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# French banks, well-capitalized and liquid, brace for unpredictable elections

By Jennifer Laidlaw

France's well-capitalized and highly liquid banks will head into the country's most uncertain elections in living memory confident of being able to withstand even the worst of reactions by investors and depositors if April 24 dawns with a real prospect of a president from the far right or far left.

The country's three biggest lenders all have common equity Tier 1 ratios in excess of 11.5%, while their liquidity coverage ratios range from 110% to 142%, meaning that they have more than enough high-quality liquid assets to meet their needs during a 30-day period of market stress.

While market-friendly centrist Emmanuel Macron is the **favorite** to become the next occupant of the Élysée Palace, such an episode of stress is by no means beyond the bounds of probability. The April 23 elections still look too close to call, with both far-right hopeful Marine Le Pen of the Front National and the far left's Jean-Luc Mélenchon of la France Insoumise having a chance of making it to a second-round runoff vote May 7. The **worst case scenario**, of a final contest between Le Pen and Mélenchon, is what most worries investors, but the possibility that either could still be in the running next week has already widened spreads between French government bonds and benchmark bunds.

Le Pen is **in favor** of pulling France out of the euro and the EU, while Mélenchon says he would leave unless the bloc agrees to renegotiate the terms of France's membership. The far-right leader wants to impose rules prioritizing French citizens' access to employment and welfare. Mélenchon is in favor of a 100% tax on income over €400,000 a year and a ban on firing employees.

There are already signs that some investors are getting their money out of the country, said Vincent Cudkowicz, CEO of Bienprévoir.fr, a financial advisory. Catering to high-net-worth individuals, he said he has "several tens of customers" a day expressing interest in investment products in Luxembourg. One of the Grand Duchy's attractions is that investors can sign up for life insurance products denoted in several different currencies.

## The allure of Luxembourg

"The risk of a Le Pen/Mélenchon runoff has been increasing, with that a risk of a euro and an EU exit. People are saying that things are becoming dangerous," he said. "Ever since Mélenchon did really well in the debates, there's been more interest in Luxembourg."

A law passed in December 2016 allowing the state to block withdrawals on life insurance contracts in a severe financial crisis has made it more important for investors to keep their money out of France, he said.

Yet European stress tests have shown that French banks are capable of withstanding severe shocks. They could even cope with a bank run should both of the politically extreme candidates end up in the final race, Cudkowicz said.

"The French banks are very solid and are among the strongest in Europe. There's no risk for the banks," he said.

And scary as their policies may sound to investors, both Le Pen and Mélenchon would struggle to push their policies through what would likely be an uncooperative parliament, analysts noted. This means that banks have probably not had to put together contingency plans to cope with any fallout from the first-round election, said one banking analyst, who declined to be named because of the sensitivity of the subject.

"I don't think they will put an emergency plan in place but they will be looking very closely at what happens," he said, adding that the scope for drastic policy moves would be limited.

"For that to happen, they would need to carry out a coup," he said.

"In either case, it would be very bad news for France," the analyst said. "It would hit the economy, and with the economy stalled, the banks would suffer too."

In an extreme scenario, the **European Central Bank** would also step in with emergency liquidity, Michael Troege, a professor of finance at the Paris campus of the ESCP Europe business school, said in an interview.

"The ECB is there to protect the financial system and is the lender of last resort," he said.

An ECB spokesman declined to comment. The largest French banks — **Société Générale SA**, **BNP Paribas SA** and **Crédit Agricole SA** — declined to say when asked whether they had contingency plans. Both the French Banking Federation and the French central bank also declined to comment.