

## The Ultimate Guide to the 2017 French Elections – Part I

The first round of the French Presidential elections is due to be held in 47 days, with the likely second round two weeks later. There has already been much drama in a presidential campaign that has caught the world's imagination.

The two-round election for the 577 deputies of the lower house of parliament on 11 and 17 June, which has so far received little attention, will complete the political picture in France.

There are currently eighteen presidential candidates spanning the breadth of the political spectrum, from the far-left to the far-right. Political jostling is in full swing with candidates forming alliances in a bid to capture the 46 million or so votes up for grabs in round one.

The National Front's Marine Le Pen, currently ahead in the polls for the first round on around 27%, is looking to go one step further than her father Jean-Marie Le Pen and become the first ever French female president. She is currently under investigation for misappropriation of EU funds and publication of violent images.

The centre-left candidate Emmanuel Macron, aged 39, is second in the polls on around 25%. He is vying to become the first centrist president since Valéry Giscard d'Estaing in 1974, the first independent candidate to become France's head of state and the youngest ever President under the Fifth Republic.

Republican candidate François Fillon, who comfortably won the party primaries, is third in the polls on around 20% despite the probability that he will face formal charges on 15<sup>th</sup> March of misappropriation of parliamentary funds.

President de Gaulle, in a nod to the heterogeneity of the French electorate, famously asked how it was possible to govern a country where 258 varieties of cheese exist<sup>1</sup>. This granular political landscape makes it that much harder to predict with any certainty the successor to incumbent President François Hollande who has opted not to run for a second term.

This in-depth four-part Election Series will examine all core elements of the upcoming presidential and legislative elections and take both a quantitative and qualitative approach.

The material, organised in easy-to-access questions and answers, will ultimately try to answer the key question of who will be President and Prime Minister and how this will impact France, Europe and financial markets. The British decision to leave the EU and US presidential elections have fuelled the notion that anything is possible.

In Part I, I examine the importance of French presidential and legislative elections, their mechanics and timelines and the implications of a potentially high voter turnout.

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<sup>1</sup> *“Comment voulez-vous gouverner un pays où il existe 258 variétés de fromage? ”*, President Charles De Gaulle, 1962

## **Fluid political rainbow of French elections has captured the world's imagination**

The first round of the French Presidential elections will be held on 23<sup>rd</sup> April, with the likely second round on 7<sup>th</sup> May and already there has been much drama. A number of French political heavyweights – including President Hollande (who has opted not to run again) and former Prime Minister Manuel Valls and former President Nicolas Sarkozy (who lost in their parties' primaries) – did not even make it to the first round. Conversely, Emmanuel Macron, the centre-left candidate of the En Marche! movement, is running without the backing of a party and is currently second in the polls.

Two of the three leading presidential candidates for the first round are under investigation for misuse of public funds. The European Parliament is investigating the far-right National Front, led by presidential candidate Marine Le Pen – who leads opinion polls – for alleged misuse of EU funds. François Fillon, the Republican candidate who is polling in third place for the first round, is under criminal investigation for alleged misuse of public funds and is due to face formal charges on 15<sup>th</sup> March. He has so far refused to pull out of the presidential race and Alain Juppé, who came second in the Republican primaries, has declared himself out of the running whatever Fillon's decision.

Pseudo-alliances and political manoeuvring are in full swing. Veteran centrist politician François Bayrou announced on 22<sup>nd</sup> February that he had opted not to run for a fourth time and instead lend his support to Emmanuel Macron. Green candidate Yanick Jadot will not run as president but has given his admittedly very modest support to Socialist Party candidate Benoît Hamon who is currently fourth in the polls on around 15%. However, Jean-Luc Mélenchon, the Far-Left candidate who is running in his second presidential election and currently polling in fifth place (10%), has torpedoed the idea of a potential alliance with Hamon.

This in-depth four-part Election Series will examine all core elements of the upcoming presidential and legislative elections and take both a quantitative and qualitative approach. Specifically, I will seek to address 22 questions – listed below – in order to shed some light on who will be President and Prime Minister and how this will impact France, Europe and financial markets.

### **PART I**

- 1. Why are French presidential elections important?**
- 2. How are French presidential elections run?**
- 3. What about voter turnout?**
- 4. What are the key themes for this presidential election?**
- 5. Why are French legislative elections important?**

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## **1. WHY ARE FRENCH PRESIDENTIAL ELECTIONS IMPORTANT?**

**The French presidential elections matter because of the president's extensive powers, the size of the economy, France's influence within the EU and globally, the likely key role France and the President will play in the UK's Brexit negotiations, the broader rise of European nationalist and populist parties and likely impact on the euro and French and European financial markets.**

### **A. Presidential powers**

The French President is elected for five years and can serve only two consecutive terms. As head of state and commander-in-chief, he has considerable powers. These include:

- Promulgating new laws;
- Calling referendums;
- Dissolving the National Assembly (lower house of parliament) and calling for new legislative elections in the event, for example, of not enjoying the backing of a parliamentary majority (as President Charles de Gaulle did in 1962 and President Jacques Chirac did in 1997);
- Naming and dismissing the Prime Minister (the head of government); and
- Naming and dismissing cabinet ministers in conjunction with the Prime Minister.

The French Presidency admittedly does not have the wide-ranging powers which the US presidency enjoys. Unlike his US counterpart, he/she can only rule by decree for a limited period of time in exceptional circumstances (President de Gaulle ruled by decree during the Algerian War from 23<sup>rd</sup> April to 29<sup>th</sup> September 1961 as did Prime Minister Valls more recently).

The President can dismiss the Prime Minister, as President Hollande did in March 2014 when he dismissed Prime Minister Jean-Marc Ayrault (officially Ayrault resigned but it was clear at the time that he was under pressure from Hollande to step down). However, the National Assembly has the authority to dismiss the Prime Minister's government in a vote of no confidence, as it did in 1962 when it voted out Prime Minister Georges Pompidou. The President is thus de facto forced to appoint a Prime Minister who enjoys a majority backing of parliament.

The Presidential and National Assembly elections, both held every five years, are held close to one another in order to reduce the odds of "cohabitation" whereby the President and Prime Minister hail from two different political parties. This situation usually entails diminished power for the President who has to garner support from the Prime Minister and majority party in the National Assembly. France has had three presidents since 2002 but six prime ministers in that time (see **Question 5** below).

## **B. A potential break of the mould**

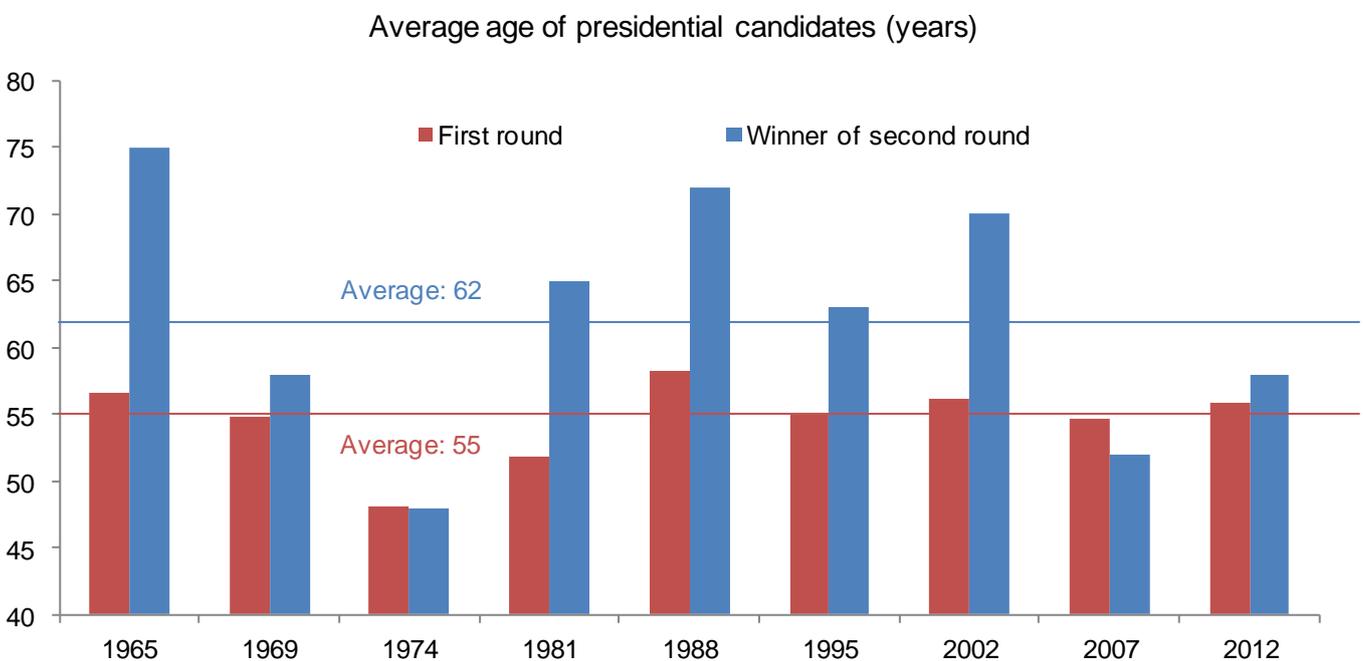
French presidential elections have in the past 36 years been won by candidates from the Socialist or Republican Party and in the past 60 years been won by men over fifty years old (with the exception of Valerie Giscard d'Estaing who was 48 when elected President in 1974). The forthcoming elections have the potential to break this mould.

The National Front's Marine Le Pen is looking to go one step further than her father Jean-Marie Le Pen, who was comprehensively beaten in the second round of the 2002 elections. If she wins this year's vote – a still unlikely event in my view – she would become the first French President to hail from the far right and the first French female president (see [Nationalism, French elections and the euro](#), 18 November 2016). Edith Cresson is to date the only French female Prime Minister (from 1991 to 1992, the shortest premiership in the Fifth Republic).

If elected, Macron would become the first centrist President since Valéry Giscard d'Estaing from the Union for French Democracy Party won the 1974 presidentials (see Figure 14), the first ever independent candidate to become France's head of state and by far the youngest ever French President.

Indeed much has been made of Emmanuel Macron's lack of experience, with his two-year stint as Economy Minister in 2014-2016 his only major political posting. Macron, aged 39, is not the youngest ever presidential candidate – that honour belongs to Olivier Besancenot who was 28 when he ran as a revolutionary socialist in the 2002 presidential elections in which he came seventh with 4.25% of the votes in the first round. But Macron is certainly the youngest ever candidate to have a fair chance of becoming president. In 1965-2012, the average age of the presidential candidates was 55 and the average age of the winner of the second round was 62 (see Figure 1).

**Figure 1: Macron aiming to be youngest ever French President**

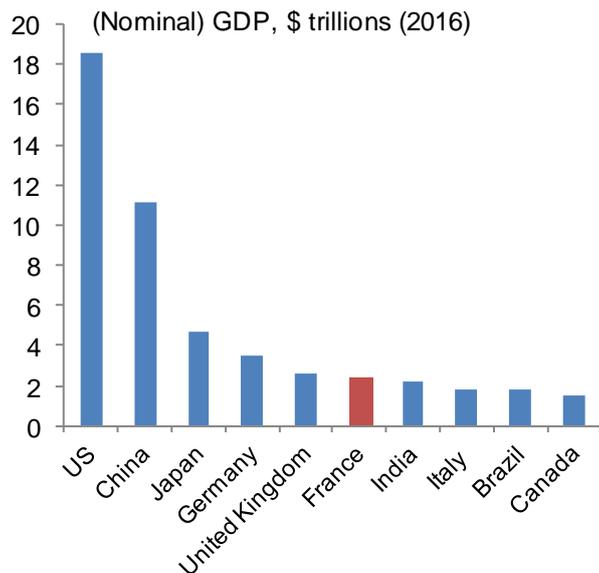


Source: *Ministère de l'Intérieur, Conseil Constitutionnel*

### C. Size of the French economy

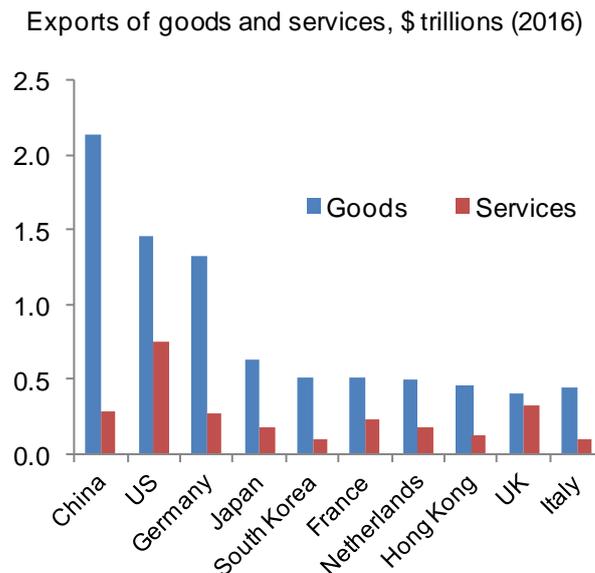
France is the world's 6<sup>th</sup> largest economy, with an estimated (nominal) GDP of about \$2.5trn in 2016, the 3<sup>rd</sup> largest European Union economy (see Figure 2), the joint 5<sup>th</sup> largest exporter of goods and the 5<sup>th</sup> largest exporter of services (see Figure 3).

**Figure 2: France's economy is the 6<sup>th</sup> largest in the world, slightly behind the UK's**



Source: National statistics offices

**Figure 3: France is one of the world's largest exporters of goods and services**



Source: National statistics offices

#### D. France's influence on global stage

France is a G7 member, a founding member of NATO and will be the only permanent member of the United Nations Security Council to also be an EU-member state if/when the UK leaves the EU (the other three permanent members are the US, China and Russia).

#### E. France's influence within the eurozone and EU

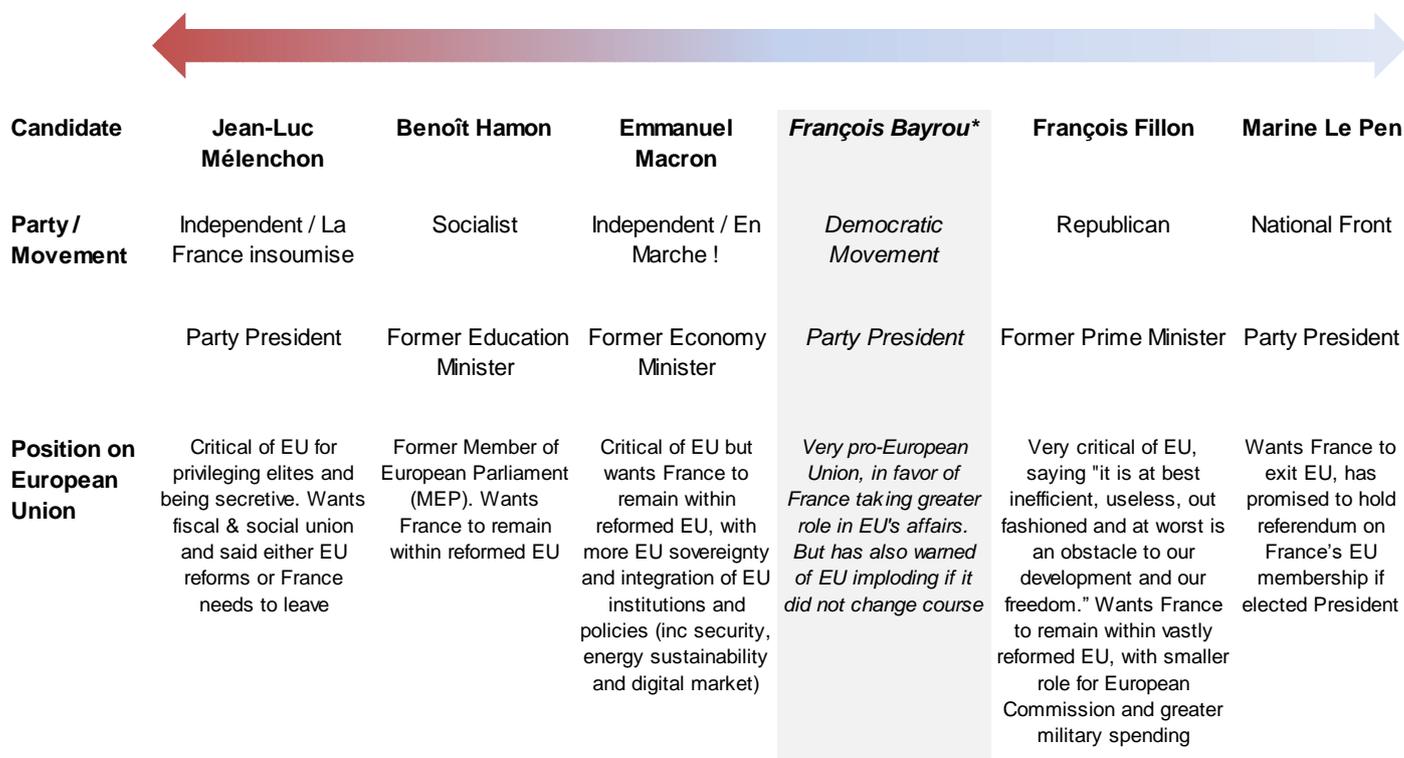
France has historically enjoyed significant political and economic influence in helping shape EU policy thanks to its founding-member status<sup>2</sup>, relative economic power within the EU and close ties with Germany. Therefore, the direction the new president sets out for the EU and France's position within the EU will be of great interest at a time when slow economic growth, social discontent, immigration and terrorism have helped fuel nationalist parties' popularity in Europe (see [Paradox of acute uncertainty and strong consensus views](#), 3 January 2017). France's influence on Eurozone and ECB monetary policy has arguably been less potent, with the Banque de France (and other eurozone members' central banks for that matter) in the shadow of the German Bundesbank.

The main French presidential candidates have differing views on the functioning, role and future of the eurozone and in particular the EU and France's role within. All candidates advocate some kind of reform of the EU but Front National leader Marine Le Pen is campaigning on the premise that France needs to leave

<sup>2</sup> The Treaty of Paris established the European Coal and Steel Community (ECSC) in 1951 and was signed by Belgium, France, West Germany, Italy, the Netherlands and Luxembourg. In 1957, these six countries signed the Treaty of Rome, which created the European Economic Community (EEC) and established a customs union. The ECSC and EEC were arguably the precursors to the European Union which was formally established when the Maastricht Treaty – whose main architects were German Chancellor Helmut Kohl and French President François Mitterrand – came into force on 1 November 1993.

the eurozone and has promised to hold a referendum on France's EU membership should she be elected (see Figure 4).

**Figure 4: The French political spectrum – From far left to far right and views on Europe (main candidates)**



Source: Ministère de l'Intérieur, European Parliament, Assemblée Nationale

Note: François Bayrou will not run in this year's presidential elections but has given his support to Emmanuel Macron

## F. France and UK Brexit negotiations

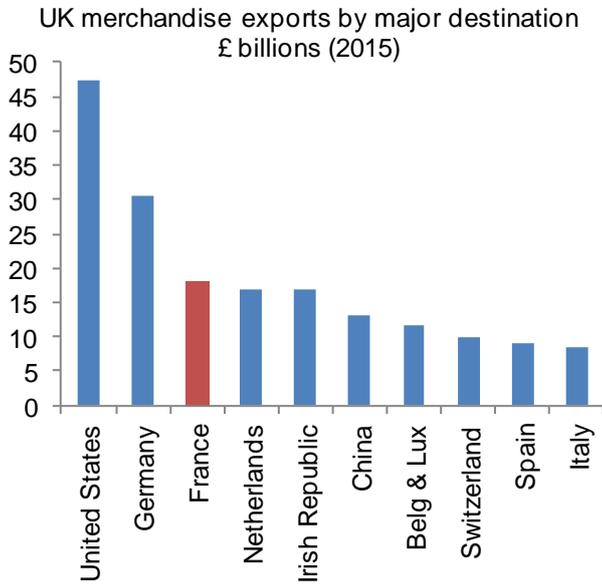
France is one of the UK's largest trading partners and the President is thus likely to have a non-negligible impact on the British government's negotiations with EU member states on the terms and conditions of the UK's planned exit from the EU and of its new agreement with the EU.

Le Pen, who has committed to calling a referendum on France's membership of the EU if elected President, would most likely be willing to give the British government more leeway in its EU-exit negotiations, in my view. Conversely, Macron who was Economy Minister until August 2016 said in the run-up to the UK referendum that he would drive a hard bargain over the terms of the UK's exit.

Fillon, whose wife Penelope is Welsh, stands somewhat in the middle, having told the National Assembly last June that *"The [UK's] divorce should be calm but it should be rapid. You cannot have left the house, have stopped paying bills, and [still] benefit from the roof, the room and board [...]. We can negotiate a good association agreement... We should maintain and deepen defence agreements with Great Britain. But there is no reason to leave them the European financial passport, and the Eurozone should recover the clearing of its currency."*

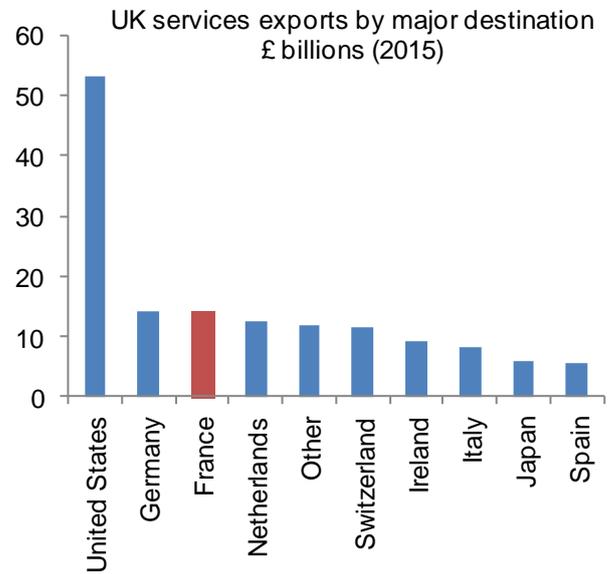
In 2015 France was the third largest importer from the UK, accounting for 6% of both UK exports of goods (see Figure 5) and exports of services (see Figures 6).

**Figure 5: France is a major export destination for the UK, both for the exports of goods...**



Source: UK Office of National Statistics

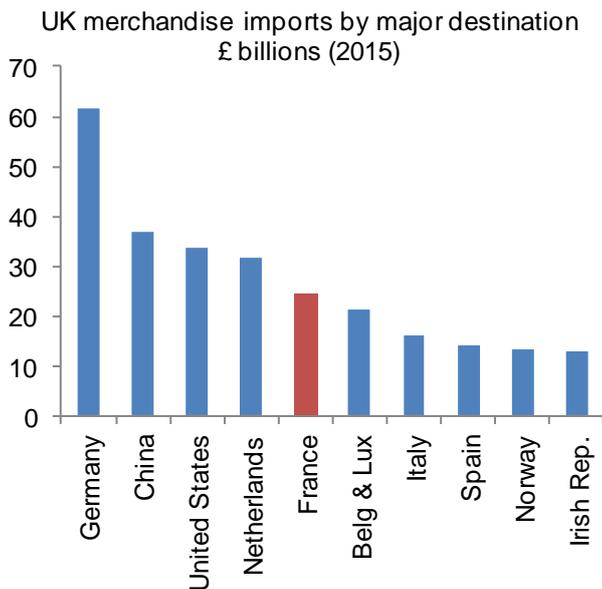
**Figure 6: ...and services**



Source: UK Office of National Statistics

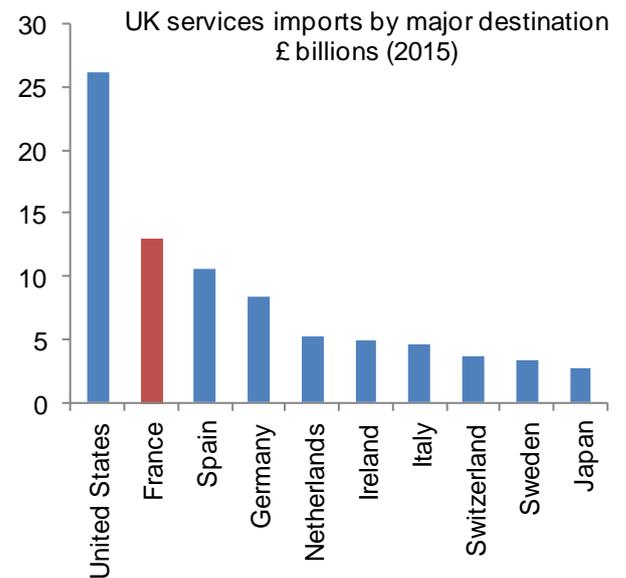
Moreover, France was the fifth largest exporter of goods to the UK (see Figure 7) and second largest exporter of services to the UK (see Figure 8).

**Figure 7: UK imports about 6% of its goods from France...**



Source: UK Office of National Statistics

**Figure 8: ...and over 9% of its services from France**



Source: UK Office of National Statistics

## **G. France and the rise of pan-European nationalism and populism**

The French elections are seen as an important litmus test for the scope of nationalist and populist parties to further extend their influence and power within the EU. The consensus view that National Front leader Marine Le Pen will make it to the second round and could even become president partly derives from her party's resurgence in recent years and broader swell of popular support for such parties across Europe.

There is little doubt that nationalism and populist parties have been in the ascendancy in Western Europe in recent years. They have performed well in EU Parliamentary elections, in regional elections (e.g. National Front in France) and state elections (e.g. Alternative for Germany) and their ratings are going up in opinion polls. In Greece, where the economic dislocation has been the greatest, the Coalition of the Radical Left (Syriza) is already in power. In Finland, the Finnish Party is a member of a three-party ruling coalition and in Denmark the Danish People's Party officially supports the three-party coalition which gives it a degree of indirect influence.

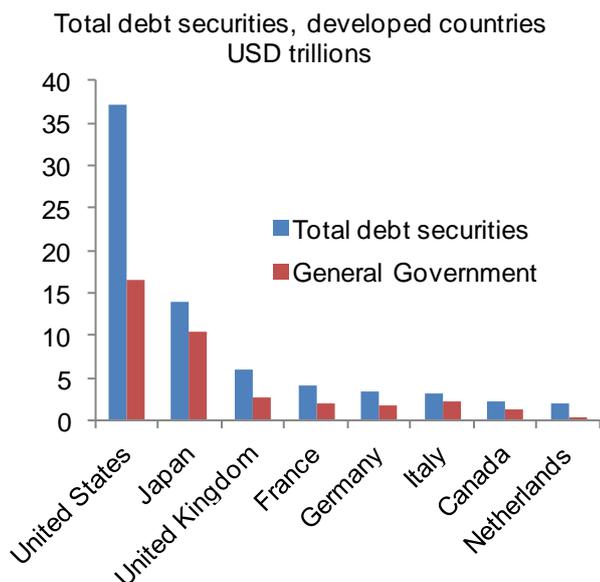
Moreover, Trump's victory in the November US presidential elections and the British electorate's vote in June in favour of the UK leaving the EU have clearly reinvigorated nationalist parties and their belief that they can tap voters which have historically supported more traditional parties and mainstream politicians.

But beyond Greece and Finland, which account for only 2.5% of the European Union's GDP, nationalist parties in Western Europe are still in opposition and often have only a small share of parliamentary seats. Ultimately they will only be able to shape the future of their countries and potentially the eurozone and/or EU if they have true power, by holding a parliamentary majority, the presidency or both (see [Black swans and white doves](#), 8 December 2016).

## **H. Impact on French and European financial markets**

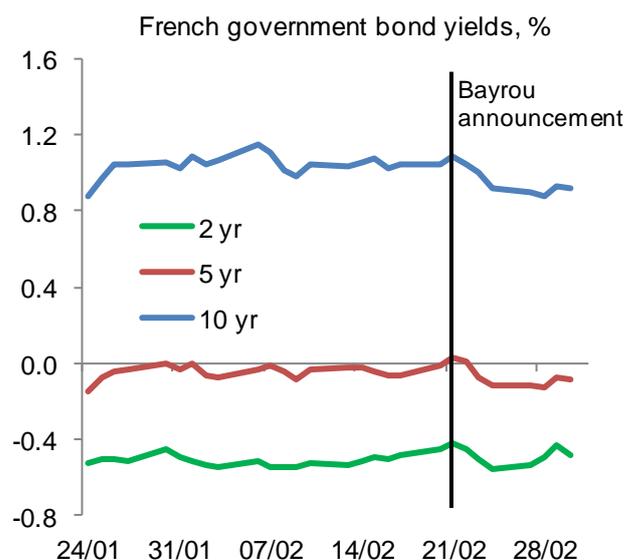
France has one of the largest debt markets in the world. As of end-June 2016, outstanding French government and corporate debt stood at \$4.15trn, of which half was government debt (see Figure 9). This is the fourth largest amount of outstanding debt within developed economies after the United States, Japan and United Kingdom according to the BIS.

**Figure 9: France has one of the largest debt markets in the world**



Source: Bank for International Settlements (BIS)

**Figure 10: French government bonds yields traded lower after Bayrou decided to side with Macron**



Source: investing.com

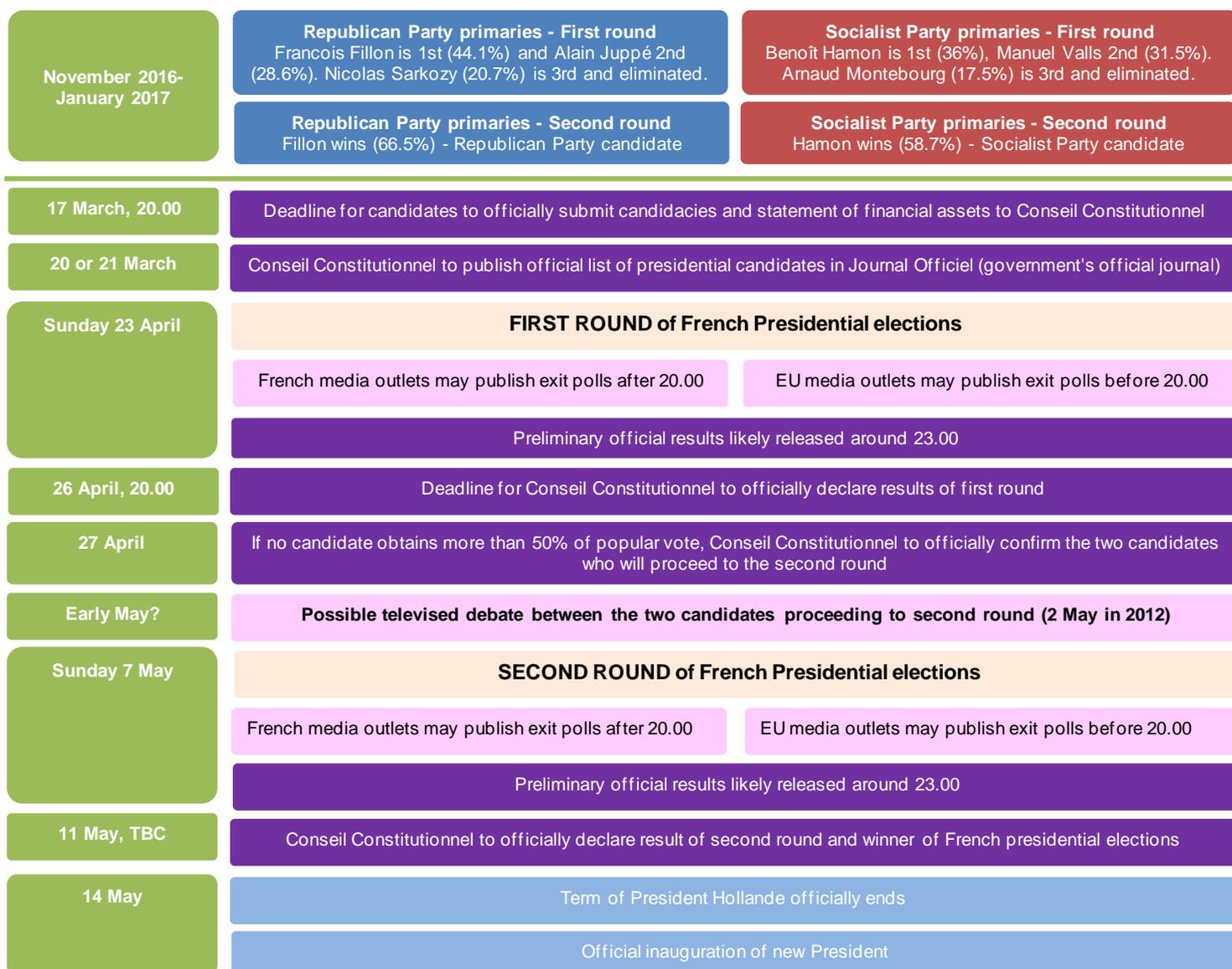
The consensus forecast at this stage seems to be that the euro will rally and French government bond yields will fall if François Fillon, and in particular Emmanuel Macron is elected president while the euro would weaken sharply and French yields rise significantly if Marine Le Pen becomes president. This is borne out from the price action after François Bayrou, a centrist, announced on 22<sup>nd</sup> February that he would not run for president but instead support Macron’s presidential bid. The euro bounced only very modestly but French 2yr, 5yr and 10yr government yields fell by over 10bps (see Figure 10).

I broadly agree with this view although believe that the rally in French government bonds and in particular the euro would be modest rather than acute if Fillon or Macron win the presidency. However, if Le Pen is elected as France’s head of state the sell-off in the euro and French government bonds could be very sharp and long-lasting. I will tackle this issue in greater detail in Part IV of this Presidential Election Series.

## 2. HOW ARE THE FRENCH PRESIDENTIAL ELECTIONS RUN?

The format of French presidential elections, as depicted in Figure 11, is reasonably straightforward but that does not make it easier to forecast the winner, in my view. French presidential elections have been held every five years since 2000 (they were previously held every seven years), with the president directly elected by citizens since 1965.

Figure 11: The long road to the Élysée – A likely two-round election



Source: Ministère de l'Intérieur, Conseil Constitutionnel

Note: Local times

There are currently eighteen presidential candidates from seventeen different parties and political movements running in this year's French Presidential elections (see Figure 12). However, only seven candidates – François Fillon, Benoît Hamon, Marine Le Pen, Emmanuel Macron, Jean-Luc Mélenchon, Nathalie Arthaud and Jean Lassalle – have so far stated that they have met the requirement of having at least 500 confirmed signatures from elected representatives among a total of more than 47,000 (including mayors, general councillors, regional councillors, deputies, senators and members of the European Parliament elected in France).

There are eleven other minor candidates who are believed to be currently short of 500 signatures: Michèle Alliot-Marie, François Asselineau, Jacques Cheminade, Nicolas Dupont-Aignan, Bastien Faudot, Pierre Larrourou, Charlotte Marchandise, Philippe Poutou, Christian Troadec, Rama Yade and Antoine

Waechter. They have until 18.00 (local time) on 17<sup>th</sup> March to confirm that they meet the requirements to be a candidate and the [Conseil Constitutionnel](#) will publish the official list of candidates on 20-21 March. It is very likely that some of these candidates will fail to meet the signature threshold. In any case, along with Nathalie Arthaud and Jean Lassalle they are expected in aggregate to win only a very small share of the votes in the first round (around 3-4% based on recent polls).

**Figure 12: Only a handful of the (potential) candidates have realistic hope of landing presidency**

Candidates for the first round of the French presidential elections who have confirmed 500 signatures (in alphabetical order for the top five candidates)				
Name	Party	Current position	Former positions	Former presidential bids
<b>François FILLON</b>	Republican Party	National Assembly deputy	Prime Minister, Minister of Labour, Senator	--
<b>Benoît HAMON</b>	Socialist Party	National Assembly deputy	Minister of National Education, MEP	--
<b>Marine LE PEN</b>	National Front	Party leader, MEP	Regional councillor	3rd in 2012 (17.9%), 4th in 2007 (10.44%)
<b>Emmanuel MACRON</b>	Independent / En-Marche! <sup>(1)</sup>	--	Minister of Economy	--
<b>Jean-Luc MELENCHON</b>	Independent / Unsubmissive France <sup>(1)</sup>	MEP	Senator	4th in 2012 (11.1%)
<b>Nathalie ARTHAUD</b>	Workers' Struggle	Municipal councillor	Teacher (economics), party spokesperson	9th in 2012 (0.56%)
<b>Jean LASSALLE</b>	Independent	National Assembly deputy	Vice President of General Council of the Pyrenees-Atlantic	--
<b>François BAYROU</b> <sup>(2)</sup>	Democratic Movement	Party leader, Mayor of Pau	Minister of National Education, National Assembly deputy, MEP	5th in 2012 (9.1%), 3rd in 2007 (18.6%), 4th in 2002 (6.8%)
<b>Yannick JADOT</b> <sup>(3)</sup>	Greens	MEP	Greenpeace co-ordinator	--

*Source: Ministère de l'Intérieur, Conseil Constitutionnel, European Parliament, Assemblée Nationale*

*Note: (1) Political movement rather than party per se; (2) François Bayrou will not run as president but has given his support to Macron; (3) Yanick Jadot will not run as president but has given his support to Hamon; MEP is Member of European Parliament*

The candidates from the Republican Party and Socialist Party, François Fillon and Benoît Hamon, were elected in two-round primary elections held on 20/27 November 2016 and 22/29 January 2017, respectively.

The first round of the presidential elections will be held on Sunday 23<sup>rd</sup> April 2017. If a candidate wins more than 50% of the valid votes from registered voters, he/she is elected president.

In the more likely event of no candidate receiving more than 50% of the vote in the first round, a second-round run-off between the two candidates with the most votes will be held on Sunday 7<sup>th</sup> May 2017. The candidate with the greatest share of the valid votes from registered voters is elected President (votes from the first round are not carried through to the second round).

- Polling stations in both the first and second round will open at 08.00 local time and close at 20:00.
- French law sets a blackout of the release of exit polls until the last polling station is closed at 20:00. However, EU-based media outlets are not subject to the French blackout law and in 2012 reported early exit poll results before closure of the polls, in both rounds of the election.
- Based on precedent, preliminary official results will be available 3-4 hours after polls close (i.e. around 23.00 local time).
- The Conseil Constitutionnel is due to publish the final official result of the first round no later than 20.00 on Wednesday 26<sup>th</sup> April and of the second round on Thursday 11<sup>th</sup> May.

### 3. WHAT ABOUT VOTER TURNOUT?

**No minimum voter turnout is required for either round although historically it has been high. There is no obvious relationship between second-round turnout and the winning presidential candidate's party (see Figure 14). However, an above-average turnout – which is plausible in this year's elections – may at the margin help centre-left candidate Macron.**

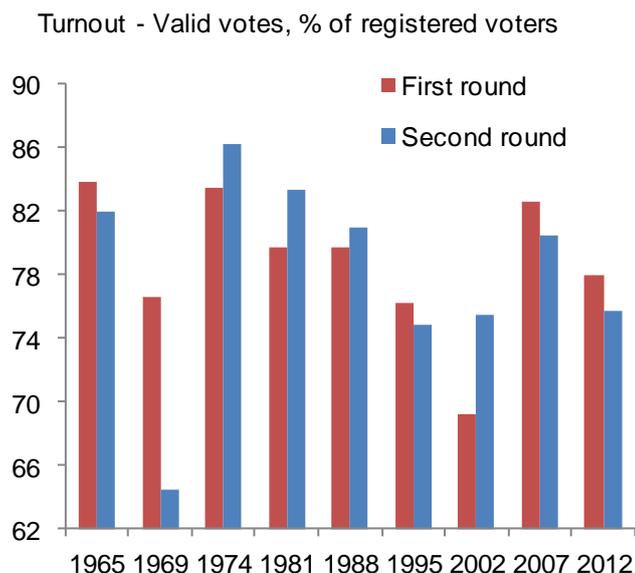
In the past nine elections, voter turnout – calculated as valid votes as a percentage of registered voters – has averaged 78.8% in the first round and 78.2% in the second (see Figure 13). This is considerably higher than the average turnout in the past three elections of 64% in the UK general elections and 56% in the US presidential elections.

The only French presidential election won by a centrist candidate – Valéry Giscard d'Estaing of the Union for French Democracy (UDF) in 1974 – also had record-high turnouts of 83.5% and 86.2% respectively in the first and second round (see Figure 14). Moreover:

- UDF presidential candidate François Bayrou came third with a respectable 18.6% in the first round of the 2007 elections – which had a high turnout of 82.6%.
- Similarly, UDF presidential candidate Raymond Barre came third (with 16.6%) in the first round of the 1988 elections – which had an above-average turnout of 79.7%.

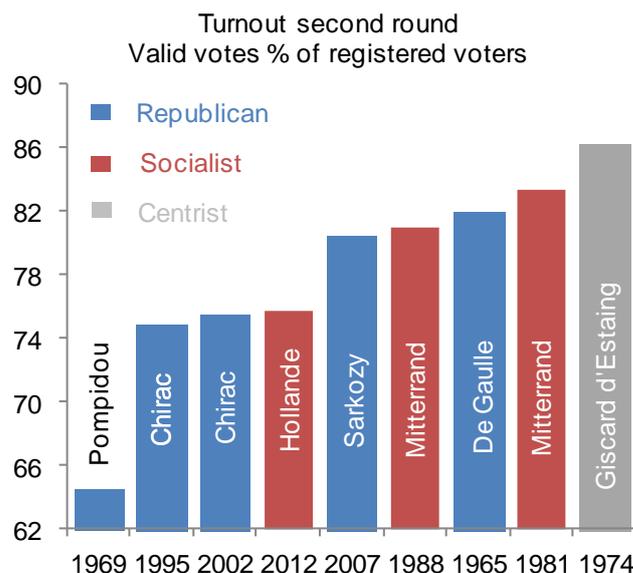
One explanation is that undecided voters or those who occupy the political centre-ground may typically be less inclined to turn up and vote than those who are backing candidates on the left or right of the political spectrum.

**Figure 13: Voter turnout at French presidential elections amongst highest in the world**



Source: Ministère de l'Intérieur, French government (data.gouv.fr)

**Figure 14: Only time centrist candidate has won presidency was a high voter turnout year**



Source: Ministère de l'Intérieur, French government (data.gouv.fr)

The high turnout at the Socialist and in particular Republican Party primary elections points to a potentially high voter turnout at the first and second round of the presidential elections. In the first and second round of the November 2016 Republican primaries, 4.3 million and 4.4 million electors respectively cast a vote, by far the largest turnout at a French primary election (the previous record was in the second round of the Socialist Party primaries in 2012 when 2.86 million voters cast a vote). I would argue that the broad political spectrum which the top five presidential candidates represent is likely to see a larger-than-average voter turnout. A high turnout would, based on precedent, at the margin help Macron's bid to become president.

#### 4. WHAT ARE THE KEY THEMES FOR THIS PRESIDENTIAL ELECTION?

**Domestic, European and global events have brought to the fore a number of themes in recent months. Presidential candidates have largely focused, albeit to varying degrees, on income/wealth inequality (and globalisation), unemployment, the working week, social benefits, immigration, terrorism, the future of the eurozone and EU, France's relationship with the world's superpowers and its role in the Middle East.**

As has been the case in recent presidential elections, issues which directly affect the standard of living of French voters and their families remain at the centre of the political debate. The effects of globalisation and domestic policies on French income and wealth inequality, unemployment (which still hovers around 10%) fiscal and income policy, including the 35-hour working week, social benefits and pensions, are the bread and butter issues for any aspiring French politician.

Fillon wants to curb social security payments, increase the working week to 39 hours, cut the number of public workers by 500,000, increase the pension age, cut taxes for the middle classes, increase VAT from 20% to 22% and cut government spending by € 90-100bn. At the other end of the spectrum, Hamon advocates a €750/month universal income for all French (adult) citizens.

At a European level, left-wing and right-wing nationalist and populist parties are more effectively channelling popular discontent against the political and status quo and increasingly influencing the direction of domestic policy. As a result, traditional centrist and left and right-leaning parties have had little choice but to take this message on board in order to remain politically relevant and increase their chances of election. All the main presidential candidates have addressed the pressing issue of immigration and in the wake of multiple terrorist attacks in France in 2015-2016 have put their plans for France's national security at the heart of their election campaigns. Fillon has traditionally adopted a conservative social and economic stance but in recent months incorporated a more nationalist bias and hardened his stance on immigration.

Moreover, political events in the UK and US as well as ongoing tensions in the Middle East are shaping French presidential candidates' policy programs, perhaps more so than in the previous elections. The UK's decision to exit the EU has forced French presidential candidates to revisit their views about the future of the eurozone and EU and France's role within (see also Question 1 Section E and Figure 4).

The election of President Trump in the US and greater scope for unconventional US policies both domestically and internationally has also shed the spotlight on France's relationship not only with the US but also Russia and China. Of the main presidential candidates, Le Pen is perhaps the most supportive of President Putin's government although Fillon advocates the rebuilding of France's relations with Putin, an end to EU economic sanctions against Russia and closer cooperation with Russia in the Middle East, including Syria. Conversely, Macron has been far more critical of Putin's administration and accused Russian state-owned media of interfering in the French elections and trying to derail his presidential bid.

These themes are likely to gain prominence in a yet-to-be scheduled televised presidential debate between the winner and runner-up of the first round. In 2012 the televised debate between François Hollande and Nicolas Sarkozy was held on 2<sup>nd</sup> May, four days before the second round. However, this debate is not mandatory and in 1992 Jacques Chirac refused to hold a debate with Jean-Marie Le Pen. There have been calls to have multiple televised debates involving all presidential candidates before the first round and multiple debates between the two candidates who will proceed to the second round.

## **5. WHY ARE FRENCH LEGISLATIVE ELECTIONS IMPORTANT?**

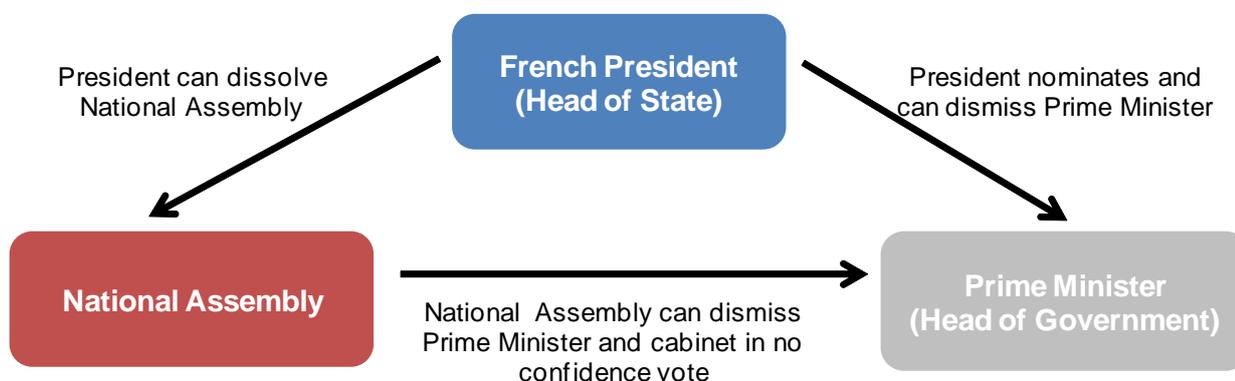
**There has been little focus on the elections for the lower house of parliament, the Assemblée Nationale (National Assembly), to be held over two rounds on 10<sup>th</sup> and 17<sup>th</sup> June. Yet these elections are arguably as important as the presidential elections as they decide the composition of one of France's law-making institutions and in turn usually dictate from which party hails the Prime Minister. It is conceivable that for the next five years the President and Prime Minister will not come from the same party or share the same political agenda – a period of “Cohabitation” usually associated with political instability.**

577 députés (delegates) of the National Assembly will be elected, representing 539 constituencies in metropolitan France, 27 French territories abroad and 11 constituencies of French living abroad. A party needs 289 seats to have a parliamentary majority.

In the first round, a candidate must obtain a majority of the votes representing at least 25% of registered voters in order to be elected (each voter, who must be aged 18 or over and of French nationality, gets one vote). Otherwise, candidates which obtained the votes of at least 12.5% of registered voters in the first round proceed to a second and final round (if no candidate fulfils this condition, the two candidates who won the most votes in the first round proceed to the second round). The candidate with the most votes in the second round is elected a delegate.

The National Assembly can overthrow the prime minister and other ministers in a vote of no-confidence (this has admittedly happened only once under the Fifth Republic, in 1962). So while the President appoints the Prime Minister, who largely handles the day-to-day running of the country, he/she is de facto forced to appoint a Prime Minister who enjoys a majority backing of the National Assembly (see Figure 15). The Prime Minister is normally chosen from within the National Assembly, but there have been rare occasions when this has not been the case (Dominique de Villepin, for example, served as Prime Minister from 2005 to 2007 without ever having held an elected office).

**Figure 15: The checks and balances on French executive and legislative powers**



*Source: Assemblée Nationale, Conseil Constitutionnel*

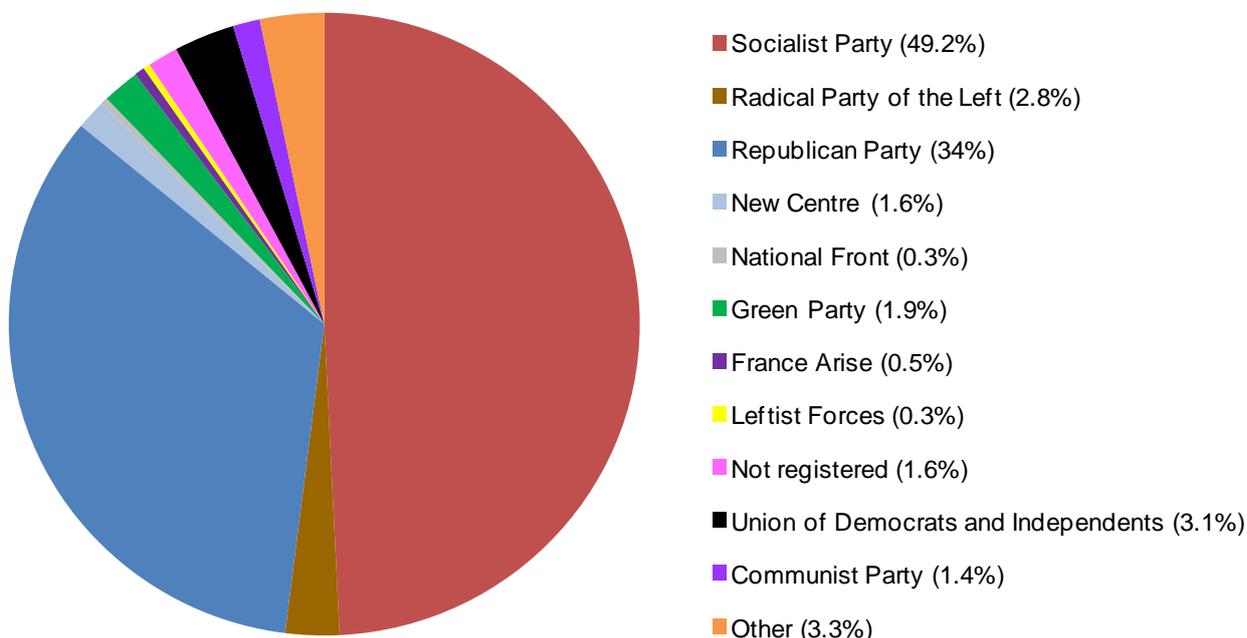
The Presidential and National Assembly elections are held close to one another in order to reduce the odds of “Cohabitation” whereby the President and Prime Minister hail from two different political parties or coalition of parties. The Socialist Party of President François Hollande is currently by far the largest party (with 284 delegates), as depicted in Figure 16. It is five delegates short of a parliamentary majority but through coalitions with other leftist parties (including the Radical Party of the Left) can form a majority. President Hollande has thus enjoyed the freedom to appoint three successive Socialist prime ministers – Jean-Marc Ayrault in May 2012 (who Hollande dismissed), Manuel Valls in March 2014 (who resigned to run for the presidentials) and Bernard Cazeneuve in December 2016.

The main opposition, the Republican Party, currently has 196 seats. It is historically aligned with the centre-right Union of Democrats and Independents (18 delegates) and New Centre (9 deputies). The National Front only has two seats – a situation not too dissimilar to the United Kingdom Independent Party (UKIP) which has only one seat in the 650-seat House of Commons.

However, “Cohabitation” occurred twice under President Mitterrand and once under President Chirac and there are a number of scenarios whereby the Prime Minister could this year hail from a different party than the President.

**Figure 16: Socialist Party coalition is likely to lose the slim majority it currently enjoys in National Assembly**

Current composition of French National Assembly (% of total delegates)



Source: Assemblée Nationale

Opinion polls – which have admittedly been few and far between in the past year – suggest that the composition of the National Assembly will change quite significantly in this year’s elections. Specifically, the Socialist Party and centre-left parties are tentatively forecast to lose over 100 delegates to the benefit of the National Front which is expected to gain a massive 60 delegates (but still be well short of a parliamentary majority). While the Republicans may fail to win a majority, they are also likely to significantly increase their share of seats and could conceivably form a majority coalition with centre-right parties.

Therefore, should Le Pen win the presidency she would probably have to work with a centre-right majority in parliament and have no choice but to appoint a Prime Minister who enjoys the Republican Party’s backing. This would in effect dilute her authority and ability to push through more extreme policies which do not have a majority backing. Similarly, if Macron, who has no real party to back him up, wins the presidency he would likely have to appoint a Prime Minister who enjoys the backing of either the Republican Party or at

a stretch a centre-right coalition of parties. This would in turn curtail his ability to push through a more leftist agenda, in my view.

The bottom line is that if Le Pen or Macron win the presidency, they will likely have to adapt their policies somewhat in order to garner parliament's support, which in turn reduces the scope for more extreme right-wing or left-wing policies, in my view. This may do little to change markets' initial reaction to the presidential election outcome but will colour the French political landscape for the following five years.

## LEXICON

**Assemblée Nationale:** National Assembly, the Lower House of French Parliament

**Bonnets Rouges:** A political movement founded in Brittany led by Christian Troadec (translates to the Red Caps)

**Cohabition:** A situation whereby the President and Prime Minister hail from two different political parties

**Conseil Constitutionnel:** A jurisdiction created in 1958 whose main task is to ensure that French laws are compatible with the Constitution. It is composed of nine members appointed by the President for a term of nine years. The current president is Laurent Fabius, a former Prime Minister and Minister of the Economy.

**Debout La France:** The party of Nicolas Dupont-Aignan (translates to France Arise)

**Europe Ecologie Les Verts:** Green Party

**En Marche!:** The political movement led by Emmanuel Macron (translates to On the March! or Forward!)

**Forces de Gauche:** Leftist party opposing the Lisbon Treaty (translates to Leftist Forces)

**Front National:** National Front Party led by Marine Le Pen

**La France Insoumise:** The political movement led by Jean-Luc Mélenchon (translates to Unsubmissive France)

**L'Élysée:** The official residence of the President of France since 1848

**Lutte Ouvrière:** The party of Nathalie Arthaud (translates to Workers' Struggle)

**Ministère de l'Intérieur:** French Ministry of the Interior

**Mouvement républicain et citoyen:** The party of Bastien Faudot (translates to Citizen and Republican Movement)

**Nouveau Centre:** Centre-right party which has support of Republican Party (translates to New Centre)

**Nouveau Parti anticapitalist:** The party of Philippe Poutou (translates to New Anticapitalist Party)

**Nouvelle Donne:** The Party of Pierre Larrouturou (translates to new New Deal)

**Parti Communiste Français:** French Communist Party

**Parti Radical de Gauche:** Centre-left party with close affiliation to Socialist Party (translates to Radical Party of the Left)

**Quinquennat:** The five-year term served by each President of France

**Sénat:** Senate, the Upper House of French Parliament

**Solidarité et Progrès:** The party of Jacques Cheminade (translates to Solidarity and Progress)

**Union des Démocrates et Indépendants:** Centre-right party (translates to Union of Democrats and Independents)

**Union Populaire Républicaine:** The Party of François Asselineau (translates to Popular Republican Union)