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COMMISSION OPINION

of 26.11.2024

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 lays down provisions for enhanced monitoring of budgetary policies in the euro area, in order to ensure that national budgets are consistent with the economic policy guidance issued in the context of the EU economic governance framework.

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

3. On 30 April 2024, the new economic governance framework entered into force. The main objectives of the new framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments. The framework helps to make the EU more competitive and better prepared for future challenges by supporting progress towards a green, digital, inclusive, and resilient economy.

4. In order to simplify the Union fiscal framework and increase transparency, a single operational indicator, anchored in debt sustainability, serves as a basis for setting the fiscal path and for carrying out annual fiscal surveillance for each Member State. That single operational indicator is the nominal growth rate of net expenditure[1].

5. The Recovery and Resilience Facility[2] provides financial support for the implementation of reforms and investments, notably to promote the green and digital transitions. The Facility also aims at increasing the resilience of the Union's energy system by reducing dependence on fossil fuels and diversifying energy supply at Union level ('REPowerEU objectives'). The Facility is expected to strengthen the resilience and potential growth of Member States' economies, which contributes to job creation and sustainable public finances. Part of this support takes the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.

[1] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

[2] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, OJ L 57, 18.2.2021, p. 17–75.

CONSIDERATIONS CONCERNING FRANCE

6. On 23 October 2024, France submitted its Draft Budgetary Plan for 2025 to the Commission and to the Eurogroup. On that basis, the Commission adopts this opinion in accordance with Article 7 of Regulation (EU) No 473/2013, and taking into account the Council Recommendation on economic, budgetary, employment and structural policies of France of 21 October 2024[3]. This opinion is adopted by the Commission together with the Commission Recommendation for a Council Recommendation under Article 126(7) of the Treaty with a view to bringing an end to the situation of an excessive deficit in France[4], and the Commission Recommendation for a Council Recommendation setting the net expenditure path of France for the years 2025 to 2029[5], which the Commission expects the Council to act upon in a timely manner.

7. On 21 October 2024, upon the Commission recommendation for Council Recommendation on the economic, social, employment, structural and budgetary policies of France of 19 June 2024[6], the Council recommended France, in line with the requirements of the reformed Stability and Growth Pact, to limit the growth in net expenditure in 2025 to a rate consistent with, inter alia, putting the general government debt on a plausibly downward trajectory over the medium term and reducing the general government deficit below the 3% of GDP Treaty reference value.

8. On 31 October 2024, France submitted to the Commission its medium-term fiscal-structural plan in line with Regulation (EU) 2024/1263[7]. The plan commits to net expenditure growth not exceeding 0.0% in 2025, 1.4% in 2026, 1.4% in 2027, 1.4% in 2028 and 1.3% in 2029. The Commission has assessed the medium-term fiscal-structural plan of France and recommended to the Council to adopt a recommendation setting the net expenditure growth ceilings contained therein. The Draft Budgetary Plan for 2025 is the first step in the implementation of the medium-term fiscal-structural plan.

9. On 26 July 2024, the Council adopted a decision under Article 126(6) of the Treaty on the existence of an excessive deficit in France due to non-compliance with the deficit criterion[8]. On [26 November] 2024, the Commission adopted a recommendation for a Council Recommendation under Article 126(7) of the Treaty with a view to bringing an end to the situation of an excessive deficit in France by 2029[9], which the Commission expects the Council to adopt in a timely manner. According to that recommendation, in the context of the correction of the excessive

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3 Not yet published.

4 Recommendation for a Council Recommendation with a view to bringing an end to the situation of an excessive deficit in France, 26.11.2024, COM(2024)952 final.

5 Commission Recommendation for a Council Recommendation endorsing the national medium-term fiscal-structural plan of France, 26.11.2024, COM(2024)716 final.

6 Commission Recommendation for a Council Recommendation on the economic, social, employment, structural and budgetary policies of France, 19.6.2024, COM(2024)610 final.

7 Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, OJ L, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

8 Council decision of 26 July 2024 on the existence of an excessive deficit in France, OJ L, 2024/2122, 1.8.2024.

9 Recommendation for a Council Recommendation with a view to bringing an end to the situation of an excessive deficit in France, 26.11.2024, COM(2024)952 final.

deficit, France should ensure that the nominal growth of net expenditure does not exceed 0.0% in 2025, 1.4% in 2026, 1.4% in 2027, 1.4% in 2028, 1.3% in 2029.

10. According to the Draft Budgetary Plan, France's real GDP is projected to grow by 1.1% in 2025 (1.1% in 2024), while inflation is forecast at 1.9% in 2025 (2.5% in 2024). According to the European Commission Autumn 2024 Forecast, France's real GDP is projected to grow by 0.8% in 2025 (1.1% in 2024), while inflation is forecast at 1.9% in 2025 (2.4% in 2024). The main differences between both sets of projections reflect a pronounced pick-up in private consumption in the DBP that leads to a more dynamic domestic demand contribution to growth in 2025. Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be more favourable than the Commission's forecast for 2025 while it is in line for 2024. France complies with the requirement of Article 4(4) of Regulation (EU) No 473/2013, since the Draft Budgetary Plan is based on independently endorsed macroeconomic forecasts. However, in its opinion on the macroeconomic scenario, the High Council of Public Finances ("Haut Conseil *des Finances Publiques*") considers that the macroeconomic scenario for 2025 is overall fragile.[10] The growth forecast for 2025 (1.1%) appears to be somewhat high given the contractionary fiscal stance, which is reflected, inter alia, in a decline in public demand and deficit-reducing revenue measures of 1 percentage point of GDP. To compensate for this restrictive impact, the growth forecast for 2025 contains favourable assumptions on world trade, business investment and a fall in the household saving rate, which would correspond to a clear acceleration of activity without fiscal adjustment. Despite the impulse that lower interest rates can provide, the High Council of Public Finances considers that such an acceleration is optimistic in the light of the information provided by the available business and consumer surveys.

11. Based on the Commission's estimates, the fiscal stance[11] is projected to be contractionary by 1.5% of GDP in 2025, following a contractionary fiscal stance of 0.1% in 2024. This measure of fiscal stance appropriately considers the impact on aggregate demand of expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds.

12. According to the Draft Budgetary Plan, France's general government deficit is projected to decrease to 5.0% of GDP in 2025 (6.1% in 2024), while the general government debt-to-GDP ratio is set to increase to 114.7% at the end of 2025 (112.9% at the end of 2024). The Draft Budgetary Plan does not provide information about net expenditure growth. In turn, according to the European Commission

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[10] The growth forecast for 2025 (1.1%) appears to be somewhat high given the contractionary fiscal stance, which is reflected, inter alia, in a decline in public demand and deficit-reducing revenue measures of 1 percentage point of GDP. To compensate for this restrictive impact, the growth forecast for 2025 contains favourable assumptions on world trade, business investment and a fall in the household saving rate, which would correspond to a clear acceleration of activity without fiscal adjustment. Despite the impulse that lower interest rates can provide, the High Council of Public Finances considers that such an acceleration is optimistic in the light of the information provided by the available business and consumer surveys.

[11] The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate, expressed as a ratio to nominal GDP.

Autumn 2024 Forecast, France's general government deficit is projected to decrease to 5.3% of GDP in 2025 (6.2% in 2024), while the general government debt-to-GDP ratio is set to increase to 115.3% at the end of 2025 (112.7% at the end of 2024). The decrease in the deficit is driven by the effect of discretionary measures announced by the government, of which revenue measures amounting to almost EUR 21.6 billion (0.7% of GDP), while expenditure measures, mainly on public consumption and social transfers, are worth almost EUR 12 billion (0.4% of GDP). According to the European Commission Autumn 2024 Forecast, net expenditure is projected to grow by 3.2% in 2024 and -0.1% in 2025. The main differences between both sets of projections reflect a different assessment of discretionary measures, some of which the Commission does not factor in its forecast as they are not sufficiently specified or their effect is uncertain, and the impact of the different growth projections on tax revenues. The risks to achieving the fiscal objectives for 2025 set out in the Draft Budgetary Plan are tilted to the downside, and mainly relate to the favourable macroeconomic assumptions underpinning the budgetary targets set in the Draft Budgetary Plan.

13. The Draft Budgetary Plan does not provide figures on expenditures financed by non-repayable support ("grants") from the Recovery and Resilience Facility. However, the medium-term fiscal-structural plan submitted to the Commission assumes that expenditure amounting to 0.1% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to 0.2% of GDP in 2024. Expenditure financed by Recovery and Resilience Facility grants enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of France.

14. The Draft Budgetary Plan includes several policy measures with a fiscal impact in 2025. On the revenue side, deficit-reducing measures include exceptional taxes on corporate profits for large corporations and on maritime freight companies, the recasting of the system of general reduction of social contributions at the minimum wage, the suspension of the planned abrogation of the remaining production tax on enterprises' value added, an exceptional tax on households' high incomes, an increase of the excise duties on electricity consumption as well as the adaptation of indirect taxes on combustion engine vehicles and fossil-based heating systems. On the expenditure side, deficit-reducing measures include the postponement to 1st July 2025 of the indexation of pensions[12], the reduction of subsidies for electric vehicles and building renovation and of benefits for low-income workers, a more stringent annual objective of healthcare expenditure growth, as well as unspecified measures to contain expenditure at the central and local government level. According to the Commission estimates, the overall additional impact of the revenue measures decreases the general government deficit by 0.9% of GDP in 2025.

15. According to the European Commission Autumn 2024 Forecast, France's net expenditure is projected to decrease by 0.1% in 2025, which corresponds to a cumulative growth of 3.1% in 2024 and 2025 taken together. The Commission is of the view that these net expenditure growth rates are in line with the Council

[12] On 12 November 2024, after the cut-off date of the Commission 2024 autumn forecast, the government has announced the withdrawal of this measure. Instead, all pensions will be indexed to around half of the inflation rate as of 1st January 2025. Only pensions lower than the minimum wage (SMIC) will be retroactively indexed to full inflation in summer. The expected savings will then be reduced by around EUR 500 million compared to the initially estimated impact in the Draft Budgetary Plan.

recommendation of 21 October 2024 to limit the growth in net expenditure in 2025 to a rate consistent with putting the general government debt on a plausibly downward trajectory over the medium term and reducing the general government deficit below the 3% of GDP Treaty reference value. Those net expenditure growth rates would be appropriate initial steps towards the correction of the excessive deficit by 2029, as the Commission recommends to the Council to recommend to France. Moreover, those net expenditure growth rates would be appropriate initial steps towards the implementation of the medium-term fiscal structural plan.

16. According to the European Commission Autumn 2024 Forecast, nationally financed public investment is projected to decrease to 4.1% of GDP in 2025 (from 4.2% of GDP in 2024). In turn, public expenditure on EU funded programmes, including Recovery and Resilience Facility grants, is expected to remain stable at 0.4% of GDP in 2025.

17. The Draft Budgetary Plan includes medium-term budgetary projections until 2029. The general government deficit is projected to decrease to 4.6% of GDP in 2026, to 4.0% in 2027, 3.3% in 2028, and to 2.8% of GDP in 2029. In turn, the general government debt is projected to increase to 115.9% in 2026 and to 116.5% in 2027, and to decrease thereafter to 116.1% in 2028 and to 115.8% of GDP in 2029.

18. Finally, the Council also recommended France to reduce the complexity of the tax system by better targeting tax expenditures, removing the least efficient ones and limiting their overall budgetary impact; as well as to continue the efforts to enhance the quality of budgetary measures, including by setting up quantitative targets for expenditure savings in budgetary planning within the established framework for spending reviews. The Draft Budgetary Plan mentions that expenditure savings stemming from the spending reviews conducted in 2024 have been incorporated in the draft budget, the amount of which remains unspecified. Likewise, the Draft Budgetary Plan also refers to measures to reduce tax expenditures in the social security domain, despite some of them without further specification.

19. Overall, the Commission is of the opinion that the Draft Budgetary Plan of France is in line with the Council Recommendation of 21 October 2024. According to the European Commission Autumn 2024 Forecast, France’s net expenditure in 2025 is consistent with what was recommended by the Council on 21 October 2024. The progress made with the implementation of the Council’s country-specific recommendations will be assessed by the Commission in spring 2025, in the context of the European Semester Spring Package.

Table 1. Key macroeconomic and fiscal figures

#	Variables		2023	2024		2025	
			Outturn	DBP	COM	DBP	COM
1	Real GDP	% change	0.9	1.1	1.1	1.1	0.8
2	HICP inflation	% change	5.7	2.5	2.4	1.9	1.9
3	General government balance	% GDP	-5.5	-6.1	-6.2	-5.0	-5.3
4	Primary balance	% GDP	-3.6	-4.1	-4.1	-2.7	-2.7
5	General government gross debt	% GDP	109.9	112.9	112.7	114.7	115.3
6	Fiscal stance (**)	% GDP	0.5		0.1		1.5
7	Net expenditure growth (annual)	% change		n.a.	3.2	n.a.	-0.1
8	Net expenditure growth (cumulative)	% change				n.a.	3.1
			Commission Recommendation of 26 November 2024 for a Council recommendation under Article 126(7) of the Treaty setting the net expenditure path of France				
9	Maximum growth rates of net expenditure (*)	% change			Annual	**0.0**	
10		% change			Cumulative	**3.8**	

Notes :

* According to the Commission Recommendation of 26 November 2024 for a Council recommendation under Article 126(7) of the Treaty setting the net expenditure path of France for the years 2025 to 2029 and endorsing a set of reforms and investment commitments underpinning an extension of the adjustment period.

** The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of both discretionary revenue measures and COVID-19 pandemic-related temporary emergency measures, excluding cyclical unemployment expenditure, but including the change in expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential GDP growth rate in nominal terms. A negative (positive) sign indicates an excess (shortfall) of primary expenditure growth over medium-term potential GDP growth, which corresponds to an expansionary (contractionary) fiscal stance. For more details, see Box 1 of these Fiscal Statistical Tables.

Source : European Commission Autumn 2024 Forecast and Draft Budgetary Plan for 2025

Done at Brussels, 26.11.2024

For the Commission
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