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French elections – New government will be difficult to form

In the second round of the parliamentary elections in France, the left-wing alliance "New Popular Front" surprisingly won the most seats, followed by the alliance of parties supporting President Macron. The right-wing party (RN), which was favored in the polls, only came third. None of the alliances reached a majority in parliament, so forming a government is likely to be difficult. A left-wing government would therefore only be able to implement a few of its promises. However, the already high budget deficits are likely to increase, and new conflicts are looming at EU level due to the anti-EU stance of part of the New Popular Front.

Le Pen's party only No. 3...

The second round of the parliamentary elections in France has a surprising winner in the form of the left-wing alliance. The "New Popular Front", which only formed a few weeks ago, won 182 of the 577 seats in the National Assembly. Macron's coalition did better than feared and still has 168 seats, while the Rassemblement National (RN) has 143 seats (Chart 1).

The reason for the surprising result is the tactical behavior of the left and center parties. They wanted to prevent the RN from winning at all costs and therefore withdrew their less promising candidates in order to increase the chances of the remaining candidate being elected (the French version of the German "firewall"). At 59.7%, voter turnout was significantly higher than in 2022 (38.1%), which probably hurt the RN. Even though the RN fell well short of its election target of an absolute majority, it significantly increased its number of seats in parliament (2022: 89 seats).

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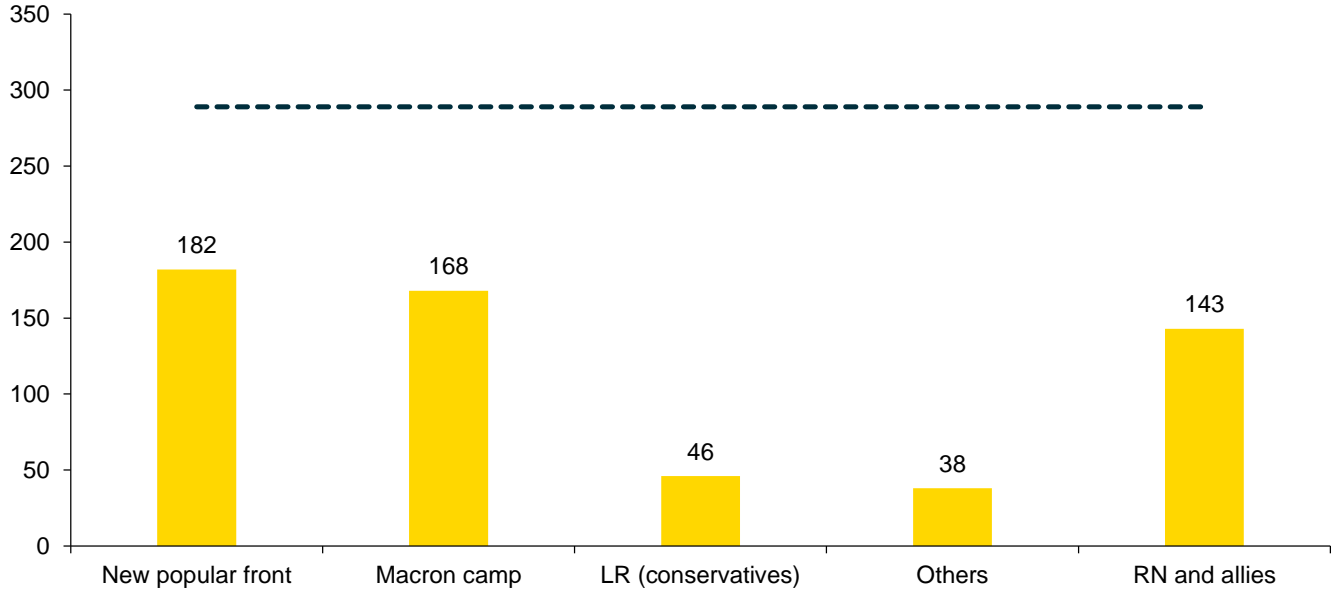
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Chart 1 - French parliament without a clear majority

Distribution of seats in the French National Assembly. Absolute majority: 289 seats



Source: Le Monde, Reuters, Commerzbank Research

...none of the blocs is within reach of a majority

The majority in parliament is 289 seats. None of the three major blocs even come close. It is also questionable how stable the New Popular Front is. This is made up of 74 seats for LFI (the far-left party of Jean-Luc Mélenchon) with 74 seats, the Socialists (59 seats), the Greens (28 seats) and the Communists (9 seats).

It might be difficult to form a government

Prime Minister Attal wants to hand in his resignation today, but President Macron might not accept it immediately. Attal could remain in his post for a transitional period.

It is currently difficult to predict who will succeed him. But one thing is certain: it will be difficult to form a stable and effective government. The prime minister is appointed by the president and not elected by parliament. However, he can be overthrown by parliament at any time by a vote of no confidence. Which camp the prime minister will come from will probably also depend on whether the New People's Front can agree on a candidate despite major internal differences of opinion. If this candidate is one of the more moderate forces, President Macron is unlikely to be able to avoid appointing him or her. However, the incoming prime minister would be dependent on the toleration of the Macron camp and perhaps even the Republicans (LR), who could topple him at any time together with the RN in a vote of no confidence.

New popular front: Promises, promises, ...

Under these conditions, the New Popular Front is unlikely to be able to implement many of its election promises, some of which are very expensive. For the first 15 days after coming to power, it had already announced many costly measures such as the reversal of the pension reform, an increase in pensions, housing benefit increases, price guarantees for farmers and a freeze on energy and food prices. The Montaigne Institute estimates the cost of the latter alone at 24 billion euros per year, which corresponds to just under 1% of gross domestic product.

For the next 100 days, tax increases for higher incomes and assets, an expansion of public services and support for energy measures have been announced, among other things. The Popular Front itself has estimated the costs of its measures in the first two years at a total of 125 billion euros. In addition, these measures would certainly have a noticeable impact on France's competitiveness as a business location, meaning that the chances of a revival in the economy would be reduced, with a corresponding impact on public finances.

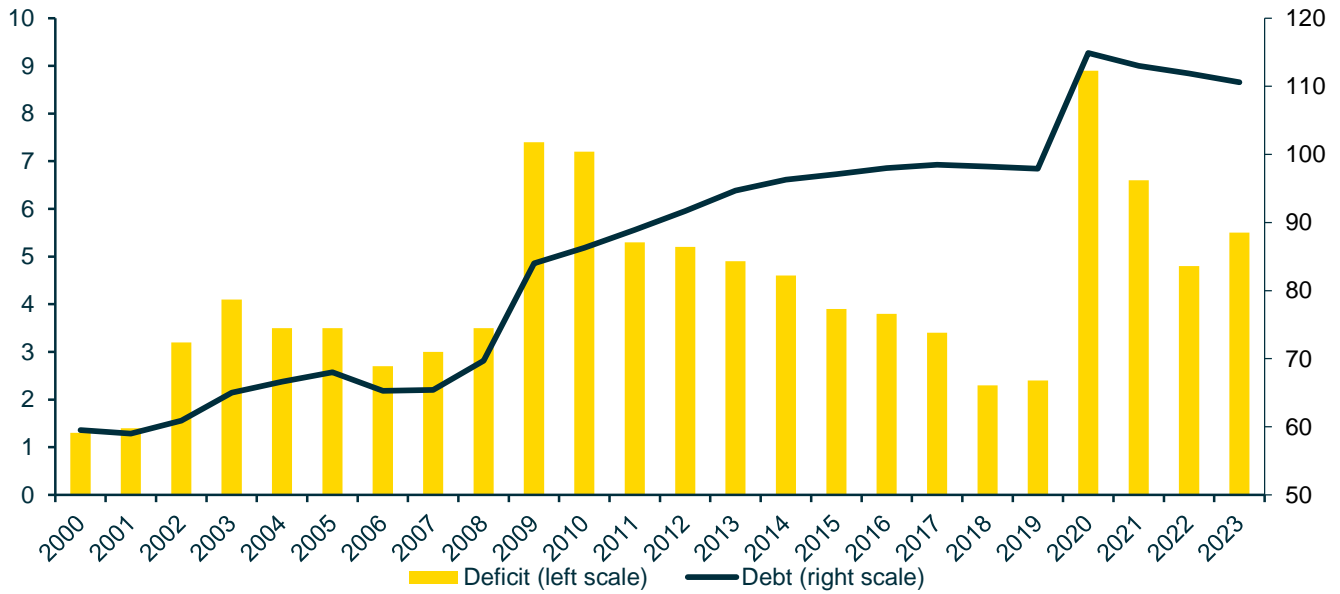
... but most of them will probably not be realized, ...



A left-wing government supported by the Macron camp is likely to implement only a few of these demands. However, the already high deficit in the national budget is likely to increase further (Chart 2). The necessary consolidation of public finances is unlikely to be tackled by such an unstable government. A blockade in the French parliament can therefore not be completely ruled out. However, the President will not be able to dissolve the National Assembly for at least another year.

Chart 2 - France: not much fiscal space for expensive programs

French government debt and deficit ratios, in % of GDP, annual data



Source: Eurostat, Commerzbank Research

... and cooperation within the EU will also not become easier

The LFI is very critical of the EU and party leader Mélenchon makes no secret of his negative attitude towards Germany. On the other side of the political spectrum, the same applies to the RN. This is likely to make cooperation within the EU more difficult. In extreme cases, there is a risk of stagnation here too.



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