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MINISTÈRE DE L'AGRICULTURE ET DE L'ALIMENTATION
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COVID 19 and the potential consequences of French debt

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COVID 19 and the Potential Consequences of EU debt

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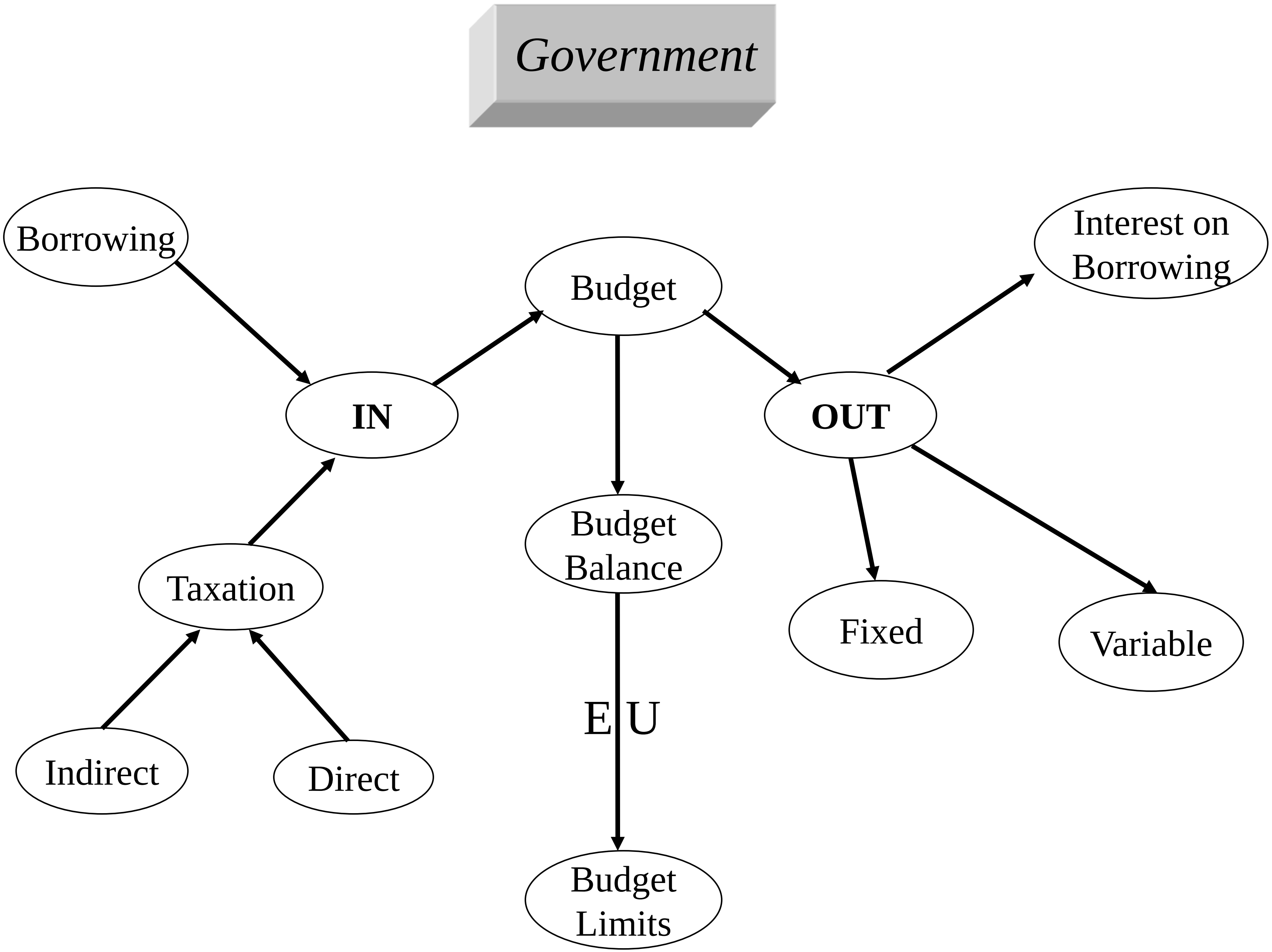
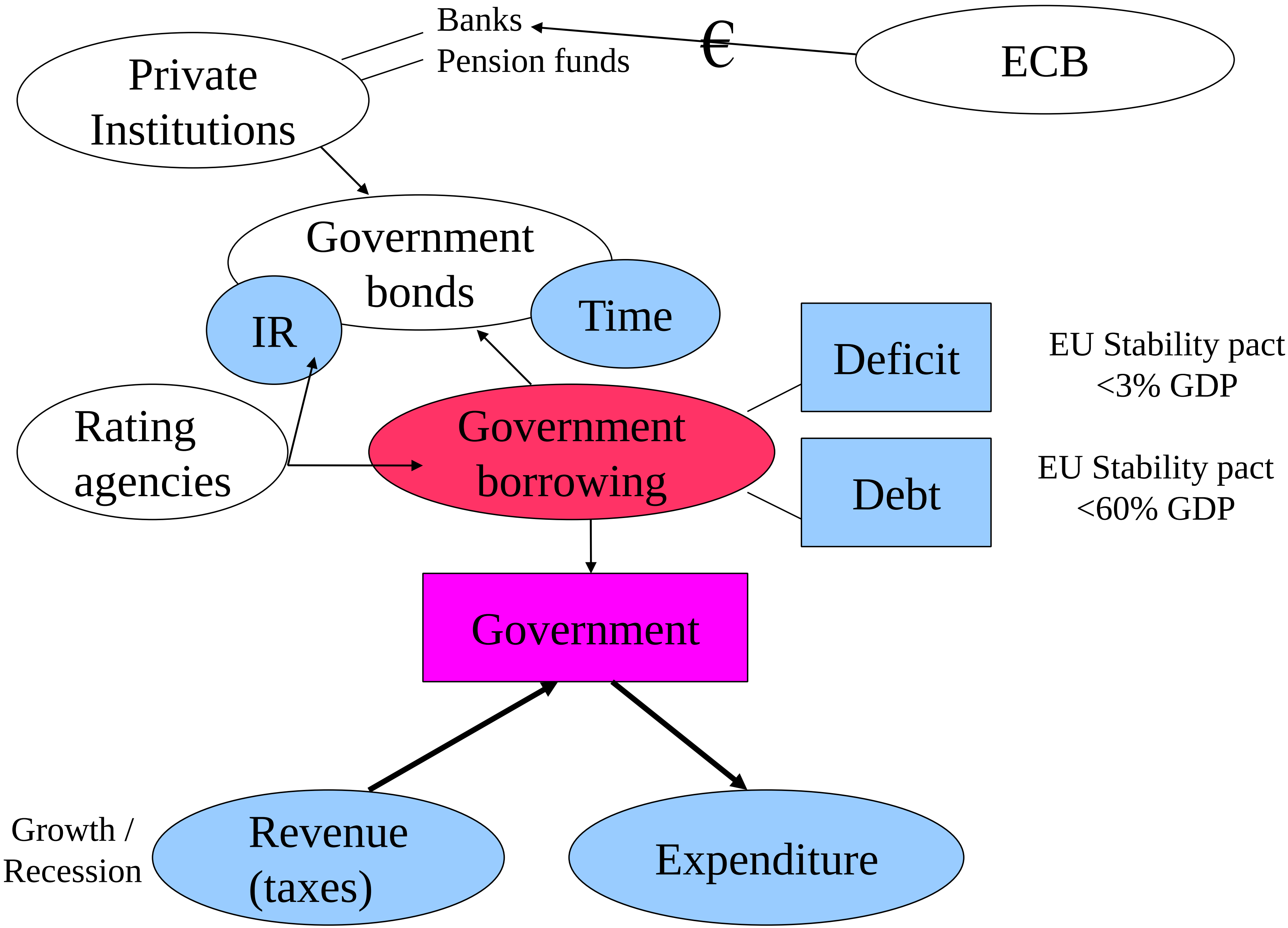

Government
Borrowing
Budget
Interest on Borrowing
IN
OUT
Budget Balance
Taxation
Fixed
Variable
E U
Indirect
Direct
Budget Limits


Banks
Pension funds
€
ECB
Private Institutions
Government bonds
IR
Time
Deficit
EU Stability pact
<3% GDP
Rating agencies
Government borrowing
Debt
EU Stability pact
<60% GDP
Government
Growth / Recession
Revenue (taxes)
Expenditure

EU countries aim for moderate economic expansion (2-2.5%) (increase of the GDP)

Explanations

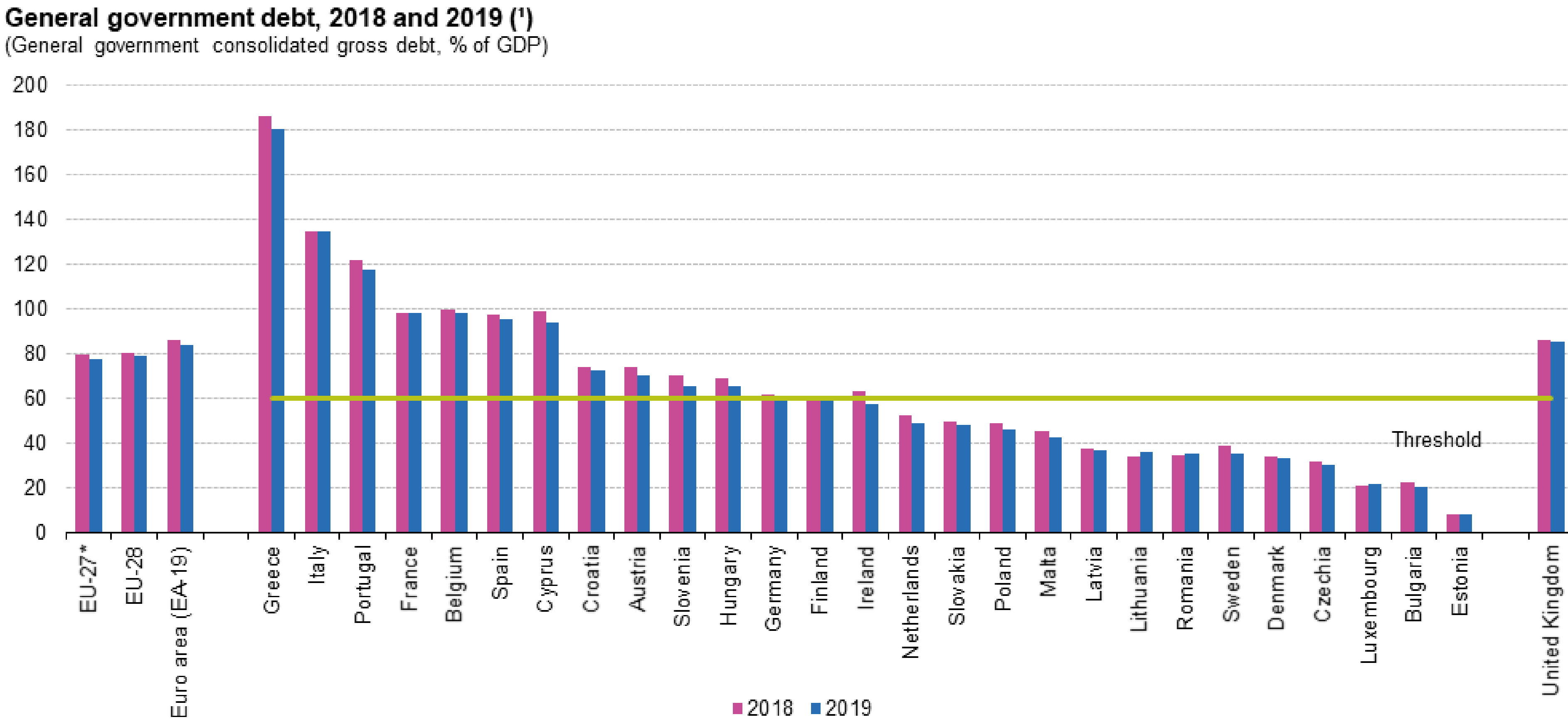
Positive cycle: More taxes in. Less expenditure (unemployment)
Debt servicing OK without increasing the deficit and debt

Negative cycle: Fewer taxes coming in. More expenditure (unemployment, bailing out the banks (2008), Covid-19 (2020)

Borrowing can be good or bad (individual, company, government)
A government predicts income / expenditure from the previous year
Rating agencies effect the Interest Rate of Government bonds
Stability pact (max. 3% deficit, 60% debt).

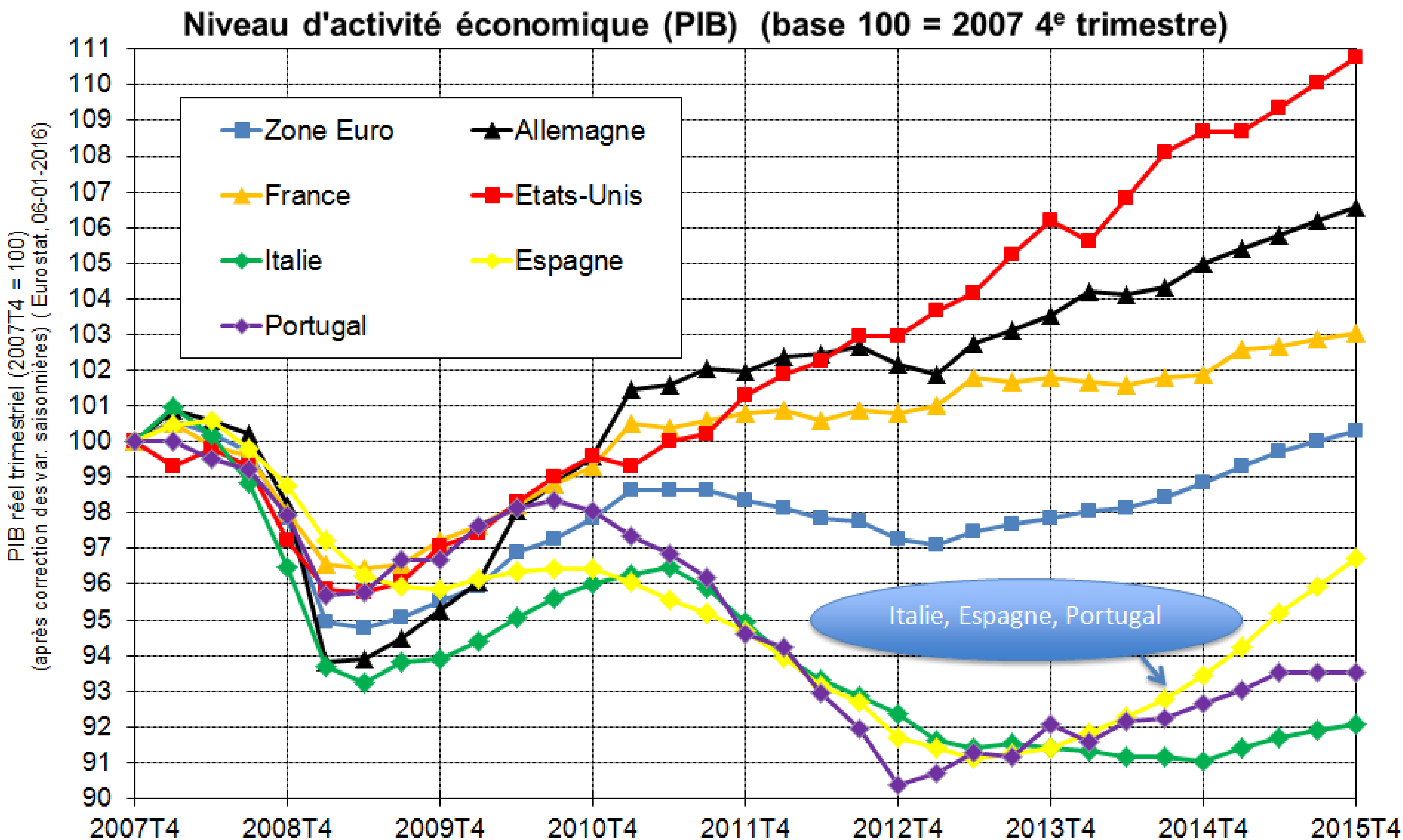
Can’t predict exceptional circumstances (SubPrimes crash, Covid-19)

Post-SubPrimes, Pre-Covid European Debt



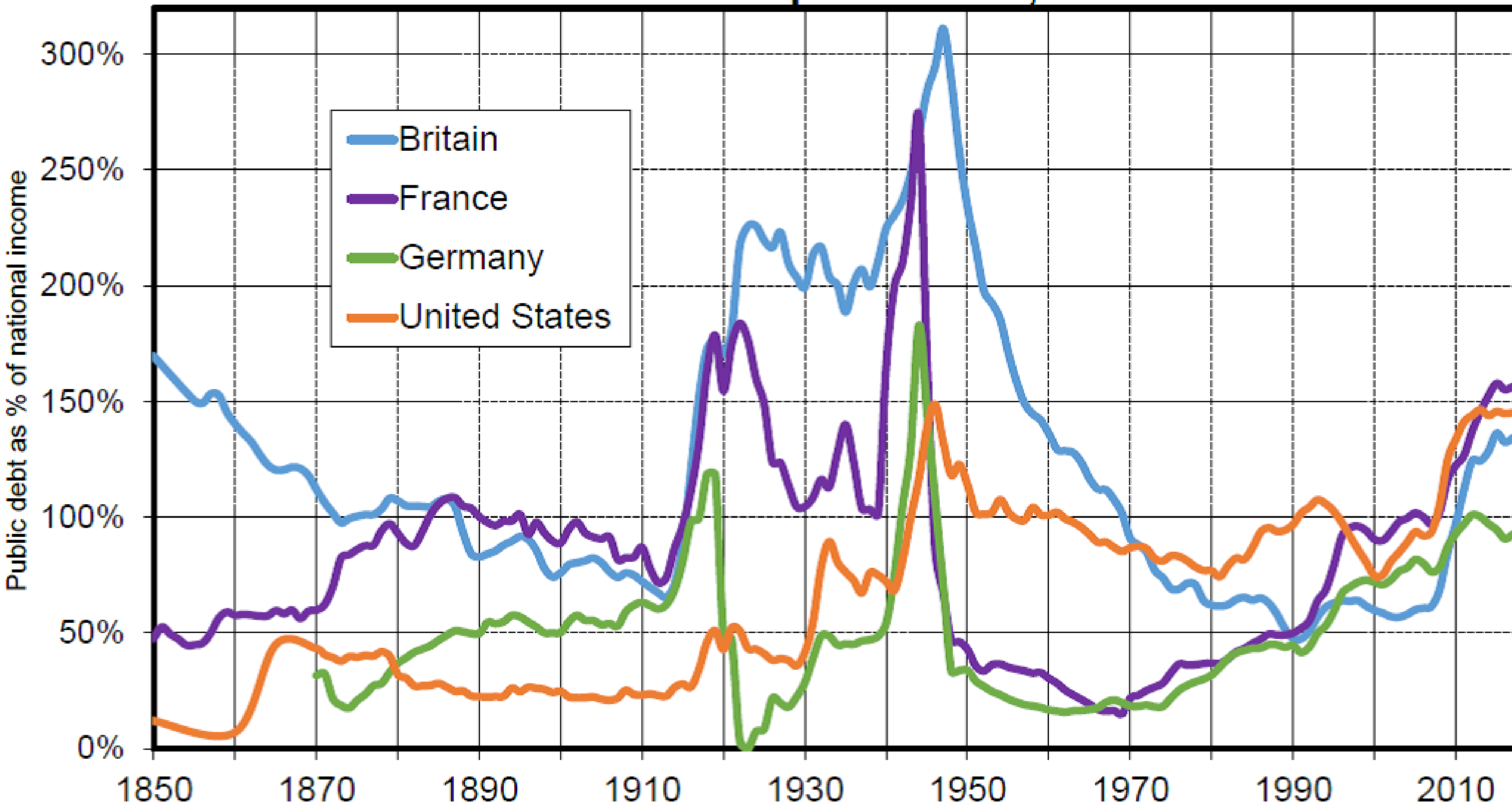
* from 1 February 2020
(1) Data extracted on 22.10.2020.
Source: Eurostat (gov_10dd_edpt1)

The effect of the SubPrimes crisis on European Economic Activity



NB Rating agencies attack on the PIIGS Rating down, IR up

The vicissitudes of public debt, 1850-2020



Interpretation. Public debt rose strongly after each world war and reached between 1500% and 300% of national income in 1945-1950, before falling sharply in Germany and France (debt cancellations, high inflation) and more gradually in Britain and the U.S. (moderate inflation, growth). Public assets (especially real estate and financial assets) have fluctuated less strongly over time and generally represent around 100% of national income. **Sources and series**: see piketty.pse.ens.fr/ideology (figure 10.9).

Who pays for the Debt?

<u>The example of Greece</u>

After the SubPrimes crisis, Greek debt rises from 100 to 175% GDP. The bond Interest Rate goes from 2-35%.
90% of the Rescue Package goes to pay interest and capital to the banks, 10% for the Greek population.

<u>Results of the Austerity Plan by May 2013</u>

Unemployment 28%. Youth Unemployment 65%
25% businesses failed
Suicide rate doubled
GDP fell by 27% from 2009-2013
700€ pensions reduced by 25%
Minimum wage reduced by 40%
Only 10% of the 1.4m unemployed receive benefit
Health care cuts of 11%

French COVID-19 Debt

Total French Covid-19 **expenditure budget**: **86€ billion**
(about 1,430€ per person in France)
Temporary unemployment: 34€ bn
Solidarity funds for small companies: 8.2€ bn
Special aid for poor families: 2€ bn
Unemployment reform: 1.6€ bn

Loss of Government receipts: about 100€ bn
Tax revenue losses: 72€ bn (VAT, Income tax, Corporation tax, Fuel duty…)

Loans and Guarantees (only a loss if not repaid)
Bank loans gauranteed by the government: 300€ bn
Public guarantees: 10€ bn
Export credits: 2€ bn

French COVID-19 Debt

Summary (for 2020/2021)

Covid Expenditure: 86€ bn

Covid revenue losses: 100€ bn

Losses on loans at 20% default: 62€ bn

TOTAL FINANCIAL RISK

248€ bn
(about 4,100€ per person in France)

Risk Assessment. A geo-political (or national in this case) analysis of the potential Economic, Political, Environmental and Social consequences of the chosen event.

Important

1. The likelihood of the event happening
2. The impact of the event happening

Therefore, a nuclear war: Low likelihood, high impact.
French national debt: High likelihood, medium impact.

See the Global Risks Report from the World Economic Forum.

Risk Assessment for France

Economic

Increase of national debt from 90% to (at least) 125% GDP
Increase of business debt (via govt. Covid loans)
Increase of consumer debt (due to decreased or loss of salary)

Increase of insolvency – especially when loans become repayable
Increase of unemployment – and hence unemployment benefit
Decrease in tax revenue (income tax, corporation tax, VAT…)
Decrease in economic activity and growth
Impact of the negative multiplier effect

Likelihood: Very High. Consequences: Substantial and long-term
Particular danger: an increase in IR on 10Y bonds (debt servicing)
Impact: Medium to high (depending upon solutions proposed)

Risk Assessment for France

Social

Increase in unemployment (https://www.lesechos.fr/economie-france/social/taux-de-chomage-le-coronavirus-affole-les-boussoles-1232200)
Stagnation of salaries
Increase in poverty (https://www.lemonde.fr/societe/article/2020/10/06/un-million-de-nouveaux-pauvres-fin-2020-en-raison-de-la-crise-due-au-covid-19_6054872_3224.html)
Increase of homelessness (due to mortgage foreclosures)
Decrease in social services (health, education, transport) due to decrease in public expenditure
Increase in protests / riots
Increase in policing/ surveillance…

Likelihood: High to medium
Impact: Medium (High for the poor, lower for the rich)

Risk Assessment for France

<u>Political</u>

Increase of anti-government action
Rise in anti-European sentiment
Rise in nationalist party support
End of Macronism
Weakening of the European Structure

Likelihood: Medium
Impact: Medium (depending upon the policies of a new government)

Risk Assessment for France

Environmental

Degradation of national infrastructure due to decline of investment
Increase in industrialisation of agriculture (due to EU trade agreements – not linked to Covid-debt)
Decrease in air and water pollution due to less economic activity

Likelihood: Medium
Impact: Low

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