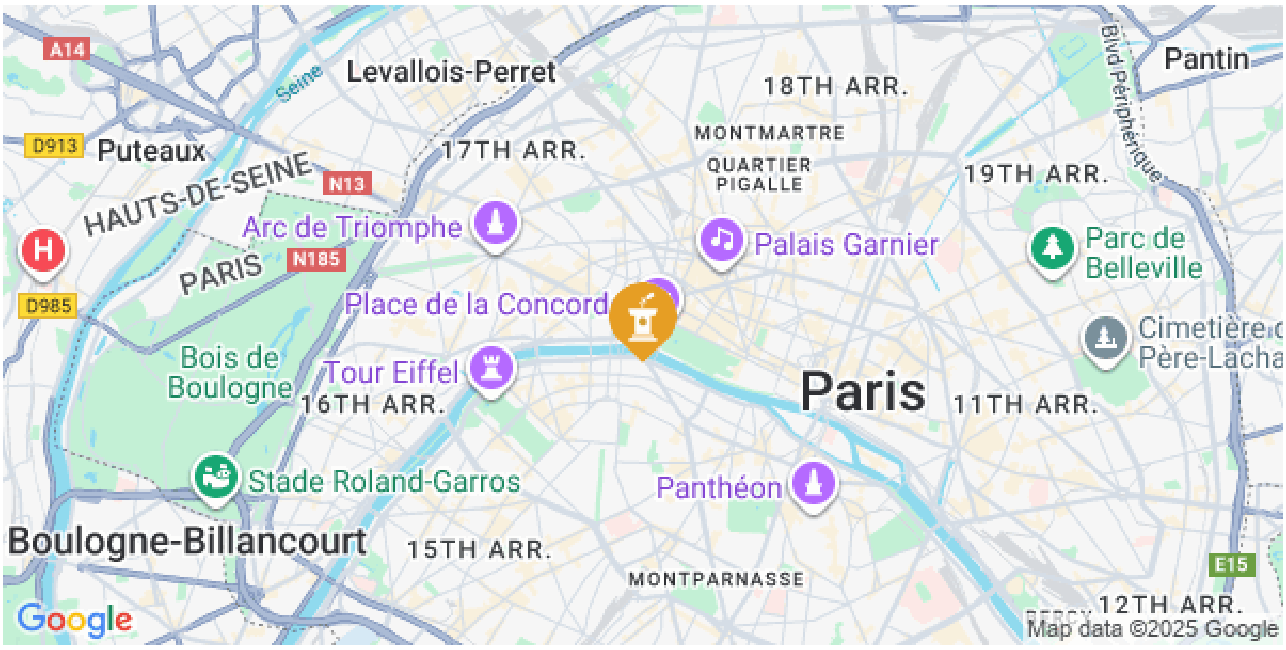
IT'S A TOUGH WORLD.

Politics



15
OCT
11:19 UTC

France Alert: PM Lecornu announces 2026 budget, suspension in pension reforms on October 14; to prevent immediate political crisis, potentially reduce frequency of left-wing protests

Current Situation

- On October 14, PM Sebastien Lecornu announced the suspension of the 2023 pension reforms until the 2027 presidential election and presented the broad outlines of the 2026 budget to the Assemblee Nationale.
- According to Lecornu, the suspension of pension reforms is expected to cost 400 million EUR in 2026 and 1.8 billion EUR in 2027. The suspension means that the gradual increase in the legal retirement age from 62 to 64 will be temporarily halted, keeping the retirement age at 62 years 9 months at least until 2028. Furthermore, the measure also delays the planned acceleration of the contribution period required for a full pension.
- Furthermore, Economy Minister Roland Lescure confirmed that the 2026 budget includes 14 billion EUR in additional tax measures and 17 billion EUR in spending cuts to offset the fiscal impact of the reform’s suspension and to reduce the deficit to below 5 percent of GDP. Budget measures include taxation of holding companies, an extension of the surcharge on profits for large companies, and removing 23 tax loopholes.
- Meanwhile, two motions of no confidence have been tabbed by the far-left La France Insoumise (LFI) and the far-right Rassemblement National (RN) and will be voted on in the Assemblee on October 16. The RN criticized the proposed budget, stating that it “inspires rejection and therefore

censure."

- However, the left-wing Parti Socialiste (PS) welcomed the suspension and indicated it would not support the no-confidence motions. That said, PS leaders emphasized that the suspension represents only an initial step and called for further negotiations on pension policy.
- Meanwhile, Laurent Wauquiez, a leader of the conservative Les Republicains (LR), told his party members not to censure the government despite LR recently expelling six of its members for agreeing to be part of Lecornu's government.
- On October 12, Lecornu formed his second government after resigning due to insufficient parliamentary support on October 6. It mainly consists of the ruling centrist Ensemble coalition, which has 162 out of 577 seats in the Assemblee Nationale.

Source: The Guardian

Assessments & Forecast

1. Lecornu's announcements of suspending pension reforms and renouncing Article 49.3, as well as his budget proposal, reflect his aim to get PS's support for his minority Ensemble coalition, especially ahead of RN's and LFI's no-confidence motions. With LR also recently fully removing itself from the government, it has become possible for Lecornu to include policies that PS has demanded without fear of LR's backlash in lieu of its support.
2. With Lecornu's policy shift, PS is likely to prefer cooperation with the government, especially as a new election will also negatively affect its vote share. However, in the long term, it is likely to consider backing future no-confidence motions, especially if PS and Lecornu differ on specific details of the pension reform suspension and budget. **FORECAST**: PS's decision not to support the upcoming no-confidence motions, alongside LR's abstention, will avert an immediate political crisis by preventing the collapse of Lecornu's government. However, PS's support is not assured, and the possibility of future successful no-confidence motions remains likely.
3. **FORECAST**: Moreover, Lecornu's decision to suspend pension reforms is liable to create divisions within the ruling Ensemble coalition and its leading Renaissance party, which is expected to create further political instability. Justice Minister Gerald Darmanin left Renaissance over differences with party General Secretary Gabriel Attal on October 14, and similar divisions are likely, as party leaders use the political situation to advance their future prospects as presidential candidates.
4. **FORECAST**: A budget aimed at maintaining PS support will likely negatively impact high-net-worth individuals and corporate entities. The budgetary measures aimed at offsetting the pension reform suspension lean more towards increasing taxes on the wealthy and limiting corporate tax breaks. As Lecornu has stated he will not use Article 49.3, he is also likely to agree to further PS demands on the budget. As such, the "Zucman" tax, a two percent wealth tax on large fortunes and multinationals, or a similar measure, remains plausible, with PS proposing it as an amendment to the budget.
5. **FORECAST**: On the other hand, such a budget will likely lower the intensity of protests and labor action by left-wing groups and major unions in the immediate-to-near term, as it partially includes their demands. However, with the government planning 17 billion EUR in spending cuts, this could lead to cuts to public sector jobs and funding. This could also affect sectors that have prominent union representation, such as transport, thereby triggering protests and strikes in the future. Moreover, taxes affecting households, as well as a decrease in government spending on insurance, are likely. The latter will necessitate more contributions from policyholders, especially in the healthcare sector, thereby likely triggering protests by left-wing groups, citizen organizations, and healthcare professionals in the long term.

Recommendations

1. Travel to France may continue while maintaining standard safety protocols and remaining

cognizant of the ongoing political developments over the coming weeks.
2. Businesses operating in France are advised to remain cognizant of the authorities’ updates regarding legislation and reforms.
3. For more information on the political and security situation, as well as planning for upcoming political developments, please contact intel@max-security.com