FRANCE

ECONOMIC STIMULUS PACKAGE IN RESPONSE TO COVID 19

The Government has introduced a fiscal package of €45 billion (about 2 percent of GDP including liquidity support measures) and €300 billion (about 13 percent of GDP) of state guarantees for bank loans to companies. Key immediate fiscal support measures include

(i) streamlining and boosting health insurance for the sick or their caregivers;
(ii) increasing spending on health supplies;
(iii) liquidity support through postponements of social security and tax payments for companies;
(iv) support for wages of workers under the reduced-hour scheme;
(v) direct financial support for affected SMEs and independent workers; and (vi) postponement of rent and utility payments for affected SMEs.

The ECB decided to provide monetary policy support through

(i) additional asset purchases of €120 billion until end-2020 under the existing program (APP), and
(ii) providing temporarily additional auctions of the full-allotment, fixed rate temporary liquidity facility at the deposit facility rate and more favorable terms on existing targeted longer-term refinancing operations (TLTRO-III) starting between June 2020 and June 2021.

Further measures included an additional €750 billion asset purchase program of private and public sector securities (Pandemic Emergency Purchase Program, PEPP) until end-2020, an expanded range of eligible assets under the corporate sector purchase program (CSPP), and relaxation of collateral standards for Eurosystem refinancing operations (MROs, LTROs, TLTROs).

MRO: Medium refinancing operations
LTRO: Long Term refinancing operations
TLTRO: Targeted Long Term refinancing operations

The ECB Banking Supervision allowed significant institutions to operate temporarily below the Pillar 2 Guidance, the capital conservation buffer, and the liquidity coverage ratio (LCR).

In addition, new rules on the composition of capital to meet Pillar 2 Requirement (P2R) were front-loaded to release additional capital. The ECB considers that the appropriate release of the countercyclical buffer by the national macroprudential authorities will enhance its capital relief measures. The ECB Banking Supervision further decided to exercise – on a temporary basis – flexibility in the classification requirements and expectations on loss provisioning for non-performing loans (NPLs) that are covered by public guarantees and COVID-19 related public moratoria; and recommended that banks avoid pro-cyclical assumptions for the determination of loss provisions. Furthermore, the ECB recommends that banks opt for the IFRS9 transitional rules.

Other measures include:

(i) reducing the counter-cyclical bank capital buffer to 0 percent (an increase from 0.25 percent to 0.5 percent was to become effective by April);
(ii) a ban on short-selling stocks until April 16; and
(iii) credit mediation to support renegotiation of SMEs' bank loans.

Date of announcement: 12 and 26 March 2020

- **Immediate fiscal impulse (€29.2 billion):**

a) €2 billion for national health system.
b) €8.5 billion for keeping people employed for 2 months: Companies pay their workers 70% of their gross salary, or 100% for minimum wages or less, in which case the State reimburses them entirely for all salaries paid, up to €6927 monthly, gross.
c) €1 billion subsidies through the Solidarity Fund, for small companies with a revenue of less than €1 million, who have lost 70% or more of their revenue in March 2020, compared to March 2019. €1 billion is or March 2020, but can be renewed for another €1 billion for the month of April.
d) €16 billion (estimate): a total of €32 billion is indicated for deferral and cancellation of taxes and social security contributions for companies and independent workers facing difficulties, which is subject to an individual case examination.
e) €2 billion: Emergency plan to support start-ups. This plan includes an envelope of 80 million euros, managed by Bpifrance to finance bridges between two fundraising campaigns, €1.5 billion to accelerate the reimbursement of State tax credits to start-ups, namely research tax credits, €250 million to accelerate the payment of support for innovation of the PIA (*Programme d'investissements d'avenir*) and €1.3 billion of support to innovating companies through Bpifrance.

- **Deferrals (€228 billion):**

a) €16 billion (estimate): half of the total of €32 billion is indicated for deferral and cancellation of taxes and social security contributions for companies and independent workers facing difficulties – see the last point above
b) €180 billion, debt repayment moratorium: corporate loans repayments are deferred by six months. The estimated volumes are as follows: the outstanding stock of loans to non-financial corporations was €1063 billion in January 2020. By assuming an average maturity of 3 years, one-sixth of it would expire in the next six months, leading to €177 billion amortisation postponement. As regards interest, total interest revenue of French banks was €8.7 billion in 2018, which include revenues from households and other sectors. Given that household loans amount to €1300 billion, somewhat less than half of interest income would come from the non-

financial corporate sector in the full year. The debt repayment moratorium applies for six months, but interest income would have increased from 2018 to 2020 in the absence of the pandemic-cased economic distribution, so it is assumed a deferred interest of €3 billion, leading to total deferral of €177 billion + €3 billion = € 180 billion.

c) €3 billion, deferral of utility fees (gas, electricity and water) and rent, for small companies with a revenue of less than €1 million, who have lost 70% or more of their revenue in March 2020, compared to March 2019. The cost to the Treasury announced by Bruno Le Maire, Minister of Finance, for all deferrals of fiscal and social costs to companies was €35 billion, of which an estimated €32 billion are costs due to tax deferrals or cancellations (see point above). As such, the cost of deferral of utility fees and rent to the public treasury is estimated to be €3 billion.

- **Other liquidity and guarantee measures (€302.0 billion):**

a) Public guarantee of loans made between 16 and 30 March, up to €300 billion total. Large companies that continue paying their shareholders' dividends cannot benefit from this loan guarantee.
b) €2 billion in public loan guarantees specifically for startups, which can cover up to 90% of the loan, depending on loan maturity. These loans can be distributed by private banks and Bpifrance.
c) €0.5 billion guarantees by internal reallocations within Bpifrance and/or budget allocations (since most of this amount is internal reallocation, not the provision of new resources, we do not count this measure)

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