

Paris, June 22th, 2011

Yearly report of audit on France's public finances situation & prospects

The *Cour des comptes* published today its yearly report on the situation and prospects for public finances, in order to prepare the orientation debate held every year at the Parliament. **This audit, conducted every year, unveils a serious situation and concerns about the prospects.** Year 2010 went better, however most of the job remains undone. Decisions must be taken, not later than this year, to clarify and undertake deeper fiscal efforts which France has committed to in its Stability Programme and its Public Finances Programme Law, and hence to continue them.

Assessment on 2010

Government deficit, after an exceptional peak hit on 2009, has decreased by 0.4 GDP point in 2010 and is estimated at **7.1% of GDP** at the end of the year. However the deficit settles too high to curb Government debt's uptrend, and it significantly exceeds the Eurozone other countries average deficit (5.8% of GDP).

This small deficit reduction in 2010 can be explained by less costly recovery measures and a slowdown in the increase of Social Security expenditure, even slower concerning Local Authorities expenditure. This decrease would have been more significant if tax cuts, especially the *taxe professionnelle* reform, had not worsened the deficit by 0.4 GDP point.

Crisis and recovery measures account for a minor part of the 2010 deficit. Structural deficit has not been reduced and is estimated at 5% of GDP, 3 points over the German's one. It is mainly concentrated on the State, but the Social Security structural deficit represents 0.7 GDP point whereas there should not be any deficit allowed.

The situation in 2011

Government deficit may decrease significantly in 2011. Tax revenues should be on line with Government's expectations, or even higher than expected because of an improved economic situation at the beginning of 2011. However there is no guarantee that expenditure targets will be observed. **Even reduced to 5.7% of GDP, the 2011 Government deficit would still exceed the Eurozone other countries average (3.9%). Structural deficit would decrease too, but would remain significantly higher than the Eurozone other countries average.** Bringing the deficit under 5.7% of GDP should be targeted if the economic situation remains favourable enough.

The prospects

The target to bring the Government deficit down to 2% of GDP on 2014, which is has been notified in the Stability Programme, **relies on favourable growth and tax revenue forecasts whose realization is uncertain.** It also depends on expenditure targets, which to be observed require explicit decisions, but these still remain unclear today.

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If the Government structural deficit were to remain unreduced regarding its 2010 level, it might trigger the Government debt up to 100% of GDP in 2016. **An uncontrolled increase of this debt poses a major threat to growth, and to our country's capacity to make independent choices on social and economic issues.** Since there is no margin left for fiscal policy, an increase in interest rates would bring promptly France to face difficult decisions.

A yearly structural adjustment of 1 GDP point (€20bn) during five years is vital to stabilize, and hence to reduce Government debt quickly enough. This adjustment is close to the one foreseen in the Stability Programme, but France's credibility suffers from a non compliant behaviour regarding its previous commitments. Therefore the measures which are required to match this adjustment should be disclosed with details soon.

It is particularly urgent to define how Social Security funds should be brought back to balance. Apart from the doubts lingering over the pension funds, which balance in 2020 is foreseen but uncertain, Healthcare deficit will not decrease more than by following a slow trend even if the assumptions of the Stability Programme are realized. If new adjustment measures are not adopted, additional debt compared to the amount foreseen in the Social Security Budget Law for 2011 will have to be transferred from the *ACOSS* to the *CADES*.

Orientations

Some reforms have been launched (e.g. the pensions reform) and the Social Security Financing Act as well as the Budget Act for 2011 have both initiated the reduction of tax expenditures. **However far larger efforts are necessary** and this requires efficient steering tools and a medium-term strategic framework to be designed.

Public Finances Programme Laws are a vital tool, but the assessment of the first of them reveals a mixed result. The second law includes useful innovations but irrespective of the constitutional reform outcome, still should be improved. The Cour des comptes presents some propositions.

More than a half of the fiscal consolidation should be gained by limiting Government expenditure growth. The Cour des comptes includes in its report some principles to frame actions on expenditure. The gains from a better expenditure control should no longer be cancelled by cutting taxes.

An increase in Government revenues, even temporary, cannot be avoided. The reduction of tax expenditures initiated recently should go on and should be expanded. **A whole reform of taxes and Social Security contributions is needed too.** Apart from increasing Government revenues, it should aim at making businesses more competitive to enhance potential output growth, and at dividing efforts fairly.

[Report and other documents \(in French\)](#)

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