Macron Not Ready to Wean France Off Spending Addiction Just Yet

By **Angeline Benoit** and **Helene Fouquet**
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- France's debt will peak at 97% of GDP in 2019 vs Germany's 58%
- Macron has left half of planned savings for his last two years

Emmanuel Macron *Photographer: Dario Pignatelli/Bloomberg*

French President Emmanuel Macron's first annual checkup with the European Union's budget doctor won't be pretty.

His government, which may gain from accelerating growth, is postponing the spending cuts needed to narrow the structural budget gap as required by the European Commission, say two people with knowledge of documents being sent to Brussels this month. Elements of the plan will be unveiled to the French cabinet <http://www.elysee.fr/> this week.

About a year after taking office, the French president will be disregarding budgetary discipline, refusing to wean France off what his Prime Minister Edouard Philippe calls the country's "addiction to public spending." <https://www.bloomberg.com/news/articles/2017-07-04/macron-s-premier-says-france-must-break-addiction-to-spending> Macron's defense: If he cuts entitlements, he will have a revolution on his hands.

Rejouer la vidéo

En savoir plus

As rail workers, students, pilots, retirees and others take to the streets to protest his reforms, he wants to do everything he can to avoid a flaring of violent demonstrations like those 50 years ago that paralyzed France and destabilized then-president Charles de Gaulle.

"France is off the budget track and unlike his predecessor, Macron isn't even trying to pretend the contrary," said Francois Ecalle, head of the independent Paris-based fiscal-monitoring body Fipeco <https://www.fipeco.fr/apropos.php>. "The government is axing taxes before spending; it's hard to see how this is going to work."

Click here for more on the French rail strike and other protests <https://www.bloomberg.com/politics/articles/2018-04-08/french-premier-vows-to-enact-rail-reform-amid-strike-chaos>

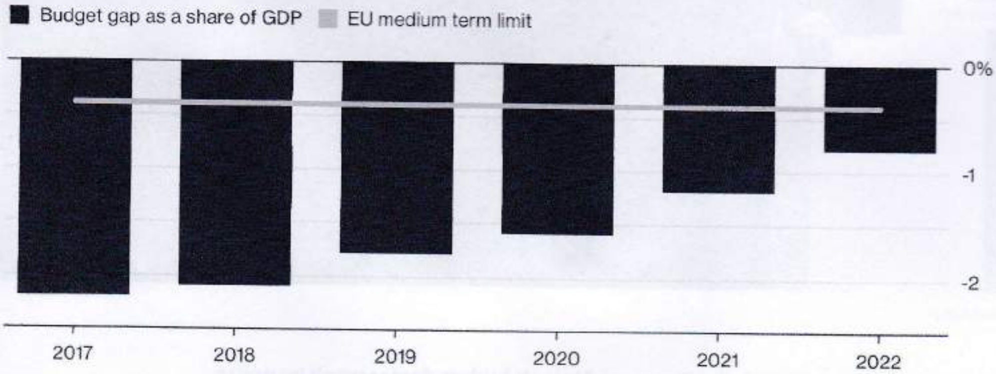
Macron's Ambitions

For starters, the Commission could demand tweaks to the budget plans to comply with its targets. On a broader scale, the lack of fiscal discipline may dent France's credibility with the markets and its partners, especially as Macron makes clear his ambitions for greater European integration.

"A key question is whether France's EU partners remain confident that Macron is able to deliver on the economic transformation agenda that he committed to," said Brussels-based Robin Huguenot-Noel, a researcher at the European Policy Center.

Deficit Slippage

France's structural overspending will remain above the EU limit



Source: French Economy Ministry

The French budget forecasts in the stability plan to be presented to the cabinet will be line with those presented in September <https://www.performance-publique.budget.gouv.fr/actualites/2017/trajectoire-finances-publiques-plpfp-2018-2022-transmis-haut-conseil-finances-publiques#.WseBcS7wYuU> , said the people, who declined to be identified because the information hasn't been made public. In September, the International Monetary Fund estimated France's deficit will reach 3.2 percent of output in 2019, larger than the EU's 3 percent target.

The euro region's second-largest economy is delaying from 2019 to at least 2023 reaching a so-called structural deficit -- the part of overspending which doesn't depend on the economic cycle -- of 0.4 percent of gross domestic product, as prescribed by EU rules.

Risky Proposition

France and Spain are the only EU countries under an excessive deficit procedure from the EC. The government expects its debt load will peak at 97 percent of GDP in 2019, while Germany's will have fallen to 58 percent.

Meanwhile, not only has Macron slowed fiscal consolidation, but he has back-loaded his calendar, postponing difficult decisions to 2020. Of the total 80 billion euros ($98 billion) of planned savings over five years, he's increased the share left for the last two years of his mandate to 48 percent from an initial 28 percent, according to a report by the French senate's fiscal committee.

The first take had already been deemed risky by the IMF, which said in September that it would require "timely specification and implementation" of "deep, efficiency-oriented spending reforms" as well as "strong political support over an extended period."

Six months on, there are still no signs of the steps recommended by the IMF such as downsizing the wage bill, consolidating local governments or reshaping social, health and retirement benefits.

Wider Picture

Officials in Macron's government argue that the country's current social climate makes the combination of structural reforms and spending cuts explosive. The government is already battling protests as it dismantles labor protection, tweaks the education system, cuts taxes for some and raises them for others and deepens competition, starting with the railways.

And it's got more coming with tweaks to unemployment and housing benefits and the working conditions of government employees. The goal is to take steps to achieve firmer growth and job creation to avoid the strict austerity that was applied to Portugal and Spain.

The big question for France is: will the European Commission see it that way?

"The Commission has got to take the wider political-economy picture into account, without seeming to give the impression that France gets special treatment because it's a major economic player and net contributor to the EU budget," the European Policy Center's Huguenot-Noel said.