Public Financial Monitoring
Institutions of the French Government

French Budget Directorate

Tuesday September, 4th

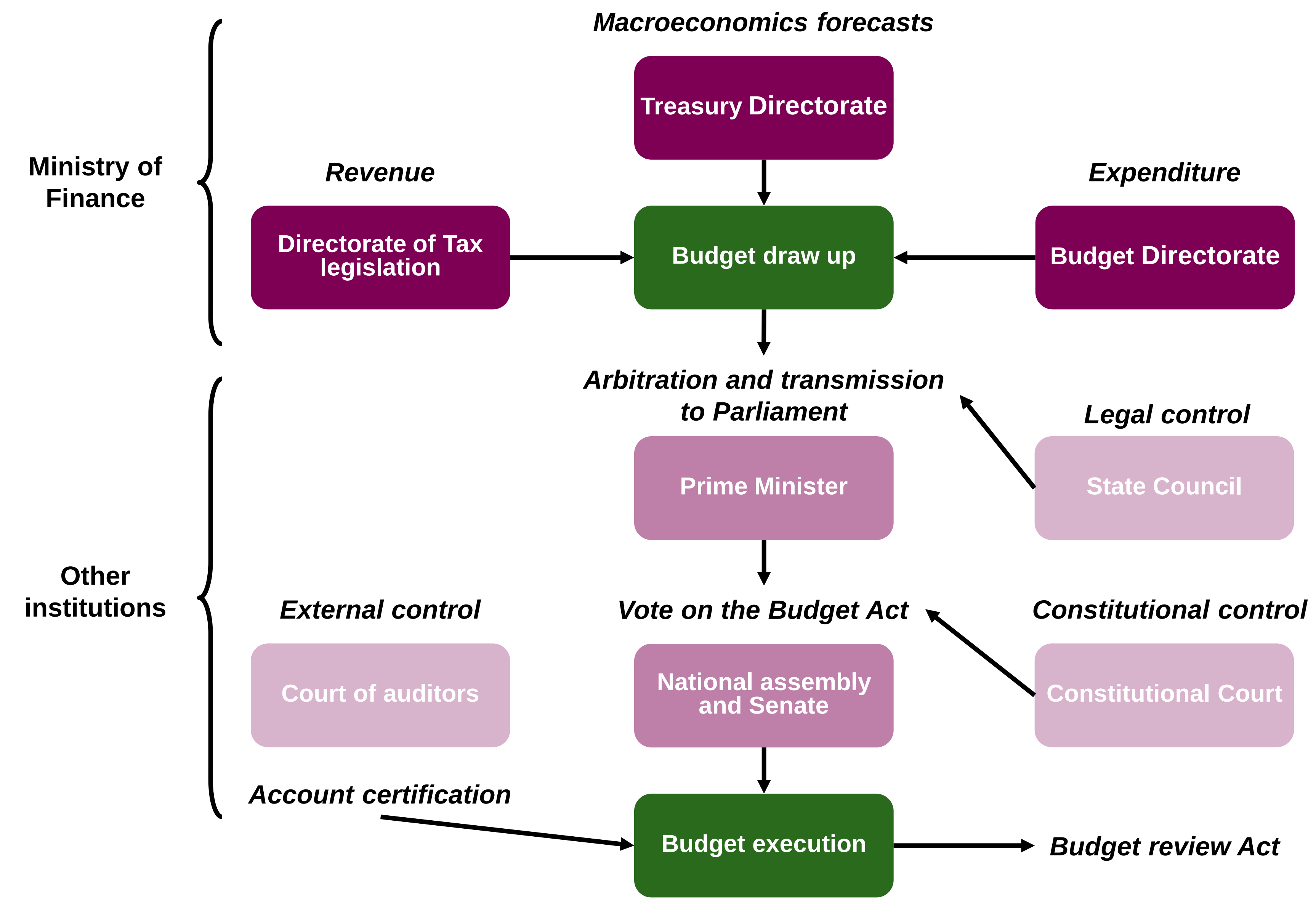
DIRECTION DU BUDGET

Contents

DIRECTION
DU BUDGET

1.1 Organization of the French Ministry of finance

Part of the Ministry of Finance in building and managing the budget



Highlights on the main participants in the budgetary process

- **The Prime Minister** (budget guidelines letter, budget ceiling letters, final budget arbitrations)

- **The Minister in charge of the Budget**: responsible for drawing up the budget bill (cf. Art. 38 LOLF: "Under the authority of the Prime Minister, the minister responsible for finance drafts the finance budget bills, which are then discussed in the Council of Ministers")

- **The line ministries**: finance departments and program managers request appropriations for their programs and propose objectives, but rarely savings; they produce detailed analysis of budget requests (blue appendix to the budget bill)

- **The Budget Directorate** is the primary coordinator responsible for overseeing the process. It prepares the budget allocation choices among the different ministries

DIRECTION DU BUDGET

Organisational chart of the Budget Directorate

Director

J. Dubertret

Human resources | Communications | ***Assistant Director*** | Documentation of archives and correspondence | Transformation plan mission

1st sub-directorate	*2nd sub-directorate*	*3rd sub-directorate*	*4th sub-directorate*	*5th sub-directorate*	*6th sub-directorate*	*7th sub-directorate*	*8th sub-directorate*
Budgetary policy	Performance of public initiatives	Primary & secondary education	Transportation	Defence & remembrance	Employment & vocational training	Foreign trade assistance & guarantees	Culture, youth & sports
Budget bills	Wage policy & statutory summary	Higher education & research	Ecology & equipment policy	Internal affairs and governmental action	Social security and healthcare funding	Agriculture	Economy, finance & overseas
Receipts	Financial controls	Industry, energy & innovation	Urban planning & housing	Local government	Retirement and special pension schemes	Finance & EU policy	Justice & media
Execution	Interministerial IT procurement				Solidarity & integration	Development assistance & foreign affairs	

Missions of the Budget Directorate

■ Our core budgeting functions

- **Preparation of the budget bill** and its appendices (medium-term planning, structural savings, organization and conduct of budget conferences, preparation of budget ceiling letters and budget arbitration, responsibility for producing budget documents)
- **Strategic planning of public finances for EU authorities** (Stability and Growth Pact)
- **Preparation and monitoring of parliamentary budget debate** (first and second parts)
- **Monitoring of execution and execution forecasts** (making it possible to implement corrective actions in compliance with SGP rules)
- **Financial control** at the central and devolved levels

■ Due to budget reforms, we have developed few expanded functions

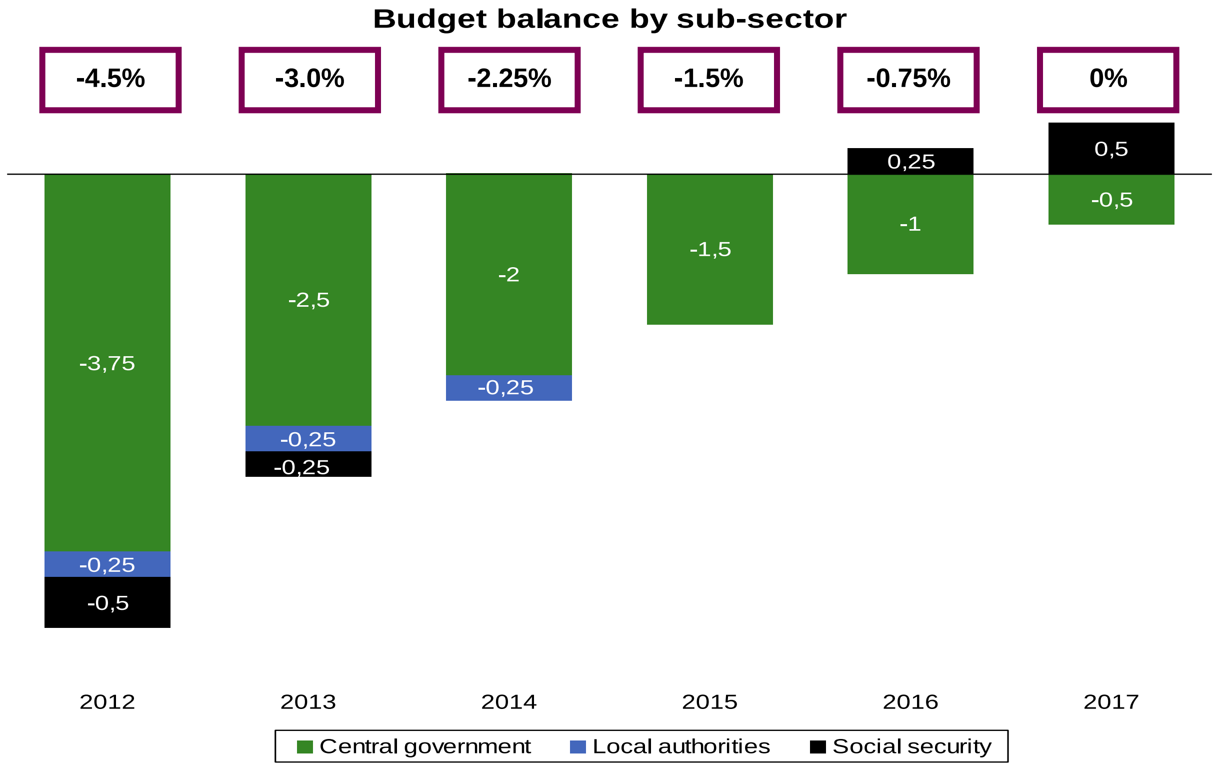
- **Performance**: organizing and conducting « performance » meetings; monitoring the execution of annual performance plans and annual performance reports
- **Tax expenditures**: associated with the programs, theses expenditures must be taken into account in the budgeting process
- **Financial strategy**: expertise covering all public policies and proposals for savings, attendance at Government meetings on finance issues, oversight of national public institutions (in association with the Treasury directorate for public corporations), review of regulations and laws with a potential budgetary impact, propositions for cost reduction plans and reforms

DIRECTION DU BUDGET

1.2 Headlines of French public finances

French Public Finance path to 0 deficit in 2017

% PIB	2012	2013	2014	2015	2016	2017
Budget balance	-4,5	-3,0	-2,25	-1,5	-0,75	0,0
Public Debt (including support to the euro zone)	89,7	90,6	89,9	88,1	85,5	82,4
Public expenditure	56,2	56,1	55,4	54,8	54,1	53,4
Taxes	45,0	46,2	46,3	46,4	46,5	46,5



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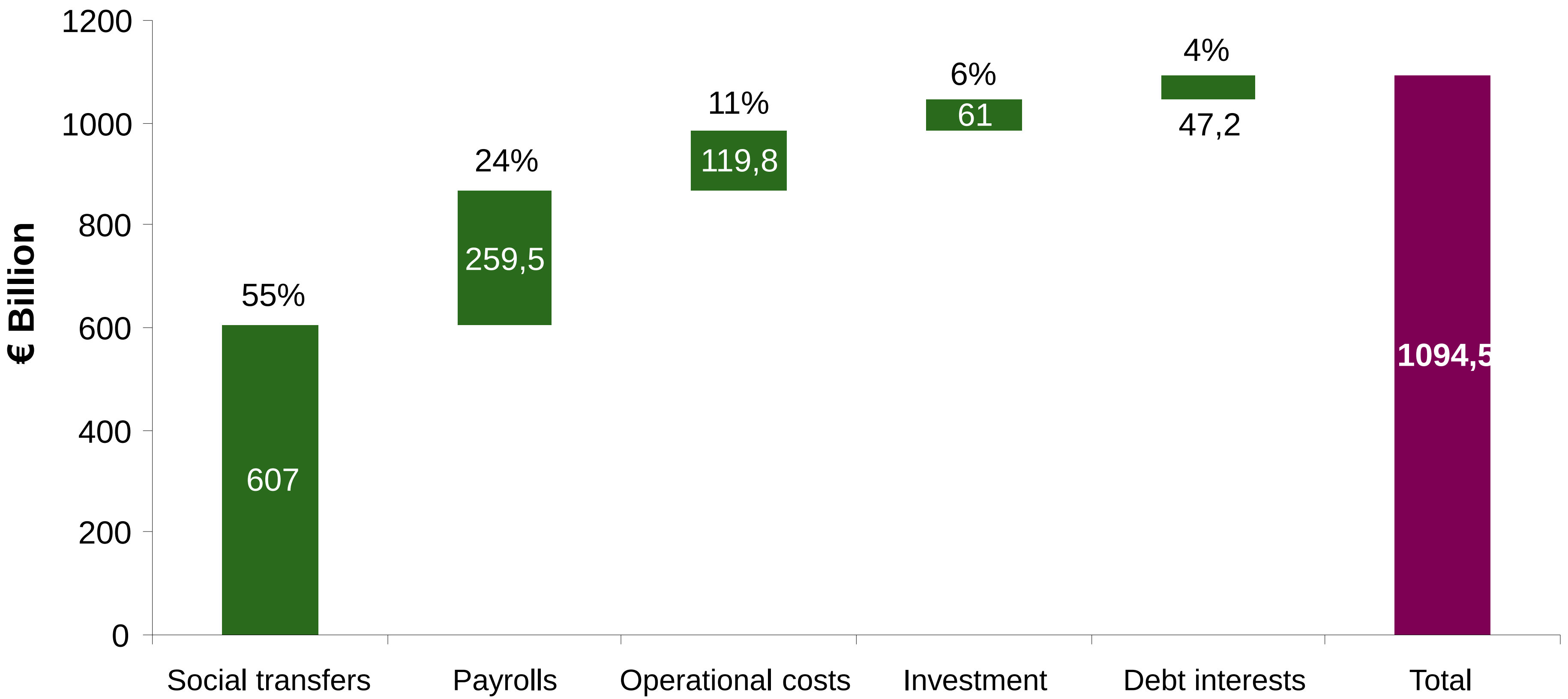
Nature of Public spending (2010)



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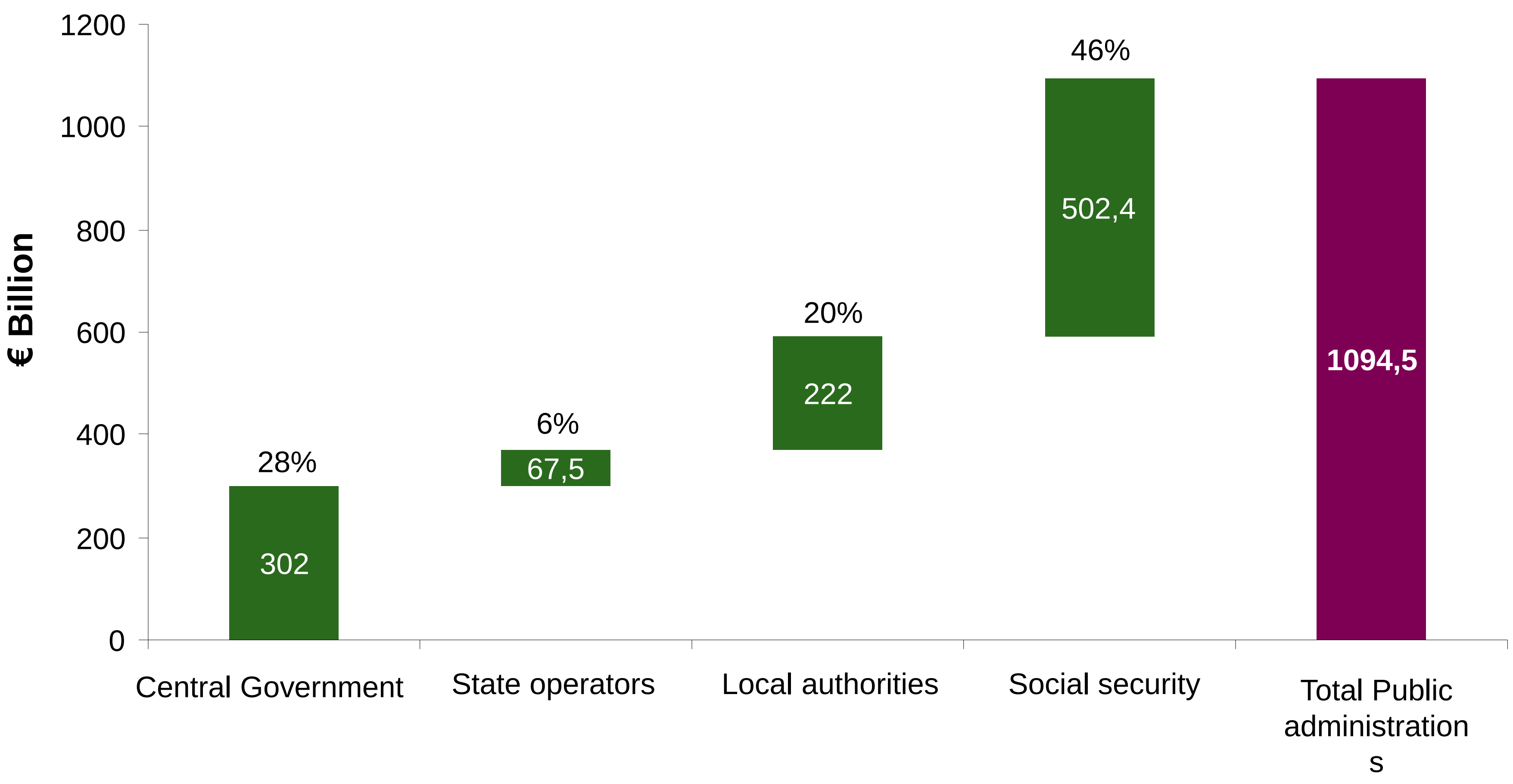
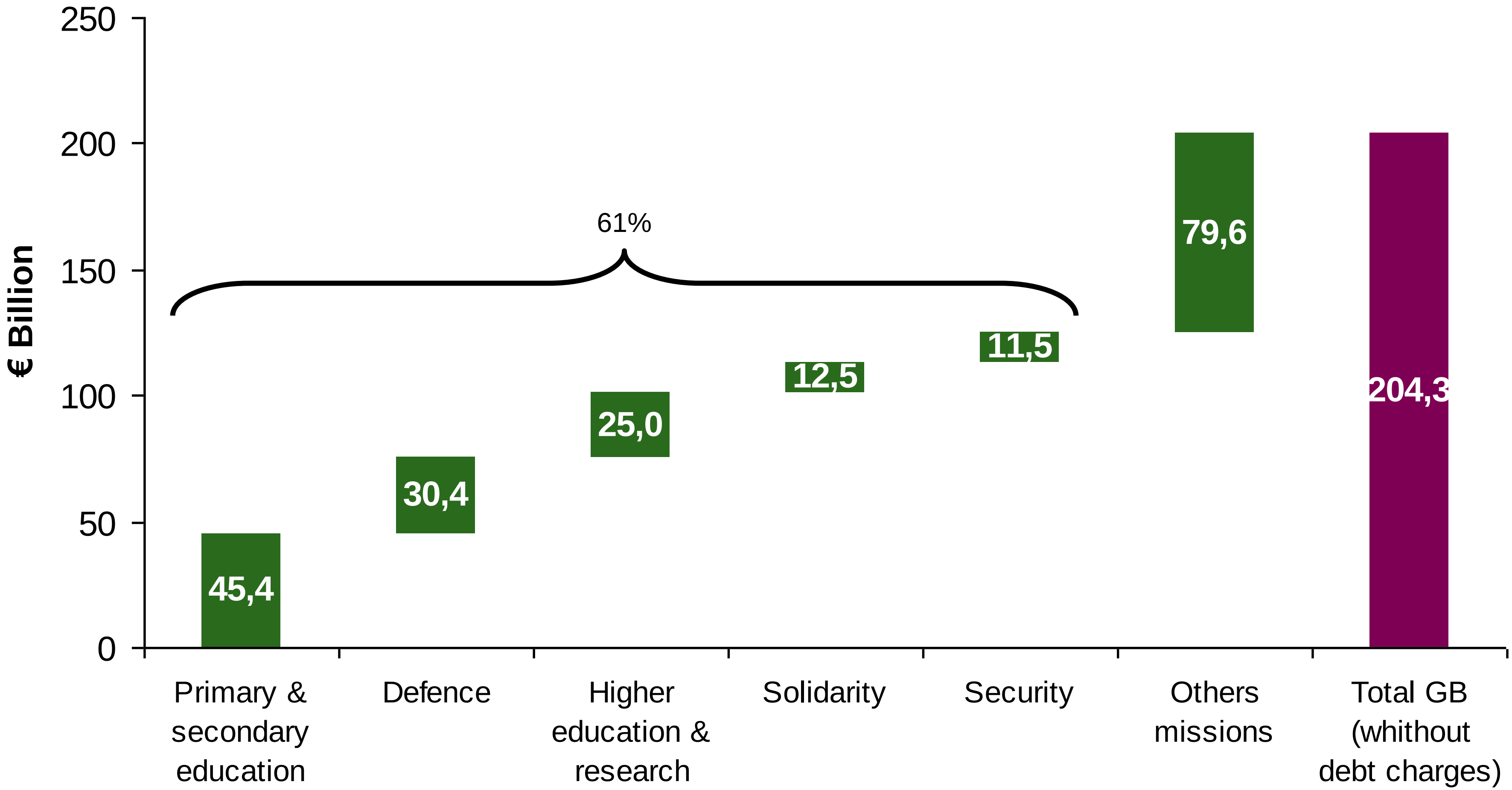
Institutional composition of Public spending (2010)



Main Public Policy in the General Budget (2012 Budget law)



Other main expenditures of the State budget : contribution to local authorities (€51.9 Bn), to EU (€18.9 Bn), pension of civil servants (€37.7 Bn) and debt charges (€48.8 Bn)

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A multiple governance (1/2)

Institution	Governance	Main Principles	Central State Part
Central State	Government	Limitation of credits	Direct control of the state : LOLF (By-law)
Central agencies	Boards of directors Means coming from the State	Limitation of crédits 800 Agencies	
Social institutions	Social Security Funds : - Health/Work accidents - Family Benefits - Pensions		Direct control of the state : LOLFSS (By-law)
	Others Social Benefits : - Supplementary pensions - Unemployment benefits (UNEDIC)		ad-hoc legislation
Local Gov.	Board of elected	Specific Managment rule (credit cell Constitutionnal Independency	credits from central state budget

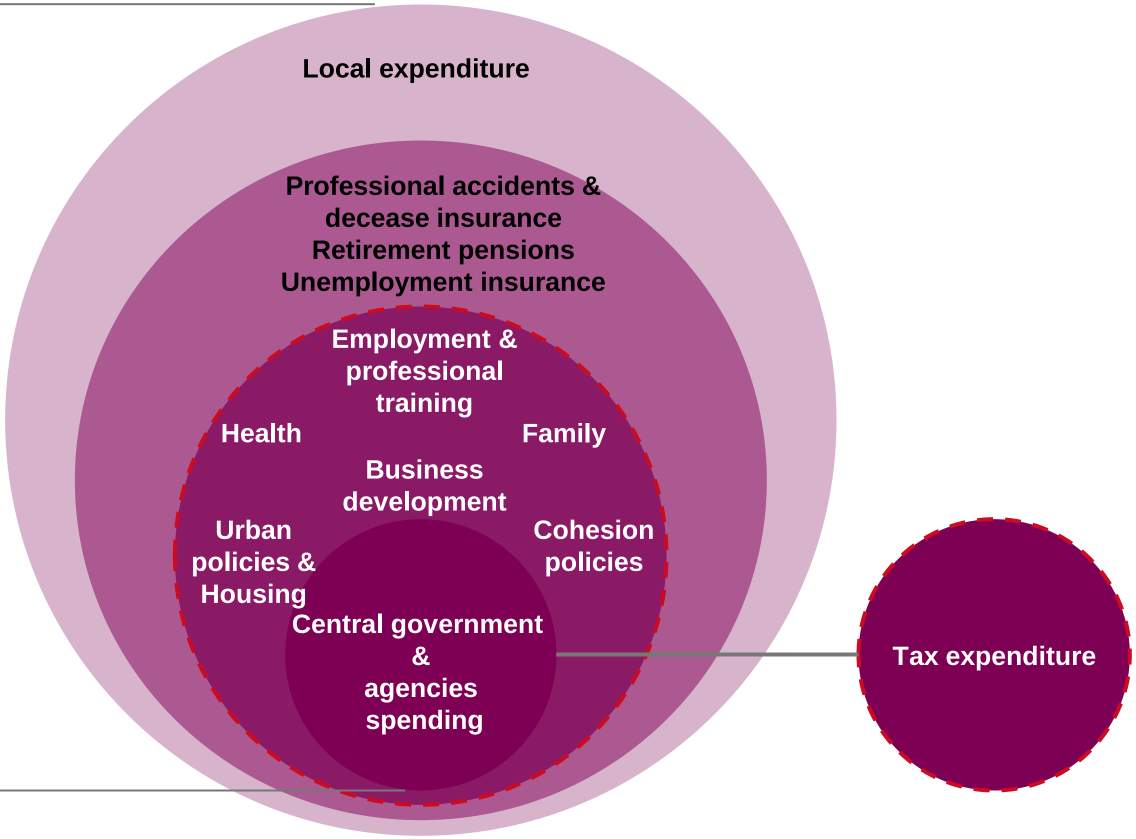
A multiple governance (2/2)

Come under local authorities responsibility. The GRPP aims to improve and clarify competences and policy-financing between central government and local administration

Insurance expenditures. Reforms are more likely to deal with financing (social security contributions adjustment…) rather than directly control the level of expenditure. A reform is in progress for pensions (new round planned in 2008)

Expenditure more or less managed by central government, characterized by a shared responsibility with other actors

Central government budget expenditure or closed controlled by central administration



Perimeter of the last Spending review program, the General review of public policy (GRPP, 2007-2012)

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2.1 The constitutional reform of 2008 and the vote of the first multiyear budget

Insufficient elements of multi-year budgeting

- **Stability program** sent every year to the European Commission
  - Objective: Fiscal discipline thanks to surveillance and coordination of fiscal policies in the EMU and EU
  - **A rolling framework**, for General Governement -> lack of constraints
  - **Parliament doesn’t vote the multi year programmation**

- Existing contracts with some ministries covered only a **small share of the budget (~ 5%) and staff expenditure**

- **Programmation laws for few ministries (defence, home ministry)**
  - Those laws covered in 2007 roughly 20% of credits and gave visibility to those who spend more, not theses who must cut credits

- **Budgeting rules (commitment authorisations) (AE) implemented since the LOLF is not a guarantee for sustainability**

Several arguments to implement multi-year budgeting

- **Classical model, based on a annual autorisation, has weaknesses:**
  - **Difficult to secure structural reforms** on a annual basis, without guarantee of effective implementation
  - **« Infra-annual » management: waste of time**
  - **Lack of strategical analysis of expenditures / quality of public finances**

- **Real advantages linked to multi year budgeting**
  - Determines a real programmation :political endorsement, précise description of the different items
  - Gives visibility to managers, to set priorities and implement reforms
  - International benchmark and International Organisations:
    - experience shows that programmation is more respected
    - political gains linked to this multi year budgeting

Introduction of programmation laws in 2008

- **Revision of the constitution in July 2008** : introduction of a new type of laws:
  - define « *multi year orientations of public finances* »
  - « *contribute to the objective of equilibruim of the public accounts* »

- **The second public finances programmation law (LPFP) for years 2011 to 2014**, voted on **February 2009**, gathers:
  - **16 articles** :
    - Public accounts trajectory (deficit and debt)
    - **Ceilings by missions for the State budget (including subsidies to the local auhtorities) and national health care expenditure target**
    - An expenditure rule (« **zero % in real terms** » for the state and “**zero % in nominal terms for the State excluding debt and pensions**”)
    - Public finances rules (for tax, tax expenditures and state operators)
  - **An annexed report which was voted**, with macroeconomic forecasts, public finances paths and explanations about the multi year budget

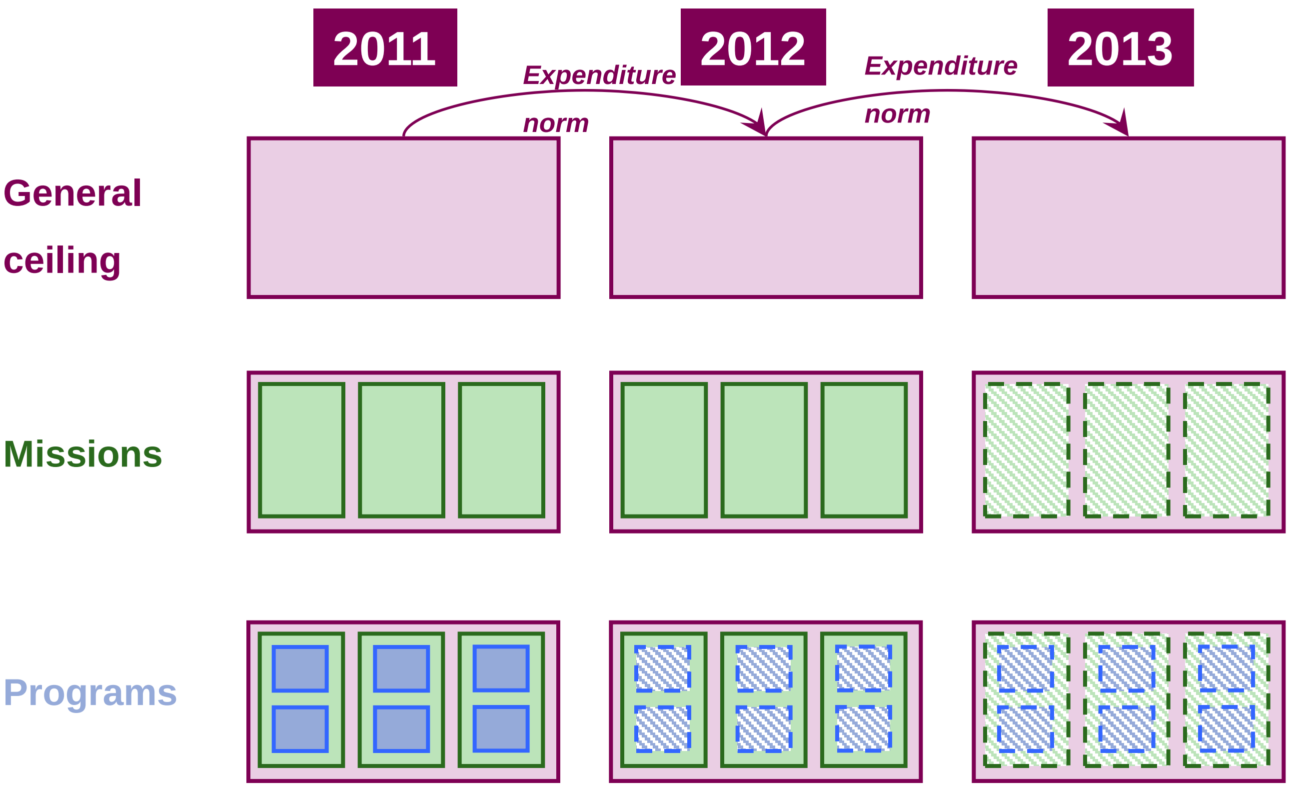
➢ **A new programmation law is currently being prepared**

How does the Multi year budget work for the central Government?

■ The programmation law, a mix of:

Binding elements

Non-binding elements



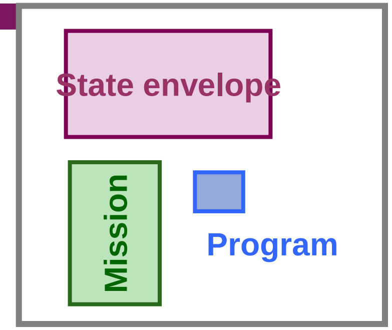
1 A general expenditure ceiling is determined first, observing the annual expenditure norm. Only a revision of the inflation estimate could lead to the modificaiton of the general ceiling.

2 Setting the limits for missions comes next, that are fixed for the first two years, and indicative for the third year, respecting the general ceiling.

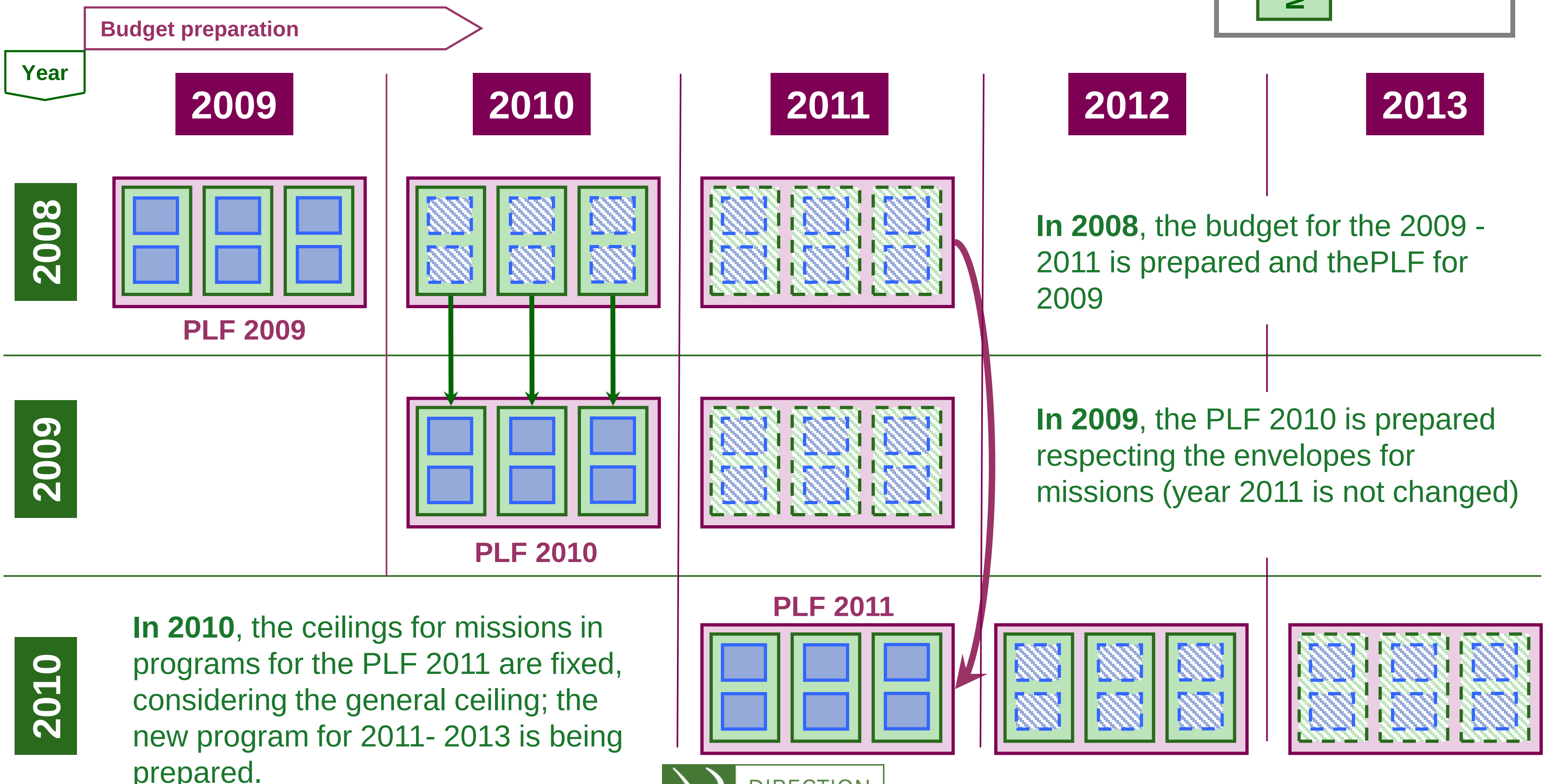
3 Finally the distribution to programs is made, which is fixed for the first year (PLF), and indicative for the years 2 and 3.

DIRECTION DU BUDGET

How does the Multi year budget work for the central Government?



- Every other year, the ceilings are divided to missions at the program level.
- The last year of the multi-year budget 2009 - 2011 is the base for the next program (2011 - 2013)



DIRECTION DU BUDGET

How do we take into account inflation shocks?

Inflation higher than expected in the budget bill

Exemple : budget prepared « 0 volume » based on the inflation forecast of 1,75% ; but the inflation increased to 2,25% during the preparation of the 2010 budget

2009

Inflation higher than expected : +0.5%

Inflation forecast= 1,75%

2010

Fixed expenditures*

Pensions

Other expenditures

1 The ceiling is revised to adjust to increased inflation

Iinflation forecast = 1,75%

2 This margin is divided among these endowments (incl. T2 ministries for CAS pensions)

3 Other not adjusted automatically

2011

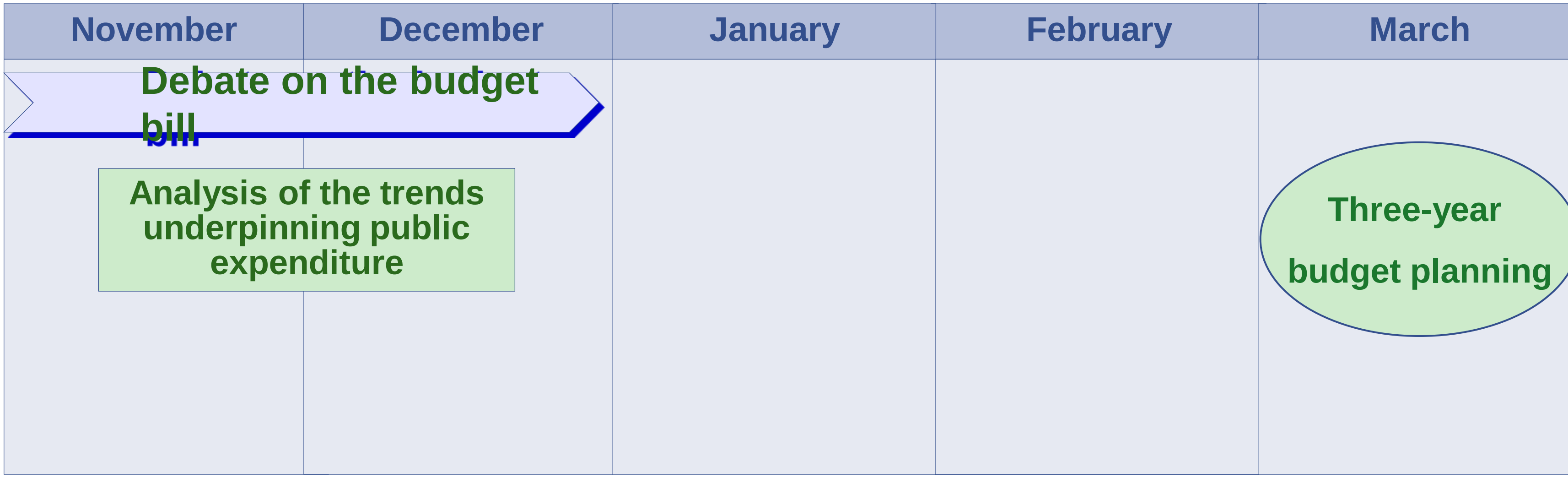
Adjustment for increased inflation

In PLF 2011, t5he ceilings of the previous year are being revised

****priorities : debt, guaranties, legal services***

DIRECTION DU BUDGET

Impact on the Budget procedure



November-March: analysis of the trends underpinning public expenditure and preparation of a three-year budget strategy (even years only)

Goals

- Analyse in a multi-year framework all the components of public spending
- Challenge current spending schemes

Outcome

- For each « mission », a short paper is prepared which presents the trends underpinning expenditure and the ways to streamline spending schemes

Budget bilaterals

March	April	May	June	July
		Budget bilaterals Ministry of Budget – spending ministries	Expenditure ceiling letters	
		Arbitration files		Budget policy debate in Parliament

May-June: budget bilaterals

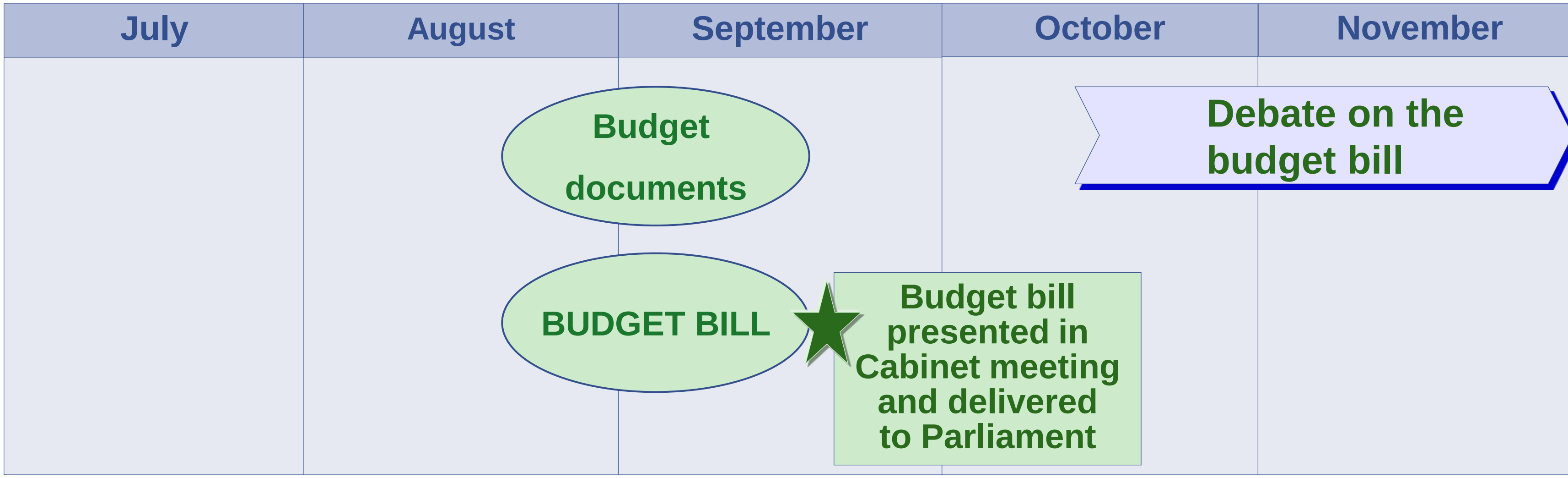
Goal

- Agree on year Y+1 expenditure at the « mission » level and identify disagreements

Outcome

- « Arbitration files », allowing ministers and the Prime minister to make budgetary decisions for year Y+1
- The Prime minister sends all ministers an « expenditure ceiling letter » defining a cap on appropriations at the « mission » level + a cap on job numbers for each ministry

Budget bill and Budget documents



August-September: preparation of the budget bill

Goal
- Prepare all budget documents (mainly PAPs)
- Write and assess all the articles (= tax and budget reforms) included in the budget bill

Outcome
- Budget bill and impact studies on all measures included in the budget bill
- PAPs and other explanatory annexes

First outcomes of the multi year budgeting

1

Structural reforms

Integration of all **savings from RGPP** into budget preparation

Better documentation of savings of personnell and operational costs

Savings obtained due to lessons learned inthe course of RGPP

2

A more sincere budget

From the very beginning of the procedure, the activity is more based on the analysis of **tendencies** and exchange of information with the ministries

Streamlining of allocations (for example: exemption from charges payment, peace-keeping operations …)

Continuation of activity on expansion of norms coverage

3

Medium-term oriented

Improvement of **mid-term** forecasting and more attention to years 2010 and 2011 and evaluation of savings as a result of structural transformations

4

Sectorial programmation laws more coherent with the rest of the budget

La LPM and LODEOM were drafted in conformity with multiyear budgeting with due consideration of existings constraints

Other legilsation on program budgeting is drafted on the basis of arbitration results

Multiyear budget encompasses legislation on all programs budgeting

2.2 The progressive implementation of fiscal rules

Overview of the existing fiscal rules in France

Deficit or Debt rules

•**Stability and Growth Pact** rules

• **Constitutional obligation,** but without sanction, **to adopt sound public finances orientations** in order to have a balance budget for general government

• **«Golden rule» for local authorities**

•Theoretically, **social security agencies** can only borrow on a short term basis

•**Tax revenue windfalls** during the budget outturn must be allocated to deficit reduction

•**Privatization proceeds** can be affected only either to debt reduction or to recapitalize public corporations

Expenditure or revenue rules

Expenditure rules

• **Rule of « zero growth in real terms » for State budget expenditure**

• **National Health Care expenditure target** (ONDAM)

• **Only one retired civil servant out of two is replaced** for the State. Rule not totally applied yet for state-run entities

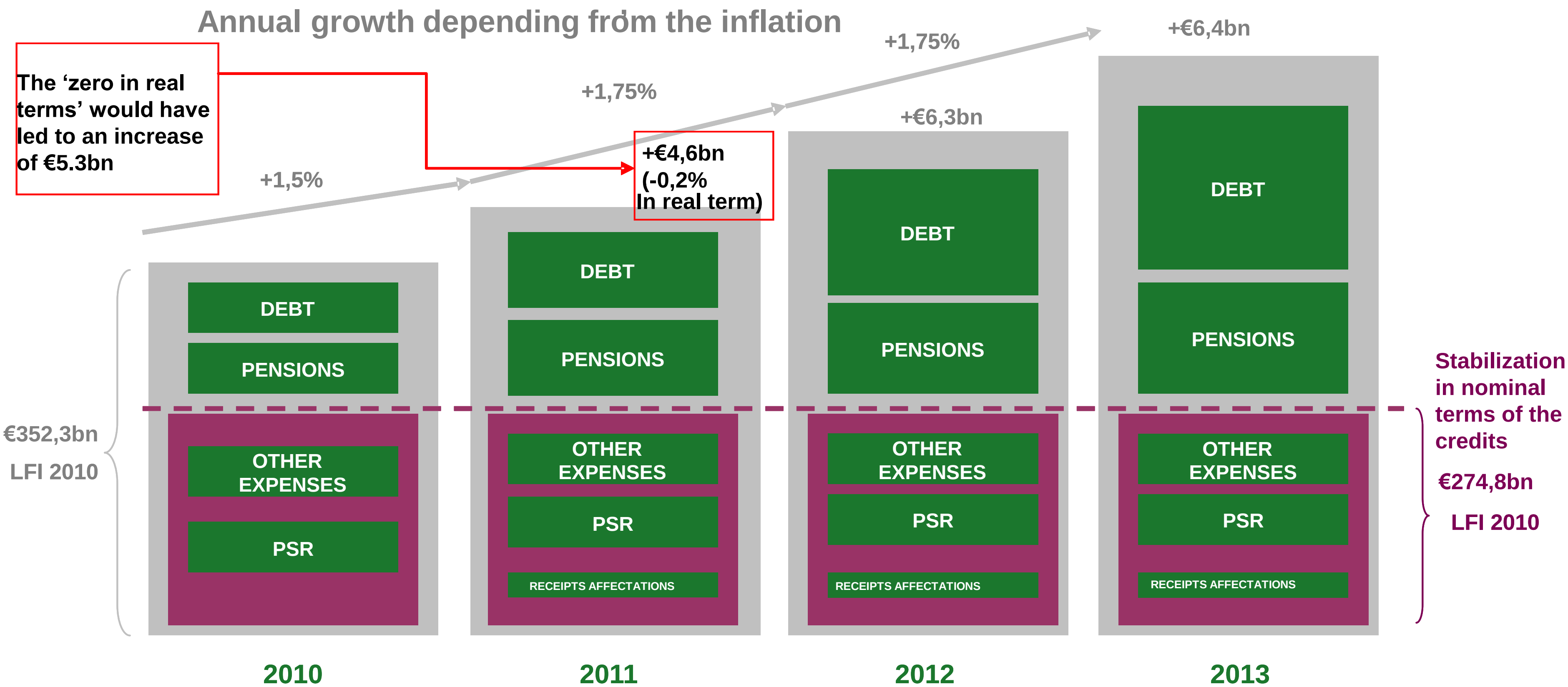
•**Objective of the expenditure growth for general government** (+1% in real terms)

Revenue rules

• Newly created **tax expenditure** must be compensated by the reduction of other tax expenditure (rule adopted in the multi year budget)

• Prohibition of tax cuts if the level of revenue predicted in the multi year budget is not reached

The expense norms
“0 in real terms” and “0 in nominal terms outside debt & pensions”



Extended norm perimeter: growth of the credits ceiled by the inflation

‘zero in nominal terms perimeter: stabilization in nominal terms of the credits

DIRECTION DU BUDGET

The need for a next step

The Fiscal compact

SIX-PACK

- Entered into force on 13 December 2011;
- Five Regulations and one Directive (that is why it is called six-pack);
- The six-pack does not only cover fiscal surveillance, but also macroeconomic surveillance under the new Macroeconomic Imbalance Procedure.
- In the fiscal field, the six-pack strengthens the Stability and Growth Pact (SGP). According to the SGP Member States' budgetary balance shall converge towards the country-specific medium-term objective (MTO) - so-called preventive arm - and the general government deficit must not exceed 3% of GDP and public debt must not exceed 60% of GDP (or at least diminish sufficiently towards the 60% threshold). The six-pack reinforces both the preventive and the corrective arm of the Pact, i.e. the Excessive Deficit Procedure (EDP), which applies to Member States that have breached either the deficit or the debt criterion.
  - The six-pack ensures stricter application of the fiscal rules by defining quantitatively what a "significant deviation" from the MTO or the adjustment path towards it means in the context of the preventive arm (0,5% a year, or 0,25% in two years).
  - Moreover, the six-pack operationalizes the debt criterion, so that an EDP may also be launched on the basis of a debt ratio above 60% of GDP which would not diminish towards the Treaty reference value at a satisfactory pace (and not only on the basis of a deficit above 3% of GDP, which has been the case so far).
  - Financial sanctions for "euro-area Member States" are imposed in a gradual way, from the preventive arm to the latest stages of the EDP, and may eventually reach 0.5% of GDP. The six-pack introduces reverse qualified majority voting (RQMV) for most sanctions, therefore increasing their likelihood for "euro-area Member States". (RQMV implies that a recommendation or a proposal of the Commission is considered adopted in the Council unless a qualified majority of Member States votes against it.)
  - Obligation for the member states to adopt a multi-year budgetary framework (at least 3 years) including fiscal rules which favor the respect of the medium term budgetary objective, and to monitor the implementation of these rules (Directive on budgetary frameworks)

The Fiscal compact

- **TREATY ON STABILITY, COORDINATION AND GOVERNANCE (TSCG)**
- Entry into force following ratification by at least twelve "euro-area Member States";
- Intergovernmental agreement (not EU law); signed by 25 EU Member States (all but UK and Czech Republic); TSCG will only be binding for all "euro-area Member States", while other contracting parties will be bound once they adopt the euro or earlier if they wish (they are allowed to choose provisions they wish to comply with).
- Requires contracting parties to respect/ensure convergence towards the country-specific medium-term objective (MTO), as defined in the SGP, with a lower limit of a structural deficit (cyclical effects and one-off measures are not taken into account) of 0.5% of GDP; (1.0% of GDP for Member States with a debt ratio significantly below 60% of GDP). Correction mechanisms should ensure automatic action to be undertaken in case of deviation from the MTO or the adjustment path towards it, with escape clauses for exceptional circumstances. Compliance with the rule should be monitored by independent institutions.
- These budget rules shall be implemented in national law through provisions of "binding force and permanent character, preferably constitutional".
- European Court of Justice (CoJ) may impose financial sanction (0.1% of GDP) if a country does not properly implement the new budget rules in national law and fails to comply with a CoJ ruling that requires it to do so. In the case of "euro-area Member States", sanctions would be channeled to the ESM, in the case of "non-euro-area Member States", the money would be attributed to the EU budget.
- Compliance with the rule implementing the MTO in national law will also be monitored at the national level by **independent institutions**.

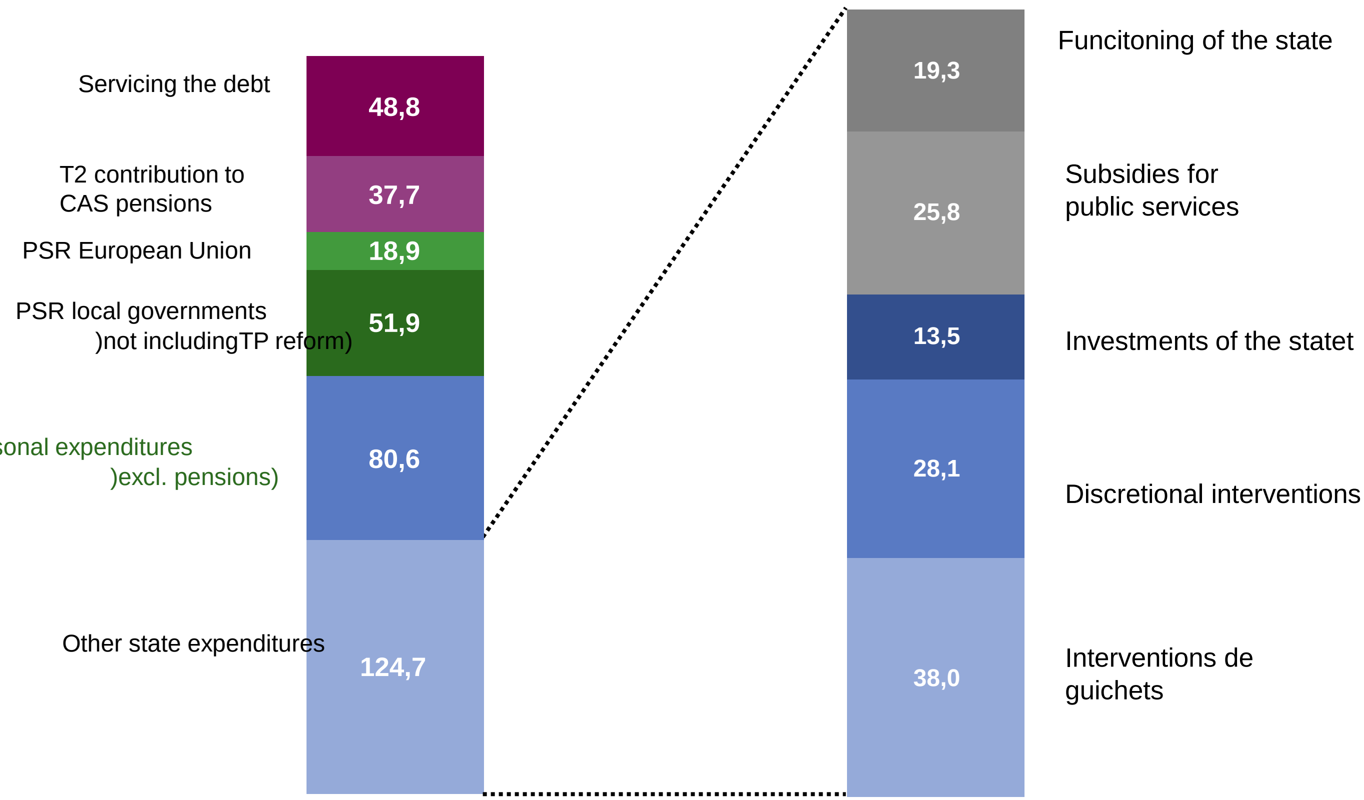
- Text is currently being prepared in France to implement these new rules. An independent fiscal council is to be created. It will agree the macroeconomic forecasts produced by the administration, and give an opinion on the respect ot the fiscal rules.

Appendice

State expenditures in 2012

Total state expenditures sur le périmètre de la norme élargie : 362,5 Md€

Details on other state expenditures: 124,7 Md€



DIRECTION DU BUDGET

A system of power sharing

The French state

Central government

Executive branch

President of the Republic

Prime Minister Government

Legislative branch

The Parliament

Senate & National Assembly

Judicial branch

The courts

Courts of appeal

Cour de cassation

Conseil d'Etat

Guaranteeing national unity

Local and regional governments

Vested with local powers

Three administrative levels

Town | Department | Region

Administrative and financial autonomy

THE STATE

central government

A government with central administrations

Devolved administrations throughout the territory

Serving local populations, under the authority of central government: the Prefect (*Préfet*)

Specialized public agencies, operating Independently but subject to oversight

Providing services in a variety of fields

The regional coverage…

The state

Central government branches

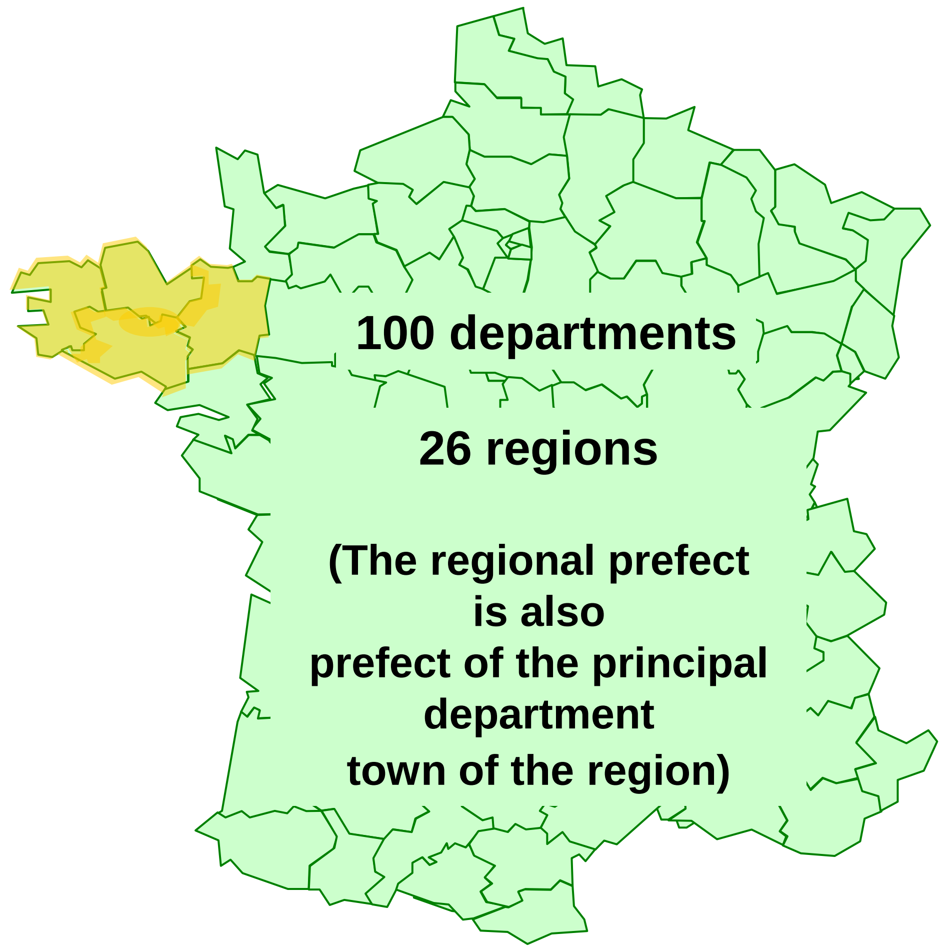
Executive | **Legislative** | **Judicial**

*The executive branch appoints the representatives of the state at the local level: **the prefects***

Departments | **Regions**

Representation of the State at the local level

Devolution



Regional coverage (central government is present at all administrative levels) :

	Representatives of central government	*Local elected officials*
Communes	**Mayor, for certain functions only.**	**1 Commune mayor**
Departments	**1 Department prefect**	**2 President of the *conseil général***
Regions	**2 Regional prefect**	**3 President of the *conseil régional***
	Devolution	**Decentralization**

Declaration of human and civic rights of 26 August 1789

Article 14

All citizens have the right to ascertain, by themselves or through their representatives, the need for a public tax, to consent to it freely, to monitor its use, and to determine its proportion, basis, collection and duration.

The Constitution of 1958

Articles 39, 40, 46 & 47

Institutional framework of the French Budget