

LE MINISTRE DES FINANCES  
ET DES COMPTES PUBLICS

Dear Vice-President Katainen,

Thank you very much for your letter dated 22 October 2014 in compliance with common procedural rules. Let me now take this opportunity to reply. In so doing, I will endeavour to continue the constructive dialogue that has dominated our recent correspondence.

First of all, let me answer your question as to why our draft budgetary plan is no longer in line with the framework we set this spring.

Let me start by reminding you, as I have done during the most recent gatherings of finance ministers, that instead of gathering momentum during the year as forecast, growth in the euro area and in France has in fact been revised downwards. Consequently, instead of reaching 1% in 2014 and 1.7% in 2015, growth in France is now forecast at 0.4% and 1% respectively. Moreover, inflation levels have nose-dived in 2014 in both the euro area and France. As a result, the European Central Bank has made some important decisions, and does not expect to see inflation levels return to normal before 2017.

The French government has therefore been forced to take these substantial macroeconomic changes into account by adjusting its 2014 budget and factoring the revised scenario into the 2015 budget and beyond. We have done so in the interests of presenting a true and fair view of the situation.

Our economic policy is founded on two pillars to which we are fully committed:

- Implementation of the Responsibility and Solidarity Pact. There can be no deviation from this Pact which will help to restore the competitiveness of French businesses, identified by economic observers as a key requirement for the French economy.
- Unprecedented savings of €21 billion. We will achieve this target.

I would like to reiterate that the French government is fully committed to complying with the common set of budgetary rules established by Member States and to an across-the-board application of these rules to all relevant countries in keeping with the strict principle of equal treatment. Given these circumstances, we feel that it is imperative to adapt the pace of deficit reduction in Europe and France to the situation of very sluggish economic growth and very weak inflation, in compliance with common EU rules and the flexibility that they offer.

As regards France's draft budgetary plan, the most recent data available will enable us to revise a number of our forecasts, i.e. for lower interest expenses as a result of falling interest rates throughout the summer, or a reduction in future contributions to the European Union Budget announced by the EU budget commissioner.

As part of the drafting of the Supplementary Budget Bill in late 2014, the government has decided to carry forward and expand tax reform efforts that it had launched at the start of President Hollande's term. For this reason, we are introducing new measures to bolster our

combat against tax evasion and aggressive tax planning. These proposals, supplemented by several measures in the interest of justice, will boost France's structural adjustment efforts to over 0.5 points of GDP in 2015, when the changes to European accounting standards are factored in – the new treatment of the CICE tax credit under the new standards will diminish, on a comparable basis and in the short term, France's 2015 structural adjustment efforts by just over 0.1 points of GDP.

Our approach is thus in line with EU rules and the room for manoeuvre that they contain. It is adapted to the euro area's current macroeconomic situation.

I have no doubt that the elements already communicated, combined with those which we are submitting today, will allow the Commission to fully assess France's structural adjustment efforts in 2015.

Yours sincerely,

MICHEL SAPIN