Cour des comptes

PRESS RELEASE

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PUBLIC FINANCES AND ACCOUNTS

FINANCIAL SITUATION AND PROSPECTS

This report on the financial situation and outlook was prepared in accordance with article 58-3 of the Constitutional Bylaw on Budget Acts (LOLF in French, for 'loi organique relative aux lois de finances'). The purpose of the report is to inform Parliament's discussions on budget guidelines, as well as on the Supplementary Budget (PLFR) and Social Security Bills in the current year.

2013: less marked reduction of deficit than planned

The reduction in public deficit (4.3% of GDP) was smaller than planned. Moderate patterns of public expenditure did not offset the low level of revenues, apart from any new measures. In spite of a considerable structural effort (1.5% of GDP), the structural deficit (3.1% of GDP) remains far from the Planning Act (*Loi de programmation*) targets (which provided for 1.6% of GDP for 2013).
Although State deficit has fallen by almost €13bn, reduction of the deficit of the Social Security administrations scarcely continued after 2011, while that of local public administrations has increased to 0.4% of GDP.

A budget which remains in a worse position than the European average

In spite of its higher average level of economic growth, France has not improved its situation with regard to its public deficits. Its public debt has increased by more than the European average and is henceforth higher than the latter. Public expenditure grew in France in 2013, whereas it fell in the rest of Europe, and revenues increased more markedly than elsewhere.
The gap between France and Germany in terms of levels of public expenditure increased between 2001 and 2013: the share of public expenditure in GDP increased by 5.4 percentage points, whereas it fell by 2.9 points in Germany. This gap is for the most part due to trends in Social Security benefits and the operational expenditure of public administrations.

2014: the risk of missing deficit targets

The National Budget Council (*Haut Conseil des finances publiques*) considered the projected growth for 2014 of 1% of GDP, given in the Stability Programme, to be high, without deeming it unattainable.
In view of loss of revenues recorded in 2013, the Stability Programme forecasts that revenues from mandatory taxes and social security contributions for 2014 will be €10bn lower than last September's forecast. In spite of this correction, the *Cour des Comptes* - French Supreme Audit Institution - has still identified a risk of a fall of between €2 and €3bn, linked to the forecast elasticity of mandatory taxes and social security contributions.
Although they leave no safety buffer, the new State expenditure targets should be met, as well as those of the Social Security administrations (apart from the UNEDIC - jobseekers allowance body). On the other hand, in spite of the fact that they have been raised, forecasts for growth in expenditure by local public administrations still appear to be underestimated, in particular with regard to wage bills and Social Security benefits.

The deficit of public administrations could therefore be close to 4.0% of GDP in 2014, or even more if the growth forecast by the Government does not take place.

Finally, even if the Stability Programme deficit targets are met, public debt will be in excess of €2,000bn at the end of 2014.

Very fragile prospects for 2015 to 2017

The return to structural budget balance, planned for 2016 in the Planning Act, is deferred to 2017 in the 2015-2017 Stability Programme. This Programme henceforth includes the Responsibility and Solidarity Pact and the development of tax credit for competitiveness and employment. Moreover, in view of the planned increase in certain taxes, mandatory taxes and social security contributions should thus fall by €14bn. This net reduction only came to €6bn in the budget forecasts associated with the initial 2014 Budget; the excess has been offset by a planned decrease of €8bn in public expenditure by 2017, in order to meet the same deficit target. Since the total amount of the planned savings (€50bn) has not increased, the Government has therefore implicitly lowered its estimate of trends in public spending growth.

Although a part of the €50bn in savings is certain and presupposes the continuation of efforts already begun, €30 billion of savings is still little documented, or even in some cases doubtful, since it will have to be made by public administrations whose expenditure is not controlled by the State: supplementary old age pension schemes, the UNEDIC and, above all, regional and local authorities, to the amount of €11bn. The latter may indeed partly offset the reduction in allocations paid to them by the State by raising the level of local taxes or increasing their levels of debt.

The savings targets for the year 2015 are very ambitious. Yet the savings identified within the framework of the modernisation of public initiatives do not measure up to these issues: only between €5-€7bn of savings are forecast, without the presentation of any documented measures or a precise schedule.

The uncertainties involved in making the planned savings in expenditure, in addition to the risks weighing upon the forecast revenues, make the 2015-2017 budget projection very fragile, and more particularly with regard to the year 2015.

Structural savings measures to be undertaken

The Stability Programme forecasts €18bn in savings for the State and its operators, €11bn for local authorities and €10bn for the national health insurance system. The *Cour des Comptes* has decided to shed light upon reforms likely to have a long-term effect upon expenditure with regard to the public wage bill, the expenditure of local authorities and the national health insurance system.

The **wage bill** represents 23% of public expenditure. If the policy implemented in 2013 (overall stability of the workforce, continuation of the index point freeze and reduction of packages for category-specific measures) is maintained, the State wage bill will increase by around €750 million per year, i.e. three times more than the target of the 2013-2015 triennial budget. For their part, local public and Social Security administrations have respectively increased their staff expenditure by 2.8% and 1.2% per year in volume terms in the course of the last 10 years (as compared with an annual reduction of 0.1% for the central administrations).

The measures used in the recent period are therefore at risk of being insufficient and the use of additional levers should be considered. These might, in particular, concern wage supplements and compensation plans, workforce levels and effective length of working time, for which an overall report should be conducted for the three different branches of public employment.

The operational expenditure of **local authorities** is increasing according to a baseline trend of almost 3% a year. The increase in staff expenditure could be limited by slowing down recruitment, as well as through revision of management rules with regard to promotion, length of working time and compensation plans. Savings can be made in the purchasing of goods and services by means of a more efficient buying policy, with better coordination between communes and inter-municipal groupings. The regional administrations can also make savings with regard to the provision of regional passenger transport and their pricing policy.

Finally, it appears essential to mobilise the considerable sources of savings concealed within the **health system**, which is possible without compromising quality and equality of access to healthcare.
Health institutions represent 44% of expenditure in the national expenditure targets for the health insurance system. Acceleration of the development of outpatient surgery represents a major issue in this respect, eventually enabling savings in the order of €5bn.
Although the consumption of medicines in France has clearly slowed down, its volume is still 22% higher than that observed in neighbouring countries. Although in volume terms the market share of generic drugs was of the same order as in Germany and the United Kingdom, the health insurance system could make between €2 and €5bn. in savings.
The *Cour des Comptes* has also highlighted a high potential for savings with regard to expenditure for medical tests and healthcare transport services.

Public finance planning tools to be consolidated

The *Cour des Comptes* observes frequent gaps between forecasts and the fulfilment thereof. Thus, on average, in the Budget Acts for the years 2003 to 2013 (excluding 2009), the natural growth of mandatory taxes and social security contributions was overestimated by €4bn per year while the value of increase in public expenditure was underestimated by €5bn.
In order to improve compliance with forecasts, certain rules could be adapted in order to ensure greater effectiveness. Thus, Planning Acts should include targets for changes in the value of expenditure of all the public administrations, broken down into targets for subcategories of administrations. With regard to the State, Planning Acts should also establish rules providing a framework for the development of tax credits, as is the case for budgetary expenditure, and targets for changes in the cost of other fiscal expenditure.
Finally, a Social Security Finance Act, of which the scope would be extended to the mandatory social welfare system as a whole, and a “Local Authorities Finance Act”, would constitute tools which are all the more necessary insofar as the effort to make the intended savings to a large extent concerns public administrations that are not covered by any Finance Act.

To read the full report click here

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