

## ECONOMIC NEWS

# France: No Surprises in the First Round of Elections

In 2016, the surprising results of the British referendum and the U.S. presidential election raised fears that a populist trend might also spread to continental Europe. The Netherlands did not succumb to that trend in March, and the results of the first round of the French presidential election suggest that France could also be spared.

Yesterday's election results were true to the polls. As predicted for some weeks, the centrist candidate Emmanuel Macron and the Front national candidate Marine Le Pen came in first and second and will now go on the second round on Sunday, May 7. But the lack of surprises should not hide the political significance of yesterday's results. The two leading political parties in France, which have been providing presidents on an alternating basis for close to 60 years, will not be represented in the second round. This indicates that a real wind of change is blowing over France. Now we have to see whether it will have real consequences for the French and European economies and the financial markets. The second round will answer those questions. Initially, the main fear of the financial markets was a possible contest between the extreme left, represented by Jean-Luc Mélenchon, and the extreme right, represented by Marine Le Pen; Emmanuel Macron's first place mooted that scenario. The markets are greeting the news with a surge on the French stock market and narrower gaps between the yields of French and German government bonds.

For the moment the polls give Emmanuel Macron the greatest chances of becoming president. Surveys on the second choices of those who voted for the main candidates defeated in the first round (François Fillon, Jean-Luc Mélenchon and Benoît Hamon) also point to a preference for Emmanuel Macron.

Marine Le Pen's presence in the second round of the presidential election still represents an element of economic and financial risk. The Front national's results went from 17.9% in 2012 to 21.5% yesterday. Polls on voting intentions for the second round show a result of around 40%. A surge in the polls by Marine Le Pen before May 7 could act as a cold shower on the relief expressed in the markets today.

With regard to the economy, the remaining two candidates' political programs are very clear cut. Emmanuel Macron is resolutely free trade, while the Front national's plan is sharply protectionist (including opposition to the free trade agreement between Canada and the European Union). Marine Le Pen is outright proposing to leave the euro zone and return to the franc, a policy that worries holders of French securities. She also wants to allow the central bank to purchase government bonds directly on the primary market to finance the public deficit. Both candidates are proposing a more flexible tax policy, but with very different methods. As he did while a minister under socialist President François Hollande, Emmanuel Macron is proposing modernizing labour laws.

### IMPLICATIONS

The second round on May 7 could have major repercussions on the economy and financial markets. There is no doubt that a surge in the polls followed by victory for the Front national candidate could negatively impact markets, similar to what we saw following Brexit. Even though he is a centrist and reformist, Emmanuel Macron is still the choice for continuity. Yet it is worth remembering that the next president of France will not have a lot of leeway and that the legislative elections on June 11 and 18 are also important.

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