



Medium term macroeconomic projections play an important role in the European and national framework

- ▶ Medium term macroeconomic are used for:
 - ♦ *The Stability Programmes*
 - ♦ *The Lois de programmation des finances publiques (laws on public finance programming) rely on macroeconomic projections*
- ▶ Consistently with the Treaty on Stability, Coordination and Governance, the 6-pack and the project of 2-pack, the new organic law creates the *Haut Conseil des finances publiques* (High Council for Public Finance).
 - ♦ *In particular, the High Council will render an independent opinion on the macroeconomic outlooks of the Stability Programmes and the Budget Laws*
 - ♦ *The opinion of the High Council will be made public and joined to the Stability Programme and the draft Budget Laws such as transmitted to the State Council, the Parliament, the Constitutional Council, the European Commission and the European Council*

Several tools for several objectives (1)

▶ Short term economic forecasts

- ◆ *Econometric tools based on short term indicators to forecast economic output and demand for the current quarter*

▶ T+1/T+2 economic forecasts

- ◆ *Opale model: structural model with specific emphasis on short term dynamics*
- ◆ *See "La maquette de prévision Opale" – DG Treasury Working Documents - December 2010*
- ◆ *Supply, demand, and agents accounts: notably households, non financial corporations, rest of the world; last but not least: general government*

Several tools for several objectives (2)

▶ Medium term macroeconomic projections

- ◆ *Consistent accounting framework for supply side, demand side, and agents accounts*

▶ Evaluating the impact of reforms, longer term projections

- ◆ *Mésange model : structural model with emphasis on long term homogeneity and detailed agents' behaviours*
- ◆ *See "Le modèle Mésange nouvelle version réestimée en base 2000" DG Treasury Working Documents – March 2010*

Modelling or not in the medium term?

► Short term T+1/T+2 modelling takes into account:

- ◆ *Reliable knowledge of inflation developments, households reaction to past and current income, firms reaction to business cycle in terms of employment, investment, world demand forecasts*
- ◆ *Detailed description of fiscal measures: taxes (households, corporates, indirect taxes) and public spending (e.g. public consumption, investment, pensions and benefits)*

► Medium term projections must take into account:

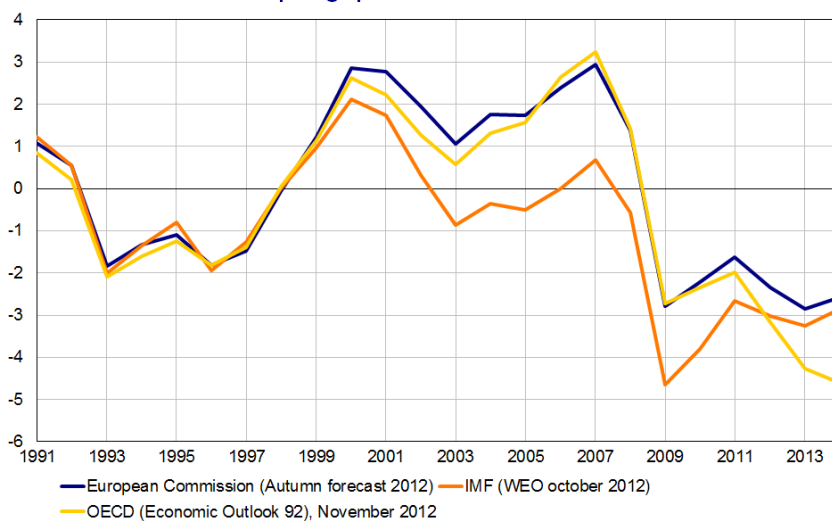
- ◆ *Closure of the output gap*
- ◆ *Macroeconomic balances: current account balance, household savings rate, indebtedness, firms profitability*
- ◆ *Public finance programming*

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Output gap estimates are key

Output gap estimates for France



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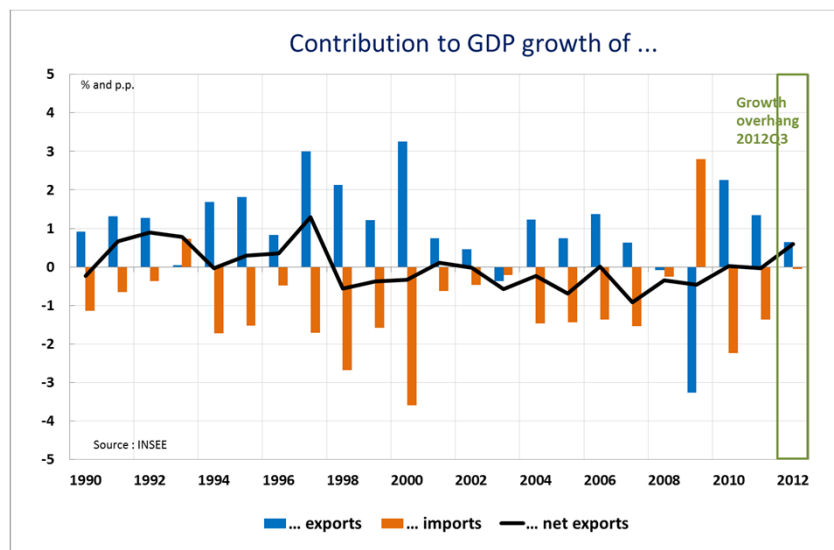
Need to ensure medium term macroeconomic balances and consistency between economic agents

- ▶ The decrease in public deficit and public indebtedness such as defined in the law on public finance programming is assumed as “exogenous”
- ▶ As the current account balance should not in the medium term, households and firms must bridge the gap...
- ▶ ... while, on the supply side, growth should logically tend to close the current output gap
- ▶ All in all, constraints draw the likely trends on the demand side:
 - ♦ *Household consumption and investment should be positive... but moderate compared to past recoveries?*
 - ♦ *Exports with renewed world demand?*
 - ♦ *Imports tend to be moderate with less internal demand*
- ▶ Balance between households and firms:
 - ♦ *Compensation of employees vs. firms surplus*
- ▶ Check that indebtedness does not grow exponentially

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Current account deficits might stabilize and reduce

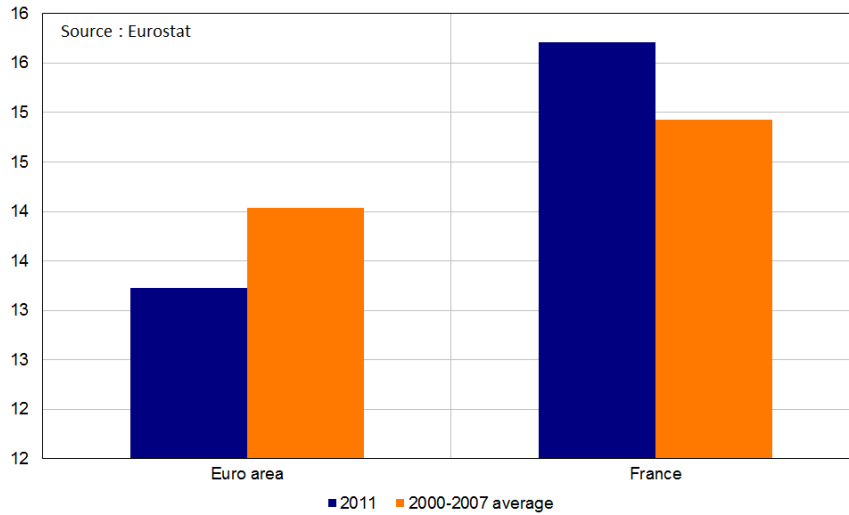


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Household savings rate is high, might conciliate consumption and some savings in the coming years

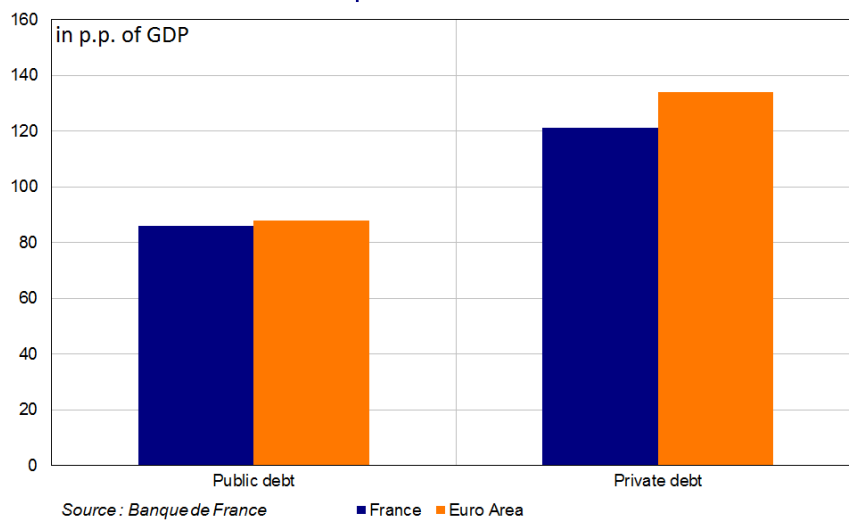
Household savings rate



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Indebtedness: no huge private deleveraging expected, but strong committment in terms of fiscal consolidation

Private and public debt levels in 2011



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Thank you for your attention