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FRANCE: THE RETURN OF MARINE LE PEN

Berenberg Macro View

How much do we have to worry about Marine Le Pen? Some 13 months ahead of the French presidential election, the leader of the far-right National Rally is riding higher in opinion polls than ever before. As polls suggest that she would lose only narrowly to President Emmanuel Macron in a run-off vote, the tail risk that she may win is real. While it remains unlikely, we have to take it seriously. Fortunately, a Le Pen win would probably be less disruptive than it would have been in 2017. As she seems to have learned from her previous mistakes - and courtesy of the Brexit mess - the risk that she might want to take France out of the EU and/or the euro seems to have largely vanished.

Last week, Le Pen launched her 2022 presidential campaign by giving a two-hour long interview to the French 24-hour news channel BFM TV. She appeared better prepared, less nervous and more moderate than during the final debate of the 2017 presidential election when she lost the argument against Macron. Over the past four years, Le Pen has worked hard to "de-demonise" the National Rally. She has dropped her controversial proposal to hold Frexit referendum if elected president – while holding onto core, hard-line positions on immigration, security and Islam. Le Pen's strategy seems to be paying off - but not enough for her to win the election. All recent polls show her matching Macron in the first round and ultimately losing by a few points in the second-round runoff (by 12 points according to an IPSOS poll on 27 January and only 4 points according to a Harris Interactive poll on 20 January against 33 points in the 2017 presidential election). In the next twelve months, Le Pen will try to convince French citizens that she is the best candidate to put the French economy on the right track and that she can attract political talents beyond the far-right – something she had failed to do in 2017. Whether she can succeed remains a very open question. It is very early days. A lot can happen between now and April 2022 given the national fragmentation and strong political polarization. In our view, the outcome of the next presidential election will partly depend on the shape of the economic recovery. If there is a strong recovery fuelled by pent up demand and excess household savings and if France accelerates the vaccinations, Macron will run in a very favourable macroeconomic environment. This is our base case. However, if the economic recovery is shallower and unemployment rises along with economic inequality, Le Pen would run in better position than Macron.

A complete volte-face on the EU and the euro: Three months after the 2017 presidential election, Le Pen dropped the proposal to exit the euro which had cost her votes after the final debate with Macron. A majority of French voters understood the downside risks related to the exit and were hostile to it. With a devalued new Franc, imports would become more expensive. This would have hurt especially low-income earners who spend a relatively high share of their income on imported goods. It would also have created major turmoil. A euro exit is not part of the National Rally's political platform anymore and Le Pen rejected it again last week during her TV appearance. Le Pen has also softened criticism of the EU. She no longer urges to end the Schengen agreement on open borders and now defends the free movement of people within the EU –but limited to EU citizens, which is probably unenforceable. All of these represent crucial steps to transform the National Rally from perennial outsider to less toxic participant in French politics. The declared objective is to win over conservative, upper-income and retired voters who were scared by the prospect of exit from the eurozone. They preferred to vote for the centre-right candidate of Les Républicains, François Fillon, in 2017. Over the past years, several populist, far-right parties across Europe have softened their eurosceptic line, including Italy's Northern League and in past February Finland's Finns party, but with varying degrees of success at the ballot box.

A "government of national unity": In 2017, Le Pen failed to prove she can attract talents beyond the far-right. A few days before the second round, she signed a government agreement with far-right leader Nicolas Dupont Aignan, who had won merely 4.7% of votes in the first round – far from enough to build momentum. In her TV appearance last week, Le Pen mentioned her ambition to form a government of national unity and tossed a bunch of names into the hat of potential ministers – mostly unknown to the general public. In our view, the stigma associated with participating in far-right will prevent high-profile politicians from joining her. This shows the limits of Le Pen's "de-demonising" strategy.

Economic platform: The main thrusts of Le Pen's economic programme are: 1) a national loan (known as "grand emprunt") to invest into new technologies; 2) a boost to public investments to grow out of debt; and 3) the repeal of Macron's signature pension reform if it is passed before the 2022 presidential election – which is unlikely.

1) A **national loan** is an old chestnut in France which comes back to Francis I of France (16th century). When France's public finances were in disarray, the country's rulers often resorted to a national loan scheme. The State issued loans at attractive terms which were directly purchased by its own citizens who often saw it as a civic duty. Le Pen wants to issue a national loan at a nominal 2% annual interest (higher than interests on regulated savings products which are very popular among French citizens) in order to fund investments into new technologies. But why would France borrow at 2% from its citizens while it can borrow very large amounts in financial markets at very low cost, close to 0% over a ten-year period? In the past, it was justified by underdeveloped capital markets (i.e.1952 Pinay's gold loan and 1972 Giscard's loan). Nowadays, it is an economic nonsense which would be very costly for the country's public finances and ultimately for taxpayers, in our view.

2) **Le Pen wants to increase public investment expenditure to spur stronger trend growth and more employment.** If successful, this could eventually lead to a reduction in France's huge debt pile, which is now hovering around 120% of GDP. Le Pen rejects the two other options on the table to reduce the ratio of public debt to GDP: a curb in public spending and the cancellation of the public debt held by the European Central Bank (For an in-depth discussion of debt cancellation, see Cancelling ECB-held debt? The worst idea of the year challenges, by Holger Schmieding, 1 December 2020). In the past, countries which have reduced the ratio of public debt to GDP by focusing on boosting growth usual-

ly had to introduce often unpopular structural reforms – something Le Pen is reluctant to do. Without structural reforms to bring down public employment and a radical change to the post-war pension system, we doubt that Le Pen can succeed.

3) As for France's pension system, **Le Pen wants to roll back Macron's pension reform if it is passed before 2022** – which would require having a parliamentary majority after the 2022 June legislative elections. In addition, she wants to lower the official retirement age currently at 62, one of the lowest in the OECD countries, to 60. This would be very dangerous. According to France's independent pension committee, the pension system is expected to run a deficit of more than €17bn euros by 2025 if nothing is done. We estimate that Le Pen's plan would almost double the shortfall to close to €37bn. In these circumstances, we do not see how France could guarantee high pension benefits to future retirees in the long run. A mixed pension system that combines public "pay as you go" and capitalisation remains a political taboo in France.

To some extent, Le Pen has "detoxified" her party – distancing herself from anti-Semitism and from the controversial idea of Frexit. But she would need to go much further to present the National Rally as a reasonable and pragmatic alternative to Macron on economic and many other issues. **The regional elections, scheduled for June this year, will constitute a major test for Le Pen.** We expect her party to ride high in a vote that usually has s low turnout. It could set the stage for a repeat of the 2017's run-off between Macron and Le Pen.

Also see our report France: golden decade delayed.