



**Second act of Macron's presidency:
A final sprint to 2022**

After disastrous results for his party in the mid-term local elections, President Macron reshuffles his government and revises his priorities to deal with the consequences of the Covid-19 crisis and to start his 2022 re-election campaign.

Rather satisfactory economic results but social discontent

The election of Emmanuel Macron as President of France in 2017 shook French politics like an earthquake: he was the youngest President in recent French history, had never been elected before, and had never been member of a political party. His party's success in the legislative elections that followed also led to the emergence of a new generation of parliamentarians.

Three years after his election, has this method of governing at the centre – alongside centre-right and centre-left personalities – borne fruit? Yes, but no.

Yes, because, at the end of 2019, France's economic indicators were all pointing in the right direction: France had reached its lowest level of unemployment in 10 years (8.1%), seen a record number of newly created companies (815 257 , +17.9% in one year), generated the highest amount of foreign direct investments of any other EU country (according to an EY study), and its public deficit was at its lowest level in years (3% of GDP). Macron had also succeeded in pushing through long-awaited reforms, including a reform of the railway sector, a reform of labour legislation and a reform of the complex pension system, which has still to be finalised.

Yet the country has never seemed so divided and Macron's presidency has been marked by large-scale social movements that have exposed the deep divisions of French society: the Yellow Vests in 2018, the union strikes against pension reform in 2019, and, most recently, large-scale anti-racist demonstrations. The famous saying by Bill Clinton's strategist, James Carville, "it's the economy, stupid", no longer seems to apply in France!

"I believe that the course I set for the country in 2017 remains true. But this course I have set cannot ignore the international upheavals and the economic crisis we are entering."

President Macron

The pandemic gamechanger

After delays in taking adequate measures at the beginning of the Covid-19 pandemic and a blatant lack of preparation, the French government has managed to limit the spread of the pandemic, at least for the time being, thanks to strict containment measures. But the crisis has revealed France's problems, particularly those linked to deindustrialisation, and the generous support measures designed to limit the impact of the crisis on French companies have been made at the expense of a widening public deficit.

In that context, Macron needed to give a second wind to his presidential term and renew his government team, largely "worn out" by the last few months and repeated blunders. He also needs to adapt his priorities to the post-Covid-19 world and prepare the final sprint for his possible re-election in 2022. Paradoxically, it was his first political setback that created this opportunity for him.

An opportunity to make for several changes

The municipal elections, which were presented as the key mid-term elections in Macron's mandate, took place on March 15th (first round) and June 28th (second round), with the lockdown in the middle. These elections, usually characterised by a high turnout, were marked by a record abstention rate (55%) and a bitter failure for Macron's young party, *La République en marche*, whose campaign had been poisoned by a sex scandal which forced candidate Benjamin Griveaux in Paris to withdraw, but also numerous dissidents. As a result, the party scored very poorly, winning very few local council seats and no major cities, despite local alliances with established local politicians. Macron thus failed to impose his party at the local level, which is essential in French politics.



The election winners were the Greens, who conquered many large cities, including the symbolical Lyon, Marseille, and Strasbourg – often with candidates with no political experience – while being instrumental in the coalition that allowed the socialist Mayor of Paris, Anne Hidalgo, to be re-elected.

In a typical move, and in order to take stock of this electoral failure, President Macron decided to speed up his government reshuffle, which everyone was expecting for later this summer.

An experienced new team

The first to go was Prime Minister Edouard Philippe – although re-elected mayor in his fiefdom of Le Havre, and still popular, maybe too much so...

The new Prime Minister, Jean Castex, a high-ranking French civil servant with a centre-right background, has significant experience on social issues and labour relations – which will be essential in this context – as he served as chief of staff of President Sarkozy's Health Minister and then Labour Minister, before becoming his adviser in charge of social issues. Castex also has great local experience as a small-town mayor and councillor in the South West of France for many years. A scholar of the French administration, he was, until his appointment, in charge of the organisation of the 2024 Paris Olympic Games, and more recently of the country's deconfinement plan following the Covid-19 lockdown.

This safe choice of a more technical and less political Prime Minister can be interpreted as Macron's will to remain the only centre of attention, which Philippe did not allow, and thus begin to prepare for his re-election.

The rest of the government also confirmed Macron's willingness to play it safe, keeping the best of his previous government and appointing experienced personalities to replace the others, with no overly strong political figures likely to

overshadow him. In particular, the few newly appointed centre-left personalities will have the heavy task of embodying this "social and green shift" and getting rid of Macron's image as "President of the rich".

Among the newcomers are ecologist Barbara Pompilli (in the strategic position of Ecological Transition Minister) and former socialist Brigitte Bourguignon (Autonomy Minister), but also centre-right personalities such as Sarkozy's former minister Roselyne Bachelot (Culture Minister), as well as figures from the civil society, such as lawyer Eric Dupond-Moretti (Justice Minister) and Alain Griset (SMEs Minister).

Several significant ministers were maintained in their positions, such as Jean-Yves Le Drian (Foreign Minister), Bruno Le Maire (Economy Minister with a beefed up portfolio), Florence Parly (Armed Forces Minister), Olivier Véran (Health Minister), Frédérique Vidal (Research and Innovation Minister) and Jean-Baptiste Djebbari (Transport Minister).

Rising stars were promoted, like Gérald Darmanin (Interior Minister), Julien Denormandie (Agriculture and Food Minister) and Agnès Pannier-Runacher (Industry Minister) or simply switched portfolios, like Elisabeth Borne (Labour Minister) and Franck Riester (Foreign Trade Minister).

Junior Ministers are expected to be appointed in the coming days.



Environment and social as new political priorities

Macron's new political priorities will be detailed during his speech on Bastille Day and later on by the Prime Minister in his first address to Parliament, but some of them are already obvious.

"With this epidemic, the global economy has come to a virtual standstill. Our first priority will be to rebuild an economy that is strong, ecological, sovereign and united."

President Macron

As expected, the environment is one of them, as Macron must address the wishes of the French expressed during the municipals and, before them, the European elections of 2019. To do so, he capitalised on the work of the Citizens' Convention on Climate Change - composed of 150 citizens drawn at random with the mission to make a series of environmentally related proposals that would be socially acceptable - which he himself had set up as a response to the Yellow Vests movement. Immediately after the municipal elections, Macron himself announced that he would endorse the vast majority of the 150 proposals tabled by this group in a new law to be introduced in Parliament by the end of the summer. These proposals most notably include the organization of a referendum to introduce the fight against climate change into the French Constitution, and the creation of the crime of "ecocide" into French criminal law.

This "social and green turn" reflects Macron's desire to secure the support of moderate left-wing voters (some will say "Blairists"), who contributed to his success in 2017 but who may have been disappointed by his overly free-market policies of the past three years.

However, the shortcomings revealed by the Covid-19 crisis on France's food, health and technological independence are also creating new priorities. And obviously, the French government will not be able to avoid major structural reforms in the face of a ballooning public deficit resulting from the business support measures and multiple sectoral recovery plans announced in recent weeks.

Public spending to maintain the economy includes: €15 billion for the aeronautics sector, €8 billion for the automotive sector, €18 billion for the tourism sector, with a public deficit forecast at 11.4% of GDP in 2020.

Will France remain a business-friendly destination?

Over the past few years, President Macron and his government have worked to create a business-friendly environment in France, most notably with the reduction of the corporate tax for large companies with a turnover of more than €250 million (from 33.3% in 2019 to 31% in 2020, then 27.5% in 2021 and finally 25% in 2022). They also strengthened the attractiveness of the Paris financial centre to capitalise on Brexit, notably by developing the use of English in arbitration proceedings and commercial decisions in the Paris courts and by simplifying the procedures for setting up in France.

As a sign of his desire to attract foreign investment to boost the French economy, President Macron also rolled out the red carpet to foreign business leaders, stopping off en route to the World Economic Forum in Davos, during his annual "Choose France" summits in Versailles.

The 3rd edition of the "Choose France" summit hosted by President Macron and his government in January 2020 brought together 180 international business leaders, including top executives from Google, Netflix, Coca-Cola, Toyota, Samsung and General Electric in Versailles.

These new priorities should not profoundly change the government's position with regard to businesses, and especially foreign businesses. For example, President Macron has rejected only 3 of the 150 proposals of the Citizens' Climate Convention, including the creation of a green tax on corporate dividends.

Whatever the extent of the ecological and social changes implemented by this new government and despite the introduction of a "sovereignist" component in the approach, the primacy of France's attractiveness for international investment will undoubtedly remain central until the end of the presidential term. The next few months will allow us to assess the importance of this ideological gap that this new government will have to bridge, with in particular the issue of the taxation of tech giants (known in France as GAFAM), a central promise of the current mandate, pension reform, still unfulfilled despite

more than two years of negotiations with the trade unions and 6 months of protests and blockades, and the rebalancing of powers between the central state and local authorities.

What to expect in 2022?

Despite these many challenges, so far, no opposition party is succeeding in capturing the discontent against Macron. The traditional parties - *Les Républicains* on the centre-right and the Socialist Party on the centre-left - are inaudible and too absorbed in internal squabbles.

There is fertile ground in France for the far left, but the divisiveness of the leader of *La France Insoumise*, Jean-Luc Mélenchon, has so far prevented a grand coalition of the many small parties. Only the Greens seem to have capitalised on the feelings against Macron, and they will most likely try to take the leadership on the left and initiate an environmental/socialist alternative, but it is difficult to say whether their success at European and municipal levels will translate into success at national level. This will depend precisely on Macron's ability to be credible on these issues over the next two years.

The far right continues to gain influence in France, but Marine Le Pen's *Rassemblement National* party has never really recovered from her disastrous performance in the second-round TV debate in 2017, which severely damaged her credibility. This was confirmed in the municipal elections, where the party did not score any significant major victory, except in Perpignan in southern France.

The newly regained independence of the popular (and ambitious) Edouard Philippe could also become an issue for Macron, and some already see him as a possible alternative to the centre-right for 2022.

However, for the moment, the planets seem to be aligned for a possible re-election of Macron, though probably with less enthusiasm than in 2017. Early polls announce a new head-to-head runoff between Macron and Le Pen, then a new victory for Macron. But there is still a long way to go before 2022 and, in two years, a lot can change, as Macron himself has brilliantly demonstrated.

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