

The Unemployment Insurance System's Financial Situation

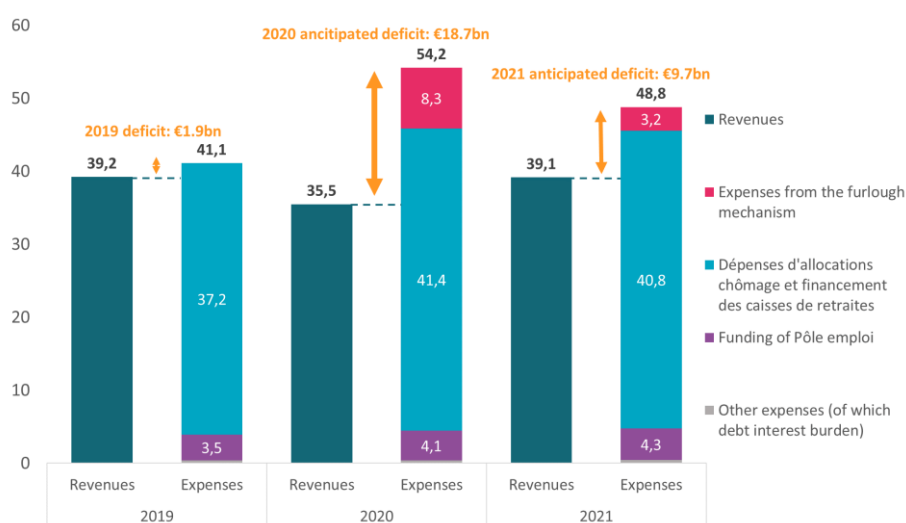
Forecast for 2020-2021



21 October 2020

Since January, the balance of the Unemployment Insurance system has been deteriorating badly, by more than EUR16 billion at the end of September 2020. This deterioration of the financial position of the scheme should continue throughout the end of the year and in 2021, although at a slower pace: the annual deficit should amount to EUR18.7 billion at the end of 2020 and EUR9.7 billion at the end of 2021. The debt at the end of 2021 is therefore expected to amount to approximatively EUR65.2 billion, after having reached EUR55.5 billion at the end of 2020.

UNEMPLOYMENT INSURANCE SYSTEM FINANCIAL SITUATION FORECAST 2020-2021



Source: Unédic, October 2020 forecasts

For 2020, the portion of the deficit related to the sanitary crisis (EUR17.8 billion) mainly results from three factors: it comes at 57.2 % from the funding of the furlough mechanism “Activité Partielle” (EUR10.2 billion, of which EUR8.3 billion in expenses and EUR1.9 billion in reduction of revenues), at 28.2 % from the benefits payment to jobseekers (EUR5.0 billion, of which EUR3.8 billion in benefit-related expenses and EUR1.2 billion to pay for emergency measures) and at 14.6 % from the other impacts on revenues (weaker activity and payment deferral on contributions).

This estimate is based on the Consensus Economics growth forecast from 15 October of -9.5 % of GDP in 2020 and +6.7 % in 2021. It takes into account the impact of the reform of the unemployment scheme as at 1st January 2021 as announced in the decree of 29 July 2020, as well as the estimates of the Economic Recovery Plan's impact.

Due to uncertainties remaining strong in the context, in terms of growth, employment, furlough mechanism-related expenses, repayment rhythm on the deferred payment of unemployment contributions, a margin of approximatively EUR2 billion is estimated on the forecast of the financial balance as at the end of 2021.

A. Assumptions used for the forecasting exercise

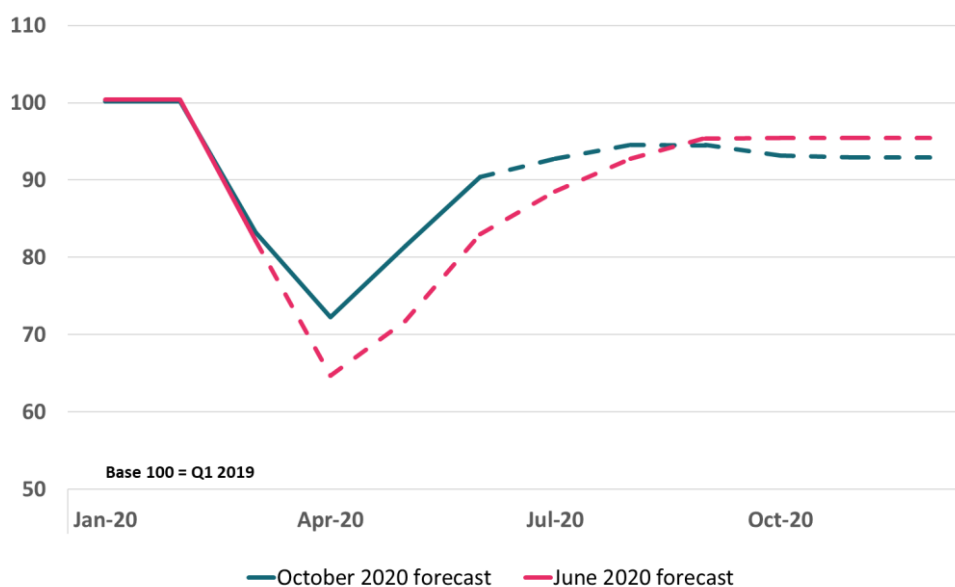
The financial position of the **Unemployment Insurance system** is very sensitive to the economy which is determined by the growth rate: indeed, the GDP level is the main component determining the level of salaried employment, of which directly depend the revenues of the scheme and, indirectly, the expenses of the unemployment insurance scheme, via the number of unemployed persons receiving unemployment benefits.

2020 growth

Unédic's June 2020 forecast¹ was based on an expected drop of the GDP in 2020 by -11.2 % which was in the average of the forecasts published at that time. This assumption was based on the Insee's first assessments of loss of business during the lockdown. Since then, **the GDP has been revised upwards by the Insee over the second quarter² (Graph 1)**. The Banque de France short term indicators in September show an improvement of the GDP **which should continue through the third quarter**. However, **the fourth quarter is expected to be more deteriorated** due to a slowdown of the economic recovery, the deterioration of the sanitary situation and the latest measures taken by the Government to stem the progression of the Covid-19 contaminations.

Growth should still be badly deteriorated for 2020: -9.5 % according to the Consensus Forecasts of October, this level being the lowest ever recorded. Unédic's forecasts are based on this assumption. However, the growth forecasts for 2020 are still fragile due to the uncertainties about the development of the pandemic and its economic consequences. These assumptions vary from institution to another: -10 % according to the Government (September forecasts), -9 % according to the Insee (October forecasts) and -8.7 % according to the Banque de France (September forecasts).

GRAPH 1 – ADDED VALUE TRAJECTORY EXPECTED IN JUNE AND OCTOBER 2020 (BASE 100 = Q1 2019)



Sources: Insee, Unédic, Unédic forecasts

Reading: at the end of May 2020, the Insee estimated a contraction of the added value, at the peak of the crisis, in April, of -35%. Since then, the Insee revised this figure, which should be more in the range of -30%.

¹ Unédic, « Financial position of the unemployment insurance scheme. Prospects 2020 », June 2020

² The quarterly sliding of the GDP drops from approximately -20 % for the first quarter in the estimate of the May 27 economic environment memo, to -13.8% in the first estimate of the quarterly accounts published during the second semester.

2021 growth

For 2021, the **Consensus Forecasts** anticipates a rebound in growth of **+6.7 %**, so that, after the 9.5 % reduction in 2020, the activity level of 2021 should end up being lower by 3.4 points compared to that of 2019 (Graph 2). This assumption is median compared to that of the State or of the other institutes such as the OFCE, the Banque de France, which levels at the end of 2021 vary between 1.9 and 4.3 points less than in 2019 (*Table 1*).

Unédic's forecasts are very sensitive to the assumptions regarding the GDP, and a large part of the uncertainty related to the current forecasting exercise comes from the strong uncertainty about the growth level (re. *Box 1* on the **sensitivity measures**.)

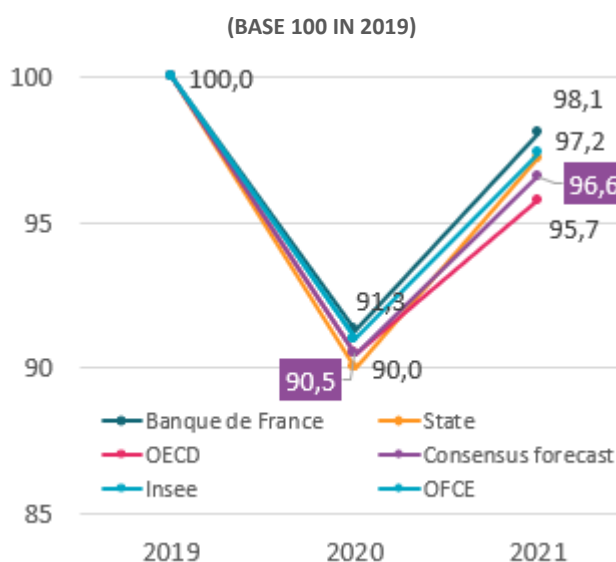
Lastly, we make the assumption that the growth rate announced by **Consensus Economics** on 15 October takes into account the impact of the **Recovery Plan** on the GDP for 2021. The direct impacts of the Recovery Plan on employment are also taken into account and detailed below (re. *infra*).

TABLE 1 AND GRAPH 2 – GDP FORECASTS FOR 2020 AND 2021 ACCORDING TO DIFFERENT SOURCES

TABLE 1 – ANNUAL EVOLUTIONS

| PIB | 2020 | 2021 |
|---------------------------|---------------|--------------|
| Banque de France | -8.7 % | +7.4% |
| Etat | -10.0 % | +8% |
| OCDE | -9.5 % | +5.8% |
| Consensus forecast | -9.5 % | +6.7% |
| Insee | -9.0 % | - |
| OFCE | -9 % | +7% |

GRAPH 2 - EVOLUTIONS CUMULATED OVER 2020-2021



Sources: Banque de France, September 2020 forecasts; State, PLF 2021; OECD, September 2020 forecast; Consensus Forecasts of October 2020; Insee, economic environment memo of October 2020; OFCE, Policy brief of October 2020.

Reading: the Consensus Forecasts anticipates a 2020 growth of -9.5 % and of +6,7 % in 2021, i.e. a GDP level of 90.5 at the end of 2020 and of 96.6 at the end of 2021 compared to a 100 base in 2019, so 3.4 points below the level of 2019.

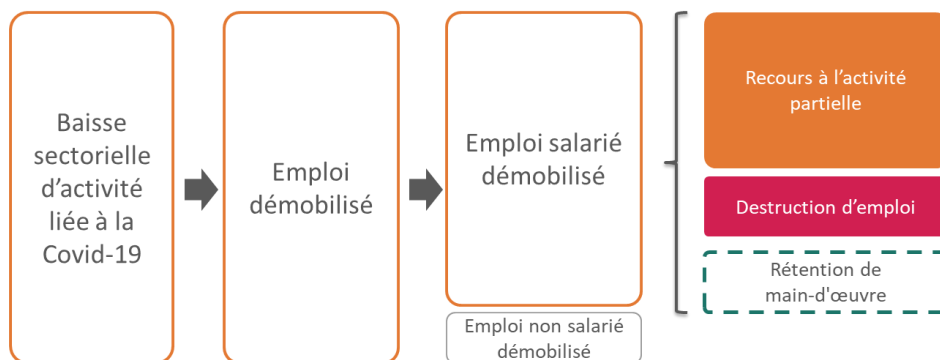
From growth to demobilized employment

Unédic's employment projections are based on sectorial estimates of the business. The sectorial business decreases are reflected in so-called "demobilized" jobs, i.e. jobs which are endangered by the slowdown of the activity which is being observed, on the assumption that the contraction of the added value threatens an equivalent portion of employment.

This assumption implies that productivity levels remain constant over 2020-2021: it is indeed too soon to know how teleworking, social distancing measures and the changes in the labour market, such as the breaking down between qualified jobs and non-qualified jobs have been impacting the productivity level since the beginning of the crisis.

The estimate of the "demobilized" employment thus estimated enables, once the portion of the employment covered by the partial activity mechanism has been deducted (*re. infra*), to determine what would be the employment level eventually destroyed in the following months as a result of the slowdown of the activity.

DIAGRAM 1 – FRAMEWORK OF ANALYSIS TO ESTIMATE THE DESTRUCTION OF JOBS

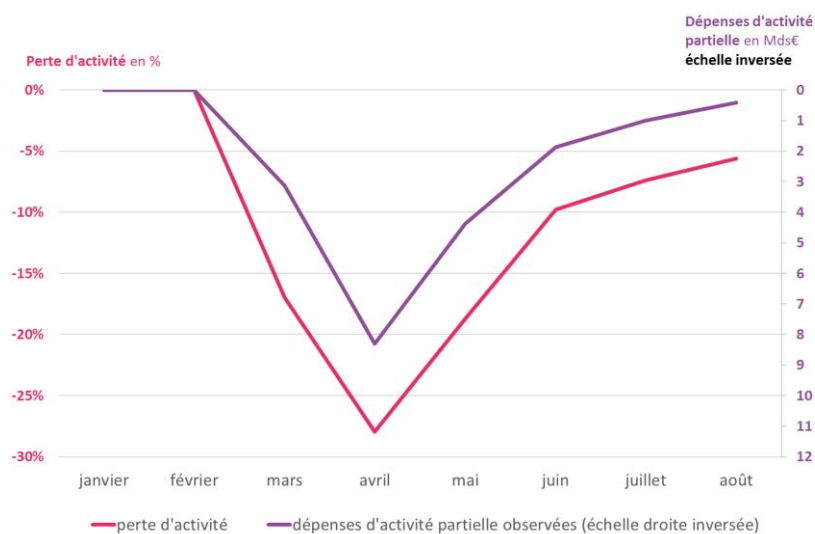


Source: Unédic

Furlough mechanism – “Activité Partielle”

The furlough mechanism has enabled to maintain the employment of a significant part of the employed population. Thus, the "demobilized" employment inferred from the slowdown of the activity was partially absorbed by this measure: more than 8 million of salaried employees were made to work partially in April. The use of the furlough mechanism gradually decreased starting in June due to the activity recovery and paid holidays of this summer (when a salaried employee takes his/her paid holidays, he/she does not receive benefits)³. **Thus, a strong correlation between economic activity and use of the furlough mechanism can be observed (Graph 3).**

GRAPH 3 – TRAJECTORY OF ADDED VALUE TRAJECTORY AND PARTIAL ACTIVITY EXPENSES BETWEEN JANUARY AND AUGUST 2020



Sources: Insee, for the GDP; ASP, for the partial activity expenses; calculations by Unédic.

Reading: for April, the activity decreased by 28 points compared to its 2019 level, the furlough expenses observed (source ASP) were then at their maximum, of EUR8.3 billion (State + Unédic).

For the end of 2020 and 2021, we consider that the use of the furlough mechanism, either the ordinary legal mechanism or the *Activité Partielle de Longue Durée* (APLD), should still be proportional to demobilized employment, that is to say that these furlough mechanisms should enable to cover a constant portion of the anticipated activity slowdown.

However, it is likely that certain companies which have been mobilizing the furlough mechanism for several months will gradually adjust their headcount by reducing the number of staff benefiting from more sustainable contracts, and that other companies which have been strongly using the partial activity mechanism over several months will end up going bankrupt because they are no longer able to pay their fixed costs (rent, insurance, electricity bills, etc.) (re. Box 1 on the forecast' sensitivity measures).

³ Unédic, "First assessment of the partial activity mechanism", September 2020.

Employment

The Insee noted 715,000 job destructions during the first semester of 2020. This adjustment of employment of an unprecedented scale is mainly due to a sharp drop of the recruitments during the lockdown period, which mainly reflected the **non-renewal of short-term contracts**. The prior to commencement of work declarations (*déclarations préalables à l'embauche* (DPAE)) for fixed-term contracts (CDD) of less than a month decreased by 62 % during the second semester of 2020 (year-on-year). In total, a decrease of more than 5 million of short-term contracts can be observed in the second semester 2020, compared to 2019⁴. Fixed-term employment (CDDs and interim assignments) is indeed the first to adjust downward in times of economic crisis, but also the first to rise again when the activity resumes. With respect to permanent contracts (CDI), recruitments dropped by 46 % during the second semester of 2020 (year-on-year)⁵.

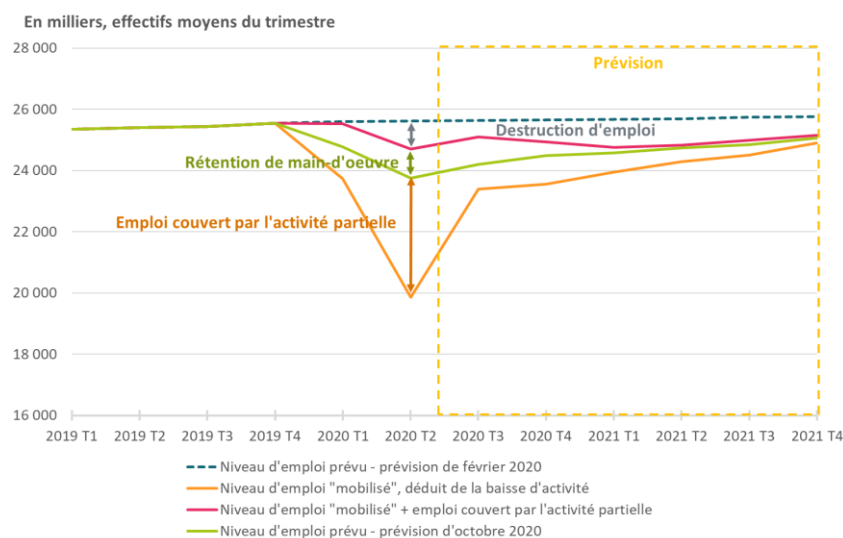
Since the end of the lockdown and because of the economic rebound at the end of the third quarter, the employment situation has been improving:

- ▶ **interim employment** gradually recovered without however reaching its pre-crisis level. Thus, at the end of August, the level of interim employment was 14 % below its level of February 2020, i.e. lower by 110,000 jobs⁶.
- ▶ **the recruitments under CDDs of one month and over** recovered their pre-crisis level (385,000 recruitments in CDDs in August⁷).

Labour retention

The slowdown of the activity during the months of March and April suggested a higher number of job destructions, even after having taken into account the use of the furlough mechanism. Indeed, in addition to the furlough mechanism, the various public mechanisms to support the economy, such as the payment deferral on contributions, the State guaranteed-loans and lastly the companies' cash reserves enabled the employers to maintain their salaried employees in employment during the months where the activity contraction was the strongest, so that the slowdown of the activity during the lockdown months did not entirely transformed into job destructions. However, this **labour retention** should gradually fade due to economic conditions which should continue to weigh in on the companies' cash. For this reason, we are making the assumption that **employment not covered by the furlough mechanism will be gradually destroyed** (on graph 4, the green and red lines should meet at the end of the first quarter 2021).

GRAPH 4 – FROM DEMOBILIZED EMPLOYMENT TO EMPLOYMENT DESTRUCTION: ZOOM ON 2020-2021



⁴ Over the scope of the DPAEs of less than one month and monthly assignment reports (*Relevés Mensuels de Mission* (RMM))

⁵ Source: Acoess, Déclarations Préalables à l'Embauche, Acoess stat. N°308, July 2020

⁶ Source: Dares, Monthly Assignment Reports (*Relevés Mensuels de Mission* (RMM)), October 2020

⁷ Source: Acoess, Prior to Commencement of Work Declarations (*Déclarations Préalables à l'Embauche*), August 2020

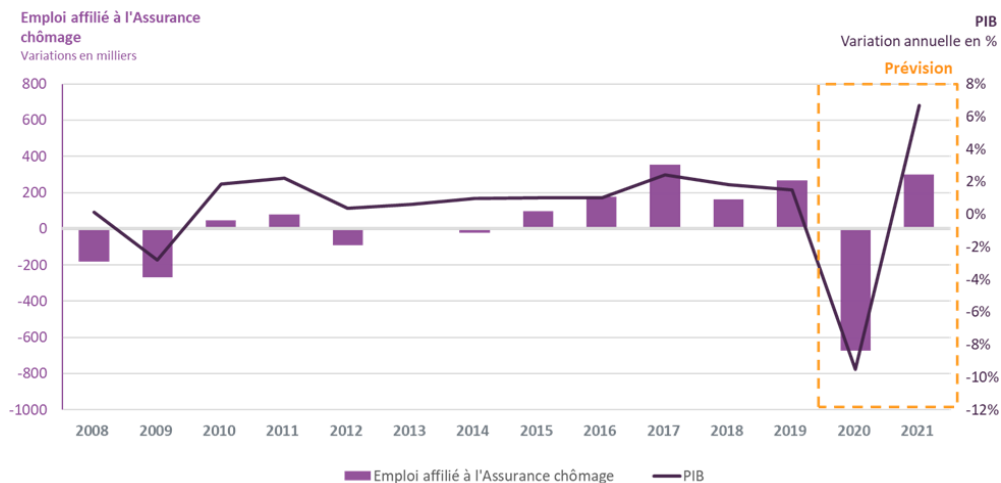
Source: Unédic forecasts

Thus, for 2020, after a pretty strong rebound of the economy and employment during the third quarter, salaried employment should decrease again during the fourth quarter, in line with the activity forecasts. In the end, **the destructions of salaried jobs should reach approximately 670,000 at the end of 2020, whilst 300,000 salaried jobs should be created in 2021** (year-to-year values) (Graph 5)⁸.

It should be noted that in this employment trajectory, we include **the anticipated impact of the emergency measures and Employment Recovery Plan** announced by the Government on 3 September 2020, mainly the premium for recruiting young people (*prime à l'embauche des jeunes*) and the assisted contracts (*contrats aidés*). According to the OFCE, these measures should enable the creation of 100,000 jobs over the 2020-2021 period⁹. It is noted that it is assumed that the impact of the Recovery Plan on the GDP is taken into account in the Consensus Economics October 2020 growth forecast on which is based Unédic's forecast.

GRAPH 5 – GROWTH AND EMPLOYMENT AFFILIATED TO THE UNEMPLOYMENT INSURANCE SYSTEM SINCE 2008

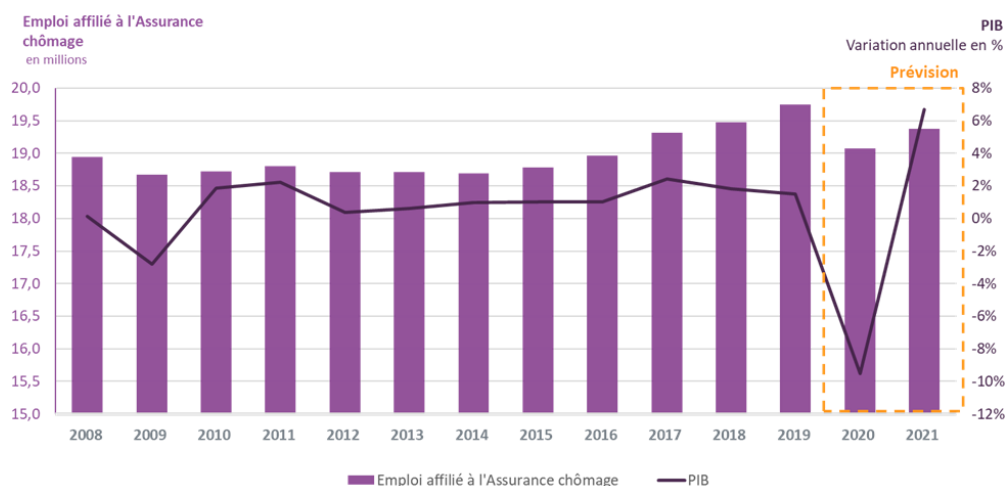
EMPLOYMENT IN ANNUAL VARIATION



EMPLOYMENT IN VALUE

⁸ Nevertheless, on average over the year, the employment level should deteriorate in 2020 (-370,000 jobs compared to the previous year) as well as in 2021 (-150,000 jobs).

⁹ The OFCE estimates that the measures to promote employment should enable to create 55,000 jobs at the end of the year 2020, and 45,000 additional jobs at the end of 2021 (Policy Brief of 14 October 2020).



Sources: GDP: Insee, Consensus Economics of October 2020; employment affiliated to the **Unemployment Insurance system**: Unédic's forecast on the basis of the salaried employment data coproduced by the Insee, the Acoess and the Dares, Unédic's forecasts. End of December year-on-year

Scope: employment affiliated to the **Unemployment Insurance system**. Whole of France. CVS data

Unemployment entitling to receive benefits

During the lockdown, the drying up of the short-term contracts rapidly resulted in an increase of the number of persons registered at Pôle emploi, with a net increase of 248,000 persons in ABC categories at the end of May compared to February 2020. As far as the **Unemployment Insurance system** is concerned:

- **the "initial" entitlements to the Unemployment Insurance system were higher:** whilst they tended to decrease at the beginning of the year (-13 % in January-February, over a year) as a result of the new conditions of registration (6 months v. 4 months of work), from March to May, their total number was close to that of the equivalent months of 2019 (-1 % over a year); conversely, the entitlements for refilling, which were also decreasing at the beginning of the year, came totally at a stop during the lockdown due to the emergency measure providing for the extension of the entitlements.
- **as to the exits from Unemployment Insurance system**, those due to the expiration of entitlements were very few from March to May and postponed to 1st June, as a result of the emergency measure providing for the extension of the entitlements between 1st March and 31 May and of the problems encountered by the people to find a job again.

Over these months of lockdown, **the beneficiaries were also generally less able to perform income-generating activities, due to the drying up of short-term contracts:** only a third of them were working in April and May, compared to nearly half of them during these same months of 2019.

The Unemployment Insurance system thus more largely covered the job seekers during the lockdown: at the end of May, 830,000 additional unemployed persons were receiving benefits compared to the end of February (+30 %, CVS data, source Pôle emploi-Dares), and the coverage rate (the portion of A, B, and C category jobseekers entitled to receive unemployment insurance benefits) increased by approximately 3 points year-on-year.

Post-lockdown, with the activity recovery, the registrations at Pôle emploi and exits from the lists reached back their pre-crisis level. Similarly, in July, the entitlements to receive unemployment insurance benefits seemed to get back to their pre-crisis tendency (-14 % year-on-year).

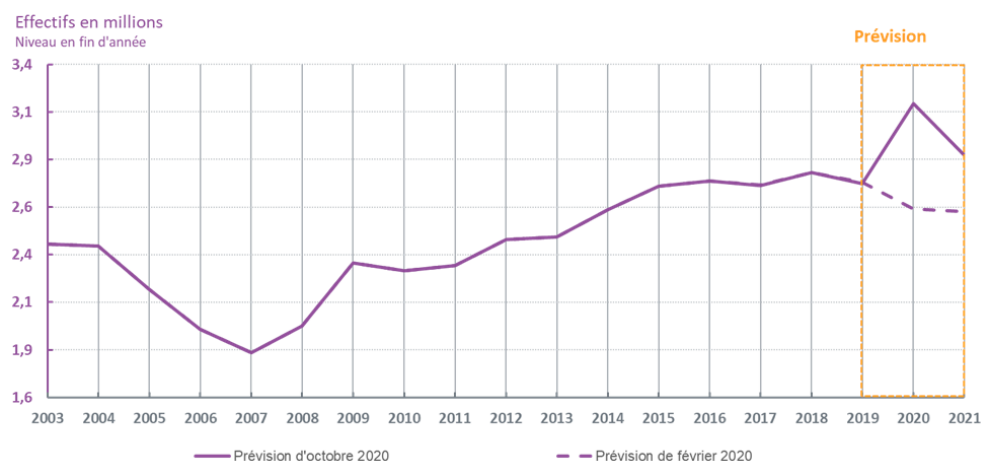
Also, the number of unemployed persons entitled to receive benefits has been stabilizing since June to a level close to that of pre-crisis (+1 % in July, year-on-year)¹⁰.

Since May, the beneficiaries' income-generating activity has been growing on two levels:

- ▶ **the portion of the beneficiaries who are working is rising.** It remains however lower by 5 points than its level of July 2019, i.e. 43 %;
- ▶ **the number of hours worked by the relevant beneficiaries is also rising,** getting back to the levels of 2019. Thus, 73 % of the relevant beneficiaries were working 75 hours or more in July, as one year ago.

In forecast, out of the 670,000 salaried jobs destructed in 2020, we estimate that 420,000 should be compensated by benefits under the Unemployment Insurance system. In 2021, the number of persons receiving benefits should decrease by 270,000 thanks to the new job creations, which would bring the number of unemployed persons receiving benefits to approximately 2.9 million at the end of 2021 (*Graph 6*).

GRAPH 6 – NUMBER OF UNEMPLOYED PERSONS RECEIVING BENEFITS UNDER THE UNEMPLOYMENT INSURANCE SYSTEM



Sources : Pôle emploi ; Unédic, Unédic forecasts

Scope: unemployment giving right to benefits under ARE, AREF, ASP, AREP and ATI. Whole of France. CVS data

Unemployment rate

The rise of 670,000 unemployed persons (in the sense of the International Labour Office) in 2020 and the creations of 300,000 jobs in 2021 should bring the unemployment rate at around 10.5 % at the end of 2020 and 9.6 % at the end of 2021. This estimate does not however take into account the "flexion effects", that is to say people durably leaving the workforce which we can nevertheless suppose are numerous with the impact of the Covid-19 crisis (for example, students who cannot enter the labour market and choose to pursue their studies or persons who have stopped actively searching for a job due to a lack of opportunities).

TABLE 2 – SYNTHESIS OF THE FORECAST MACRO-ECONOMIC ASSUMPTIONS

¹⁰ However, the number of unemployed persons who are not entitled to receive benefits is rising and amounts to +240 000 persons over a year an, i.e. +10 % (après +190 000 in June, i.e. +8 % on a year-on-year basis). Indeed, the expirations of entitlements to unemployment insurance benefits remain well more important than in 2019 (+40 % in July on a year-on-year basis) due to the deterioration of the labor market and the new conditions for recharging the entitlements to receive unemployment insurance benefits. As a result, with the stability of the number of unemployed persons entitled to receive benefits and the rise of the number of unemployed persons who are not entitled to receive benefits, the coverage rate of the Unemployment Insurance system continued to decline during the month of July: -2 points over a year in July (provisional data).

| | 2019 | 2020 Prévision | 2021 Prévision |
|---|-----------------|-------------------|-------------------|
| Croissance, Prix, Emploi, Salaire, Chômage <i>(évolution en moyenne annuelle)</i> | | | |
| PIB | +1,5% | -9,5% | +6,7% |
| Indice des prix à la consommation | 1,1% | 0,5% | 0,9% |
| Emploi affilié à l'Assurance chômage | 1,2% | -1,9% | -0,8% |
| Salaire moyen par tête (SMPT) dans le secteur concurrentiel | 1,6% | -5,7% | 6,4% |
| Masse salariale dans le secteur concurrentiel | 3,1% | -7,5% | 5,6% |
| Taux de chômage BIT (en fin d'année) | 8,1% | 10,5% | 9,6% |
| Chômeurs indemnisés par l'Assurance chômage (ARE, AREF, ASP, AREP, ATI) | +0,3% | +10,1% | +2,9% |
| Chômage (niveau en fin de période CVS) | | | |
| Emploi affilié à l'assurance chômage | 19 748 000 | 19 076 000 | 19 377 000 |
| Chômeurs indemnisés par l'assurance chômage (ARE, AREF, ASP) | 2 724 000 | 3 144 000 | 2 874 000 |
| Emploi, Chômage (variation sur la période) | | | |
| Emploi affilié à l'Assurance chômage | +268 000 | -672 000 | +302 000 |
| Chômeurs indemnisés par l'Assurance chômage (ARE, AREF, ASP, AREP, ATI) | -58 000 | +420 000 | -270 000 |

Sources: Insee, Pôle emploi, Dares, Acoess, Unédic forecasts of October 2020
Scope: Whole of France. CVS data.

B. Financial position 2020-2021

Expenses

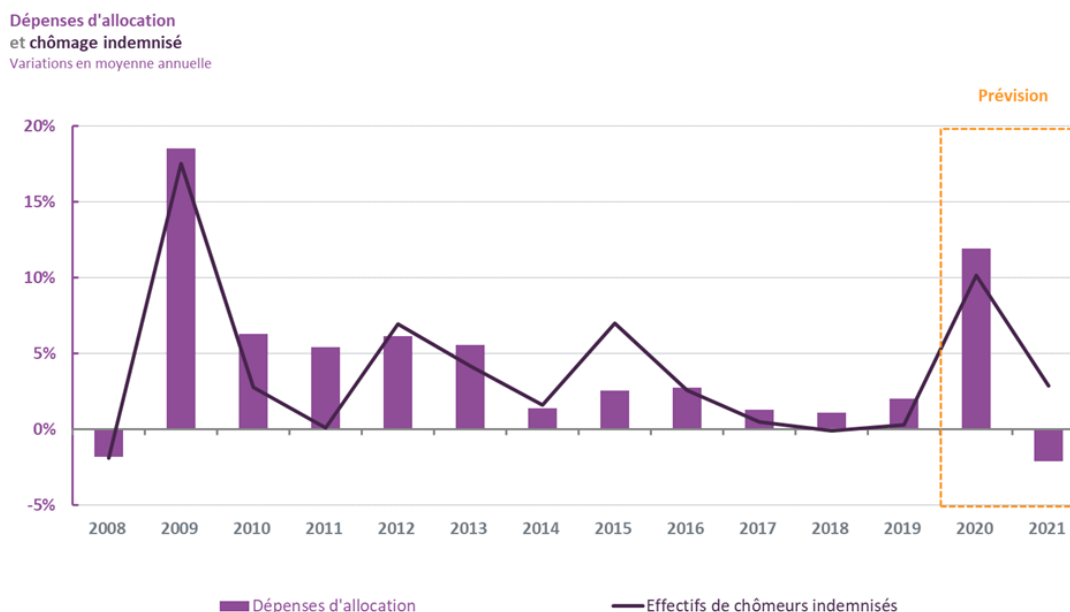
Unédic's forecast is always made assuming the regulation does not change: the forecasting exercise set out herein thus takes into account the reform of the unemployment insurance scheme as planned as at 1st January 2021. It also takes into account the additional costs incurred by the exceptional measures which were adopted in the spring: the extensions of the entitlements to receive benefits between March and June 2020, the "white year" for the entertainment workers, as well as the condition of the registration with the unemployment insurance scheme going from 6 to 4 months from 1st August to 31 December 2020.

The expenses of the scheme should increase in 2020 and 2021:

- ▶ **the expenses related to the furlough mechanism** borne by Unédic should represent EUR8.3 billion in 2020, compared to EUR0.05 billion anticipated before the crisis. They should reach EUR3.2 billion in 2021 (*Table 3*).
- ▶ **the expenses related to the payment of the unemployment insurance benefits** (including the emergency measures) should increase by EUR4.1 billion in 2020 compared to 2019, and should reach EUR39.1 billion in 2020 and then EUR38.4 billion in 2021, as a result of the combined impact of the job destructions and of the reform of the unemployment insurance rules expected on 1st January 2021 (*Graph 7*).

In total, over 2020, Unédic's expenses should come close to EUR54.2 billion, i.e. a 32 % increase compared to 2019. The 2021 expenses should reach EUR48.8 billion (*Table 3*).

GRAPH 7 – EVOLUTION OF UNEMPLOYMENT ENTITLING TO RECEIVE BENEFITS AND OF THE EXPENSES RELATED TO THE PAYMENT OF UNEMPLOYMENT BENEFITS



Sources: Pôle emploi, Unédic, Unédic forecasts

Scope: unemployment indemnified in ARE, AREF, ASP, AREP and ATI, whole of France. CVS data

Revenues

Unédic's revenues underwent strong decreases over the last months, which will have implications in 2020 and 2021.

- ▶ Between March and August 2020, the payment **deferral of salaried persons' unemployment contributions** (employers' contributions and *CSG activité* on business revenues), net of the first repayments represented more than EU2.2 billion, i.e. 3 % of Unédic's annual revenues. By the end of the year, EURO.7 billion should be recovered, of which EURO.5 billion resulting from offsetting the exonerations and assistance to the payment of contributions granted by the third corrective finance law of July 2020. We make the assumption that half of the remaining amount to be recovered at the end of 2020 with respect to these payment deferrals of the contributions should be repaid during 2021 (i.e. approximatively EURO.3 billion). The remaining amounts should be recovered after that or should never be recovered.
- ▶ Considering the **deferrals of *CSG activité* for the independent workers** for the months of March to August 2020, and the contribution recovery facilities granted by the Urssaf (contributions 2020 calculated on the basis of 50 % of the 2019 revenue), the remaining amount to be recovered under the payment deferrals of the contributions as at the end of 2020 should represent EURO.9 billion. We make the assumption that half of the remaining amount to be recovered at the end of 2020 should be recovered in 2021 (i.e. approximatively EURO.5 billion).
- ▶ As a result of the **slowdown of the activity**, and as a consequence of the slowdown of salaried employment, the total payroll subject to the unemployment contributions (employers' contribution and *CSG activité*) is decreasing. Moreover, the benefits related to furlough or sick pay which came to replace the usual remuneration are not subject to the employers' Unemployment Insurance contributions and to the *CSG* on the activity revenues which are the main revenues of the scheme. In the end, these **shortfalls (excluding payment deferral on the contributions)** should represent EUR3.0 billion over 2020, of which EUR1.9 billion related to the furlough mechanism.

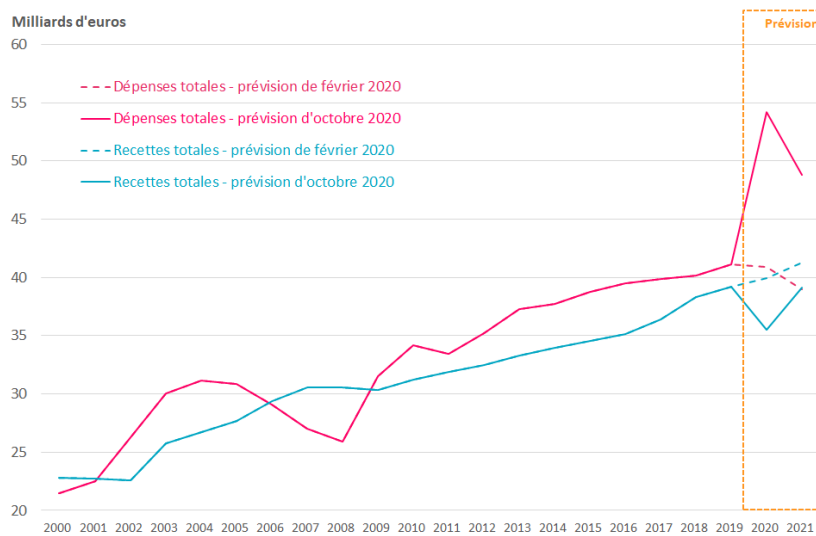
In total, over the year 2020, the revenues of the unemployment insurance scheme should reach EUR35.5 billion, i.e. an historical decrease of 10 % compared to the previous year. It should increase again next year and should reach EUR39.1 billion in 2021, a level close to that observed in 2019 (Table 3).

TABLE 3 – UNEDIC'S EXPENSES AND REVENUES FOR 2019, 2020 AND 2021

| En milliards d'euros, au 31 décembre | 2019 | 2020 Prévision | 2021 Prévision | Variations 19/20 | Variations 20/21 | Variations (%) 19/20 | Variations (%) 20/21 |
|--|--------------|-------------------|-------------------|---------------------|---------------------|-------------------------|-------------------------|
| Recettes | 39,2 | 35,5 | 39,1 | -3,7 | +3,7 | -10% | +10% |
| Contributions d'Assurance chômage | 38,6 | 35,0 | 38,5 | -3,6 | +3,5 | -9% | +10% |
| dont contributions principales | 25,5 | 22,2 | 23,8 | -3,2 | +1,6 | -13% | +7% |
| dont impositions de toutes natures (CSG) | 13,2 | 12,8 | 14,6 | -0,4 | +1,8 | -3% | +14% |
| Autres recettes | 0,6 | 0,5 | 0,7 | -0,1 | +0,2 | -20% | +44% |
| Dépenses | 41,1 | 54,2 | 48,8 | +13,0 | -5,4 | +32% | -10% |
| Allocations brutes | 35,0 | 39,1 | 38,4 | +4,1 | -0,8 | +12% | -2% |
| Activité partielle | 0,04 | 8,3 | 3,2 | +8,3 | -5,1 | | |
| Caisses de retraite | 2,2 | 2,3 | 2,4 | +0,1 | +0,2 | +6% | +7% |
| Autres dépenses | 3,9 | 4,5 | 4,8 | +0,5 | +0,3 | +13% | +6% |
| dont financement Pôle emploi | 3,5 | 4,1 | 4,3 | +0,6 | +0,2 | +16% | +5% |
| dont charges d'intérêt de la dette | 0,3 | 0,3 | 0,4 | -0,0 | +0,1 | -5% | +21% |
| Solde financier | -1,9 | -18,7 | -9,7 | | | | |
| Endettement net bancaire | -36,8 | -55,5 | -65,2 | -18,7 | -9,7 | +51% | +17% |

Source: Unédic, Unédic forecasts.

GRAPH 8 – EXPENSES AND REVENUES OF THE UNEMPLOYMENT INSURANCE SCHEME SINCE 2008



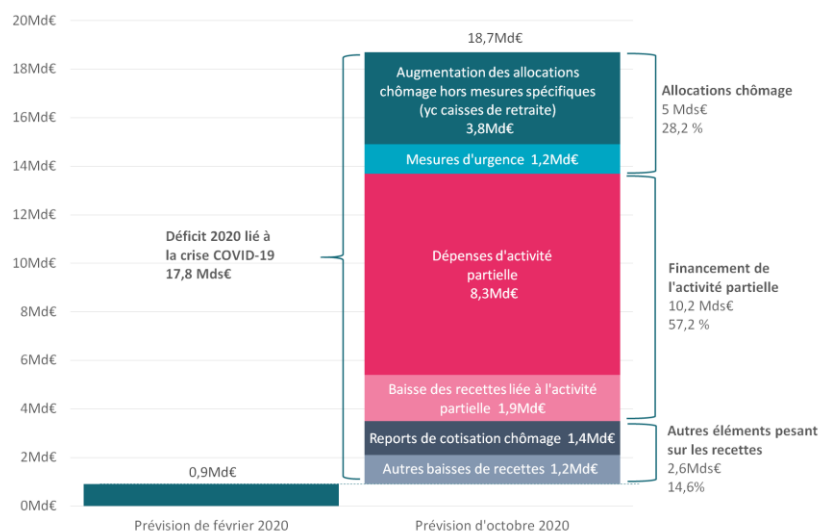
Source: Unédic, Unédic forecasts

Financial balance

In the end, **Unédic's annual deficit should amount to EUR18.7 billion at the end of 2020**, of which EUR17.8 billion should be related to the sanitary crisis, because the February 2020 forecast anticipated a 2020 deficit of EUR0.9 billion (*Graph 9*).

The deficit related to the sanitary crisis in 2020 (EUR17.8 billion) mainly results from three factors. It comes at **57.2 % from the funding of the furlough mechanism (EUR10.2 billion, of which EUR8.3 billion of expenses and EUR1.9 billion of reduction of revenues)**, at **28.2 % from the unemployment insurance benefits (EUR5.0 billion, of which EUR3.8 billion in additional benefit expenses and EUR1.2 billion to pay for emergency measures – deferral of the reform rules which should apply in 2020, "white year" for the entertainment workers, extension of the expirations of the entitlements to receive benefits during the lockdown period and lastly, at 14.6 % from the other consequences on the revenues (EUR1.2bn from weaker activity and EUR 1.4bn from payment deferrals on the contributions).**

GRAPH 9 – BREAKING DOWN OF THE INCREASE OF THE 2020 DEFICIT DUE TO THE COVID CRISIS



Source: Unédic, prévisions Unédic

Although lower, the deficit of the scheme should remain significant in 2021 and should reach -EUR9.7 billion at the end of the year (Graph 10). The debt should reach EUR55.5 billion at the end of 2020 and then EUR65.2 billion at the end of 2021 (Graph 11). The margin of uncertainty concerning the amounts of the deficit and debt related to the level of activity and use of the furlough mechanism is in the range of EUR2 billion (Box 1).

Managing the debt

To secure the funding of the scheme, Unédic has been adapting the dimensioning of its issuances for the last few months. In order to respond to the emergency measures, four mid-term social bonds were successfully issued which enabled to raise EUR13 billion and secure the mid-term funding. Also, each year, the State grants to Unédic's bond issues the **explicit guarantee** for a fixed amount. The State guarantee over the year 2020 reached EUR15 billion, and EUR10 billion are planned in 2021 to cover the repayment of bonds reaching their maturity date, as well as the funding needs of the unemployment insurance scheme for 2021.

However, the **charge of the debt interest** remains low for the scheme: it should remain at EUR0.3 billion for 2020 and reach EUR0.4 billion in 2021.

Box 1 – Sensitivity measures and hazards surrounding the estimate

Various assumptions and hazards surround the forecasting exercise, the main ones are the following.

Sensitivity to the GDP trajectory

The main variability of the unemployment insurance forecast comes from the GDP trajectory, growth having indeed an impact on its revenues as well as on the expenses of the scheme (furlough-related expenses and expenses related to unemployment entitling to receive benefits notably). A decrease of 1 GDP point in 2021 would result in an additional deficit of approximately EUR1.35 billion.

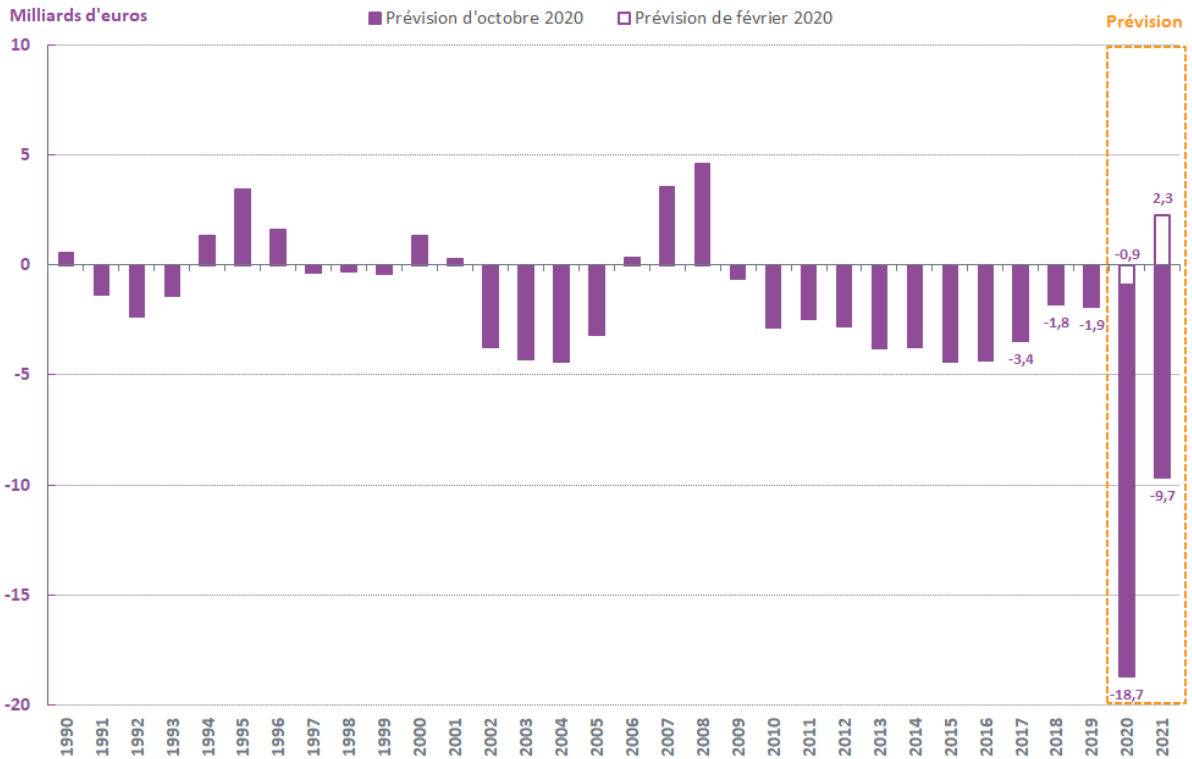
Sensitivity to the use of the furlough mechanism

For the end of 2020 and 2021, we made the assumption that the use of the ordinary legal furlough mechanism and of the APLD would be proportional to the demobilized employment, i.e. that these furlough mechanisms should enable to cover a constant portion of the anticipated loss of business, like what we have been observing since March. It is likely that part of the companies will have to lay-off or will go bankrupt during 2021. Should the use of the furlough mechanism gradually decline by half compared to the rate observed in average between May and August 2020, Unédic's deficit would deteriorate by EUR0.6 billion, as a result of a decrease of the financing of the furlough mechanism of EUR0.9 billion (Unédic's portion) and an increase of EUR1.6 billion of the unemployment benefit expenses. It should be noted that in aggregate, taking into account the State's funding share, the total furlough mechanism-related expenses (State + Unédic) should decrease by EUR2.7 billion.

Time limit to file the benefit requests under the furlough mechanism

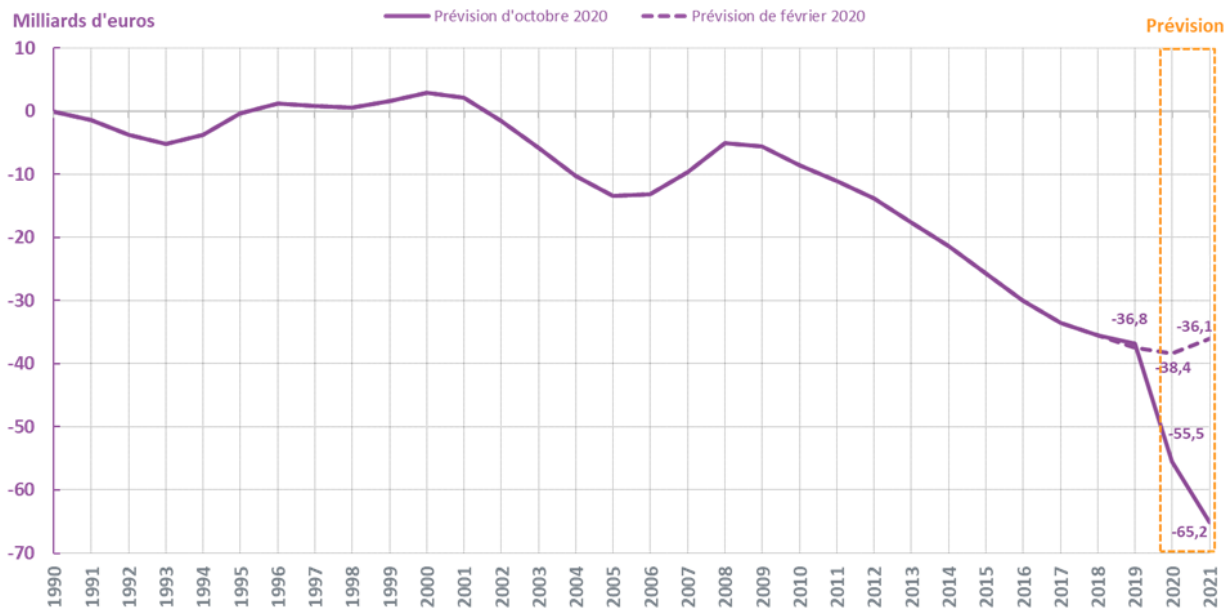
Companies have one year to submit their request for receiving benefits under the furlough mechanism after the filing of a prior furlough authorisation request. The data observed as at the end of September still show expenses related to the first months during which the mechanism was used. Yet, the estimate of the furlough mechanism set out in this memo does not take into account the potential delays in filing the requests for receiving benefits. Therefore, in terms of cash, there exists a risk of overestimating the expenses incurred in 2020 in the range of EUR1 billion.

GRAPH 10 – CASH BALANCE OF THE UNEMPLOYMENT INSURANCE SCHEME UNTIL THE END OF 2021



Source: Unédic, Unédic forecasts

GRAPH 11 – INDEBTEDNESS OF THE UNEMPLOYMENT INSURANCE SCHEME UNTIL THE END OF 2021



Source: Unédic, Unédic forecasts

Box 2 – What are the revisions compared to the 2020 June estimate?

The June forecast was conducted in an exceptional uncertainty context, where the growth and employment estimates were based on the Insee' flash estimates of the economy and on our first assessments *ex ante* of the furlough. Last 18 June, Unédic thus anticipated a 2020 deficit around EUR25.7 billion. We estimate today that it should amount to EUR18.7 billion. Where does this difference come from?

The main factor is the improvement of the level of activity during the second and third quarters of 2020. Unédic's June 2020 forecast was based on a 2020 growth estimate of -11.2 %, which was that of numerous institutes, and was based on the Insee's first assessments of the loss of business during the lockdown. Since then, the GDP has been strongly revised upward by the Insee over the second quarter, and the Banque de France and Insee' short-term indicators show an improvement which should continue during the third quarter. We had observed at the time that the sole variation of 1.5 point of GDP compared to the assumption retained would enable to save approximately EUR2 billion at the end of 2020 (through the expenses related to the furlough mechanism and to the unemployment benefits, and also through the shortfalls in revenues). But the anticipated GDP improvement for 2020 is of 2.2 pts. We can therefore consider that the recovery of the economic environment solely explains the gap of nearly EUR3.4 billion (broken down into additional revenues and lower expenses related to the furlough mechanism and unemployment benefits).

Also, the payment deferrals on the contributions seem to have been less important than anticipated by the Acofin in the spring: nearly EUR1.1 billion should be recovered in 2020 compared to what was anticipated in our June estimate. Indeed, in the June estimate, we estimated that the companies' contribution deferral rate was close to 30 % based on the companies' returns as at the end of May. Since then, this deferral rate has been revised downward as a portion of the contributions have started to be repaid. Also, a portion of these deferrals should be recovered in 2020 as the contribution exonerations confirmed in the third corrective finance law, estimated at nearly EUR0.5 billion, will be fully paid to Unédic.

Lastly, the first estimates of the cost of the furlough mechanism based on the consumption observed with a little bit of hindsight for the lockdown months of March and April overestimated the expenses by approximately EUR0.7 billion over the year.

The rest of the differences can be attributed to revisions of other positions: the estimate of the expenses resulting from the benefits paid to individuals combining employment/unemployment, the assessments *ex ante* of measures specific to the entertainment workers based on slower activity recovery assumptions, the additional pension-related expenses and the benefits paid to the independent and resigning workers.