

## POLITICAL PULSE

**The French Election Connection**

Tuesday, February 7, 2012

**Lorcan Roche Kelly****France elects a new president on May 6. Here's everything markets need to know.**

The euro area's response to its debt and banking crises has been led by French President Nicolas Sarkozy and German Chancellor Angela Merkel -- popularly known by the portmanteau "Merkozy." The French presidential election poses a serious threat to this leadership team, but probably not to the continuity of its policies -- nor to Europe's ongoing ability to navigate the crisis' many remaining risks.

Currently there are eleven declared candidates for president. The incumbent Sarkozy has not yet officially declared that he will run for re-election, but the working assumption for most observers -- including ourselves -- is that he will declare in March.

Among Sarkozy's challengers, there are three that are worth watching:

- **François Hollande:** selected as the French Socialist Party candidate in October 2011, in the wake of the problems of previous favorite Dominique Strauss-Kahn. He is expected to be less business-friendly than Sarkozy. But like Sarkozy, and like most European socialists, he is viewed as a European integrationist. Hollande was a strong supporter of Jacques Delors, under whom the European Union came into existence in 1993. Hollande ran the campaign for French ratification of the European Constitution in 2005, and has been described as [a "baby Delors" by opponents](#). He holds the lead in polling to date.
- **François Bayrou:** leader and founder of the Democratic Movement party. A pro-European social liberal, this is his third time running for president. He is the most pro-Europe of all the candidates running -- once declaring that the European project is ["The most beautiful thing which was built since humanity is](#)

**Update to strategic view**

**EUROPE MACRO:** For crisis management policy continuity, the ideal result in the coming French election would be the re-election of Nicolas Sarkozy. The current leading candidate, François Hollande, is not close to Angela Merkel, but his pro-European credentials are strong. Any talk of a Marine Le Pen far right presidency should be viewed with extreme skepticism. A run-off between Sarkozy and Hollande is the most likely outcome from the April 22 first round, with the ultimate result on May 6 still too close to call. Either way, France would remain committed to deeper euro area integration.

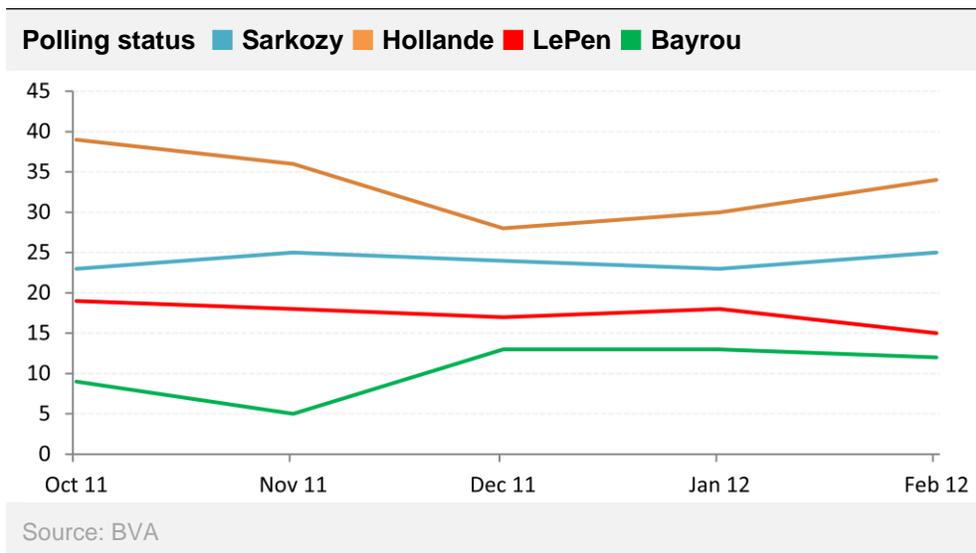
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[humanity](#)" -- and is in favor of increasing [the ease of doing business](#) for French companies. Bayrou is fourth in polling.

- **Marine Le Pen:** daughter of Jean-Marie Le Pen and president of the *Front National* (FN), the leading French far-right party. She is a euroskeptic, and her party is protectionist and anti-immigration. She is in favor of a large state presence in everyday life, often citing the importance of law-and-order issues. She is currently third in polls.

To sum up the field, assuming Sarkozy runs, the four main candidates will be one nationalist (Le Pen) one socialist (Hollande) and two center-right (Sarkozy and Bayrou). Recent polling has Hollande with a commanding lead (see chart below), but he is not far enough ahead to win in the first round -- he would need 50% of the vote to achieve this.

- French presidential elections usually have two rounds. In the first round -- scheduled for April 22 -- all candidates are on the ballot, and if no candidate receives more than a 50% share of the vote, then the top two candidates only are included in a second round run-off vote -- scheduled for May 6.



What does all this mean to crisis management policy?

- Marine Le Pen -- the only candidate likely to cause serious policy disruption -- has been fading in the most recent polls. But it is possible that she could repeat the feat of her father in the 2002 election, and make it to the run-off vote. But in 2002 Jean Marie Le Pen polled 16.9% in the first round and only increased his vote to 17.8% in the second round -- giving the winner, Jacques Chirac, a vote of 82.2%, having only polled 19.9% in the first round.
- Marine Le Pen in the second round would be a fright for markets, with her strong antipathy to European integration. But the fact would remain that the *Front National*, though increasingly popular under Le Pen, is still too polarizing to attract many transfer votes in

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February 4, 2012

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the second round. She is just not a serious challenger for the presidency.

- For continuity and stability in the euro area, the best result would be the re-election of Sarkozy. But Hollande, the strongest challenger, should not produce a massive change in French policy towards the Euro area. Hollande is a socialist [and his manifesto does reflect this](#), with proposals to increase taxes on the rich, on banks and on corporations.
- He is opposed to the fiscal compact due to be agreed by European leaders in March (see "[E Pluribus 26](#)" December 12, 2011). But this is most likely mere electioneering, as an agreement reached in March will not be up for re-negotiation in May when and if he takes office.
- He has said that he is in [favor of Eurobonds](#), which, by necessity, can only be as a result of closer integration. His background with Jacques Delors points to someone more likely to be a European federalist. His impact, if elected, will more likely be at the French national level, rather than at the European level.
- The close relationship between Merkel and Sarkozy -- including Merkel's [pledge to support Sarkozy's campaign](#) -- means that if Hollande is elected, the most important relationship in the Euro area -- that between France and Germany, may become a little strained. If Hollande and Merkel do not quickly develop a good working relationship, the progress on euro area integration may slow.
- In Sarkozy's favor -- again, assuming he decides to run -- is that he is more likely to pick up votes from both Bayrou and Le Pen supporters than Hollande is in a run-off. Also, Sarkozy has not started campaigning yet, so polls closer to the first round vote, on April 22, will give a better view of his chances.

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### Bottom line

For crisis management policy continuity, the ideal result in the coming French election would be the re-election of Nicolas Sarkozy. The current leading candidate, François Hollande, is not close to Angela Merkel, but his pro-European credentials are strong. Any talk of a Marine Le Pen far right presidency should be viewed with extreme skepticism. A run-off between Sarkozy and Hollande is the most likely outcome from the April 22 first round, with the ultimate result on May 6 still too close to call. Either way, France would remain committed to deeper euro area integration. ▶