



# PRESS RELEASE

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## PUBLIC FINANCES AND ACCOUNTS

# FRENCH CENTRAL GOVERNMENT BUDGET FOR 2014 Results and management

The *Cour des comptes* – French Supreme Audit Institution – hereby presents its report on the French Central Government budget for 2014 in accordance with Article 58 of the Organic Law Governing Finance Acts (LOLF). This report is based on 59 analyses carried out, by mission and by programme, concerning the use of authorised expenditure, and three analyses of fiscal and non-fiscal revenues and fiscal expenditure.

Implementation of the 2014 Central Government budget has generated a weaker fiscal balance than in 2013, due to a fall in net income and an increase in net general budget expenditure. Public debt continues to rise steadily.

### Increased deficit

The Central Government budget for 2014 showed a deficit of €85.56 bn, up €10.69 bn on 2013, as the downward trend in the Central Government budget deficit over the last few years was reversed.

The deficit for 2014 was €2.99 bn higher than the figure set in the Initial Finance Act (LFI). The implementation of the budget was compromised by optimistic revenue forecasts and delayed expenditure adjustments.

With the budget deficit remaining high, there was no slowdown in the increase in Central Government debt, which rose from €1,457 bn at the end of 2013 to €1,528 bn at the end of 2014.

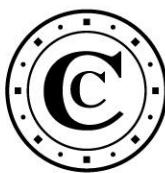
Low nominal interest rates helped to contain debt interest payments at €43.2 bn, but there is no guarantee that the debt will be sustainable in the medium term.

### Sharp fall in revenues

In 2014, Central Government revenues stood at €291.9 bn, down €9.3 bn on 2013, on the back of a €9.7 bn fall in tax revenues, the first since 2009. This fall was mainly due to tax reduction measures prior to the LFI for 2014.

As a result of over-optimistic forecasts on economic growth and revenue elasticity, revenues were €10 bn lower than the initial estimates.

Tax expenditure in 2014 is estimated at €78.87 bn in the Finance Bill (PLF) for 2015, €1.14 bn less than the figure shown in the PLF for 2014, owing to a lower than forecast cost of tax credit for competitiveness and employment (CICE). The provisions of the public finance programming bill for 2012-2017 intended to control tax expenditure were unevenly implemented; its valuation is still largely outstanding.



## **Stabilised expenditure**

General budget expenditure stabilised compared to 2013, with net expenditure up (+ €4.23 bn). Deducting exceptional expenditure, including funding for the launch of the second future investment programme (PIA 2), net expenditure fell (- €1.89 bn), but if the disbursements made on behalf of Central Government by the PIA manager-operators are added, expenditure remained stable (+ €0.08 bn).

One of the main reasons for this stabilisation was the reduction in the debt burden (- €1.73 bn). Some expenditure items are once again rising, including the wage bill and pension contributions for example.

The cap on the "0 value" expenditure norm was reduced by €3.3 bn and adhered to. However, a restrictive definition of its scope excluded certain expenditure, including €3.31 bn in disbursements made on behalf of Central Government by the manager-operators of the two PIAs. As a result of the system put in place for the PIAs, this figure of €3.31 bn was shifted off-budget and was not posted in the Central Government budget or incorporated in the scope of the expenditure norm.

In the absence of significant structural savings, budget regulation of expenditure was once again fully mobilised, and certain costs were carried forward to future financial years.

## **Overall assessment of budget management**

The *Cour des comptes* has observed the persistence of under-budgeting and irregularities that have been cited in previous years. The Defence mission budget intended for external operations and the wage bill once again proved insufficient. The Central Government special appropriation account for Financial Investments again bore certain costs which were not consistent with its underlying asset-based approach.

Some progress was made on the performance approach, in particular with the definition of mission indicators, but the number of indicators remains too high and should be restricted to those which reflect the match between resource allocation and performance. Moreover, the performance monitoring tools do not measure the effects of the additional resources allocated to the priority areas, School Education and Work and Employment.

The performance approach should be used as the main tool for controlling expenditure, which is not currently the case.

The 2014 budget implementation shows that basing an initial finance bill on over-estimated forecasts of tax revenues and frequently under-calibrated budget allocations prevents the budget from being implemented in accordance with France's commitments.

This illustrates the limits of the traditional techniques intended to contain expenditure: cancelled loans are peaking, cost deferrals are increasing and Central Government operations are financed outside its budget. More than ever, it confirms the need for a two-pronged approach: tax revenue forecasts should be based on cautious assumptions and expenditure should be controlled through explicit choices which will lead to lasting savings.

The *Cour des comptes* makes nine recommendations and notes that this year implementation of the recommendations made in previous years has improved.

**To read the full report and the budget implementation notes click here**

In accordance with its commitment and France's open government approach, the *Cour des comptes* is, for the first time, publishing the data used to prepare its report at the same time as the report itself.

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