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Review of Public Finance Forecasts for 2023 and 2024

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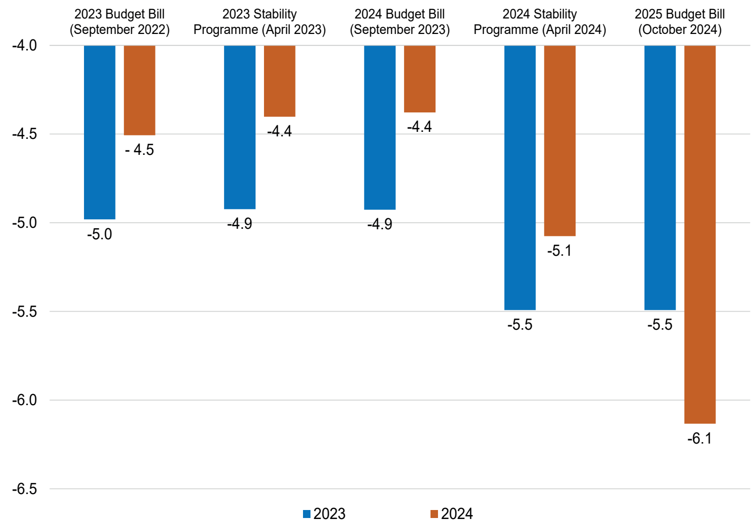
- The economic and public finance forecasts for 2023 and 2024 were drawn up amid much uncertainty with highly volatile energy prices, a very high inflation rate and unprecedented monetary policy tightening.
- For 2023, while real growth was closely aligned with the forecast (0.9% vs 1.0%), high levels of inflation provoked more substantial revisions of nominal growth, that was initially projected at 4.6% in autumn 2022 then at 6.8% a year later, and which ultimately stood at 6.3%. For 2024, real growth, that was first forecast at 1.4%, was revised downwards to 1.1%, and the nominal growth forecast was reduced from 4.0% in autumn 2023 to 3.5% a year later as it was affected by the faster-than-expected fall in inflation.
- The 2023 general government deficit was –5.5% of GDP (–5.3% excluding the change of base year for the national accounts by Insee, the National Institute of Statistics and Economic Studies), compared to the projection of –4.9% in autumn 2023. The 2024 deficit figure has not yet been finalised: the most recent official forecasts were for –6.1 % of GDP, following a projection of –4.4% in autumn 2023, that was revised to –5.1% in April 2024. These revisions are significant but not unheard of from a historical standpoint.
- In 2023, the spontaneous growth in aggregate taxes and social security contributions, i.e. without factoring in discretionary measures, was much lower than that of nominal growth (2.6% vs 6.3% for nominal GDP), in contrast to 2022 which was an exceptional year. Such a contrast was anticipated as early as July 2022 but its scale was much larger than projected. Central government expenditure was lower than forecast unlike local authority expenditure.
- In 2024, revenue from aggregate taxes and social security contributions was subject to major reassessments due to unexpected events in 2023 that were heightened by the delayed functioning of corporation tax and income tax. It was also slowed by lower nominal growth in GDP that was less driven by private domestic demand, and which had an impact on VAT revenue. In addition, there was a surprisingly high level of local authority expenditure whilst central government expenditure is expected to be lower than provided for in the 2024 Initial Budget Act due to management measures introduced during 2024.

Change to the general government deficit forecast for 2023 and 2024 since the 2023 Budget Bill (% of GDP)



Source: DG Trésor.

1. The forecasts for 2023 and 2024 were drawn up against a particularly uncertain economic backdrop[1]

The public finance forecasts for 2023 underlying the 2023 Budget Bill were drawn up in summer 2022 in a highly uncertain context. 2022 had seen the continuing economic recovery in the wake of the COVID-19 pandemic be put to the test by the Russian invasion of Ukraine in February. The conflict put a substantial drag on the economic outlook, weakened French firms and provoked a very sharp rise in energy prices as well as pressure on supply in a large number of value chains. The scenarios for winter 2023 were bleak, with an established risk of power outages that caused the government to roll out an energy savings policy in summer 2022. The increase in energy prices and pressure on production prices due to the war in Ukraine led to a significant increase in inflation as from 2022 (5.2%, a level not experienced since 1985).

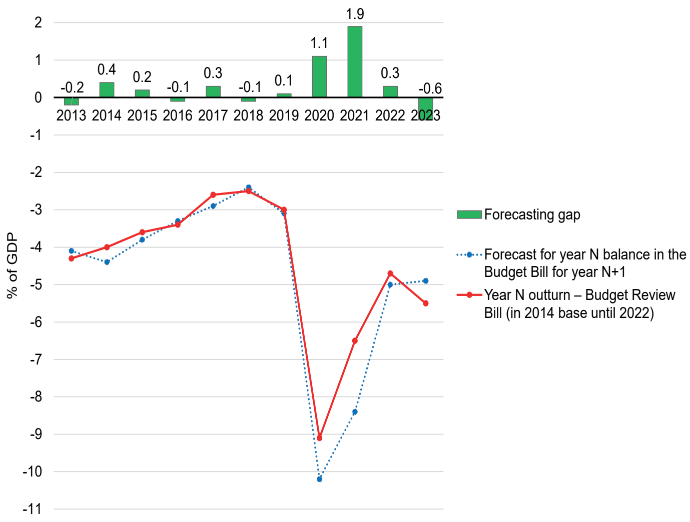
2023 was therefore exceptional from a macroeconomic standpoint despite real growth being close to its long-term trend. The Inspectorate General of Finance (IGF), in a report published in July 2024,[2] and the European Commission,[3] both acknowledged this. One of the repercussions of the 2023 macroeconomic context was an inflation rate that was once again historically high (4.9%) and the tightening of monetary policy at a pace that had been unprecedented since the inception of the euro area, and which accentuated the uncertainty when making public finance forecasts. Issues surrounding methodology also affected the forecasting gaps for that year: the change of base year for the national accounts slightly altered the main public finance aggregates (see Box 2).

Box 1: Uncertainty surrounding the forecasts, applied to the revised projections in successive budget bills

For many years, the economic literature has examined macroeconomic uncertainty. The unknowns surrounding growth and employment forecasts have been well documented, as has the basic uncertainty attached to future changes affecting the financial markets and geopolitical risks. These unknowns and changes to economic policy also have an impact on public finances and go some way to explaining the differences between forecasts and outturn data (see Chart 1). For instance, forecasts for year N set out in the Budget Bill for year N+1 remain highly uncertain even though they are finalised fairly late in the year (in September of year N).

Between 2013 and 2023, the gap between the deficit for year N as noted in the Budget Review Act and the forecast drawn up for the Budget Bill for year N+1 showed a standard deviation of 0.7 points of GDP (0.3 points of GDP excluding 2020 and 2021). Between 2020 and 2022, the extent of the increase in the observed general government deficit[a] was surprising in light of the forecast drawn up as part of the Budget Bill for year N+1 (+1.1 points in 2020, +1.9 points in 2021 and +0.3 points in 2022). This gap was reversed for 2023 but remained contained with respect to the uncertainty witnessed in the past.

Chart 1: Forecasts and outturn data for the general government deficit since 2013 (% of GDP)



Source: DG Trésor.
Note: 2024 is not included as the outturn data for that year will only be finalised in March 2025.

a. To ensure comparability, the outturn data used here comes from the budget review bills for the relevant financial years. However, this data was subsequently revised by Insee, in particular as part of the change of base year for the national accounts (see Box 2).

(1) See L. Chouteau, Y. Messaoui and G. Pécresse (2024), "Review of the French Government's Economic Forecasts for 2023 and 2024", *Trésor-Economics*, No. 355.

(2) *Les prévisions des recettes de prélèvements obligatoires*, Report no. 2024-M-028-04, Inspectorate General of Finance, July 2024 (in French only).

(3) In 2023, the European Commission maintained the "general escape clause" that temporarily suspends the rules of the Stability and Growth Pact.

Although in some respects 2024 saw a return to normality for the main macroeconomic variables (2% inflation in 2024), it was still affected by the knock-on effects from previous years with a delayed impact due to the way in which certain taxes function. In addition, disinflation took place faster than initially expected (2.6% in the 2024 Budget Bill), and the structure of growth varied significantly from that which had been anticipated: instead of being driven by private demand, growth was rather underpinned by exports and public demand.

Box 2: The framework for the national accounts changed over the course of the year

Insee makes a change of base year for the national accounts on a regular basis to take account of changes to the economy, the development of statistical sources or new estimate methods. During the publication of 31 May 2024, Insee changed over to the new "2020 base" which replaced the "2014 base", with a revision of the data for the period covered by the national accounts (1949-2023).

This change of base year was at the origin of a new deviation between the forecasts set out in the 2023-2027 Public Finance Planning Act, which had been drawn up from the "2014 base", and the provisional outturn published as part of Insee's national accounts for 2023. This is especially evident in the main public finance aggregates: according to Insee's estimates, the change of base year accounted for €4bn of the general government deficit differential in relation to the 2023 forecast in the Public Finance Planning Act (out of a total of €15bn), in particular owing to the exclusion from the scope of the government departments of the Civil Service Supplementary Pension Fund (ERAFP), which posted a surplus of €2.6bn. A general government deficit in 2014 base for 2023 would therefore stand at –5.3% of GDP instead of –5.5% in 2020 base.

The changeover to 2020 base for the national accounts also leads to methodical changes that have a substantial effect on public finance ratios without affecting the deficit with, inter alia, a much higher level of government expenditure and revenue excluding aggregate taxes and social security contributions. This increase can be explained by two main factors: (i) inclusion of the full SNCF Réseau account (with only the balance having been recorded previously) which increased both revenue excluding aggregate taxes and social security contributions and expenditure for 2023 by around €10bn, and (ii) new treatment of the adjustments relating to R&D for approximately €4bn in increased revenue excluding aggregate taxes and social security contributions and expenditure.

2. The 2023 deficit was worse than projected

2.1 A deficit forecast that was stable during the year before worsening at the year end

The change to the 2023 public finance forecast during the various forecasting work carried out between the 2023 Budget Bill, presented in September 2022, and the 2023 budget outturn, finalised in March 2024, is set out in Chart 2. This successive work concerned the preparation of the 2023 Initial Budget Act, which was adopted on 30 December 2022, the 2023 Stability Programme, which was published in April 2023, the 2023-2027 Public Finance Planning Act and the 2024 Budget Bill,[4] which was presented in September 2023, and the End-of-Year Budget Bill which was submitted to the National Assembly on 31 October 2023 and definitively adopted on 30 November.

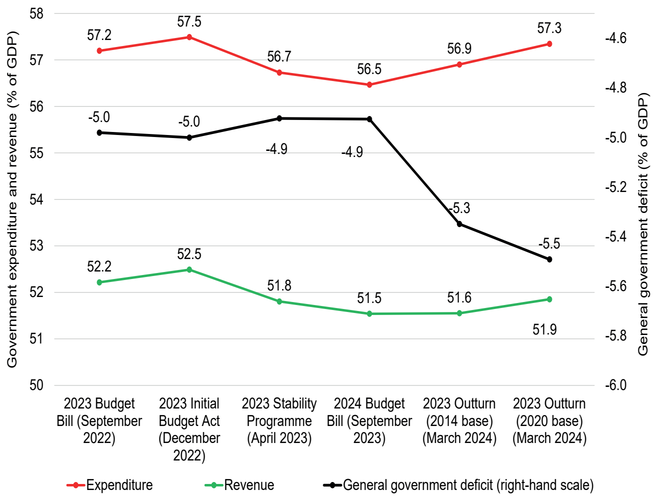
The 2023 Budget Bill provided for a general government deficit of –5.0% of GDP, a figure that was the same as the final 2023 Initial Budget Act. This target was revised slightly upwards to –4.9% of GDP in the 2023 Stability Programme as the macroeconomic environment was more conducive to the spontaneous growth in aggregate taxes and social security contributions (see Section 2.2). This forecast for 2023, which was confirmed in the 2024 Budget Bill in September 2023, was deemed "realistic" by the High Council on Public Finance in its opinion on the 2024 Budget Bill. Lastly, the 2023 End-of-Year Budget Bill upheld the forecast for an unchanged general government deficit of –4.9% of GDP. In its opinion on this latter piece of legislation, the High Council

(4) The forecasts underlying the Public Finance Planning Act are those underlying the 2024 Budget Bill.

on Public Finance considered this forecast to be "plausible".

A combination of adverse factors (set out below) ultimately led to a general government deficit of –5.5% of GDP. Without the impact of the change of base year, this deficit would have been –5.3% of GDP.

Chart 2: Change in public finance forecasts for 2023



Source: DG Trésor.

2.2 The spontaneous growth in aggregate taxes and social security contributions was lower than projected

In the 2023 Initial Budget Act, which was passed in December 2022,[5] the spontaneous growth in aggregate taxes and social security contributions (i.e. without discretionary measures) was projected to be very significantly lower than that for growth (2.9% vs 4.6% for nominal growth) leading to an elasticity of aggregate taxes and social security contributions to growth of 0.6, well below its medium-term average of one. This low level of aggregate taxes and social security contributions was explained by the aftershock from 2022 when elasticity much greater than one had been provided for (1.5). As a result, corporation tax revenue was projected to be lower for 2023 due, in particular, to the dual impact (on instalments and balances) of a slowdown in taxable profits in 2022, income tax revenue was forecast to be stable compared to 2022, but was affected by the inflation adjustment of income tax brackets, and revenue from taxes on transfers for valuable consideration had already been forecast to be lower. Reference to an assumption of elasticity of less than one is noteworthy (see Box 4) as it is rare to depart, even before the start of the year under review, from the assumption of elasticity close to the unit.

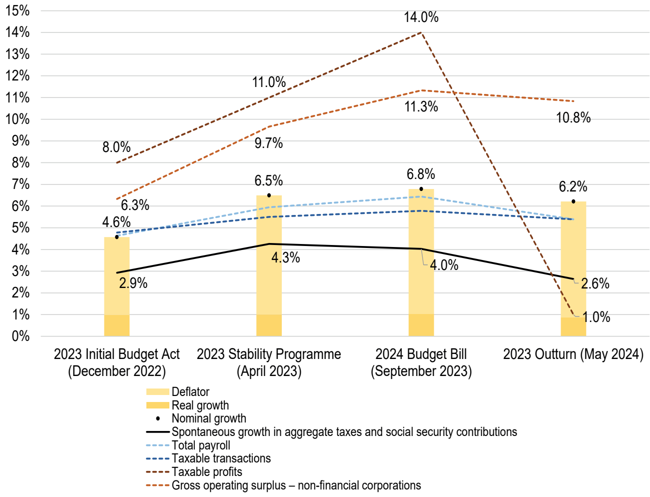
Between the 2023 Initial Budget Act and the 2024 Budget Bill, major revisions were made to the forecasts without significantly adjusting the total amount of projected aggregate taxes and social security contributions: the downward revision of the returns on energy-related measures and the upward revision of the spontaneous growth forecast for aggregate taxes and social security contributions broadly offset each other.

The increase in the spontaneous growth forecast for aggregate taxes and social security contributions to 4.0% in the 2024 Budget Bill was due to a higher projection for the GDP deflator (impact of +2.2 points on nominal growth compared to the forecast underlying the 2023 Initial Budget Act) together with a stronger payroll growth forecast than previously provided for, with a direct effect on revenue from social security contributions, social levies and income tax. "Taxable transactions" that cover household consumption and other aggregates that are part of the VAT base were revised upwards, as was the forecast for taxable profit growth, in line with the sharp increase in the gross operating surplus forecast for non-financial corporations (up 10.8%, i.e. +5 points in relation to the 2023 Initial Budget Act). During this period, revenue from taxes on transfers for valuable consideration, that is contingent on conditions in the property market, was revised downwards from –3.5% to –16% following the drop off in property transactions. Despite a forecast for overall spontaneous growth that was revised upwards, the 2023 elasticity of aggregate taxes and social security contributions set out in the 2024 Budget Bill was still expected to be significantly less than one at 0.6 (see Chart 3).

(5) The elasticity of aggregate taxes and social security contributions to growth in 2023 was already projected at 0.5 in the Stability Programme in July 2022.

The level of aggregate taxes and social security contributions observed in 2023 was ultimately down by almost €21bn[6] in relation to the revised 2023 forecasts in the 2024 Budget Bill. This end-of-year decrease broke down between (i) discretionary measures (–€3bn following the surprising figures for CRIM[7] instalments for 2023); (ii) integration into the base of the 2022 update (–€1bn); and most importantly (iii) the low level of the spontaneous growth in aggregate taxes and social security contributions that was ultimately noted (2.6% compared to 4.0% in the 2024 Budget Bill). The last factor followed on from the worsening of the year-end macroeconomic framework with a –0.6 point revision of nominal growth (–€7bn on aggregate taxes and social security contributions) and with lower elasticity that finally stood at 0.4 (–€10bn).

Chart 3: Forecast of the main macroeconomic variables and the spontaneous growth in aggregate taxes and social security contributions for 2023



Source: Insee and DG Trésor.

Box 3: The various components of corporation tax collection

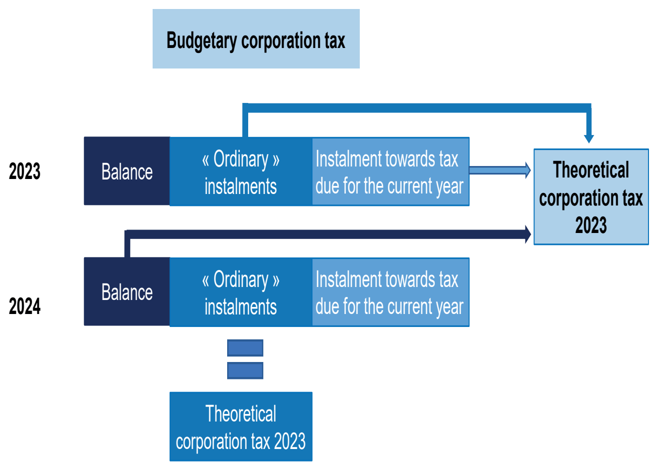
Corporation tax is a complicated tax due to its method of collecting instalments and balances which has the particularity of requiring companies to adjust their payments of instalments during the year in the event of an expected increase in their earnings for the then-current year, with penalties in case of non-compliance. Conversely, companies are able to limit their payments should they anticipate lower profits (this is known as voluntary reduction). The theoretical corporation tax for year N-1 therefore equals the total of the instalments paid in year N-1 plus the balance paid in year N.

By detailing how corporation tax functions,[a] the corporation tax collected during year N comprises:

- a proportion of payments of "ordinary" instalments, calculated on the corporation tax base for year N-1 and paid every quarter in year N.
- a proportion of an instalment towards tax due for the current year (versement contemporain), also known as the fifth instalment, which combines the differences between the instalments actually paid and the "ordinary" instalments. This payment is usually made at the year end, around 15 December.
- a balance paid in June of year N which supplements the instalments paid by businesses during the previous year.

The substantial downward revision of taxable profits for 2023 compared with the figures in the 2024 Budget Bill, namely around –€8.9bn, therefore accounted for –€5.3bn on the instalment towards tax due for the current year in 2023, thus explaining the gap with the 2023 forecast in the 2024 Budget Bill, but it especially weighed on "ordinary" instalments to the tune of –€8.9bn and on the 2024 balance for –€3.6bn, which mostly explains the scale of the revision of the corporation tax forecast in 2024 in relation to the 2024 Budget Bill.

Diagram 1: Breakdown of corporation tax over a year



Source: DG Trésor.

a. No account is taken here of tax credits, components ancillary to corporation tax or firms whose financial year does not correspond to the calendar year.

(6) The decrease is €23bn including the impact of the change of base year.
(7) Contribution on infra-marginal revenue from electricity production.

Several factors can explain this lower-than-expected elasticity: payrolls that were revised more than GDP at the year end (–1.0 point), more VAT credit refunds than projected despite taxable transactions that were almost in line with forecasts, and a decline in corporation tax revenue. As it was, instalments towards tax due for the current year paid in December were disappointing,[8] and led to a reassessment of the growth in taxable profits[9] which were falling sharply: it was ultimately estimated at 1% whereas the gross operating surplus of non-financial corporations had grown by 10.8%. This substantial difference between taxable profits and gross operating surplus can be explained, in particular, by the plummeting taxable profits of financial corporations (down 15%) and by the recognition of major past losses by firms in the energy sector which put a drag on taxable profits although the sector made a telling contribution to the high levels of aggregate gross operating surpluses in 2023.[10]

Box 4: Elasticity of aggregate taxes and social security contributions to GDP in recent years: huge but temporary fluctuations

On average over a long period of time, the spontaneous growth in aggregate taxes and social security contributions – meaning growth without discretionary measures – is consistent with nominal GDP growth. Nevertheless, from one year to the next, these two figures may deviate and lead to spontaneous changes to the aggregate tax and social security contribution rate. Analysis usually focuses on their difference or the ratio of one to the other which is known as elasticity of aggregate taxes and social security contributions to GDP.

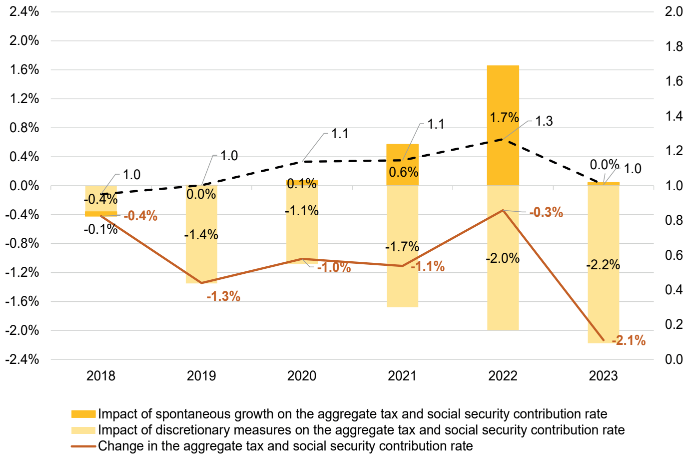
This elasticity is not directly subject to projections. It is calculated as the result of nominal GDP forecasts on the one hand, and aggregate tax and social security contribution revenue forecasts on the other, with the latter being drawn up for each individual tax on the basis of its specific determinants and functioning.

Although there is no common base for all aggregate taxes and social security contributions, the bases for most taxes are closely linked to GDP, e.g. the payrolls on which contributions, social levies or income tax are assessed, consumption and investment on which VAT is highly reliant, firms' income used as the corporation tax base. However, some taxes, such as taxes on transfers or property wealth tax, can only be very indirectly linked to GDP and the bases of other taxes, such as income tax, are subject to non-linear rates. Tax mechanisms (functioning by instalments and balances with the balance accounted for in year N+1, indexing to inflation in year N-1, etc.) also cause these two figures to deviate.

In addition, a change in the sharing of value added between households and businesses which are not taxed in the same way or even a significant share of foreign trade in growth, can have an impact on the elasticity of aggregate taxes and social security contributions.[a]

During the recent shocks that have affected economic activity (COVID-19 pandemic followed by very high inflation), the spontaneous growth in aggregate taxes and social security contributions was initially much higher than that of nominal growth in 2021 and 2022. Taking 2023 into account, it was nevertheless broadly aligned with nominal growth over four years. This means that the fall in the aggregate tax and social security contribution rate since 2017 should be tied in with discretionary tax reduction measures and not with the average elasticity of revenue over this period (see Chart 4).

Chart 4: Change in the aggregate tax and social security contribution rate since 2017



Source: 2023 national accounts (2020 base) for aggregate tax and social security contribution and GDP rate projections, DG Trésor for discretionary measures.

How to read this chart: In 2023, the aggregate tax and social security contribution rate fell by 2.1 points of GDP in relation to the rate for 2017, (43.2% vs 45.3%). Discretionary measures contributed –2.3 points to this change and +0.1 points to the spontaneous growth for the period.

a. See, in particular E. Dubois (2023), "L'élasticité des prélèvements obligatoires au PIB : définition, interprétation et limites", *Methodological Memorandum*, no. 2023-01 from the High Council on Public Finance (in French only).

(8) Major companies are required to adjust their instalment payments on the basis of the taxable profits expected for the then-current year with penalties for non-compliance (known as the "fifth instalment").

(9) Unlike the gross operating surplus, which is an indicator that is part of the national accounts, taxable profits represent the taxable corporation tax base. They differ, for instance, in their inclusion of financial expenses and carried-forward past losses for calculating the taxable profits.

(10) See EDF's consolidated financial statements p. 2.

2.3 Public expenditure was lower than anticipated except for local authorities

With regard to central government and, to a lesser extent, the other central government bodies, expenditure was lower than projected (€8bn less in relation to the 2024 Budget Bill). The central government expenditure rule[11] was therefore more than complied with thanks to management regulation measures, especially the introduction of a freeze on appropriations, the adoption of a €5bn recission decree in September 2023 and, lastly, heightened monitoring of expenditure outturn at the year end. Overall, central government sphere expenditure outturn was limited to €489.1bn, i.e. €7bn less than the figure set in the 2024 Budget Bill, under budgetary accounting. In addition, despite strong interest rate volatility, the cost of debt service remained close to the Budget Bill forecast at €39.0bn (versus an expected €38.6bn). Lastly, the assessment of the net cost of anti-inflation support measures (in particular for energy), that was conducted when the 2024 Budget Bill was drawn up (€24.7bn), was broadly consistent with the amount recorded during the 2023 outturn (€25.1bn).

However, on the part of local authorities, expenditure was higher than provided for in the 2024 Budget Bill (+€4bn, see Table 1). This expenditure increased by a total of 7.1% (compared with the projected 5.7%), of which +5.9% was for operations (versus a target of +4.8%) and +10.9% for investment (compared to +8.3% in the account underlying the 2024 Budget Bill). This reflects, inter alia, the absence of a steering tool to ensure compliance with the Public Finance Planning Act's target of a 0.5% decrease in real terms per year for the operating expenses of local authorities between 2023 and 2027. Expenditure by social security funds was broadly consistent with the forecasts underlying the 2024 Budget Bill, especially with regard to the national healthcare expenditure growth target.

2.4 Revenue excluding aggregate taxes and social security contributions revised upwards

Moreover, revenue excluding aggregate taxes and social security contributions rose unexpectedly (+€5bn compared to the 2024 Budget Bill, out of a total of €222bn), owing, in particular, to the market and non-market revenue of local authority and hospital bodies which was higher than the assumptions set out in the budget legislation. To a lesser extent, revenue from guarantees granted by central government under its foreign trade support policy was also surprisingly high in the wake of the increase in French exports.

3. The downgrading of forecasts for 2024 mirrors that of 2023 and the impact of new information on 2024

Having initially been projected at −4.4% of GDP in the 2024 Budget Bill, the general government deficit was first revised to −5.1% in April when the Stability Programme was published. This first revision factored in a starting point (the 2023 deficit) that was lower (−5.5%) than in the initial trajectory (−4.9%), and the information available to date, and the measures introduced in early 2024 (such as the recission decree) or anticipated for the rest of the year. A new public finances trajectory was then presented with the 2025 Budget Bill that was submitted in October 2024, and included in the National Medium-Term Fiscal-Structural Plan published on 23 October.[12] It sets out a deficit of −6.1% of GDP in 2024, a figure that takes account of the new information that has become available since the Stability Programme. The 2024 deficit will not be finalised before its publication by Insee in late March 2025 and the forecast remains shrouded in much uncertainty.

3.1 Major downgrading of aggregate tax and social security contribution forecasts due to bad news in 2023

The projections for aggregate tax and social security contribution revenue for 2024 were revised downwards by €40.1bn between the budget bills for 2024 and 2025 (see Table 2).

Firstly, the surprising figure for 2023 (down €20.7bn) had a heightened effect in 2024, thus explaining the decrease of around €31.6bn. Due to the delayed impact of the functioning of income tax and corporation

(11) The "central government sphere expenditure" aggregate is defined in Article 10 of the 2023-2027 Public Finance Planning Act and covers the majority of central government expenditure that is able to be steered, i.e. excluding debt service.)
(12) https://www.tresor.economie.gouv.fr/Articles/tags/PSMT (in French only).

tax, the deviations from the base forecasts relating to 2023 (taxable profits for corporation tax and income for income tax) triggered a larger revision in 2024 than in 2023. As a result, the major revision of 2023 taxable profit growth (1% increase versus 14% in the 2024 Budget Bill) and the revision of 2022 taxable profits led to the revision of the 2024 corporation tax forecast by –€11.7bn (–€3.6bn on balances and –€8.0bn on instalments), i.e. much more than 2023's surprising figure (–€4.4bn). Similarly, the income tax forecast was revised by –€5.7bn, after the –€2.1bn observed in 2023: tax data in summer 2024 on the balance of income tax owed for 2023 was disappointing and the fall in per capita average real wages in 2023 led, in addition to its immediate impact on withholding at source, to lower withholding rates when they were updated in summer 2024.

The majority of these effects had become apparent when the Stability Programme was published and were included in the forecasts at that time. For instance, the 2023 taxable profits forecast was revised from +14% to +2%. This in turn led to a revision of the elasticity of aggregate taxes and social security contributions to GDP in 2024 at 0.8 compared to 1.1 in the 2024 Budget Bill. These revisions of income tax and corporation tax were confirmed and slightly heightened during the summer with the data from income tax and corporation tax returns for 2023.

3.2 An additional downgrading for 2024 connected with growth and the tax data

The revision of the nominal GDP growth forecast which fell from 4.0% in the 2024 Budget Bill to 3.5% in the 2025 Budget Bill caused a €7.2bn downward revision of revenue at constant elasticity.

In addition, supplementary information helped to again reduce the elasticity of aggregate taxes and social security contributions in 2024. This elasticity was projected at 0.7 in the 2025 Budget Bill (compared with 0.8 in the Stability Programme and 1.1 in the 2024 Budget Bill), reducing aggregate tax and social security contribution revenue by €6.8bn in addition to the unexpected figures relating to changes in previous years. In particular, disappointing accounting data for 2024 caused the VAT forecast to be downgraded by a total of €11.3bn. This downward revision can be broken down into (i) a revision following the integration into the base of 2023 VAT for –€3.7bn, (ii) a downward revision of –€1.2bn due to the fall in growth (–0.5 points for nominal GDP) and (iii) –€6.9bn in additional revisions connected with accounting data recorded during the year. The last reduction can be partly explained by lower growth of taxable transactions which fell by 2 points compared with the 2024 Budget Bill (whereas nominal GDP only declined by –0.5 points) due to growth being driven more by exports (not liable to VAT) and public demand than by household consumption.[13] This fall can also be attributed to the continuing high level of applications for VAT credit refunds from businesses whilst the 2024 Budget Bill had considered the high level noted in 2023 as a temporary knock-on effect of the past build-up of VAT credits against the backdrop of rising interest rates which could encourage businesses to fast track their refund applications.

As for corporation tax, changes to the macroeconomic environment led to a downward revision of the growth in taxable profits forecast for 2024 of 6 points, i.e. a further reduction of projected corporation tax revenue (–€2.2bn) in addition to those due to the 2023 taxable profit revisions. Conversely, the spontaneous growth in social security contributions was scarcely revised despite the downward revision of nominal growth due to fewer general contribution cuts for employers than initially forecast (+€2.4bn).

Besides the spontaneous growth in aggregate taxes and social security contributions, the differences in the forecasts between the 2024 and 2025 budget bills can also be attributed to the partial reinstatement of the domestic consumption tax on electricity for end-users as from February 2024 and by the various amendments tabled for the Budget Act and Social Security Budget Act for 2024 which, overall, caused the aggregate tax and social security contribution revenue forecast to be increased by €5.5bn.

3.3 Other factors, including local authority expenditure, contributed to the decline of the deficit in 2024

Expenditure by local authorities in 2024 was revised substantially upwards between the 2024 and 2025 budget bills (+€13.4bn). In the absence of an efficient mechanism, their operating expenses were estimated to be higher (around +€8bn) than the -0.5% target for the increase in real terms (corresponding to a nominal increase of around 2%) which was used for the 2024 Budget Bill and set out in Article 17 of the 2023-2027

(13) See L. Chouteau, Y. Messaoui and G. Pécresse (2024), *op. cit*. p. 6.

Public Finance Planning Act. The mid-year outturn data compiled by the Public Finances Directorate General (DGFiP) in summer 2024 indeed flagged up a level higher than expected. Local authorities' investment expenditure was more than €5bn higher than the projection made for the 2024 Budget Bill which had nevertheless factored in the municipal electoral cycle.[14] In both cases, this increase could be partly explained by the delayed impact of inflation and by use of the cash flow accumulated during previous years. These changes will continue to be surrounded by uncertainty until Insee releases the final data in March 2025.

Forecasts for social security expenditure were also revised upwards as a result, primarily, of the national healthcare expenditure growth target being surpassed, which was expected to increase to +3.3% compared to the +2.9% initially set out in the 2024 Social Security Budget Act, and the increase in unemployment insurance expenditure due to a slacker-than-expected labour market, for a total of €3.5bn in additional expenditure.

Conversely, forecasts for central government expenditure (within the meaning of central government sphere expenditure) were able to be reduced by €4bn compared to the Initial Budget Act (amount underlying the 2025 Budget Bill, cut to –€6bn in the 2024 End-of-Year Budget Act). This slowing of expenditure came about by using different management steering measures such as the appropriation recission decree for €10bn (impact of €8.8bn on the expenditure forecast in the national accounts), which was published on 21 February 2024, the notification to the ministries of spending limits in July, and by additional appropriation freezes, introduced during the management period, which allowed for a contingency reserve of more than €16bn to be built up in October 2024. The impact of these management regulation measures was partially offset by fresh expenditure (New Caledonia, bonuses for Olympic Games medal winners, organisation of early legislative elections) and by the partial use of appropriations carried forward from 2023 to 2024 (€19bn carried forward to central government sphere expenditure for the 2024 financial year concerning, in particular, measures introduced to address past crises).

Lastly, a series of other diverse factors were thought to have contributed to fiscal consolidation to the tune of €2.4bn.

At this stage in the year, there is still much uncertainty as witnessed by the past differences between revisions to the Budget Bill and the outturn (see Box 1).

(14) The investment expenditure of municipalities usually increases in pre-election years before slowing down in the year of the ballot and in subsequent years. See Insee (2019), "The cycle of municipal elections", *Conjuncture in France*.

Table 1: Revision of the general government balance in 2023 and 2024 between the budget bills for 2024 and 2025

	2023	2024
2024 Budget Bill balance (September 2023 forecast) *(% of GDP)*	**–4.9**	**–4.4**
(€bn)	**–138.8**	**–128.3**
Total revision 2024 Budget Bill → 2025 Budget Bill (€bn)	**–16.0**	**–50.8**
Aggregate taxes and social security contributions – spontaneous growth (without change of base year)	**–20.7**	**–45.6**
of which 2023 outturn and integration into the base	–20.7	–20.7
of which additional impact of past data on 2024		–10.9
Income tax outturn and impact of data for 2023 and prior years	*–2.1*	*–5.7*
Corporation tax outturn and impact of data for 2023 and prior years	*–4.4*	*–11.7*
Other 2023 outturn and integration into the base	*–14.2*	*–14.2*
of which impact of the revision of nominal GDP		–7.2
of which other revisions of elasticity of 2024 revenue		–6.8
of which corporation tax		*–2.2*
of which VAT		*–6.9*
of which contributions		*2.4*
Aggregate taxes and social security contributions – discretionary measures		**5.5**
Phasing out of the domestic consumption tax on electricity for end-users price cap		4.6
Tourist tax (2024 Budget Bill)		0.2
Public transport mobility contribution (2024 Budget Bill)		0.4
Freeze on relief on contributions – including impact on corporation tax (2024 Social Security Budget Bill)		0.4
Other		–0.1
Scope of central government expenditure	7.3	3.8
Central government sphere expenditure (without recission decree, budgetary total)	7.3	–5.0
Recission decree		8.8
Local authorities	**–4.3**	**–13.4**
Operating	–2.6	–8.0
Investment	–1.7	–5.4
Labour sphere	**–1.1**	**–3.5**
Unédic – unemployment insurance scheme	–0.8	–2.3
National healthcare expenditure growth target	–0.3	–1.2
Other revisions	2.8	2.4
2025 Budget Bill balance (October 2024 forecast) ***(% du PIB)***	**–5.5**	**–6.1**
(€bn)	**–154.8**	**–179.1**

Source: DG Trésor.

Table 2: Forecasts and revisions of the main taxes between the budget bills for 2024 and 2025

In €bn (national accounts)	2024 Budget Bill		2025 Budget Bill		Differences	
	2023	2024	2023	2024	2023	2024
Aggregate taxes and social security contributions (2014 base to 2024 End-of-Year Budget Bill)	**1,241.1**	**1,292.2**	**1,218.5**	**1,250.1**	**–22.7**	**–42.1**
Amount of aggregate taxes and social security contributions in 2020 base (effect of the change of base year of –€2bn on social security contributions)	**1,239.1**	**1,290.2**	**1,218.5**	**1,250.1**	**–20.7**	**–40.1**
Income tax	90.7	94.1	88.6	88.1	–2.1	–6.1
Corporation tax	61.3	72.2	56.8	57.7	–4.4	–14.5
Social security fund contributions excluding payment defaults	410.2	426.3	405.3	421.4	–4.8	–4.9
Social levies on earned and replacement income (all general government sectors)	140.8	146.4	139.4	144.9	–1.4	–1.5
Social levies on capital (all general government sectors)	32.1	34.2	31.7	33.1	–0.4	–1.2
VAT (all general government sectors)	208.7	218.9	205.0	207.6	–3.7	–11.3
Net domestic consumption tax on energy products (all general government sectors)	29.5	29.7	29.7	29.4	0.2	–0.2
Property taxes	41.1	43.6	41.1	43.3	–0.1	–0.3
Taxes on transfers for valuable consideration (local government)	18.0	18.0	16.9	14.8	–1.1	–3.2
Taxes on transfers without valuable consideration	19.4	19.2	20.8	19.7	1.4	0.5
Tobacco	13.4	13.7	13.3	12.9	–0.1	–0.8
Contribution on infra-marginal revenue from electricity production	3.1	0.0	0.3	0.1	–2.8	0.1
Domestic consumption tax on electricity for end-users (all general government sectors)	0.4	0.2	0.4	4.8	0.1	4.6

Source: DG Trésor.

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