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Assessment of the 2020 Stability Programme for

France

(Note prepared by DG ECFIN staff)

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EXECUTIVE SUMMARY

- On 6 April 2020, the Commission provided guidelines to the Economic and Financial Committee on how the format and content of the 2020 Stability and Convergence Programmes can be streamlined in light of the exceptional circumstances related to the Covid-19 pandemic. This assessment takes into account the severe constraints that Member States faced in providing the information usually required in their Programmes. The assessment focuses on the near term in light of the high uncertainty attached to the projections.
- After growth of 1.3% of GDP in 2019, economic activity is set to contract sharply in 2020 based on both the Stability Programme and the Commission forecast, dropping by 8% and 8.2%, respectively. For 2021, while the Stability Programme does not provide any quantitative projection, the Commission projects a brisk rebound, with GDP expanding by 7.4%.
- According to the notification, the general government deficit rose to 3.0% of GDP in 2019, which is 0.1% lower than planned by the draft budgetary plan.
- In the Stability Programme, the headline balance is expected to deteriorate sharply in 2020 to reach a deficit of 9.0% of GDP before recovering somewhat in 2021. According to the Commission, France is projected to have a headline deficit of 9.9% of GDP in 2020 and 4.0% of GDP in 2021.
- Deficit-increasing measures adopted to fight the pandemic and to assuage its adverse socio-economic effects amount to 1.9% of GDP according to both the Stability Programme and the Commission forecast. They comprise, among others, extraordinary healthcare expenditure, funding of a broad partial unemployment scheme and subsidies to support SMEs. Liquidity measures and public guarantees aimed to support firms, amount to about 17% of GDP and are assumed to entail no immediate budgetary impact.
- Public debt stood at 98.1% of GDP in 2019. According to the Stability Programme, it is planned to rise to 115.2% of GDP in 2020, whereas the Commission projects the public debt-to-GDP ratio to reach 116.5% of GDP, before declining to 111.9% in 2021.
- The macroeconomic and fiscal outlook are affected by high uncertainty due to the outbreak of the COVID-19 pandemic.

1. INTRODUCTION

This document assesses the short-term budgetary projections contained in the 2020 Stability Programme[1] of France covering only 2020 (hereafter called the Programme) submitted on 30 April 2020.[2] The note also assesses France's compliance with the preventive arm of the Stability and Growth Pact in 2019. The government approved the programme on 15 April 2020 and it was submitted to the Parliament on the same day.

France is currently subject to the preventive arm of the Stability and Growth Pact (SGP). As the debt ratio was at 98.3% of GDP in 2017 (the year in which France corrected its excessive deficit), exceeding the 60% of GDP reference value, France is also subject to transitional arrangements as regards compliance with the debt reduction benchmark during the three years following the correction of the excessive deficit (transitional debt rule). In this period it should ensure sufficient progress towards compliance with the debt reduction benchmark. After the transition period, as of 2021, France is expected to comply with the debt reduction benchmark.

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact. The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn. In its Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the current conditions permit the activation of the clause. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

Following the request by the French government, the High Council of Public Finances (HCFP) issued an opinion recognising that exceptional circumstances apply for triggering the escape clause to suspend budgetary constraints set by the national fiscal rule."

[1] The Stability Programme can also be considered as the national medium-term fiscal plan in line with the requirements of the Two Pack regulation 473/2013.

[2] The Stability Programme contains only short-term budgetary projections. The minimum guidelines for Stability and Convergence Programmes submitted in spring 2020 were set out in the Note for the Alternates of the Economic and Financial Committee of 6 April 2020 on 'Guidelines for a Streamlined Format of the 2020 Stability and Convergence Programmes in light of the Covid-19 Outbreak'

2. MACROECONOMIC DEVELOPMENTS

France is deeply impacted by the COVID-19 outbreak. To contain it, the government introduced generalised lockdown measures and border controls on March 17th. Those measures started being gradually relaxed as of May 11th, after almost 8 weeks.

The Stability Programme acknowledges upfront the exceptionally high uncertainty underlining the forecast scenario presented, linked to the evolution of the pandemic and the response measures undertaken. GDP growth in France decelerated to 1.3% in 2019, after 1.7% in 2018. According to the Stability Programme, GDP is set to contract by 8% in 2020. Although not quantified, a strong rebound of economic activity is expected in 2021, which would be sustained by the exceptional fiscal measures adopted to support households' disposable income and firms' liquidity. This scenario is close to the one presented in the Commission spring 2020 forecast (hereafter Commission forecast), which projects a contraction slightly above 8% in 2020, before a rebound of around 7½% in 2021. According to the Commission forecast, private consumption is projected to sink in the first half of 2020 and to recover only gradually afterwards. Investment would follow a similar path, where non-residential investment is expected to suffer from the decrease in economic activity and the high associated uncertainty. In line with tumbling external demand, exports are projected to plunge in 2020. Due to the expected fall in final demand, imports would also dwindle briskly in 2020.

Table 1: Comparison of macroeconomic developments and forecasts

	2019		2020		2021		2022	2023
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	1.3	1.3	-8.2	-8.0	7.4	n.a.	n.a.	n.a.
Private consumption (% change)	1.2	1.2	-9.3	-10.0	8.9	n.a.	n.a.	n.a.
Gross fixed capital formation (% change)	3.6	3.6	-13.3	-11.0	14.0	n.a.	n.a.	n.a.
Exports of goods and services (% change)	2.0	1.9	-12.0	-12.9	8.8	n.a.	n.a.	n.a.
Imports of goods and services (% change)	2.2	2.2	-11.8	-13.4	10.6	n.a.	n.a.	n.a.
Contributions to real GDP growth:								
- Final domestic demand	1.8	1.8	-7.4	-7.3	7.7	n.a.	n.a.	n.a.
- Change in inventories	-0.4	-0.4	-0.8	-1.0	0.2	n.a.	n.a.	n.a.
- Net exports	-0.1	-0.1	0.0	0.2	-0.5	n.a.	n.a.	n.a.
Output gap[1]	1.1	1.3	-7.9	-7.5	-2.3	n.a.	n.a.	n.a.
Employment (% change)	1.2	n.a.	-1.2	n.a.	1.0	n.a.	n.a.	n.a.
Unemployment rate (%)	8.5	n.a.	10.1	n.a.	9.7	n.a.	n.a.	n.a.
Labour productivity (% change)	0.1	n.a.	0.9	n.a.	-2.3	n.a.	n.a.	n.a.
HICP inflation (%)	1.3	1.3	0.4	0.6	0.9	n.a.	n.a.	n.a.
GDP deflator (% change)	1.5	1.5	1.3	1.4	0.9	n.a.	n.a.	n.a.
Comp. of employees (per head, % change)	0.2	n.a.	6.0	n.a.	-6.0	n.a.	n.a.	n.a.
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	0.2	n.a.	0.2	n.a.	0.3	n.a.	n.a.	n.a.

Note:

[1]In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :

Commission 2020 spring forecast (COM); Stability Programme (SP).

According to the Commission forecast, economic activity is estimated to have decreased by around one-third during the lockdown period, with a highly heterogeneous impact among sectors. The outbreak is expected to have a limited impact on agriculture, food industries, insurance and real estate. In contrast, other sectors like construction or manufacturing were significantly hit but are expected to recover relatively quickly after overcoming workforce unavailability and value chain disruptions. At the same time, tourism-related activities and transport equipment are expected to undergo considerable and longer-lasting damages, even after the lockdown period.

Based on the 2020 Stability Programme, the recalculated output gap[3] would sharply contract in 2020, after having turned increasingly positive between 2017 and 2019. In the absence of quantitative projections in the Stability Programme, the estimation is not possible for 2021. Overall, the 2020 Stability Programme relies on plausible

[3] The output gaps as recalculated by Commission based on the information in the programme, following the commonly agreed methodology

macroeconomic assumptions. In its opinion of 14 April[4], the HCFP considers the government's projections for 2020 to be coherent with available estimates of the impact of the lockdown measures. The HCFP also highlights the exceptionally high uncertainty underlying those projections, necessarily impacting the government public finances forecasts.

3. Recent and planned budgetary developments

3.1. Deficit developments and Medium-term strategy and targets[5]

In 2019, the general government deficit reached 3.0% of GDP. This outturn is lower by 0.1 percentage point compared to the headline deficit planned in the Draft Budgetary Plan for 2020. The better-than-expected budget outcome is the result of more dynamic than expected revenues, with an overall elasticity above unity. Despite this, the structural balance registered no improvement due to the severe economic downturn provoked by the COVID-19 outbreak that brought about a downward estimation of potential growth and deteriorated the estimated structural balances for 2018 and 2019.

The government plans a sizeable increase in the headline deficit, up to 9.0% of GDP in 2020. This is due to the unprecedented economic downturn brought about by the COVID-19 outbreak and to the deficit-increasing fiscal measures, by 1.9% of GDP, undertaken to mitigate its effects (section 3.3). These measures are assumed to only entail a temporary impact in 2020. The revenue-to-GDP ratio is projected to increase slightly, whereas the expenditure-to-GDP ratio is expected to rise by more than 7 percentage points with respect to 2019.

The Commission forecast confirm the strong impact of the COVID-19 outbreak on public finances and projects an even higher headline deficit, of 9.9% of GDP, in 2020.

While the two sets of projections show similar increases in revenue-to-GDP ratios, the Commission projects a stronger implicit cyclical reaction of expenditure (mainly social benefits). The Stability Programme, however, does not provide detailed projections of individual revenue and expenditure categories to allow for a fully fledged comparison. The deterioration in the structural balance estimated by Commission, as opposed to the neutral fiscal stance based on data in the Programme, is mainly due to the fact that the latter considers the measures adopted to offset the effects of the COVID-19 as one-offs.

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[4] Haut Conseil des Finances Publiques (2020), Avis nº HCFP-2020-2 relatif aux prévisions macroéconomiques associées au programme de stabilité pour l'année 2020 et au deuxième projet de loi de finances rectificative pour 2020.

[5] In light of the activation of the general escape clause, the measures taken in response to the coronavirus outbreak in 2020 are not treated as one-off and are thus not excluded from the estimation of the structural budget balance.

France does not explicitly report the medium-term budgetary objective (MTO) in its 2020 Stability Programme. However, the programming law of public finances 2018-2022 of 23 January 2018 set the MTO at a structural deficit of 0.4% of GDP, which reflects the objectives of the Pact. The MTO is not planned to be achieved.

The Stability Programme only provides qualitative information about 2021, without specifying any numerical targets. In turn, the Commission forecast projects the general government deficit to decline to 4.0% of GDP, due to the projected cyclical improvement and the reversion of measures adopted in 2020 in response to the COVID-19 outbreak.

According to the Stability Programme, public debt is set to rise from 98.1% of GDP in 2019 to 115.2% of GDP in 2020. In the Commission forecast public debt is projected to reach 116.5% of GDP in 2020, before declining to almost 112% in 2021.

Table 2: General government budgetary position

(% of GDP)	2019	2020		2021		2022	2023	Change: 2019-2023
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**52.6**	**52.9**	**52.9**	**53.1**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
of which:								
- Taxes on production and imports	16.8	16.5	n.a.	16.9	n.a.	n.a.	n.a.	**n.a.**
- Current taxes on income, wealth, etc.	13.1	12.5	n.a.	13.2	n.a.	n.a.	n.a.	**n.a.**
- Social contributions	16.8	17.5	n.a.	16.6	n.a.	n.a.	n.a.	**n.a.**
- Other (residual)	5.8	6.5	n.a.	6.4	n.a.	n.a.	n.a.	**n.a.**
Expenditure	**55.6**	**62.7**	**61.9**	**57.1**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
of which:								
- Primary expenditure	54.1	61.3	n.a.	55.8	n.a.	n.a.	n.a.	**n.a.**
of which:								
Compensation of employees+Intermediate consumption								
Compensation of employees	12.3	13.5	n.a.	12.5	n.a.	n.a.	n.a.	**n.a.**
Intermediate consumption	5.0	5.6	n.a.	5.2	n.a.	n.a.	n.a.	**n.a.**
Social payments	25.4	30.2	n.a.	27.1	n.a.	n.a.	n.a.	**n.a.**
Subsidies	2.8	2.4	n.a.	2.0	n.a.	n.a.	n.a.	**n.a.**
Gross fixed capital formation	3.6	4.0	n.a.	3.7	n.a.	n.a.	n.a.	**n.a.**
Other (residual)	5.1	5.7	n.a.	5.3	n.a.	n.a.	n.a.	**n.a.**
- Interest expenditure	1.4	1.4	n.a.	1.3	n.a.	n.a.	n.a.	**n.a.**
General government balance (GGB)	**-3.0**	**-9.9**	**-9.0**	**-4.0**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Primary balance	**-1.6**	**-8.4**	**n.a.**	**-2.7**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
One-off and other temporary measures	-0.9	-0.2	-1.7	-0.1	n.a.	n.a.	n.a.	**n.a.**
GGB excl. one-offs	**-2.1**	**-9.7**	**-7.3**	**-3.9**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Output gap[1]	1.1	-7.9	-7.5	-2.3	n.a.	n.a.	n.a.	**n.a.**
Cyclically-adjusted balance[1]	-3.7	-4.9	-4.5	-2.6	n.a.	n.a.	n.a.	**n.a.**
Structural balance[2]	**-2.8**	**-4.7**	**-2.8**	**-2.5**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Structural primary balance[2]	-1.4	-3.3	n.a.	-1.2	n.a.	n.a.	n.a.	**n.a.**
Gross debt ratio	**98.1**	**116.5**	**115.2**	**111.9**	**n.a.**	**n.a.**	**n.a.**	**n.a.**

Notes:

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source :

Stability Programme (SP); Commission 2020 spring forecasts (COM); Commission calculations.

3.2. MEASURES UNDERPINNING THE PROGRAMME

The Stability Programme focuses on the policy response undertaken in the context of the COVID-19 outbreak. Thus, it only presents the ad-hoc measures taken in 2020 to limit the socio-economic effects of the pandemic. These measures are assumed to be temporary and to revert or end in 2021. Overall, they comprise a package of around EUR 110 billion (about 5% of GDP), of which EUR 42 billion (1.9% of GDP) correspond to expenditure measures with a direct budgetary impact in 2020 and EUR 69 billion (3.1% of GDP) relate to liquidity measures adopted to support enterprises through various channels. The response package is completed by the deployment of public guarantee schemes aimed to support credit to firms that amounts to EUR 315 billion (about 14% of GDP).

Measures with direct, deficit-increasing impact include: additional healthcare expenditure for EUR 8 billion (0.4% of GDP), addressed to cover expenses for medical equipment, daily allowances by health insurance and exceptional compensation of healthcare personnel; EUR 24 billion (1.1% of GDP) transfers to fund a broadened partial unemployment scheme, covering 100% of the compensation due by companies to employees; the creation of a solidarity fund of EUR 7 billion (0.3% of GDP) to provide lump sum compensation to small and very small enterprises as well as self-employed facing a sharp decline in turnover; the creation of an emergency fund of EUR 2.5 billion (0.1% of GDP) covering unforeseen expenditure and exceptional solidarity aid to the most vulnerable households (about EUR 0.9 billion).

Main liquidity measures, with no direct budgetary impact and addressed to help overcome firms' liquidity constraints include: deferral over three months of social and fiscal charges for EUR 25.5 billion (1.1% of GDP); accelerated refund of tax credits and VAT credit claims for EUR 23 billion (1.0% of GDP); the creation of an exceptional intervention tool, worth EUR 20 billion (0.9% of GDP), for equity investment in, or nationalisations of companies undergoing financial difficulties.

All the measures are presented in sufficient detail in the Stability Programme and thus included in the Commission forecast, with no difference in their assessment. All the COVID-19 related measures are treated in the Stability Programme as one-offs. The measures taken by France are in line with the guidelines set out in the Commission Communication on a coordinated economic response to the COVID-19 outbreak. [6] Overall the measures appear timely, temporary and targeted at cushioning the shock induced by COVID-19. The full implementation of those measures, followed by a refocusing of fiscal policies towards achieving prudent medium term fiscal positions when economic conditions allow, will contribute to preserving fiscal sustainability in the medium term. Currently available information shows a high uptake of the policy measures presented in the Stability Programme.

In its opinion of 14 April, the High Council of Public Finances (HCFP) recalls how the high uncertainty underlying the macroeconomic scenario negatively weighs on the fiscal outlook from both the revenue and the expenditure side, including the ultimate impact of the measures presented in the Stability Programme.

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[6] https://ec.europa.eu/info/sites/info/files/communication-coordinated-economic-response-covid19-march-2020_en.pdf

Table 3: Discretionary measures adopted/announced in response to COVID-19 outbreak

List of measures	Description	ESA Code (Expenditure / Revenue component)	Adoption Status	Budgetary impact (% of GDP - change from previous year)		
					2020	2021
1	Transfers to partial unemployment scheme	D.62 (expenditure)	adopted		1.1	
2	Exception healthcare expenditure	P.2, D.1, D.62, D.632 (expenditure)	adopted		0.4	
3	Solidarity fund for SMEs and self-employed	D.39 (expenditure)	adopted		0.3	
4	Emergency expenditure fund	D.62 (expenditure)	adopted		0.1	
5	Tax and social charges deferral	D.5 (revenue)	adopted		0	
6	Accelerated refund of tax and VAT credits	D.39 (expenditure)	adopted		0	
7	Direct support to companies in difficulty		adopted		0	
				Total	**1.9**	

Table 4: Guarantees adopted/announced in response to COVID-19 outbreak

List of measures	Description	Adoption Status	Maximum amount of contingent liability* (% of GDP)	
1	State guarantee scheme on portfolio loans	adopted		13.3
2	Public reinsurance on outstanding credit insurance	adopted		0.4
3	Public reinsurance on short-term export credit	adopted		0.2
			Total	**14.0**

* Any possible budgetary impact related to the call of those guarantees should be provided in Table 3

3.3. DEBT DEVELOPMENTS

In 2019, the public debt ratio remained stable at 98.1% of GDP. In particular, the debt-increasing effect stemming from the headline primary deficit and interest expenditure was offset by real GDP growth and the increase in the GDP deflator, both through the denominator effect, and by the slight debt-reducing impact of stock-flow adjustments.

The debt projection in the Stability Programme for 2020 differs slightly from that of the Commission. In the Stability Programme, the public debt-to-GDP ratio is planned to rise by 17.1 percentage points, to reach 115.2% of GDP. In turn, the Commission projects the debt ratio to increase by 18.4 percentage points, reaching 116.5% of GDP. The main difference between the two sets of projections mostly stems from the lower primary deficit planned by the French authorities.

In Commission's projections for 2020, the snowball effect will entail a sizeable debt-increasing impact with respect to 2019, driven by the considerable contraction in nominal GDP. Likewise, the primary deficit will add almost 8½ additional percentage points to the debt ratio, following the polixcy measures adopted to counter the impact of the COVID-19 pandemic. The stock-flow adjustments will also contribute to increasing the debt ratio, mainly as a result of the EUR 20 billion fund deployed to provide capital injections and loans to strategic corporations.

For 2021, the Stability Programme only reports qualitative information about an expected reduction of general government deficit and debt. In turn, the Commission 2020 spring forecast projects the debt ratio to dwindle by some 4½ percentage points to 111.9% of GDP. The lower debt-increasing effects from the primary deficit and the stock-flow adjustments are set to be largely offset by the projected brisk economic rebound in the aftermath of the pandemic.

Table 5: Debt developments

(% of GDP)	Average 2014-2018	2019	2020		2021		2022	2023
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**97.0**	**98.1**	**116.5**	**115.2**	**111.9**	**n.a.**	**n.a.**	**n.a.**
Change in the ratio	0.9	0.0	18.4	17.1	-4.6	n.a.	n.a.	n.a.
Contributions[2]:								
1. Primary balance	**1.4**	**1.6**	**8.4**	**n.a.**	**2.7**	**n.a.**	**n.a.**	**n.a.**
2. "Snow-ball" effect	**-0.2**	**-1.2**	**8.8**	**n.a.**	**-7.7**	**n.a.**	**n.a.**	**n.a.**
Of which:								
Interest expenditure	1.9	1.4	1.4	n.a.	1.3	n.a.	n.a.	n.a.
Growth effect	-1.3	-1.3	8.7	8.4	-8.0	n.a.	n.a.	n.a.
Inflation effect	-0.7	-1.4	-1.4	-1.5	-1.0	n.a.	n.a.	n.a.
3. Stock-flow adjustment	**-0.3**	**-0.3**	**1.1**	**1.1**	**0.4**	**n.a.**	**n.a.**	**n.a.**

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source :

Commission 2020 spring forecast (COM); Stability Programme (SP), Commission calculations.

3.4. RISK ASSESSMENT

Overall, the risks underlying the short term budgetary plans for 2020 in the Stability Programme are tilted to the downside. While the expected macroeconomic contraction is broadly similar in the Stability Programme and in the Commission 2020 spring forecast, the former expects a lower impact on public finances as it relies on a lower implicit semi-elasticity of the budget balance than that used in Commission's cyclical analysis of public finances.

The macroeconomic and fiscal outlook are affected by high uncertainty due to the outbreak of the COVID-19 pandemic. The pandemic could become more severe and last longer than assumed, requiring more stringent and longer lasting containment measures. This would result in worse economic and fiscal outcomes. It could also

require further fiscal policy measures. That would result in worse fiscal outcomes but help to mitigate the economic impact. An additional risk stems from the considerable size of public guarantees issued in response to the crisis.

4. Compliance with the provisions of the Stability and Growth Pact

4.1. Compliance with the deficit criterion

According to the Stability Programme, France's general government deficit is expected to reach 9.0% of GDP in 2020, thereby exceeding the Treaty reference value of 3% of GDP. This provides prima facie evidence of the existence of an excessive deficit in France for the purposes of the Treaty and the Stability and Growth Pact. The Commission has therefore prepared a report under Article 126(3) TFEU analysing whether or not France is compliant with the deficit criterion of the Treaty. Overall, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.

4.2. Compliance with the debt criterion

France's general government gross debt stood at 98.1% of GDP at the end of 2019, above the 60% of GDP Treaty reference value. According to the notified data, France did not make sufficient progress towards compliance with the debt reduction benchmark in 2019, as the gap to the minimum linear structural adjustment (MLSA) is 2.0% of GDP. This provides evidence that there appears to be prima facie a risk of the existence of an excessive deficit in France in the sense of the Treaty and the Stability and Growth Pact. The Commission has therefore prepared a report under Article 126(3) TFEU analysing whether or not France is compliant with the debt criterion of the Treaty. Overall, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.

Based on the plans in the Stability Programme, compliance with the minimum linear structural adjustment (MLSA) cannot be assessed in 2020. In turn, according to the Commission 2020 spring forecast, the change in the structural balance is set to fall short of the required improvement under the minimum linear structural adjustment (MLSA), with a gap of 5.8%. Hence, France is not projected to make sufficient progress towards compliance with the debt reduction benchmark in 2020. However, the effort as measured by the structural balance is heavily impacted by the policy measures taken as a temporary response to the COVID-19 pandemic in 2020.

For 2021, France would not comply with the debt reduction benchmark by a gap of 2.8% of GDP, based on the Commission forecast.

4.3. Compliance with the MTO or the required adjustment path towards the MTO in 2019[7]

On 13 July 2018, France was recommended to ensure that the nominal growth rate of net primary government expenditure does not exceed 1.4% in 2019 ('the expenditure benchmark'), corresponding to a structural adjustment of 0.6% of GDP.

Based on outturn data for 2019 and the Commission forecast, the growth of primary government expenditure, net of discretionary revenue measures and one-offs, exceeded that benchmark. This led to a deviation of 1.0% of GDP in the underlying fiscal position, thus pointing to a significant devation from the recommended adjustment path towards the MTO in 2019. In turn, the structural balance registered no improvement in 2019[8], thus also pointing to a significant deviation by 0.6% of GDP from the recommended structural adjustment of 0.6% of GDP towards the MTO in 2019. The overall assessment points to a significant deviation from the recommended adjustment path towards the MTO in 2019. When 2018-2019 are taken together, the two pillars confirm the significant deviation from the recommended adjustment path towards the MTO, with gaps of 0.7% and 0.5% of GDP, respectively.

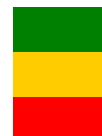
[7] The possible retroactive impact on output gap estimates as a result of the recession induced by the COVID-19 outbreak and the possibility of abnormal responses of government revenues to major swings in economic activity underline that compared to the structural balance the expenditure benchmark is likely to provide a more reliable and predictable indicator in times of severe economic downturn.

[8] Outturn data for the headline deficit in 2019 was lower by 0.1% of GDP than in the Commission 2019 autumn forecast, when the structural adjustment was projected to be 0.0%. Despite the lower outturn for the deficit in 2019, the structural adjustment remains at 0.0% of GDP due to the combination of the downward revision of potential growth brought about by the severe economic downturn provoked by the COVID-19 outbreak, and a revision of the series of the one-off measures in 2017 and 2018.

Table 6: Compliance with the requirements under the preventive arm

	(% of GDP)	2019	2020		2021	
	Background budgetary indicators[1]					
(1)	Medium-term objective (MTO)	-0.4	-0.4		-0.4	
(2)	Structural balance[2] (COM)	-2.8	-4.7		-2.5	
	Setting the required adjustment to the MTO					
(3)	Structural balance based on freezing (COM)	-2.6				
(4) = (1) - (3)	Position vis-a -vis the MTO[3]	Not at MTO				
(5)	Required adjustment[4]	0.6				
(6)	Required adjustment corrected[5]	0.6				
(8)	Corresponding expenditure benchmark[6]	1.4				
	Compliance with the required adjustment to the MTO					
		COM	**COM**	**SP**	**COM**	**SP**
	Structural balance pillar					
(8) = Δ (2)	Change in structural balance[7]	0.0				
(9) = (8) - (6)	*One-year deviation from the required adjustment*[8]	-0.6				
	Two-year average deviation from the required adjustment[8]	-0.5				
	Expenditure benchmark pillar					
(10)	Net public expenditure annual growth corrected for one-offs[9]	3.4				
(11) = (10) - (8)	One-year deviation adjusted for one-offs[10]	-1.0				
	Two-year deviation adjusted for one-offs[10]	-0.7				
	Finding of the overall assessment	**Significant deviation**				
	Compliance with the debt criterion					
	Transition period					
	Required structural adjustment (MLSA)[11]	1.9	3.9	n.a.	n.a.	n.a.
	Structural adjustment[12]	0.0	-1.9	0.0	2.2	n.a.
	After transition period					
	Gap to the debt benchmark [13,14]	n.r.	n.r.	n.r.	2.8	n.a.

Legend



'*Compliance*' - the recommended structural adjustment or a higher adjustment is being observed.

'*Some deviation*' - a deviation from the recommended structural adjustment is being observed, but it is below the threshold for a significant deviation.

'*Significant deviation*' - a deviation which has reached or breached the threshold for a significant deviation (i.e. 0.5% of GDP over one year, 0.25% of GDP over two years on average).

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 38.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[7] Change in the structural balance compared to year t-1. Ex post assessment (for 2019) is carried out on the basis of Commission 2020 spring forecast.

[8] The difference of the change in the structural balance and the corrected required adjustment.

[9] Net public expenditure annual growth (in %) corrected for discretionary revenue measures, revenue measures mandated by law and one-offs (nominal)

[10] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

[11] Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (S/CP) budgetary projections for the previous years are achieved.

[12] Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[13] Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[14] Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

Source :

Stability Programme (SP); Commission 2020 spring forecast (COM); Commission calculations.