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To the point!

Cross-Asset- and Strategy-Research

France remains stuck in a reform backlog

Whether Macron or Le Pen: big challenges ahead!

On Sunday, the French will go into the runoff election. As in 2017, the centrist incumbent Emmanuel Macron will be facing the right-wing populist candidate Marine Le Pen. The polls are predicting reelection for Macron.

A victory of Le Pen would surprise and shake the financial markets. Although she has dropped her more radical demands from her program, such as leaving the Euro area, which she openly advocated 2017, a President Le Pen would be a huge setback for European cooperation. Opinions are likely to be divided on how to deal with Russia in particular. In the past, Le Pen appeared very close to Putin.

But Le Pen has also called into question cornerstones of the common market, such as the equal treatment of EU foreigners and French citizens, or the jurisdiction of European courts. On many points, she is closer to Euroskeptics like Poland or Hungary than to the traditional partner Germany.

France has fallen behind Germany

The French are more dissatisfied than ever. Le Pen and other populists have been able to benefit from concerns about a loss of purchasing power in the first round of the elections, even though, standing at 5.1%, inflation in March was still relatively moderate by European standards.

Popular dissatisfaction is not entirely unjustified. France is clearly falling short of its economic potential. Nowhere is this clearer than in comparison with Germany.

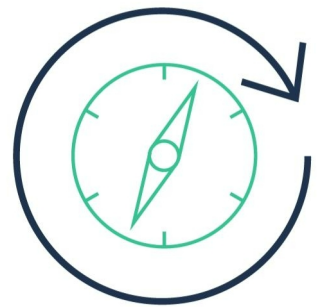
In the first five years following the introduction of the euro (1999-2003), the average unemployment rate in France was only slightly higher than that of Germany, by 0.5 percentage points.



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A victory by Marine Le Pen would cause major damage to the Paris-Berlin axis. And with it the EU.

On average over the last five years (2018-2022), however, this difference had increased almost tenfold to 4.5 percentage points. In the first half of the noughties, Germany was the "Sick man of Europe," with unemployment rates in double digits. Germany responded with labor market reforms. In France, everything remained the same. And so has the nation's high unemployment rate. The need for reform is obvious. It is unclear whether Macron can deliver. With Le Pen, however, this can be almost categorically ruled out.

France's public finances: a crisis without end?

When the euro was introduced, France had an average budget deficit of 4% of GDP. In the case of Germany, by contrast, the deficit was only 1.5%. It is therefore hardly surprising that France's public debt has only gone one way, and that is steadily up (see chart).

Until the financial crisis, the debt ratios of Germany and France were only distinguishable with a magnifying glass. In the meantime, however, France's debt ratio is over 40 percentage points of GDP higher than the corresponding German figure.

Here, too, fundamental reform is overdue. Macron has announced a pension reform. But this is likely to be only a first step toward putting public finances back on a more stable footing.

Whoever emerges victorious from the runoff election will face a long list of necessary and increasingly urgent reforms. Bonne chance!

Public debt (% GDP)



France's public finances must be brought under control

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