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## THE EFFECTS OF THE COVID-2019 PANDEMIC ON LARGE EUROPEAN ECONOMIES: FRANCE AND THE UK CASES

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**Abstract:** Governments worldwide have applied large-scale economic measures to support their companies and employees during the COVID-2019 pandemic. In current research, we have considered how the pandemic affected two large European economies – France and the UK. We have also investigated in detail what economic measures governments of both countries have introduced to support their economies. Our research has shown that the UK has suffered more severely and implemented broad financial measures.

**Key words:** COVID-2019, pandemic, France, UK, policy response.

### Introduction

France and the UK are European countries, which have been hardly hit by the COVID-19 pandemic. In regards with France, it should be noted that the pandemic brought into light structural weaknesses of the health system of the country, comprising its governance and decision-making process, but at the same time, provoked positive changes. The country has struggled to catch the right balance between the rock of economic and social harm caused by repression measures and the hard alternative of a quickly spreading virus. The response to the first wave, including a full lockdown, was an emergency response that revealed the low level of preparedness for pandemics and the whole provision of health care in France. At the time of the

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second wave, policy response changed into a more level strategy aiming at reconciling health necessities in a broader perspective incorporating socio-economic considerations.

The COVID-19 global pandemic has spread quickly, with the UK being one of the countries with the largest number of cases and deaths in proportion to its population. The continuing pandemic has caused a tremendous health burden on the country. The UK government executed the biggest lockdown of society during peacetime in British history at the end of March 2020, aiming to contain the rapid spread of the virus. The UK has suffered badly during the COVID-19 pandemic and has the highest death rate in the world (amongst countries with more than 10 million inhabitants).

### **Literature review**

When analyzing the policy responses to the COVID-19 pandemic in France, Desson et al. (2020) have concluded that centralized decision-making may have allowed for more efficient coordination of healthcare resources across the country, which was supported by a more transparent and joined data policy, again assisted by a strong central government. According to Sülün (2020), the French government introduced significant financial support measures in order to restrict the rise of unemployment. The author has also highlighted that France did not use only economic measures but also provided significant social and medical assistances in the scope of safety measures, social security and health. Remote working has been also stimulated and working time has been made more flexible. Sami (2021) has also emphasized that on the macro level the government can still play two key roles through the monetary policy and the severity of applying rules to decrease the spread of the pandemic. The monetary policy is principally affecting three strategic sectors: consumer goods, industrials and energy. On the other hand, the government's strictness is crucial to save the market and the firms from failing. The most negatively affected sectors still require rapid support from the government (Momot and Lytvynenko, 2020; Kitukutha et al., 2021; Or et al., 2021; Vovk, 2020; Wei, et al., 2021).

When researching economic policies and the coronavirus crisis in the UK, Sawyer (2021) has concluded that the policy responses have been slow, particularly in the first months of the pandemic. Keogh-Brown et al. (2020) have concluded that policies should focus on delay the pandemic peak by diminishing the spread of the pandemic. According to the authors, the duration of mitigation policies is crucial to determining the economic impact. The primary economic support measures, assured by the UK government, may require further expansion if the pandemic is to be efficiently repressed without causing the failure of businesses and the loss



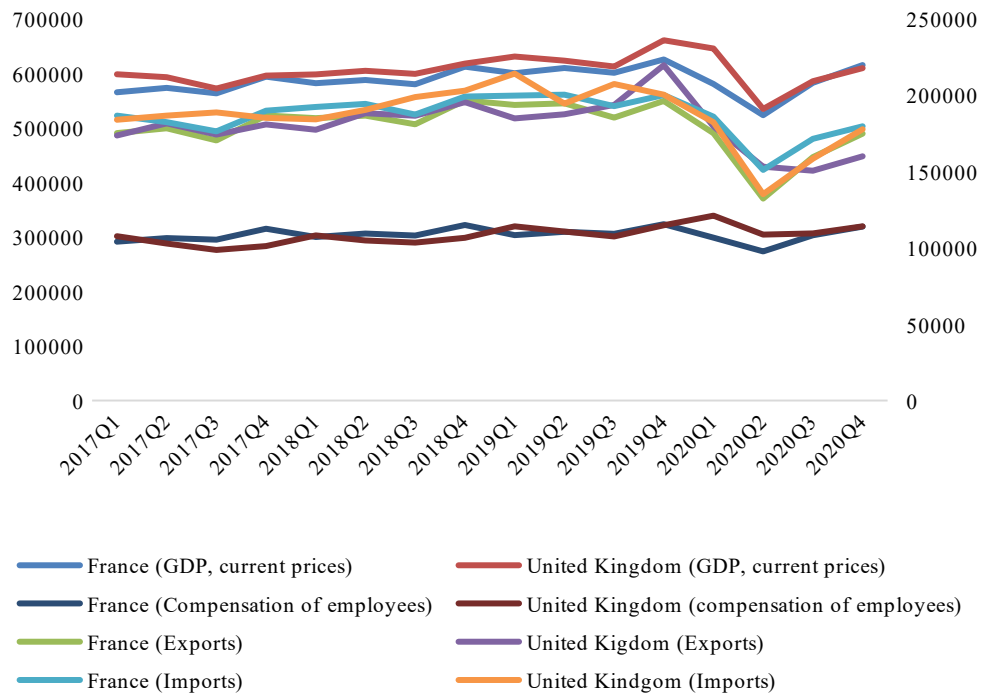
of livelihoods of many employees. Another research has shown that there was essential tension in governing during crisis, in that actions that increase population's confidence in government and encourage compliance with government directives may also turn to increase concern among the population (Eggers and Harding, 2021). The lockdown announcement in the UK increased anxiety about the pandemic among the population. However, the population supported the government's pandemic response that implies that a lockdown was considered appropriate.

### **Economic indicators in France and the UK during the COVID-2019 pandemic**

It can be seen from Figure 1 that the dynamics of GDP, exports, imports and compensation for employees in both countries faced decline in the second quarter of 2020. In the third quarter of 2020, the values of all indicators increased except for exports in the UK, which appeared to be lower than in the second quarter of 2020, but the indicator increased in the fourth quarter of 2020.



**Figure 1. Economic development in France and the UK during the Covid-2019 pandemic (in million euro).**



Source: Authors' own workings based on data from Eurostat (2021).

Since the beginning of the 2021, and unlike the Netherlands or Germany, France has been able to evade a new closing of shops and schools, but restrictions remained very significant and continued to increase due to a health situation that was far from being under control. The 6pm restriction, the closure of major restaurants, shopping centres, bars, ski lifts, cultural and leisure venues had a major influence on the economic situation, and mostly on the services sector. Household consumption continued to be largely restricted. The situation is expected to be slowly improved according to the OECD forecasts (Table 1).

**Table 1. Economic development: France.**

	2018	2019	2020	2021	2022
	Percentage changes, volume (2014 prices)				
GDP at market prices	1.8	1.5	-8.2	5.8	4.0
Private consumption	0.8	1.5	-7.3	4.4	6.5
Government consumption	0.9	1.7	-3.0	4.4	0.3
Total domestic demand	1.4	1.8	-6.8	5.3	4.0
Exports of goods and services	4.6	1.8	-16.6	9.4	8.2
Imports of goods and services	3.1	2.6	-12.0	7.6	7.9
Harmonised index of core inflation	0.9	0.6	0.6	1.1	0.8
Unemployment rate	9.0	8.4	8.0	8.8	8.7
Household saving ratio, gross (% of disposable income)	14.1	14.6	20.8	18.7	14.1
General government gross debt (% of GDP)	121. 4	124. 3	147. 9	149. 3	147. 6
Current account balance (% of GDP)	-0.6	-0.7	-2.3	-2.4	-2.2

*Source: Authors' own workings based on data from OECD (2021).*

With regard to the UK, it should be noted that the country has experienced its largest annual decline in 300 years in 2020 amid the outcome from the pandemic but, according to the data, it will avoid a double-dip recession. According to the World Bank (2021) the GDP in the UK fell by 9.9% in 2020, as no sector of the economy was left unhurt by lockdowns and reducing demand during the pandemic. It was the biggest fall in annual GDP since the Great Frost of 1709, when the economy shrank by 13%. Service sector was able to recover and retail sales improved in December after the November 2020 lockdown finished and before tougher measures were executed. Growth was also powered by a rise in healthcare activity, largely because of coronavirus test-and-trace schemes across the UK.

With slacker coronavirus limitations than last spring, output in the services sector grew by 0.6% (OECD, 2021). Mostly allowed to stay open, industrial production and manufacturing activity also grew, returning closer to pre-pandemic levels. The projections of the economic development for the UK are presented in Table 2.

**Table 2. Economic development: the UK**

	2018	2019	2020	2021	2022
	Percentage changes, volume (2014 prices)				
GDP at market prices	1.3	1.4	-9.8	7.2	5.5
Private consumption	1.4	1.1	-11.0	5.8	7.0
Government consumption	0.6	4.0	-3.0	4.4	0.3
Total domestic demand	1.2	1.7	-10.5	7.4	5.6
Exports of goods and services	3.0	2.7	-15.8	1.2	4.7
Imports of goods and services	2.7	2.7	-17.8	2.0	5.0
Harmonised index of core inflation	2.1	1.7	1.4	1.0	1.6
Unemployment rate	4.1	3.8	4.5	5.4	5.8
Household saving ratio, gross (% of disposable income)	6.1	6.5	15.7	11.7	7.4
General government gross debt (% of GDP)	113. 9	117. 2	144. 2	145. 6	141.5
Current account balance (% of GDP)	-3.7	-3.1	-3.5	-3.1	-3.0

*Source: Authors' own workings based on data from OECD (2021).*

### Policy response to COVID-2019 in France

On March 12, 2020, the French Ministry of Economy and Finance announced the following measures for the benefit of the firms facing significant challenges due to the pandemic: 1) deferral of payment of corporate/income tax and social security contributions for the firms and entrepreneurs; 2) introduction of new loans offered by Bpifrance with maintaining government investments and existing loans; 3) increase in guarantees for loans provided to SMEs from 70% to 90% of the borrowed amount; 4) encouraging the firms to practice layoffs by reducing procedures and increasing public coverage of the costs; 5) reimbursement by the government of 100% of partial compensation for work; 6) mediation in conflicts between SMEs and customers/suppliers; 7) creation of a solidarity fund to support micro-enterprises which are in severe financial distress; 8) suspension of penalties for late payments; 9) mobilizing credit intermediation to assist SMEs wishing to renegotiate lending terms (Desson et al., 2020; Fraioli, 2020).



On March 17, 2020, the French government announced an additional financing of 45 billion euros to support the business: 1) the government announced to provide 300 billion euros of guarantees for loans of the companies; 2) small companies and private entrepreneurs can get compensation in the amount of EUR 1,500 per month when their turnover is less than 1 million euros and the company's turnover falls by 70% or more; 3) the government will pay gas and electricity bills for the SMEs; 4) the Solidarity Fund for self-employed will receive 2 billion euros (Luchini et al., 2020; Moatti, 2020).

Moreover, the French government has emphasized that no SMEs would lack the necessary liquidity. In addition, national and regional authorities have been cooperating through the new economic council *Etats-régions* in the fight against the crisis. Regional task forces have been created together with the state development banks to accelerate enterprise support measures. Community initiatives have been launched, such as *La French Tech Toulouse*, to show the role of startups can play in tackling the crisis. Industry associations such as *France Digitale* have also stepped up their efforts to support SMEs during the crisis, for example, through telecommuting tools and company consulting (Forien et al., 2021).

### **UK policy measures to address the effects of COVID-2019**

Working closely with business and trade unions, the UK government has drawn up an agreed, coordinated and comprehensive action plan to support the economy amid the COVID-19 pandemic. The companies have received the largest aid since World War II. Loans for the SMEs were promised to be paid by the British Business Bank, and the Bank of England planned to start buying bonds from the most significant large businesses. Bank of England has cut interest rates to 0.25% (Great Britain and Cabinet Office, 2021; Hadjidemetriou et al., 2020).

It should be noted that an information portal [businesssupport.gov.uk](http://businesssupport.gov.uk) was launched, where all support measures are published. The government recommends employers to familiarize themselves with all available support measures before deciding to lay off staff.

There has also been an announcement that the UK government would pay self-employed people who were suffering losses in a pandemic, a taxable grant of 80% of their average monthly income over the past three years, up to £2,500 per month. This solution was planned to keep available for at least 3 months and renew if necessary. In this way, the government has covered the same amount of income for a self-employed person as it does for those laid off employees who also receive a grant of 80%. Grants are subject to tax, which must



be paid by January 2022 (Great Britain and Cabinet Office, 2020; Machin, 2021; Resende et al., 2021).

Other UK response measures to COVID-2019 are the following: providing National Health Service with all the resources it needs; introduction of cash grants up to £25,000 for SMEs; increase in the social security system financing by almost 7 billion pounds; covering the costs of sick leave for SMEs for up to two weeks; introduction of three-month leave for mortgage loans; payment of 80% of wages for 3 months up to 2500 pounds sterling to citizens who have lost a source of income; deferral of tax payments in the amount of more than £30 billion sterling by the end of the year.

On March 11, 2020, the UK government announced a £30 billion emergency stimulus package, 23% of which is aimed at supporting businesses. This package included the following: companies with fewer than 250 employees are eligible for reimbursement of any sick leave payments they make to employees during the first two weeks; the UK government is also applying the Coronavirus Business Interruption Loan Scheme for SMEs affected by the effects of the coronavirus pandemic, worth £1.2 million (Great Britain and National Audit Office, 2020).

Support measures include also emergency financing up to £100 billion in business loans to SMEs financed by the Central Bank. During the next twelve months, this scheme has offered financing of at least 5% of the total volume of participants in real lending at a bank rate or close to it, providing loans for a period of four years.

Additional financing was available for the banks that increased lending, especially for SMEs. These measures aimed to spread the bank rate cut and encourage banks to lend to SMEs and households.

It has also been announced on March 11, 2020 that self-employed workers who were not eligible for sickness benefits would receive £500 million assistance from the 2020 budget. This package should include a temporary waiver of the universal credit minimum and provide for faster payments for social benefit applicants.

On March 17, 2020 the British government announced a £330 billion investment, which was around 15% of British GDP for a business guarantee package aimed at: supporting of liquidity among large firms using the new scheme of the Bank of England, which will help them to overcome disruptions in cash flows through the loans; increase in the amount that businesses can borrow from £1.2 million to £5 million in case activity interruption; providing enterprises with access to the first 6 months interest-free financing as the government will cover the first 6 months of interest payments.





Furthermore, the government has also offered any additional financial support it deems necessary for the business. There has also been introduced a reduction of a tax burden in the amount of £20 billion for businesses and provision of financial support to help the hardest hit firms manage their cash flow. All retailers, hospitality and leisure firms in England have been provided with tax holidays for a full 12 months. In addition, an increase in small business grants eligible for small business rate incentives from £3,000 to £10,000 was introduced. Also, additional financial support of £25,000 to retail, food service, hospitality and entertainment firms with an estimated value of over £15,000 was provided.

Small companies that could not pay taxes were eligible to apply for a deferral. The regular annual interest rate of 3.5% on deferred tax payments was waived. Also, small companies were able to cover expenses related to sickness for 14 days up to £200 per employee. The government has covered the loans for affected businesses through the British Bank for Business. Private financial institutions in the UK have announced that they would loosen the rules for the firms affected by the pandemic. On March 10, 2020, Lloyds Bank announced a financing package in the amount of 2 billion pounds sterling without any fees which was applicable to the companies with income below £25 million. Measures taken by other commercial banks included: providing mortgage holidays; 12 month vacation for SMEs to repay loans over £25,000; reimbursement of credit card advances in cash; temporary increases in credit card limits and suspension of loan fees.

## **Conclusions**

In current research, we have considered the effects of the COVID-2019 pandemic on the economic development of two large European economies – France and the UK – and the government measures both countries introduced. Our research has shown that both countries have suffered severely from the pandemic and experienced considerable economic decline in the second quarter of 2020. According to the forecasts, both countries, slowly, but steadily will improve their economic situation. We conclude that the UK has suffered more severely than France and business as well as employees in the UK, thus, received more significant financial aid. It can be also concluded that the government measures of both of the countries were slow, however, considerable financial aid was provided. Our further research will be devoted to the investigation of the effects of COVID-2019 on small European economies.

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