

**OPINION OF THE HIGH COUNCIL OF PUBLIC FINANCE
ON THE PROGRAMMING BUDGET BILL FOR 2014-2019**

On Friday, 26th September 2014, the High Council of Public Finance (Haut Conseil des finances publiques, HCFP) adopted an opinion concerning the Programming Budget Bill for the years 2014-2019. It deals with the macroeconomic forecasts, the potential output estimates on which the budget bill is based and the consistency of the multi-year structural balance targets vis-à-vis the European commitments.

Main conclusions of the HCFP's opinion:

Potential output scenario

The HCFP notes that the Government has chosen to use the European Commission's estimates of potential output. The HCFP observes that the latter are lower than those reported in the previous multi-year programming budget law.

The HCFP underscores the inherent weaknesses of output gap estimates, especially given the uncertainty surrounding the magnitude of output losses stemming from the economic crisis. Even if the output gap for 2013 (-2,7 %) appears to be in the middle of the large range of available estimates, the HCFP reckons that the capacity for recovery of the French economy may be overstated and that an output gap of lesser amplitude cannot be excluded.

Such a hypothesis would lead to a deeper structural deficit all along the programming period, and to a lower growth forecast for 2016-2019. An alternative scenario along the lines of this hypothesis could be usefully elaborated.

With respect to potential growth, the HCFP considers that the estimate presented by the Government (1.0 % potential growth for 2014-2015, about 1.2 % on average for 2016-2019) is an acceptable hypothesis.

Macroeconomic scenario

The HCFP considers that the macroeconomic scenario presented by the Government in the programming budget bill is more realistic than the macroeconomic scenario presented in the latest Stability programme in April 2014, in so far as it anticipates a later recovery and lower growth rates.

However, the HCFP concludes that this new scenario still relies on too favourable assumptions, especially with respect to the international environment and investment.

Public finance scenario

The HCFP notes that the public finance trajectory in the programming budget bill is not consistent with the commitments undertaken by France, which is currently under an excessive deficit procedure, in the Stability programme of April 2014:

- The structural adjustment for the years 2014, 2015 and 2016 is clearly less than that provided by said commitments;
- Consequently, and given the worsened economic situation, the nominal deficit remains above 4 % of GDP and the deficit target under 3 % is postponed to 2017;
- The medium-term objective (MTO), revised downwards to -0.4 % of GDP, has been postponed again to the end of the programming period (2019).

Moreover, even if this new trajectory is less ambitious than the previous one, there are still doubts regarding the Government's capacity to comply with. Complying with the new trajectory would require a strong slowdown of public expenditure all over the programming period. In view of the announced measures to date, the HCFP highlights a risk of deviation with respect to the trajectory towards the MTO.

The full version of HCFP's opinion is available in French on its website: www.hcfp.fr

The High Council of Public Finance (Haut Conseil des finances publiques, HCFP) is required to assess the realism of macroeconomic forecasts presented by the Government and to check the consistency of the structural balance trajectory with French commitments to reach structural balance in the mid-term. The HCFP is an independent body from the government and parliament. It is attached to the French supreme audit institution (Cour des comptes) and chaired by the Head of the Court.