



France is heading to the polls – and then?

The parliamentary elections in France are likely to significantly shift the balance of power. However, a crisis is only to be expected in the unlikely event of a victory for the left-wing alliance, as the national budget would become even more precarious if their numerous election promises were implemented. A majority for the right-wing populists could lead to conflicts at EU level, but hardly to a debt crisis. This is because the party will probably primarily aim to win the upcoming presidential elections in three years' time. However, even in this scenario, as well as in the event of a stalemate or even a very unlikely victory for Macron's alliance, it is unlikely that public finances will be consolidated.

| Dr. Ralph Solveen

Polls expect significant gains for Le Pen's party, ...

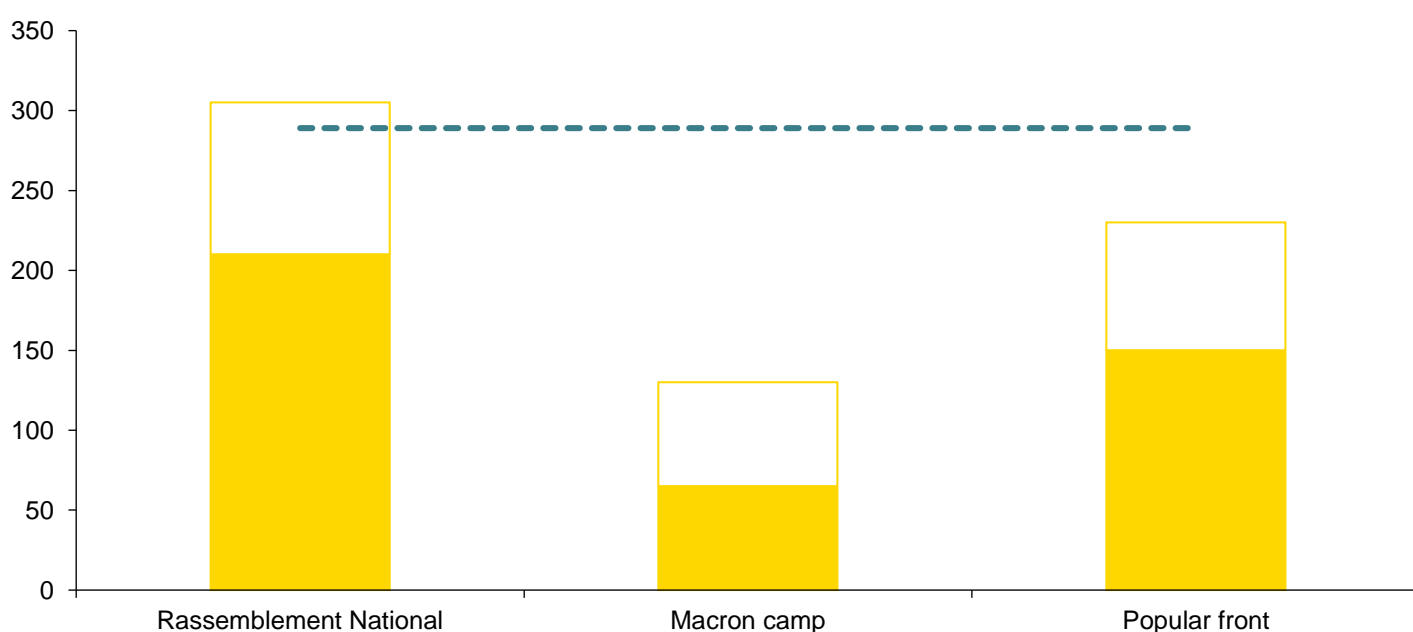
Will the French parliamentary elections over the next two weekends trigger a political earthquake? At the very least, the balance of power in parliament is likely to shift noticeably. According to the polls, both the right-wing populists and the left-wing "New Popular Front" will receive significantly more votes than in the last elections two years ago. In contrast, the parties that have supported President Macron's policies in recent years will lose significant ground (see title chart).

... but is it enough for a majority?

Due to the majority voting system, forecasts for the distribution of seats in parliament are very uncertain. However, it is almost certain that Macron's camp will not have an absolute majority. The left-wing alliance also seems a long way from a majority. On the other hand, Le Pen's Rassemblement National (RN) could come quite close to a majority, although the polls and the projections derived from them for the distribution of seats in parliament suggest that they will ultimately fall short of this target (Chart 1).

Chart 1 - Le Pen's party scratches at the absolute majority

Range of forecasts by 5 opinion poll institutes for the number of seats held by the three alliances/parties; dashed line indicates absolute majority of 289 seats; RN: including the parts of the Republicans who want to cooperate with RN



Source: Wikipedia, Commerzbank Research

Promises, promises, ...

Should the RN actually win a majority and thus become head of government, France's course would certainly change in many areas, although the demands in the election program are rather moderate compared to previous elections. Like the other major groupings,



the RN divides its objectives into three groups: Ad hoc measures for the first few days, initial reforms for the fall and longer-term projects.

The first group includes some measures to alleviate the shortage of staff in the healthcare system and a lower VAT rate on energy, although the announced reduction in the tax rate on heating oil from 20% to 5.5% contradicts EU rules, which stipulate a lower limit of 15%. A reform of unemployment insurance, which is not described in detail in the program, and the withdrawal from the European price-setting mechanism on the electricity market are also announced. Apparently, there is to be a price brake for electricity, as approved by the EU for Spain and Portugal.

The "period of reforms" is set to begin in the fall with the adoption of the budget. In the area of economic policy, tax relief for families, young professionals and start-ups, a reduction in production tax (a profit-independent company tax) and greater support for agriculture are among the measures mentioned. In addition, wage increases of up to 10% for incomes of up to around EUR 5,000 are to be exempt from employer social security contributions.

The long-standing demand for a reversal of Macron's pension reform has been pushed into the background. It does not feature prominently in the election manifesto and, according to the RN lead candidate, the retirement age should initially only be lowered again to 60 for those who have worked for more than 40 years.

Nevertheless, implementing the announcements made in the election program would further increase the already high budget deficit. The [Montaigne Institute](#) estimates the cost of the lower VAT on energy alone at more than 11 billion euros per year. While this measure is apparently "set", many others appear to be subject to a financing proviso. For example, a comprehensive audit is to be carried out immediately after the government takes office. Experience with similar announcements (not only in France) suggests that the result will be "catastrophic", which could justify the postponement of many promises. For example, the RN lead candidate Bardella has already justified the more cautious pension plans with the state's tight financial situation.

... presidential election 2027 as the true objective?

One explanation for the cautious announcements may be that the party's real goal is the presidential elections due in 2027, which Marine Le Pen would lose if an unchecked increase in the budget deficit were to trigger turbulence on the financial markets. It can therefore be assumed that an RN government would primarily try to make a name for itself in other policy areas such as immigration. There are also likely to be more open conflicts at EU level. For example, the RN wants to give preference to French companies in tenders, make the Schengen regulations apply only to EU citizens, reduce France's payments to the EU and block further free trade agreements. The proposed special rules for the electricity market will also meet with resistance from other EU countries.

Rather unlikely: majority for the "New Popular Front"

A significantly greater increase in the deficit would be imminent if the "New Popular Front" came to power. The parties of the left-wing spectrum came together surprisingly quickly to form this coalition. The name is reminiscent of a left-wing government coalition shortly before the Second World War and is probably intended to show that the merger is primarily directed against the strengthening of the RN.

The "New Popular Front" also divides its election program into three phases: Many costly measures such as the reversal of the pension reform, an increase in pensions, housing benefit increases, price guarantees for farmers and the freezing of prices for energy and food are already announced for the first 15 days of a Popular Front government. The Montaigne Institute estimates the cost of the latter alone at 24 billion euros per year (c. 1% of GDP).

For the next 100 days, tax increases for higher incomes and wealth, an expansion of public services and support for energy measures are among the measures announced. The Popular Front itself estimates the cost of its measures at 125 billion euros in total in the first two years. In addition, these measures would certainly have a noticeable negative impact on France's competitiveness as a business location, meaning that the chances of a revival of the economy would be reduced, with a corresponding impact on public finances. However, the Popular Front is also questioning the extent to which these measures would actually be implemented. This is all the more true as a coalition of these parties would probably be very unstable from the outset. There are fundamental differences of opinion on issues such as the war in Ukraine and the Gaza conflict, particularly in foreign policy.

And if Macron pulls off the miracle?

From today's perspective, the most unlikely scenario is that President Macron will achieve his goal and that the parties supporting him will at least be the dominant force in the new parliament and that they will be able to form the government with the support of other moderate forces such as the Socialists and the Republicans. The policies of such a government would probably also be primarily geared towards the presidential elections in 2027. Although no radical measures would therefore be expected, particularly in the



event of a Popular Front victory, further reforms are unlikely. A thorough consolidation of the budget would also be unlikely in this constellation. On the contrary, the Macron camp's program also promises some additional spending. The Montaigne Institute estimates the annual costs of three of the announced measures at almost EUR 7 billion.

The most likely scenario: mutual blockade

According to the polls, the RN is likely to become the strongest force, but will probably fall short of a majority in the end despite the potential support of some Republicans. An absolute majority for the Popular Front is even less likely; this is practically out of the question for the Macron camp. Some are therefore already talking about a kind of "technocratic government", as has been the case in Italy in recent years under Mario Monti or Mario Draghi. Unlike in Italy, however, such a government could hardly rely on the cooperation of the major party blocs. There would therefore be just as little progress on France's structural problems over the next three years as there would be budget consolidation. In fact, a further increase in the deficit would be more likely, as the parties would be most likely to agree on higher spending.

Conclusion: crisis unlikely, ...

All in all, a radical shift in fiscal policy towards a very expansive fiscal policy is unlikely, as at best the RN and not the Popular Front has a chance of winning a parliamentary majority. Instead, the deficit is likely to remain at its current high level and, adjusted for economic influences, even increase. The markets are likely to largely tolerate this because the ECB would intervene if the worst came to the worst.

... but weaknesses of the monetary union are becoming increasingly visible

At the same time, the election result in France will highlight the weaknesses of the monetary union. This is because it will show that in many countries the will to cooperate, which is necessary for the functioning of a monetary union without political union, is increasingly being called into question. Finally, both the RN and the Popular Front also reject the new - recently relaxed - rules of the Stability Pact. In the end, the ECB will be forced further and further into the role of the cleaner, which will slow it down in the fight against inflation and thus ensure more inflation in the long term (see also [here](#)).



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In accordance with ESMA MAR requirements this report was completed 28/6/2024 07:26 CEST and disseminated 28/6/2024 07:26 CEST.

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