A STRATEGY FOR CONTINUED FISCAL CONSOLIDATION

STABILITY PROGRAMME 2015-2018

The 2014 budget outturn was better than expected. The deficit was brought down to 4.0% of GDP. Government spending, excluding tax credits, rose 0.9% in nominal terms – the lowest such increase in decades. In addition, for the first time since 2009, aggregate taxes and social security contributions remained stable. These figures prove that France can achieve fiscal consolidation through tighter expenditure control and without increasing the tax burden.

France will carry these consolidation efforts forward, at a pace that bolsters economic recovery while financing government priorities.

The economy is continuing to recover in the first months of 2015. The rise in household purchasing power, notably due to lower oil prices and income tax cuts, has given a strong boost to consumption. Additionally, improved competitiveness of French businesses thanks to the Competitiveness and Employment Tax Credit (CICE) and the Responsibility and Solidarity Pact, along with the depreciation of the euro, low interest rates and the recovery in the euro area, have created a more propitious environment for getting both exports and investment back on track. Measures introduced in early April to support public and private investment will reinforce this trend.

To ensure the government will meet the targets it has set for itself, our macroeconomic assumptions are nevertheless decidedly conservative. Growth, which underpins the fiscal adjustment path, is forecast at 1% for 2015 and 1.5% for both 2016 and 2017.

In line with the better-than-expected 2014 budget outturn, and thanks to unwavering efforts to rein in spending, the government deficit is expected to fall to 3.8% in 2015, 3.3% in 2016 and finally 2.7% of GDP in 2017. Both government expenditure and aggregate taxes and social security contributions will be reduced during this same timeframe, and government debt will begin to decrease.
Staying the course:
reforms to make the French economy fairer and more efficient

The Competitiveness and Employment Tax Credit (CICE) is now fully in place. In 2014, businesses’ margins received a boost of €10.2bn, allowing them to invest, hire and become more competitive. This year, the CICE rate will increase from 4% to 6% of a company’s wage bill, thereby bolstering margins by 50%. By 2017, the CICE will account for €20bn in support for businesses.

The first phase of the Responsibility and Solidarity Pact was approved by Parliament in the summer of 2014 and came into force on 1 January of this year. Employers’ social security contributions have been reduced for lower-end wage-earners, and even eliminated for minimum-wage jobs. Contributions of self-employed workers were also reduced by 3%. Finally, the corporate social solidarity contribution (C3S) has been phased out for VSEs and SMEs.

Taken together, these schemes will account for more than €12bn in additional tax and contribution savings for businesses in 2015.

The tax burden will also be lightened for low- and middle-income households. Following a one-off tax cut in 2014, the lowest income tax bracket was eliminated in 2015, thus providing nine million households with a €3.2bn boost in purchasing power.

Reform efforts are being carried forward to make France’s economy more competitive, to promote job-rich growth, and to provide more efficient public services. These reforms are described and assessed in the National Reform Programme (NRP) that is submitted with the Stability Programme. In addition to initiatives to promote cost competitiveness, France’s economic reform strategy also includes support for non-cost competitiveness. This includes more streamlined administrative procedures, the elimination of regulations that could hamper economic growth, support for investment and innovation, and labour market reforms. Our strategy also aims to reduce inequalities and pave the way for the future, particularly to address environmental and demographic challenges, consistent with the Europe 2020 strategy.

What is a Stability Programme?

The Stability Programme is a document that outlines a country’s medium-term fiscal strategy. Each year, as part of the EU’s annual cycle of economic and fiscal policy coordination, or «European Semester», every Member State draws up a Stability Programme along with a National Reform Programme (NRP).
Staying the course: continuing fiscal consolidation for greater latitude

In keeping with our commitments, our fiscal consolidation strategy means reducing expenditure while continuing to fund our designated priorities, i.e. education, justice, investments for the future and security.

At the same time, as from 2015, we will continue to reduce the rate of aggregate tax and social security contributions from a stable 44.7% in 2014 to 44.2% in 2017.

These targets are demanding but within reach. Weak inflation, due in particular to the fall in energy prices, is boosting the purchasing power of households and general government sub-sectors. At the same time, it is limiting the impact of certain savings measures (especially certain spending freezes). As a result, additional steps will be required to maintain the targeted rate of reduction in expenditure as a percentage of GDP, excluding tax credits and the cost of servicing debt.

To meet the targets set in the Public Finance Planning Act, the government will institute €4bn in savings measures as of 2015 through new regulations and cost-cutting efforts. In a similar vein, the budget bills to be drafted at the end of the year will include additional savings of €5bn in 2016 across all general government sub-sectors in proportion to their share of public expenditure.

![Government spending to GDP contracting as per autumn forecast](image)
Staying the course: keeping our promises

The goal of reducing the deficit to below 3% of GDP by 2017 will be met. This target goes hand in hand with stabilising and then reducing debt levels within the same timeframe.

The pace of reduction adopted is compatible with renewed growth and should help to start reducing debt levels from 2017 onwards while keeping them below the threshold of 100% of GDP.

The imbalances in our public accounts adjusted for fluctuations in the economic cycle, i.e. the structural deficits, are contracting at a rapid rate. After shrinking by more than 50% since 2011, the structural balance will be close to equilibrium in 2017. All general government sub-sectors have contributed to this uninterrupted improvement. The central government deficit was brought down from €148.8bn in 2010 to €85.6bn in 2014. The social security deficit has been more than halved in five years, falling from €27.3bn in 2010 to €13.2bn in 2014.

The Council of the European Union has given France until 2017 to bring the government deficit back under 3% of GDP, while also recommending a sustained reduction of its structural deficit (0.5 pp. of GDP in 2015, 0.8 pp. in 2016 and 0.9 pp. in 2017). Since the recommendation was drafted, new information has become available. First, the deficit in 2014 actually stood at 4.0%, i.e. 0.3% lower than estimated. Second, positive economic data has been released, which reflects a brighter growth outlook for Europe as a whole, and France in particular, although the rate of recovery still needs to be bolstered.

Taking these changes into account, France’s chosen adjustment path will enable it to meet the recommended headline deficit targets set with some margin, while maintaining the structural adjustment at 0.5 pp. a year to avoid putting a drag on the recovery. Compared to the path outlined in the Council’s recommendation, this one offers three advantages: the headline deficit will be lower than recommended every year; even based on conservative assumptions, growth will be significantly more robust; and the debt dynamics will be kept under tighter control in the short run.