RÉPUBLIQUE FRANÇAISE

2023

DRAFT BUDGETARY PLAN

Economic and fiscal outlook

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Economic policy strategy

The reforms introduced by the French government during the last presidential term are paying off, driving an unprecedented momentum in the labour market and putting an end to two decades of dwindling competitiveness for French companies.

The COVID-19 crisis, along with the Russian offensive of Ukraine and its impact on energy prices, have shed light on – and even exacerbated – the structural challenges faced by the French economy. We need to address the challenges of the green and digital transition now more than ever, at a time when public debt is high and inflation is reaching levels that our economies have not experienced for several decades. The government's resolute action must be continued, using a renewed approach involving consultations (see Box 1).

Box 1: National Council for Refoundation

The government's actions will revolve around four pillars, broken down into 60 priority policies to ensure (i) an increased pace for the green transition; (ii) full employment; (iii) the sovereignty of the French economy and (iv) equal opportunities. In methodological terms, the government will apply an approach based at all times on transparency and dialogue, seeking compromises and effectiveness. Starting in September, consultations have taken place, region by region, to develop appropriate solutions, particularly in education, healthcare and the green transition. The entire political, economic, social and non-profit landscape takes part in this discussion as participants of the National Council for Refoundation (CNR).

*The CNR was created on 8 September 2022 by President Macron in Marcoussis, and constitutes a new approach to public action. Plenary sessions of the CNR bring together the leading trade unions and employer associations, elected official associations, political party representatives, representatives from the non-profit sector and other representatives from organised civil society. Topic-centred CNRs (*CNR thématiques*) are tasked with developing national action strategies by involving various stakeholders (such as ministries, economic players, local government and the non-profit network) while regional CNRs (*CNR territoriaux*) act as forums for discussing and co-building projects that work to improve everyday life (schools, health service areas, employment catchment areas etc.). CNR's goal is to develop a joint analysis, share limitations, and agree on a methodology and a timeline. The CNR acts upstream of legislative work in order to open up areas of consensus on major issues, and downstream thereof in its implementation.*

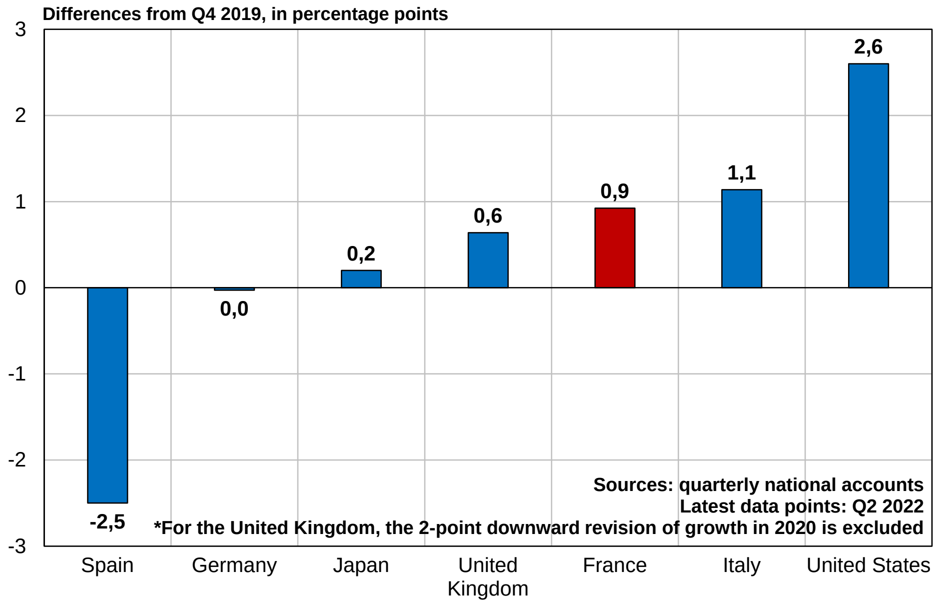
Macroeconomic outlook overshadowed by the Russian invasion of Ukraine and its consequences

The French economy has proven its resilience to the successive blows of the COVID-19 crisis and the war in Ukraine. After economic activity fell 7.8% in 2020 at the height of the COVID-19 pandemic, it sharply bounced back in 2021 with 6.8% growth, returning to and subsequently surpassing its pre-crisis level in summer 2021 at a quicker pace than our main European partners (see Chart 1). This strong rebound is the result of effective measures taken by the government to safeguard the economy, such as emergency measures of an unprecedented scale and the swift roll-out of the *France Relance* plan followed by the *France 2030* plan.

The Russian offensive of Ukraine and its consequences have overshadowed the global economic recovery outlook amid high inflation levels. The sharp economic recovery in 2021 led to supply chain pressures and commodity price hikes. These pressures are gradually easing, but have fuelled inflation. More generally, increasing uncertainty is adversely impacting consumption and household and corporate investment, even if corporate investment was still robust in first-half 2022.

The French economy offers resilience factors. France's energy dependence on Russia is below the average of other European countries. France's very low-carbon energy mix is an asset: fossil fuels represent less than 9% of power generation compared to nearly 40% for EU countries on average. In 2022, economic growth is therefore expected to remain strong, reaching 2.7%.

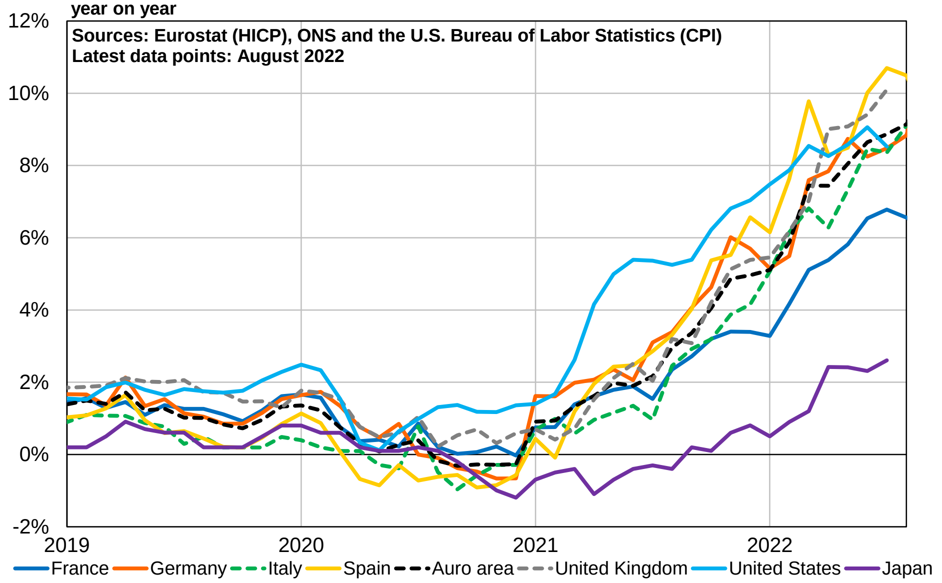
Chart 1: Difference in GDP level from Q4 2019 (in real terms)



France has the lowest level of inflation in Europe, thanks to governmental measures aimed at safeguarding the purchasing power of households and controlling costs for businesses (see Chart 2). The cap on electricity and gas price increases for households (*bouclier tarifaire*), fuel price discounts and aid granted to gas- and electricity-intensive businesses have held down inflation in France. The price cap and fuel rebate have contained inflation (in CPI terms) by more than 3 percentage points between the average levels of Q2 2021 and Q2 2022.[1]

[1] A. Bourgeois, R. Lafrogne-Joussier, *La flambée des prix de l'énergie : un effet sur l'inflation réduit de moitié par le « bouclier tarifaire »*, Insee Analyses, n°75, September 2022 (only in French).

Chart 2: Increase in the Consumer Price Index in the main advanced economies



A large-scale government support to protect the manufacturing base and households

To cope with the COVID-19 pandemic and the subsequent economic crisis, France decided to provide quick large-scale fiscal stimulus to protect the economy and long-term activity potential. As a result, the general government deficit rose to 9.0% of GDP in 2020, a reflection of both decreasing activity levels and the impact on the general government balance of emergency support measures introduced to deal with the COVID-19 and economic crises for a total amount of €71 billion.

With the upturn in economic activity in 2021, the general government deficit shrank to 6.5% of the GDP. The emergency support measures remained substantial (€62 billion) against the backdrop of an ongoing difficult public health situation, and the measures of the *France Relance* recovery plan were swiftly introduced (€33 billion, of which €10 billion relating to cuts in taxes on production). The progressive cuts in taxes for households and companies that were decided prior to the COVID-19 crisis (corporate income tax and residence tax on primary residences) were also carried through. Lastly, to address increased pressure on prices in autumn, the government stepped up its support for purchasing power with the introduction of a one-off "energy cheque", an inflation benefit of €100 for 38 million people and a price cap on electricity and gas. In 2021, the overall cost of these measures totalled approximately €5 billion.

Amid the deteriorating international environment in early 2022, the government implemented several programmes to curb the rising energy prices, safeguard the purchasing power of households and support business. The overall cost of these measures in 2022 is expected to stand at €49 billion (including a reduction in domestic consumption tax on electricity for end-users – TICFE), but their impact on the general government balance should be partly offset by savings made on the public-service energy obligations.[2] The civil service pay raise of 3.5% on 1 July 2022 also contributed to these costs, with an expected negative impact of €3.7 billion on the general government balance in 2022. Emergency support expenditure is also being phased out in 2022 and is expected to almost solely include healthcare expenditure directly relating to the COVID-19 crisis (€11.5 billion out of the remaining €16 billion). The *France Relance* plan is estimated to add a total €65 billion to the general government deficit in the 2020-2022 period, and is partially funded by the European Union. As for taxes and social security contributions, in addition to the considerable reduction in TICFE introduced as part of the cap on energy price increases, the purchasing power of French households is buoyed by the elimination of the public broadcast licence fee (€3.2 billion) and by the cuts in taxes and social security contributions for households and businesses decided prior to the COVID-19 crisis (in particular, the completion of the corporate income tax cut and the continued phasing out of the residence tax on primary residences). The general government deficit, in a sharp turnaround from 2021, is estimated to be 5.0% of GDP in 2022.

1. **In this uncertain macroeconomic environment, the government continues its efforts to tackle the major structural challenges faced by the French economy.**

Efforts to cut greenhouse gas emissions must be stepped up to ensure our green transition commitments are honoured.

To address the climate crisis, France intends to keep its position as a leading proponent of the green transition on the EU and international stage, and has made the green and energy transition a priority for government action. This initiative falls under the National Low-Carbon Strategy (SNBC) and the Multiannual Energy Plan (PPE). The current strategy envisages carbon neutrality[3] by 2050 and a minimum 40% drop in gross emissions versus 1990 levels by 2030, a target that will need to be significantly raised given that the goal set by the EU's Fit for 55 package is approximately 50%. This target will be incorporated into the next Energy and Climate Planning Act. Measures adopted during the last presidential term will be enacted across all sectors of society and the economy (e.g. Energy and Climate Act, railway network, mobility, housing, climate and resilience) and the pace of decarbonisation efforts will pick up to be in step with our commitments.

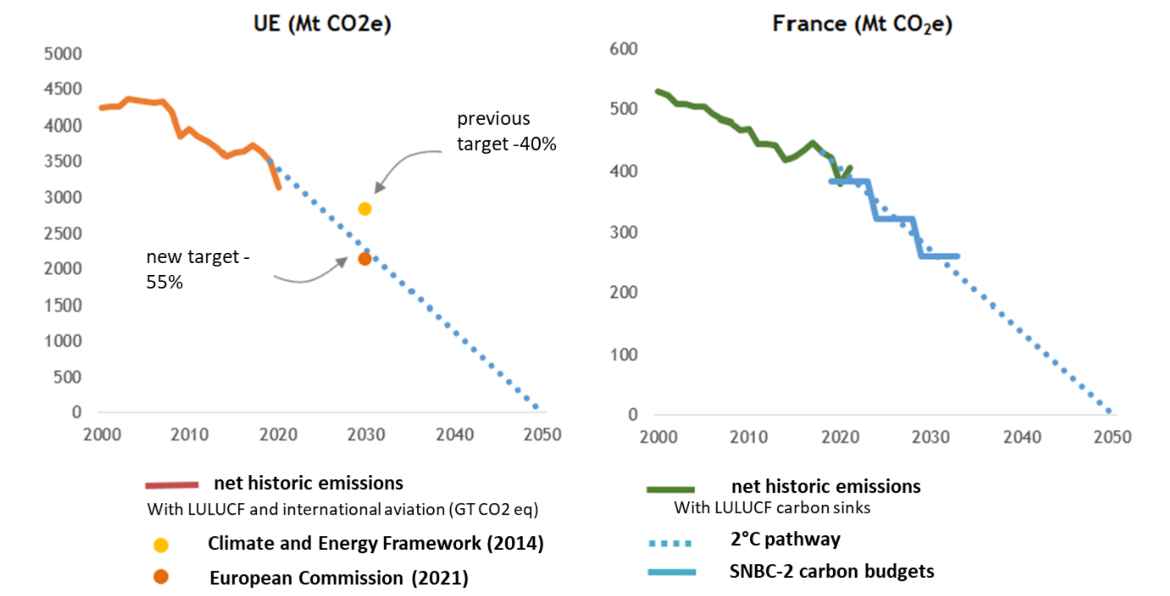
Recent GHG emission trends are encouraging in relation to France's compliance with its commitments, but the pace of emission cuts must increase. GHG emissions have been falling since 2018, with a 4.1% drop in 2018, a 1.9% decrease in 2019 and down 9.4% in 2020 (see Chart 3). GHG emissions experienced an upturn in 2021, but they remained below pre-crisis levels (down 3.8% in 2021 on 2019), including for the first time ever in the transport and agriculture sectors. The industrial sector has considerably reduced its carbon footprint (down 45% in 2021 versus

[2] Public-service energy obligations (CPSE) relate to subsidies granted for the development of renewable electricity and gas sources and take the form of purchasing obligations and top-up payments. In both cases, the government makes up for the difference between the price of the aid and the market price of electricity and gas. The sharp increase in energy market prices since autumn 2021 has significantly cut the costs of the government aid required for renewable energy development, and even resulted in producers making payments to the government.

[3] Defined by the Energy and Climate Act as "a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases" across France, as mentioned in Article 4 of the Paris Agreement ratified on 5 October 2016""

1990[4]), driven in particular by incentives under the EU Emissions Trading System (ETS). The scheme, in place since 2005, covers most emissions relating to industry and electricity generation. Over the 2022-2030 period, the pace at which GHG emissions fall across France must more than double compared to the reductions observed since 2010 if a 50% emissions reduction is to be achieved by 2030.

Chart 3: Change in net greenhouse gas emissions relative to commitments undertaken (neutrality by 2050) [5]



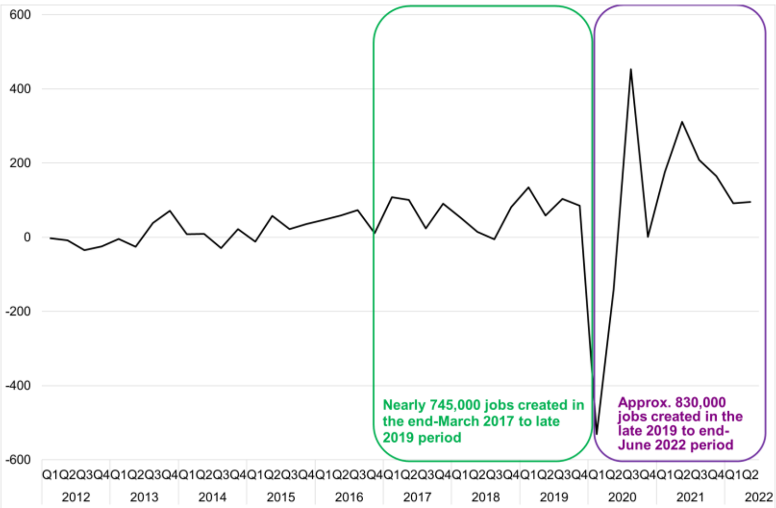
Considerable progress was made Europe-wide during the French Presidency of the Council of the European Union (PFUE). The PFUE was able to reach an agreement with the Council concerning virtually all of the Fit for 55 package with a view to its upcoming adoption. The PFUE in particular promoted carbon pricing that is aligned with European climate objectives thanks to the enhanced EU ETS, the introduction of the Carbon Border Adjustment Mechanism (CBAM) and the implementation of bolstered sector-specific standards (renewable energy sources, internal combustion vehicles). The CBAM is intended to more effectively tackle carbon leakage at a time when EU climate policies have been stepped up, replicating the ETS pricing that adversely affects EU producers with respect to emissions-intensive imported goods. In addition to this, three notable advances have been made in sustainable finance with the finalisation of the non-financial sustainability reporting framework (CSRD Directive), the gradual implementation of the EU taxonomy[6] and continuing discussions on establishing an EU green bond standard.

[4] Source: CITEPA, climate commitment scorecard.
[5] Source: CITEPA, 2022 edition of SECTEN report in respect of 2021 emissions.
[6] Classification of economic activities with a favourable environmental impact.

The strong employment momentum must not slow down the pace of labour market reforms in order to address the challenge of full employment.

The reforms introduced during the last presidential term[7] led to significantly improved labour market conditions, with the creation of 1.6 million salaried jobs since late March 2017.[8] Before the crisis, between the end of Q1 2017 and Q4 2019, nearly 745,000 salaried jobs were created (see Chart 4). Despite the economic crisis triggered by the COVID-19 crisis, the emergency support schemes introduced during the pandemic and exceptional short-time work arrangements ensured that employment was resilient to the health restrictions and bounced back in 2021. Driven by the pickup in economic activity and the recovery plan (in particular the #1jeune1solution – "1 Young Person, 1 Solution" – scheme), payroll employment in Q2 2022 was up 3.2% (i.e. creating 830,000 new jobs) on pre-crisis levels. At the same time, in Q2 2022, the employment rate reached its historic peak at 68.0%, while the labour force participation rate stood at 73.5%. The unemployment rate was 7.4%, a historic low. Job creation in the manufacturing sector (approximately 40,000 salaried jobs since 2017) breaks the 20-to-40-year trend of job losses.

Chart 4: Quarterly change in payroll employment (in thousands)



Source: Insee, quarterly jobs estimates.

The flip side to recovery is that skill shortages persist. Between one half and two thirds of companies in the manufacturing, service and construction sectors said in July 2022 that they had hiring difficulties,[9] primarily because of a lack of trained individuals.[10] This unprecedented figure is reflected in the record number of job vacancies (355,000 jobs in Q2 2022, source: DARES).

Trouble in finding suitable skill sets underscores the need to continue with initiatives to improve training. Following on from measures taken during the last presidential

[7] Specifically labour market reforms in 2017, the unemployment insurance reform, the conversion of the Competitiveness and Employment Tax Credit (CICE) into a permanent cut in social security contributions, and the increase of tax breaks for low earners.

[8] Number of salaried jobs created from late March 2017 to late June 2022.

[9] Recruitment pressures affect 67%, 60% and 82% of companies in the manufacturing, service and construction sectors respectively. Source: Insee, business and consumer surveys.

[10] The companies also mention that applicants have greater demands in terms of salary and working conditions than before, and that the employee turnover rate is excessively high. Source: Acemo Covid survey.

term for in-service[11] and initial[12] training, there is a need to ensure that skill sets match the emerging needs of the labour market (e.g. jobs associated with the green and digital transition, or healthcare, social support and health and social professions) and, for the younger generations, that basic knowledge has been acquired. The average French student, particularly in science, continues to underperform[13] – at one of the lowest levels internationally – and inequalities rooted in students' social backgrounds persist.

Reforms made since 2017 have heightened France's attractiveness.

After years of deterioration, the price competitiveness of French companies rebounded. Prior to the COVID-19 crisis, measures to reduce labour costs (conversion of the CICE into a permanent cut in social security contributions, increase of tax breaks for low earners) and the most robust increase in the unit labour costs of our partners (particularly Germany) allowed for a partial catch up. The government continued after the COVID-19 crisis with its policy of supporting competitiveness with the *France Relance* plan in particular, which comprises a permanent cut to taxes on production of €10 billion per year starting in 2021,[14] benefiting industrial companies. The depreciation of the euro since February 2022[15] is also expected to improve France's cost- and price-competitiveness, but could also lead to increased sourcing costs for French companies.

Non-price competitiveness leaves room for improvement, particularly in relation to market positioning and innovation performance. The COVID-19 crisis and the Russian invasion of Ukraine have both brought economic and technological sovereignty to the fore of the European stage. French industry is structured around very competitive and innovative hi-tech sectors – that albeit only represent a small proportion of industrial value added – and a greater number of medium-low tech sectors. This structure results in a weaker innovation performance and a less advantageous market positioning than some of France's main European partners. With that said, real progress has been made on this front in recent years. For example, France climbed from 16th in 2018 to 11th in 2021 in the innovation ecosystem performance ranking.[16] The Research Planning Act and France 2030 investment plan will also address this issue.

The crisis also had a major impact on the export performance of French companies, with global market shares shrinking (down 0.4 p.p. between 2019 and 2021 for goods). Pre-crisis, performance had been steady since 2012 (see Chart 5). This situation is not unique to France, and is also apparent in Germany (loss of 0.6 p.p. of market shares over the same period). In 2021, France was still the fifth largest global exporter of goods and services, behind China, the United States, Germany and Japan, and just ahead of the Netherlands and the United Kingdom.

In 2021 the rebound in the trade of goods remained partial, while trade in services experienced a historic upturn. In France, the COVID-19 crisis caused goods exports to fall (by 16% in 2020), particularly in certain major exporting sectors such as the aerospace (45%) and automotive (19%) industries that continue to be adversely impacted by the consequences of the crisis and supply problems. Trade in services posted a record trade surplus in 2021 (+€36.5 billion), driven by strong growth in transportation services, particularly sea transport that experienced soaring prices. The tourism sector began to recover in 2021, a trend that continued in Q1 2022.

[11] For example the Skills Investment Plan (€15 billion earmarked for the 2018-2022 period), the plan to ease skill shortages (€1.4 billion), and the introduction of the individual training account (CPF).

[12] In particular the initiative to split classes into priority education areas, the Baccalaureate reform and the apprenticeship support scheme and reform (732,000 new apprentices in 2021).

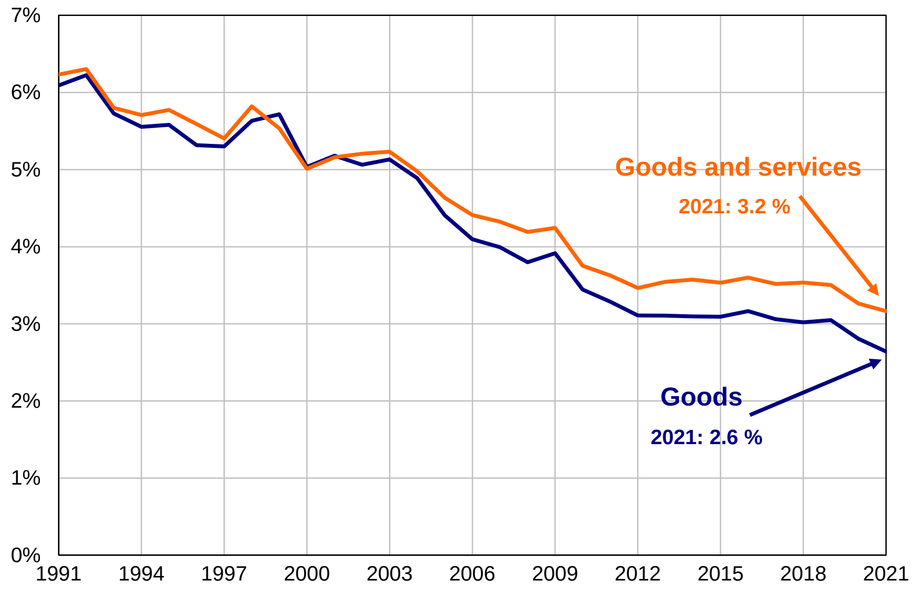
[13] DEPP-MENJ (2021) L'état de l'École 2021, Factsheet no. 25, Les compétences des élèves en mathématiques depuis 1987 (in French only).

[14] Taxes on production continued to be a differentiating factor for price-competitiveness (5.3% of GDP in France in 2020, versus 2.4% on average in the euro area and 0.8% in Germany).

[15] In August, the nominal effective exchange rate of France fell 4.3% year on year.

[16] Source: World Intellectual Property Organization, Global Innovation Index.

Chart 5: Change in France's market shares in global exports



Source: IMF for goods, OECD for goods and services; data in nominal terms.

Lastly, France's attractiveness in foreign direct investment (FDI) terms was bolstered, taking the top spot in the EY attractiveness survey for the third year running in 2021. With 1,222 projects identified, France broke a record by attracting more than 20% of all start-up and extension projects announced in Europe in 2021. Many reforms for raising the attractiveness of France have been carried out since 2017, including the gradual reduction of corporation tax, investment in innovation through the France 2030 plan and the Invest for the Future Programme (PIA 4), recent reforms for improving, securing and streamlining the business environment – the Government Action Fast Tracking and Streamlining Act (ASAP) and the Business Growth and Transformation Action Plan Act (PACTE) – and labour market reforms. France is also leveraging the reconfiguration of value chains following the COVID-19 crisis, significantly increasing the number of industrial and logistics projects in place. The FDI inflows experienced an upturn from €2 billion to €23 billion in 2021, returning to a pre-crisis level.

The efficiency and sustainability of our social protection system could be further improved.

France's social protection system has fully played its part amid the crisis, safeguarding the most vulnerable, and hospitals responded by continuing to offer adapted healthcare. During the pandemic, schools remained open as much as possible to prevent inequalities in education from widening. Despite an economic activity in decline, the purchasing power of households was on average stable in 2020 as a result of emergency measures and in particular exceptional short-time work arrangements and transfers to households (e.g. extension of sick pay entitlements, additional payments to recipients of minimum social benefits, support for intermittent workers). Insee estimates highlight that inequality and poverty were stable in 2020 compared to 2019.[17] The reforms

[17] Estimate of the income poverty rate and inequality indicators, Insee (2021).

implemented by the government in the past few years will help to bolster France's social model.[18]

Prevention is a priority. France ranks third on an EU level for mortality avoidable with curative treatment, but seventh for mortality avoidable with preventive treatment. Spending on primary prevention[19] represented less than 2% of all healthcare expenditure, lower than the EU average of 3.1%. Many diseases, with high treatment costs, could be avoided or staved off by stepping up prevention measures. These measures would also help to tighten spending and improve the health of the French people.

Elderly care is an ongoing issue in France. A fifth branch of the social security system aimed at ensuring independent living has stepped up the steering of this policy. While France dedicates a significant proportion of its GDP to long-term care spending (2.4% in 2019 versus 1.5% on average at OECD level), it must address the issue of structuring the social and medical-social support provided, particularly to the elderly. France has a lower medical-social worker to old person ratio (approximately 2 for every 100 old people, compared to 5 at OECD level) while a fifth of old people said in 2019 that they face severe limitations in their day-to-day life. Continued care at home must also be stepped up, as only 60% of the elderly with disabilities benefit from it in France, compared to 68% on average at OECD level.

Lastly, access to childcare remains insufficient and hinders female participation in the labour market. With no suitable childcare option, a parent, generally the mother, may be required to reduce their working hours or quit their paid jobs. The reduced working hours and the extension of the period away from the professional world resulting from parental care have a long-term impact on the productivity of the parents concerned. In France, raising children is still an obstacle to female employment, with this paid leave[20] taken almost solely by mothers. Developing professional childcare options, such as collective day care centres and childminders would also foster the development of young children, gender equality and equal opportunities. The High Council for Families, Childhood and Old Age estimates that roughly 200,000 additional positions are needed across France.[21]

2. The government's work addresses the issues of safeguarding the purchasing power of the households most impacted by price hikes and maintaining the future support capacity of the government

Safeguarding purchasing power is the most pressing issue when inflation levels are high. Central government and social security funds act as economic and social buffers to prevent the situation from worsening poverty among the most vulnerable households and from placing stumbling blocks for businesses. However, to ensure that the central government can continue to play this role in the future, fiscal headroom will need to be rebuilt over the medium-term by targeting the emergency support on the most impacted stakeholders and bolstering the efficiency of public spending. Addressing this twofold constraint will ensure the success of the government's economic policy strategy.

The Act on emergency measures to safeguard purchasing power: a swift response to rising inflation

In order to protect consumers from soaring energy prices, the government extended the energy price cap. The 2022 Supplementary Budget Act of 16 August 2022 provides for the

[18] In particular the Ségur agreement on the renovation of the healthcare system (€10 billion mobilised in the 2020-2022 period) and the Act of 26 April 2021 to improve the healthcare system through building trust and streamlining – which increase the pay of care workers and continue the modernisation of the healthcare system – the creation of a fifth branch of the social security system aimed at ensuring independent living to improve the way elderly and disabled care is funded, and the "My Health 2022" strategy.

[19] This aims to prevent or stave off diseases before they occur by focusing on the risk factors at play.

[20] Known as PrePareE, the joint childrearing benefit. Data: Nicolas M., "Interrompre ou réduire son activité à la naissance d'un enfant, et bénéficier du CLCA de la PAJE", CNAF, 2010 (in French only).

[21] HCFEA, L'accueil des enfants de moins de 3 ans, 2018 (in French only).

extension of the cap on gas price increases until the end of 2022. With market energy prices expected to remain at an exceptionally high level beyond 2022, the government announced that it was maintaining the price cap with increases limited to 15% (as opposed to 120% without the cap). At the same time, the fuel rebate was extended until December 2022 and was temporarily raised to 30 cents per litre in September and October 2022. In addition, a new €100 or €200 (depending on income) “energy cheque” will be offered on a one-off basis before the end of 2022 to 12 million low-income households. Lastly, the 2022 Supplementary Budget Act increases the upper limit for income tax exemption for fuel costs paid by employers. This limit will be raised from €200 to €400 for 2022 and 2023. The inflation-indexation of the income tax scale also protects households.

The Act of 16 August 2022 on emergency measures to safeguard purchasing power rounds out the battery of measures to protect households (see Box 2). This Act approves the continuation and tripling of the exceptional purchasing power bonus – the profit-sharing bonus – to buttress employees’ purchasing power whilst leaving firms with enough room for manoeuvre. In addition, the rollout of profit-sharing agreements in small enterprises has been streamlined to incentivise businesses to offer them. The Act also amends the procedure for restructuring occupational sectors to encourage the social partners to regularly increase industry-specific minimum wages up to statutory minimum wage (SMIC) level and to support wage momentum in the sectors. The Act reduces social security contributions for low- and middle-income self-employed workers, resulting in a yearly €550 increase in their purchasing power at statutory minimum wage level. Lastly, the exemption limit for overtime pay has been raised.

In addition to this swift and large-scale response, the public broadcast licence fee has been scrapped as from 2022, supporting the purchasing power of nearly 23 million households in the long run. Civil servants have enjoyed a **3.5% pay raise** back-dated to 1 July 2022, the biggest increase since 1985.

To protect the lowest income section of the population, the government went ahead with an early 4.0% increase in social benefits (social inclusion benefit, adult disability allowance, in-work benefit, family allowances, disability pension) **and basic pensions as from July.** In addition, other increases for pensions (1.1%) and social benefits (1.8%) were carried out on 1 January and 1 April 2022 respectively. Housing benefits were also raised by 3.5%, along with university grants by 4% as from the start of the 2022-2023 academic year. For disadvantaged students meal prices have been kept at €1 and the freeze on university accommodation rent and tuition fees is still in effect.

An exceptional back-to-school benefit of €100 per household, plus €50 for each dependent child, was paid in September to recipients of minimum social benefits, student grants and housing benefit. This payment will be rounded out before the end of autumn 2022 with a payment made to recipients of the in-work benefit.

Lastly, to safeguard the purchasing power of tenants, the government has introduced a one-year cap on rent: annual rent hikes for current leases will be capped at 3.5% (2.5% in Overseas France) between Q3 2022 and Q2 2023. Without this cap, some tenants would have seen their rent go up by more than 5% year on year.

Box 2:The Act on emergency measures to safeguard purchasing power

The Act on emergency measures to safeguard purchasing power was enacted on 16 August 2022. It introduces several emergency measures to support the purchasing power of French people, representing more than €20 billion in additional spending:

- *The 4% increase in basic pensions and disability benefits, family allowance, minimum social benefits and in-work benefit, back-dated to 1 July 2022. The individual housing benefit (APL) also increases by 3.5%, back-dated to 1 July 2022.*
- *A one-year cap on rent will be in place until 30 June 2023, limiting rent increases to no more than 3.5%.*
- *Disregarding the income of the spouse of an adult with disabilities when calculating the benefit amount was also voted on, and will enter into force no later than 1 October 2023.*
- *The exceptional purchasing power bonus introduced in 2019 is replaced by the profit-sharing bonus. As from 1 July 2022, companies will be able to pay their employees a €3,000 maximum bonus, and even up to €6,000 for companies who introduce a profit-sharing agreement when they have no requirement to do so. Within the limits of these amounts, the bonus is exempt from social security contributions. Employees earning up to three times the statutory minimum wage will also be exempt from income tax on the bonus paid out until 2024. Starting in 2024, the bonus may be paid to all employees and will be exempt from social contributions but subject to income tax.*
- *In order to increase the take-up of profit-sharing, particularly within small companies, French law makes the review conducted by the authorities on profit-sharing agreements more flexible by setting up an electronic filing procedure, broadens the options for establishing agreements unilaterally, and grants greater flexibility to firms in terms of the agreement's content.*
- *Company savings accounts can from now on be unlocked early for the purchase of goods or provision of services. Employees can request for their accounts to be unlocked before 31 December 2022, limited to a maximum amount of €10,000. This sum is not subject to tax.*
- *In order to encourage social partners of occupational sectors to negotiate and enter into wage increase agreements, the Act allows the Minister for Labour to carry out an administrative merger of sectors in the event of a low number of agreements guaranteeing the increase of industry-specific minimum wages up to statutory minimum wage (SMIC) level.*
- *The law ratifies the cut to contributions to healthcare insurance paid by the self-employed with a net earned income that does not exceed the statutory minimum wage level. The law seeks to ensure that self-employed workers with an income equalling the net statutory minimum wage can benefit from an increase in their purchasing power of €550 per year.*
- *Several measures are set out to secure energy supplies as from autumn 2022: a mechanism to secure the filling of storage facilities providing a filling level that exceeds the minimum level of 85% provided for by the usual regulation mechanism, with a view to more effectively manage stocks and restrict the impact of gas price variability on consumers; the option of requisitioning gas-fired power plants when the need arises; a fast-tracking process for installation of a floating LNG terminal in Le Havre to diversify our gas supplies; organising "load shedding" when supply problems arise, and the option to make use of all the means of electricity generation.*

Lastly, various measures round out the Act to ease the process of cancelling contracts (e.g. gas, electricity, magazine subscriptions, internet) or insurance and mutual insurance.

Keeping public finances under control over the medium-term without compromising the economic outlook

In a deteriorated macroeconomic environment, there is a need to strike the right balance between supporting households and firms in the face of price hikes and returning to a fiscal position that guarantees sovereignty and the government's ability to handle future shocks.

The planned trajectory for public finances meets this goal, with future gradual fiscal consolidation. The aim is for the general government deficit to return to under 3% in 2027 and for the debt ratio to GDP to decline as from 2026. This objective will be reached by keeping government expenditure under control without increasing taxes and social security contributions, with the exception of justified tax and social security contribution exemptions. This strategy will not compromise the financing of expenditure that is vital for the French economy's future, in particular for enabling the green and digital transition, for instance under the *France Relance* and France 2030 plans.

The efficiency of public spending as a whole needs to be improved to safeguard key spending areas. It was for this reason that the government asked the Parliament to set up a taskforce responsible for determining the areas of public spending in which savings could be made. The Finance Planning Act will also contain provisions to bolster public finance governance and thereby improve the quality of expenditure and pinpoint the areas in which savings can be made (see Box 3). The government has stressed that a curbed increase in the operating expenditure of local authorities, and a reduction of tax and social security contribution exemptions deemed ineffective, were expected. More generally, more efficient public action and the ongoing implementation of structural reforms for sustainable growth will be vital.

Box 3: Provisions in the Public Finance Planning Bill to improve public spending effectiveness

The Public Finance Planning Bill for 2023-2027, spearheaded by the government, comprises various provisions to improve the quality of public spending.

Firstly, the planning bill overhauls the system for aggregating central government expenditures by introducing the "Central Government Expenditure Scope" to supplant the former two-level standard (comprising the discretionary expenditures rule and the Total Central Government Expenditures Target). Broadening the scope is intended to ensure that almost the entirety of central government expenditures falls under expenditures subject to a control and oversight target set by the government. This more all-encompassing definition will make it easier for Parliament and control bodies to adopt and understand this measuring tool.

The Public Finance Planning Bill also introduces regular assessments of the quality of public action, with a view to inform the preparatory work for the Budget Bill and the social security budget bill. These assessments will identify measures to improve the efficiency, effectiveness and cost of the relevant policies and structures.

Tax incentives, social expenditure and support for businesses are subject to a time limit specified in the Public Finance Planning Bill. With this time limit, an assessment of this expenditure can be performed at the end of the period before any extension is granted. These mechanisms will ensure a greater control over exemptions and an improved regulation of the least effective expenditure.

Lastly, the payroll expenditure for the central government and its agencies will be more effectively governed under the Public Finance Planning Bill, with the regulation of job vacancies in the form of a cap on central government agencies' expenditures and a stability objective for the execution of job plans of the central government and its agencies for the 2023-2027 period.

3. Developing strong, inclusive, sustainable and resilient growth

In response to all the structural challenges faced by France, the government offers a roadmap revolving around four key objectives:

i. tackling the ecological crisis;

ii. achieving full employment;

iii. guaranteeing energy, economic and digital sovereignty in France;

iv. building a republic of equal opportunities.

These priority areas are centred on concrete measures and reforms, the initial stages of which have been announced by the government, with a view to acting on the most pressing challenges (see Box 4).

Box 4: 2022-2023 timeline for reform implementation

In autumn 2022, before the Cabinet, the government will present the first legislation on:

- *initial emergency measures to bolster and improve the functioning of the labour market in order to achieve full employment;*
- *renewable energy development;*
- *the planning bill of the Ministry of the Interior.*

In the weeks following, reviews of the financial legislation will also take place. This parliamentary session will also be an opportunity to hold three key discussions on Ukraine, the energy policy and immigration.

Concurrently, talks will take place on changes to institutions, with the set-up of the transpartisan committee as requested by President Macron. A consultation on end-of-life care will also be held.

2023 will be a year for embarking on major projects, and various legislation will be reviewed by the Parliament:

- *the Defence Planning Act;*
- *a bill to improve justice in daily life, subsequent to the États généraux conferences;*
- *the Energy and Climate Planning Bill, that will roll out green planning;*
- *immigration legislation;*
- *measures to achieve full employment;*
- *laws arising from consultations on education, with a view to bringing in transformative change as from the beginning of the 2023-2024 academic year;*
- *a bill on the Olympic and Paralympic Games.*

i. Tackling the climate crisis

With indications of climate change occurring more and more frequently, the green and energy transitions are becoming an increasingly urgent matter. In order to provide tangible solutions to the issue and swiftly act as required, Prime Minister Borne is directly tasked with green planning, while each ministry will have their own climate and biodiversity roadmap.

From an institutional standpoint, this priority is reflected in the creation of two ministries – the Ministry for the Green Transition and the Ministry for the Energy Transition – and the General Secretariat for Green Planning. Working under the authority of Prime Minister Borne, the Secretariat is tasked with coordinating the development and implementation of national climate, energy and green strategies, and with ensuring that these policies are consistent with public policy. The French Energy and Climate Strategy is currently under development (see Box 5).

New ambitious goals must be achieved in cooperation with all stakeholders, comprising local elected officials, firms and citizens. The goal of reducing greenhouse gas emissions in France by 2030 will be raised from a 40% to 50% cut with respect to 1990.

France also continues to be heavily involved on the international stage to encourage Parties to the Paris Agreement, and in particular major emitters, to raise their objectives to ensure that climate change stays below 2°C.

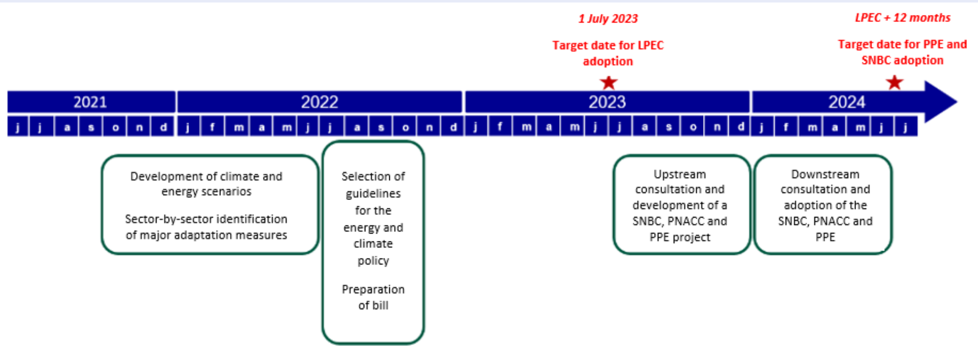
Box 5: Energy and Climate Planning Act and the French Energy and Climate Strategy

As set forth in the Energy and Climate Act of 8 November 2019, the first Energy and Climate Planning Act is slated to be enacted by 1 July 2023. The Energy and Climate Planning Act must set overarching objectives to reduce greenhouse gas emissions for three consecutive five-year periods, along with sector-specific objectives: reducing energy consumption, renewable energy development, diversification of the power generation mix, energy retrofitting of buildings, and energy autonomy in Overseas France. The act will incorporate domestic and EU new climate and energy goals, in particular raising the reduction of greenhouse gas emissions to around 50% versus 1990 levels by 2030 and achieving carbon neutrality by 2050.

Technical work and an initial public consultation took place in Q2 2021. In summer 2022, Prime Minister Borne announced a new consultation phase launched in autumn involving all stakeholders (firms, local elected officials, consumers). The government has also brought on board economic sectors and local authorities to develop sector-specific roadmaps identifying drivers to be used along the entire value chain.

By 1 July 2024, the main guidelines for the act will be set out in three plans which, along with the Energy and Climate Planning Act, form the French Energy and Climate Strategy, replacing the current strategy in place:

- *the third SNBC, acting as the roadmap for reducing greenhouse gas emissions, with the resulting work shared among various sectors;*
- *the third multiannual energy plan (PPE), used to steer the energy supply, network and energy consumption policy;*
- *the third National Plan for Adaptation to Climate Change (PNACC), intended to improve the resilience of French society to the impacts of climate change.*



Main stages of developing the upcoming French Energy and Climate Strategy

In addition to these objectives, the three plans identify areas for action in the major economic sectors. In a first-time move, the Energy and Climate Planning Act will include guideline targets for France's carbon footprint and international transport emissions. The carbon footprint represents the amount of greenhouse gas emitted to meet France's entire consumption needs, including import-related emissions.

a) Reducing the climate and environmental impact of our production system

Households and businesses must share the burden of efforts to reduce carbon intensity and greenhouse gas emissions, and all production sectors will need to do their part, especially high emitters such as industry and agriculture. The ongoing trend towards reindustrialisation must coincide with industry's continued transition to a low-carbon model, while agriculture must reduce its environmental impact and ensure that farmers receive better pay and that the economic viability of their operations remains intact.

The government will continue to support industry's ongoing carbon intensity reduction efforts, particularly by way of the *France Relance* Plan and the France 2030 Plan. *France Relance* has allocated €30bn towards financing all facets of the green transition. It focuses on the implementation of carbon intensity reduction measures at industrial sites and the development of green infrastructure and mobility, as well as low-carbon energy and technology. The Industry Decarbonisation Fund (FDI, *Fonds Décarbonation de l'Industrie*) contributed financing of €1.2bn between 2020 and 2022 to move towards low-carbon processes and heating. The France 2030 Plan consolidates the *France Relance* Plan's initiatives through a huge investment programme of €54bn, including €34bn in new appropriations. France 2030 allocates 50% of its budget to ensuring France's transition towards a low-carbon economy. The plan includes €5bn in direct aid for rolling out low-carbon technologies and €0.6bn to fund innovation and the scale-up of innovative low-carbon technologies within industry.

At European level, the EU Emissions Trading System (EU ETS) will be bolstered and the Carbon Border Adjustment Mechanism (CBAM) will limit the risk of carbon leakage. The strengthening of the ETS market under the Fit for 55 package and its possible extension to cover the building heating and road transport sectors should bring about a carbon price signal consistent with our emissions reduction targets, thus triggering the decarbonisation investments needed. In addition, a CBAM will be implemented to close the carbon pricing gap between Europe and the rest of the world, as this gap causes carbon leakage and hampers the effectiveness of our climate policies. This mechanism will apply the EU ETS's carbon pricing to imports from the sectors most at risk of carbon leakage, including products such as steel, cement, aluminium, fertilisers and electricity. Though the mechanism's implementation will be gradual, it will immediately accelerate the pace of these sectors' transition, as such investments are long term.

Lastly, the government will introduce an act on reforming and securing the future of agriculture with a view to ensuring better pay for farmers and supporting entrepreneurship and the transfer of farm operations. Ahead of this act, the government is already providing assistance to the sector through tangible measures, starting with the considerable financial support contributed by the *France Relance* Plan. Under this plan, €1bn is allocated to agriculture, with a portion of the measures targeting the sector's green transition (carbon footprint, pollution, biodiversity conservation, deforestation-free products). These measures fund, for example, organic farming initiatives, such as agroecology projects and the production of plant proteins to reduce our reliance on protein-rich imports. This strategy is focused on various measures aiming to remove barriers to the production of plant-based proteins within the food system (backing sector development, investments for farmers, R&D work, promotion of the consumption of dried vegetables).

b) Reducing the climate and environmental impact of our consumption patterns

Our consumption patterns will have to change fundamentally if we are to meet our greenhouse gas emissions reduction targets. The government is thus continuing to implement measures that encourage and support such change, particularly in high-emitting sectors like housing and transport.

The National Housing Improvement Agency's (ANAH) *MaPrimeRénov'*, an energy retrofitting scheme, will be expanded and made more effective. Grants under the scheme have increased significantly since it was introduced and have stood at €2.4bn since the 2022 Supplementary Budget Act of 16 August 2022, with just under 700,000 housing units energy-retrofitted in 2021. It is now a question of substantially improving the performance levels of this retrofitting to meet France's climate goals by focusing on renovating poorly insulated housing and on the most-high performance retrofitting.

The government continues to support reducing greenhouse gas emissions by expanding public transport options, especially rail travel. For long-distance rail travel, a call for expressions of interest was issued in March 2022 to identify the stakeholders and barriers to international night trains. The orders setting up the companies that will fund local authorities' share of major high-speed train line projects were enacted in spring 2022 (*Grand Projet du Sud-Ouest*, *Ligne Nouvelle Montpellier-Perpignan*, *Ligne Provence Alpes Côte d'Azur*). As regards everyday mobility, the fourth "Public Transport Reserved Lanes and Multi-Modal Transport Hubs" call for projects is providing over 159 winning projects (announced in late 2021) with €900m in subsidies to expand urban and inter-urban public transport.

Concurrently, a number of support schemes have been implemented to bolster the transition to an electric vehicle fleet. Financial aid mechanisms (microcredits, trialling an interest-free loan as from 2023, ecological bonus, additional bonus in low-emission zones) will remain available to support the increase in the proportion of electric vehicles in the automobile fleet (12% of new car sales in the first half of 2022 compared with 2% in 2019). However, the cost of buying or renting an electric car is still prohibitive. To further limit the financial burden on households, car-scrapping bonuses could be extended or alternative financing schemes, such as a long-term leasing system, could be planned. Grants for the installation of charging stations (tax credits, white certificates) have also been maintained.

Implementing these measures will require substantial financial resources, especially channelled to local governments. Prime Minister Borne announced the creation of a €1.5bn green fund to help local authorities carry out their transition by fast-tracking the energy retrofitting of public buildings, regreening urban areas – including redeveloping brownfields to help limit urban sprawl – and funding park-and-ride facilities on the outskirts of cities to increase the use of alternative modes of transport. These investments come on top of other funding already provided under the *France Relance* Plan. Tax incentives will round out the measures, including for example a reduced VAT rate of 5.5% on waste sorting and collection at dumps/recycling centres, and household waste sorting and recovery, so as to encourage recycling and the circular economy.

In addition, the government is also stepping up its policy for the conservation of natural areas, forests, mountains, coastlines and oceans, with a special emphasis placed on Overseas France. The government's commitment to the environment is borne out by President Macron's announcement, on 11 February 2022 at the One Ocean Summit, of the decision to extend protected areas in the French Southern and Antarctic Territories nature reserve and the creation of a €60m investment fund backing new renewable energy projects in French Polynesia. The *France Relance* Plan, for its part, has earmarked €200m for the reforestation of French forests and provided aid to the lumber industry via a fund for the renewal and climate change adaptation of forests. As part of the government's environmental planning strategy, Prime Minister Borne announced on 29 August the rapid launch of priority water management and reforestation projects.

Lastly, at European level, the French Presidency of the Council of the European Union made noteworthy progress on the environmental front. At the initiative of French authorities, progress was achieved firstly on a regulation to prevent the commercialisation on the EU market and export from the EU of products whose manufacturing contributes to deforestation or forest degradation, and secondly on 'mirror' measures imposed on products imported from non-EU countries, with a view to strengthening health and environmental protection. Simultaneously, the European Commission continues to integrate sustainable development issues into EU trade agreements, including its commitment to enshrining compliance with the

Paris Agreement as a key component of EU trade agreements and to conducting an early review of the EU's approach to integrating sustainable development into trade agreements in order to make use of, going forward, trade sanctions for breaches of core Trade and Sustainable Development (TSD) provisions.

ii. Achieving full employment and reducing recruitment pressures by providing better support to jobseekers, improving skills development and promoting senior employment

Despite the COVID-19 crisis, the various employment policy measures implemented since President Macron's first five-year term have significantly improved the labour market.

To achieve the full employment target by 2027, the government plans to continue its reform of the labour market, especially by investing further in skills development, providing better support to jobseekers and offering incentives and integration to people who are the furthest removed from the labour market.

a) Strengthening return-to-work incentives and integration initiatives for workers who are far removed from the labour market

The effectiveness of unemployment insurance will be improved by more closely aligning it with the economy. If employers can make jobs more appealing during a period of labour shortage by improving work conditions and increasing pay, then unemployment insurance should also provide jobseekers with appropriate return-to-work incentives. In this regard, the number of job vacancies was especially high in the first half of 2022.

Achieving full employment also requires an all-out effort to integrate into the labour market those who have been most excluded from it. With the overhaul of the Youth Employment Contract, a first step forward has been made for young people by giving them the opportunity, as from this year, to receive a monthly allowance of up to €500 in return for completing 15–20 hours a week of job training, while receiving one-on-one support from a career counsellor. The programme aims to reach 400,000 young people by the end of 2022 and continue over the long term, but it should also be expanded in order to help other groups with high unemployment rates.

This transformation process will take place under the *France Travail* reform, which will allow closer collaboration between *Pôle Emploi* agencies and local organisations offering career counselling and employment services.

b) Expanding skills and occupational horizons through training, continuing education and career counselling

These fundamental changes will be combined with ongoing efforts to overhaul our training system in order to meet the lifelong career counselling and career conversion needs of jobseekers. This shift should enable one million young people to receive training for jobs of the future (including 50% in digital careers). A comprehensive overhaul of vocational training in high schools is also being prepared on the back of the success and strategy of the apprenticeship reform. The vocational training reform aims to give high schools greater autonomy to make diplomas match the new skills required. This will call for flexibility as well as a review of training options in order to expand those that focus on sectors with job vacancies.

Improving the effectiveness of guidance decisions also involves helping high school students with their choices at all levels through better access to information. To this end, the government proposes setting aside, as from year eight (*cinquième*), a half day per week to improve career guidance by enabling students to discover a wide range of professions, especially technical, manual and service ones, and thus demonstrate that there are other types of intelligence besides academic knowledge.

More seamlessly integrating young people into the workforce involves a comprehensive overhaul of vocational training and the heightened professionalisation of higher education courses.

Lastly, acquiring and developing skills is not only for young people; every worker should be

a lifelong learner. The goal is to increase the number of accreditations of prior learning to 100,000 per year over the next five years to enable everyone to have skills acquired throughout their careers recognised and to foster changing career paths. Achieving full employment will also require providing senior jobseekers with more support, such as through lifelong continuing education opportunities and the highly beneficial impact it has on jobseekers, particularly those over the age of 50.[22]

c) Harnessing senior employment to strengthen our workforce

All workers will gradually have to work longer. The pension system will be reformed during President Macron's five-year term of office. The purpose of the reform will be to contribute to the goal of achieving full employment and thereby to buttress France's economic potential by increasing the workforce and improving older workers' participation rate. It meets President Macron's dual objective of full employment and fiscal consolidation to fund our social model and the key policies of his five-year term.

French workers retire at an especially early age compared with workers in our main European partner countries: according to the OECD, between 2015 and 2020 the average normal retirement age in France was 2.3 years lower for men (60.4 years) and 1.0 year lower for women (60.9 years) compared with EU countries (EU 27). Based on estimates released in September 2022 from the Pensions Advisory Council (COR), pension schemes had a surplus of €0.9bn in 2021. Over the next 25 years, however, with the same legislation in place (known as the permanent balance rule, or *convention équilibre permanent des régimes*), they will run a deficit on average, with a funding gap of between 0.4% and 0.8% of GDP.

This pension reform means that workers will gradually have to work longer, while still ensuring fair adjustments that take into account workers with special circumstances, especially those who have low pensions after a full career, those who worked long careers, those exposed to harsh working conditions and those who were on disability or were otherwise unfit to work.

iii. Securing France's energy, industrial and digital sovereignty

The COVID-19 crisis and the resulting supply-chain disruptions in some sectors exposed certain strategic vulnerabilities. The war in Ukraine has glaringly revealed the need to continue to increase our energy sovereignty and independence to ensure the smooth operation of our businesses and supplies to households. We must secure our economic, industrial and digital sovereignty in order to produce effectively in an open world, by bolstering the resilience of our value chains, especially those of strategic importance, by protecting our technological independence and by safeguarding our digital data. The recent shift towards the reindustrialisation of the economy, as illustrated by the net creation of industrial jobs in the three years prior to the COVID-19 crisis, indicates that maintaining the policies of the last five years can lead to further success.

Going forward, the government will continue to cut business taxes, streamline the business environment and cut through administrative red tape, and financially support innovative sectors and the relocation of strategic production facilities. For instance, under the 2022 Supplementary Budget Act, businesses liable for VAT in France will eventually be required to issue, send and receive invoices electronically. Additionally, tangible proposals will be made shortly in order to reduce the time it takes for production plants to begin operating in France. Currently, a period of 17 months is needed, whereas in Germany it takes only 8 months.

In a globalised economy, protecting our sovereignty is a collective effort and the government will continue to fervently defend a European approach to these matters (see Box 6).

[22] M. Chabaud et al. "Quelles sont les chances de retour à l'emploi après une formation ? L'apport de la base ForCE pour l'analyse des trajectoires individuelles du chômage vers l'emploi", Dares, *Document d'étude* 261, August 2022.

Box 6: Collectively securing our industrial sovereignty under the leadership of the European Union

In today's globalised economy, French sovereignty cannot exist in a vacuum, with European sovereignty being one of the main drivers of our energy, industrial and technological independence.

Firstly, Europe is bolstering its energy sovereignty by implementing the REPowerEU Plan presented by the European Commission on 18 May 2022. *This plan aims to end the EU's dependence on Russian fossil fuels, focusing on four key areas: (i) accelerating energy savings, (ii) diversifying supplies, (iii) scaling up renewable energy and (iv) reducing fossil fuel consumption in industry and transport. The EU is simultaneously working on setting up an energy platform which will enable voluntary common purchases of gas, LNG and hydrogen by pooling demand.*

EU trade policy also contributes to securing our sovereignty and defending our strategic interests and values by ensuring fair competitive practices. *It aims to keep our economies open and assist our businesses in diversifying their supply chains and markets in order to increase the resilience of our value chains. Accordingly, recent French-backed European Commission initiatives seek to make EU trade policy more sustainable and assertive with the adoption of new instruments to expand the EU's ability to combat unfair and abusive trade practices. In June 2022, during the French Presidency of the Council of the EU, the EU adopted a regulation to promote reciprocity in access to international public procurement markets and an agreement was reached, during a trilogue meeting, on the adoption of a regulation on foreign subsidies distorting the internal market. In addition, to deter non-EU countries from restricting or threatening to restrict trade or investment, the EU is seeking to adopt a new tool to counter the use of economic coercion and intimidation.*

Lastly, our technological sovereignty will be strengthened by creating Important Projects of Common European Interest (IPCEIs) and cross-cutting support for innovation*. IPCEIs pool financial resources to fund breakthrough innovation projects (including the R&D stage and the first industrial deployment stage in strategically important sectors). Three IPCEIs have been launched to enable breakthrough innovation in microelectronics, the battery value chain and the hydrogen technology value chain, and three others are set to launch in cloud computing, health and connectivity. These projects come on top of the funding of €95.5bn provided by the Horizon Europe programme to support European innovation. Lastly, examples such as the Chips Act and the Batteries Act, along with draft legislation on critical raw materials and the Single Market Emergency Instrument (SMEI), demonstrate that the EU has stepped up its industrial policy.*

d) Fast-tracking the energy transition and ensuring France's energy independence

The war in Ukraine has underscored Europe's dependence on Russian fossil fuels, especially gas and coal, and is spurring us to significantly fast-track the transition to less carbon-intensive energy sources and to bolster our energy sovereignty. At the behest of the European Council of 24 and 25 March, the European Commission presented on 18 May the REPowerEU Plan, which aims to reduce Europe's reliance on Russian fossil fuels by 2030 and speed up the green transition, while strengthening the resilience of the energy system EU-wide.

As a near-term solution, the government announced the implementation of the Energy Saving Plan with a view to cutting energy consumption by all French consumers to secure short-term supply which is under threat from the conflict in Ukraine. To prepare for lower energy supplies this winter, Agnès Pannier-Runacher, Minister for the Energy Transition, announced, during the Defence and National Security Cabinet Meeting on Energy, the implementation of a non-binding energy saving plan in which the government will participate and set the example. Ongoing work is set to continue on the Energy Saving Plan announced on 23 June and which aims to reduce France's energy consumption (fuel, natural gas, electricity) by 10% over the span of two years (see Box 7). All citizens, businesses and government departments must do their part to help limit our energy dependencies, especially on fossil fuels. As part of this effort, government departments will lower their thermostats to 19°C for the 2022–2023 winter.

In addition, emergency measures were enacted to diversify the French economy's supply of oil and gas, and secure its energy supplies as from autumn 2022. This strategy namely involves the introduction of a mechanism to secure the filling of storage facilities providing a filling level of more than the minimum of 85% as called for by the usual regulation mechanism, the option of requisitioning gas power plants, fast-tracking the installation of a floating LNG terminal in Le Havre, organising "load shedding" and making use of all sources of electricity generation. These measures will improve the security of energy supply this winter and protect businesses as well as consumers in the event of a gas shortage.

Over the long term, our energy independence, together with the achievement of carbon neutrality in 2050, will largely come down to replacing fossil fuels with low-carbon energy sources. To reach this goal, the government is proposing a series of measures aimed at fast-tracking the rollout of renewable energy operations nationwide, whether wind, solar or methanisation. In this regard, the Renewable Energy Fast-Tracking Bill intends to cut through administrative red tape to make it easier to establish renewable energy projects. It also aims to increase the acceptability of renewable energy projects by introducing measures for sharing the value of low-carbon energy sources.

Lowering the carbon intensity of the energy mix will also involve decarbonising electricity by strengthening our incumbent nuclear industry. Aside from renewables, France has a longstanding, significant nuclear power programme which plays a role in our energy sovereignty today. To meet our climate targets while strengthening our sovereignty in a relevant economic context, President Macron announced the launch of a programme of six EPR2 reactors and the conducting of studies for the construction of eight additional EPR2s. What is more, through the France 2030 Plan, the government is investing €1bn to develop small modular reactors. Where possible, the life of all current reactors will be extended unless this is impossible due to safety concerns.

Lastly, the 2022 Supplementary Budget Act has allocated €9.7bn for the launch of a simplified tender offer for EDF's equity shares with the aim of delisting the electric utility company from the stock market. This delisting is part of efforts to accelerate the green transition and comes at a time when the geopolitical situation has forced the government to take tough decisions to secure France's energy independence and sovereignty, including its ability to plan the means of electricity generation, transportation and distribution in the very long term. The government will become EDF's sole shareholder and be free to speed up the progress of the key projects announced by President Macron in his Belfort address.

Box 7: Energy Saving Plan

Against the backdrop of the war in Ukraine and the acceleration of climate change, the energy transition of France and the rest of Europe is a priority more than ever before. Consequently, EU energy ministers reached an agreement on 26 July 2022 to reduce their gas consumption by 15% between August 2022 and March 2023 compared to the average of the past five years. Some exemptions and derogations from the target are possible for Member States with special circumstances and in order to ensure that the gas consumption reductions are effective in increasing the security of gas supply in the EU.

France must also end its dependence on fossil fuels and reduce its energy consumption by 40% by 2050. This means that we will have to make lasting changes to our habits and behaviour, which is the approach taken by the Energy Saving Plan announced by Prime Minister Borne and Agnès Pannier-Runacher, Minister for the Energy Transition, on 23 June 2022.

The stated target is to reduce energy consumption by 10% over the next two years compared with 2019. To this end, "energy sobriety" working groups were set up in late June to engage all public and private stakeholders in creating action plans for each sector, covering:

- *Government: Setting the ultimate example*
- *Businesses and work organisation*
- *Public-access buildings and commercial premises*
- *Housing*
- *Digital technology and telecommunications*
- *Local governments*

*The outcome of the consultation and the suggestions for operational measures will be made public in early October. The work carried out by the various working groups will be the first step towards initiating change with regard to the energy transition throughout society. These initiatives will also be backed up by the public outreach campaign "*Chaque geste compte*" (every action counts)*.

e) Bolstering the competitiveness of French businesses and strengthening their capacity for innovation

The government is looking to reindustrialise the economy and invest in breakthrough innovation to foster the development of strategic sectors in order to make France more autonomous, more prosperous and more innovative.

The elimination of the contribution on business value-added (CVAE) in 2023 and 2024 will play an important part in this process. Building on the productive investment support measure implemented in 2021, which permanently cut taxes on production by €10bn, it will save businesses, especially those in the industrial sector, around €9bn, including €4bn in 2023 alone. Its macroeconomic effects will be positive for employment, thanks to its lowering of business costs, but also for capital, as it directly funds the reindustrialisation of the economy.

Following on from the *France Relance* Plan and the government's economic strategy since 2017, the France 2030 Plan prioritises unleashing initiative and investing massively in the industries of the future (see Box 8). From the basic research stage to production, France 2030 provides support throughout the innovation life cycle right up to the production stage. The plan also aims to support skills development for the jobs of the future, and in doing so meet and anticipate the needs of the industries of the future. To the tune of €54bn, France 2030 is investing in the industry, transport and energy sectors in order to build a more carbon-free and resilient France. In essence, the plan sets out to:

- equip France with small modular rectors which are more innovative and manage waste better

- make France the leader for low-carbon hydrogen with the goal of setting up at least two electrolyser mega-plants
- help decarbonise French industry in order to reach our climate targets
- manufacture two million electric and hybrid vehicles, and the first low-carbon aeroplane

Box 8: Progress report on the implementation of the France 2030 Plan

France 2030 is a vertical industrial policy which harnesses innovation to transform the economy. With €54bn to invest over five years, including €20bn for the fourth Invest for the Future Programme (PIA 4), it prioritises certain sectors with a view to ensuring the green, economic and social transitions. Via this investment plan, the government provides support to researchers and businesses at every stage of their project, from basic research to the first plant, and invests in training the talent these industries of the future will need to grow. Some 50% of its budget is devoted to decarbonising the economy and environmentally harmful investments are prohibited. Additionally, 50% of its budget will benefit emerging, innovation-driving stakeholders.

As of mid-2022 and since its launch in 2021, France 2030 has moved at a fast clip with the issuing of 82 calls for projects and calls for expressions of interest, 48 of which remain open, accounting for 10% of all appropriations. All told, commitments of €7.5bn have been made for the period from 1 January 2022 to 1 September 2022. France 2030 is structured so as to streamline administrative procedures and ensure information transparency, and the evaluation of investments. Most of the work to devise national strategies has been completed and the initial selection procedures have already been established, with the help of independent experts and panels. Consultations have been initiated to continue to enhance and shape the strategies adopted for every issue covered.

Lastly, the government continues to invest in public research conducted by universities and research organisations. The Research Planning Act provides for additional investments of €25bn over the next ten years, on top of funding from the *France Relance* Plan and France 2030 for higher education and research. The Act aims to enhance the appeal of careers in science, facilitate the work of researchers and laboratories, and identify the major research programmes that will meet the country's needs while unleashing the full potential of basic research which pushes the boundaries of knowledge.

f) Consolidating our digital sovereignty and closing the digital divide in regions

The COVID-19 crisis has laid bare the reality that our economy is dependent on non-European digital technologies and equipment. Moreover, such issues as data protection, cybersecurity and French business competitiveness demonstrate the need for greater government intervention to ensure the resilience of our infrastructure and the security of our digital environment. Building our digital sovereignty will involve developing European infrastructure and technologies (such as through the launch of the European Alliance for Industrial Data, Edge and Cloud), ensuring that every citizen has access to reliable information (including via right to information summits) and regulating Big Tech.

Following on from the agreements reached during the French Presidency of the Council of the EU on the Digital Markets Act and the Digital Services Act, France will ensure the effective regulation of Big Tech. As with the General Data Protection Regulation (GDPR) adopted in 2016, these acts mark a major step forward. They will make digital markets fairer for all stakeholders and create a more secure digital environment for every European citizen.

To close the digital divide, the government is

committed to finalising the country-wide rollout of mobile and high-speed broadband coverage. The High-Speed Broadband Plan (THD) should be extended to the whole of France by 2022, with fibre being rolled out throughout France by 2025. Launched in 2013 and included in the *France Relance* Plan, the accelerated expansion of fibre-optic networks is making progress, as fibre-optic internet became available in 2020 to more than six million new premises and over three million new subscribers. The 2018 New Deal Mobile Plan between the government and telephony operators continues to mainstream 4G access, first and foremost in rural areas. The following five commitments were made with operators: (i) converting existing 2G/3G towers to 4G towers; (ii) ensuring mobile network coverage in strategic areas (tourist and business districts) with poor or no coverage; (iii) making 4G available on road and rail routes; (iv) optimising the switch to 4G inside buildings, and (iv) offering 4G fixed internet options in places where fast connections are still unavailable.

iv. Building a France of equal opportunity

While our social welfare system allows us to successfully tackle financial inequality, other inequalities persist, including in education and housing, and between regions as well as genders. Fighting such inequalities, no matter the form they take, remains a top government priority.

g) Prioritising early childhood care, education and youth affairs

Our current inability to meet demand for early childhood care hampers efforts to reduce primary inequality and support our long-term economic competitiveness. By facilitating parents' work lives and harnessing the full potential of our youth, we will be better armed to tackle these issues.

To address these shortcomings, the government has proposed creating an early childhood care public service. In collaboration with local governments, central government intends to encourage the creation of early childhood care places in regions where they are lacking.

In addition, the government is planning to cover children up to the age of 12 in the childcare supplement (CMG)[23] for single-parent families. Highly disadvantaged in the job market,[24] single parents (largely women) are more likely to have irregular work hours.[25] Making direct assistance available so that parents can afford childcare services outside of school hours[26] is of prime importance in reducing barriers to employment.

Regarding schools, the *Grenelle de l'Éducation* citizens' consultation, held in spring 2020, contributed to enhancing the appeal of the teaching profession, especially by making improvements to working conditions. The consultation paved the way for salary increases of more than €400m in 2021 and of over €700m in 2022.

These support measures will be maintained in coming years by pursuing a close dialogue with educational stakeholders. Minister for Education Pap Ndiaye stated his interest in giving partners a seat at the table during group discussions scheduled to begin in autumn 2022 on these matters.[27] President Macron also announced his intention to extend the *École du futur* (School of the Future) pilot programme nationwide. Part of the *Marseille en Grand* Plan, the initiative has to date been rolled out in 59 educational institutions in Marseille. The pilot programme seeks to give more latitude and

[23] The CMG is paid to families to cover a portion of their childcare expenses, excluding daycare programmes funded by the CNAF (e.g. private daycare centres, childcare assistants, *relais assistants maternels* (RAM), *maison d'assistants maternels* (MAM)).
[24] 40% of single mothers working part time would prefer to work more hours.
[25] Though they account for only 10% of CMG recipients overall, single-parent families make up 31% of recipients benefiting from the extension for irregular work hours.
[26] Modelled after the *chèques atypie* (irregular hours vouchers) implemented in the Côtes-d'Armor *département*.
[27] See MENJS (2022), "Circulaire de rentrée 2022" (in French).

autonomy to teaching staff with a view to building a fairer and more inclusive education system, one school at a time. A €500m educational innovation fund has been set up to achieve these goals. Other measures will also benefit students directly, such as enhancing mathematics in the common core curriculum for high schools, making the *Pass Culture* available to year seven (*sixième*) students and providing primary school students with 30 minutes per day of physical education, in an effort to prevent early childhood obesity and stimulate participation in sports.

Moreover, these profound changes will be paired with major pay increases for teaching professionals. President Macron reiterated in July that the government will invest €6bn in schools and continue to raise teachers' salaries based on the reform undertaken two years ago, with the dual objective of providing teachers with a 10% pay increase and ensuring that starting pay is above €2,000 after tax and social security contributions. This unconditional pay rise comes alongside a pact for teachers who, on a voluntary basis and in return for taking on extra work activities, can boost their salary by up to 20%.

At the same time, the General National Service is ramping up as it is set to become mandatory for all young people within a specific age range in coming years. The number of participants nearly tripled in one year, increasing from 15,000 volunteers aged 15 to 17 in 2021 to 40,000 in 2022.[28] This year, three volunteering camps were offered, including, for the first time, a February camp (3,000 volunteers) in addition to a June camp (17,000 volunteers) and one in July (20,000 volunteers).[29]

Lastly, the government is striving to ensure more equal access to higher education and to improve students' living standards and academic environments. This means increasing and streamlining university grants. For the 2022–2023 academic year, the government opted to raise by 4% the value of need-based grants and other forms of student aid (e.g. specific one-time assistance for students in difficulty, housing benefit and inflation bonus) that should help students continue their studies under better material conditions. In consultation with student representatives, the government also has plans to streamline the grants system to make it easier for students to access government assistance. In addition, measures to improve student guidance will contribute to reducing inequality of opportunity related to information gaps between students.

h) Overhauling our healthcare system by increasing access and disease prevention, and meeting the challenges of ageing

The COVID-19 crisis and the heavy burden it has placed on hospitals underscores the importance of sustaining our healthcare system. Consequently, the government intends to continue to invest in the system, as launched through the Ségur Agreement, and to extend the work it began with the creation of the fifth branch of Social Security, Long-term Care and Independent Living (*Grand âge et autonomie*).

First, the government will work to promote disease prevention by making it possible for citizens to receive free health check-ups at key life stages. Cardiovascular disease, cancer and psychiatric disorders are still the most common and most costly illnesses, though their incidence could be reduced through screening and prevention measures. Yet participation in screening programmes is unsatisfactory in France compared with other countries and could be improved with the help of health professionals. Furthermore, behavioural risk factors continue to contribute to many deaths in France. About a third of all deaths in 2019 were attributable to such factors, including smoking, dietary risk factors, alcohol consumption and reduced physical activity. While anti-smoking policies have helped decrease smoking, further strides can be made.

When patients and health professionals take a proactive role in ensuring the appropriateness of the care being dispensed and the healthcare products being prescribed, the healthcare system improves, and spending is reined in.

[28] The first camp held in 2019 brought together 2,000 young people, while the 2020 edition was majorly disrupted by the COVID-19 crisis.

[29] See MENJS (2022), "Le service national universel (SNU) : Jeunesse engagée" (in French).

Focusing on the appropriateness of care (best practices regarding prescription drugs, such as using generics) and adapting the fee structures of certain medical treatment based on the coordinated care process or disease-specific care helps reducing medical procedures and duplicate or inappropriate treatments.

The health and social work professions will become more appealing by allotting practitioners more time with patients, reducing their administrative workload and strengthening cooperation between them. For example, the development of multidisciplinary health centres offers numerous advantages to health professionals (pooling of resources, cost-sharing of expensive equipment, flexible work hours), in addition to facilitating patients' coordinated care process. Given growing patient numbers and the fixed compensation provided, general practitioners can benefit from joining a multidisciplinary health centre (MSP, *maison de santé pluri-professionnelle*). The government also has plans to launch consultations to tackle the issue of "medical deserts" by better coordinating outpatient and inpatient care.

Lastly, to address the surge in emergency care demand and following a task force meeting (*mission flash*) on emergency room departments and unplanned care, the government implemented a series of recommendations which lowered the number of emergency room users by referring patients who do not need specialised emergency department care to other healthcare providers, and offset the shortage of nursing staff by strengthening collaboration between health professionals. These measures will be assessed to determine which ones should become permanent.

As part of its *Bien Veillir* (age well) programme, the government intends to help older people to continue living at home by improving the quality of home care services and increasing contact between healthcare institutions and home care providers: while the vast majority of elderly French adults would prefer to live at home, the number of people aged 85 years and older potentially affected by a loss of autonomy is expected to increase fourfold between 2000 and 2050.

Enhancing the appeal of the elder-care profession is key to meeting our goal of recruiting 50,000 additional nurses and nursing assistants by 2027. Several measures have already been taken to reform public policy on elder autonomy: funding for home care services underwent reform in 2022, with the introduction of a national minimum rate of €22/hour for in-home services and an increase in this rate for nursing care where patients have a lower level of autonomy. In addition, the Ségur Agreement established a base pay rise of €183 after tax and social security contributions per month for nursing staff working in care homes (EHPADs), followed by a 13% to 15% salary increase for home care practitioners.

Preventing loss of autonomy will also be improved in order to ease the demographic transition, as the incidence of many medical conditions can be reduced through prevention measures: falls among the elderly, for example, which result in high costs to cover surgery and prosthetics. Staying physically active, regularly visiting the ophthalmologist to ensure good vision and making simple improvements in the home are the kind of solutions that will be promoted, including through the *MaPrimeAdapt'* scheme. This programme aims to streamline the process for obtaining financial assistance for age-proofing a senior's home, thus contributing to the increase in in-home elder care.

The government also intends to strengthen its policies regarding the autonomy and employment of people with disabilities. A national conference on disability issues will be held in the first quarter of 2023 in order to take action in support of universal accessibility, autonomy – especially financial autonomy – for people with disabilities, inclusive education, the overhaul of medical-social structures, better compensation of disability support staff and improvements to work inclusion programmes in standard working environments.

The government's decision to no longer factor in the income of a disabled person's spouse when determining the Adult Disability Allowance (AAH, *allocation aux adultes handicapés*) will take effect as from October

2023. This change[30] is meant to reduce the financial dependency of people with disabilities. As a result, beneficiaries will receive a higher allowance if they have little or no personal income but have a spouse with an income at a level which previously would have rendered them ineligible for the allowance.

In addition, the government will undertake a reform of social security benefits (*solidarité à la source*) to ensure that those who are eligible receive such benefits and to reduce social security fraud by streamlining and enhancing the reliability of access, thanks to the exchange of data. While our benefit system is effective in protecting the most vulnerable, every quarter 34% of households, on average, eligible for the social inclusion benefit (RSA, *revenu de solidarité active*) do not take advantage of it.[31] This reform will play a direct role in reducing poverty and inequality.

i) Expanding access to housing, especially for those most vulnerable

Housing costs represent the largest expense for low-income households, whereas it ranks fourth for the wealthiest households.[32] Even though differences in consumption patterns based on income level have declined over the years, the wide gap in housing costs between richer and poorer households (ahead of other expenses, e.g. food, transport, leisure and culture, and dining and hotels) is an issue the government is looking to address over the long term. Increasing housing supply, particularly in areas with a shortage, will also expand workers' geographic mobility and help bring workers where recruitment needs are high, i.e. in employment catchment areas.

As a first step, the government intends to continue its initiatives on improving access to the rental market by opening up the Visale government rent guarantee scheme (*Visa pour le Logement et l'Emploi*) to the middle class. Provided by the social housing entity *Action Logement*, it guarantees owners the payment of rent and related fees in the event that a tenant defaults on payments. Free of charge, Visale aims to help tenants experiencing financial hardship to find and access housing. In June 2021, the guarantee scheme was expanded to include low-income workers over the age of 30. Its rollout, alongside private guarantees, should continue so as to make housing more accessible to the middle class.

At the same time, and with a view to ensuring a wider array of affordable housing options, the government is committed to building housing in areas where there is a shortage. To meet demand in such areas while also limiting land take, the construction sector will have to prioritise building collective housing in areas with a shortage. Created in 2021, housing recovery agreements between central government and local governments in areas with a housing shortage provide funding to municipalities building housing based on a production target. These agreements help stimulate the construction of housing in areas where demand is highest. Areas with a housing shortage will also benefit from the accelerated construction of social housing units, with a focus on those for the most vulnerable families, funded by the *Prêt Locatif Aidé d'Intégration* (PLAI, a subsidised loan for low-rental housing for the integration of low-income households).

Increasing the availability of affordable housing will also require the participation of all stakeholders – social landlords and local governments alike. Social landlords are financially sound and consequently must continue to actively work to achieve the housing policy objectives. In this context, three priorities should guide the signing of a confidence pact (*pacte de confiance*) between social housing stakeholders and central government: (i) producing housing and fast-tracking energy retrofitting, (ii) making efficiency gains by grouping social landlords and (iii) increasing tenant turnover within the social

[30] To date, the income of all members of a household is used to calculate the allowance, with a €5,000 deduction on the spouse's annual income.

[31] "Mesurer régulièrement le non-recours au RSA et à la prime d'activité : méthode et résultats", Drees (2022).

[32] E. Demoly, C. Schweitzer, "Les ménages les plus modestes dépensent davantage pour leur logement et les plus aisés pour les transports", INSEE Focus 203, Sept. 2020

housing stock. In the same vein, central government will offer further decentralisation to local governments which will allow them to jumpstart projects where they are needed.

j) Strengthening regional cohesion between Mainland and Overseas France

Lastly, the government undertook to reform the regional organisation of the State and public administration to streamline public action and more closely involve citizens, namely with the implementation of the Constitutional Bylaw on the simplification of trial initiatives and the act on differentiation, decentralisation, deconcentration and various measures to simplify local public action, called the 3DS Act. The idea is to strengthen regions by bringing an end to staff cuts within regional central government departments and by directing the bulk of resources and additional measures to devolved central government departments. Concomitantly, public services continue to undergo reorganisation in order to be able to adapt to the specific needs of each region and to provide French citizens with more efficient public services wherever they are.

Following in-depth consultations in 2023, the government intends, going forward, to pursue decentralisation and differentiation efforts, with a view to giving more power to local elected representatives and improving the clarity and consistency of their initiatives, for instance via the creation of a regional adviser tasked with bolstering the consistency and coordination of initiatives between *départements* and regions. New citizen agreements (*contrats de ville*) will be drawn up, in consultation with residents, non-profits and local elected representatives, in order to address pressing problems in our neighbourhoods and carry out urban renewal projects. Moreover, central government will implement a new rural agenda, with an emphasis on the rollout of *France Services* offices, which will ensure local access to quality public services for every citizen across France.

Moreover, Overseas France has not been forgotten, as the government will support and fund their economic development. Indeed, some of these regions still face major economic disadvantages compared with Mainland France. Tackling unemployment (according to the Overseas France Issuing Institution (IEDOM), the unemployment rate in 2021 stood at 30% in Mayotte, 18% in Réunion, 17.2% in Guadeloupe, 14.5% in French Guiana, 13.3% in New Caledonia and 12.9% in Martinique) and the high cost of living are key components of the government's strategy. The government will also work closely with Overseas France to ensure the continuity and quality of public services, especially the access to and distribution of drinking water, wastewater treatment, waste treatment and biodiversity conservation. The expansion of the investment and value-creation capabilities of the private sector remains a pivotal means for driving the economic development of Overseas France.

Economic outlook

French GDP is expected to grow by 2.7% in 2022 and then 1.0% in 2023, taking output 2% higher than its pre-COVID level next year.

France's economic recovery was particularly strong in 2021, with a growth of 6.8%. Output rose above its pre-COVID level in summer 2021, ahead of other large European economies, demonstrating the resilience of the French economy and the effectiveness of the government's emergency and recovery measures.

Growth is set to be robust at 2.7% in 2022, whereas inflation is expected to be 5.3%

Russia's invasion of Ukraine and its consequences have clouded the economic outlook by causing a sharp rise in commodity prices, renewed supply-chain disruptions and greater uncertainty. However, the French economy has proven its ability to withstand these shocks. After output fell by 0.2% in the first quarter of 2022 due to a new wave of COVID-19, it saw a substantial 0.5% rise in the second quarter according to national accounts data published by Insee on 31 August 2022, taking the carry-over growth for 2022 to 2.5%. Growth has been supported by the return of international tourists, an upturn in consumer spending and the ongoing strong momentum in business investment. The labour market remains buoyant: almost 200,000 salaried jobs were created in the first half of 2022 and the unemployment rate was 7.4% in the second quarter, 0.8 points less than at the end of 2019.

Overall, the latest economic indicators show that the near-term growth outlook remains good: in September, Insee's business climate summary indicator was above normal, suggesting robust third-quarter growth. Based on its August surveys, the Banque de France was expecting the economy to grow by 0.3% in the third quarter. However, pressure on the supply of gas means that output in some sectors is likely to be hampered in the fourth quarter. Measures to support purchasing power adopted during the summer should underpin consumer spending in the second half of 2022. On an annual average basis, purchasing power should be preserved despite higher inflation, particularly due to the boost of over 1% (1.2%) to households' disposable income resulting from the aforementioned measures.

The economic scenario assumes that power cuts and gas shortages will be avoided during the winter even if gas deliveries from Russia stop completely, based on the central scenario presented by France's power grid operator RTE and gas network operator GRTgaz on 14 September. This assumption is justified by the large volume of gas in storage facilities (which were 92%-full on 1 September, higher than the European target and corresponding to two months of winter consumption), by reduced demand due to sobriety measures and by France's relatively low level of Russian gas imports (Russian gas only accounts for 20% of French gas imports as opposed to the European average of 40%).

Private-sector employment is expected to be very strong, rising by 2.9% on average this year, supported by robust job creation in late 2021 and the first half of 2022. Wage growth is set to accelerate to 3.6%.

CPI inflation is expected to average 5.3% in 2022 after 1.6% in 2021. It is likely to remain high, close to 6% year-on-year, until the end of 2022, but should be lower than levels seen by France's main partners. In August, France's inflation was the lowest in the EU: HICP inflation was 6.6% versus the EU average of 10.1%, showing the effectiveness of the government's cap on energy price rises (*bouclier tarifaire*). Towards the end of 2022, energy price inflation is expected to fall due to lower oil prices and the protection provided by the aforementioned cap. The resulting downward pressure on inflation is likely to be offset by higher core inflation as past increases in commodity prices filter through to consumer prices for food and manufactured goods and by the impact of wage growth on the price of services. In 2022 as a whole, the cap on gas and electricity price rises, along with the fuel rebate, should push inflation down directly by just over 2 points on average.

This scenario is based on oil price assumptions consistent with futures prices seen in the summer ($103 on average in 2022 and $89 in 2023), an unchanged exchange rate during the same period (with €1 = $1.02) and ad hoc assumptions for gas prices (see box 1).

Growth is expected to remain positive at 1.0% in 2023, while inflation should fall to 4.2%

The international environment is likely to be less buoyant in 2023. Advanced economies should see output slow as a result of monetary policy normalisation and high energy prices, particularly for gas.

Most advanced economies are expected to maintain a modest level of growth, due in particular to fiscal support including the European recovery plan, the easing of supply-chain disruptions that is already underway, and the potential for “catch-up” in certain countries. Among emerging-market countries, China should see growth accelerate in 2023 after being held back this year by the authorities’ zero-COVID policy and the property crisis. Russia is expected to have two years of deep recession because of sanctions and capital controls, and fiscal support is unlikely to be enough to prevent this. However, the fact that Russia’s economy is increasingly uncoupled from its European counterparts should limit the impact of this recession on the euro area and France specifically.

Economic activity in France is likely to be held back by higher interest rates and energy prices. Output should be supported mainly by consumer spending because of the significant increase in purchasing power (expected to be 0.9%) and a slight reduction in the savings rate, which is nevertheless likely to remain well above its pre-COVID level. Business investment is expected to grow slightly less than output because of economic uncertainty and less favourable financing terms. Household investment is likely to fall, again because of higher interest rates and the return to normal of home sales after the exceptionally high level seen in 2021. Growth in foreign trade is expected to slow in line with the global economy, and its contribution to growth is expected to be zero.

The rise in salaried employment in non-farm market sectors is likely to slow as GDP growth does likewise, averaging 0.7% over the year. Wage growth is expected to be similar to inflation, with an increase of 4.1% adjusted for short-time work. This growth is related to the rise in inflation seen in 2022, which is likely to continue driving wage negotiations and price movements in 2023.

Inflation should fall to 4.2% on average during the year. Year-on-year inflation is likely to remain high in early 2023 before falling gradually to around 3% at the end of the year. Energy prices should fall back after the sharp rise in 2022 as gas and electricity price caps are maintained and as crude oil prices fall in 2023. On average during the year, core inflation is likely to be the same as in 2022, i.e. 4.1%. Past rises in commodity prices should continue to drive inflation in food and manufactured goods prices, with a peak expected in early 2023, while prices of services are expected to continue rising rapidly in the wake of faster wage growth.

These growth forecasts are similar to those of the main international organisations and to market consensus forecasts.

For 2022, factoring in the latest growth figures, recent forecasts predict growth of 2.6% (Insee and the Banque de France). For 2023, differences between forecasts remain limited given the major uncertainty about how the international context will develop. The increase in GDP in 2023 compared with 2019 is 2.0% in the forecast that underpins the 2023 Budget Bill, and ranges between 1.4% (market consensus and the Banque de France) and 2.1% (European Commission) for the most recent forecasts.

Box 1: Gas prices and the 2023 Budget Bill macroeconomic scenario

The Opale[33] forecasting model explicitly factors in oil prices (the 2023 Budget Bill assumes a Brent crude price of $103 per barrel in 2022 and $89 in 2023, based on futures prices in summer 2022), because of their traditional importance in macroeconomic models and the economic impact of past oil shocks. However, it does not explicitly factor in gas prices, instead including an aggregate energy import price.

In addition, inflation forecasts are calculated in a bottom-up manner, forecasting movements in sub-components of the consumer price index, which are then aggregated.

In the 2023 forecast, high gas prices are taken into account in three ways:

1. *The limited increase in regulated selling prices for gas and electricity in early 2023 has a direct impact on consumer prices and on the 2023 inflation forecast*
2. *It is assumed that energy import prices (including oil, gas and electricity) will double in 2022 and stabilise at that very high level in 2023. This shock is affecting economic output, particularly by making inputs more expensive for businesses.*
3. *The increase in gas prices in wholesale markets in summer 2022 also indirectly affected inflation through its effect on other consumer prices, particularly for food and manufactured goods.*

[33] Working document no. 2017/06 - "The Opale forecasting model 2017"

Box 2: Government measures preserve household purchasing power

In response to strong inflationary pressures, the government has implemented measures to limit the rise in energy prices and to support household income.

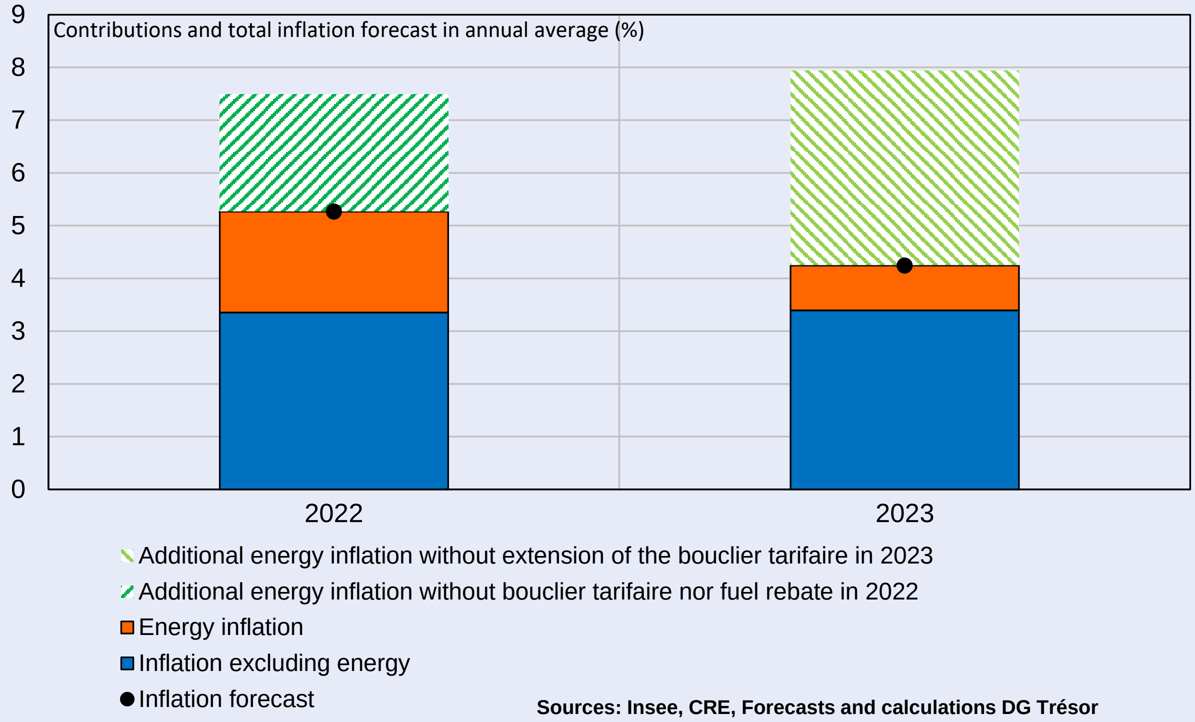
The cap on gas and electricity prices and the fuel rebate reduce inflation

*With the cap on gas and electricity prices ("*bouclier tarifaire*"), the regulated selling prices for gas are frozen since October 2021, and the increase in those of electricity has been limited to 4% in February 2022. Without these measures, the regulated selling prices for gas would have been 105% higher and those for electricity 38% higher in September 2022, according to the French Energy Regulatory Commission (CRE).*

According to the French Treasury estimates, the cap on gas and electricity prices and the fuel rebate would limit inflation (in the sense of the consumer price index - CPI) by more than 2 points on average in 2022. The effect would be even greater if the indirect channel of limiting energy inflation on the price of other products was taken into account. In particular, the National Institute of Statistics and Economic Studies (Insee) has estimated the total effect (direct and indirect) of more than 3 points on the year-on-year change in the CPI in Q2 2022.

Extending the cap on gas and electricity prices to 2023 (as planned in the 2023 Budget Bill) would reduce inflation by more than 3 ½ pts on average compared to a total end of the cap on December 31, 2022. The impact would also be greater by adding the indirect effect of measures limiting energy prices on the prices of other goods and services.

Inflation forecasts for 2022 and 2023 with the effect of the *bouclier tarifaire*



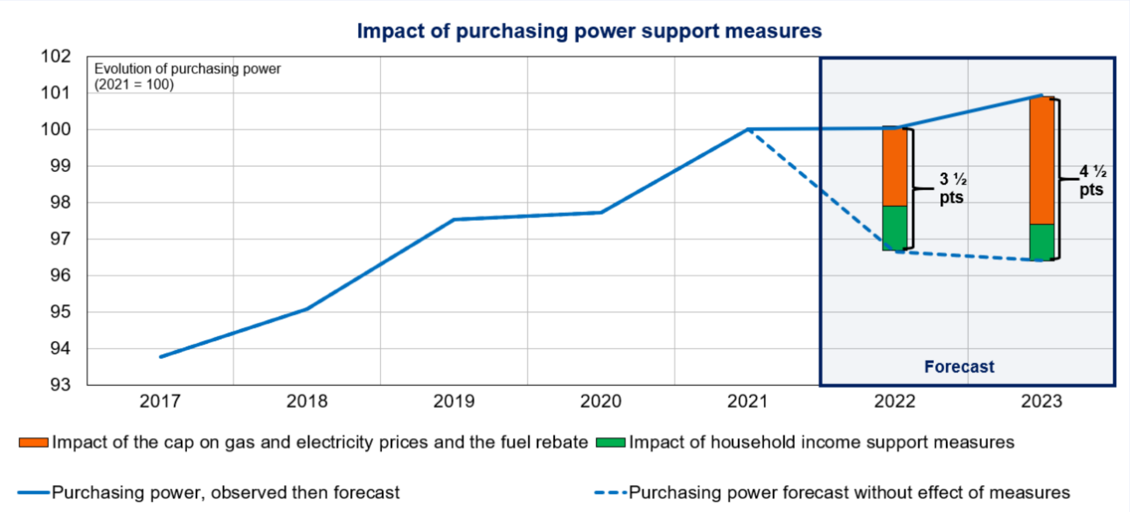
Sources: Insee, CRE, Forecasts and calculations DG Trésor

Household income supports

The measures adopted in the summer and those in the 2023 Budget Bill would support household disposable income by €18.3 billion in 2022 and €15.1 billion in 2023 (see table below).

Household income supports	Amounts in € billion	
	2022 / 2021	2023 / 2021
Wages		
Rise in civil service base pay	3.7	7.4
Tripling of the value-sharing bonus	1.2	2.5
Social benefits		
Early increase in pensions and social benefits	6.7	1.6
One-off energy subsidy for households	1.8	
Exceptional back-to-school benefit	1.1	
Subsidy for low-income households relying on fuel oil for heating	0.2	
Taxes		
Elimination of the public broadcast licence fee	3.2	3.2
Kilometric scale for tax deductions	0.4	0.4
Total in € billion	**18.3**	**15.1**
Total in purchasing power points	**1.2**	**1.0**

The measures support both wages and social benefits while reducing taxes on households. Combined with the cap on gas and electricity prices and the fuel rebate, these measures will preserve purchasing power in 2022 and increase it in 2023. Without these measures, purchasing power would have fallen in both years (see graph below).



In addition to the measures adopted in 2021 and 2022, the purchasing power of households will also be supported by the phasing-out of the residence tax on primary residences, accounting for a €3-billion cut in taxes in 2022 and again in 2023.

Box 3: Review of the forecasts for 2022 and 2023

Compared to the economic scenario in the Stability Programme (PStab) published on 29 July 2022, the GDP growth forecast for 2022 has been revised upward slightly (by 0.2 points to 2.7% compared with 2.5% for the PSTAB), whereas there has been a larger 0.4-point downward revision to the forecast for 2023 (from 1.4% to 1.0%).

The 0.2-point upward revision for 2022 reflects the French economy's resilience, as shown by a carry-over growth of 2.5% at the end of the second quarter according to quarterly accounts published by Insee on 31 August 2022, identical to the PStab forecast. The economy is expected to continue growing, although at a slower rate, in late 2022. Measures to support purchasing power adopted in the summer should support consumer spending in particular throughout the second half. The good overall level of business climate indicators in August backs up this forecast.

The 0.4-point downward revision for 2023 is the result of higher inflation and particularly the impact of high gas prices, faster-than-expected monetary tightening and a less positive international environment in general. These various factors affect all aspects of demand and have caused all private-sector components of GDP to be revised down.

The 2022 total inflation forecast has been increased by 0.3 points relative to the PStab (5.3% versus 5.0%) and the core inflation forecast by 0.2 points (4.1% versus 3.9%). For 2023, the revision to total inflation is greater at 1.0 point (4.2% versus 3.2%), while core inflation has been revised higher by 0.2 points again (4.1% versus 3.9%). The upward revision to the 2023 energy inflation forecast reflects updated assumptions regarding margins on petroleum products and movements in regulated gas and electricity selling prices. Core inflation revisions reflect the latest producer price figures and the recent rise in gas prices, which are expected to filter through to food and manufactured goods prices.*

** The scenario in the 2023 Budget Bill includes a 15% increase in regulated selling prices for gas and electricity in early 2023, as announced by the Prime Minister on 14 September 2022.*

Table 1: Economic forecasts for 2022-2023
(real annual changes in %, unless otherwise stated)

	2021	2022	2023	Cumulative 2019/2023
GDP - France*	6.8	2.7	1.0	2.0
World demand for French goods	11.5	5.5	1.6	12.5
Consumer price index - France	1.6	5.3	4.2	//
World GDP*	6.1	3.3	3.1	9.5
United States GDP*	5.7	1.6	1.2	5.0
Euro area GDP*	5.2	3.1	1.5	3.2
EUR/USD exchange rate (absolute level)**	1.18	1.06	1.02	//
Oil price (Brent, USD/barrel) (absolute level)	71	103	89	//

** Data adjusted for working days.*
*** The value of one euro in dollars, i.e. €1 = $X.*

Table 2: Comparison between forecasts in the 2022 Budget Bill and those of the July 2022 Stability Programme

Annual growth rate (in %)	Stability Programme 2022-2027			2023 Budget Bill		
	2022	**2023**	**Cumulative 2019/2023**	**2022**	**2023**	**Cumulative 2019/2023**
International environment						
Global demand for goods addressed to France	5.2	3.5	14.2	5.5	1.6	12.5
EUR/USD exchange rate (absolute level)	1.08	1.07	//	1.06	1.02	//
Oil price (Brent, USD/barrel) (absolute level)	110	98	//	103	89	//
France						
GDP	2.5	1.4	1.8	2.7	1.0	2.0
Consumption expenditure of households	2.8	1.9	1.8	2.5	1.4	1.5
Total gross fixed capital formation	2.9	0.8	5.9	2.3	0.1	5.4
of which non-financial companies	2.0	1.9	*6.8*	*1.4*	*0.9*	*6.2*
of which general government	7.8	-2.8	*5.7*	*6.7*	*-1.6*	*4.6*
Imports	6.5	3.0	0.9	6.6	2.5	0.9
Exports	7.1	7.9	-2.4	6.8	2.7	-2.7
Contribution of foreign trade to growth (in percentage pts of GDP)	0.0	0.1	//	0.0	0.0	//
Contribution of inventories to growth (in percentage pts of GDP)	0.0	0.0	//	0.3	0.0	//
Contribution of domestic demand excluding inventories (in percentage pts of GDP)	2.5	1.3	//	2.5	1.0	//
Total consumer price index	4.5	3.2	//	5.3	4.2	//

Sources: Stability Programme 2022-2027, 2023 Budget Bill forecasts.

Box 4: Authority responsible for producing forecasts and statement regarding the independent nature of the forecasts

The Directorate General of the Treasury prepares macroeconomic forecasts and compiles public finance forecasts. It works with the Budget Directorate, which is responsible for central government fiscal policy and preparing budget acts, and with the Social Security Directorate, which oversees the financing of social security funds and prepares the Social Security Budget Bill. For interim financial reporting, the Directorate General of the Treasury relies on information produced by other government departments, such as the Public Finances Directorate General and the Directorate General of Customs and Excise.

These forecasts were submitted to the High Council on Public Finances ("Haut Conseil des finances publiques", HCFP) for its opinion. The HCFP is an independent fiscal institution, set up by the Constitutional Bylaw no. 2012-1403 of 17 December 2012 relating to the planning and governance of the public finances. Its task is to assess whether the government's macroeconomic and public-finance forecasts, on which the Budget Bill is based, are realistic. It also gives its opinion on the consistency of annual targets presented in financial legislation with the multiyear public-finance trajectories defined in the Public Finance Planning Act.

The HCFP gives its opinion on all these aspects, and that opinion is attached to the Budget Bill submitted to Parliament. The Constitutional Council has stated that opinions issued by the HCFP are taken into consideration when assessing whether the legislation submitted for its review is sincere.

In its opinion on the Budget Bill and the Social Security Budget Bill for 2023, which was issued on 26 September 2022, the HCFP considered the growth forecast for 2022 to be "credible" and that for 2023 to be "a little high". It also described the inflation forecast for 2022 as "credible" and that for 2023 as "plausible".

Box 5: Comparison with forecasts by the European Commission and international organisations and with Consensus Forecasts

The government's growth forecast for 2022 is close to that published by the Banque de France in its September macroeconomic projections, Insee's forecast in its 7 September economic update and the OECD's forecast in its Interim Economic Outlook of 26 September (2.6% in all three cases). It is also close to the average of forecasts provided by economists as part of the September Consensus Forecasts (2.5%). The most recent IMF[34] and European Commission forecasts are older and so do not factor in the good second-quarter growth figure.

For 2023, the growth forecast is at the upper end of recently published forecasts. It is a little higher than the September Consensus Forecast and the OECD forecast (0.6% in both cases), and the Banque de France's "reference" scenario (0.5%), but close to the Banque de France scenario that is most similar to the assumptions used in the Budget Bill (limited increase in regulated energy selling prices in 2023, corresponding to growth of 0.8%). It is in line with the IMF's forecast from July (1.0%). These forecasts are highly dependent on assumptions regarding developments in the geopolitical situation, energy prices and supplies, and on public-policy measures taken by France and its main partners, which are not always explicit. In particular, part of the difference with respect to other forecasters could be down to the fact that household and business support measures included in the Budget Bill have not been fully taken into account.

The inflation forecast for 2022 is within the range of other forecasters: as regards CPI inflation, Insee (September) is also forecasting annual inflation of 5.3%, as is the OFCE (July), while the Consensus Forecast in September was slightly higher at 5.5%. As regards HICP inflation[35], the Banque de France (September) is forecasting 5.8%, while the European Commission (July) and the OECD (September) are forecasting 5.9%, similar to the French government's figure for its comparable inflation measure.

The inflation forecast for 2023 is at the upper end of the range shown by other forecasters. This may reflect the fact that the Budget Bill scenario factors in the rise in wholesale gas prices and producer prices seen in the summer: for CPI inflation, the Consensus Forecast for September is 3.6% and the OFCE forecast for July is 4.1% (annual average figures). As regards HICP inflation, the Banque de France (September) is forecasting 4.7% in its central scenario – very close to the French government's figure for its comparable inflation measure – while the European Commission (July) is forecasting 4.1%. The OECD's figure, published in September, is much higher at 5.8%.

[34] The Budget was released before the publication of the October *World Economic Outlook*

[35] HICP inflation was 0.16 points higher than CPI inflation between 2010 and 2019. This difference increases when energy prices rise sharply, as has been the case in 2021 and 2022, because they have a higher weighting in the HICP.

Table 3: Forecasts for France
Budget Bill, OECD, European Commission and IMF

	2023 Budget Bill			OECD**** Sept. 2022			European Commission			IMF**** July 2022		
Annual growth rate (in %)	2022	2023	2023/ 2019 ***	2022	2023	2023/ 2019 ***	2022	2023	2023/ 2019 ***	2022	2023	2023/ 2019 ***
GDP	2.7	1.0	2.0	2.6	0.6	1.5	2.4	1.4	2.1	2.3	1.0	1.6
Harmonised Index of Consumer Prices	5.9*	4.7*	/	5.9	5.8	/	5.9	4.1	/	n.a.	n.a.	/
Net Lending (+) or Borrowing (−) of the General Government (in percentage points of GDP) **	-5.0	-5.0	/	n.a.	n.a.	/	n.a.	n.a.	/	n.a.	n.a.	/

** This forecast corresponds to CPI inflation of 5.3% in 2022 and 4.2% in 2023.*

*** According to the Maastricht definition.*

**** DG Trésor calculations.*

**** OECD: Interim Economic Outlook, 26 September 2022; IMF: World Economic Outlook Update; European Commission: Summer Interim Forecast, 14 July 2022.*

Table 4: Comparison of the economic outlook
of the Budget Bill and the Consensus Forecasts

	2023 Budget Bill core economic scenario			Consensus Forecasts September 2022		
Average annual growth rate (in %)	2022	2023	2023/ 2019	2022	2023	2023/ 2019
International – GDP growth						
United States	1.6	1.2	5.0	1.7	0.5	4.4
Japan	1.3	1.8	0.1	1.5	1.5	0.1
United Kingdom	3.2	-0.8	-0.2	3.4	-0.3	0.5
Euro area	3.3	3.1	3.2	2.9	0.2	1.6
France						
GDP	2.7	1.0	2.0	2.5	0.6	1.4
Household consumption	2.5	1.4	1.9	2.3	0.3	0.6
Business investment	1.4	0.9	6.1	1.3	0.3	5.4
Consumer Price Index	5.3	4.2	/	5.5	3.6	/

Fiscal outlook

Fiscal overview and strategy

Overview

In 2021, massive fiscal support to cope with the persistent COVID-19 crisis and the rapid deployment of the *France Relance* recovery plan enabled France to achieve one of the highest growth rates in the euro area and to start improving its public finances, while still maintaining its potential for growth.

Following a 2020 general government deficit of 9.0% of GDP because of the pandemic, France's deficit shrank significantly in 2021 to stand at 6.5% of GDP. The improvement can be attributed to the rebound in economic activity made possible by emergency support measures and exceptional healthcare expenditures that the Government introduced to protect households and businesses from the consequences of the pandemic, as well as by the deployment of the recovery plan. The cumulative impact of the emergency support and recovery measures on the general government balance in 2021 was nearly the same as in 2020: after factoring in the European recovery financing, the impact stood at €71 billion[36], compared to €72 billion in 2020 (see Box 1). In addition, there was a permanent cut of €10 billion in taxes on production. Also, measures to protect French households from inflation were introduced at the end of 2021. These measures include the cap on energy prices (*bouclier tarifaire*) and the €100 inflation benefit paid to 38 million people in France. Consequently, the deficit remains deep in 2021, given the scale of the Government's various measures.

In 2022, the general government balance should continue to improve to stand at 5.0% of GDP in uncertain times.

There is no change in the 2022 deficit forecast compared to the Initial Budget Act and the Supplementary Budget Act. The deficit should shrink as economic activity continues to rebound and the COVID-19 emergency support measures are phased out, with the exception of the healthcare measures that are directly related to the pandemic, which should continue to represent major expenditure.

However, the Government has responded to inflationary pressures and the consequences of the war in the Ukraine since the beginning of the year by stepping up measures introduced in the third quarter of 2021 to curb price rises and to support households and businesses under the terms of the Act on emergency measures to safeguard purchasing power and the 2022 Supplementary Budget Act, which Parliament passed in August. Nearly €50 billion should be devoted to these support measures, which encompass the cap on gas and electricity price increases, a reduction in motor fuel prices, along with an early increase in social benefits and other measures to support households and businesses. However, the fiscal cost of these measures is partially offset by lower costs for public-service energy obligations as a result of high market prices (see Box 2). Debt service expenditure has also been revised upward since the beginning of the year, because of the impact inflation has on inflation-linked securities and, to a lesser extent, higher interest rates. In contrast, the spontaneous growth of taxes and social security contributions, which have risen more quickly than GDP, helps to reduce the deficit. This testifies to the resilience of France's economy and the effectiveness of the Government's measures.

Expenditure on building the France of tomorrow has remained very substantial. Spending under the recovery plan is continuing at a pace similar to that seen in 2021 and the *France 2030* plan has started to be scaled up. The structural deficit should decrease by 0.9 percentage points to stand at 4.2% of GDP, compared to 5.1% in 2021. The ratio of debt to GDP should fall from 112.8% in 2021 to 111.5%, as a result of the improvement in the general government balance and the strength of nominal economic growth.

The general government deficit should remain stable at 5.0% of GDP, despite a forecast for growth that is slower than potential growth.

The Government will continue its action to protect the households and businesses that are most

[36] Excluding the cut in taxes on production

affected by inflation. The gross cost of maintaining the cap on gas and electricity price increases should be €45 billion and the net cost should be €16 billion. The fiscal burden should be offset in part by lower public service energy obligations, as it has been in 2022. The Government will also continue its long-term action to boost the competitiveness of France's businesses. More specifically, the first step in the elimination of the contribution on business value-added (CVAE) over two years will extend the cut in taxes on production introduced in 2021. In 2023, the spontaneous growth of taxes and social security contributions should be slower than economic growth, in contrast to their strong growth in 2022. More specifically, corporate income tax should decrease and the income tax scale should be fully linked to inflation. Expenditure on emergency support measures, which remained high for healthcare in 2022, should be virtually eliminated in 2023 and expenditure under the recovery plan has already peaked and should start to decline as well. The structural deficit should continue to shrink to 4.0% of GDP (0.2 percentage points less than in 2022) and the debt-to-GDP ratio should fall slightly to 111.2%.

The aggregate tax and social security contribution rate should stand at 45.2% of GDP in 2022, compared to 44.3% in 2021. This large increase stems mainly from the strong spontaneous growth of taxes and contributions (8.2%), which outstripped nominal GDP growth of 5.6%. This gap can be attributed to the strong growth of certain macro-economic tax bases, such as total payrolls, transactions subject to VAT, corporate profits). Some of these tax bases lag economic growth. On the other hand, discretionary revenue measures should help to reduce aggregate taxes and social security contributions by €4.7 billion : *e.g.* the cut in the domestic consumption tax on electricity for end-users implemented under the energy price cap, the elimination of the public broadcast licence fee, and other already-planned measures as the reduction in the corporate income tax and the elimination of the residence tax on main residences. The impact of these measures should be offset by public service energy charges, which should be accounted as revenue, under the system of national accounts, in 2022. The aggregate tax and social security contribution rate should decrease by 0.5 percentage point in 2023 to 44.7% of GDP, as a result of a spontaneous growth in revenue of 3.0% compared to an economic growth of 4.6%: the factors that drove the increase in 2022 should weaken in 2023. Discretionary revenue measures should make a positive contribution of €4.8 billion to aggregate tax and social security contributions in 2023. The cuts in the contribution on business value-added and the elimination of the residence tax on main residences should be more than offset by the new increase in revenue from public service energy charges and the consumption of all remaining Competitiveness and Employment Tax Credits, which represents an increase in the tax burden with no impact on the general government balance.

The ratio of government expenditure to GDP should continue to fall, standing at 57.6% in 2022, excluding tax credits, compared to 58.4% in 2021. Government expenditure should decrease by 1.1% in real terms, following real growth of 2.6% in 2021. The decline should be mainly the result of the virtual elimination of the main emergency measures, except for healthcare expenditure directly related to the pandemic. If the impact of the decline in expenditure on emergency support and recovery measures is neutralised, the real growth rate of government expenditure should stand at 2.4%, compared to 1.9% in 2021 on a like-for-like basis. This is primarily the result of the Government's measures to protect households' purchasing power and to support businesses as they cope with inflation. The ratio of government expenditure, excluding tax credits, to GDP should continue to fall to 56.6%. Government expenditure should decline by 1.5% in real terms as expenditure on emergency measures is virtually eliminated and expenditure on recovery measures decreases. Absent this effect, real expenditure should be virtually stable.

Table 1: General government balance by sub-sector			
Lending capacity (+) or borrowing requirement (-) as a % of GDP	**2021**	**2022**	**2023**
Central government	-5.7	-5.5*	-5.4
Central government agencies	-0.2	0.1*	-0.2
Local government	0.0	0.0	-0.1
Social security funds	-0.7	0.5	0.8
General government balance	**-6.5**	**-5.0**	**-5.0**

** Including the SNCF Réseau debt assumed in 2022 (€10 billion). This transaction is neutral for the general government balance because the central government expenditure is recorded as revenue for central government agencies. Without this transaction, the central government deficit would be equal to 5.2% of GDP in 2022 and the central government agencies deficit would be equal to 0.2% of GDP.*

Table 2: Structural balance			
As a % of potential GDP, unless otherwise noted	**2021**	**2022**	**2023**
General government balance* (1)	**-6.5**	**-5.0**	**-5.0**
Cyclical balance * (=0,57 * output gap) (2)	-1.4	-0.6	-0.8
One-off and other temporary measures (3)	-0.1	-0.1	-0.2
Structural balance = (1) - (2) - (3)	-5.1	-4.2	-4.0
Structural adjustment	**-3.3**	**0.9**	**0.2**
of which structural effort	-4.5	-0.2	1.3
*of which discretionary revenue measures***	*-0.6*	*-0.3*	*0.0*
of which expenditure effort (including tax credits)	*-3.8*	*0.1*	*1.3*
of which non-discretionary component	1.2	1.0	-1.1
of which non-tax revenue	*0.9*	*-0.1*	*-0.3*
of which tax elasticity effects	*0.3*	*1.1*	*-0.7*
Output gap	-2.4	-1.1	-1.4

** As a % of nominal GDP*

***Discretionary revenue measures, including tax credits and excluding one-off and other temporary measures.*

Table 3: Key figures			
As a % of GDP, unless otherwise noted	**2021**	**2022**	**2023**
Total government debt	**112.8**	**111.5**	**111.2**
Government debt, excluding financial support for the euro area	110.2	109.0	108.9
General government expenditure, excluding tax credits	**58.4**	**57.6**	**56.6**
Nominal growth (%)	4.2	4.2	2.8
Real growth (%)	2.6	-1.1	-1.5
Real growth excluding emergency COVID-19 support and recovery measures (%)	1.9	2.4	0.1
Tax burden	**44.3**	**45.2**	**44.7**

Box 1: Emergency support measures and the recovery plan

The Government introduced emergency support measures back in March 2020 to cope with the Covid-19 crisis. *The purpose of the measures was to provide effective protection for France's production plant and jobs. Expenditure on these measures was still very substantial in 2021 to cope with the pandemic and economic crisis. It declined sharply in 2022 and should be virtually ended in 2023 with the disappearance of the main support measures, such as the solidarity fund, the short-time work scheme and exemptions from social security contributions). The main expenditure on continuing measures in 2023 should be a provision for exceptional healthcare expenditure on vaccines and testing in order to keep the pandemic under control, and disbursements to cover losses on government-backed loans.*

TABLE 4: Cost of emergency support measures having a direct impact on the Maastricht deficit

€ billion	2020	2021	2022	2023
Short-time work scheme (excluding long-term support under the *recovery plan*)	25.8	8.1	0.3	-
Solidarity Fund and other sectorial support	15.9	23.9	1.1	-
Exceptional healthcare expenditure	14.0	18.3	11.5	1.0
Exemptions and support for social contribution payments	5.8	2.9	0.1	-
Cash holdings of the Services and Payments Agency (ASP) and the Public Health Agency (SPF)*	-0.9	-	0.3	0.3
Extension of entitlement to income replacement and postponement of unemployment insurance reform	3.9	5.3	0.3	-
Carry-back of losses against previous taxable income for businesses	0.1	0.4	-0.1	-
Tax credit for lessors	-	0.1	-	-
Other specific support measures (masks, long-term intermittent workers, etc.)	6.4	1.9	0.2	-
Losses on European Investment Bank (EIB) loans	-	0.0	0.3	0.4
Losses on government-backed loans (net of premia)	-0.2	-0.3	1.7	1.2
Other State expenditure	-	1.0	-	-
Total	**70.7**	**61.6**	**15.9**	**2.9**

In September 2020, the Government presented its €100-billion France Relance recovery plan to supplement these emergency support measures. Deployment of the plan started in 2020 and was massively stepped up in 2021 and 2022. Expenditure under the plan should slow in 2023. The aggregate impact of the measures on the general government deficit before European funding is expected to be €19.9 billion in 2022 and €9.6 billion in 2023, after peaking at €22.9 billion in 2021. Starting in 2021, more than €10 billion in permanent cuts in taxes on production have added to the impact of the measures.

The recovery plan has been partially financed by European Union subsidies totalling €37.5 billion. These funds are recorded as non-tax revenue, with a differential between the accrual-based national accounts and the cash-based accounts owing to the expected lag between the execution of the expenditure financed by the EU and the actual remittance of the relevant funds.

Table 5: Cost breakdown of *France Relance* Plan measures in the national accounts balance from 2020 to 2023

	2020	2021	2022	2023
Recovery plan measures, excluding taxes on production – before EU financing (A)	2.5	22.9	19.9	9.6
EU financing (B)	-	-13.7	-11.2	-4.8
Recovery plan net of EU financing (A+B)	**2.5**	**9.2**	**8.7**	**4.8**

Box 2: Measures to support households and businesses in coping with inflation

The Government has implemented several measures to protect households and businesses from rising prices, especially energy prices.

The energy price cap was announced back in September 2021 to cope with soaring gas and electricity prices. Regulated retail prices for natural gas (TRVg) were frozen at their October 2021 level and the rise in regulated electricity prices (TRVe) was capped at 4%, including taxes, in February 2022. Three measures were introduced to ensure the effectiveness of the cap on electricity prices: a cut in the domestic consumption tax on electricity for end-users (TICFE), an exceptional increase in the cap on Regulated access to legacy nuclear electricity (ARENH) from 100 TWh to 120 TWh and the further freeze of regulated electricity prices. Suppliers and local distribution companies will be compensated for losses resulting from the price caps. The system of national accounts records a subsidy when the suppliers register their losses.

The Government introduced other measures in 2022 to supplement the energy price cap and respond to the very sharp increase in energy prices. These measures included:

- a “fuel rebate” of 18 cents per litre, including tax, was introduced on 1 April for all households and businesses. This measure was extended until 31 December and the appropriations were made under the first 2022 Supplementary Budget Act (LFR 1). The “fuel rebate” was increased to 30 cents per litre, including tax, between 1 September and 31 October 2022, and then reduced to 10 cents per litre, including tax, between 1 November and 31 December;
- support for energy-intensive businesses was introduced for companies where gas and electricity bills account for a large share of their expenses;
- some specific measures were also introduced to support industries that are most vulnerable to rising input prices;
- early increases in retirement pensions and social benefits were introduced on 1 July 2022;
- an exceptional back-to-school benefit was paid to 11 million households. A one-off energy subsidy will also be distributed at the end of 2022 to protect low-income households, along with a subsidy for low-income households relying on fuel oil for heating.

The Government decided to extend the caps to protect households and businesses against soaring energy prices in 2023, restricting the rise in regulated gas prices to 15% in January 2023 and the rise in regulated electricity prices to 15% in February 2023. As is the case in 2022, suppliers and local distribution companies will be compensated for losses resulting from the caps. In 2023, the cut in the domestic consumption tax on electricity for end-users (TICFE) will be supplemented with a cut in the municipal tax on electricity for end-users (TCCFE).

Table 6: Impact of support measures to cope with inflation on the general government balance (€ billion)

Cost of support measures and price caps	2021	2022	2023
Inflation voucher	3.8	-	-
One-off energy voucher for households	0.5	1.8	-
Gas price cap – compensation for suppliers	0.4	8.1	11.1
Gas price cap – gas storage	-	1.4	-1.3
Electricity price cap – cuts in consumption taxes on electricity for end-users	-	7.4	9.4
Electricity price cap – compensation for suppliers	-	11.3	24.4
Fuel rebate	-	7.6	-
Subsidy for energy-intensive companies	-	1.5	1.5
Sectorial subsidies	-	1.1	-
Kilometric scale for tax deductions	-	0.4	0.4
Exceptional back-to-school voucher	-	1.1	-
Early increase in pensions and social benefits	-	6.7	1.6
Subsidy for low-income households relying on fuel oil for heating	-	0.2	-
Postponement of the elimination of tax relief on off-road diesel fuel	-	-	0.8
Other	-	-	1.6
Total	**4.7**	**48.6**	**49.5**
Cut in public service energy obligations	-1.9	-18.4	-28.0
Increase in hydroelectricity royalties	-0.1	-0.3	-1.0
Total net of changes in public service energy obligations and hydroelectricity royalties	**2.7**	**29.9**	**20.6**

The impact of these measures on the general government balance is partially offset by the savings on public service energy obligations. These obligations usually comprise central government subsidies to support the development of renewable energy sources. The amount of the subsidies depends on the positive or negative gap between the floor price set by contract and the market price of electricity, which means the subsidies should be significantly smaller in the current context of high market prices. The total subsidy amount may even become negative, meaning that the system of national accounts could record central government revenue of €9.6 billion on this item in 2022 and €19.2 billion in 2023.

The resulting savings shown in the table above are measured in comparison to a baseline situation deemed to be usual before the energy price crisis. In this case, these obligations would have cost the central government €8.0 billion in 2021 and €8.8 billion in 2022 and 2023, according to the 2021 and 2022 forecasts produced by the Energy Regulation Commission at its July 2021 session. The baseline obligations used for comparison in 2022 have been maintained for 2023. The projected savings of €18.4 billion in 2022 and €28.0 billion in 2023 have been deducted from the baseline figures. The increased revenue from hydroelectric dam royalties should also offset some of the cost of the support and emergency measures to cope with inflation.

In addition to these measures, the elimination of the public broadcast licence fee, which should add €3.2 billion to the general government deficit in 2022, was adopted to boost households' purchasing power under the first 2022 Supplementary Budget Act. The 3.5% rise in civil service pay on 1 July 2022 should add €3.7 billion to the general government deficit in 2022 and €7.4 billion in 2023.

The figures presented in this box are subject to a great deal of uncertainty because of their direct link in some cases to market prices for energy, which are particularly volatile.

2021 outturn and 2022 mid-year outturn

Outturn in 2021

Overview of the year

The 2021 general government deficit, as defined by the Maastricht Treaty, stood at €163.3 billion, or 6.5% of Gross Domestic Product (GDP), down from 9.0% in 2020. The smaller deficit can be attributed mainly to a rebound in economic growth to 6.8% in real terms, following a contraction of 7.8% in 2020. However, the COVID-19 pandemic still had a major impact on the 2021 deficit. Emergency support measures to fight the pandemic and protect the economy and jobs added €61.6 billion to the general government deficit, compared to €70.7 billion in 2020. The cost of the recovery plan, which will contribute to solidifying growth and support the green and digital transition, will add another €9.2 billion to the deficit (net of European Union financing). Central government and the social security funds have borne most of the cost of the measures.

The whole 2021 deficit was incurred by central government (5.8% of GDP) and the social security funds (0.7% of GDP), whereas the local government balance was near equilibrium on the strength of a surplus on local governments' accounts. These data are taken from the latest update of the general government accounts published by the French National Statistics Institute at the end of August, with slight downward revision (0.1 percentage points of GDP) of the 2021 deficit, compared to the data published last May[37].

The structural balance posted a deficit of 5.1% of GDP in 2021, which was 3.3 points larger than in 2020. Most of the increase in the structural deficit can be attributed to the recovery and emergency measures, which are no longer classified at one-offs and other temporary measures, as was the case in 2020. The larger structural deficit can also be attributed to cuts in taxes and social security contributions made before the crisis and pay rises that the government introduced under the terms of the Ségur agreement on the renovation of the healthcare system, along with the first measures to cope with inflation. The cyclical balance posted another deficit equivalent to 1.4% of GDP because of the COVID-19 crisis. The balance on one-offs and other temporary measures was slightly negative at 0.1% of GDP.

Government expenditure in 2021

Government expenditure (excluding tax credits) grew by 4.2% in nominal terms in 2021, compared to 6.9% in 2020. Real expenditure growth stood at 2.6%. However, the strong rebound in economic activity meant that government expenditure as a share of GDP shed more than two points, shrinking from 60.7% in 2020 to 58.4% in 2021. The expenditure growth in 2021 stems mainly from the scaling up of the recovery plan (€20 billion more, including European Union financing and excluding the cut in taxes on production), expenditure related to the Ségur agreement on the renovation of the healthcare system (€8.5 billion more in 2021), increased central government debt service expense (€6 billion more) resulting from the index-linking payments on inflation-linked bonds, the implementation of the early measures to fight inflation (€5 billion more), including the €100 inflation benefit paid to 38 million people in France, and the rebound in local government operating and investment expenditure as it catches up after the pandemic (€11 billion more). In contrast, expenditure on emergency support measures shrank by approximately €9 billion.

Central government expenditure (excluding tax credits) grew by 0.5% in nominal terms compared to 2020, after posting 17.1% growth in 2020, including transfers. Expenditure on subsidies continued its strong growth, rising by 11.9% in 2021, compared to 11.6% in 2020. At the same time, expenditure on social benefits shrank by 6.5%, compared to growth of 20.9%, expenditure on the short-time work scheme fell, but this was partially offset by the inflation benefit of €100 paid to 38 million people.

[37] Source: Insee, National accounts in 2021, 31 August 2022

Interest payments grew by 23.9%, after shrinking by 19.5% in 2020. The central government payroll growth remained moderate at 1.3%, compared to 1.1% in 2020 and intermediate consumption expenditure growth stood at 8.0%, compared to 5.2% in 2020. Gross fixed capital formation shrank by 5.5%, after posting growth of 14.9% in 2020, but was still greater than in 2019. Central government agencies' expenditure grew by 9.8% in 2021. The growth stems mainly from the following factors: The increase in expenditure by *France Compétences* (€4-billion), as the number of apprenticeship contracts entered into during the year rose by 38% from 530,399 in 2020 to 733,194[38] in 2021; The increase in expenditure by universities and the national research agency grew under Invest for the Future programmes (€2 billion); The increase in expenditure of the national housing agency (ANAH), driven by renovation subsidies "*MaPrimeRenov*'" (€1 billion); The increase in the national public health agency's expenditure (*Santé publique France)* in the context of the continuing fight against COVID-19 (€½ billion); The increase in expenditure by the housing services *Action Logement Services* (€2 billion, counted as general government expenditure from 2020 on).

Local government expenditure grew by 4.1% in 2021, following a contraction of 1.1% in 2020, mainly as a result of partial catching up on expenditure that was held back because of the shutdown of projects and services during the pandemic in 2020. Local government investment expenditure, defined as gross fixed capital formation, grew by 8.6%, after declining by 10.3% in 2020 (excluding Société du Grand Paris), while expenditure on intermediate consumption grew by 6.3%, after falling by 3.6% in 2020. Local government payroll growth was faster, at 2.8%, compared to 1.4% in 2020 and the growth of expenditure on subsidies slowed, from 2.4% in 2020 to 1.6% in 2021. Aggregate local government operating expenditure increased by 2.2%.

Social security expenditure, excluding tax credits, grew more slowly as spending on the short-time work scheme decreased. The growth rate fell from 6.4% in 2020 to 3.3% in 2021. However, expenditure on social benefits rose by 3.2% in 2021, following 5.3% growth in 2020, as healthcare expenditure was affected by COVID-19. Payroll and intermediate consumption expenditure growth accelerated to 6.1%, following 4.9% growth in 2020, as pay rises under the Ségur agreement on the renovation of the healthcare system took effect.

Aggregate tax and social security contribution rates in 2021

Aggregate taxes and social security contributions as a share of GDP stood at 44.3% in 2021, compared to 44.4% in 2020. The virtual stability of the ratio can be attributed to a 9.4% spontaneous growth of the aggregate, which was faster than the nominal GDP growth of 8.2%, along with discretionnary revenue measures of €14.8 billion. The resulting tax elasticity stood at 1.1. The strong growth can be attributed to the robustness of some tax bases (taxable profits, real estate transactions, payrolls). Some taxes even posted growth that outstripped that of the underlying tax base, as in the case of VAT.

These discretionnary revenue measures are measures that were decided before the pandemic, such as the €3.7-billion cut in corporate income tax and the continuing process to phase out the residence tax on main residences, accounting for a €2.6-billion cut in taxes. Other tax cuts under the recovery plan include the reduction of taxes on production by approximately €9 billion, net of the knock-on effect on corporate income tax revenue.

[38] « L'apprentissage en 2021 », Dares Résultats no. 42, 1 September 2022.

Non-tax revenue in 2021

Non-tax revenue was equal to 7.6% of GDP in 2021, up from 7.2% in 2020, despite the rebound in economic activity. The extra revenue compared to GDP can be attributed to the €13.7 billion in European Union financing received under the National Recovery and Resilience Programme (NRRP), which is equivalent to 0.5% of GDP.

Central government non-tax revenue, excluding financing for the recovery plan received from the European Union, increased by €1.4 billion in 2021, compared to 2020. Most of the increase was in revenue from insurance premiums on government-backed loans, which were up by €1.5 billion. After contracting in 2020 because of the lockdowns, local government revenue from the production of market and non-market goods and services was boosted by the reopening of services and the overall rebound was in line with that of economic activity. General government property income, excluding interest, fell by nearly a third between 2019 and 2020. It rebounded with 30.0% growth in 2021, but still failed to match its pre-pandemic level.

2022 mid-year outturn

Government expenditure in 2022

The 2022 Budget Act maintained the objective of improving central government budget sincerity initiated in 2018. This effort led the Government to maintain the average 3% ratio for setting aside reserves from appropriations and a reduced ratio of 0.5% for programmes where most of the appropriations are for expenditure on social benefits (housing benefit, disability benefit and in-work benefit) and are unlikely to be allocated for other purposes. Appropriations for the "*France Relance"* recovery plan and "Invest for France in 2030" programme are exempt from the reserve requirements so that the full amount of these one-off appropriations can be mobilised rapidly to boost France's economic recovery and growth. The Government also extended the €190-million risk provision for the agriculture budget for the fifth year in a row and maintained the €1.2-billion provision for the foreign operations and domestic missions of the Ministry of Defence.

The counterpart to this fiscal headroom provided to managers is greater accountability for their expenditure and compliance with the limits passed by Parliament, in keeping with the idea of greater self-insurance for the ministries. As was the case in 2019, 2020 and 2021, the contingency reserve was untouched at the end of the first half of 2022, with the exception of funds released for the resilience plan. The 7 April 2022 Supplemental Appropriation Decree released €5.9 billion to finance emergency expenditure related to the crisis in the Ukraine, under the economic and social resilience plan introduced to cope with rising energy and fuel prices and to take care of refugees. These appropriations were offset by cancellations of appropriations for an equal amount, including appropriations for the "health emergency plan" budget line.

Budgeted expenditure has been revised upward by €22.6 billion since the 2022 Initial Budget Act, primarily to cover the effects of inflation. The expenditure funded measures to support households' purchasing power, such as the civil service pay rise, along with increases in pensions and bursaries, and an exceptional back-to-school benefit for households receiving the minimum social benefits. It also funded specific measures aimed at businesses and households to cope with rising energy prices, including the fuel rebate, energy price caps and measures aimed at "energy-intensive" businesses. The upwards revision of expenditure is the result of the measures implemented in response to the crisis in the Ukraine and, more specifically, accepting asylum seekers.

Two exceptional factors are decisive for the central government budget outturn. On the one hand, expenditure on support under the "health emergency plan" budget line instituted in response to the COVID-19 crisis in the Supplementary Budget Act of 23 March 2020 has fallen sharply. At the end of the first half of the year, €1.9 billion in expenditure has been executed, compared to €29.5 billion at the same date in 2021. This substantial reduction stems from the phasing out of the crisis measures and should continue in 2023 as the budget line is eliminated completely. The execution of the appropriations for the "recovery plan" budget line has met the objective of rapid deployment of the plan. The commitments should be fully executed by the end of 2022. Just two years after the plan was first presented, an estimated 90% of the total resources dedicated to the recovery under the overall plan had already been committed at the end of August 2022.

Strong job growth, related to the savings under the reform initiated in 2019, and the ending of the emergency measures implemented to protect the most vulnerable jobseekers during the pandemic, should lead to a major drop in expenditure on benefits by the unemployment insurance scheme (Unédic) in 2022. Wage and salary employment continued to increase in the second quarter of 2022, with the creation of 95,300 new jobs, compared to 91,700 new jobs in the first quarter. Job growth has outstripped its pre-crisis rate of 3.2%. Expenditure by the unemployment insurance scheme under the short-time work scheme also fell in 2022. Regarding the national healthcare expenditure growth target (Ondam) set out in the Social Security Budget Act, the latest forecasts call for a €9.1-billion overshoot. Most of this overshoot can be attributed to increased expenditure caused by the pandemic, mostly on testing, higher expenditure resulting from the Ségur agreement on the renovation of the healthcare system, and the end of the pay freeze for civil servants.

The latest outturn data from local governments, subject to persistent uncertainty at this point in the year, are consistent with the forecasts for operating expenditure growth (4.6% for local governments) and for investment expenditure growth (7.9% for local government GFCF, excluding Société du Grand Paris). This expenditure growth is sustained by inflation.

Aggregate tax and social security contribution rates in 2022

The aggregate tax and social security contribution projections for 2022 are based on a review of accounting data from the early months of the year and the macroeconomic determinants of their tax bases. The opinion issued by the High Council on Public Finances (HCFP) on the 2023 Budget Bill deems that the Bill is consistent with the macroeconomic scenario chosen[39].

The projection relies on the following elements.

Private-sector payrolls subject to social security contributions increased by 6.9% over the first half of 2022 compared to the first half of 2021**.** At the end of the second quarter of 2022, the carry-over growth of private-sector non-farm payrolls stood at 7.3%, according to the French National Statistics Institute. This increase should be sustained by strong job growth, wage increases to keep pace with rising prices, since inflation is taken into account during annual wage negotiations and leads to automatic increases in the statutory minimum wage, and by the mechanical effect of the declining cost of the short-time work scheme.

Net Value Added Tax (VAT) revenue is estimated on the basis of the revenue amount at the end of July, which stood at €119 billion for the entire general government sector. This is a gain of nearly €12 billion compared to the same period in 2021, representing a 11.4% increase.

Gross collection of corporate income tax came to €46.6 billion at the end of June, or €31.8 billion in net collection, including €28.7 billion in advance payments for the first half of 2022. This amount is substantially greater than the €15.9 billion in net corporate income tax collected over the same period in 2021. The early collection amounts are consistent with the projection for net annual corporate income tax revenue of €59.0 billion, a €12.6-billion increase over the figure for 2021. The projected 24.6% spontaneous growth of revenue in 2022 should continue to be sustained by the strong rebound in taxable profits in 2021.

The personal income tax accounting data from the first seven months of the year show that revenue from tax paid at source is higher than for the same period in 2021, standing at €47.1 billion at the end of July and representing an increase of €2.8 billion compared to the same period in 2021. The growth of revenue from tax paid at source is driven mainly by the 6.1% increase in wages in 2022.The analysis of the first personal income tax returns in 2021 shows that the outstanding tax owed is much higher than in 2021. This increase can be attributed to the economic recovery in 2021, leading to a rise in average per capita wages that is greater than the inflation rate used to adjust the tax scale.

Local governments' revenue from local direct taxes depends mainly on changes in the tax base and the tax rates passed into law. Between January and the end of August 2022, cumulative revenue from transfer taxes came to €13.9 billion, which is 6% more than over the same period in 2021, when revenue growth picked up later in the year, and slowed after May. Real growth of property transactions was zero in the twelve months to June, which opens the possibility of a reversal in the trend in transfer tax revenue. This has been factored into the annual forecast, which assumes a 3.5% drop in revenue compared to 2021, as interest rates climb. Payments of the first instalment of the Contribution on Business Value-Added due in June stood at €3.7 billion and the net balance to date stands at €1.1 billion.

[39] Source: HCFP, avis 2022-3 PLF/PFSS 2023, 26 September 2022

Outlook and medium-term strategy

In accordance with Article 50 of the Constitutional Bylaw of 1 August 2001 on Budget Acts (as amended by the Constitutional Bylaw of 28 December 2021 on modernising public finance management), this report presents a multiyear fiscal trajectory up until 2027.

The multiyear trajectory underlying the 2023 Draft Budgetary Plan is the same as that in the Public Finance Planning Bill presented at the same time. It projects that the general government deficit will be brought back down to less than 3% of GDP by 2027. A reduction of the structural deficit by 1.2 points between 2024 and 2027 should make a return to compliance with fiscal standards after the pandemic possible. This progressive structural adjustment should lead to a decrease in the ratio of debt to GDP starting in 2026. The debt ratio stood at 112.8% in 2021, and should fall to 111.7% in 2025. It should then continue falling to stand at 110.9% in 2027.

The output gap widened to stand at 2.4% of potential GDP in 2021 and 1.1% in 2022, as global macroeconomic conditions worsened. It should narrow gradually and be closed by 2027. Starting in 2024, actual GDP growth should exceed potential growth. Consequently, the cyclical variation in the general government balance should contribute to improving public finances between 2021 and 2027 (1.3% growth of potential GDP)

However, the strategy for returning to compliance with fiscal standards will rely primarily on a permanent structural improvement, to be achieved entirely through a structural expenditure effort. Real growth of government expenditure should be restricted to 0.6% between 2022 and 2027, excluding the effect of the ending of the emergency healthcare and recovery measures. This growth will be substantially below the potential GDP growth of 1.35%.

Containment of public expenditure will be the task of all general government entities. It will be made possible by structural transformation measures and enhanced assessment of the quality of expenditure. These will produce the fiscal headroom necessary to implement the President of the Republic's commitments and the government's public policy priorities. Social Security funds will do their part to contain expenditure growth. This participation will be made possible by a pension reform, the trajectory of unemployment benefits, since easing skill shortages is part the government's plan to achieve full employment, and the containment of healthcare expenditure, with a national healthcare expenditure growth target of 2.7% in 2024 and 2025, followed by 2.6% in 2026 and 2027. Local governments will also play their full part in this effort. Their target is to reduce their real operating expenditure by -0.5% each year.

This public expenditure containement effort must be backed up by higher quality of expenditure, particularly critical investments to achieve the green and digital transition and full employment, along with expenditures to ensure the competitiveness of French businesses. The continuing deployment of the *France 2030* plan should stimulate the economy and boost potential growth by accelerating green transition with incentives for investment, innovation, and social and territorial cohesion, along with measures to ensure digital and industrial sovereignty.

The containment of public expenditure should, without jeopardising the return to compliance with public finance standards, make it possible to continue the strategy of cutting taxes and social security contributions, which started during the President's first term to support the purchasing power of French households and the competitiveness of France's businesses. The objective of making these cuts is set out in the Supplementary Budget Act of 16 August 2022 and in the Act of 16 August 2022 on emergency measures to safeguard purchasing power, which eliminated the public broadcast licence fee. This will be followed up by the elimination of the Contribution on Business Value-Added, which will be carried out over two years, starting in 2023.

Containment of general government expenditure should start reducing the debt ratio starting in 2026, while leaving the government enough leeway to continue cutting taxes and social security contributions. In 2021, the ratio of debt to GDP stood at 112.8%. It should show preliminary declines to 111.5% in 2022 and 111.2% in 2023, on the strength of nominal growth in 2022 and the flow of receivables that reduce the ratio.

The debt ratio should start growing slightly again in 2024 and 2025, when it is expected to stand at 111.7% of GDP. After that, it should start shrinking to stand at 110.9% in 2027. This trajectory stems primarily from the differential between the general government balance and the debt-stabilising balance. In view of the scenario for medium-term growth, the debt-stabilising balance would be a deficit of between 4.4% and 3.6% of GDP starting in 2024. Consequently, the debt ratio will continue to rise in 2024 and 2025, because the general government balance should still exceed this level, all else being equal with regard to the flow of receivables. In contrast, the general government balance in 2026 and 2027 should be smaller than the debt-stabilising level and the ratio should start to decline.

Table 7: Multiyear fiscal trajectory

% of GDP, unless otherwise noted	2021	2022	2023	2024	2025	2026	2027
General government balance	**-6.5**	**-5.0**	**-5.0**	**-4.5**	**-4.0**	**-3.4**	**-2.9**
of which Central government	*-5.7*	*-5.5*	*-5.4*	*-5.0*	*-4.5*	*-4.3*	*-4.2*
of which Central government agencies	*-0.2*	*0.1*	*-0.2*	*-0.2*	*-0.1*	*-0.1*	*-0.1*
of which Local government	*0.0*	*0.0*	*-0.1*	*-0.1*	*0.0*	*0.2*	*0.5*
of which Social Security Funds	*-0.7*	*0.5*	*0.8*	*0.8*	*0.7*	*0.8*	*1.0*
Cyclical balance	-1.4	-0.6	-0.8	-0.7	-0.5	-0.3	0.0
One-off and other temporary measures*	-0.1	-0.1	-0.2	-0.1	-0.1	0.0	0.0
Structural balance*	-5.1	-4.2	-4.0	-3.7	-3.4	-3.1	-2.8
Structural adjustment*	**-3.3**	**0.9**	**0.2**	**0.3**	**0.3**	**0.3**	**0.3**
General government expenditure, excluding tax credits	58.4	57.6	56.6	55.6	55.0	54.3	53.8
Real growth of public expenditure, excluding tax credits (in %)	*2.6*	*-1.1*	*-1.5*	*-0.6*	*0.3*	*0.2*	*0.6*
Adjusted for emergency and recovery measures (%)	*1.9*	*2.4*	*0.1*	*-0.4*	*0.6*	*0.4*	*0.6*
Tax and social security contributions, net of tax credits	44.3	45.2	44.7	44.2	44.3	44.3	44.3
Government debt	**112.8**	**111.5**	**111.2**	**111.3**	**111.7**	**111.6**	**110.9**
Real growth (%)	**6.8**	**2.7**	**1.0**	**1.6**	**1.7**	**1.7**	**1.8**
Potential growth (%)	**1.30**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**
Output gap (% of potential GDP)	**-2.4**	**-1.1**	**-1.4**	**-1.2**	**-0.8**	**-0.5**	**0.0**

** as a % of potential GDP*

Scenario with no changes to legislation or practices

This trajectory for a return to compliance with public finance standards is to be compared to the fiscal trajectory if no changes are made to legislation and policies. Under such circumstances, the deficit would take much longer to correct and debt would continue to increase (see Table 7).

The general government balance trajectory presented here, with no changes to legislation and practices, is the one set out in the Public Finance Planning Bill, in accordance with the Constitutional Bylaw of 1 August 2001 on Budget Acts (as amended by the Constitutional Bylaw of 28 December 2021 on modernising public finance management) and the 2011 Directive on requirements for budgetary frameworks. It relies on the results obtained with regard to containment of general government expenditure in recent years. On the expenditure side, the counterfactual trajectory assumes that real expenditure growth, excluding tax credits, would stand at 1.2% per year, not counting the ending of the emergency healthcare and recovery measures. This is the average growth rate of public expenditure seen between 2008 and 2017.

On the revenue side, the trajectory with no change to policies omits the main discretionary measures introduced by the newly elected Parliament or planned over the period covered by the trajectory. For example, this scenario does not include he cuts in taxes and social security contributions for households and businesses. The spontaneous growth rate of taxes and social security contributions under the trajectory with no changes to policies uses the same assumptions as the trajectory set out in the Public Finance Planning Act. In addition, there is no difference between projected non-tax revenue under the trajectory with no changes to policies and the projection under the Public Finance Planning Act.

The 2022 and 2023 deficit forecasts in the Public Finance Planning Act are larger than under the trajectory with no changes to policies because of the government's expenditure and revenue measures to cut taxes for households (public broadcast licence fee) and for businesses (Contribution on Business Value Added), with the aim of protecting households' purchasing power against inflation.

On the other hand, the spontaneous trajectory until 2027 would result in higher expenditure growth than the one projected by the government. With no containment of expenditure growth over the period, the deficit would take longer to correct and would remain greater than 4% of GDP in 2027. The ratio of debt to GDP would also continue to rise over the forecast period.

Table 8: Scenario with no changes to legislation or practices

As a % of GDP	2022	2023	2024	2025	2026	2027
General government balance with no changes to legislation or practices	**-4.2**	**-4.5**	**-5.0**	**-4.9**	**-4.8**	**-4.5**
General government debt with no changes to legislation or practices	**110.7**	**109.9**	**110.6**	**112.0**	**113.3**	**114.2**
Cumulative divergence of expenditure, excluding tax credits	-0.6	-0.2	0.7	1.1	1.6	1.9
Cumulative divergence from discretionary revenue measures announced	-0.1	-0.3	-0.2	-0.2	-0.2	-0.2
General government balance under the 2023 Budget Bill	**-5.0**	**-5.0**	**-4.5**	**-4.0**	**-3.4**	**-2.9**
General government debt under the 2023 Budget Bill	**111.5**	**111.2**	**111.3**	**111.7**	**111.6**	**110.9**

Appendix

Status of country-specific recommendations 2022

Measures taken since the National Reform Programme for 2022

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
CSR 1	**In 2023, ensure prudent fiscal policy, in particular by limiting the growth of nationally-financed current expenditure below medium-term potential output growth,…/…**	Supplementary Budget Act 2022-1157 of 16 August 2022		
		Public Finance Planning Bill 2023-2027 (including provisions on the assessment of the quality of public expenditure)		The Budget Bill for 2023 and the Public Finance Planning Bill for 2023-2027 will be discussed in Parliament.
		2023 Budget Bill		
		Public finance governance	Constitutional Bylaw of 28 December 2021 on modernising public finance management	See the related reform factsheet of the National Recovery and Resilience Plan, NRRP (Part II, Component 7).
		Assessment of the quality of public expenditure		

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
				See the related reform factsheet of the NRRP (Part II, Component 7). At the request of the government, setting up a parliamentary task force responsible for determining the areas of public spending in which savings could be made.
CSR 1	**…/… taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes**	Order of 13 April 2022 on adjusting the provisions on short-time work for job protection. Supplementary Budget Act 2022-1157 of 16 August 2022	Against an unstable health, geopolitical and economic backdrop, the Order extends the period during which an agreement on the extended short-time work scheme (APLD) may be negotiated until the end of 2022. French businesses affected by the conflict in Ukraine may use this scheme to protect their employees' jobs. The 2022 Supplementary Budget Act implements:	An additional in-work benefit will be paid to its recipients in autumn 2022.

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
		Act 2022-1158 of 16 August 2022 on emergency measures to safeguard purchasing power	• the extension of the cap on gas price increases (*bouclier tarifaire*) until the end of 2022 and the fuel rebate until December 2022 • an increase in the upper limit for income tax exemption for fuel costs paid by employers • elimination of the public broadcast licence fee as from 2022 • a 3.5% civil service pay raise back-dated to 1 July 2022 • an early 4.0% increase in minimum social benefits (social inclusion benefit, adult disability allowance, in-work benefit, family allowances, disability pension) and basic pensions as from July • an increase of 3.5% for housing benefit and 4% for university grants as from the start of the 2022-2023 academic year • a one-off payment at the start of the academic year of €100 per household, plus €50 for each dependent child, paid in	Maintaining the cap on gas and electricity prices with increases limited to 15% in 2023. New €100 or €200 means-tested “energy cheque” paid as a one-off before the end of 2022 to 12 million low-income households.

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
			September to recipients of minimum social benefits, student grants and housing benefit The Act on emergency measures to safeguard purchasing power approves the continuation and tripling of the exceptional purchasing power bonus to buttress employees' purchasing power whilst leaving firms with enough room for manoeuvre. The rollout of profit-sharing agreements in small enterprises has been streamlined to incentivise businesses to offer them. The Act also amends the procedure for restructuring occupational sectors to encourage the social partners to regularly increase industry-specific minimum wages up to statutory minimum wage (SMIC) level and to support wage momentum in the	

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
		Aid for gas- and electricity-intensive businesses	sectors. Lastly, the Act reduces social security contributions for the self-employed which results in a €550 increase in their purchasing power per year at statutory minimum wage level and introduces a one-year cap on rent. Temporary and targeted emergency aid to businesses whose gas and electricity bills account for a large proportion of their expenses (at least 3% of turnover) and which, owing to the increase in their energy expenditure, could make a loss in 2022.	
CSR 1	**.../…and to people fleeing Ukraine.**	Instruction of 10 March 2022 to regional and *département* prefects on application of Council Implementing Decision (EU) 2022/382 of 5 March 2022, activating the temporary protection	On 18 September 2022, over 93,600 temporary residency authorisations (APSs) had been issued under temporary protection arrangements. This figure	Prefects are tasked with welcoming and housing temporary protection recipients at local level and the latter are advised that they are eligible for housing benefit. The prefects ensure that temporary

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
		arrangements set out in Article 5 of Council Directive 2001/55/EC of 20 July 2001. Decree 2022-468 of 1 April 2022 on the right to work for temporary protection recipients.	included 15,200 renewed authorisations.	protection is provided in a streamlined and seamless manner. The relevant persons may receive an allowance that is similar to the asylum seekers' allowance. By presenting their temporary residency authorisation, they are also entitled to urgent healthcare services, universal healthcare protection and the solidarity-based supplementary healthcare cover. Ukrainian children are granted access to the education system as soon as they arrive in France. To ensure better integration, temporary protection recipients can work without having to apply for authorisation from a foreign labour platform.
CSR 1	**Stand ready to adjust current spending to the evolving situation.**	Order of 31 August 2022 extending application of the provisions that adjust the conditions for payment of the additional benefit to the daily	In light of the continued prevalence of COVID-19, the Order extends entitlement to additional daily allowances from the employer for sick or close-contact employees, with immediate effect, until	

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
		allowance due to the COVID-19 pandemic.	31 December 2022. This measure applies to all sick leave having started as from 1 August 2022.	
		Supplementary Budget Act 2022-1157 of 16 August 2022 Act 2022-1158 of 16 August 2022 on emergency measures to safeguard purchasing power	The Supplementary Budget Act and the Act on emergency measures to safeguard purchasing power adjust the cap on energy prices and the fuel rebate to the evolving situation (see above).	Extension and adjustment of aid according to the evolving situation (see above).
CSR 1	**Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds.**	Decarbonise and electrify transportation and everyday mobility Expand rail transport		See Part II, Component 3 of the NRRP
		Support for green innovation France 2030 Plan		See Part II, Component 4 of the NRRP

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
		Bolster energy security		Drawing on the objectives of the Invest for the Future Programme of which it is part and which it extends, France 2030 is a €54bn government investment plan to help France with its green and digital transition, and enable it to address today's economic, industrial and social issues. The Plan revolves around two major choices (i) 50% will be earmarked for emerging stakeholders, thus providing support for La French Tech, the French start-up community and innovative SMEs, (ii) the plan will only fund projects that do not have an adverse effect on the environment and will attach great importance to the switch to low-carbon manufacturing methods, and to improving quality of life. France 2030 is fully up and running and a review of its first year of implementation will be conducted in October 2022.

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
		Decarbonise the energy mix		France has introduced a number of measures to bolster energy security: a mechanism to secure natural gas storage, heightening LNG import capabilities by increasing the capacities of existing LNG tankers and installation of a floating LNG terminal which will be operational in September 2023. Measures have also been taken to fast-track rollout of biomethane, inter alia, via a call for projects covering the development and operation of production facilities for injecting biomethane into the natural gas grid, which was issued in April. The France 2030 Plan focuses on equipping France with small modular reactors which are

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
		Digital upgrading of businesses Final stage in rollout of mobile coverage and high-speed broadband in France.		more innovative and manage waste better, making France the leader for low-carbon hydrogen with the goal of setting up at least two *electrolyser mega-plants, helping decarbonise French industry and manufacturing two million electric and hybrid vehicles, and the first low-carbon aeroplane.* See Part II, Component 7 of the NRRP The High-Speed Broadband Plan (THD) should be extended to the whole of France by 2022 through use of all available internet access solutions (fibre, copper, cables, terrestrial and satellite networks), with fibre being rolled out throughout France by 2025. The 2018 New Deal Mobile plan between the government and telephony operators continues to mainstream 4G

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
				access, first and foremost in rural areas.
CSR 1	**For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring credible and gradual debt reduction and fiscal sustainability in the medium term through gradual consolidation, investment and reforms.**	Stability Programme of 29 July 2022 Public Finance Planning Bill 2023-2027 (including provisions on the assessment of the quality of public expenditure) 2023 Budget Bill Constitutional Bylaw of 28 December 2021 on modernising public finance management Assessment of the quality of public expenditure (see above) Public finance governance (see above	The planned trajectory for public finances is that of gradual fiscal consolidation. The aim is for the general government deficit to return to under 3% in 2027 and for debt to decline as from 2026. This objective will be reached by controlling government expenditure without increasing taxes and social security contributions, with the exception of the justified reduction of niche tax expenditure and social security benefits (see above). This control will not compromise the financing of expenditure that is vital for the French economy's future, in particular for enabling the green and digital transition under the *France Relance* and France 2030 plans (see above).	In conjunction with the NRRP, the provisions will be set out in the Public Finance Planning Act to bolster public finance governance and thereby improve the quality of expenditure and pinpoint the areas in which savings can be made.

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
CSR 1	**Reform the pension system to progressively unify the rules of the different pension regimes to enhance its fairness while underpinning its sustainability.**	Pension reform		The pension system will be reformed during President Macron's five-year term of office. The purpose of the reform will be to contribute to the goal of achieving full employment and thereby to buttress France's economic potential by increasing the workforce and improving older workers' participation rate. It meets President Macron's dual objective of full employment and fiscal consolidation to fund our social model and the key policies of his five-year term.
CSR 2	**Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 13 July 2021.**	Implementation of the measures provided for by the NRRP and set out in Council Implementing Decision 2021/0172(NLE).	First payment request in respect of 38 targets and milestones (16 reform milestones) for a total amount of €7.4bn. *See Recovery and Resilience Facility (RRF) bi-annual reports*	Second payment request in preparation covering 65 targets and milestones for a total amount of €12.7bn. *See RRF bi-annual reports.*

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
CSR 2	**Swiftly finalise the negotiations with the Commission of the 2021-2027 cohesion policy programming documents with a view to starting their implementation.**	Adoption of the Partnership Agreement with France Formal filing and validation of the programmes	The Partnership Agreement was adopted in June 2022. With a single exception, all the programmes were filed during the first half of 2022. Two programmes have now been validated by the Commission.	The aim is to have all the programmes validated by the end of 2022.
CSR 3	**Address the shortage of skills by raising the level of basic skills, providing additional work-based learning options and improving the learning outcomes of all students, notably by adapting resources and methods to the needs of disadvantaged students and**	Investment in skills Overhaul the training system Improve the effectiveness of guidance decisions by	Inclusion of internships in almost all higher education courses: mandatory internships for vocational degrees, higher technician's certificates, university technology diplomas, masters degrees. Providing the opportunity to do internships during gap years, paving the way for additional skills acquisition.	See Part II, Component 8 of the NRRP Comprehensive overhaul of vocational training in high schools and heightened professionalisation of higher education courses to give high schools greater autonomy to make diplomas match the new skills required. This will call for flexibility as well as a review of training options in order to expand those that focus on sectors with job vacancies.

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
	schools and by improving the working conditions and continuous training of teachers.	helping students with their choices at all levels through better access to information.		AVENIRS project on acquiring skills for career guidance led by the National Office for Information on Teaching and the Professions (ONISEP). As from year eight (*cinquième*), a half day per week will be set aside to improve career guidance by enabling students to discover a wide range of professions.
		One-off aid measures for apprenticeships and sandwich courses	Review of support for apprenticeship momentum: As at 31 December 2021, apprenticeship training centres counted 834,100 apprentices, up 32.5% compared to 2020, after a 31.5% rise the year before (figures: Directorate of Evaluation, Forecasting and Performance, DEPP).	
		Plan to Reduce Recruitment Pressures (€1.4bn)	Extension of one-off aid measures for apprenticeships and sandwich courses until 31 December 2022.	

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
		Improve skills acquisition and development at all ages	Hiring bonus for certain jobseekers with a vocational training contract (sandwich course). Rollout of work-based training schemes in relation with promises of future employment.	
		Support measures for acquiring IT skills	National qualifications framework and European Qualifications Framework (EQF) for lifelong learning (with *France compétences*)	Increase the number of accreditations of prior learning to 100,000 per year over the next five years to enable everyone to have skills acquired throughout their careers recognised and to foster changing career paths.
		Improve teachers' working conditions	Rollout of Pix, a multi-service platform for assessing, developing and certifying IT	

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
			skills. Mandatory certification of the level of skills acquisition at the end of year nine (*quatrième*) in middle school and year thirteen (*terminale*) in high school.	
		Improve teacher training.	Splitting classes in year one (*grande section*), year two (CP) and year three (CE1) in high priority areas. Classes capped at 24 students in years one, two and three outside high priority areas. This capping means that teachers are able to better help each student in an environment that is more conducive to learning. This applied to 80% of classes in 2021.	Having been gradual since 2020, the capping of student numbers at 24 per class will become effective at the start of the 2022-2023 academic year.
		Pact for a general increase in teachers' pay	Training plans in French and mathematics to expand in-service training for all	Over the next four years, all teachers will have received five days (30 hours) of training in both French and mathematics.

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
			teachers to bolster their expertise in these subjects. Training plan for nursery schools: introduction of a sweeping policy for training and supporting teachers in each education authority. Identification of effective practices.	During the 2022-2023 academic year, scheduling of training, development of new resources for teachers, etc.
				At the start of the 2023-2024 academic year, the minimum wage for a new teacher will be €2,000 net per month.
		Measures to help disadvantaged students		Financial compensation for extra work undertaken by teachers (replacements, individual monitoring, help with career guidance, professional integration or coordination work) in the form of a salary increase of up to 20% of initial wages. Improvement of induction and in-service training, making them less theoretical and more geared towards education and student contact.

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
			Local support agreements (CLAs): drawn up by the academic authorities for a three year-term; these agreements allow for resources to be allocated more progressively to nursery schools, primary schools, middle schools and high schools which are close to priority education in social terms, or which have special identified support requirements. This will reduce the threshold effects observed between schools inside and outside priority education areas. *Cités éducatives*: Excellence certification which heightens coordination between local stakeholders with earmarked resources of €230m for 2019-2023.	For the start of the 2022-2023 academic year: 184 nursery/primary schools, 92 middle schools and 64 high schools are involved in the approach with a formal instructional and educational project. 74 new *cités éducatives* in 2022 (i.e. a total of 200). Start of 2022-2023 academic year: a million children and young people will benefit from this policy which is being rolled out in around 475 middle schools.

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
			Territoires éducatifs Ruraux (TER): building a network for cooperation based around schools as regional hubs promoting educational projects with objectives for students and their families, and which highlight the regions themselves.	Start of 2022-2023 academic year: 90 middle schools and more than 650 nursery/primary schools are involved in this approach.
CSR 4	**Reduce overall reliance on fossil fuels.**	Energy Saving Plan		The Energy Saving Plan in the process of being drawn up will strive to cut energy consumption by all French consumers to secure short-term supply which is under threat from the conflict in Ukraine. This is reflected by the efforts already made to reduce France’s energy consumption (fuel, natural gas, electricity) by 10% in two years. To this end, “energy sobriety” working

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
		Economic and Social Resilience Plan, and emergency measures to diversify the French economy's supply of oil and gas, and secure its energy supplies as from autumn 2022.		groups were set up in late June to engage all public and private stakeholders in creating action plans for each sector. The outcome of the consultation and the suggestions for operational measures will be made public in early October. These initiatives will also be backed up by the public outreach campaign "*Chaque geste compte*" (every action counts). During winter 2022-2023, government departments will reduce heating temperatures to 19 degrees. Introduction of a mechanism to secure the filling of storage facilities providing a filling level of more than the minimum of 85% as provided for by the usual regulation mechanism. Option of requisitioning gas power plants. Fast-tracking installation of a floating LNG terminal in Le Havre.

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
		Decarbonise the energy mix by strengthening the incumbent nuclear industry.		Organising "load shedding". Making use of all the means of electricity generation. Launch of a programme for six EPR2 reactors and conducting studies for the construction of eight additional EPR2s. Where possible, the life of all current reactors will be extended unless this is impossible due to safety concerns. The France 2030 Plan also earmarks €1bn for the development of small modular reactors.
		Simplified tender offer for EDF's equity shares with the aim of delisting the company.		The 2022 Supplementary Budget Act of 16 August 2022 allocated €9.7bn to launch a simplified tender offer on EDF's equity shares with the aim of delisting the company. This
		Decarbonise industry		

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
				operation will cement France's energy independence and sovereignty including its ability to plan the means of electricity generation, transportation and distribution in the very long-term.
				See Part II, Component 2 of the NRRP
		Decarbonise and electrify transportation Expand rail transport		The France 2030 Plan consolidates the *France Relance* Plan's initiatives through a huge €54bn investment plan, including €34bn in new appropriations. France 2030 earmarks 50% of its expenditure to ensure France's transition towards a low-carbon economy. The plan includes €5bn in direct aid for rolling out decarbonisation solutions and €0.6bn to fund innovation and the industrialisation of innovative

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
				technologies for the decarbonisation of industry. See Part II, Component 3 of the NRRP Expansion of public transport, especially rail services. For long distance rail travel, a call for expressions of interest was issued in March 2022 to identify the stakeholders and obstacles to international night trains. The orders setting up the companies that will fund local authorities' share of major high-speed train line projects were enacted in spring 2022. As regards everyday mobility, the fourth "Public Transport Reserved Lanes and Multi-Modal Transport Hubs" call for projects is providing over 159

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
		Support for green innovation		winning projects (announced in late 2021) with €900m in subsidies to expand urban and inter-urban public transport. The second "Bike Plan" will be defined in an inter-ministerial committee by the end of the year; the plan will benefit from credits of €250m in 2023 for infrastructure development, €200m will be earmarked for infrastructure and €50m for parking. This plan includes an industrial component (creation of a *France vélo* certification covering social and environmental criteria enabling the French bicycle sector to be enhanced), continued subsidies for buying bicycles and training schemes (renewal of *Savoir rouler à vélo*). Financial aid mechanisms (micro-credits, trialling an interest-free loan as from 2023, ecological bonus, additional bonus in low emission zones)

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
				will remain available to support the increase in the proportion of electric vehicles in the automobile fleet. Car-scrapping bonuses could be extended or alternative financing schemes, such as a long-term leasing system, could be planned to further limit the financial burden on households. Grants for the installation of charging stations (tax credits, white certificates) have also been maintained. See Part II, Component 4 of the NRRP Support for and investment in R&D under the France 2030 Plan (see above).
CSR 4	**Accelerate the deployment of utility-scale and decentralised**	Renewable Energy Fast-Tracking Bill		The Renewable Energy Fast-Tracking Bill will seek to ensure that renewable energy projects are completed twice as fast as

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
	renewable energies through increased public investment and by facilitating private investment, including by further streamlining permitting procedures and ensuring adequate staffing of authorising administrations.			is the case at present. The Bill allows to simplify administrative procedures, free land necessary for projects and reinforce the acceptability of renewable energy projects by introducing measures for sharing the value of low-carbon energies. The Bill was presented at the Cabinet meeting of 26 September 2022. A government instruction to prefects, dated 16 September 2022, also aims to foster and fast-track the processing of applications relating to the generation of renewable energy. Regulations are currently being reviewed to ensure a fast-track processing of litigations pertaining to renewable energy.Goal of having around fifty offshore wind farms with capacity of 40 gigawatts by 2050.

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
CSR 4	**Improve the policy framework to incentivise the deep renovation of buildings.**	Article 155 of Climate and Resilience Act 2021-1104 of 22 August 2021 Decree 2022-510 of 8 April 2022 Article 160 of Climate and Resilience Act 2021-1104 of 22 August 2021	*<u>For residential buildings</u>:* The Act introduces a definition of high-performance energy retrofitting (Category B of the Energy Performance Certificate (EPC) + study of six work items which are vital for retrofitting, unless there are exceptions) and global high-performance energy retrofitting (carried out within a limited timeframe). Introduction of a minimum energy performance criterion, followed by a minimum energy performance level, in the definition of "decent accommodation", which sets out the minimum features for rental accommodation (EPC category F as from 2025, EPC category E as from 2017 and EPC category D as from 2034).	See Part II, Component 1 of the NRRP Implementing Decree scheduled for Q4 2022.

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
		Article 159 of Climate and Resilience Act 2021-1104 of 22 August 2021 Article 158 of Climate and Resilience Act 2021-1104 of 22 August 2021 Decree 2022-780 of 4 May 2022 and Order of 4 May 2022 on the regulatory energy audit provided for in Article L.126-28-1 of the Construction and Housing Code	Rent for accommodation having EPC categories F and G rating has been frozen since 24 August 2022. Requirement to conduct an energy audit for accommodation having EPC categories F and G rating and offered for sale as from 1 April 2023. Retrofitting options will have to be put forward for high-performance retrofitting leading, over time, to EPC category B rating, unless there are exceptions.	
		Article 171 of Climate and Resilience Act 2021-1104 of 22 August 2021 Decree 2022-663 of 25 April 2022	Requirement to draw up a Multiannual Works Plan (PPT) for co-ownerships to include planning of works for energy savings and the reduction of greenhouse gas emissions.	
		Article 151 of Climate and Resilience Act 2021-1104 of 22 August 2021	The Act provides for an increased incentive to carry out high-performance energy retrofitting.	Grants under the MaPrimeRevnov' scheme have increased significantly since it was introduced and have stood at €2.4bn since the 2022 Supplementary Budget Act of

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
			For office buildings: Tertiary Eco-Energy System	16 August 2022. It is now a question of substantially improving the performance levels of this retrofitting to meet France's climate goals, by focusing on renovating "thermal sieves" and on the most-high performance retrofitting.
		Bolster MaPrimeRénov' grants		Orders adjusting the scales for retrofitting grants. Additional Orders to determine "absolute reference values" for the energy consumption of relevant buildings, amending the Order of 24 November 2020.
		Article L.174-1 of the Construction and Housing Code Article R.174-26 of the Construction and Housing Code		

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
		“Method” Order of 10 April 2020 “Absolute Reference Values” Order of 24 November 2020		
CSR 4	**Expand energy interconnection capacity.**	Expand the electrical interconnection with the United Kingdom Expand the electrical interconnections with Ireland and Spain Develop gas exports from France to Germany	Commissioning of Eleclink	Imminent issuing (late 2022/early 2023) of administrative authorisations for the Celtic (Ireland) or the Bay of Biscay (Spain) projects. The latter will double the electricity exchange capacities between Spain and France by 2027. As part of the European solidarity mechanism for gas supplies, a bilateral agreement is currently being negotiated with Germany. It contains, inter alia, measures to increase capacities for gas exports to Germany. Extraordinary measures have been introduced to roll out an

Recommendation	Sub-recommendation	Measures	Done	In progress/pending
				interruptible gas supply between France and Germany with an initial trial having taken place on 7 September. The interconnection will be up and running once it has been approved by the Energy Regulation Commission (CRE) in October.

Detailed forecast tables

Table 1. Resources and uses of goods and services - Nominal gross domestic product and components

	2021		2022	2023	2023/2019
NOMINAL GROSS DOMESTIC PRODUCT (GDP) - level in billions	**2 501**		**2 642**	**2 763**	
	Nominal	**Volume**			
	Level in €bn	Rate of change	Rate of change	Rate of change	Rate of change
RESOURCES					
Real gross domestic product	2 501	6.8	2.7	1.0	2.0
Imports	785	7.8	6.6	2.5	2.4
TOTAL OF RESOURCES	**3 286**	**7.0**	**3.7**	**1.4**	**2.1**
USES					
Private consumption expenditure	1 317	5.	2.5	1.4	1.9
Government consumption expenditure	606	6.4	2.4	1.0	5.6
Gross fixed capital formation (GFCF)	606	11.4	2.3	0.1	4.5
- of which Non-financial corporations	341	11.4	1.4	0.9	6.1
- of which Households excluding self-employed	145	17.0	1.5	-0.9	3.7
- of which General Government	90	2.7	6.7	-1.6	2.0
Exports	737	8.6	6.8	2.7	-1.1
Changes in inventories and net acquisitions of valuables	20				
TOTAL USES	**3 286**	**7.0**	**3.7**	**1.4**	**2.1**
Contributions to real GDP growth					
Final domestic demand excluding inventories		7.0	2.5	1.0	
Changes in inventories and net acquisitions of valuables		-0.3	0.3	0.0	
Net foreign trade		0.1	0.0	0.0	

Table 2. Resources and uses of goods and services - price developments

	2021	2022	2023
	Rate of change	Rate of change	Rate of change
RESOURCES			
Gross domestic product	1.3	2.8	3.6
Imports	7.0	16.7	3.0
TOTAL OF RESSOURCES	**2.6**	**6.2**	**3.4**
USES			
Private consumption expenditure	1.6	4.7	4.1
Government consumption expenditure	-1.1	0.8	0.8
Gross fixed capital formation	2.6	5.6	3.6
Exports	6.8	12.0	4.1
TOTAL USES	**2.6**	**6.2**	**3.4**
OTHER PRICE INDICES			
Consumer Price Index (CPI)	1.6	5.3	4.2
Consumer Price Index excluding tobacco	1.6	5.4	4.3
Harmonised Index of Consumer Prices (HICP)	2.1	5.9	4.7

Table 3. Sectoral balances – Net lending (+)/ borrowing (-)

	2021	2022	2023
	pp of GDP	pp of GDP	pp of GDP
NET LENDING (+) / BORROWING (-) vis-à-vis the rest of the world	**-0.4**	**-2.1**	**-1.1**
Of which:			
- Balance of goods and services	-1.9	-3.6	-3.2
- Balance of primary incomes and transfers	1.2	1.3	1.9
- Capital account	0.4	0.3	0.2
NET LENDING (+)/ BORROWING (-) of the private sector	**6.1**	**2.9**	**3.9**
Of which:			
- Households	4.8	3.5	3.5
- *Non-financial corporations*	1.5	-1.2	-0.9
NET LENDING (+)/ BORROWING (-) OF GENERAL GOVERNMENT*	**-6.5**	**-5.0**	**-5.0**

(*) According to the Maastricht definition.

Table 4. French external trade

	2021	2022	2023
	Level in €bn	Level in €bn	Level in €bn
TOTAL GROSS TRADE BALANCE CIF-FOB	**-101**	**-173**	**-171**
Of which:			
- Manufacture of food products	1	4	5
- Energy	-44	-106	-103
- Industry	-65	-78	-79
Total trade balance FOB-FOB - in level	**-85**	**-156**	**-154**
Total trade balance FOB-FOB - in pp of GDP	**-3.4**	**-5.9**	**-5.6**

Table 5. Non-financial Corporations – Detailed data

	2021		2022	2023
	Level in €bn	Rate of change	Rate of change	Rate of change
GROSS VALUE ADDED	**1 290**	**9.7**	**7.5**	**5.5**
Compensation of employees	836	9.0	8.4	5.1
Ratio: compensation of employees / Gross Value Added – level in %	64.8	64.8	65.4	65.1
Taxes on production	65	-11.4	10.9	3.4
Subsidies on production	-53	37.6	-36.4	-1.6
Gross operating surplus (GOS)	442	18.2	0.0	6.1
Ratio: Margin rate of non-financial corporations (Gross operating surplus / Gross Value Added) – level in %	34.3	34.3	31.9	32.1
Property income paid	309	23.6	22.4	32.2
Property income received	286	44.8	21.9	31.4
Taxes on income and wealth	52	15.3	25.0	-9.8
GROSS SAVINGS	**347**	**34.8**	**-7.0**	**7.5**
Ratio: Saving Rate (Gross Savings / Gross Value Added) – level in %	26.9	26.9	23.3	23.8
Gross fixed capital formation (GFCF)	330	13.7	6.7	4.3
Ratio: Self-financing rate (Savings / GFCF) – level in %	105.3	105.3	91.7	94.5
Ratio: Investment rate (GFCF / Gross Value Added) – level in %	25.6	25.6	25.4	25.1
Changes in inventories (1)	16.5	16.5	38.4	44.7
NET LENDING (+) / BORROWING (-) – in level. pp of Gross Value Added	**3.0**	**3.0**	**-2.3**	**-1.6**

(1) Changes in inventories – level in billions

Table 6. Households - Income Accounts

	2021		2022	2023
	Level in €bn	Rate of change	Rate of change	Rate of change
RESOURCES				
Wages and salaries	978	7.4	7.6	4.6
- Employees' social contributions	121	6.7	7.4	4.8
Wages and salaries (net of employees' social contributions)	857	7.5	7.7	4.6
Mixed income (mainly self-employed)	132	5.7	0.4	2.3
Gross operating surplus (excluding self-employed)	200	2.3	2.6	3.4
Social benefits in cash	559	-1.5	1.4	3.7
Property income received	96	4.9	12.8	18.0
Other resources	80	7.7	6.0	4.9
USES				
Social contributions by self-employed and non-employed persons	30	3.1	7.1	1.4
Current taxes on income and wealth	249	3.7	5.4	1.8
Property income paid (paid interests)	13	-6.3	9.7	45.7
Other uses	78	6.3	4.6	4.0
Gross Disposable Income (GDI)	**1 555**	**4.0**	**4.9**	**5.1**

Table 7. Households - From disposable income to net lending

	2021		2022	2023
	Level in €bn	Rate of change	Rate of change	Rate of change
GROSS DISPOSABLE INCOME (GDI)	**1 555**	**4.0**	**4.9**	**5.1**
Purchasing power of GDI		2.3	0.0	0.9
Final consumption expenditure	1 265	7.0	7.4	5.6
GROSS SAVINGS	**290**	**-7.3**	**-6.2**	**2.4**
GLOBAL SAVING RATE (Gross savings/ GDI) – in level	**18.7**	**18.7**	**16.7**	**16.3**
Gross fixed capital formation (GFCF)	155	21.4	7.6	3.0
Other net uses	16	38.4	-19.0	-11.7
NET LENDING (€ billions)	**119.1**	**119.1**	**92.5**	**95.5**
SAVING RATE (Net lending / GDI) – in level	**7.7**	**7.7**	**5.7**	**5.6**

Table 8. International Environment - Basic assumptions

	2021	2022	2023
Short-term interest rate (annual average))	0.0	0.6	2.4
Long-term interest rate (annual average)	0.0	1.5	2.6
USD/€ exchange rate (annual average)	1.18	1.06	1.02
Nominal effective exchange rate of the French economy	0.6	-2.4	-1.5
World GDP growth (excluding EU)	6.2	3.3	3.3
Growth of relevant foreign markets	11.5	5.5	1.6
World imports (excluding EU)	13.2	4.7	2.3
Oil prices (Brent. USD / barrel))	71	103	90

Table 9. International Environment - Detailed forecasts of GDP growth

	2021		2022	2023	2023 / 2019
	Level* (USD bn)	Rate of change	Rate of change	Rate of change	Deviation from pre-crisis level (pt)
France	2 956	6.8	2.7	1.0	2.0
United Kingdom	3 187	7.4	3.2	-0.8	-0.2
European Union (27 countries)	17 150	5.4	3.2	1.9	3.6
Euro area	14 542	5.2	3.1	1.5	3.4
Euro area excluding France	14 193	4.8	3.2	1.7	3.7
United States	22 996	5.7	1.6	1.2	5.0
Japan	4 930	1.7	1.3	1.8	0.1

(*)System of National Accounts 2008 (2008 SNA) for the United States and Japan; 2008 SNA / European System of Accounts (ESA 2010) for France, United Kingdom, the euro area and the EU.

Table 10. International Environment - Consumer price Index

	2020	2021	2022	2023
France (consumer price Index)	0.5	1.6	5.3	4.2
United Kingdom	0.8	2.6	9.8	9.6
Euro area	0.3	2.6	8.0	4.6
United States	1.2	4.7	8.1	3.4
Japan	0.0	-0.2	2.0	1.4

Table 11. Labour market developments

	2021		2022	2023
	Level	Rate of change	Rate of change	Rate of change
Employment. persons (1) - Total economy - Annual average	**29 007**	**2.5**	**2.2**	**0.7**
Employment. persons - France. all sectors - Annual average. thousands of persons (2)	29 200	690	650	210
Employment. persons - France. Non-farm market sector – Annual average (2)	17 350	2.8	2.9	0.7
Employment. persons - France. Non-farm market sector – YoY. thousands of persons (2)	17 732	785	210	70
Compensation of employees - Total economy	**1 284**	**7.5**	**7.2**	**4.6**
Wages and salaries per employee - Non-farm market sector		5.5	5.5	4.2
Labour productivity - Total economy (3)		**4.7**	**0.5**	**0.3**

(1) Occupied population. domestic concept according to the national accounts definition.

(2) Localised employment estimates (Estel data, INSEE).

(3) Productivity per person employed (Real GDP / total employment).

Table 12. Real and potential GDP growth

	2021	2022	2023
	Rate of change	Rate of change	Rate of change
Actual GDP growth	**6.8**	**2.7**	**1.0**
Potential GDP growth	**1.30**	**1.35**	**1.35**
Contributions:			
- Labour	0.3 / 0.4	0.3 / 0.4	0.3 / 0.4
- Capital	0.5 / 0.6	0.5 / 0.6	0.5 / 0.6
- Total Factor Productivity (TFP)	0.4 / 0.5	0.4 / 0.5	0.4 / 0.5
Revision	**0.0**	**0.0**	**0.0**
Output gap (in pp of potential GDP)	**-2.4**	**-1.1**	**-1.4**

Table 13. General government budgetary targets broken down by subsector	ESA Code	2021	2022	2023
		% of GDP	% of GDP	% of GDP
1. General government	S.13	-6.5	-5.0	-5.0
2. Central government	S.1311	-5.8	-5.4	-5.6
3. State government	S.1312			
4. Local government	S.1313	0.0	0.0	-0.1
5. Social security funds	S.1314	-0.7	0.5	0.8
6. Interest expenditure	EDP D.41	1.4	1.8	1.6
7. Primary balance (1 + 6)		-5.1	-3.2	-3.4
8. One-off and temporary measures *		-0.1	-0.1	-0.2
9. Real GDP growth (%)		6.8	2.7	1.0
10. Potential GDP growth in real terms (%)		1.30	1.35	1.35
11. Output gap (as a % of potential GDP)		-2.4	-1.1	-1.4
12. Cyclical budgetary component		-1.4	-0.6	-0.8
13. Cyclically- adjusted balance (1 - 12)		-5.2	-4.4	-4.2
14. Cyclically-adjusted primary balance (13 + 6)		-3.8	-2.6	-2.6
15. Structural balance (13 - 8) (% of potential GDP)		-5.1	-4.2	-4.0

** A positive sign corresponds to exceptional measures reducing the deficit*

Table 14. General government debt developments	ESA Code	2021	2022	2023
		% of GDP	% of GDP	% of GDP
1. Gross debt		112.8	111.5	111.2
2. Change in gross debt ratio		-2.1	-1.4	-0.3
Contributions to changes in gross debt ratio				
3. Primary balance		-5.1	-3.2	-3.4
4. Interest expenditure	D.41	1.4	1.8	1.6
5. Stock-flow adjustment		0.1	-0.3	-0.4
Memo: Implicit interest rate on debt (%)		1.2	1.6	1.4
Debt ratio, excluding support to the euro area		110.2	109.0	108.9

Table 15. Contingent liabilities	ESA Code	2021	2022	2023
		% of GDP	% of GDP	% of GDP
Public guarantees		12.8		

Table 15 b. Guarantee measures to address the Covid-19 pandemic			
% of 2021 GDP	**Adoption date**	**Maximum amount of guarantee**	**Amount of guarantee provided**
Exceptional State-guarantee mechanism for loans to companies	2020	11.4	5.4
Activation of a government reinsurance guarantee to cover outstanding credit insurance (Cap/Cap+ schemes)	2020	0.3	0.1
Introduction of reinsurance for short-term export credits	2020	0.2	0.0
SURE	2020	0.2	0.2
EGF (EIB)	2020	0.2	0.1
Total guarantee measures		**12.2**	**5.8**

Table 16. Structural effort broken down by subsector			
Central government			
	2021	**2022**	**2023**
Balance	**-5.8**	**-5.4**	**-5.6**
Structural balance (as a % of potential GDP)	-5.0	-5.0	-5.0
Structural adjustment	-2.2	0.1	-0.1
of which, structural effort	-2.6	-0.4	0.7
*of which neutral operations on the general government balance**	*-0.4*	*0.0*	*0.1*
Local government			
	2021	**2022**	**2023**
Balance	**0.0**	**0.0**	**-0.1**
Structural balance (as a % of potential GDP)	0.1	0.0	0.0
Structural adjustment	-0.2	-0.1	-0.1
of which, structural effort	-0.6	-0.1	0.1
*of which neutral operations on the general government balance**	*0.3*	*0.0*	*-0.2*
Social security funds			
	2021	**2022**	**2023**
Balance	**-0.7**	**0.5**	**0.8**
Structural balance (as a % of potential GDP)	-0.2	0.7	1.1
Structural adjustment	-0.9	0.9	0.4
of which, structural effort	-1.3	0.3	0.4
*Of which neutral operations on the general government balance**	*0.1*	*0.0*	*0.1*

**Restatements and transfers between subsectors*

Table 17. Structural adjustment and structural effort breakdown

	2021	2022	2023
General government net lending (% of GDP)	**-6.5**	**-5.0**	**-5.0**
Cyclical balance	-1.4	-0.6	-0.8
One-off and temporary measures (as a % of potential GDP)	-0.1	-0.1	-0.2
Structural balance (as a % of potential GDP)	-5.1	-4.2	-4.0
Structural adjustment	**-3.3**	**0.9**	**0.2**
of which, structural effort	-4.5	-0.2	1.3
new revenue measures (net of tax credits) and excluding one-off and temporary measures	*-0.6*	*-0.3*	*0.0*
expenditure effort	*-3.8*	*0.1*	*1.3*
of which, non-discretionary component	1.2	1.0	-1.1
revenue excluding aggregate taxes and social security contributions	*0.9*	*-0.1*	*-0.3*
effect of tax elasticity	*0.3*	*1.1*	*-0.7*

Table 18. General government expenditure and revenue projections in ESA 2010 with no policy change broken down by main components

General government (S.13)	ESA Code	2021	2022	2023
		% of GDP	% of GDP	% of GDP
1. Total revenue (gross of tax credits)		**52.5**	**53.4**	**52.5**
Of which				
1.1. Taxes and duties on production	D.2	16.6	16.9	17.1
1.2. Current taxes on income, wealth, etc.	D.5	12.9	13.4	12.7
1.3. Capital taxes	D.91	0.7	0.7	0.6
1.4. Social contributions	D.61	16.8	16.9	16.8
1.5. Property income	D.4	0.6	0.6	0.7
1.6. Other		4.9	4.9	4.5
Memo: Aggregate taxes and social security contributions (excluding EU)*		44.1	45.1	44.7
2. Total expenditure (including tax credits)		**59.0**	**57.6**	**57.0**
Of which				
2.1. Compensation of employees	D.1	12.5	12.2	12.2
2.2. Intermediate consumption	P.2	5.1	5.1	5.1
2.3. Social payments	D.62, D.63	26.9	25.4	25.1
of which unemployment benefits		1.7	1.3	1.2
2.4. Interest expenditure	D.41	1.4	1.8	1.6
2.5. Subsidies	D.3	3.3	3.2	3.2
2.6. Gross fixed capital formation (GFCF)	P.51	3.6	3.8	3.8
2.7. Capital transfers	D.9	1.6	1.5	1.5
2.8 Other		4.6	4.6	4.4

NB: Expenditure and revenue in ESA 2010 (including tax credits for gross expenditure and revenue).
**Aggregate taxes and social security contributions net of tax credits and not gross.*

Table 19. General government expenditure and revenue targets				
	ESA Code	2021	2022	2023
General government (S.13)		% of GDP	% of GDP	% of GDP
1. Total revenue (gross of tax credits)		**52.5**	**53.3**	**52.2**
Of which				
1.1. Taxes and duties on production	D.2	16.6	16.9	17.0
1.2. Current taxes on income, wealth, etc.	D.5	12.9	13.3	12.6
1.3. Capital taxes	D.91	0.7	0.7	0.6
1.4. Social contributions	D.61	16.8	16.9	16.8
1.5. Property income	D.4	0.6	0.6	0.7
1.6. Other		4.9	4.9	4.5
Memo: Aggregate taxes and social security contributions (excluding EU)*		44.1	45.0	44.4
2. Total expenditure (including tax credits)		**59.0**	**58.2**	**57.2**
Of which				
2.1. Compensation of employees	D.1	12.5	12.4	12.2
2.2 Intermediate consumption	P.2	5.1	5.2	5.1
2.3. Social payments	D.62, D.63	26.9	25.7	25.2
of which unemployment benefits		1.7	1.3	1.2
2.4. Interest expenditure	D.41	1.4	1.8	1.6
2.5. Subsidies	D.3	3.3	3.2	3.2
2.6. Gross fixed capital formation (GFCF)	P.51	3.6	3.9	3.9
2.7. Capital transfers	D.9	1.6	1.6	1.5
2.8 Other		4.6	4.6	4.4

NB: Expenditure and revenue in ESA 2010 (including tax credits for gross expenditure and revenue).
**Aggregate taxes and social security contributions net of tax credits and not gross.*

Table 20. Calculation of the aggregate of the expenditure benchmark				
	2021	**2021**	**2022**	**2023**
	level in €bn	% of GDP	% of GDP	% of GDP
1. Total expenditure (including tax credits)	**1476.7**	**59.0**	**58.2**	**57.2**
2. One-off and temporary expenditure measures	0.9	0.0	0.1	0.2
3. Interest expenditure	34.7	1.4	1.8	1.6
4. Expenditure on EU programmes fully matched by EU funds revenue	13.7	0.5	0.4	0.2
5. Current investment expenditure	89.7	3.6	3.9	3.9
6. Investment expenditure smoothed over 4 years	86.0	3.4	3.5	3.5
7. Cyclical unemployment benefit expenditure	2.9	0.1	0.0	0.1
8. Aggregate expenditure benchmark (=1-2-3-4-[5-6]-7)	**1420.8**	**56.8**	**55.4**	**54.8**
9. Effect of discretionary revenue measures (gross of tax credits and excluding one-off and temporary measures)	-16.0	-0.6	-0.3	0.0
10. Revenue increases mandated by law	0.0	0.0	0.0	0.0
11. Net aggregate expenditure benchmark (= 8-9-10)	**1436.9**	**57.5**	**55.7**	**54.8**

NB: The preventive arm of the Stability and Growth Pact provides that the real growth in general government expenditure, net of new revenue measures, should, depending on the country's position with regard to its Medium-Term Budgetary Objectives (MTOs), "not exceed a benchmark rate [or a lower rate for countries that have not achieved their MTOs] for potential medium-term GDP growth, unless this is matched by discretionary revenue measures" (Council Regulation (EC) No 1466/97, amended). This rule, which is part of an overall assessment using the structural balance as a benchmark, allows for focus on the components that can be steered directly by lawmakers within the structural adjustment. The field examined is general government expenditure, excluding interest and cyclical unemployment benefit expenditure, and net of new revenue measures.

Table 21: General government expenditure by function (% GDP)*			
	COFOG Code	**2019**	**2020**
1. General public services	**1**	5.6	5.8
2. Defence	**2**	1.7	1.9
3. Public order and safety	**3**	1.6	1.8
4. Economic affairs	**4**	5.9	6.8
5. Environmental protection	**5**	1.0	1.0
6. Housing and community amenities	**6**	1.1	1.1
7. Health	**7**	8.0	9.0
8. Recreation, culture and religion	**8**	1.4	1.5
9. Education	**9**	5.2	5.5
10. Social protection	**10**	23.8	27.3
Total expenditure	**TE**	**55.4**	**61.6**

** Eurostat, latest available COFOG data*

Table 22: Divergence from latest Stability programme				
	ESA Code	**2021**	**2022**	**2023**
		% GDP	**% GDP**	**% GDP**
Target general government net borrowing				
Stability Programme	B.9	-6.4	-5.0	-5.0
Draft Budgetary Plan		-6.5	-5.0	-5.0
Difference		-0.1	0.0	0.0
General government net lending projection at unchanged policies *				
Stability Programme	B.9	-6.4	-4.7	-5.1
Draft Budgetary Plan		-6.5	-4.2	-4.5
Difference		-0.1	+0.5	+0.6

** Since May 2022*