

## The French Budget Crisis – Everything you Ever Needed to Know

November 29, 2024

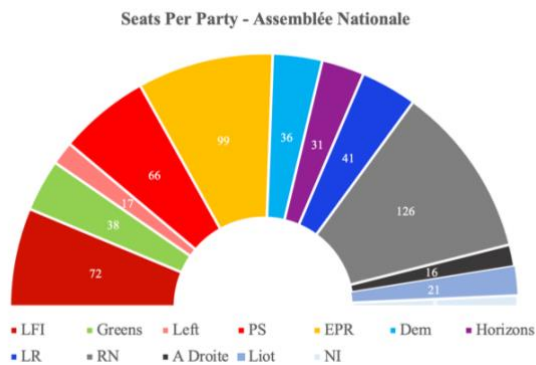
### The Tearsheet

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| <ul style="list-style-type: none"> <li>▪ With three budget laws pending, Michel Barnier’s French government is teetering on the edge.</li> <li>▪ The most likely scenario remains for the laws to be approved by joint committee (CMP), and for Barnier to bypass the final Assembly vote under Article 49.3.</li> <li>▪ He would still face a vote of no-confidence.</li> <li>▪ If he loses, the French political system would go back to square 1: the budget would be discarded, and Macron would have to find a new government that would then need to pass a budget.</li> <li>▪ The French constitution provides for various different avenues to ensure the state continues to function even without a budget.</li> <li>▪ In any case, the fundamental issue remains that French public finances are unsustainable and the French public is not sold on the austerity measures needed to fix them. Until this contradiction is resolved, either through elections or through the bond markets, French spreads will remain elevated.</li> </ul> | <div>Dec 02 Assembly vote of the PLFSS /Barnier uses 49.3</div> <div>Dec 03 PLFFG arrives in CMP</div> <div>Dec 04 Debates on a vote of no confidence for the PLFSS begins</div> <div>Dec 04 Assembly vote of the PLFFG/Barnier uses 49.3</div> <div>Dec 05 Article 47.1 – the government can enforce the PLSS by <i>ordonnance</i></div> <div>Dec 06 Debates on a vote of no confidence for the PLFFG begins</div> <div><b>Dec 12 ECB meeting</b></div> <div>Dec 12 Senate vote of the PLF</div> <div>Dec 16 CMP examines the PLF</div> <div>Dec 18 Assembly vote of the PLF/Barnier uses 49.3</div> <div>Dec 19 Deadline to present the “special law” to the Assembly</div> <div>Dec 21 Article 47– the government can enforce the PLF by <i>ordonnance</i></div> |
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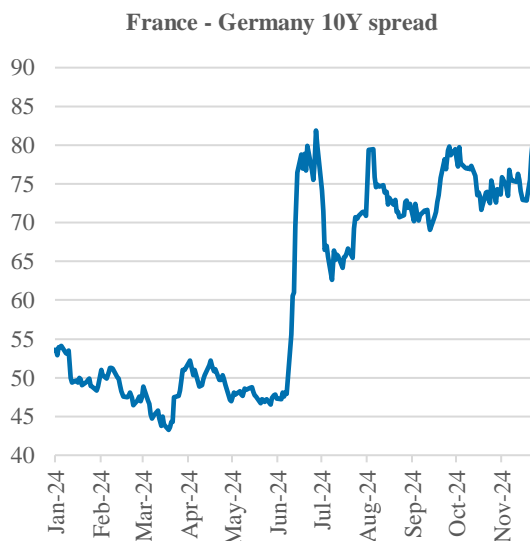
### 1. Dive into the details: Article 49.3

- The French budget process involves three distinct laws that are simultaneously moved through the legislative process. The primary components are the Social Security Budget (PLFSS) and the Budget Law Proposal (PLF), accompanied by the year-end budget management bill (PLFFG). Each of these bills requires an independent vote, creating three potential points of failure for the Barnier government.
- As detailed in [our previous analysis](#), the French legislative landscape is highly fragmented. Both chambers of parliament are in opposition, and the government faces mounting pressure to address the deficit crisis.
- The legislative process ahead entails the bills being sent to the Senate, followed by a symbolic vote of approval. It will then move to the Joint Parliamentary Committee (CMP) before returning to the National Assembly for a final vote.
- Aware of the challenges in securing approval from the Assembly, Barnier has repeatedly hinted at invoking Article 49.3 of the constitution no later than [on Tuesday 26](#) on national television.

- As we have mentioned in the past, this mechanism allows the government to bypass the standard legislative process for budgetary laws but comes with significant risks: it exposes the government to a potential vote of no confidence.
- It is virtually guaranteed that the far-left will call for a no-confidence vote supported by the center-left Parti Socialiste (PS).



- But until recently, the far-right had shown a more conciliatory stance toward the Barnier government.
- That dynamic shifted on Monday, November 28, when Marine Le Pen, following a meeting with Prime Minister Barnier, announced that [her party would join](#) the left in a vote of censure if the budget were passed in its current form, as a number of her “red lines” had been crossed.
- The Socialists indicated on Tuesday following their interview with Barnier, that they would likely join the far left in its no-confidence motion.
- This leaves the decision in RN deputies’ hands, with Le Pen as the pivotal figure whose decision could determine the government’s survival.
- To appease her, the joint committee reviewing the (CMP) passed some light amendments, such as dropping an increase on electricity taxes. This could give Le Pen a popular off-ramp.
- But Le Pen’s (and the far-left’s) intransigence remains popular with the French public.
- A recent [Ispos polls for La Tribune Dimanche](#) indicated 53% of the population (especially among RN and LFI voters) would like to see the government collapse, and 63% disapprove of the budget.
- The situation has spooked financial markets, with 10-year borrowing spreads at their highest level since this crisis began in June.
- The Social Security Budget (PLFSS) was voted in CMP on Wednesday 28 and will be reintroduced to the Assembly on Monday 2.
- We will know on that day whether Barnier decides to use Article 49.3 or not. The vote of no confidence will be debated on December 4 at the earliest.



Source: Bloomberg

## 2. If the government falls

- If either the Rassemblement National (RN) or the Socialists abstain during the vote of no confidence, the budget will be signed into law, and the government will live to see another

day. However, if the National Assembly votes to topple the government, the budget will be discarded, and President Emmanuel Macron will be forced to appoint a new prime minister.

- The potential candidates for the role mirror those considered over the summer (Cazeneuve, Lucie Castets etc.), which could lead to prolonged negotiations.
- In our view, the most likely scenario would involve the formation of a technocratic government, followed by elections in June.
- However, the French Constitution of 1958 anticipates parliamentary deadlock and provides mechanisms to avoid a government shutdown.
- Parliament could pass a *loi spéciale*, [allowing](#) the state to continue collecting taxes based on the 2024 budget. However, this would limit the government's ability to increase taxes to address the deficit. Such a law must be presented to the Assembly before December 19.
- In the interim, the outgoing government would remain in a caretaker capacity, managing essential state functions and authorizing only necessary expenditures under the 2024 budget until a new cabinet is formed. The incoming government's first priority would be to draft and present a new budget proposal at the start of the year.
- Earlier this year, we highlighted the lack of historical precedents for such a scenario. As events unfold, we are approaching the limits of what the constitution explicitly provides for in cases of prolonged stalemate.
- In the highly unlikely event that parliament blocks the *loi spéciale* and no resolution is found to prevent a government shutdown, the president could invoke [Article 5](#), which allows him to issue orders to maintain the functioning of the state. Alternatively, he could resort to [Article 16](#), granting him full executive powers—a move with profound constitutional and political implications.

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### 3. Article 47

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- A parallel constitutional provision deserves attention. Unique to the 1958 Constitution, [Article 47](#) states that, for general financing bills, "*If Parliament has not reached a decision within seventy days, the provisions of the bill may be implemented by ordinance.*" For the social security budget, Article 47.1 shortens this period to 50 days.
- The government is hesitant to invoke this mechanism, as it would be unprecedented since the constitution's adoption in 1958. The article's vague language leaves room for legal ambiguities, creating a gray area in its application.
- Since the beginning of the budgetary debates, Barnier has opted to "let the debate unfold" in both chambers of parliament.
- If the CMP fails to agree on a text, the bill is sent back to the Assembly for a new reading.
- Conversely, if the CMP agrees on a text—as it did with the PLFSS—the bill returns to the Assembly for a final vote before implementation.
- Barnier technically could choose not to use 49.3, and let the Assembly vote on the law. The latter is likely to reject it, which would send the bill back to its original version for a new first reading in the Assembly.
- To break this cycle, the government has the power to give the Assembly the final say. But in this case, the Assembly remains in opposition, making Article 47.3 increasingly relevant.

- The 70-day deadline for the PLF and PLFFG expires on December 21, while the 50-day deadline for the PLFSS ends on December 5. After these deadlines, the government would have the constitutional authority to enforce the budgetary laws by ordinance, bypassing the need for a vote.
- Such a scenario remains plausible if the CMP fails to agree, restarting the legislative “ping-pong.”
- Under such circumstances, the Barnier cabinet could more credibly justify resorting to this constitutional provision to enforce the budget. However, the constitution does not specify whether the Prime Minister must incorporate amendments or which version of the bill should be implemented.
- The law project that is more likely to fail in CMP is the PLF, due to the system of rotational seats [explained](#) in our previous French piece. It is therefore more likely that the government invokes Article 47 on this bill, if it manages to remain until then.
- This scenario would likely be Barnier’s last resort. It would almost certainly provoke opposition groups to unite and call for a vote of no confidence. Likely successful, the government would fall, but the budget—enforced by ordinance—would remain intact.

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