PRESS RELEASE

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FINANCES AND PUBLIC ACCOUNTS

THE SITUATION AND OUTLOOK OF FRANCE'S PUBLIC FINANCES

The deficit of France's public administrations was brought down to 2.6 points of GDP in 2017, i.e. a level close to that of 2007, but with a rate of compulsory tax and social security contributions and share of public spending in GDP that are three points higher than ten years ago. While the country has exited the excessive deficit procedure, public debt, which has risen by 32.3 points since 2007, now stands at 96.8 points of GDP. France's relative situation has deteriorated compared to that of its European partners.
The deficit forecast for 2018 (2.3 points of GDP) is achievable, but with a moderate risk of it being exceeded. The 2019-2022 public finances path harbours several weaknesses, relating to growth assumptions, the fact that some of the announced reductions in compulsory levies not having been accounted for, the lack of detailed documentation regarding the slowdown in the volume of public spending that is planned from 2020 and the breakdown of balances among the different categories of public administrations.

The situation in 2017

The clear improvement in the public deficit in 2017 was primarily due to the strong increase in compulsory taxes and social security contributions, under the effect of a strong acceleration in economic growth at the end of the year. Despite the measures implemented during the year to curb it, public spending increased significantly more in 2017 than in previous years.
France, which was one of the last countries to be subject to the excessive deficit procedure, has exited it. Initiated in April 2009, it thus would have lasted more than nine years. The situation of public finances at end-2017 does not allow for any relaxing of efforts. The structural deficit, estimated at 2.1 points of GDP by the European Commission, remains much higher than the medium-term objective set by France in application of the 2012 Treaty on Stability, Coordination and Governance.

Public finances, ten years after the 2008 financial crisis

The public deficit observed in 2017 has returned to a level that is close to that of the mid 2000s, but debt has increased by more than 30 points since then. The share of public spending in GDP and the rate of compulsory taxes and social security contributions have also risen sharply, by 3 points of GDP each compared to 2007.
Comparatively, the situation in France has deteriorated within the European Union (EU). While the EU shows a change in its public deficit close to that of France, it is with a much smaller rise in revenue and spending in points of GDP. Moreover, the structural deficit of

France remains one of the highest. Lastly, over the same period, public debt increased more sharply in France than in the euro area as a whole.
In all, the French central government's revenue supported the lion's share of the effects of the weaker growth following the financial crisis of 2008-2009 and its balance deteriorated by 0.5 point of GDP between 2007 and 2017. Conversely, the relatively favourable composition of revenues played an important role in the appearance of surpluses for local public administrations (in 2016) and social security funds (in 2017).

The situation in 2018

France's 2018 stability programme projects the public deficit at 2.3 points of GDP this year. This forecast could be achieved, despite unfavourable factors, notably in terms of growth, has gained strength since. The projection for central government revenue could prove to be somewhat high, while the spending figure is achievable. More accurate budgeting of the State's general budget appropriations in the initial budget bill results in much lower risks of exceeding them than in the past two years, and the projected spending of social security funds is realistic. The main risk comes from the local government, for which the spending forecast remains subject to high uncertainties regarding the impact of the new contract system.

Outlook for 2019 to 2022

The path of public finances in the stability programme beyond 2018 provides for a return to a surplus position in public finances in 2022 and a structural balance close to equilibrium in the medium term. These forecasts are nevertheless based on weak assumptions: an optimistic growth scenario, a projection of compulsory taxes and social security contributions that leaves hardly any room for further decreases in the anticipated amounts, a slowdown in spending in volume terms from 2020, for which few details have been given at this stage. The savings plan corresponding to the proposals made by the 2022 Public Action committee has yet to be presented. Moreover, several factors behind a rise in spending have already been identified.
Lastly, the expected improvement in the balance of all public administrations is based on a capping of the surpluses of the social security funds via the transfer of revenue to the central government, the modalities of which have not been defined. It is also based on the build-up of growing surpluses for the local government, thanks to strict control of the operating costs, which implies that they will not use this room for manoeuvre to increase their investments or lower their taxation.

Read the report

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