

In France, cooperation is the only alternative to instability

The second round of the French parliamentary elections ended in a surprise: Marine Le Pen's party won far fewer seats than polls suggested. But in the end, as expected, no political group has a majority, plunging France further into the unknown



A scattered vote

After the first round of parliamentary elections, many of the candidates who qualified for the second round withdrew so that their electors could vote for the remaining candidate against the Rassemblement National (RN). At the end of the second round of elections, we can only conclude that this strategy against Marine Le Pen's party has worked: voters participated en masse (the 67.5% turnout was unprecedented) and voted in large numbers against the RN and its allies, who took just 143 seats out of the 577 in Parliament. That's less than half the number of seats needed for an absolute majority.

The big beneficiary of Sunday's vote was the Nouveau Front Populaire (NFP), the left-wing bloc bringing together mainly the far left (La France Insoumise- LFI), the Socialists (PS) and the Ecologists (EELV). It won 182 seats. That's still a long way from an absolute majority, but it's much more than the polls predicted. It should be noted that within the NFP, LFI and PS members are neck

and neck (around 75 to 80 seats each). This is important for the NFP's internal balance of power and its attitude in the coming days/weeks.

The pro-President Macron bloc (Ensemble) won 168 seats. Admittedly, compared with the 250 seats they have held in parliament since 2022, this is a heavy defeat. But the bloc is the second largest in the new assembly, ahead of the RN, and far exceeds the polls which gave them less than 100 seats at the end of the election.

Finally, the traditional right (Les Républicains - LR) won 46 seats. It will be recalled that the day after the dissolution of parliament, on 9 June, party president Eric Ciotti announced an alliance with the RN, although this was not a collegial decision by the party. This led to the implosion of the party. The good score of those elected who did not follow the alliance with the RN therefore sounds like a repudiation of Ciotti.

In short, the French parliament is more divided than ever, made up mainly of three blocs (Left - 182 seats, Centre - 168 seats, Extreme Right 143 seats) and a number of smaller ones. As we predicted before the elections, no bloc can claim an absolute majority.

What to expect?

In keeping with tradition, Prime Minister Gabriel Attal will tender his resignation today to President Emmanuel Macron. Nevertheless, Attal will most likely remain at the head of a caretaker government until a new prime minister is appointed. But who could this be? This is a key point. First, let's remember that Attal's government did not have an absolute majority in parliament. This has created a highly unstable situation, with the government forcing through legislation (using Article 49.3 of the constitution), including the highly unpopular pension reform. This has led to growing public frustration. A minority government situation is therefore quite possible, but would only result in greater political instability and voter frustration. So what can we expect?

The Constitution of the Fifth Republic, established by General Charles de Gaulle, gives primacy to the President of the Republic. The composition of parliament is supposed to give him a clear majority to implement his programme. Two-round voting normally favours the formation of such a majority. This is certainly no longer the case. Two scenarios therefore emerge.

Scenario I: Minority government

We know that French political parties are not used to making concessions in order to create a programme around a coalition with other parties. Last night, the leaders of the NFP, the largest bloc in terms of seats, claimed victory and made no concessions in demanding the implementation of their entire programme. Other political leaders, notably from Les Républicains, have also announced that they want to maintain their independence and do not want any coalition. If political parties maintain such positions, a long period of instability will ensue. President Macron will be forced to try different formulas. He could appoint a prime minister from the left-wing bloc. But without an absolute majority, and given the radical nature of its socio-economic programme, the left-wing bloc won't be able to pass a single law, unless it uses the tool (Article 49.3 to force legislation) that it decried so much itself during the previous legislature. A motion of censure would probably be tabled very quickly, bringing down the government. Alternatively, President Macron could appoint a prime minister from his camp and return to the situation prevailing before the dissolution. True, its parliamentary bloc now has only 168 seats, but the left-wing bloc doesn't actually have many more. However, the result would be the same (motion of

censure), given the unwillingness of the other parties to make any concessions to the president's camp. The latter could even try to appoint a right-wing prime minister, but once again, without any real viability.

The instability would last until at least June 2025, since the president cannot call for new elections before then. With important deadlines looming (see below), such political instability is likely to result in economic instability and impatient financial markets.

Scenario II: Learning to cooperate

The results of this election could be seen in a completely different light. Excluding the 80 MPs from the far left and the 145 from the far right, there are over 350 MPs left to form a broad coalition ready to reform France, taking into account the diversity of opinions. In other European countries, including Germany, such a configuration would be quite natural and would result in a government with a clear majority.

Certainly, some doors are beginning to open for such a coalition. Of course, the President's camp is in favour. On the left, some leaders, including Raphael Glucksmann (Member of the European Parliament), are calling for progress in this direction. But it has to be said that the first speeches by the main political leaders were not at all along these lines, as if making concessions on one's programme represented an admission of weakness.

So the French political parties are stuck in a strategic game where the only solution is for the parties to work together. It would help restore calm and political stability. But, not knowing what attitude the other parties will adopt and because any concession on its programme would be seen as a betrayal of its electorate, no party seems willing to enter into discussions in the very short term. To be sure, things could change when the dust of the election has settled.

Upcoming events not to be missed

After this election, there will be no political truce, either because of the summer holidays or because of the Paris Olympic Games, which start on 26 July. In the next few days, the president will have to take an initiative to clarify the situation somewhat. All the more so as, even if French politics is in turmoil, it won't be able to avoid important upcoming deadlines.

- On 19 June, the European Commission proposed that France (along with six other European countries) be placed under the Excessive Deficit Procedure (EDP), in view of the sharp deterioration in public finances.
- The council in the form of the Economic and Financial Committee will have to formalise the decisions on EDPs this month.
- By 20 September, France will have to propose a corrective trajectory for its public finances. This date can be postponed until mid-October, but no later.
- In the meantime, a finance bill will have to be tabled in parliament by mid-October (the text must be ready by mid-September if it is to reach parliament on time). Parliament then has 70 days to adopt it. If this is not the case, there will be no shutdown of the institutions as in the United States, but budgetary orders may be issued to ensure their functioning.

What are the risks?

Given the political situation, there are two risks to watch out for. On the one hand, in the very short

term, even if the scenario of an extreme right-wing government did not materialise, it should be remembered that when the NFP's radical programme was announced, it created some instability in bond and equity markets. Today, the NFP claims victory, albeit relative, and the uncompromising application of its programme. If the rhetoric of the NFP leaders does not change, this could rekindle some of the volatility in the markets, although it should be remembered that it is not possible for this programme to be implemented in its entirety, given that it will find no other support in parliament.

In the longer term, there are two opposing realities: on the one hand, French political parties seem to have great difficulty in making concessions. On the other hand, France faces major socio-economic challenges and clear deadlines, requiring reforms supported by a broad coalition of parties. Failure to reconcile these two realities could lead to a kind of permanent instability that would end up worrying the markets.

Author

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.