

**FRANCE  
STABILITY  
PROGRAMME  
2014-2017**

**23 April 2013**



## Contents

<b>1. OVERVIEW</b> .....	<b>4</b>
<b>2. MACROECONOMIC SCENARIO</b> .....	<b>7</b>
<b>3. PUBLIC FINANCE SCENARIO</b> .....	<b>13</b>
3.1 Overall strategy and medium-term budgetary objective .....	13
3.2 Outturn 2013.....	16
3.3 Public finance path under the no-policy-change scenario and trend path .....	17
3.4 Structural budget balance .....	18
3.5 The government balance by sub-sector .....	21
3.6 Government expenditure .....	23
3.6.1 General government expenditure.....	23
3.6.2 Central government expenditure.....	26
3.6.3 Expenditure of other central government bodies.....	29
3.6.4 Social security funds' expenditure .....	29
3.6.5 Local government expenditure .....	32
3.7 Government revenue .....	34
3.7.1 General government revenue .....	34
3.7.2 Central government revenue .....	36
3.7.3 Social security funds' revenue .....	37
3.7.4 Local government revenue .....	37
3.8 Government debt and stock-flow adjustment.....	40
<b>4. EXCESSIVE DEFICIT PROCEDURE (EDP)</b> .....	<b>44</b>
4.1 Excessive Deficit Procedure .....	44
4.2 Convergence towards the medium-term budgetary objective.....	46
<b>5. SENSITIVITY ANALYSIS AND COMPARISON TO PREVIOUS PROGRAMMES</b> .....	<b>47</b>
5.1 Sensitivity analyses .....	47
5.2 Comparison to previous programmes .....	50

5.2.1	Comparison with the previous Stability Programme .....	50
5.2.2	Comparison with the European Commission's 2014 winter public finance forecasts .....	52
<b>6.</b>	<b>QUALITY OF PUBLIC FINANCES.....</b>	<b>53</b>
<b>6.1</b>	<b>Quality of government expenditure .....</b>	<b>53</b>
6.1.1	Ongoing spending review process (MAP) .....	53
6.1.2	Public investment evaluation.....	57
6.1.3	Streamlining healthcare expenditure.....	58
6.1.4	Streamlining local government expenditure.....	59
<b>6.2</b>	<b>Quality of government revenue .....</b>	<b>60</b>
<b>7.</b>	<b>SUSTAINABILITY OF PUBLIC FINANCES.....</b>	<b>64</b>
<b>7.1</b>	<b>Sustainability of general government debt.....</b>	<b>64</b>
7.1.1	Impact of the ageing population on public finances .....	64
7.1.2	Sustainability gap .....	65
<b>7.2</b>	<b>Contingent liabilities .....</b>	<b>67</b>
<b>7.3</b>	<b>Ongoing structural reforms .....</b>	<b>69</b>
<b>8.</b>	<b>INSTITUTIONAL ASPECTS AND FISCAL GOVERNANCE .....</b>	<b>70</b>
<b>8.1</b>	<b>New fiscal governance structure fully in place .....</b>	<b>70</b>
<b>8.2</b>	<b>Continuing reform of European fiscal governance – the Two-Pack.....</b>	<b>72</b>
<b>8.3</b>	<b>Statistical governance .....</b>	<b>74</b>
<b>8.4</b>	<b>Status of this Stability Programme under internal procedures .....</b>	<b>76</b>
<b>9.</b>	<b>NOTES ON METHODOLOGY AND STATISTICAL TABLES.....</b>	<b>77</b>
<b>9.1</b>	<b>Statistical appendix.....</b>	<b>77</b>
<b>9.2</b>	<b>Methodological appendix: Structural analysis of government balance .....</b>	<b>83</b>
<b>9.3</b>	<b>In-year progress report on correction of the excessive deficit and compliance with the Recommendation ...</b>	<b>86</b>

## 1. Overview

After remaining flat for 5 years, France's economic activity returned to its pre-crisis level at the end of 2013. The recovery has been gradual and uneven. Initiatives in the euro area helped to ease financial tensions, particularly the decisions taken by the European Council in June 2012 and the increased involvement of the ECB announced in September 2012. However, adjustments in the euro area, particularly in countries with major imbalances, put a drag on France's external environment at a time when France itself was ambitiously tackling deficits.

Consequently, the French economy posted weak growth in 2013, at a rate of only 0.3%<sup>1</sup>. But there were encouraging signs at the end of the year, with a recovery in investment and jobs in the private sector for the first time in two years. The annual rate of growth now stands at around 1%. The Government's concern is to foster faster growth and a sustainable increase in jobs in the private sector, in order to bolster households' purchasing power, especially the least well-off households, who are the first to suffer when the economy lacks dynamism.

The Government's two-pronged strategy is designed to:

- strengthen our economy and its capacity to create jobs, while making targeted efforts to increase the purchasing power of the least well-off;
- continue to consolidate our public finances to regain fiscal room for manoeuvre and decrease government debt, without impeding growth and while financing our priorities for the future – secondary and higher education, justice and security.

This is the whole purpose of the policies described in this Stability Programme and the National Reform Programme that goes with it.

This strategy hinges on implementation of the Responsibility and Solidarity Pact, combined with an unprecedented effort to slow spending, to achieve savings of €50 billion between 2015 and 2017.

With the Responsibility and Solidarity Pact, businesses' cost of labour, which has already fallen as a result of the Competitiveness and Employment Tax Credit (CICE), will be cut further for a total reduction of €30 billion. Starting in 2015, there will no longer be any social security payroll contributions on minimum-wage jobs, other than unemployment insurance contributions. In 2016, family allowance contributions will be reduced as well on jobs paying up to three and a half times the minimum wage. In addition, business taxes will be streamlined and reduced: the corporate social solidarity contribution (C3S), which is based on turnover and not on income, will be reduced starting in 2015 and phased out by 2017; the exceptional corporate income tax payment for large corporations will be phased out in 2016 and the standard rate of corporate income tax will decrease starting in 2017. At the same time, since there is an urgent need to boost the purchasing power of low-income

---

<sup>1</sup> Adjusted for seasonal variations and working days

households, an initial measure will be introduced in 2014 and, in 2015, smaller employee social security contributions will result in a gain of €500 per year for workers earning the minimum wage. Measures in favour of the least well-off will total €5 billion by 2017.

These efforts will allow businesses to free up new resources for innovation, investment and creating jobs, thus contributing to economic recovery and higher employment. And the households in greatest need will receive immediate support.

Based on the usual macroeconomic patterns, the Pact should boost growth by 0.6 points over the forecast period and produce 200,000 additional jobs. In practice, this impact should be amplified by the commitments made by economic and social players under the Pact and, more generally, by the positive confidence shock produced by extending and expanding reductions in spending and tax and social security contributions.

At the same time, France has confirmed its commitment to bring the deficit down to 3% of GDP in 2015 and achieve its savings target of €50 billion.

The government deficit must be reduced to stabilise and then decrease debt as a share of GDP. Reducing the deficit will also ensure that the central government continues to enjoy favourable borrowing terms which in turn will be passed on to businesses and households. Reducing the government deficit will also ensure that France continues to have its say in Europe and that the most vulnerable countries can still count on its support.

Savings of €50 billion will be needed between 2015 and 2017 to bring government expenditure growth back into line with inflation. This is an unprecedented and bold target, but it will enable us to continue cutting the deficit without introducing new taxes.

The effort will be shared equally across the whole general government sector. Central government and central government agencies' will shoulder the largest portion (€18 billion over three years) by increasing efficiency and further improving their cost controls. The other sectors will make virtually similar contributions: local government will bring expenditure growth back into line with inflation, saving €11 billion through organisational reform, the health insurance system will save €10 billion through ongoing structural reforms to ensure the quality of care and the level of coverage while keeping costs under tighter control, the social protection system will save €11 billion through reforms that have already been adopted, notably regarding pensions and family policy, and through future measures, such as efficiency gains in the management of social security funds and a stabilisation of benefits in nominal terms, except for minimum social benefits, for one year.

Civil servants will also play their part through a stabilisation of the civil service pay scale, but efforts to recruit new personnel in priority sectors will continue.

Overall, France's growth rate is expected to stand at 1% in 2014 before rising to 1.7% in 2015 and 2 ¼ % in 2016-2017. The deficit will continue to shrink to 3.8% of GDP in 2014, 3.0% in 2015 before falling to 1.3% in 2017. In keeping with our commitments, the cyclically-adjusted "structural" balance will be brought close to equilibrium by 2017 by means of an adjustment of 0.8 points per year in 2014 and 2015, followed by an adjustment of 0.5 points per year after that. All this will be achieved with no new taxes: over the period, the aggregate tax and

## FRANCE STABILITY PROGRAMME 2014-2017

social security contribution rate will be reduced, the share of government expenditure will shrink by 3 points of GDP and government debt will remain steady in 2015 before decreasing for the first time since 2006.

France has been making unprecedented efforts for the last two years and will take these efforts to the next level over the course of the next three. The sustained recovery of the French economy depends on it.

## 2. Macroeconomic scenario

**After growth picked up again in 2013 to reach 0.3%<sup>2</sup>, it is expected to climb to 1.0% in 2014 and 1.7% in 2015.** Growth is bound to take strength from renewed confidence in the euro area, the initial impact of the Responsibility and Solidarity Pact on competitiveness and purchasing power, and a brighter international environment.

However, growth is unlikely to significantly exceed its potential rate before 2015 due to the euro's appreciation since the third quarter of 2012 and ongoing fiscal consolidation, albeit at a more measured pace than in previous years.

The average annual growth rate should stand at 2 ¼ % in 2016 and 2017, which will gradually close the output gap.

This growth scenario is similar to those put forward by the European Commission and international organisations, which forecast growth of around 1% in 2014 before rising in 2015 to 1.6% (OECD), 1.5% (IMF) and 1.7% (European Commission) under unchanged policies, before fiscal consolidation and before the Responsibility and Solidarity Pact.

There are still uncertainties: the pace of France's recovery hinges on that of the euro area. The growth in world trade will depend on future financial conditions in advanced economies and the capacity to control the impact that America's gradual monetary policy normalisation will have on emerging economies. At the same time, the behaviour of domestic economic agents will depend on their confidence and their expectations.

*Growth resumed in the second quarter of 2013 and should continue to gather strength throughout 2014, with some quarterly variations.*

Growth has been positive again since the second quarter of 2013. The current growth trend is approximately one-quarter of a percentage point per quarter, after being flat between the third quarter of 2011 and the beginning of 2013. This recovery has seen some ups and downs: after rebounding sharply in the second quarter of 2013 to 0.6%, the economy contracted slightly in the third quarter, shrinking by 0.1%, before picking up again at the end of the year with growth of 0.3%.

**Growth should gather strength at the beginning of 2014, despite some potential hiccups.** A temporary dip cannot be ruled out in the first quarter, given the exceptionally warm weather and certain measures that underpinned growth at the end of 2013, such as an easing of the rules to access employee savings, expectations of a stiffer penalty/bonus scheme for fuel efficiency and the VAT hike on 1 January 2014. The dip should be followed by a stronger rebound of GDP growth in the second quarter as the outlook improves and the economy bounces back from the adverse environment that existed at the start of the year.

---

<sup>2</sup> GDP growth in 2013 as stated in the quarterly national accounts which are adjusted for number of working days



*The recovery will accelerate as households and businesses regain confidence*

**Renewed confidence should lead to a recovery in business investment as the outlook for demand improves.** The better business climate since the second quarter of 2013 is a sign of renewed business confidence. The shift will gather strength as the effects of the Competitiveness and Employment Tax Credit (CICE) start to be felt and the Responsibility and Solidarity Pact is implemented, reducing businesses' labour costs by a total of €30 billion and their taxes by some €10 billion by 2017. With this support, business investment, which started to recover in the last quarter of 2013, should grow by 1.8% in 2014 and by 5.2% in 2015 compared to a contraction of 2.3% in 2013. The resumption of investment should be underpinned by the continued availability of very favourable financing conditions, made possible by capital inflows to the euro area and gradual fiscal consolidation in keeping with our commitments. Furthermore, businesses should increase their inventories slightly on the back of a more promising outlook for demand, which will benefit from the measures in the Responsibility and Solidarity Pact.

After remaining soft for five years and growing by an average of 0.4% between 2007 and 2012, **household consumption will become the second domestic engine of renewed growth**, expanding by 0.8% and then by 1.6%. Purchasing power growth should also accelerate gradually from 0.3% in 2013 to 0.7% in 2014 and then to 1.3% in 2015 compared to a contraction of 0.9% in 2012. This acceleration will be underpinned by the measures in the Responsibility and Solidarity Pact, such as the reduction of payroll contributions on low-paid jobs in 2015 and tax cuts for households in the lowest income tax brackets, and by a stronger labour market. Renewed household confidence as the labour market gradually improves should lead households to reduce their precautionary savings, causing a gradual fall in the savings rate to 15.6% in 2013, 15.5% in 2014 and 15.2% in 2015. Fiscal consolidation will also underpin the decrease in households' precautionary savings.

*A brighter international economic environment and measures to foster competitiveness should support exports*

**Demand for France's exports should rebound, growing by 4.8% in 2014 and by 6.5% in 2015.**

**The recovery that started in the euro area in 2013 is expected to gather strength, with faster growth**, as financial tensions abate and the pace of fiscal consolidation slows down in view of the adjustments already accomplished. The euro area's growth is expected to remain moderate at this point, as a result of the large disparities that remain between Germany on the one side, and Italy and Spain, which are just emerging from two years of recession, on the other.

**Developments outside of the euro area are likely to be mixed but favourable on the whole.** The United Kingdom and the United States should continue to enjoy strong and rising growth. On the other hand, Japan's growth is expected to slow due to tighter fiscal policy. The growth of emerging economies should continue to be fairly strong in 2014-2015, but the long-term trend is likely to show weaker growth than during the pre-crisis period.

**Export growth is expected to rebound to 3.4% in 2014 and then 4.7% in 2015, in view of strong global demand and measures to promote competitiveness.** This forecast factors in the reversal of France's steadily shrinking export market share since 2008 compared to the early part of the decade. This reversal stems from more balanced growth in the emerging countries and the improved non-price competitiveness of French products. In the short term, France is unlikely to derive the full benefit of strong global demand, given the recent appreciation of the euro, which undermines our price competitiveness. France's nominal effective exchange rate rose by nearly 8% between July 2012 and March 2014. On the other hand, cuts in payroll contributions and business taxes will boost competitiveness.

**Foreign trade should start making a positive contribution to growth in 2015, increasing from 0.0 points in 2014 to 0.1 points in 2015 as the impact of the stronger euro fades.**

*Government policies should enable private sector employment to derive the full benefit of the recovery*

**The recovery, along with the combined effects of the Competitiveness and Employment Tax Credit and the Responsibility and Solidarity Pact should set the stage for a slight increase in private sector employment in 2014, with an annual average of 15,000 new jobs, marking a 0.1% increase, followed by much faster growth in 2015, with 160,000 new jobs for a 1% rise.**

Following on from a disappointing 2013 caused by the gloomy economic climate which saw 125,000 jobs lost despite the initial impact of the Competitiveness and Employment Tax Credit and a recovery in employment in the fourth quarter, **private sector employment** will post a small increase in 2014, adding 15,000 new jobs. Growth should pick up gradually over the course of the year and the effects of the Competitiveness and Employment Tax Credit should be felt more strongly, leading to a recovery in employment. The growth of private sector employment should be much stronger in 2015, with 160,000 new jobs added as a result of the usual determining factors and the impetus provided by the Competitiveness and Employment Tax Credit and the Responsibility and Solidarity Pact.

**Employment growth in the non-private sector should remain strong in 2014, with a net increase of 130,000 jobs, as the number of workers employed under government-sponsored contracts rises. In 2015, as this form of government support reaches maturity, employment growth in the non-private sector is expected to slow.**

The primary support for the strong performance of **non-private sector employment** in 2014, with 130,000 new jobs, should come from proactively applied contra-cyclical employment policies in the short term to enable those furthest removed from the labour market to become participants. The number of new hires under government-sponsored contracts (CUIs-CAEs) is expected to reach 340,000 in 2014 and the Jobs for the Future programme will be phased out. Non-private sector employment should remain steady in 2015, as support from employment policies reaches maturity and renewed private sector job growth takes its place as a driving force for more jobs.

**An annual average of 155,000 jobs are expected to be created in 2014, followed by 175,000 in 2015 across all economic sectors. Private sector employment growth will gradually take over from the government-sponsored job schemes as a source of new employment.**

*Inflation will rise slightly, but be curbed by the appreciation of the euro*

**Inflation should pick up slightly, but very moderately, standing at 1.2% in 2014 and 1.5% in 2015, compared to 0.9% in 2013, including tobacco.** The stronger euro and falling commodity prices in 2013 should continue to curb inflation in 2014 and 2015 as they are gradually passed on in consumer prices, but these effects will fade eventually. Furthermore, an end to falling oil prices and plummeting telecommunications prices should automatically lead to price hikes in 2014. The increases in the standard and intermediate VAT rates on 1 January 2014 should have a temporary impact on inflation in 2014, while the Competitiveness and Employment Tax Credit should have a deflationary impact because it will lower producers' costs. Inflation will continue to rise in 2015 as economic and employment growth gather strength.

*In the medium term (2016-2017), growth should reach 2 ¼ % based on a gradual recovery scenario*

**The growth rate is expected to stand at 2.25% per year in 2016 and 2017, underpinned by the Responsibility and Solidarity Pact.** This would mean a gradual narrowing of the output gap as government deficits are being reduced. All of the international organisations consider that the gap is very wide. This Stability Programme estimates France's output gap at -3.1% in 2015, while the OECD puts it at -3.8%, the European Commission at -2.2% and the IMF at -2.0%

**Foreign trade should make a positive contribution to France's economic growth.** The Responsibility and Solidarity Pact, along with all of the measures introduced as part of the National Pact for Growth, Competitiveness and Jobs, particularly the Competitiveness and Employment Tax Credit, will continue to be ramped up and will gradually have more of an impact on the price and non-price competitiveness of French products. If global demand grows in line with the long-term trend, and if the euro exchange rate remains stable, the trade deficit should gradually shrink.

**Investment should continue to increase, underpinning economic growth and boosted by the Responsibility and Solidarity Pact.** Further falls in the cost of labour resulting from the Pact in 2015 along with lower taxes and payroll contributions scheduled for the same year should have a favourable impact. Corporate profit margins should return to their pre-crisis level, enabling companies to maintain a high investment rate without undermining their financial soundness.

**Household consumption should get a boost as purchasing power starts to rise again as a result of employment growth and measures introduced under the Responsibility and Solidarity Pact.** A gradual fall in the savings rate is also expected, as precautionary savings continue to diminish against the backdrop of a steady reduction in government deficits.

*This forecast is still subject to many uncertainties*

**The current international environment features many uncertainties.** The pace of the recovery will depend on global demand growth. It could turn out to be higher than expected if the euro area has a stronger recovery. There are also persistent uncertainties concerning emerging market growth. Some of these markets are particularly dependent on export demand from the advanced economies and commodity prices, as in the case of Russia and Brazil. Furthermore, renewed financial tensions linked to the external vulnerability of such countries as Argentina, Turkey, South Africa, Brazil, India, and Indonesia cannot be ruled out. Lastly, political tension could undermine investor confidence and further weaken economies that are already struggling. In addition, there is still uncertainty as to how interest rates will respond to a return to more standard monetary policy, even though central banks have enhanced their medium-term forward guidance for investors. The euro could continue to appreciate, if, for example, emerging countries' currencies drop again. Alternatively, it could depreciate, for example, if the Fed's tapering occurs more quickly than expected or if monetary policy is eased in the euro area. Based on the latest announcements made by the ECB, which is worried about the strength of the euro and the slowdown in inflation, the second hypothesis seems more likely.

**There is still uncertainty in France about the behaviour of private sector economic agents.** Brighter prospects for growth could lead to a stronger rebound in investment, which would entail more jobs, thereby boosting household incomes and consumption. Policies to support competitiveness and employment will have a positive impact, but the scale of this impact will depend on how businesses behave. Businesses could, for example, pass on lower labour costs in the form of price competitiveness gains that favour exports and curb domestic inflation. Alternatively, they may prefer to boost their profit margins.

#### **Box 1 – Comparison with the European Commission's Winter 2014 Forecast**

On the whole, the 2014-2015 macroeconomic scenario is in line with the European Commission scenario outlined as part of its February 2014 macroeconomic forecasts. Both scenarios forecast GDP growth of 1.0% in 2014 and 1.7% in 2015.

However, the underlying assumptions for 2015 differ. The Stability Programme scenario incorporates the positive impact of the Responsibility and Solidarity Pact on GDP and employment growth and the fiscal consolidation measures that France has planned for 2015.

The Commission's scenario forecasts faster growth in foreign trade. According to the Commission, exports are forecast to grow by 4.4% in 2014 and by 5.6% in 2015 compared to the Stability Programme's more modest growth rates of 3.4% and 4.7% respectively. The Commission also forecasts stronger growth in imports, and expects foreign trade to make a negative contribution to growth in 2015. However, it does not factor in the positive impact that the Responsibility and Solidarity Pact is expected to have on France's competitiveness.

Both scenarios give fairly similar household consumption and business investment figures. In contrast to the European Commission's scenario, the Stability Programme scenario forecasts

slightly more inventory build-up by businesses and incorporates France's planned fiscal consolidation efforts.

**Table 1: Macroeconomic scenario, 2013-2017**

Average annual growth rate (%)	2013*	2014	2015	Average 2016-2017
<b>GDP</b>	<b>0.3</b>	<b>1.0</b>	<b>1.7</b>	<b>2 ¼</b>
Household consumption	0.3	0.8	1.6	2.3
General government consumption	1.8	0.4	0.8	0.3
Gross fixed capital formation	-2.1	0.2	1.3	3.3
o.w. non-financial businesses	-2.3	1.8	5.2	4.4
Contribution from inventories	0.1	0.3	0.2	0.0
Contribution from foreign trade	0.0	0.0	0.1	0.3
Exports	0.8	3.4	4.7	6.9
Imports	0.8	3.1	4.1	5.7
GDP deflator	1.1	1.2	1.5	1.7
Household consumption deflator	0.6	1.1	1.5	1.75
Wage bill (private sector)	0.9	2.2	3.5	4.3
Average nominal wage per capita (non-farm private sector)	1.5	2.1	2.4	2.8
Salaried employment (non-farm private sector)	-0.6	0.1	1.0	1.4

\*INSEE quarterly accounts (adjusted for working days)

### 3. Public finance scenario

#### 3.1 Overall strategy and medium-term budgetary objective

As economic growth picks up again, it must be harnessed to create more jobs. In this context, the Government is focusing on two targets: supporting growth and jobs by introducing the Responsibility and Solidarity Pact and continuing to reduce the government deficit equitably to regain fiscal room for manoeuvre, reduce the government debt burden and safeguard national sovereignty. This strategy will require, in addition to the Responsibility and Solidarity Pact, government expenditure savings of €50 billion to be made between 2015 and 2017. Lower labour costs and business tax cuts will stimulate job creation, innovation and investment, thereby boosting employment, growth and purchasing power. In the interest of social justice, the Pact will also include targeted reductions in the tax burden on the least well-off households to increase their purchasing power. Finally, the government deficit will be reduced, while maintaining funding for government priorities.

The steps set out in detail in this Stability Programme are a continuation of the recovery strategy that the government has applied since 2012.

**These efforts will reduce the deficit steadily so that public finances are structurally balanced by the end of President Hollande's term in keeping with the commitments he made.** Under the measures already implemented, a total structural adjustment of 2.2 points of GDP was achieved in 2012-2013, the nominal government balance improved by 1 point of GDP to 4.3 points in 2013 compared to 5.2 points in 2011. The measures presented in this Stability Programme for 2014 and for 2015-2017 build on these consolidation efforts. Fiscal consolidation was primarily underpinned by revenue measures in 2012 and 2013; adjustments will now come through government expenditure savings to stabilise the tax burden in 2014 before reducing it in 2015.

The Government will introduce further savings measures in 2014 to limit any deviations from the path set out in the third quarter of 2013. These measures will help offset the larger-than-expected drop in revenues in 2013 and 2014, which has reduced the elasticity of aggregate taxes and social security contributions. However, the targets have been revised and the 2014 deficit is expected to stand at 3.8% of GDP followed by 3% in 2015, compared to 3.6% and 2.8% respectively in the latest forecasts.

The savings plan unveiled by the Prime Minister on 16 April 2014 **will reduce the government deficit to 3% of GDP in 2015 and bring public finances into structural balance by the end of the period covered by the Programme in keeping with France's medium-term objective.**

**Table 2 – Multiyear public finance adjustment path**

(As a % of GDP)	2012	2013	2014	2015	2016	2017
<b>Government balance</b>	<b>-4.9</b>	<b>-4.3</b>	<b>-3.8</b>	<b>-3.0</b>	<b>-2.2</b>	<b>-1.3</b>
Cyclical component	-0.8	-1.4	-1.7	-1.6	-1.3	-0.9
One-off and other temporary measures (as a % of potential GDP)	-0.1	0.0	0.0	-0.1	-0.1	0.0
Structural balance (as a % of potential GDP)	-4.0	-2.9	-2.1	-1.2	-0.8	-1/4
Structural adjustment	1.1	1.1	0.8	0.8	0.5	0.5
Real growth rate of government expenditure (% change)	1.2	1.3	0.3	-0.3	0.3	0.2
Aggregate taxes and social security contributions	45.0	45.9	45.9	45.6	45.4	45.3
General government expenditure	56.7	57.1	56.7	55.6	54.6	53.5
Government debt	90.6	93.5	95.6	95.6	94.2	91.9
Government debt excluding financial support for the euro area	88.2	90.4	92.4	92.5	91.2	89.0

**The savings plan announced maintains our priorities, especially in relation to helping young people by creating new jobs as planned in the education, security and justice sectors. The savings will bring government expenditure growth into line with the inflation rate between 2015 and 2017, leading to a reduction in government expenditure by more than three points of GDP between 2014 and 2017 from 56.7% in 2014 to 53.5% in 2017.** Initial measures implemented in 2012 and 2013 have already had an impact, as shown by central government expenditure which was €0.1 billion under its target in 2013, and by health insurance expenditure which was under its national target by €1.4 billion (so called “Ondam”). In addition, the growth of general government expenditure slowed sharply in 2013, to reach its lowest point since 1998.

Expenditure savings seen in 2013 will be consolidated in 2014 on top of the savings on unemployment insurance agreed by management and labour representatives. Combined with new measures to be announced before the third quarter, including central government budget cancellations and a one-year stabilisation of certain benefits in nominal terms, they will result in an additional net savings of €4 billion.

**All of the general government sectors will share the burden and do their part to ensure the success of the €50-billion savings plan between 2015 and 2017.** Central government will contribute €18 billion in savings through structural streamlining efforts, efficiency gains in IT systems, procurement, etc. and a more modest standard of living. During the previous President's term, central government agencies saw a substantial increase in their resources. Their operating expenditure and actions will be trimmed in line with those of central government. The government's wage bill will be kept in check by stabilising the civil service pay scale. Local government will contribute savings of €11 billion, bringing its expenditure growth into line with inflation. The bill clarifying France's local government structure will contribute to expenditure savings by eliminating the *clause générale de compétence* (principle by which local authorities can act in areas for which they are not responsible as of right) for *départements* and regions. The general operating grant (“*dotation globale de fonctionnement*”) will be reformed to encourage better practices. The *Conseil national d'évaluation des normes* will endeavour to reduce the cost of ensuring compliance with existing regulations and will monitor the new ones.

The health insurance system will contribute savings of €10 billion through the implementation of the national healthcare strategy without decreasing the quality of care or coverage. Other social protection expenditure will contribute another €11 billion in savings. The reforms that

have already been adopted account for nearly €3 billion in savings, including measures affecting basic and supplementary pension schemes, and family policies. The March 2014 agreement between labour and management representatives on the unemployment insurance system will begin to have an impact. At the end of the period, the agreement will need to be supplemented to bring the system's finances into balance with total savings of €2 billion. The one-year stabilisation of benefits (excluding minimum social benefits), will start having an impact in October 2014, producing savings of more than €2 billion, including €1.3 billion on basic retirement pensions. Supplementary pension schemes will continue their ongoing efforts to achieve financial equilibrium, with savings of €2 billion, and family policies will be streamlined with savings of €0.8 billion. These efforts to improve efficiency by reorganising and streamlining social protection management will have an impact for all government departments, generating savings of €1.2 billion. The one-off increase in the RSA income support supplement has been upheld but deferred for one year.

Savings plan	Total for 2015-2017 in € billions
Central government	18.0
Local government	11.0
Health insurance	10.0
Social security reforms already initiated	2.9
Supplementary measures affecting benefits and social protection management	8.1
<b>Total savings plan</b>	<b>50.0</b>

These measures will lead to a substantial and lasting reduction in government expenditure growth in real terms. The inflation-adjusted government expenditure growth will stand at 0.3% in 2014 and average 0.1% between 2015 and 2017, compared to 1.1% in 2012 and 1.3% in 2013.

**Cuts in taxes and social security contributions under the Responsibility and Solidarity Pact will lower the tax burden from 45.9 points of GDP in 2013 and 2014 to 45.3 points of GDP in 2017.**

**The Responsibility and Solidarity Pact combined with the growing impact of the Competitiveness and Employment Tax Credit introduced in 2012 will reduce labour costs by €30 billion.** The Pact will boost the competitiveness of French companies and create hundreds of thousands of new jobs by the end of the President's term (see Box 9). The reduction in employers' social security payroll contributions is the first part of the Pact. Starting in 2015, the exemptions granted to employers on wages up to 1.6 times the minimum wage will be extended so that employers no longer pay any social contributions for minimum-wage employees other than unemployment insurance premiums, and the general scale of reductions will be reviewed.

Family allowance contributions on jobs paying up to three and a half times the minimum wage will be reduced by 1.8% on 1 January 2016 to enhance the competitiveness of French companies in export markets. All in all, the new reductions in employers' contributions will reduce labour costs by €9 billion. Self-employed workers and artisans will see their family allowance contributions cut by a total of €1 billion. The second part of the Pact deals with business taxes, which will also be reduced. The corporate social solidarity contribution (C3S) will be cut by €1 billion starting in 2015 and phased out entirely by 2017, lowering taxes by €6 billion. The exceptional corporate income tax payment for large corporations will be phased out in 2016 and



the standard rate of corporate income tax will be lowered to 28% in 2020, with an intermediate cut in 2017.

**Contributions will be cut for minimum-wage workers to increase their disposable income. The cuts will be degressive for workers earning up to 1.3 times the minimum wage.** For minimum-wage workers, these cuts will increase their annual take-home pay by €500, which is equivalent to approximately an extra half-month's pay. **Taxes will also be cut for low-income households,** amounting to €5 billion in cuts by 2017. These measures will boost the purchasing power of low-wage workers and lead to higher consumption.

**The reduction of the government deficit will stabilise the government debt ratio starting in 2015. Government debt levels will then start to shrink substantially in 2016 for the first time in more than ten years, falling to 91.9 points of GDP by 2017.**

### 3.2 Outturn 2013

**On 31 March 2014, France's national statistics institute (INSEE) published the preliminary general government accounts for 2013, showing a deficit of 4.3% of GDP in 2013 (€87.6 billion).** This was €2.7 billion greater than the deficit forecast underpinning the 2014 draft budget of 4.1% of GDP, primarily as a result of the local government deficit which outstripped the forecast by 0.2% of GDP.

The 2013 outturn confirmed that expenditure was under control, with the smallest increase in nominal terms since 1998, except in the case of local government. The outturn also showed that the natural rate of growth of revenues was less favourable than expected.

The expenditure growth rate of 1.3% in real terms and 2.0% in nominal terms was around 0.5 pp lower than the draft budget forecast of 1.7% in real terms and 2.5% in nominal terms. The under-spending can be explained by lower interest expenditure in the national accounts, as well as under-spending by different general government sub-sectors, with the exception of local government.

Taxes and contributions were some €7 billion less than forecast in the draft budget. The bulk of this contraction of revenue can be attributed to corporate and personal income tax revenue, which was down by nearly €5 billion. The aggregate elasticity of taxes and contributions should stand at 0.2 in 2013 compared to the forecast of 0.4 in the 2014 draft budget.

The revised government deficit for 2013, and the concomitant downward revision of expenditure and revenue, affected the estimates for the measures undertaken to meet the deficit-reduction commitments. As explained in detail in Section 4.1, the reported data show sufficient structural adjustment, as defined by the Commission<sup>8</sup>, to comply with the recommendation made to France in June 2013.

---

<sup>8</sup> 16 The notion of structural adjustment computed is similar to that of structural effort, both on the expenditure and the revenue side.

### 3.3 Public finance path under the no-policy-change scenario and trend path

In accordance with the requirements of the revised Stability and Growth Pact, this Stability Programme outlines a **no-policy-change scenario**, i.e. the changes in the government balance that would occur based on constant legislation and budget policy. This scenario incorporates the developments stemming from existing laws and regulations, but does not factor in the measures still to be implemented to meet the public finance targets.

This programme uses the following assumptions to construct the no-policy-change scenario.

- The scenario considers revenue and expenditure measures already passed ("no legislative change") under all legislation that has an impact on public finances and, more specifically, under previous Budget Acts, Social Security Budget Acts and Public Finance Planning Acts. For this programme, therefore, the scenario includes the effects of measures introduced by the 2013 and 2014 Initial Budget Acts, the 2013 and 2014 Social Security Budget Acts, the 2012 and 2013 Supplementary Budget Acts and previous Budget Acts, along with the expenditure rules set out in the 2012-2017 Public Finance Planning Act that Budget Acts passed since then comply with. More specifically, this Act includes ambitious objectives for central government expenditure and for expenditure covered by the national healthcare expenditure growth target (Ondam). Both have proven to be effective instruments for containing expenditure.
- The scenario also assumes no change in usual budget policies, such as index-linking of benefits (family benefits, pensions, etc.) and tax rates. It also incorporates statistically observed patterns, such as that of the local government balance over the election cycle (including capital expenditure and local direct tax rates).

In contrast to the adjustment path under this Stability Programme, the no-policy-change scenario does not incorporate measures introduced after the 2014 Budget Act, other than the changes already in place, such as the Responsibility and Solidarity Pact.

This Stability Programme also presents a **trend adjustment path** for the deficit that shows the natural growth rates of government revenue, healthcare expenditure and central government expenditure. This path is different from the no-policy-change path in that it does not factor in the efforts made to comply with fiscal requirements or the measures introduced after July 2012. When we strip these out, the deficit would stand at 5% of GDP in 2017.

**Table 3 - Multiyear Public finance adjustment path**

As a % of GDP	2013	2014	2015	2016	2017
<b>Trend path (before measures introduced after July 2012)</b>	<b>-6.5</b>	<b>-6.7</b>	<b>-6.4</b>	<b>-5.9</b>	<b>-5.1</b>
Compliance with the expenditure rules	0.7	1.2	1.5	1.8	2.0
Discretionary revenue measures since May 2012 (including the 2014 Initial Budget Act and the Competitiveness and Employment Tax Credit, and excluding the Responsibility and Solidarity Pact and tax disputes)	1.5	1.4	1.3	1.3	1.2
Expenditure savings (including the 2013 retirement pension reform and agreement on supplementary pension schemes)	0.0	0.2	0.3	0.3	0.3
<b>No-policy-change scenario</b>	<b>-4.3</b>	<b>-4.0</b>	<b>-3.2</b>	<b>-2.5</b>	<b>-1.6</b>
Increased effort compared to the Multiyear Public Finance Planning Act and the 2014 Initial Budget Act		0.2	0.2	0.3	0.3
<i>o.w. expenditure savings beyond the expenditure rules</i>		0.2	0.6	0.9	1.2
<i>o.w. Responsibility and Solidarity Pact: cuts in taxes and social security contributions</i>		0.0	-0.3	-0.6	-0.9
<b>Target adjustment path</b>	<b>-4.3</b>	<b>-3.8</b>	<b>-3.0</b>	<b>-2.2</b>	<b>-1.3</b>

The **2014 no-policy-change scenario** forecasts a deficit of 4.0%. The target adjustment path incorporates some €4 billion of the savings announced to ensure full compliance with our commitments.

In **2015 and beyond**, the no-policy-change scenario incorporates compliance with central government expenditure rules and with the national healthcare expenditure growth target set in the 2012-2017 Public Finance Planning Act. It also includes the expenditure savings provided for in the aforementioned Act to finance the Competitiveness and Employment Tax Credit, along with the discretionary revenue measures in the Budget Acts passed since the third quarter of 2012. The target adjustment path also includes the cuts in taxes and social security contributions introduced under the Responsibility and Solidarity Pact between 2015 and 2017, along with the savings efforts made in addition to those set out in previous expenditure rules.

### 3.4 Structural budget balance

In **2013**, the government deficit shrank by 0.6 points of GDP from 4.9% to 4.3%. The structural effort was considerably higher at 1.6 points of GDP. Most of the reduction resulted from revenue measures in the 2013 and 2014 Budget Acts which accounted for 1.4 points of GDP, and from expenditure savings which accounted for 0.2 points of GDP, corresponding to 2.0% growth in nominal expenditure which turned out to be less of an effort than expected given the very low inflation rate (the GDP price deflator stood at 1.1%). The low elasticity of revenue (contributing -0.5 points of GDP) reduced the “structural” adjustment to 1.1 points of GDP.

Furthermore, the persistently sluggish economy led to a deepening of the cyclical component of the deficit of 0.6 points of GDP as GDP growth of 0.3%<sup>3</sup> fell short of its potential 1.4%. One-off developments helped bring about an improvement in the government deficit of 0.1 point, as a result of no longer having to bail out Dexia (see Box 3).

In **2014**, the reduction in the government deficit by 0.5 points of GDP will be achieved through a major expenditure savings effort contributing 0.7 points of GDP. This effort will rely on compliance with nominal spending rules, including stabilisation of central government expenditure excluding interest payments and pensions, and a 2.4% increase in the national healthcare expenditure growth target. Savings will also be achieved through retirement pension reform and the management-labour agreements on supplementary pension schemes and the unemployment insurance scheme, as well as further savings measures that the government will introduce before the third quarter. Measures to increase revenues will account

<sup>3</sup> Adjusted for seasonal variations and working days.

for only a small share of the deficit reduction (0.1 points of GDP). Furthermore, ongoing tax disputes will not affect the government deficit in 2014, and the contribution of the non-discretionary component will be only slightly negative.

In 2015, implementation of a substantial portion of the €50-billion savings plan (see Box 4) will reduce expenditure by 0.9 points of GDP. This will reduce the government deficit and make it possible to finance a preliminary cut in taxes and social security contributions under the terms of the Responsibility and Solidarity Pact, contributing -0.2 points to the structural adjustment. This would produce a structural adjustment of 0.8 points of GDP and improve the deficit in nominal terms by the same margin. A slight improvement in the output gap (1.7% actual growth compared to 1.5% potential growth) will be offset by one-off developments that will strip -0.1 points of GDP from the adjustment to the government balance. These include developments in UCITS and withholding tax disputes (see Box 3)

In 2016 and 2017, the deficit is expected to fall by 0.8-0.9 points of GDP per year. Most of the reduction will come from ongoing expenditure savings equivalent to around 0.6 points of GDP per year. Under the terms of the Responsibility and Solidarity Pact, taxes and social security contributions will contribute an average of -0.2 points of GDP to the net structural adjustment of 0.5 points of GDP per year. In addition, the government will take measures under the terms of the Pact that will boost growth over and above its potential (2 ¼ % per year). The cyclical component of the deficit is expected to be reduced by 0.3-0.4 points of GDP. Finally, the after-effects of the tax disputes will be favourable in 2017 (see Box 3). On the whole, the structural deficit is expected to reach ¼ points of GDP by the end of the period covered by the Programme.

**Table 4 - Structural balance adjustment path and breakdown of structural adjustment**

As a % of GDP	2013	2014	2015	2016	2017
Government balance (1)	-4.3	-3.8	-3.0	-2.2	-1.3
Cyclical component (2)	-1.4	-1.7	-1.6	-1.3	-0.9
One-off and other temporary measures (as a % of potential GDP) (3)	0.0	0.0	-0.1	-0.1	0.0
<b>Structural balance (as a % of potential GDP) (1)-(2)-(3)</b>	<b>-2.9</b>	<b>-2.1</b>	<b>-1.2</b>	<b>-0.8</b>	<b>-¼</b>
Structural adjustment	1.1	0.8	0.8	0.5	0.5
Structural effort	1.6	0.8	0.8	0.4	0.4
<i>Discretionary revenue measures</i>	<i>1.4</i>	<i>0.1</i>	<i>-0.2</i>	<i>-0.2</i>	<i>-0.2</i>
<i>Effort in expenditure</i>	<i>0.2</i>	<i>0.7</i>	<i>0.9</i>	<i>0.6</i>	<i>0.6</i>

### Box 2 – Planned corrective measures

In its 5 March 2014 Recommendation, the European Commission estimated on the basis of its Winter 2014 forecast that the deviation from the recommended structural adjustment path would be approximately 0.2 points of GDP in 2013 and 2014 based on the corrected structural adjustment forecast or the “bottom-up” estimate of the fiscal effort. Since then, INSEE released exact data for 2013 on 31 March 2014. The data shows that expenditure was controlled more effectively than the Commission anticipated (see Section 4.1).

The Government decided to take additional corrective measures to achieve an additional adjustment of some €4 billion in the 2014 deficit.

The additional savings achieved in 2013 on expenditure covered by the national healthcare expenditure growth target (Ondam) will be consolidated in 2014 based on a new target that

#### FRANCE STABILITY PROGRAMME 2014-2017

incorporates underspending, which turned out to be €0.75 billion greater than forecast in the 2014 Social Security Budget Act, or €1.4 billion underspend compared to the 2013 Social Security Budget Act. Increased expenditure savings will mean an additional effort of €0.75 billion for the health insurance system, since the Ondam passed by Parliament is stated in nominal terms. The €0.6-billion fall in expenditure on unemployment insurance benefits will also be consolidated in 2014.

In addition to these measures, all social benefits, except for minimum social benefits, will be stabilised in nominal terms for one year. The one-off increase of the RSA income support supplement by 2% more than the usual index-linked increase has been upheld, but deferred for one year. Together, these measures represent a gain of nearly €0.5 billion for public finances in 2014.

Furthermore, the Government will introduce a measure to benefit the least well-off households.

The labour-management agreement on the unemployment insurance system, along with additional savings measures focusing more specifically on central government and included in the supplementary draft budget to be submitted to Parliament before the third quarter will complete these measures and ensure compliance with the Council's June 2013 Recommendation.

### Box 3 - One-off and other temporary measures taken into account when evaluating France's structural balance

France introduced a structural balance rule to implement the Treaty on Stability, Coordination and Governance. The structural balance corresponds to the government balance adjusted for direct cyclical effects and one-off developments. This rule avoids the pro-cyclical effects produced by managing government finances on the basis of the nominal government balance.

The following one-off developments and measures are not included in the structural balance under this Stability Programme in keeping with the method used in the 2012-2017 Public Finance Planning Act:

- **On the revenue side**, the amount of losses stemming from exceptional tax disputes. The year in which those losses will be recognised in the national accounts cannot be foreseen because it depends on the timing and the tenor of the courts' final rulings<sup>4</sup>. The disputes involve reimbursements to foreign UCITS and reimbursements of withholding tax on dividends paid<sup>5</sup> (précompte mobilier).

- **On the expenditure side**, France's €2.6 billion recapitalisation of Dexia. This amount was recorded as a one-off in the 2012 government balance.

**Table 5 – One-off and other temporary measures excluded from the structural balance under the national system of accounts**

(deviation from baseline, in € billions)	2012	2013	2014	2015	2016	2017
<b>Total</b>	<b>-2.6</b>	<b>-0.3</b>	<b>-0.7</b>	<b>-2.7</b>	<b>-2.7</b>	<b>-0.5</b>
Revenue	0.0	-0.3	-0.7	-2.7	-2.7	-0.5
Withholding tax dispute (précompte mobilier)	0.0	0.0	0.0	-1.0	-1.0	0.0
UCITS dispute	0.0	-0.3	-0.7	-1.8	-1.8	-0.5
Expenditure (Dexia)	-2.6	0.0	0.0	0.0	0.0	0.0

*NB: the figures given in this table do not predict the outcome of the disputes; they merely reflect the conservative approach to multiyear public finance projections. Furthermore, the figures shown are subject to change as a result of the courts' final rulings.*

### 3.5 The government balance by sub-sector

Fiscal consolidation will be the result of joint efforts on expenditure by all general government sub-sectors over the programme period, as the economy recovers and leads to an upturn in revenue. Consequently, the government balance should improve by 3.0 points of GDP between 2013 and 2017 from -4.3% of GDP in 2013 to -1.3% of GDP in 2017.

<sup>4</sup> Expenditure and revenue are recorded on an accrual basis in the system of national accounts in compliance with the European System of Accounts of 1995. This means they are recorded, "when economic value is created, transformed or extinguished, or when claims and obligations arise, are transformed or are cancelled". Consequently, the loss or gain from disputes will be recorded in the year when the courts make their final ruling, whereas, in budgetary accounting, it will be recorded on the basis of cash flows.

<sup>5</sup> Since the previous Stability Programme, France won its case before the European Union Court of Justice concerning taxes on electronic communications. The cost of potentially losing the case, which was recorded as a one-off when the Public Finance Planning Act was drafted, has consequently been withdrawn.

**Table 6 - General government lending capacity (+) / borrowing requirement (-)**

% of GDP	2013	2014	2015	2016	2017
<b>Government balance, Maastricht definition</b>	<b>-4.3</b>	<b>-3.8</b>	<b>-3.0</b>	<b>-2.2</b>	<b>-1.3</b>
<i>primary balance</i>	<i>-1.9</i>	<i>-1.4</i>	<i>-0.5</i>	<i>0.4</i>	<i>1.4</i>
Central government	-3.3	-3.2	-3.1	-2.6	-2.0
Other central government bodies	0.1	0.1	-0.1	0.0	0.0
Local government	-0.4	-0.4	-0.2	-0.2	-0.2
Social security funds	-0.6	-0.2	0.3	0.6	1.0

*NB: The balances shown in this table follow the Maastricht definition*

**The central government (central government and other central government bodies) borrowing requirement will fall by 1.1 points between 2013 and 2017** from 3.2% of GDP in 2013 to 2.1% in 2017. The reduction will stem primarily from the rules governing the growth of central government expenditure excluding debt servicing and pensions. The central government's total effort for the period from 2015 to 2017 will amount to €18 billion. The bulk of the savings will come from efficiency gains (pooling of procurement and IT functions, moderating central government standard of living, refocusing government action and stabilising the civil service pay scale); other central government bodies will see their operating expenditure and scope of intervention trimmed. The share of central government expenditure in GDP will decline sharply. The budgets of other central government bodies will be nearly balanced by 2017.

**The social security balance should improve by 1.6 points of GDP between 2013 and 2017, going from a deficit of 0.6 points of GDP to a surplus of 1.0 point of GDP at the end of the period.** In addition to the impact of the revenue measures introduced in 2012 and 2013, most of the improvement will come from the consolidation and increase of the savings achieved on expenditure covered by the national healthcare expenditure growth target (Ondam), which will contribute €10 billion in reduced expenditure between 2015 and 2017, from reform of basic and supplementary retirement schemes and from reform of family benefits in 2013, as well as from the labour-management agreement on the unemployment insurance system signed in March 2014. Further reform of these sectors, with the new agreement on the unemployment insurance system to help it reach financial equilibrium, continuing consolidation of supplementary retirement schemes and reform of family policy, combined with the one-year stabilisation of social benefits, other than minimum social benefits, savings achieved by social protection bodies through reorganisation and streamlining of benefits management, will reduce social benefits expenditure, other than that covered by Ondam, by €11 billion between 2015 and 2017 (see below). On the revenue side, the issue of compensating social security funds for the cuts in social security contributions under the Responsibility and Solidarity Pact will be dealt with in upcoming budgets. Furthermore, payrolls will grow more quickly as new jobs are created under the Responsibility and Solidarity Pact.

**Local government will also take part in the adjustment effort, saving €11 billion between 2015 and 2017. This effort will result primarily from a cut in central government transfers, with an initial cut of €1.5 billion in 2014 following a stabilisation in 2013.** The local government deficit will shrink from 0.4% of GDP to 0.2% by the end of the programme period. This improvement will primarily be attributable to the election cycle, since newly-elected local governments usually rein in capital expenditure early in their term. In addition, their operating expenditure will fall in accordance with the Government's structural reforms. Overall, expenditure growth should be in line with inflation.

## 3.6 Government expenditure

### 3.6.1 General government expenditure

**Table 7 – Change in real general government expenditure by sub-sector**

(annual average, in real terms and in %*)	2013	2014	2015-2017
<b>General government</b>	<b>1.3</b>	<b>0.3</b>	<b>0.1</b>
Central government (APUC)	-0.2	-0.4	-0.9
Local government (APUL)	2.7	0.5	-0.3
Social security funds (ASSO)	1.7	0.6	0.3

\* Expenditure in real and like-for-like terms, including transfers between general government sub-sectors.

**Expenditure growth features efforts by all general government sub-sectors throughout the 2014-2017 period.** Government expenditure increased by 2.0% in nominal terms in 2013, which is markedly slower than the growth of 3.0% posted in 2012. In real terms, the growth rate of government expenditure stood at 1.3% as inflation was low (as measured by the consumer price index excluding tobacco which rose by 0.7%). **As savings efforts intensify and inflation gradually picks up again, expenditure growth should slow to 0.3% in real terms in 2014 and average 0.1% per year over the 2015-2017 period.**

**Expenditure growth in nominal terms slowed sharply in 2013, falling from 3.0% to 2.0%, and was slower than expected in relation to the 2014 draft budget projection of 2.5%.** The savings were achieved in all general government sub-sectors, except local government. Central government expenditure was €0.1 billion less than the forecast underpinning the 2014 draft budget and expenditure covered by the national healthcare expenditure growth target grew by 2.4% from one fiscal year to the next, compared to the target of 2.7%, €1.4 billion less than the target set in the 2013 Social Security Budget Act. The factors that contributed to expenditure growth in 2013 included the local government capital expenditure cycle, even though capital expenditure grew more slowly during the 2008-2013 cycle than the previous cycle. General government interest expenditure contracted sharply in 2013, largely as a result of persistently low interest rates.

**In 2014, a sharp slowdown in expenditure growth to 1.4% in nominal terms and 0.3% in real terms will stem from savings measures and spontaneous factors,** including control of local government expenditure through a €1.5 cut in funding in 2014 following a stabilisation in 2013, the initial impact of pension reform and the 2013 agreement with the supplementary pension schemes. Local government capital expenditure should grow at a much slower pace in keeping with the normal pattern for election years. Lastly, additional measures in the supplementary draft budget to be submitted to Parliament before the third quarter will include labour-management agreements on the unemployment insurance system as well as supplementary savings measures which focus on central government.

**Government expenditure growth between 2015 and 2017 will be virtually nil in real terms.** The growth rate will be much lower than the potential growth rate because of a fiscal consolidation effort based entirely on expenditure measures. It will also be much lower than the past trend.



## FRANCE STABILITY PROGRAMME 2014-2017

The continuing fall in expenditure growth will result from measures already introduced and those presented in this Stability Programme, which will bring the total amount of additional savings over the programme period up to €50 billion. Local government will rein in its expenditure growth as a result of an aggregate cut of €11 billion in transfers over three years. Local capital expenditure growth will be at its lowest in 2015, the year after the municipal elections. In addition, central government savings will bring the aggregate total to €18 billion. The social security sector will make a significant contribution to expenditure savings on top of the measures relating to healthcare expenditure to be implemented in 2014. The national healthcare expenditure growth target will be capped at an average of 2.0% over the next three years, representing aggregate savings of €10 billion. Savings on benefits and operating expenses will come to €11 billion in other areas of social security expenditure (see Box 4).

### Box 4 – 2015-2017 detailed plan for savings of €50 billion

In accordance with the announcement made by President Hollande on 14 January 2014, the Prime Minister presented details of the plan to reduce government spending by €50 billion between 2015 and 2017 to the Cabinet on 16 April 2014. The plan will ensure that the Responsibility and Solidarity Pact is implemented in compliance with France's government deficit reduction commitments. The savings efforts will be shared by the different sectors of general government, including central government and central government bodies, local government and social security bodies

**Central government and central government agencies will contribute savings of €18 billion** by stabilising the civil service pay scale, refocusing central government action and, more generally, through efficiency gains and pooling of support functions, along with a more modest standard of living for central government. A special effort to streamline the central government's real property holdings will speed up property sales and reduce related expenses. Central government agencies will do their share, with reduced human and financial resources over the programme period.

**Central government transfers to local government will be reduced by €11 billion by 2017.** This reduction will be backed up by structural reforms to make the cuts sustainable: reform of the general operating grant in 2015; abolition of the *clause générale de compétence*, an additional expense due to overlapping functions between *départements* and regions; reduction in the number of regions; increase in the size of intermunicipal structures and a sharp fall in the number of authorities managing them. A debate will take place regarding the future of *département* councils, and the cost of implementing regulations will also be more tightly controlled.

**Health insurance savings** of €10 billion will be achieved through the implementation of the national healthcare strategy, by promoting more efficient expenditure via structural reforms, such as the streamlining of treatments, greater use of outpatient care and increasing the share of generic drugs consumed. The national healthcare expenditure growth target for 2015-2017 is an average of 2.0% per year.

**Other social protection expenditure will contribute €11 billion in savings.** Decisions made in 2013 concerning the reform of basic and supplementary pensions and family benefits will produce savings of €2.9 billion. The one-year stabilisation of social benefits, except for minimum social benefits, will produce additional savings of €2 billion, including €1.3 billion on basic pension benefits and €0.7 billion on other social benefits. Continuing labour and management discussions to restore supplementary pension schemes to equilibrium and similar efforts in relation to other pension schemes should produce an additional €2 billion in savings.

The unemployment insurance system should achieve savings of €2 billion by 2017; the labour-management agreement signed in March 2014 has already set out the initial measures in this direction. Continuing reform of family benefits will produce savings of €0.8 billion. Social protection bodies will realise savings of €1.2 billion on operating expenditure through electronic document management and better coordination of actions between the different bodies. This will also improve service quality for users and streamline management of the social protection system.

**A substantial share of the €50 billion in savings, i.e. some €21 billion, will be achieved in 2015**, making it possible in that year to finance the cuts in taxes and social security contributions announced as part of the Responsibility and Solidarity Pact without deviating from the path of a steady reduction in government deficits. Aggregate savings in 2016 will reach €37 billion and the target of €50 billion will be reached in 2017.

**Box 5 – The Government Expenditure Strategy Council**

**At the same time as the budget procedure was being reviewed, a Government Expenditure Strategy Council was instituted by a decree dated 22 January 2014.** The Council's task is to "propose and monitor the structural savings programme set out in France's Stability Programme".

**The Council is chaired by the President of the Republic** and includes the Prime Minister, the Minister for Finance and Public Accounts, the Minister for the Economy, , the Minister for Social Affairs and Health, the Minister for Employment, the Minister for State Reform, Decentralisation and the Civil Service, and the Minister of State for the Budget.

The Council has **examined all potential savings, including savings in local government and social security expenditure. This means that the structural decisions required to achieve at least €50 billion in savings by 2017, which are set out in this Stability Programme, were made at the highest level of government.**

**The Council's decisions will be implemented by the Government and incorporated in the next Public Finance Planning Act as part of the public finance planning exercise.** The decisions will also soon be incorporated into the preliminary budget ceiling letters sent to ministers as part of the revamped forward-looking budget procedure introduced in 2014.

### 3.6.2 Central government expenditure

*The "zero nominal growth rule", which exempts debt servicing and pensions, has helped to control both budgeted and actual central government expenditure*

The central government's budget is drawn up and executed according to the "**zero nominal growth**" rule. Article 6 of the 2012-2017 Public Finance Planning Act of 31 December 2012 upholds this rule. Under this rule, the sum of general budget appropriations, levies on revenue and revenue earmarked for third parties, excluding debt servicing and pensions, must be **stable or shrink in current euros**. This rule applies to the central government's discretionary expenditure. Furthermore, the annual increase in aggregate general budget expenditure, including debt servicing and pensions (budget appropriations, levies on revenues and earmarked revenue), must be no higher than inflation ("zero real growth" rule).

**The combined effect of these two rules ensures that any fall in the cost of servicing central government debt or any savings made from pension reform are not reallocated to finance long-term expenditure** but used entirely to help with fiscal consolidation efforts. On the other hand, if discrepancies in inflation, debt and pension forecasts make it impossible to meet the overall ceiling on aggregate expenditure, and even though appropriations "excluding debt servicing and pensions" might be flat or decreasing in nominal terms, the ceiling on ministries' budget appropriations will still be lowered to keep aggregate expenditure growth in line with inflation.

Total central government expenditure in 2013 was €3.4 billion lower than the target set at the beginning of the year as a result of favourable conditions for debt servicing and inflation.

**The nominal target for central government expenditure of €279.4 billion was fully met despite particularly challenging conditions for budget execution.** Expenditure, excluding debt servicing and pensions, came in at €0.1 billion below the target, even though the increase in France's contribution to the European Union budget strained spending limits. The €1.1 billion increase in

France's contribution to the European Union budget (excluding one-off refinancing requirements), was offset against central government expenditure savings during the fiscal year through tighter control of spending by ministries. A total of nearly €3 billion in appropriations to reserves made at the beginning of 2013 were cancelled.

*Spending reductions will be intensified under the 2012-2017 central government expenditure plan to achieve structural equilibrium for public finances*

For the first time, **the 2014 Initial Budget Act** includes a net spending cut of €1.5 billion excluding debt servicing and pensions.

**According to the government's next three-year plan, the overall target for the 2015-2017 period is to reduce central government expenditure by €18 billion.**

The revamped budget procedure (see Box 7) should lead to better and more sustainable budget planning, drafting and execution through greater involvement of the ministries in identifying potential savings and in sustainable public finances management.

**The goal of an €18 billion reduction in central government expenditure** will require a joint effort by the different government sub-sectors. This goal was set with a view to improving the efficiency of government expenditure wherever possible. It will be strictly enforced when drafting and executing future Budget Acts and is critical for restoring public finances to structural equilibrium.

#### **Box 6 – Expenditure savings by central government and central government agencies**

Central government and central government agencies will fully participate in the fiscal consolidation efforts. The goal is to achieve savings of €18 billion by 2017.

The planned efforts will start with structural reforms to safeguard the quality of public services.

- The savings will rely on keeping a check on ministries' operating expenditure. They will require savings to be made on real property expenses, the pooling of support functions (procurement and information systems), and a more modest standard of living for central government.
- Civil servants will contribute to the savings effort required through the continuation of the stabilisation of the civil service pay scale.
- The creation of new jobs planned in the education, security and justice systems will be upheld as part of the Government's decision to give priority to young people and the security of French citizens.
- Central government action will also be refocused for greater efficiency.
- The operating expenditure and scope of intervention of central government bodies and agencies will be trimmed following a 15% increase in their resources during the previous President's term.

#### **Box 7 – The revamped budget procedure**

Compliance with our ambitious adjustment path for public finances, which has no precedent in France's recent financial history, will require an effective budget procedure that facilitates policy decisions and choices to achieve sustainable structural savings.

**The previous Government decided during the preparations for the 2015-2017 three-year budget to revamp and shorten the budget timetable starting in 2014.** The new budget procedure was supposed to give ministries an active role in identifying and achieving structural and sustainable savings.

The budget guidelines issued by the Prime Minister in early May will provide more specific information about the amount of the savings required by each minister in 2015-2017. It will be the ministers' responsibility to propose reforms in order to achieve the savings required, based in part on the work done as part of the ongoing spending review (*modernisation de l'action publique* or MAP) by interministerial audit teams and the French Government Audit Office (*Cour des comptes*). Joint technical work by their ministries will help them in their task. The new procedure highlights the principle of accountability and co-budgeting between ministries.

In June, after a conventional decision-making process, the Prime Minister will send budget ceiling letters to the ministers setting out the appropriations for each ministry and the guidelines for the next three-year budget. These guidelines will then be presented to Parliament at the end of June, during the public finance policy debate.

### Box 8 - Yield assumptions and changes

France enjoyed very favourable borrowing terms in 2013, despite the slight rise in short-term yields seen at the end of the year and highly volatile long-term yields, which rose sharply in the second quarter. Yields at issue for short-term securities (BTFs) averaged 0.06% in 2013 compared to 0.08% in 2012, and yields at issue for securities with maturities of more than one year (OATs) averaged 1.54% compared to 1.86% in 2012.

Since the beginning of 2014, and in contrast to market expectations, the trend in short-term yields remained stable, with yields at issue close to 0.2% for BTFs. Medium-term and long-term yields fell, with yields at issue for 10-year securities dropping from 2.51% in early January to 2.15% in early April 2014.

The yield trend underlying the forecast is based on a scenario where yields gradually rise to their pre-crisis levels. Between 1998 and 2007, the 3-month BTF yield averaged 3.05% and the 10-year OAT yield averaged 4.45%. This scenario is consistent with the expected resumption of growth and a rise in inflation to a level close to the ECB's objective of 2% by 2017.

**Table 8 – Yield forecasts**

End of year levels (forecasts)	2014	2015	2016	2017
Short-term yields (3-month BTFs)	0.25%	0.50%	1.00%	1.50%
Long-term yields (10-year OATs)	2.75%	3.25%	3.75%	4.25%

In this scenario, short-term yields (3-month BTFs) would rise very slightly to reach 0.25% at the end of 2014, which is the current level of the ECB refinancing rate. Then, they would rise again towards the end of 2015 in the expectation that the ECB will adopt a more standard monetary policy as the euro area economy recovers. After that, they are projected to rise by 50 basis points per year.

The long-term yield (10-year OATs) of 2.75% forecast for the end of 2014 factors in the potential repercussions of a rise in long-term yields in the United States, as in the second quarter of 2013. After that, long-term yields are expected to follow the same trend as short-term yields, rising by 50 basis points per year.

### 3.6.3 Expenditure of other central government bodies

**Other central government bodies, most of which are also central government agencies<sup>6</sup>, will contribute to efforts to control expenditure. After seeing a recent sharp rise in their expenditure<sup>7</sup>, these bodies must present balanced annual budgets and are now more closely monitored. Consequently, their finances are almost in equilibrium. To this end, they are prohibited from borrowing money from credit institutions or issuing debt securities with maturities of more than 12 months<sup>8</sup>. This prohibition helps control their expenditure.**

**In 2015-2017, the government will take steps to streamline the central government agencies, one of the main thrusts of its programme.** This is likely to result in the merger or even the closure of some establishments, a reduction in their staffing levels and appropriations (subsidies for public service provision and earmarked taxes) and, ultimately, tighter oversight of earmarked taxes or possibly their integration into the central government budget in keeping with the guidelines outlined by the tax policy council (*Conseil des prélèvements obligatoires*) in a recent report commissioned by the government<sup>9</sup>. At the same time, in keeping with the targets that central government sets for its own operating expenditure, the operating expenditure and scope of intervention of central government agencies will be trimmed.

**In 2013, other central government bodies' expenditure was kept under control**, even though the interest paid on the contribution to the cost of public service in electricity owed to the French electricity utility (EDF) was recorded as an expense in the national accounts. Indeed, central government agencies' outlays under the Invest for the Future programme have increased slowly, and various measures affecting the agencies' resources have started to have an impact, offsetting this one-off interest expenditure. **In 2014**, other central government bodies' expenditure growth will slow slightly as a result of two contradicting factors. On the one hand, expenditure will include an outlay of €1.5 billion for the Defence Industry Excellence Initiative under the second phase of the Invest for the Future programme. On the other hand, the interest expenditure on the contribution to the cost of public service in electricity will no longer have to be paid.

Expenditure growth will then slow **in 2015** and remain steady in **2016 and 2017**, as the outlays under the Invest for the Future programme stabilise (see Section 6.1.2).

### 3.6.4 Social security funds' expenditure

In 2013, benefits paid by the social security funds grew by 3.0% in nominal terms, which was slightly slower than their 3.3% growth in 2012. This stems primarily from the slower growth of retirement pension benefits: 2.9% compared to 4.1% in 2012. It is also the result of an increase in

<sup>6</sup> The salient features of central government agencies are that they provide public services, are mostly financed by the central government and are under its direct control. The purview of central government agencies and that of other central government bodies is not exactly the same: the former are included in the budget while the latter are included in the system of national accounts and listed by INSEE each year.

<sup>7</sup> See, for example *L'État et ses agences*, Report 2011-M-044-01 by the Inspection générale des finances, March 2012.

<sup>8</sup> Article 12 of the 2011-2014 Public Finance Planning Act (which has not been repealed by the December 2012 Planning Act) prohibits them from incurring debt with maturities of more than twelve months, except for the Government Debt Fund (*Caisse de la dette publique*) and the Corporation for Central Government Equity Holdings (*Société de prises de participation de l'Etat*).

<sup>9</sup> *La fiscalité affectée : constats, enjeux et réformes*, July 2013.

## FRANCE STABILITY PROGRAMME 2014-2017

the retirement age and weak inflation, which limits benefit adjustments. The growth of health insurance expenditure was also particularly moderate: the expenditure covered by the national healthcare expenditure growth target was €1.4 billion below the target set in the 2013 Social Security Budget Act and €0.75 billion below the 2014 Social Security Budget Act target. In addition, unemployment benefits, which were expected to rise in 2013 by 5.7% in the draft budget, were €0.6 billion below target.

**In 2014, the growth in benefit spending should slow even further, reaching 1.7%** as family allowances are adjusted in line with the 2014 inflation forecast of 1.1% and the adjustment to the inflation forecast to take into account the discrepancy between the actual 2013 inflation of 0.7% and the inflation rate of 1.2% forecast in March 2013. In line with these correction mechanisms, family allowances were raised by 0.6% on 1 April 2014. The growth of old-age pensions should also drop from 2.9% to 2.2%, as supplementary pensions are stabilised on 1 April 2014 and basic pensions are not adjusted on 1 October 2014. Growth in unemployment benefits should decelerate as the job market improves and the March 2014 agreements come into force.

**Between 2015 and 2017**, growth in social benefit spending should remain moderate with an average of 2.1% per year. Much of this will be achieved through slower growth in healthcare expenditure as the national healthcare expenditure growth target will average 2.0% between 2015 and 2017. Unemployment benefits should decrease in nominal terms until 2017 as a result of the improved job market and of the measures taken to improve the finances of the unemployment insurance system under the labour-management agreement on unemployment benefits signed in March 2014. Further measures will be adopted to ensure the financial equilibrium of the system by 2017.

**Table 9 – Annual nominal growth rate of social benefits**

(nominal growth rate, %)	2013	2014	2015-2017*
<b>Social insurance benefits</b>	<b>3.0%</b>	<b>1.7%</b>	<b>2.1%</b>
Old age and survivor benefits	2.9%	2.2%	2.7%
Family allowances - Housing	2.4%	0.0%	0.2%
Unemployment	5.7%	-0.5%	-1.2%
National healthcare expenditure	2.4%	2.4%	2.0%

\* Average annual growth rate 2015-2017

### Healthcare benefits

**In 2013**, the deceleration of healthcare expenditure growth observed since 2008 continued, leading to an undershooting of the national healthcare growth target set by Parliament by €1.4 billion corresponding to a 2.4% growth rate. The reform of the governance of the national healthcare expenditure growth target, namely a reduction in the warning threshold, the introduction of a new monitoring committee and an increase in the number of actions taken by the early warning committee helped meet the target for the fourth year in a row. This result is testimony to the government's efficient management of healthcare expenditure. The government has also backed this effort with structural action to improve the organisation of the healthcare system by elaborating a national healthcare strategy.

**The 2014 growth rate target** has been set at 2.4%. To ensure this target is met, €2.4 billion in savings measures have been taken. These measures rely primarily on lower prices for healthcare products (€1.1 billion), actions to improve medical efficiency (€0.6 billion) and hospital savings (€0.4 billion).

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

**Between 2015 and 2017**, expenditure growth covered by the national healthcare expenditure growth target will continue to decline, reaching a 2.0% growth rate average. Greater efforts to increase efficiency in the healthcare sector will be required to maintain this medium-term adjustment path. The priority for the Government under the national healthcare strategy initiated in 2013 is to improve treatment through the effective regulation of healthcare supply aimed at breaking down the barriers between outpatient care, hospital care and the healthcare and social services sector. The strategy also calls for enhanced preventive care and more accessible healthcare.



*Old-age benefits*

The adjustment path presented here, with a 2.7% average increase in benefits between 2015 and 2017, includes the 6-month deferral of the basic pension adjustment in 2014 and the stabilisation of pensions until 1 October 2015. The adjustment path for supplementary pensions includes the measures taken under the labour-management agreement on supplementary pensions signed in March 2013. This means that pensions will rise by one percent less than inflation in 2014 and 2015. These measures should be supplemented in 2016 and 2017 to ensure continued consolidation of the pension system's finances.

*Other social benefits*

Family allowance and housing benefits expenditure grew by 2.4% in 2013. This slower rate of growth compared to 2012 (3.0%) stems from the one-off 25% increase in the back-to-school bonus that year. The nominal value of such benefits should remain the same in 2014 as a result of the adjustment of only 0.6% on 1 April 2014, in line with the 2014 inflation forecast and the correction for actual inflation in 2013. Growth will be limited to 0.2% per year on average between 2015 and 2017 with the continuation of the family policy reform started in 2013.

After very strong growth in 2013 (5.7%), unemployment insurance expenditure should start to slow as the job market improves. Furthermore, the 2014 labour-management agreement and the supplementary measures that the system managers intend to take will help restore the system to equilibrium by 2017.

### **3.6.5 Local government expenditure**

Local government expenditure growth should start to slow in 2014. A reduction in transfers to local government and improved local public finance governance will help to reduce expenditure through greater streamlining.

After a stabilisation of central government transfers to local government in nominal terms in 2013, these transfers will be reduced by €1.5 billion in 2014 and by a total of €11 billion between 2015 and 2017. In this way, local governments are contributing fully to the fiscal consolidation effort. The planned reduction of central government transfers over the entire programme period will encourage local government to make efficiency gains to control expenditure.

Several measures will be taken to assist local government efforts. New metropolitan areas have been created and direct election of intermunicipal council members through universal suffrage is already taking place. These measures will be powerful tools for streamlining government. Other measures will be part of the planned local government reform that the Prime Minister outlined in his general policy speech on 8 April 2014: defining powers by eliminating the *clause générale de compétence*, halving the number of regions so that they can attain critical mass, drawing up a new intermunicipal map based on community catchment areas. Finally, the future of *département* councils will be debated. At the same time, structural reform of the general operating grants, which total €40.1 billion in the 2014 Initial Budget Act, will begin in 2015 to ensure the long-term sustainability of the efforts that will be required of each local authority.

In addition to this change in how funding is distributed, the President of the Republic called for an expert assessment of other local government expenditure governance measures by two former budget ministers, Alain Lambert and Martin Malvy, who have been given the task of presenting “*proposals for drafting a sustainable financial governance pact with local government*” with due consideration of “*the ways and means for better control of local government expenditure*”. Very specific proposals were submitted to the President of the Republic on 16 April 2014. These proposals will inform the Government's work in the coming months.

Two points need to be made with regard to local government expenditure:

- Average growth in local capital expenditure was low between 2008 and 2013, averaging 1.3% per year in nominal terms<sup>10</sup>. In 2013, the year before municipal elections, capital expenditure grew by 5.2%. In keeping with the election cycle, capital expenditure should contract in 2014 by 2.5% and the decline should continue with a 6.9% fall in 2015, which will be the low point in the local cycle. It will start to recover in 2016 with moderate growth. In addition to the downward trend in local government capital expenditure over recent election cycles, investment projects will be selected more carefully because of the combined effect of reduced central government transfers and improved governance measures.
- The knock-on effects of some of the savings measures announced by the Prime Minister will facilitate control of local government expenditure. This is particularly true of the stabilisation of the civil service pay scale, which is used as the basis for calculating the compensation of local civil servants.

Total local government expenditure averaged over the period from 2014 to 2017 will be flat in real terms.

---

<sup>10</sup> The underlying growth rates are calculated using Base 2010 data from year 2010 on. Data for previous years is compiled using base 2005 data.

### 3.7 Government revenue

#### 3.7.1 General government revenue

*After increasing by nearly one point of GDP between 2012 and 2013 as a result of discretionary revenue measure, the aggregate tax and social security contribution rate should decline to 45.3% of GDP in 2017.*

This forecast factors in the impact of all of the measures in the Initial Budget Act following the review by the Constitutional Council, along with the measures in the Responsibility and Solidarity Pact.

**The aggregate tax and social security contribution rate will be stable between 2013 and 2014 at 45.9% of GDP.** The aggregate elasticity of taxes and social security contributions should be less than one (0.9) while the impact of measures already passed but that will take effect gradually should be slightly positive at 0.1 points of GDP. These discretionary measures are designed to ensure the sustainability of France's social model, to boost competitiveness, growth and jobs, and to enhance the progressiveness of taxation and green taxes. Furthermore, under the Responsibility and Solidarity Pact, a reduction in taxes and social security contributions for low-income households will take effect in 2014.

**The aggregate tax and social security contribution rate will decline each year starting in 2014 to reach 45.3% of GDP in 2017.** This decline will stem from the Responsibility and Solidarity Pact, which will extend the reduction of labour costs initiated by the Competitiveness and Employment Tax Credit, lower business taxes and even eliminate some "minor taxes" that complicate life for businesses, and enhance the purchasing power of low-wage workers. The adjustment path also incorporates:

- the impact of retirement pension reform.
- the phasing in of green taxes to promote the transition to cleaner energy.
- the increase in the contribution to the cost of public service in electricity, in line with the commitment to eliminate the past deficits on this item.
- the impact of the election cycle on the rates of taxes allocated to local government.
- outlays related to tax disputes.

The adjustment path is based on a natural growth rate for tax revenues in line with GDP growth (tax elasticity equal to one between 2015 and 2017).

**Furthermore, non-tax revenue should remain steady at 7.2% of GDP between 2013 and 2017.**

**Table 10 - Tax burden**

	2012	2013	2014	2015	2016	2017
<b>Aggregate tax and social security contribution rate (as a % of GDP)</b>	45.0	45.9	45.9	45.6	45.4	45.3
Elasticity of taxes and social security contributions	1.1	0.2	0.9	1.0	1.0	1.0

### **Box 9 – The Responsibility and Solidarity Pact**

The Responsibility and Solidarity Pact was unveiled by President Hollande on 14 January 2014 and presented by the Prime Minister on 8 April 2014. It is structured around several pillars: further reducing employers' payroll contributions; streamlining the business tax system and lowering business taxes; cutting red tape; obtaining commitments regarding the quality and quantity of jobs; and introducing solidarity-based measures to enhance households' purchasing power, particularly for the least well-off.

- Further reducing the cost of labour: the Responsibility and Solidarity Pact calls for greater reductions in labour costs to meet two objectives: create more jobs and enhance our economy's competitiveness and export capacity. In 2015, the cost of minimum-wage labour will be cut by eliminating employers' social security contributions, except for unemployment insurance, and by a review of the existing exemptions on jobs paying up to 1.6 times the minimum wage. Starting on 1 January 2016, family allowance contributions will be cut by 1.8 percentage points on jobs paying between 1.6 times and 3.5 times the minimum wage. All in all, the further cuts in payroll contributions on jobs paying up to 1.6 times the minimum wage will come to nearly €4.5 billion and the cuts for jobs paying more than 1.6 times the minimum wage will also come to €4.5 billion. Family allowance contributions will also be cut by €1 billion for self-employed workers. As the impact of the Competitiveness and Employment Tax Credit grows, the cost of labour will have been reduced by €30 billion in 2017, an amount that is comparable to the cost of family allowance contributions.

- Streamlining the business tax system: the Responsibility and Solidarity Pact calls for streamlining and reducing business taxes to help encourage investment. The corporate social solidarity contribution (C3S), which is paid by some 300,000 companies, will be phased out by 2017, with a preliminary cut of €1 billion in 2015 in the form of an allowance, which means that two-thirds of the companies currently paying this tax will be exempt in the first year. Companies will save a total gross amount of more than €6 billion as a result of abolishing this tax. The exceptional corporate income tax payment for large corporations will also be eliminated in 2016 and 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. Furthermore, several dozen taxes generating only minor revenue will be abolished. This tax reform will promote growth and jobs.

- Cutting red tape faster: the move to cut red tape for businesses will be stepped up to streamline procedures and facilitate decision-making. The Enabling Act of 2 January 2014 empowers the Government to use a fast-track procedure, in particular to ease accounting requirements for SMEs. Other red-tape cutting measures will be introduced in the coming months, in accordance with the recommendations of the Administrative Streamlining Board, which will review the ten key procedures for businesses. The other task of the Board, which is co-chaired by a Member of Parliament (Thierry Mandon) and a business executive (Guillaume Poitral), will be to monitor progress on the red-tape cutting programme for businesses and to assess the results. On 14 April 2014, the Board presented a first set of 50 measures to make the business environment more transparent and predictable, to cut red tape faced by companies and to facilitate the hiring and training of workers.

- Creating jobs and modernising industrial relations: as part of the Pact, businesses will commit to creating jobs (particularly for young people), offering job training and providing quality employment. These commitments were outlined in the labour-management agreement signed on 5 March 2014. The specifics are to be worked out in future negotiations within each industry.

- Introducing solidarity measures for the least well-off households: the Pact also calls for solidarity measures worth €5 billion to be introduced by 2017 to boost the purchasing power of the lowest-income households. Starting on 1 January 2015, a gradual reduction in employees' payroll contributions on jobs paying up to 1.3 times the minimum wage will increase minimum-wage workers' take-home pay by about €500 per year. A preliminary measure to help the lowest-income households will be introduced in 2014.

According to the MESANGE model, the major focus in 2015 on low-wage jobs, where labour demand is very sensitive to cost (see the progress report by the High Council on Public Finances on about changes in social protection financing), means that the reduction in employers' payroll contributions under the Responsibility and Solidarity Pact will lead to the creation of 35,000 new jobs as soon as the Pact enters into force. As the impact of the Pact grows, it will lead to an annual average of 65,000 new jobs in 2016 and 50,000 in 2017.

In aggregate, the Responsibility and Solidarity Pact will add 0.25 points to growth in 2016 and 2017 and help create 190,000 jobs by 2017 if we factor in the usual macroeconomic knock-on effects.

The growth momentum triggered by the climate of confidence and by the commitments made by labour and management as part of the Pact could boost its impact.

**Table 11 - Responsibility and Solidarity Pact – impact on growth and employment**

	2014	2015	2016	2017
Real GDP growth	0.0	0.1	0.4	0.6
Total jobs created (thousands)	0	40	120	190

### 3.7.2 Central government revenue

In 2014, central government taxes were 0.3 points of GDP lower than in 2013, primarily as a result of discretionary revenue measures and transfer-related decisions. The measures in the 2014 Initial Budget Act should help sustain the growth of central government tax revenue. They include an increase in the corporate income tax surcharge, a lowering of the cap on family deductions (*quotient familial*), the removal of income tax exemptions for pension increases and for employer contributions to collective supplementary pension schemes, and higher green taxes through the addition of a CO2 component to existing taxes. However, the positive impact of these measures is more than offset by the after-effects in 2014 of previous measures, such as those in the 2013 Initial Budget Act affecting business taxes (limit on the deductibility of financial expenses, calculation of taxable long-term capital gains, reform of the final corporate income tax instalment), the net impact of the Competitiveness and Employment Tax Credit and the additional transfer of VAT revenue to social security funds.

With no change in the legislation, growth of central government taxes would have matched GDP growth. The weaker growth of VAT revenue compared to GDP growth would have been offset by the automatic jump in corporate income tax revenue.

**Between 2015 and 2017**, the central government tax burden should decline more rapidly, primarily as a result of the growing impact of the Competitiveness and Employment Tax Credit. Tax elasticity should be slightly higher than one as economic growth picks up again.

### 3.7.3 Social security funds' revenue

In 2013, the social security funds' revenue increased by 2.6%. The 3.1% increase in social security contributions outstripped private sector payroll growth of 1.2% for employers paying into the central social security agency (ACOSS). The increase stems from the end of the exemption from social security contributions of overtime pay, which contributed €2.0 billion, the increase in the old-age pension contribution rate to finance the early retirement scheme for long careers, which contributed €0.9 billion, the impact of the self-employed workers package, which added €0.9 billion, and the increase in the contribution rates for the local government employees' retirement scheme.

The slower growth in tax revenue (2.4%) compared to 4.8% in 2012 stems from sluggish natural revenue growth due to the social security taxes levied on capital.

**In 2014**, social security revenue should grow more quickly as private sector payroll grows by 2.2%, compared to 1.2% in 2012, for employers paying into the central social security agency (ACOSS), thus maintaining a healthy growth rate in social security contributions (3.0%). The stronger growth of revenue also stems from higher contribution rates, such as the increase in the old-age pension contribution rate net of the decrease in employers' family allowance contributions, which should contribute €0.7 billion as part of pension reforms, the reform of the early retirement scheme for long careers, which should contribute €0.6 billion, the increase in the contribution rates for the local government employees' retirement scheme, which should contribute €0.6 billion, and the increase in supplementary retirement pension contributions, which should contribute €0.5 billion. Tax revenue should increase by 3.5% in 2014. This growth should be sustained by the increased transfer of VAT to social security funds to help offset the decline in family allowance contributions and to transfer the proceeds from lowering the cap on family deductions and from making premiums paid by employers for supplementary employee health benefits taxable.

**Between 2015 and 2017**, economic recovery and the Government's measures to promote job creation should sustain the growth of the private sector payroll, helping it to reach 3.5% in 2015 and 4.3% in 2016. The reduction in social security contributions outlined in the Responsibility and Solidarity Pact should however slow the average rate of growth to 2.7% over the 2015-2017 period (compensated over the same period).

### 3.7.4 Local government revenue

In 2013, growth of local government tax revenue stood at 0.6%. This increase stems from the combination of moderate tax increases in the year before an election, the fall in registration

## FRANCE STABILITY PROGRAMME 2014-2017

duty (DMTO) revenue owing to the weak housing market for existing homes and the decline in revenue from the contribution on business value added. Local tax revenue stood at €124.5 billion. The stabilisation of central government transfers for local government, except for the VAT compensation fund and compensation for reform of the local business tax, explain the weak growth of non-tax revenue.

In 2014, local tax increases voted by newly elected municipal and *département* councils are expected to be larger than the increases in 2013, in keeping with the usual pattern. Furthermore, *départements* will receive tax transfers to help cover their social expenditure. Consequently, growth of local government tax revenue should rise to 3.1%. On the other hand, central government funding for local government should contract by €1.5 billion compared to 2013.

Between 2015 and 2017, local tax revenue should keep pace with GDP growth. The decrease in central government funding will be greater, with a total reduction of €11 billion between 2015 and 2017.

### **Box 10 – Impact of cuts in central government funding for local government**

The funding structure of local government was changed in 2014 to meet two objectives: to promote the streamlining of local government expenditure and to redirect funding to the local governments experiencing the most severe financial constraints.

The incentive for streamlining expenditure stems from the cut in central government transfers to local government. After being stabilised in 2013, central government funding will be cut by €1.5 billion in 2014. The cuts are spread across the various categories of local government in proportion to their operating revenues and in accordance with the guidelines set out in the Confidence and Responsibility Pact that central and local government signed on 16 July 2013. The cuts came to €0.8 billion for municipal governments, €0.5 billion for *départements* and €0.2 billion for regions.

The €1.5 billion cut in central government funding is an incentive for local government to streamline expenditure. In accordance with the “golden rule”, local governments' operating budgets must balance in real terms. Operating expenditure cannot be financed through borrowing. Consequently, a decrease in operating funds means that local governments have to reduce operating expenditure.

This adjustment will continue until 2017. As announced by the Prime Minister on 16 April 2014, local government will contribute €11 billion to the €50 billion in savings planned between 2015 and 2017. The sustainability of further cuts in local government funding will be enhanced by structural reform of the general operating grant, which is the largest component of central government funding for local government, totalling €40.1 billion in the 2014 Budget Act. This long-term visibility of changes in funding will enhance the incentive for local government to keep their expenditure under control. A series of measures dealing with such matters as compensation of local civil servants, regulations and local organisational structures will help achieve this objective.

In parallel to measures affecting central government transfers, *départements* will receive new funding in 2014 to finance their non-discretionary social expenditure that has been rising in recent years because of weak economic growth. On the one hand, an amount representative of the cost of managing the property tax on developed land has been transferred to the *départements*. The total

transfer in 2014 stood at €0.8 billion. On the other hand, they have temporarily been empowered to increase registration duty rates from 3.8% to 4.5%.

Other measures have also been taken to ensure that funding is spread more evenly within each level of government. This encourages the wealthiest local governments to moderate their expenditure and redirect funds to the least well-off. For example, the National Intermunicipal and Municipal Equalisation Fund was increased from €360 million in 2013 to €570 million in 2014. Furthermore, measures to help *départements* have been combined with special arrangements to ensure that the neediest *départements* receive funds. A realignment affecting 0.35% of the registration duty tax base was introduced in 2014. The funds transferred to compensate for costs of managing the property tax on developed land are shared according to a formula that takes account of the *départements'* potential tax revenue and the net cost that each one incurs for the RSA income support supplement.



### 3.8 Government debt and stock-flow adjustment

The government debt ratio stood at 93.5 points of GDP in 2013 compared to 90.6 points in 2012, an increase of 2.9 points of GDP compared to 4.4 points in 2012. The smaller increase stems from a reduction in the deficit and a smaller stock-flow adjustment. Adverse economic conditions, with nominal GDP growth of 1.4%, meant that the debt-stabilising balance remained high at -1.2% compared to -1.3% in 2012. Efforts to reduce the government deficit to 4.3% of GDP compared to 4.9% in 2012, helped slow the increase in the debt ratio and the deviation from the debt-stabilising balance stood at 3.0 points compared to 3.5 points in 2012. This effect has been amplified by a negative stock-flow adjustment of -0.2 points of GDP in 2013 compared to 0.9 points in 2012. Direct assistance for the euro area in 2013 stood at 0.7 points compared to 1.7 points in 2012, as lending by the EFSF slowed. On the other hand, the change in the balance on the Treasury's cash account on 31 December was a source of financing for the central government in 2013 in contrast to 2012.

**Table 12 - Breakdown of changes in the government debt-to-GDP ratio**

(percentage points of GDP)	2013	2014	2015	2016	2017
<b>Debt ratio according to the Maastricht definition (1)</b>	<b>93.5</b>	<b>95.6</b>	<b>95.6</b>	<b>94.2</b>	<b>91.9</b>
<b>Debt ratio excluding financial assistance for euro area countries</b>	<b>90.4</b>	<b>92.4</b>	<b>92.5</b>	<b>91.2</b>	<b>89.0</b>
<i>Nominal GDP growth (%) (2)</i>	1.4	2.2	3.2	3.9	3.9
<i>Debt-stabilising balance (excluding stock-flow adjustment) (3)<sub>n</sub> ≈ -(1)<sub>n-1</sub> × (2)<sub>n</sub></i>	-1.2	-2.0	-3.0	-3.6	-3.6
<i>Headline balance (4)</i>	-4.3	-3.8	-3.0	-2.2	-1.3
Deviation from debt-stabilising balance (5)=(3)-(4)	3.0	1.8	0.0	-1.4	-2.3
Stock-flow adjustment (6)	-0.2	0.4	0.0	0.0	0.0
Change in debt ratio (7)=(5)+(6)	2.9	2.2	0.0	-1.4	-2.3

In 2014, the debt ratio should grow more slowly, rising by 2.2 points to 95.6% of GDP. The combination of a cut in the deficit to 3.8% of GDP in 2014 compared to 4.3% in 2013, and a stronger recovery in economic growth will automatically slow the debt ratio's growth, with a deviation from the debt-stabilising balance of 1.8 points of GDP. The stock-flow adjustment in 2014 should come to 0.4 points of GDP, stemming primarily from support for euro area countries facing financial difficulties, with the final loan tranches to Greece and Portugal granted by the EFSF and last capital endowment for the ESM.

In 2015, the government debt ratio should be stable at 95.6% of GDP. The level of the government deficit, with the debt-stabilising balance at the same level, will not affect the debt ratio, and neither will stock-flow adjustment.

Continued fiscal consolidation in 2016 and 2017 and real GDP growth of 2 ¼ % should lead to a decline in the debt ratio of about 1.9 points of GDP per year on average. The deficit will be significantly lower than the debt stabilising balance of approximately -3.6%, with nominal GDP growth at 3.9%. Furthermore, the impact of the stock-flow adjustment is supposed to be neutral from 2016 on, since no new loans by the EFSF means no impact from European financial assistance plans, the capital subscriptions for the ESM end in 2014, and Ireland's and Portugal's repayments of EFSF loans are slated for after the end of the forecast period (see Box 11).

**Box 11 - Impact of European financial assistance plans on government debt**

As tensions started to emerge on European markets in the fourth quarter of 2009, several euro area Member States in succession had to call upon Europe for financial help.

The impact of financial assistance for the euro area on France's government debt is estimated at €68.6 billion in 2014 compared to €62.9 billion in 2013.

**Table 13 - Debt arising from financial assistance for the euro area (deviation from baseline)**

(€bn)	2013	2014	2015	2016	2017
<b>Government debt (Maastricht definition)</b>	<b>62.9</b>	<b>68.6</b>	<b>68.6</b>	<b>68.6</b>	<b>68.6</b>
Bilateral loans to Greece	11.4	11.4	11.4	11.4	11.4
EFSF loans to Greece	29.2	31.4	31.4	31.4	31.4
EFSF loans to Ireland	2.6	3.8	3.8	3.8	3.8
EFSF loans to Portugal	5.4	5.7	5.7	5.7	5.7
Capital endowment to ESM	13.0	16.3	16.3	16.3	16.3

When the European Commission and Council assess compliance with the deficit and debt criteria, the Stability and Growth Pact (Article 2 of Regulation 1467/97 as amended) explicitly calls for special attention to be given to debt incurred in the form of bilateral and multilateral assistance between Member States to preserve financial stability and debt related to financial stabilisation operations during major financial crises.

Three successive financial assistance instruments were set up:

1) **Bilateral loans**: The euro area Member States and the IMF jointly assisted Greece in the second quarter of 2010 with €110 billion in bilateral loans. The EU lent €80 billion<sup>11</sup> (including €16.8 billion from France<sup>12</sup>) and the IMF lent €30 billion.

2) **European Financial Stability Facility**: The euro area Member States also created the European Financial Stability Facility (EFSF) to provide assistance to any euro area country that requests it. This facility has a capacity of €440 billion on top of the €60 billion in the European Financial Stabilisation Mechanism (EFSM) which is a European Union instrument backed by the EU budget and available to all 28 Member States. **The Member States' guarantees for EFSF loans are recognised as part of their gross debt under the Maastricht definition<sup>13</sup>** in proportion to their share of the guarantees supplied to the EFSF<sup>14</sup>. France's share at the beginning of 2014 stood at 21.88%.

The EFSF and the EFSM were used to support Ireland and Portugal. Ireland was the first to receive a total of €85 billion in assistance at the end of 2010, including **€17.7 billion from the EFSF**, to which **France contributed €3.8 billion** under a programme where all of the loan tranches were disbursed before December 2013. In the middle of 2011, **Portugal** received €78 billion in assistance, including **€26 billion from the EFSF**, to which **France contributed €5.6 billion** under a programme to finance Portugal's general government until the middle of 2014. Ireland exited its assistance programme on 15 December 2013 following rigorous implementation of a set of reforms that ensured the sustainability of a strong economic recovery.

<sup>11</sup> Later lowered to €77.3 billion after Slovakia refused to take part and Ireland and Portugal withdrew.

<sup>12</sup> Only €11.4 billion of the €16.8 billion has actually been disbursed. The remainder was incorporated into the second programme in March 2012 and financed by the EFSF.

<sup>13</sup> The impact in terms of debt is neutral since the amount recorded as gross debt is also recorded as a claim on the euro area Member State receiving the assistance.

<sup>14</sup> This share is based on the national central banks' shares in the ECB's capital, adjusted for the holdings of Member States benefitting from the withdrawal clause under the terms of a financial assistance programme.

Following a deterioration in Greece's economic and financial situation in the middle of 2011, a **second financial assistance programme** was introduced in March 2012. The euro area Member States and the IMF provided further financing of €130 billion on top of the undisbursed funds from the first programme covering the period from 2012 to 2014. This financing is provided by the EFSF, which also covers the remaining tranches of the bilateral loans granted to Greece, totalling €24.4 billion, plus €9.9 billion not yet disbursed by the IMF. Given the IMF's participation, the **Member States will guarantee a total of €143.7 billion under the second programme, €31.4 billion of which will be guaranteed by France**, including the undisbursed funds from the first programme, along with the €11.4 billion already lent under the first bilateral programme.

**France has therefore agreed to finance or guarantee €52.3 billion (equivalent to 2.5 points of GDP) in financial assistance for euro area countries through bilateral loans or the EFSF by the end of 2014.**

None of these loans is scheduled to be repaid before the end of this Stability Programme in 2017. The average maximum maturity of the EFSF loans to Ireland and Portugal has been extended from 15 to 22 years following the decision made by the Eurogroup in March 2013. In keeping with the decisions of the Eurogroup meeting of 26 November 2012, the average maturity of loans to Greece was extended to 20 years for bilateral loans and 32.5 years for EFSF loans.

3) **European Stability Mechanism: the EFSF and the EFSM have stopped granting new loans<sup>15</sup> since the European Stability Mechanism (ESM) came into effect on 28 September 2012.** The EFSF was set up as a temporary institution and cannot engage in new financial assistance programmes after June 2013. At its December 2010 meeting, the European Council decided, therefore, to set up a permanent mechanism to safeguard the financial stability of the euro area. The ESM is designed to be permanent and to rely not only on government guarantees, but also on paid-in capital.

Eurostat issued an opinion on 7 April 2011 based on the characteristics described in the Conclusions of the European Council of 24 and 25 March 2011. **Eurostat has deemed that the liabilities of the ESM will not be counted as part of the Member States' Maastricht debt<sup>16</sup> and that only their borrowing to finance their subscriptions to the paid-in capital would be recognised as debt. This capital stands at €80.2 billion since Latvia joined the euro area on 1 January 2014. France's 20.3% share totals €16.3 billion.**

This capital will be paid in 5 instalments of €3.3 billion. In accordance with the Statement of the Heads of State and Government at the European Council meeting of 2 March 2011, France's Supplementary Budget Act of 8 February 2012 includes authorisation for €16.3 billion in commitments. France then ratified the ESM Treaty on 8 March 2012. The first two instalments were paid in October 2012, adding €6.6 billion to debt in 2012. The third was paid on 29 April 2013 and the fourth on 31 October 2013. The fifth and last instalment will be paid in April 2014.

---

<sup>15</sup> The EFSF is now being managed in run-off mode, which means that the Facility will continue to manage the loans already granted until they are fully repaid and that any new financial assistance will now be provided by the ESM.

<sup>16</sup> Since the ESM is a permanent international institution under international law with a governance structure similar to that of international financial institutions (with a board of governors, a board of directors and a managing director), and a paid-in capital of €80.2 billion. The ESM's paid-in capital must always be greater than 15% of its commitments.

#### FRANCE STABILITY PROGRAMME 2014-2017

The ESM made its first disbursements to Spain for its bank recapitalisation programme, which was decided in July 2012. The amount disbursed in December 2012 and February 2013 was €41.3 billion. The programme ended in January 2014 and rigorous implementation produced a sustainable stabilisation of Spain's banking sector. After approval by the Eurogroup on 24 March 2013, €10 billion in financial assistance was also granted to Cyprus. The EMS provided €9 billion and the IMF €1 billion, of which the EMS disbursed €4.6 billion at the end of December 2013. These disbursements do not add to France's debt, as explained previously.

## 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 GDP<sup>10</sup>. It was greatly diminished by adverse elasticity effects, which contributed -0.5 points of GDP. Were it not

<sup>10</sup> 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.

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 attained<sup>11</sup>.

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

<sup>11</sup> 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



## FRANCE STABILITY PROGRAMME 2014-2017

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 for French goods (\*)**

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

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

(\*) 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.

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

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

(\*) \$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>	<b>n</b>	<b>n+1</b>	<b>n+2</b>
GDP growth	-0.2	-0.3	-0.1
Total jobs created (thousands)	-10	-36	-45
Household consumption deflator	-0.1	-0.1	-0.2
<b>Net government lending/borrowing (in % points of GDP)</b>	<b>-0.1</b>	<b>-0.2</b>	<b>-0.1</b>

(\*) 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

Table 18 – Comparison with the previous Stability Programme

	2012	2013	2014	2015	2016	2017
<b>2014-2017 Stability Programme (April 2014)</b>						
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>	<i>1.1</i>	<i>1.1</i>	<i>0.8</i>	<i>0.8</i>	<i>0.5</i>	<i>0.5</i>
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
<b>2013-2017 Stability Programme (April 2013)</b>						
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>	<i>1.2</i>	<i>1.8</i>	<i>1.0</i>	<i>0.7</i>	<i>0.5</i>	<i>0.2</i>
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%<sup>12</sup> 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.

<sup>12</sup> Adjusted for seasonal variations and working days.

## 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
<b>2014-2017 Stability Programme (April 2014)</b>				
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
<b>European Commission's winter forecast (February 2014)</b>				
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
<b>Housing and Regional Equality</b>	<p><b>Housing policy</b></p> <p>Streamlining government housing policy tools</p>
<b>Social Affairs and Health</b>	<p><b>Developing outpatient surgery</b></p> <p>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><b>Promoting generic drugs</b></p> <p>Increasing generic drugs' share of the French drug market to one-quarter by 2017.</p> <p>Defining actions aimed at private practitioners and hospital doctors and at patients to increase confidence in generic drugs.</p>
<b>Industrial renewal</b>	<p><b>Business support and subsidies: streamlining tools and arrangements for businesses</b></p> <p>Harmonise the support system for businesses throughout the country regardless of their location.</p> <p>Streamlining and refocusing support after the initial assessment.</p> <p><b>Supervision of businesses: more effective, less burdensome</b></p> <p>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
<p style="text-align: center;"><b>Interior</b></p>	<p><b>Organisation of political elections</b></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>
<p style="text-align: center;"><b>Ecology, Sustainable Development and Energy</b></p>	<p><b>Local management of household waste</b></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>
<p style="text-align: center;"><b>Culture and Communication</b></p>	<p><b>Developing the proprietary resources of cultural establishments under the central government’s authority</b></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>
<p style="text-align: center;"><b>Higher Education and Research</b></p>	<p><b>Involving universities in life-long learning</b></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>
<p style="text-align: center;"><b>Foreign Affairs and International Development</b></p>	<p><b>Improving the coherence, impact and terms of our development assistance in the area of healthcare</b></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>
<p style="text-align: center;"><b>Justice</b></p>	<p><b>Improving user relations from reception to trials</b></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>



<p><b>Decentralisation, State Reform and the Civil Service</b></p>	<p><b>Pooling local government resources at municipal level</b></p> <p>Facilitating pooling of resources within intermunicipal cooperation establishments.</p>
--	--

**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”<sup>8</sup>. 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

---

<sup>8</sup> [http://www.strategie.gouv.fr/blog/en/wp-content/uploads/2014/04/CGSP-CALCUL\\_SOCIOECONOMIQUE\\_english.pdf](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.

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 proposals<sup>9</sup> 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.

---

<sup>9</sup> *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

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 2060<sup>10</sup>. 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

---

<sup>10</sup> Insee Première, "Population projections for 2060: one-third of the population aged over 60", no. 1320, October 2010

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 level<sup>11</sup>.

**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

---

<sup>11</sup> 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
<b>Sustainability gap (S2 indicator)</b>	<b>2.5</b>	<b>-0.5</b>
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 2013<sup>12</sup>) 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.

<sup>12</sup> See European Commission, 2012, "Fiscal Sustainability Report 2012," European Economy, No. 8/2012

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
<b>Impact of consolidation measures</b>	<b>4.1</b>	<b>8.1</b>	<b>15.0</b>	<b>21.6</b>
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 billion<sup>13</sup> 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

---

<sup>13</sup> Source: 2012 central government financial statements

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<sup>14</sup>”, 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

---

<sup>14</sup> 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 acts<sup>15</sup> 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.

---

<sup>15</sup> 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 governance<sup>2</sup> 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 countries<sup>16</sup> 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.**

---

<sup>16</sup> 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

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 minor<sup>17</sup>.

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.

---

<sup>17</sup> 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	Bl*g		0.0	0.2	1.0	1.7	2 <sup>1/4</sup>	2 <sup>1/4</sup>
2. Nominal GDP	Bl*g	2,032.3	1.5	1.4	2.2	3.2	3.9	3.9
<b>Components of real GDP</b>								
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
<b>Contributions to real GDP growth</b>								
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, persons <sup>1</sup>		26,956	0.0	-0.2	0.6	0.7	0.9	0.9
2. Employment, hours worked <sup>2</sup>								
3. Unemployment rate (%) <sup>3</sup>								
4. Labour productivity, persons <sup>4</sup>			0.0	0.4	0.4	1.0	1.3	1.3
5. Labour productivity, hours worked <sup>5</sup>								
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
<b>Net lending/borrowing (EDP B9) per sub-sector</b>							
<b>1. General government</b>	S.13	-87.6	-4.3	-3.8	-3.0	-2.2	-1.3
<b>2. Central government</b>	S.1311	-65.9	-3.2	-3.1	-3.1	-2.7	-2.1
<b>3. State government</b>	S.1312						
<b>4. Local government</b>	S.1313	-9.2	-0.4	-0.4	-0.2	-0.2	-0.2
<b>5. Social security funds</b>	S.1314	-12.5	-0.6	-0.2	0.3	0.6	1.0
<b>General government (S.13)</b>							
<b>6. Total revenue</b>	TR	1,087.9	52.8	52.9	52.6	52.4	52.2
<b>7. Total expenditure</b>	TE <sup>1</sup>	1,175.5	57.1	56.6	55.6	54.5	53.5
<b>8. Net lending/borrowing</b>	EDP B.9	-87.6	-4.3	-3.8	-3.0	-2.2	-1.3
<b>9. Interest expenditure</b>	EDP D.41	47.2	2.3	2.4	2.5	2.6	2.7
<b>10. Primary balance<sup>2</sup></b>		40.4	-1.9	-1.4	-0.5	0.4	1.4
<b>11. One-off and other temporary measures<sup>3</sup></b>		-0.3	0.0	0.0	-0.1	-0.1	0.0
<b>Selected components of revenue</b>							
<b>12. Total taxes (12=12a+12b+12c)</b>		590.8	28.7	28.6	28.6	28.6	28.5
<b>12a. Taxes on production and imports</b>	D.2	325.0	15.8	16.1	16.2	16.2	16.1
<b>12b. Current taxes on income, wealth etc.</b>	D.5	255.3	12.4	12.0	11.9	11.9	11.9
<b>12c. Capital taxes</b>	D.91	10.5	0.5	0.5	0.5	0.5	0.5
<b>13. Social contributions</b>	D.61	398.9	19.4	19.5	19.1	18.9	18.9
<b>14. Property income</b>	D.4	13.7	0.7	0.7	0.7	0.8	0.8
<b>15. Other<sup>4</sup></b>		84.5	4.1	4.1	4.2	4.1	4.1
<b>16=6. Total revenue</b>	TR	1,087.9	52.8	52.9	52.6	52.4	52.2
<b>NB: tax burden (D.2+D.5+D.61-D.612+D.91-D.995)<sup>5</sup></b>		945.2	45.9	45.9	45.6	45.4	45.3
<b>Selected components of expenditure</b>							
<b>17. Compensation of employees + intermediate consumption</b>	D.1+P.2	391.2	19.0	18.7	18.4	17.8	17.4
<b>17a. Compensation of employees</b>	D.1	273.3	13.3	13.2	12.9	12.5	12.2
<b>17b. Intermediate consumption (including financial intermediation)</b>	P.2	117.9	5.7	5.5	5.5	5.3	5.2
<b>18. Social payments<sup>6</sup> (18=18a+18b)</b>		541.9	26.3	26.2	25.8	25.5	25.1
<b>of which unemployment benefits</b>		30.3	1.5	1.4	1.4	1.3	1.2
<b>18a. Social transfers in kind supplied via market producers</b>	D.6311 D.63121 D.63131	124.1	6.0	6.0	6.0	5.9	5.8
<b>18b. Social transfers other than in kind</b>	D.62	417.8	20.3	20.2	19.8	19.6	19.3
<b>19=9. Interest expenditure</b>	EDP D.41	47.2	2.3	2.4	2.5	2.6	2.7
<b>20. Subsidies</b>	D.3	30.6	1.5	1.5	1.5	1.5	1.5
<b>21. Gross fixed capital formation</b>	P.51	65.0	3.2	3.1	2.8	2.7	2.6
<b>22. Capital transfers</b>	D.9	14.8	0.7	0.7	0.7	0.7	0.6
<b>23. Other<sup>7</sup> (23=24-17-18-19-20-21-22)</b>		84.9	4.1	4.1	4.0	3.9	3.6
<b>24=7. Total expenditure</b>	TE <sup>1</sup>	1,175.5	57.1	56.6	55.6	54.5	53.5
<b>NB: government consumption (nominal)</b>	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.7+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 <sup>1</sup>	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 <sup>1</sup>		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
<b>Contributions to changes in gross debt ratio</b>						
3. Primary balance <sup>2</sup>		-1.9	-1.4	-0.5	0.4	1.4
4. Interest expenditure <sup>3</sup>	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 <sup>4</sup>						
- Net accumulation of financial assets <sup>5</sup>						
- privatisation proceeds						
- Valuation effects and other <sup>6</sup>						
<b>NB: Implicit interest rate on debt<sup>7</sup></b>		2.6	2.6	2.7	2.8	3.0
<b>Other relevant variables</b>						
6_ Liquid financial assets <sup>8</sup>						
7. Net financial debt (7=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.

- 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
<b>1. Real GDP growth</b>		0.2*	1.0	1.7	2 ¼	2 ¼
2. Net lending of general government	EDP B.9	-4.3	-3.8	-3.0	-2.2	-1.3
<b>3. Interest expenditure</b>	EDP D.41	2.3	2.4	2.5	2.6	2.7
<b>4. One-off and other temporary measures <sup>1</sup></b>		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

<sup>1</sup> A plus sign means deficit-reducing one-off measures.

**Table 6. Divergence from previous update**

	ESA code	2013	2014	2015	2016	2017
<b>Real GDP growth</b>						
<b>2013-2017 Programme</b>		0.1	1.2	2.0	2.0	2.0
<b>2014-2017 Programme</b>		0.2*	1.0	1.7	2 ¼	2 ¼
<b>Difference</b>		0.1	-0.2	-0.3	¼	¼
<b>General government net lending (% of GDP)</b>	EDP B.9					
<b>2013-2017 Programme</b>		-3.7	-2.9	-2.0	-1.2	-0.7
<b>2014-2017 Programme</b>		-4.3	-3.8	-3.0	-2.2	-1.3
<b>Difference</b>		-0.5	-0.8	-1.0	-1.0	-0.6
<b>General government gross debt (% of GDP)</b>						
<b>2013-2017 Programme</b>		93.6	94.3	92.9	90.7	88.2
<b>2014-2017 Programme</b>		93.5	95.6	95.6	94.2	91.9
<b>Difference</b>		-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
<b>Total expenditure</b>							
<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							
<b>Total revenue</b>							
<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>							
<b>Systemic pension reforms<sup>1</sup></b>							
Social contributions paid to private compulsory pension schemes <sup>2</sup>							
Pension expenditure paid by private compulsory pension schemes <sup>3</sup>							
<b>Assumptions</b>							
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
<b>Public guarantees*</b>	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
<b>Short-term interest rate (annual average )<sup>1</sup></b>	0.2	0.3	0.5	0.9	1.4
<b>Long-term interest rate (annual average)</b>	2.2	2.4	3.0	3.5	4.0
<b>USD/€ exchange rate (annual average)</b>	1.33	1.36	1.36	1.36	1.36
<b>Nominal effective exchange rate (base 1995 = 100)</b>	110.8	113.2	113.2	113.2	113.2
<b>Global GDP growth excluding EU</b>	3.6	4.2	4.4	4.4	4.4
<b>EU GDP growth</b>	0.1	1.6	1.9	1.9	1.9
<b>Growth of relevant foreign markets</b>	1.8	4.8	6.5	6.5	6.5
<b>World import volumes excluding the EU</b>	3.9	4.9	6.2	6.2	6.2
<b>Oil prices (Brent, USD/barrel)</b>	109	107	107	109	111

<sup>1</sup> 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 OECD<sup>18</sup>, 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.

---

<sup>18</sup> “Measuring cyclically-adjusted budget balances for OECD countries”, N. Girouard and C. André, IECD Economics Department, Working Paper no 434, 2005.

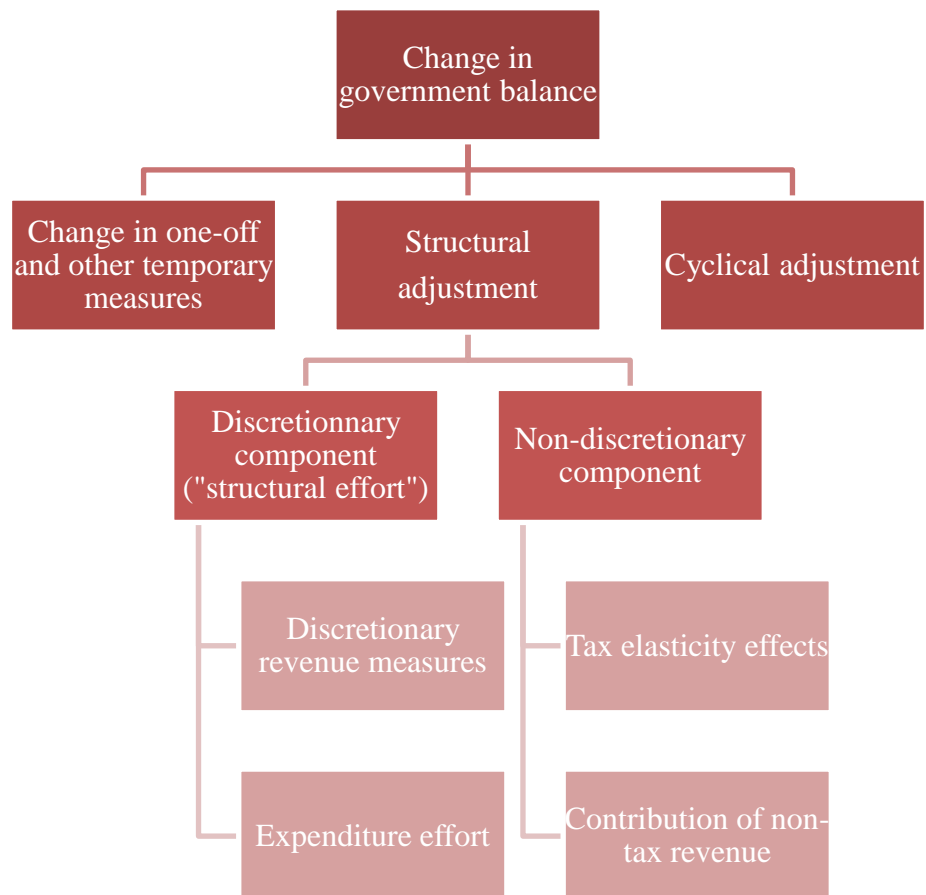
The structural effort can then be broken down into a revenue effort (discretionary revenue measures) and an expenditure effort.

- **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)	<b>Central government</b>	-	Adopted	7.0
Reduction in local government transfers	<b>Local government</b>	-	Adopted	1.5
Ondam capped at 2.4% in 2014	<b>Social security funds</b>	D63	Adopted	3.0
Family allowance measures, 2014 Initial Budget Act	<b>Social security funds</b>	D62	Adopted	0.1

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



**Table 3a: Revenue****Stability Programme Measures**

	<b>2013</b>	<b>2014</b>
<b>Total</b>	29.4	1.5
<b>Responsibility and Solidarity Pact (financed elsewhere)</b>		-0.5
Central government	0.0	-0.5
Solidarity measures for the least well-off households		-0.5
<b>2014 Initial Budget Act/2014 Social Security Budget Act/Pension reform/2013 Supplementary Budget Act</b>	-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
<b>Other measures (excl. tax disputes)</b>	<b>29.9</b>	<b>-5.0</b>
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
<b>Tax disputes</b>	<b>-0.3</b>	<b>-0.3</b>
Withholding tax disputes ( <i>précompte mobilier</i> )	0.0	
UCITS dispute	-0.3	-0.3

**Table 4**

See Table 4 in the Statistical Appendix