

France: Looking for a breath of fresh air

Now that French economic restrictions are easing, President Macron is looking for a second wind to take him to the next Presidential elections which are due in 2022. At first glance, the recovery announcements made up to now won't get him there



French President
Emmanuel Macron

Source: Shutterstock

The French economy is currently paying the price of one of the harshest lockdowns in the Eurozone.

After a record -21.4% quarter on quarter annualised contraction of GDP in the first quarter, we expect the contraction to reach 65% in 2Q20. Indeed, activity surveys have shown that the French economy was running at only 65% and 75% of capacity in April and May, while the Google mobility data for June shows, there is plenty of catching up to do.

On average, 2Q20 GDP is likely to be 20% lower than what we saw in 4Q19, which explains why the current growth forecast for France in 2020 is one of the worst among Eurozone economies (-9.5%).

The French economy is currently paying the price of one of the harshest lockdowns in the Eurozone

If we still believe that the first part of the recovery will be V-shaped, disruptions in supply chains and the labour market should put a brake on growth in 2021. Despite an expected 6.5% rebound next year, the French economy is unlikely to catch-up to its 4Q19 GDP level before the end of 2022.

External trade is likely to weigh on the recovery

On one side, a domestic demand recovery will take place, but at a stunted pace because of widespread corporate caution about future investments and higher unemployment.

On the other side, external trade should also weigh on growth. French exports will take time to recover as we expect weak growth in the Eurozone, the potential threat of a no-deal Brexit on New Year's eve, more trade war pressures and a subdued Asian recovery, while imports will be fueled by the recovery of domestic demand.

Domestic demand will see two brakes

More than half of private-sector employees - 25 million in 4Q19 - are on the French temporary unemployment scheme, which, in terms of direct public spending, is by far the main measure taken so far to safeguard the French economy.

Despite this, the number of unemployed (on top of those nearly 13 million workers) has jumped from 3.2 to 4.3 million between February and April 2020 as interim and short-term contract workers lost their jobs.

We expect that in 4Q20, the unemployed population will have increased by more than half a million people on the year, taking the unemployment rate towards 10.5% (compared to 7.9% in 4Q19). As the weakest workers with the highest propensity to consume will be disproportionately hit (as they are overrepresented in the worst-hit sectors like tourism), we believe it will weigh on the private consumption recovery throughout 2021.

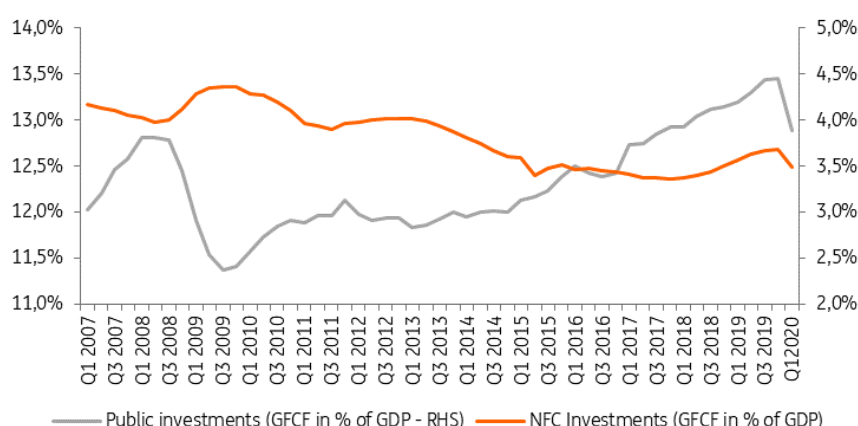
Public v Corporate investments

As far as investments are concerned, public investments will probably substitute corporate investment for a few quarters.

The figure below shows that corporate investments grew faster than GDP in the post-financial crisis recovery, thanks to a mix of supply-side policies. At the same time, public investments remained subdued until 2017. Calls for ambitious public investment plans for 2021 and beyond still have to be designed.

The EU Commission proposal for a Recovery and Resilience facility of EUR 560 bn could bring a framework to these investments together with an incentive to act. If the proposition is approved, each country would have to build an investment plan for the coming years that could potentially go well beyond EU funding intentions.

Can public investments catch-up in coming years?



Source: INSEE, ING

Pre-announced economic safeguarding measures are now in place

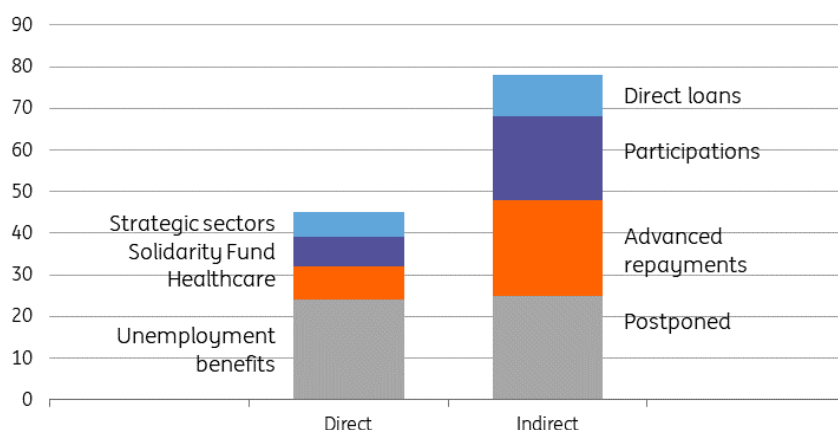
It is not as if nothing has been done though. The French government has already come up with some recovery plans for three strategic sectors: aeronautics, automobile and tourism industries.

But only part of the measures contained in these plans are actually new: they rely heavily on the instruments put in place earlier in the Covid-19 crisis.

1) Direct spending (at least 2% of GDP) which include an extra healthcare budget (8 €Bn), a solidarity fund for SMEs (7 €Bn) and various adjustments (3 €Bn). The main direct spending is the temporary unemployment scheme which has a direct cost estimated at 24 €Bn in the adjusted 2020 budget. But since this estimate, the number of potential beneficiaries has increased by 50% and the program has been lengthened so that the costs could be 15 €Bn more elevated. On top of these, we estimate that around 6 €Bn will be spent directly in strategic sectors (see below).

2) Tax measures and participations (70 €Bn or 3.1% of GDP): the Treasury has advanced due payments (23 €Bn) and postponed taxes it should have received (25 €Bn). It is likely that part of this amount will end up in the direct spending category, but it is too soon to say in which proportion. The French State will also take participations in "strategic" industries, for an amount that is currently 20 €Bn. "Strategic loans" are also scheduled for 3 specific sectors (see below), so far for around 10 Bn€.

3) Guarantees (315 €Bn or 13.9% of GDP) for various corporate loans issued through the banking sector.



Source: ING

But the last plans for strategic sectors do not go much further

On top of these, specific plans have been decided for three strategic sectors, which largely (for around 90%) rely on the above mentioned measures.

1) Tourism (18 €Bn): tax rebates (for 2 €Bn, part of the 25 €Bn mentioned above that could ultimately end up in direct spending) and higher limits for meal cheques (given by employers as part of a salary package). The headline figure (18 €Bn) is actually relying much on the above mentioned instruments: tourism will specifically use 6.2 €Bn of guarantees for SMEs, 3 €Bn of temporary unemployment benefits, a share of the Solidarity fund and of the participation plan (1.3 €Bn for an investment fund that is supposed to drive a total of 5.4 €Bn investments from the private sector on top of the 1.3 €Bn capital).

2) Aeronautics (15 €Bn): the national airline AirFrance will benefit from a 7 €Bn plan (4€ Bn of credit guarantees and 3 €Bn of direct loans). These are part of previously announced instruments. Apart from military orders for the aeronautic industry (which should reach 0.6 €Bn) and direct R&D investments (1.7 €Bn), the rest of the plan is made of temporary unemployment benefits and guarantees for corporate credits.

3) Car industry (8 Bn€): around 1 €Bn for cleaner car purchases by the general public (up to 200k units) and 0.75 €Bn of investments in the sector together with Renault and PSA (which will add 100 € million each). The rest of the plan (around 6 €Bn) is essentially made of credit guarantees and temporary unemployment benefits.

The lack of fiscal room for maneuver will shadow the two last years of Macron's presidency

The impact on public finances will be sizeable as the deficit is likely to reach 12% of GDP this year (with a hypothesis of 65 €Bn of direct spending, which is 20 €Bn more - than in the April budget estimate).

Public debt should therefore temporarily reach 118% of GDP before coming down to 115% in 2021. This is likely to weigh on President Macron's ability to deliver in the last two years of his mandate which therefore will have to focus on structural reforms, in particular ending the pre-Covid debates on pension reforms. He may need a second breath to achieve this,

which is why a government reshuffling is not unlikely this summer.

However, despite the current rumours, we still find it hard to see a replacement for Mr Philippe as the prime minister at the current juncture.

The French economy in a nutshell

	2019	2020F	2021F	2022F
GDP (%YoY)	1.3	-9.5	6.5	2.4
Headline CPI (%)	1.1	0.4	1.3	1.7
Unemployment rate (eop, %)	7.9	10.5	9.2	8.5
Budget balance as % of GDP	-3.0	-12.0	-4.0	-2.0
Government debt as % of GDP	98.1	118	115	111

Source: ING forecasts

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com