ECO FLASH

N°21-15

27 October 2021

FRANCE, 2022 BUDGET: AUTOMATIC DEFICIT REDUCTION

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In the 2022 draft budget bill, the French government foresees a deficit of 8.4% of GDP in 2021 and 4.8% of GDP in 2022 (vs. 9.1% in 2020). The public debt ratio is expected to increase to 115.6% of GDP in 2021 (from 115% in 2020), before declining slightly to 114% in 2022.

The large reduction in the deficit between 2021 and 2022 is primarily automatic. The improvement in the cyclical deficit is expected to contribute 1.6 points, while the 2.1-point reduction in the structural deficit is mainly due to the halting of most of the emergency support measures.

The disappearance of the emergency support measures in 2022 help generate a sharp decline in public spending as a share of GDP (-4.3 points), which explains not only the reduction in the fiscal deficit (-3.6 points) but also covers the reduction of the fiscal pressure (-0.8 points).

It is still too early for discretionary fiscal consolidation. The Covid-19 crisis still looms over the 2022 budget: both the French economy and society still need support. This support is provided via the roll out of the France Relance recovery plan, the pending France 2030 investment plan and increases in ordinary spending. Although the "whatever the cost" approach has been scaled back significantly compared to 2020 and 2021, it continues to prevail since no financing measures are proposed to offset the cost of the support measures.

According to the High Council of Public Finances (HCFP), the government's 2021 and 2022 growth forecasts (6% and 4%) are "cautious" and "plausible", respectively.

The HCFP has not commented on the plausibility of the French government's fiscal deficit forecasts, since the draft budget bill was not completed. Certain spending measures were announced but had yet to be finalised (France 2030 investment plan, conditional income for youth), and were not incorporated in the 2022 draft budget bill. They will be integrated through amendments during the parliamentary debates.

Consequently, the Government's fiscal deficit targets are likely to be adjusted in the weeks ahead. Its 2021 growth forecast has already been revised upwards to 6.25%. Yet we cannot be certain that the deficit will deteriorate further in 2022, since the current underestimation of spending could be offset by underestimated revenue.

HEADLINE AND STRUCTURAL DEFICIT

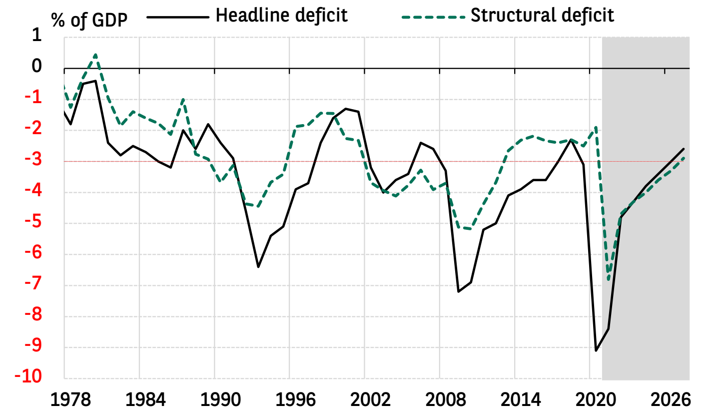

CHART 1

SOURCE: INSEE, EUROPEAN COMMISSION, FRENCH GOVERNMENT'S FORECASTS (GREY AREA), BNP PARIBAS

PUBLIC DEBT RATIO

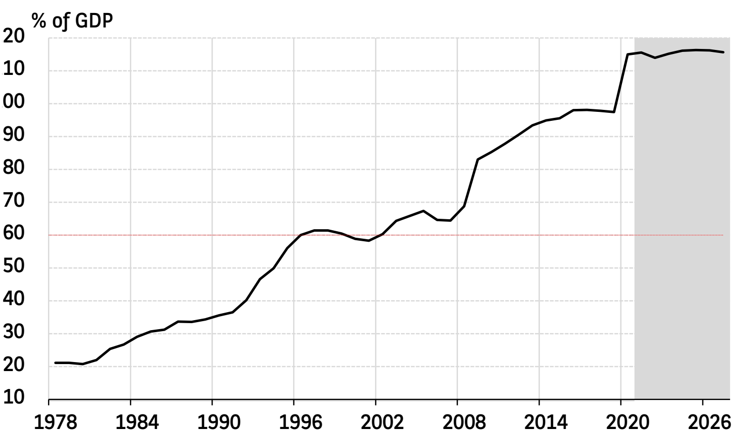

CHART 2

SOURCE: INSEE, EUROPEAN COMMISSION, FRENCH GOVERNMENT'S FORECASTS (GREY AREA), BNP PARIBAS

The 2022 draft budget bill (PLF 2022) was presented to the Council of Ministers on 22 September 2021. In this article, the key figures and components of this budget bill (the last before the 2022 presidential election) will be reviewed. In brief, the 2022 budget will continue to support growth and employment. It is still too early to talk about deliberate reduction efforts despite the large size of the fiscal deficit: any discretionary fiscal consolidation would still be premature. In the 2021 budget, the challenge was to provide an effective buffer against the crisis as well as supporting the recovery. That's now been done. As to the 2022 budget, entitled "For a sustainable growth", the challenge is to successfully pull out of the crisis while gradually withdrawing emergency support measures, continuing to roll out the France Relance recovery plan and launching the new France 2030 investment plan.

According to the government's forecasts retained in the 2022 draft budget bill, the fiscal deficit is expected to narrow to 8.4% of GDP in 2021, from 9.1% in 2020, before shrinking to 4.8% in 2022. Between 2020 and 2021, the improvement is limited to 0.7 points despite a substantial rebound in growth (up 6% after contracting 7.9%). The reason for this small improvement is that the nearly 3-point reduction in the cyclical deficit, as well as cutbacks in one-off measures, were offset by a 5-point increase in the structural deficit. These trends were shaped by the government's decision to treat emergency support as one-off measures in 2020 and as part of the structural balance in 2021.

Between 2021 and 2022, the reduction in the deficit is expected to be much bigger (3.6 points). The main characteristic of this decrease is its automatic nature. This is based on a 1.6-point improvement in the cyclical deficit, thanks to strong growth in 2022 (forecast at 4%), and a 2.1-point improvement in the structural deficit, thanks to the disappearance of most of the emergency support measures. From a total of EUR 69.7 bn in 2020 and EUR 63.7 bn in 2021, these emergency measures will dwindle to only EUR 8.1 bn in 2022 (see table 3). This decline will be partly offset by the France Relance recovery plan, which will still account for EUR 30.1 bn in 2022, after EUR 38.2 bn in 2021. This 2.1-point structural adjustment does not include any discretionary fiscal consolidation measures. Although they would certainly have contributed to a much bigger reduction in the deficit, it is still too early to begin moving towards fiscal austerity. As necessary as that might seem, it would be premature to do so in 2022 given the size of the Covid-19 shock and the support measures still needed by the French economy and society. These include the ongoing rollout of the France Relance recovery plan, the pending France 2030 investment plan, and increases in ordinary expenditures (see below).

Halting most of the emergency measures, combined with the beneficial impact of strong GDP growth in the denominator, implies a big reduction in the weight of public spending as a share of GDP (-4.3 points[1]). This largely explains the reduction in the fiscal deficit, and also covers the 0.8-point reduction in total revenues as a share of GDP (-0.2 points for compulsory levies). The government proposes a "restated" version of the change in public spending in volume, stripped of exceptional emergency and recovery measures, to highlight its fiscal control efforts, despite the impression to the contrary given the numerous new spending measures that were announced (most of which are permanent[2]) on top of those already underway[3].

2022 BUDGET KEY FIGURES FROM A 10-YEAR PERSPECTIVE

%, % of GDP and potential GDP	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Growth	2.3	1.9	1.8	-7.9	6.0	4.0	1.6	1.4	1.4	1.4	1.4
Fiscal balance	-3.0	-2.3	-3.1	-9.1	-8.4	-4.8	-4.3	-3.8	-3.4	-3.0	-2.6
Cyclical balance	-0.3	0.1	0.4	-4.3	-1.5	0.1	0.2	0.2	0.2	0.2	0.3
One-offs	-0.2	-0.1	-1.0	-2.8	-0.1	-0.2	-0.2	-0.1	0.0	0.0	0.0
Structural balance	-2.4	-2.3	-2.5	-1.9	-6.8	-4.7	-4.3	-4.0	-3.6	-3.3	-2.9
Structural adjustment	0.3	0.2	-0.2	0.6	-4.9	2.1	0.35	0.35	0.35	0.35	0.35
Structural effort				0.6	-5.6	2.6					
*New fiscal revenue (net of TC *)*				*-0.6*	*-0.6*	*-0.1*					
Change in spending				*0.9*	*-5.0*	*2.7*					
Tax credit key				*0.4*	*0.0*	*0.0*					
Non-discretionary component				0.0	0.7	-0.5					
Revenues excluding compulsory levies				*-0.4*	*0.9*	*-0.4*					
Fiscal elasticity				*0.4*	*-0.1*	*0.0*					
Public debt ratio	98.1	97.8	97.5	115.0	115.6	114.0	115.2	116.1	116.3	116.2	115.7
Public spending ratio (excl. TC)	55.1	54.0	53.8	60.8	59.9	55.6	54.7	54.1	53.6	53.2	52.9
Change in value			*2.8*	*6.8*	*4.8*	*-2.0*					
... in volume	*1.5*	*-0.5*	*1.9*	*6.6*	*3.4*	*-3.5*	*-0.3*	*0.2*	*0.2*	*0.5*	*0.6*
*... restated***	*1.5*	*-0.9*	*1.4*	*1.2*	*2.1*	*0.8*	*1.0*	*0.5*	*0.6*	*0.6*	*0.6*
Rate of compulsory levies (net of TC)	45.1	44.7	43.8	44.5	43.7	43.5	43.4	43.5	43.6	43.6	43.7

One-off measures are comprised notably of tax disputes and, in 2019, the cost of switching the CICE into a cut in employers' contributions. // *TC: tax credit. // The non-discretionary component includes notably elasticity effects on receipts when elasticity is other than 1. In 2021, the majority of revenue excluding compulsory levies is comprised of European funding for the recovery plan. // The tax credit key measures the difference between the cost in the budget and that in the national accounts of tax credits to be paid and which can carried forward. Its high level in 2020 relates to the removal of the CICE tax credit and the sizeable gap between continued substantial payments for previous years and the virtual disappearance of new credits. // The breakdown of the budget balance is based on revised assumptions for the potential growth rate (0% in 2020 and 0.8% in 2021, before returning to the pre-crisis estimated growth rate of 1.35%). // **Trend restated for the creation of France Compétences in 2019, as well as emergency and recovery measures in 2020, 2021 and 2022.

TABLE 1

SOURCE: FRENCH GOVERNMENT (2022 BUDGET BILL, 2022 ECONOMIC, SOCIAL AND FINANCIAL REPORT)

TOTAL TAX CUTS

EUR bn	Cumulative	2018	2019	2020	2021	2022
Household tax cuts	-51.6	-2.2	-20.5	-18.5	-3.5	-6.9
Corporate tax cuts – excluding CICE tax credit (and France Compétences)	-50.1	-9.4	-9.0	-10.5	-17.1	-4.1
Including CICE tax credit	-53.7	-9.4	-29.1	+3.9	-16.6	-2.5

TABLE 2

SOURCE: FRENCH GOVERNMENT (2022 BUDGET BILL)

1This would reduce the weight of public spending to roughly the 2017 level.
2 Including wage increases for the national education system; greater funding for law enforcement and Beauvau summit; higher tax credits as part of the MaPrimeRénov' renovation bonus; emergency housing; measures to help youth (creation of a Sports Pass, greater funding for the Culture Pass, increased capacity for the universal national service, extension of the "1 youth, 1 solution" plan); the Marseille plan; the extra energy check; higher wages for midwives working in public hospitals, free contraception for women through the age of 25; and a plan for the self-employed and farmers too.
3 Ségur health summit; programming laws (defence, research, justice, public development aid).

According to this restated metric, ordinary public spending is forecast to increase only 0.8% in 2022, which is slightly lower than the average annual increase of 1% reported during the previous 5-year term, which was already considered to be very low (see chart 3). Yet the increase in public spending is nonetheless visible in the nearly 2-point increase in the public spending ratio in 2022 compared to 2019. Chart 4 clearly illustrates this extra rise and its origins. Moreover, all the numbers are not in yet, since the 2022 draft budget bill does not integrate the new France 2030 investment plan (presented in detail on 12 October), the conditional income for youth (more details were expected to be released by 22 October) or the new skills plan, which the Prime Minister announced at the end of September to address hiring difficulties.

The 2022 budget is based on very strong growth forecasts, buoyed by a post-pandemic catching-up movement as well as by past emergency and new stimulus support measures. The High Council of Public Finances (HCFP), in its 17 September opinion, considers the government's 2021 growth forecasts to be "conservative" (i.e., underestimated) and its 2022 forecasts to be "plausible". The government has since revised upwards its 2021 growth forecast from 6% to 6.25% (bringing it in line with the INSEE's estimate). On the one hand, given this upward revision and the underestimated revenues identified by the HCFP, and on the other, total spending, which is bound to be higher (in addition to the cost of the measures taken to offset higher prices for natural gas, electricity and petrol), it was not possible to evaluate the net impact on the 2021 and 2022 deficits at the time of writing. It seems more likely that the deficit would be bigger rather than smaller, but the various changes could also cancel each other out.

Looking beyond these missing factors, the 2022 budget has the merit of maintaining the downward trajectory of corporate taxes and the housing tax. This welcome continuity provides stability and visibility in an environment plagued by uncertainty. Though spending savings are missing at the time of the first assessments of Emmanuel Macron's 5-year term, this is not the case of the numerous and important tax cuts: a cumulative total of EUR 52 bn for households and EUR 54 bn for companies (see table 2).

The 2022 budget is still far from being a "normal" budget, nor even a "back to normal" budget, to use the words of Olivier Dussopt, deputy minister of public accounts. It marks the beginning of the normalisation of an exceptional fiscal policy implemented to counter the Covid-19 crisis. It confirms the withdrawal of most emergency measures (assuming they are not re-introduced due to a reversal of the health situation) whilst maintaining several recovery plan measures. The budget still bears the marks of the "whatever the cost" approach, albeit to a much lesser extent than in 2020 and 2021. In our eyes, this philosophy continues to prevail as long as no funding measures are set in place to offset the cost of support measures. Granted, the expected deficit in 2022 returns to a level that is no more abnormally high and that has already been seen in the past (in 2012 and 1995). Even so, it is still very high, and it is almost 100% structural. Moreover, the public debt ratio is forecast to barely level off. This issue, and the sustainability of France's public debt in general, will be examined in greater detail in a future issue of Eco-Conjoncture.

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"RESTATED" INCREASE IN PUBLIC SPENDING
EXCLUDING TAX CREDITS, FRANCE COMPETENCES, EMERGENCY AND RECOVERY MEASURES

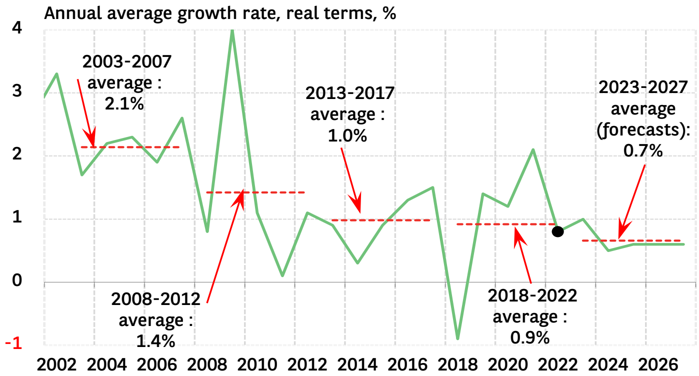

CHART 3 SOURCE: FRENCH GOVERNMENT, BNP PARIBAS

PUBLIC SPENDING TRENDS: 2019 TO 2022

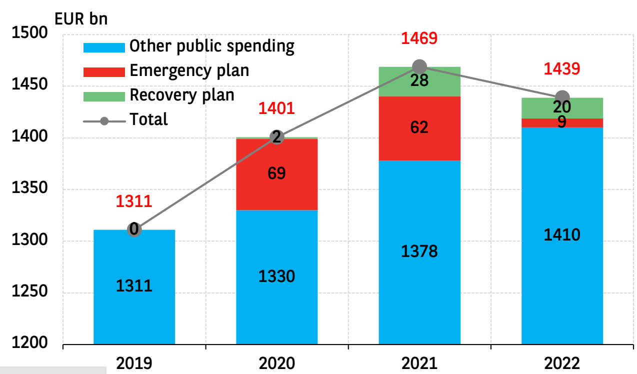

CHART 4 SOURCE: INSEE, FRENCH GOVERNEMENT, HCFP, BNP PARIBAS

SUMMARY OF EMERGENCY AND RECOVERY PLAN MEASURES (EUR BN)

Emergency support measures	2020	2021	2022
Short-time work (excl. LT job retention scheme)	26.5	9.3	
Solidarity fund and other sectoral subsidies (incl. sports, mountains, culture)	15.9	23.0	
Exceptional healthcare spending	14.0	14.7	5.0
Social security contribution exemptions	5.8	2.6	
Agence de service des paiements (ASP) and *Santé Publique France* cash-flow	-2.6	2.6	
Unemployment benefits: temporary rights extension & reform postponement	3.9	5.3	0.3
Carry-back on corporate tax deficits	0.1	0.9	-0.1
Landlord tax credit	0.0	0.1	0.0
Other specific support measures (masks, precarious workers)	6.4	2.5	0.2
IEB-guaranteed loans losses			0.5
State-guaranteed loans losses	-0.2	0.1	2.2
Provisions for unforeseeable and unpredictable expenditure		1.5	
Other State expenditure		1.0	
TOTAL	69.7	63.7	8.1
Recovery plan measures	**2020**	**2021**	**2022**
Recovery plan measures before EU funding (A)	1.8	38.2	30.1
EU funding (B)		-16.5	-10.6
Recovery plan, net impact (A+B)	1.8	21.7	19.6
TOTAL EMERGENCY AND RECOVERY MEASURES	71.5	101.9	38.2

TABLE 3 SOURCE: FRENCH GOVERNMENT (2022 BUDGET BILL)

CONJONCTURE
Structural or thematic topics.

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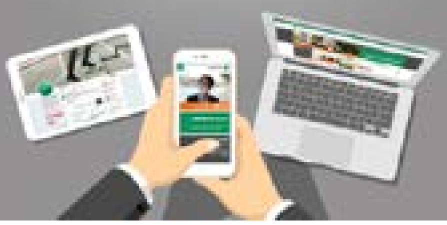

Published by BNP PARIBAS Economic Research
Head office: 16 boulevard des Italiens – 75009 Paris France / Phone : +33 (0) 1.42.98.12.34
Internet: www.group.bnpparibas.com - www.economic-research.bnpparibas.com
Head of publication : Jean Lemierre / Chief editor: William De Vijlder