

Public Finance Assessment of the 2023 draft budget ("2023 DB") and the draft multiannual financial programming law for the years 2022-2026 ("2022-2026 PLFP")

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In its latest "Public Finance Assessment", the National Council of Public Finances ("CNFP") takes note of the Government's use of the "exceptional circumstances" clause for the years 2022 and 2023. This clause is embedded in the national legislation and is triggered in view of the application at European level of the "general escape clause". As a result, the Government is not obliged to respect the medium-term budgetary objective ("MTO") set at 0.50% of GDP in 2022 and 0.00% of GDP in 2023.

For the years 2024-2026, the 2022-2026 PLFP sets the MTO at 0.00%. Considering the macroeconomic and budgetary projections used in the 2022-2026 PLFP, public finances would not be in line with the current rule concerning the compliance of the structural balance with the MTO in 2024 and the budgetary documents provide no gradual adjustment path for the years 2025 and 2026. However, it should be noted, that the European Commission ("EC") recently (November 9) provided guidance for a future reform of the fiscal governance framework. Therefore, the CNFP considers the conclusion as to whether or not the budgetary framework will be respected in the medium term as currently premature.

Regarding the macroeconomic forecasts, growth in economic activity, which is currently close to that observed at the European level (2.5% compared to 2.7%), is expected to slow down in 2023 (2.0%), although it will be higher than growth expected at the European level (1.1%). In the period 2024 to 2026, growth should slightly exceed the 2% mark. Considering the inflation forecasts, the 2022-2026 PLFP takes into account the measures of the tripartite agreement and assumes an inflation rate of 6.2% in 2022 and 2.8% in 2023. Thereafter, assuming that the energy price shock is only transitory, inflation should reach 2.4% in 2024, 1.5% in 2025 and 1.7% in 2026. The macroeconomic projections do not call for any particular objection if they are assessed based on the information available at the time of preparation of the 2023 PB and the 2022-2026 PLFP, but may prove to be too optimistic if the latest forecasts of the various international institutions are considered.

Regarding the fiscal forecasts, the measures taken by the government to support households and businesses to mitigate the impact of higher energy prices continue to weigh on the nominal general government balance and partly explain the significant deterioration in fiscal balances in the 2022-2026 PLFP. The general government deficits in 2022 and 2023, which are expected to reach -0.4% and -2.2% of GDP respectively, would be slightly worse (about 0.4 percentage point of GDP on average) than those recently published by the EC, despite a higher economic growth forecast (by about 1 percentage point on average) than that used by the EC. Hence, the deficits for the years 2022 and 2023 could a priori be qualified as prudent. In the medium term, even if revenue growth rates were assumed to exceed expenditure growth rates, they would be insufficient to compensate for the strong expenditure growth rates in 2022-2023. While the measures taken by the government should end in 2023, expenditures, some of which appear to be rigidly downward, would nevertheless increase further in the following years. As a result, the general government balance is expected to improve only slowly to stand at -0.9% of GDP in 2026, and, in particular, the deficit of the central government would persist (it goes from -2.3% of GDP in 2024 to -1.7% of GDP in 2026).

The public debt continues its upward trend observed for several years and is expected to reach 27.7% in 2024 (compared to 26.3% projected for this year by the EC) and 29.5% of GDP in 2026. The government's

objective of keeping debt below 30% of GDP is thus respected, but with a small margin. The projected evolution could reduce the budgetary room for maneuver in case of a worsening of the situation or in case of a new crisis, particularly in conjunction with the already high increase projected for current taxes on income, wealth, etc. in 2024-2026.