Cour des comptes

THE CENTRAL GOVERNMENT BUDGET IN 2021

Results and management

Executive summary

July 2022

Contents

Constitutional duty of the Court of Accounts to assist the Government and Parliament

In winding up the fiscal year and closing its accounts, the Government is required, in accordance with Article 46 of the Constitutional Bylaw on Budget Acts of 1 August 2001 ("LOLF"), to submit a Budget Review Act by 1 June of the next financial year. The Budget Review Act tracks budget transactions and closes the accounts for the previous financial year. It is accompanied by the Central Government general financial statements, a management report and annual performance reports covering each Central Government budget allocation.

In accordance with the duty of assisting the Government and Parliament entrusted to the Court of Accounts under article 47-2 of the Constitution, article 58(4) of the LOLF provides for "*the submission of a report accompanying the submission of a Budget Review Act, covering the budget performance results for the previous year and the associated accounts, which, in particular, analyses the use of appropriations by allocation and by programme*".

The 2021 Central Government Budget Report aims to assess the results of the fiscal year and the quality of budget management. Its publication is accompanied by the publication on the Court of Accounts website (www.ccomptes.fr) of 59 budget performance analysis notes ("NEB") covering each general budget allocation, the specific budgets, and the special accounts, three performance analyses addressing tax revenues, non-tax revenues, and tax expenditures, and two analyses focused on levies on revenue in favour of local authorities and the European Union. Altogether, these documents form an in-depth analysis of budget implementation in each major domain of public policy. They are accompanied by recommendations and supplement the overall diagnostic analysis presented in the Central Government Budget Report.

The Court of Accounts also presents a follow-up of the recommendations made by the Court on the Central Government budget, based on the 2019 and 2020 budget management reports.

Introduction

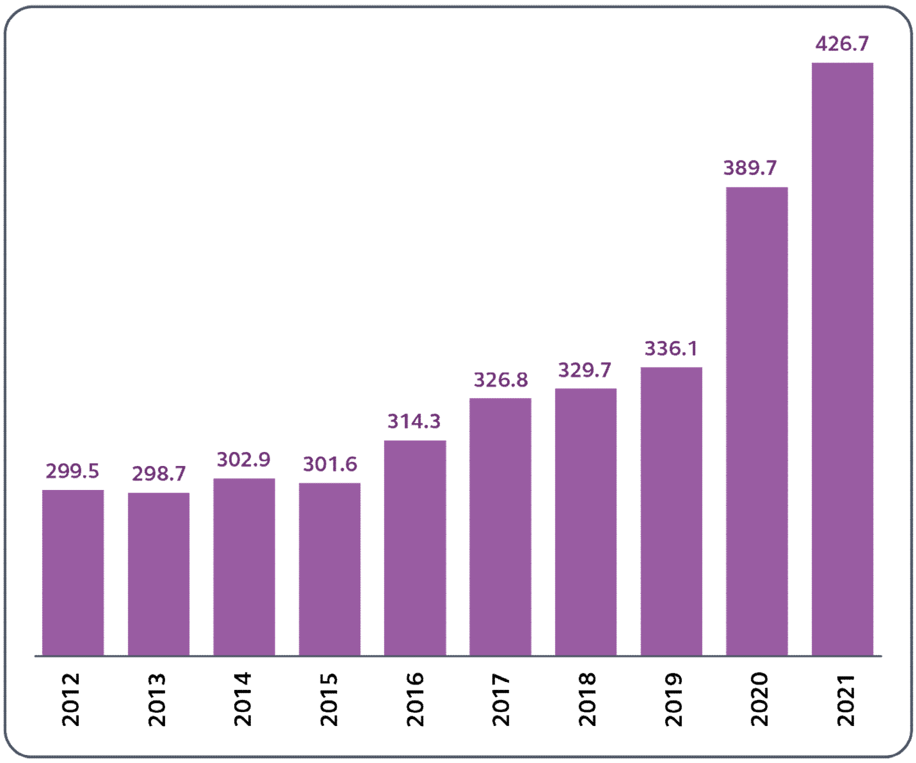
Still impacted by the health crisis, the year 2021 was characterised by great uncertainty about the development of the Covid-19 epidemic, which led to the extension or adjustment of certain support measures, as well as about the pace and extent of the economic upturn. In 2020, the very rapid development of a recent unprecedented pandemic led the government to resort to four Supplementary Budget Acts in order to have the necessary allocations for emergency measures. In 2021, the crisis and epidemic resurgences have made revenue and expenditure forecasts more difficult and necessitated two Supplementary Budget Acts preceded by an advance decree.

In the end, both expenditures and revenues increased significantly compared to 2020, leaving the deficit at a very high level.

Strong growth in general budget expenditures, not merely due to emergency and stimulus measures

In 2021, the net expenditures of the Central Government's General Budget, including earmarked accounts and income allocations, is set at €426.7 billion, an increase of €37.1 billion compared with 2020 (€30.2 billion on a like-for-like basis). This increase follows the even higher increase recorded in 2020 (+ 53.6 billion and + 52.3 billion on a like-for-like basis).

Net Government Expenditures (€bn)



Source: Court of Accounts – Budget Department data

The increase in expenditures of €37.1 billion in 2021 compared with 2020 is due to the high level of emergency measures, plus the stimulus measures and the dynamism of other expenditures unrelated to the crisis:

- due to the ongoing health crisis in 2021, emergency spending has remained at a high level, estimated by the Court at €44.7 billion, down by only €5 billion compared to 2020 (€49.7 billion). As in 2020, most of these expenditures were carried by the *Emergency Plan for the Health Crisis* mission, whose expenditures reached €34.4 billion, after €41.8 billion in 2020 (-€7.5 billion);
- 2021 saw the ramping up of the recovery plan, which had been under way since the summer of 2020 but which had only resulted in a small amount of disbursements that year (€2.2 billion). This resulted in a significant increase in stimulus expenditures in 2021 to €19.6 billion, up by €17.5 billion over 2020. These expenditures are largely carried by the new *Recovery Plan* mission (€15.1 billion);
- general budget expenditures excluding support and stimulus measures rose rapidly in 2021, by €17.6 billion (+5.1%) on a like-for-like basis. This increase is significantly higher than in 2020, when expenditures excluding the crisis rose by €2.6 billion (€6.7

billion excluding the €4.1 billion reduction in the debt burden). This is explained by multiple factors, including the cost of the inflation compensation (€3.3 billion), the increase in the cost of the Military Programming Law (+€2.7 billion), and the increase in the interest expenditure on the debt (+€2.0 billion).

Lastly, general budget expenditures were increased by €6.9 billion due to scope measures, mainly the rebudgeting of the *Energy Transition* Special Purpose Account (CAS).

2. General budget revenues benefiting from the rebound in the economy, the forecasts of which have been only belatedly and partially adjusted

In 2021, general budget revenues (including earmarked accounts and income allocations) amounted to €255.2 billion (after revenue deductions of almost €70 billion), up by €38.2 billion compared to 2020, and above the 2019 figure (€239.2 billion). They are €37.9 billion higher than the Initial Budget Act forecast.

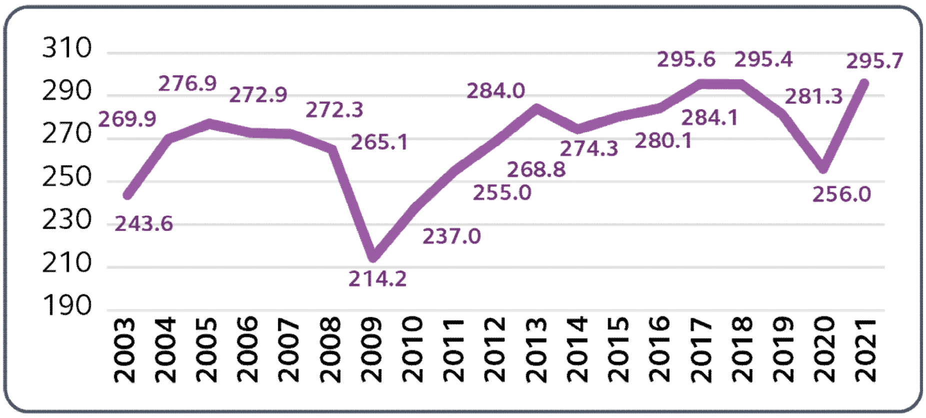
General Budget Revenues in 2020 and 2021 (€bn)

	2020 Implementation	2021 Implementation	*Implementation Gap 2021-2020*
Net tax revenue	256.0	295.7	*39.8*
Non-tax revenues	14.8	21.3	*6.5*
Revenue deduction for the benefit of the European Union	-23.7	-26.4	*-2.7*
Revenue deduction for the benefit of local authorities	-42.0	-43.4	*-1.4*
Ear marked accounts and income allocation	12.0	8.0	*-4.0*
Net revenue, after revenue deduction and including ear marked accounts and income allocations	**217.0**	**255.2**	***38.2***

Source: Court of Accounts – Budget Department data

The main component of Central Government revenue, tax revenue, amounted to €295.7 billion in 2021, up by €39.8 billion compared to 2020.

Net Central Government Tax Revenues 2003-2021 (€bn)

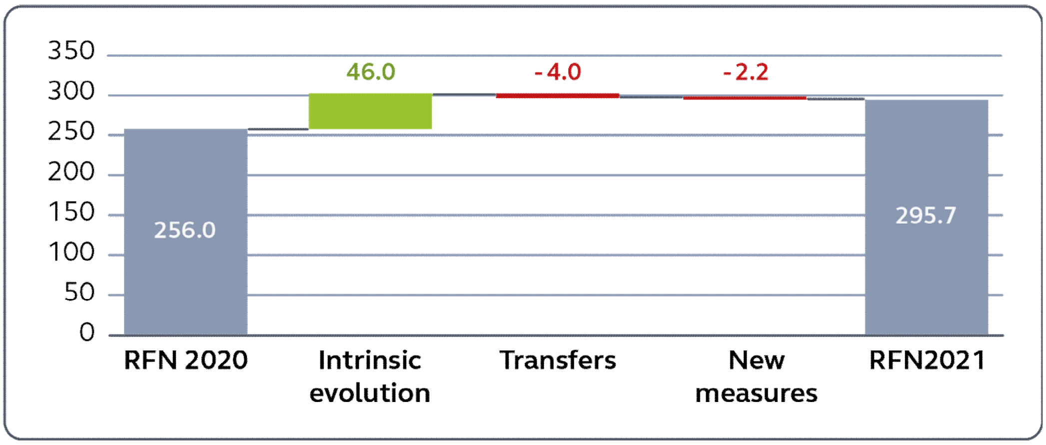


Source: Court of Accounts – Budget Department data

This strong increase is explained by an extremely dynamic intrinsic evolution of €46.0 billion (+18.0%). Tax revenues benefited from strong economic growth in 2021 with, as is typical in such circumstances, faster growth than GDP growth: in 2021, the elasticity of tax revenues to GDP is 2.3, well above the long-term average of close to 1.

The intrinsic evolution of tax revenues was very partially offset by an overall downward effect (-€6.3 billion) of new measures and transfers taking place in 2021. In particular, these included further reductions in the housing tax and the corporate tax rate, and reductions in production taxes. In the opposite direction, the Central Government budget benefited from a gain in the domestic tax on energy products (TICPE) due to the rebudgeting of the *Energy Transition* Special Purpose Account.

Breakdown of changes in net Central Government tax revenue between 2020 and 2021 (€bn)



Source: Ministry of the Economy, Finance and Economic Recovery.

The intrinsic evolution of tax revenues, particularly dynamic in 2021, has been underestimated in the forecasts of the Budget Acts throughout the year. Tax revenue forecasts for 2021 thus were reassessed from €257.9 billion in the Initial Budget Act to €259.0 billion in the first Supplementary Budget Act of 19 July 2021, then to €277.6 billion in the second Supplementary Budget Act of 1 December 2021. This last revision, although significantly higher, was not sufficient since the execution of tax revenues, at €295.7 billion, overshot it by €18.2 billion, and was €37.9 billion above the initial Budget Act forecast. A large portion of both variances (55% and 40% respectively) concerns the corporation tax.

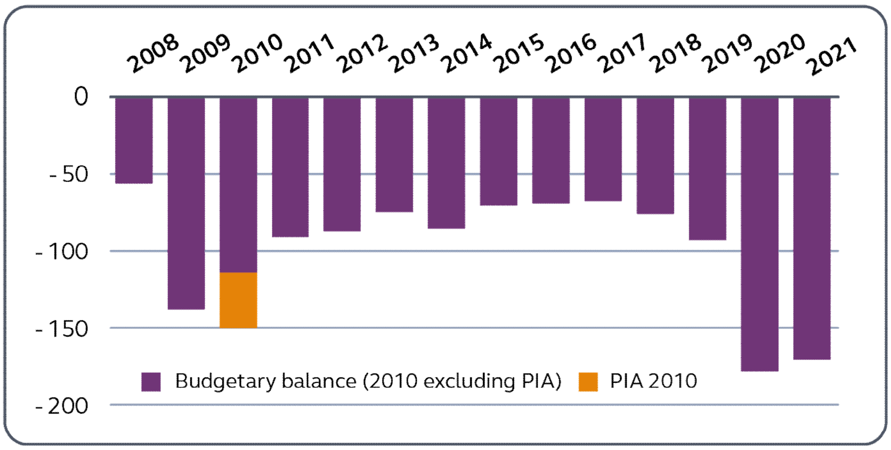
Non-tax revenues reached €21.3 billion in 2021 and are increasing strongly compared to 2020 (+€6.5 billion). Nevertheless, they are lower than the forecast in the Initial Budget Act for 2021 (-€4.1 billion). These two variances are largely the result of a new revenue received in 2021 from the European Union, which constitutes an initial contribution from the European budget to the financing of the French Recovery Plan (€5.1 billion received, compared with €10.0 billion provisionally forecast in the Initial Budget Act).

Finally, the Central Government's revenue deductions (PSR) totalled €69.7 billion, including €26.4 billion for revenue deductions to the benefit of the European Union (up by €2.7 billion due to the entry into force of the new multiyear financial framework) and €43.4 billion for revenue deductions to the benefit of local authorities.

3. A budget deficit that remains very high and increases the Central Government debt accordingly

The budget deficit stands at €170.7 billion, slightly down from the 2020 level (€178.1 billion), but still well above the 2019 level (€92.7 billion). The near-stability compared to 2020 is the result of the simultaneous increase in revenues and expenditures. As in 2020, the deficit is at a very high level. Revenues for the financial year cover only about 60% of expenditures. Thus, from the beginning of August 2021, the Central Government financed its expenditures by increasing its debt.

Central Government Budget Balance – 2008-2021 (€bn)



Source: Budget Review Acts for 2008 to 2020; Budget Directorate for 2021

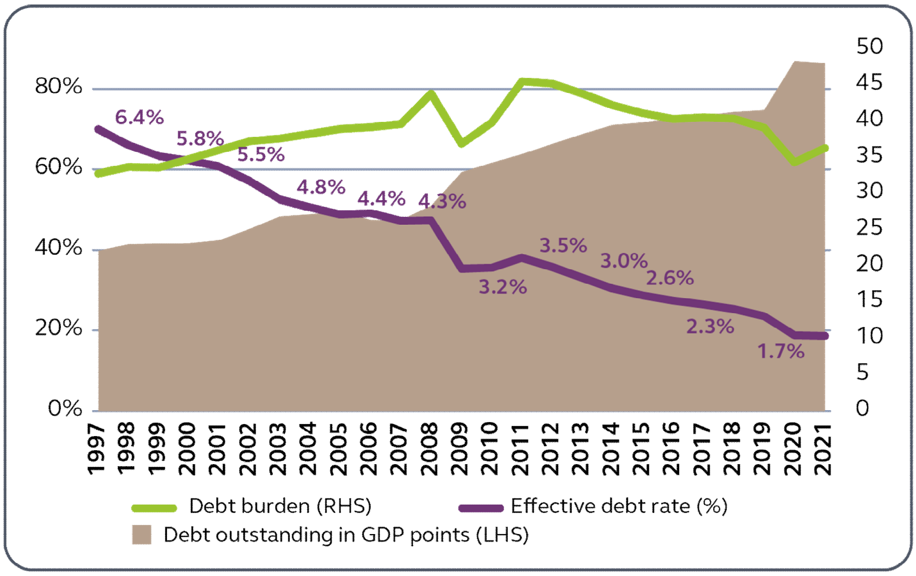
The deficit recorded (€170.7 billion) is very close to the Initial Budget Act forecast (€173.3 billion), in spite of the high level of carryovers of appropriations from 2020 which, with the appropriations opened during the year, have brought the expenditures of the general budget well above the initial forecast (+€36.1 billion). This increase in expenditures was offset by the dynamism of tax revenues, which clearly overshot the Initial Budget Act forecast (+€37.9 billion).

The very high level of the deficit in 2021 has resulted in a further significant increase in the Central Government's indebtedness. The borrowing requirement amounted to €285 billion, down by just €24 billion from the very high level recorded in 2020 (€310 billion).

At the end of 2021, the Central Government's debt (short- and medium-long term) amounted to €2,145 billion, up by €144 billion in one year. This increase is lower than that observed in 2020 (+€178 billion), but significantly higher than those observed over the previous ten years, which ranged from €44 billion to €84 billion.

For the first time since 2011, the debt burden (€36.3 billion) has increased between 2020 and 2021, by €2.0 billion. This increase is the consequence of the increase in the volume of Central Government debt (+0.9 billion), mainly reflecting the increase in medium- and long-term outstanding debt, and the increase in inflation (+2.6 billion). These unfavourable effects more than offset the impact in the opposite direction of the continued fall in interest rates (-€1.5 billion).

Outstanding Central Government debt, interest expenditure and related apparent rates



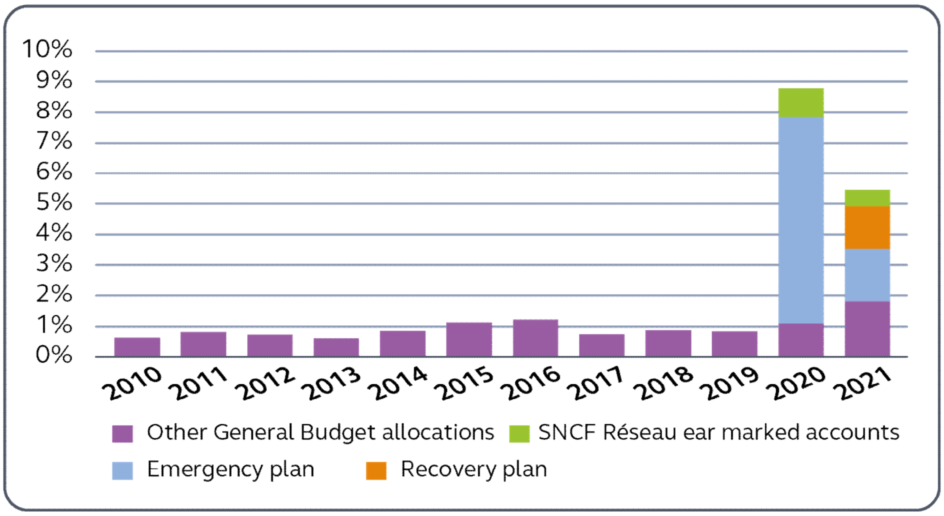
Source: French Treasury Agency

The high level of the Central Government debt (€2,145 billion for negotiable debt, i.e., 86.0% of GDP) makes the interest expenditure very sensitive to rising rates. The increase in debt in 2021 further reinforced that sensitivity. The French Treasury Agency estimates that a one-point rise in interest rates would increase the interest expenditure by €2.5 billion in the first year, €6.1 billion in the second year and €29.5 billion over 10 years. The impact of this shock over 10 years is thus significantly higher than that estimated at the end of 2019 (+€21.2 billion).

4. In 2021, violations of the one-year budget rule and specification which weaken the scope of parliamentary authorisation

The provision of appropriations needed to finance the emergency measures in early 2021 gave rise to a process criticised by the Court in last year's report: for the *Emergency Plan for the Health Crisis* mission, instead of including appropriations in the Initial Budget Act for 2021 up to the level of foreseeable needs, the Government chose to carry over, for a massive amount (€28.8 billion), the appropriations not used up at the end of 2020.

Share of appropriations (including ear marked accounts) from the general budget not used up at the end of the year



Source : Budget Review Act 2011-2019 – Court of Accounts and Budget Directorate data for 2020-2021

For the Central Government budget as a whole, total appropriations carried over from 2020 to 2021 amounted to €36.7 billion (including ear marked accounts), which is much higher than usual[1]. Significant appropriations were indeed made in the last Supplementary Budget Act for 2020, far beyond the expenditures that could be completed before the end of the year. In the 2020 annual Central Government Budget Report (RBDE), the Court highlighted "*confusion in terms of fiscal years, in contradiction with the one-year budget rule*".

This procedure undermines the one-year budget rule and weakens the scope of parliamentary authorisation. The choice to carry over unused appropriations in 2020 and to limit the appropriations made in the 2021 Initial Budget Act has resulted in the presenting and voting, in the three 2021 Budget Acts, on a balancing clause with expenditure amounts and balances that differ from the government's actual forecasts.

Such a situation was repeated at the end of 2021, with a total amount of €23.2 billion in appropriations carried forward to 2022. As in 2021, it would have been more in line with budgetary principles to make appropriations in the 2022 Initial Budget Act. The carry-overs on the *Emergency Plan for the Health Crisis* mission appear all the more critical as the advance decree of April 2022 cancelled more than half of them (€3.5 billion).

In addition, the 2021 budgetary management was marked by several cases where budget planning appropriations were used to finance expenditures under other programmes, in contradiction with the principle of specification:

- Thus programme 357 – *Solidarity fund for companies following the health crisis* received €2.3 billion from programme 356 – *Coverage of the exceptional short-time working scheme following the health crisis* and €4.3 billion from programme 360 – *Compensation to social security for reductions in levies for the companies most affected by the health crisis.* Subsequently, due to the lack of appropriations to fund emergency partial activity in programme 356, this measure was temporarily funded by appropriations from programme 364 – *Cohesion* of the *Recovery Plan* mission, which was not its purpose;

[1] Over the 2010-2020 period, the amount of appropriations carried over was between €1.4 billion and €3.5 billion per year.

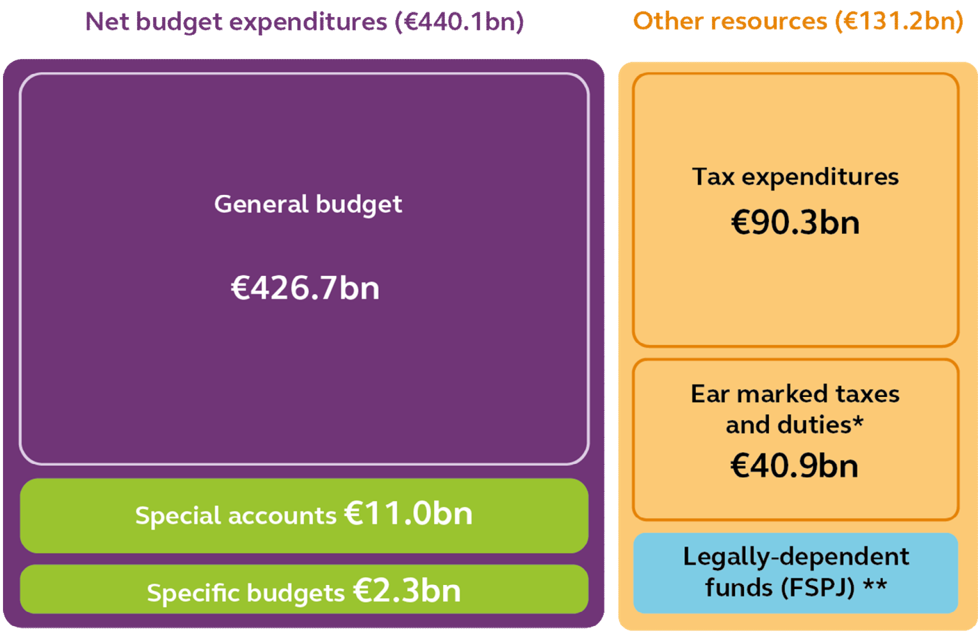
- To offset the shortfall in revenue of the Special Purpose Account, *Central Government Financial Holdings*, the first Supplementary Budget Act created, within the *Economy* mission, a new programme 367 – *Financing of asset transactions planned for 2021*, with an allocation of €2 billion (in Commitment Appropriations and Payment Appropriations), to supplement Special Purpose Account revenue. Since only one operation was financed from these appropriations, it would have been more in line with the principle of budgetary specification to make them not in the *Economy* mission but within the mission carrying the public policy concerned, in this case the *Ecology, Sustainable Development, and Mobility* mission.

All in all, such deviations from the one-year budget rule and specification affect the scope of parliamentary authorisation and harm the readability of Budget Acts.

5. Beyond the general budget, Central Government policy resources are still inadequately monitored and managed

As in previous years, the Court extended its analysis of expenditures beyond the general budget to cover all financial resources allocated by the Central Government to public policies.

Central Government resources allocated to public policies



** Taxes and duties ear marked to third parties other than local authorities and social security organisations*

*** The resources of the FSPJ are not known in full.*

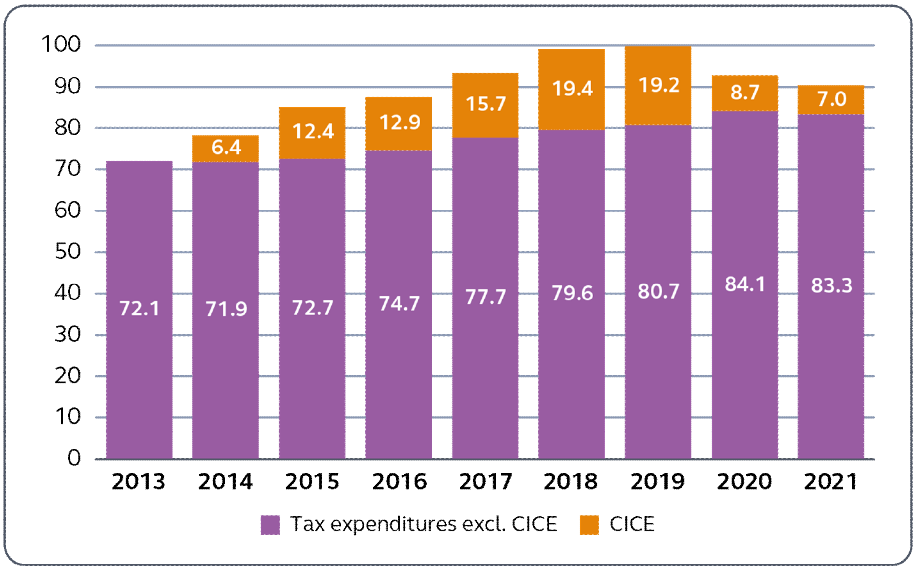
Source: Court of Accounts

This section particularly includes specific budgets and special accounts, with expenditures under these headings amounting to €13.4 billion in 2021 (after deducting duplicate entries), down significantly from 2020 (-€6.2 billion) following the elimination of two special accounts. While the specific budgets and special accounts are not the subject of satisfactory information overall, they are not subject to as thorough of a Parliamentary review as the general budget, and their expenditures receive only partial oversight.

Similarly, in 2021 the Central Government allocated €40.9 billion in taxes to agencies or other organisations (excluding local authorities and social security organisations) for the implementation of public policies, without Parliament being adequately informed about the initiatives funded by such substantial resources.

The Court once again this year found that tax expenditures, amounting to €90.3 billion (a decrease of nearly €2.4 billion compared to 2020 due to the reduction of the CICE tax credit), were inadequately supervised. The caps provided for by the Public Finance Programming Act were observed, but were also ineffective because they were too high, and the outcome of tax conferences in terms of changing or eliminating tax expenditures was very modest.

Cost of tax expenditures over the 2013-2021 period (€bn)



Source: Court of Accounts – Budget bills, "Ways and Means" Appendix– Volume II.

Lastly, the resources and expenditures of legally-dependent funds, which are financial vehicles controlled by the Central Government but managed by third parties, tend to escape supervision by the Central Government, Parliament and sometimes even the decision-making bodies responsible for managing them. These funds are neither closely monitored, nor are there currently any strategies for putting them in order. The Solidarity Fund for Development illustrates the porosity between such funds and the Central Government budget, with an increasing risk that the Central Government will have to take over part of the expenditures when the return on the taxes earmarked to the fund is not as high as expected. In addition, the inadequacy of monitoring is particularly noticeable in the case of legally-dependent funds (FSPJ) mobilised for the implementation of future investment programmes, which are subject to only limited information.

Audit recommendations

The Court made several audit recommendations after completing its analysis. As in the 2020 Central Government Budget Report (RBDE), the Court has sought to reduce the number of its recommendations and to refer more broadly to those in the budget implementation analysis notes. Its recommendations this year aim to strengthen compliance with the one-year budget rule, to improve the quality of tax revenue forecasts and the management of Central Government expenditures, and to initiate a programme to evaluate tax expenditures as part of the next Public Finance Programming Act.

1. In accordance with the one-year budget rule, make only the necessary appropriations for the current financial year available in the initial and supplementary budget bills and ensure that carry-overs of appropriations to the following financial year are strictly limited (recommendation reworded).
2. Present, in the Ways and Means appendix to the initial budget bills, the origin of the differences between the tax revenues collected for the last fiscal year and the estimates of the initial and supplementary budget bills for that year (new recommendation).
3. Set, for the entire period covered by the next Public Finance Programming Act, a standard for controllable Central Government spending that excludes only those appropriations that the Government does not have control over (e.g. estimated credits, pension expenditures, etc.) and present annually in the budgetary documents the execution and analysis of any deviations from the target (new recommendation).
4. Develop an evaluation programme for tax expenditures, to be implemented during the next Public Finance Programming Act, with a view to reducing their number and their impact on public revenues (reworded recommendation).