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Aurora France Report: Stay of Execution
February 11, 2025

The Tearsheet

- 116 days and one toppled government later, France passed its 2025 budget. The Social Security Budget remains in the legislative process, but it is expected to pass through a final 49.3 and a vote of no confidence. Both bills should be enacted by the end of the month.

Feb 18	Vote of no confidence scheduled by the Socialists
Mar 06	**ECB Meeting**
Jul 08	President will be allowed to dissolve the Assemblée
2027	Presidential Election

- This marks a victory for Prime Minister Bayrou, who is likely to hold on until summer—perhaps even longer. The left-wing alliance is collapsing, and political parties are gearing up for their next campaign.
- The budget uncertainty took a toll on the economy and GDP contracted in Q4. We expect a cyclical upswing over the next two quarters, as lower rates and increasing purchasing power boost consumption.
- Over the long-term, the government is hitching its wagon to the AI boom, courting macro-significant investment from overseas investors. Assuming the AI rally continues, France is best positioned to take advantage in the EU.
- The biggest threat to growth remains political: the French public is not sold on austerity and further fiscal effort will be required next year—a contradiction that can only be resolved at the ballot box.

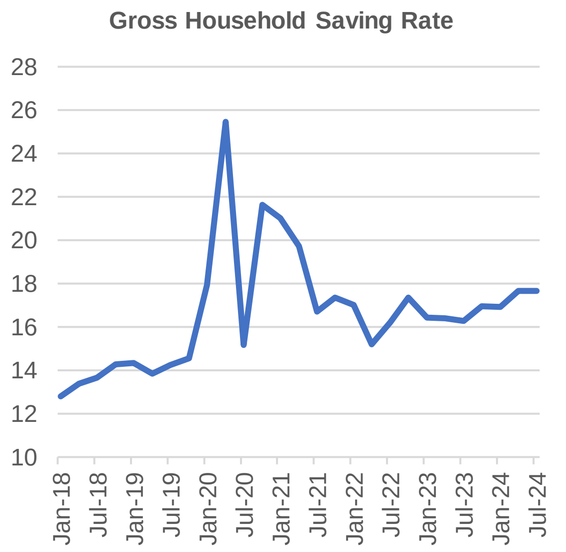
1. 116 Days and a Budget

- On Monday, February 3, two budgetary bills returned to the Assemblée: the finalized version of the global budget (PLF) and the revenue half of the social security budget (PLFSS).
- As expected, Prime Minister François Bayrou and his government invoked Article 49.3 of the Constitution, allowing them to bypass a parliamentary vote on the bills. Also predictably, the far-left LFI filed a motion of no confidence, just as they did when the Barnier government collapsed in December.
- For months, Bayrou had been negotiating with the Socialists to prevent them from supporting such a motion—in the end he succeeded. Though the far-right RN also abstained, their votes alone would not have been enough to unseat Bayrou.
- After a record-breaking 116 days, the 2025 Budget passed parliament before mid-February, with an expected deficit of 5.4% of GDP, as Bayrou had anticipated in his General Policy Speech.
- On Thursday 6, the PLF passed a final vote by the Senate and is currently being reviewed by the Constitutional Council--a formality. The Social Security budget PLFSS, in ongoing its legislative process. The government used article 49.3 on both the revenue and spending halves, and the complete law is expected to make its way back to the Assemblée this week, when we expect the government to bypass the vote in the lower chamber once again by using article 49.3. We expect the motion of no confidence that will follow to fail. Budgetary bills are set to take effect by the end of the month.

- The budget includes a mix of tax increases and spending cuts, for a total fiscal effort of about €50B. Bayrou's spending cuts total €23.6B, affecting all ministries except Defense, Interior, and Justice.
- Among other things, the government raised the eco-tax on polluting vehicles and airline tickets, increased taxes on financial transactions, and required the state-owned energy company EDF to contribute an additional €2 billion.
- Exceptional, temporary taxes were also introduced such as: a levy on high-income households (€2B), a tax on 400 highly profitable companies (€8B), and a maritime freight tax (€500M).
- Initially designed to last two to three years, these taxes were negotiated down to just one year—delaying a showdown to next year's budget.

2. Running In Circles

- In line with our expectations, the Barnier and Bayrou versions of the 2025 Budget ended up being very similar. Barnier's draft projected €1,698B in public spending, while Bayrou's final budget estimates €1,695B.
- According to the government, the poor economic prints of 4Q24 "reflect the uncertainty surrounding the political situation in France […]. This uncertainty is expected to ease over the course of 2025."
- Macroeconomically, the government has pinned its hopes on household consumption increasing. We think this is a good bet: real wages are rising, inflation undershot, and the French savings rate remains too high at around 18%.



Source: Eurostat

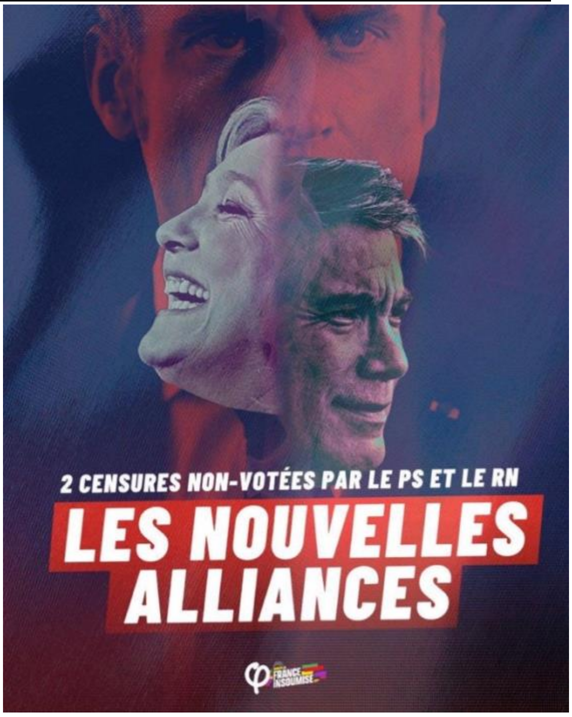
- Meanwhile, the ECB's cutting cycle is set to continue, providing much-needed disincentives to household saving.
- The budget is based on macroeconomic projections that can be considered slightly optimistic, and several risks remain. The deficit surge in 2024 was due to a miscalculation in government revenue, creating a €40B shortfall in public finances and pushing the deficit to 6% (revised down from 6.1% expected in the fall), significantly above the 4.4% initially projected in the PLF 2024.
- The final budget forecasts a 0.6% deficit reduction compared to the previous year. While Brussels has approved this version—meeting the EU's requirement for countries under the Excessive Deficit Procedure (EDP) to reduce their deficit by at least 0.5% per year—the government is left with a very slim 0.1% margin. Any deviation could trigger penalties but is unlikely to. (The European Council technically has the authority to fine non-compliant countries 0.05% of GDP every six months, which would amount to €1.5B for France. In practice, it never does)
- French GDP contracted by 0.1% in 4Q24, bringing annual growth to 1.1%, driven primarily by exports and public spending. Despite outpacing the European average, the Bayrou

government had to revise its 2025 growth forecast down to 0.9% from 1.1%, resulting in an estimated €6B revenue shortfall.

- On January 29, the High Council for Public Finances published a report deeming the growth forecast overly optimistic, projecting a growth rate of 0.7% instead.
- Finally, geopolitical uncertainty rose sharply since Barnier worked on his version of the Budget, endangering both net exports and consumer confidence.

3. Le Divorce

- Unsurprisingly, the Socialist Party's decision to abstain from supporting the motion of no confidence proposed by LFI has strained the Nouveau Front Populaire**,** the left-wing alliance formed this summer to counter the rise of the far-right RN.
- On Wednesday, July 5, following the vote, LFI issued a press release stating, "We acknowledge the Socialist Party's decision to end the Nouveau Front Populaire."
- LFI also published the poster displayed on the right. You may recognize Emmanuel Macron in the background, Marine Le Pen on the left, and Socialist leader Olivier Faure on the right. The caption reads: "Two motions of no confidence not supported by the Socialist Party and the National Rally—new alliances."

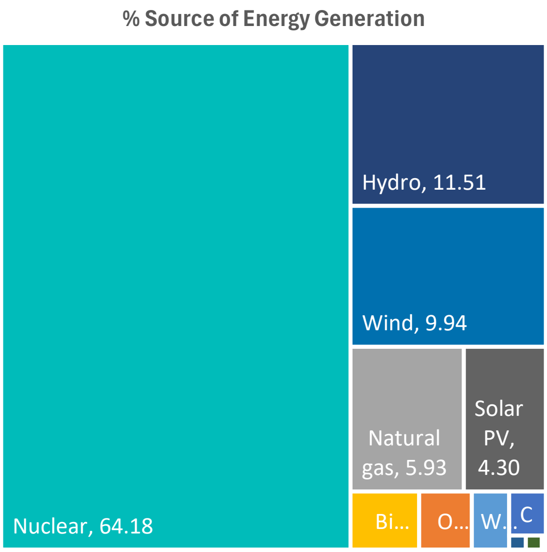


- Meanwhile, the NFP's two other members, the Communists and the Greens, have taken on the role of mediators, hoping to keep the coalition intact. They criticized LFI's messaging, arguing that equating the Socialists with the RN risks legitimizing far-right policies and that allowing the vote of no confidence to divide them would be a fatal mistake**.**
- Unsurprisingly, these remarks did not sit well with the Socialist Party. In response**,** Olivier Faure posted on X: "Time for apologies will come."
- Though the divorce has not been enacted yet, LFI gave an ultimatum to the Socialists, requiring them to join the votes of no confidence scheduled this week.
- The government used article 49.3 on the spending half of the PLFSS and is expected to use it again this week to get the whole bill through. On Monday March 10, the Socialists did not join LFI's vote, and the motion was rejected with 115 votes instead of the 289 needed to topple the government. We expect neither the Socialists nor the RN to join the final vote of no confidence of the budget saga.
- A key to understanding French politics today is that parties are already positioning themselves for early parliamentary elections, and for the 2027 presidential election. One consequence of this year's political turmoil has been a renewed spotlight on traditional parties that once dominated the stage. Both the Socialist Party and the center-right Les Républicains have regained visibility and influence, each hoping to win back voters who had drifted toward the political extremes.

- The Socialists are deliberately distancing themselves from LFI while making it clear that they remain an opposition party, strongly critical of the government—particularly President Macron, who remains deeply unpopular.
- As part of this strategy, they have called for a spontaneous motion of no confidence under Article 49.2 of the Constitution. Until now, such votes have typically followed a bill, but they can be introduced at any time. This particular motion is based on the government's perceived "failure to uphold Republican values," following remarks by Bayrou on immigration.
- Scheduled for Tuesday 18, the vote is largely symbolic. With the RN unlikely to support it, the motion is not expected to pass.
- With the NFP fracturing, the Bayrou government sees its chances of survival improving, although a summer dissolution remains a likely outcome. Regardless, the 2026 budget will be a major challenge, and this complex bill is unlikely to pass a fragmented Assemblée without a clear majority.
- One factor that could shift the dynamics and provide much-needed direction in French politics is President Macron's recent comment hinting at a potential referendum during his traditional New Year address.
- Macron is currently consulting to compile a list of questions he hopes to pose to the French people this spring. Topics could include assisted end-of-life, work, retirement, or immigration. The answers could help guide a fragmented government toward a clearer path forward.

4. Macron's AI play

- France has a competitive advantage that its German neighbor envies: green and affordable electricity, thanks to its large nuclear fleet.
- This makes the country an attractive destination for energy-intensive industries, including artificial intelligence.
- Macron intends to leverage this to attract investors and give new momentum to French soft power.
- Ahead of the AI Action Summit in Paris on Monday 10, and Tuesday 11, Macron announced a plan to invest €109 billion in AI over the coming years.



Source: IEA

- The figure was no accident; it is "exactly the equivalent of what the United States announced with StarGate and its $500 billion," a reference to Trump's AI investment program, adjusted to France's population.
- On Thursday 6, the United Arab Emirates signed a pledge to invest €50B toward the construction of a gigantic data center with a capacity of up to 1 GW — the location of which has not yet been specified — the funding of research and training programs, as well as significant investments from a consortium of French-Emirati champions.

- The Canadian fund Brookfield will build several data centers, among which one mega-site of 1GW to be built in the north of the country, amounting to a total of €15B, with an additional €5B investment in associated infrastructure.
- During the summit, several companies announced multibillion data center projects to be built on French soil, such as the British company Fluidstack, U.S.-based Equinix, Digital Realty, and Prologis, as well as the Swedish Evroc and the French Sesterce.
- The star of the summit Mistral AI – French Chat GPT – announced it will be investing several billion to build a data center in the department of Essonne, south of Paris.
- Bpifrance, a French public investment bank, announced a €10B investment plan until 2029 – not accounted for in Macron's €109B – to support the development of AI in the country.
- These investments, assuming they come to fruition, would be both geopolitically and macroeconomically significant—as they amount to about 4.4% of current French GDP.
- France is particularly well positioned to be the EU's AI hub and thus stands to gain disproportionately from the investment boom—assuming, of course, that the AI boom itself continues.

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