

France: Can reform get back on track?

France has a new Government which is supposed to put reforms back on the agenda. Confidence in the governing team looks low in opinion polls, and the economic context will darken later in 2019. These are good reasons, if one needed some, to get their hands dirty earlier than later



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President Macron entered the second year of his presidency after the summer in a weaker political situation: his approval rating has declined from 40% to 32% in the Ipsos political barometer since April. Moreover, the resignation on 28 August of his Environment Minister Nicolas Hulot, one of the heavyweights of the Philippe team and the most popular political figure in the Government and among French political leaders (in the July Ipsos barometer), was followed by the resignation of Interior Minister Gerard Collomb on 18 September.

Composition of the new Government

These departures brought a sense of political crisis among the President's party troops, postponing several reform debates. It was time for a reshuffle. However, President Macron did not want to give it a taste of a change in direction. Different personalities would indeed have to implement the same reforms, avoiding a repeat of François Hollande's mistakes of changing both personnel and policies too often. The new Government has 35 members (instead of 31 before), 18 men and 17

women, of which 8 are new. Among those, 3 Secretary of States are new to politics in general (17 members of the new Government had no experience in politics before 2016). The average age is also lower, at 48 instead of 53, with the youngest member of any Government since WW2 being Secretary of State Gabriel Attal (29 years old). The Government keeps a leftish tone (9 members were formerly on the left of the political spectrum while 5 come from Les Republicains party) but still intends to lead reforms generally perceived as right-wing even if President Macron has put a lot of efforts to avoid labels.

The choice of Christophe Castaner as Interior Minister appears more as a choice of loyalty over experience, which should help the President overcome the confidence crisis. We currently believe that the new team will do all that it can to put reforms in the spotlight in the coming months. The reforms of unemployment allowances and pensions should keep the team busy.

Economic outlook

The clock is ticking. Indeed, the economic outlook is likely to be less supportive for reforms in the second half of 2019. Gaining consensus on key topics before the economy is expected to slow down again next year will therefore be key to gauge President Macron's success in 2022. We currently expect a weak rebound of GDP in the third quarter of 2018. On the investment front, with high capacity utilization and a high level of order books, we remain optimistic for 2018 but household spending will take more time to rebound and adjust to higher oil prices. While private consumption growth should barely accelerate from the 1.1% recorded in 2017, we think that GDP growth could reach 1.8% in 2018 and 1.7% in 2019 before decelerating in 2020. This leaves the new team less than one year to gain ground on major reforms. We still believe the Macron team will be able to push through some additional reform, but clearly less than markets hoped for at the start of his mandate.