# France

## Fiscal targets maintained

- **Under the new stability programme for 2016-2019, the French government has maintained its targets of a budget deficit of 3.3% of GDP in 2016 and 2.7% in 2017.**
- **In 2016, the government is explicitly counting on a fall in the debt service, in addition to growth and structural efforts, to reach its deficit target.**
- **These targets are achievable, but should not be taken for granted given the downside risks to growth and spending savings.**

On Wednesday 13 April, the French government unveiled its new stability programme (the SP) for France, covering 2016 to 2019. The key item of interest is that the budget deficit targets of the 2016 budget bill have been maintained, namely 3.3% of GDP in 2016 and then 2.7% in 2017. The maintenance of the targets has both positive and negative aspects. On the one hand, it is a cause of some regret that the better than expected performance in 2015 (initial estimates suggest a deficit cut to 3.5% of GDP, 0.3 of a point below the target of 3.8%) did not lead the government to raise its fiscal targets by a similar amount, while leaving unmodified the expected change in the 2016 deficit. The opposite course of action was chosen: holding the deficit target constant and adjusting the size of its reduction from 0.5 points to 0.2 points. A half-point reduction would have allowed the deficit to reach the symbolically important 3% level this year.

On the other hand, the pleasant surprise in 2015 increases the chances that the targets will be achieved. Moreover, these targets are in compliance with the European Commission's recommendations. One-third of the positive result in 2015 came from cyclical factors, one-third from one-off measures and one-third from structural factors. Compared to what was set out in the budget, the cyclical and structural deficits are 0.1 of a point lower in the SP, whilst one-off and temporary measures have a nil impact instead of -0.1 of a point (see table).

The improvement in the cyclically-adjusted primary balance is even more significant. The primary surplus was 0.4% of GDP in 2015, instead of the 0.2% in the budget, representing a 0.3-point improvement on 2014, rather than the predicted 0.1 point gain. This 0.2-point gain means that nearly half of the improvement in the cyclically-adjusted primary surplus expected in the 2016 budget has already been achieved. The remaining 0.3 of a point has not, however, been carried over unchanged into the SP, with the expected improvement in the cyclically-adjusted primary surplus now put at 0.1 of a point. This implied easing of fiscal restraint is, however, offset by the now expected 0.1 point fall in interest costs as a percentage of GDP. By adding in the expected 0.1-point reduction in the cyclical deficit, the government manages to reach its fiscal deficit target of 3.3% in 2016 (ignoring rounding effects). It is also worth noting that the structural adjustment of 0.4 of a point more than covers the 0.2-point improvement in the nominal deficit: it also covers the -0.2-point impact of one-off and temporary measures.

### Fiscal targets: details and differences

| % and % of GDP | 2015 budget | 2015 SP | 2016 budget | 2016 SP |
|---|---|---|---|---|
| Headline fiscal balance (1)+(2)-(3) | *-3.8* | **-3.5** | *-3.3* | **-3.3** |
| Cyclically-adjusted primary balance (1) | *0.2* | **0.4** | *0.7* | **0.5** |
| Cyclical balance (2) | *-2.0* | **-1.9** | *-1.9* | **-1.8** |
| Debt service (3) | *2.0* | **2.0** | *2.1* | **1.9** |
| One-off and temporary measures | *-0.1* | **0.0** | *-0.1* | **-0.2** |
| Structural balance | *-1.7* | **-1.6** | *-1.2* | **-1.3** |
| Change in the structural balance (adjustment) | *0.4* | **0.4** | *0.5* | **0.4** |
| Of which structural effort | *0.6* | **0.7** | *0.5* | **0.5** |
| *new income measures* | *-0.1* | **-0.1** | *-0.1* | **-0.2** |
| *spending efforts* | *0.7* | **0.8** | *0.5* | **0.7** |
| Of which non-discretionary component | *-0.2* | **-0.2** | *0.0* | **-0.2** |
| Of which new tax credits | *0.0* | **-0.1** | *0.0* | **0.0** |
| Public debt | *96.3* | **95.7** | *96.5* | **96.2** |
| Public spending (excl. tax credits) | *55.8* | **55.3** | *55.1* | **54.6** |
| Compulsory taxes | *44.6* | **44.5** | *44.5* | **44.2** |
| Real GDP growth | *1.0* | **1.2** | *1.5* | **1.5** |
| Potential growth | *1.1* | **1.1** | *1.5* | **1.5** |
| Inflation (CPI) | *0.1* | **0.0** | *1.0* | **0.1** |

*One-off measures are neither cyclical nor structural and they include tax disputes for instance. The non-discretionary component of the structural adjustment takes into account the effect of the elasticity of income where it differs from its historic unit value. The new tax credits component refers to the change in the difference between the budget cost and the cost in the national accounts relating to tax credits that can be refunded and carried forward (after the changeover to ESA 2010).*

**Table** Source: French government

Although the targets for 2016 and 2017 are achievable, they should not be taken for granted given the downside risks to growth and spending savings. Given that the growth forecast has not been downgraded since the budget (1.5% in 2016 and 2017), the government is displaying some optimism. The High Council of Public Finances believes that the 2016 forecast "remains in reach" and that the 2017 figure is "plausible". However, it clearly believes that the potential growth estimate is overvalued, and that the scale of the structural fiscal effort identified by the government is misleading. As far as spending savings for 2016 are concerned, the target of EUR 16 bn in the budget was already going to be a tough ask. To achieve it, the government will have to find a further EUR 4 bn of savings this year (EUR 5 bn in 2017) to offset lower than expected inflation. It will also have to make cuts in order to finance new spending of around EUR 3 bn. The structural effort in expenditure has been increased as a result (to 0.7 of a point, from 0.5 in the budget).

Finally, the debt to GDP ratio will continue to rise in 2017, if only slightly, instead of stabilising as forecast in the budget – before beginning to fall, slowly, from 2018.