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Webinar – Network for Public Finance Economists

FISCAL POLICY RESPONSE FOLLOWING THE COVID-19 PANDEMIC – KEY ACHIEVEMENTS AND CHALLENGES

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The French response to the crisis was based on strong emergency measures and automatic stabilizers

- **Strong public support** ("*Quoiqu'il en coûte*" strategy) through emergency measures has allowed to <u>preserve the incomes</u> of households and companies as well as <u>limit the hysteresis effects</u> associated with unemployment and business bankruptcies
- **Automatic stabilizers have also played an important role** in cushioning economic shocks. According to the ECB, <u>France would be the 2nd Eurozone country</u>[1] with the most powerful economic stabilizers
- The **French recovery Plan** is designed to complement those measures in order to ensure a <u>rapid and dynamic recovery</u> of economic activity

➔ Overall, the French government provided a **proportionate response** to the shock

Nearly <u>two-thirds of the losses absorbed by public administrations</u>

(1) ECB Economic Bulletin, Issue 6 / 2020

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A quick, massive and diversified national budgetary response to the crisis in 2020

- **87 bn€ (around 4 % of GDP)** planned in the last financial bill for 2020 (LFR IV) with a direct impact on the **2020 deficit**
- Close to **25 bn€ (around 1 % of GDP) in 2021** to absorb the shock on households and businesses and cope with the sanitary situation

<u>Four main support mechanisms:</u>

Measure bn€ *(% GDP)*	**2020 (nov forecast)**	**2021 (dec forecast)**
Short-time work compensation	34 *(1.5%)*	4 ½ (*)
Solidarity fund for businesses most affected by the sanitary restrictions	19 ½ *(0.9%)*	7
Health expenditure directly linked with the crisis	13 *(0.6%)*	4 ½
Exemption from social security contributions	8 *(0.4%)*	1

(*) Out of a total of 11 bn€ if one takes into account the short-time work funding also included in the French recovery plan

- Over 500bn€ in emergency response in 2020 in total, including guarantees and financial advances to support the cash flow of fragile businesses (without a direct impact on deficit)

The emergency support has been regularly adapted to fit the needs for the economy

Support measures put in place **have been gradually adapted (reactivation, progressive extension)** to provide the best possible support to all economic agent:

- **Initially limited to small firms and self-employed workers, the solidarity fund has gradually been extended to a wider public**, without any condition of company size for certain sectors
    - *The fund was open to small firms only: <10 employees and annual turnover < 1 M€*
    - *It evolved progressively (from May 2020 on) to a massive sectorial support to all businesses legally closed or losing a majority of their revenue due to administrative constraints*

- **Exemptions from social contributions also acted first as a support to fragile businesses**, **then as a sectorial support** for the businesses durably impacted by administrative constraints

- **Short-time work compensation was adapted over time to encourage activity when the sanitary situation allowed**

<u>New schemes have also been introduced</u> drawing the lessons of the crisis and the 1st lockdown:

- Tax credit, state coverage of paid holidays, direct loans to hardest hit companies

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A recovery plan to foster the recovery and ensuring debt sustainability ?

A short-term support

- Support activity through public investment measures
- Strengthen the investment capacity of companies
- Avoid loss of skills and loss of income, including for the most precarious ones
- Minimize the number of bankruptcies and support the financial health of companies

Addressing structural challenges

- Stimulate innovation and productivity
- Enhance our economic competitiveness
- Support employment and facilitate career transitions
- Develop skills and strengthen social and territorial cohesion
- Ensure the decarbonation of the economy

Transforming our economy

- Accelerate the ecological transition
- Foster the digital transformation of the productive environment
- Strengthen the resilience of our economy

European Covid crisis emergency response has been a key enabler for national fiscal support and prevented fragmentation

At the onset of the crisis, Member States and EU institutions acted forcefully and decisively to prevent a fragmentation of the EU and the Euro Area and to reinforce investors' confidence:

(i) The activation of the **General Escape Clause of the SGP** and **temporary flexibilization of the State aid framework** provided leeway to national support to the economy

(ii) The ECB **Pandemic Emergency Purchase Program** (*max 1850 bn€*) has preserved the overall financing conditions, prevented financial fragmentation and will contribute to achieving the inflation target

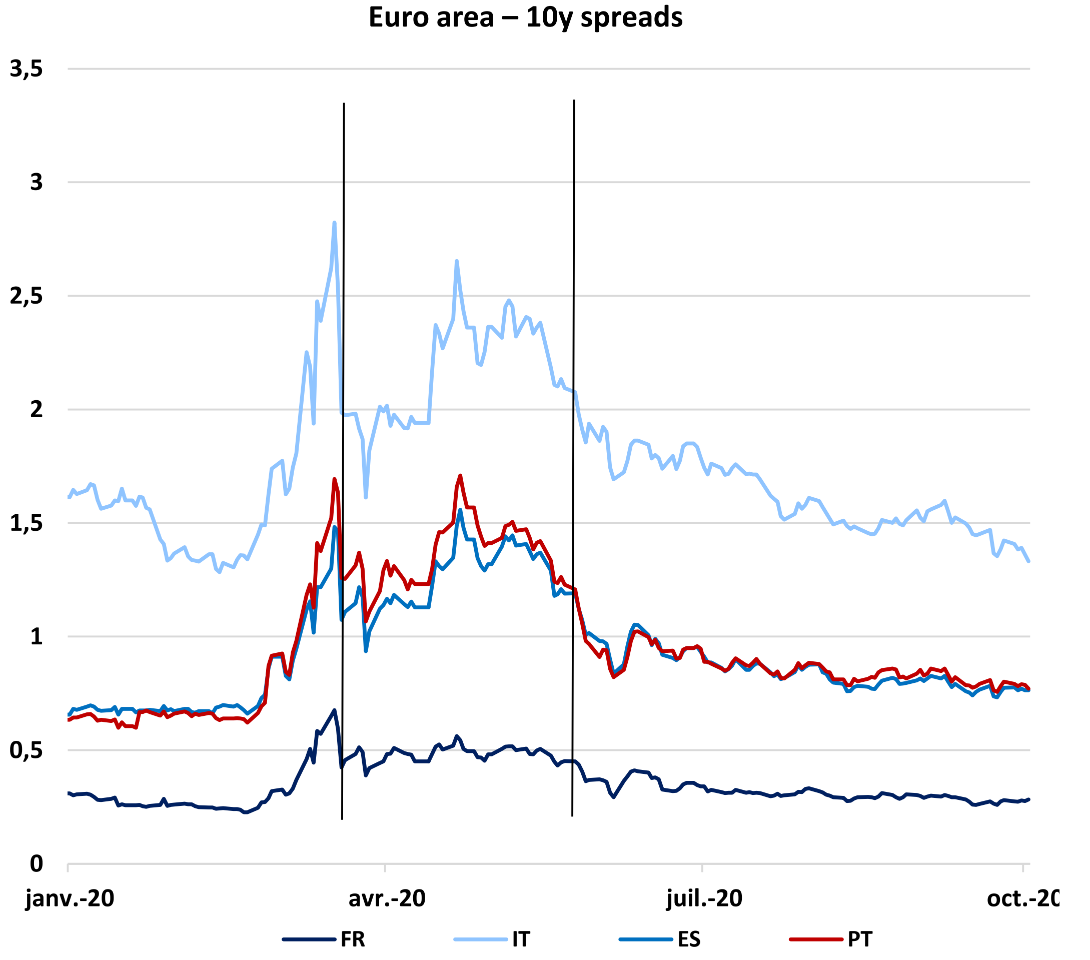
(iii) The adoption of 3 safety net measures has provided early support to workers and firms:

- the Pandemic Crisis Support of the ESM (a precautionary credit line to fund health expenditures in EA MS without conditionality, *max 220 bn€*);
- the SURE regulation (a financial assistance mechanism to help MS finance their short-term work schemes, *max 100 bn€*);
- and the EIB pan-European guarantee scheme (to support companies' liquidity, *max 200 bn€*);

The European Union has managed to launch an unprecedented common recovery instrument: *Next Generation EU*

- A historical moment: **the issuance of 750 bn€ of common debt by the Commission**
- NGUE has a **strong solidarity component** with transfers
- The Recovery and Resilience Facility will finance investments and reforms in Member States, fostering **growth potential** and contributing to the **twin green and digital transition**
- A unique opportunity for **policy coordination** in the EU, allowing a reduction in macroeconomic imbalances

Good perception from the markets of the **quality of the European response to the crisis**



The implementation of EU support is still subject to issues and debates

Three key issues:

(i) The operationalisation of the RRF: **need for a swift implementation**

(ii) The appropriate fiscal stance for the EA:

- **Fiscal normalization needs to be conditional on the economic recovery**. The general escape clause should be maintained in 2022 and as long as the economy has not returned to its pre-crisis level.
- **Fiscal policies should be coordinated and differentiated**. High-debt countries should pursue prudent fiscal policies and structural reforms while countries with fiscal space should contribute to a supportive aggregate fiscal stance. **Coordination will be key in 2022 and beyond.**

(iii) The introduction of **new own resources**: (digital services tax, ETS-based resource and carbon border-adjustment mechanism) to gradually refund the debt issued between 2028 and 2058

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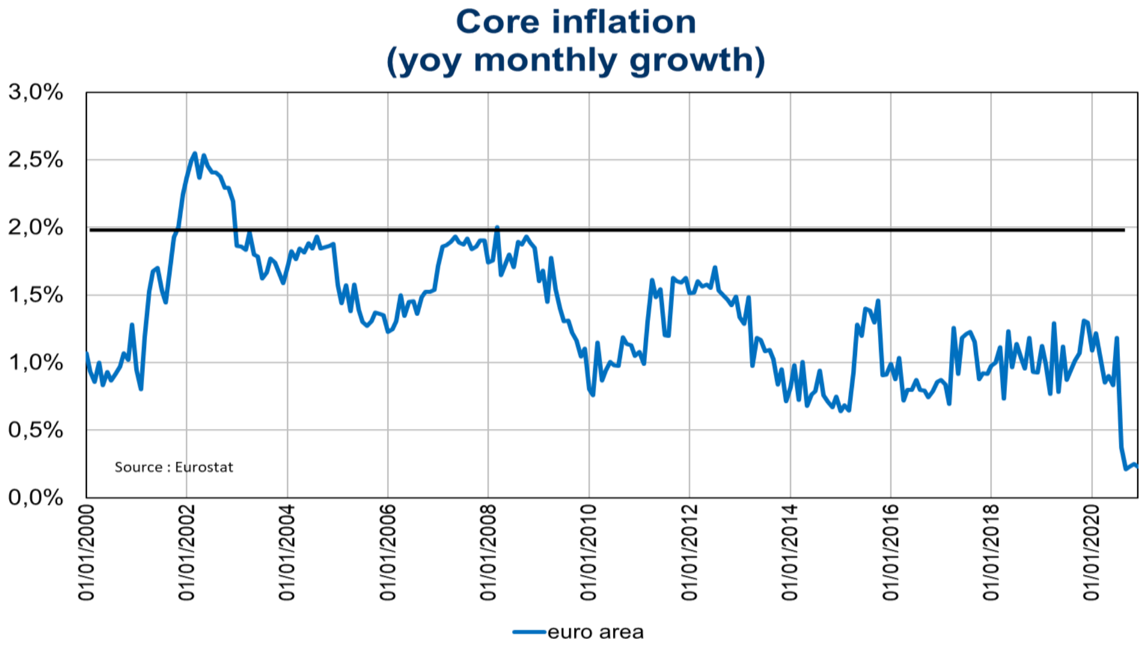
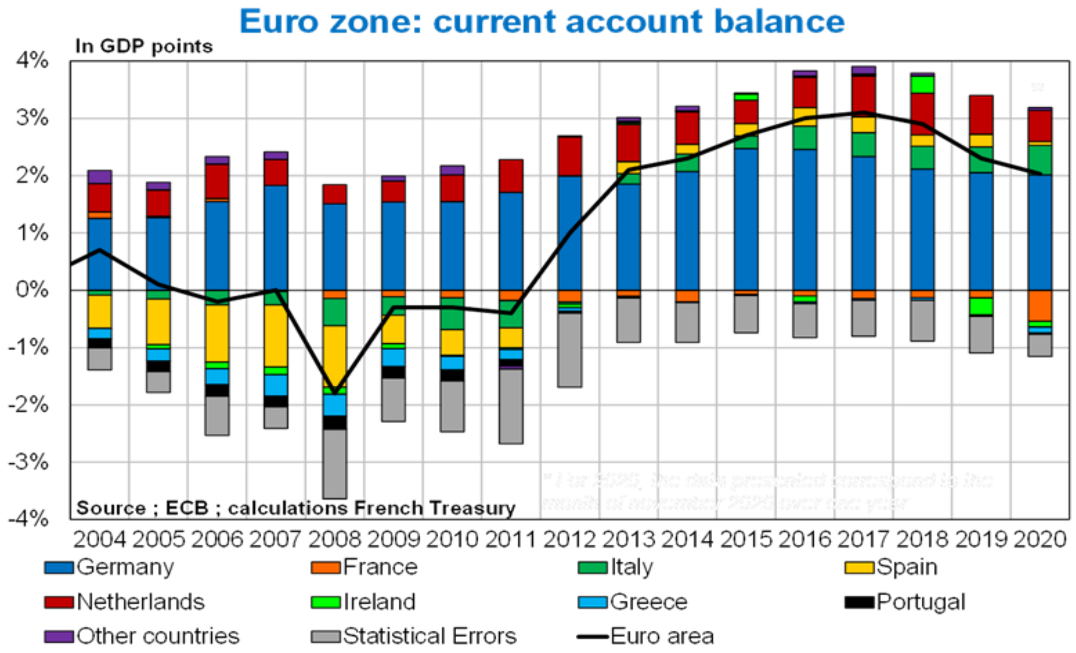
The importance of macroeconomic stability in the EMU should no longer be downplayed

In the context of the 2Pack/6Pack review, we should reflect on how our macroeconomic surveillance framework will preserve **our European « common goods»**:

- **Financial stability:** sound public finances
- **Macroeconomic stability (growth, inflation)**
  - At the ZLB, debt sustainability also crucially depends on inflation





Annex – the French €100 bn recovery plan is tailored to the economic recovery needs

ECOLOGY — €30 bn

- Thermal retroffiting — €6.7 bn
- Industry decarbonation — €1.2 bn
- Biodiversity, fight against artificialization, circular economy, short circuits, agricultural transition, sea — €3.2 bn
- Green infrastructures and mobility modes — €8.6 bn
- Green technologies — €8.2 bn
- BPIFrance's climate plan — €2.5 bn

COMPETITIVENESS — €34 bn

- Reduction of taxes on businesses — €20 bn
- Strengthen the equity capital of SMEs/VSEs and mid-size companies — €3 bn
- Technological sovereignty and resilience — €6.9 bn
- Digital upgrading of the State, territories and companies — €1.9 bn
- Export support, culture, orders of military equipment — €2.7 bn

COHESION — €36 bn

- Safeguarding employment — €7.6 bn
- Youth — €6.8 bn
- Vocational training — €1.9 bn
- Research — €3 bn
- « Ségur de la santé »/Dependency — €6 bn
- Territorial cohesion — €9.5 bn
- Support for people in precarious situations, disability, health cooperation — €1 bn