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Assessment of the 2015 Stability Programme for

FRANCE

(Note prepared by DG ECFIN staff)

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1. INTRODUCTION

This document assesses France's April 2015 Stability Programme (hereafter called Stability Programme), which was submitted to the Commission on 30 April 2015 and covers the period 2015-2018. In accordance with the legal provisions, the programme was submitted to the Parliament on 15 April.

France is currently subject to the corrective arm of the Stability and Growth Pact. The Council opened the Excessive Deficit Procedure for France on 27 April 2009. France is recommended to correct the excessive deficit by 2017. The initial deadline was 2012. It was first postponed by the Council to 2013 on 2 December 2009, then to 2015 on 21 June 2013 and, lastly, to 2017 on 10 March 2015. The year following the correction of the excessive deficit, France will be subject to the preventive arm of the Pact and should ensure sufficient progress towards its Medium-Term Objective (MTO). According to the Stability Programme, the debt ratio in 2017 is projected at 96.9% of GDP, exceeding the 60% of GDP reference value. During the three years following the correction of the excessive deficit France will be therefore subject to the transitional arrangements as regards compliance with the debt criterion, during which it should ensure sufficient progress towards compliance.

This document complements the Country Report published on 26 February 2015 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 2015 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 Stability and Growth Pact, 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 and the quality of public finances. Section 7 summarises the main conclusions.

2. MACROECONOMIC OUTLOOK

According to the programme, France's economic growth would accelerate gradually from 2015 (1% in 2015, 1.5% in 2016 and in 2017, 1¾ % in 2018). Inflation would be at 0% on average in 2015 before rising to 1.0 % in 2016. Activity would be supported by domestic and external factors. The domestic factors, economic policy measures such as the tax credit for competitiveness and investment (CICE) and the responsibility and solidarity pact (RSP) would play the most significant part. Nevertheless, the external factors, lower oil prices, the depreciation of the single currency and the recovery in global outlook would contribute significantly as well. The programme expects domestic demand to accelerate. In particular, private consumption would rapidly gain momentum, supported by households' rising purchasing power on the back of a reduced energy bill and low inflation and by a decreasing saving ratio in line with improving household confidence. However, the acceleration in aggregate demand is projected to drive up non-construction investment with a lag. Total investment growth in 2015 and 2016 would be dragged down by construction investment which is expected to further contract in 2015, before stabilizing in 2016. Meanwhile, the economic outlook would benefit from the

gradual recovery in the euro area. Consequently, the foreign demand addressed to France¹ would accelerate and push up exports, while the positive effect of competitiveness-enhancing measures (the CICE and RSP), together with the depreciation of the euro, is expected to stimulate the export competitiveness of French firms. In total, as imports would not fully follow the acceleration in domestic demand, foreign trade would not dampen growth in 2015 and would contribute positively by 0.2 pp each year from 2016 onwards. As regards the labour market, total employment is expected to accelerate moderately, supported by the economic recovery, as the measures implemented to reduce labour costs (CICE and RSP) would alleviate the adverse effect of rising productivity.

The macroeconomic scenario of the authorities appears plausible. It is close to the outlook underpinning the Draft Budgetary Plan (DBP), which also projected 1.0 % growth in 2015. Macroeconomic developments which took place since the publication of the DBP in November 2014, notably the euro's depreciation and the fall in oil prices, thus had a limited impact on the growth outlook according to the government. In comparison, the spring forecast projects slightly higher growth (1.1% GDP growth in 2015 and 1.7% in 2016), but is in line with consensus. In 2015, the Commission scenario projects a more dynamic private consumption than the authorities, and a positive net export contribution. In 2016, there are two main differences between the scenarios. First, the authorities project a higher contribution of net exports to GDP (0.2 pp against 0.0 pp in the Commission forecast), as the spring forecast expects that the gradual recovery in domestic demand would lead to stronger imports. On the other hand, the usual no-policy-change assumption means that only part of the expenditure cuts planned for 2016 are taken into account, which results in a positive contribution of public consumption to GDP growth.

The programme's output gap, as recalculated by the Commission based on the information provided in the programme following the commonly agreed methodology, is gradually narrowing from 2016 onwards.

¹ The external outlook behind the Stability Programme, assuming foreign demand addressed to France to increase by 4.5 % in 2015 and 5.7 % in 2016 after 3.3 % in 2014, appears realistic, and is very close to that of the European Commission in its spring forecast.

Table 1: Comparison of macroeconomic developments and forecasts

	2014		2015		2016		2017	2018
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	0.4	0.4	1.1	1.0	1.7	1.5	1.5	1¾
Private consumption (% change)	0.6	0.6	1.6	1.5	1.5	1.5	1.4	1.7
Gross fixed capital formation (% change)	-1.5	-1.6	-0.6	-1.0	3.0	1.5	2.3	2.9
Exports of goods and services (% change)	2.7	2.9	4.7	4.9	5.9	5.5	5.5	6.0
Imports of goods and services (% change)	3.6	3.9	3.8	4.7	5.8	4.7	4.9	5.5
<i>Contributions to real GDP growth:</i>								
- Final domestic demand	0.4	0.4	1.0	0.9	1.6	1.3	1.4	1.6
- Change in inventories	0.3	0.3	-0.1	0.0	0.0	0.0	0.0	0.0
- Net exports	-0.3	-0.3	0.2	0.0	0.0	0.2	0.2	0.2
Output gap ¹	-2.3	-2.3	-2.3	-2.2	-1.7	-1.7	-1.4	-0.8
Employment (% change)	0.2	0.2	0.5	0.3	1.0	0.4	0.3	0.5
Unemployment rate (%)	10.3	n.a.	10.3	n.a.	10.0	n.a.	n.a.	n.a.
Labour productivity (% change)	0.1	0.2	0.6	0.7	0.7	1.0	1.2	1.2
HICP inflation (%)	0.6	0.5	0.0	0.0	1.0	1.0	1.4	1¾
GDP deflator (% change)	1.0	0.9	1.0	1.0	1.0	0.9	1.3	1.7
Comp. of employees (per head, %)	1.2	1.6	0.5	0.8	0.9	1.6	n.a.	n.a.
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-1.6	-1.5	-0.8	-0.9	-1.0	-0.6	-0.2	0.1
<i>Note:</i>								
¹ In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.								
<i>Source:</i>								
Commission 2015 spring forecast (COM); Stability Programme (SP).								

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. Deficit developments in 2014

In 2014, the general government deficit reached 4.0% of GDP, after 4.1% in 2013. This figure proved above the target set in the April 2014 update of the Stability Programme which expected the headline deficit to reach 3.8% of GDP in 2014 and 3.0% in 2015. However, the deficit outcome proved much lower than the 4.4% of GDP revised target included in the Draft Budgetary Plan (DBP) for 2015 submitted on 15 October 2014. The upward revision in the general government deficit forecast in the DBP stemmed from the increased cost of payable tax credits linked to the changeover to ESA 2010 - effective since 15 May 2014 - and the impact of the lower-than-expected inflation on public finances.

Expenditure developments in nominal terms (0.9% excluding payable tax credits) were actually more contained than expected in the 2014 Stability Programme and in the DBP (1.4%). Both the norms on State government expenditures and on healthcare expenditures were respected. The strong fall in local government investment (EUR -5.2 bn) together with the lower contribution to the EU budget also contributed to expenditure restraint. Meanwhile, while interest payments proved 0.2% of GDP lower than expected in the 2014 Stability Programme, the revision compared to the DBP appears modest. Taking into account the increasing cost of the tax credit for competitiveness and

employment (EUR 10.2 bn), total public expenditures increased by 1.6% in 2014, compared to 1.8% in 2013.

Meanwhile, the tax burden remained constant, at 44.7% of GDP in both 2013 and 2014, as expected in the 2014 Stability Programme, although the lower-than-expected nominal GDP growth (1.3% in 2014 compared to 2.2% in the 2014 Stability Programme) weighed on public revenues. According to the government, discretionary measures contributed EUR 3.1 billion to the tax burden, significantly above the amount planned in the 2014 Stability Programme while the overall tax elasticity stood at 0.6, much below the 0.9 expected in April 2014 due notably to the lower-than-expected tax content of economic growth, in line with slowing down inflation.

3.2. Target for 2015 and medium-term strategy

The target for 2015

Taking into account the lower-than-expected general government deficit for 2014 as well as additional expenditure cuts, the Stability Programme expects the general government deficit to reach 3.8% of GDP in 2015, below the 4.0% of GDP target set by the Council in the recommendation of 10 March 2015. The Commission spring forecast projects that the headline deficit will indeed come out at 3.8 % of GDP.

Public expenditures, excluding tax credits, are planned to increase by 0.9% in nominal terms in 2015. The objective is thus more ambitious than the nominal expenditure growth planned in the previous Stability Programme (1.2%) and in the Draft Budgetary Plan (1.1%). The downward revision in expenditure growth is linked in particular to the impact of the EUR 4 billion package announced in the 2015 Stability Programme, of which EUR 3.2 billion consist in lower expenditures. This package aims in particular at securing the savings resulting from the public expenditures cuts announced in January 2014, and which amounted at the time to EUR 21 bn, in a context of lower-than-expected inflation. The Commission spring forecast expects that the measures specified for 2015 will indeed lead public expenditures to increase as planned in the Stability Programme. In particular, the government plans to contain the wage bill and other operating costs by maintaining the freeze in base wages in the public sector. Efforts are also planned to achieve efficiency gains and rationalise public sector real estate. State-controlled agencies (the '*organismes divers d'administration centrale*') will be financially incentivised to reduce their own spending. The grants paid by the State to local government will be cut by EUR 3.7 billion. Healthcare expenditures would continue to slow down, with a national healthcare spending objective set at 2.05%, its lowest level since 1997. The low inflation forecast, which implies that social transfers would not be automatically increased (annual indexation generally takes place in April and October), would also contribute to the slowdown in social security spending. Finally, expenditure developments are also supported by the low and decreasing interest payments which are expected to represent 2.1% of GDP in 2015, down from 2.1% in 2014 and compared to 2.3% expected in the DBP. The downward revision in interest payment results from the low interest rates and from the impact of the downward revision in inflation on indexed securities.

On the revenue side, discretionary measures are expected to represent 0.1 % of GDP as revenue-increasing measures are almost entirely offset by the implementation of the Responsibility and Solidarity Pact. Excluding discretionary measures, the elasticity of the tax revenue to GDP growth is expected to stand at 0.8 notably due to low consumer price

inflation. While public revenues as a share of GDP would decrease marginally, this would be offset by the gradual pick-up in nominal GDP growth (2.0% after 1.3% in 2014 according to the Stability Programme), resulting in higher public revenues. Still, public revenues would remain lower than projected in the previous Stability Programme which expected in particular a much higher nominal GDP growth for 2015 (3.2% compared to 2.0% in the current programme). Overall, developments in public revenues for 2015 according to the authorities appear plausible and public revenues as a share of GDP according to the Commission spring forecast come close to the ratio expected in the Stability Programme.

The medium-term strategy

Beyond 2015, the objective of the budgetary strategy outlined in the 2015 Stability Programme is to correct the excessive deficit by 2017, in line with the Council recommendation of 10 March 2015 and to reach the MTO by 2018.

Table 2: Composition of the budgetary adjustment

(% of GDP)	2014	2015		2016		2017	2018	Change: 2014-2018
	COM	COM	SP	COM ¹	SP	SP	SP	SP
Revenue	53.2	53.1	53.1	53.1	52.9	52.8	52.9	-0.3
<i>of which:</i>								
- Taxes on production and imports	15.7	15.8	15.8	15.8	15.8	15.7	15.8	0.1
- Current taxes on income, wealth, etc.	12.6	12.5	12.5	12.6	12.5	12.5	12.5	-0.1
- Social contributions	19.1	18.9	18.8	18.7	18.7	18.7	18.7	-0.4
- Other (residual)	5.9	5.9	6.0	5.9	5.9	5.9	5.9	0.0
Expenditure	57.2	56.9	56.8	56.5	56.1	55.5	54.8	-2.4
<i>of which:</i>								
- Primary expenditure	55.0	54.8	54.7	54.4	54.0	53.3	52.5	-2.5
<i>of which:</i>								
Compensation of employees	13.0	12.9	12.9	12.6	12.7	12.5	12.2	-0.8
Intermediate consumption	5.1	5.0	5.0	4.9	4.9	4.8	4.6	-0.5
Social payments	26.0	26.0	25.9	26.0	25.7	25.6	25.4	-0.6
Subsidies	2.2	2.5	2.4	2.5	2.4	2.4	2.4	0.2
Gross fixed capital formation	3.7	3.3	3.6	3.1	3.4	3.3	3.2	-0.5
Other (residual)	5.0	5.1	5.0	5.1	4.9	4.8	4.6	-0.4
- Interest expenditure	2.2	2.1	2.1	2.1	2.1	2.2	2.3	0.1
General government balance (GGB)	-4.0	-3.8	-3.8	-3.5	-3.3	-2.7	-1.9	2.1
Primary balance	-1.8	-1.7	-1.7	-1.3	-1.2	-0.5	0.4	2.2
One-off and other temporary	0.0	-0.1	-0.2	-0.2	-0.1	0.0	0.0	0.0
GGB excl. one-offs	-4.0	-3.6	-3.6	-3.3	-3.2	-2.7	-1.9	2.1
Output gap ¹	-2.3	-2.3	-2.2	-1.7	-1.7	-1.4	-0.8	1.6
Cyclically-adjusted balance ¹	-2.6	-2.4	-2.5	-2.4	-2.3	-1.9	-1.4	1.1
Structural balance (SB)²	-2.6	-2.3	-2.3	-2.3	-2.2	-1.9	-1.4	1.1
Structural primary balance ²	-0.4	-0.2	-0.2	-0.1	-0.1	0.3	0.9	1.2

Notes:

¹Output 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.

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

Source:
Stability Programme (SP); Commission 2015 spring forecasts (COM); Commission calculations.

The programme plans the headline deficit to continue improving to 3.3% of GDP in 2016 and 2.7% in 2017. For both years, the government forecasts the headline deficit to stand 0.2 pp of GDP below the recommended target set by the Council.

Thereafter, the programme 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. Compared to the 2014-2017 Stability Programme, the MTO has thus been revised down from a structural balance to a deficit, and the deadline to reach it has been postponed by one year.

In terms of composition of the adjustment, much of the effort planned over 2015-2018 is expected to come from the expenditure side. Indeed, in line with the commitment not to increase the tax burden further, the government plans public revenues as a share of GDP to remain close to their 2015 level throughout 2016-2018 despite the expected rebound in tax elasticities. Public expenditure growth would remain limited and the share of public expenditures in GDP would decrease from 57.2% in 2014 to 54.8% in 2018, close to its pre-2009 level.

To ensure the credibility of the adjustment planned by the government, the measures underpinning the budgetary strategy will need to be specified. The Commission spring forecast, which extends to 2016 and is based on a no policy change scenario, includes a budgetary forecast for 2016 taking into consideration only the measures which have been sufficiently specified until now. As a result, it projects a somewhat higher deficit for 2016 than the Stability Programme.

Measures underpinning the programme

On the revenue side, measures implemented in 2015 are expected to amount to around 0.1% of GDP, a sharp reduction compared to the amount of discretionary measures adopted in 2014 (0.5% of GDP) and 2013 (1.4% of GDP). The main measures are related to the implementation of the responsibility and solidarity pact. Namely, the reduction in employers' social security contributions which was adopted in a supplementary budget for 2014 will be effective on 1 January 2015 and is expected to reduce public revenues by 0.2 pp of GDP. The reduction in personal income tax for low-earning households is set to further reduce the tax burden by 0.1 pp of GDP. On the contrary, measures were taken which increase indirect taxation and the exceptional tax on large companies, which was supposed to expire in 2015, was extended by one year. From 2016 on, discretionary measures are expected to contribute negatively to public revenues as fiscal consolidation becomes expenditure-based. In 2016, the main measures included in the Stability Programme include the further reduction in social contributions (for wages between 1.6 and 3.5 times the minimum wage) and in the "*Contribution sociale de solidarité des sociétés*" (C3S). In 2017 and 2018, the implementation of the responsibility and solidarity pact will continue, with the abolition of the C3S and a first step to reduce the corporate income tax statutory rate from 33.3% to 28% in 2020. Overall, the yields expected from the discretionary revenue measures included in the Stability Programme, are plausible.

Main budgetary measures

Revenue	Expenditure
2014	
<ul style="list-style-type: none"> • Reducing various personal income tax exemptions (+0.2% of GDP) • Increase in social contributions (rate) (+0.1% of GDP) • Temporary 5% increase in corporate income tax for companies with turnover exceeding EUR 250 million (+0.1% of GDP) • Increase in VAT rates (+0.3% of GDP) • Reduction in personal income tax for low-earning households (-0.05% of GDP) 	<ul style="list-style-type: none"> • Introduction of the tax credit on competitiveness and employment (+0.5 % of GDP)
2015	
<ul style="list-style-type: none"> • Additional reduction in personal income tax for low-earning households (-0.05% of GDP) • Reduction in employer's social contributions for employees paid between 1 and 1.6 time the minimum wage (-0.2 % of GDP) • Creation of the carbon tax (0.1% of GDP) 	<ul style="list-style-type: none"> • Ramp-up of the tax credit on competitiveness and employment (+0.3 % of GDP)
2016	
<ul style="list-style-type: none"> • Merger of the employment bonus (<i>prime pour l'emploi</i>) and the wage support (<i>revenu de solidarité active</i>) (+0.1% of GDP) • Ending of the exceptional CIT contribution (-0.1% of GDP) • Reduction in social contributions and ending of the C3S (-0.4% of GDP) • Creation of the carbon tax (0.1% of GDP) 	<ul style="list-style-type: none"> • Ramp-up of the tax credit on competitiveness and employment (+0.1 % of GDP)
<p><u>Note:</u> 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.</p>	

On the expenditure side, the government plans to implement measures which, it estimates, will reduce expenditures by EUR 50 billion by 2017. These include, as per the programming law adopted on 29 December 2014, a stabilisation of State expenditures in volume and a reduction in the norm for State expenditures in nominal terms, excluding interest payments and pensions. As the amount yielded by these measures was revised downward due to lower-than-expected inflation, the government has announced additional measures amounting to EUR 4 billion in 2015 and EUR 5 billion in 2016. For 2015, the additional measures announced include a further reduction in State expenditures (EUR 1.2 billion), lower interest payments (EUR 1.2 billion) and social transfers (EUR 1 billion), the rest coming from additional revenue measures. These measures are taken into account in the Commission 2015 spring forecast. For 2016, the government intends to ensure a contained growth of public expenditures (1.1% excluding tax credits after 0.9% in 2015) in spite of the expected pick-up in consumer price inflation. A further slowdown in healthcare expenditures is also planned. However limited information is available in the Stability Programme on the actual measures underpinning this effort. In particular, the additional EUR 5 billion effort announced in the Stability Programme would consist in EUR 1.6 billion expenditure cuts for the central government while the slowdown of social transfers would yield an additional EUR 2.2 billion, the remainder coming from lower expenditures by local governments. Still, the related expenditure cuts were not specified at this stage and they were thus not integrated in the Commission 2015 spring forecast.

In terms of structural reforms, the government considers that the reforms implemented or initiated since 2012 would have a strong impact on potential growth (see Box 1 below). In particular, according to the Stability Programme, the labour cost reductions implemented, notably through the *Tax Credit on Competitiveness and Employment* (CICE) and the *Responsibility and Solidarity Pact* (RSP), would contribute 0.2% of potential GDP growth each year starting from 2016. However, it is not clear if this effect can be considered as additional to the contribution made by labour, capital, and TFP. Moreover, the impact on potential GDP growth of other structural reforms is not specified. These measures would increase GDP by 1.7 pp by 2020. However, this estimate does not take into account the financing cost of these measures. Simulations done by the European Commission using the QUEST III model and assuming a full ex-ante financing of the reforms conclude that the CICE and the RSP would have a significantly lower impact on GDP. Moreover, the magnitude of the shocks needed to produce comparable results to those of the French authorities is considerably high. Finally, there is a risk that the impact of the afore-mentioned labour cost reductions could be offset by dynamic wage growth, which points to the need for complementary labour market reforms. The eventual impact of such reforms will crucially depend on their final design and implementation.

Box 1: The reform agenda of the government

The main structural reform efforts include, in particular, the reform of the pension system enacted in January 2014, and measures to reform local authorities, to improve the business environment, and to increase competition in services. The pension reform foresees a gradual adjustment in social security contributions and an increase in the active population from 2020 on. The reform of local authorities aims to increase the efficiency and productivity of local authorities through organisation adjustments and a better clarification of responsibilities. Measures to improve the business environment include the on-going simplification agenda and the reform of the social dialogue that can contribute to eliminating regulatory obstacles to firms' growth. These initiatives are

accompanied by labour market reforms aimed to introduce more flexicurity and to support active labour market policies. Reforms in the services sector are broadly pursued through the *draft Law on Growth, Economic Activity and Equal Opportunities* that reduces the administrative burden, notably for the construction sector, addresses competition concerns for legal professions, opens up the coach transport sector, reduces entry barriers for retail trade and relaxes rules for Sunday work. Finally, the reform agenda of the government comprises additional measures that could impact on the growth potential of the economy. These include, in particular, energy sector reforms, measures to boost private investment and innovation, as well as initiatives to improve the quality of the education system and its links to the labour market. Potential GDP could be further strengthened by efforts to simplify and improve the efficiency of the taxation system and of the expenditure reviews.

3.3. Debt developments

French public debt increased at a fast pace between 2008 and 2014, increasing from 68.1% to 95.0% of GDP. This development was driven first by the cumulated general government deficits recorded over this period as well as by the low nominal GDP growth. In 2014, the high, though decreasing, headline deficit continued to push up public debt. On the other hand, the decreasing interest rates on French sovereign bonds have translated into ever decreasing interest payments.

Table 3: Debt developments

(% of GDP)	Average 2009-2013	2014	2015		2016		2017	2018
			COM	SP	COM	SP	SP	SP
Gross debt ratio¹	85.5	95.0	96.4	96.3	97.0	97.0	96.9	95.5
Change in the ratio	4.8	2.7	1.3	1.3	0.6	0.7	-0.1	-1.4
<i>Contributions² :</i>								
1. Primary balance	3.1	1.8	1.7	1.7	1.3	1.2	0.5	-0.4
2. “Snow-ball” effect	1.4	1.0	0.2	0.2	-0.3	-0.1	-0.4	-0.9
<i>Of which:</i>								
Interest expenditure	2.4	2.2	2.1	2.1	2.1	2.1	2.2	2.3
Growth effect	-0.3	-0.3	-1.0	-0.9	-1.6	-1.4	-1.4	-1.6
Inflation effect	-0.7	-0.9	-0.8	-0.9	-0.9	-0.8	-1.2	-1.6
3. Stock-flow adjustment	0.3	0.0	-0.6	-0.7	-0.4	-0.3	-0.2	0.0
<i>Of which:</i>								
Cash/accruals diff.								
Acc. financial assets								
<i>Privatisation</i>								
Val. effect & residual								

Notes:

¹ End of period.

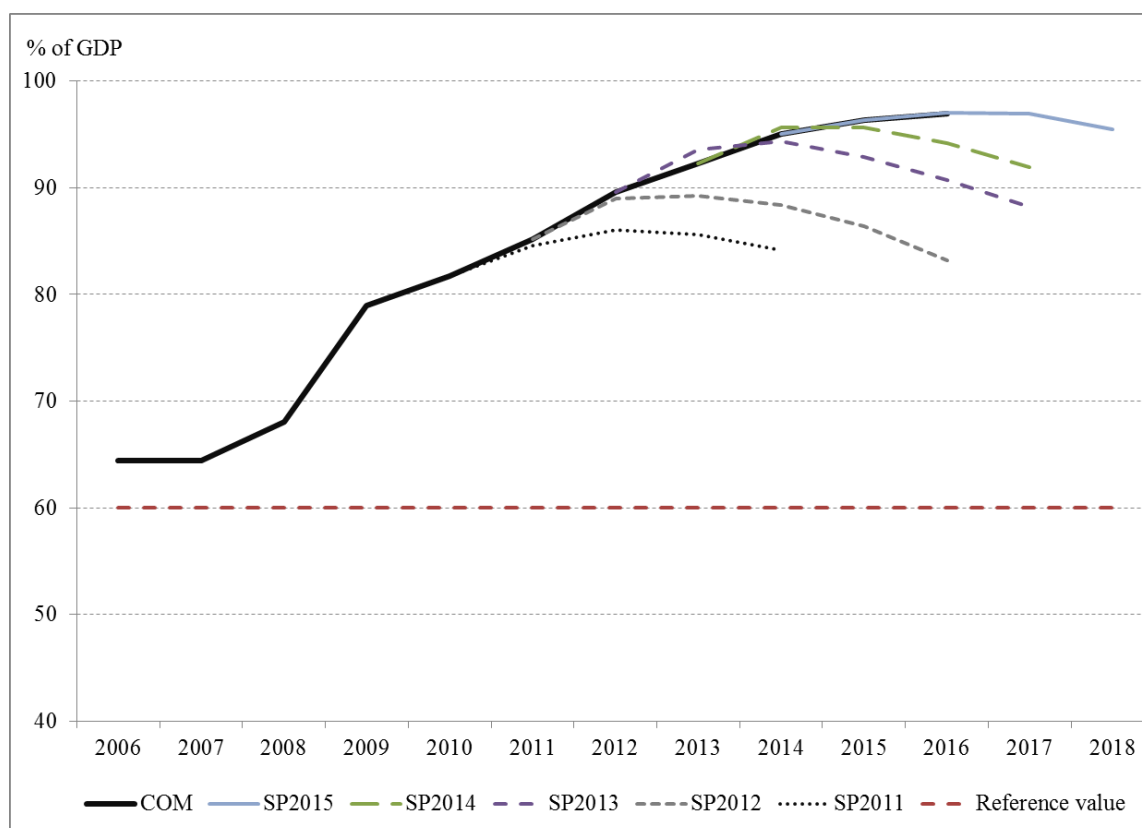
² The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and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

Source:

Commission 2015 spring forecast (COM); Stability Programme (SP), Commission calculations.

According to the Stability Programme, the public debt ratio would start decreasing in 2017 (see Figure 1). First, the expenditure cuts planned in the programme would translate into an improving primary deficit, which would turn into a surplus by 2018. Meanwhile, the recovery of GDP growth and inflation, together with the relatively moderate increase in interest rates, would translate into a positive snowball effect as early as 2016. Stock-flow adjustments are expected to contribute to decreasing the debt ratio every year. This is due to the ESA 2010 accounting of payable tax credits, which has a higher impact on the general government deficit than on the debt, as well as to the effects of the planned disposal of State-owned assets planned in the Stability Programme (EUR 4 billion both in 2015 and 2016). The level of the gross debt ratio expected in the Commission spring forecast for 2015 and 2016 is in line with the Stability Programme.

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



Source: Commission 2015 spring forecast, Stability Programmes

3.4. Risk assessment

Deficit developments

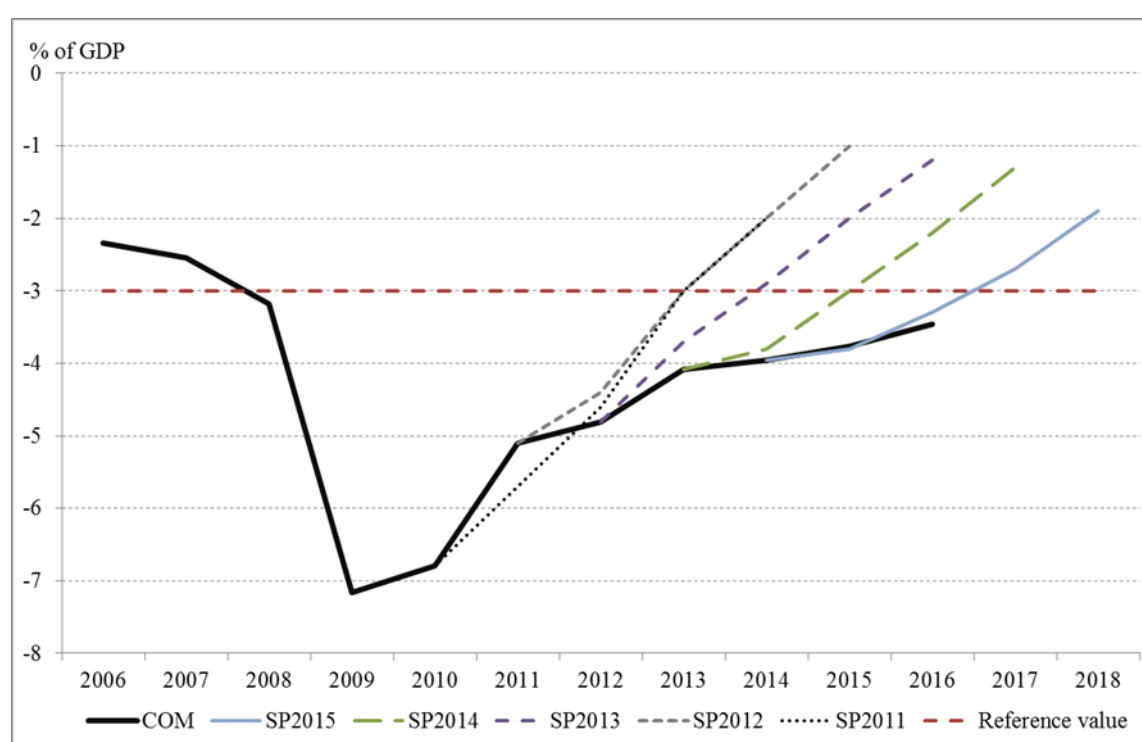
The main risks to the budgetary outlook set forth in the Stability Programme lie in the magnitude of the projected economic recovery and its impact on public finances as well as in the implementation of the ambitious budgetary strategy pursued by the authorities.

The macroeconomic forecast of the government is altogether plausible. Should the economy, and notably private investment, recover faster than expected in the Stability Programme, a stronger GDP growth could take place, which would have a positive impact on the general government deficit. On the contrary, should inflation, which is

expected to stand at 0.0% in 2015 according to both the Stability Programme and the Commission spring forecast, prove even lower than expected, this could result in a higher general government deficit, as was the case in 2014 if the government does not implement in a sufficiently swift manner the adjustment measures which may prove necessary.

In the medium term, while the Stability Programme expects that the structural reforms undertaken since 2012 will result in a 0.2 pp increase in potential growth from 2016 onwards, their impact could actually prove more modest. In such a case, the medium-term growth outlook would be lower than expected in the Stability Programme. In particular, the potential growth estimated by the Commission using the commonly agreed methodology does not point to such a rebound in potential growth already in 2016, even when taking into account recently announced reforms.

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



Source: Commission 2015 spring forecast, Stability Programmes

Beyond the impact of the macroeconomic environment, some risks linked to the budgetary execution also loom on the fiscal outlook. On the revenue side, after very low elasticities of tax revenues in 2013 and 2014, the Stability Programme expects that these would be restored by 2016 as economic growth picks up. Still, as the programme itself plans only a limited reduction in the output gap, the delay to return to a unitary elasticity of tax revenue to GDP growth may prove longer than expected by the government. On the expenditure side, the main risks stem from the budgetary execution, including the effective compliance with the expenditure targets set in the Stability Programme. Indeed, while the fiscal framework has been considerably strengthened over the last few years, the expenditure targets have also become more ambitious. From 2016 on, while ambitious targets have been set, notably in the programming law of 29 December 2014, the measures underpinning the continuing reduction in expenditures growth have not been specified at this stage. These are notably expected to result from spending reviews which are either on-going or still to be launched. Accordingly, the Commission spring

forecast, which is based on a no-policy-change scenario, only takes into account part of the planned expenditure cuts. In case the efficiency gains identified in the upcoming spending reviews are insufficient, the budgetary targets set in the Stability Programme could be at risk.

Debt developments

In the longer term, the debt ratio would be impacted by the various risks outlined above. A review of the debt projections made in Stability Programmes since 2011 (see Figure 1) shows that the plans of the government to curb the growth in public debt within the next two years have so far proved ineffective. This is due to both to higher-than-expected general government deficit and lower-than-expected GDP growth. This time again, should the long-term GDP growth prove more modest than expected, the adjustment needed to put the debt ratio on a firmly decreasing path and to ensure the long-term sustainability of public finances could prove stronger than expected.

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 delay 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 2).

According to the Stability Programme, the government plans to bring the headline deficit to 3.8% of GDP in 2015, 3.3% in 2016 and 2.7% in 2017. The general government deficit would thus be lower than the headline target set by the Council every year over the EDP period. Regarding 2015, the Commission spring forecast concurs that the general government deficit will be at 3.8% of GDP, below the 4.0% recommended target. In 2016, under a no-policy-change scenario, the Commission considers that the headline deficit would decrease to 3.5% of GDP, slightly above the 3.4% of GDP recommended target set by the Council as a number of measures for 2016 have not been fully specified at this stage and are not included in the Commission forecast.

Box 2. Council recommendations addressed to France

On 10 March 2015, the Council recommended France under Art. 126(7) of the Treaty to correct its excessive deficit by 2017 at the latest. To this end, France should reach a headline deficit of 4.0 % of GDP in 2015, 3.4 % of GDP in 2016 and 2.8 % of GDP in 2017, which was consistent with delivering an improvement in the structural balance of 0,5 % of GDP in 2015, 0,8 % of GDP in 2016 and 0,9 % of GDP in 2017. This required additional measures of 0.2 % of GDP in 2015, 1,2 % of GDP in 2016 and 1,3 % of GDP in 2017 based on the extended Commission services' 2015 winter forecast. 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. In addition, France

should step up efforts to identify savings opportunities across all sub-sectors of general government, including at social security and local government levels, and use all windfall gains for deficit reduction. Budgetary consolidation measures should secure a lasting improvement in the general government structural balance and should not be detrimental to the improvement of the competitiveness of the French economy. The Council established the deadline of 10 June 2015 for France to take effective action and, in accordance with Article 3(4a) of Regulation (EC) No 1467/97, to report in detail on the consolidation strategy that is envisaged to achieve the targets. France should report in detail on (i) the additional structural discretionary measures, representing 0,2 % of GDP, adopted to ensure the achievement of the recommended improvement in the structural balance in 2015; and (ii) the outlined key budgetary measures for reaching the targets in 2016 and 2017. The Loi de Programmation des Finances Publiques should be updated to reflect the new adjustment path. An evaluation of the key measures underpinning the adjustment for 2016 and 2017 shall be provided well ahead of the deadline of 10 June 2015.

On 8 July 2014, 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 reinforce the budgetary strategy, including by further specifying the underlying measures, for the year 2014 and beyond to ensure the correction of the excessive deficit in a sustainable manner by 2015 through achieving the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure. A durable correction of the fiscal imbalances requires a credible implementation of ambitious structural reforms to increase the adjustment capacity and boost growth and employment. After the correction of the excessive deficit, pursue a structural adjustment towards the medium-term objective of at least 0.5% of GDP each year, and more in good economic conditions or if needed to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path. Step up efforts to achieve efficiency gains across all sub-sectors of general government, including by redefining, where relevant, the scope of government action. In particular, take steps to reduce significantly the increase in social security spending as from 2015 as planned, by setting more ambitious annual healthcare spending targets, containing pension costs, and streamlining family benefits and housing allowances. Set a clear timetable for the on-going decentralisation process and take first steps by December 2014, with a view to eliminating administrative duplication, facilitating mergers between local governments and clarifying the responsibilities of each layer of local government. Reinforce incentives to streamline local government expenditure, by capping the annual increase in local government tax revenue while reducing grants from the central government as planned. Beyond the need for short-term savings, take steps to tackle the increase in public expenditure on health projected over the medium and long term, including in the area of pharmaceutical spending, and take additional measures when and where needed to bring the pension system into balance by 2020 in a sustainable manner covering all schemes, with a special focus on existing special schemes and complementary schemes.

In terms of structural adjustment, the recalculated structural balance adjustment estimated according to the commonly agreed methodology, which is based on the nominal budgetary targets set by the government and thus includes the additional measures announced in the Stability Programme for 2015 and 2016, is expected to stand at 0.3% of GDP in 2015, 0.1% in 2016 and 0.3% in 2017, The adjustment in the structural balance planned thus falls short of the level recommended by the Council in 2015, 2016 and 2017.

Based on the spring forecast, the adjustment in the structural balance is expected to amount to 0.3% of GDP in 2015, against the recommended 0.5% of GDP. Using the same potential growth as the one estimated at the time of the Council recommendation of 10 March 2015 and correcting for revenue windfalls/shortfalls, the adjusted change in the structural balance would amount to 0.4% of GDP, still below the one recommended by the Council in spite of the additional measures announced in the Stability Programme and which are included in the Commission spring forecast. The bottom-up assessment of the effort achieved in 2015 would amount to 0.0% of GDP, compared to 0.2% recommended by the Council on 10 March 2015. The gap between the top-down and bottom approach notably comes from the downward revision in interest payments for 2015 in the spring forecast, a development which is considered outside the control of government and is thus excluded from the bottom-up assessment of the fiscal effort.

Table 4: Compliance with the requirements of the corrective arm

(% of GDP)	2014	2015		2016	
	COM	SP	COM	SP	COM
Headline balance					
Headline budget balance	-4.0	-3.8	-3.8	-3.3	-3.5
EDP requirement on the budget balance		-4.0		-3.4	
Fiscal effort - change in the structural balance					
Change in the structural balance ¹	0.7	0.3	0.3	0.1	0.0
Cumulative change ²	-	0.3	0.3	0.4	0.3
Required change from the EDP recommendation	-	0.5		0.8	
Cumulative required change from the EDP recommendation	-	0.5		1.3	
Fiscal effort - adjusted change in the structural balance					
Adjusted change in the structural balance ³	-	-	0.4	-	-0.1
of which:					
<i>correction due to change in potential GDP estimation (α)</i>	-	-	0.0	-	0.0
<i>correction due to revenue windfalls/shortfalls (β)</i>	-	-	-0.2	-	0.1
Cumulative adjusted change ²	-	-	0.4	-	
Required change from the EDP recommendation	-	0.5		0.8	
Cumulative required change from the EDP recommendation	-	0.5		1.3	
Fiscal effort - calculated on the basis of measures (bottom-up approach)					
Fiscal effort (bottom-up) ⁴	-	-	0.0	-	0.3
Cumulative fiscal effort (bottom-up) ²	-	-	0.0	-	0.3
Requirement from the EDP recommendation	-	0.2		1.2	
Cumulative requirement from the EDP recommendation	-	0.2		1.4	
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.					
<i>Source:</i>					
<i>Stability Programme (SP); Commission 2015 spring forecasts (COM); Commission calculations.</i>					

In 2016, excluding the expenditure cuts which have not been sufficiently specified at this stage, and in particular the measures announced in the Stability Programme for that year, the structural balance is projected to remain constant compared to an improvement of 0.8% of GDP recommended by the Council. Correcting for the expected revenue windfalls compared to the baseline scenario underpinning the Council recommendation of 10 March 2015, the adjusted structural balance would actually deteriorate by 0.1% of GDP. The bottom-up assessment of the effort in 2016, under the no-policy-change assumption, would amount to 0.3% of GDP compared to 1.2% of GDP recommended by the Council on 10 March 2015.

Provided that the headline deficit is durably brought below 3% by 2017, France would be in the preventive arm of the Excessive Deficit Procedure from 2018 on. The Stability Programme expects that the structural balance would improve by 0.5% of GDP in 2018 to reach -0.1% of GDP compared to the Medium-Term Objective of -0.4%. Based on the commonly agreed methodology, the structural balance in 2018 is, however, estimated at -1.4% of GDP, much above the MTO.

5. LONG-TERM SUSTAINABILITY

The analysis in this section includes the new long-term budgetary projections of age-related expenditure (pension, health care, long-term care, education and unemployment benefits) from the 2015 Ageing Report published on 12 May.² It therefore updates the assessment made in the Country Report.³

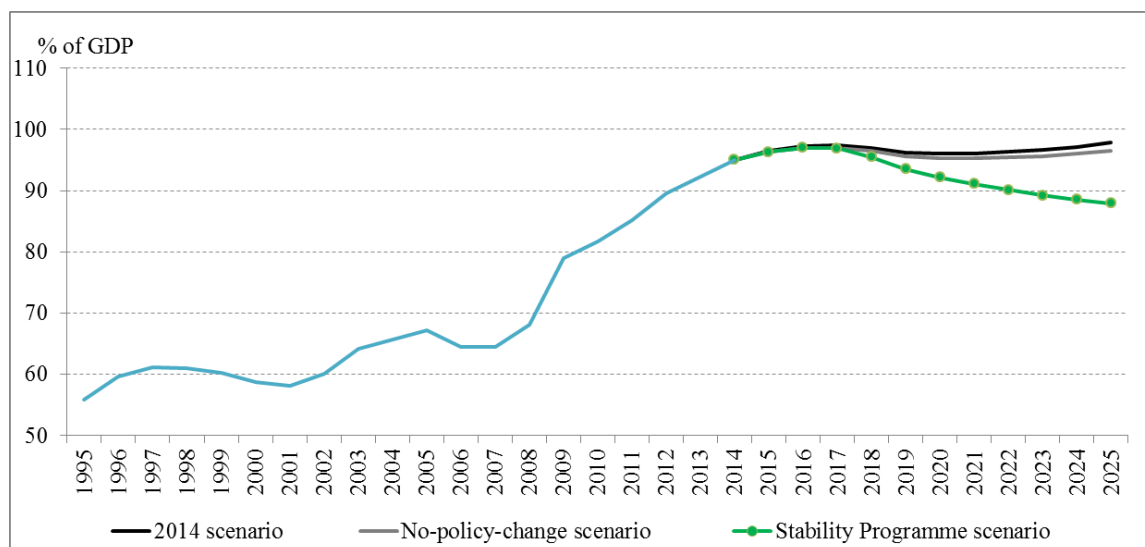
Government debt stood at 95.0% of GDP in 2014, well above the 60% of GDP Treaty threshold. According to the Stability Programme, it is expected to continue rising to 97.0% of GDP in 2016. However, the full implementation of the programme would put debt on a decreasing path from 2017 onwards (see Figure 2).

Based on the sustainability indicators developed by the Commission, France appears to face low fiscal sustainability risks in the short term. However, in the medium term France faces high sustainability risks, with a sustainability gap estimated at 3.4% of GDP. This is primarily related to the high level of government debt, and to the still high structural primary deficit. On the other hand, in the long term, France appears to face low fiscal sustainability risks, primarily thanks to low projected pension costs (contributing -1.8 pp. of GDP over the very long run). The long-term sustainability gap shows that, based on the long-term demographic and macroeconomic assumptions underpinning the 2015 Ageing Report, no additional adjustment effort is needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path. Risks would be higher in the event of the structural primary balance reverting to the higher deficit values observed in the past, such as the average for the period 2005-2014. It is therefore appropriate for France to continue to implement measures to reduce government debt.

² See http://ec.europa.eu/economy_finance/publications/european_economy/2015/ee3_en.htm.

³ See http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm published on 26 February.

Figure 3: Gross debt projections (% of GDP)



Source: Commission 2015 spring forecast; Stability Programme; Commission calculations

In 2014, France undertook a reform of its pension system so as to ensure its long-term sustainability. Contributions were increased in the short term and, from 2020 on, the contribution period to obtain a full pension will gradually be extended to 43 years. This measure will apply to employees in both the public and the private sector. Moreover, an independent pension monitoring committee has been created which will issue an opinion on an annual basis on the situation and outlook of the pension system, notably from a financial point of view. In spite of a number of reforms, notably a limited indexation of complementary pensions between 2013 and 2015, the financial outlook of complementary pension schemes appears unsustainable. Therefore, social partners have started negotiations on a new agreement which is expected to be concluded by the end of 2015.

Table 5: Sustainability indicators

	France			European Union		
	2014 scenario	No-policy-change scenario	Stability Programme scenario	2014 scenario	No-policy-change scenario	Stability/Convergence Programme scenario
S2*	0.1	0.0	-1.0	1.4	1.7	0.4
<i>of which:</i>						
Initial budgetary position (IBP)	1.3	1.1	0.0	0.4	0.5	-0.7
Long-term cost of ageing (CoA)	-1.2	-1.1	-1.0	1.0	1.1	1.1
<i>of which:</i>						
pensions	-1.9	-1.8	-1.7	0.0	0.1	0.1
healthcare	0.8	0.7	0.6	0.8	0.7	0.6
long-term care	0.7	0.6	0.6	0.7	0.7	0.6
others	-0.6	-0.6	-0.5	-0.4	-0.3	-0.2
S1**	3.3	3.4	2.7	1.4	1.8	0.5
<i>of which:</i>						
Initial budgetary position (IBP)	1.1	0.6	-0.5	-0.4	-0.3	-1.6
Debt requirement (DR)	2.2	2.6	3.0	1.7	1.9	1.8
Long-term cost of ageing (CoA)	0.0	0.2	0.3	0.1	0.3	0.4
S0 (risk for fiscal stress)***	0.16	:	:	:	:	:
<i>Fiscal subindex</i>	0.18	:	:	:	:	:
<i>Financial-competitiveness subindex</i>	0.14	:	:	:	:	:
Debt as % of GDP (2014)	95.0			88.6		
Age-related expenditure as % of GDP (2014)	31.3			25.6		
Source: Commission, 2015 Stability Programme						
Note: the '2014' scenario depicts the sustainability gap under the assumption that the structural primary balance position remains at the 2014 position according to the Commission 2015 spring forecast; the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commission 2015 spring forecast until 2016. The 'stability 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.						
* The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: i) the initial budgetary position (IBP) which gives the gap to the debt stabilising primary balance; and ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60% debt threshold. The following thresholds for the S2 indicator were used: (i) if the value of S2 is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and, (iii) if it is greater than 6, it is assigned high risk.						
** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady adjustment in the structural primary balance to be introduced over the five years after the forecast horizon, and then sustained, to bring debt ratios to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 p.p. of GDP per year for five years after the last year covered by the spring 2015 forecast (year 2016) is required (indicating an cumulated adjustment of 2.5 pp.), it is assigned medium risk; and, (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 p.p. of GDP per year is necessary), it is assigned high risk.						
*** The S0 indicator reflects up to date evidence on the role played by fiscal and financial-competitiveness variables in creating potential fiscal risks. It should be stressed that the methodology for the S0 indicator is fundamentally different from the S1 and S2 indicators. S0 is not a quantification of the required fiscal adjustment effort like the S1 and S2 indicators, but a composite indicator which estimates the extent to which there might be a risk for fiscal stress in the short-term. The critical threshold for the overall S0 indicator is 0.43. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.35 and 0.45.						

6. FISCAL FRAMEWORK AND QUALITY OF PUBLIC FINANCES⁴

6.1. Fiscal framework

As pointed out in the 2015 Country Report, the fiscal framework has been significantly reinforced over the last few years with the creation of the High Council on Public Finances (HCPF). This independent authority assesses the plausibility of the macroeconomic scenario underlying the various budgetary plans and checks that draft budgets are consistent with the structural deficit reduction path set in the current multiannual programming law for public finances. As regard the 2015 Stability Programme, the HCPF considered in its opinion of 13 April 2015 that the

⁴ This section complements the Country Report published on 26 February 2015 and updates it with the information included in the Stability programme.

macroeconomic scenario of the government for 2015-2018 was cautious. However, it regretted that the official estimate of potential growth was revised, only a few months after the adoption of the programming law for 2014-2019.

In order to better control developments in public expenditures, expenditure norms have been set up to for the various sub-sectors of government. Norms currently exist on State expenditures, both in volume and in nominal terms, on social security and on healthcare expenditures and, for the first time in 2015, on local government expenditures. The track record of the norm on State and on healthcare expenditures over the last few years shows that these norms are increasingly complied with, thanks in particular to a more effective governance framework. By contrast, the effectiveness of the norms on local government expenditures, which was introduced in the programming law of 29 December 2014, and on social security expenditures remain to be proven. Measures have also been taken as part of the programming law to curb the revenue growth of state agencies and further control developments in tax expenditures.

The Stability Programme does not include a specific reference indicating whether it is to be considered the French national medium-term fiscal plan. Nor does it include details on the expected return on non-defence public investment projects with a significant impact on public finances.

6.2. Quality of public finances

France has set up a number of expenditure reviews to identify opportunities for efficiency gains in the public sector. The most recent spending reviews have been the "*révision générale des politiques publiques*" (RGPP) initiated in 2007 and replaced by the "*modernisation de l'action publique*" (MAP) since 2012. As mentioned in the 2015 Country Report, while these reviews are designed to underpin the expenditure targets set by the government, their contribution to expenditure developments have actually proved modest. As noted in the 2015 Country Report, the programming law of 29 December 2014 creates an annual spending review which seeks to effectively support the achievement of yearly budgetary targets. This new exercise, which covers all sub-sectors of general government, will be conducted for the first time in 2015. The new review should be ambitious enough for the efficiency gains identified to effectively support the planned slowdown in public expenditures. Such an approach could notably ensure that the fiscal consolidation does not bear exceedingly on public investment, which decreased by 7.3% in 2014, and that the planned efforts entail a durable improvement in the cost effectiveness of public policies.

On the revenue side, the government has engaged since 2012 in a reduction in the tax burden on labour. This reduction, which is planned to amount to close to EUR 30 billion (1.5% of GDP) by 2017, spans across most of the wage scale (see Box 1). Still, workers with the lowest wages, for whom the elasticity of labour demand to cost is deemed the highest, will be the primary beneficiaries. This policy aims to improve the competitiveness of companies while promoting employment. While the related measures are indeed expected to have a positive impact on employment and growth, there are risks that the impact may be significantly lower than assessed by the government.

7. CONCLUSIONS

For 2014, the assessment of the compliance of the French budgetary strategy with the provision of the Stability and Growth Pact was based on the Council recommendation addressed to France on 21 June 2013 under the Excessive Deficit Procedure. On that basis, France achieved a headline deficit of 4.0% of GDP in 2014, above the target of 3.6% of GDP set by the Council on 21 June 2013. In its assessment of fiscal developments over 2013-2014 of 28 February 2015, the Commission considered that, based on its 2015 winter forecast, the available evidence did not allow to conclude on no effective action. This assessment was confirmed by data on general government accounts published by the French statistical office on 26 March 2015. Based on the latter assessment, the Council recommended on 10 March 2015 that France brings its excessive deficit to an end by 2017 at the latest.

The French Stability Programme, which rests on a plausible macroeconomic scenario, plans to correct the excessive deficit by the 2017 deadline set by the Council and thereafter to reach the MTO by 2018. The structural balance, estimated according to the commonly agreed methodology, is expected to improve by 0.3% of GDP, in line with the improvement estimated in the 2015 spring forecast of the Commission, and below the 0.5% of GDP effort recommended by the Council for that year in spite of the additional measures announced in the Stability Programme. The recalculated structural effort in 2016 and 2017 would then stand at 0.1% and 0.2% of GDP respectively, also falling short of the structural adjustment recommended by the Council (0.8% and 0.9% of GDP respectively). In 2018, the recalculated structural deficit underpinning the budgetary targets of the government is estimated at 1.4% of GDP and would thus remain well above the MTO.

Table I. Macroeconomic indicators

	1997-2001	2002-2006	2007-2011	2012	2013	2014	2015	2016
Core indicators								
GDP growth rate	3.0	1.7	0.7	0.3	0.3	0.4	1.1	1.7
Output gap ¹	0.7	1.7	0.1	-1.0	-1.7	-2.3	-2.3	-1.7
HICP (annual % change)	1.2	2.1	1.8	2.2	1.0	0.6	0.0	1.0
Domestic demand (annual % change) ²	3.0	2.0	1.0	-0.3	0.2	0.7	0.9	1.7
Unemployment rate (% of labour force) ³	9.5	8.6	8.6	9.8	10.3	10.3	10.3	10.0
Gross fixed capital formation (% of GDP)	20.6	21.4	22.6	22.5	22.1	21.6	21.2	21.6
Gross national saving (% of GDP)	23.3	22.2	21.3	20.2	20.0	20.2	20.6	20.8
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	-2.1	-3.2	-5.0	-4.8	-4.1	-4.0	-3.8	-3.5
Gross debt	59.8	64.3	75.7	89.6	92.3	95.0	96.4	97.0
Net financial assets	-38.7	-43.2	-49.2	-68.4	n.a	n.a	n.a	n.a
Total revenue	50.1	49.4	49.9	52.0	52.9	53.2	53.1	53.1
Total expenditure	52.1	52.6	54.9	56.8	57.0	57.2	56.9	56.5
<i>of which: Interest</i>	3.0	2.7	2.6	2.6	2.3	2.2	2.1	2.1
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	0.3	0.1	-0.3	-1.3	-1.5	-2.2	-1.4	-1.9
Net financial assets; non-financial corporations	-86.2	-90.9	-107.8	-113.1	n.a	n.a	n.a	n.a
Net financial assets; financial corporations	14.3	6.9	16.3	25.7	n.a	n.a	n.a	n.a
Gross capital formation	11.6	11.7	12.4	12.6	12.1	13.1	13.1	13.9
Gross operating surplus	17.9	17.8	17.8	17.0	16.7	16.9	17.8	18.2
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	4.0	3.3	3.6	3.5	3.6	4.6	4.6	4.5
Net financial assets	124.2	124.7	129.0	135.5	n.a	n.a	n.a	n.a
Gross wages and salaries	37.3	38.0	38.4	38.7	38.7	38.7	38.5	38.5
Net property income	6.1	5.7	5.7	5.3	5.3	5.2	5.1	5.2
Current transfers received	23.6	24.0	25.2	26.4	26.9	27.2	27.2	27.2
Gross saving	9.6	9.7	10.0	9.7	9.6	9.8	9.6	9.4
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	2.2	0.2	-1.6	-2.7	-2.0	-1.6	-0.8	-1.0
Net financial assets	-11.6	4.7	15.4	25.6	n.a	n.a	n.a	n.a
Net exports of goods and services	2.0	0.4	-1.8	-2.0	-1.5	-1.3	-0.4	-0.6
Net primary income from the rest of the world	1.7	1.5	2.1	1.6	1.7	1.7	1.7	1.7
Net capital transactions	0.0	-0.1	0.0	-0.2	0.0	0.1	0.1	0.1
Tradable sector	39.8	38.0	35.1	34.5	34.1	33.8	n.a	n.a
Non tradable sector	49.8	51.9	55.0	55.3	55.7	55.7	n.a	n.a
<i>of which: Building and construction sector</i>	4.3	4.8	5.6	5.5	5.4	5.1	n.a	n.a
Real effective exchange rate (index, 2000=100)	92.9	96.4	100.6	97.9	100.7	101.6	95.7	94.6
Terms of trade goods and services (index, 2000=100)	101.5	100.7	99.5	97.3	98.5	99.9	102.3	101.7
Market performance of exports (index, 2000=100)	116.2	110.0	101.0	104.3	104.6	103.6	103.9	104.4
Notes:								
¹ The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.								
² The indicator on domestic demand includes stocks.								
³ Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.								
<i>Source:</i> AMECO data, Commission 2015 spring forecast								