ITALY – 2021-2022 SCENARIO FIRST QUARTER

EXITING THE THIRD WAVE

April 2021

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WORKING EVERY DAY IN YOUR INTEREST AND FOR SOCIETY

GROUP ECONOMIC RESEARCH

SUMMARY

MARIO'S MAGIC

Although "2021: same as last year" was the title of our last scenario, it seems to be particularly apt for the first quarter of 2021. **After a second wave in autumn, Europe faced its third pandemic spike in March, forcing several countries, including Italy, to take new measures to curb the rise in new cases**. Another two-month lockdown which, although it allows for a semblance of economic activity, is delaying the end of the crisis**. The late-2020 dip in growth is expected to be followed by another quarter in recession.** It looks set to be smaller than the previous one, due to economic agents adapting to this new normal. Households and services remain constrained by movement restrictions, but in a positive sign, output is holding up. **A dichotomy that persists between the goods sector and the service sector, between consumption and investment.** On one hand, investment was a welcome surprise in the fourth quarter, when the country was attempting a regionalised lockdown. This was a more calibrated approach than the one from March-April 2020, which enabled output to preserve its gains from the strong summer rebound. On the other hand, consumption, which remains far below its pre-crisis levels, hurt by restrictions during the year-end holidays, is expected to drop again in the first quarter. This situation is expected to continue in April until the gradual reopening planned for May. **This reopening will determine the conditions for a summertime recovery**.

Over 2020 as a whole, GDP declined 8.9%. GDP is expected to return to growth in 2021 **with an estimated 3.8% increase. The ultimate end of the pandemic, combined with the overhang from the second half of 2021, will cause growth to slightly accelerate to 3.9% in 2022, but GDP is not expected to return to pre-crisis levels until 2023. Supported by an industrial resurgence, investment is likely to remain the driver of growth in 2021**. The end of the crisis in the United States and China is expected to encourage foreign demand, which will only partially offset the weakness of the domestic market. The biggest unknown is still consumption. With a glut of accumulated savings, it might lead to a welcome surprise; but the still-present environment of uncertainty could lead to cautious behaviour.

The turmoil is not limited to the pandemic. The start of the year was also marked by a political crisis that led to the fall of the second Conte government. To avoid early elections, an agreement was struck between political parties in February that resulted in a national unity government with Mario Draghi as Prime Minister. The former governor of the European Central Bank is trying to pave the way to the end of the crisis with two priorities: vaccination and stimulus. This agenda has been jeopardised by the pandemic's return and the delays in the start to the vaccination campaign due to vaccine delivery shortfalls. The first act of the new government was to announce another lockdown. **It was paired with a large package of new support measures equivalent to 1.8% of GDP.** The budget deficit fell to 7%, after initially being projected as a 8.8%. Even as European funds are taking time to arrive and Italy has not yet delivered its stimulus plan, **Mario Draghi is preparing a new €40bn set of measures aimed at businesses, pushing the public deficit up to 11.8% and the debt-to-GDP ratio to nearly 160%.** This "whatever it takes" is possible due to ECB action of course, but that would ignore the magic worked by Mario Draghi, who by charming the markets, has achieved a miraculous combination that few would've believed possible: Greater debt and a lower spread (between the Bund and the Italian BTP).

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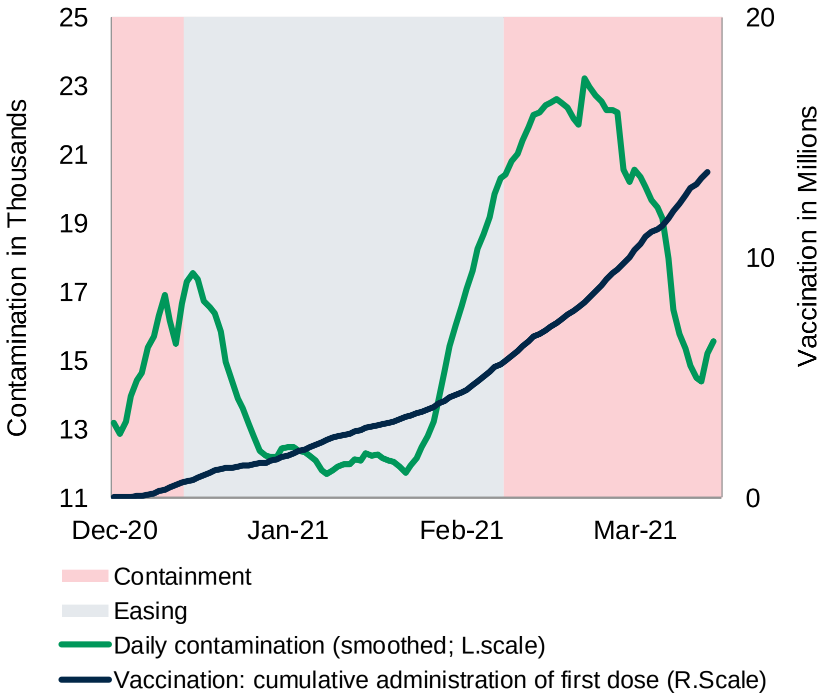
HEALTH TRENDS

MARCH/APRIL: THIRD WAVE OF PANDEMIC AND THIRD LOCKDOWN

Changing public health situation



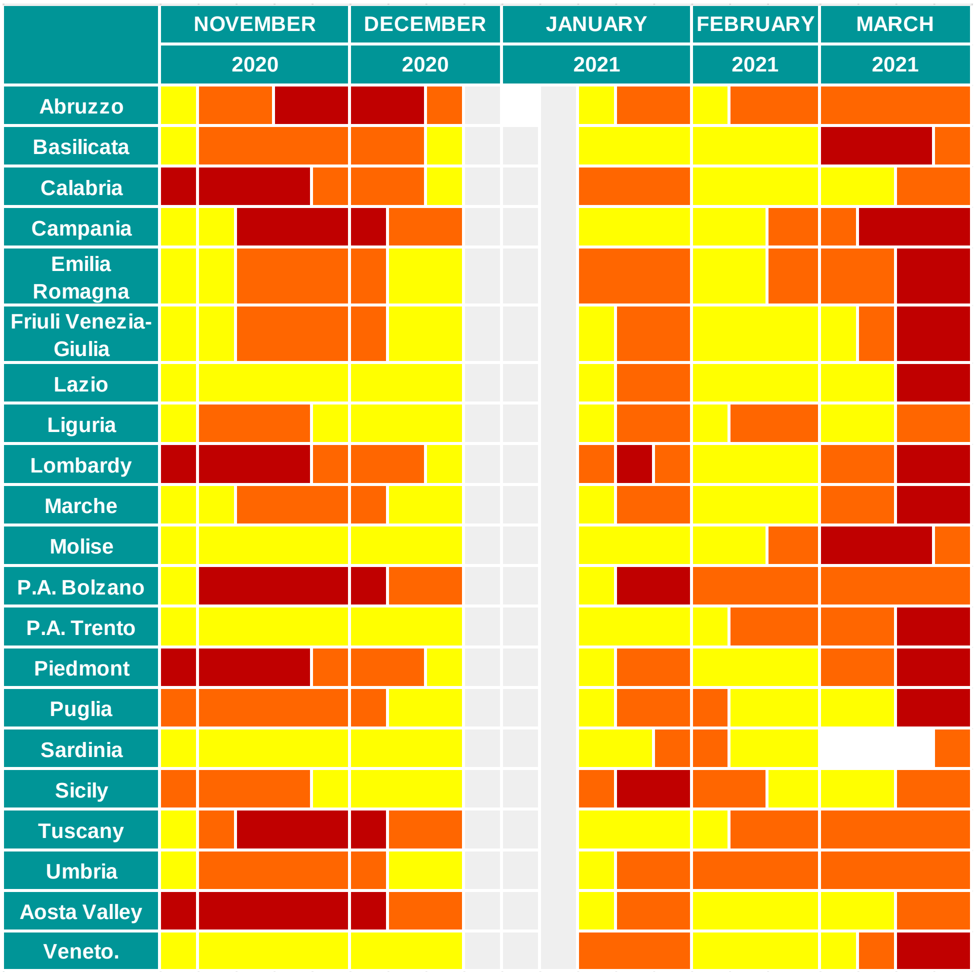
Source: Ministry of Health, Crédit Agricole SA

Italy entered a new lockdown phase at the end of Q1-2020. While sticking with the approach of regionalised public health measures, the government tightened the thresholds for moving between regions in its 6 March decree. As a result, all regions with more than 250 cases per 100,000 residents were automatically categorised as red zones. Heightened measures across the whole country were enacted for Easter weekend (3 to 5 April). Facing the still high number of cases, the government extended the restrictions through April. The ban on travel between regions has not been lifted, but the vaccination of some teachers allowed for the partial reopening of schools after Easter, on 6 April.

The government is preparing to gradually lift restrictions. But caution is still the watchword, despite pressure from some sections of the Lega who would like to hasten the process. The state of emergency was extended until 31 July, which will enable health authorities to keep applying different measures to different regions. However, it is expected to reintroduce the yellow zones, which were suspended in April. The new decree, which will apply from early May, will retain the 10 p.m. curfew. Still, some rules will be loosened, with the ability for bars and restaurants to reopen, even for indoor service, in some zones, the opening of museums, and the hosting of concerts and events with limited crowds. To support the reopening, the government is considering introducing a health pass that would enable vaccinated people and those who have tested negative to travel between regions and attend events. It is also planning for the return of 100% in-person schooling.

LOCKDOWN ZONE CHANGES BY REGION

NOVEMBER 2020 TO MARCH 2021



Curfew from 10 p.m. to 5 a.m.; shopping centres closed on weekends; museums closed, then starting 14/01, museums and exhibits reopened on weekdays; Secondary schools closed until 11/01 then resuming in-person at 50%. Public transit limited to 50%. No travel between regions.

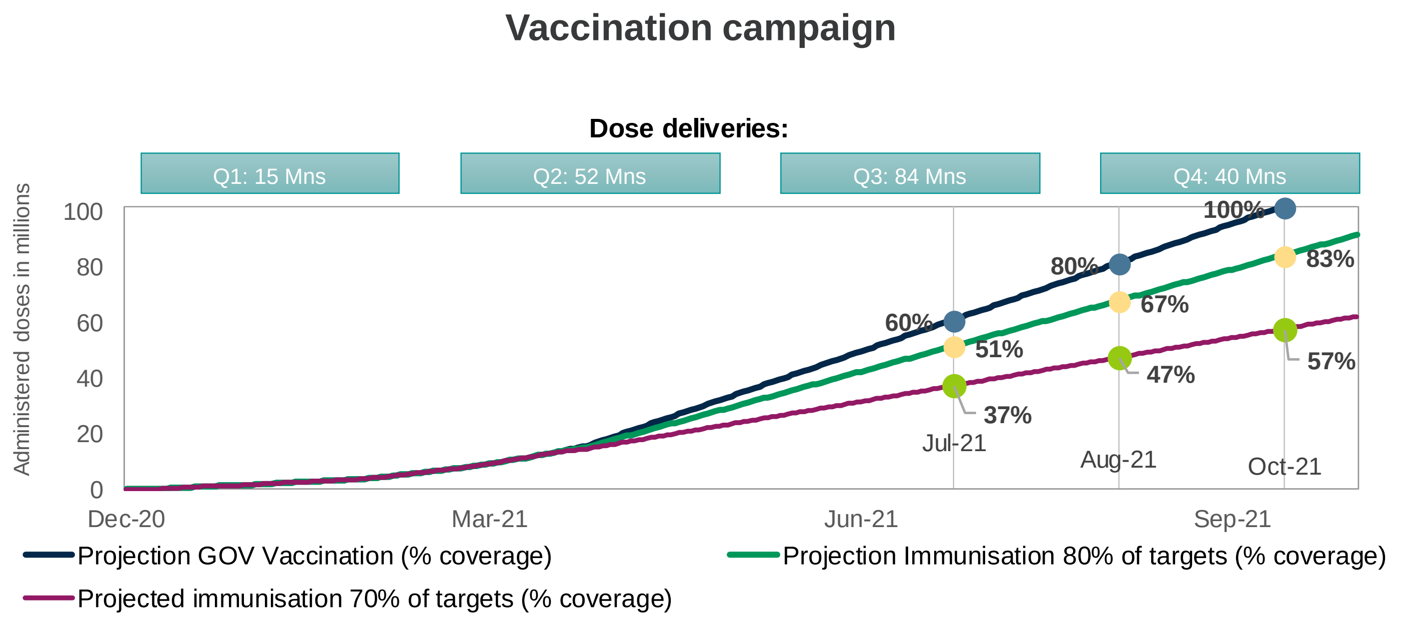
In addition to yellow zone measures: travel within and outside the region is prohibited; bars and restaurants are closed, except for take-away. Beginning 11/01: in-person learning in secondary schools resumes at 50%.

In addition to the measures in the orange zone: travel within a town is also prohibited; fitness centres closed; shops closed except for essential shops; universities closed.

Source: Italian government, Crédit Agricole SA

FOCUS: THE VACCINATION CAMPAIGN IS KEY TO THE CRISIS EXIT STRATEGY

GOALS UNDERMINED, BUT GRADUALLY RAMPING UP



Source: Ministry of Health, Crédit Agricole SA / ECO projections

After a difficult start due in large part to delivery delays, the vaccination campaign gradually accelerated in March. 52 million doses are planned for the second quarter and 84 million for the third, which would enable the whole adult population to be vaccinated by the summer. After an initial goal of 350,000 shots per day early in the month, the government plans to ramp up to 500,000 by the end of April. This vaccination pace would allow 60% of the population to be vaccinated by late July, bringing the end of the vaccination campaign to late October. However, in light of the current inoculation rate, this scenario seems highly optimistic. A median scenario, assuming that actual daily shots are 80% of the stated goals, seems more realistic to us; this assumption would mean 51% of the population would be protected in July, 80% in October, and 100% by the end of the year. Finally, in a more conservative scenario that maintains the current pace of vaccinations (i.e. 60% of the target achieved), only 40% of the population would be covered in July, timidly reaching the 65% mark in October. In such a case, the vaccination campaign would continue until early 2022.

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RECENT ECONOMIC TRENDS

A THIRD WAVE WITH DISPARATE IMPACTS

Economic overview

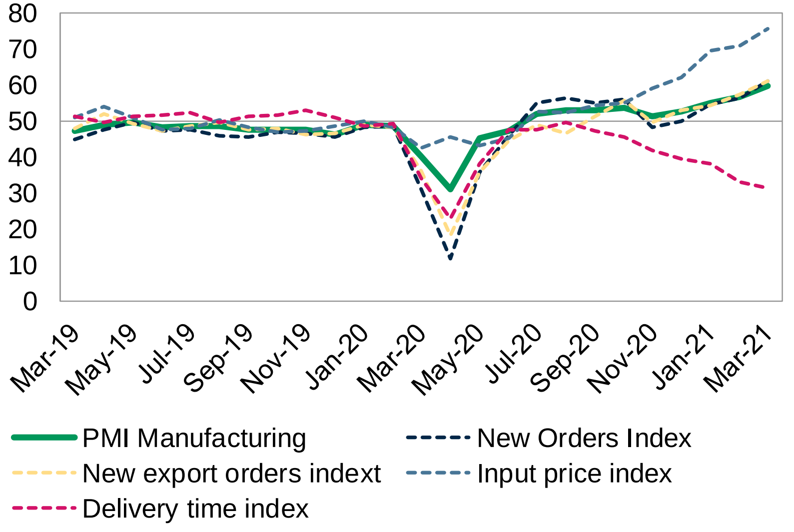
	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
Business confidence	91	92,6	83,4	88	88,4	93,3	93,9
Confidence in industry	92,4	95,6	91,4	96,7	96	99,5	101,2
Consumer confidence	103,7	100,2	96	101,1	100,7	101,4	100,9
Unemployment rate	10,00	10,00	9,7	9,8	10,3	10,2	
Industrial production	-4,5%	1,4%	-1,3%	0,2%	1,1%	0,2%	
Industrial production (Confindustria)	2,4%	-1,3%	-2,3%	1,6%	1,2%	0,9%	-0,1%
Exports	2,3%	-0,9%	4,1%	-3,7%	2,3%	0,3%	
Exports to EZ	-2,3%	-0,1%	4,9%	-3,4%	4,0%	1,2%	
Exports outside the EZ	7,4%	-1,7%	3,1%	-3,9%	0,4%	-0,6%	
Retail sales	-0,7%	0,4%	-7,1%	2,3%	-2,7%	6,6%	

Source: Istat, Confindustria, Crédit Agricole SA

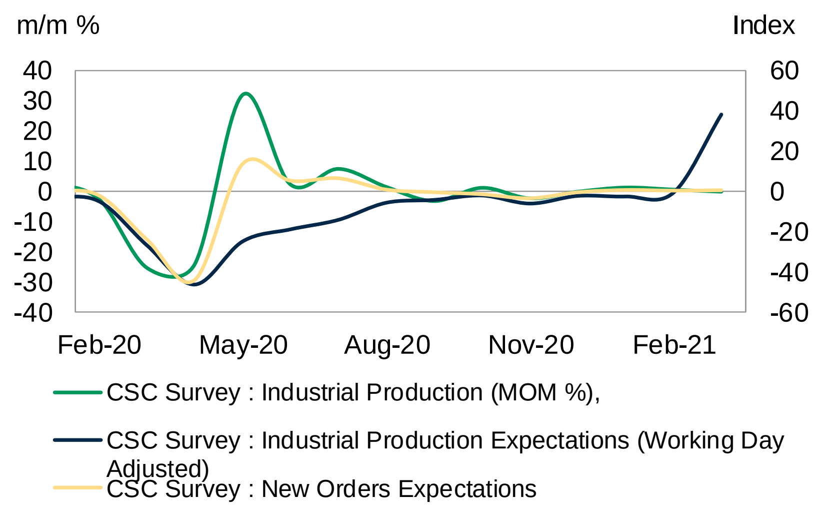
The economic data show a better profile than expected. Despite the tightening of lockdown measures beginning in mid-March, the productive sector continued to show a degree of resilience. For the third month in a row, industrial output increased, rising 0.2% in February. It leaves a 0.8% overhang for the first quarter. This trend is confirmed by Confindustria. Despite a slight contraction in March, industrial output, according to the General Confederation of Italian Industry, indicated a 1% rise in the first quarter; this uptick was strengthened by the favourable trend in demand from foreign markets. Exports saw another increase in February, though a modest one at 0.3%, after 2.3% in January, leaving a 1.3% overhang for the quarter. As for households, the signs are less encouraging. As another decline in sales is expected due to the March lockdowns, February's 6.6% recovery in retail sales only slightly offsets the earlier decreases, with a 0.5% overhang for Q1. This trend is also visible in the confidence survey data, which has worsened in the service sector, particularly for companies in the transportation, tourism services, and retail sectors. Household expectations, meanwhile, remain weighted down by deep uncertainty, with a slight dip in the confidence climate in March.

RECENT ECONOMIC TRENDS

2021: START OF A NEW INDUSTRIAL CYCLE



Source: Markit, Crédit Agricole SA



Source: CSC, Crédit Agricole SA

At the same time, business confidence continued to show positive signs, primarily in industry. Despite the worsening pandemic, the improvement in Istat's confidence indices was widespread, both in the construction and manufacturing sectors, supported by positive expectations of new orders. The strong recovery in manufacturing PMI since January corroborates this finding. The index rose from 52.8 in late December to 59.8 in March, the largest expansion in the survey's historical series.

Confindustria has corroborated the two earlier surveys, but with more restrained optimism. In its March's publication, the Confederation has highlighted that expectations in manufacturing and the upbeat outlook have been resilient (orders by volume: +0.7% from February; +40.5% in March 2020), though they show this had not resulted in an uptick in output (1% in Q1).

This optimism is not just in Italy. All over Europe, an unprecedented increase in manufacturing PMI is being seen, driving predictions of a restart to the manufacturing cycle. However, this resumption of the cycle is happening at a time when the prices of inputs are increasing and supplies are delayed, narrowing the margins of industrial companies.

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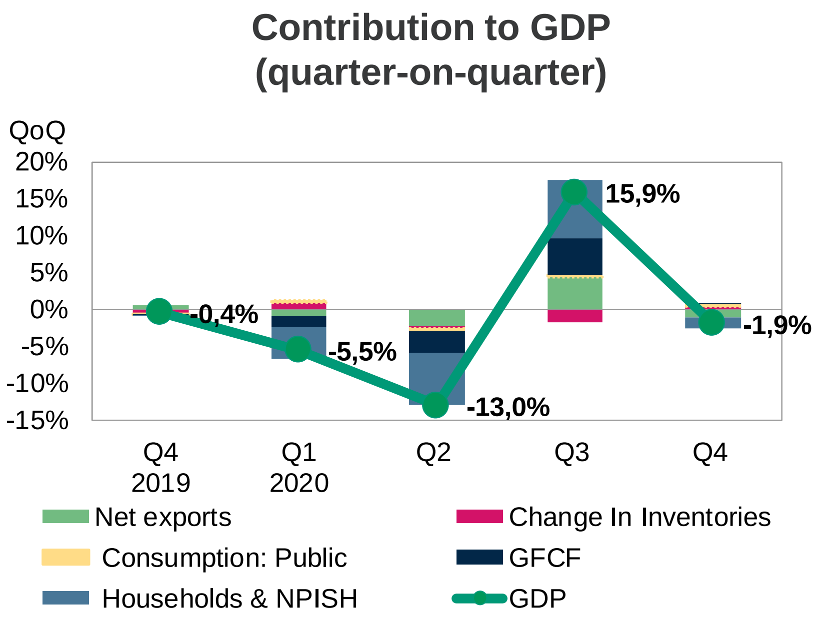
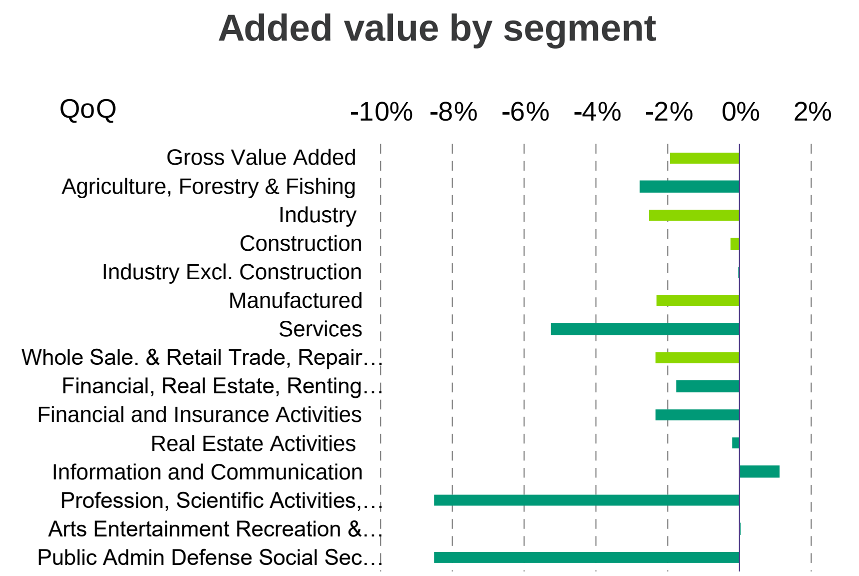
THE SECOND WAVE LED TO ANOTHER GDP DIP AT YEAR'S END



Source: Istat, Crédit Agricole SA



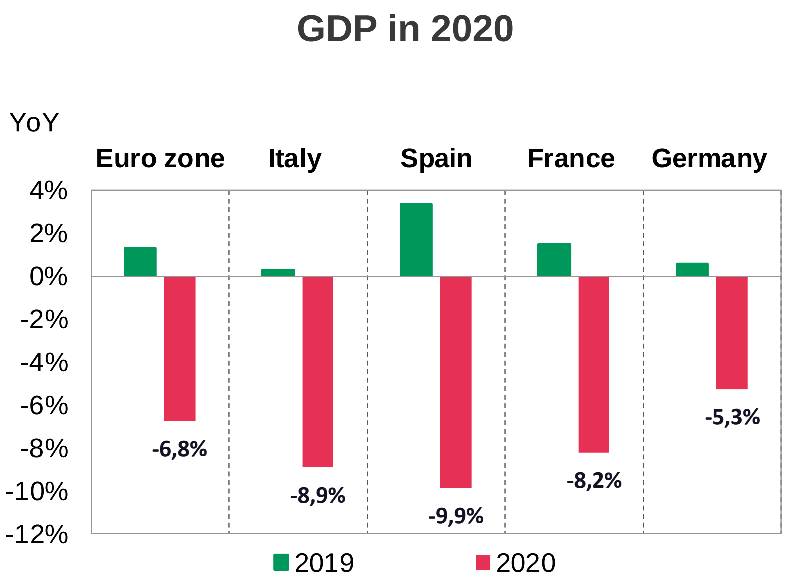
Source: Istat, Crédit Agricole SA

GDP declined 1.9% quarter-on-quarter in the fourth quarter of 2020, leaving a 2.3% positive overhang in 2021. Year-on-year, GDP contracted 6.6% compared to the fourth quarter of 2019. Domestic demand took 1.3 points away from GDP growth, while changes in inventories added 0.3 percentage points. Despite a 1.3% increase in exports, a 5.4% increase in imports resulted in foreign demand taking away 1 percentage points.

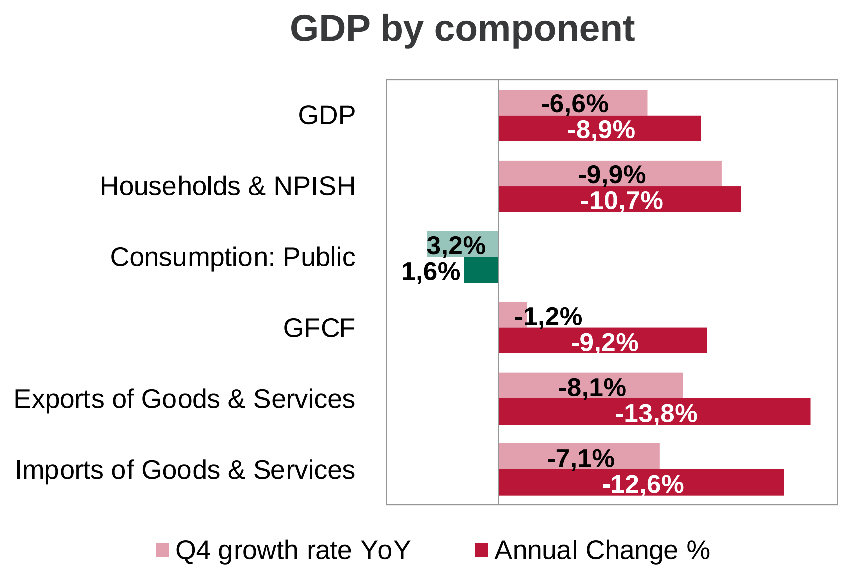
Added value declined in most subsectors, except for business services which increased 1.1%. The largest declines were recorded in the service sectors (-2.5%). Added value from agriculture also contracted 2.8% during the quarter. The decline for industry (excluding construction) remained moderate at -0.3%, and manufacturing saw zero growth. Lastly, construction declined 2.5%.

THE BASIS OF OUR SCENARIO

2020: A HISTORIC FALL IN GDP



Source: Eurostat, Istat, INE, Insee, Destatis, Crédit Agricole SA



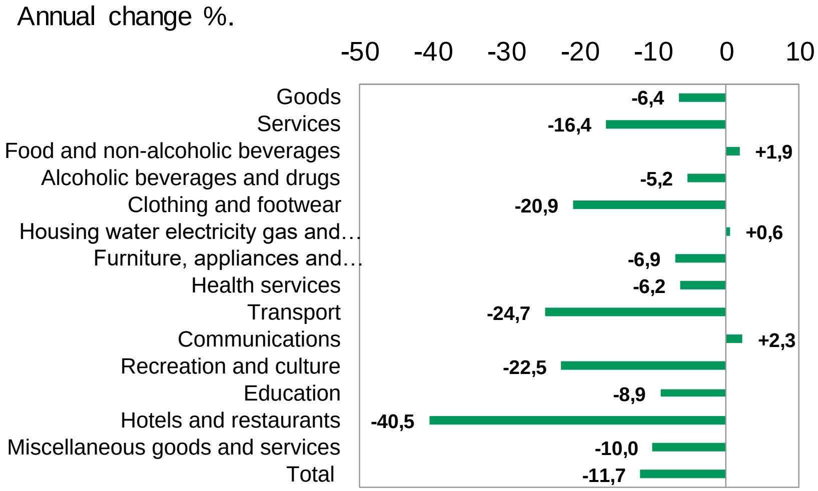
Source: Istat, Crédit Agricole SA

Over 2020 as a whole, GDP declined -8.9%, compared to +0.3% in 2019. The sharp decline in domestic demand contributed 7.8 percentage points to the economic decline. Foreign demand and inventory changes had a limited negative contribution of 0.8 points and 0.3 points, respectively. Italian GDP is 6.6% below its pre-crisis level, which is below the average observed in the eurozone (-4.9%). Consumption, and to a greater extent foreign components, saw the largest declines over the year, and sit far beneath their 2019 levels. Household consumption is 9.9% lower than in the fourth quarter of 2019, which is the weakest recovery in the eurozone, compared to -6.8% in Germany, -7.6% in France, and -9.2% in Spain. The investment component seems to have recovered better. Italy is the only country in the zone to have practically returned to its pre-crisis investment level, sitting 1.2% below Q4-2019, compared to -2.7% in Germany, -4.7% in France, and -7.2% in Spain.

THE BASIS OF OUR SCENARIO

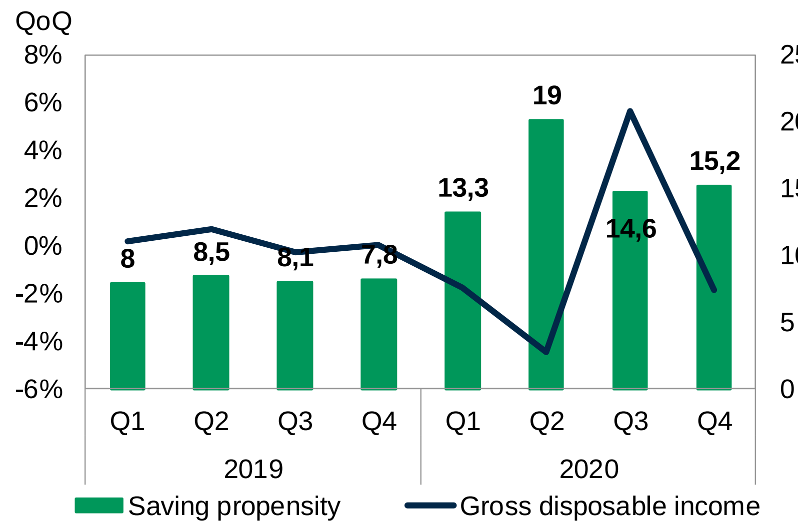
A MARKED DECLINE IN CONSUMPTION

Consumer spending by category in 2020



Source: Istat, Crédit Agricole SA

Gross disposable income and savings rate



Source: Istat, Crédit Agricole SA

Household consumer spending was particularly hurt by the two successive waves of the pandemic. Although the decline affected all spending categories, it had the largest effect in services (-16.4%) and was concentrated in spending related to leisure, tourism, and mobility. In the first three months of the year, consumption declined -2.7% from the previous quarter, partially hampering the catch-up achieved during the summertime recovery. Propensity to save, meanwhile, remained high, at 15.2%, reflecting restrictions on the opening of shops, caution related to the risk of infection, and precautionary behaviours that are still very present. At the same time, support measures limited the decline in gross disposable income (GDI), down 2.1% from the previous quarter and 2.8% over the year. Without these interventions (social benefits, short-time work), the Bank of Italy estimates that the loss of GDI would have been equivalent to 4 percentage points. At the same time, household debt as a percentage of disposable income increased, hitting 64.7%, which is still below the eurozone average (97.6%).

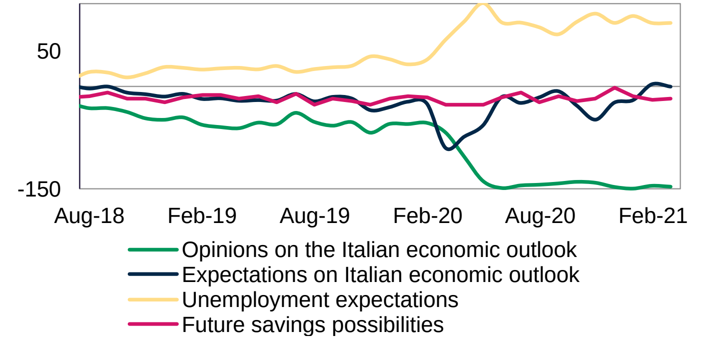
THE BASIS OF OUR SCENARIO

CONSUMPTION, THE POOR RELATIVE OF THE RECOVERY

Returning to pre-crisis levels will largely depend on the ability of household consumption to recover. Effective income losses, saving habits and spending tied to the perception of the pandemic and economic downturn will be critical in shaping household behaviour in the quarters ahead, as will the release of the significant accumulated savings Household confidence indicators recovered only weakly compared to pre-crisis levels, and are still tied closely to the course of the pandemic. Household confidence was down slightly in March, although over the quarter as a whole, it remained around where it had been at the end of 2020. Worries persist as to the perception of the country's economic situation, as noted in the Bank of Italy's fourth-quarter household survey. According to the Bank of Italy, the end of the crisis is still hazy for the households surveyed. Nearly a third of them believe that the crisis will continue until 2023, while just 16% feel that the crisis will be over sometime in 2021. This trend remains correlated to income expectations. Although the decline in disposable income was still limited overall, 30% of households said that they had earned less in March than before the pandemic, and 70% expect their earnings to be equivalent to what they were in 2020. This decline is even more visible in cases where the head of the household is a freelancer or unemployed. Despite the support measures, which one-quarter of households benefited from between December 2020 and February 2021, 60% feel they have trouble making ends meet each month, or 10 percentage points more than the pre-pandemic period.

On the other hand, 40% of households have a propensity to save. This confirms the very disparate impact on different households, with many low-income earners suffering the consequences of COVID-19 despite consumption restrictions. The crisis has tended to alter consumer habits; along those lines, the survey indicates that just over a quarter of households believe they will reduce their consumption of services and non-durable goods over the next three months, compared to about a third in the November edition. As such, according to the Bank of Italy, only a third of savings accumulated in 2020 is likely to be spent in 2021, with 20% being used to pay off debts and more than half continuing to serve as "rainy day" savings. This trend is expected to continue in 2021, because 45% of households plan to spend less than their annual income in the next twelve months. This percentage is a consequence of the climate of uncertainty weighing on households. It is also high among those who say they are in greater economic difficulty and therefore have a lower propensity to save.

Household survey

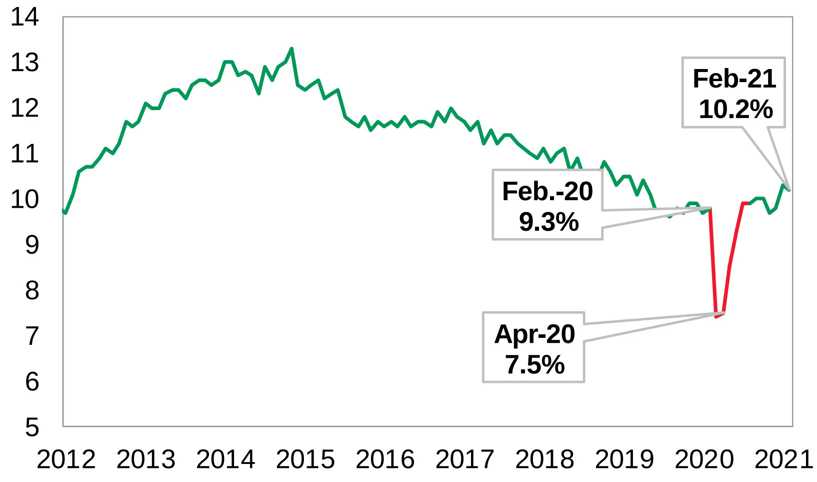


Source: Istat, Crédit Agricole SA

THE BASIS OF OUR SCENARIO

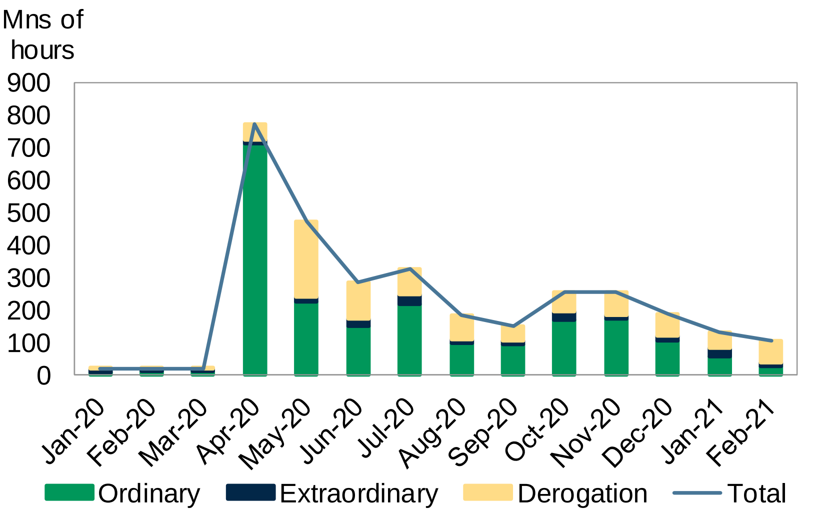
UNEMPLOYMENT: EXPECT A LATE INCREASE IN 2021

Unemployment rate



Source: Istat, Crédit Agricole SA

Hours covered by the furlough scheme



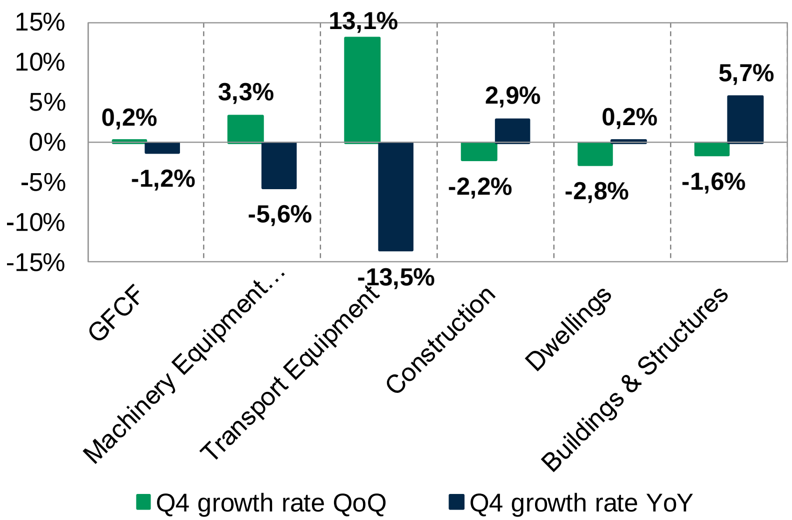
Source: INPS, Crédit Agricole SA

As activity fell in 2020, so did the unemployment rate. The recent increase observed early in the year is attributable to a change in how the jobless rate is calculated by the statistics agency in accordance with the new European regulation (2019/1700), but the series indicates that in the first three months of the year, the number of unemployed (-0.3%) and those out of the workforce (-0.1%) decreased slightly. In March, the extraordinary employment support measures rolled out by the government were renewed to address the third wave. These interventions continue to temporarily freeze the labour market. Only fixed-term components are affecting the flows of people outside the workforce. The crisis also encouraged crowding-out effects that artificially lowered the unemployment rate in 2020 and further penalised the most vulnerable components of the workforce. This trend is set to continue throughout the first half of 2021. Whereas in 2020, the employment rate declined 2%, the phasing-out of support measures is expected to reveal the extent of the impact on employment, particularly in terms of job losses. It is likely to be tempered by the strength of the recovery, but the growth-driven boost may prove insufficient if accompanied by a normalisation of the workforce participation rate. The rise in growth is likely to be accompanied by an increase in unemployment.

THE BASIS OF OUR SCENARIO

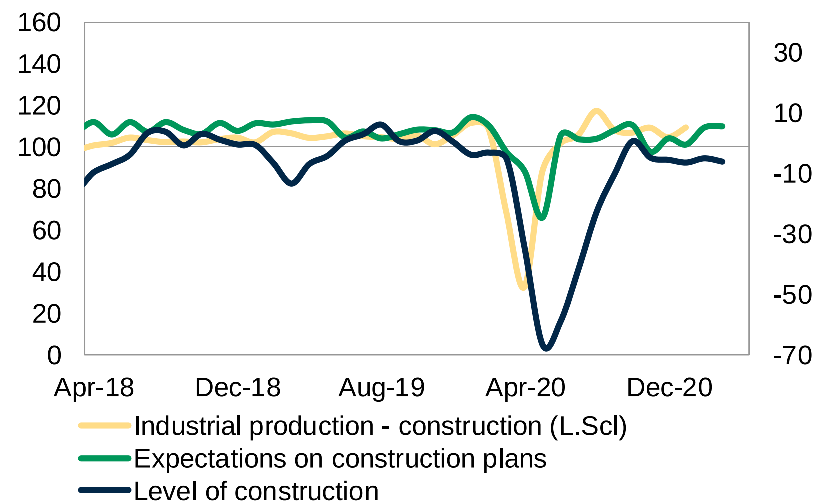
NEW DAWN FOR CONSTRUCTION AND INVESTMENT SHOWS RESILIENCE

Change in investment



Source: Istat, Crédit Agricole SA

Construction output

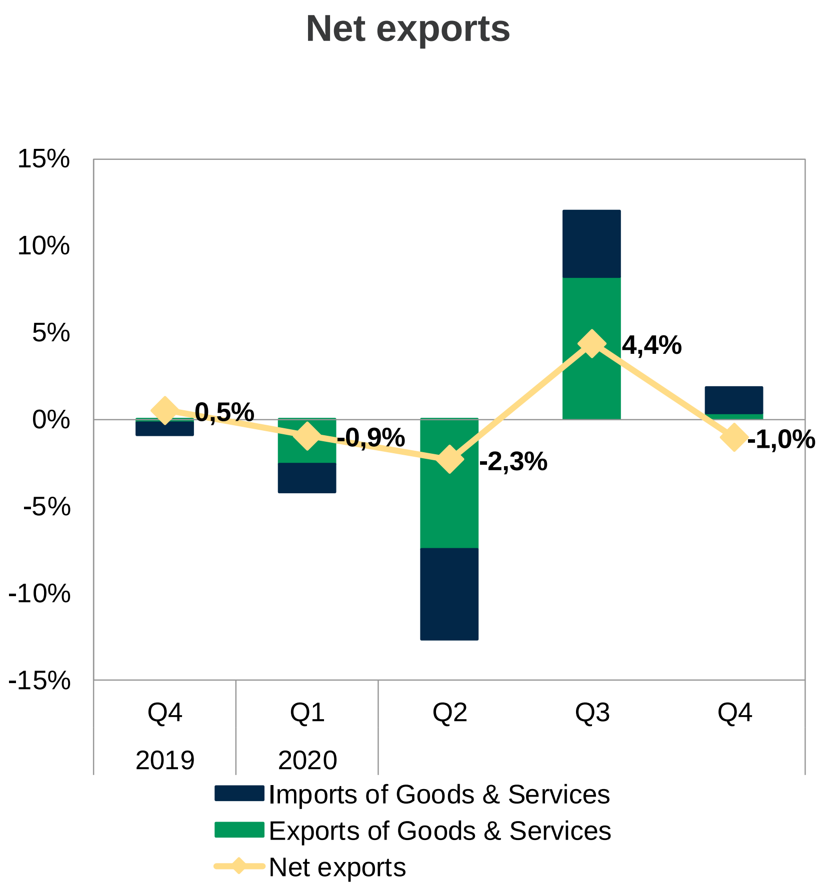


Source: Istat, Crédit Agricole SA

The investment situation only deteriorated slightly during the second wave, sitting at -1.2% compared to pre-crisis levels, as opposed to -1.4% at the end of the third quarter, after investment fell 18% in the second quarter. Investment growth remained zero in the fourth quarter compared to the previous quarter. Construction investment saw a negative change, with the housing component dropping 2.8% and infrastructure down 1.6%. Investment in machinery, meanwhile, rose 3.3%, driven by transportation, which increased 13.1%. The growth overhang for investment remains large for 2021. After a marked decline in the first half of 2020, the construction sector observed a V-shaped dynamic and at the end of 2020 is above its pre-crisis level. Over the course of the year, the decline in construction investment was more moderate than in other GFCF categories (-6.6%). It originated in the housing market's solid recovery in the second half of the year and in the tax incentives (Super Bonus, Façade Bonus, Renovation Bonus) intended to spur renovation. This trend, though slower in the last quarter of 2020, seems to be resuming its pace at the start of the year. After two consecutive increases in construction output, Istat's March surveys confirm the improvement of confidence in the sector.

THE BASIS OF OUR SCENARIO

SALVATION FROM ABROAD



Source: Istat, Crédit Agricole SA

The slowdown of global commerce negatively affected trade in goods, which declined by 9.7% on average in 2020. Imports of goods by value decreased further (-12.8%) over the year, driven down by the decline in imported goods prices, particularly for energy, over the first half of the year. Paradoxically, the trade surplus, which was already one of the largest in Europe, increased in 2020, rising from €56bn to €63.6bn. In volume terms, the decline in imports was smaller than in exports (-12.6% and -13.8%, respectively), again hurt by the sharp contraction in services. Exports did pick up dramatically in the last half-year, but steady growth in imports over the fourth quarter, driven by the increase in purchases of intermediate and capital goods intended for the productive sector, offset the more tenuous trend in imports for household consumption. The net contribution of foreign trade was slightly negative over the year, cutting GDP by 0.8 points of growth.

The outlook for the first quarter seems rather favourable. After a 2.3% January increase, exports rose again in February by 0.3%, leaving a 1.3% overhang for the quarter. This increase was supported by the rise in flows to EU countries (+1.2%) driven by demand from Germany (+2% year-on-year, or YoY), Poland (+16% YoY), and the Netherlands (+11% YoY). Exports to non-EU markets also declined (-0.6%), hurt by the drop in exports to the United States (-21% YoY) and the United Kingdom (-12%). Demand from the Asian market nonetheless continues steadily, particularly due to China (+54% YoY but only accounting for 3% of total exports), as well as South Asia (+10% YoY and 10% of total exports).

THE BASIS OF OUR SCENARIO

GROWTH FORECASTS

Growth forecasts for 2021 were revised downward from our previous scenario, dipping from 4% in December to 3.8% for this year. Although the growth overhang left for 2021 was larger than expected, the extension of pandemic-related restrictions continues to hamper activity, with a widening dichotomy between a resilient productive sector and a service sector that is still being hurt by movement restrictions. **The first quarter is expected to see another GDP decline**, but a smaller one than in the fourth quarter. Economic agents have gradually been able to adapt to the lockdowns, which unlike March and April 2020, were more targeted this time and enabled productive activity to continue. The Q1 decline is expected to be followed by **a second-quarter recovery that is expected to become stronger in the summer months, as the vaccination campaign proceeds** and restrictions are gradually lifted. Growth collapsed in the fourth quarter, though it left a large overhang for 2022.

Recovery in consumption is expected to remain partial, with a growth rate smaller than GDP. However, it is likely to contribute 1.8 points to GDP growth. As the second half of 2020 goes on, **investment is expected to continue to perform, with a growth rate estimated at 8.6%, supported by the recovery of the manufacturing cycle.** Fiscal support, driven by the rise of public investment, is expected to accompany this trend. These fiscal measures, which had taken the form of support measures to address the third wave, look set to be accompanied in the second half of the year by a stimulus package, of which a large share will be targeted to businesses. **The recovery of foreign demand for goods will partially offset the weaknesses of domestic demand, but exports of services are not expected to reach normal until 2022.**

The scenario is still subject to both upside and downside risks. Better-than-expected performance by the vaccination campaign may encourage a faster lifting of restrictions. Positive signs on the vaccination side may also favourably influence household morale and lead to a less conservative consumption profile. Conversely, the appearance of new variants, or significant delays in the vaccination campaign, may lead to restrictions beyond the period planned by the government, and hamper some of the recovery in the second quarter.

Italy	2020	2021	2022	2021				2022			
%				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP	-8,9	3,8	3,9	-1,3	1,5	2,9	0,7	0,7	0,6	0,4	0,4
Households consumption	-10,7	3,0	5,8	-2,9	2,8	5,5	1,1	0,6	0,8	0,6	0,4
Investment	-9,2	8,6	4,5	-1,3	0,9	1,7	1,2	0,9	1,3	0,9	0,9
Change in inventories*	-0,2	-0,5	0,0	0,3	-0,2	-0,3	0,2	0,1	-0,1	-0,1	0,1
Net export*	-0,8	0,4	-0,4	0,2	-0,2	-0,3	-0,4	0,1	0,1	0,0	-0,1
Unemployment	9,1	10,3	12,6	9,3	9,6	10,4	11,8	12,3	12,8	12,7	12,4
Government net lending	-9,5	-9,9	-4,7								

* Contributions to GDP growth

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"SOSTEGNI": THE NEW SUPPORT PROGRAMME FROM MARIO DRAGHI'S GOVERNMENT

The third wave of COVID-19 was accompanied by new economic support measures. The first decree of measures from the Mario Draghi government, named *Sostegni*, called for a new €32bn budget overrun, equal to 1.8 points of GDP. Its effect on growth is estimated to be 0.7 points of GDP. It has five areas of intervention, emphasising support for businesses and households.

The amount allocated to direct grants to businesses is €11.2bn. Unlike the grants in the *Ristori* decree, the new ones do not target specific sectors, but rather are given out to all businesses that saw a loss of revenue greater than 30% between 2019 and 2020. Divided into five tranches, they make it possible to offset up to €10m in losses*****. About 3 million businesses were eligible, including 80% with sales that could reach €100,000.

The second package was used to extend the short-time work scheme. Businesses will therefore be able to demand 13 additional weeks of coverage in addition to the 12 already granted by the budget act, for a total of 25 weeks usable until June. Employees not covered by traditional schemes will be able to receive 28 additional weeks between April and December, on top of the 12 already granted by the budget act, which may be used by June, for a total of 40 weeks. The cost of the special COVID programme is estimated at €6bn. The ban on individual and collective layoffs for economic reasons has also been extended until 30 June for employers covered by the COVID programme, and until 31 October for those covered by traditional funds. Furthermore, a €1.3bn package is going out to freelancers in the form of a one-time €2,400 payment. At the same time, unemployment benefits will be extended until 31 December for those unemployed whose benefits are expiring. The third area of intervention relates to the poorest households, with a €1bn package devoted to Citizen's Income. This aid will be given to nearly 1.2 million beneficiaries in 2020, bringing the total for this measure to €8.4bn since the start of the crisis.

The decree's two other areas of intervention relate to health and regional support. As such, €3.7bn is being allocated to the vaccination campaign. Continuing from the 2020 decrees, €1.2bn was allocated to support towns and provinces.

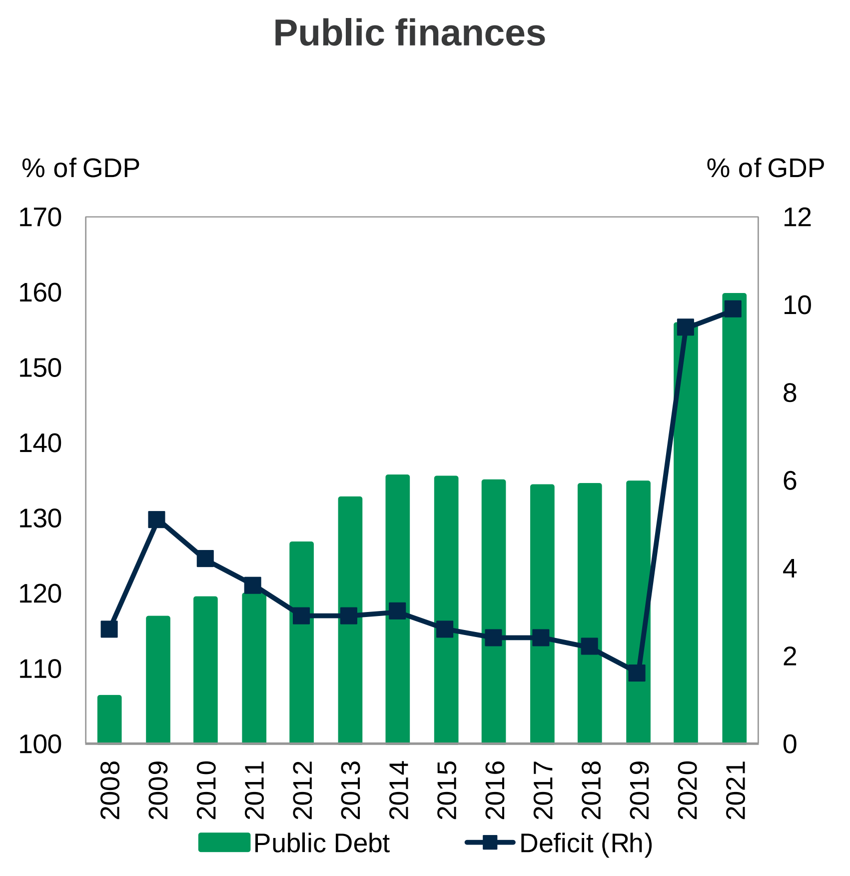
***60% for companies whose revenue and expenses do not exceed €100,000; 50% for companies whose revenue and expenses are greater than €100,000 and up to €400,000; 40% for companies whose revenue or compensation are greater than €400,000 and up to €1m; 30% for companies whose revenue or compensation are greater than €1m and up to €5m; 20% for companies whose revenue or compensation are greater than €5m and up to €10m.*

PUBLIC FINANCES

ANOTHER BUDGET OVERRUN, ANOTHER INCREASE IN GOVERNMENT DEBT

For the second quarter, the government is projecting an additional €40bn budget overrun, which would take the form of a new decree with two goals – support and stimulus – intended for businesses. The measures discussed include the extension of guarantees for SMEs until the end of the year, as well as repayment holidays and coverage of some of the businesses' fixed costs in the form of tax credits. The tax collection delays and exemptions already implemented by previous decrees will be reintroduced. The tax offsets cap will also be raised. As for stimulus, €6.7bn is expected to be allocated to funding the Transition 4.0 investment incentive programme. Finally, with respect to employment, the government is expected to introduce benefits for seasonal workers, with new measures to help the young.

Taking into account this new overrun, the stability programme estimates the public deficit for 2021 to be 11.8%, compared to 7% initially planned in the budget act. It looks set to fall to 5.9% in 2022 and 4.3% in 2023. Consequently, the goal of reducing the public deficit to 3% has been put off until 2025. The primary balance is expected to deteriorate in 2021, reaching 8.5% and leading the government debt-to-GDP ratio to rise to 159.8% in 2021. That ratio is expected to decline in 2022 to 155% of GDP. The structural deficit, meanwhile, is estimated at 4.5%, or 1.5 points higher than in 2020. If the ECB's support policy were to continue, the cost of debt would be expected to gradually decrease, from 3.5% in 2020 down to 3.3% in 2021, and 3% in 2022.



Source: Ministry of Finance, Crédit Agricole SA

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