

## MNI POLITICAL RISK ANALYSIS – French Political Crisis: Analyst Views

by Tom Lake

The French political system is in a state of both paralysis and crisis. This follows the announcement that, after less than a month in office, Prime Minister Sébastien Lecornu intends to resign amid an inability to pass a 2026 state budget and objections to the composition of his cabinet from erstwhile political allies.

President Emmanuel Macron has asked Lecornu to hold talks with parties from across the political spectrum over 7-8 October in an effort to try to find some form of consensus on passing a budget. However, with a three-way split in the National Assembly and with parties of the leftist New Popular Front alliance and the far-right *Rassemblement National* (National Rally, RN) showing no sign of willing compromise, it appears likely that Lecornu will formally tender his resignation on the evening of Wednesday, 8 October.

The options for Macron are then threefold:

1. Seek to appoint a new PM. This could come in the form of another centrist/conservative, a candidate from the centre-left Socialist Party, or even the RN. Given that Lecornu is France's third PM in less than a year, potential candidates may be disinclined to take on an increasingly impossible political role.
2. Call snap legislative election. This is swiftly moving into a 'core scenario' territory, with the NFP and RN (which combined hold around two-thirds of the seats in the National Assembly) both demanding a snap election. The decision remains with Macron, but if he cannot find a willing candidate for PM, or is unwilling to appoint an opposition figure, it may be his only option. France's two-round majoritarian system makes projecting the exact post-election composition of the National Assembly very difficult. In any case, a majority for any single party/alliance is extremely unlikely.
3. Macron resigns. Despite former PM Edouard Philippe calling for the presidential election to be brought forward, this is an extremely unlikely outcome. Macron will not want to cut his presidency short, and could argue it is a dereliction of duty to do so without a government in place. It may also risk further political instability. France's politics is deeply divided at present, and a full, lengthy election campaign ahead of the spring 2027 vote will allow for prominent candidates to build their case. Under the French constitution, if the presidency falls vacant, the election must take place between 20-35 days afterwards, hardly a significant timeframe for parties/individuals to set out their electoral agenda.

In this article, we highlight key commentary on the situation from analysts, examining the political, macro, and financial market impacts of Lecornu's resignation and the prospect of a snap legislative election.

## Berenberg

- Our fundamental view remains: France urgently needs to get its government debt under control without reversing President Emmanuel Macron's pro-growth reforms.
- It is difficult to predict how precisely a snap election in France's two-round majoritarian system would shake out. However, Ensemble would likely lose seats to the Republicans. The right-wing National Rally and the Socialists also stand to gain ground. The most likely outcome would be another hung parliament, split into left, centre and right camps. But there is a scenario in which the National Rally could achieve a majority, especially if they can entice the Republicans to support them. Unlikely but not impossible. In such a scenario, we would hope for the Republicans to blunt the National Rally's most economically damaging impulses (such as reversing Macron's pension reform).
- Both the leftist camp as well as the National Rally want to reverse his pension reform from 2023 [...]. The left especially is also clamouring for higher taxes on the wealthy and on high earners. The risk of reform reversals and higher taxes is likely already weighing on investment decisions and GDP growth. If they came to pass, France's economic prospects would darken further. The risk to our call that the French economy will expand by 0.8% in 2026 after 0.6% this year is clearly tilted to the downside.
- So far, we would count the market response to Lecornu's resignation as a fully justified reaction to increased risks. The situation remains far away from "disorderly" moves that the ECB is looking for to justify potential interventions. Still, if a crisis were to develop with substantial spill-overs into the financing costs of other member states (still unlikely, in our view), we expect the ECB would intervene at least to stop such serious contagion to other government bond markets.
- For now, a major French financial crisis still looks unlikely. But if France's mainstream parties [...] do not get their act together and fail to put France back on a fiscally sustainable track, markets will eventually force France to do so.
- France is far away from the situation of Greece during the euro crisis. But the underlying logic, namely that markets (or official creditors) will not underwrite an unsustainable fiscal policy in the long run, still holds. French bonds could be in for some volatility with a further rise in yields in coming months or years.

## CIBC

- A new French budget was supposed to be agreed upon by October 13th, but the resignation suggests that this is increasingly unlikely. Instead, France may need to once again rollover its 2025 budget, which would likely cause the deficit to widen to 6%, rather than begin to narrow as the government has been attempting. This will risk a ratings downgrade from Moody's and S&P, which could be announced in the next two months.
- We expect that EUR could continue to underperform in the near term, as a snap legislative election could lead to the RN gaining significant power should current polling prove true. Meanwhile, looming ratings downgrades could keep French spreads trend widening.

## Commerzbank

- After two centrist politicians have failed in quick succession, the choice is likely to fall on a moderate right-wing politician or a left-wing politician. The latter is the more likely scenario. A prime minister from the left-wing camp is likely to focus on higher taxes in the budget dispute and intensify conflicts with Macron's camp. The debate over the reversal of the pension reform and the reintroduction of the retirement age of 62 is also likely to intensify again under a left-wing prime minister.
- According to polls, new parliamentary elections would not significantly change the balance of power either.
- ..., there are no signs of a resolution to the political deadlock, and a consensus on ambitious reforms of public finances remains a long way off. If reforms continue to fail in the future, the deficit ratio is likely to fall only slowly from this year's planned level of 5.4% in the coming years, or even rise again...
- According to our calculations, without any reforms, the French government's debt ratio could rise well above 150% in the next ten years.

## Daiwa Securities

- ...given the entrenched splits within the National Assembly and well-rehearsed arguments for and against the fiscal policy options available, the chances that an independent PM might deliver a Budget fit for purpose might be slim. So, Macron might reasonably judge that the time has come to dissolve the National Assembly and call a new election within 20-40 days.
- ...for the time being, the chances of emergency legislation again being required to extend this year's Budget into 2026 appear relatively high.
- As the French economy continues to grow and the unemployment rate remains low by historical standards, that would not spell fiscal disaster. But the budget deficit would remain above 5% of GDP next year. And following Fitch's recent action, the case would strengthen for a sovereign credit rating downgrade by another major agency before the end of this year.

## Danske Bank

- In our view, it is increasingly likely that an election will be called. Regardless, the political turmoil means that it is increasingly likely that the 2025 budget will be extended into 2026, and hence that fiscal consolidation measures will not come into effect. This should continue to put pressure on French government bonds.

## Goldman Sachs

- While the near-term political outlook is highly uncertain, unfolding events have raised our conviction in two features of our forecast. First, we continue to expect growth to run below trend (which we estimate at 1% in France) and we are lowering our 2026 growth forecast by 0.1pp to 0.8%.
- Second, we still expect to see little progress with reducing the government deficit. We look for some budget slippage into year-end and are raising our 2025 deficit forecast by 0.1pp to 5.5% of GDP. It also looks likely that France will start next year with a frozen (or at least partial) budget. In any case, deep political disagreements, slower



growth and higher borrowing costs are likely to prevent significant progress, and we are raising our 2026 deficit forecast by 0.1pp to 5.3% of GDP.

- The risks to our view are two-sided but skew towards a further increase in the government debt-to-GDP ratio than assumed in our baseline forecast. For instance, political parties might agree on a budget at the expense of suspending the pension reform.
- ...we would expect OAT-Bund spreads to remain near current levels until uncertainty abates, rather than significantly wider. We maintain our target of 70bps at year-end, albeit with upside risks. Significantly worse growth or deficit slippage via more abrupt fiscal policy changes would challenge this outlook.
- At the 10y point of the curve, the market is likely already pricing in the risk of fresh parliamentary elections, and should the status quo prevail, spreads are likely to moderate towards our end-2025 70bp 10y OAT-Bund forecasts. That said, elevated uncertainty around the path skews the risks to this target to the upside.
- ..., we would expect OAT-Bund spreads to remain near current levels until uncertainty abates, rather than pricing significantly wider. A much worse downward revision to the 2025 or 2026 growth or budget balance, or a more significant deterioration of the deficit path in the future (such as from a freezing or repeal of President Macron's pension reform) would challenge this outlook.

## HSBC

- The resignation of the French prime minister Sebastien Lecornu brings Eurozone political risk back into focus. [...] Renewed French political risk makes it more difficult for EUR-USD to rally and break out of the range in place since early July.
- A new budget must be announced by 13 October to allow parliament the necessary time to vote on it. If this fails, an emergency budget would likely be put in place.
- Since the US 2 April Liberation Day tariffs, the EUR has benefited as a perceived safer alternative to the USD. However, French political risks are a reminder that the euro project remains incomplete and still holds back the EUR.
- Although the French PM's resignation was unexpected, obstacles to passing the 2026 budget were well known and already priced to some extent by the market.

## ING

- In our view, the likelihood of fresh elections has increased substantially, though they may not resolve the underlying issue: a deeply fragmented parliament where multiple parties believe they hold a mandate to govern alone. Moreover, a renewed parliament would not guarantee inter-party cooperation, and the likelihood of one party holding a majority after the elections is fairly low.
- Recent developments mean that the chances of passing the 2026 budget before year-end have diminished further. Therefore, France is likely to begin the new year operating under an automatic extension of the 2025 budget. This would limit not only new spending initiatives but, more critically, reform efforts.
- In our baseline scenario, we forecast the deficit will hover around 5% in 2026. As a result, public debt is expected to continue rising. We forecast debt levels to reach at

least 116.7% of GDP next year, up from 113.1% in 2024. This trajectory places France in the worst fiscal position relative to its EU peers.

- This budget delay is a problem for the European authorities, as France is currently subject to an excessive deficit procedure and is expected to submit a budget plan in the coming weeks. In this context, it is likely that the Commission will take a tougher stance with France and insist on the need to restore order to public finances.
- We project GDP growth of just 0.8% in 2026 following a 2025 growth rate of 0.6%, which is below the European average. Unlocking France's economic potential will likely remain constrained by institutional gridlock and policy inertia.
- We can see spreads experiencing more widening pressure as uncertainty lingers on the prospect of new elections, but also as the market is looking at increasing tail risks such as an early end to Macron's presidency. If the latter concern gains more traction, we think the 10y spread could start to venture well beyond 90bp.
- ...if we follow the script of recent French politics spillovers into the FX market, this is more likely to be a one-off hit to the euro rather than a driver for sustained depreciation. The latter would happen if sell-offs in OATs start to look dysfunctional and/or there is tangible contagion risk across European government bonds.
- While not triggering a major depreciation in the euro, political and fiscal developments in France (particularly the prospect of snap elections) could dampen investor appetite for the currency, especially in a market where EUR/USD already lacks a compelling catalyst to push toward 1.20.

## JP Morgan

- ...it is striking that the last two failed governments in France pushed for a fiscal consolidation of effectively 1% of GDP for next year, while most of the opposition parties were for a consolidation of around the 0.5% required under the EU fiscal rules. In other words, we would note that the current political crisis is not over a fundamental challenge to the need to reduce the deficit, and incoming budget data are not slipping materially this year. The presidential election that is due to take place, likely in the spring of 2027, also raises the political cost of any party wanting to deviate too far from that path.
- French politics is likely to remain very noisy and fragile, and there is a risk that it creates ongoing uncertainty for the economy, especially if new lower house elections are called. However, it is important to recognize that important forces are still likely to pull the unfolding political process in less damaging directions, at least in terms of broad macroeconomic and fiscal policy.

## MUFG

- If Lecornu is unable to reach an agreement by Wednesday and resigns then it will leave President Macron with the option of choosing another Prime Minister or calling elections in an attempt to break the deadlock in parliament. One option would be to choose another technocrat PM to pass a budget for next year.
- Downside risks for the euro would increase if parliamentary elections were called before the end of this year extending the period of political uncertainty. It would make it less likely that EUR/USD would rise up to our year-end target of 1.2000 although

we are not convinced parliamentary elections would be sufficient on their own to trigger a sustained reversal of the strengthening trend for the euro that has been in place for most of this year.

## RBC

- We think there are risks of a further widening with no clear path out of the current political impasse. We see two main paths forward:
  - French Assembly elections. [...] Long story short, it would clearly not be advantageous for Macron to call election now, but the level of political uncertainty may be reaching the point where Macron has no other options. Each fresh election might well lead to a similar result as is currently the case.
  - Macron could name a PM from the right or left of the Assembly and let them try their hand - although they might reject and demand elections first. We think the support of the RN will be crucial. Already, Le Pen has said she is pushing for fresh election and if Macron appears even the slightest bit open to that possibility the RN are likely to dig their [heels] in until this outcome is delivered.
- Regardless of which outcome materialises, the uncertainty and thus drag on confidence and economic activity in France continues which has led and probably will lead OATs wider as there does not seem a path out from the underlying French economic issues (high debt, wide budget deficit, poor growth mainly due to low productivity growth).

## SEB

- The first alternative (i.e. the appointing a new PM) seems most likely now because a snap election or an earlier presidential election would likely increase the support for parties on the fringe.[...] A new PM appointed by Macron would probably do concessions to both the left and right, thus a budget deficit in the order of 5 per cent of GDP in 2026 seems likely (Lecornu moderated Bayrou's suggestion of 4.6 per cent deficit of GDP to 4.7%).
- ...we singled out a French political/fiscal crisis as the main risk to our bullish EURUSD thesis. Lecornu's resignation is undoubtedly negative for the EUR, as it once again raises uncertainty about French strained public finances, and the EUR reacted accordingly today. The path ahead provides a critical juncture for the euro.
- The least disruptive outcome in the current environment, from a market standpoint, would probably be a caretaker/technocrat government with the ability to muddle through until the 2027 [presidential] election. In this scenario, the government would probably roll over previous year's budget, which would provide [some] fiscal consolidation in real terms. In this "muddling through" scenario, we see potential for more EURUSD upside in line with our forecast.
- A less favourable scenario for the market would probably be if a new prime minister from one of the populist parties attempts to dial back structural reforms such as e.g. the pension reform, as this would put French public finances on an even more [unsustainable] direction.
- In any case, the political gridlock will persist, while the budget deficit remains too large. France is increasingly finding itself in a confidence crisis, reflected by not least



increasing government borrowing costs, hence making it more difficult to balance the budget going forward. Political failure to restore market confidence will lead to further increases in the risk premium.

## UBS

- Given the prolonged political instability in France, the focus is already shifting towards the 2027 presidential elections [...] A recent opinion poll suggests that Jordan Bardella from the Rassemblement National could obtain 30% of votes in round 1 [...]. Given this outlook, we would expect the market focus to shift over the next months from the immediate question of whether or not a budget can be passed towards the economic implications of a president from Rassemblement National.
- ...the constitution has safeguards in place to prevent a US-style government shutdown, whereby the government would no longer be allowed to pay its bills. Various options seem possible; [...] Notably, the provisions of Art. 47(4) and Art 45 of the organic law would allow a (caretaker) government to: (a) ask parliament before 11 December to adopt the first part of the budget bill (dealing with revenues) first, and the second part (dealing with expenditures) at a later stage; or (b) request parliamentary authorisation before 19 December for a special law to collect existing taxes and – once the special law has been passed – adopt decrees to implement the appropriations established in last year's budget, essentially ensuring budget continuity.
- We retain our short 10y France recommendation vs eur swaps (in place since 26 August), currently trading at 88 bps with a new target of 95 bps from (90 bps previously) and a new stop at 85 bps (75 bps previously). The key reason is that we believed that election risk is much higher compared to a year ago, and investors will want to be compensated for this.
- We believe that if 30y France moves above 4.50%, from 4.43% currently, it would be a potential point for investors to add to exposure, assuming there is more clarity [...]. Investors have a much better understanding of the complexity of the budget process compared with a year ago.

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