The fall of the French government means less growth and no budget in 2025

French MPs have voted a motion of no confidence, leading to the fall of Michel Barnier's government

In a no-confidence motion, the Barnier government in France fell

There is no longer a government in France

As expected, French MPs decided on Wednesday evening to vote a motion of no confidence in the government led by Michel Barnier. 331 MPs from the left and far right voted in unison, and the government fell, less than three months after it was set up. France is thus entering a new era of political instability.

There will be no dissolution of the National Assembly or early elections until July 2025, as the Constitution stipulates a minimum period of one year between elections. President Emmanuel Macron will have to appoint a new prime minister, who will have to form a new government. With the National Assembly highly polarised and divided into three main camps – left, centre-right and far-right – finding a new prime minister who will not face a motion of no confidence directly will be a very difficult mission. It is therefore likely that France will remain without a government for several weeks, if not months.

Improvement of public finances postponed

The main consequence of the motion of censure passed on Wednesday evening is that the State budget and the social security budget for 2025 will not be voted on. We will have to wait for a new government before new texts are submitted for consideration.

So France probably won't have a 2025 budget. This does not mean that we are heading for a shutdown situation where France is no longer able to meet its financial obligations.

A provisional budget, which simply reproduces the 2024 budget, will probably be put in place. The various parliamentary groups have indicated that they will vote in favour of a 'special law' allowing the 2024 budget to be extended into 2025, pending the vote on a real budget. This means that the work of putting public finances right will not begin immediately. The public deficit is expected to exceed 6% of GDP in 2024. The Barnier government had hoped to bring it down to 5% by 2025, relying for half of this on new revenue: increases in social security contributions, a surcharge on corporation tax, tax on the highest incomes, etc. With the fall of the government some €30 billion of the expected additional revenue will not be approved in parliament. The extension of the 2024 budget to 2025 also means that the income tax scale will not be changed to take account of inflation, contrary to what was planned. This will bring in €4 billion in additional revenue, just enough to compensate for the indexation of pensions, which should have been delayed but will not be, at a cost of €3 billion. Working people will therefore see their taxes rise, while pensioners will be better off.

On the public spending side, the renewal of the 2024 budget will require a reduction in real public spending, which should normally have risen by around 3% to compensate for inflation and growth. This represents savings of between €15 billion and €18 billion, a figure fairly close to that proposed in the 2025 draft budget.

It should be noted that, should the members of parliament fail to agree to pass the special law extending the 2024 budget to 2025 (though the opposition parties claim they will approve it), the Constitution provides that the President may take budgetary measures without going through parliament.

Growth will weaken

Ultimately, the very likely extension of the 2024 budget to 2025 implies a fiscal policy that is less restrictive than planned in terms of tax revenues and in line with what was planned in terms of public spending. This means that the objective of a return to a deficit of around 5% of GDP in 2025, as promised by the Barnier government, is out of reach. The public deficit will remain high, probably around 5.5% of GDP, the debt will continue to grow and the next government – whoever it may be – will have an even more difficult task in getting public finances back on track.

Furthermore, the fall of the government means that political uncertainty will persist and continue to weigh on business and consumer confidence, even though budgetary policy might be slightly less restrictive We are expecting GDP to grow by 0.6% in 2025, compared with 1.1% in 2024, and a downward revision cannot be ruled out if the instability persists, especially if bond yields would rise further on the back of the current political imbroglio.

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