



# Draft Budget Bill 2020

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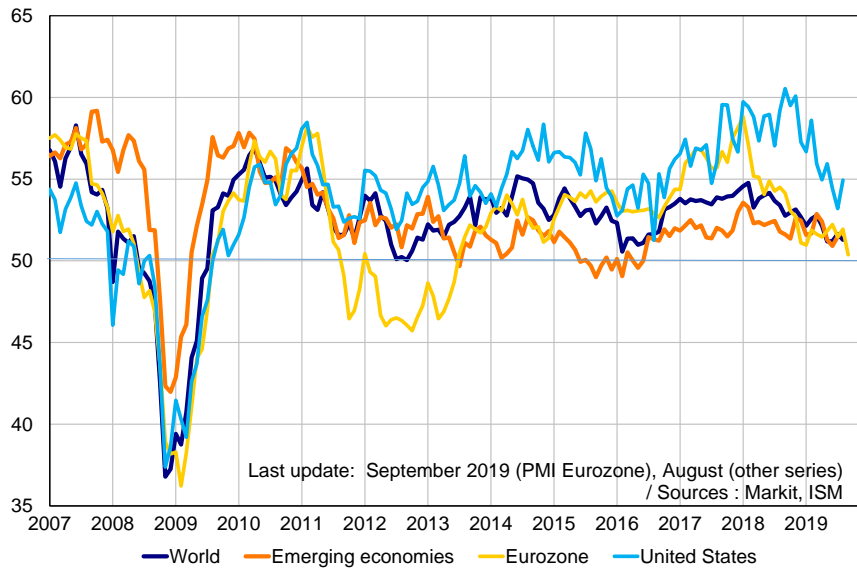
Chief Executive  
Agence France Trésor



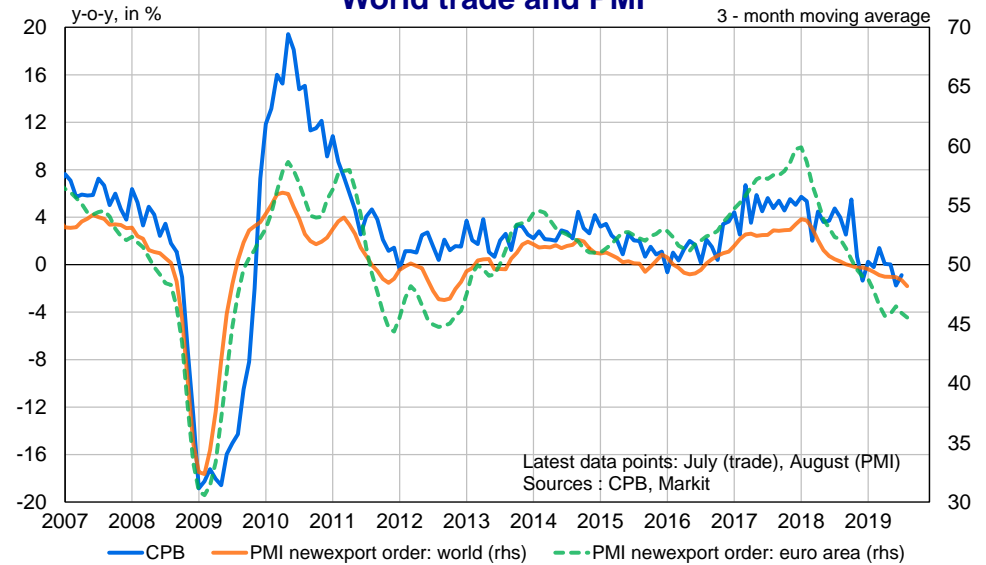
- **Economic outlook**
- **Public finances and main features of the 2020 Budget**
- **Funding Program**

# The international environment is deteriorating and global trade grinds to a halt

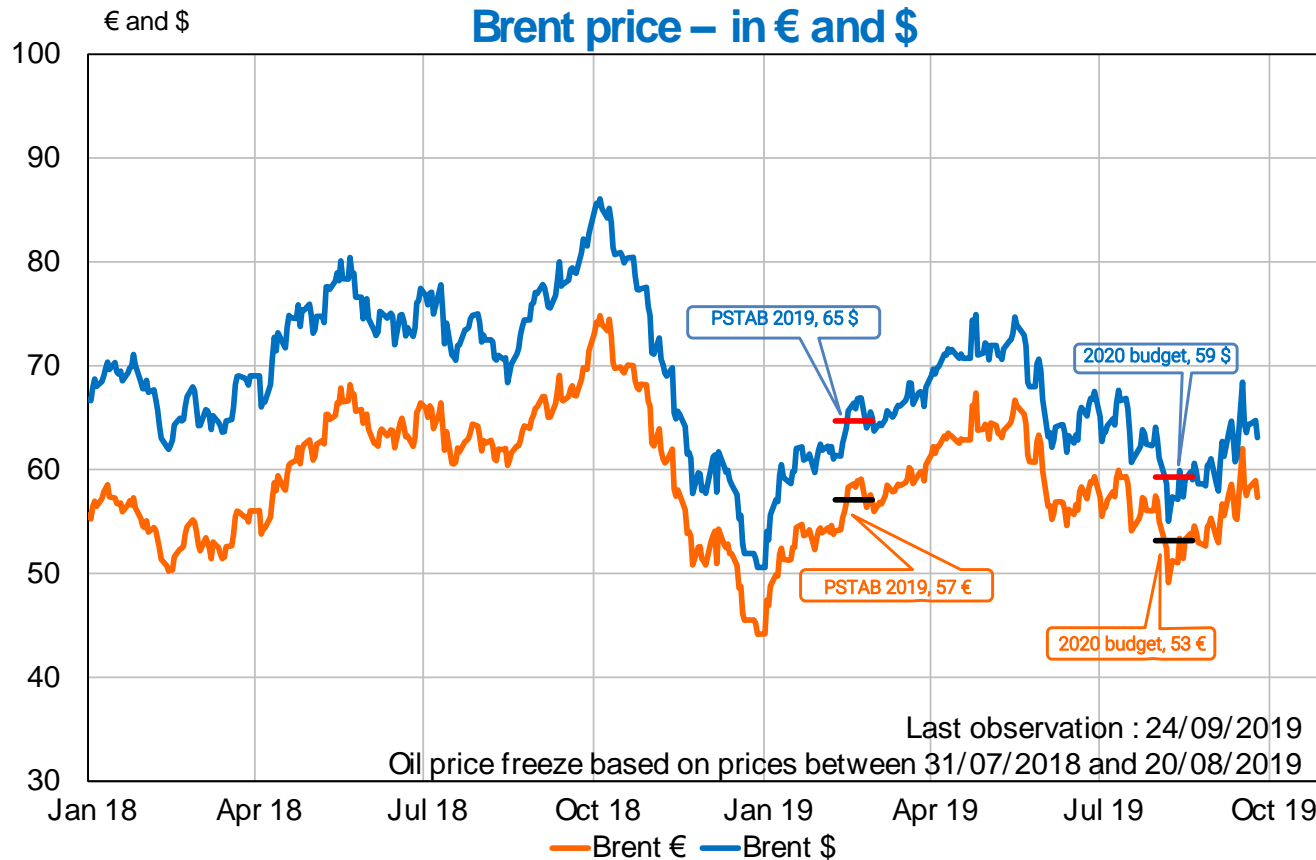
## Business climates



## World trade and PMI



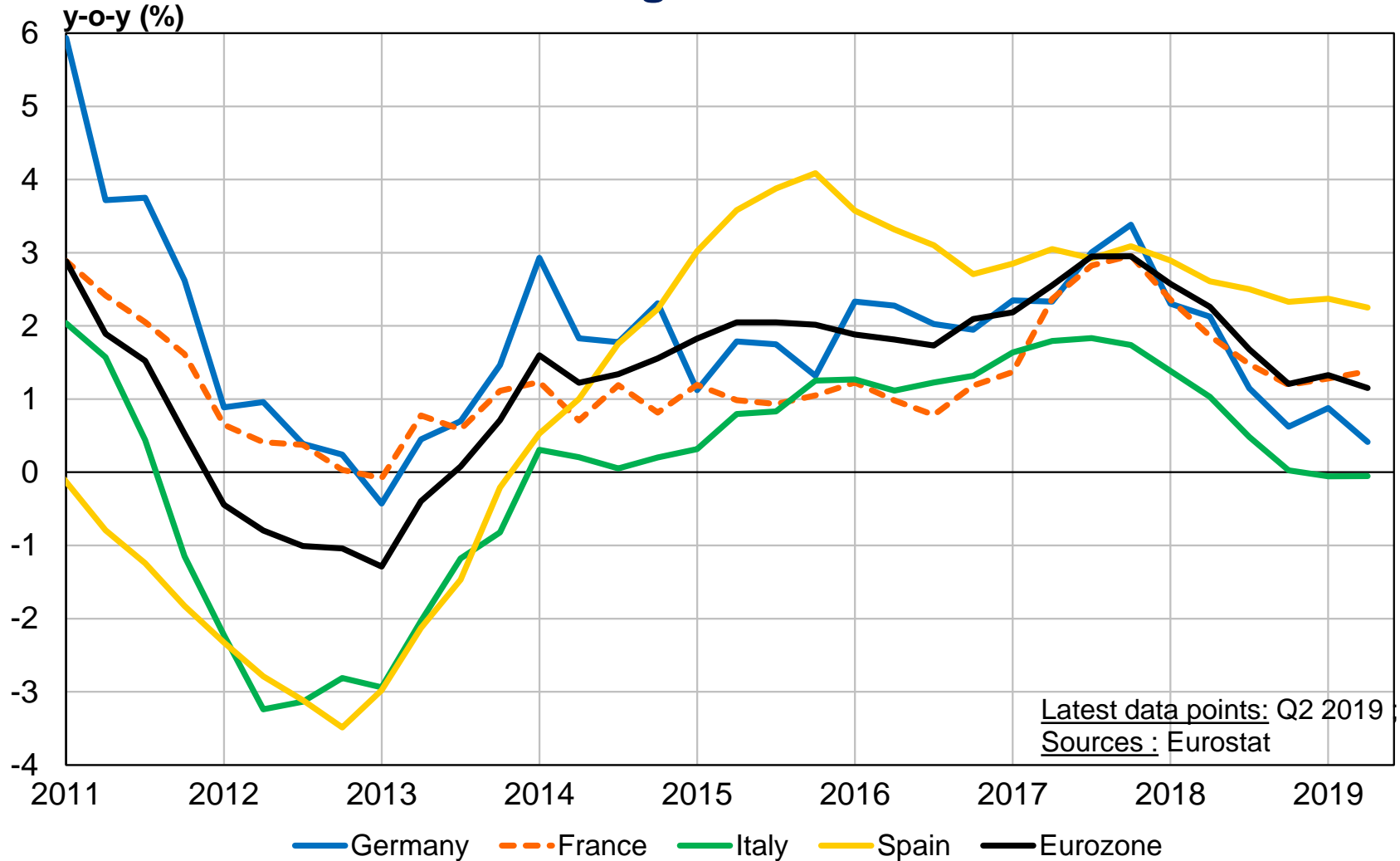
# Oil prices are volatile in a context of geopolitical tensions in the Middle East



- The oil market has reacted very strongly to the recent attacks against oil installations in Saudi Arabia, but this increase has since been partially reversed.
- Existing short-term stocks and spare production capacities available in some OPEC+ suggest significant supply adjustment capabilities .
- The uncertain outlook for global growth moderates the prospects of heightened tensions on demand.

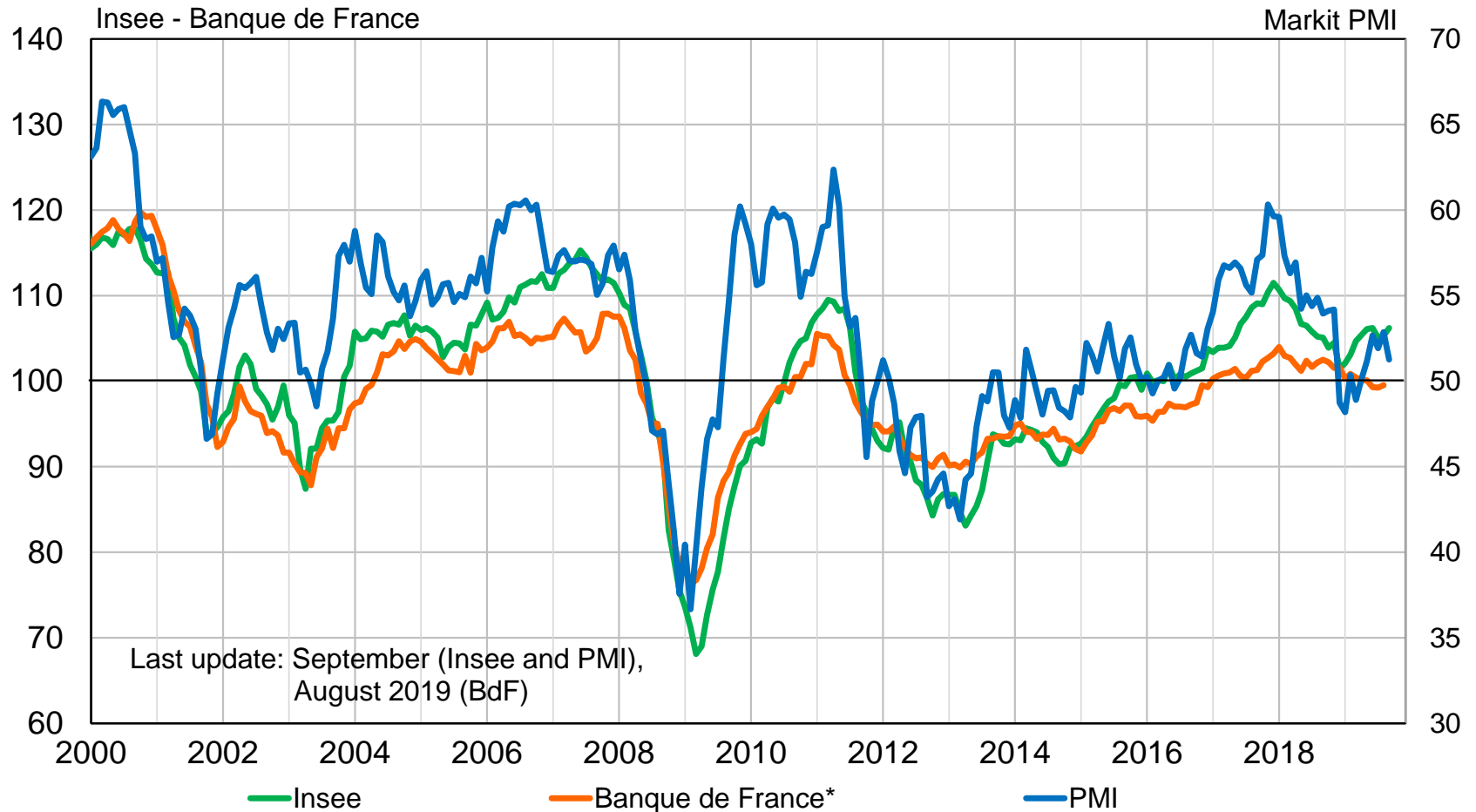
# The French economy is more resilient than other eurozone countries

## GDP growth rates



# Business climates are above their reference values in France

## Business climate in France



\*The Banque de France Business Climate computed by the Directorate General of the Treasury, is a weighted average of its climates in services and industry, based on the PMI Markit index weights (about 80 % for services and 20 % for industry).

## Economic forecast - France

(in comparison to the Pstab)

*annual average (%)*

**2018**

**2019**

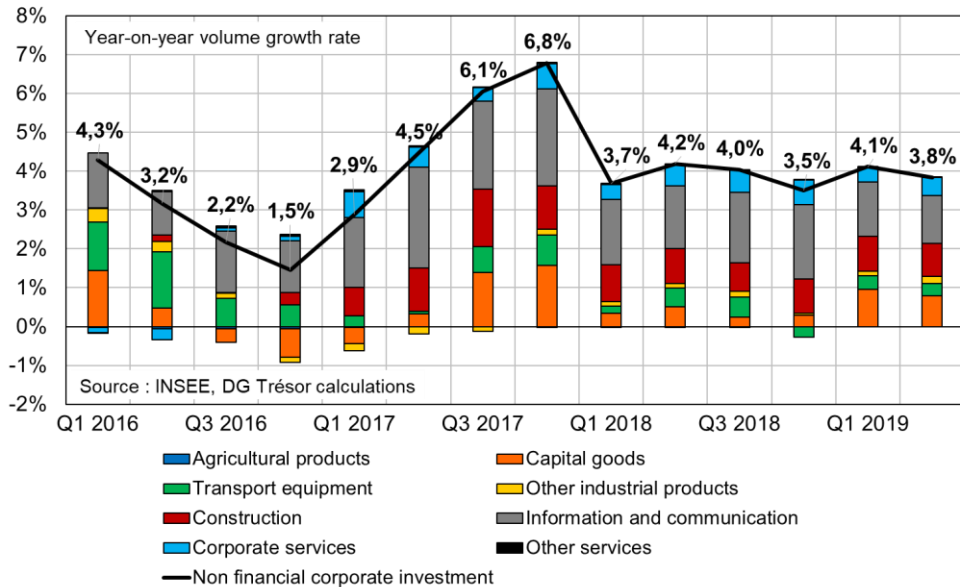
**2020**

|   |            |        |            |        |            |        |
|---|------------|--------|------------|--------|------------|--------|
| Real GDP (wda)                                | <b>1,7</b> | (0,1)  | <b>1,4</b> | (0,0)  | <b>1,3</b> | (-0,1) |
| Personnal payroll employment *                | 1,7        | (0,1)  | 1,5        | (0,6)  | 0,9        | (0,2)  |
| Purchasing power of household disposal income | 1,2        | (0,2)  | 2,0        | (0,0)  | 1,2        | (0,2)  |
| Total CPI                                     | 1,8        | (0,0)  | 1,2        | (-0,1) | 1,2        | (-0,1) |
| Core CPI                                      | 0,8        | (0,0)  | 0,9        | (-0,2) | 0,9        | (-0,3) |
| Private wages and salaries*                   | 3,4        | (-0,1) | 3,3        | (0,2)  | 2,8        | (-0,1) |

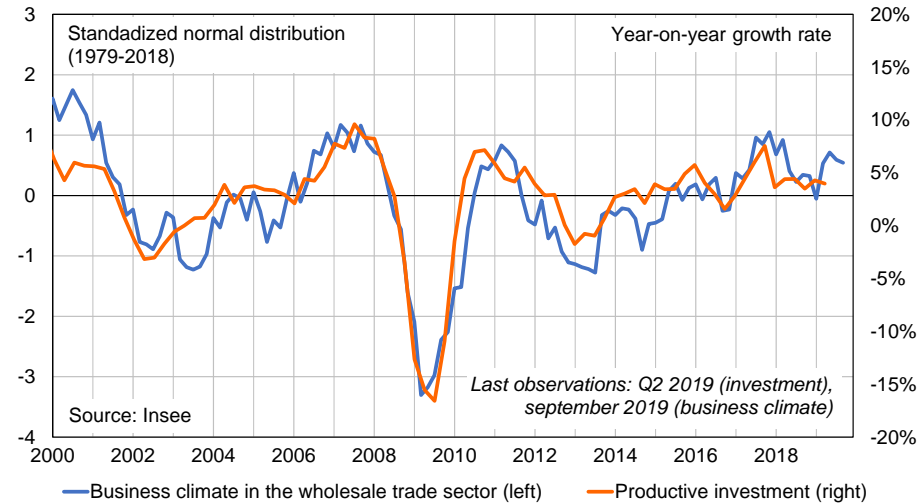
\*Non-farm market sector

# Corporate investment remains dynamic in spite of the slowdown

## Contributions to corporate investment growth



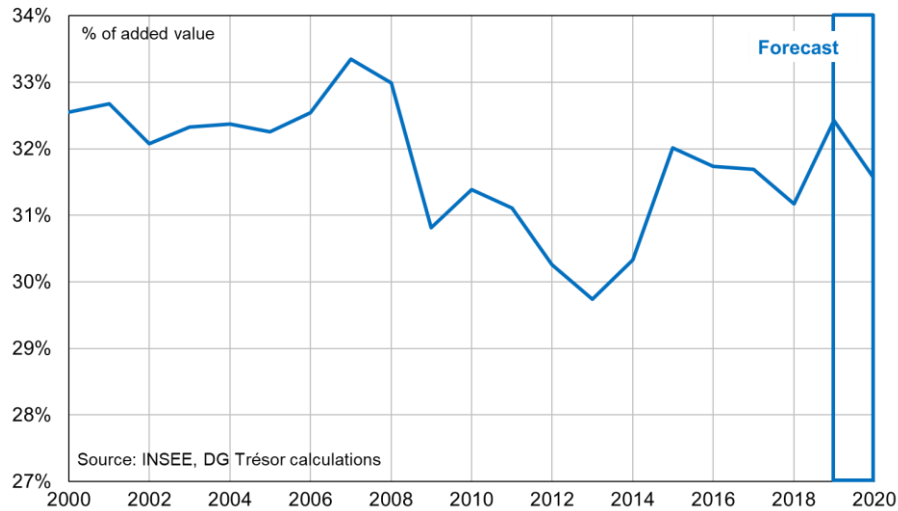
## Productive investment and business climate in the wholesale trade sector



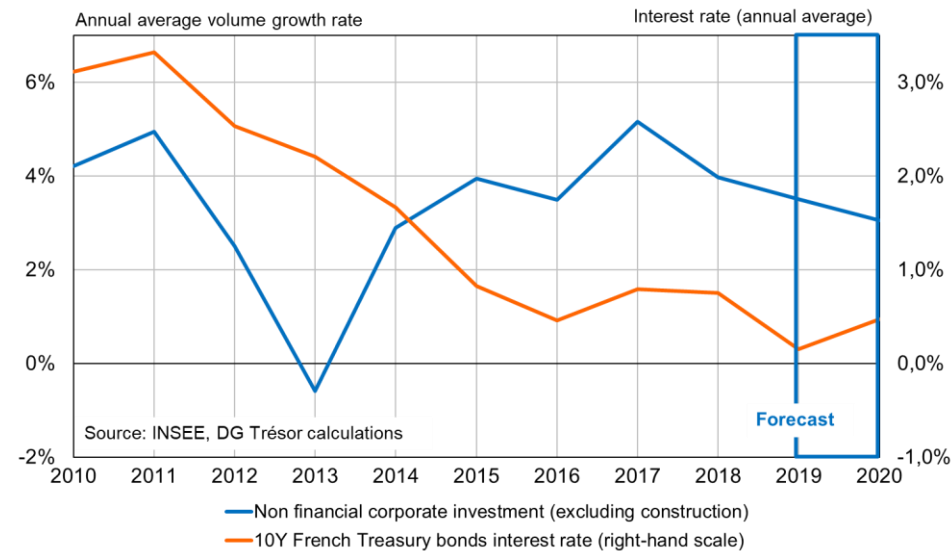


# Corporate investment would benefit from favorable financial conditions and would gradually return to normal

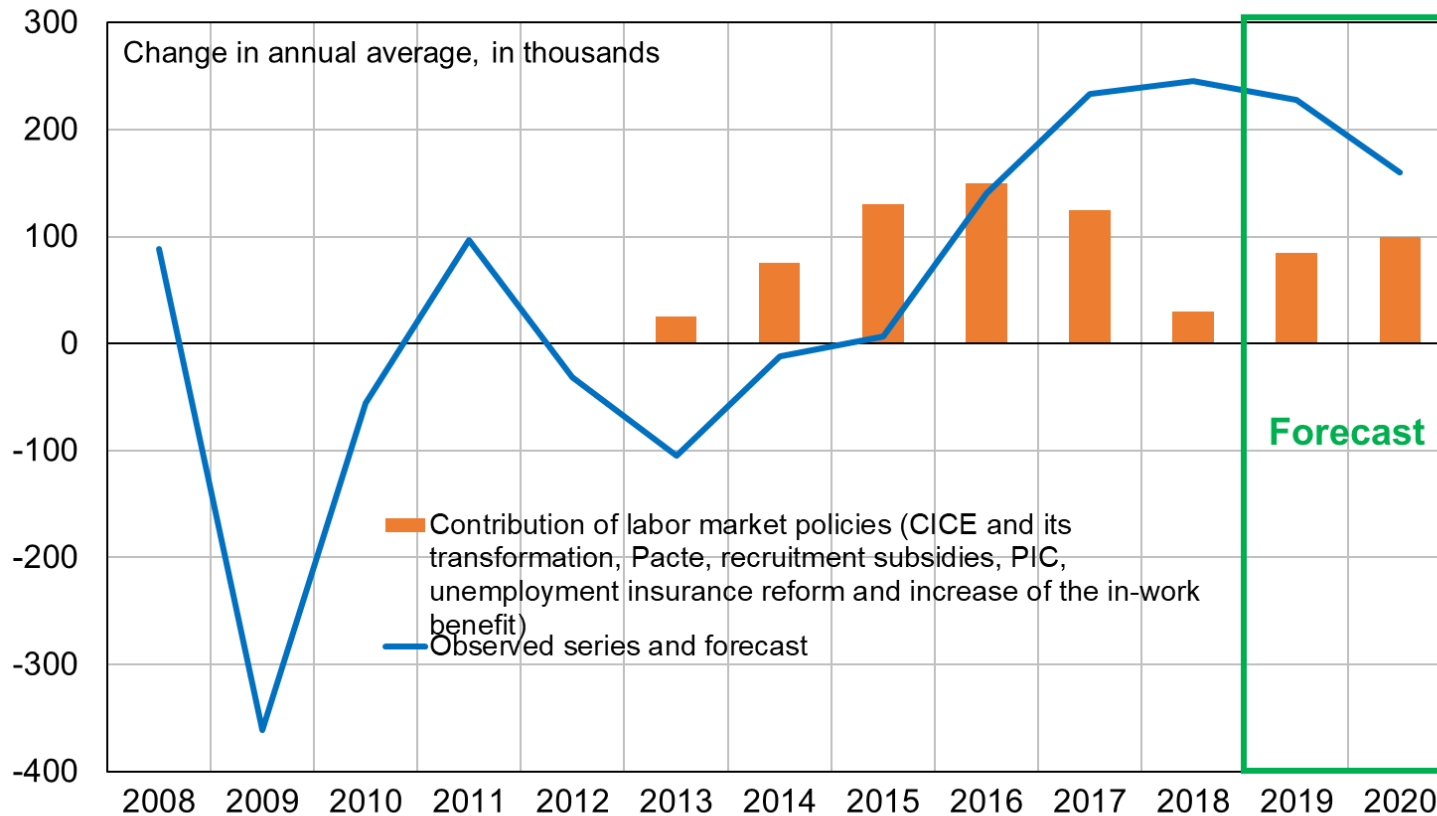
## Corporate margin rate



## Corporate investment and interest rate

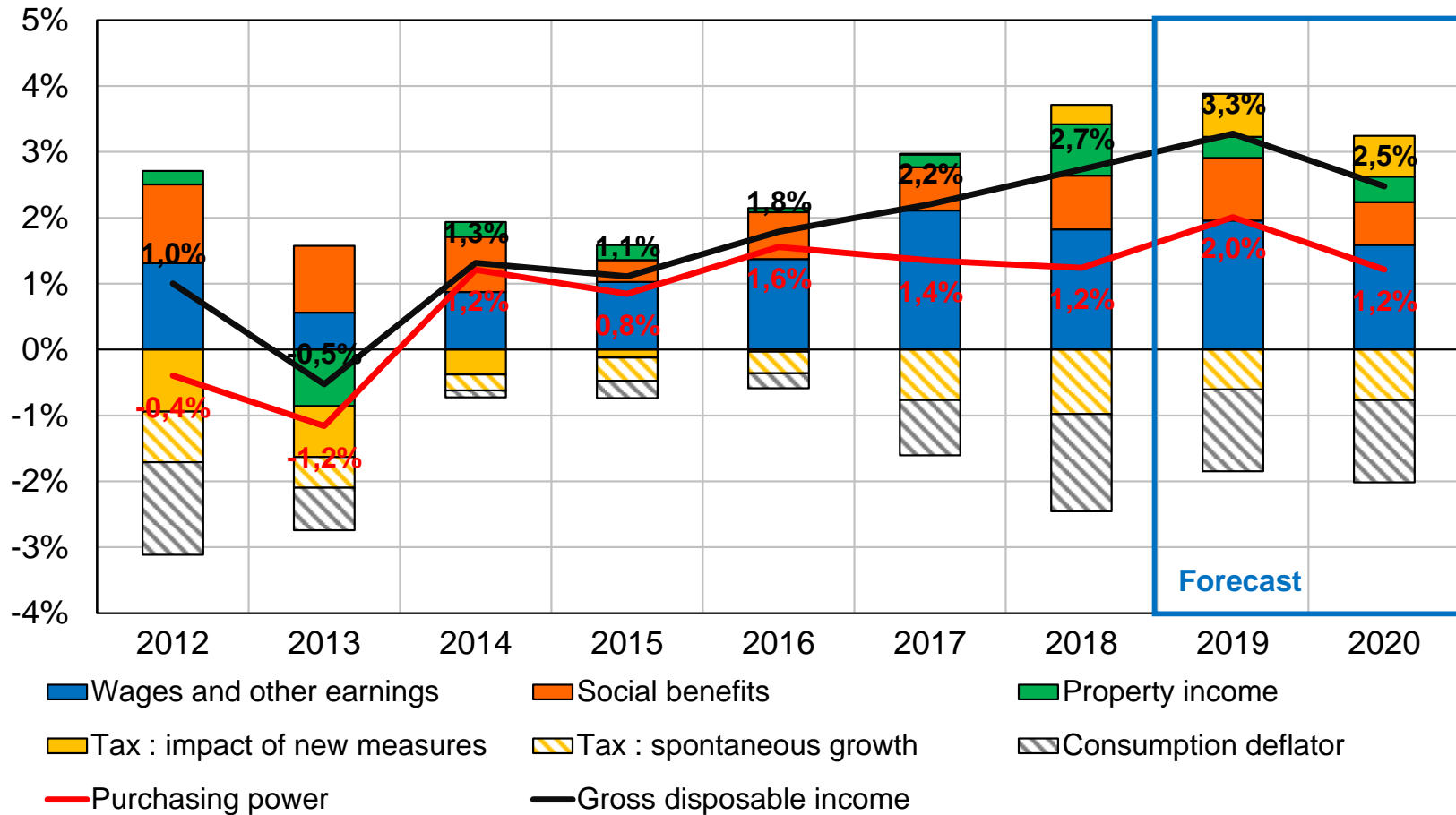


## Market Sector Employment



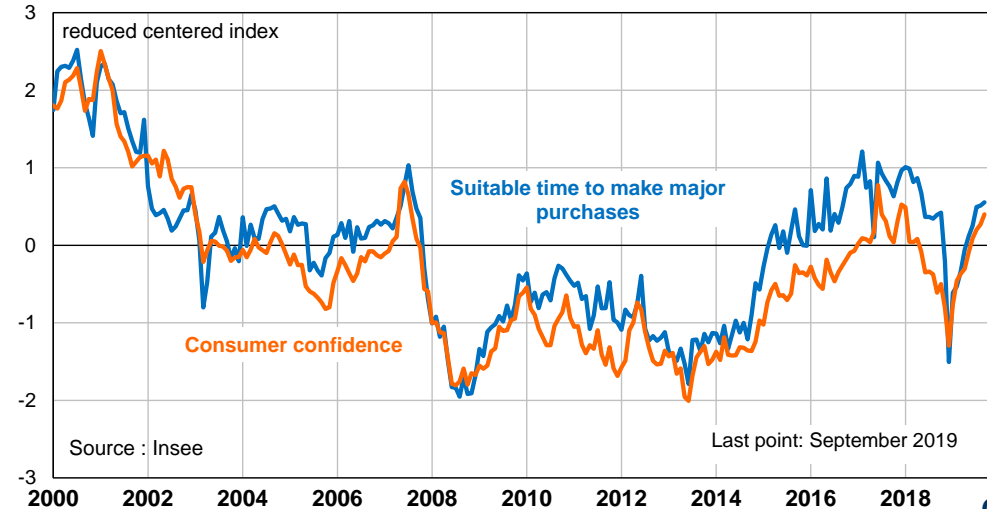
# Government measures strongly support households' purchasing power

## Household revenue and purchasing power

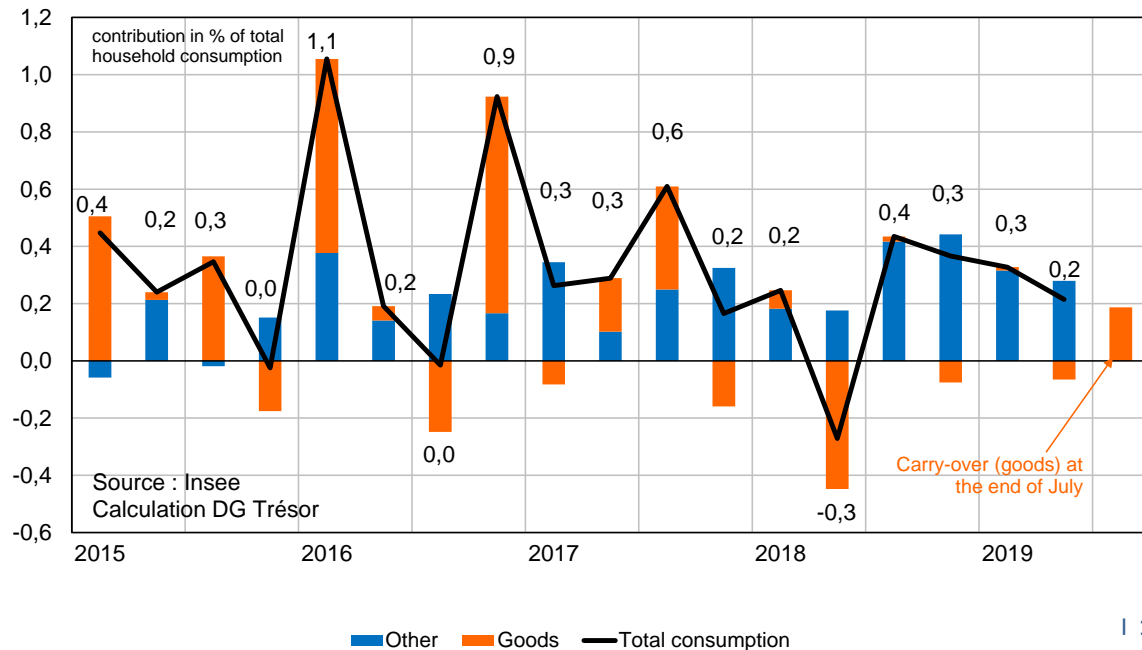


# Surveys suggest dynamic consumption growth in the 3rd quarter

## Consumer confidence synthetic index and suitable time to make major purchases

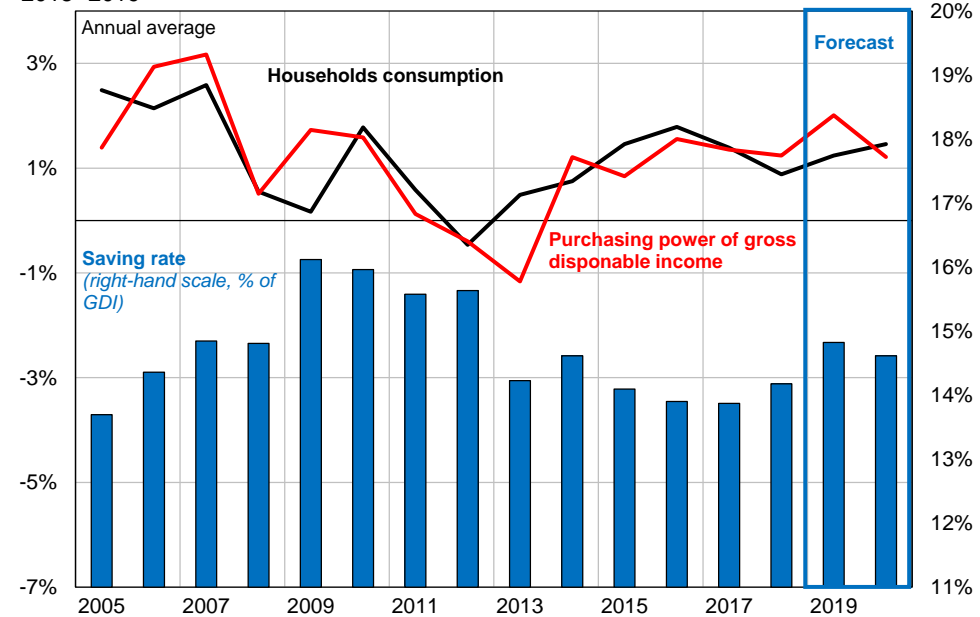
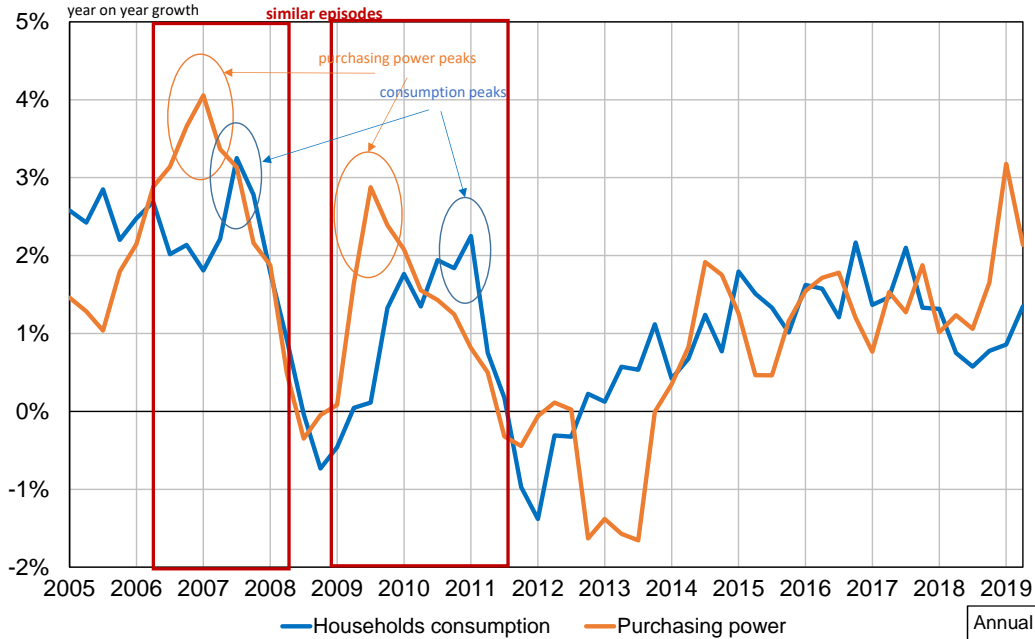


## Contribution to household consumption growth



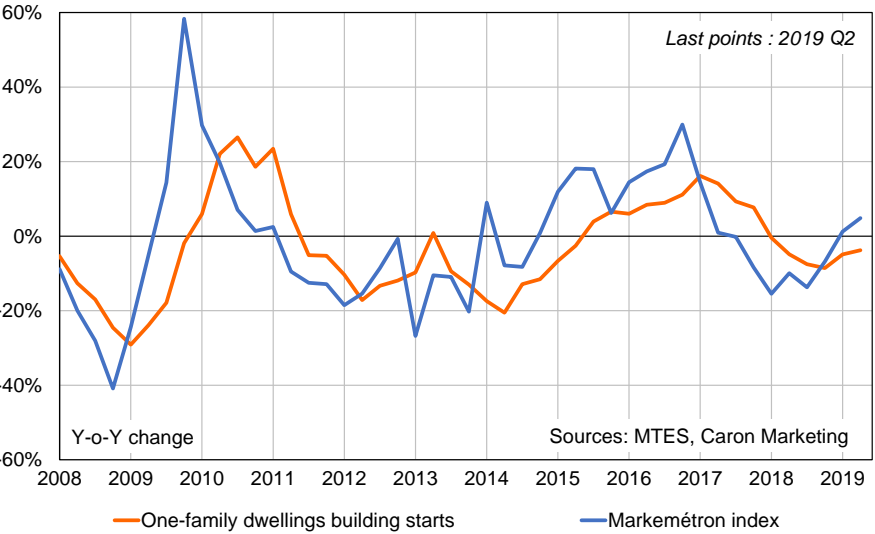
# Households would gradually consume their increase of purchasing power

## Past purchasing power shocks' impact on consumption

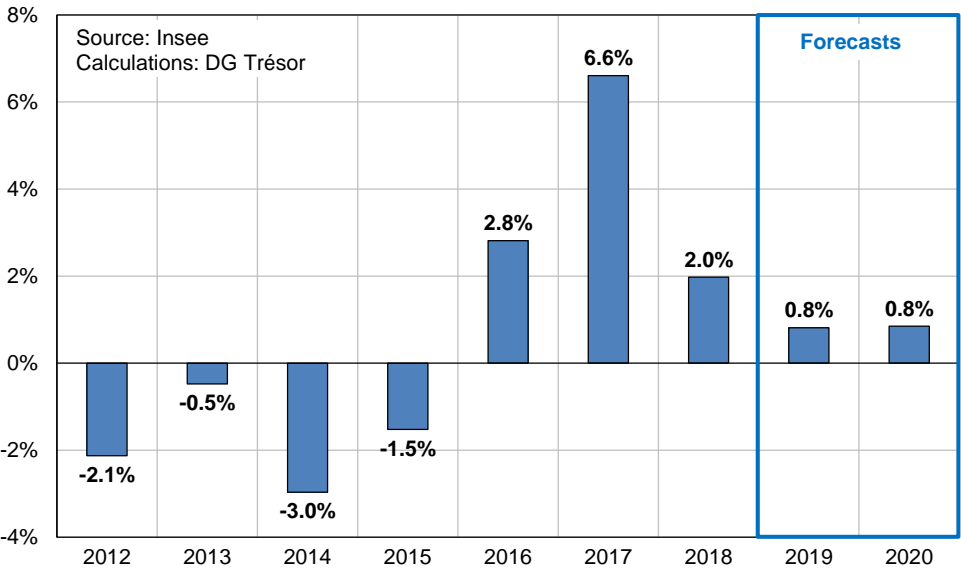


# Household investment is supported by increasing real estate transactions

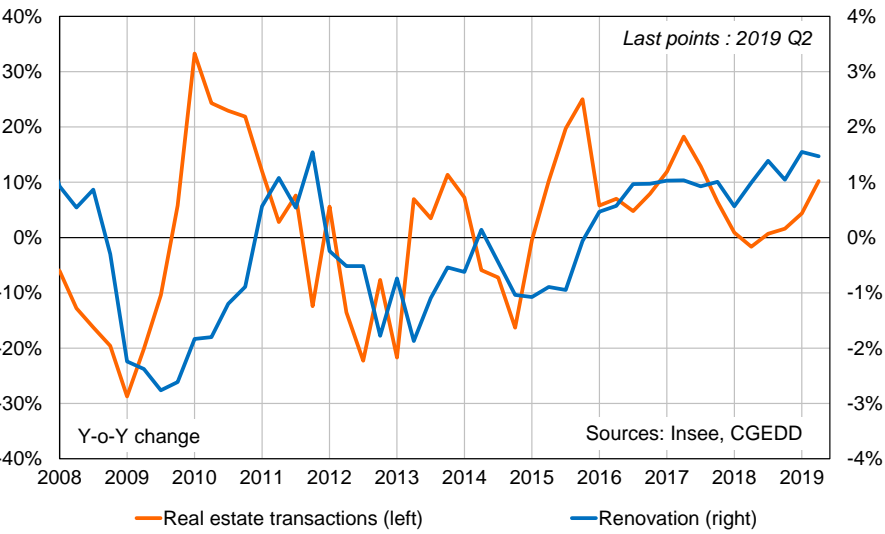
One-family dwellings building starts and Markemétron index



Household investment

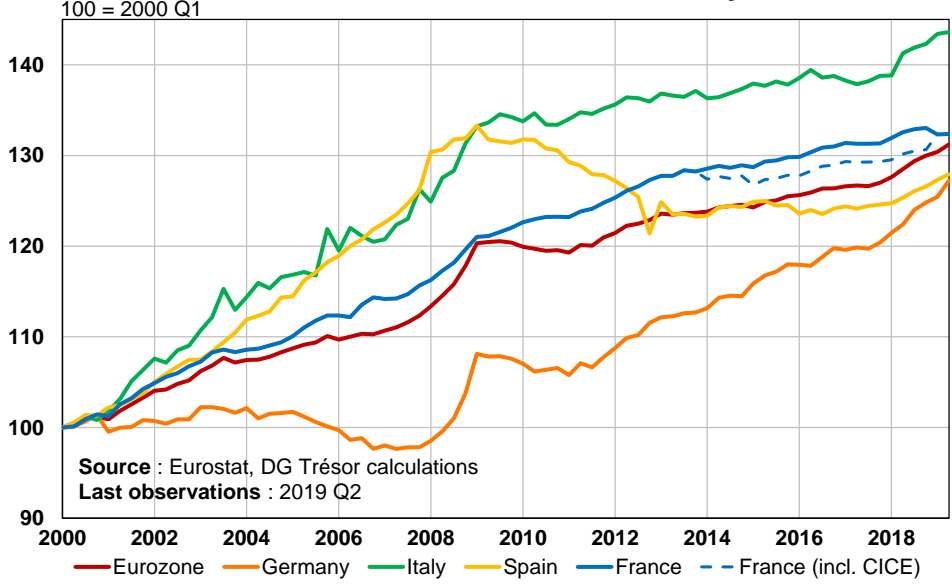


Real estate transactions and renovation

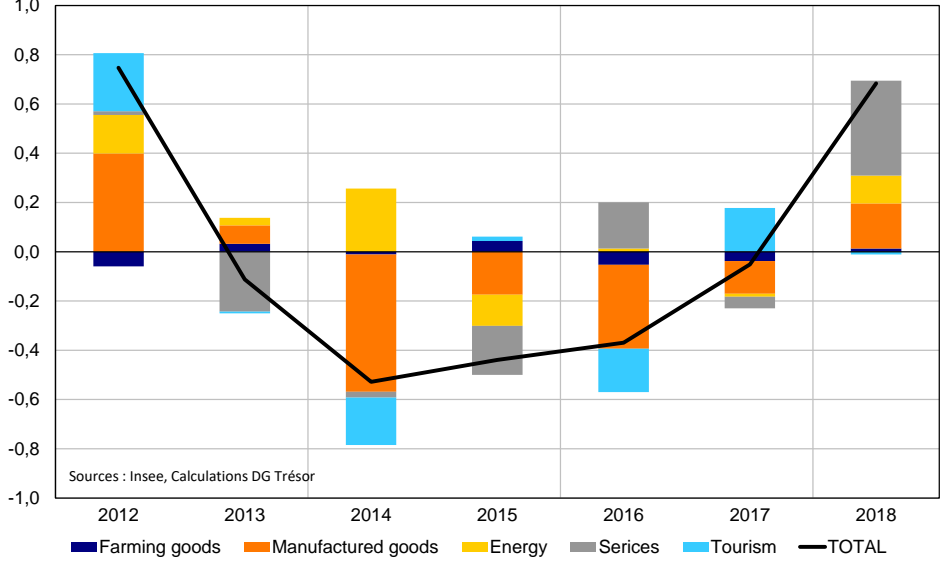


# Improved competitiveness gradually materialize in foreign trade

### Unit labour costs: total economy



### Foreign trade contribution to growth (decomposition per product)



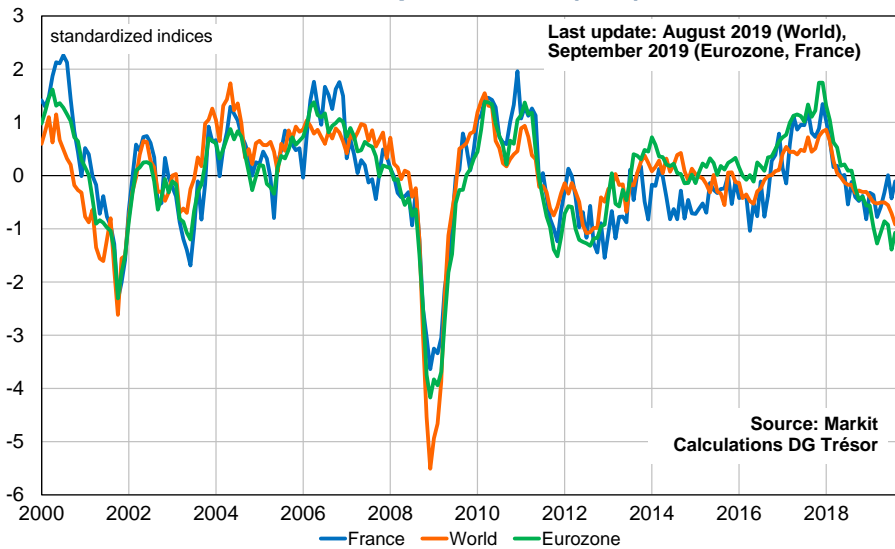
# Global activity is expected to slow in 2019, before picking up in 2020.

| GDP<br>(annual % change)           | average<br>2000-2007 | 2014       | 2015       | 2016       | 2017       | 2018       | 2019<br><i>(forecasts, WDA)</i> | 2020       |
|------------------------------------|----------------------|------------|------------|------------|------------|------------|---------------------------------|------------|
| <b>Global growth</b>               | <b>4,5</b>           | <b>3,6</b> | <b>3,4</b> | <b>3,4</b> | <b>3,8</b> | <b>3,6</b> | <b>3,1</b>                      | <b>3,3</b> |
| <i>Global growth in Pstab 2019</i> | 4,5                  | 3,6        | 3,4        | 3,2        | 3,7        | 3,7        | 3,4                             | 3,4        |
| <b>Advanced economies</b>          | <b>2,7</b>           | <b>2,1</b> | <b>2,3</b> | <b>1,7</b> | <b>2,5</b> | <b>2,2</b> | <b>1,8</b>                      | <b>1,5</b> |
| United States                      | 2,7                  | 2,5        | 2,9        | 1,6        | 2,4        | 2,9        | 2,4                             | 1,5        |
| Japan                              | 1,5                  | 0,3        | 1,3        | 0,6        | 1,9        | 0,8        | 1,2                             | 0,6        |
| United Kingdom                     | 2,8                  | 2,9        | 2,3        | 1,8        | 1,8        | 1,4        | 1,2                             | 1,3        |
| <b>Euro Zone</b>                   | <b>2,2</b>           | <b>1,4</b> | <b>2,0</b> | <b>1,9</b> | <b>2,6</b> | <b>1,9</b> | <b>1,2</b>                      | <b>1,2</b> |
| Germany                            | 1,6                  | 2,2        | 1,7        | 2,2        | 2,2        | 1,4        | 0,6                             | 0,9        |
| Italy                              | 1,5                  | 0,1        | 0,9        | 1,1        | 1,7        | 0,9        | 0,0                             | 0,5        |
| Spain                              | 3,7                  | 1,4        | 3,6        | 3,2        | 3,0        | 2,6        | 2,3                             | 1,9        |
| other advanced economies           | 3,9                  | 3,0        | 2,1        | 2,2        | 3,1        | 2,5        | 2,1                             | 2,5        |
| <b>Emerging economies</b>          | <b>6,6</b>           | <b>4,7</b> | <b>4,3</b> | <b>4,6</b> | <b>4,8</b> | <b>4,5</b> | <b>4,1</b>                      | <b>4,6</b> |
| China                              | 10,5                 | 7,3        | 6,9        | 6,7        | 6,8        | 6,6        | 6,0                             | 5,7        |

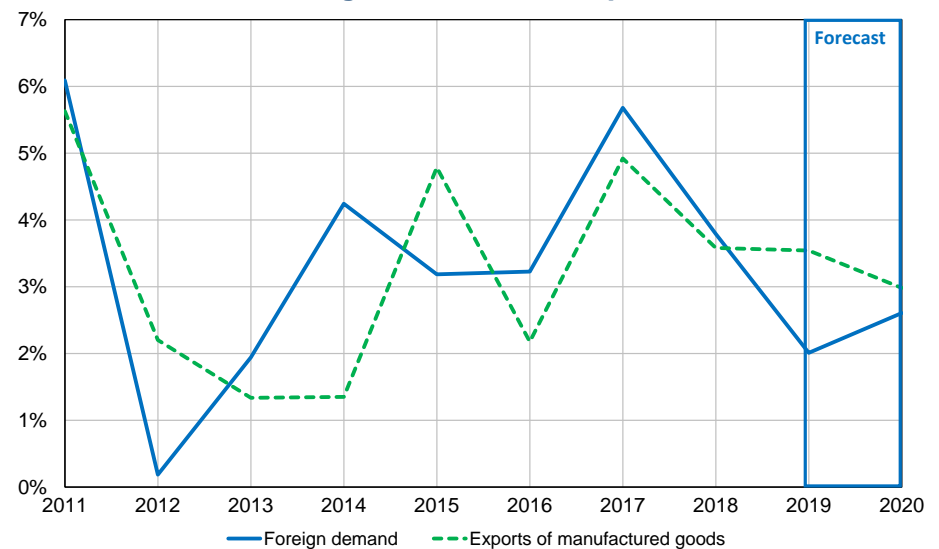


# Export performance should increase in 2019

## New export orders (PMI)



## Foreign demand and exports



*2019Q2 carry-over  
growth of  
manufactured goods'  
exports*

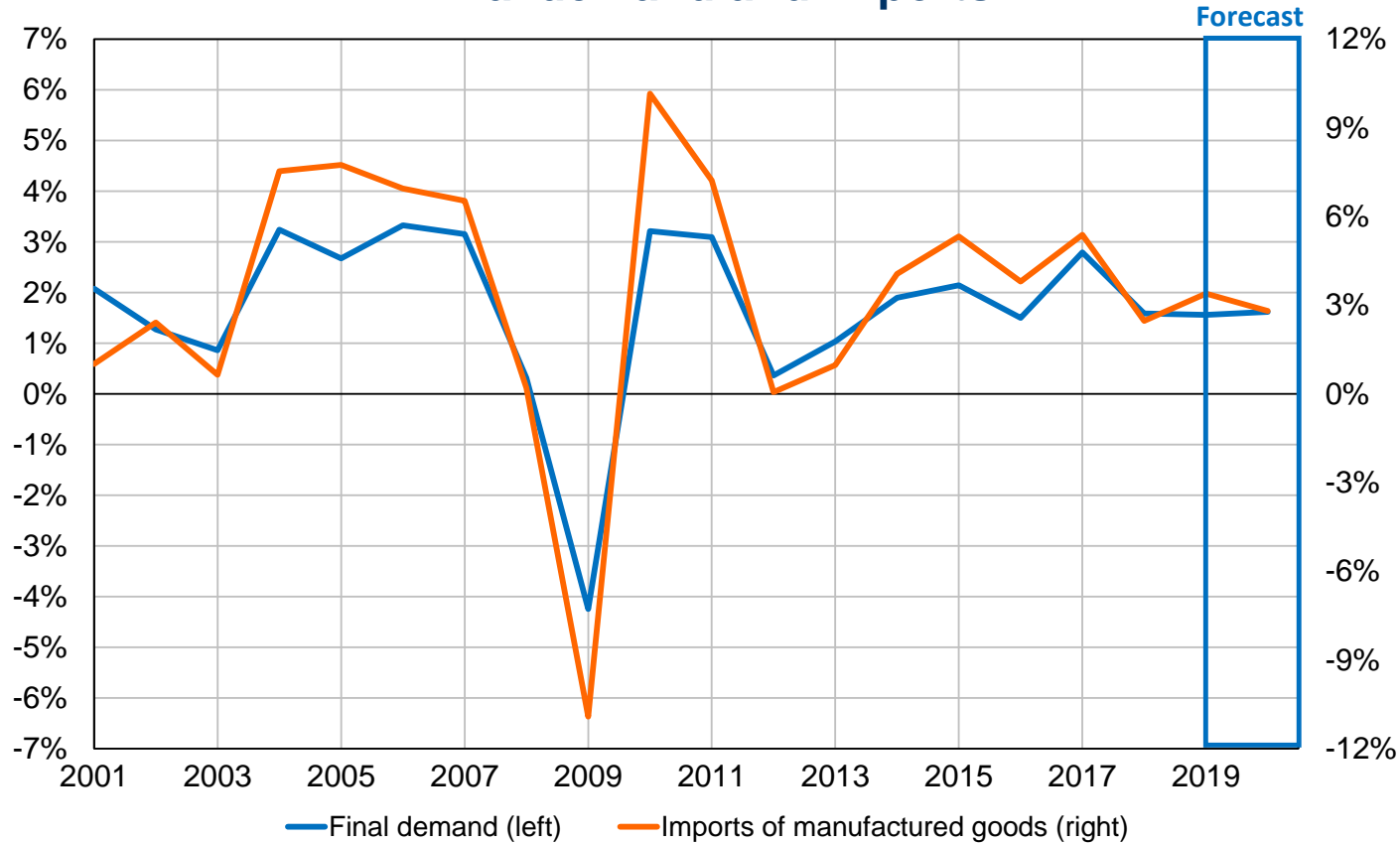
**2,9%**

*Forecast of foreign  
demand for 2019*

**2,0%**

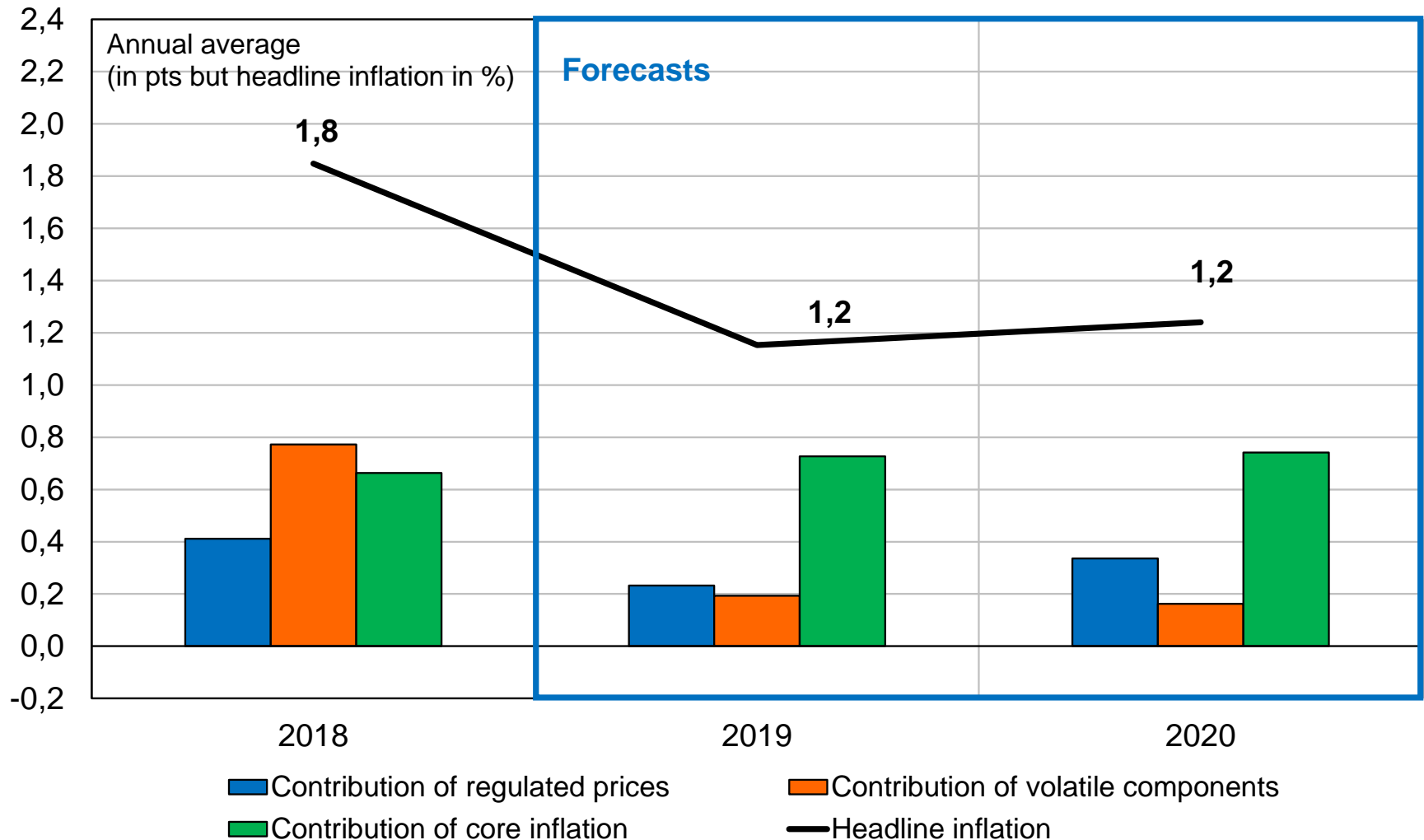
# Imports should increase in line with demand

## Final demand and imports

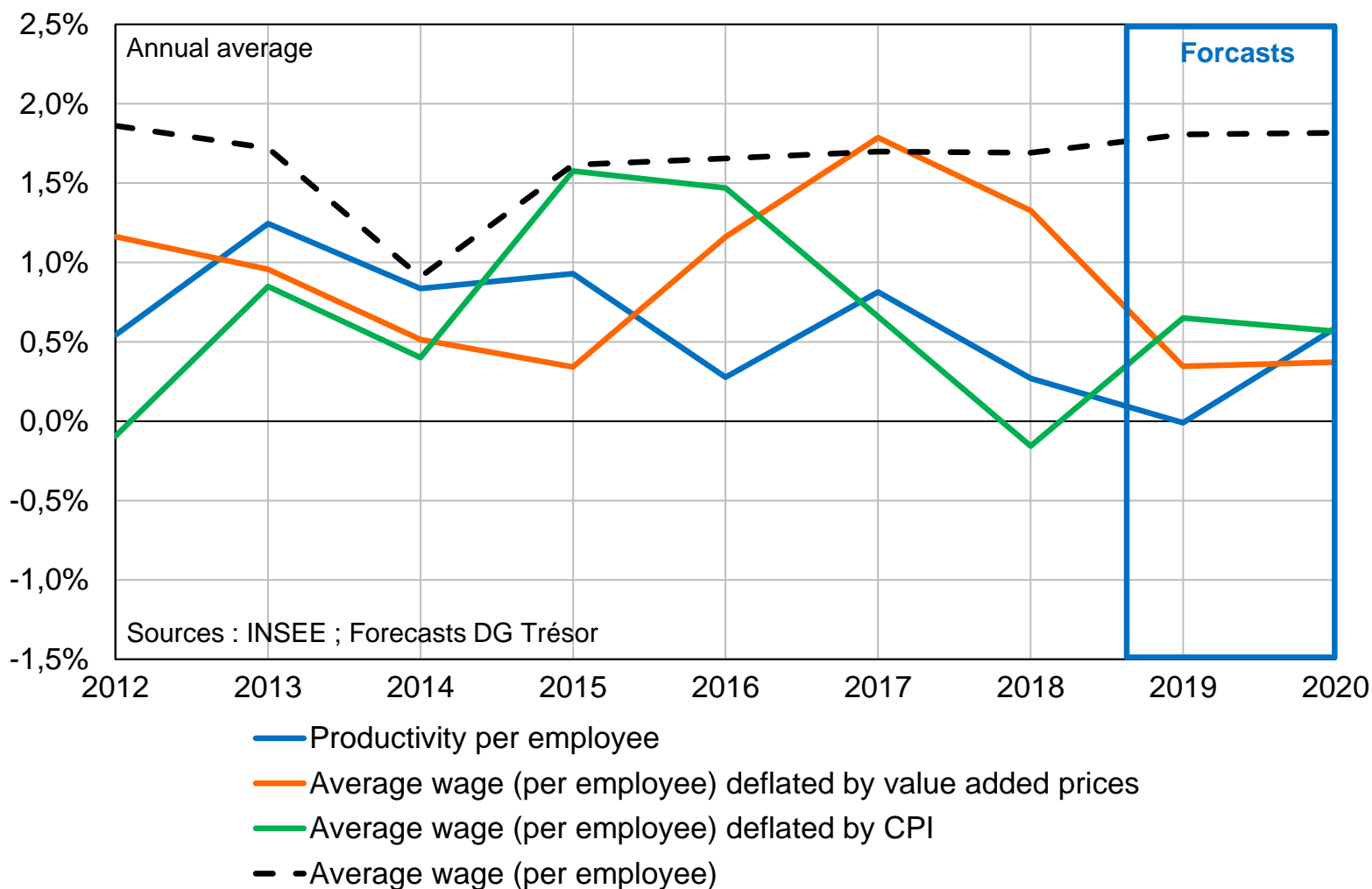


|   | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|------|------|------|------|------|------|------|------|
| Contribution of foreign trade to GDP growth | -0,1 | -0,5 | -0,4 | -0,4 | -0,1 | 0,7  | 0,0  | 0,0  |

## Contributions to headline inflation

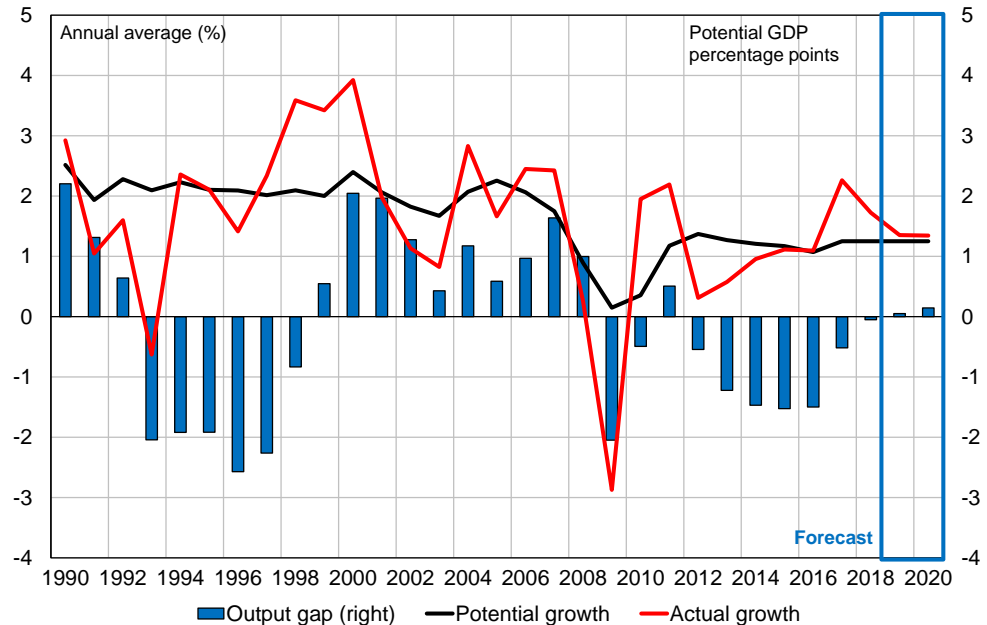
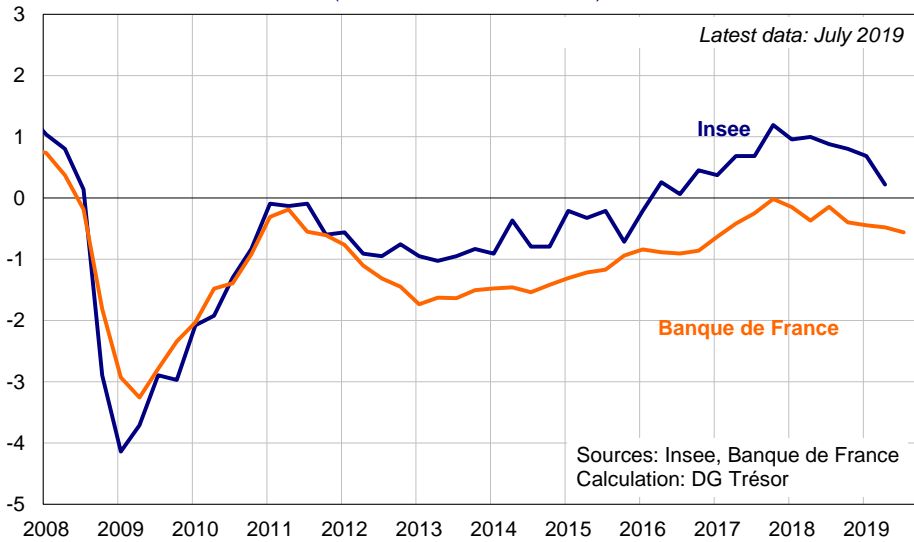


# On average over 2019-2020, real wages are expected to grow at the same rate as productivity

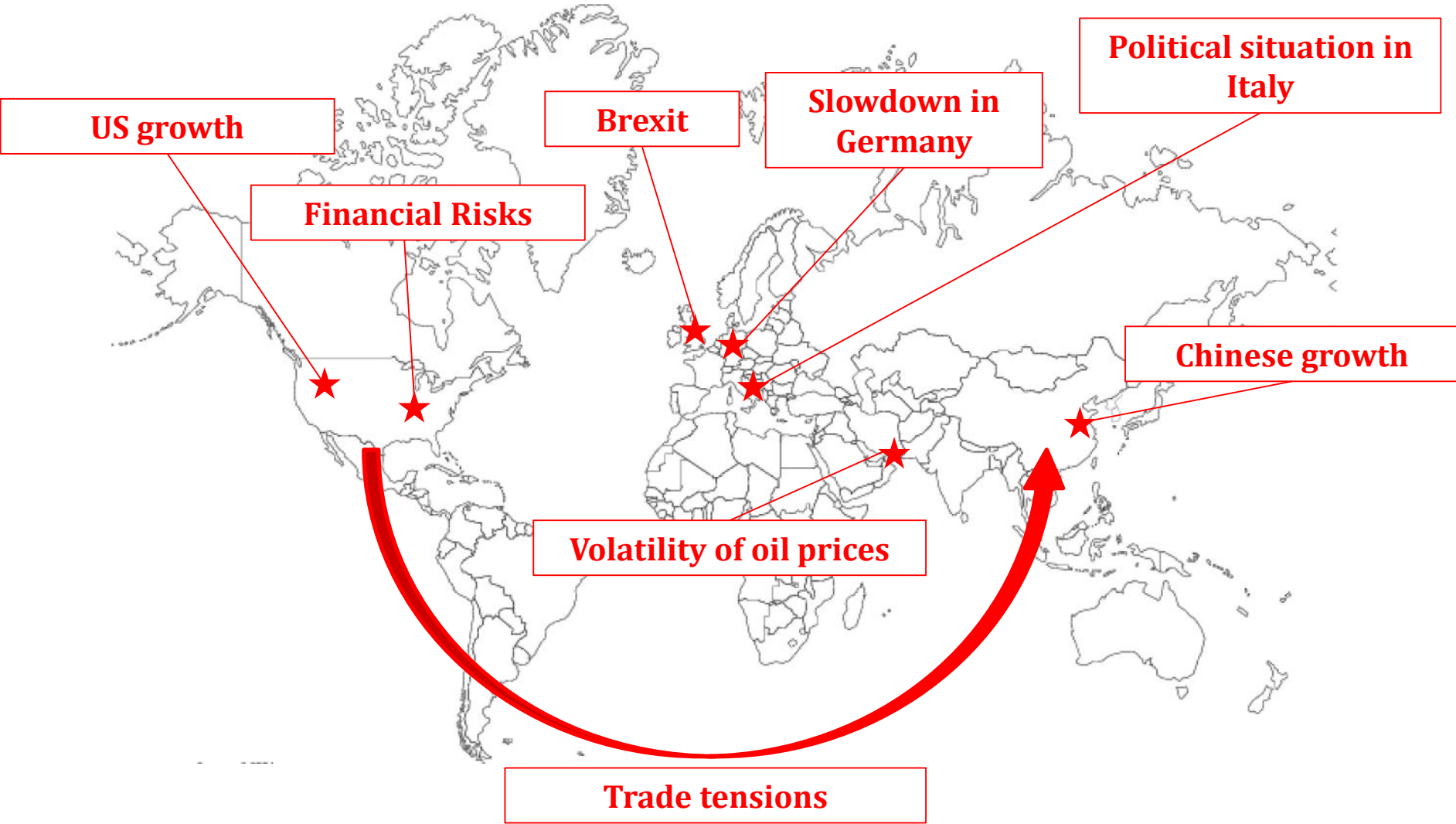


# The output gap would close in 2019, tensions on the supply side are vanishing

**Capacity utilization (industry)**  
(Center-reduced: 1981-2018)



# Many short-term risks weigh on our economic environment



## Business side:

- Given the favourable financing conditions, companies could keep investing at a very high pace, like in the previous quarters.
- Firms' wage policies are particularly uncertain due to the numerous measures put in place.

## Consumer side:

- Household consumption could remain subdued, as they have been in the first semester of 2019...
- ...or households could consume the past raises of purchasing power faster than currently foreseen.

## A forecast in line with other organizations

| <b>GDP Forecasts for France</b> |                        |             |                          |
|---------------------------------|------------------------|-------------|--------------------------|
|                                 | <i>annual % change</i> | <b>2019</b> | <b>2020</b>              |
| <i>Government</i>               | sept 2019              | <i>1.4</i>  | <i>1.3</i>               |
| <b>OECD</b>                     | sept 2019              | <b>1.3</b>  | <b>1.2</b>               |
| <b>Banque de France</b>         | sept 2019              | <b>1.3</b>  | <b>1.3</b>               |
| <b>Consensus Forecasts</b>      | sept 2019              | <b>1.3</b>  | <b>1.2</b>               |
| <b>IMF</b>                      | july 2019              | <b>1.3</b>  | <b>1.4<sup>(1)</sup></b> |
| <b>European Commission</b>      | july 2019              | <b>1.3</b>  | <b>1.4<sup>(1)</sup></b> |
| <b>INSEE</b>                    | june 2019              | <b>1.3</b>  | <b>/</b>                 |
| <b>PStab / DOFP 2019</b>        | april/july 2019        | <b>1.4</b>  | <b>1.4</b>               |

<sup>(1)</sup>non working-day adjusted data (WDA)

Using WDA data, the IMF and the Commission forecast for 2020 would be 1.3%.





- **Economic outlook**
- **Public finances and main features of the 2020 Budget**
- **Funding Program**

# A sustainable return below 3%

|   |                  | 2018 | 2019 | 2020 |
|---|------------------|------|------|------|
| <b>General Government balance</b>   | (% GDP)          | -2,5 | -3,1 | -2,2 |
| <b>Tax and social contributions rate (excl. <i>France Compétences</i>)*</b>                   | (% GDP)          | 45,0 | 43,8 | 44,0 |
| <b>Public expenditure ratio (excl. <i>France Compétences</i>)**</b>                           | (% GDP)          | 54,4 | 53,8 | 53,4 |
| <b>Public expenditure growth rate, excl. Tax credits (excl. <i>France Compétences</i>)***</b> | (nominal growth) | +1,4 | +1,7 | +1,7 |
|   | (real growth)    | -0,3 | +0,7 | +0,7 |
| <b>Debt</b>   | (% GDP)          | 98,4 | 98,8 | 98,7 |

Note:

\*44,0% in 2019 and 44,3% in 2020 incl. *France Compétences*;

\*\*54,0% in 2019 and 53,6% incl. *France Compétences*;

\*\*\*incl. *France Compétences*, public expenditure growth rate would be +2,1% in 2019 and +1,8% in 2020 in nominal terms and +1,1% and +0,8% in real terms.

# Ambitious measures have been implemented to bolster households' purchasing power...

- **Approx. €10Bn's worth of purchasing power** has been restituted to French households in 2019 following presidential announcements in December 2018, **€4Bn of which have been compensated.**
- Following the national consultation, President Macron unveiled in April a **€5Bn tax cut on personal income tax** and a **re-indexation of small pensions on inflation** (approx. €1Bn), both of which to be implemented through the 2020 budget bill.
- **The measures announced in April have been in part compensated by:**
  - *A downsizing of tax expenditure and a slowdown in the decrease of corporate tax rate for the biggest companies (total of €1½ Bn) ;*
  - *A lower debt burden in a context of low interest rates and savings due to lower contributions to the EU budget (approx. €3Bn).*

# ... and have brought the Gouvernement to adapt the rythm of fiscal consolidation in the short run

| (% GDP - (*) % GDP potential)           | 2018       | 2019       | 2020       |
|---|------------|------------|------------|
| <b>Headline balance</b>                 | -2,5       | -3,1       | -2,2       |
| <b>Cyclical component</b>               | 0,0        | 0,0        | 0,1        |
| <b>One-offs (*)</b>                     | -0,2       | -0,9       | -0,1       |
| <b>Structural balance (*)</b>           | -2,3       | -2,2       | -2,2       |
| <b><i>Structural adjustment (*)</i></b> | <i>0,1</i> | <i>0,1</i> | <i>0,0</i> |
| <b>Output gap (*)</b>                   | -0,1       | 0,0        | 0,1        |

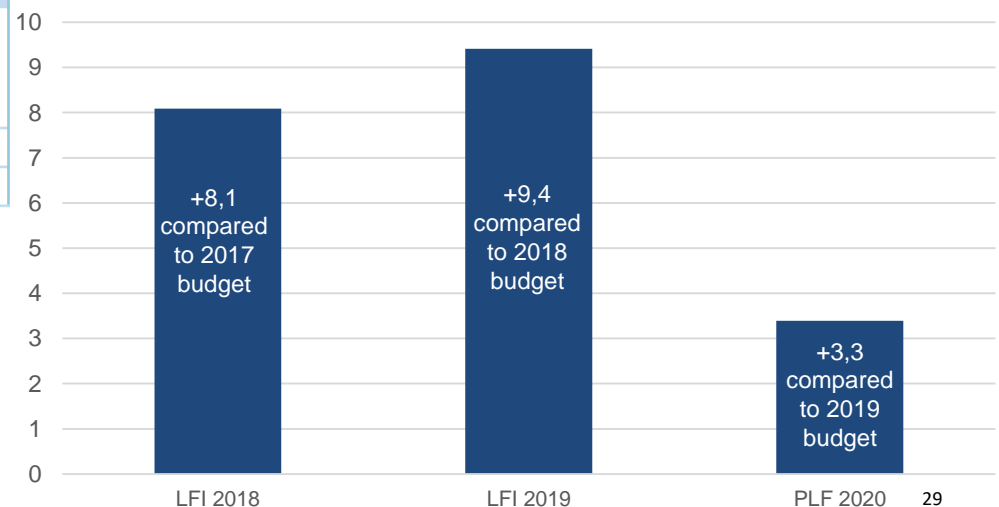
# Central government expenditure growth will be limited thanks to the continuation of the reforms announced at the beginning of the mandate

- These priorities will be financed through a continuous effort to limit expenditure growth.
- Regarding the Central State and its agencies, reforms will be enhanced with, in particular, the continuation of :
  - The effects of the reform of **employment policy** ;
  - The **transformation of public action** with the modernisation of the organisation of the administration (diplomatic network; territorial organization; tax administration network), which will generate 3,335 net job cuts ;
  - **Reform of public broadcasting and housing policy** (implementation of the update of the resource base)
- **The progression of the controllable expenditure norm and the total State expenditure norm will be contained**

|  | LFI 2018 | LFI 2019 | PLF 2020 |
|--|----------|----------|----------|
| Controllable expenditure norm (2020 constant coverage) - €bn | 257,2    | 262,9    | 268,0    |
| Nominal growth   | 2,0%     | 2,2%     | 2,0%     |
| Real growth  | 0,4%     | 1,2%     | 0,9%     |

Evolution of controllable expenditure norm

Total State expenditure annual growth (€bn)



# The Government's strategy of controlling public spending is confirmed

The draft finance bill for 2020 **confirms the Government's strategy** :

- **to restore the sustainability of our public finances** ;
- **to reduce tax burden** ;
- **while financing the Government's priorities.**

**Funding for State's strategic missions is maintained** :

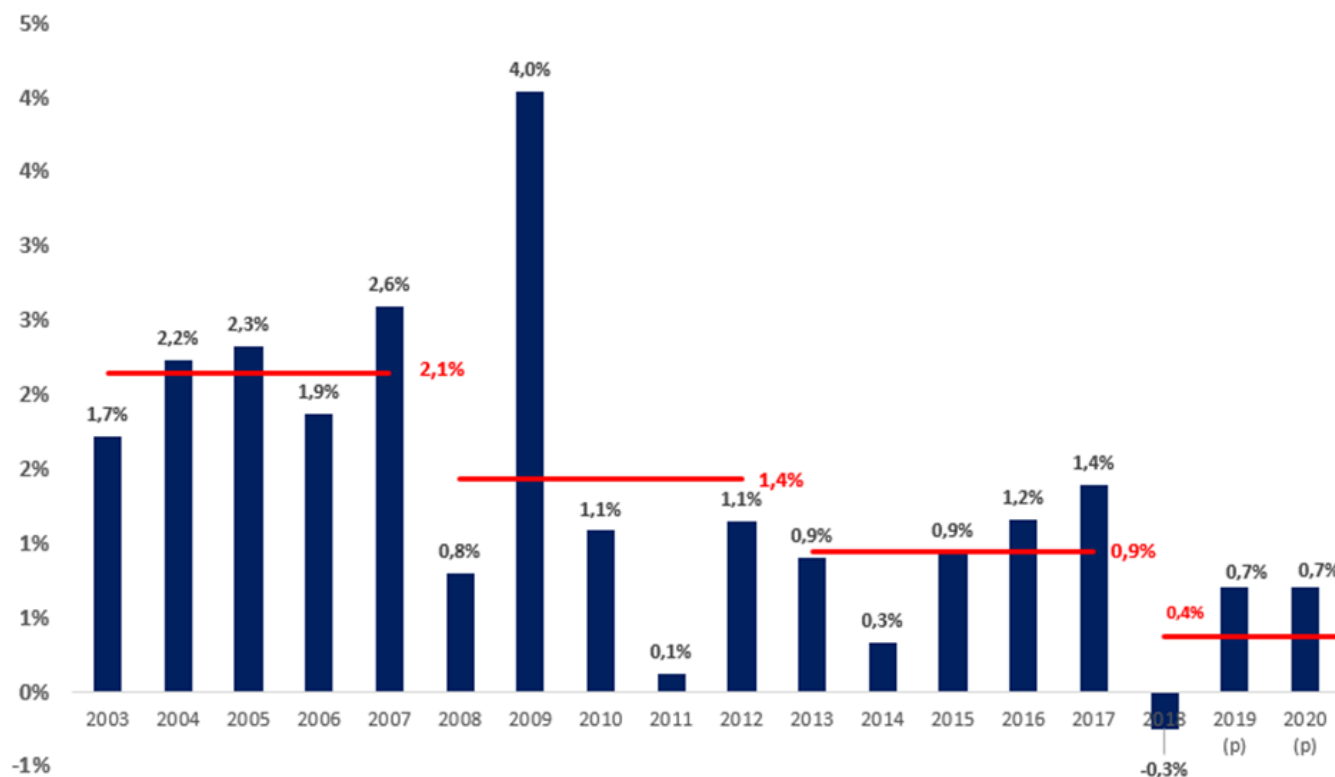
- To foster the **State's sovereign spending** allocated to defence (+€1.7 billion in 2020), justice (+€200 billion and creation of 1,520 jobs) and security (job creations will reach 10,000 by 2022);
- To give back **purchasing power to working people** with a new increase of the "*prime d'activité*" (+0.3% in 2020) and the **extension of the exceptional bonus** ("*prime exceptionnelle*") exempt from income tax and social contributions ;
- To prepare for the future by **responding to the ecological emergency** (transformation of the tax credit for energy transition into a bonus; increased investment in daily transportation) and by **strengthening our efforts dedicated to youth and human capital** (increase in funding for education by €4.5 billion over the 5-year period, which will finance the gradual reduction in the number of pupils per class ; deployment of the Universal National Service).

# Social security funds and local governments will continue to contribute to the overall reduction of public expenditure

- **Efforts will be made on social benefits**
  - controlled revaluation of pensions and certain social benefits
  - health-related spending target (Ondam) at +2,5% in 2019 (to finance investments in hospital infrastructure) and +2,3% in 2020 (after executing at +2,2% in 2018) ;
  - savings stemming from the reform of unemployment benefits would also rise over its first full year in 2020.
- Objectives set by the **contracts signed between local governments and the central government (capped growth of operating expenditures at +1,2% per year)** are expected to be successful in light of the excellent results observed in 2018 (+0,7% on the scope covered by the contracts) ;
- **Expected slowdown of local investment spending in 2020**, in accordance with the local elections calendar.

# After an unprecedented contraction in 2018, the evolution of public expenditure would remain well under control by 2020...

**Public expenditure growth rate  
in real terms, excl. tax credits, constant scope (in %)**

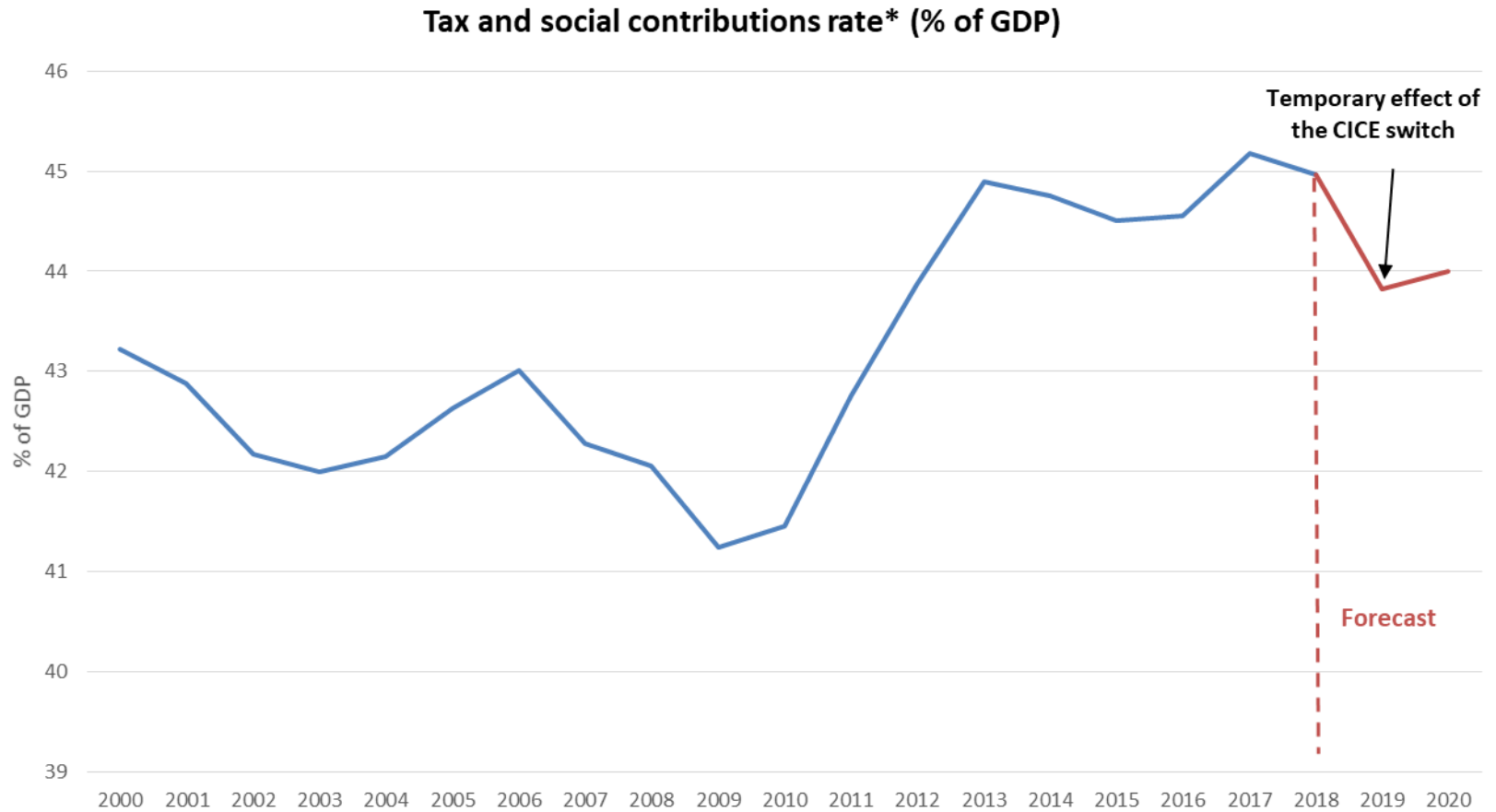




# ... allowing tax cuts for households and firms.

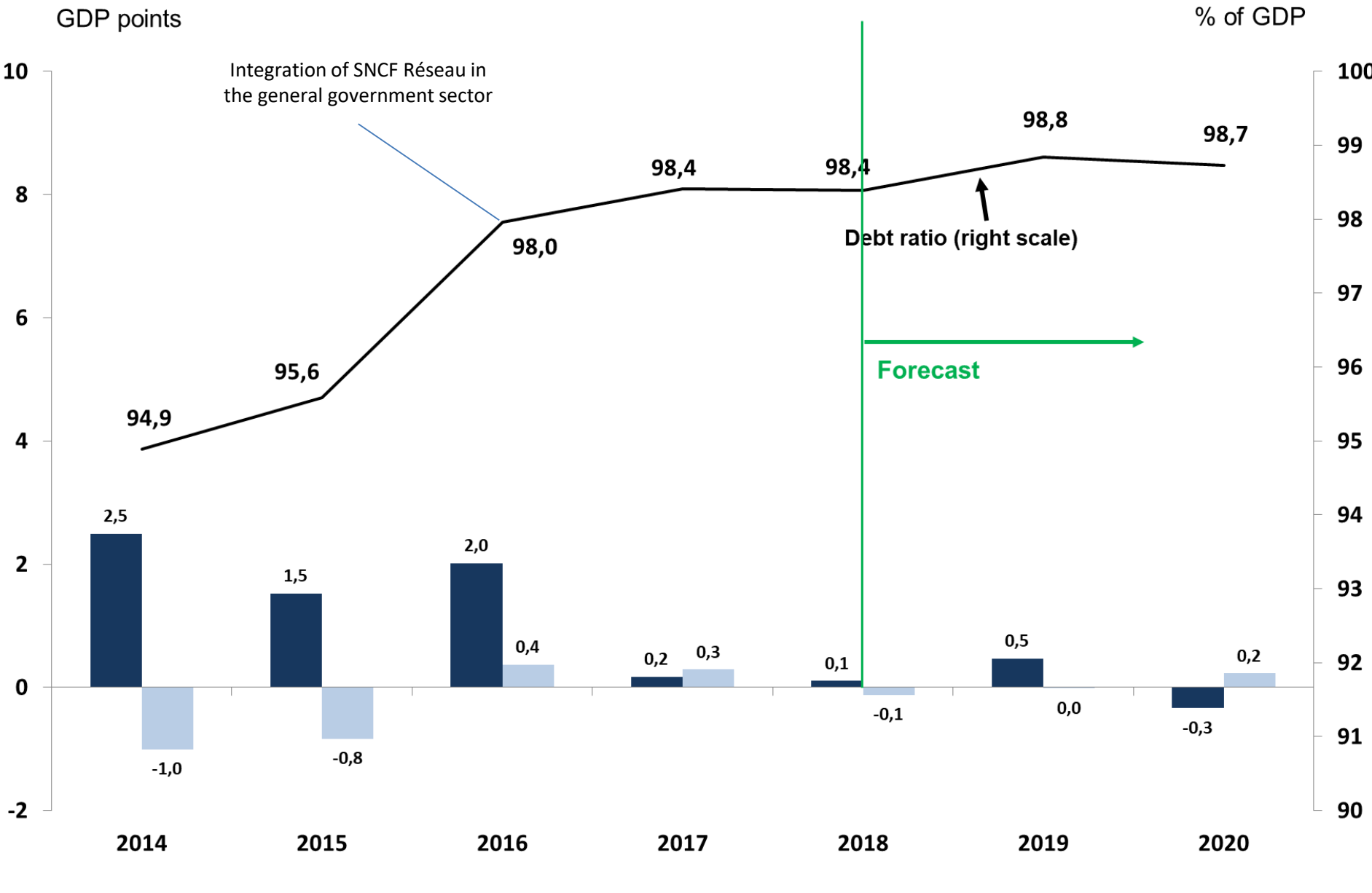
| In € Bn  | 2018        | 2019         | 2020         |
|--|-------------|--------------|--------------|
| <b>Households</b>  | <b>-1,1</b> | <b>-10,3</b> | <b>-9,3</b>  |
| Resident tax rebate for 80% of the households                      | -2,9        | -3,6         | -3,7         |
| Creation of a property wealth tax (IFI)                            | -3,2        |              |              |
| Instauration of a single fixed levy (PFU)                          | -1,4        | -0,3         | -0,1         |
| Increase in pension contributions                                  |             | 1,1          | -0,1         |
| CSG SSCs switch  | 4,4         | -4,0         | -0,3         |
| Decrease of the CSG for low pensions                               |             | -1,6         | 0,1          |
| Tobacco taxes (net from behavioural effects)                       | 0,9         | 0,4          | 0,4          |
| Green taxes (households' part = 66 %)                              | 2,4         | -0,0         | 0,0          |
| Broadening of the home workers employment tax credit               | -1,0        |              |              |
| Extension of the energy transition tax credit (CITE)               | -0,3        | 0,8          | 0,0          |
| Exemption of tax and contribution on overtime work                 |             | -3,0         | -0,8         |
| Personal income tax reduction (announced April 25)                 |             |              | -5,0         |
| <b>Firms</b>   | <b>-8,6</b> | <b>0,1</b>   | <b>-1,0</b>  |
| Cutting the corporate tax rate from 33% to 25%                     | -1,2        | -0,8         | -2,5         |
| CICE - progression and increased rate from 6% to 7%                | -3,3        | -0,4         | -0,0         |
| Temporary corporate income surtaxe                                 | -4,8        | -0,1         |              |
| Green taxes (firm's part = 34 %)                                   | 1,3         | -0,1         | 0,0          |
| Increase in pension contributions (Agirc-Arrco, firm's part)       |             | 0,7          |              |
| Reform of the tax consolidation regime                             |             | 0,4          | 0,2          |
| Creation of a french digital tax                                   |             | 0,4          | 0,1          |
| Creation of a tax credit on the salary tax                         | -0,6        | -0,0         | 0,6          |
| Reduction of tax expenditure on non-road fuel                      |             |              | 0,2          |
| Reduction of specific lump-sum deduction                           |             |              | 0,4          |
| Ressources dedicated to France compétences institution             | 0,3         | 1,3          |              |
| <b>Total excl. CICE switch (excl. France Compétences)</b>          | <b>-9,4</b> | <b>-8,8</b>  | <b>-10,2</b> |
| <b>Temporary impact of the CICE SSCs switch (effet sur les PO)</b> |             | <b>-20,0</b> | <b>13,5</b>  |
| <b>Total (excl. France Compétences)</b>                            | <b>-9,4</b> | <b>-28,9</b> | <b>3,3</b>   |

# Tax and social contributions rate would decrease significantly



\**excl. France Compétences*

# Public debt would start to decrease in 2020



■ Contribution of the debt-stabilizing budget balance differential   ■ Contribution of the stock-flow adjustment to debt

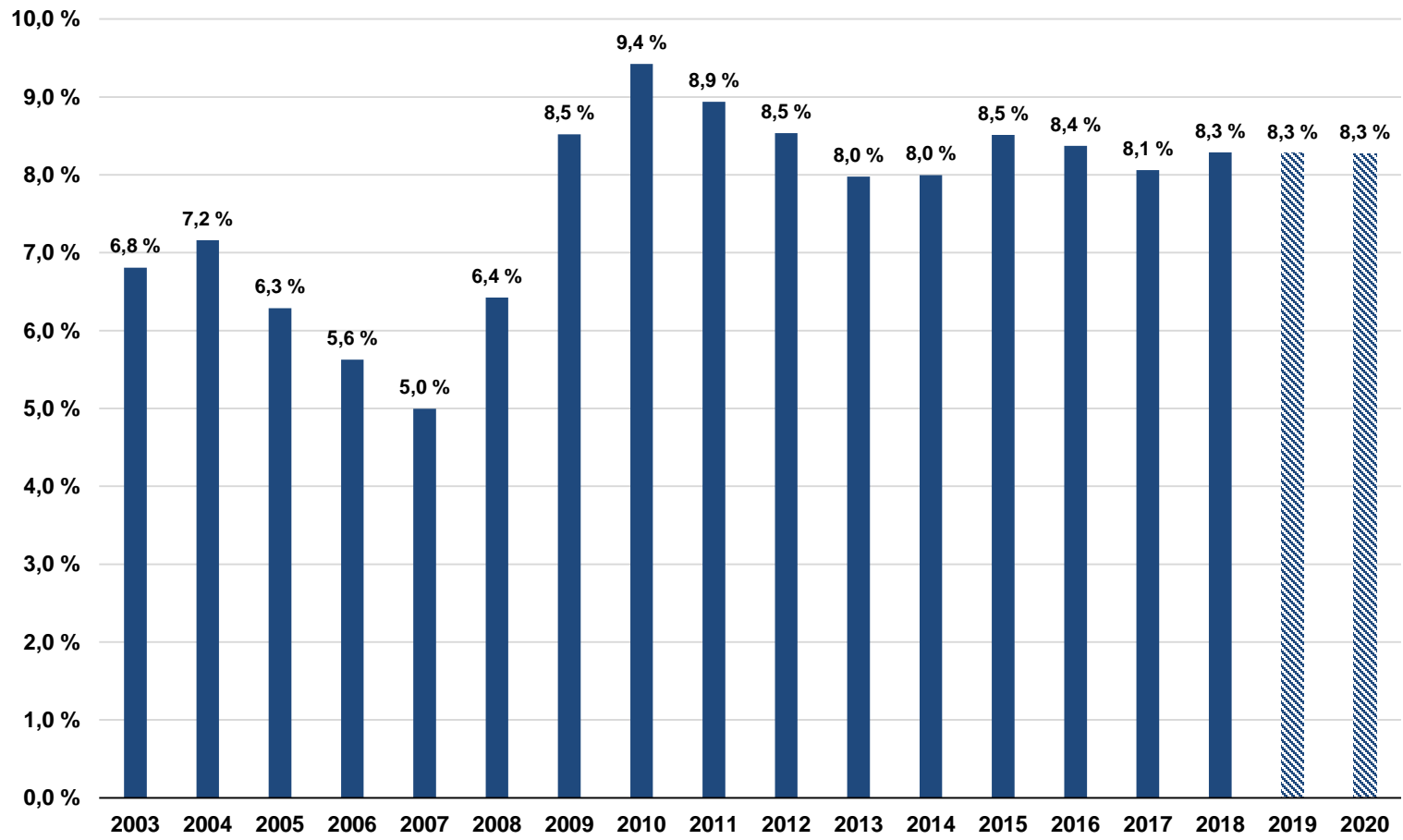


- **Economic outlook**
- **Public finances and main features of the 2020 Budget**
- **Funding Program**

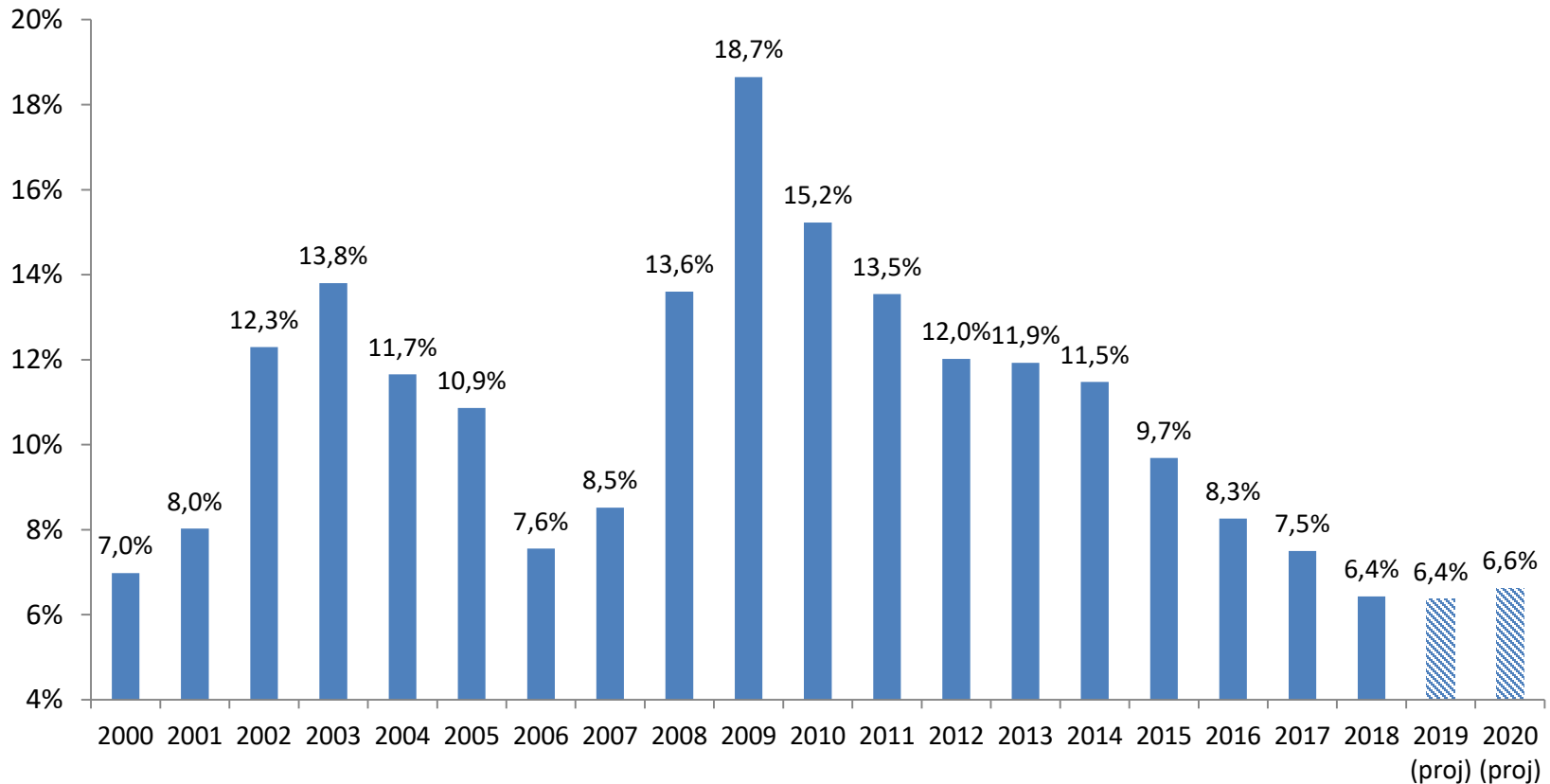
| <i>In € billion</i>   | 2019 LFI     | 2019         | Change       |
|---|--------------|--------------|--------------|
| <b>Financing requirements</b>                                     |              |              |              |
| Redemption of medium and long-term                                | 130,2        | 130,2        | 0,0          |
| Redemption of medium and long-term (nominal value)                | 128,9        | 128,9        | 0,0          |
| Supplementary payments at maturity on inflation linked-bonds      | 1,3          | 1,3          | 0,0          |
| Redemption of other debts   | 0,0          | 0,0          | 0,0          |
| Deficit to be financed  | 107,7        | 96,3         | -11,4        |
| Other cash requirements   | -1,3         | -1,0         | 0,3          |
| <b>Total</b>  | <b>236,6</b> | <b>225,5</b> | <b>-11,1</b> |
| <b>Financing resources</b>  |              |              |              |
| Medium and long-term debt issuance net of buy backs               | 200,0        | 200,0        | 0,0          |
| Funds allocated to the Caisse de la Dette Publique to reduce debt | 2,0          | 0,0          | -2,0         |
| Net change in outstanding short-term government securities        | 15,0         | 4,0          | -11,0        |
| Change in correspondents' deposits                                | 11,0         | 5,0          | -6,0         |
| Change in cash available in the Treasury's account                | 5,1          | 4,0          | -1,1         |
| Other cash sources  | 3,5          | 12,5         | 9,0          |
| <b>Total</b>  | <b>236,6</b> | <b>225,5</b> | <b>-11,1</b> |

| <i>In € billion</i>   | 2019         | 2020         | Change     |
|---|--------------|--------------|------------|
| <b>Financing requirements</b>                                     |              |              |            |
| Redemption of medium- and long-term                               | 130.2        | 136.4        | 6,2        |
| Redemption of medium- and long-term debt (at nominal value)       | 128.9        | 130.5        | 1,6        |
| Supplementary payments at maturity on inflation-linked bonds      | 1.3          | 5.9          | 4,6        |
| Redemption of other debts   | 0.0          | 0.5          | 0,5        |
| SNCF Réseau - redemptions   | -            | 1.8          | 1,8        |
| Deficit to be financed  | 96.3         | 93.1         | -3,2       |
| Other cash requirements   | -1.0         | -1.3         | -0,3       |
| <b>Total</b>  | <b>225.5</b> | <b>230.5</b> | <b>5,0</b> |
| <b>Financing resources</b>  |              |              |            |
| Medium- and long-term debt issuance net of buybacks               | 200.0        | 205.0        | 5,0        |
| Funds allocated to the Caisse de la Dette Publique to reduce debt | 0.0          | 2.0          | 2,0        |
| Net change in outstanding short-term government securities        | 4.0          | 10.0         | 6,0        |
| Change in correspondents' deposits                                | 5.0          | 6.4          | 1,4        |
| Change in cash available in the Treasury's account                | 4.0          | 3.6          | -0,4       |
| Other cash sources  | 12.5         | 3.5          | -9,0       |
| <b>Total</b>  | <b>225.5</b> | <b>230.5</b> | <b>5,0</b> |

# Size of the net funding program in % of GDP



Source : AFT, Bloomberg





## FUNDING CONDITIONS

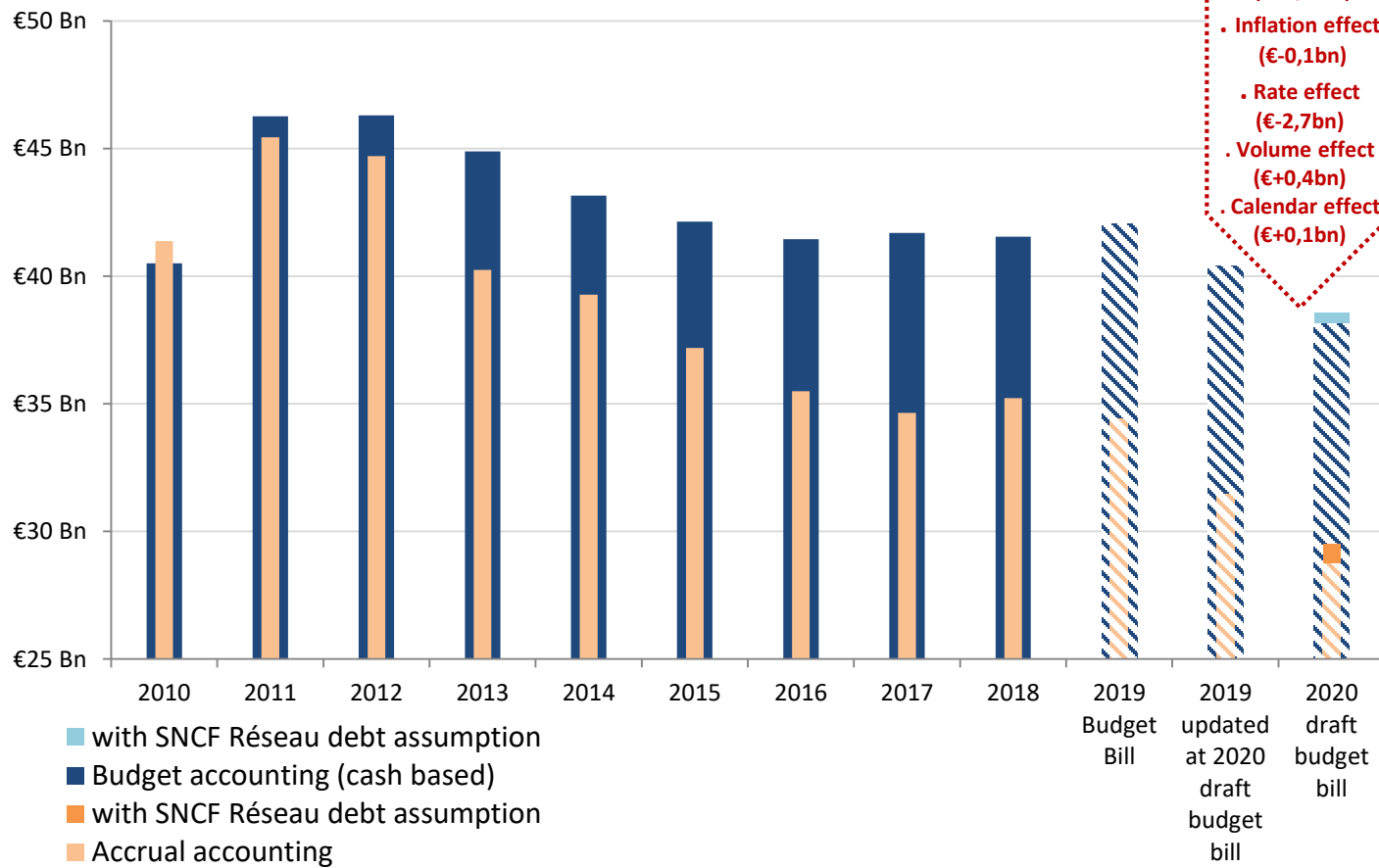
| Weighted average rates        |   | Average<br>1998-2008 | Average<br>2009-2015 | Year<br>2017 | Year<br>2018 | Year<br>2019 | Q4<br>2018 | Q1<br>2019 | Q2<br>2019 | Q3 *<br>2019 | July<br>2019 | Aug.<br>2019 | Sep. *<br>2019 |
|-------------------------------|---|----------------------|----------------------|--------------|--------------|--------------|------------|------------|------------|--------------|--------------|--------------|----------------|
| SHORT<br>TERM                 | Total T Bills   | 3.15%                | 0.18%                | -0.62%       | -0.60%       | -0.57%       | -0.67%     | -0.54%     | -0.55%     | -0.61%       | -0.58%       | -0.64%       | -0.63%         |
|                               | of which 3-Month T Bills                                  | 3.10%                | 0.14%                | -0.63%       | -0.60%       | -0.55%       | -0.70%     | -0.54%     | -0.54%     | -0.58%       | -0.55%       | -0.59%       | -0.59%         |
| MEDIUM<br>AND<br>LONG<br>TERM | Bonds issuances over one year maturity (excluded linkers) | 4.15%                | 1.75%                | 0.65%        | 0.53%        | 0.17%        | 0.50%      | 0.42%      | 0.15%      | -0.21%       | -0.21%       | -0.09%       | 0.04%**        |
|                               | of which 10 Year Bonds issuances (excluded linkers)       | 4.44%                | 2.31%                | 0.83%        | 0.81%        | 0.33%        | 0.84%      | 0.61%      | 0.31%      | -0.23%       | -0.13%       | -            | -0.36%         |

data updated to September 23<sup>rd</sup> 2019

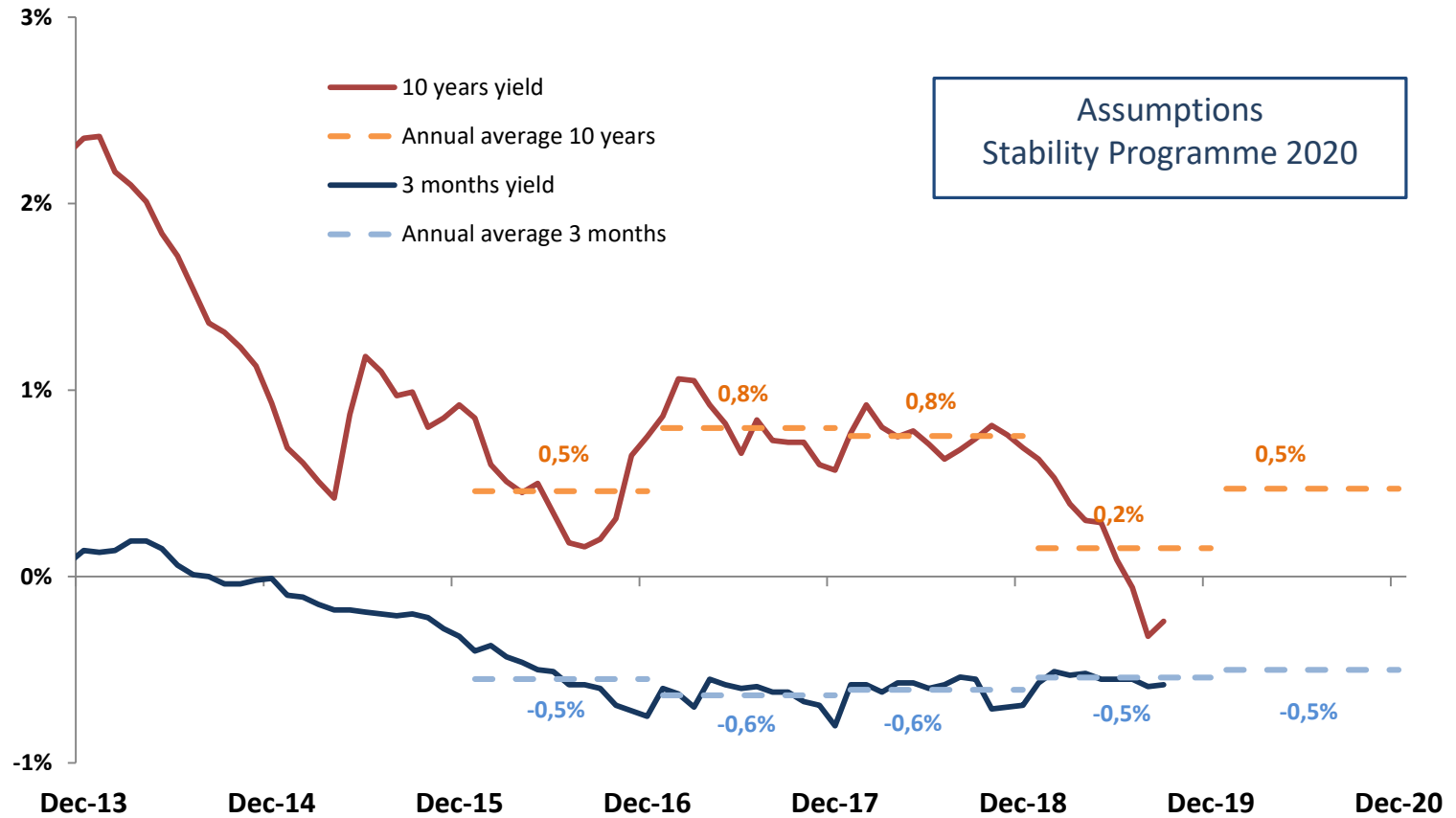
\* partial results

Source: AFT

# The debt burden will decrease in 2020



Source: PLF 2020



Source: AFT, PLF 2020