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COMMISSION OPINION

of 22.11.2022

on the Draft Budgetary Plan of France

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(Only the French text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact and the European Semester for economic policy coordination.

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

3. The general escape clause of the Stability and Growth Pact has been active since March 2020.[1] On 23 May 2022, the Commission indicated, in its Communication on the European Semester[2], that heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023 and it considered that the conditions to deactivate it as of 2024 were met. The continued activation of the general escape clause in 2023 will provide the space for national fiscal policy to react promptly when needed, while ensuring a smooth transition from the broad-based support to the economy during the pandemic times towards an increasing focus on temporary and targeted measures and fiscal prudence required to ensure medium-term sustainability.[3]

4. The Recovery and Resilience Facility, as established by Regulation (EU) 2021/241, provides financial support for the implementation of reforms and investment, notably to promote the green and digital transitions, thereby strengthening the economies' resilience and potential growth. Part of this support is in the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the RRF is supporting a fair and inclusive recovery in the EU in line with the European Pillar of Social Rights. It also boosts growth and job creation in the medium and long term, and thereby strengthens sustainable public finance. According to the Commission

1 Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, COM(2020) 123 final of 20 March 2020.

2 COM(2022) 600 final.

3 On 17 June 2022, the Council agreed its recommendations on the 2022 National Reform Programmes and the opinions on the 2022 Stability and Convergence Programmes, which take into account the continuation of the Stability and Growth Pact's general escape clause into 2023. (See: https://www.consilium.europa.eu/en/meetings/ecofin/2022/06/17/)

proposal of 18 May 2022[4], the Facility should also aim at increasing the resilience of the Union energy system by reducing dependence on fossil fuels and diversifying energy supplies at Union level ('REPowerEU objectives').

5. On 12 July 2022, in the recommendations delivering Council opinions on the 2022 Stability Programmes[5], the Council recalled that the overall fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis), including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds, relative to medium-term potential growth.[6] Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is consistent with the green and digital transitions, energy security and ensuring social and economic resilience, attention is also paid to the evolution of nationally financed[7] primary current expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) and investment.

6. The shocks unleashed by the Russian invasion of Ukraine are impacting the EU economy both directly and indirectly, setting it on a path of lower growth and higher inflation. Intensifying and broadening inflationary pressures have been prompting faster normalisation of monetary policy in the euro area. Public spending on measures containing the social and economic impact of high energy costs, on security and defence and on humanitarian assistance to the displaced persons from Ukraine is weighing on public finances. The specific nature of the macroeconomic shock imparted by Russia's invasion of Ukraine, as well as its long-term implications for the EU's energy security needs, call for a careful design of fiscal policy in 2023. A broad-based fiscal impulse to the economy in 2023 does not appear warranted. The focus should instead be on protecting the vulnerable, allowing automatic stabilisers to operate and providing temporary and targeted measures to mitigate the impact of the energy crisis and to provide humanitarian assistance to people fleeing from Russia's invasion of Ukraine, while maintaining the agility to adjust, if needed. Fiscal policy should combine higher investment with controlling the growth in nationally financed primary current expenditure. Full and timely implementation of the Recovery and Resilience Plans is key to achieving higher levels of investment. Fiscal policies should aim at preserving debt sustainability as well as raising the growth potential in a sustainable manner, thus also facilitating the task of monetary policy to ensure the timely return of inflation to the ECB's 2% medium-term target. Fiscal plans for 2023 should be anchored by prudent medium-term adjustment paths reflecting fiscal sustainability challenges associated with high debt-to GDP levels that have increased further due to the pandemic as well as reforms and investment challenges associated with the twin transition, energy security and social and economic resilience.

7. Russia's war of aggression against Ukraine has resulted in substantial additional increases in and volatility of the prices of energy. The price shock in imported energy

[4] COM(2022) 231 final.
[5] Council Recommendation of 12 July 2022 on the National Reform Programme of France, OJ C 334, 1.9.2022, p. 79.
[6] The estimates on the fiscal stance and its components in this Opinion are Commission estimates based on the assumptions underlying the Commission 2022 autumn forecast. The Commission's estimates of medium-term potential growth do not include the full positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.
[7] Not financed by grants under the Recovery and Resilience Facility or other Union funds.

implies a substantial terms-of-trade loss to Member States' economies. In parallel, the exceptionally high temperatures in summer 2022 pushed up demand for electricity, while, at the same time, energy production from certain technologies has been significantly below historical levels due to technical and weather-dependant circumstances. All Member States have been negatively affected by the current energy crisis, albeit to a different extent, calling for a rapid and coordinated response.

8. Given that budgetary resources are limited and need to be used in the most efficient way, in order to manage a durable and equitable adjustment across society, the quality and design of the policy response is highly important. Therefore, also in line with the Council Regulation on an emergency intervention to address high energy prices adopted on 6 October 2022, measures should focus on providing temporary support, targeted to households and firms most vulnerable to energy price increases, while maintaining the right incentives to reduce energy demand and increase energy efficiency, in line with the European Green Deal.[8] Policies should also help reducing the energy consumption and develop the energy autonomy of the Union.

CONSIDERATIONS CONCERNING FRANCE

9. On 14 October 2022, France submitted the Draft Budgetary Plan for 2023. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

10. On 12 July 2022, the Council recommended that France[9] take action to ensure in 2023 a prudent fiscal policy, in particular by limiting the growth of nationally financed primary current expenditure below medium-term potential output growth,[10] taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. France should stand ready to adjust current spending to the evolving situation. France was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. For the period beyond 2023, France should pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring credible and gradual debt reduction and fiscal sustainability in the medium term through gradual consolidation, investment and reforms.

11. On 23 May 2022, the Commission issued a report under Article 126(3) of the Treaty.[11] That report assessed the budgetary situation in France, as its general government deficit in 2021 exceeded the Treaty reference value of 3% of GDP, while its general government debt exceeded the 60%-of-GDP Treaty reference value and did not respect the debt-reduction benchmark. The report concluded that the deficit and debt criteria were not fulfilled.

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8 Communication from the Commission, the European Green Deal, COM(2019) 640 final.

9 Council Recommendation of 12 July 2022 on the National Reform Programme of France, OJ C 334, 1.9.2022, p. 79.

10 Based on the Commission 2022 autumn forecast, the medium-term (10-year average) potential output growth of France, that is used to measure the fiscal stance, is estimated at 5.9% in nominal terms. The Commission's estimates of medium-term potential growth do not include the full positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

11 Report from the Commission prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, COM(2022) 630 final of 23 May 2022.

12. According to the Commission 2022 autumn forecast, the French economy is expected to grow by 2.6% in 2022 and 0.4% in 2023, while inflation is forecast at 5.8% in 2022 and 4.4% in 2023. According to the Draft Budgetary Plan, the French economy is expected to grow by 2.7% in 2022 and 1.0% in 2023, while inflation is projected at 5.9% in 2022 and 4.7% in 2023. For 2022, all domestic demand components are expected to support economic growth in both sets of projections, jointly with a moderate contribution from higher inventories. However, the Commission also projects for 2022 a slightly positive contribution to growth of net exports, as opposed to a neutral contribution in the Draft Budgetary Plan. For 2023, economic growth is set to be driven by private and, to a lesser extent, public consumption in both sets of projections. However, the Draft Budgetary Plan expects investment to remain broadly stable in 2023, as opposed to the contraction projected by the Commission, which assumes higher interest rates and less dynamic economic activity. In turn, the Draft Budgetary Plan projects more robust employment growth than the Commission, which expects a mild contraction in employment in 2023, in line with the lower projected growth. The small difference in the inflation scenarios for 2023 mainly stems from the interest rate and oil price assumptions underlying each set of projections. Specifically, the Commission assumes higher short-term interest rates along with a faster decline in oil prices in 2023.

Overall, the macroeconomic assumptions underpinning the Draft Budgetary Plan are plausible in 2022 and favourable in 2023.

France complies with the requirement of Regulation EU No 473/2013, since the draft budget is based on an independently endorsed macroeconomic forecast.

13. The Draft Budgetary Plan assumes that expenditure amounting to 0.4% of GDP in 2022 and 0.2% in 2023 will be financed by non-repayable financial support (grants) from the Recovery and Resilience Facility. Expenditures financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government deficit and debt of France. The Commission 2022 autumn forecast includes a similar amount of expenditures financed by Recovery and Resilience Facility grants.

14. In its 2023 Draft Budgetary Plan, the French general government deficit is planned to remain broadly unchanged at 5.0% of GDP in 2022[12] and 2023. This reflects two broadly offsetting sets of factors at play in 2023. On the one hand, carrying a deficit-reducing impact, the remaining COVID-19 emergency measures are planned to be phased out, the budgetary cost of recovery measures not financed by Recovery and Resilience Facility grants is expected to be lower, and revenues from public service energy charges are projected to be higher, compared to 2022. On the other hand, carrying a deficit-increasing impact, the indexation of pensions, social benefits and public wages is set to increase expenditure in 2023, while the projected economic slowdown, the assumed lower automatic response of taxes to economic activity, and the reduction of the production tax on enterprises' value added are set to weigh on tax revenues. The general government debt ratio is planned to decrease from 111.5%

[12] On 2 November 2022, the French government presented a draft amended budget bill for 2022, which sets the general government deficit for the year at 4.9% of GDP. The slight reduction compared to the estimate included in the Draft Budgetary Plan stems from a more dynamic revenue projection. The latter more than offsets the additional expenditure to counter the impact of high energy prices. Some of these measures could not be taken into account in the Commission 2022 autumn forecast, as they had not been sufficiently specified by its cut-off date.

of GDP in 2022 to 111.2% in 2023. These projections are in line with the Commission 2022 autumn forecast.[13]

The outlook for public finances continues to be subject to the high uncertainty that surrounds the macroeconomic projections, including macroeconomic risks related to the Russian invasion of Ukraine, energy price hikes, and continued supply chain disturbances. The nationalisation of the electricity company EDF in 2023 might entail a risk for the budgetary projections, if such a financial operation were ultimately considered as a (deficit-increasing) capital transfer by Eurostat.

15. For 2022, the Draft Budgetary Plan reports COVID-19 emergency expenditure measures with a budgetary cost of 0.6% of GDP, while measures under the French Recovery Plan "*France Relance*" amount to 0.8% of GDP, of which 0.4% of GDP is financed by Recovery and Resilience Facility grants. In addition, the Plan refers to measures adopted during the year and aimed at compensating for the effects of inflation, with an overall permanent deficit-increasing impact of 0.5% of GDP. These measures include the advanced indexation of pensions and social benefits (0.3% of GDP), the indexation of public sector wages (0.1% of GDP), and the withdrawal of the audio-visual tax (0.1% of GDP).

In turn, for 2023, the Draft Budgetary Plan includes residual COVID-19 related expenditure amounting to 0.1% of GDP, as well as measures under "*France Relance*" which amount to 0.3% of GDP, of which 0.2% of GDP is financed by Recovery and Resilience Facility grants. The indexation of pensions, social benefits and public wages in 2022 also entails an additional permanent deficit-increasing impact of 0.2% of GDP in 2023. Moreover, the Plan puts forward a reduction of the production tax on enterprises' value added by 0.1% of GDP, which is envisaged to be fully withdrawn in 2024. There are no material differences between the Commission's forecast estimate of discretionary measures and that of the Plan.

The government deficit is impacted by the measures adopted to counter the economic and social impact of the exceptional increases in energy prices, which aggravated over the course of the summer.[14] The budgetary cost of these measures is projected in the Commission 2022 autumn forecast to amount to 1.5% of GDP in 2022 and 2% of GDP in 2023. They consist of measures reducing government revenue, namely the decrease in the domestic tax on final electricity consumption (TICFE), and increasing expenditure, such as direct subsidies to compensate gas and electricity suppliers for the cap on regulated gas and electricity prices, subsidies to limit the increase of retail fuel prices and to energy intensive enterprises, as well as transfers to low-income households. The cost of these measures is partly offset by new taxes on windfall profits of electricity producers (in line with Council Regulation on an emergency intervention to address high energy prices, adopted on 6 October 2022), an exceptional solidarity tax on fossil fuel and refining companies, as well as indirect

[13] After the submission of the Draft Budgetary Plan, the French government adopted new revenue and expenditure measures for 2023 to counter the effects of high energy prices, leaving the planned general government deficit unchanged at 5% of GDP, while slightly revising the target for the general government debt downwards to 111.1% of GDP. The Commission 2022 autumn forecast has factored in these measures (namely the taxation of extra profits of electricity producers, the 33% solidarity tax levied on energy companies, and the support to micro-, small- and medium-sized enterprises), provided that they had been credibly announced and specified in sufficient detail by its cut-off date.

[14] Deficit developments in 2023 are also affected by the complete phasing-out of COVID-19 emergency temporary measures, which are estimated in the Commission 2022 autumn forecast at 0.5% of GDP in 2022.

tax revenues from and lower subsidies to renewable energy producers, stemming from the positive gap between the market and the reference electricity prices. These are projected to bring budgetary revenues of 0.7% of GDP in 2022 and 1.3% of GDP in 2023. Taking these revenues into account, the net budgetary cost of these measures in the Commission 2022 autumn forecast is estimated at 0.8% of GDP in 2022 and 0.7% of GDP in 2023.[15] At the same time, there is significant uncertainty about the final budgetary cost of subsidies to compensate gas and electricity suppliers for the cap on regulated gas and electricity prices. Such cost will heavily depend on the final market energy prices. These measures have been announced as temporary, expiring by January 2024, at the latest. Most measures do not appear targeted to vulnerable households or firms[16], and do not fully preserve the price signal to reduce energy demand and increase energy efficiency.[17] As a result, the amount of temporary and targeted support to households and firms most vulnerable to energy price hikes, that can be taken into account in the assessment of compliance with the fiscal country-specific recommendation for 2023, is estimated in the Commission 2022 autumn forecast at 0.2% of GDP in 2022 and 0.2% of GDP in 2023.

The government deficit is also impacted by the costs of offering temporary protection to displaced persons from Ukraine, which in the Commission 2022 autumn forecast are projected at below 0.1% of GDP in 2022 and 0.1% of GDP in 2023.

16. Based on the Commission 2022 autumn forecast and including the information incorporated in the French Draft Budgetary Plan for 2023, gross fixed capital formation is expected to amount to 3.7% of GDP in 2022 and 2023, compared to 3.6% of GDP recorded in 2021. This includes investment for the green and digital transitions and for energy security, such as projects promoting energy efficiency in buildings, supporting cleaner transport and energy sources, improving digitalisation of public services and small- and medium-sized enterprises (SMEs), modernising education and training schemes, and enhancing the resilience of the health sector, which are partly funded by the Recovery and Resilience Facility and other EU funds.

17. In 2023, the fiscal stance is projected in the Commission 2022 autumn forecast to be contractionary (0.8% of GDP). This follows an expansionary fiscal stance in 2022 (-1.7 % of GDP).

The growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a contractionary contribution of 0.5 percentage points of GDP.[18] This includes the increased impact from the support measures to counter the economic and social impact of the exceptional increases in energy prices by 0.4% of GDP,[19] with temporary and targeted support measures to

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15 The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure, as well as – where relevant – capital expenditure measures.

16 Targeted measures amount to 0.2% of GDP in both 2022 and 2023, while untargeted measures amount to 1.3% of GDP in 2022 and 1.8% of GDP in 2023.

17 Income measures amount to 0.1% of GDP in 2022 and 0.0% of GDP in 2023, while price measures amount to 1.4% of GDP in 2022 and 2.0% of GDP in 2023.

18 This follows an expansionary contribution from this component of 1.6 percentage points in 2022.

19 The budgetary impact of targeted price and income measures is projected to increase by 0.1% and to decrease by 0.1% of GDP respectively, while the budgetary impact of untargeted price and income measures is projected to increase by 0.4% and remain stable respectively.

households and firms most vulnerable to energy price hikes accounting for 0.0% of GDP of this increase.[20]

The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to decrease by 0.3 percentage points of GDP in 2023 compared to 2022. Nationally financed investment is projected to provide a neutral contribution to the fiscal stance.[21]

18. The Draft Budgetary Plan includes medium-term budgetary projections until 2027. The general government deficit is projected to decrease gradually to 4.5 % of GDP in 2024, 4.0% in 2025, 3.4% in 2026, and to 2.9% of GDP in 2027. These plans are based on a constant structural annual adjustment of 0.3% of GDP from 2024 onwards. In turn, the general government debt is envisaged to peak at 111.7% of GDP in 2025, and to decline to 110.9% of GDP by 2027.

19. On 12 July 2022, the Council also recommended France to reform the pension system to progressively unify the rules of the different pension regimes to enhance its fairness, while underpinning its sustainability. The Draft Budgetary Plan mentions that the pension system will be reformed during the five-year presidential term, in order to achieve full employment and improve the participation rate of older workers. However, no concrete measures have yet been put forward.

20. In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan, the growth of nationally financed current expenditure is projected to be below the medium-term potential output growth. Therefore, the growth of nationally financed primary current expenditure is in line with the recommendation of the Council. France plans to finance additional investment through the Recovery and Resilience Facility and other EU funds and it also preserves nationally financed investment. It plans to finance public investment for the green and digital transitions, and for energy security.

Overall, the Commission is of the opinion that the Draft Budgetary Plan for France is in line with the fiscal guidance contained in the Council recommendation of 12 July 2022.

While France rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish.

The Commission is also of the opinion that France has not yet made progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations

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[20] Beyond the impact of discretionary measures, the overall contractionary contribution of nationally financed primary current expenditure to the fiscal stance is crucially determined by the underlying projected trends in expenditure components, relative to the high nominal medium-term potential growth rate due to the high GDP deflator.

[21] Other nationally financed capital expenditure is projected to provide a neutral contribution.

will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

Done at Brussels, 22.11.2022

For the Commission
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