

French budget: in line with pledges, but not with Brussels

The first budget is in line with President Macron's electoral pledges but could fall short of convincing Brussels entirely



The first budget of French Prime Minister Edouard Philippe was unveiled yesterday (September 27) confirming President Macron's main campaign pledges.

First, public spending will not increase quicker than GDP growth in 2018, and the government's growth forecasts (1.7% for 2018) have been described as "reasonable" by the Cour des Comptes. This will slowly allow for spending to decrease and enable the deficit to get back to 2.6% of GDP next year after 2.9% this year.

However, this move is unlikely to be enough to take France out of the excessive deficit procedure as the deficit could jump back to 3% in 2019 once the CICE tax cuts become permanent and as the structural efforts would remain well below the 0.5pp of GDP requested by Brussels.

In terms of tax cuts, the 2018 budget follows Mr Macron's campaign pledge of being distributed among corporates (€4bn) and households. The latter will mainly come from a first rebate on the housing tax, one of Mr Macron's main campaign themes. Some measures could also be detrimental to the real estate market recovery though, as several tax rebates will be revisited while

the wealth tax will be reoriented towards real estate assets.

All in all, even though it will not be enough to please Brussels entirely, the 2018 budget is perfectly in line with President Macron's electoral pledges and rests on reasonable hypotheses. Having the French deficit below 3% for the coming years should allow for a stabilisation of the debt-to-GDP ratio, which should avoid breaching the 100% threshold.