

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.



Source: Shutterstock

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.

Author

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.