In 2025, the effects of fiscal consolidation on growth are expected to be moderate, affecting companies' financial situation and, to a lesser extent, household purchasing power

The Finance Law for 2025, published in the *Journal Officiel* on 14 February 2025, provides for a structural fiscal adjustment of around +0.7 GDP points in order to reduce the public deficit to 5.4% of GDP, after 5.5% in 2023 and 6.0% forecast by the French government for 2024. Within the Eurozone, this adjustment in 2025 is likely to be specific to France, as most of the other major European countries have already reduced their deficits in recent years.

This effort, provided for in the Initial Finance Law (LFI) and the Social Security Financing Act (LFSS), is intended to improve the balance of public accounts, reduce public debt and meet France's European commitments. In addition, maintaining a high public deficit could lead to a further rise in the cost of sovereign debt, which could also hamper activity.

It is based on various mechanisms, which affect the prices paid by economic agents, household purchasing power, the financial situation of enterprises and public consumption and investment expenditure. As a result, the measures considered here are expected to reduce household purchasing power by 0.4 points over 2025 as a whole, although they would not prevent it from increasing due to other factors, and the financial situation of enterprises is likely to be affected to the tune of 0.9 points of their value added. However, their margin rates should remain relatively close to their pre-health-crisis levels.

The effects on growth are expected to spread slowly and be attenuated. For households, the high savings ratio should cushion the impact on consumption, especially as some measures are targeted at high-income households. For enterprises, certain measures are announced as temporary and are therefore less likely to slow investment, if they consider this announcement credible. Finally, regarding government consumption and investment, the special law remained in force in the first few weeks of 2025 before the Finance Law was passed, depressing central government spending and demand in Q1.

Gaston Vermersch, Alexandre Simcic, Guillaume Roulleau

The Finance Law provides for a structural adjustment of around 0.7 GDP points in 2025

The public deficit reached 5.5% of GDP in 2023 and is expected to stand at 6.0% in 2024 according to the government (► **Haut Conseil des Finances Publiques (HCFP – High Council of Public Finance), 2025**). The Finance Law for 2025, published in the *Journal Officiel* on 14 February 2025, has set a public deficit target of 5.4% of GDP in 2025, corresponding to a structural adjustment of +0.7 GDP points in 2025, after -0.4 points in 2024 (► **Figure 1**). This adjustment is based primarily on measures to increase taxes and social contributions (contributing +0.9 points to the structural adjustment). The non-discretionary component of the structural adjustment should once again be unfavourable in 2025 (contributing -0.2 points to the adjustment), due to taxes and social contributions being slightly less dynamic than activity in spontaneous terms (► **HCFP, 2025**).

At this stage, the scale of this budgetary adjustment is expected to be relatively comparable – over one year – to that implemented in France in the early 2010s. According to the European Commission, the annual structural adjustment carried out in France averaged +0.3 GDP points between 2011 and 2019, and the maximum budgetary effort was made in 2011 for a structural adjustment of +0.8 GDP points (► **Figure 2**).

► 1. Public deficit forecasts and contributions to the structural adjustment of French public finances between 2023 and 2025

	2023	2024	2025
Public balance	-5.5	-6,0	-5.4
Structural balance	-5.1	-5.5	-4.7
Structural adjustment	-0.6	-0.4	0.7
- contribution from new revenue measures	*-0.4*	*0.2*	*0.9*
- expenditure	*1.5*	*-0.2*	*0.1*
- non-discretionary component (tax elasticity effects, revenue excluding taxes and social contributions)	*-1.7*	*-0.4*	*-0.2*

Forecast.
Source: HCFP, Opinion No. 2025 - 1 on amendments to the Finance Bill and the Social Security Financing Bill for 2025.

Furthermore, the fiscal consolidation envisaged in France in 2025 is unique in the European context, since the fiscal impulse in the Eurozone is less unfavourable with a planned structural adjustment of only +0.2 GDP points, against a current backdrop of significantly lower public deficits in the Eurozone than in France (► **box**).

The adjustment measures implemented to improve public finances will affect the accounting situation of the various economic players in several ways

Each adjustment measure envisaged in the Initial Finance Law (LFI) and in the Social Security Financing Act (LFSS) will affect the financial situation of one or more economic agents (households, enterprises, financial corporations, general government, etc.), in national accounting terms, in 2025. These measures may affect the agents' incomes either directly or indirectly via prices. Broadly speaking, they can be divided into four categories: measures affecting prices, those affecting household income, those affecting corporate income and, finally, those directly affecting GDP via final consumption and investment expenditure by general government.

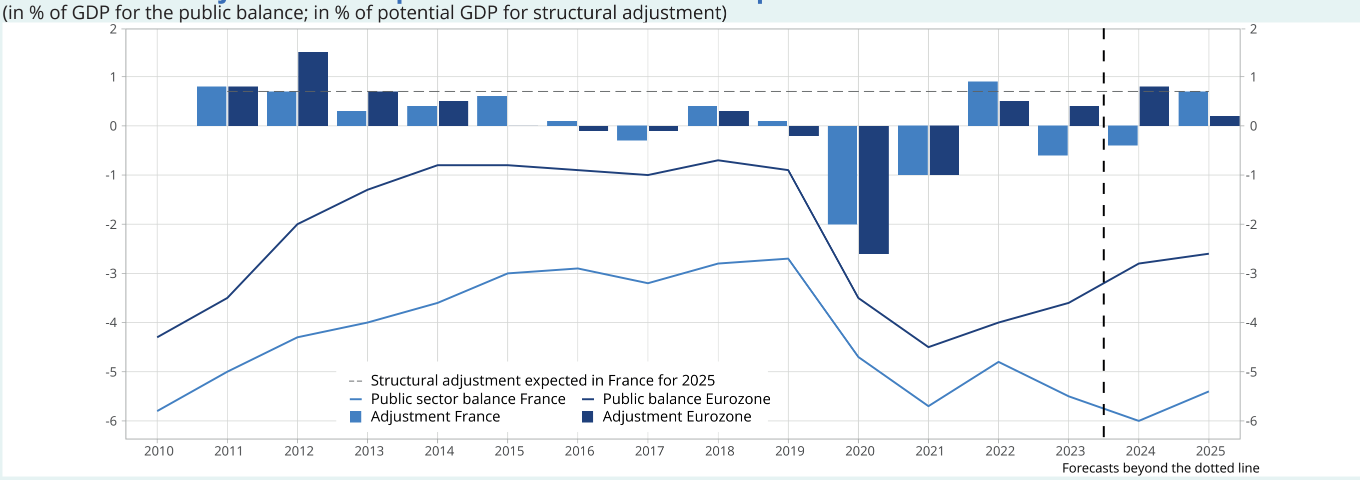
The scope of the measures included in this Focus and in the forecasts of this *Economic Outlook* corresponds to the main measures in the LFI and LFSS (► **summary table**). However, where a measure has been suspended by the Government, it is automatically removed from the analysis in this Focus. This applies to the lowering of the threshold for basic VAT exemption to €25,000 of turnover, for example, and also to the €1 billion increase in the additional solidarity tax on mutual insurers, whose application and timetable remain uncertain.

On the revenue side, the concept of new measures is generally firmly established, but this is not the case on the expenditure side, which explains why the fiscal stance for expenditure is usually defined as the difference between the actual growth in expenditure and potential growth. Describing the measures underlying changes in expenditure implies a division between the trend variation and the measures, which necessarily includes a degree of convention. However, this Focus presents the effects of several measures presented in the LFI and LFSS, which correspond to changes in the scale of benefits (notably daily allowances), whose analysis is similar to that of revenue measures. Conversely, this Focus does not consider the raising of social benefits in line with inflation, which effectively occurred, as an expenditure "measure": in fact, such indexing takes place "on a no-policy-change basis" (► **European Commission 2016**) and is therefore included in the trend rate for growth in expenditure. The overall effects of the fiscal stance on growth should ideally be analysed by considering the new measures on the revenue side, and the difference between the increase in expenditure and potential growth on the expenditure side.

Increases in indirect taxes are expected to raise household consumption prices by 0.2 percentage points

Several measures adopted in the LFI directly impact the price of certain products: these measures do not affect household income but do impact household purchasing power. For enterprises, with unchanged selling prices, they reduce value added by increasing the price of intermediate consumption. These measures include restoring excise duty on electricity in February 2025 to its pre-"price shield"

► 2. Structural adjustment and public balance achieved and planned in France and the Eurozone since 2010
(in % of GDP for the public balance; in % of potential GDP for structural adjustment)



How to read it: in 2023, France's public balance corresponds to -5.5% of GDP. The structural adjustment achieved was -0.6 potential GDP points, compared with +0.4 GDP points in the Eurozone.
Source: European Commission, Initial Finance Act for 2025 for France, INSEE calculations.

level, implementing the solidarity tax on airline tickets (TSBA) on 1st March 2025 (▶ **sheet Consumer price**), tightening the "bonus-malus" on new motor vehicles (leading to an increase in the selling price and therefore in the household consumer price), and introducing a tax on soft drinks and gambling. Lastly, rather than raising the household consumer price, the increase in the duty on transfer for valuable consideration ("DMTO") will increase the price of household investment in services. Therefore, this measure will have no accounting impact on household purchasing power, but it will impact their financial savings.

Specifically, the increase in excise duty on electricity simply corresponds to the removal of the "price shield", amounting to around €4 billion. This measure should be borne equally by enterprises and by households, affecting household consumer prices by just over +0.1 percentage points, all other factors remaining equal. This measure came into force on 1st February 2025, in a context that has seen a sharp decline in the regulated sales tariff ("TRV"), which is indexed on market prices with a time lag, excluding tax. For example, electricity prices including all taxes fell by a total of 12.6% over one month in February, including households that opted for a market offering (▶ **sheet Consumer price**).

The tightening of the "bonus-malus" on new vehicles consists of a €0.3 billion increase in the malus on 1st March 2025 (considered as a tax in accounting terms), and a reduction of around €0.5 billion in the bonus since 1st December 2024 (considered as a subsidy on products in national accounting terms). An increase in the solidarity tax on airline tickets is expected to yield around €0.8 billion, while the tax on soft drinks and gambling should yield €0.3 billion. Assuming that half of these measures concern households and half concern enterprises (with the exception of the tax on soft drinks, which is likely to be borne entirely by households), they should contribute to an increase in household consumer prices of almost 0.1 percentage points in 2025.

The application of the various pricing measures in the LFI and LFSS should therefore raise household consumption prices by 0.2 percentage points in 2025. Furthermore, the LFI gives local authorities the option of increasing the duty on transfer for valuable consideration ("DMTO") by 0.5 percentage points (for an expected yield of €0.8 billion). The DMTO, collected by notaries, is a tax on the purchase of property. Consequently, although its rise does not affect consumer prices, it does impact the prices of household investment in services.

The scale measures on daily allowances and unemployment insurance, and the targeted tax rises, are expected to reduce household gross disposable income by -0.2 points

Other measures included in the LFI and LFSS impact household gross disposable income (GDI). These include the exceptional contribution on high incomes (CEHR), with an expected yield of €2 billion, to be levied at the end of the year.

The LFI also contains a measure to reduce the reimbursement rate for sick leave in the civil service to 90% in the spring of 2025, which will affect the public wage bill and lead to a reduction in household gross disposable income, with expected savings of €0.9 billion. The reduction in the upper limit for the reimbursement of daily sickness benefit for private-sector employees as part of the savings on the national health insurance expenditure target ("ONDAM") should result in lower payments of social security benefits in cash, with expected savings of €0.4 billion. Finally, the new unemployment insurance agreement for 2025, which came into force on 1st January, is expected to generate savings in benefits paid out, depressing household GDI by €0.3 billion (▶ **sheet Household income**).

Taken together, these different measures are likely to reduce household gross disposable income by 0.2 percentage points, all other factors remaining equal.

Increases in the cost of labour and taxation for enterprises are likely to lead to a deterioration in their financial situation corresponding to 0.9 points of their added value

Other measures in the Finance Laws concern enterprises. Firstly, reprofiling the general reductions in social security contributions should lead to an increase in employers' contributions of around €1.6 billion in 2025 (net of the return to corporation tax[1]), borne mainly by non-financial corporations. In addition, aid for employment and apprenticeships is expected to be reduced in 2025, adding around €1 billion to the cost of labour for enterprises. Taken together, both of these measures look set to reduce value added on the savings of non-financial corporations by 0.2 points.

1 Increasing employers' contributions automatically reduces an enterprise's taxable profits, and therefore the corporation tax that it is liable to pay. The figures used here take this effect into account.

In terms of taxation, the additional corporation tax for large enterprises will impact their savings to the tune of €8 billion, mainly at the end of the year, and the one-off tax on sea freight will cost €0.5 billion. An adjustment to the parameters of the Research Tax Credit ("CIR") should reduce this amount by around €0.4 billion. Lastly, the LFI and LFSS provide for the creation of a tax on share buy-backs, amounting to €0.4 billion, and an increase in the social levy ("forfait social") on free share allocations, amounting to €0.5 billion. In total, these various measures are expected to impact the financial position of non-financial corporations (NFCs) by 0.6 points of value added.

In addition, enterprises are likely to be subject to measures affecting prices (electricity, airline tickets, "bonus-malus" on motor vehicles), bearing around half of the cost (see above). Lastly, the LFI provides for a €0.5 billion increase in the tax on financial transactions. For enterprises, the impact of these measures on the price of intermediate consumption should amount to 0.2 points of their value added.

All in all, all of the measures targeting enterprises should contribute to reducing their financial savings by 0.9 points of added value.

The LFI and the LFSS also include some measures that hold back activity, via consumption and investment expenditure by the public sector

In addition to the measures affecting the private agents listed above, which mainly involve changes to benefit scales, the Finance Laws also include a number of measures to slow down government consumption and investment expenditure, whether through reductions in appropriations, moderation of the national health insurance spending target or measures to curb local authority spending.

The savings put forward by the government concern the various sub-sectors (State, local authorities and social security administrations). In particular, as far as the State is concerned, the special law adopted at the end of 2024 to ensure the services already approved under the ministries' expenditure pending the adoption of the Initial Finance Law would appear to have enabled the general government to make savings focused on the first six weeks of the year.

Measures affecting the final expenditure of general government are likely to slow down their consumer spending or investment, and therefore activity. In value terms, general government output is measured by its costs and the effect on GDP is therefore unitary. However, the impact in volume terms is likely to be much smaller than in unit terms: on the one hand, the output of individualisable public services (health, education, etc.) in volume terms is based on production indicators (number of pupils, healthcare, etc.) which are only indirectly affected by expenditure; on the other hand, for collective public services (defence, justice, etc.) certain measures, such as the reduction in sick pay for public employees, can be recorded as a variation in the price of this output rather than a change in volume.

In addition, measures targeting local authorities do not necessarily have a unitary effect on activity in the short term, as these bodies may draw on their savings to smooth out their expenditure. Local investment could also hold up well in 2025, due to the "electoral cycle" and the prospect of municipal elections in 2026 (▶**Beatriz, 2019**): local authority investment expenditure is usually more dynamic in the two years preceding this type of event.

Overall, after contributing 0.6 percentage points to GDP growth in 2024, the mid-year growth overhang for the contribution of final expenditure by general government to GDP in accounting terms is expected to be three times lower (▶**Figure 3**). In particular, because the special law remained in force for the first few weeks of the year, the expected downturn in collective consumption by general government is likely to hamper growth in Q1 2025.

The fiscal measures are expected to reduce household purchasing power by 0.4 points, but the effect on consumption should be mitigated

As the measures in the LFI and LFSS concerning households are expected to increase their consumer prices by +0.2 points and reduce their gross disposable income (GDI) by -0.2 points, the accounting effect of the budgetary measures should reduce their purchasing power by -0.4 points in 2025, all other factors remaining equal. However, these measures should have the effect of merely holding back purchasing power whose mid-year growth overhang is expected to stand at +0.8% in 2025 (after an average increase of +2.5% in 2024 (▶**sheet Household income**), which should benefit from the spontaneous dynamism of benefits (notably the increase in pensions), the catch-up wage increases and the drop in electricity prices excluding tax.

This slightly negative impact is unlikely to be passed on in full to household consumption. Firstly, the effects of an income shock are not immediately felt: households generally adopt a smoothing behaviour by modulating their savings ratio. According to the *Mésange* model (▶**Bardajo and al., 2017**), a 1% shock to household income results in a "mere" 0.5% decline in household consumption after one year.

In addition, beyond this short-term effect, the current level of the savings ratio and the composition of the measures adopted could lead households to absorb part of the shock to their income by reducing their savings ratio. Indeed, the slowdown in household purchasing power in 2025 follows on from a significant upturn in 2024, against a backdrop of disinflation. So far, however, these purchasing power gains in 2024 have not led to significantly higher spending, with household consumption growing by only +0.9% in 2024. This is reflected by an increase in their savings ratio (►**Focus** Savings ratios in the Eurozone, *Economic Outlook* December 2024). This rise is partly due to the composition of the purchasing power gains recorded over the recent period, fuelled notably by the buoyancy of income from wealth, which is more likely to be saved than other types of income (especially earned income). In 2025, property income is expected to undergo a significant slowdown. Lastly, some measures in the LFI target wealthier households, which have a lower marginal propensity to consume: this especially applies to the exceptional contribution on high incomes. Moreover, this tax is expected to be focused on the end of the year and would therefore be unlikely to change consumer behaviour in H1 2025.

These factors collectively point towards consumption being more vigorous than purchasing power at the start of 2025. This upturn in consumption would therefore seem likely to result in a lower household savings ratio (18.2% forecast for mid-2025, compared with 18.4% in Q4 2024).

In addition to the decline in the savings ratio, the price measures affecting households in the LFI for 2025 are likely to change the structure of their consumption. The tightening of the “bonus-malus” on motor vehicles and the increase in the tax on air transport could therefore led to specific reductions in consumption on these items (►**sheet Household consumption**). Meanwhile, the increase in excise duty on electricity would appear to have a limited effect on their consumption in a context that sees electricity market prices, like the prices actually paid by households, easing in relation to the inflationary peak, and in which energy-saving practices have been developing since 2022.

Fiscal measures aimed at enterprises look likely to slow down employment and productive investment

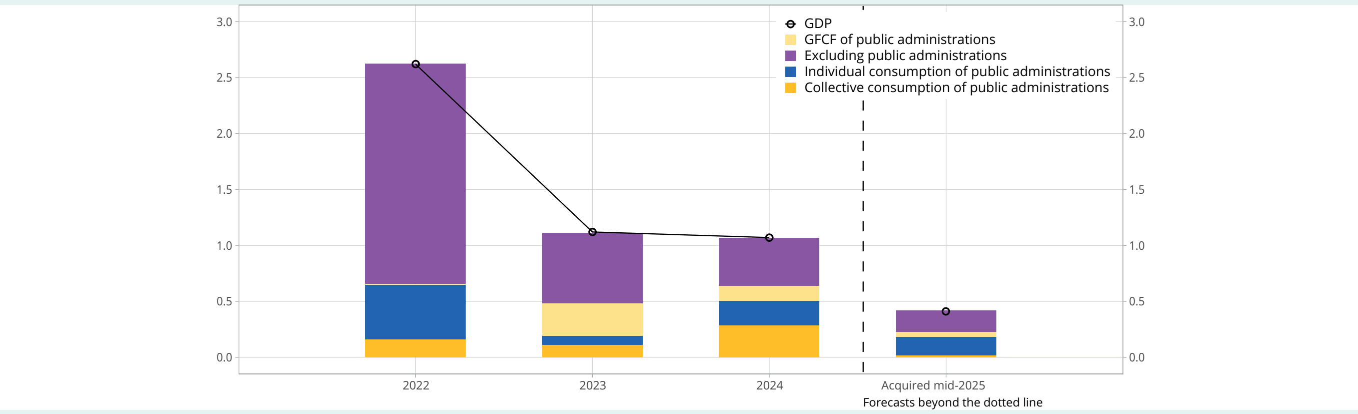
The measures in the LFI and LFSS targeting enterprises can be divided into those that increase the real cost of labour, i.e. the reprofiling of general tax relief and the reduction in aid for the recruitment of employees on work-linked training schemes, and those that affect enterprises’ overall income, including the additional corporation tax, the tax on maritime freight enterprises and other tax measures (research tax credit, tax on share buybacks, increase in the social levy on free share allocations).

Labour cost measures alter the relative price of labour in relation to the other factors in the production function and are therefore likely to impact employment or curb the dynamism of wages. The economic effect on employment of the re-profiling of social security contribution reductions decided upon in the LFSS should correspond to a limited decline in the long term, based on the elasticities proposed by the ►**Bozio-Wasmer mission (2024)**. As these effects are relatively slow to appear, this measure would appear to have little effect on employment over the forecasting period. The reduction in aid for apprenticeships is likely to have a stronger impact. The Institut des politiques publiques (►**IPP, 2024**) claims that the introduction of exceptional aid on apprentice recruitment was responsible for more than half of the increase in apprentice recruitment observed over the 2019-2020 period.

Other measures concerning enterprises in the LFI and LFSS affect their overall income, such as the additional corporation tax, implemented at the end of the year, the exceptional maritime freight contribution and other tax measures (research tax credit, tax on share buybacks, increase in the social levy on free share allocations). These increases in taxes come on top of the rise in labour costs, with an overall negative effect on their financial situation of 0.9 points of value added. These measures

►3. Contribution of final expenditure by general government to annual GDP growth since 2022

(in percentage points)



How to read it: in 2024, the final expenditure of general government contributed +0.6 points to GDP growth.
Source: INSEE.

are therefore likely to have a negative impact on their overall expenditure, and more specifically on their investment. Given the long-term elasticity of investment to the business savings ratio (►**Hauseux and al., 2015**), this downturn could theoretically lead to a reduction of up to two points in the GFCF of NFCs in the long term. Nevertheless, this appears to be an upper-bound effect: it expected to be a permanent measure, whereas many of the tax increases for enterprises in the LFI are deemed to be temporary. ●

What fiscal stimuli will be provided in Europe in 2025?

The European Commission's forecasts in the autumn of 2024 point towards contrasting trends in the main European countries' fiscal policies in 2024 and 2025. Following the adoption of the LFI and LFSS, France is expected to undergo a unique fiscal consolidation in 2025 (►**figure 4**), after two years of deteriorating public deficit.

Throughout the Eurozone, the average public deficit would appear to have fallen from 3.6% of GDP in 2023 to 3.0% in 2024, reflecting a relatively widespread withdrawal from energy-price-crisis schemes. In terms of structural adjustment, the Commission considers that this corresponds to a fiscal consolidation of -0.8 points, from a structural deficit of 3.6% in 2023 to 2.8% in 2024. In 2025, however, the fiscal stance in the Eurozone is likely to be virtually neutral, with the structural deficit falling by 0.2 points, notwithstanding significant differences between countries. Fiscal consolidation is expected to be significant in France, more limited in Italy and Spain, and virtually non-existent in Germany. Conversely, Ireland, the Netherlands and, to a lesser extent, Belgium, look likely to adopt expansionary fiscal policies. Since these forecasts exclude France and were made last autumn, they do not take account of the most recent developments and announcements, notably the planned easing of the brake on debt in Germany. ●

►4. Public deficits in the Eurozone

Public deficit (% of GDP)	2022	2023	2024	2025
Germany	-2.1	-2.6	-2.2	-2.0
Spain	-4.6	-3.5	-3.0	-2.6
France	-4.7	-5.5	-6.0	-5.4
Italy	-8.1	-7.2	-3.8	-3.4
Euro zone	-3.5	-3.6	-3.0	-2.9
United Kingdom*	-4.8	-4.5	-4.5	-3.6

■ Forecast.
Source: European Commission, autumn 2024 forecast (for the years 2024 and 2025), Initial Finance Law 2025 for France.

Summary table: the fiscal measures in the 2025 PLF and PLFSS integrated into the forecast of the *Economic Outlook*

Fiscal measure	Institutional sector	Forecast amount (€ bn)	National accounting effect	Expected economic effect
Price measures				
End of the electricity "price shield"	Household and NFC	4	Increase in prices of household consumption and intermediate consumption of enterprises Increase in taxes on products	Drop in the savings or consumption ratio
Increase in solidarity tax on airline tickets	Household and NFC	0.8	Increase in prices of household consumption and intermediate consumption of enterprises (business travel) Increase in taxes on products	Increase in prices of household consumption and intermediate consumption of enterprises (for business travel)
Tightening of the bonus-malus for motor vehicles	Household and NFC	0.8	Increase in prices of household consumption and investment of enterprises Increase in taxes and drop in subsidies on products	Increase in the relative price of new motor vehicles and specific decline in the consumption of transport equipment
Increase in taxes on soft drinks and gambling	Household	0.3	Increase in household consumption prices Increase in taxes on products	Increase in the relative price of soft drinks and gambling, and specific decline in the consumption of these products
Increase in duty on transfer for valuable consideration (DMTO)	Household	0.8	Increase in prices of household investment in services Increase in taxes on products	Decline in the financial savings ratio of households or in their property purchases
Increase in the tax on financial transactions	Financial corporations	0.5	Increase in the prices of intermediate consumption by financial corporations Increase in taxes on products	Drop in the margin rate of financial corporations and decline in investment
Measures affecting household income				
Reduction in the reimbursement rate for sick leave in the civil service to 90%	Household	0.9	Drop in earned income for civil servants Drop in household GDI Decline in collective expenditure by general government in value (price effect only)	Drop in the savings or consumption ratio
Reduction in the upper limit for reimbursement of daily allowances	Household	0.4	Reduction in social benefits paid out to households Drop in household GDI	Drop in the savings or consumption ratio
New unemployment insurance agreement for 2025	Household	0.3	Reduction in social benefits paid out to households Drop in household GDI	Drop in the savings or consumption ratio
Exceptional contribution on very high incomes	Household	2	Increase in income tax paid by households Drop in household GDI	Drop in the savings ratio, or possibly in the consumption ratio

Fiscal measure	Institutional sector	Forecast amount (€ bn)	National accounting effect	Expected economic effect
Measures affecting the situation of companies				
Increase in the cost of labour (re-profiling of general tax relief, reduction in aid for apprenticeships)	NFC and FC	2.6	Increase in employers' contributions and drop in subsidies on production Drop in all in the margin rate of enterprises	Drop in private payroll employment
Increase in corporate taxation: additional corporation tax for large enterprises, exceptional tax on maritime freight, reduction in the research tax credit, tax on share buybacks, increase in the social levy on free share allocations, etc.	NFC and FC	9.8	Increase in income tax and reduction of investment aid for financial corporations and non-financial corporations Decline in the financial savings of enterprises	Drop in corporate investment

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