Haut Conseil des Finances Publiques

Permanent Secretariat of the HCFP

The HCFP's methodology for counter-expertising Government forecasts

Éric Dubois and Maud Legros[1]

Methodological Note No. 2024-06

June 2024

Summary

The High Council of Public Finance gives an opinion on the realism of macroeconomic and public revenue and spending forecasts in budget draft bills, social security financing draft bills, public finance draft programming law, sectoral draft programming law and draft stability programmes up to 2024. To this end, the High Council relies both on the information it receives from its external partners and on the tools and analyses it develops internally.

Prior to the preparation of its opinions, the High Council sends questionnaires to the Government authorities in order to specify the figures and explanatory information relating to the commentary on the past financial year or its macroeconomic and public finance forecasts, depending on the stage in the budgetary cycle. The High Council also consults forecasting bodies such as the French National Institute of Statistical and Economic Studies (INSEE), the Banque de France, Rexecode and French Economic Observatory (OFCE), as well as the Government, on the macroeconomic scenarios used by each institution.

The High Council then compares the assumptions made in the budget bill with the latest available economic indicators (the national accounts published by INSEE, results of INSEE or Banque de France consumer and business surveys, changes in the wage bill published by Urssaf, etc.), as well as the latest forecasts.

The Permanent Secretariat of the High Council also carries out its own studies on macroeconomic or public finance issues, the results of which support the preparation of the High Council's opinions. For example, it produces structural analyses, such as the construction of historical and forecast 'constant-scope' State expenditure series used in its opinions on draft sectoral programming laws, which have shed light on the constraints that complying with the public finance trajectory imposes on the outcome of sectoral commitments.

The High Council also employs a number of tools developed internally that enable it to counter-expertise the Government's forecasts: for example, tools for estimating the tax base of the main compulsory levies, such as VAT, have been developed to examine the consistency of revenue forecasts for these compulsory levies with macroeconomic forecasts.

[1] Permanent Secretariat of the High Council of Public Finance.

Finally, the High Council verifies the intrinsic consistency of the forecast scenarios in the budget bills it examines. In particular, it examines the consistency of the assessment of the output gap with the investment, inflation and wage forecasts. It also examines the consistency between the expected impact of the announced fiscal policy and the associated growth forecast.

Introduction

As an independent budget institution, the High Council of Public Finance (HCFP) is in charge of:

- assessing the realism of the macroeconomic, revenue and public expenditure forecasts presented by the Government;
- verifying that the objectives for general government expenditure are met in the light of the multi-year guidelines set out in the programming law of public finances;
- ensure that the path to balanced public finances (State, local authorities, social security) is consistent with France's European commitments.

These tasks are derived from the Treaty on Stability, Coordination and Governance and the provisions of Organic Law No. 2001-692 of 1 August 2001, as amended, on budget laws.

For this purpose, the HCFP is composed of eleven members appointed for their expertise: the First President of the Cour des Comptes, who also chairs the HCFP, four magistrates from the Cour des Comptes, five qualified individuals and the Director General of the French National Institute of Statistical and Economic (INSEE). The High Council is assisted by a Permanent Secretariat, which provides expertise and support in preparing the opinions issued by its members.

To this end, the HCFP relies on a methodology for preparing its opinions, which has been built up over time and which this note aims to outline. This methodology is based not only on information acquired from external partners, but also on studies and notes produced internally and generally published on the High Council's website.

I. Meetings with the Government and economic forecasting institutes

1) First, opinions are prepared on the basis of information gathered from administrations using questionnaires prepared by the Permanent Secretariat.

Article 61 - IX of the Organic Law no. 2001-692 of 1 August 2001, as amended, relating to the budget laws stipulates that ‘The Government shall respond to requests for information sent to it by the High Council for the purpose of preparing its opinions’. In order to have all the information it needs in the Government referral file to issue its opinion, the High Council sends questionnaires to the administrations concerned prior to each opinion. These questionnaires cover the figures and explanatory information relating to the commentary on the past financial year and the actual figures, as well as their macroeconomic and public finance forecasts.

The responses to these questionnaires help the members of the High Council to clarify a number of recurring, structural and topical issues, which vary according to the text under consideration and its position in the budget cycle.

As part of its review of initial budget bills and social security financing bills, as well as multi-year forecasts (stability programme, public finance programming law), the HCFP questions the administration on the macroeconomic scenario it has adopted. The underlying assumptions behind the macroeconomic scenario adopted by the Government are specified, particularly with regard to changes in consumer prices, GDP prices and value added, household savings and business investment, and labour productivity. The HCFP pays particular attention to new phenomena whose impact, insofar as they can be assessed, are likely to affect the implementation of the budget bill. For the 2023 budget bill, these were the result of the war in Ukraine and the associated difficulties in the supply of energy and commodities, as well as the long-term effects of the Covid-19 crisis on the operation of supply chains, for example.

The budget bill and Social security financing bill also examine the Government's forecast for the public balance for the coming year, based on projected revenue growth for the year, assessed for each type of compulsory levy (VAT, income tax, corporation tax, duty on real property transactions, inheritance and gift taxes, social security contributions, social security levies, domestic consumption tax on energy products, tobacco tax, property tax), and expenditure growth for all government sub-sectors. Where relevant, the Government is asked to explain any discrepancies between the annual forecasts in the Budget Bill and those in the multi-year trajectory for public finances.

The questionnaires relating to the Amending budget bills (bills that can be adopted throughout the year to amend the initial budget law) contain a series of questions designed to enlighten the HCFP on the updating of the assumptions of the initial budget law in the light of changes occurring during the year and having an immediate impact on the balance of public finances. Thus, in its opinion on the first Amending budget bill of 2022, the HCFP questioned the Government on the effects of both exceptional and temporary measures, such as the measures in the resilience plan, which were expected to deteriorate the public balance by 0.4 points of GDP, or structural measures with long-term effects, such as the revaluation of pensions and benefits and the increase in the civil service index point in July 2022, which were also expected to deteriorate the balance by 0.4 points of GDP in 2022.

In the case of bills budget settlement bills, the questions are the same as those asked in the initial budget bill, in order to get an analysis by the administration of the differences between the implementation of the budget and the initial forecast, or the amended forecast if applicable, as well as in relation to the multi-year programming trajectory. Particular attention is paid to breaking down the cyclical and structural components of the public deficit at the end of the year, considering both the potential growth assumed in the public finance programming law and the one-off factors that may explain the evolution of the deficit during the considered year.

These questionnaires are also an opportunity for the Government to explain any ‘surprises’, both good and bad, that have occurred during the year: for the draft budget settlement bill for 2023, the Government provided the HCFP with its analysis of the causes of the difference between the planned general Government deficit (the initial budget law for 2023 and 2024 estimated it at 5.0 and 4.9 points of GDP respectively, and the public finance programming law for 2023-2027 at 5.0% of GDP) and the actual deficit (5.5 points of GDP).

2) **The High Council of Public Finance conducts hearings with the French administration and French forecasting institutes.**

The HCFP hears French forecasting institutes, such as INSEE, the Banque de France, Rexecode and the French Economic Observatory, and foreign forecasting institutes, such as the Bank for International Settlements (BIS) and the Organisation for Economic Co-operation and Development (OECD), to know the macroeconomic scenarios used by these various bodies in preparing its opinions. In addition to quantitative forecasts, which can be compared with those of the Government, these hearings provide elements of analysis on the structural trends in forecasts (productivity and household savings rates, for example, in the most recent opinions of the High Council).

The administrations responsible for drawing up the macroeconomic and public finance scenarios (French Treasury, Budget department, Social Security department) are also heard by the members of the High Council. These hearings supplement the information available to the HCFP to assess the texts submitted to it, make it possible to clarify certain elements of the scenario presented by the administration and provide an opportunity to discuss the differences between the macroeconomic and public finance outlooks and those of other economic institutions.

The ministries concerned are also consulted for the HCFP's opinions on the impact of sectoral programming laws on public finances. In 2023, the High Council heard from the Ministry of the Armed Forces in preparation for its opinion on the draft military programming draft law covering the period 2024-2030, and from the Ministry of Justice in the context of its opinion on the draft orientation and programming law for the Ministry of Justice for 2023-2027. During these hearings, the risks underlying the implementation of the spending programmes in these programming laws were clarified, particularly with regard to inflation, which is likely to lead to price increases in public procurement contracts, and to the actual capacity to fill new jobs and increase staffing levels over the relevant time horizons.

Lastly, exchanges take place with certain actors on the basis of their sectoral expertise to shed more light on a specific issue. For example, there are regular discussions between the Permanent Secretariat of the High Council and the Banque Postale to discuss the financial situation of local authorities and forecasts of their revenues and expenditures.

II. Comparison with the latest economic indicators and other forecasts

The first step is to compare the Government's forecast with the latest economic indicators and other available forecasts.

2.1. Comparison with the latest economic indicators

One of the very first steps in any forecast is to analyse the latest economic indicators, in order to identify the most recent developments in the economy, to examine whether they are in line with expectations, to identify any trend breaks, etc. This is therefore also an important step in the analysis of the Government's forecasts, in particular to ensure that they are consistent with this information.

In particular, the Government's macroeconomic scenario is confronted with:

- for the growth scenario, the latest national accounts published by INSEE, the latest results of INSEE or Banque de France consumer and business surveys, and the latest world trade data;
- for inflation, the latest INSEE inflation data, particularly underlying inflation, as well as its determinants, such as oil or commodity prices;
- for payroll, the latest monthly data from Urssaf.

For instance, in its opinion of 11 April 2017 on the Stability Programme for the years 2017 to 2020, the High Council weighed up the contrasting data available on economic activity at the start of the year - positive for services and construction, disappointing for industrial production - suggesting modest growth in the first quarter of 2017, on the other hand favourable consumer and business surveys and an improvement in global growth. He concluded: although slightly higher than most of the available forecasts, the Government's growth forecast ‘remains plausible in view of the favourable consumer and business surveys and the improvement in global growth, [...] even if some of the data on economic activity in France are disappointing at the start of the year’.

In its opinion on the second amending budget bill for 2017, the Government forecast GDP growth was of 1.7%. The High Council noted that the carry-over on annual GDP growth was now 1.7% following the publication by INSEE of the national accounts for the 3rd quarter and that continued growth in the 4th quarter at the rate of previous quarters would lead to growth of 1.8% for the year as a whole. He concluded: ‘In view of what was achieved in the 3rd quarter, the Government's growth forecast of 1.7% now has a fairly high probability of being exceeded’. Growth was then estimated at +1.9% in the first results published by INSEE on 30 January 2018[2].

In its opinion on the macroeconomic forecasts associated with the stability programme for the years 2021 to 2027, in the context of the aftermath of the COVID-19 crisis, the High Council drew on the first upturns in inflation observed at the start of 2021 for certain goods such as housing equipment, jewellery and rents, and considered that this rise was likely to continue during the year. The increases in oil and industrial commodity prices observed were likely to be gradually passed on to consumer prices for manufactured goods. In addition, the High Council estimated that household service prices would gradually return to their pre-crisis trends with the lifting of restrictions on these services. As a result, the High Council considered that, given these cyclical factors, the level of inflation in 2021 would be higher than forecast by the Government. In fact, both inflation (+1.6%) and underlying inflation (+1.1%) ended up being significantly higher than the Government's forecast (+1.1% and +0.6% respectively).

The HCFP also takes account of external data, such as oil prices, which influence domestic prices, potentially with some delay. In its opinion of 29 October 2021 on the second amending budget bill for 2021 and the revised budget and social security financing bills for 2022, the HCFP noted that in October 2021 the price of a barrel of Brent crude oil was around $15 above the level used by the Government in its forecast ($84 compared with $69). It then estimated that if this gap were to persist, it would translate, all other things being equal, into additional inflation of 0.5% in 2022. It concluded that ‘the Government's inflation forecast [...]

[2] It is now estimated at +2.3%, due to the revisions made since then by INSEE to this provisional estimate.

for 2022, unchanged despite the rise in energy prices and the marked improvement in the labour market since the initial budget bill, seems [...] too low'. Inflation in 2022 was actually much higher than the Government's forecast (+5.2% instead of +1.5%), as the outbreak of war in Ukraine greatly increased the gap with the Government's already optimistic energy price forecast.

With regard to the payroll, the HCFP examines the wage bill data for the non-agricultural market sectors, which constitute the relevant field for economic analysis and for which the Government provides it with forecasts each year. Payroll forecasts are based on forecasts of employment and wages per head, and the corresponding data are provided by INSEE in its quarterly national accounts.

Urssaf, which is the source of these data, provides monthly data on the slightly different scope of the private sector, whose quarterly trends are generally very close to those of the wage bill of the non-agricultural market sectors published by INSEE.

In its opinion of 27 October 2023 on the end-of-year budget bill, while the Government was forecasting 6.5% growth in the wage bill for the non-agricultural market sectors, the High Council noted that the Urssaf data for July and August showed a marked slowdown on average compared with the same months in 2022 (+5.4% year-on-year in July and August 2023, compared with +6.6% in the first half) and concluded: 'the forecast growth in payroll in the non-agricultural market branches now appears a little high given its slowdown over the summer. INSEE now estimates wage bill growth in the non-agricultural market sectors at +5.3% in 2023, well below the Government's forecast.

2.2. Comparison with available forecasts

Beyond the short term, which is the focus of the analysis of short-term indicators, the High Council's analysis of the Government's overall scenario is based in particular on the scenarios of the French forecasting bodies it interviews, but also on those of European and international institutions: the European Commission, the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the European Central Bank (ECB). It also compares the Government's forecasts with those collected by Consensus Forecasts for France, which gathers the forecasts of world forecasters on variables such as GDP growth and inflation.

While these scenarios do not represent an exhaustive range of all available forecasts and are not immune to unexpected events, they do provide a reasonable outlook given the information available at the time and inform the High Council about the key macroeconomic linkages in the forecast. A Government forecast that falls outside this range therefore assumes specific macroeconomic sequences, the plausibility of which can be assessed on the basis of these analyses.

Table No°1 - forecasts for real GDP growth in France (%, annual average)

Source	Publication date	2024
Government	April 9th	1.0
IMF	April 16th	0.7
Consensus Forecasts	April 8th	0.7
OFCE	April 5th	0.5
Rexecode	April 5th	0.4
Banque de France	April 14th	0.8
European commission	February 15th	0.9
OECD	February 5th	0.6

Source: Opinion No. HCFP-2024-2 on the macroeconomic forecasts associated with the Stability Programme for the years 2024 to 2027, 16th April 2024

Thus, in its opinion on the Stability Programme for the years 2024 to 2027, the High Council noted that, although the Government's world growth assumption for 2024 was close to those of the international organisations, at 3.1%, the Government's growth forecast for France for 2024 of 1.0% was higher than all the forecasts of the organisations, with the exception of the European Commission. In detail, while the Government's forecasts for the rebound in household consumption and growth in exports of goods and services were close to those of the other forecasters, the business investment forecast (+0.5% in 2024) appeared, like the one for households, to be higher than the ones of the other forecasters. This revealed either that the Government believed that the past rise in interest rates would have less of an impact than what the other forecasters expected, or that unspecified factors would support investment in 2024.

III. Using the High Council's own analyses

In addition to using the information provided by the Government and considering the most recent economic data and forecasts, the High Council also mobilizes its own analyses, whether structural studies, its own forecasting tools or tests of the consistency of the forecasts presented in relation to economic mechanisms.

List of notes available on the High Council of Public Finance website:

- Comprendre et prévoir les différences entre l’IPC et le déflateur du PIB (September 2024) (Available only in French)

- The Government's macroeconomic and public finance forecasts and their outcome (September 2024)

- Comparison of the impact of inflation on public finances in 2022 and 2023 in six eurozone countries (May 2024)

- L'impact sur les finances publiques des mesures de soutien face à la crise énergétique (novembre 2023)
(Available only in French)

- The high inflation observed since 2021 is pushing up the household savings rate, but only temporarily (July 2023)

- Reconstruire les dépenses de l'État à champ constant : méthodologie et illustration (Methodological Note – July 2023)
(Available only in French)

- Elasticity of compulsory levies to GDP: definition, interpretation and limits (Methodological Note – February 2023)

- In 2022, the higher inflation is expected to increase the public debt burden (September 2022)

- Potential growth over the medium term (July 2022)

- Garanties accordées par l'État pendant la pandémie : estimation du risque pesant sur les finances publiques françaises (July 2022)
(Available only in French)

- La productivité du travail au sortir de la crise sanitaire (March 2022)
(Available only in French)

- Le PIB et la croissance potentiels : définition et enjeux pour les finances publiques (note méthodologique – September 2021)
(Available only in French)

- Conséquences pour les finances publiques de prévisions d'inflation trop élevées (July 2021)
(Available only in French)

- Le coût net des mesures de soutien aux revenus des ménages et des entreprises en 2020 (April 2021)
(Available only in French)

- Prévisions d'emploi des branches marchandes à l'horizon 2020-2021 : éléments d'analyse (September 2020).
(Available only in French)

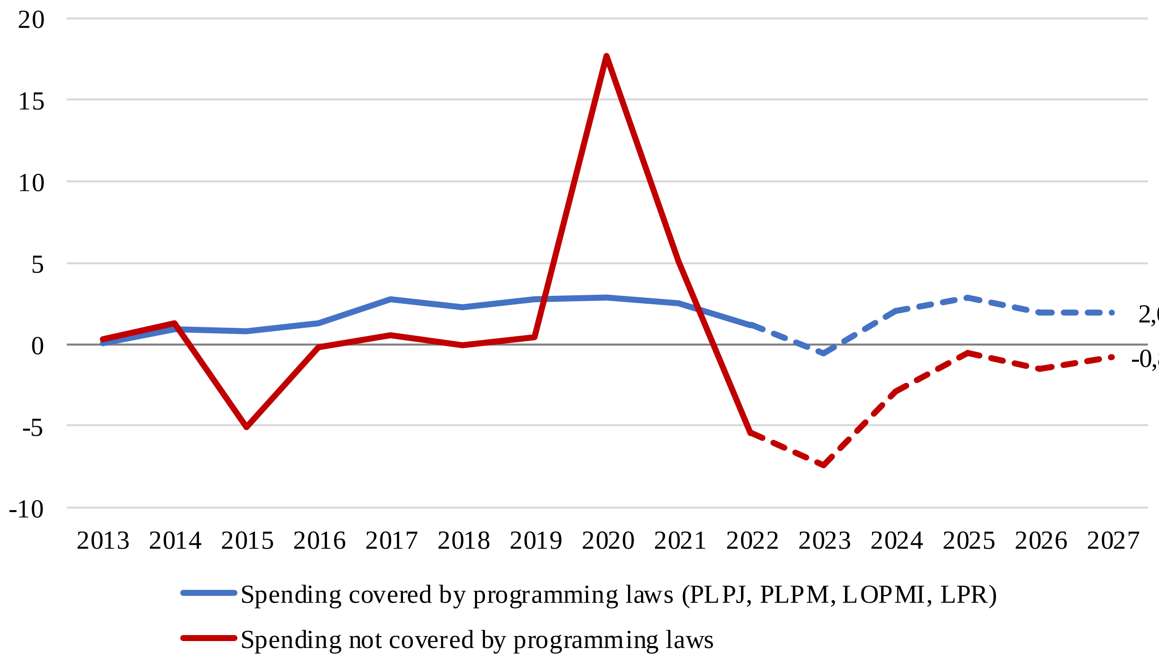
3.1. Structural analyses

To assess the realism of the Government's forecasts, the High Council can rely on analytical work conducted by its Permanent Secretariat.

For instance, to inform Parliament and the public about the constraints imposed on State expenditures by the sectoral programming laws it was examining, the Permanent Secretariat of the High Council developed series of "constant scope" State expenditure data.

Indeed, the increasing number of sectoral programming laws, which typically result in a programmed increase in resources allocated to sector missions, could significantly constrain the expenditures of other budgetary missions to meet the total expenditure target set in the public finances programming laws. While it was straightforward to calculate the amount of credits outside the programming laws necessary to ensure compliance with the credits set in the public finances programming laws, assessing the strength of this constraint required a historical comparison base. Therefore, it was necessary to construct data on State expenditures comparable to the current scope of the concerned expenditures, which did not previously exist and which the Permanent Secretariat then developed. This enabled the High Council to conclude that, once expenditures under sectoral programming laws were deducted, adhering to the expenditure trajectory set by the public finances programming law required a reduction in other State expenditures in volume for the period 2023-2027 compared to their trajectory in the years preceding the health crisis (see Graph 1 below from the opinion of March 30, 2023, regarding the draft orientation and programming law for the Ministry of Justice for 2023-2027).

Graph 1: growth in State expenditure between 2013 and 2027 in volume (Constant scope - 2022 perimeter - in %)



Sources: Budget execution analysis notes (NEB) and State budget reports (RBDE) produced by the Cour des comptes, programming laws, PLPJ, PLPM, PLPFP.
Interpretation: an increase in spending under the programming laws (PLPJ, PLPM, LOPMI, LPR) of 3.7% in value terms is forecast between 2026 and 2027. As a result, expenditure outside the programming laws is expected to increase by 1.0% in value terms in 2027, in order to meet the spending target set in the PLPFP.

Given the importance of potential GDP assessments in carrying out its mandate and the difficulty in evaluating the available estimates for France due to often incomplete documentation, it is useful for the HCFP to have its own evaluation of potential growth and its determinants. Thus, the Permanent Secretariat of the High Council has produced, as part of preparing its opinion on the 2023-2027 programming law, its own assumptions about potential growth[3] based on the following decomposition of its components:

- An annual growth of about 0.8% for "mechanical" potential growth, measured from the production function;
- A positive impact of approximately +0.1% per year from policies aimed at increasing employment growth, such as reductions in social contributions on low wages, specific employment bonuses, etc.;
- An anticipated impact of about +0.15% per year under the assumption of implementing pension reform according to the parameters announced during the election campaign.

It is on the basis of this measure, as well as the forecasts made by various economic actors (see above), that the HCFP, for example, considered in its opinion on the 2024-2027 Stability Programme to deem the Government's value of +1.35% per year for potential growth as advantageous. This was despite the fact that the Government had revised, but only marginally, its assessment of potential GDP, resulting in a production gap that remained negative from 2020 through to 2027. The HCFP highlighted that maintaining a negative production gap over a long period (8 years since 2020) is a situation that is never observed in ex post assessments of the production gap.

3.2. Forecasting Tools for the High Council

Without making its own forecasts, the HCFP uses a number of tools to critically assess those provided by the Government. This is particularly the case for macroeconomic forecasts, especially when previous Government forecasts have proven to be inaccurate. For instance, the significant forecasting error by the Government regarding the wage bill for 2023 led the Permanent Secretariat of the High Council to estimate per capita wage equations, resulting in a prediction of a modest increase in the average real wage in 2024 (see box on page 11 of opinion No. 2024-2 regarding the macroeconomic forecasts associated with the Stability Programme for the years 2024 to 2027).

This is also the case for the compulsory levies forecast. As a matter of fact, few public forecasts of the compulsory levies exist, and even fewer detailed forecasts. Furthermore, the empirical relationship between GDP growth and spontaneous growth of compulsory levies does not provide a reliable basis for assessing a forecasts of levy evolution. In fact, the observed growth in compulsory levies can be significantly higher than economic activity (resulting in an "elasticity" of compulsory levies to growth significantly greater than 1) or, conversely, substantially lower (with an elasticity significantly less than 1).

This is illustrated by the examples from the years 2022 and 2023. In 2022, the elasticity of compulsory levies, initially forecasted at 1.0 in the budget bill for 2022, was revised to 1.5 in June 2022—a value that, prima facie, might have pointed to an optimistic Government forecast. However, it turned out to be still too low, as it eventually reached 1.6. Conversely, in 2023, the elasticity of mandatory levies was forecasted at only 0.6 in the budget bill for 2023, a value significantly below 1, which might have seemed very cautious at first glance. Yet, this value proved to be too high ex post, as it ultimately settled at only 0.4 according to the public finance results published by INSEE in March 2024.

[3] Source : La croissance potentielle à l'horizon de moyen terme, note d'étude HCFP 2022-3 (juillet 2022), available only in Fench.

It is therefore necessary, in order to assess the Government's forecast of mandatory levies, to go into finer detail and examine the forecasts for each levy, starting with those that have the highest amounts. For a number of these levies, the High Council relies on tools that link the spontaneous growth—meaning under constant legislation—of a levy to that of a macroeconomic variable close to its tax base.

As an illustration, let’s take the example of VAT. A first step in the analysis implies adjusting the observed growth rates for the impact of legislative changes in order to construct a theoretical growth trajectory for VAT under constant legislation. Correcting the observed (or forecasted) changes in these measures is essential to align VAT growth with its tax base.

In 2014, for instance, the significant increase in VAT revenue (+6.9%) is entirely due to the implementation of a series of new measures totalling €5 billion (contributing +7.6%): excluding the effect of these measures on the average VAT rate paid by taxpayers, the evolution of VAT revenues was negative during that period. A detailed estimate of the impact of these measure changes in 2014 can be found in the 2016 economic, social, and financial report:

- Increase in certain VAT rates (+€0.4 billion);
- Increase in the normal rate to 20% and the intermediate rate to 10% in the 3rd amending budget bill for 2012 (+€6.2 billion);
- Extension of the 7% VAT rate under certain conditions for housing renovation (-€0.3 billion);
- Application of the standard VAT rate to equestrian centres and pets (+0.1 billion euro);
- Reduction of the VAT rate in social housing (-€0.4 billion);
- Application of the reduced VAT rate to energy performance improvement works for homes over two years old (-€0.6 billion).

The growth of VAT revenues under constant legislation, which results solely from the evolution of the tax base, is thus established by subtracting the impact of legislative changes (-7.6%) from the recorded revenue growth (+6.9%), resulting in -0.7%. By applying the same method for all years when we have evaluations of the impact of new measures related to VAT, we can construct a series of constant legislation VAT growth rates, which can then be linked to macroeconomic data.

The next step is to construct a proxy for the tax base. A working paper from the French Treasury[4] indicates that VAT is levied:

- 61% on household consumption;
- 18% on investment;
- 21% on intermediate consumption (known as residual VAT).

We can therefore construct an approximate growth in the VAT tax base by adding together the weighted growth rates, with these weights, of household consumption, investment and intermediate consumption derived from INSEE's national accounts.

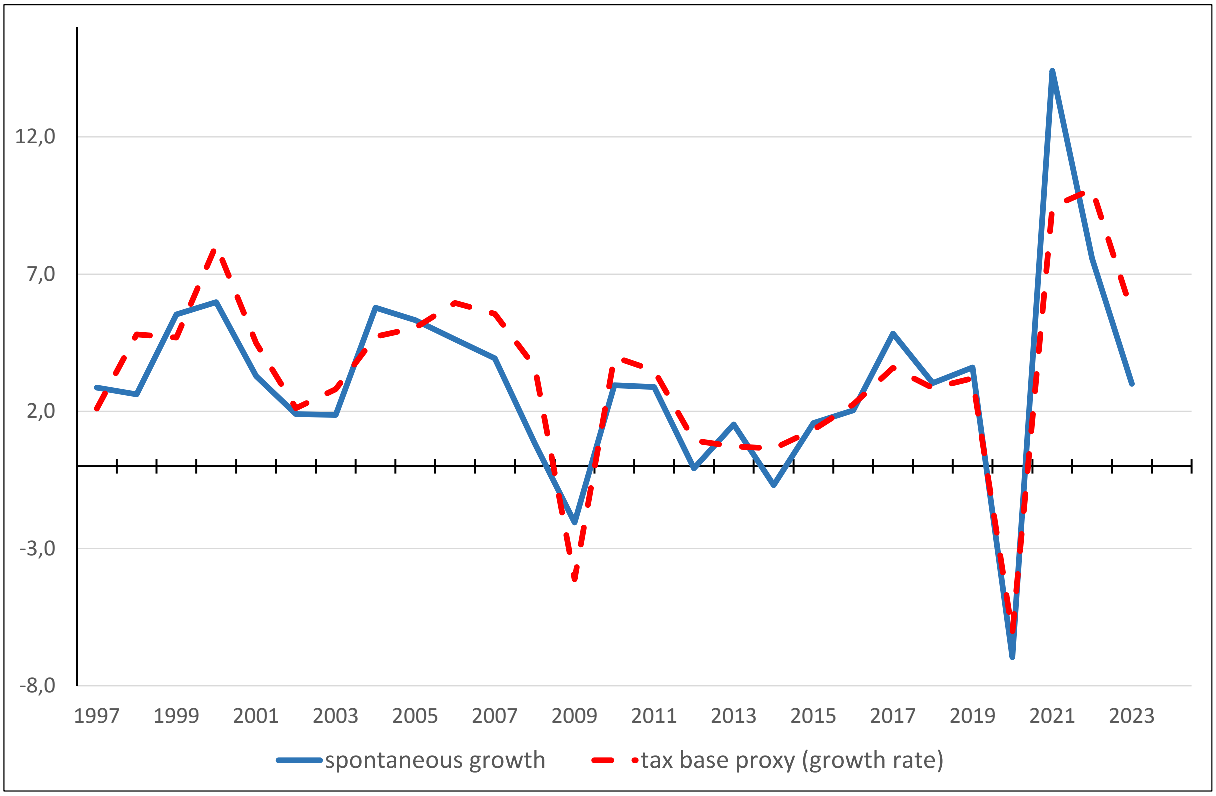
This is only an approximation insofar as all the goods and services measured by the national accounts and which are the subject of the Government's macroeconomic forecasts are not taxed at the same rates, and some are not even taxed at all (such as owner’s equivalent rents or public

[4] Andrivon, J-a, C. Geay et E. Janob : « Le modèle d’estimation de la TVA théorique », Les Cahiers de la DG Trésor – n° 2016-02 – Avril 2016.

investment in R&D carried out by the State or its agencies via their researchers): structural effects are likely to lead to discrepancies between the growth rate of the true tax base and this proxy. Lags in the payment of VAT collected by vendors to the tax authorities are also likely to create differences (even though some of these differences should in theory be corrected in the national accounts, which are on an accruals basis).

However, a comparison between the spontaneous growth rate of VAT and this approximate tax base shows that this approximation is not bad (see Graph 2 below). Moreover, structural effects and shifts in payments to the State are even more difficult to predict than macroeconomic trends, and there is therefore little reason to deviate in forecasting from the growth in the tax base deduced from trends in the major macroeconomic aggregates.

Graph 2: VAT spontaneous growth and its estimated tax base



Source: INSEE, authors computations

The tool thus constructed proves relevant for assessing a forecast for the coming year[5]. It makes it possible to assess whether the VAT forecast presented by the Government is consistent with its macroeconomic forecasts. More specifically, the Government generally provides forecasts for consumption, investment and nominal GDP. Among the data provided by the Government, only intermediate consumption is missing and has to be forecast by the High Council, relying in particular on the Government's existing forecasts.

For past years, intermediate consumption can be linked to the volume growth of GDP and a weighted average of import prices and GDP (with the weight of import prices increasing over

[5] This is less the case when assessing the current year's figures, when cash receipts are known for the first few months of the year and structural effects or variations in payment times have begun to appear.

time and reaching 50% at the end of the period). The Government's forecasts for these variables can therefore be used for the coming year to produce a forecast of intermediate consumption that is consistent with the Government's macroeconomic forecast.

For example, when used in the context of the draft budget bill for 2024, this tool estimated the growth of the VAT tax base at 3.9% based on the Government's forecasts for consumption, investment in nominal terms, GDP in volume and prices, and import prices. This estimate was very close to the one provided by the Government (+3.8%), allowing it to be considered consistent with the Government's macroeconomic scenario. On this basis, the HCFP then estimated in its opinion on the budget bill for 2024 that "the dynamics of VAT (+4.8%) seem[ed] somewhat high compared to the growth of tax jobs anticipated by the Government (+3.8%)."

3.3. Analysis of intrinsic forecast consistency

The High Council focuses on the intrinsic consistency of forecasts. This can be summarised as follows: given the assumptions made about certain structural variables (such as potential growth and the output gap) or about the economic policy outlined in the forecast (budgetary or monetary policy), what macroeconomic outcomes (growth, inflation, etc.) can be expected on the basis of observed economic behaviour in similar circumstances or the results of standard macroeconomic models?

If the Government's forecast differs significantly from these expected outcomes, it raises doubts about the intrinsic consistency of the forecast. This means that certain assumptions, e.g. about the international environment, may be overly optimistic compared with what can be expected from the economic context and other available forecasts, or that certain economic behaviours are predicted to break with recent trends (e.g. a significant fall in the savings rate or gains in export market share).

The High Council regularly examines the consistency of the Government's output gap assumptions and the associated macroeconomic scenario. For example, in its opinion of 13 April 2015 on the macroeconomic forecasts associated with the stability programme for 2015-2018, the High Council noted that the Government's scenario included the assumption of a deeply negative output gap throughout the forecast period (still at -3.2% at the end of the period), indicating unused production capacity and downward pressure on prices and wages. However, the forecast also assumed an acceleration in investment, wages and prices throughout the 2015-2018 period. The Council concluded: "Such a significant and prolonged underutilisation of productive resources is inconsistent with the acceleration in investment, inflation and wages projected in the Government's scenario." Indeed, the Government's estimate of the output gap for this period has since been revised significantly upwards (-0.7% in 2018).

Table 2: forecasts in the 2015-2018 stability programme (growth rate in %)

	2014	2015	2016	2017	2018
Gross fixed capital formation	-1.6	-1.0	1.5	2.3	2.9
Consumer price index	0.5	0.0	1.0	1.4	1.75
Average wage per capita (non-agricultural market sectors)	1.7	1.4	2.1	2.5	2.9

Source: Opinion No. HCFP-2015-01 on the macroeconomic forecasts associated with the draft stability programme for 2015 to 2018, 13th April 2015

Similarly, the High Council regularly examines the consistency of the fiscal policy assumptions included in the Government's scenario. The macroeconomic models used in France, particularly those of the French Treasury[6], suggest that a restrictive fiscal policy has a negative impact on activity, at least in the short term. Using various evaluation techniques,

[6] Cf. for example Daubaire A.,G. Lefebvre et O. Meslin, *La maquette de prévision Opale 2017*, Document de travail n°2017/06 et Bardaj J.i, B. Campagne, M.-B. Khder, Q. Lafféter, O. Simon, A.-S. Dufernez, C. Élezaar, P. Leblanc, E. Masson et H. Partouche, Le modèle macro-économétrique Mésange : réestimation et nouveautés, Document de travail n° 2017/04 mai 2017.

several studies[7] also conclude that a restrictive fiscal policy has a clearly negative effect on activity. When the Government's scenario includes a major budgetary adjustment, growth is therefore expected to be affected and to fall short of potential growth.

Thus, in its opinion on April 16th 2024 on the macroeconomic forecasts associated with the stability programme for the years 2024 to 2027, the High Council noted that the Government announced a very restrictive fiscal policy, marked by a negative fiscal impulse of 2.2 points of GDP, as measured by the change in the structural balance between 2023 and 2027. However, the Government forecasted a gradual improvement in growth, from 0.9% in 2023 to 1.8% in 2027, which would exceed existing estimates of potential growth from 2025.

This observation has led the High Council to consider in its opinion that the Government's forecast 'lacks [...] consistency: the implementation of the planned structural adjustment will necessarily weigh, at least in the short term, on economic activity, so that the Government's high growth forecasts for the period covered by the public finance programming law appear inconsistent with the scale of this adjustment'.

Conclusion

This document describes the High Council's method for carrying out a counter-expertise of the Government's forecasts, as they stand in 2024. This method will, of course, evolve in the future, to improve the methods already used by the High Council or to meet new needs that may arise.

While it is almost impossible, by definition, to anticipate the latter, ways of improving the existing methods can already be suggested. To refine its diagnosis of macroeconomic forecasts, the High Council would benefit from nowcasting tools or very short-term forecasts (of GDP growth and inflation in particular), of the type used by INSEE to produce its short term economic forecasts.

To assess the consistency of forecasts, the High Council could also develop its use of macroeconometric models, enabling it, for example, to estimate the impact of the fiscal policy followed on the macroeconomic scenario or of alternative assumptions (consequences on the scenario of a higher savings rate or a higher oil price, for example).

The existing panoply of 'safeguards' in terms of tax and expenditure forecasts could also be developed in the future, particularly in the light of the feedback that will be available in spring 2025 on the causes of the slippage in the public balance in 2024.

Finally, because the new European budget governance system that came into force in April 2024 has placed debt sustainability analyses at the heart of the European governance, the High Council will have to invest in this area, in particular in order to be able to give an opinion

[7] Cf. for example Blanchard et Leigh (2013), *Growth Forecast Errors and Fiscal Multipliers*, FMI, *Working Paper* no 2013/1.

on the consistency of public budget programming laws with France's European commitments, as provided for in the December 2021 organic law on Finances law[8].

[8] Which in particular defines the High Council mandate.