

COFACE BRIEF

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CONFIDENTIAL

France's presidential election: Centrist Macron and far-right Le Pen go through to final round

GDP forecast 2017: 1.3%

Coface country risk assessment: A2

What

The centrist and pro-business candidate E. Macron came out first in the first round of the French presidential election (23.9% of votes). The far-right candidate M. Le Pen (21.4%) will go through to final round on May 7 as well. As E. Macron is now projected to win the final round, European stock and markets along with the euro have rallied on April 24. France's 10-year government bond yield slid to a three-month low at 0.74 percent and the euro has reached its highest level since the election of D. Trump.

Why

1 – A relief for financial markets

Financial markets have rallied on April 24, since the key tail risk (far-left Mélenchon and far-right Le Pen go through to final round) has been avoided and the score of the far-right candidate is lower than expected. Hence, "Frexit", protectionism and sovereign default risks are now less likely.

2 – Business Confidence at years-high: a tale of two countries

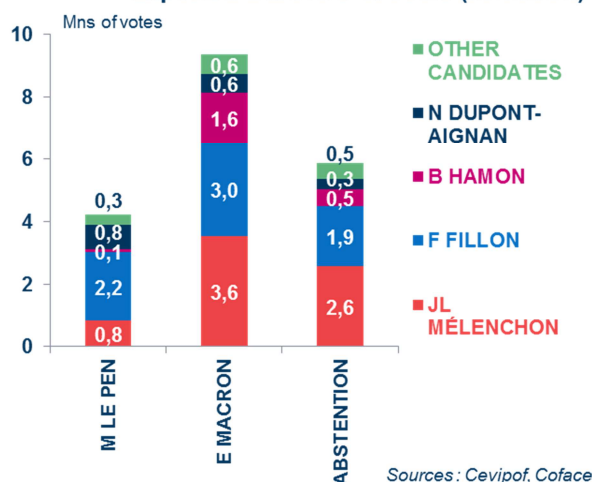
The election results are only half-surprising when looking at economic confidence levels: in February, consumer confidence reached a ten-year high and business confidence jumped to a six-year high. Such confidence levels explain both the political success of the economic policy continuity suggested by E. Macron and the lower than expected level of M. Le Pen, if we assume that a deteriorated economic environment leads to an increase in the populist vote. However, these two candidates perfectly illustrate a crisis of confidence between two parts of the population, the M. Le Pen voters being very critical and pessimistic about globalisation and political elite.

Risks

1 – Macron projected to win

E. Macron would be elected President with a significant lead of 6 million votes according to our baseline scenario built upon pre-election surveys to determine the voting shifts from the losing candidates (see chart). For the first time in the presidential election history, a much lower turnout is expected in the second round (34% in our scenario) than in the first one (21.8%), given the frustration of a large number of voters after a polarizing campaign.

Expected transfers of votes (in million)



2 – Back to an unstable equilibrium in June?

Another main feature of the first round is the collapse of the two traditional mainstream parties, the conservative party (*Les Républicains*) and the socialist party (*Parti Socialiste*). Given the specific context of a presidential election (especially scandals involving the conservative candidate F. Fillon), one can expect traditional parties and their massive political structure to spring back up during the parliamentary elections in June. In the meanwhile, if elected, E. Macron might encounter difficulties to transform his diverse and one-off support base into a stable majority in the National Assembly. The far-right party would face similar constraints to expand its current number of seats in the National Assembly (2). Whoever is elected would therefore struggle to implement his plan for the country if the legislative elections lead to any different result. Nonetheless, if never M. Le Pen is elected, the fear of a Frexit could trigger financial consequences before its actual implementation, such as a surge in sovereign spreads and massive withdrawals of bank deposits requiring capital controls. In a scenario of cohabitation with a conservative majority, E. Macron would struggle to implement the liberal part of his manifesto, such as the healthcare extension and his **50bn€ public investment plan**. Conversely, the newly elected President could face a strong opposition to his labour market reforms towards more flexibility and his **public spending reduction plan of 60bn€** in the case of a left-wing majority in the National Assembly.