

THE GREEN BUDGET IN FRANCE : FROM AN INFORMATIVE REPORT TO A DECISION-MAKING TOOL

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Summary

Introduction

I. From an informative report...

- 1) Methodology of the French Green budget
- 2) Key results of the last edition

II. ... to a decision-making tool

- 1) The introduction of green budgeting into the budgetary procedure
- 2) A basis for ecological planification ?

Introduction

- In October 2022, France has published its third green budget, as an annex to the 2023 Finance Bill.
- The development of a green budget in France met several needs :
 - France's climate commitments at national, European and international level
 - Necessity to improve access to environmental information and to better accounting of the environmental impact of the central government budget.
 - A strong expectation of Member of Parliaments and NGOs
 - An expectation reinforced by the yellow-jacket protests in 2018-2019 triggered, in particular, by the increase in carbon tax in 2018.
 - To have a single and comprehensive document on public effort made in favour of the environmental transition
- Year on year, the green budget improves and receives increasing attention from civil society (Parliament, NGO, press).
- However, the green budget is not without its frustrations: interesting, but how can it be integrated into the budget cycle?

I. An informative report

1) Methodology of the French Green Budget

Methodology of the French Green Budget

- Each expense is tagged with regard to its impact on **6 environmental objectives** (6 axes of European taxonomy) :



- The level used is that of **the budgetary action** : there are 890 actions in the French central government budget
- **Tax expenditures** are also tagged (there are 480), as are **taxes allocated to public bodies** (there are 96)
- **Taggings are determined by a working group** made up of representatives from the Ministry of Economics and Finance (Budget Directorate, General Directorate of the Treasury, Tax Policy Directorate) and from the Ministry of Ecological Transition → 10 people
- **Taggings are reviewed every year**

Methodology of the French Green Budget

- More generally, an expense is tagged **favourable**, **unfavourable**, **mixed**, **neutral**, or is **not tagged**

Budget appropriations	Outturn 2021	2022 Initial Budget Act	2023 BB	Climate (Mitigation)	Climate (Adaptation)	Water	Waste	Pollution	Biodiversity	Classification
P174 Grants for the purchase of green vehicles	€435.1m	€378.0m	€1,145.4m	●	●	●	●	●	●	Favourable
P174 Scrapping subsidies for dirty vehicles	€70.0m	€128.0m	€150.0m	●	●	●	●	●	●	Mixed
P203 Air transport	€40.0m	€91.7m	€72.3m	●	●	●	●	●	●	Unfavourable

Tagging by axis

Global tagging for a budgetary action

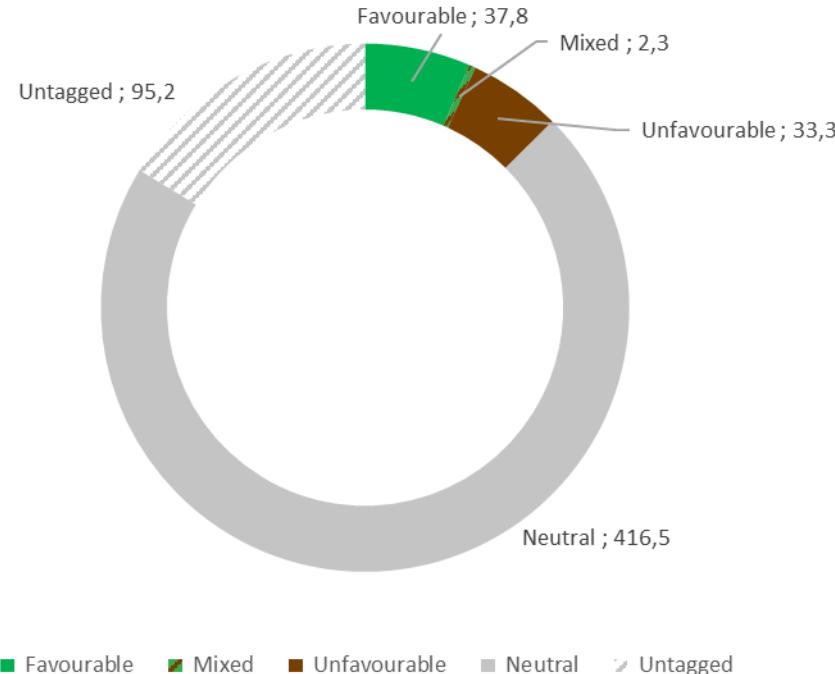
- The tagging of expenditure reflects the greater or lesser pressure of an expenditure on the environment compared to a **counterfactual scenario** conceived as :
 - the absence of expenditure** (in particular in the case of investment expenditure or incentive expenditure such as tax expenditure)
 - or a lower expenditure** (eg: expenditure relating to a public institution, assuming for example a reduction in resources or staff).

I. An informative report

2) Key results for the 2023 Budget Act

Key results for the 2023 Budget Act

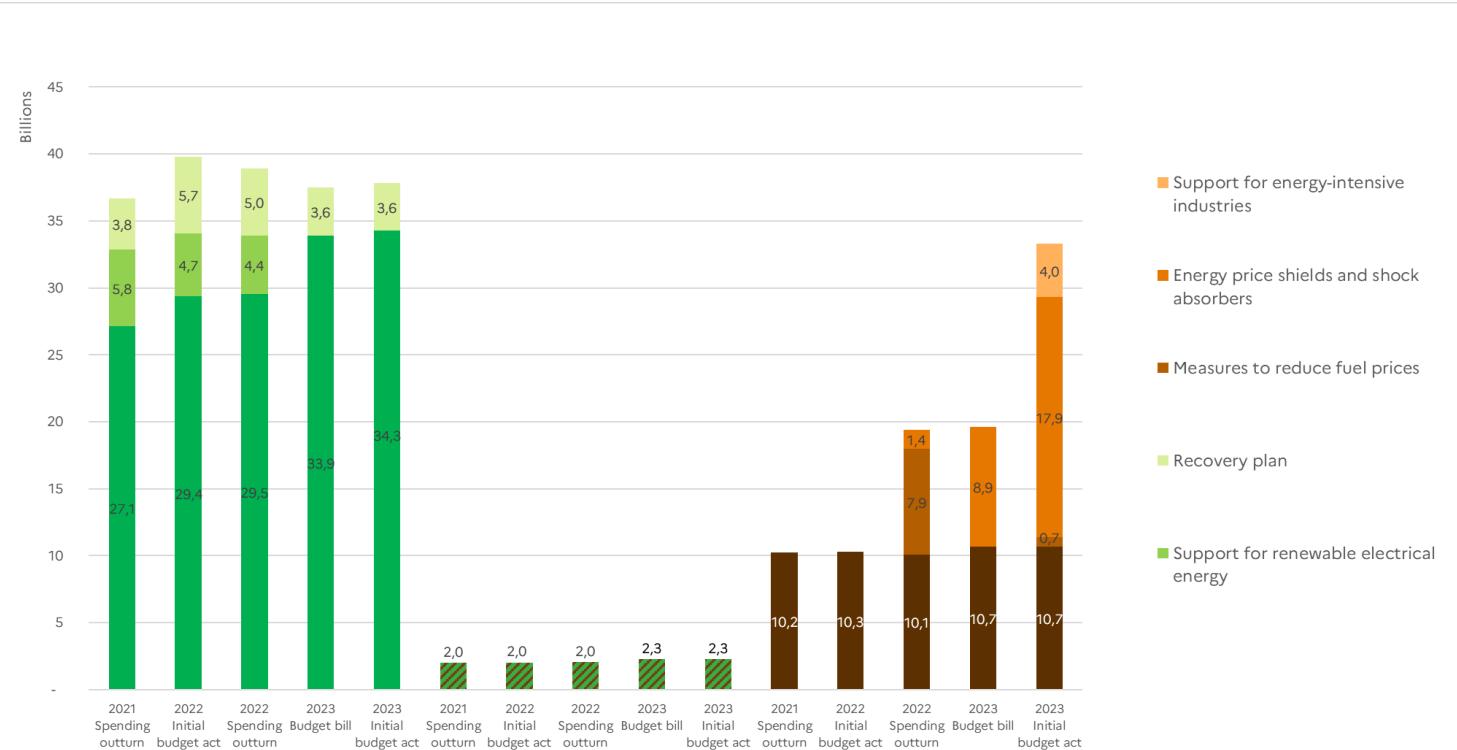
2023 Initial Budget Act (bn€)
Including the recovery plan and support measures to cope with higher energy prices.



Key results for the 2023 Budget Act

- **Favourable expenditures (37.8 bn€)** : capital expenditures on the railways, "Ma prime Rénov'" (renovation subsidy), tax allocated to water agencies, research, public development aid, reduced VAT (value-added tax) rate of 5.5% for energy building works, a part of the "Investing for France 2030" plan, support for the purchase of clean vehicles.
- **Mixed expenditures (2.3 bn€)** : spending on major rail and maritime infrastructure projects (favourable for climate change mitigation but unfavourable for biodiversity)
- **Unfavourable expenditures (33.3 bn€)** :
 - 22.6 bn of support measures to cope with higher energy prices : energy price "shield" (aims to freeze gas prices and caps the rise of electricity prices), support for energy-intensive businesses, fuel measures.
 - 7.1 bn in tax expenditure : reduced and special rates of excise duty on energy (reduced rates on diesel for agricultural work, goods transport, in the French overseas territories, etc.).
 - 1.7 bn in support for energy production in non-interconnected areas (Corse, French overseas territories) : support for maintaining gas or oil-fired power stations.
- **Neutral expenditures (416.5 bn€)** : social transfers to households, general transfers to businesses without environmental conditionality, public wages, regalian missions (armed forces, police).
- **Untagged expenditures (95.2 bn€)** : revenues paid to the European Union, central government financial support for local government, digital technology expenditures, government export guarantees.

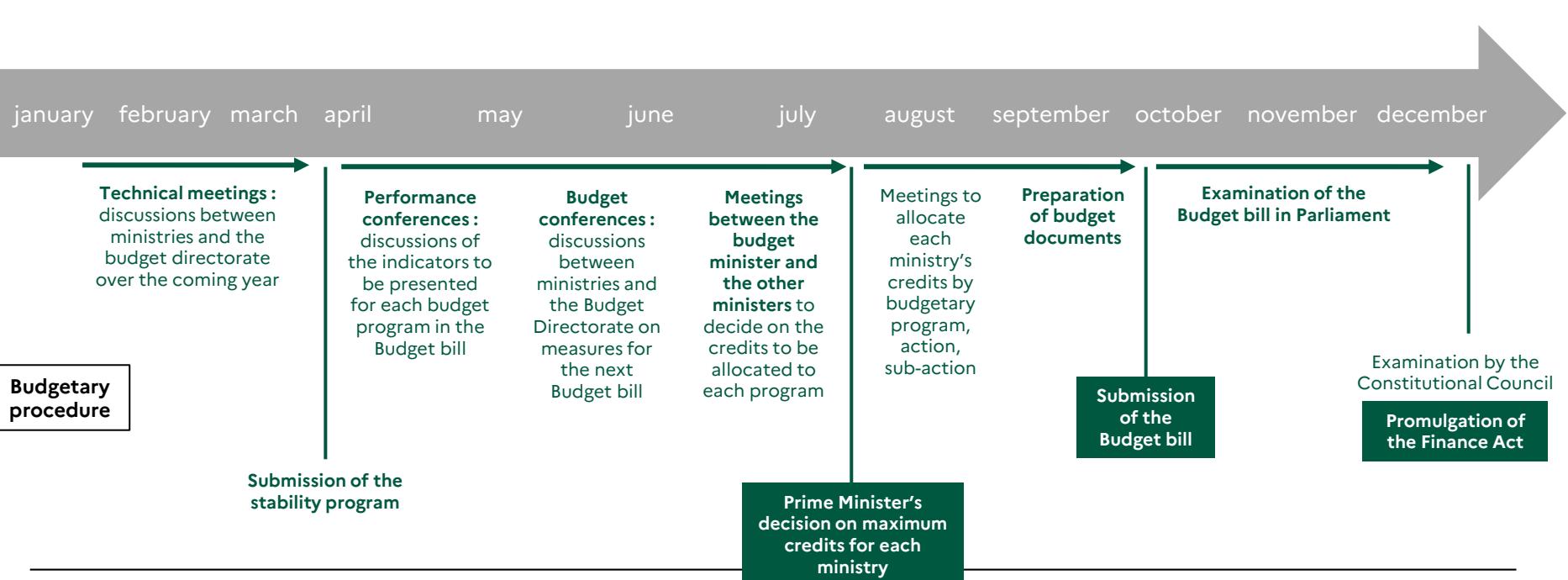
Change in green, mixed and brown spending in 2021 spending outturn, 2022 Initial budget act, 2022 spending outturn, 2023 Budget bill and 2023 Initial budget act



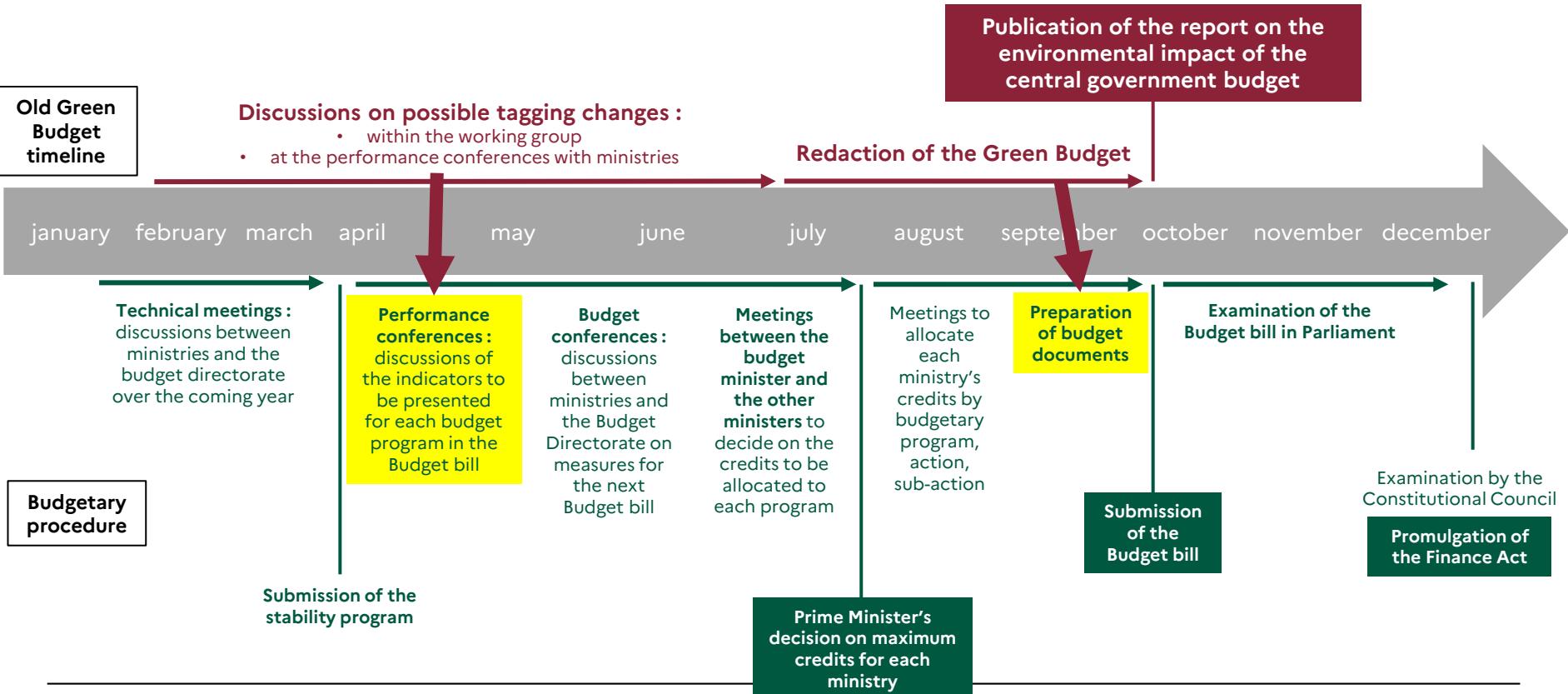
II. A decision-making tool

- 1) The introduction of green budgeting into the budgetary procedure

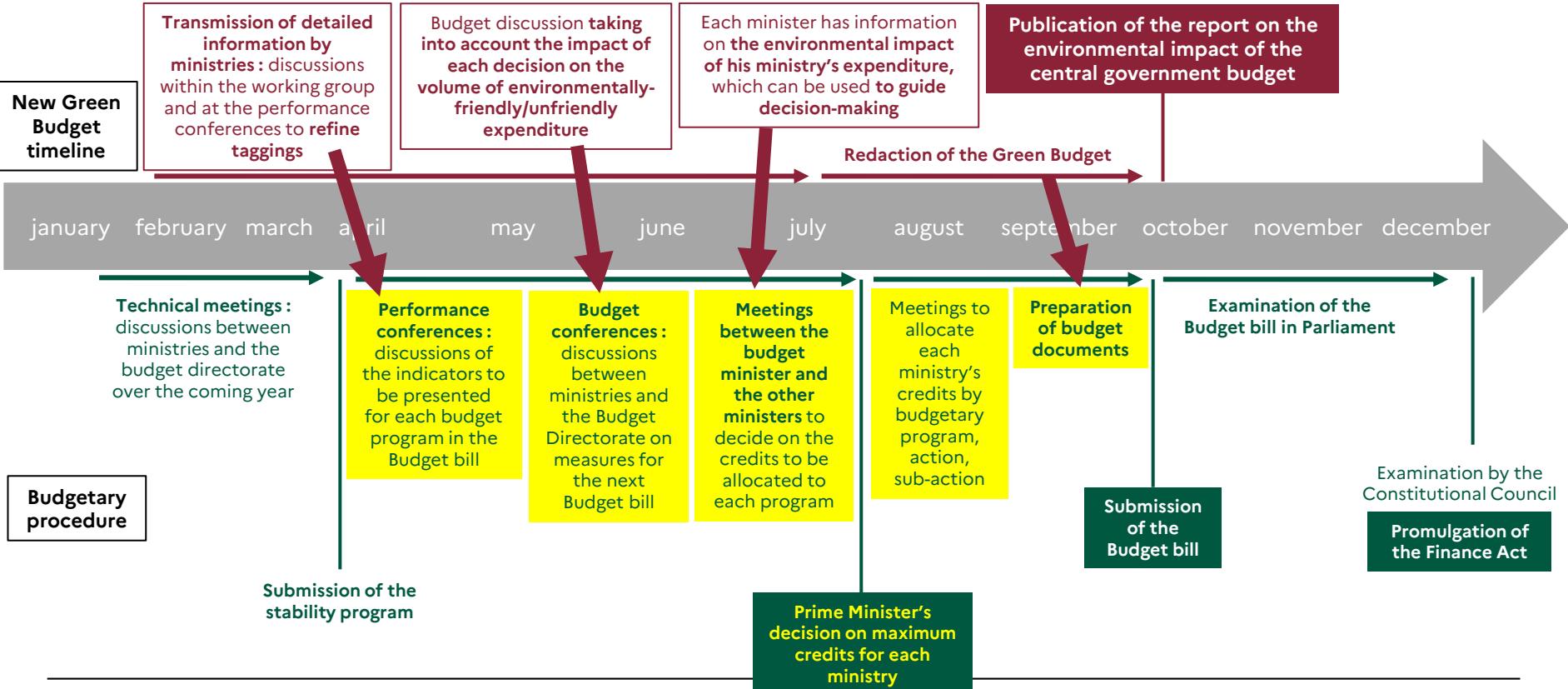
The French budgetary procedure



The Green Budget timeline last year



The introduction of green budgeting into the budgetary procedure



Summary of the process

→ **Results of the process** : ministers have information about the impact of their decision on the volume of environmentally-friendly/unfriendly expenditure, at each stage of the procedure and at a fine level of detail

Work required upstream :

- Expenses tagged according to a different nomenclature than previously, at a finer level of detail ("brick" : 1550 bricks in the central government budget) : budget discussions in France are not conducted using the same nomenclature as the Finance Bill submitted to Parliament
- Extensive work with the entire Budget directorate and the various ministries to determine taggings on this finer scale
- Limits of the process : methodological issues → at what level of detail ? ("sub-brick" ?) consistent with the report submitted to Parliament ?

→ **The value of the approach depends heavily on the level of information provided by each ministry, and on the involvement of every decision-maker**

II. A decision-making tool

2) A basis for ecological planification ?

A basis for ecological planification ?

Two main challenges

- **Linking physical targets and financial assessments**
 - Financial translation of climate and environmental commitments.
 - For example, what level of investment do we need to achieve the climate targets of the 'Fit for 55' package?
- **Making the major investments needed for the ecological transition and controlling public spending**
 - Context of reform of the EU's economic governance framework
 - Issues : share of public and private expenditure, reallocation of expenditure, efficiency of expenditure, use of non-budgetary public tools...

In France, this work is currently being carried out by the General Secretariat for Ecological Planning (SGPE).

- An interministerial structure created in June 2022.
- Reporting directly to the Prime Minister.

A basis for ecological planification ?

The Green budget is a useful tool for this ecological planning work :

- It lets you know where you are starting from in terms of green and brown expenditures.
- It provides a global view of all the State's budgetary and fiscal expenditures. Not only a vision focused on the main investment projects.
- Projections of the green budget are beginning to be possible on the basis of the public finance programming law.

Limits and challenges to overcome

- Recent work, currently in progress...
- The Green budget covers government expenditures only.
- The Green budget is not a strategy. Even if it becomes a decision-making tool integrated into the budgetary procedure, its role is to help to prepare a finance bill, not to define an environmental strategy or set environmental targets.
- A tool that is constantly being improved and that is increasingly useful, but which cannot by itself meet all the challenges of the ecological transition.

Thank you!

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