Haut Conseil des Finances Publiques

Opinion No HCFP - 2025 - 1

on the amendment of the draft budget and social security financing bills for the year 2025

29 January 2025

Executive summary

On the basis of article 61 - VI of the amended Organic Law on Budget Laws, the Government sent the High Council a request for an opinion on its new macroeconomic forecasts, revising those of October 2024 underlying the draft budget bill (PLF) and draft social security financing bill (PLFSS) for 2025. Although not explicitly provided for in the Organic Law, it also supplied the High Council of Public Finance with its updated public finance forecast. The High Council welcomes this, as it enables it to better fulfil its mission of informing citizens and Parliament about financial texts.

In the context created by a significant deterioration of the public deficit in 2024 for the second year running, which exposes France even more to the risk of rising interest rates, it is essential and a matter of urgency that the financial texts for 2025 are adopted on the basis of realistic forecasts and measures to initiate the trajectory of deficit reduction.

The High Council considers that the GDP growth forecast for 2025 (+0.9%), higher than that of the consensus of economists (+0.7%), is achievable but a little optimistic in view of the most recent economic indicators.

Similarly, the inflation forecast (+1.4%) seems a little high given recent trends and sluggish demand. The payroll forecast for the market sectors is slightly optimistic for 2024 (+3.0%), given the data already available, and for 2025 (+2.5%), given the slowdown in activity and the fall in inflation expected in 2025.

The public deficit forecast for 2024, revised to 6.0 points of GDP instead of 6.1 points in October, is plausible even if it remains affected by uncertainties, particularly on the expenditure of local authorities, whose full accounts will not be known until next March. This would represent a deterioration of 0.5 point compared with 2023 and a deviation of 1.6 point compared with the PLF forecast for 2024.

The public deficit forecast for 2025 has been revised upwards, from 5.0 points of GDP in the initial PLF to 5.4 points, as a result of the updating of macroeconomic forecasts, the inclusion of new information on implementation in 2024, and the abandonment of provisions set out in the initial PLF and PLFSS for 2025.

This draft budget bill would begin the essential path of deficit reduction, but offers little safety margin. It is based on measures to be confirmed in the current parliamentary debate and in subsequent legislation. The deficit forecast is also based on somewhat optimistic macroeconomic assumptions, a marked slowdown in local authorities' spending and tight control of public health insurance expenditure, which must be backed up by more effective measures than those deployed to date, as well as strict management of State expenditure.

With the cost of debt expected to rise to €67bn in 2025, an increase of €8.3bn, after an increase of €6bn in 2024, compliance with the deficit target of 5.4 points of GDP this year,

the ambition of which has already been reduced compared with last autumn, is imperative in the context of the urgency associated with the slippage in public finances in 2023 and 2024. Given the urgent need to reduce the deficit, the Government must be prepared to take the necessary measures in the event of revenue shortfalls or expenditure slippage during the year.

The structural balance presented by the Government amounts to 5.5 points in 2024 and 4.7 points of GDP in 2025, i.e. a structural adjustment of 0.7 point. The difference between the projected structural deficit and that in the public finance programming law (PFPL) would then be 1.8 point of GDP in 2024 and 1.4 point in 2025. These differences are well above 0.5 point of GDP, which suggests that, when the High Council will examine the draft settlement bill, they will be significant as defined by the Organic Law. However, the size of these differences shows that the PFPL, which was enacted just over a year ago, is outdated.

The Government estimates that the growth in public spending clearly exceeds the growth in potential GDP, on a no-policy-change basis, which causes the ratio of spending to potential GDP to rise spontaneously by 0.9 percentage point, and that the measures it is taking cause it to fall by 1.0 percentage point of GDP. However, the Government does not provide the assumptions underlying this estimate, which would enable us to assess its relevance.

In any case, the expenditure-to-potential GDP ratio decreases by only 0.1 point overall, and it is the rise in the tax ratio that ultimately accounts for almost all of the structural adjustment of 0.7 point of GDP in 2025. The High Council stresses the importance of increasing the share of structural adjustment in expenditure in the structural balance trajectory, based on a detailed assessment of the efficiency and quality of public spending.

According to the Government's forecasts, the debt-to-GDP ratio will start to rise again in 2024 and 2025, reaching 115.4 points of GDP and thus exceeding the high point reached during the health crisis and almost 6 points of GDP above that of the PFPL.

It is essential for France to meet its target of bringing the deficit back below 3 points of GDP in 2029, as set out in its medium-term fiscal-structural plan, in order to keep control of its public finances and manage its debt, while financing priority investments and ensuring that its growth potential is not affected.

Introductory remarks

1- On the context and scope of the Government's referral

1. Pursuant to Article 61-VI of Organic Law No. 2001-692 of 1 August 2001 on budget laws, as amended, the Government has sent the High Council a request for an opinion on the changes that the Government plans to make to the macroeconomic scenario and forecasts associated with the draft budget bill (PLF) and draft social security financing bill (PLFSS) for 2025.

2. While the budget bill and the social security financing bill are normally enacted before the start of the year to which they relate, those for 2025 are still under discussion in Parliament. The macroeconomic forecasts on which the initial draft bills for 2025 are based are now almost four months old. The economic data published since then and the major changes made to the initial texts mean that they need to be revised.

3. The High Council of Public Finance therefore welcomes the fully justified request for an opinion on the updated macroeconomic forecasts and the public finance scenario. This comprehensive referral will enable it to better fulfil its mission of informing citizens and Parliament about financial texts.

2- On the information submitted and deadlines

4. The Government referred the matter to the High Council of Public Finance on 22 January 2025. This referral was accompanied by information on the amended public finance forecast and by responses to the initial and supplementary questionnaires sent by the High Council of Public Finance to the relevant administrations.

3- On the High Council's methodology

5. In order to assess the realism of the macroeconomic forecasts associated with the amended PLF and PLFSS for 2025, the High Council examined the Government's assumptions and the expected economic mechanisms. It relied on the last available statistics and on information provided by the relevant administrations, notably about the economic policy measures decided by the Government.

6. The High Council also drew on the latest forecasts produced by a range of national and international institutions, including the European Central Bank (ECB), the Banque de France, the European Commission, the International Monetary Fund (IMF), the French National Institute for Statistics and Economic Studies (INSEE), the Organisation for Economic Co-operation and Development (OECD), as well as economic research institutes such as the French Economic Observatory (OFCE) and Rexecode.

7. The High Council held a hearing with representatives of the Treasury Department, the Budget Department and the Social Security Department.

8. The High Council of Public Finance gives its assessment of the macroeconomic forecasts associated with the amended PLF and PLFSS for 2025 (I), followed by its assessment of the public finance forecasts (II).

I- Comments on the macroeconomic forecasts for 2024 and 2025

1- The Government's scenario

9. According to the Government's referral, "*The macroeconomic forecasts in the 2025 PLF and PLFSS have been updated to take account of new information since the draft financial texts were submitted last October. The growth forecast for 2024 is confirmed at +1.1%. For 2025, the forecast has been revised downwards to +0.9% (-0.2 pt), due to heightened domestic and international uncertainty, which is expected to weigh on investment, consumption and exports.*

10. *[...] For 2025, (...) the economic indicators point to a less favourable economic environment than at the end of the summer. (...) These developments reflect in particular the uncertainty linked to the political situation in France (...). This uncertainty should diminish over the course of 2025. International economic uncertainty has also increased (...).*

11. *In this new scenario, household consumption would remain the main driver of growth in 2025, driven by dynamic real income in 2024 and 2025. However, consumption would be less vigorous than anticipated in the autumn: increased uncertainty would result in the savings rate remaining at a historically high level (18.0%). Both household and corporate investment are expected to stabilise (...). The contribution of foreign trade to growth is expected to fall, and to be only slightly positive, reflecting above all the rebound in imports.*

12. *Finally, the downward revision of adjustment measures compared with the initial PLF (€52bn compared with €60bn in the autumn) would improve the relative contribution of public demand to growth and lead to a neutral aggregate effect.* »

13. « *In 2024, inflation (...) continued to fall to an annual average of +2.0% according to INSEE, very close to the forecast underlying the PLF (+2.1%). The difference is essentially due to a sharper-than-expected slowdown in prices at the end of the year, particularly in the prices of certain services (health, communications, etc.) and oil prices, which remained below the freeze level considered in the October PLF forecasts ($80).*

14. *For 2025, the inflation forecast has been revised downwards to an annual average of +1.4% (compared with +1.8% in the October PLF). This revision reflects two main factors: a sharper-than-expected slowdown in service prices in autumn 2024; and the absence of an additional increase in excise duty on electricity, as provided for in the initial text of the PLF.* »

15. « *[...] Employment growth is revised downwards by 0.2 pt, mainly due to less dynamic activity. Employment is expected to fall slightly compared to 2024 (-0.1%). Wages should rise by 2.7%, as in the autumn scenario: the effect of the upward revision in productivity in 2024 would offset that of lower inflation.* »

2- Assessment of the High Council

16. The High Council successively analyses the Government's forecasts for growth, the wage bill and inflation.

a) Economic activity growth

17. The Government forecasts average annual GDP growth of 1.1% in 2024, unchanged from the initial PLF for 2025: economic data published since September 2024 has supported this forecast.

18. **The Government's growth forecast for 2024 is identical to those of the main forecasters. It is considered realistic by the High Council.**

19. On the other hand, the Government has revised its growth forecast for 2025 downwards by 0.2 pt to 0.9%, compared with 1.1% in October.

Table 1: GDP growth forecasts for France in 2024 and 2025

	Publication date	2024	2025
Government	**22 January 2025**	**1.1**	**0.9**
IMF	17 January 2025	1.1	0.8
Consensus Forecasts	16 January 2025	1.1	0.7
Rexecode	16 January 2025	1.1	0.5
INSEE	17 December 2024	1.1	
Banque de France	16 December 2024*	1.1	0.9
OECD	4 December 2024	1.1	0.9
European Commission	30 October 2024	1.1	0.8
OFCE	16 October 2024	1.1	0.8
Government	**10 October 2024**	**1.1**	**1.1**

** Projection drawn up by the Banque de France on 27 November 2024.*
Source: referral from the Government, forecasts by economic analysis organizations and institutes

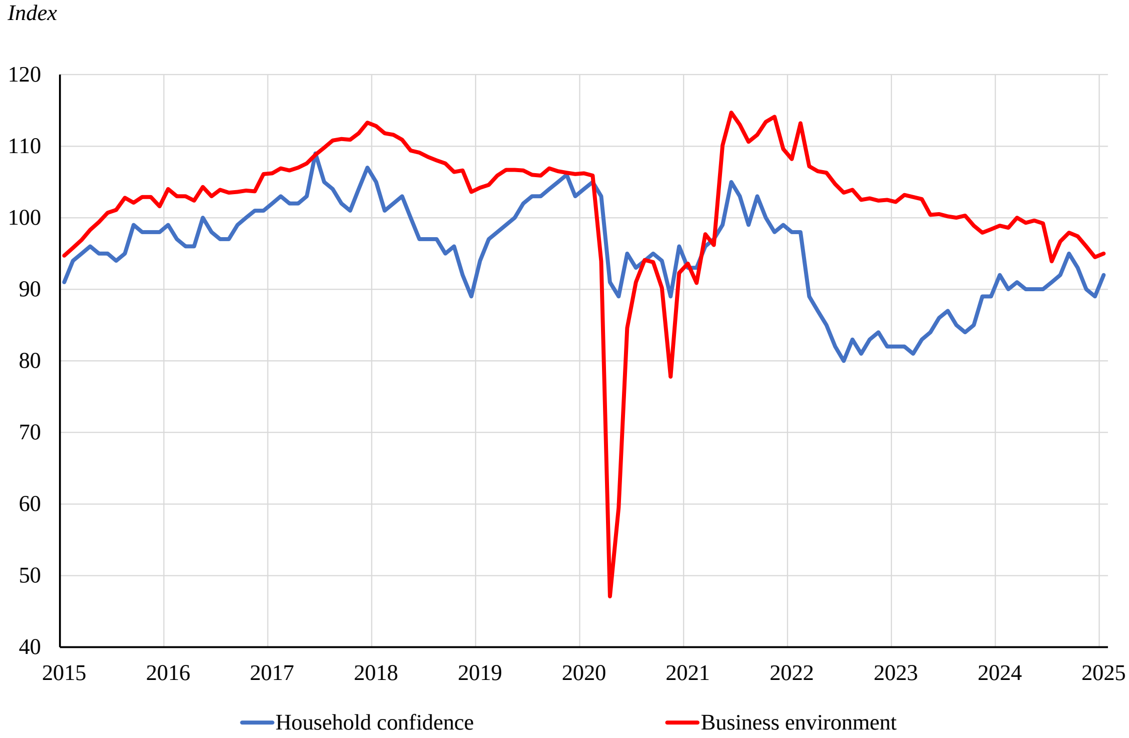
20. The Government's forecast is identical to that of the OECD and the Banque de France (+0.9%), both produced before the vote of no confidence on 4 December 2024, but higher than that of the European Commission, the OFCE and the IMF (+0.8%), the January consensus of economists (Consensus Forecasts) (+0.7%) and that of Rexecode (+0.5%).

21. The Government explains the revision of the growth forecast compared with the initial PLF (-0.2 pt) by the increase in uncertainty at national and international level, which would be partially offset by the lesser effort to reduce the public deficit: as the measures aimed at reducing the public deficit by 2025 would be smaller than in the previous scenario, they would weigh less on growth.

22. The Government's scenario incorporates a structural effort of 0.9 point of GDP, to achieve a structural adjustment of 0.7 point of GDP, less than in the initial PLF (1.2 pt), but still on a significant scale. It thus assumes that, without budgetary adjustment, growth would have been higher than in 2024 (circa +1.3%, estimated on the basis of the multiplier of 0.5 used by the Government to quantify the depressive effect of the budgetary adjustment), even though the latter benefited from a positive budgetary impulse.

23. Furthermore, the deterioration in economic activity since last September, as reflected in particular in the INSEE consumer and business surveys (see Graph 1), already points to a slowdown in GDP growth in the first half of 2025, which should weigh on the annual average.

Figure 1: Business climate indicator and household confidence in France



Source: INSEE

24. In the Government's scenario, growth is essentially driven by private domestic demand, and primarily by household consumption, which is expected to rise by +1.1% (compared with +1.3% in the initial PLF). The Government has not changed its forecast for the real gross disposable income (+0.8%), the downward revision to nominal earned incomes being offset by a higher rise in retirement pensions, which have finally been revalued on January 1st in line with past inflation, and by a downward revision to the inflation forecast for 2025. On the other hand, it revised upwards its forecast for the savings rate (down by just 0.2 point to 18.0%, compared with a fall of 0.4 point in the initial PLF). This forecast is now reasonable: even though the persistence of major economic and political uncertainties may keep the savings rate higher than expected, it remains well above its pre-crisis level.

25. On the other hand, the forecast for corporate investment in 2025, although revised downwards (stability instead of +0.6%), remains somewhat optimistic, while the macroeconomic environment, marked by a slowdown in demand from companies, a fall in their margin rate, increased uncertainty and an announced rise in taxes on companies, is less favourable.

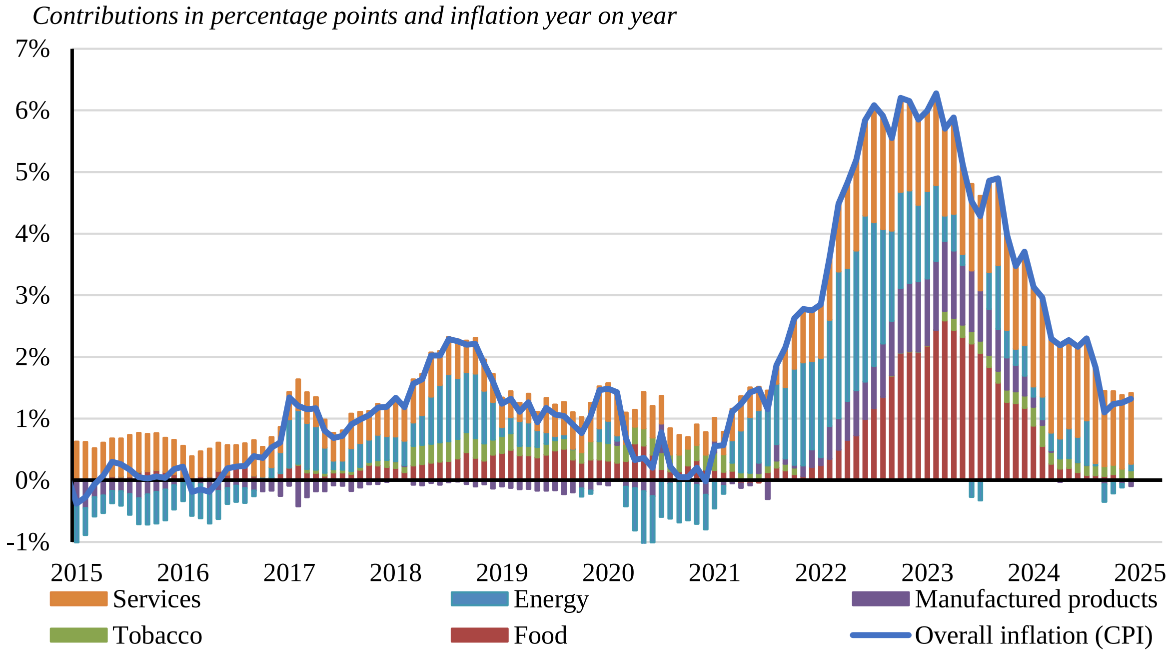
26. **The GDP growth forecast (+0.9%) for 2025, higher than that of the consensus of economists (+0.7%), is achievable but a little high: it seems to underestimate the loss of dynamism in activity recorded by the consumer and business surveys and is based in particular on an optimistic assumption of stabilisation in corporate investment in light of the deterioration in their economic environment.**

b) Rising consumer prices

27. Inflation for 2024 is now known. It stands at 2.0%, compared with a forecast of 2.1% in the Government's previous scenario. This result validates the diagnosis of the High Council

which, in its opinion on the 2024 draft budget bill, judged this forecast to be realistic, although a little high.

Figure 2: inflation (CPI) and contributions



Source: INSEE

28. Since the initial PLF, disinflation has continued. The year-on-year rise in food prices has declined to zero in December 2024, compared with +0.5% in September. Prices of manufactured goods are now down year-on-year. As a result of the pass-through of past wage increases, service prices continued to rise at a more sustained pace though declining throughout last year (2.2% year-on-year in December compared with 3.1% a year earlier).

29. For 2025, assuming Brent price at €73 per barrel, the Government has revised its total inflation forecast down by 0.4 point compared with the initial PLF, to an annual average of 1.4%. This downward revision reflects both the impact on electricity prices of abandoning the part of the increase in domestic tax on final electricity consumption (TICFE) that would have raised it above its 2021 level, and the fact that disinflation has been faster at the end of 2024 than the Government forecast in the initial PLF.

30. 30. The inflation forecast is currently close to the economists' consensus. However, it still seems a little high in light of recent downward trends of many items, which are expected to continue as weak demand is likely to exert downward pressure on prices.

Table 2: inflation forecasts (CPI) as an annual average in %.

	Publication date	2025
Government	**22 January**	**1.4**
Rexecode	16 January	1.6
Consensus Forecasts	16 January	1.4
Banque de France*	16 December	1.4
OFCE	16 October	1.5

Sources: PLF for 2025, forecasts by economic analysis organizations and institutes
** Estimate based on HICP forecast (2.5% in 2024 and 1.5% in 2025)*

31. However, the Government's inflation forecast is reachable, particularly if the rise in oil prices in December and January continues, if the euro keeps on depreciating against the dollar, making imports more expensive, or if increases in tariffs are decided in response to similar measures in the United States.

32. In addition, the Government forecasts an increase in the GDP deflator of 1.4% in 2025, which is consistent with the CPI forecast[1] and therefore also a little high.

33. **Although currently in line with the consensus, the inflation forecast for 2025, revised down by 0.4 point compared with the initial PLF, still seems a little high. It is reachable, particularly in the event of a further rise in oil prices, but seems to underestimate the sluggishness of demand and the downward trend in underlying inflation.**

c) Employment and wage bill in the private sector

34. The Government forecasts wage bill growth in the nonfarm market sector of +3.0% in 2024, 0.1 pt higher than in the initial PLF, which it justifies in particular by the early revaluation of the minimum wage (SMIC) last November.

35. This forecast seems somewhat optimistic given the national accounts for the third quarter. It would require a growth of more than 1.2% in the fourth quarter of 2024, which is much higher than the results recorded over the past year, and which the very limited impact of the rise in the SMIC alone cannot justify.

36. For 2025, the Government has revised its wage bill forecast downwards to +2.5%, i.e. -0.3 point compared with the initial PLF, due to a downward revision in employment.

37. Employment growth in the non-farm market sector was zero in the first half of 2024 and even contracted slightly in the third quarter. The forecast of a slight decline in employment in the non-farm market sector in 2025, resulting in productivity gains close to those of 2024, therefore seems plausible.

[1] Based on the results of the methodology presented in the study by C. Lebrun, Comprendre et prévoir les différences entre l'IPC et le déflateur du PIB, Methodological note from the permanent secretariat of the High Council n°2024 - 2, September 2024 (only available in French) and summarised in the box in the opinion on the PLF and PLFSS 2025 of 8 October 2024. The note and the opinion are available on the HCFP website.

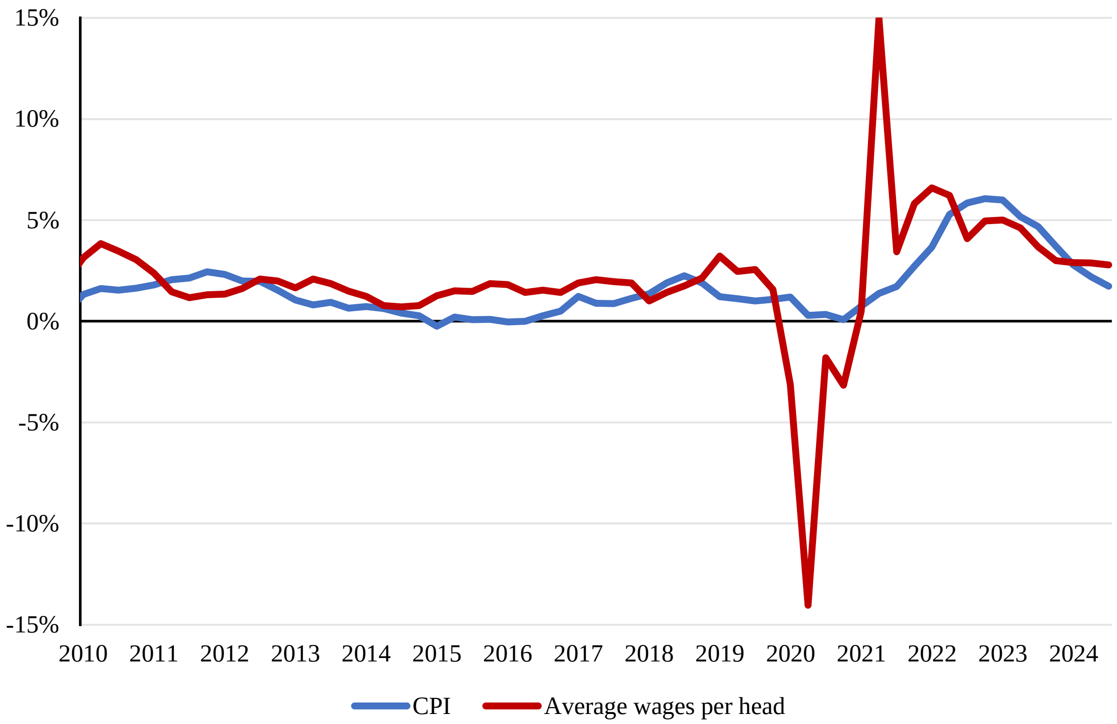
Table 3: wage bill in the non-farm market sector (average annual growth, %)

	2023	2024	2025
market-sector employment	1.2	0.3	-0.1
Average wage per head	4.1	3.0	2.7
Wage bill	5.3	3.0	2.5

Source: INSEE, amended draft budget bill for 2025

38. On the other hand, in 2025, the growth forecast for average wages per head (SMPT) in the non-farm market sector in the amended PLF (+2.7% after +3.0% in 2024) seems a little high. The past and expected fall in inflation should lead to a more marked slowdown in wages in the non-farm market sector, even though the expected fall in the number of apprentices, due to the expected tightening of apprenticeship subsidies, should mechanically push the SMPT up somewhat.

Figure 3: growth in average wages per head in the non-farm market sector and in the level of consumer prices (year-on-year, %)



Source: INSEE

39. **The wage bill forecast for 2024 seems a little high given the data already available for the first three quarters. The forecast for 2025 is somewhat optimistic, mainly because of the average wage per head, while the employment forecast seems plausible.**

II- Comments on the public finance forecasts for 2024 and 2025

40. After presenting the Government's scenario (1), the High Council assesses the realism of revenue and expenditure forecasts (2), then the structural government balance and its consistency with the multiannual structural balance guidelines (3) and finally examines public debt trends (4).

1- The Government's scenario

41. According to the Government's referral, "*[...] Overall, the government balance would be -6.0% of GDP in 2024 and -5.4% in 2025, compared with -6.1% and -5.0% respectively in the 2025 draft budget bill submitted in October.*

42. *Concerning the forecast for 2024(...) Expenditure is in fact slightly lower than forecast, both for the State and for local authorities. In addition, the cost of debt has been revised downwards, due to a lower than expected inflation indexation charge. The forecasts for taxes and social security contributions have been amended very little, although this masks some negative surprises (VAT in particular) and some positive ones (inheritance and gifts taxes in particular).*

43. *The forecast for 2025 takes into account the effects of this latest information, (...), as well as the revision of the macroeconomic environment, with growth revised downwards in particular, which affects the forecasts of revenue from compulsory levies. Overall, the negative revisions, particularly those to tax revenues forecast for 2025, are offset by downward revisions to local spending and the cost of debt. Most of the revision to the government balance is therefore explained by the fact that fewer measures have been taken into account than in the PLF that was tabled, mainly because of the shift in the timetable for examining legislation.*"

2- Assessment of the realism of revenue and expenditure

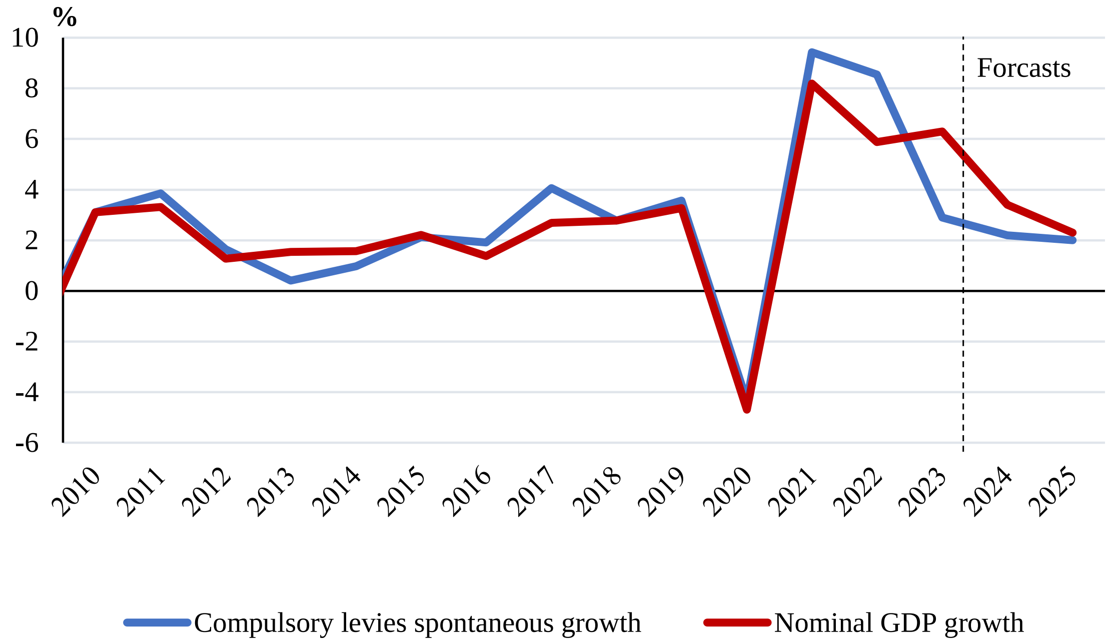
44. The High Council has endeavoured to assess the realism of revenue and expenditure forecasts on the basis of the information available to it.

a) Government revenues

45. In 2024, according to the Government, compulsory levies would have risen by 2.6% to €1,250bn. This forecast in the amended PLF for 2025 is virtually unchanged from the initial PLF presented in autumn 2024. The latest accounting data confirms the forecasts made at the time for corporate income tax, income tax and duty on real property transactions. VAT receipts may have been €1.8bn lower than forecast in October under conservative assumptions regarding the transition from budgetary accounting to national accounting, but this should have been offset by more dynamic receipts from inheritance and gifts taxes (€1bn) and social security contributions (€1bn according to the most recent estimates).

46. For 2025, the forecast for taxes and social security contributions has been revised downwards by €10.6bn compared with the initial text, to €1,301bn. This difference is due in particular to a €4bn reduction in new measures in the amended PLF compared with the initial PLF and a negative impact of €6bn from the downward revision of growth, broadly in line with the new macroeconomic forecasts.

Figure 4: nominal GDP growth and growth in compulsory levies



Source: INSEE, amended draft budget bill for 2025

47. Spontaneous growth in compulsory levies is forecasted at 2.0% in 2025, a lower rate than nominal GDP growth (+2.3%). The elasticity of compulsory levies to GDP would thus be less than unity for the third consecutive year.

48. The tax revenue to GDP ratio would rise by 0.8 point to 43.6 points of GDP due to €26.2bn of new measures compared with 2024.

49. In detail, the Government has revised downwards its forecast for spontaneous growth in corporate income tax. Following the payment of the 5th instalment in December, the taxable profit forecast has been revised downwards for 2024. The deterioration in the macroeconomic environment has also led to a revision of the taxable profit forecast for 2025. Lastly, €1bn has been subtracted from the forecast on the grounds of "prudence". However, the uncertainty surrounding the corporate income tax forecast is considerable.

50. The income tax forecast is consistent with the underlying macroeconomic assumptions, and has been revised slightly upwards following the indexation of pensions to inflation in January (the postponement of the indexation to July has been abandoned). It could, however, be a little high given that the wage bill forecast seems a little high.

51. Similarly, the VAT forecast for 2025 seems plausible given the underlying assumptions. With VAT growth forecast to be slightly lower than the growth of its tax base, the main risk to VAT does not stem from intrinsically favourable assumptions but from the slightly high growth and inflation forecasts.

52. The forecast for spontaneous growth in social security contributions seems cautious, as it is lower than the forecast for growth in the wage bill, even though the minimum wage is no longer expected to drive the average wage per head: at constant scope, reductions in social contributions on low wages should therefore stop growing faster than the wage bill. This cautious forecast could partly compensate for a slightly high wage bill forecast.

53. The forecast for spontaneous growth in duty on real property transactions (+7.2%) is virtually unchanged from the initial PLF. It assumes a marked rebound in the real estate market,

but could be achieved given the current upturn in existing home sales, which has already led to a recovery in duty on real property transactions at the end of 2024.

54. The forecast also assumes new measures of €26.2bn. The High Council has little information on their expected returns and notes the uncertainty surrounding the adoption of some of them.

55. **For 2024, the High Council notes that the compulsory levies forecast has remained close to that presented in October and seems consistent with the latest accounting data and macroeconomic data.**

56. **For 2025, the forecast for spontaneous growth in compulsory levies is consistent with the underlying macroeconomic scenario and is therefore somewhat high overall, given the slightly optimistic nature of the growth, wage bill and inflation forecasts used by the Government, even if this optimism is tempered by a certain caution regarding the forecasted yield of certain levies. The main risk weighing on this forecast appears to be the adoption of the new measures included in the draft budget bill, which have not yet been fully documented and are still the subject of parliamentary debate.**

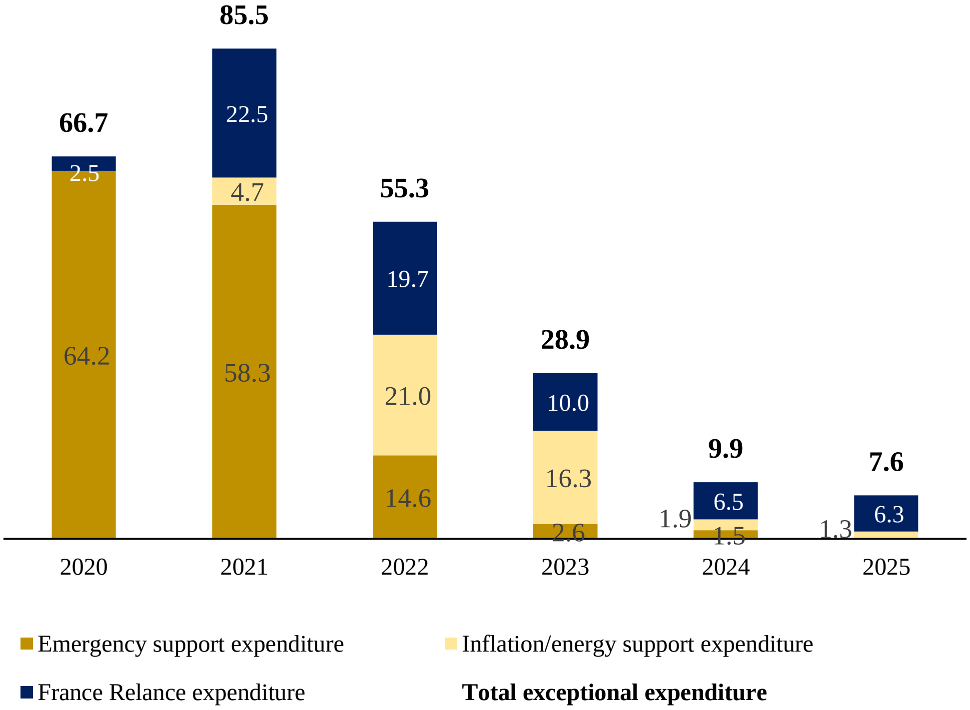
b) Expenditure

57. **In 2024,** the forecasts in the amended PLF, although revised downwards compared with those in the initial PLF, reveal much faster growth in spending than in 2023. According to the Government, public spending excluding tax credits (TC) will increase by 3.8% in nominal terms to reach 56.6 points of GDP, i.e. 0.2 point of GDP higher than in 2023. While this rate of growth is lower than that forecast in the initial PLF (4.2% in the initial version submitted in October 2024), it is still significantly higher than that forecast in the initial draft budget bill for 2024 (+3.0% compared with 2023). In volume terms, adjusted for the GDP deflator, they would increase by 1.5% after falling by 1.4% in 2023.

58. By sub-sector, real growth in spending would be 3.4% for local authorities and 2.9% for the social sphere, while central government spending (down by €20bn between 2023 and 2024) would fall by 2.4% in real terms due to the sharp reduction in support spending.

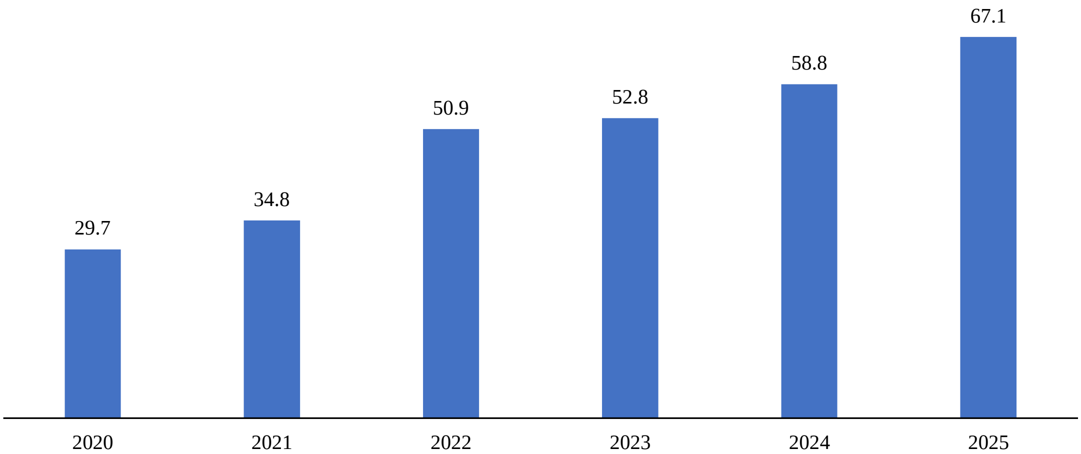
59. The forecast for expenditure excluding TC has been revised down by €5.5bn compared with the October 2024 forecast, mainly as a result of (1) lower central government spending (down €1.5bn), notably as a result of under-spending on the stimulus package (€0.8bn), (2) lower-than-expected investment spending by local authorities (-€3.7bn), (3) lower growth in the cost of debt (-€1.4bn) due to revisions in interest rates and inflation, and (4) lower spending by operators, notably “France Compétences” (-€0.9bn).

Figure 5: exceptional expenditure between 2020 and 2025 (in €Bn)



Source: INSEE, 2024 and 2025 forecasts in the amended PLF-PLFSS for 2025
Reading note: exceptional expenditure is made up of support expenditure linked to the health crisis and inflation, and stimulus expenditure.

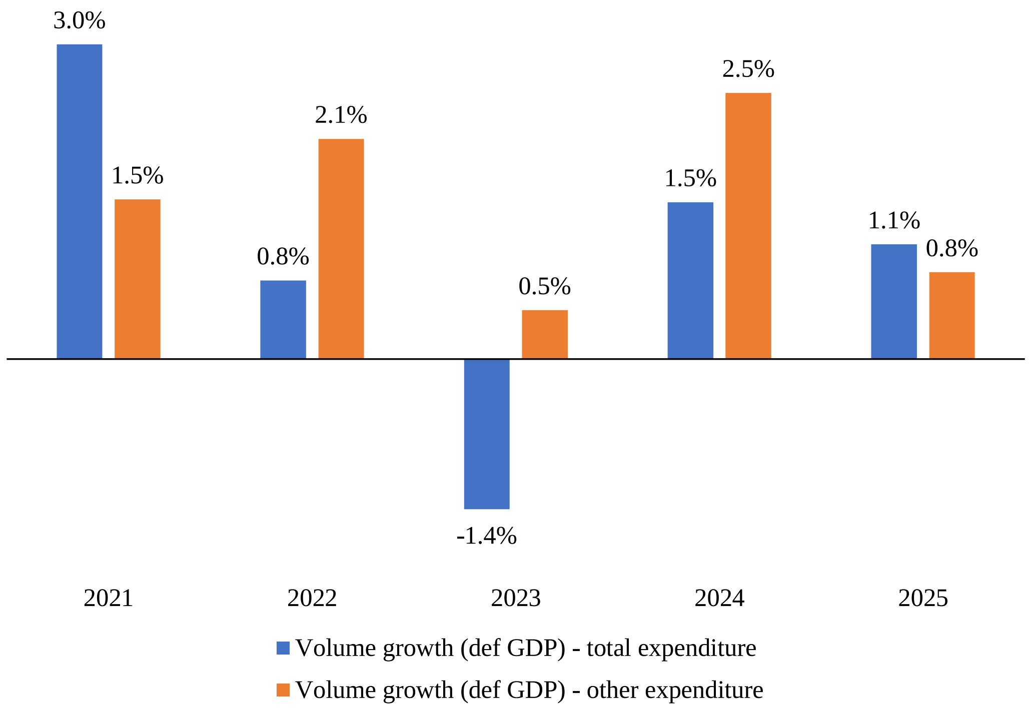
Figure 6: cost of debt between 2020 and 2025 (€bn)



Source: INSEE, 2024 and 2025 forecasts in the amended PLF-PLFSS for 2025
Reading note: the cost of debt for general government is assumed to be equal to D41 including FISIM (financial intermediation services indirectly measured).

60. Excluding exceptional expenditure[2] and the debt burden, spending is expected to increase by 2.5% in volume terms in 2024, deflated by the price of GDP, following an increase of 0.5% in 2023. Thus, once the effect of exceptional expenditure and the cost of debt on public spending has been neutralised, the increase in spending will have been much greater in 2024 than in 2023.

Figure 7: change in public spending in volume, deflated by GDP price (in %)



Source: INSEE, 2024 and 2025 forecasts in the amended PLF-PLFSS for 2025
Reading note: "Other expenditure" does not include exceptional expenditure, i.e. support expenditure related to the health crisis and inflation and stimulus expenditure. The cost of debt for general government is assumed to be equal to D41 including FISIM (financial intermediation services indirectly measured).

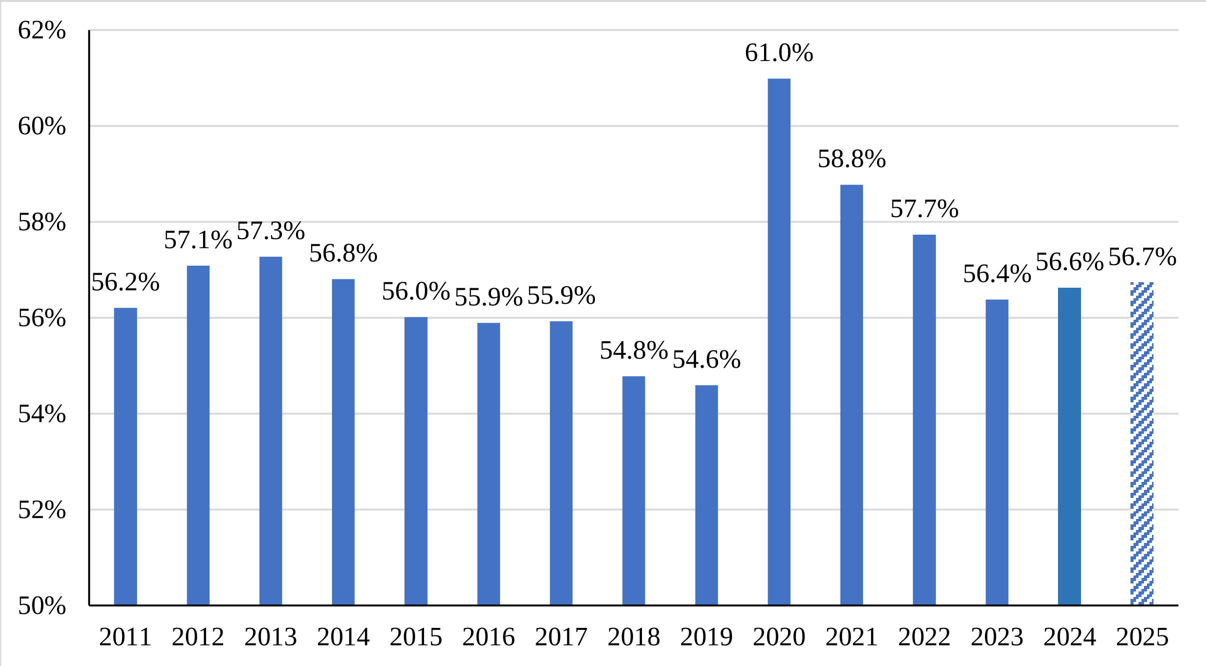
61. **Based on the latest information available, the revised forecast of public spending excluding tax credits for 2024 is credible. This forecast reflects a particularly sustained increase in spending compared with 2023, particularly excluding exceptional expenditure and the cost of debt, although slightly less than in last October's forecasts.**

62. **In 2025,** the Government's ambition is to obtain a marked slowdown in expenditure excluding TC, with an increase of 2.5% in nominal terms (compared with 2.1% in last October's version) and 1.1% in volume terms corrected by the GDP deflator, but its weight in GDP would continue to increase, rising to 56.7 points compared with 56.6 points in 2024[3]. Public spending excluding TC is projected to reach €1,693.8bn, up €41.5bn on 2024. Excluding exceptional

[2] Including support spending linked to the health crisis and inflation, and stimulus spending.
[3] The expenditure-to-GDP ratio rises by 0.1 point of GDP, while the expenditure-to-potential GDP ratio falls by 0.1 point, resulting in a 0.1 point contribution from expenditure to the structural effort. The difference between these two figures is mainly due to the fact that forecast GDP growth (0.9%), in the denominator of the expenditure-to-GDP ratio, is lower than the Government's estimate of potential growth (1.2%), in the denominator of the expenditure-to-potential GDP ratio.

expenditure and the cost of debt, the increase in spending in volume terms would be 0.8% compared with 2.5% in 2024.

Figure 8: weight of public expenditure excluding TC in GDP (in %)



Source: INSEE, 2024 and 2025 forecasts in the amended PLF-PLFSS for 2025

63. This forecast is slightly higher (+€0.5bn) than the October forecast when the initial draft budget bill was submitted, with the abandonment of planned savings measures offset by new lower forecasts for other expenditure.

64. In fact, several cost-saving measures were abandoned or reduced during the parliamentary debate, and additional expenditure was recorded: the efforts required of local authorities on their operating expenditure were reduced (+€3 bn); the planned postponement of indexation of pensions was not implemented (+€3.5 bn); the increase in co-payments on medicines (+€1.1 bn) was abandoned; certain ministerial credits, particularly in the Ministries of the Interior, Justice and Overseas Territories, were increased (+€1.5 bn). In addition, the forecast for the national unemployment insurance expenditure has been revised upwards (+€1.4bn), mainly due to the deterioration in employment forecasts, and the updating of support expenditure in response to energy prices has led to an increase (+€0.9bn).

65. These increases have been partly offset by the inclusion of favourable new information: the ECB's announcement that it will ease monetary policy in 2025 has led to a lower increase in the cost of debt (€8.0bn instead of €10.3bn); the sharper than expected slowdown in investment by local and regional government in the second half of 2024 has led to a lowering of the local authorities expenditure forecast (€3.6bn); the faster than expected fall in inflation has led to a lowering of the automatic revaluation on 1 April of some social expenditure (€0.4bn).

66. Finally, the Government has decided to propose to the French Parliament a further reduction in spending by the central government (-€2.5bn) and various central government bodies (-€1.6bn).

67. **Government spending** would increase by 2.4% in nominal terms compared with 2024 (following a fall of 0.2% in 2024) and by 1.0% in volume terms. Given the projected increase in the cost of debt (more than €8bn in 2025), the increase in total expenditure actually implies a €1bn reduction in budgetary expenditure compared with the estimated outturn for 2024 (-0.2% in nominal terms, -1.6% in volume terms) on the central government's expenditure perimeter, €1.5bn below the forecasts made in the initial PLF last October. This would be the biggest fall in nominal terms for a decade[4].

68. These savings, which have been partially documented to date, are based partly on targeted measures but mainly on uniform cuts in appropriations (commonly known as a "planning cut"), which would also compensate for increases in spending since the October forecasts, in particular circumstantial spending for overseas France and an upward revision of energy-related spending. These savings would include targets of a 10% reduction in the cost of public purchasing (-€3bn) and savings measures targeting employment policy and the end of 'whatever it takes' (-€2bn). Achieving these objectives is possible, but demanding: it leaves very little margin for financing unexpected expenditure that might prove necessary during the year.

69. **Expenditure by the social security funds** would increase by 2.9% in nominal terms compared with 2024 (after 5.3% in 2024 compared with 2023) and by 1.5% in volume terms. Compared with the initial draft budget bill, a number of significant spending reduction measures have been abandoned, notably the postponement of pension indexation (€3.5bn) and the increase in co-payments on medicines (€1.1bn). In addition, expenditure by the national unemployment insurance has been revised upwards by €1.4bn compared with the initial PLF, mainly as a result of the deterioration in employment forecasts and an upward revision to forecasts of expenditure on compensation under the "Contrat de Sécurisation Professionnelle".

70. The increase in the national health insurance expenditure target is set at 3.3% in 2025 (compared with 2.8% in the initial PLF), taking the total to €265.3bn, an increase of €8.5bn compared with 2024, which, given the trend growth in expenditure, implies savings of €4.3bn compared with the €4.9bn forecast in the initial PLF. To date, this effort has not been well documented. The assumption of a 3.3% increase in the national health insurance expenditure target therefore remains voluntary.

71. **In the local authorities' sphere,** the Government forecasts spending growth of 2.6% in value terms. This assumes an increase in local authorities operating expenditure of 2.0% in value terms compared with 2024, i.e. 1.0 percentage point higher than in the initial PLF (after 4.8% in 2024 compared with 2023) and 0.6% in volume terms. Capital expenditure excluding the "Société des grands projets" will remain dynamic, in line with the local electoral cycle, rising by 6.9% in nominal terms (after 8.0% in 2024), unchanged from the initial PLF, and by 5.4% in volume terms. The efforts required of local authorities would be significantly lower than in the initial PLF, dropping from €5bn to €2bn. This forecast is more credible than the one made last October, but this does not mean that the slowdown in local authorities spending is a foregone conclusion.

72. **All in all, the public spending growth target set for 2025 is ambitious. It assumes very substantial savings, which are only partially documented to date, a sharp slowdown in local authorities spending and tight control of health insurance spending, which cannot be taken for granted, as well as a fall in central government spending that leaves very little margin to finance unexpected expenditure during the year.**

[4] On a constant basis, central government budget spending has risen steadily in volume terms from 2015 to 2021, after falling by 3.9% in volume terms in 2015.

c) The general government balance

73. The Government's public deficit forecast for 2024 has been revised down slightly compared with that in the initial PLF for 2025 and the PLFG for 2024, to 6.0 points of GDP instead of 6.1 points. The public deficit in 2024 would therefore be 0.5 point lower than in 2023 and 1.6 point lower than the level forecasted in the LFI for 2024 (4.4 points of GDP), marking a major slippage in public finances in 2024.

74. For 2025, the general government balance forecast in the amended PLF is -5.4 points of GDP (i.e. -160.7 Bn€), compared with -5.0 points of GDP (i.e. -150.6 Bn€) in the initial PLF. Revenue increases and expenditure savings have been revised downwards by €8.7 bn compared with the initial PLF. The remainder of the difference with the initial PLF (€1.4 bn) is due to revised forecasts of spontaneous growth in compulsory levies and the inclusion of new information available since last autumn.

75. **The public deficit forecast for 2024 has been revised slightly, to 6.0 points of GDP, instead of 6.1 points forecasted in October. This new forecast, which takes into account the favourable information that has come to light since last October, is plausible, even if it remains affected by positive or negative uncertainties, particularly with regard to the expenditure of local and regional authorities, whose full accounts will not be known until next March. It is 0.5 point worse than the 2023 balance and 1.6 point worse than the initial forecast in the 2024 draft budget bill, which marks an unexpected deterioration of exceptional magnitude outside crisis periods.**

76. **The PLF for 2025 begins the essential path of deficit reduction (revised to 5.4 points of GDP compared with 5.0 in the initial PLF) but offers little margin for safety, insofar as the details have yet to be confirmed in the parliamentary debate. Dropping the increase in the autonomy solidarity contribution, as proposed by the Prime Minister, would increase the deficit by €1.8bn (0.06 point of GDP). This trajectory is based on somewhat optimistic macroeconomic assumptions, as well as on savings measures that have not yet been implemented. However, it is imperative that this target be met, given the urgent need to address the slippage in public finances in 2023 and 2024.**

77. **In any event, in 2025 the public deficit will remain well above the threshold of 3 point of GDP, so that France will remain subject to the excessive deficit procedure opened by the Council of the European Union in July 2024[5].**

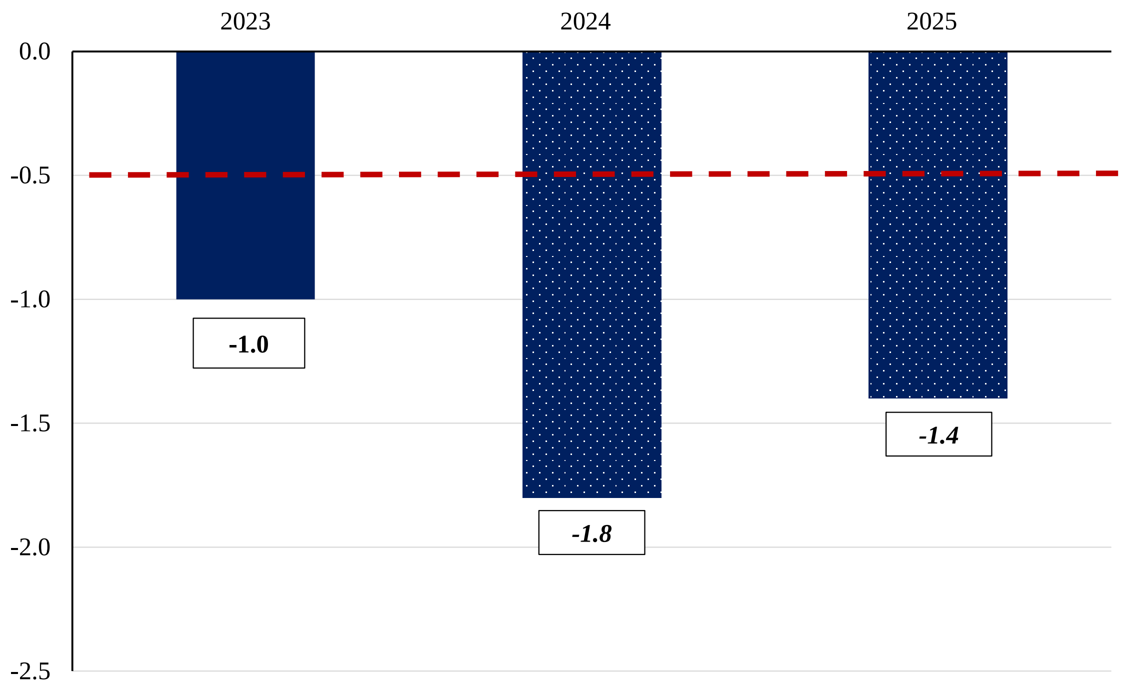
3- Assessment of consistency with the multi-year targets for the structural balance and general government expenditure

78. On the basis of the potential GDP data in the amended PLF for 2025, the structural balance would amount to -5.5 points of potential GDP in 2024 and -4.7 points in 2025, compared with the targets set in the public finance programming law of -3.7 and -3.4 points of GDP respectively. The deviation of the structural balance from the programming law would thus amount to 1.8 point of potential GDP in 2024 and -1.4 point of potential GDP in 2025 (compared with 2.0 points of potential GDP in 2024 and 1.2 point in 2025 in the forecasts of the initial PLF for 2025).

[5] Council Decision 2024/0169 on the existence of an excessive deficit in France.

Figure 9: difference in structural balance between the PLF and the PFPL

In GDP points



Source: amended PLF-PLFSS forecasts for 2024 and 2025, PFPL of December 2023

79. The public finance targets must also be assessed in the light of European rules on the multiannual guidelines for the medium-term fiscal-structural plan. The structural adjustment forecast for 2025, of 0.7 point of GDP, is in line with the requirements of the excessive deficit procedure (annual structural adjustment of at least 0.5 point of GDP) maintained in the context of renewed European governance. The expenditure aggregate monitored under the new European rules[6] would grow by 0.5% in 2025, respecting the ceiling on the projected increase in net primary expenditure, set in nominal terms at +0.8%. On 21 January, following approval by the European Commission, the Council of the European Union has validated the new public finance trajectory presented by the Government, which is based on the scenario presented in this opinion for 2025.

80. The structural adjustment, i.e. the change in the structural balance, forecasted by the Government amounts to 0.7 point of GDP. This is the result of so-called non-discretionary factors (the impact of an elasticity of compulsory levies of less than 1 and a fall in the ratio of non-tax revenues to GDP), which worsen the structural balance by 0.2 point of GDP, and a structural effort of 0.9 point of GDP.

81. The structural effort is itself based mainly on measures to increase compulsory levies (slightly less than +0.9 point of GDP) and to a lesser extent on reducing expenditure (slightly less than +0.1 point of GDP). The spending effort, calculated as the impact on the government balance of the difference between spending growth and nominal GDP growth, measures the contribution of spending to reducing the structural deficit.

82. The Government presents a different figure concerning the effort made in 2025. It estimates that the Government's action on expenditure amounts to 1.0 point of GDP and its

[6] primary expenditure net of discretionary revenue measures, expenditure fully offset by revenue from EU funds, national expenditure on co-financing EU-funded programmes, and cyclical elements of unemployment benefit expenditure.

action on revenue to 0.7 point of GDP, resulting in a greater effort on expenditure than on revenue.

83. This contributes to a deterioration of the structural government balance of 0.9 point of GDP, so that the structural effort he envisages on expenditure, equivalent to 1.0 point of GDP, ultimately results in only a 0.1 point reduction in the ratio of structural expenditure to GDP.

84. In this estimate, the Government also excludes from the calculation of the amount of compulsory levies increases in 2025 resulting from provisions prior to the draft budget and social security financing bills for 2025 (the elimination of levy reductions taken to create tariff caps on energy prices), amounting to 0.2 point of GDP: while all the new compulsory levies amount to 0.9 point of GDP, the Government considers that those covered by its action amount to 0.7 point.

85. This presentation method is not without legitimacy and the tendency of certain categories of public spending to grow spontaneously faster than GDP has been documented. For example, if legislation remains unchanged, pension expenditure is expected to grow faster than nominal GDP, as a result of both demographic ageing and the revaluation of basic pensions in line with past inflation, which is higher than the expected rise in GDP prices in 2025: this therefore contributes spontaneously to increasing the deficit. However, this assessment is much more difficult for many other types of expenditure, particularly when they are discretionary, such as investment spending by local authorities, recruitment policy or even civil service pay policy. The assessment of spontaneous growth in spending is therefore based on a number of assumptions that the Government should explain so that their relevance can be assessed.

Table 4: structural adjustment and structural effort presented by the Government

	2023	2024	2025
Government balance (1)	**-5.5**	**-6.0**	**-5.4**
Cyclical balance (2)	-0.3	-0.4	-0.6
One-off and other temporary measures (% of potential GDP) (3)	-0.1	-0.1	-0.1
Structural balance (% of potential GDP) = (1)-(2)-(3)	**-5.1**	**-5.5**	**-4.7**
Change in structural balance	-0.6	-0.4	0.7
of which structural effort	1.1	0.0	0.9
Compulsory levies	*-0.4*	*0.2*	*0.9*
Expenditure effort	*1.5*	*-0.2*	*0.1*
of which non-discretionary component	-1.7	-0.4	-0.2
Revenue excluding compulsory levies	*-0.1*	*0.0*	*-0.1*
Tax elasticity effects of compulsory levies	*-1.7*	*-0.4*	*-0.1*

Source: amended draft budget bill for 2025, programming law of December 2023.
N.B.: figures are rounded to the nearest tenth, which may result in slight discrepancies in the results of operations.

86. **The structural balance presented by the Government amounts to -5.5 points of GDP in 2024 and -4.7 points in 2025, i.e. a structural adjustment of 0.7 point. The difference between the projected structural deficit and that in the programming law would then be 1.8 point in 2024 and 1.4 point in 2025. These differences are well in excess of 0.5 point of GDP, which suggests that they will be significant within the meaning of the Organic Law when the High Council examines the draft settlement bills for the**

corresponding years. However, the size of these differences shows that the LPFP, which was enacted just over a year ago, is out of date.

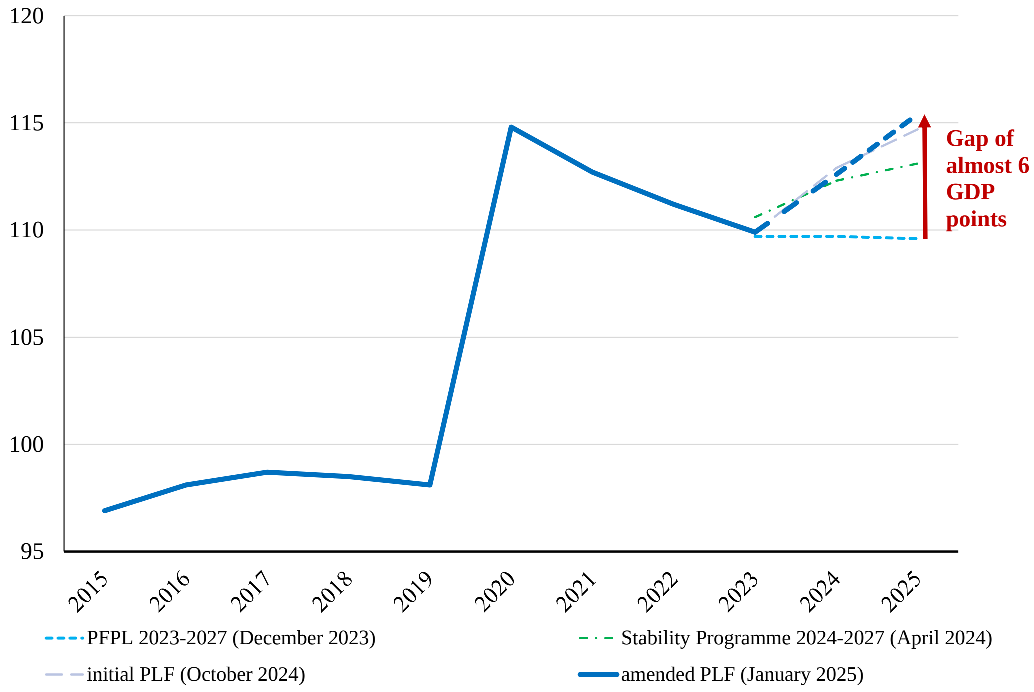
87. **The High Council notes that the structural adjustment of 0.7 point of GDP in 2025 reflects a structural effort of 0.9 point of GDP. This mainly results from measures to increase compulsory levies (0.9 point of GDP) and an expenditure effort of only 0.1 point of GDP.**

88. **For its part, the Government claims that the amount of new measures on the expenditure side (1.0 point of GDP) is higher than the amount of new measures to increase compulsory levies (0.7 point). It considers that the expenditure effort (0.1 point of GDP) is the result of a spontaneous trend leading to an increase in the structural deficit of 0.9 point and expenditure savings of 1.0 point. Given the difficulties inherent in defining spontaneous expenditure growth, the Government should spell out its assumptions so that their relevance can be assessed. In addition, the Government considers that the termination of tax caps on energy prices measures, while leading to an increase in taxation (of 0.2 point of GDP), is the result of decisions taken prior to the PLF for 2025, and that the only increases in taxation that fall within its remit therefore amount to 0.7 point.**

4- Public debt

89. Despite the particularly high level of public deficit between 2021 and 2023 (-5.6 points of GDP on average), the public debt-to-GDP ratio fell by 5 points between 2020 and 2023, to 110 points of GDP, benefiting at its denominator from a significant increase in nominal GDP due to the sharp rise in prices. However, most of our European partners experienced greater debt reduction over the period.

Figure 10: ratio of public debt to GDP (in %)



Source: INSEE, PFPL 2023-2027, Stability Programme 2024-2027, initial and amended PLF for 2025.

90. According to the Government's forecasts, the debt-to-GDP ratio is set to rise sharply again in 2024 and 2025, topping the peak reached in 2020 during the health crisis, at almost 115.5 points of GDP. On the one hand, the public deficit would remain very high. On the other hand, the favourable mechanical impact of nominal growth on the debt ratio would diminish, so that the deficit that stabilises the debt ratio would be more demanding (2.6 points of GDP in 2025 after 3.6 points in 2024 and 6.6 points in 2023). As a result, the gap between the public deficit and the deficit that stabilises the debt ratio would rise to 2.4 points in 2024 and 2.8 points in 2025, leading to a sharp increase in the debt-to-GDP ratio.

Table 5: public deficit and debt

In GDP points	**2023**	**2024**	**2025**
Public deficit	**5.5**	**6.0**	**5.4**
Debt-stabilising deficit	*6.6*	*3.6*	*2.6*
Public debt	**109.9**	**112.6**	**115.4**

Source: Amended PLF for 2025.

91. Compared with the initial PLF, the deficit forecast for 2025 has been revised upwards by 0.4 point of GDP. Conversely, the deficit stabilising the debt is revised downwards by 0.6 point, due to the downward revision of nominal GDP growth. The change in debt between 2024 and 2025 is therefore revised upwards by 1.0 point of GDP. As a result of a slightly lower forecast for the public debt-to-GDP ratio in 2024 (-0.3 point of GDP), the debt ratio forecast for 2025 is revised upwards by a total of 0.7 point of GDP compared with the initial PLF.

92. The debt trajectory is thus significantly worse than that of the public finance programming law, enacted just over a year ago in December 2023. The forecast for 2025 in the amended PLF is therefore almost 6 points of GDP higher than that in the PFPL.

93. As a result of the increase in the level of debt and long-term interest rates, the general government debt burden is expected to rise sharply in 2024 and 2025, reaching 2.2 points of GDP (i.e. almost €67 billion in current terms) in 2025, compared with 1.9 points of GDP in 2023 (i.e. €53 billion in current terms) in the Government's forecast. It is possible, however, particularly if the government balance turns out to be higher than forecast in 2025, that the financial markets' perception of the risks weighing on the budget path could deteriorate, which would then push up interest rates and the debt burden. This type of risk tends to be non-linear, with occasional small-scale deteriorations in public finance results leading to sharp rate movements, particularly when certain financial rating thresholds are crossed.

94. Overall, while the level of debt has been revised upwards compared with the initial PLF and interest rates have been revised downwards, the general government debt burden forecast for 2025 has been revised downwards by €2.2bn compared with last October as a result of the greater than expected easing of monetary policy in the eurozone.

95. **Despite a slight fall in the debt-to-GDP ratio in nominal terms between 2020 and 2023, France's relative debt position within the eurozone has deteriorated in recent years to become the third most indebted country in the zone behind Greece and Italy. According to Government forecasts, the debt-to-GDP ratio is set to rise sharply again in 2024 and 2025, exceeding the peak reached during the health crisis, at more than 115 points of GDP.**

96. **The High Council notes that the debt trajectory is significantly worse than that of the PFPL, enacted just over a year ago in December 2023. The forecast for 2025 in the amended PLF is thus almost 6 points of GDP higher than in the PFPL.**

97. **The debt-to-GDP ratio in 2025 could be slightly higher than forecast by the Government, as the nominal GDP forecast is a little high and the deficit forecast is subject to risks of overshoot.**

98. **The medium-term sustainability of public finances therefore calls for immediate and sustained efforts over the long term. In order to keep control of its public finances, while financing priority investments and taking care not to affect its growth potential, France must continue to aim to bring the deficit back below 3 points of GDP in 2029 as planned in the medium-term fiscal-structural plan, which implies catching up over the next few years with the adjustment initially planned for 2025.**

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This opinion will be published in the *Journal officiel* of the French Republic and submitted to the French Parliament.

Done in Paris, on 29 January 2025.

For the High Council of Public Finance,
The First President of the Court of Audit,
Chairman of the High Council of Public Finance

Pierre MOSCOVICI

Appendix 1: Macroeconomic scenario associated with the amended draft budget bill for 2025

Economic forecasts for France January 2025 (Deviation from the PLF of October 2024)	2023	2024	2025
Goods and services, real terms[1]			
Gross domestic product (wda)	**1.1**	**1.1** (0.0)	**0.9** (-0.2)
Final household consumption	0.9	0.8 (0.1)	1.1 (-0.2)
Public final consumption	0.8	2.1 (-0.6)	0.1 (0.3)
Grossed fixed capital formation	0.7	-1.6 (0.1)	0.2 (-0.2)
Of which: non-financial enterprises	3.1	-1.7 (0.2)	0.0 (-0.6)
- general Government	7.1	2.6 (-0.4)	0.8 (1.5)
- households (excluding individual entrepreneurs)	-8.2	-6.1 (-0.1)	0.0 (-0.4)
Imports	0.7	-1.0 (0.1)	2.2 (-0.4)
Exports	2.5	1.6 (-0.5)	2.6 (-0.8)
Contributions to real GDP growth			
Private domestic demand (excluding inventories)	0.4	0.0 (0.1)	0.6 (-0.2)
Public demand	0.5	0.6 (-0.2)	0.0 (0.1)
Inventories	-0.4	-0.5 (0.1)	0.1 (0.0)
Foreign trade	0.6	0.9 (-0.2)	0.1 (-0.1)
Prices and nominal aggregates			
Consumer prices inflation index	**4.9**	**2.0** (-0.1)	**1.4** (-0.4)
Core inflation	5.1	1.9 (0.0)	1.8 (0.0)
Gross domestic product deflator	5.3	2.3 (0.0)	1.4 (-0.3)
Nominal gross domestic product (wda)	6.5	3.4 (-0.1)	2.3 (-0.6)
Productivity, employment and wages			
Market-sector excluding agriculture:			
- Effective labour productivity	1.0	1.3 (0.2)	1.1 (-0.1)
- Paid work (AA, head count) *	1.2	0.3 (0.0)	-0.1 (-0.2)
- Paid work (AA, in thousands) *	207	51 (1)	-15 (-35)
- Paid work (yoy, in thousands) *	86	19 (-8)	-13 (-66)
- Average wage per capita	4.1	3.0 (0.2)	2.7 (0.0)
- Purchasing power of the average salary	-0.8	1.0 (0.4)	1.2 (0.4)
- Wage bill	5.3	3.0 (0.1)	2.5 (-0.3)
Total employment (AA)	1.1	0.8 (0.1)	0.4 (0.1)
Total employment (yoy, in thousands)	267	195 (61)	84 (-16)
Non-financial corporate account			
Value added	7.9	1.7 (1.2)	1.9 (-0.4)
Gross operating income	13.9	-0.8 (3.1)	-0.5 (-0.7)
Margin rate	**32.7**	**32.0** (0.7)	**31.2** (0.5)
Saving rate	21.7	18.8 (0.6)	17.4 (0.6)
Investment rate	22.8	22.4 (-0.2)	22.3 (-0.4)
Self-financing rate	95.3	83.8 (3.2)	78.0 (4.0)
Households account			
Total wage bill	5.3	3.3 (0.1)	2.2 (-0.1)
Gross disposable income	8.0	4.5 (-0.5)	2.2 (-0.4)
Purchasing power of gross disposable income	**0.8**	**2.3** (0.3)	**0.8** (0.0)
Saving rate	16.9	18.2 (0.1)	18 (0.4)
International context			
Global demand for France	-2.3	0.5 (-0.4)	2.8 (-0.8)

[1] *The data presented here are in the sense of INSEE's quarterly accounts*

[2] Employment according to localized employment estimates