France: Economic relief to be frontloaded

In his second state address in less than a week, President Macron announced more drastic measures to contain the epidemic, but also to safeguard the French economy

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President Macron addressed the nation for the second time in less than one week, announcing France was "at war" (a word he mentioned six times) and is taking new measures, which should be made more precise later this Tuesday by the Philippe Government.

The Covid-19 crisis will mobilise all political resources with all reforms frozen in the National Assembly, which will allow the government to take measures directly, bypassing Parliament for all Covid-19 related emergency laws.

Necessary measures

The emergency measures aim at isolating people as much as possible, although President Macron stopped short of talking about "confinement". Apart from workers in essential industries (water and energy production or food for example) and those for whom working at home is impossible, moving about will only be possible locally (long distance transports will be restrained within France and have been suspended at the European level to non-Schengen destinations for the next 30 days), to shop for groceries or get medical treatment. Starting this Tuesday at noon, police controls will be put in place. The second round of municipal elections (for the 5,000 municipalities out of 35,000 which could elect a mayor in the first round last Sunday) is postponed.

...have severe economic impact

This confirms that the hit taken by the French economy at the end of March, and in all likelihood also in the first half of April, is extremely severe. Entire manufacturing sectors are coming to a virtual stop, as announced this Monday by several automobile industries. Assuming that a large part of the second half of March current GDP (€95 billion in current terms over two weeks) will be written off by the necessary measures, the first quarter of 2020 will see a GDP contraction of several percentage points leading to a technical recession, which the whole eurozone has now entered: we currently forecast two quarters of GDP contraction and a 2020 growth rate of -1.2% for the eurozone as a whole.

Economic safeguard measures cannot avoid a recession, but ensure a prompt recovery

The safeguarding measures announced yesterday by President Macron, who also noted that “no companies would be left exposed to the risk of bankruptcy”, should ensure that the French economy rebounds after this technical recession. Companies will benefit from €300bn of state guarantees for their credit, which banks have been encouraged by the ECB to “bridge”. The Bank of France will play a mediator role between companies and banks. These €300bn represent 17% of the French non-financial corporate debt (now standing at 75% of GDP). Since last week, companies can also defer their tax payments by a simple email for one month, which represents around €10bn per week for the Treasury, and those that can show that the consequences are a “direct threat to their survival” will be able to ask for tax rebates this year. Finally, conditions for temporary unemployment will also be considerably enlarged and will cover more than 75% of workers’ revenues while energy bills and rents will be temporarily suspended for small companies and self-employed workers.

Limiting GDP contraction to 1% in 2020, under some conditions

We believe that these measures will help the French economy to rebound more quickly after the deep recession caused by Covid-19 and reach the third quarter with a limited number of large bankruptcies and hence an unemployment rate far below what a recession of that magnitude could have caused. Thanks to these measures, and based on the hypothesis that the number of Covid-19 cases peaks by mid-April, the GDP contraction could be limited to 1.0%, before rebounding in 2021. The size of that rebound also depends on a recovery in world trade. It is too soon to estimate, but we believe that it should be stronger than our current 1.6% expectation for the eurozone 2021 rebound.