | Adopted | | +0.7 | -0.6 |
| 4 | Exemptions of social | D611 (Revenue) | Adopted | | +0.2 | -0.2 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | security contributions | | | | | |
| **5** | Extension of replacement income and postponement of the reform of unemployment insurance | D62 (Expenditure) | Adopted | | +0.1 | -0.1 |
| **6** | One-off grant to self-employed workers | D62 (Expenditure) | Adopted | | +0.04 | -0.04 |
| **7** | Other COVID-19-related emergency measures | D31, D5, D62, D7, D9 (Expenditure) | Adopted | | +0.3 | -0.3 |
| **8** | Reform of the personal income tax scale | D5 (Revenue) | Adopted | | +0.2 | |
| **9** | Smoothing of the corporation tax reduction scenario from 33⅓% to 25% | D5 (Revenue) | Adopted | | +0.1 | +0.2 |
| **10** | Reduction of housing tax | D5 (Revenue) | Adopted | | +0.2 | +0.1 |
| **11** | Reduction of taxes on production | D29 (Revenue) | Under discussion | | | +0.4 |
| **12** | CIT impact stemming from the reduction in taxes on production | D5 (Revenue) | Under discussion | | | -0.1 |
| **13** | Renovation of buildings | P51 (Expenditure) | Under discussion | | | +0.1 |
| **14** | Investments to improve the healthcare system | P51, D75 (Expenditure) | Under discussion | | | +0.1 |
| **15** | Increasing healthcare expenditure | P2 (Expenditure) | Under discussion | | | +0.2 |
| **16** | Hiring bonuses, mentoring programmes and apprenticeship programmes | D39 (Expenditure) | Under discussion | | | +0.2 |
| **17** | Increase in civil servants' wages | D1 (Expenditure) | Under discussion | | +0.05 | +0.2 |
| **18** | Other miscellaneous measures included in the French Recovery Plan | D1, D62, D63, D39, P51, D7, D9 (Expenditure) | Under discussion | | +0.2 | +0.4 |
| | | | | **Total** | **+3.9** | **-0.8** |

## Table 4.1.b. Guarantees adopted/announced in response to COVID-19 outbreak

| List of measures | Description | Adoption Status | | Maximum amount of contingent liability* (% of GDP) | Current take-up (actual contingent liability, % of GDP) |
|---|---|---|---|---|---|
| **1** | State guarantee scheme on portfolio loans | adopted | | 13.5 | 5.6 |
| **2** | Public reinsurance on outstanding credit insurance | adopted | | 0.4 | n.a. |
| **3** | Public reinsurance on short-term export credit | adopted | | 0.2 | n.a. |
| | | | **Total** | **14.2** | **5.6** |

* Any budgetary impact related to expected losses or actual calls should be provided in the standard table **5.1 Description of discretionary measures included in the draft budget** *(see Code of Conduct,* https://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/2014-11-07_two_pack_coc_amended_en.pdf )

## 5. ANNEX – MANDATORY VARIABLES NOT INCLUDED IN THE DRAFT BUDGETARY PLAN

The following mandatory data were not explicitly provided:

- Labour market developments: unemployment rates.
- General government expenditure by function: data on employment expenditure.

Not included mandatory variables do not impede the Commission's ability to assess the Draft Budgetary Plan based on the Plan's assumptions.