

## France: Longer lockdown to slash growth and intensify calls for Eurogroup action

As strict lockdown measures are set to remain in place until 11 May in France and won't completely end after that, 2Q20 GDP could fall by 10% to 15% on the quarter. This calls for bold recovery actions. This morning, President Emmanuel Macron reiterated in a Financial Times interview that Europe needs “financial transfers and solidarity”



In France, the decision to remain under strict lockdown until 11 May will add three weeks of subdued economic activity to what was expected: with the economy currently running at around 65% of capacity, these three weeks will cut GDP by another two percentage points. While the IMF was pointing to a 7.2% GDP contraction this week for 2020, the government is now expecting -8%. Government forecasts are currently running ahead in terms of pessimism. It could be to avoid large future downward revisions, but also to warn European peers of what lies ahead (see below).

The decision to lengthen the lockdown calls for a bigger budget, which was announced this week, not least to fund the temporary unemployment scheme (a bill now expected at €24 billion or 1% of GDP). This should allow for a limited increase in the unemployment rate this year, which we think should be close to, but not much above the 10% threshold, instead of the 8.5% measured in 4Q19.

Previously announced measures were reinforced (as the compensation period has increased by several weeks) but it also appears that France is also ready for more intervention, with a special €20 billion fund for participation in strategic companies. The word “nationalisation” has not been verbalised per se, but more intervention is clearly in the cards, which – at current market values – could come at a final limited cost once the economy recovers.

## Pressure on eurozone peers is up

Intervention is not limited to France. In his public address on Monday, President Macron said that Europe was “at a moment of refoundation”. In a [Financial Times interview this morning](#), he repeated that, “We are at a moment of truth, which is to decide whether the European Union is a political project or just a market project. I think it’s a political project. We need financial transfers and solidarity, if only so that Europe holds on”. Finance Minister Bruno Lemaire also stepped forward yesterday with proposals of new ways to share the debt burden. This all means that the pressure is still on for the next EU Council meeting next week and that the debate on debt mutualisation is far from dead.

## What about an exit ?

It is still early to talk about an exit from the current lockdown. After 11 May, some sectors will be able to increase activity again, gradually and depending on the availability of tests and masks for those who have to return to work. The intention (already under much heated debate) is to reopen schools and nurseries to “free” parents of kids and younger teens after 11 May. However, there is no plan yet for the backbone of the French hospitality industry. Bars, restaurants, cafés, hotels, cinemas, theatres, concert halls and museums will remain closed after 11 May for an indefinite period. Festivals and other events with large crowds will not be able to take place until mid-July. Finally, restrictions on long-distance travel are likely throughout summer. More details will be unveiled in early May, but it all means that the French economy could see a 10% to 15% (quarter-on-quarter non-annualised) contraction in 2Q20, a figure that certainly calls for bold recovery actions.