

Euro Watch

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French presidential election: five more years for Macron?

- ▶ On 10 April the first round of the French presidential elections will be held and on 24 April the second round
- ▶ In contrast to five years ago, when Emmanuel Macron was a candidate for the first time, the result probably will not be a close call this year, as Macron is running well ahead in the polls for the first round
- ▶ As it is unlikely that he will get enough votes to claim victory after just one election round he will have to compete in the second round, where he probably will meet Marine le Pen again, similar to five years ago
- ▶ Polls for the second round indicate that a contest between Macron and any one of the other possible candidates will be won by Macron by a wide margin
- ▶ The issues highest on his political agenda are to encourage labour market participation and employment growth, for instance by reforming the pension system and cutting corporate taxes, and to encourage further European integration
- ▶ Macron's policy plans will probably have limited impact on economic growth and government finances in 2022-23, but they could have a favourable impact on France's longer term growth potential
- ▶ Financial markets have not factored in the possibility of a significant change in France's politics in the coming years
- ▶ The likely continuation of the Macron presidency means that the impact of the elections on financial markets should remain limited

Introduction

The first round of the French presidential elections will be held on 10 April. French presidential elections are organised according to the runoff system. The first round is open to any candidate that is able to gather the 500 signatories of support from elected officials. If a candidate wins an absolute majority (50 percent plus one) in the first round (s)he is directly elected. However, this is unlikely looking at the current political landscape and election polls. Indeed, since the foundation of the 5th Republic in 1958, none of the presidential candidates has ever gathered 50% of the votes in the first round. As such, France usually has a second round of vote, organised 2 weeks later, between the two leading candidates. This year, the second round of voting will be held on 24 April. The candidate that receives the most votes in the second round is directly elected president. However, the formation of the government happens at a later stage, during the legislative election for the members of the Assemblée nationale (French lower house), which will be held one month after the presidential election in two rounds on 12 and 19 June 2022.

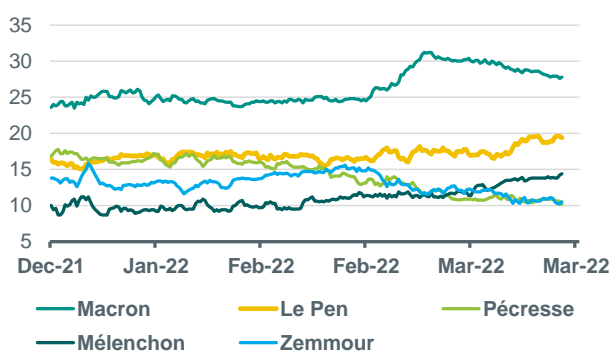
Macron well ahead in the polls for the first round ...

Recent polls have shown a clear rise in the popularity of Emmanuel Macron (centre/centre-right) since the announcement of his candidacy early March. It seems his popularity was also boosted by the uncertainties related to the escalation of the

Russia-Ukraine conflict, which might have reduced the desire for political change in France and other countries. Nevertheless, according to reports in the press about 40% of all French voters currently are still undecided and could change their voting intentions, implying that a victory for Macron is by no means certain. Adding to this is the risk of a record high abstention rate during the elections (see the text box below). Still, the size of the gap between Macron and the runner-up in the polls (Marine Le Pen – far-right) is very high and the chances of her catching up seem small. Indeed, during the first round in 2017, the gap between the two was about three points only, while the current polls show a gap of about ten points. Another factor working in favour of the centrist Macron is that both the left and the right sides of the political spectrum are fragmented. There are six candidates positioned to the left of Macron and four positioned to his right in the political spectrum, with some candidates getting only between one and five percent of the votes. Green candidate Yannick Jadot would get only around 5% of the votes. Competition between left and right wing candidates is reducing the probability that any one of them will end up close to Macron.

Polls for the first round

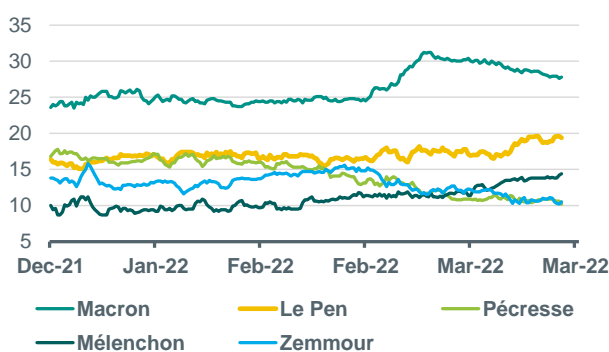
% of votes, 5-poll moving average



Source: various polling organisations

... and the second round

% of votes, 3-poll moving average



Source: various polling organisations

... as well as for round two

The polls for the second round of voting give Macron a clear lead over any of the other candidates he might be faced with (see graph above). The polls suggest that Marine Le Pen will be the other candidate in the second round, but support for Jean-Luc Mélenchon (far-left) has risen rapidly recently, positioning him at number three, well above Éric Zemmour (far-right) and Valérie Pécresse (centre-right). Still, Mélenchon would need to gain around five extra points to be able to qualify for the second round. The lead in the second round polls of Macron over Mélenchon is significantly larger than the gap between Macron and Le Pen. Indeed, the Macron-Le Pen gap seems to have narrowed compared to the result of the second round vote of 2017, which was won by Macron by 66.1%-33.9%. This could be due to the fact that Le Pen has been trying to become more palatable to the average French voter. She has dropped unpopular policies like leaving the euro, and has moved her political rhetoric away from the traditional immigration/insecurity topic to focus more on national freedom (linked to the pandemic restrictions) and even environmental issues. But more importantly, Marine Le Pen has been able to take ownership of the most important topic for the French this year: purchasing power. She has focused her campaign on this topic since the beginning and has presented herself as the one who will 'give French people back their money'.

Box: Abstention could be the highest since 2002

A recent survey shows that participation in the first round vote would be around 68%, which would make it the lowest participation rate since the elections of 2002 where 28.4% of French voters did not vote. During the 2017 elections, 74% of French voters went to the ballots. It seems that the significant lead of Macron in the polls has reduced the interest of some voters, as it indicates that the elections are a done deal already, while others might be uninterested as the numbers one and two is the same duo as in 2017.

A high abstention rate will probably benefit some candidates more than others. It would be less disadvantageous for candidates such as Éric Zemmour whose electorate is very passionate and Valérie Pécresse, who attracts mainly the elderly that tends to vote more on

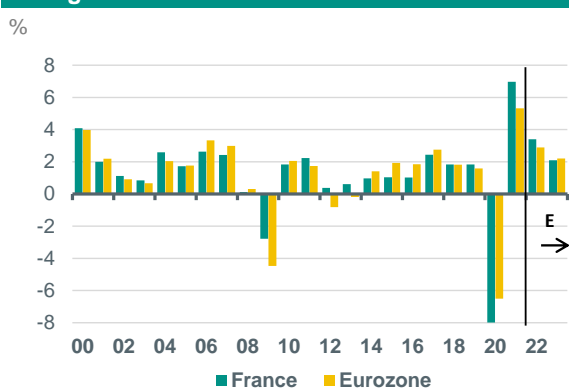
average. A high abstention rate would also be relatively favourable for Emmanuel Macron whose electorate is mixed with elderly people, high income families and highly educated professionals, categories that do not tend to abstain during elections. Nevertheless, history has shown that it is difficult to mobilise supporters for the current president for a re-election. This risk of indifference is also perceived as a risk to Macron's support as it could lead to a lower score than expected. Finally, Marine Le Pen would appear to be the most affected by a high abstention rate, since her electorate mainly consists of young and lower income voters who are part of the population that tend to show up less at the election day.

Main policy plans for the next five years

An overview of the policy plans of the main candidates can be found as an appendix at the back of this note. As re-election of Emmanuel Macron is very likely, we will focus on his economic and social agenda and the consequences for economic growth and government finances. The main issue on Macron's economic agenda is reforming the pension system. The reform entails raising the retirement age to 65 from 62, as well as providing a minimum of EUR 1,100 per month when full retirement is completed. Besides reforming the pension system, Macron wants to support employment and economic growth by cutting corporate taxes by around EUR 7bn. Household income will be supported by another EUR 7bn tax cut. On the expenditure side Macron wants to raise spending on education (by EUR 12bn), energy transition (EUR 10bn), health care (EUR 8bn) and families and children (EUR 5bn). The total extra costs of EUR 50bn (equal to 2% of GDP), should not – according to his plans - result in extra government debt, but will be financed by gains from the pension reforms, extra economic growth and savings on public administration (reforms and more efficiency). Whereas Macron had a clear goal of limiting the budget deficit to the EC's 3% maximum during his first term in office, he is less outspoken about that issue this time, merely mentioning that he would like to bring the budget balance back to -3% around 2027.

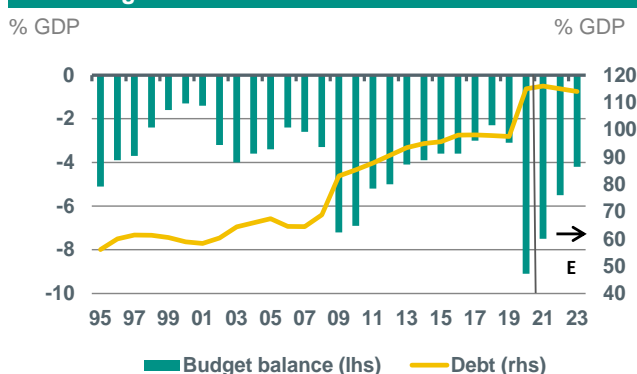
Macron could face the obstacle of not having a parliamentary majority after the legislative elections. Under France's semi-presidential political system, if a president's party is different to that of the majority of members in parliament, the government is divided – this is called 'cohabitation'. Such a scenario cannot be ruled out in the event of a Macron victory. When this happens, the president can become a marginal figure in national politics, although they maintain pre-eminence in areas of foreign affairs and national security. In this case implementing reform becomes very difficult. We will publish an election preview in the weeks before the legislative elections in June.

GDP growth France versus the eurozone



Source: Refinitiv, ABN Amro Group Economics

France's government finances



Source: Refinitiv, ABN Amro Group Economics

Impact on economy and public finances

The impact of Macron's policy plans on economic growth and government finances in 2022-2023 should be relatively limited. Still, the planned pension system reforms and measures aimed at stimulating employment could raise potential GDP growth in the longer term and help improve government finances. Similar to what happened in other countries, France's government finances have deteriorated dramatically during the pandemic, with the budget balance deteriorating from -3.1% GDP in 2019 to -9.1% in 2020 and the debt ratio rising from 97.5% to 115%. The budget deficit is expected to decline noticeably in 2021-

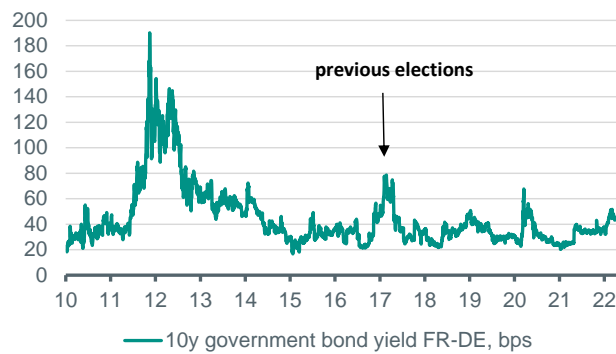
23 on the back of the economic recovery and unwinding of temporary pandemic-related support measures. Nevertheless the deficit is expected to be around 4% in 2023, well above the European Commission's 3% limit (though there is growing support in Europe for some kind of change to these rules). The debt ratio is expected to edge modestly lower in the coming years. Compared to the other big eurozone countries France's debt ratio is expected to be well above Germany's (around 70%) in 2023, but below Italy's and Spain's (around 150% and 120%, respectively).

Impact on financial markets limited

Financial markets have not priced in any radical changes in France's politics. The 10y bond yield spread over Germany has widened somewhat in recent weeks, but this was due to a general move into safe havens related to the escalation of the Ukraine-Russia conflict. France's spread has not widened more than any of its peers. This is in contrast to events five years ago, when Emmanuel Macron joined the race for the first time and the polls showed that he was neck-and-neck with Marine Le Pen, who had an anti-euro campaign at that time. Indeed, as the graph shows, France's spread over Germany rose sharply in the months before those elections and declined after the results. Given the likely victory of Emmanuel Macron this year and his strong lead in the polls, we expect the impact of the election on financial markets to remain modest.

10y Government bond yield France versus Germany

In basis points



Source: Refinitiv, ABN AMRO Group Economics

| | LA FRANCE INSOUMISE | EUROPE ECOLOGIE LES VERTS (EELV) | LA REPUBLIQUE EN MARCHÉ (LREM) | LES REPUBLICAINS | LE RASSEMBLEMENT NATIONAL (RN) | RECONQUETE ! |
|---------------------------------|---|---|---|---|---|--|
| CANDIDATES | Radical left Jean-Luc Mélenchon | Green party Yanick Jadot | Centre/Centre-right (Macron's party) Emmanuel Macron | Conservatives/ Liberals Valerie Pécresse | Radical right Marine Le Pen | Radical right Eric Zemmour |
| SECURITY AND IMMIGRATION | -Rethink immigration policy on a global scale. Welcome all foreigners threatened in their home country. -Restore local courts -Grant legal status to all workers without a residence permit yet -Improve welcoming conditions of migrants | -Fundamental right to migrants: guarantee access to health and housing -Grant legal status to people living in France having a job, family or kids in schools -Working permit given right after asylum is requested | -Increase military budget to 50bn per year in 2025 -Put in place forces in unsecure districts -Recruit cyber professionals and extra justice staff -Restrict access to residence permit'. No renewal of residence permit of 'troubling foreigners' | -Instore annual quotas per sectors and countries -Remove birthright -Remove social support to illegal migrants and expulse the ones representing a threat -Obtain residence permit only if speak French -Accelerate asylum procedures | -Referendum on immigration -End family regrouping policy -Expulse illegal migrants and criminal foreigners -National priority on health, employment and housing to French citizens -Treat asylum demands only from abroad | -Apply a zero immigration policy -Delete social support to outside EU foreigners -Remove health support to migrants -Expulse criminal foreigners -Reduce the majority age from 18 to 16 |
| HEALTH & EDUCATION | -Raise by 30% teachers' salaries -All public institutions related to school will be free (i.e. transport, food, books) -Citizen service mandatory before the age of 25, with paid min. wage and training provided | -Increase the number of hospital beds, hire 100k nurses in 3 years -Increase medical staffs salaries by 10% -Hire 65K teachers and increase their salary -Legalize cannabis | -Act on 'medical shortage areas' by increasing number of pharmacies and nurses available -Develop IT consultation -Improve salary of professors -Give more autonomy for academic institutions | -Hire 25K medical staffs (nursing) -More autonomy for academic institutions - Create a "youth bank" to help finance studies | -Launch an "urgent support" plan of EUR 20bn -Raise salary of medical staffs (EUR 2bn/year for 5 years to do so) -Raise salary of professors (3% per year) and refund their trainings | -End the common college program and install a professional section starting from 14 years old -Facilitate access of scholarships for modest families |
| ECONOMY & SOCIAL | -Decrease retirement age to 60 (current 62) and reduce working hours to 32 for manual and night work -Block prices of necessary products - Adopt the 6 th weeks of paid holidays -Increase min wage to EUR 1400 net per month -Re-introduce ISF and increase taxes for high revenues -Reimburse fully health expenditures - Exit public financing from financial markets | -Retirement age at 62 - Create a green tax on wealth higher than Euro 2bn -Decrease taxes on small revenues -Reduce VAT to 5.5% for public transport and to 0% for Bio food -25bn investment per year to support the "future sectors" - Increase min wage to 1500e/month -Distribute automatically a citizen revenue of 918e/month from 18years old | -Increase retirement age to 65 -Implement a min retirement revenue at 1100e/month -Decrease taxes by EUR 15bn/ year -Financial support from unemployment to be given only if working (or following training) 15 to 20h per week. -Invest EUR 30bn in "future sectors" | -Increase retirement age at 65 -Raise by 10% salaries under 2,2 min wage in the next 5 years -Reduce spending by EUR 45bn/year and bring back public debt around 100% of GDP -Pursue the current unemployment policy with more degressive allowances | -Set retirement age to 62 and indexed retirement on inflation -Decrease VAT from 20% to 5.5% for energy products -(Re)nationalize highways -Exempt youth under 30 years old from revenue taxes. Same for Entrepreneurs under 30 for the first 5 years. | -Increase retirement age to 64 -Reduce production tax by EUR30bn -Decrease taxes for small companies -Extend the monitoring of foreign investment for all sectors - Oblige public orders to prioritize French products |

| | | | | | | |
|---------------------------------------|---|--|--|--|--|--|
| ENERGY | <ul style="list-style-type: none"> -200bn euros of investment in environmental and social utilities -Adopt in the Constitution the principle of "green rule" -Re-nationalize SNCF and highways -Plan for 100% renewable energies and exit nuclear and fossil fuel | <ul style="list-style-type: none"> -EUR 10bn/year to renovate "deficient" buildings in terms of energy -Stop the sale of new thermic vehicles by 2030 -EUR 4bn/year to renovate railway network -Exit nuclear energy -6 million households will receive a 400e cheque as energy support -Suspend the European electricity market | <ul style="list-style-type: none"> -Thermal renovation of 700K buildings per year -Development of an energetic mix with nuclear and renewable energies. -Adopt incentives for modest families to lease electric cars -Defend a carbon tax at the European border | <ul style="list-style-type: none"> -Create a carbon tax at European borders - Direct French economy and government actions on carbon neutrality in 2050. - Continue to develop nuclear energy | <ul style="list-style-type: none"> - Promote France independency on energy - Invest in nuclear, hydroelectric and hydrogen - Guarantee respectful prices to French agriculture | <ul style="list-style-type: none"> -Reinforce nuclear energy and forbid the construction of windmills -Thermal renovation needed |
| EUROPE | <ul style="list-style-type: none"> -Offer EU States and European populations to break actual treaties -Exit the Schengen policy and Frontex -Exit NATO | <ul style="list-style-type: none"> -Support a Federal Europe and focus on fighting climate change -Implement stricter regulations in the Paris agreement -Defend min wage, guarantee revenue and equality of pay between men and women at European level | <ul style="list-style-type: none"> - Support European sovereignty, notably on energy, agriculture and defense areas. -Reform the Shengen area and reinforce Frontex | <ul style="list-style-type: none"> -Propose to review the 3% public deficit rule. - Reinforce "European preference" policy in public offers and impose 50% quota of European products in IT products | <ul style="list-style-type: none"> -No Frexit but a deep reform of European institutions. Same for the euro. -Treat national law superior to European laws -Restore border controls | <ul style="list-style-type: none"> -Direct European Union toward the Europe of nations -Oppose France veto vote to every treaty on international trade -New national law will be considered above European existing laws -Reform |
| PREVIOUS ELECTION (2017) SCORE | Mélenchon 19.58% | Resigned and rallied the left party (PS) | Emmanuel Macron 24.01% | Francois Fillon 20.01% | Marine Le Pen 21.3% | First-time candidate |

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