Economic Monthly
[Europe]

Macron administration advances reform amid falling approval ratings

YUKA MAEHARA
ECONOMIC RESEARCH OFFICE

26 OCTOBER 2017
(ORIGINAL JAPANESE VERSION RELEASED ON 20 OCTOBER 2017)

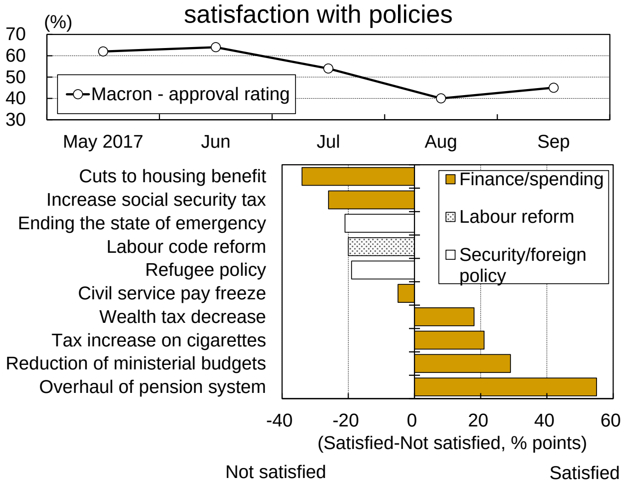
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
A member of MUFG, a global financial group

In terms of European politics, there has recently been a great deal of talk about the lack of progress in coalition discussions following the German election which took place in September. In the shadow of these events, we must not overlook President Macron, who is struggling with falling approval ratings after sweeping to victory in the May election (Chart 1).

The main cause of falling approval ratings is the fact that Macron administration is advancing labour reform and austerity simultaneously. In July's key policy speech, the administration announced that it would stick to ex-president Hollande's target of keeping budget deficit for 2017 below 3% of GDP. In 2016, the budget deficit exceeded the target at 3.4% of GDP. In order to address this, Macron has plans to implement cuts to housing benefits, and increasing social security tax, together with manifesto policies such as the expansion of public investment and reduction of corporate tax. Reform of the labour code also incorporates the addition of flexibility over dismissal and wage negotiations. Specifically, easing the economic conditions required for dismissal, and changing the basis of labour-management bonus negotiations from an industry-wide to an individual-firm level. The aim of these policies is to heighten France's influence in the EU through austerity, whilst increasing domestic employment from a mid-long term point of view through labour market reform. However short-term effects of these policies are proving tough on the French people, and appear to have had a negative impact on Macron's approval rating.

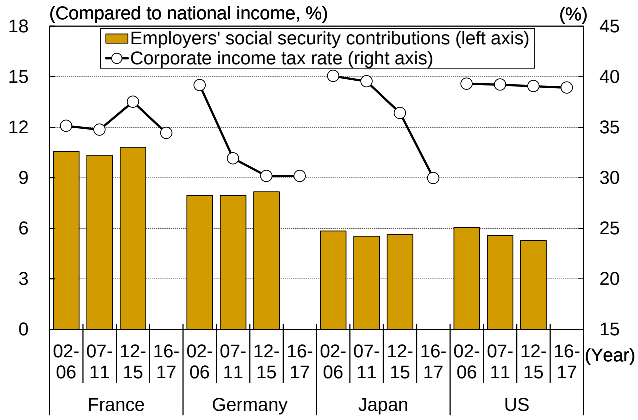
Looking back at past administrations, ex-president Sarkozy's approval rating was higher than Macron's after 5 months in power, at 61%. However Sarkozy's bid for re-election failed against the backdrop of an economic downturn and high unemployment rate. Ex-president Hollande also abandoned his campaign for re-election, with an approval rating as low as 22% in the context of factors such as high unemployment rate. In an attempt to avoid this situation, it seems that the Macron administration is placing priority on finding solutions to structural problems such as high unemployment, rather than on immediate approval ratings. In the context of having a majority in the National Assembly, the Macron administration is carrying out labour code reform subject to the approval in the National Assembly, which is proceeding quietly with ratification necessary for formal implementation. It is likely that the administration will see potential in the future for achieving a revival of approval rating after a series of reforms and cuts at the beginning of his term in office. This relies on connecting mid-long term labour expansion to increased corporate competitiveness by cutting corporate tax and employers' social security contributions (Chart 2).

Chart 1：President Macron approval rating and satisfaction with policies



Source: Ifop, BTMU Economic Research Office

Chart 2：Employers' social security contributions and corporate income tax in major countries



Source: Eurostat, OECD, BTMU Economic Research Office

For further details, please contact the Economic Research Office, Bank of Tokyo-Mitsubishi UFJ

Chief Manager, Yasuhiro Ishimaru Tel: +81-(0)3-3240-3204

Written by Yuka Maehara <yuka_maehara@mufg.jp>