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COMMISSION OPINION

of 24.11.2021

on the Draft Budgetary Plan of France

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(Only the French text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan by 15 October, presenting the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

3. On 20 March 2020, the Commission adopted a Communication[1] on the activation of the general escape clause[2] of the Stability and Growth Pact. In that Communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the conditions to activate the general escape clause were met. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission.[3]

4. On 3 March 2021, the Commission adopted a Communication providing further policy orientations to facilitate the coordination of fiscal policies.[4] In that Communication, the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken on the basis of an overall assessment of the state of the economy, with the level of economic activity in the EU or euro area compared to pre-crisis levels (end-2019) as a key quantitative criterion. On 2 June 2021, on the basis of the Commission 2021 spring forecast, the Commission considered that the conditions to continue to apply the general escape clause in 2022 and to deactivate it as of 2023 were met.[5] Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

5. Next Generation EU, including the Recovery and Resilience Facility, supports a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 established the

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[1] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

[2] The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn.

[3] https://www.consilium.europa.eu/en/press/press-releases/2020/03/23/statement-of-eu-ministers-of-finance-on-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/

[4] Communication from the Commission to the Council on one year since the outbreak of COVID-19: fiscal policy response, Brussels, 3.3.2021, COM(2021) 105 final.

[5] Communication from the Commission on economic policy coordination in 2021: overcoming COVID-19, supporting the recovery and modernising our economy, Brussels, 2.6.2021, COM(2021) 500 final.

Recovery and Resilience Facility[6], which provides financing support for the implementation of reforms and investments, notably to promote the green and digital transitions, thereby strengthening the economies' resilience and potential growth. Part of this support is in the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the EU budget. By contributing to economic recovery and to strengthening long-term growth, it supports public finances, growth and job creation in the medium and long term.

6. On 2 June 2021, the Commission emphasised in its communication that the coordination of national fiscal policies remains crucial to underpin the recovery. In this context, the Commission set out its view that the overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. Fiscal policy should remain agile and adjust to the evolving situation as warranted, and a premature withdrawal of fiscal support should be avoided. Once health risks diminish, fiscal measures should gradually pivot to more targeted measures that promote a resilient and sustainable recovery. Finally, with economic activity gradually normalising in 2021, Member States' fiscal policies should become more differentiated in 2022, taking into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. All Member States should preserve nationally financed investment. As the recovery takes hold, fiscal policy should prioritise higher public and private investment, supporting the transition towards a green and digital economy.

   In its recommendations on the 2021 Stability Programmes on 18 June 2021, the Council also recommended that, when economic conditions allow, Member States should pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, investment should be enhanced to boost growth potential.

   The Council, on 13 July 2021, further recommended to euro area Member States[7] to take action, individually and collectively within the Eurogroup, in the period 2021–2022 to ensure a policy stance that supports the recovery from the COVID-19 crisis. When the epidemiological and economic conditions allow, emergency measures should be phased out while combatting the social and labour market impact of the crisis. Recalling the need for prudent medium-term fiscal positions and debt sustainability, while enhancing investment, the Council also called for particular attention to the quality of budgetary measures.

   The recovery of the European economy has been strengthening, thanks to the improved health situation and easing of pandemic control restrictions. The volume of output in the euro area is expected to return to its pre-pandemic level by the end of the year. However, bottlenecks in global supply and rising energy and commodity prices have been increasingly weighing on activity in the EU. This together with production bottlenecks, due to the shortage of some input components and raw materials, and capacity constraints vis-à-vis booming demand both in the EU and internationally have been putting upward pressure on consumer prices.

7. On 18 June 2021, in its recommendations on the 2021 Stability Programmes, the Council highlighted that the established indicators of fiscal adjustment set out in

6 OJ L57, 18.2.2021, p.17

7 Council Recommendation of 13 July 2021 on the economic policy of the euro area, OJ C 283, 15.7.2021, p. 1.

Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. Specifically, the assessment of the overall fiscal stance at the current juncture should take into account the transfers from the EU budget (such as those from the Recovery and Resilience Facility). Furthermore, the assessment also needs to take into account the phasing-out of crisis-related temporary emergency measures that were designed to support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions, while their withdrawal is accompanied by the easing of lockdown restrictions that will support growth.

Accordingly, the fiscal stance in 2021 and 2022 is measured by the change in primary expenditure (net of discretionary revenue measures), excluding crisis-related temporary emergency measures but including expenditure financed by grants under the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth[8]. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally financed primary current expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures) and investment.

CONSIDERATIONS CONCERNING FRANCE

8. On 15 October 2021, France submitted the Draft Budgetary Plan for 2022. On 22 October 2021, France submitted an update of that Draft Budgetary Plan for 2022. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

9. On 18 June 2021, the Council recommended that in 2022 France[9] uses the Recovery and Resilience Facility to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. Moreover, it should preserve nationally financed investment.

The Council also recommended to pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the national budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery; to prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition; and to give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

On 2 June 2021, the Commission issued a report under Article 126(3) TFEU.[10] This report discussed the budgetary situation of France, as its general government deficit in 2020 exceeded the 3% of GDP Treaty reference value, while its general government debt exceeded the 60% of GDP Treaty reference value and did not

8 The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the Recovery and Resilience Plan and can boost France's potential growth.

9 Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of France, OJ C 304, 29.7.2021, p. 43.

10 Report from the Commission prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, Brussels, 2.6.2021, COM(2021) 529 final.

respect the debt reduction benchmark. The report concluded that the deficit criterion was not fulfilled and the debt criterion was not complied with.

10. According to the Commission 2021 autumn forecast, the French economy is expected to grow by 6.5% in 2021 and by 3.8 % in 2022, while inflation is forecast at 1.9% in 2021 and 2.1% in 2022. According to the updated Draft Budgetary Plan, the French economy is expected to grow by 6¼% in 2021[11] as a result of the strong rebound of all domestic demand components, especially gross fixed capital formation, whereas net exports would post a negative contribution to growth by 0.3 points. In 2022, the updated Draft Budgetary Plan projects the economy to expand by 4.0%, supported mainly by private consumption and, to a lesser extent, investment. Net exports' contribution to growth is expected to remain negative, whereas inventories are expected to be neutral to growth. Employment is set to expand relatively strongly in 2021 and more moderately in 2022. Inflation is projected 1.7% in 2021 and 1.6% in 2022. This scenario is broadly in line with the Commission's forecast in that the updated Draft Budgetary Plan projects slightly lower growth in 2021, followed by a mildly larger expansion in 2022. While in both sets of projections private consumption and investment are expected to be the main growth drivers in 2022, the Commission still projects a slightly positive contribution to growth of net exports, as opposed to a negative growth contribution on the updated Draft Budgetary Plan. The gap between the inflation scenarios mainly stems from the differences in the oil price assumptions, which are significantly higher in the Commission forecast for 2022. Overall, the macroeconomic assumptions underpinning the updated Draft Budgetary Plan are plausible in 2021 and in 2022.

France complies with the requirement of Regulation (EU) No 473/2013 since the draft budget is based on independently endorsed macroeconomic forecasts.

11. France submitted its Recovery and Resilence Plan on 28 April 2021. The Council approved the assessment of France's Recovery and Resilence Plan on 13 July 2021. A pre-financing payment of Recovery and Resilience Facility grants of 0.2% of GDP was made to France in August 2021. The Draft Budgetary Plan assumes that expenditure amounting to 0.02% of GDP in 2020, 0.7% in 2021 and 0.4% in 2022 will be funded by non-repayable financial support (grants) from the Recovery and Resilience Facility. Expenditures financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government deficit and debt. Simulations by the Commission services show that the RRP, together with the rest of measures of the European Union Recovery Instrument, has the potential to increase the GDP of France by between 0.6% and 1.0% by 2024, not including the possible positive impact of structural reforms, which can be substantial.[12]

The Commission's forecast includes a similar amount of expenditures financed by Recovery and Resilience Facility grants in its budgetary projections.

12. In its 2022 updated Draft Budgetary Plan, France's general government deficit is planned to decrease from 8.1% of GDP in 2021 to 5.0% of GDP in 2022, mainly due to a favourable macroeconomic situation, to the unwinding of most emergency

[11] The Draft Budgetary Plan submitted on 15 October projected growth at 6% of GDP in 2021. The growth forecast for 2022 remains unchanged.

[12] These simulations reflect the overall impact of NGEU, which also includes funding for ReactEU, and increased funding for Horizon Europe, InvestEU, JTF, Rural Development and RescEU.

measures and to lower recovery measures under France Relance than in 2021. These projections also include an annual estimate of the budgetary impact of the investment plan France 2030 of 0.1% of GDP. The general government debt ratio is planned to decrease from 115.3 % of GDP in 2021 to 113.5% of GDP in 2022. These projections are in line with the Commission's forecast, which project a general government deficit at 5.3% of GDP in 2022, although with a somewhat different profile for public debt. The Commission projects public debt to fall already in 2021 to 114.6% of GDP and to decline further to 113.7% of GDP in 2022.

Despite a similar deficit forecast for 2021, the different debt profile for this year is mainly explained by the divergences in the underlying macroeconomic scenario. Specifically, the Commission projects a more dynamic nominal growth by 0.7 pp., which by itself explains a lower debt projection by 0.8% of GDP. For 2022 however, the Commission projects a less pronounced decline in the debt-to-GDP ratio. This is due to the higher deficit, slightly lower nominal growth and a lower contribution to debt reduction of stock-flow adjustments projected by the Commission.

The outlook for public finances continues to be subject to the high uncertainty that surrounds the macroeconomic projections, including risks related to the evolution of the pandemic and possible scarring effects. France provided significant liquidity support to companies and households, such as guarantees and tax deferrals. This support does not have a direct or immediate budgetary impact, but guarantees represent contingent liabilities for the general government sector. The Commission estimates that the guarantees taken up amounted to around 5.8% of GDP at the end of September 2021.

13. For 2021, the Draft Budgetary Plan does not introduce significant new measures. Rather, it builds on the continuation and progressive phasing-out of the emergency measures already adopted since 2020 to support businesses and households face the crisis. At the same time, the plan enshrines the already announced implementation of the recovery plan *France Relance*, partly financed by Recovery and Resilience Facility grants. Overall, according to the Draft Budgetary Plan, expenditure and revenue measures imply a budgetary cost of 3.7% of GDP and 0.5% of GDP, respectively, for a total deficit-increasing impact of 4.2% of GDP. For 2022, the Draft Budgetary Plan foresees a much-reduced budgetary impact of emergency measures, of 0.3% of GDP, mainly limited to continued exceptional healthcare expenditure. Similarly, the impact of expenditure measures in the context of *France Relance* is expected to decrease to 0.8% of GDP. New measures for the year concern the inclusion of investment expenditure stemming from the launch of a new strategic plan, France 2030, as well as expenditure measures supporting skills development and employment. All together, these measures imply a deficit-increasing impact of 0.2% of GDP. In addition, the Draft Budgetary Plan puts forward new measures aimed at mitigating the effects of inflation, in particular linked to raising energy prices, with a budgetary cost of 0.3% of GDP. These include the temporary decrease in TICFE (domestic tax on final electricity consumption), direct subsidies and measures to freeze regulated gas tariffs. There are no relevant discrepancies between the Commission's forecast estimate of discretionary measures and that of the Draft Budgetary Plan. The Draft Budgetary Plan confirms some measures already adopted that appear not to be temporary or matched by offsetting measures. These are estimated at almost 0.9% of GDP as of 2022 and include a permanent reduction in taxes on production as of 2021 (0.4% of GDP) and the increase of civil servant wages, mainly in the healthcare system, spread between 2020 and 2022 (0.4% of

GDP). Based on the Commission's forecast, the crisis-related temporary emergency measures will decrease from 3.4% of GDP in 2020, to 2.7% in 2021 and 0.4% in 2022.

According to the Draft Budgetary Plan, gross fixed capital formation is expected to reach 4.1% in 2021 and to stand at 4% of GDP in 2022. These figures include investment-related measures under the plan *France Relance*, among which those specifically addressed to the healthcare sector in the context of *Ségur de la Santé*. These projections are in line with the Commission 2021 autumn forecast.

Some of these measures, such as those promoting the energy efficiency of buildings, supporting cleaner transport and energy sources, improving digitalisation of public services and small and medium-sized enterprises ('SMEs'), modernising education and training schemes and enhancing the resilience of the health sector, are aimed at supporting the green and digital transition, as well as the adequacy and sustainability of health and social protection systems as recommended by the Council on 18 June 2021. France is planning to adopt a reform of the public finance governance framework, aimed at enhancing the multiannual programming and strengthening the assessment of the quality of public spending. A complete assessment of the fiscal-structural reforms implemented by France will be done in the context of the assessment of the implementation of the Recovery and Resilience Plans and the 2022 Country Report.

14. The fiscal stance, which excludes crisis-related temporary emergency measures while including the impact on aggregate demand from investment financed by both the national and the EU budgets, notably the Recovery and Resilience Facility, is projected in the Commission's forecast at -0.6% of GDP in 2022.[13] France is projected to use the Recovery and Resilience Facility in 2022 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to decrease by 0.2 percentage points of GDP in 2022 compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.1 percentage points of GDP in 2022.[14] The growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 0.5% of GDP to the overall fiscal stance.

15. The Draft Budgetary Plan does not include budgetary projections beyond 2022, although it refers to the government's medium-term budgetary strategy to reduce the general government deficit to below 3% of GDP by 2027. In turn, according to the medium-term budgetary strategy the public debt ratio should start decreasing as of 2026.[15]

16. In 2022, based on the Commission's forecast and including the information incorporated in France's updated Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be

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[13] A negative sign of the indicator corresponds to an excess of primary expenditure growth compared with medium-term economic growth, indicating an expansionary fiscal policy.

[14] Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0.2 percentage points of GDP.

[15] In its 2021 Stability Programme, France projects the debt ratio to start increasing again in 2023 and to decline only as of 2026. The Draft Budgetary Plan refers to this multiannual trajectory.

supportive. As recommended by the Council, France plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, France also plans to preserve nationally financed investment. Given the level of France's government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, when taking supportive budgetary measures, it is important to preserve prudent fiscal policy in order to ensure sustainable public finances in the medium term.

The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. In this regard, measures contained in the French Draft Budgetary Plan contribute to fulfilling the Council recommendation of ensuring a sustainable and inclusive recovery, while prioritising the green and digital transition, as well as the adequacy and sustainability of health and social protection systems for all.

Taking into account the strength of the recovery, France is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

Done at Brussels, 24.11.2021

For the Commission
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