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Macron heads for re-election

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Macron will have limited room for manoeuvre in likely second term

Emmanuel Macron is expected to win the presidential election in April but fall short of an absolute majority in the parliamentary elections that follow in June. He could end up in the uncomfortable position of having to form a coalition with the centre-right and/or moderate left. In a difficult economic context, exacerbated by France's massive pandemic support plans and the gathering fallout from Ukraine, a much stricter budgetary policy should be expected in Macron's second term. Brunswick's Paris office deep-dives into the not-so-obvious election outcomes.

Limited suspense over Macron's re-election

With just over a month to go before the presidential election scheduled for 10 April (first round) and 24 April (second round), Emmanuel Macron appears to be heading for another victory, after announcing his official candidacy on the eve of the March 4 legal deadline.

As with most incumbent presidents seeking re-election, Macron has amped up his visible statesmanship to differentiate himself from other candidates, capitalising on his role as President of the European Council since January 2022. The Ukrainian crisis has brought added momentum that has benefited Macron domestically, with French voters appearing reluctant to change their head of state at a time when geopolitical sands are shifting perilously.

Macron boasts a strong economic track record. France's 7% GDP growth rate in 2021 was one of the EU's highest. Its 7.4% unemployment rate represents a multi-year low, and the country is emerging as the top European destination for foreign investment. The burden of Covid-19 pandemic spending on public finances has yet to be felt by the general population, and Macron's strategy is widely perceived as justified and necessary.

But Macron continues to have a problem with lower-income voters, who are broadly critical of his European and pro-business policies such as lower corporate taxation and a flat tax on high incomes, and his perceived arrogance. His term in office has been marked by public protests, from the 'yellow vest' movement of 2018-19 to a recent resurgence of demonstrations led by anti-vax militants, all of which have tended to bring together opponents of different stripes.

A proliferation of candidates on both sides of the political spectrum is benefiting Macron. The rival campaigns have split traditional electorates, preventing the emergence of serious competitors.

On the far right, Marine Le Pen's leadership is being contested by Eric Zemmour, a populist broadcaster and journalist with no previous experience in public office. With both candidates polling at around 15%, either could qualify for a second-round run-off against Macron. Such is their personal animosity, however, that the finalist might struggle to mobilise their eliminated rival's supporters. Both far-right candidates also lack credibility on economic and social policy that could put a second-round victory beyond reach.

Centre-right Republican candidate Valérie Pécresse is struggling to find her place and a clear political line between the liberal centrism of Macron and the radical conservatism of Le Pen/Zemmour. Her party's deep divisions are underscored by several recent defections of centre-right politicians who have thrown their weight behind rival candidates.

On the left, the failure of mainstream parties to agree on a common political platform has spawned a multitude of low-scoring candidates such as Yannick Jadot (Green Party) and Paris Mayor Anne Hidalgo (Socialist), both polling at around 5%. Jean-Luc Mélenchon, far-left contender for *La France Insoumise*, is

doing better with around 10% but remains far behind Macron and the far-right candidates and is taking heat for controversial comments in which he blamed the war in Ukraine on the United States.

Against this backdrop, all credible polling currently suggests that Macron would come out on top in the first round with approximately 25% support, and then clinch victory with about 55% of the second-round vote against any one of the other contenders (most likely Marine Le Pen, Eric Zemmour or Valérie Pécresse).

Until Macron's arrival as an official candidate, campaigning has largely steered clear of economic and social issues, instead focusing on immigration and national identity questions, emphasized by far-right commentators who have drawn particular attention to the place of Islam in France. Europe also remains a common scapegoat among most of the President's rivals. Macron alone among the major candidates has advocated for a stronger European Union. He will now benefit from the popularity of Europe's united response to the invasion of Ukraine.

Parliamentary elections – the real deal

While most commentators fixate on the French presidential ballot, the less predictable outcome of parliamentary elections will be critical to the future direction of government policy. All 577 seats of the lower house of parliament (Assemblée Nationale) are up for grabs in the two legislative election rounds (June 12 and 19). The result looks far less clear cut.

Thanks in part to the timing of the respective ballots, France's electoral system often yields a clear parliamentary majority for the newly elected president's party. With Macron likely to be re-elected without much enthusiasm, however, the outcome this time would appear more likely than usual to hand a relative rather than absolute majority to his *La République en Marche* (LREM). This would force the re-elected President Macron to form a coalition with other parties to command the outright majority required to pass new laws. The coalition would also need to be reflected in the government, whose appointment must be approved by a vote of confidence in the National Assembly.

The most likely hypothetical majority coalition would comprise a rump of LREM parliamentarians, joined by one or more groups of lawmakers from the moderate right and possibly also the centre-left. Whatever its precise makeup, a coalition would impose strict limits on Macron's political freedom and require new approaches to governing through compromise.

It remains highly uncertain whether Macron would be able to conclude and sustain the kind of grand alliance between right and left that he has been advocating for years. While such a development might be business as usual in German politics, it is uncharted territory for France.

Economic policy in Macron's second term

In his campaign manifesto, Macron promises to continue lowering taxes on labour and protection, and to keep investing in innovation and research in "renewable energy, nuclear, batteries, agriculture, digital and space."

But he will face harsh economic realities. French citizens and businesses benefited from a high level of pandemic support, enabling the country to recover faster than large EU peers, but at a heavy cost.

The public deficit reached stratospheric heights of 9.2% of GDP in 2020 and close to 7% in 2021 and was expected to amount to "only" 5% this year – before any full reckoning for the Ukraine conflict impact or likely increase to defence and security spending. The French economy was also boosted by the €750 billion EU recovery fund and accommodating monetary policy from the European Central Bank (ECB).

Inflation is now rampant across Europe, with energy prices climbing particularly sharply. The French government, keen to avoid a 'yellow vest' resurgence in election season, has moved swiftly to fund a "price shield" to protect lower-income consumers against fuel price hikes, at an expected public cost of €3 billion annually. That bill could rise as Russia's invasion of Ukraine drives energy prices still higher.

While the ECB was likely planning to raise interest rates to tame eurozone inflation, it may now wait for a clearer picture of the war's economic impact. As such, inflation may remain at a relatively high level in coming months, prompting new financial support measures for the French population.

All of this sets the stage for some tough economic choices for a Macron government at the end of the summer. If France is to stay competitive and maintain some financial flexibility, the new President must find a way back to healthier public finances.

One response could be pension reform. In 2019, President Macron laid out ambitious plans that would have improved the long-term sustainability of France's retirement funding system – only to drop them the following year amid concerted opposition that fed the rise of the 'yellow vest' movement.

Another lever, potentially just as problematic, would be a global public spending review that reduced civil servant numbers and/or benefits, shut down inefficient and expensive programmes, and put an end to all pandemic-era support.

Macron's likely second term will present him with an unpredictable new mix of political and economic forces.

With ordinary people feeling the bite of inflation, and one or more fractious coalition partners to placate, marshalling support for reform and other contentious initiatives is likely to be harder than ever, and the risk of mass protests ever-present. Unless, paradoxically, a further worsening of geopolitical factors and external threats were to strengthen a sense of national unity, and open new space for the unpalatable policy options the next government will face.

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