

## Why France could be headed for a difficult return to reality

Unsurprisingly, the European Commission is proposing to place France (along with four other eurozone states) under Excessive Deficit Procedures. Public finances have therefore become a key issue in the election campaign, even though programmes are full of measures increasing public spending. The return to reality on 8 July is likely to be difficult



In France today, budgetary and debt problems are greater, growth potential is lower and the duties incumbent on each member state of the monetary union are even stricter - a difficult backdrop for an already chaotic election campaign

### Another event in a chaotic campaign

The election campaign for the parliamentary elections at the end of June is in full swing. It has already produced some major surprises, including the implosion of Les Républicains (LR) as several members including the party's president have decided to rally to the cause of the far-right Rassemblement National (RN). Despite these turbulent times, the agenda for the European Semester was met, and as expected, the European Commission proposed that France be placed under the Excessive Deficit Procedure. For more details on this decision, see our analysis [here](#).

In France's case, this decision is likely to further heighten tensions between election candidates, many of whom on both the far left and the far right have in the past proclaimed their willingness

to oppose the wishes of the European institutions. The history of Europe has already been marked by tough confrontations between electoral promises and the constraints imposed by membership of the EU and EMU. France could be at the heart of a new episode.

In this report, we tell you everything you need to know to keep up with the saga over the coming weeks.

## How do the legislative elections work?

Legislative elections are used to elect the 577 deputies who sit in the National Assembly (the French parliament). They are elected by direct universal suffrage by French voters registered on electoral rolls. The voting system is a two-ballot majority system. The first round is set for 29-30 June 2024, and the second will take place on the 6-7 July 2024.

To be elected in the first round, a candidate must obtain :

- More than 50% of votes cast
- A number of votes at least equal to 25% of the number of registered voters

The abstention rate is therefore important, since a candidate may obtain 50% of the votes cast but not be directly elected if the abstention rate is very high. If no candidate is elected in the first round, a second round is organised. Only certain candidates are eligible for the second round:

- The two leading candidates from the first round
- The following candidates, provided they have obtained a number of votes at least equal to 12.5% of the number of registered voters

In the second round, the candidate with the highest number of votes is elected. In the event of a tie, the oldest candidate is elected.

## What do the polls say?

According to the 12 June poll published by BFMTV, the RN party would win 31% of the vote in the first round. Left-wing parties (grouped under the name Nouveau Front Populaire - NFP) would get 28% and parties in favour of President Emmanuel Macron (Renaissance, MoDem, Horizons) would get 18%.

That said, these results provide little insight into the final outcome of the election. Indeed, few candidates will be elected in the first round. Everything will depend on the alliances formed between the two rounds. A projection in seats of the result of this poll (to be taken with great caution) attributes 220 to 270 seats to the RN, 150 to 190 to the NFP and 90 to 130 to the president's allies. As a reminder, 289 seats are needed to obtain an absolute majority in the National Assembly.

## The process of selecting a prime minister

The prime minister is appointed by the president of the French Republic. But once appointed, the prime minister needs a majority in the National Assembly to govern. If the party in favour of the president holds it, the appointment of a prime minister is trivial. If this is not the case, we speak of cohabitation. It is imposed if a party has an absolute majority in the Assembly (politically speaking, the president has no choice but to appoint a prime minister from the party with the absolute

majority). If no party holds an absolute majority, the president can always appoint a prime minister who favours him. But the latter can very quickly be punished.

If MPs table and vote a motion of censure against the government, the prime minister is obliged to resign. The president can "counter-attack" by declaring a new dissolution of the Assembly. But beware, this cannot be made within a year of the previous one (June 2025).

Note that in the June 12 poll, 39% of respondents wanted Jordan Bardella, the RN candidate, to be appointed prime minister and 36% wanted Gabriel Attal (in favour of the President). Jean-Luc Mélenchon was favored by only 16% of respondents.

## Which programme? 1) Pro-President bloc: Earning more and spending less

The pro-President bloc, led by current Prime Minister Gabriel Attal, will present its full programme early next week. The two central themes will be "earn more" and "spend less".

- A number of measures to boost purchasing power have already been unveiled, confirming a 15% reduction in electricity bills from next winter, and promising a reduction in the price of school supplies through group purchases.
- Attal is also proposing to work on the introduction of "public" supplementary health insurance at one euro a day for those not covered by a mutual insurance company, and to exempt middle class first-time home buyers from notary fees up to 250,000 euro.
- The PM is also planning to raise the ceiling on bonuses paid by companies to their employees to 10,000 euro, tax-free. Such a measure had been decided in 2018 in the context of the "gilets jaunes" crisis, but the amount was capped at 3,000 euro.
- On the environment, the current PM has promised a 20% reduction in greenhouse gas emissions by 2027.
- The creation of 200,000 industrial jobs and the opening of 400 factories are envisaged within the same timeframe.
- On the revenue side, Attal envisages a tax on share buybacks to finance an "energy renovation fund" for the middle classes. This fund would enable an additional 300,000 homes to be renovated by 2027.

## (2) Rassemblement National: three priorities of purchasing power, security, and immigration

The RN has yet to publish a detailed, costed programme. But priority measures have been announced. Importantly, Jordan Bardella now insists that he is "extremely realistic about the financial state of the country". He therefore intends to adopt a posture of budget rationality". To this end, he wants to conduct a wide-ranging audit of France's public finances and social security system before embarking on major reforms. So it won't take place until the autumn.

- In concrete terms, the RN intends to take a series of urgent measures on purchasing power, security and immigration. In the latter area, some are likely to pose a constitutional problem. In terms of purchasing power, Prime Ministerial candidate Bardella wants to immediately lower VAT on energy and fuel to 5.5%.
- To finance it, the RN plans to eliminate tax niches and cut two billion euro from France's contribution to the European Union budget.

- He also wants to start negotiations immediately with the European Commission to obtain a derogation from European electricity pricing rules, along the lines of the Spanish model. According to the RN, this would cut French electricity bills by 30%.
- On the other hand, the RN has postponed the abolition of VAT on essential products until after the publication of the audit on public finances.
- On the question of pension reform, Bardella remains vague and indicates that the subject is not a priority. Nevertheless, he intends to repeal it this autumn, probably allowing those who started to work early in their life to retire earlier. It will be recalled that the RN succeeded in attracting candidates from the LR, some of whose members considered that the reform did not, on the contrary, go far enough. We can therefore imagine that there is still no agreement on this issue, although Bardella made it clear that he is calling the shots.

### **(3) New Popular Front: 150 measures, two priorities – purchasing power and international issues**

The agreement between the left-wing parties (the far-left La France Insoumise or LFI, the Socialist Party, the ecologists and the communists) brings together 150 more detailed measures.

- The very first priorities would be to sign a decree freezing the prices of basic necessities in food, energy and fuel with a cancellation of the planned increase in the price of gas initially scheduled for 1 July.
- In addition, within 15 days of the second round of legislative elections, the left-wing parties have pledged to repeal the pension reform that raised the statutory retirement age to 64 and return it to 60. But also that of unemployment insurance, due to come into force on 1 July 1, which will reduce the maximum duration of compensation for jobseekers.
- A purchasing power pact will also raise the minimum gross wage to 2,000 euro, compared with 1,766 euro at present. Wages will be indexed to inflation and civil servants' salaries will be raised. The programme also includes a measure to cap bank charges.
- The NFP also intends to make public schools completely free of charge by covering the cost of canteens, transport and school supplies.
- On the climate front, the NFP is committed to passing an energy-climate programming law this summer, which will define France's energy mix. As a reminder, only the Communists in the NFP are in favor of full development of the nuclear industry. LFI and ecologists want to get out of it altogether. In addition, the NFP wants a moratorium on major motorway infrastructure projects and on megabassines" (artificial water reserves used for agriculture). It also proposes the implementation of a climate plan aiming for carbon neutrality by 2050, including the complete insulation of homes, reinforcing subsidies for all households and guaranteeing full coverage for low-income households.
- When the agreement was presented, the NFP did not present any figures for its programme. Valérie Rabault, a Socialist MP and former budget rapporteur at the French National Assembly, estimated that the measures would cost €106 billion, but would boost economic growth to 3%. Nevertheless, these figures appear to be highly optimistic. Olivier Faure, the Socialist Party's First Secretary, also announced that part of the funding would come from the planned tax reforms. We're going to finance this project from the pockets of those who can afford to contribute. We call on those who have profited from every crisis to come to the aid of their country" he declared. A number of measures have already been mentioned: a more progressive income tax system with the creation of 14 tax brackets, taxation of super-profits, reinstatement of the wealth tax and taxation on financial

construction intended to avoid wealth tax. There is also talk of reforming the inheritance tax and introducing a maximum inheritance. The New Popular Front advocates increased taxation of financial transactions and zero bank financing for fossil fuels.

- Finally, the alliance wants to make employees real players in economic life by reserving them at least a third of the seats on boards of directors and extending their right to intervene in the company.

### **What can we conclude from all of this?**

The most likely scenario following the second round of elections remains that of an Assembly divided into three blocs, none with an absolute majority as was the case until the dissolution. Nevertheless, the weight of the pro-President bloc is likely to be significantly reduced compared with the previous legislature (245 seats). The appointment of a prime minister favourable to the president would therefore be very difficult. But any other choice will probably be just as difficult. Politically, the situation is likely to be complicated. Instead, we'd be witnessing another period without major reform, at the risk of radicalising viewpoints even further.

Beyond the scenario of a divided Assembly, we can't rule out the RN or, on the other hand, the NFP obtaining an absolute majority. The alliances formed between the two rounds will be crucial. If this is the case, the political situation will become clearer. But in economic terms, it'll still be a leap into the unknown. An electoral programme remains a promise designed to seduce voters. After that, the reality is often much more difficult and nuanced. This being the case, we must expect a willingness to break with the past and the shock of either the RN or the NFP being given the chance to implement their programmes. This would be reminiscent of former president François Mitterrand's desire to break with the past when he came to power in 1981. But it will also be remembered that France was forced to reverse course as early as 1983, by reinstating a policy of austerity in order to remain in the European Monetary System (EMS).

Today, budgetary and debt problems are greater, growth potential is lower and the duties incumbent on each member state of the monetary union are even stricter. The Commission will keep a close eye on France's budgetary developments. However, even if the RN wants to give the image of a certain budgetary seriousness, the measures to finance its programme remain very vague and the induced effects (delocation, capital flight, reduction in entrepreneurship, lack of interest from investors) are never mentioned. The same applies to the NFP programme. In short, any desire to break with the past is likely to come up against the reality of the figures. And this could happen very quickly, as the European Council is expected to confirm the Commission's proposal to put France under the EDP by mid-July, and the country will have to propose a corrective budget trajectory by 20 September.

It is therefore highly likely that in the event of a left-wing or far-right majority, the future government will have to choose between the risk of provoking an economic, financial and institutional crisis or the heavily watered-down implementation of their initial programme. The examples of Greece in the early 2010s, and more recently of Italy, tend to show that the second option will eventually prevail.

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