EUROPEAN
COMMISSION

Brussels, 28.11.2014
C(2014) 8805 final

COMMISSION OPINION

of 28.11.2014

on the Draft Budgetary Plan of FRANCE

COMMISSION OPINION

of 28.11.2014

on the Draft Budgetary Plan of FRANCE

GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING FRANCE

3. On the basis of the Draft Budgetary Plan for 2015 submitted on 15 October 2014 by France, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013. On 27 October, France addressed a letter to the Commission in which the government presented a package of additional measures and updated estimates, in complement to the Draft Budgetary Plan for 2015.

4. France is currently subject to the corrective arm of the Stability and Growth Pact. The Council opened the Excessive Deficit Procedure for France on 27 April 2009 and recommended France to correct the excessive deficit by 2012, a deadline which was extended to 2013 on 2 December 2009 and to 2015 on 21 June 2013. The Council recommended that France attained a headline deficit of 3.9% of GDP in 2013, 3.6% in 2014 and 2.8% in 2015, which was deemed consistent with an improvement in the structural balance of 1.3 pps. of GDP in 2013 and 0.8 pp. in both 2014 and 2015. On 5 March 2014, the Commission addressed a recommendation to France under Article 11 of Regulation (EU) No 473/2013, considering that it was at risk of non-compliance with its obligations. In this recommendation, the Commission called on France to take the necessary steps to ensure that the structural effort recommended by the Council was met.

5. According to the Draft Budgetary Plan, GDP growth will be at 0.4% in 2014 after 0.3% in 2013, and will accelerate slightly to 1% in 2015, on the back of increasing private consumption and exports. Compared to the Stability Programme, GDP growth has been revised down by 0.6 pp. in 2014 and by 0.7 pp. in 2015. These revisions mainly stem from the stagnation of GDP in the first half of 2014, owing to a fall in investment, flat private consumption and weak export growth. The Commission autumn forecast expects that the recovery will actually be slower than projected in the macroeconomic scenario underpinning the Draft Budgetary Plan, with GDP expected to grow by 0.3% in 2014 and 0.7% in 2015.

6. Regulation (EU) No 473/2013 requires the draft budget to be based on independently endorsed or produced macroeconomic forecasts. As required by law, the High Council for Public Finances (HCPF) published on 26 September an opinion on the

macroeconomic forecasts underlying the Draft Budgetary Plan as well as on the budgetary strategy underlying the draft budget. In its opinion on the Draft Budgetary Plan, the HCPF considered that the GDP growth forecast for 2014 was realistic but that, for 2015, it was optimistic as, in view of the international economic environment, investment and household consumption could prove disappointing. Moreover, the HCPF considered that, in light of the measures presented, there are risks that the planned slowdown in public expenditure for 2015 may not be achieved. The HCPF was established as a monitoring body attached to the French Court of Auditors and its independence is formally guaranteed by law.

7. In 2013, the general government deficit reached 4.1% of GDP, 0.2 pp. below the level notified in spring 2014. In the Draft Budgetary Plan, the government expects that the headline deficit will increase to 4.4% of GDP in 2014 and amount to 4.3% in 2015. This is consistent with a (recalculated) improvement in the structural balance of 0.2 pp. of GDP in 2014 and 0.1 pp. in 2015. The Stability Programme submitted in April 2014 expected the general government to be reduced to 3.8% of GDP in 2014 and to 3.0% in 2015 with a structural effort estimated by the government at 0.8 pp. of GDP for both years. According to the government, the strong revision in the budgetary targets since spring comes mainly from the downward revision in inflation and GDP growth. In addition, the impact of the changeover to ESA 2010 contributed -0.1 pp. to the revision in the adjustment in the structural balance both in 2014 and 2015 compared to the Stability Programme.

8. Based on the Commission 2014 autumn forecast, the headline balance is expected to increase to 4.4% of GDP in 2014 and 4.5% in 2015, slightly above the headline target in the Draft Budgetary Plan in the latter year. This is consistent with an improvement in the structural balance of 0.3 pp. of GDP in 2014 and 0.1 pp. in 2015. Risks to the budgetary targets are therefore clearly tilted to the downside. In line with the Commission assessment, the HCPF also pointed out that the measures included in the Draft Budgetary Plan may not be sufficient to achieve the reduction in expenditure growth planned. Moreover, a further drop in economic confidence could postpone the expected pick-up in private consumption and in investment and act as a drag on France’s already fragile recovery.

9. The ratio of general government debt to GDP reached 92.2% in 2013. The Draft Budgetary Plan expects this ratio to increase to 95.3% in 2014 and 97.2% in 2015. The Commission autumn forecast expects that public debt will actually rise somewhat above 95% of GDP in 2014 and 98% of GDP in 2015. The gap to the Draft Budgetary Plan projections mostly stems from different macroeconomic assumptions.

10. The measures included in the Draft Budgetary Plan for 2015 mainly consist, on the revenue side, in the implementation of the solidarity and responsibility pact and, on the expenditure side, in expenditure cuts planned to amount to EUR 21 billion (1.0% of GDP) according to the government. The latter consist in EUR 7.7 billion expenditure cuts by the central state, EUR 3.7 billion by local authorities and EUR 9.6 billion by social security.

11. For 2014, the Draft Budgetary Plan and the Commission project the headline deficit to increase to 4.4% of GDP, well above the EDP deficit target of 3.6% of GDP. For 2014, the Commission 2014 autumn forecast projects an improvement in the structural balance of 0.3 pp. of GDP. Adjusting for the negative impact of the changeover to ESA 2010 as well as for changes in potential growth and revenue

windfall/shortfalls, the corrected improvement in the structural effort for 2014 comes out at 0.5 pp. of GDP which is below the target (0.8pp of GDP) set in the EDP recommendation. The bottom-up assessment of the fiscal effort for 2014 stands at 0.9 pp of GDP compared to a recommended effort of above 1%. Over the period 2013-14, the corrected cumulative improvement adjusted for the ESA impact reaches 1.6% which is below the 2.1% of GDP recommended and the bottom-up comes out at 0.9% of GDP as compared to a recommended effort of above 1% of GDP. A careful analysis shows that the gap between the bottom-up and the top-down assessments of the structural effort is mostly explained by downward revisions in inflation since June 2013. This analysis does not yet include recent information on the lower than expected investment at the local government level that will have to be analysed.

12. In a letter sent to the Commission on 27 October 2014, the government announced a package complementing the Draft Budgetary Plan, including updated estimates, tax measures as well as new measures against tax fraud and to promote fiscal justice. The government expects that the package, which is planned to be adopted in an upcoming supplementary budget for 2014 or as part of the budget for 2015, will contribute EUR 3.6 billion (0.2 pp. of GDP) to the improvement in the structural balance in 2015. According to the Commission's assessment, the package is actually expected to improve the fiscal effort by only 0.1 pp. of GDP. Taking into account the additional package at face value, the government plans a (recalculated) improvement in the structural balance of 0.3 pp. of GDP. Based on the Commission 2014 autumn forecast, adjusting for the Commission's assessment of the package and for the impact of the changeover to ESA 2010, the corrected adjustment in the structural balance also comes out at 0.3 pp. of GDP in 2015.

13. Following the conclusion of the in-depth review of macroeconomic imbalances published in March 2014, France is subject to a specific monitoring of reform implementation as part of the Macroeconomic Imbalances Procedure (MIP). Based on information currently available, notably in the Draft Budgetary Plan, a number of reforms are progressing, but continued decisive implementation and, where appropriate, adaptation remains necessary. In particular, progress has been recorded in the implementation of the responsibility and solidarity pact which, together with the tax credit on competitiveness and employment, will reduce the cost of labour by close to EUR 30 billion by 2017 and the simplification of the administrative burden for firms. The impacts of the reform of the local administrations and of the bill on economic activity remain uncertain as the actual content of these reforms is still under consideration, notably as part of the process of adoption. Potential economic gains of these reforms will crucially hinge on their final design and implementation. Finally, efforts could be stepped up to further improve the sustainability of public finances, simplify the tax system and reduce the rigidities of the labour market.

14. Overall, the Commission is of the opinion that the Draft Budgetary Plan of France, which is currently under the corrective arm, is at risk of non-compliance with the provisions of the Stability and Growth Pact. Taking into account the additional package presented on 27 October, the adjustment in the structural balance is expected to be 0.3 pp of GDP. Thus the adjustment in the structural balance falls also short of the 2013 Recommendation. The Commission therefore invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2015 budget will be compliant with the Stability and Growth Pact.

The Commission is also of the opinion that France has made limited progress with regard to the structural part of the fiscal recommendations issued by the Council in the context of the 2014 European Semester and thus invites the authorities to accelerate implementation.

The Commission will examine in early March 2015 its position vis-à-vis France's obligations under the Stability and Growth Pact in the light of the finalisation of the budget law and of the expected specification of the structural reform programme announced by the authorities.

Done at Brussels, 28.11.2014

For the Commission
Pierre MOSCOVICI
Member of the Commission