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Assessment of the 2017 stability programme for

France

(Note prepared by DG ECFIN staff)

CONTENTS

1. INTRODUCTION

On 28 April 2017, France submitted its April 2017 stability programme (hereafter called stability programme), covering the period 2016-2020. The government approved the programme on 12 April and it was submitted to the Parliament on the same day.

France is currently subject to the corrective arm of the Stability and Growth Pact (SGP). The Council opened the Excessive Deficit Procedure for France on 27 April 2009. Subsequently, the Council adopted revised recommendations under Article 126(7) of the Treaty on 2 December 2009, on 21 June 2013 and on 10 March 2015, when it recommended France to correct its excessive deficit by 2017. The year following the correction of the excessive deficit, France would become subject to the preventive arm of the SGP and should ensure sufficient progress towards its medium-term budgetary objective (MTO). As the debt ratio in 2017 is projected at 96% of GDP, exceeding the 60% of GDP reference value, France would also become subject to the transitional arrangements as regards compliance with the debt criterion during the three years following the correction of the excessive deficit (transitional debt rule), during which it should ensure sufficient progress towards compliance.

This document complements the Country Report published on 22 February 2017 and updates it with the information included in the stability programme.

Section 2 presents the macroeconomic outlook underlying the stability programme and provides an assessment based on the Commission 2017 spring forecast. The following section presents the recent and planned budgetary developments, according to the stability programme. In particular, it includes an overview on the medium-term budgetary plans, an assessment of the measures underpinning the stability programme and a risk analysis of the budgetary plans based on the Commission forecast. Section 4 assesses compliance with the rules of the SGP, including on the basis of the Commission forecast. Section 5 provides an overview on long-term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework. Section 7 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

The macroeconomic scenario underlying the 2017 stability programme forecasts GDP growth at 1.5% in both 2017 and 2018, after 1.2% in 2016. Compared to the 2017 Draft Budgetary Plan (DBP), the growth projection remains unchanged for 2017 while it has been revised down by ¼ pps. for 2018. The forecasted acceleration in economic activity would be mainly due to a recovery in exports after weak growth in 2016, in a context of accelerating foreign demand. As import growth would remain stable since 2016, at 3.6% in both 2017 and 2018, the contribution of net exports to growth would become broadly neutral (after −0.8 pps. in 2016). By contrast, final domestic demand would decelerate to 1.4% (after 1.9% in 2016). On the one hand, rising headline inflation should dampen private consumption growth by eating into the purchasing power of households. Inflation would increase from 0.2% in 2016 to 1.2% in 2017 and then decline slightly to 1.1% in 2018. On the other hand, investment would remain dynamic, in particular thanks to the envisaged acceleration in household investment. Despite the projected impulse in GDP growth, job creation would decline from +0.7% in 2016 to +0.3%, due to the forecasted decrease in subsidised non-market employment and to the end of the "hiring subsidy", a 4 000 € subsidy to small companies for the hiring of an employee with a long-term contract. As a result, the apparent productivity of labour is forecast to accelerate gradually.

Given the GDP growth projections, the output gap as recalculated by the Commission following the commonly agreed methodology, stands at −1.3% in 2016 and is expected to gradually close by 2020. The recalculated output gap is smaller than in the stability programme itself, given the lower potential growth estimated under the commonly agreed methodology. It is worth mentioning that the stability programme includes, in its computation of potential growth, an ad-hoc effect of structural reforms which increases potential growth by 0.2 pps. each year. This contribution is not in line with the commonly agreed methodology, as it remains unclear *via* which input factors it materialises (labour, capital or total factor productivity). As a result, while the (recalculated) output gap is projected to close by 2020, the output gap at face value as included in the programme is expected to remain negative over the programme horizon until 2020, at −2.5%.

TABLE 1: COMPARISON OF MACROECONOMIC DEVELOPMENTS AND FORECAST

	2016		2017		2018		2019	2020
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	1.2	1.2	1.4	1.5	1.7	1.5	1.6	1.7
Private consumption (% change)	1.9	1.8	1.2	1.2	1.6	1.4	1.6	1.7
Gross fixed capital formation (% change)	2.8	2.8	2.6	2.7	3.7	2.7	3.5	3.2
Exports of goods and services (% change)	1.2	1.2	3.2	3.4	4.2	3.7	4.4	4.4
Imports of goods and services (% change)	3.7	3.6	3.3	3.6	4.7	3.6	4.2	4.2
Contributions to real GDP growth:								
- Final domestic demand	2.0	1.9	1.5	1.4	2.0	1.4	1.6	1.7
- Change in inventories	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
- Net exports	-0.8	-0.8	-0.1	-0.1	-0.3	0.0	0.0	0.0
Output gap[1]	-1.3	-1.3	-1.1	-1.0	-0.6	-0.8	-0.5	-0.2
Employment (% change)	0.7	0.7	0.8	0.7	1.0	0.3	0.3	0.4
Unemployment rate (%)	10.1		9.9		9.6			
Labour productivity (% change)	0.7	0.5	0.6	0.7	0.7	1.1	1.3	1.3
HICP inflation (%)	0.3	0.2	1.4	1.2	1.3	1.1	1.4	1.5
GDP deflator (% change)	0.8	0.8	0.9	0.9	1.3	1.0	1.4	1.5
Comp. of employees (per head, % change)	1.3	1.3	1.5	2.0	1.8	2.2		
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-2.2	-2.2	-2.4	-2.5	-2.4	-2.5	-2.4	-2.4

Note:

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

Source:

Commission 2017 spring forecast (COM); Stability Programme (SP).

The Commission 2017 spring forecast projects slightly lower growth (by 0.1 pp.) than the authorities in 2017. In nominal terms, the difference is larger (0.2 pps.) as nominal GDP growth would grow by 2.4% in 2017, compared to 2.2% according to the Commission. Moreover, the forecast growth in compensation per employee is substantially lower for 2017 (by 0.5 pps.). Regarding 2018, the Commission forecasts a higher growth than the authorities (by 0.2 pps. in volume, at 1.7%). The differences between the two scenarios can essentially be explained by the no-policy-change assumption, which entails a negative structural effort of −0.5% of GDP in the Commission forecast. This negative structural effort explains most of the expected acceleration in the Commission growth forecast for 2018, even using low multipliers.

Overall, the macroeconomic scenario underlying the 2017 stability programme, albeit slightly more favourable than the Commission forecast, remains plausible. In its opinion, the High Council of Public Finances (HCFP) also considers the government's GDP growth forecast as plausible, although on the high side compared to other available forecasts. However, the HCFP insists on the unrealistic nature of the potential growth estimates of the stability programme, and notes that the inflated potential growth estimates leads to an artificial reduction of the structural deficit which reduces the required structural effort needed to achieve a balanced budget.

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. DEFICIT DEVELOPMENTS IN 2016 AND 2017

In 2016, according to data notified to Eurostat, the general government deficit reached 3.4% of GDP. This outturn is above the target set in the April 2016 update of the stability programme and the DBP for 2017 submitted on 15 October 2016, which expected the headline deficit to reach 3.3% of GDP in 2016. The deficit outturn in 2016 was worse than expected due to the slight upward revision of the deficit for 2015, from 3.5% of GDP to 3.6% of GDP, largely explained by small adjustments, notably higher-than-previously-estimated adjustments to translate cash data into ESA 2010 figures and lower-than-expected nominal GDP growth which weighed on revenues. This was only partially offset by lower than expected expenditure by local authorities.

The government plans a headline balance of 2.8% of GDP in 2017, in line with the target set by the Council recommendation of 10 March 2015. Compared to last year's stability programme and the 2017 DBP, the deficit target has been revised upwards by 0.1% of GDP. To reach this target, the stability programme announces additional measures to reduce expenditure by EUR 3.4 billion (0.15% of GDP). These new measures aim at partly compensating the impact stemming from the worse-than-expected deficit outcome in 2016, a somewhat less tax-rich growth composition and the fact that the yield of the new agreement on the unemployment benefit scheme (UNEDIC) will only have a significant budgetary impact in the medium term and not as of 2017 as expected in the 2017 DBP. However, the planned budgetary reallocations to compensate for a more dynamic compensation of public employees are not well specified.

According to government plans taken at face value, the structural deficit would reduce by 0.5 pps, in 2017, to 1.0% of GDP. However, based on data in the programme, the improvement in the recalculated structural balance would amount to 0.4% of GDP. The stability programme projects the debt ratio to peak at 96.0% of GDP in 2017.

The Commission 2017 spring forecast projects the general government deficit to decrease to 3.0% of GDP in 2017. The main differences between the programme and the Commission scenarios stem from the expenditure side. Specifically, while the Commission forecast takes into account the newly announced measures, the budgetary reallocations that, according to the programme, should offset the more dynamic compensation of public employees in order to comply with the State's expenditure ceiling are not taken on board as they are not sufficiently specified. Moreover, the Commission has a more prudent assessment about the planned savings to ensure the achievement of the healthcare spending ceiling (ONDAM) and the yield of fiscal regularisations (STDR). Finally, the Commission forecast has taken into account only the net amount of saving measures for local authorities. These differences translate into more dynamic intermediate consumption and other current expenditure in Commission's projections. The Commission spring forecast projects an improvement in the structural balance by only 0.2% of GDP in 2017, due to the higher headline deficit expected for that year.

3.2. MEDIUM-TERM STRATEGY AND TARGETS

The stability programme plans aims to reduce the deficit further to 1.3% of GDP by the end of the programme, in 2020. The stability programme also projects the debt ratio to start to decline as of 2018, falling to 93.1% in 2020.

For 2018, the stability programme projects the general government deficit to decrease to 2.3% of GDP. The improvement in the recalculated structural balance would be of 0.4% of GDP. However, no concrete measures are specified at this point in time to underpin such a structural improvement, mainly owing to the projected decline in the expenditure-to-GDP ratio. By contrast, the Commission 2017 spring forecast projects, at unchanged policies, the deficit to rise to 3.2% of GDP. According to the spring forecast, the revenue-to-GDP ratio would decline by 0.3 pp of GDP due to a less dynamic macroeconomic scenario, the envisaged cut in the corporate income tax and some one-off measures. In turn, the expenditure ratio is forecast to decline only marginally.

As for the outer years, the programme projects deficits at 1.6% and 1.3% of GDP for 2019 and 2020, respectively. The planned deficits have been revised upwards compared to last year's programme (see Figure 1) by 0.4 pps. both for 2018 and 2019. These revisions are mainly due to the downward revision in growth projections.

The programme also confirms the MTO of a structural deficit of 0.4% of GDP set by the programming law of public finances of 29 December 2014, a value which respects the objectives of the Stability and Growth Pact. Actually, the MTO is more stringent[1] than the minimum MTO and slightly more stringent than the requirements set out in the Fiscal Compact. At face value of figures in the programme, the MTO is planned to be reached already in 2019, when the authorities plan a balanced budget in structural terms. However, based on the recalculated structural balances, the MTO would not be reached over the programme horizon. The headline deficit targets for 2019 and 2020 in the programme are consistent with an improvement in the recalculated structural balance of 0.4% of GDP in 2019 and of 0.1% of GDP in 2020.

In terms of composition of the adjustment, much of the effort planned over 2017-2020 is expected to come from the expenditure side. Public expenditure is planned to rise at a very moderate pace, as the expenditure-to-GDP ratio is set to decrease by 2.7 pps., from 56.2% in

[1] The MTO selected by the Member State is more ambitious than the minimum MTO by more than 1/2 percentage point. The minimum MTOs are country-specific and calculated based on an agreed methodology.

2016 to 53.5% in 2020. Such a sizeable decline is however not sufficiently underpinned by measures in the programme. In turn, the share of total revenues in GDP would decline from 52.8% in 2016 to 52.1% in 2020, with the tax burden falling from 45.4% in 2016 to 44.7% in 2020.

TABLE 2: COMPOSITION OF THE BUDGETARY ADJUSTMENT

(% of GDP)	2016	2017		2018		2019	2020	Change: 2016-2020
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**52.8**	**53.0**	**52.9**	**52.7**	**53.0**	**52.8**	**52.1**	**-0.7**
of which:								
- Taxes on production and imports	15.9	16.1	16.1	16.1	16.1	16.2	16.2	0.3
- Current taxes on income, wealth, etc.	12.3	12.4	12.3	12.2	12.2	11.8	11.1	-1.2
- Social contributions	18.7	18.7	18.8	18.6	18.8	18.9	18.9	0.2
- Other (residual)	5.9	5.9	5.7	5.8	5.9	5.9	5.9	0.0
Expenditure	**56.2**	**56.0**	**55.7**	**55.9**	**55.3**	**54.4**	**53.5**	**-2.7**
of which:								
- Primary expenditure	54.3	54.2	53.9	54.1	53.5	52.5	51.5	-2.8
of which:								
Compensation of employees	12.7	12.6	12.7	12.5	12.5	12.3	12.1	-0.6
Intermediate consumption	5.0	5.0	4.9	4.9	4.7	4.5	4.4	-0.6
Social payments	25.8	25.6	25.6	25.5	25.5	25.1	24.7	-1.1
Subsidies	2.6	2.7	2.6	2.9	2.7	2.7	2.7	0.1
Gross fixed capital formation	3.4	3.4	3.4	3.5	3.3	3.3	3.1	-0.3
Other (residual)	4.9	4.9	4.8	4.9	4.8	4.5	4.4	-0.5
- Interest expenditure	1.9	1.8	1.8	1.8	1.8	1.9	2.0	0.1
General government balance (GGB)	**-3.4**	**-3.0**	**-2.8**	**-3.2**	**-2.3**	**-1.6**	**-1.3**	**2.1**
Primary balance	**-1.5**	**-1.2**	**-1.0**	**-1.4**	**-0.5**	**0.3**	**0.7**	**2.2**
One-off and other temporary	-0.1	0.0	-0.1	0.0	-0.1	0.0	0.0	0.1
GGB excl. one-offs	**-3.3**	**-3.0**	**-2.7**	**-3.2**	**-2.2**	**-1.6**	**-1.3**	**2.0**
Output gap[1]	-1.3	-1.1	-1.0	-0.6	-0.8	-0.5	-0.2	1.1
Cyclically-adjusted balance[1]	-2.6	-2.4	-2.2	-2.8	-1.8	-1.3	-1.2	1.4
Structural balance[2]	**-2.5**	**-2.3**	**-2.1**	**-2.8**	**-1.7**	**-1.3**	**-1.2**	**1.3**
Structural primary balance[2]	-0.6	-0.5	-0.3	-1.0	0.1	0.6	0.8	1.4

Notes:

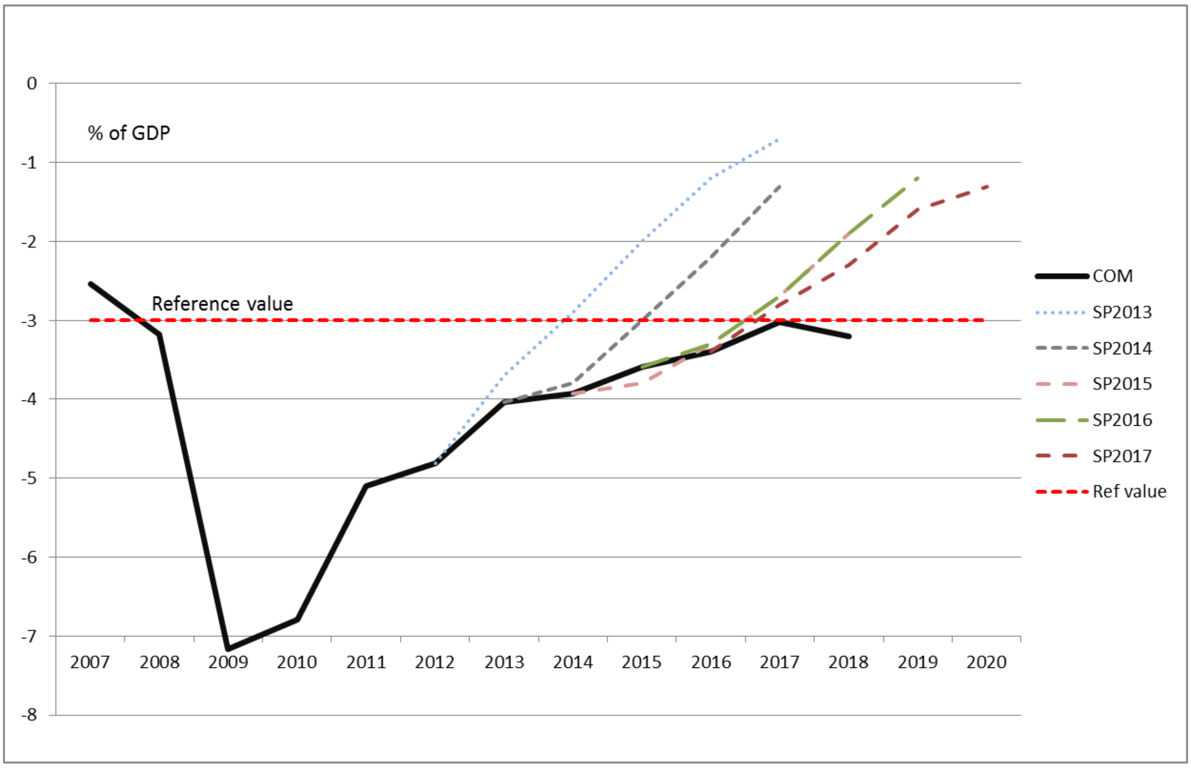
[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

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

Source:

Stability Programme (SP); Commission 2017 spring forecasts (COM); Commission calculations.

Figure 1: Government balance projections in successive programmes (% of GDP)



Source: Commission 2017 spring forecast; stability and convergence programmes

3.3. MEASURES UNDERPINNING THE PROGRAMME

The yields of some measures underpinning the stability programme have been revised slightly with respect to 2016. Revenue-based consolidation measures have become slightly more important compared to previous stability programmes, given that some of the planned EUR 50 billion savings in the expenditure-based consolidation package will not finally materialize.

On the revenue side, the complete abolition of the Company and Solidarity Social Contribution (C3S) included in the final phase of the Responsibility and Solidarity Pact (RSP) has not taken place. The EUR 3 bn. envelope planned for the C3S abolition was instead used for increasing, from 6% to 7%, the rate of the tax credit for competitiveness and employment (CICE). In addition, the planned reduction in the corporate income tax rate to 28% for all companies by 2020 has started to be implemented in 2017 for SMEs declaring taxable profits below EUR 75 000, with a budgetary impact of EUR 0.3 bn. in 2017. Moreover, personal income taxation was decreased for the poorest households by EUR 1 bn., while the yield of fight against fraud measures was revised down by EUR 0.2 bn. in 2016, EUR 0.4 bn. in 2017 and EUR 0.2 bn. in 2018. Lastly, a series of measures are considered as one-offs by the authorities. In particular, the modalities of some taxes have been changed, yielding EUR 1.3 bn. additional revenues in 2017, and the cost of fiscal disputes has been revised down, by EUR 0.7 bn. in 2017. and the dividend of the Banque de France has been further revised up by EUR 0.5 bn. on top of the upward revision of EUR 0.6 bn. already included in the *loi de finances initiale 2017*.

Main budgetary measures (expressed in % of GDP)

Revenue	Expenditure
2016	
• Additional reduction in personal income tax for households (-0.1% of GDP) • Extension of the reduction in employers' social security contribution to all salaries below 3.5 times the minimum wage (-0.1% of GDP) • Expiry of the exceptional tax on large companies (-0.1% of GDP) • Carbon tax (+0.1% of GDP)	• Ramp-up of the tax credit on competitiveness and employment (+0.1% of GDP)
2017	
• Reduction of the corporate income tax rate from 33.33% to 28% (0.1% of GDP) • Higher dividend by Banque de France (+0.05% of GDP)	• Tightening of the State's expenditure celing (-0.07% of GDP) • Lower local public expenditure (-0.04% of GDP)
2018	
	• Extension of the tax credit for energy transition (0.07% of GDP) • Tax credit for the employment of homecare workers (0.05% of GDP) • Tax credit on the payroll tax (0.03% of GDP) • Responsibility and Solidarity Pact (0.06% of GDP) • Reduction in the corporate income tax rate (0.05% of GDP) • Tax credit on competitiveness and employment (0.17 % of GDP)
Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.	

On the expenditure side, the implementation of the EUR 50 bn. saving package for 2015-2017 is ongoing, although the ambition of this saving package has decreased over time. Also the composition of this package has changed since its announcement. According to the Commission's analysis of the 2017 draft budgetary plan of France, the aim of this saving package is now to reduce expenditure by EUR 40.5 bn. (1.8% of GDP) over 2015-2017. The 2017 stability programme also includes EUR 3.4 bn. of complementary measures with respect to the *loi de finances initiale 2017*. These consist of four main measures. First, the State's expenditure ceiling (excluding pensions) has been tightened by EUR 1.7 bn., from EUR 301.3 bn. to EUR 299.6 bn., which would mainly translate into a decrease in expenditures across ministries. Second, social security expenditures are revised downwards by EUR 0.3 bn. Third, in local public expenditure is cut by EUR 0.9 bn. as a result of the lower spending observed in 2016. Finally, dividends paid to the State by the Banque de France will be raised by EUR 0.5 bn. with respect to what planned in the *loi de finances initiale 2017*. This adds up to the previous increase by EUR 0.6 bn. already included in the *loi de finances initiale 2017*.

3.4. DEBT DEVELOPMENTS

Public debt has increased at a fast pace between 2009 and 2016, rising from 79.0% to 96.0% of GDP. This development was driven by the cumulated general government deficits recorded over the same period as well as by the low GDP growth. In 2016, the headline deficit continued to contribute to the increase in public debt although it was partly offset by the particularly high stock-flow adjustment in 2016 as debt issuance premiums remained favourable. The Commission projects an increase of the gross debt ratio by the end of the forecast horizon.

TABLE 3: DEBT DEVELOPMENTS

(% of GDP)	Average 2011-2015	2016	2017		2018		2019	2020
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**91.5**	**96.0**	**96.4**	**96.0**	**96.7**	**95.9**	**94.7**	**93.1**
Change in the ratio	2.8	0.4	0.4	0.0	0.4	-0.1	-1.2	-1.6
Contributions[2]:								
1. Primary balance	**2.0**	**1.5**	**1.2**	**1.0**	**1.4**	**0.5**	**-0.3**	**-0.7**
2. "Snow-ball" effect	**0.7**	**0.0**	**-0.3**	**-0.4**	**-1.0**	**-0.5**	**-0.9**	**-0.9**
Of which:								
Interest expenditure	2.3	1.9	1.8	1.8	1.8	1.8	1.9	2.0
Growth effect	-0.8	-1.1	-1.3	-1.4	-1.6	-1.4	-1.5	-1.6
Inflation effect	-0.8	-0.7	-0.8	-0.8	-1.2	-0.9	-1.3	-1.4
3. Stock-flow adjustment	**0.1**	**-1.2**	**-0.5**	**-0.5**	**0.0**	**-0.1**	**0.0**	**0.0**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								

Notes:

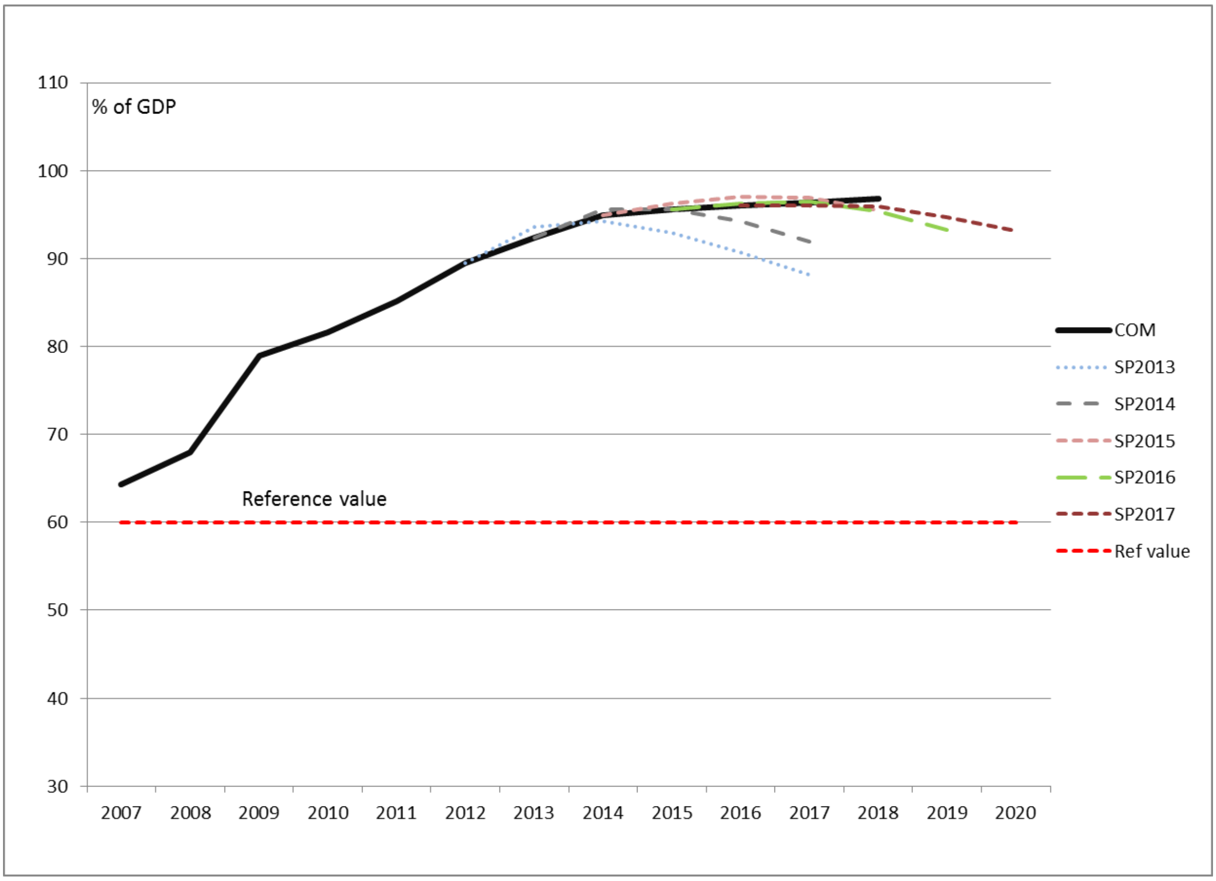
[1] End of period.

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

Source :

Commission 2017 spring forecast (COM); Stability Programme (SP), Comission calculations.

Figure 2: Government debt projections in successive programmes (% of GDP)



Source: Commission 2017 spring forecast; stability and convergence programmes

According to the stability programme, the public debt ratio would start decreasing in 2018 (see Figure 2). The primary balance would continue to improve over the period to 2020 and a surplus will be reached already in 2019. At the same time, the snow-ball effect would contribute to the decrease of public debt until the 2020 horizon as the moderate increase in interest expenditure will be outweighed by the recovery in GDP growth and inflation (see Table 3). The stock-flow adjustments are expected to continue to improve the public debt ratio in 2017, notably due to the repayment of the account balance for export aid, favourable debt issue premiums as well as a limited variation in cash reserves. For 2017 and 2018 the Commission spring forecast projects slightly higher gross debt ratios than in the stability programme. For 2017, this is mainly due to the planned lower deficit and higher growth projections underpinning the stability programme, while the base effect as well as a lower estimated deficit largely account for the difference in 2018.

3.5. RISK ASSESSMENT

The stability programme sets a headline deficit target of 2.8% of GDP for 2017, whereas the Commission spring forecast projects a headline deficit of 3% for the same year. The underlying macro-economic scenario and the expected impact of some measures evenly explain the 0,2% of GDP difference between the two budgetary projections.

As regards the macro-economic scenario, the Commission spring forecast projects nominal GDP growth for 2017 at 2.2% , 0,2 pp lower than projected by the authorities, resulting into a

0.1% of GDP lower revenues . Differences are related to the deficit impact of a number of measures. In particular, the increase in public wages, the measures underpinning the growth of the healthcare expenditure ceiling, the yield of the fight against fraud and the net amount of saving measures for local authorities.

In addition to these elements that explain a higher deficit estimate in the Commission spring forecast, three sizeable risk factors can be identified.

First, in national accounts, the deficit for the central state and its agencies is planned to improve by 0.3% of GDP to 3.1% in 2017. However, in budgetary terms, this deficit is expected to improve only marginally. Thus, the deficit reduction in national accounts is largely due to the so-called ESA corrections that convert the budget balance approved by Parliament in budgetary accounting form into national accounts. The fact that these ESA corrections made the 2016 deficit in national accounts deteriorate by more than 0.1% of GDP with respect to that in budgetary terms shows the fragility of a projection of a deficit improvement based on such technical corrections.

Second, the French government is expected to recapitalise AREVA, a state owned nuclear company, later this year, once certain conditions for the recapitalisation are fulfilled. EUR 2 bn. (0.1% of GDP) would be invested in a defeasance structure. Another EUR 2 bn. would be invested in new AREVA, regrouping the activities of AREVA that would be continued, alongside international investors. As already flagged in the Commission and HCFP's opinions on the DBP 2017, there is a risk that this recapitalisation increases the public deficit by around 0.1% of GDP, which would correspond to the investment in the defeasance structure.

Third, in their opinions on the DBP 2017 the HCFPs and the Commission highlighted the risks of expenditure overruns at state level. Since the DBP 2017, the state's expenditure ceiling was further tightened by EUR 0.5 bn. at the time of the adoption of the budget and further by EUR 1.7 bn. in the stability programme. This tightening of the expenditure ceiling by altogether somewhat more than 0.1% of GDP, further increases the risk of expenditure overruns, although it is worth acknowledging that the state's expenditure ceiling has always been respected in the past years.

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

On 27 April 2009, the Council opened an Excessive Deficit Procedure for France granting until 2012 for the authorities to bring the headline deficit below 3% of GDP. In the face of unforeseen economic developments with negative consequences on public finances, and as France was considered to have achieved effective action, the deadline was postponed three times. On 2 December 2009, the deadline was extended to 2013. It was then extended to 2015 by the Council recommendation of 21 June 2013. Finally, on 10 March 2015, the Council decided to extend the deadline for correction of the excessive deficit until 2017 (see Box 1).

Should France correct its excessive deficit by 2017 in a durable manner, it will then be subject to the preventive arm of the Stability and Growth Pact from 2018 onwards and to the three-year transition period as regards compliance with the debt criterion.

4.1. Compliance with EDP recommendations (in EDP years)

In 2016, France achieved a headline deficit of 3.4% of GDP, in line with the 10 March 2015 Council recommendation. However, the improvement in the structural balance amounted to 0.2% of GDP in 2016, thus falling short of the recommended fiscal effort of 0.8% of GDP. As France was compliant with the headline deficit target but not with the recommended improvement in the structural balance, a careful analysis of the reasons behind the shortfall is needed.

Box 1. Council recommendations addressed to France

- On 10 March 2015, the Council the Council recommended France under Art. 126(7) of the Treaty to correct its excessive deficit by 2017. To this end, France was recommended to reach a headline deficit of 4.0% of GDP in 2015, 3.4% of GDP in 2016 and of 2.8% of GDP in 2017. Based on the macroeconomic forecast underlying the Council recommendation, this was considered consistent with an improvement of the structural balance of 0.5% of GDP in 2015, 0.8% for 2016 and 0.9% in 2017 and would require additional measures of 0.2% of GDP in 2015, 1.2% in 2016 and 1.3% in 2017. Furthermore, France should fully implement the already adopted measures for 2015 and ensure, by the end of April 2015, an additional fiscal effort of 0.2% of GDP. This would require the specification, adoption and implementation of additional structural discretionary measures equivalent to 0.2% of GDP to close the gap with the recommended improvement in the structural balance of 0.5% of GDP for 2015.
- On 12 July 2016, the Council also addressed recommendations to France in the context of the European Semester. In particular, in the area of public finances the Council recommended to France to ensure a durable correction of the excessive deficit by 2017 by taking the required structural measures and by using all windfall gains for deficit and debt reduction.

Correcting for changes in potential growth as well as for revenue windfalls since the time of the Council recommendation, the adjusted change in the structural balance, estimated at 0.2% of GDP in 2016 (see Table 4) fell short of the recommended fiscal effort of 0.8% recommended by the Council. In cumulative terms over 2015-2016, the gap vis-à-vis the recommended structural improvement is estimated to have amounted to 0.9% of GDP. The fiscal effort assessed on the basis of the bottom-up method amounted to 0.4% of GDP, also falling short of the 1.2% of GDP deemed necessary to comply with the Council recommendation of 10 March 2015. In cumulative terms over 2015-2016, the gap vis-à-vis the requirements based on the bottom-up method is forecast at 1.1% of GDP.

HICP inflation was 0.3% in 2016, whereas the recommendation was based on an inflation forecast of 1.0%. However, while a lower inflation compared to the scenario underlying the EDP recommendation could have contributed to pushing the estimated structural effort downwards, this effect is deemed to be limited. In view of the size of the shortfall, this consideration does not substantially alter the assessment.

For 2017, the stability programme plans to bring down the headline deficit to 2.8% in 2017. The general government deficit would thus be in line with the headline target set by the Council for this year. The recalculated structural balance is expected to improve by 0.4% in 2017, falling short of the level recommended by the Council in 2017 at 0.9% of GDP.

According to the Commission 2017 spring forecast, the headline deficit is expected to be reduced to 3.0% of GDP in 2017, just in line with the Treaty reference value but 0.2 pp. of

GDP higher than the deficit target recommended by the Council. The improvement in structural balance is expected to amount to 0.2% of GDP, thereby falling short of the recommended 0.9% by the Council. This warrants a careful analysis.

Based on the Commission 2017 spring forecast the adjusted structural balance is projected to improve by 0.2% of GDP, well below the improvement of 0.9% of GDP recommended by the Council. In cumulative terms over 2015-2017, the effort would amount to 0.6% of GDP, with the gap vis-à-vis the recommended structural improvement widening to 1.6% of GDP. In turn, the additional bottom-up fiscal effort is estimated at 0.8% of GDP, which also falls short of the 1.3% of GDP recommended by the Council. In cumulative terms, the effort would amount to 1.1% of GDP according to the bottom-up metric over 2015-2017, thereby falling short of the recommended cumulative effort over the period by 1.6% of GDP.

For 2018, the stability programme projects the headline deficit to fall to 2.3% of GDP in 2018. Based on Commission 2017 spring forecast, the headline deficit is projected to pick up again to 3.2% of GDP on a no-policy change basis. Accordingly, the correction of the excessive deficit by 2017 would not be durable.

Summing up, France's achievement of the recommended target for 2017 under the EDP is at risk. The Commission forecast expects the headline deficit target to be missed and the 3% of GDP threshold value in the Treaty is projected to be met with no margin. Moreover, the structural effort is set to fall well short of the recommended effort by the Council. The careful analysis confirms such a shortfall based on all metrics. Moreover, there are doubts at this stage about how lasting the correction would be, as according to the Commission's spring forecast, the headline deficit for 2018 is projected to breach the 3% of GDP threshold again.

TABLE 4: COMPLIANCE WITH THE REQUIREMENTS OF THE CORRECTIVE ARM

(% of GDP)	2016	2017		2018	
	COM	SP	COM	SP	COM
Headline balance					
Headline budget balance	-3.4	-2.8	-3.0	-2.3	-3.2
EDP requirement on the budget balance	-3.4	-2.8			
Fiscal effort - change in the structural balance					
Change in the structural balance[1]	0.2	0.4	0.2	0.4	-0.5
Cumulative change[2]	0.4	0.8	0.6		
Required change from the EDP recommendation	0.8	0.9			
Cumulative required change from the EDP recommendation	1.3	2.2			
Fiscal effort - adjusted change in the structural balance					
Adjusted change in the structural balance[3]	0.2	-	0.2	-	
of which: *correction due to change in potential GDP estimation (α)*	0.0	-	0.0	-	
correction due to revenue windfalls/shortfalls (β)	0.1	-	0.0	-	
Cumulative adjusted change [2]	0.4	-	0.6	-	
Required change from the EDP recommendation	0.8	0.9			
Cumulative required change from the EDP recommendation	1.3	2.2			
Fiscal effort - calculated on the basis of measures (bottom-up approach)					
Fiscal effort (bottom-up)[4]	0.4	-	0.8	-	
Cumulative fiscal effort (bottom-up)[2]	0.3	-	1.1	-	
Requirement from the EDP recommendation	1.2	1.3			
Cumulative requirement from the EDP recommendation	1.4	2.7			

Notes

[1] Structural balance = cyclically-adjusted government balance excluding one-off measures. Structural balance based on programme is recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology. Change compared to *t-1* .

[2] Cumulated since the latest EDP recommendation.

3 Change in the structural balance corrected for unanticipated revenue windfalls/shortfalls and changes in potential growth compared to the scenario underpinning the EDP recommendations.

[4] The estimated budgetary impact of the additional fiscal effort delivered on the basis of the discretionary revenue measures and the expenditure developments under the control of the government between the baseline scenario underpinning the EDP recommendation and the current forecast.

Source :

Stability Programme (SP); Commission 2017 spring forecasts (COM); Commission calculations.

4.2. Compliance with the debt criterion

Should the excessive deficit be corrected in 2017, France would be subject to the transitional debt rule. According to the information provided in the stability programme, the recalculated change in the structural balance would be at 0.4% of GDP in 2018, in line with the required MLSA (also of 0.4% of GDP) (see Table 5).

On the basis of the Commission forecast, the structural balance is projected to deteriorate by 0.5% of GDP in 2018, which implies a substantial deviation from the required improvement by 0.4% of GDP under the MLSA. The large discrepancy between the two sets of projections is mainly due to the no-policy change assumption used for Commission's projections for 2018. Therefore, based on the Commission 2017 spring forecast, France is not projected to make progress towards compliance with the debt criterion in 2018.

TABLE 5: COMPLIANCE WITH THE DEBT CRITERION

	2016	2017		2018	
		SP	COM	SP	COM
Gross debt ratio	**96**	**96.0**	**96.4**	**95.9**	**96.7**
Gap to the debt benchmark [1,2]					
Structural adjustment [3]	0.2	0.4	0.2	0.4	-0.5
To be compared to:					
Required adjustment [4]					0.4

Notes:

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

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

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

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

Source :
Commission 2017 spring forecast (COM); Stability Programme (SP), Comission calculations.

4.3. Adjustment towards the MTO

In 2017, the structural balance is expected to be at -2.3% in 2017 and projected to worsen further to -2.8% of GDP in 2018, well below its MTO – a structural deficit of 0.4% of GDP. As its output gap is projected to narrow to -0.6% of potential GDP, France is considered to be in normal times. At the same time its public debt is projected remain well above 60% of GDP. Therefore, the required annual adjustment to be on an appropriate convergence path towards the MTO would be of 0.6% of GDP.

For 2018, according to the information provided in the stability programme, the recalculated change in the structural balance is estimated at 0.4% of GDP, falling short of the required adjustment to be on an appropriate convergence path towards the MTO by 0.2% of GDP, thus pointing to some deviation (see Table 6). In turn, the growth of government expenditure, net of discretionary revenue measures and one-offs, will exceed the applicable expenditure benchmark of 1.2% by 0.6 pps. of GDP, thereby pointing to a significant deviation from the expenditure benchmark pillar. This calls for an overall assessment. The improvement in the in the structural balance is almost entirely driven by the projected revenue windfalls (estimated at 0.4% of GDP) that lead to overestimate the fiscal effort when assessed by this indicator. Unwinding the effect of revenue windfalls would point to an adjustment gap by 0.6 % of GDP, in line with that unveiled by the gap with respect to the expenditure benchmark. Accordingly, the overall assessment, based on data in the programme, would point to a risk of significant deviation from the recommended adjustment path towards the MTO in 2018.

Based on the Commission 2017 spring forecast, both pillars highlight a risk of significant deviation from the adjustment towards the MTO. The structural balance, at unchanged policies, is projected to deviate by 1.1% of GDP with respect to the required improvement of 0.6%. Likewise, the growth of government expenditure, net of discretionary revenue measures and one-offs, is projected to exceed the applicable expenditure benchmark by 0.8% of GDP. This calls for an overall assessment. The change in the structural balance is negatively affected by projected revenue shortfalls (estimated at 0.2% of GDP), and by the expected cyclical pick-up in public investment (0.2% of GDP), which are partly offset by the effect stemming from a higher potential growth rate than the medium-term potential average. After correcting for these impacts, both the expenditure benchmark and the structural balance would point to and adjustment gap by 0.8 % of GDP. Thus, the overall assessment would point to a risk of significant deviation from the recommended adjustment path towards the MTO in 2018.

These assessments are based on the matrix of preventive arm requirements agreed with the Council, which takes into account (i) the cyclical position of the economy, as assessed on the basis of output gap estimates using the commonly agreed methodology as well as the projected real GDP growth rate, and (ii) debt sustainability considerations. Given the current cyclical conditions and the uncertainty surrounding them, it is important that the fiscal stance strikes the right balance between both safeguarding the ongoing recovery and ensuring the sustainability of France's public finances. The Commission noted that, in carrying out its future assessments, it stands ready to use its margin of appreciation in cases where the impact of large fiscal adjustment on growth and employment is particularly significant. In that context, it will make use of any updated information regarding the projected position in the economic cycle of each Member State and work closely with the Council to that effect.

TABLE 6: COMPLIANCE WITH THE REQUIREMENTS OF THE PREVENTIVE ARM

(% of GDP)	2018	
Initial position[1]		
Medium-term objective (MTO)	-0.4	
Structural balance[2] (COM)	-2.8	
Structural balance based on freezing (COM)	-	
Position vis-a -vis the MTO[3]	Not at MTO	
(% of GDP)	**2018**	
	SP	**COM**
Structural balance pillar		
Required adjustment[4]	0.6	
Required adjustment corrected[5]	0.6	
Change in structural balance[6]	0.4	-0.5
One-year deviation from the required adjustment [7]	-0.2	-1.1
Two-year average deviation from the required adjustment [7]	n.a. in EDP in 2017	
Expenditure benchmark pillar		
Applicable reference rate[8]	1.2	
One-year deviation adjusted for one-offs[9]	-0.6	-0.8
Two-year deviation adjusted for one-offs[9]	-0.4	-0.6
PER MEMORIAM: One-year deviation [10]	-0.6	-0.8
PER MEMORIAM: Two-year average deviation [10]	-0.4	-0.6
Conclusion		
Conclusion over one year	Overall assessment	Significant deviation
Conclusion over two years	Overall assessment	Overall assessment

Notes

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

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

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

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

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

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2014) is carried out on the basis of Commission 2015 spring forecast.

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

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

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

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

Source :

Stability Programme (SP); Commission 2017 spring forecast (COM); Commission calculations.

5. LONG-TERM SUSTAINABILITY

France does not appear to face fiscal sustainability risks in the short run according to the S0 indicator, which captures the short-term risks of fiscal stress stemming from the fiscal, as well as the macro-financial and competitiveness sides of the economy.[2] Nonetheless, there are some indications that the fiscal side of the economy poses potential challenges as the fiscal sub-index stands above the alert threshold due to the high primary deficit and public debt.[3]

Based on Commission forecasts and a no-fiscal policy change scenario beyond the forecasts, government debt, at 96.0% of GDP in 2016, is expected to rise to 104.1% in 2027, thus remaining above the 60% of GDP Treaty threshold. Over this horizon, the government debt is projected to slowly increase up to the end of the time framework taken into account.

The medium-term debt sustainability indicator (S1) reveals the existence of a high risk for the country in the medium term. This indicator indicates the cumulative improvement in the structural primary balance that would be required over 5 years in order to reduce the debt ratio to 60% of GDP by 2031. In the case of France, this improvement is equal to 4.7 pps. of GDP and is mainly related to the high level of government debt (2.8 pps. due to debt ratio's distance from the 60 % reference value), to the unfavourable initial budgetary position (1.6 pps. due to the gap to the debt-stabilising primary balance) and to the projected increase in age-related public spending (0.3 pps.). The full implementation of the stability programme would put the sustainability risk indicator S1 at 3.0 pps. of GDP, leading to similar medium-term risk. Overall, risks to fiscal sustainability over the medium-term remain, therefore, high, although fully implementing the fiscal plans in the stability programme would decrease those risks.

Regarding the long-term, the fiscal sustainability risk indicator S2 – which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path – is at 0.9 pp. of GDP. It points to a relatively small required fiscal adjustment over the long-term, notwithstanding the aforementioned high sustainability risks over the medium-run. In the long-term, France therefore appears to face low fiscal sustainability risks, related to the unfavourable initial budgetary position (1.9 pps.), compensated by a decrease in the cost of age-related expenditures starting from the 2030s (-1.0 pp.). The projected decrease in public pension expenditures, following the adopted recent reforms, and a moderate increase in the old-age dependency ratio are the two elements driving most down ageing-related expenditures. Nonetheless, some special regimes that allow early retirement continue to weigh negatively on the balance of the pension system. As a result, the full implementation of the programme would contribute to reducing the S2 indicator to -1.0 pp. of GDP, lowering the long-term risk even further.

[2] This conclusion is based on the short-term fiscal sustainability risk indicator S0, which incorporates 12 fiscal and 13 financial-competitiveness variables. The fiscal and financial-competitiveness sub-indexes (reported in table 5) are based on the two sub-groups of variables respectively. For sustainability risks arising from the individual variables, by country, see the Commission's Debt Sustainability Monitor 2016 (page 57).

[3] In spite of the weakness unveiled by the fiscal sub-index, the low overall short-term risk suggested by the S0 indicator is also due to sound management strategies, able to reduce exchange and maturity risks. Indeed, all French debt is denominated in euro at present, annihilating exchange risks. Moreover, the average maturity has been increased up to about 7.5 years, although the share of short-term debt remains relative high (8.3% of total debt). Lastly, while the share of debt held by non-residents could represent a source of concern, it also indicates a high appetite of investors towards debt instruments that are perceived as less risky.

TABLE 7: SUSTAINABILITY INDICATORS

Time horizon				No-policy Change Scenario		Stability / Convergence Programme Scenario	
Short Term				**LOW risk**			
	S0 indicator [1]			0.2			
		Fiscal subindex		0.6	HIGH risk		
		Financial & competitiveness subindex		0.1	LOW risk		
Medium Term				**HIGH risk**			
	DSA [2]			HIGH risk			
	S1 indicator [3]			4.7	HIGH risk	3.0	HIGH risk
	of which						
		Initial Budgetary Position		1.6		-0.2	
		Debt Requirement		2.8		3.0	
		Cost of Ageing		0.3		0.3	
		of which					
			Pensions	0.1		0.1	
			Health-care	0.2		0.2	
			Long-term care	0.1		0.1	
			Other	-0.1		-0.1	
Long Term				**LOW risk**		**LOW risk**	
	S2 indicator [4]			0.9		-1.0	
	of which						
		Initial Budgetary Position		1.9		0.1	
		Cost of Ageing		-1.0		-1.1	
		of which					
			Pensions	-1.7		-1.8	
			Health-care	0.6		0.6	
			Long-term care	0.6		0.6	
			Other	-0.5		-0.5	

Source: Commission services; 2017 stability/convergence programme.

Note: the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2017 forecast covering until 2018 included. The 'stability/convergence programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2015 Ageing Report.

[1] The S0 indicator of short term fiscal challenges informs the early detection of fiscal stress associated to fiscal risks within a one-year horizon. To estimate these risks S0 uses a set of fiscal, financial and competitiveness indicators selected and weighted according to their signalling power. S0 is therefore a composite indicator whose methodology is fundamentally different from the S1 and S2 indicators, which quantify fiscal adjustment efforts. The critical threshold for the overall S0 indicator is 0.46. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.36 and 0.49*.

[2] Debt Sustainability Analysis (DSA) is performed around the no fiscal policy change scenario in a manner that tests the response of this scenario to different shocks presented as sensitivity tests and stochastic projections*.

[3] The S1 indicator is a medium-term sustainability gap; it measures the upfront fiscal adjustment effort required to bring the debt-to-GDP ratio to 60 % by 2031. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2019 for No-policy Change scenario and from last available year for the SCP scenario); it must be then sustained, including financing for any additional expenditure until the target date, arising from an ageing population. The critical thresholds for S1 are 0 and 2.5, between which S1 indicates medium risk. If S1 is below 0 or above 2.5, it indicates low or high risk, respectively*.

[4] The S2 indicator is a long-term sustainability gap; it shows the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical thresholds for S2 are 2 and 6, between which S2 indicates medium risk. If S2 is below 2 or above 6, it indicates low or high risk, respectively*.

* For more information see Fiscal Sustainability Report 2015 and Debt Sustainability Monitor 2016.

6. FISCAL FRAMEWORK

The High Council of Public Finances (HCFP) was set up in 2012. Its task is to independently assess the plausibility of the macroeconomic scenario underlying the various budgetary plans. Also it evaluates if draft budgets are consistent with the structural deficit reduction path set in the current multiannual programming law for public finances.

Since its creation, the HCFP has contributed to significantly strengthen the fiscal framework. Since September 2016, it has released two main opinions. First, on 24 September 2016, it delivered an opinion concerning the budget bill and social security financing bill for 2017. In this opinion, the HCFP judged the growth scenario underpinning those two bills as optimistic, built on a number of favourable assumptions, and in deviation from the principle of prudence enabling the respect of public finance targets. Also, in the same opinion, the forecast concerning employment and private-sector wage bills have been judged as credible for 2016, but on the high side for 2017. Second, on 11 April 2017, the HCFP issued an opinion on the macroeconomic scenario underpinning the stability programme. The growth forecast used in the stability programme for 2017 (1.5%) is evaluated as slightly higher than the growth rates provided by the European Commission, OECD and FMI (1.4%). The forecast for the period 2018-2020 have been, instead, revised downwards with respect to the 2016 stability programme and are now considered to follow reasonable assumptions by the HCFP. The wage bill growth forecast is also assessed as reasonable, while the output gap forecast used for the 2017 stability programme (at 1.5%, 1.4%, 1.3% and then 1.4% over the period 2017-2020) remains substantially higher than what is estimated by other international organisations and the European Commission (between 1.1% and 1.3%).

Beyond the HCFP, expenditure ceilings have been set up to for the various sub-sectors of the government. At present, specific ceilings exist on State expenditures, both in volume and in nominal terms, on healthcare expenditures and, since 2015, on local government expenditures. As underlined in the 2017 Country Report for France, the objectives included in these expenditure ceilings have become more ambitious year after year. As regards the indicative spending ceiling for local authorities (*objectif d'évolution de la dépense locale*, ODEDEL), its respect is expected for both 2016 and 2017, also thanks to a better than expected control of the expenditure in 2016.

In accordance with Regulation (EU) 473/2013 and the Commission Delegated Regulation (EU) 877/2013, France needs to report twice a year on action taken to correct its excessive deficit. To this end, the French authorities have annexed to the stability programme an additional document on the budgetary impact of discretionary measures taken on both the expenditure and the revenue side, the targets for the government expenditure and revenues as well as information on the measures adopted and the nature of those envisaged to achieve the targets. The supplementary information provided in the annexed document enhances the transparency of the budgetary adjustment strategy as additional details are provided on the measures taken and planned as well as on the breakdown of the quarterly yields of the measures for 2017. Data on the in-year budgetary execution for the general government and its subsectors is not provided as information is not available yet at this stage of the year.

7. CONCLUSIONS

In 2016, France achieved a headline deficit of 3.4% of GDP, in line with the target under the EDP. However, the fiscal effort has not been delivered based on all metrics.

France plans to correct its excessive deficit by the 2017 deadline set by the Council and to ensure an improvement of the (recalculated) structural balance of 0.4% of GDP in both 2018 and 2019 and of 0.1% of GDP in 2020.

Based on the Commission 2017 spring forecast, the headline deficit is expected to decrease to 3.0% of GDP in 2017 and to increase again to 3.2% of GDP in 2018 at unchanged policies. A durable correction of the excessive deficit is therefore not ensured yet. Moreover, there are downside risks for the attainment of the deficit target in 2017.

The projected improvement in the structural balance falls short of the effort required by the Council in 2017 and on a cumulative basis over the period 2015-2017, based on all metrics.

Should the excessive deficit be corrected in a durable manner by 2017, France would be subject to the preventive arm of the Stability and Growth Pact from 2018 onwards and to the transition period as regards compliance with the debt criterion. According to the Commission 2017 spring forecast, France would be at risk of significant deviation from the recommended adjustment path towards the MTO in 2018. Moreover, in 2018 France would not progress towards compliance with the debt criterion either.

8. ANNEX

TABLE I. MACROECONOMIC INDICATORS

	1999-2003	2004-2008	2009-2013	2014	2015	2016	2017	2018
Core indicators								
GDP growth rate	2.2	1.9	0.4	0.6	1.3	1.2	1.4	1.7
Output gap [1]	1.5	2.1	-1.3	-1.7	-1.4	-1.3	-1.1	-0.6
HICP (annual % change)	1.7	2.2	1.5	0.6	0.1	0.3	1.4	1.3
Domestic demand (annual % change) [2]	2.5	2.3	0.4	1.1	1.5	2.0	1.4	1.9
Unemployment rate (% of labour force) [3]	8.6	8.4	9.5	10.3	10.4	10.1	9.9	9.6
Gross fixed capital formation (% of GDP)	21.1	22.4	22.2	21.8	21.5	21.9	22.1	22.5
Gross national saving (% of GDP)	23.1	22.5	20.0	19.3	20.4	20.5	20.6	20.9
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-2.3**	**-2.9**	**-5.6**	**-3.9**	**-3.6**	**-3.4**	**-3.0**	**-3.2**
Gross debt	**60.2**	**65.9**	**85.5**	**94.9**	**95.6**	**96.0**	**96.4**	**96.7**
Net financial assets	**-35.8**	**-38.9**	**-59.6**	**-74.7**	**-76.1**	**n.a**	**n.a**	**n.a**
Total revenue	49.6	49.7	51.0	53.2	53.1	52.8	53.0	52.7
Total expenditure	51.9	52.6	56.6	57.1	56.7	56.2	56.0	55.9
of which: Interest	2.8	2.7	2.4	2.2	2.0	1.9	1.8	1.8
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-0.2**	**-0.4**	**-0.6**	**-2.5**	**-1.9**	**-2.0**	**-2.3**	**-2.1**
Net financial assets; non-financial corporations	**-90.5**	**-96.0**	**-96.9**	**-99.7**	**-99.4**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**6.7**	**0.4**	**9.4**	**13.7**	**10.8**	**n.a**	**n.a**	**n.a**
Gross capital formation	11.8	12.4	12.1	13.1	13.4	13.8	13.9	14.1
Gross operating surplus	17.9	18.1	17.2	17.1	17.7	17.9	17.7	18.0
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**3.9**	**2.8**	**3.9**	**3.2**	**3.4**	**3.4**	**3.1**	**3.1**
Net financial assets	**127.7**	**131.7**	**139.1**	**151.5**	**156.1**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	37.8	37.8	38.8	38.7	38.6	38.6	38.8	38.8
Net property income	5.9	5.8	5.5	5.2	5.0	5.0	5.0	5.1
Current transfers received	23.7	24.0	26.3	27.1	27.2	27.0	26.9	26.7
Gross saving	9.7	9.5	9.9	9.1	9.1	9.1	9.0	9.1
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**1.4**	**-0.6**	**-2.3**	**-3.2**	**-2.0**	**-2.2**	**-2.4**	**-2.4**
Net financial assets	**-6.0**	**5.0**	**12.0**	**12.7**	**12.1**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	1.5	-0.7	-2.0	-2.0	-1.4	-1.7	-1.9	-2.0
Net primary income from the rest of the world	1.6	1.9	1.8	1.3	1.6	1.6	1.6	1.6
Net capital transactions	-0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Tradable sector	39.5	36.6	34.5	33.9	34.4	34.2	n.a	n.a
Non tradable sector	50.4	53.2	55.4	55.7	55.0	55.1	n.a	n.a
of which: Building and construction sector	4.5	5.2	5.4	5.2	4.9	4.9	n.a	n.a
Real effective exchange rate (index, 2000=100)	92.3	99.2	100.3	101.9	97.6	97.7	96.9	96.2
Terms of trade goods and services (index, 2000=100)	101.5	99.5	99.0	99.5	102.1	103.5	103.1	103.5
Market performance of exports (index, 2000=100)	115.8	104.3	103.0	104.8	105.6	103.3	102.5	102.4