

# Prospects

No. 22/293 – 13 October 2022

## FRANCE - 2023 Draft Budget Bill

### A public deficit stabilised against a backdrop of crises

- On 26 September, the French government presented its draft budget bill (*Projet de Loi de Finances*) for 2023. This bill meets several objectives. On the one hand, it aims to start normalising public accounts following the strong fiscal stimulus over 2020-2021. On the other hand, it aims to support economic policy priorities, strengthen potential growth and continue to protect households in the face of the inflationary shock.
- In 2023, the public deficit is expected to remain high, at 5% of GDP, as in 2022.
- The bill's underlying growth forecasts are a rebound of 2.7% in GDP in 2022 and 1% in 2023. The output gap between GDP and potential GDP would remain negative. Inflation looks set to slow to 4.2% in 2023 after 5.3% in 2022.
- The slowdown in activity would lead to a slight deterioration in the cyclical balance, from -0.6% to -0.8%.
- The structural deficit would remain high, but would be very slightly reduced to 4% of GDP in 2023 after 4.2% in 2022.
- New tax cuts and expense reductions have been implemented, albeit on a fairly limited scale, at €8bn (removal of CVAE for companies and the final step in the elimination of the housing tax on main residences).
- Exceptional spending measures, linked to the various crises (health crisis and inflationary shock) and the stimulus plan, remain massive, but fall back in 2023 compared to 2022 (emergency support scheme linked to the health crisis disappear).
- On the other hand, the support measures put in place to cushion the inflationary shock remain very high, at €49.5bn. This is due to the extension of the tariff shield: increase in prices of gas and electricity limited to 15% in 2023 for households and compensation paid to energy suppliers up sharply.
- Overall, public expenditures are expected to decline in volume terms, -1.5% in 2023. Excluding support measures and stimulus plans, they are expected to increase slightly.
- The debt-to-GDP ratio would be virtually stabilised, with a drop of 0.3 points, reaching 111.2% in 2023.
- In 2022, public policies prevented a sharp contraction in purchasing power by reducing inflation by 2.2 points and boosting household income.
- Despite the continuation of the tariff shield, the impact of fiscal policy on inflation would be reduced in 2023. The increase in prices will, in fact, be less linked to energy prices but will spread throughout the economy.
- Tax cuts and spending increases will boost growth. In particular, the government once again wishes to support business investment and competitiveness with the elimination of CVAE. However, the impact of lower corporate taxation on investment is often called into question. Similarly, despite strong communication on the subject and the multiplication of measures, the amounts committed to the ecological transition seem insufficient.

## The key priorities of the 2023 Budget Bill

The 2023 Budget Bill meets several apparently conflicting priorities. On the one hand, it aims to start normalising public accounts after the strong fiscal stimulus implemented over 2020-2021 and the continued high deficit in 2022 in response to the health crisis and the effects of the Ukrainian conflict.

This includes a controlled increase in public spending. In addition, the public finance strategy supports economic policy priorities and contributes to strengthening potential growth. And the support measures put in place in 2022 to deal with the inflationary shock, particularly the tariff shield, are largely extended in 2023.

**Budget Forecasts 2022-2023**

| (% of GDP)         | 2021  | 2022  | 2023  |
|--------------------|-------|-------|-------|
| Real GDP           | 6,8   | 2,7   | 1,0   |
| Real potential GDP | 1,30  | 1,35  | 1,35  |
| Inflation          | 1,6   | 5,3   | 4,2   |
| Public balance     | -6,5  | -5,0  | -5,0  |
| Cyclical balance   | -1,4  | -0,6  | -0,8  |
| Structural balance | -5,1  | -4,2  | -4,0  |
| One-offs           | -0,1  | -0,1  | -0,2  |
| Public debt        | 112,8 | 111,5 | 111,2 |

Source: Ministry of the Economy and Finance

### Record deficits in 2020-2021 and high in 2022

Fiscal policy provided massive support for the economy in 2020 and 2021 to address an unprecedented economic and health crisis. France's budget deficit ballooned in 2020 to 9% of GDP as the economy faltered, and with it fiscal revenues, while an emergency support plan added €71bn to spending. It fell in 2021 but remained high at 6.5% of GDP. Growth recovered, but the deficit suffered the impact of the stimulus plan (€100bn with an impact of around €33bn on the 2021 deficit before taking into account European funding) as well as the continuation of emergency support measures for €62bn. Public debt grew by nearly 18 points of GDP in 2020, rising from 97.4% to 115% of GDP, and down to 112.8% of GDP in 2021.

**In 2022, the deficit should narrow slightly but remain high, at 5% of GDP.** Emergency support measures linked to the health crisis have been significantly reduced and the recovery in GDP has helped reduce the deficit. Conversely, the ramp-up of the stimulus plan, which includes the start of the 2030 investment plan, is impacting the structural deficit. Above all, public accounts are affected by the support measures put in place to cushion the inflationary shock linked (in particular) to the Ukrainian crisis, through the tariff shield and the purchasing power plan. The overall cost of these measures is estimated to be approximately €49bn.

### Start of normalisation of public accounts

**Fiscal policy for 2023 aims to start normalising public accounts, with the stabilisation of the deficit and debt ratios.** Ensuring the sustainability of public debt is indeed a necessity. Investor

demand for French debt remains strong. However, long-term rates are rising quite sharply and debt levels are very high. If interest rates increase significantly and durably, this level implies the risk of a "snowball" effect, i.e., a continuous and self-sustaining growth in public debt, which would sow distrust among investors. As a reminder, about 50% of the French government's tradeable debt is held by non-residents. Unsustainability risk remains very low in the short term, with the implicit interest rate (1.4% estimated in 2023) to remain well below nominal GDP growth (4.6% in 2023 in official forecasts). However, this risk must be taken into account, due to the high uncertainty in the medium term. Moreover, a stabilisation, and then reduction, of the debt will be necessary to create fiscal leeway in the event of a future crisis (economic, climate-related, etc.).

The deficit-to-GDP ratio will therefore be stabilised at 5% in 2023 and is expected to gradually decrease beyond (2.9% expected in 2027). Debt/GDP will decrease slightly from 111.5% to 111.2% in 2023 and would be virtually stabilised thereafter (110.9% expected in 2027).

### Efforts to control public spending

**This budget is part of a multi-year strategy to control the increase in public spending, which would allow for the stabilisation and gradual reduction of the deficit and debt.**

In the multi-year trajectory set out in PLF 2023, public spending, excluding emergency measures and stimulus plan, would have a limited increase of 0.6% per year in volume terms over 2022-2027. The main areas of savings would be:

- ✓ A slowdown in unemployment benefits linked to the reform of unemployment insurance and the full employment target;
- ✓ Upcoming pension reform;
- ✓ The continued transformation of the health system (initiated with the Segur de la santé);
- ✓ Control of operating expenses of local authorities (-0.5% in volume per year).

The weight of public spending in GDP, which reached 57.6% in 2022, would be reduced to 56.6% in 2023 and reduced to 53.8% in 2027.

### *Support in the face of the inflation shock and preparation for the future*

Major supportive measures were put in place in 2022-2023 in response to the inflationary shock, via the tariff shield and the purchasing power plan. In addition to these emergency measures, the public finance strategy aims to **strengthen the economy's business potential and prepare the French economy for the challenges of tomorrow**. This has led to further tax relief and spending increases. The 2023 Draft Budget does not provide for mandatory tax increases, which would hurt agents' confidence and weaken business activity. The main measures are as follows:

- ✓ Continued tax cuts, notably the elimination of CVAE (company value-added contribution). It comes in addition to the lasting €10bn cut in production taxes implemented in 2020 as part of "France Relance" and to the step-by-step reduction in the corporate tax rate in 2020-2022. These measures extend the supply-led policy and aim to improve the cost-competitiveness and quality of French companies. Note also the abolition of the housing tax for households;
- ✓ Support for investment, innovation, research, upmarkets and promising sectors and reinforced priority for the ecological and energy transition. These measures, included in France Relance and France 2030, aim to strengthen potential growth, support employment and ensure France's industrial sovereignty;
- ✓ Increased resources for "Defence", "Justice", and "Interior" missions;
- ✓ Reinforcement of the education and training system (including measures to promote youth employment and training and support for apprenticeships); strengthening of the health system;
- ✓ Tariff shield and purchasing power plan.

## A deteriorating economic environment

**The underlying economic assumptions of the budget bill are growth of 2.7% by volume in 2022 and 1% in 2023.** GDP returned to its pre-crisis level in Q3 2021. But France, like its European partners, is facing a major inflationary shock, initiated by the global recovery in 2021 and reinforced by the Russia-Ukraine conflict. This has led to a disruption of production chains, supply difficulties, a sharp rise in the price of intermediate goods and, above all, an explosion in energy market prices.

Despite an increase in geopolitical and economic uncertainties, the business climate is holding up relatively well in France for now. Activity rebounded in Q2 2022 and, in the official forecast, should continue to grow in the second half of the year. France is less exposed than its partners to Russian gas imports due to its energy mix. Above all, a price shield (see following paragraphs) has been put in place, reducing average inflation by around 2 points in 2022. Inflation is forecasted at 5.3% in the 2023 PLF vs. 8% in the eurozone. The purchasing power support plan also helps to support consumption. GDP growth is thus estimated at 2.7% on average in 2022, a forecast close to ours (2.6%).

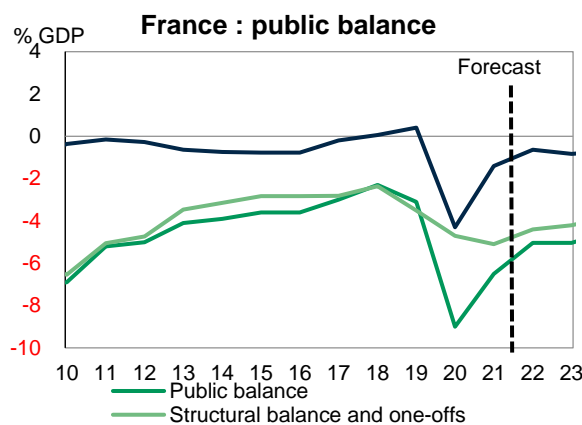
In 2023, growth is expected to be 1% on average. The overhang effects are no longer playing out, unlike in 2022. France is facing a deteriorating international environment (expected growth of 1.2% in the United States and 1.5% in the Eurozone), persistently very high energy prices and rising interest rates. Even though the risk of a significant disruption or insufficiency of gas supply remains high, we expect that the high level of stocks and sobriety measures (targeting a 10% reduction in energy consumption) would prevent gas and electricity cuts this winter.

Household income is expected to increase by 5.1% in value terms and 0.9% in purchasing power terms, thanks to the extension of the tariff shield (see below), the plan to support purchasing power and higher wages. Non-agricultural merchant employment, up sharply in 2022, at an annual average of 2.9%, is expected to slow down in 2023 (+0.7%). Recruitment difficulties remain high but are starting to decline. The savings rate is expected to decrease slightly, allowing household consumption to rise by 1.4%. Business investment would also hold up, rising 0.9%, despite a very high level of uncertainty. The margin rate would remain fairly strong, at 32.1%, thanks in particular to the elimination of CVAE over two years.

Inflation is expected to slow to 4.2% on an annual average. The output gap between GDP and potential GDP would remain negative, -1.4% of potential GDP expected in 2023. The uncertainties

surrounding this official macroeconomic scenario are obviously very significant.

We believe that the macro-economic forecasts underlying the PLF are fairly optimistic for 2023. We expect weaker GDP growth of 0.6%. Indeed, the tariff shield will limit the rise in energy prices, but inflation is higher in our scenario (+4.8% in 2023 vs. +4.2% in the PLF) and purchasing power is stagnant. This leads to lower consumption growth. In addition, while we believe the risk of forced energy rationing during the winter is quite low, we expect economic agents to remain cautious. Some industries are suspending their activities and household confidence is down sharply, which is weighing on consumption. At 0.6% in 2023, our GDP growth forecast remains reasonably optimistic and is closer to those of other institutions such as the Banque de France (+0.5%) and the OFCE (+0.7%) while some forecasters already anticipate a recession for the coming year.



## Budget deficit to remain a hefty 5% of GDP in 2022

The **2021 public deficit was very significant, 6.5% of GDP**, due to the impact of the stimulus plan and the continuation of emergency support measures (see above). **The government's estimate of the 2022 fiscal deficit is still very high, at 5% of GDP.**

The **cyclical balance** recovered quite sharply, from -1.4% to -0.6% of GDP, thanks to fairly strong GDP growth, +2.7% in volume terms, higher than that of potential GDP at 1.35%.

In addition, mandatory levies have a very dynamic trend (excluding new measures), 8.2% in value terms, with an elasticity of 1.5 compared to GDP, notably through sustained growth in VAT and corporate tax revenues.

**The structural balance is improving, but remains clearly in deficit, -4.2% after -5.1% in 2021.**

The ramp-up of the stimulus plan and the start of the 2030 investment plan are impacting the structural deficit. Above all, public accounts are affected by the support measures put in place to cushion the inflationary shock linked (in particular) to the Ukrainian crisis. Firstly, the **tariff shield**, with the freezing of gas prices (for regulated tariffs) at the level of October 2021 until the end of 2022, the limiting of electricity price increases at 4% (for regulated tariffs) in February 2022 and a freeze until the end of 2022, energy cheques and the discount on fuel prices. Secondly, a number of measures to support purchasing power, mainly the early revaluation of pensions and social benefits. **The overall cost of these measures is estimated at €48.6bn for 2022 (see table below).**

### Supportive measures to tackle inflation

| (€ bn)                                   | 2021       | 2022        | 2023        |
|--|------------|-------------|-------------|
| Gas price tariff shield                  | 0,4        | 8,1         | 11,1        |
| Gas storage                              |            | 1,4         | -1,3        |
| Electricity price tariff shield          |            | 18,7        | 33,8        |
| Inflation and energy cheques             | 4,3        | 1,8         |             |
| Discount on fuel                         |            | 7,6         |             |
| Increase in social benefits and pensions |            | 6,7         | 1,6         |
| Subsidies to energy-intensive sectors    |            | 1,5         | 1,5         |
| Others                                   |            | 2,8         | 2,8         |
| <b>TOTAL</b>                             | <b>4,7</b> | <b>48,6</b> | <b>49,5</b> |

Source : 2023 Budget bill, Crédit Agricole SA ECO

Conversely, emergency support measures linked to the health crisis are significantly reduced, from €61.6bn in 2021 to €15.9bn in 2022. They are mainly focused on healthcare spending, with the two main measures being virtually halted, furlough and the solidarity fund.

Public spending was down slightly by 1.1% in volume terms in 2022.

## The public deficit should to stabilise in 2023, at 5% of GDP

**In 2023, the public debt ratio is expected to stabilise at 5% of GDP.**

The slowdown in activity led to a slight deterioration in the **cyclical balance**, from -0.6% to -0.8%. We note as a reminder that the cyclical balance reflects the impact of the state of the economy on the deficit, especially on tax receipts, and is generally approximated by:



$0.45 \times (\text{GDP} - \text{potential GDP})^1 / \text{potential GDP}$ ,  
or  $0.45 \times \text{output gap}$ .

GDP should grow 1% in volume terms, while potential growth would reach 1.35%. The output gap, which had deteriorated sharply in 2020, remains negative and would only be more or less closed by 2027.

**The structural deficit** would remain high and would decrease very slightly to 4% of GDP in 2023 after 4.2% in 2022. Remember that this indicator is the balance we would obtain if GDP were equal to its potential and mainly reflects new, long-term discretionary revenues and expenditures.

### Revenue measures

The new revenue measures mainly consist of new tax cuts for households and businesses, which are nevertheless quite limited in 2023, €8bn (excluding certain tax measures included in the tariff shield). They include:

- ✓ Corporate tax rate cuts in stages from 33.3% to 25%. New stage in 2023. Cost: €0.4bn
- ✓ Elimination of CVAE (contribution to company VA) over two years, budgeted in full in PLF 2023. Cost: €4.1bn
- ✓ Abolishment of the housing tax on main residences. Last stage in 2023. Cost: €2.8bn.

Unlike 2022, revenue elasticity effects will be negative for the deficit, with revenue elasticity reduced to 0.6 (vs. "normal" elasticity of 1).

### Spending measures

**Exceptional spending measures related to the various crises (support plans and stimulus plan) remain massive, but fall back in 2023 compared to 2022.**

Emergency support measures linked to the health crisis are running out and would be limited to €2.9bn, after €15.9bn in 2022.

The recovery plan continues to impact the structural balance, but at a fairly reduced level, €9.6bn, and only €4.4bn after taking European funding into account.

On the other hand, the support measures put in place to cushion the inflationary shock remain massive and are estimated at €49.5bn. This is due to the extension of the tariff shield. Increases in gas and electricity prices for households would be limited to 15% in 2023 (from January for gas and

February for electricity). Given the very high levels expected of gas and electricity market prices in 2023, compensation paid to energy suppliers is expected to increase sharply, to €35bn in 2023 after €19bn in 2022.

However, these costs are partially offset by rebates under contracts with renewable energy producers (the amount of support to these producers depends on the difference between a reference rate of the contract and the market price).

### Emergency measures and stimulus plan

| (€ bn)   | 2021        | 2022        | 2023        |
|--|-------------|-------------|-------------|
| 1 Emergency measures related to the Covid crisis               | 61,6        | 15,9        | 2,9         |
| France relance and France 2030 stimulus plans                  | 22,9        | 19,9        | 9,6         |
| EU financing   | -13,7       | -11,2       | -4,8        |
| 2 Stimulus plans net from EU financing                         | 9,2         | 8,7         | 4,8         |
| Supportive measures to tackle inflation                        | 4,7         | 48,6        | 49,5        |
| Compensation from renewables energy producers                  | -2,0        | -18,7       | -29,0       |
| 3 Inflation related supportive measures net from compensations | 2,7         | 29,9        | 20,5        |
| <b>TOTAL</b>   | <b>73,5</b> | <b>54,5</b> | <b>28,2</b> |

Source : 2023 Budget bill, Crédit Agricole SA ECO

Finally, other spending measures, excluding support plans and recovery plans, must be taken into account, including the strengthening of resources for the ecological transition, employment, youth, and budgets and staff in the defence, interior and justice sectors. The measures linked to the Segur de la santé and the rise in the index point in the public service (implemented in mid-2022 and which will play on a full year-basis in 2023) will also play out.

To offset revenue and spending stimulus measures, cost-saving measures have been put in place. As seen above, the main areas would be : a slowdown in unemployment benefits, measures related to the transformation of the health system and a reduction in the operating expenditures of local authorities.

The interest expense on the debt of all public administrations would be slightly lower than in 2022, estimated at around €43bn (1.6% of GDP) versus €47bn (1.8% of GDP). The effect of rising interest rates would be offset by the expected slowdown in inflation, which would limit the interest burden on inflation-linked bonds (see the section on public debt).

**Overall, public spending is expected to fall again in volume terms, -1.5% in 2023, mainly due to a decline in the aggregate amount of the various support plans (see table above).** According to our calculations, spending excluding

<sup>1</sup> Potential GDP is the maximum sustainable level of activity that causes no stress to production factors, particularly those of prices and wages.

support measures and stimulus plan is expected to increase by around 0.7% in volume terms in 2022 and 0.9% in 2023.

This makes it possible to slightly reduce the **structural balance**. It depends mainly on new tax measures and the “spending effort”. This latter is estimated at 0.55%\* ( $\Delta \text{Spending} / \text{Spending} - \Delta \text{Potential GDP} / \text{Potential GDP}$ ). It contributes to the reduction of the structural deficit by 1.3 points of GDP in 2022 (-1.5% in volume for spending and +1.35% for potential GDP).

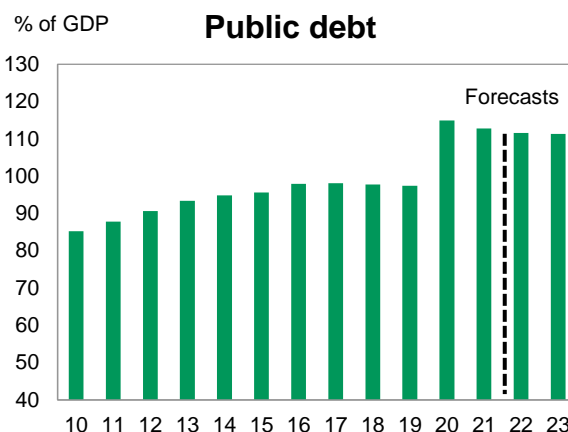
The percentage of public spending in GDP is expected to decline to 56.6%, compared with 57.6% in 2022.

### Slight decline in the public debt ratio in 2023

**The public debt ratio increased sharply in 2020 to 115% of GDP, after 97.4% in 2019.** On the one hand, the deficit rose sharply to 9% of GDP. On the other, the “stabilising balance”<sup>2</sup>, the balance that stabilises the debt ratio (excluding debt flows), which is usually close to -2/-3% of GDP, was a high positive percentage at 5.4% of GDP, due to the decline in GDP in value terms. The difference between the deficit/GDP and the stabilising balance is therefore massive, at 14.4 points of GDP, which largely explains the rise in the debt ratio.

**In 2021, the public debt ratio declined moderately, to 112.8% of GDP.** Indeed, the deficit remained very high, at 6.5% of GDP. But the stabilising balance became very negative again, at -8.8% of GDP. All other things being equal, this reduces the debt ratio by 2.3 points of GDP ( $8.8 - 6.5 = 2.3$ ).

**In 2022, the debt ratio is expected to decline by 1.3 points of GDP, to 111.5%.** The public deficit is expected to fall to 5% of GDP, slightly higher than the stabilising balance (-6%). Conversely, the “debt flows” would once again slightly improve the debt ratio, by 0.3%.



Source: Minefi, Crédit Agricole S.A.

**In 2023, the debt ratio would virtually stabilise with a decrease of 0.3 points of GDP, to reach 111.2%.** The public deficit, projected at 5% of GDP, would be at the same level as the stabilising balance (-4.9%), which benefits from a high GDP growth rate in value at 4.6%.

On the other hand, in 2024-2025, the deficit ratio would shrink but the stabilising balance would improve more quickly (slowdown in GDP growth in value) and the debt ratio would rise slightly to 111.7% in 2025.

Public debt has sharply increased due to the economic crisis and the pandemic and remains at a very high level. However, investor demand for OAT government bonds is holding steady. Sovereign French securities are seen as very attractive, with a broad, diversified and liquid offering and are considered to be semi-core.

However, French ten-year yields have risen quite sharply since the beginning of 2022, given the inflationary shock and the ECB's monetary tightening. The 10-year OAT rate, 0.2% at the end of 2021, could reach 2.4% at the end of 2022 and 2.3% at the end of 2023 (Crédit Agricole forecasts). The average long-term new issue rate, negative in 2021 at -0.05%, rose in 2022 to an estimated average annual level of about 1.2%.

The implicit debt rate is increasing, but slowly, and remains moderate. The average maturity of debt issuance is around 8 years. The implicit debt rate of all public administrations, limited to 1.1% in 2020 and 1.2% in 2021, is expected to rise to 1.6% in 2022 (due in particular to the weight of OATs indexed to inflation) and be close to 1.4% in 2023.

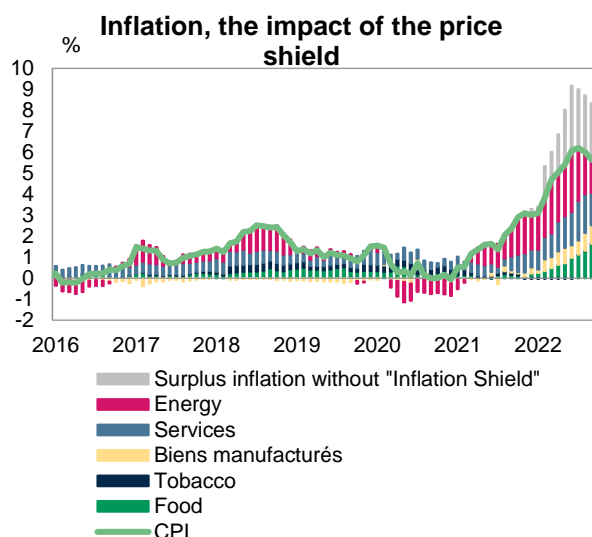
<sup>2</sup> The stabilising balance is equal to  $g/(1+g) * \text{Debt}(n-1) / \text{GDP}(n-1)$ , where  $g$  is the GDP growth rate in value.

## What are the implications for our scenario?

### Limiting inflation

If the government claims that it has put an end to "whatever it costs", support for purchasing power remained abundant in 2022 and will again be in 2023 with the extension of the tariff shield.

The effects of the tariff shield on inflation are significant and explain the majority of the inflation differential observed between France and the other major European countries. While inflation in France has been slightly above 6% since July, it has surpassed 10% on average in the Eurozone as a whole. Currently, the tariff shield would reduce the inflation rate observed in France by nearly 3 points thanks to its effect on energy prices. Inflation would have exceeded 9% in the third quarter in its absence. **On average, CPI inflation is expected to reach 5.1% in 2022; without shielding energy prices, it would have been 2.2 points higher.**



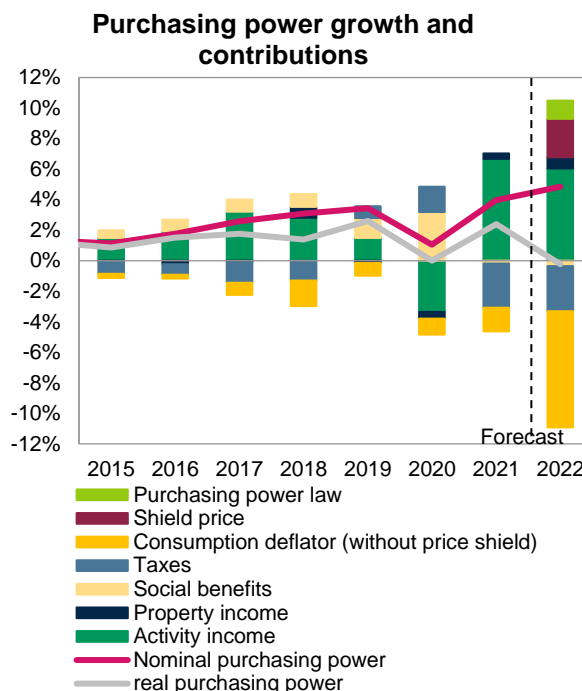
Sources: Insee, CASA ECO

In 2023, the cost of the tariff shield would be even higher than in 2022, with €44.9bn budgeted for the cap on the increase in gas and electricity prices compared with €34.4bn in 2022, including the discount on fuel. **However, it will be less effective in containing inflation, as its average effect over 2023 is estimated at around 1.5 points.** Energy should no longer be the main driver of the rise in prices; the spread of the rise in commodity prices is expected to have an impact on the prices of other goods and services, and particularly on food, which would become the main contributor to inflation.

### Supporting income

With the impact of rising production costs on the selling prices of goods and services, targeted aid for certain goods (particularly energy goods) is not sufficient to protect household purchasing power. The purchasing power law adopted during the summer must therefore complement the tariff shield

by supporting household disposable income. As a result, social benefits have been revalued early and other measures also support income from assets.



Sources: Insee, CASA ECO

For 2022 as a whole, the measures adopted under the purchasing power law would support household income by 1.2 points. While real disposable income (purchasing power) fell sharply in the first half of the year (-1.6% in Q1 and -1.1% in Q2 quarter-on-quarter), it is expected to increase in the second half. The revaluation of social benefits and the index point in the public service will stimulate income growth in the third quarter and the elimination of the audiovisual tax will reduce the tax burden on households in Q4 by €3.2bn. Overall, at the macroeconomic level, the **direct measures taken by the government thus support households' purchasing power by around 3.5 points (lower inflation of around 2.2 points and increase in nominal disposable income by around 1.2 points) in 2022** for a budget impact of around €49bn, i.e. around 1.9% of GDP. Additional measures, such as the revaluation of the tax-free "Macron bonus", a cost for companies, should support employees income through the end of the year. Ultimately, for 2022 as a whole, the decline in purchasing power is expected to be very limited and around 0.2%.

**In 2023, the measures designed to support income were more moderate.** However, note the last step in the elimination of the housing tax, which reduces the taxation of the wealthiest households by €2.8bn. Targeted salary increases will also take place among civil servants. In particular, €1.1bn is planned to revalue the salaries of teachers and the administrative staff of National Education. Overall,

purchasing power is expected to stagnate on average in 2023.

#### ***A (shown) desire to stimulate investment***

While rising interest rates and pressure on margins should lead some companies to reduce their investments, the government is once again keen to encourage companies to invest. A number of measures are moving in this direction, with an impact that could prove less significant than expected.

For example, the elimination of CVAE over two years could have limited effectiveness. Since the implementation of the CICE during Hollande's five-year term, more corporate tax reduction measures have followed: the CICE has been transformed into social contribution cuts, production taxes were lowered in the context of France Relance, and corporate tax rate decreased from 33% to 25%. These measures are aimed at strengthening the competitiveness of French companies, particularly industrial companies and have positive impacts on employment and investment, but rather limited compared to their costs (€20bn per year for the reduction in social security contributions, €10bn per year for the first cut in production taxes, for example). While the need to plan for the ecological transition is often mentioned, these amounts could have been more directly oriented towards specific investment programmes.

Investment in the energy transition is also featured in the presentation of the PLF2023, but the amounts committed remain fairly low. Only €10bn will be deployed in 2023 as part of the Recovery Plan (€4.4bn with a budget impact once European credits have been deducted), which may seem insufficient in light of climate challenges. A series of measures are proposed, but they are somewhat disparate and scattered, with fairly limited figures. For example, take the bike plan, although €250 million represent a significant change compared to the budgets

usually allocated, this is only 1.5% of public spending dedicated to transport infrastructure (all modes combined), which represents an average of €15bn each year.

Still, it should be noted that nearly €3bn is dedicated to the energy renovation of private housing, which is a necessary support for household investment. In particular, the terms of the MaPrimRénov' system have been modified and could enable more efficient renovation work to be carried out. This scheme has not achieved its objectives so far, as it does not allow to commit amounts large enough to get homes out of their "energy-leaking" status.

**All in all, the support measures put in place in this PLF will contribute to supporting activity and cushioning the inflationary shock. However, it seems to us that they are concentrated on short-term emergency plans (price shield in particular) or comprehensive tax relief schemes, and that they are insufficiently calibrated in favour of the major challenges of the future (green and digital transition, industrial sovereignty).**



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