



France

Significant reduction in the 2015 fiscal deficit

- In 2015, France's fiscal deficit reached 3.5% of GDP (preliminary estimate), marking a significant improvement from 2014 (-0.5 points).
- Higher GDP growth and slower growth in public spending account for this better than expected result.
- The government's fiscal targets for 2016 and 2017 (3.3% and 2.7%, respectively) look achievable but they cannot be taken for granted either.

According to the INSEE's preliminary figures, France's fiscal deficit came to 3.5% of GDP in 2015. This is surprisingly good news compared to the government's forecast of 3.8%, and a significant reduction compared to 2014 (-0.5 points). This improvement is all the more significant since it follows a year of no improvement in the deficit¹. In 2014, fiscal consolidation had indeed come to a halt due to the lack of growth and inflation, with a wider cyclical deficit (-0.3 points) counterbalancing the reduction in the structural deficit (+0.3 points). In 2015, inflation was still non-existent (annual average of 0% after 0.5% in 2014), but growth was much stronger (1.2% vs. 0.2%). Based on the European Commission's estimate of French potential growth in 2015 (0.9%), the cyclical deficit declined slightly last year (-0.1 points) and the structural deficit much more so (-0.4 points).

The total deficit was reduced by EUR 7.4 bn, of which a little more than two thirds (EUR 5.3 bn) can be attributed to the reduction in the financing gap of local public administrations, which in turn is mainly due to sharp cutbacks in investment spending (-EUR 4.6 bn). The financing needs of the social security administration also diminished (by EUR 2.2 bn) as did that of the state (EUR 4 bn), but this latter improvement was offset by a similar widening in the balance of government's agencies.

If we now look at spending and revenue trends, one result is striking: the deficit narrowed despite a decline in public revenues as a share of GDP. Although the decline is very small (-0.2 points to 53.2%), it is no less significant after five years of increases. The improvement in the fiscal deficit can thus be attributed to the reduction in the weight of public spending as a share of GDP (-0.5 points to 56.8%). Public spending not only increased much more slowly than GDP (+1.4% vs. +2.3% in nominal terms), it also slowed compared to 2014 (+1.8%). Two spending items not only slowed but truly declined in absolute terms: the debt service (-EUR 4.5 bn), thanks to lower interest rates, and investment spending (-EUR 5.1 bn).

Thanks to the improvement in 2015, it will not be as hard to meet the government's 2016 deficit target of 3.3% of GDP. By the same token, there are also better chances that France will meet its 2017 target of bringing the deficit below the 3% threshold (to 2.7% according to the

¹ The 2014 deficit was revised slightly higher to 4% of GDP, from 3.9% previously, while the 2013 deficit was revised downwards, also to 4%, from 4.1%.

Fiscal metrics (1)

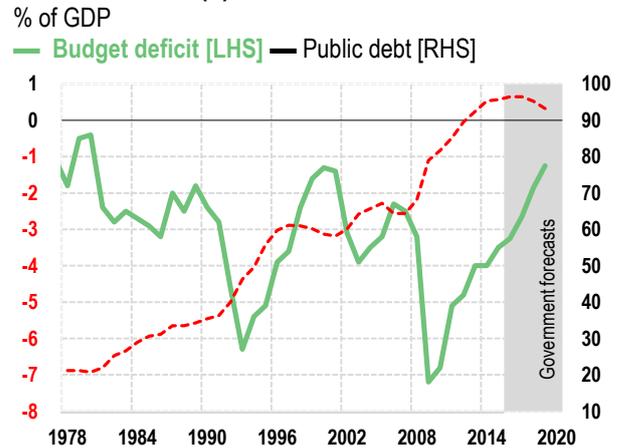


Chart 1

Source: INSEE

Fiscal metrics (2)

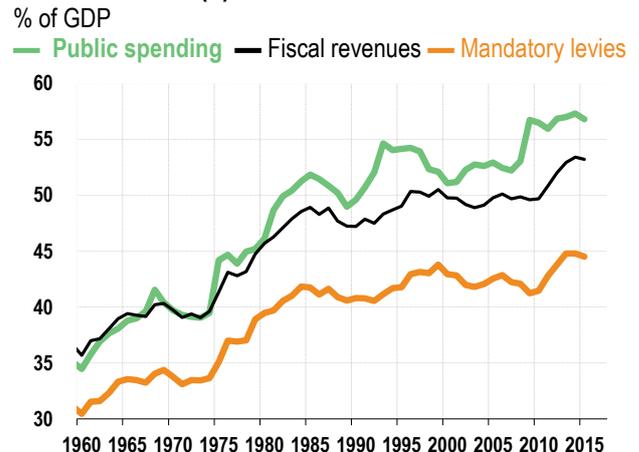


Chart 2

Source: INSEE

government's forecast). Yet these targets cannot be taken for granted, because of, on the one hand, still weak growth and inflation prospects, and, on the other hand, a lot of new spending has been announced, without specifying so far how these measures will be financed. Things should become clearer once the stability programme is updated in April. In any case, France must continue its fiscal efforts. Deficit reduction is clearly underway, but the deficit is still high, and the public debt ratio has yet to decline. In 2015, it stands at 95.7% of GDP.