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Evaluating financial support to French businesses facing the Covid–19 pandemic

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This presentation does not necessarily reflect the views of the Committee

The Committee

Created on April 22 by the French National Assembly

- **Composition:** 3 members of the National Assembly, 3 senators, 2 members of the Court of Auditors, 2 representatives of the administration, 3 representatives of local authorities, 2 representatives of business organisations
- **Extended** to include social partners
- **Secretariat** : Inspection générale des finances and France Stratégie. Support from a scientific steering committee

Mission

- **Analysing** the effects of the Covid–19 shock on firms
- **Monitoring** the implementation of support measures
- **Assessing** the effectiveness of economic support measures and their efficiency from a public finance perspective
- **Delivering a final report** in March 2021

List of measures (1)

An evolving set of measures: three Amending Budget Acts in March, April and June

Key measures

- **With impact on the public balance: €57.5bn (2.6% of GDP)**

Short-time work, Solidarity Fund (handouts to SMEs)

- **No impact on the public balance: €77.5bn (3.5% of GDP)**

Deferral of tax and social security contributions, early repayment

- **Guarantees: €327.5bn (14.9% GDP)**

State-guaranteed loans, credit insurance

List of measures (2)

- **Short-time work:** reimbursement of 70% of the gross salary for salaries up to €6,927; an estimated 8.6M employees making actual use of the scheme, €24bn provisioned
- **State loan guarantees:** €80bn already approved + €12bn for large companies
- **Solidarity Fund:** €4.5bn already disbursed (64% of provisions) to 1.6M companies
- **Tax deferral:** €2.5bn and 68,500 companies benefiting
- **Deferral of social security contributions:** €25bn, i.e. 28% of contributions due in normal times

Implementation monitoring

- **Weekly dashboard posted publicly:** key figures for each scheme broken down by industry, company size and location
- **Additional analyses** provided to the Committee: companies financial health, international benchmarking...
- Ongoing **matching** of the data sources with the involvement of the different administrations to understand the combined use of measures by companies

Evaluation strategy*

- **Main focus on four schemes:** State loans guarantees, short-time work, Solidarity Fund, deferral of tax and social contributions
- Assessing effectiveness and efficiency in achieving **two main objectives**:
  - (i) Limiting the destruction of production capacity in the French economy and the economic trough
  - (ii) Supporting economic recovery
- Assessing **possible adverse effects** on the economy and the cost to public finances

** Preliminary considerations not yet endorsed by the Committee*

Main risks

- **For the economy**

… in the short term:

- Insufficient and/or poorly designed measures (windfall effects)
- Simple postponement of corporate insolvency
- Hampering the recovery by hindering the reallocation of production factors

… in the medium term: impact on the quality of jobs and on France´s competitive advantages

- **For public finances**

… in the short term: risk of cost slipping (windfall effects, fraud)

… in the medium term: risk to debt sustainability

A unique endeavour

- **Lack of hindsight:** evaluation to be delivered less than a year after starting implementing the measures → scarce and fragile data, lack of hindsight on impact
- **Very broad scope:** almost all companies covered
- **Unique economic environment:** scarce and fragile macro data (notwithstanding statisticians´agility and ingenuity)
- **Benchmarking is challenging:** vast differences across countries in terms of pre-crisis situations (debt levels, industry structure), impact of the pandemic, severity and duration of lockdowns, and so on.

First evaluation options (1)

i. **Matching** firm-level usage of the measures with 2018/2019 structural balance sheet data

- Confronting usage of the measures with firm-level characteristics (industry, size, location, turnover, workforce, debt ratio, equity, etc.)
- In case of heterogeneous usage among firms with similar characteristics => suspicion of bottlenecks for certain firms, windfall effects, or fraud

ii. **Ex-ante simulation** of certain measures (e.g. State loan guarantees) based on company characteristics

First evaluation options (2)

iii. **Matching firm-level data on usage of the measures** with post-lockdown business cycle data and individual companies' answers to business surveys

- Will help characterise the main trends, but lack of hindsight makes identifying causal effects impossible

iv. **Exploiting heterogeneity embedded in the measures**

- Threshold effects, evolutions of the measures over time, different access to some measures (e.g. by banking groups)

Outstanding issues

- **Robust causal analysis not possible** before end-2023, based on balance sheet data for 2021
- **General equilibrium impact?** Need to assess both short-term (mitigating the economic collapse, supporting the recovery) and long term impact (through public and private debt accumulation, financial risks, impact on investment and competitive advantages, etc.)
- **Which macroeconomic counterfactual?**
- **Disentangling the impact of measures** which lie within the scope of the evaluation and of other measures which have supported companies (e.g. loan or rent payment holidays)

Thank you

https://www.strategie.gouv.fr/actualites/chiffres-cles-de-mise-oeuvre-mesures-de-soutien-financier-aux-entreprises-confrontees