

PRESS RELEASE

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PUBLIC FINANCE AND ACCOUNTS

A PUBLIC FINANCE STRATEGY TO EXIT THE CRISIS

Reconciling business support and sustainability

In February, the Prime Minister entrusted the Court with a mission concerning the post-crisis public finance strategy. The Court is responding to this referral by publishing this report.

Whatever the outlook for growth will be after the crisis, the pandemic will have long-term impacts on the French economy and public finances. Given this context, public debt sustainability is a sovereignty issue: it is a necessary condition for contending with future economic shocks and remaining in a position to finance the policies and functioning of public administrations.

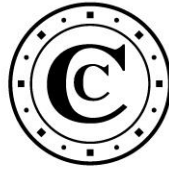
To ensure this sustainability, the Court is proposing a strategy based on two pillars: strengthening potential growth and controlling public spending. This effort should be accompanied by an overhaul of the public finance governance framework, an improvement to the quality of public expenditure in five priority sectors and a strengthening of the equity and efficiency of policies and public administrations.

To this end, the Court is formulating 27 recommendations.

A lasting impact from the crisis

The Covid-19 epidemic has impacted France, like the rest of the world. Activity contracted by 7.9% in 2020 and is expected to only partially rebound in 2021 (+5% according to the stability programme). Due to the effect of exceptional support measures aimed at supporting individuals and businesses, public deficit reached 9.2 points of GDP in 2020 and could rise to 9.4 points in 2021. Public debt should settle at a level close to 117 points of GDP in 2020 and 2021. The deterioration of the public deficit in 2020 can be attributed to the scale of public spending aimed at protecting the income of households and businesses and the huge drop in revenues, due to the effect of the slowdown in economic activity. The continued high deficit in 2021, despite the expected rebound in growth, is due firstly to the extension of support measures, the ramp-up of the recovery plan and long-term spending measures, and, secondly, to the partial rebound in tax and social revenue and the amplification of tax cuts.

While the rise in the debt ratio was not accompanied by an increase in the interest charge or difficulty in financing debt, this situation is largely the result of the European Central Bank's action and the low level of interest rates. **In the longer term, a continued increase in the debt ratio would risk weakening economic actors' confidence in France's ability to honour its past and future commitments.**



A strategy to boost growth

First of all, to ensure the sustainability of public finances, the Court considers it necessary to strengthen the level of potential growth in France. To achieve this, four additional objectives should be pursued:

- focus the public investment effort on targeted priorities to maximise their impact, particularly to promote innovation, research, industry and skills development;
- support the ecological transition, by more effectively defining and aligning priority green investments and making greater use of the multiplier effect of this ecological transition;
- contribute to the acceleration of the digital transformation by supporting the development of effective, inclusive and secure technologies and by amplifying the digital adaptation of public services;
- build resilience capabilities by more effectively prioritising, assessing and preventing all kinds of risks and by better preparing for crisis management.

Gradually reducing the deficit to put debt on a lasting downward path

Alongside this growth strategy, the public finance strategy should aim to gradually reduce the public deficit in order to put debt on a lasting downward path. This consolidation could begin in 2023, once the level of pre-crisis activity has been restored, assuming that the pandemic will end by the close of this year. The end of 2021 and 2022 would thereby be utilised to gradually phase out the main support measures and implement the measures of the recovery plan. This consolidation should favour stronger control of public spending to reduce its weighting in GDP, at a sufficient pace to allow public debt to decline by 2027 at the latest.

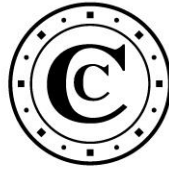
Reformed public finance governance

This approach aimed at strengthening public finance sustainability should be based on a reform of the framework for public finance governance, at European and national level.

At European level, the process of reflection which began before the crisis to renovate the rules of the Stability and Growth Pact should be pursued to allow a change in the rules. It should be done so before the end of the "general derogation clause" which has been triggered by the Commission during the pandemic. A reform of the rules of the Stability and Growth Pact could be structured around a few principles:

- a simple rule making it possible to adapt to the situation of countries, particularly their level of indebtedness, and paying special attention to the quality of expenditure;
- a rule that is not procyclical;
- a rule that allows investment to be favoured within public spending;
- a rule that draws – more than currently – on the expertise of independent national budgetary institutions to lend credibility to the scenarios and to assess the measures taken by Member States.

At national level, this would include defining medium-term trajectories comprising multi-year expenditure budgets and new revenue measures, including a provision to deal with contingencies, strengthening the scope of financial laws and broadening the mandate of the High Council of Public Finances.



Strengthen the fairness and efficiency of policies and public administrations

The level of public spending in France is significantly higher than in countries with a comparable social model. This gap has widened in recent times, without this development having resulted from an equivalent increase in the quality of public services.

Five key sectors could be the subject of reforms aimed at improving the quality of public expenditure:

- the pension system, which, despite reforms which have had a positive impact, is still not balanced on a long-term basis;
- health insurance expenditure, the quality of which must be improved;
- the employment policy, in order to more effectively adjust – particularly with regard to unemployment benefits – expenditure to economic cycles and to improve its effectiveness in preventing long-term unemployment;
- minimum social benefits firstly and the housing policy secondly, the effectiveness and targeting of which must be improved, particularly towards the most disadvantaged households.


It also appears necessary to strengthen the efficiency and improve the quality of the services provided to citizens by all local and regional authorities and public administrations, around four orientations:

- conduct a review of the administrations' missions;
- develop multi-year contracting on objectives and resources, in return for greater freedom of management;
- simplify the organisation of administrations and streamline administrative procedures and standards;
- promote greater transparency by developing public policy evaluations and taking their results more into account, by controlling spending more and by combating fraud more effectively, particularly concerning the mechanisms put in place during the pandemic.


[Read the report](#)


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