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## MACRON'S VICTORY PAVES THE WAY FOR SERIOUS REFORMS

### Berenberg Macro Flash

**Advantage Macron.** With a solid majority of around 355 out of 577 seats in the French National Assembly according to an Ipsos poll update at 20:53h Paris time, France's new president has a unique opportunity to reform his country and strengthen the EU27 and the Eurozone in the process. Although Macron's centrist REM party did not do quite as well in the second round of the parliamentary election as the most recent opinion polls had projected, we expect him to deliver on his reform promises. The case for optimism rests on six pillars:

1. Macron has an unusually strong mandate. He has campaigned for reforms and has won the presidential and the subsequent legislative elections with convincing majorities. That sets him apart from his Socialist predecessor Hollande who had campaigned on a leftist agenda in 2012 and then lacked the legitimacy for serious pro-growth changes once he realised two years later that his initial policy initiatives had compounded France's economic problems.
2. Macron has proven to be a skilful and focused political operator, building up a new political movement from scratch within just 14 months to take him into the Elysee Palace and win a majority of seats in parliament. That puts him apart from former centre-right president Sarkozy who had lacked the focus to implement significant reforms.
3. Many parliamentarians of Macron's REM party may have little political experience. But the heavyweights in his cabinet including prime minister Edouard Philippe and economics minister Bruno Le Maire do. As most of Macron's ministers and his members of parliament owe their current position to him rather than an established party machine, Macron's ability to command loyalty and set policy probably surpasses that of many previous French presidents.
4. As economics minister from 2014 to 2016, Macron already advanced France close to the top of the [European reform league](#) as measured by the OECD in its annual "Going for Growth" assessments of reform progress. The "Loi Macron" and "Loi El Khomri" umbrella laws which he helped to mastermind and implement have already made a difference. He is now in a position to go significantly further.
5. The key parties of the centre-left (Macron's REM) and the centre-right (Republicans) agree that France needs thorough reforms. Such a de facto consensus among virtually all mainstream political forces that France needs to make its labour market more flexible, rein in the somewhat bloated government sector, and implement further pro-growth structural reforms did not exist before.
6. Firming economic growth and rising employment in France and across most of Europe provide a favourable backdrop. Making dismissal rules more flexible in times of an economic upswing is less difficult politically than in times of crisis.

According to an Ipsos projection published at 20:53h Paris time, Macron's REM can expect to win 355 out of 577 seats. The strongest opposition party will be the centre-right Republicans with 128 seats followed by the Socialists with 48 seats. With just 28 seats for the radical left and 8 for the radical right Front National, the extreme fringes of the French political spectrum will remain virtually irrelevant in the new French parliament. A separate Kantar exit poll projects 360 seats for LREM. The majority for Macron as suggested by these polls falls short of the up to 470 seats that recent opinion polls had indicated. That Macron's victory was so widely expected may have contributed to a record-low turnout.

Taken together, the political forces that stand for serious change in France, REM and Republicans, look set to win around 485 out of the 577 seats in the National Assembly. Rarely has the opportunity to reform a country and brave the inevitable street protests been more promising than it is in France now. In some cases, the major opposition party, the Republicans, will likely ask Macron to deliver more reforms instead of asking him to water them down. As promised, Macron will likely enact first serious labour market reforms by the end of September. After



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many contacts between the new French administration and Berlin as well as other European capitals in the last few weeks, we look for policymakers in Europe to examine options to strengthen the cohesion of the EU27 and the Eurozone in coming months to be ready for decisions to be taken after the German election of 24 September.

We expect the Macron reforms to transform France like the Thatcher reforms had cured the erstwhile sick man of Europe, the United Kingdom, some 35 years ago and like the “Agenda 2010” reforms had turned Germany from one of the weakest into one of the strongest economies in Europe almost 15 years ago. French reforms can underpin a long and firm economic recovery in France and the Eurozone as a whole. To a lesser extent, initiatives to strengthen the cohesion of the EU27 and the Eurozone can add to that. We maintain our view that, after the reforms which we expect Macron to implement, France could turn into the [strongest of all major economies in Europe](#) in the next decade, outclassing a Germany that is resting on its laurels and a UK that is impairing its long-term growth prospects by losing (some of) its preferential access to its major market, the EU.

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