# The challenge of the French recovery plan

On Thursday the French Prime Minister, Jean Castex, announced the details of the €100 billion post-covid recovery plan for France, mainly focusing on supply side stimulus and green transition. If the timing is respected, the stimulus for next year would amount to 1.5% of GDP.

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## An historic amount

More than three months after Germany, France finally has its recovery plan, called "France Relance". In terms of scale, the announced plan is historic: it represents €100 billion , or more than 4% of 2019 GDP, and is twice as large as the recovery plan launched after the 2008 financial crisis.

## Three pillars for the recovery

The plan consists of three pillars and will run until 2024. Firstly, €30 billion is earmarked for the ecological transition, with subsidies for the energy renovation of buildings (€7 billion), €11 billion for transport (mainly for the development of railways, but also bonuses for the purchase of clean vehicles and support for cycling), €9 billion for the decarbonization of industrial activities and €1.2 billion for the agricultural transition. It is therefore a very green recovery plan, with a view to bringing itself into line with the carbon-neutral target that France has set itself for 2050.

The second pillar of the plan focuses on business competitiveness and innovation and will come to €35 billion. The largest part of this envelope (€20 billion) will be devoted to reducing several corporate taxes in 2020 and 2021. This reduction should mainly benefit small and medium-sized enterprises and will not involve any counterpart on the part of companies. The remaining amount will be spent on supporting investment and relocation and on strengthening companies' equity capital.

The third pillar, which will also amount to €35 billion, includes expenditure on “solidarity and competence”. In particular, it consists of a plan for youth employment ( €6.5 billion), €6.6 billion already budgeted for short-time working, as well as aid to local authorities and investment plans for hospitals.

## Fighting the crisis and preparing for the future

The aim of this ambitious plan is to combat the negative consequences of the pandemic on the French economy, as the strict lockdown has led to a sharp contraction in GDP in the first half of 2020 (-5.9% QoQ in Q1 and -13.8% QoQ in Q2). The main goal for the government is to boost employment, so that the unemployment rate falls below 10% by 2022. It also aims for the economy to return to its pre-pandemic level by that time.

But the recovery plan is mainly an investment plan, which aims to strengthen the supply side of the economy more than the demand side. The objective of the French government is to "prepare France for 2030" and to increase the growth potential by an additional 1 point within 10 years. This is an ambitious choice, which could prove politically complicated in view of the 2022 presidential elections. Indeed, by focusing on the long term, there is a risk that the benefits of the recovery plan will not be sufficiently felt by the population by the time of the elections. The challenge for the government will therefore be to ensure that the amounts announced are quickly spent on businesses (in particular through administrative simplification), so that the effects are tangible as soon as possible.  The aim is for 30% of the €100 billion to be spent by 2021. Taking into account the lower GDP in 2020, this would amount to a stimulus of 1.5% of GDP in 2021. Respecting the timing and being able to select projects and ensure the administrative follow-up will nonetheless be a real challenge.

In conclusion, the French recovery plan is, on paper, very ambitious, green and focused above all on investment. It remains to be seen whether the amounts will be quickly released and if this plan will quickly have effect. This is a real bet that will ultimately determine the success or failure of this plan. The ambition is there, but the realization could turn out to be more complicated than expected.

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