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Efforts to Reduce the Public Finance Imbalance in France in the Multiannual Planning Context

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The aim of the study was to show the progress of the French government in reducing the general government deficit and public debt in the period 1998–2017. Referring to research hypotheses, it should be emphasized that despite the fact that France was twice covered by the excessive budget deficit procedure, the consolidation of public finances in France is not satisfactory. The Stability Programmes of France, French legal acts on public finance and multi-annual planning, proposals for recommendations of the European Commission and recommendations of the Ecofin Council as well as Eurostat data were used to analyze the forecasts of the budget balance and public debt in the paper. Due to the limited development framework, detailed studies did not cover the relationship between forecasts on public revenues and GDP on the one hand and public expenditure plans, budget balance and public debt on the other.

Keywords: multi-annual planning, French budget, budget deficit, public debt.

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Próby zmniejszania nierównowagi finansów publicznych we Francji w kontekście planowania wieloletniego

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Celem badania było pokazanie postępów rządu francuskiego w zakresie zmniejszania deficytu sektora finansów publicznych i długu publicznego w okresie 1998–2017 na podstawie przygotowywanych programów stabilności. Odnosząc się do hipotez badawczych, należy podkreślić, że pomimo dwukrotnego objęcia Francji procedurą nadmiernego deficytu budżetowego konsolidacja finansów publicznych we Francji nie jest zadowalająca. Do analizy prognoz dotyczących salda budżetowego i długu publicznego w artykule wykorzystano programy stabilności Francji, francuskie akty prawne dotyczące finansów publicznych i planowania wieloletniego, propozycje zaleceń Komisji Europejskiej i zalecenia Rady Ecofin oraz dane Eurostatu. Ze względu na ograniczone ramy opracowania szczegółowymi badaniami nie objęto zależności między prognozami dotyczącymi dochodów publicznych i PKB oraz planami wydatków publicznych a saldem budżetowym i długiem publicznym.

Słowa kluczowe: planowanie wieloletnie, budżet Francji, deficyt budżetowy, dług publiczny.

JEL: H20, H50, H61, H62, H63, H68

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1. Introduction

The creation of the Economic and Monetary Union in 1999 was connected with the fulfilment by the countries aspiring to membership in the euro area of the so-called Maastricht convergence criteria, among which a significant emphasis was placed on reducing the imbalance of national public finances. However, the tools and procedures needed to assess financial conditions of a given country turned out to be insufficient after becoming a Eurozone member. As a result, it became necessary to modify the Stability and Growth Pact and gradually introduce additional requirements to strengthen budgetary discipline. In order to monitor the consolidation of public finances, EU countries were obliged to present adjusted annually Stability Programmes (Eurozone countries) and Convergence Programmes (states with a derogation as well as Denmark and the United Kingdom) to the European Commission. The development of these documents resulted also in the fact that from the end of the 1990s, some EU member states began to prepare multi-annual plans for their own needs.

In the literature, multi-annual planning is widely described, but there are few current studies on the usefulness of planning and multi-annual forecasting in the construction of annual budgets of a specific country. The purpose of the paper is therefore to show how far the implementation of annual budgets in France in determining budget balances and public debt is consistent with multi-annual planning and to what extent the correction of these plans is based on recommendations of the Ecofin Council. The analysis does not cover the relationship between forecasts on public revenues and GDP on the one hand and public expenditure plans, budget balance and public debt on the other.

The research concerns the period 1998–2017, before France's accession to the Economic and Monetary Union, but after the positive assessment of the European Commission based on the Maastricht criteria. The research hypotheses adopted in this work are as follows:

- after qualifying for the euro area, the dynamics of reducing public finance deficit and public debt was not sufficient in relation to the requirements contained in EU regulations,
- provided in the Stability Programmes and multi-annual plans of the French government, the planned amount of gradual reduction of general government deficit and public debt was not reflected in real data (presented ex post).

In the study, the following documents were used: Stability Programmes of France, French legal acts on public finances and multi-annual planning, proposals for recommendations of the European Commission and recommendations of the Ecofin Council and Eurostat data. In order to determine the accuracy of forecasts, calculations of forecast errors from the oldest to the most up-to-date ones were made.

2. Literature Review of the Long-Term Planning Doctrine and Budget Imbalance

Multi-annual plans are a key element of modern budgeting, because they introduce the need to take into account the medium-term perspective. In the European context, they have an additional function. The submission of multi-annual budgetary programmes is a key element of the supervisory process introduced by the Maastricht Treaty and the Stability and Growth Pact. Within this framework, EU Member States are required to present stability or convergence programmes, which are then analyzed and evaluated by the European Commission and the ECOFIN Council to detect budgetary imbalances that could pose risks to fiscal sustainability (Strauch, Hallerberg, & von Hagen, 2004).

Multi-annual plans in public finance usually have a medium-term perspective (from three to five years), and should be consistent with the state objectives and activities included in government documents concerning the entire economy or its branches in the medium or long term (strategic programmes). As Postuła (2015, p. 54) points out, several-year plans may take a rolling basis, i.e. the second year of a multi-annual plan may be the first new period or the last year of a given plan is the first year of the next plan. This kind of planning has the advantage that there is a successive update in line with the current state situation.

Financial plans with a horizon longer than one year are usually not treated as a budget, because due to the changes in socio-economic conditions they are characterized by a greater level of generalization, while detailed plans are prepared on an annual basis. In principle, multi-annual programmes should be a tool helpful in defining government policies, thus should be a guarantee of stability and business continuity and an element that disciplines public authorities at the same time. As Postula (2015) and Franek (2013, pp. 86–100, 117–139; 2014, pp. 99–116) emphasize, the use of multi-annual planning contributes to greater credibility and predictability of fiscal policy, which should improve its quality and transparency. Vlaicu, Verhoeven, Grigoli and Mills (2014, pp. 79–95) add that "the rationale for multi-annual planning is to enable the government to more adequately address future fiscal challenges in annual budgets, thereby reducing over-emphasis on short-term goals". This does not mean sticking to the goals set if there is a need to react to changes in the external environment. Therefore, discrepancies between financial plans and their implementation may be, on the one hand, a result of unexpected changes in the economic situation, and on the other hand, may result from changes in political intentions (Franek, 2018, pp. 64–65). Therefore, at least some deviations from the declared fiscal targets should not be perceived as errors in the forecast, but as intentional steps.

Von Hagen (2010) emphasizes that the method of elaboration of multi-annual programmes may result from institutional management and

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divides the European Union countries into two groups: the first applies the "delegation" approach and the second – the "contracts" approach. In the first group, where France is located, the Minister of Finance is given a key role in planning and control, based on the assumption that the Minister of Finance is responsible for the budget as a whole. The contractual approach refers to the institutional situation focusing on quantified targets for the main budget aggregates, such as budget balance, total expenditure and allocation for each ministry negotiated between all members of the government at the beginning of the budgetary procedure. It often stems from a coalition agreement under which the Council of Ministers was created. Governments operating within the delegation should more easily adapt fiscal policy to changes in the economic environment, because it is not necessary to negotiate fiscal adjustments between coalition partners. However, they also base their financial plans on macroeconomic assumptions that are too optimistic.

As a result, Jonung and Larch (2004) propose to entrust the forecast to an authority independent from the Ministry of Finance and the government, whose obligation is to provide objective growth estimations and other variables crucial for the budget process. The Ministry of Finance should then be required to adopt these projections when preparing the budget, revealing ex ante its true preferences regarding the volume of the budget balance. In addition to the discretionary policy, the accuracy of economic forecasts and readiness to correct estimations errors may have a significant impact on fiscal policy. In particular, lower-than-expected data concerning economic growth combined with a lack or a slight adjustment of the non-cyclical expenditure lead to deterioration of the budget balance and faster accumulation of public debt.

In addition to the analysis of the overall budget balance, it is also important to pay attention to its components: structural and cyclical. Despite being criticized in the literature due to calculation and interpretation difficulties (Chalk, 2002; Claeys, Darvas, & Leandro, 2016; Momigliano, 1999; Wojtyna, 2003), the approach based on the observation of changes in the structural part of budgetary balance is a measure applied by the EU institutions to assess the public finances of the EU Member States. According to Krajewski (2004, pp. 141–156), the cyclical deficit may be temporary and results from the current economic situation, while the structural deficit means that public finances are permanently unbalanced. The structural deficit reflects the influence of government discretionary actions more than the actual deficit. The non-cyclically adjusted deficit may present incorrect information about the nature of the fiscal policy. Thus, an increase in the budget deficit during a recession does not necessarily mean an expansive fiscal policy. If, on the one hand, a restrictive fiscal policy leads to a reduction of the structural deficit during the recession, and at the same time tax revenues are decreasing, it means that despite the tightening of fiscal policy, an unadjusted deficit may increase. On the other hand, in periods of rapid economic growth, the reduction of the whole budget deficit may be accompanied by an increase in the structural deficit associated with the actual loosening of fiscal policy. To sum up, in the case of non-separation of the structural and cyclical deficit components, the level of the budget deficit may additionally give erroneous information about the impact of fiscal policy on the economy.

3. Multi-Annual Planning in EU Law

The effects of the financial and economic crisis in Europe in 2008 became the basis for EU institutions to strengthen supervision over the Member States' budgetary policies, despite the fact that these activities remain within the prerogatives of national public authorities. As part of the EU's annual economic governance cycle, the Commission evaluates stability programmes and convergence programmes both before and after implementation. This allows the Commission to identify and discuss any risk of non-compliance before it occurs and identify any actual non-compliance that may ultimately justify sanctions. These programmes are aimed at demonstrating how countries intend to achieve a public finance consolidation, in particular in a medium term (current year and at least three consecutive years). The Commission takes into account in particular whether the medium-term budgetary objective provides a sufficient margin for regular cyclical fluctuations without exceeding the 3% of GDP reference value.

These programmes require the presentation of at least three-year changes regarding (https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policycoordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growthpact/preventive-arm/stability-and-convergence-programmes_en):

- the medium-term objective (MTO) for the structural balance, Member States also need to set annual targets towards the medium-term objective and forecast the expected debt-to-GDP path,
- basic assumptions regarding economic growth, employment, inflation and other economic variables,
- description and evaluation of actions aimed at achieving the objectives of the programme,
- analysis of the impact of main economic assumptions on the budgetary balance and public indebtedness,
- information on public revenues and expenditures as well as general government balance and public debt, including: year of budget implementation, current budgetary year and plans for three subsequent years,
- a possible explanation of why previous goals have not been met.

The directive and two regulations of 1997, which are collectively named the Stability and Growth Pact, emphasized the need to strive for budget

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balance and sustainability, mainly to monitor the budget deficit, while public debt was expected to decline at a satisfactory pace to less than 60 % of GDP. Oręziak (2002) and Gros and Alcidi (2010) indicate that the emphasis on maintaining budgetary discipline was to influence the stability and credibility of the new currency and not to put pressure on the European Central Bank to ease monetary policy.

Initially, Member States were called on to achieve a common “close-to-balance or surplus” position, interpreted as a deficit of no more than 0.5% of GDP in the medium term, with the aim of providing a sufficient safety margin to allow automatic stabilizers to cope with the economic downturn and recession without violating the 3% reference value. Drawbacks of the SGP assumptions, including too general and non-specific provisions of compliance with fiscal rules, necessitated changes in 2005, followed by 2011 and 2013. The 2005 reforms increased flexibility and hence discretion in the excessive budget deficit procedure, including the loosening of clauses for deviating from the set budgetary targets, extending deadlines for action and invoking the circumstances in which longer adjustment periods are allowed. The emphasis was slightly shifted from the results to the activities themselves. Countries that had not reached their medium-term budgetary objectives had to aim to correct the general government deficit by 0.5% of GDP annually, excluding one-off and temporary measures. In addition, a temporary derogation from the medium-term objective (or adjustment path) was allowed in the context of structural reforms (Annett, 2006).

In the first half of the 2000s, the role of the cyclically-adjusted deficit analysis was closely taken into consideration. The European Commission introduced a requirement to reduce annually the structural deficit by 0.5 pp. in relation to GDP in the situation of an excessive budget deficit (exceeding the threshold of 3% of GDP) or 1 pp. if the state was dealing with public debt exceeding 60% of GDP.

The growing awareness of the public finance perspective in the medium term and the observed lack of such practice in the majority of EU Member States resulted in the introduction of appropriate provisions into EU legislation (Table 1). Since 2011, during the European Semester, which is part of the reform of European economic governance, Member States have provided the European institutions with their stability or convergence programmes and their national reform programmes every year before the end of April[1]. In addition to the stability programmes, the Eurozone countries must submit draft budgetary plans every year (until 15 October).

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Name and date of entry into force	Instruments / procedures
Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011) – 13 December 2011	– the obligation to justify discrepancies between the budget forecasts of the EC and the Member State, – the forecasts should be given according to the optimistic, pessimistic and most probable scenario, – introduction of numerical budget rules, – providing budgetary data to the public on a regular and timely basis, – the establishment of a credible, efficient medium-term fiscal framework allowing the adoption of at least a three-year budgetary perspective, – maintaining consistency of accounting principles and procedures
Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area (OJ L 306, 23.11.2011) – 13 December 2011	– introduction of economic dialogue between EU institutions and between the European Parliament and national parliaments, – determination of the sanctions if the Member State concerned has not taken effective measures – in the preventive part – 0.2% of GDP of the interest-bearing deposit, in the correcting part – 0.2% of GDP of the interest-free deposit and finally the fine of 0.2% of GDP, – determination of sanctions for manipulation of statistical data – up to 0.2% of GDP
Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies; Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 306, 23.11.2011) – 13 December 2011	– permanent and in-depth analysis of public debt (launching the excessive deficit procedure if the public debt remains above 60% of GDP and within three years the difference between the actual value of the debt and the maximum level imposed by the SGP has not been reduced), – expenditure rule – adjusted public expenditures cannot grow faster than the potential GDP in the medium term (unless covered by additional revenues), – improvement of the structural budget balance by at least 0.5% of GDP per year for countries covered by the EDP, – introduction of sanctions at earlier stages of the procedure, – emphasizing the role of the European semester, – compliance with the medium-term budgetary objective (between -1% of GDP and the balance or surplus, in terms of cyclical changes, after adjusting for one-off and temporary measures)
Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (Fiscal compact) – 1 January 2013	– in the medium term, the structural deficit cannot exceed 0.5% of GDP (1% of GDP for countries with public debt below 60% of GDP), – structural deficit should decrease every year by 0.5pp in relation to GDP in order to meet the medium-term objective, – introduction of the above rules into national legislation (constitution or law), – the reverse majority system, i.e. the vote against further stages of the excessive budget deficit procedure,

	– reference to the existing provisions on the reduction of public debt in the three-yearly period, on average by 1/20 of the difference between the current level and the admissible limit, – the involvement of the European Court of Justice in the enforcement of the above provisions, including the determination of a deposit or fine not exceeding 0.1% of GDP in the event of breach of the Treaty rules
Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (OJ L 140, 27.05.2013) – 30 May 2013	– draft state budget submitted to the European Commission by 15 October (in the case of EC recommendations expressed until the end of November – the need to improve the project, although it is stressed that the state is not obliged to strictly take the guidelines into account), – adoption of budgets by the end of December of the year preceding the budget year (for reasons beyond the government's control, later adoption of the budget is allowed, but by then it is necessary to establish an interim budget procedure ensuring the implementation of public activities), – additional reporting requirements for countries covered by the EDP (comprehensive budget implementation assessment for subsectors of general government, the impact on public finances of discretionary actions taken both on the expenditure and revenue side, presentation of expenditure and sector revenue targets, as well as information on the actions taken and the nature of the planned activities to achieve these objectives), – the necessity to submit to the EC the economic partnership programme on the expected structural reforms (requirement for countries receiving recommendations under EDP), – at the latest by the end of April, Eurozone countries include in the stability programmes national medium-term budgetary plans (documents can overlap) containing ways to implement reforms in line with the EU strategy for growth and employment
Commission Decision (EU) 2015/1937 of 21 October 2015 establishing an independent advisory European Fiscal Board (OJ L 282, 28.10.2015, p. 37–40) – 1 November 2015	– evaluation of the implementation of the EU budgetary framework, in particular in terms of coherence of Member States' decisions and effective implementation of budgetary surveillance, – analysis and assessment of a significant breach of budgetary rules, – determining the adequacy of current budgetary policy in the euro area and at the national level and the effects of this policy, – identification of options for solving serious fiscal problems threatening the stability of the Economic and Monetary Union, – cooperation with national fiscal councils to develop a common position

* EDP – *Excessive Deficit Procedure*; MTO – *Medium-Term Objective*; EC – *European Commission*; SGP – *Stability and Growth Pact*.

Tab. 1. Multi-annual planning and consolidation of public finances in legal acts introducing changes in the budgetary policy of the European Union Member States after 2008. Source: The author's own study based on European Parliament and the Council (2011, 2011a, 2011b, 2013); Council of the European Union (2011); European Council (2011, pp. 18–19); Treaty on Stability, Coordination and Governance in the Economic and Monetary Union www.europa.eu (access: 11.03.2016).); European Commission (2015).

To a large extent in response to legal requirements, most Member States introduced an obligation to develop a medium-term budgetary framework (MTBF), i.e. a set of procedures, rules and institutions that underpin the government's general budgetary policy, which are needed to determine (Sherwood, 2015):

1. Multi-annual budgetary objectives in terms of general government deficit, public debt and other indicators;
2. Forecasts on major revenue items;
3. Plans related to the basic categories of public expenditure;
4. Impact of the envisaged activities on the long-term sustainability of public finances.

MTBFs usually include the preparation, implementation and monitoring of multi-annual budgetary plans and include both spending plans and forecasts of public revenues as well as resulting budget balances. The medium-term budgetary objectives included in the MTBF can help to ensure fiscal discipline through a more visible impact of current policies on budgetary sustainability in the coming years, and also to facilitate monitoring through the presentation of benchmarks against which budgetary changes can be assessed over time.

The Directorate General for Economic and Financial Affairs (DG ECFIN) analyzes and evaluates the quality of the medium-term budgetary framework as well as the current budgetary procedures in the Member States. As the stability and convergence programmes can be considered as a special type of medium-term budgetary framework, they are also included in the study and provide useful information. Using this information, an index of the quality of medium-term budgetary frameworks is constructed, which is updated annually and reflects the quality of the national medium-term budgetary framework through five criteria (https://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/fiscal-governance-eu-member-states/medium-term-budgetary-framework_en):

1) scope of objectives/limits included in national medium-term budgetary plans (the entire general government sector or only a part of it),
2) relationship between objectives/limits included in national medium-term budgetary plans and annual budgets (binding or indicative character of multi-annual plans),
3) involving the national parliament in the preparation of national medium-term budgetary plans,
4) involvement of independent fiscal institutions in the preparation of national medium-term budgetary plans,
5) the level of detail of data on public revenues and expenditure, the general government balance and public debt included in national medium-term budgetary plans.

Based on the value of indexes in the EU Member States in 2006 and 2008–2016 (Table 2), it can be concluded that in 2006 and 2008–2015 the

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value of the index for France was gradually increasing from 0.41 to 0.82, placing France among the top countries with the best quality of the medium-term budgetary framework (positions 4 to 7 in the ranking of 28 countries), however in 2016 the index decreased to 0.70, placing France among the countries with worse governance of public finances in the medium-term (place 15)[2].

	2006	2008	2009	2010	2011	2012	2013	2014	2015	2016
Austria	13	14	15	18	18	22	22	24	25	24
Belgium	4	4	4	9	9	10	11	12	13	17
Bulgaria	–	17	19	15	15	18	19	8	9	10
Cyprus	24	26	28	28	28	28	27	21	14	18
Czech Republic	15	16	20	20	22	25	26	28	27	28
Germany	11	12	12	14	14	17	15	17	18	25
Denmark	9	10	17	21	23	13	16	18	19	21
Estonia	14	1	18	7	7	7	8	10	11	18
Greece	21	25	27	12	11	9	10	11	12	2
Spain	3	2	2	4	4	3	4	4	4	3
Finland	7	8	16	19	19	23	23	25	21	10
France	16	7	7	5	5	4	5	5	5	15
Croatia	–	–	8	11	12	12	14	16	16	23
Hungary	25	27	10	22	25	26	24	26	28	26
Ireland	20	22	24	24	24	14	17	20	21	18
Italy	6	6	6	2	3	5	6	7	8	6
Lithuania	17	20	22	25	26	19	20	14	15	10
Luxembourg	23	24	26	27	27	27	28	19	20	10
Latvia	19	19	14	17	17	21	3	3	2	8
Malta	10	11	9	6	6	6	7	9	10	7
Netherlands	2	1	1	3	2	2	2	2	3	4
Poland	18	21	23	23	21	24	25	27	26	27
Portugal	22	23	25	26	20	16	13	15	16	21
Romania	–	18	21	1	1	1	1	1	1	14
Sweden	1	3	3	8	8	8	9	6	7	5
Slovenia	12	13	13	16	16	20	21	23	24	15
Slovakia	8	9	11	13	13	15	18	22	23	8
United Kingdom	5	5	5	10	10	11	12	13	6	1
Average results for all countries	0.41	0.45	0.49	0.54	0.56	0.60	0.63	0.67	0.68	0.68

Tab. 2. Ranking of the European Union countries with the best medium-term quality of the budgetary framework. Source: The author's own study based on European Commission data (Directorate-General for Economic and Financial Affairs) – https://ec.europa.eu/info/publications/medium-term-budgetary-frameworks-database_en.

4. Multi-Annual Planning in France

The concept of a multi-annual financial plan of the state has constitutional legitimacy in France. According to the amended Article of 34 of the Constitution of the French Republic of 23 July 2008, multi-annual guidelines in the field of public finances are defined by programming laws. They are part of the objective of balancing general government accounts (Constitution du 4 octobre 1958 (JO 05-10-1958; Zawadzka-Pąk, 2010, p. 85).

The Public Finance Programming Act 2009–2012 introduced on the basis of the Constitution was therefore a significant change in the management of French public finances (Loi n° 2009-135 du 9 février 2009 de programmation des finances publiques pour les années 2009 à 2012). So far, the government has independently developed stability programmes, which were then transferred to the EU institutions without consulting the Parliament and without explicit reference to the annual planning. Currently, the aim of the law on multi-annual public finance programming agreed with the Parliament (programming laws – les lois de programmation des finances publiques – that are part of the long-term approach to public finances) is to improve public finance management by defining a coherent, superior, medium-term strategy to ensure the sustainability of public finances.

The Programming Act presents the general strategy for expenditures and revenues at all levels of the public finance sector. As far as public expenditure is concerned, the Act defines for the first three years of programming the ceilings of funds for purposes related to the state budget. They are supposed to eliminate the current problems with limiting public expenditure, become the basis for implementing structural reforms and returning to budget balance, and after voting in the Parliament, provide a reference point for each of the stability programmes in the period under review. Subject to the adjustment conditions set out in the Annex to the Programming Act, the amount of resources broken down by missions (main policy areas) are mandatory for the first two years and can only be adjusted in the third year.

As a result, programming documents specify not only general guidelines on public finances for a period of at least three years, but also planned amounts of public expenditures, projected public revenues and a forecast of changes in the balance of the general government sector, in the structural and sub-sectors of public finances to achieve medium-term objectives and the impact of budgetary balances on the evolution of public debt. If the plans and forecasts differ from the estimates of the European Commission, this must also be explained in the programming laws, including methods for calculating budgetary balances. In addition, the annual budgetary laws shall also indicate the reasons for possible differences in estimates between annual plans and multi-annual programming (Loi organique n° 2012-1403 du 17 décembre 2012 relative à la programmation et à la gouvernance des finances publiques; Zawadzka-Pąk, 2010, pp. 73–76)[3].

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A multi-annual financial plan, covering a period of at least three years with the possibility of preparing a new document without waiting for the end of the adopted date, does not contradict the annual planning, complements it and at the same time allows for greater financial discipline. It should be emphasized that the provisions contained in the budget programming acts are not legally binding for the government and Parliament in the process of preparing and adopting the annual budget; however, they have gained importance along with the ratification on October 22, 2012 of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) and the subsequent adoption of the organic law 2012-1403 of 17 December 2012 on programming and management of public finances (Bouvier, 2011; Loi organique n° 2012-1403 du 17 décembre 2012 relative à la programmation et à la gouvernance des finances publiques).

The Public Finance Programming Acts were also to become the main instrument covering reforms established on the basis of the general public policy review (Guide to the Constitutional Bylaw on Budget Acts, 2008; Zawadzka-Pąk, 2010, pp. 67–73). The purpose of the General Public Policy Review adopted in July 2007 (RGPP – Révision générale des politiques publiques) was a thorough analysis of all areas of government policy in order to find ways to rationalize spending while improving the quality of services. It was both a new way of reforming the state and a key element of public finance strategy to stabilize public accounts and return to public debt below 60% of GDP. In order to increase the efficiency of work of central administration officials, a 50% replacement rate was introduced, i.e. only one in two employees retiring, thus reducing the number of employees.

5. Attempts to Balance French Public Finances

In 1998, the French government took the view that there was no need to create rigid fiscal rules except in the Maastricht Treaty, and optimistic assumptions about economic growth until the end of the decade allowed estimates that the general government deficit would amount to 1.2% of GDP in 2002 (Ministère de l'Économie, des Finances et de l'Industrie, 1998). The reduction of the deficit was supposed to allow for the operation of automatic stabilizers in the situation of an economic slowdown and for avoiding the need to raise taxes. At the end of 1998, the necessity of long-term planning in the context of public expenditure was emphasized and the threat of using public expenditure as a short-term regulatory instrument was highlighted, which often undermines the effectiveness of state management. It was also pointed out that higher-than-assumed public revenues should be in half intended for reducing the deficit and in half for lowering taxes, mainly for households.

The public finance deficit in 1999 proved to be lower than anticipated due to higher revenue from direct taxes, which is why the European Commission, and then the Ecofin Council, called for a faster reduction of the deficit in subsequent years (Council of the European Union, 2001). This was due to concerns that, although the planned medium-term objective was in line with the requirements of the Stability and Growth Pact, it did not provide a safety margin to take into account the effects of weaker-than-expected growth, the financial consequences of new policies or unforeseen events. Only rigorous control of public expenditure, including probably annual remedial actions, would be crucial to ensuring the implementation of the programme budgetary objectives. As a result, it was recommended that the programme be implemented strictly, hence the highest possible compliance of actions in relation to the announced goals. The French government, however, put more emphasis on lowering public levies, which was pro-cyclical (Ministère de l'Économie, des Finances et de l'Industrie, 2001).

From 1997 onwards, the French economy experienced a strong growth rate, close to 3% of GDP. In four years, 1.6 million jobs were created; the number of unemployed fell by over 900,000, or more than a quarter. The lowering of the budget deficit in 2000 turned out to be higher than expected (Table 3), although the rate of reduction of the budget deficit in 2000 was lower than in 1999 despite higher-than-expected tax receipts (Ministère de l'Économie, des Finances et de l'Industrie, 2001).

Specification	General government deficit gap	Real general government balance	General government debt gap	Real general government debt
1999	0.2	–1.6	2.3	60.5
2000	0.6	–1.3	0.6	58.9
2001	0.2	–1.4	1.6	58.3
2002	1.9	–3.2	2.1	60.3
2003	2.2	–4.0	3.5	64.4
2004	3.8	–3.6	8.3	65.9
2005	3.2	–3.4	6.7	67.4
2006	1.7	–2.4	7.6	64.6
2007	1.2	–2.6	2.4	64.5
2008	2.5	–3.3	5.4	68.8
2009	6.9	–7.2	14.6	83.0
2010	5.8	–6.9	22.7	85.3
2011	4.6	–5.2	14.4	87.8
2012	4.8	–5.0	32.3	90.6
2013	1.3	–4.1	6.9	93.4
2014	2.0	–3.9	11.5	94.9
2015	2.6	–3.6	2.8	95.6
2016	3.4	–3.5	5.3	98.2
2017	1.9	–2.7	8.8	98.5

* Stability Programmes submitted in year t contain projections for the years t + 1, t + 2, t + 3, t + 4 and sometimes t + 5.

Tab. 3. Absolute gap between the first projected and last projected change in the balance-to-GDP ratio and in the debt-to-GDP ratio according to French Stability Programmes – forecast biases (percentage points of GDP). Source: The author's own study based on: Moulin and Wierts (2006) and Programmes pluriannuels des finances publiques, Ministère de l'Économie, des Finances et de l'Industrie (1998–2018).

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In the stability programme up to 2005, the necessity to implement structural reforms concerning the pension system and health care was emphasized, as was the need to achieve the balance of public finances. In the long-term, structural consolidation, which enables debt reduction, is justified in anticipating the growing financial needs related to an aging population (Ministère de l'Économie, des Finances et de l'Industrie, 2003). The Ecofin Council recognized the French government's strategy as right; however, the slowdown in the implementation of fiscal targets was noted and it was recommended to achieve budget balance a year earlier, i.e. in 2004, paying attention to the limited increase in public spending and cautious and only justified limitation of tax burdens (Council of the European Union, 2002).

Form 2002 on, there was a slowdown in the consolidation of French public finances (Table 3). The structural general government deficit, calculated according to the European Commission and other international organizations (IMF, OECD), increased by approximately 0.75 pp to the level of 1.25% of GDP in the years 1999–2002. This trend reflects a pro-cyclical budgetary policy in the event of a serious deterioration of public finances in France. The worsening of the situation was due to a discretionary reduction in taxes and social security contributions to increase employment rate (Figure 1) (Gouvernement de la République Française, 2004).

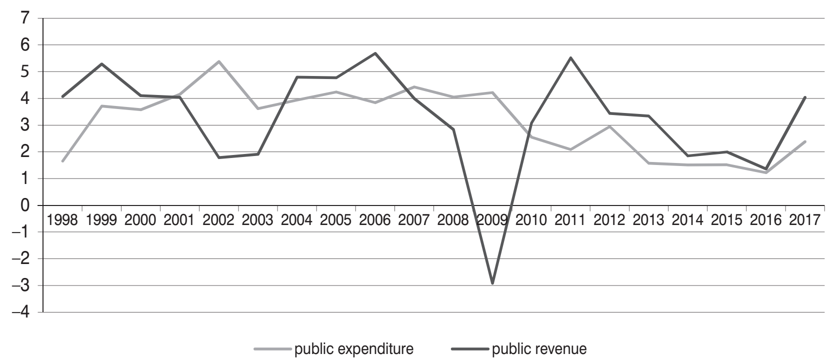

Fig. 1. Percentage change in public revenue and expenditure in nominal terms (year to year). Source: The author's own study based on Eurostat data (2018a).

In 2004, the Ecofin Council recognized that France should correct the excessive deficit by 2005, which was achieved mainly through efforts on the expenditure side[4]. As a result, by the Council decision of January 2007, the excessive budget deficit procedure was repealed despite the level of public debt exceeding the reference value of 60% of GDP (Figure 1) (Council of the European Union, 2007).

The 2005 stability programme confirmed the objective set in the previously presented plans to stabilize the volume of state expenditure, which should be based on structural reforms and changes in public funds management by fully introducing the LOLF public finance law in 2006 (Gouvernement de la République Française, 2005). Two years later, the achievement of equilibrium and the reduction of public debt below 60% of GDP by 2010 were postponed (Gouvernement de la République Française, 2007).

In 2008, France was hit by the crisis after the bankruptcy of the American bank Lehman Brothers. In the face of declining global trade and rapidly tightening credit conditions, enterprises postponed their investment plans and significantly reduced their inventories. At the same time, the consumption of households decreased in the world in the face of falling stock prices and real estate values, and rising unemployment. The following year, the French GDP decreased by 2.25%. This very clear decline, however, remained relatively limited compared to the other euro area countries. Better resilience of the French economy was mainly due to the importance of automatic stabilizers and stimulus measures implemented by public authorities (Gouvernement de la République Française, 2009, 2010).

France was one of the first developed countries that left the recession in spring 2009 (GDP increased by 0.3% in the second and third quarters), but at the same time there was a deterioration in the structural balance (–2.6 points), which the government explained by the introduction of crisis management measures based on expenditures from the state budget and a decrease in tax revenues, mainly from enterprises, significantly exceeding the decrease in economic activity (Gouvernement de la République Française, 2010).

At the beginning of February 2009, the French Minister of Economy, Industry and Employment announced that in the period 2008–2010 the general government deficit would exceed the reference value of 3% of GDP. This represents an upward revision of the deficit estimate, according to which the general government deficit was to reach 2.9% in 2008, 3.9% of GDP in 2009 and 2.7% in 2010. The new deficit targets for 2009 and 2010 included the measures contained in the recovery package adopted by the French President on 4 December 2008, which were in line with the economic recovery plan aimed at supporting investment and employment (European Commission, 2009). As a consequence of the economic downturn, the implementation of the recovery package, and above all, the insufficient reduction of the general government imbalance, from 2002 a significant violation of budgetary rules occurred, as a result of which the European Commission decided to initiate the excessive deficit procedure in France. In addition, the ratio of public debt began to grow again from 2007, in line with the update of the stability programme from 67.4% in 2008 to 81.7% of GDP in 2010.

The then economic difficulties additionally worsened the fiscal imbalance, with a general government deficit of 7.2% of GDP and a public debt of 83.0% of GDP in 2009. Consolidation efforts were insufficient, which is why the

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following disadvantages of French public finances were identified (*Réaliser objectif constitutionnel d'équilibre des finances publiques*, 2010, pp. 1–10):
– lack of efficiency in the enforcement of tax obligations,
– lack of coordination in striving for the balance of the entire general government sector,
– for a long time, lack of multi-annual plans presenting the path leading to the budget balance.

Thanks to the Public Finance Programming Act, the principle of budget neutrality was established, in particular, when introducing new tax exemptions, the total cost of which had to be fully offset by other revenues or lower expenditures. In 2010, the structural balance improved by 0.7 percentage point of GDP. This improvement resulted both from the gradual expiration of stimulus measures for the economy and from significant efforts to control expenditure by all general government sectors (compliance with the rule on state budget expenditure, respect for the national target of health insurance expenditure (3.0%) and slowdown in local spending growth) (Gouvernement de la République Française, 2011).

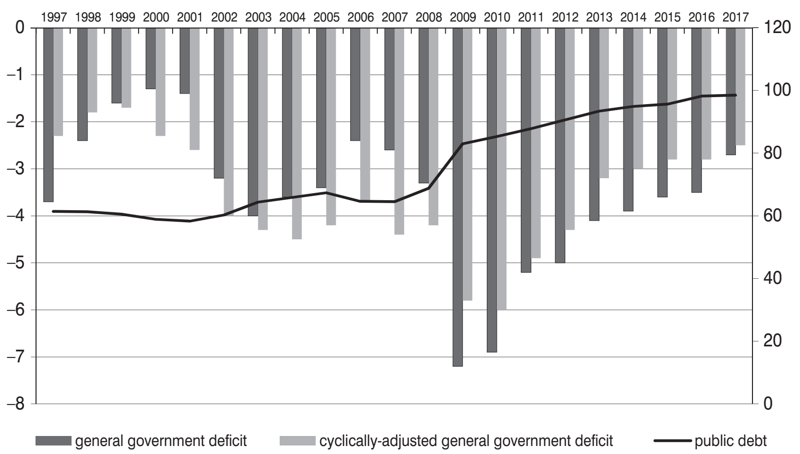

Fig. 2. Imbalance of public finance in France according to ESA 2010 (% of GDP). Source: The author's own study based on Eurostat data (2018).

From 2011 onwards, the general government deficit and structural deficit were gradually decreasing; however, public debt continued to grow to 95.6% of GDP in 2015 (Figure 2). The government's strategy was based on two objectives: supporting growth and employment and striving to reduce the deficits of the general government sector at an appropriate pace to improve the situation on the labour market and reduce the debt burden (Gouvernement de la République Française, 2014, 2015). As a consequence, the adopted Public Finance Programming Act 2014–2019 included the implementation of the Responsibility and Solidarity Pact presented in the stability programme for 2014–2017 (lower labour costs and lower taxes on enterprises supporting the enterprise sector and encouraging innovation and investment, as well as job creation and reduction of income tax for low- and middle-income households strengthening purchasing power).

As a result of the above actions, in 2015 budget targets were exceeded. The general government deficit was reduced to 3.6% of GDP, being half of the highest level in 2009 and 2010. Public expenditure increased by 0.9% compared to the previous year, which is the lowest growth rate since the 1990s, obtained by increasing control over expenditure, which reduced its share in GDP, while financing government priorities and reducing tax burdens (Figure 3).

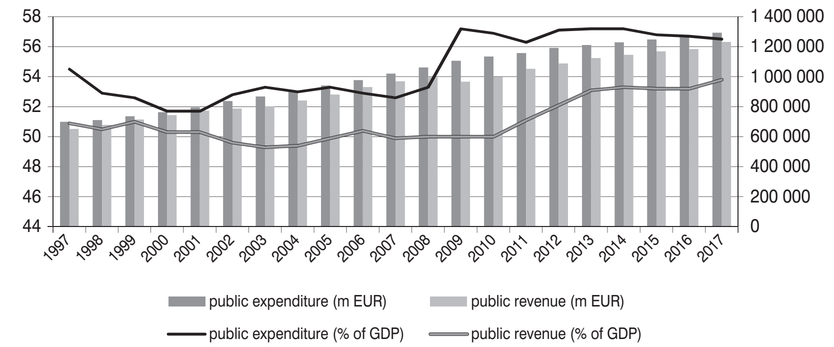

Fig. 3. Change in public revenue and expenditure. Source: The author's own study based on Eurostat data (2018a).

Positive changes within the budget balance were not clearly translated in the aspect of limiting public debt (Table 3). In 2016, the increase in the debt ratio was to be reduced again (to 96.2% of GDP). The combination of further reduction of the still high deficit and continuation of the economic recovery, despite the still low inflation, could lead to a reduction in the rate of growth of the debt ratio and, as a consequence, to a lowering of the debt ratio. (Gouvernement de la République Française, 2016).

In 2017, the government increased tax relief for competitiveness and employment (CICE) from 6% to 7% and continued the process of lowering social security contributions on the part of enterprises. These measures to reduce the tax wedge improved France's competitiveness after 2013. However, the still existing complexity of the tax system might be an obstacle to the development of entrepreneurship. France has a high tax burden combined with many tax concessions, reduced rates and a large number of tax structures, which increases administrative costs above the

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EU average and uncertainty, in particular for enterprises (Council of the European Union, 2017).

6. Conclusions

Referring to research hypotheses, there are no grounds for rejecting them. Summarizing the economic variables projected in French Stability Programmes, the divergence between budgetary commitments for achieving public finance consolidation and real outcomes was treated as a "moving target". Forecasts for reducing the budget deficit and public debt proved to be often over-optimistic, which could have been influenced by estimates of public revenue and macroeconomic data, political conditions, including preparations for upcoming elections (cf. Pina & Venes, 2007).

In its Stability Programme for 2018, the government plans a gradual improvement in the general government balance to + 0.3% of GDP in 2022, but at the same time the public debt ratio is expected to decline only to 89.2% (Gouvernement de la République Française, 2018). However, it should be noted that achieving a balance is not enough to lower public debt below the 60% of GDP ceiling. After achieving a balance, the French government and Parliament should:

– determine how to maintain the balance, in accordance with the provisions of the Stability and Growth Pact, where a Member State cannot deviate from the medium-term budgetary objectives, except for the implementation of structural reforms that generate transition costs;
– present the conditions for reducing France's debt taking into account demographic constraints.

According to EU regulations, each government should be obliged to present a plan and date of achieving structural equilibrium. However, in the case of France, any current activities of fiscal policy must be considered unsatisfactory. The deterioration of public finances results, to the same extent, from the still insufficient control of expenditure, as well as from the effects of the decision to reduce tax burdens. Thus, periods of economic growth have not been used in France to seriously reduce budget deficits.

Endnotes

1 The government sends a draft stability programme to the parliament at least two weeks before its submission to the European Commission, which allows the parliament to be involved in defining a multi-annual strategy for consolidating public finances.

2 Due to the lack of data for 2006 and 2008 for Bulgaria, Croatia and Romania, the results of the ranking are incomplete.

3 The High Council for Public Finance (Le Haut Conseil des finances publiques) appointed as an independent body under the chairmanship of the President of the Court of Auditors compares the budget figures for the following year with the forecasts

included in multi-annual plans, and gives an opinion on the macroeconomic data contained in the draft stability programme. As a result, it prepares a report on the compliance of the government's policy with the EU institutions' recommendations on medium-term budgetary targets.

4 France was subject to the excessive deficit procedure in the first half of 2003.

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