



France: 2024 election programmes and fiscal trajectory

In this short note, we update our latest thinking of the evolving French snap election, summarise the main economic programmes and provide some simple scenarios for fiscal dynamics.

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Polls and latest political developments

Institutional set-up

The election of MPs happens in two rounds in France. In the first round (taking place on 30 June) typically up to 10 to 15 candidates are listed in each constituency, only those who obtain more than 12.5% of registered voters support at the first round qualify for the second round (on 7 July). The candidate that obtains the largest number of votes in the second round wins the seat.

It is not uncommon for 3 to 4 candidates to make it into the second round. This makes the outcome of the National Assembly election particularly uncertain. Historically, centrist parties have implicitly coordinated to prevent the election of a far-right candidate. The mechanism is for the centrist candidate with least chances of winning in the second round dropping out of the race. Understanding how parties will ask their candidates to behave in such situations will be crucial in the coming weeks.

To the best of our understanding, new elections cannot be called for another 12 months after a snap election is called by the President.

Following the second-round of the election on 7 July, the President nominates a PM who is in charge of forming a government. The PM would then speak in front of the lower house but does not have to ask for the confidence of the lower house.

A vote of no-confidence can be called at any time by 10% of MPs. To bring the government down, an absolute majority (i.e. 289 votes) of No must be reached. This means that anyone abstaining is implicitly supporting the government. A PM that loses a vote of no-confidence would have to resign to the President who nominates a new PM (could be the same person).

Latest polls

The unusual situation means that there is large uncertainty for pollsters when map from initial first-round support to second-round seat allocations. It remains particularly difficult to anticipate voter choices between first and second round as well as the transfer of votes from candidates who don't make the second round. This is particularly complex given that a higher turnout would make it easier for candidates to qualify for the second round (more than 12.5% of registered voters support needed), increasing the number of three-candidate races in the second round.

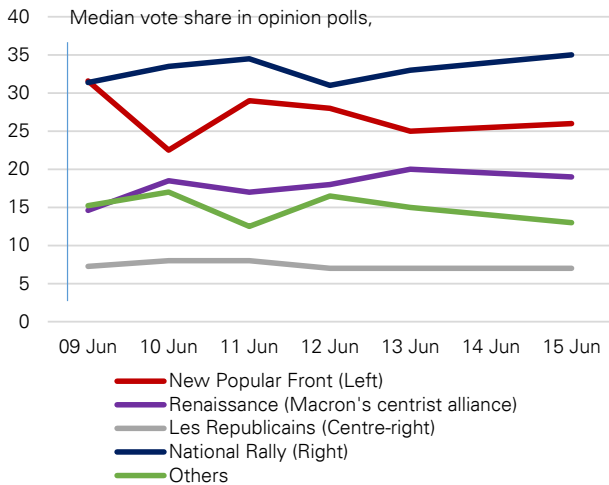
Polls currently show that no clear majority would emerge with a base case likely to be a minority government from either the RN or Left bloc, implicitly supported by more mainstream MPs (respectively centre-right LR or Macron's centrist party). Understanding what combinations of parties reach the absolute majority on 7 July would be key to get a sense of what the ultimate government formation and support would ultimately be. It is also important that while government formation may take time, Macron might chose to rely on some special powers given by the Constitution to ensure that a functioning government is in place for the Olympic games this Summer.

Our base case is currently to expect some sort of political paralysis following the second round of the election. Any minority government emerging would likely do some fiscal spending but abstain from pushing for the most expensive plans in the latest manifesto. We would not expect much if any fiscal tightening in that scenario.



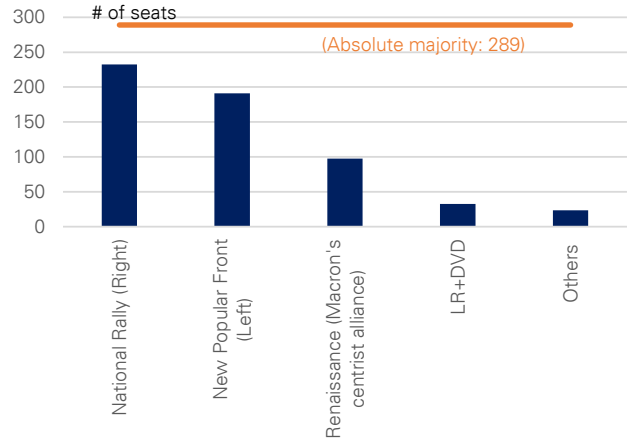
We expect the European Commission to put France under an Excessive Deficit Procedure this Summer. As a reminder, as long as a member state is deemed compliant with the fiscal recommendations made to it under an EDP, it remains eligible of the ECB's TPI.

Figure 1: First round polls



Source : Deutsche Bank, Ipsos, Opinion Way, Cluster, Elabe. New Popular Front (Left) includes BIA, PCF, ELV and PS. Renaissance (Macron's centrist alliance) includes Renaissance, Modem, HOR, GRP and UDI.

Figure 2: Second round seat projections



Source : Deutsche Bank, Cluster, Elabe. New Popular Front (Left) includes BIA, PCF, ELV and PS. Renaissance (Macron's centrist alliance) includes Renaissance, Modem, HOR, GRP and UDI.

Economic programmes

Following the surprise announcement of the snap elections, the various blocs and parties had a few days to come up with economic platforms and programmes. We try to summarise the main market relevant details below.

National Rally (NR)

Le Pen's National Rally has been proposing an economic programme that is a less ambitious version of its 2022 manifesto. The main measures to have in mind are the following:

- Reduction of VAT on energy products and negotiation for a French exemption from the EU electricity market. This would be implemented immediately and should cost between 0.5-1.0pp of GDP. There would be other spending on health.
- Exemption any permanent wage increase up to 10% from social security contributions.
- Modifying Macron's 2023 pension reform. The RN candidate Bardella has confirmed its desire to eventually ease the retirement age and constraints for workers who started their career very young. This would not be an immediate priority given the current fiscal situation.
- The RN is also pledging an immediate "fiscal review" to better understand the fiscal situation and identify areas of possible savings.

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- Protectionist agenda: reduce illegal and legal immigration. During the 2024 EU election campaign the RN defended many proposals that would challenge the existing EU institutions but has so far abstained in the current national campaign from repeating them: an end to new FTA negotiations, excluding the agriculture sector from FTAs, establish a preference for French companies in public procurement .

Left bloc (Nouveau Front Populaire NFP)

The Left bloc designed an ambitious economic programme within a few days, strongly inspired by the 1981 Presidential victory programme of Mitterand. Not all measures would be immediately implemented:

- Wages: Re-introducing automatic indexation of wages to inflation. Increasing the minimum wage by 10-15%. Increasing social security contributions to pay for pension reform.
- Taxes and spending: Bring back the wealth tax canceled by Macron in 2018. Increase wealth taxation via inheritance and "exit" taxes as well as capital gains taxation and higher income taxation. On the spending side we would mention the increase in public sector wages, "fixed prices for necessities" in food and energy, reduced energy taxes, various public spending measures (e.g. health, education).
- Pensions: immediately cancel Macron's 2023 reform that raised the minimum pension from 62 y.o to 64 y.o. and eventually in the medium-term allow people to retire as early as 60 y.o.

Macron's centrist party (Renaissance)

Macron's PM Attal is running the election campaign and trying to offer a programme that would address further the cost of living crisis while remaining committed to France's fiscal tightening path. Among the main measures outlined so far:

- Tax-free one-off bonus of up to EUR 10,000 for workers. If firms chose to offer a one-off bonus to their workers it would be free of taxes and social contributions by up to EUR 10,000 (the threshold until the end of last year was EUR 3,000).
- Electricity bills to be reduced by 15% in Feb-25 as a reflection of lower wholesale power prices (i.e. limited fiscal cost).
- Relatively limited extra tax and fiscal spending measures: Lower health insurance costs for 5% of population struggling to get full coverage and increase EV leasing subsidies, lower inheritance tax and higher taxes on share buybacks.

Summary:

Absent an absolute majority it is difficult to expect RN or Left bloc to immediately implement all their measures. From an EU and market perspective a certain trade-off may be simplistically summarised as an apparently less fiscally profligate (immediately) National Rally compared to the Left bloc while the National Rally would challenge EU institutions (e.g., immigration, electricity market, trade agreements and protectionist agenda) more than the Left bloc which remains a clear pro-EU political project.

Macron's centrist party could be presented as a continuation of the status-quo although the commitment to the current fiscal tightening path would be perceived as less credible than previously.



Fiscal trajectories

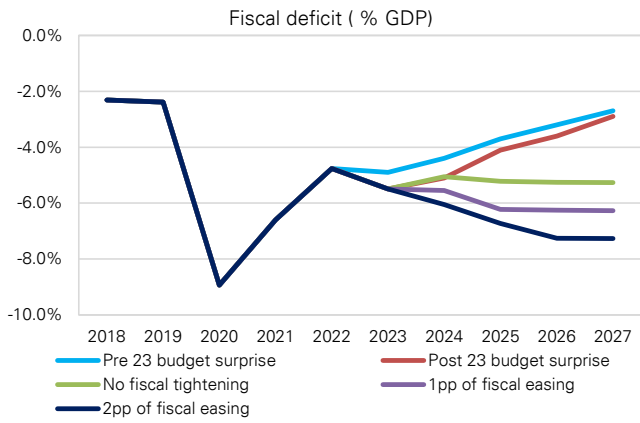
In this section, we summarise the French fiscal position via a few simple fiscal simulations. Instead of trying to estimate the exact costs of various fiscal proposals and adding various assumptions on the timing and implementation of programmes we adopt the following simple approach:

- We use the latest French government Stability Programme as a starting point. We keep the growth assumptions and interest costs as fixed.
 - The growth assumptions are relatively optimistic (1.0% 2024, 1.4% 2025, 1.7% 2026, 1.8% 2027)
 - The interest rate assumptions are conservative with 10Y rates at 3.2% at end 2024, 3.5% at end 2025 and 3.6% at end 2026 and 27. For reference, according to the official documents, a rise of interest rates by 100bps at the start of 2024 would raise interest expenditure by c. 0.5% of GDP by 2027¹.
- We then look at 5 different fiscal trajectories. Given the uncertainty around exact economic programme costs but also the realism of assuming they get fully implemented from day 1 under market scrutiny/pressure and without a large absolute majority:
 - The official medium-term trajectory prior to the surprise March 2024 announcement of a larger fiscal deficit than planned in 2023. In that trajectory the fiscal deficit was reaching 2.7% of GDP in 2027 with a debt level of 108.3% of GDP.
 - The current official medium-term trajectory accounting for the surprise 2023 fiscal deficit of 5.5% of GDP with public debt at 110.6% of GDP. In this trajectory, the fiscal deficit reaches -2.9% of GDP in 2027 with a debt level of 112.0% of GDP.
 - No fiscal tightening beyond 2024. In this trajectory, the fiscal deficit reaches -5.3% of GDP in 2027 with a debt level of 116.6% of GDP.
 - 1pp of GDP of fiscal spending post-election followed by no fiscal tightening. This is to illustrate what a "mild" fiscal strategy from a RN or Left bloc implementing immediately only some of their program to boost household purchasing power could look like. In this trajectory, the fiscal deficit reaches -6.3% of GDP in 2027 with a debt level of 120.0% of GDP.
 - 1pp of GDP of fiscal spending post election followed by an extra 0.5pp of fiscal spending each year with no efforts to tighten the fiscal stance. This is to illustrate what the trajectories under a RN or Left bloc with a strong absolute majority may look like. In this trajectory, the fiscal deficit reaches -7.3% of GDP in 2027 with a debt level of 122.9% of GDP.

¹ See [here](#)

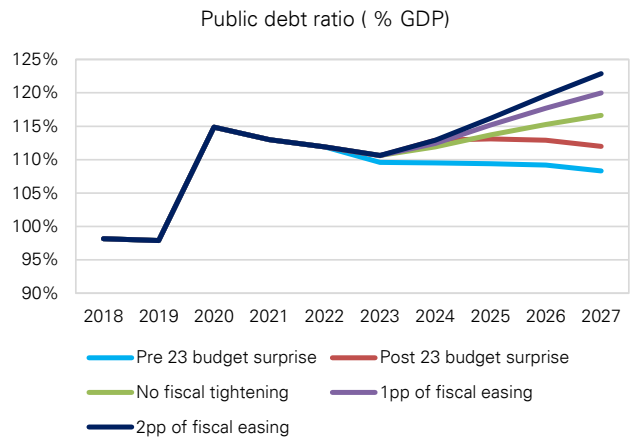


Figure 3: France fiscal deficit paths



Source :Deutsche Bank, INSEE, Haver Analytics LP

Figure 4: France debt ratio paths



Source :Deutsche Bank, INSEE, Haver Analytics LP

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Appendix 1

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It should be noted that the decision to incorporate ESG factors into any investment strategy may inhibit the ability to participate in certain investment opportunities that otherwise would be consistent with your investment objective and other principal investment strategies. The returns on a portfolio consisting primarily of sustainable investments may be lower or higher than portfolios where ESG factors, exclusions, or other sustainability issues are not considered, and the investment opportunities available to such portfolios may differ. Companies may not necessarily meet high performance standards on all aspects of ESG or sustainable investing issues; there is also no guarantee that any company will meet expectations in connection with corporate responsibility, sustainability, and/or impact performance.

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