

Focus on French fiscal policy

AIECE

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Coe-Rexecode

France is about to exit the excessive deficit procedure for the first time since 2009

« I am glad that France is in a good position to get out of the excessive deficit procedure in a few weeks »

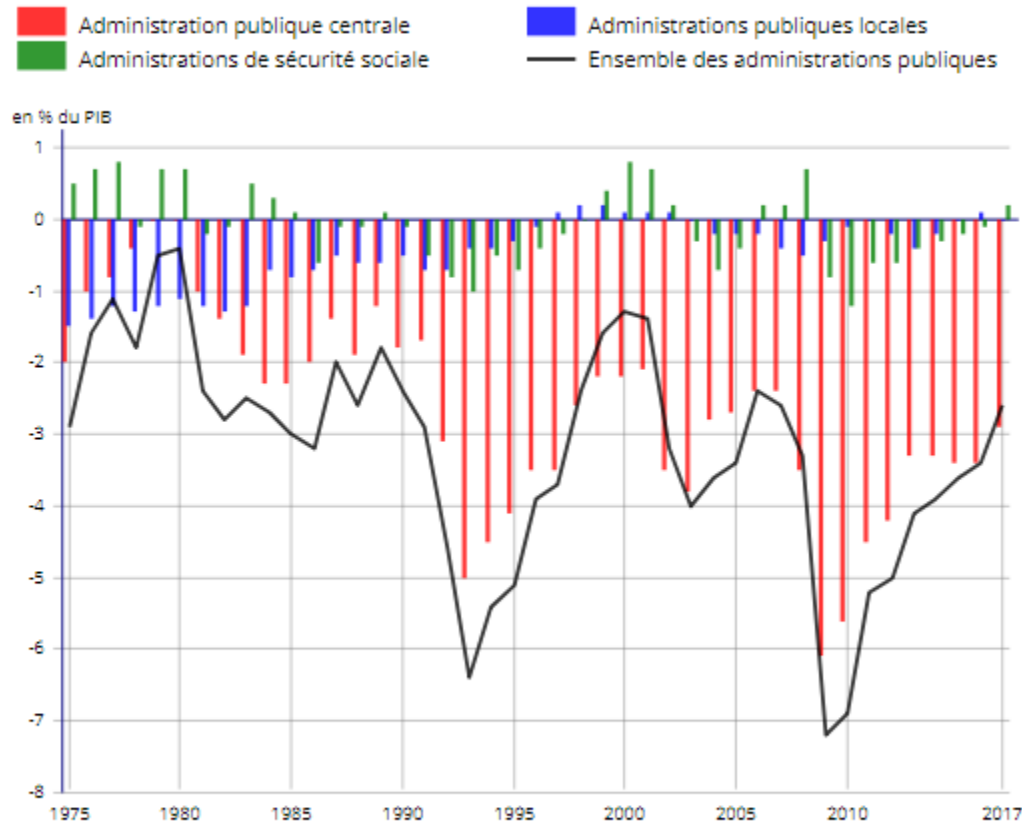
EU Commissioner for Economic Affairs Pierre Moscovici, 3 May 2008



Decision should be made official on May 23rd

The public deficit has narrowed to 2.6% of GDP in 2017

Déficit des administrations publiques en pourcentage du produit intérieur brut au sens de Maastricht par sous-secteur en 2017



Note : le déficit public notifié à la Commission européenne correspond exactement au besoin de financement des administrations publiques (APU).

Champ : France.

Source : Insee, comptes nationaux - base 2014.

France has not recorded a budget surplus since 1974

Public finances are benefiting from 2 very strong tailwinds though

- ❑ **Growth momentum:** 2017 GDP growth revised upwards to 2.2%, fastest pace since 2007
- ❑ **Level of interest rates:** 10-year sovereign bond yield at 0.8% only, with spread vs. Germany down to 30bp

This is not to say that the Macron administration has done nothing

❑ **Fiscal policy:** commitment to 3% public deficit rule as pre-requirement for European credibility



❑ **Labour market reform:** decentralization of social negotiation



❑ **Tax reform:**

❑ CICE transformed and slightly downsized

❑ Wealth tax reduced to real estate component

❑ 30% flat tax on capital gains

❑ Corporate tax reduced to 25% by end of tenure

❑ Reduction of social contributions

❑ Gradual elimination of housing tax



Other economic reforms are being contemplated

- ❑ Railway system transformation (underway)
- ❑ Unemployment insurance scheme reform (including greater control)
- ❑ Professional training reform (€15Bn investment plan)
- ❑ Public spending optimization: Action Publique 2022

...and additionally....

- ❑ Pension system reform in 2019, with full harmonization of private and public frameworks
- ❑ Healthcare system reform (ending medical act-based pricing)

The 2018-2022 stability programme

Underlying macro assumptions

TABLEAU 1 : SCENARIO MACROECONOMIQUE 2017-2022

| Taux de croissance annuel, en % | 2017* | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|------------|------------|------------|------------|------------|------------|
| Produit intérieur brut** | 1,8 | 2,0 | 1,9 | 1,7 | 1,7 | 1,7 |
| Consommation des ménages | 1,3 | 1,6 | 1,9 | 1,7 | 1,7 | 1,7 |
| Consommation des administrations publiques | 1,6 | 0,7 | 0,2 | -0,1 | 0,2 | -0,4 |
| Formation brute de capital fixe | 3,8 | 3,9 | 3,3 | 2,3 | 2,1 | 2,6 |
| <i>dont entreprises non financières</i> | <i>4,4</i> | <i>4,4</i> | <i>3,5</i> | <i>3,4</i> | <i>3,4</i> | <i>3,4</i> |
| Contribution des stocks | 0,4 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Contribution de l'étranger | -0,3 | 0,1 | 0,0 | 0,2 | 0,2 | 0,2 |
| Importations | 4,1 | 4,1 | 4,1 | 3,7 | 3,7 | 3,7 |
| Exportations | 3,3 | 4,9 | 4,6 | 4,4 | 4,4 | 4,4 |
| Déflateur du PIB | 0,8 | 1,1 | 1,2 | 1,5 | 1,75 | 1,75 |
| Déflateur de la consommation des ménages | 0,9 | 1,4 | 1,2 | 1,5 | 1,75 | 1,75 |
| Masse salariale (secteur concurrentiel BMNA***) | 3,6 | 3,9 | 3,6 | 3,7 | 3,8 | 3,8 |
| Salaire moyen nominal par tête (BMNA) | 2,0 | 2,4 | 2,3 | 2,5 | 3,0 | 3,0 |
| Effectifs salariés (BMNA), en personnes physiques | 1,5 | 1,5 | 1,3 | 1,2 | 0,9 | 0,8 |

* Comptes nationaux trimestriels RD 2017 T4 sauf mention contraire

** Données brutes non CJO

*** Branches marchandes non agricoles

Analyzing France's 2018-2022 Stability Programme (1/2)

- ❑ **GDP growth would only slow down to 1.7% per year over 2020-2022, well above potential growth**
 - ❑ Underestimating certain risks such as the end of the American growth cycle and the rise of tensions on production capacities in Europe
 - ❑ Assuming export growth would exceed import growth by 0.7pt per year, which has never been seen for 20 years

The 2018-2022 Stability Programme

Public finances trajectory

TABLEAU 2 : TRAJECTOIRE PLURIANNUELLE DE FINANCES PUBLIQUES

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|------|------|------|------|------|------|------|
| Solde public et analyse structurelle | | | | | | | |
| Solde public | -3,4 | -2,6 | -2,3 | -2,4 | -0,9 | -0,3 | 0,3 |
| <i>Ajustement nominal</i> | | 0,8 | 0,3 | -0,1 | 1,4 | 0,6 | 0,6 |
| Solde conjoncturel | -0,8 | -0,5 | -0,1 | 0,2 | 0,5 | 0,7 | 0,9 |
| Mesures ponctuelles et temporaires (en % du PIB potentiel) | -0,1 | -0,1 | -0,3 | -1,0 | 0,0 | 0,0 | 0,0 |
| Solde structurel (en % du PIB potentiel) | -2,5 | -2,0 | -1,9 | -1,6 | -1,4 | -1,0 | -0,6 |
| <i>Ajustement structurel</i> | | 0,5 | 0,1 | 0,3 | 0,3 | 0,4 | 0,4 |
| Principaux agregats | | | | | | | |
| Ratio de dépense publique (hors crédits d'impôt) | 55,1 | 55,1 | 54,4 | 53,5 | 52,6 | 51,9 | 51,1 |
| <i>Evolution de la dépense publique en valeur, hors crédits d'impôt (en %)</i> | | 2,5 | 1,8 | 1,4 | 1,7 | 2,0 | 1,9 |
| Ratio de prélèvements obligatoires (nets des crédits d'impôt) | 44,6 | 45,4 | 45,0 | 44,0 | 44,3 | 44,3 | 44,3 |
| Dettes publiques | | | | | | | |
| Dettes publiques | 96,6 | 97,0 | 96,4 | 96,2 | 94,7 | 92,3 | 89,2 |
| dont hors soutien financier à la zone euro | 93,6 | 94,1 | 93,7 | 93,5 | 92,1 | 89,8 | 86,8 |

« There will be no new tax »
Which points towards privatizations (ADP, Française des Jeux...)

Analyzing France's 2018-2022 Stability Programme (2/2)

- ❑ **The ambition: reducing public deficit by 0.6pt of GDP per year on average to reach a 0.3% of GDP surplus in 2022**
 - ❑ Temporary increase in the public deficit in 2019 due to the addition in 2019 of the 2018 credit and of the social charges reduction replacing it

- ❑ **Most of the public spending effort, the content of which is rather undocumented, is deferred to the 2020-2022 horizon**
 - ❑ As compared with the 2018 budget, the public spending effort has been slightly decreased by 0.1pt of GDP in 2018 and 2019
 - ❑ Few savings measures have been indicated (subsidized jobs, real estate...)
 - ❑ Action Publique 2022 and financial pact with local authorities to be specified

- ❑ **« There will be no new tax »**
 - ❑ Which points towards privatizations (ADP, Française des Jeux...)

- ❑ **Structural adjustment falling short of the corrective arm goal**

Our macroeconomic scenario for France

As published mid-March

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| GDP | 2.0 | 1.9 | 1,5 | 1.0 | 1.1 | 1.3 |
| Household consumption | 1.3 | 1,7 | 1,5 | 1,1 | 1.1 | 1,2 |
| Productive investment | 4.4 | 5.4 | 3.9 | 1.1 | 1.5 | 2.3 |
| Employment | 1.0 | 0.8 | 0.5 | 0.1 | 0.0 | 0,2 |
| Unemployment rate (ILO) | 9,1 | 8.3 | 8.0 | 8.1 | 8.3 | 8.2 |
| Consumption prices | 1.0 | 1.6 | 1.8 | 1.4 | 1.5 | 1,5 |
| Wages (hourly) | 1.3 | 2.1 | 2.5 | 2.1 | 2.1 | 2.2 |
| Public budget balance (% of GDP) | -2.6 | -2.4 | -2.7 | -1.9 | -1.7 | -1.5 |
| Current account balance (% of GDP) | -1.2 | -1.2 | -1.0 | -1.0 | -1.1 | -1.2 |

Benchmarking public spending in France and Germany

Some key observations

- ❑ The France vs. Germany gap has increased from 6pp of GDP to 12pp since 1995
 - ❑ Social protection alone accounts for a 6pp difference
 - ❑ Other drivers: tax credits 1.5pp, education 1pp, healthcare 1pp, interests 0.5pp

- ❑ A portion of the differences are not directly linked to efficiency issues
 - ❑ Accounting differences eg. higher use of tax credits in France
 - ❑ Scope differences eg. role of private insurance in Germany
 - ❑ Demographic differences eg. larger young generations in France (education)
 - ❑ Structural/historical differences eg. defence spending

- ❑ The remaining differences mostly stem from:
 - ❑ Mainly retirement, unemployment, social housing...
 - ❑ Possibly public efficiency: administrative layers, working time of civil servants...

A couple additional thoughts

- ❑ We would deem retirement reform carries the strongest public spending reduction potential
- ❑ €55Bn of SNCF debt to be handled (2.5% of GDP)
- ❑ Criticism of fiscal "fetichism" : *"there cannot be a perpetual fetichism for trade and fiscal surpluses, because they are achieved at the expense of others"*
- ❑ Public debt divergence vs. Germany raising medium term questions for European imbalances (from equal ratios to 40 pts of GDP gap from 2010 to 2020)

Thank you for your attention!
Questions?
