

## The European economy: topic of the month

### A retrospective on the first half and the prospects for the second half of 2017 for the elections in European countries

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We now stand at the halfway point of 2017. 2017 was called the “year of elections” in Europe, and the national elections took place in the Netherlands and France in the first half of the year. Prior to the elections, there were mounting concerns that populist politicians skeptical of the values and achievements of the European Union (EU) might come into office in these two countries and seek to follow in the footsteps of Britain to leave the EU. But these concerns proved unfounded, and the election results actually put the brakes to the expansion of the strength of EU skeptics. A snap general election was also held in Britain, in which the ruling Conservative Party lost its parliamentary majority, suffering a disturbing de facto defeat.

In the French presidential election held in April and May, Marine Le Pen, leader of the National Front (FN) and an advocate of an exit from the EU, advanced to the runoff election. But Ms Le Pen lost to former Economy Minister Emmanuel Macron of La République en Marche (REM), who took a pro-EU stand. In the parliamentary election in June, President Macron’s REM Party also won 308 seats in the 577-seat National Assembly.

The political situation is expected to remain stable for the time being in France. President Macron secured far more than half of all parliamentary seats, gaining the necessary political base to push forward with his policy agenda. From the perspective of European policy, the direction of the Eurozone reforms, in particular the establishment of the Eurozone finance minister and the common Eurozone budget, and the direction of the German-French relations as the driving force of such reforms, require close monitoring.

French President Macron visited Germany immediately after taking office for talks with German Chancellor Angela Merkel. As President Macron indicated his willingness to push through structural reforms, including the labour market reform, the German government has high expectations on the new French government, which has many German-speaking cabinet ministers and government staff. On the other hand, some German media outlets voiced cautious views that President Macron’s policies, including the common Eurozone budget, might ultimately end up putting extra burdens on Germany, with weekly news magazine Der Spiegel saying in its article that President Macron might turn out to be “a expensive friend” for Germany.

In Britain, in an unexpected development, the House of Commons was resolved for a snap general election in June. Prime Minister Theresa May of the Conservative Party wanted to strengthen the foundation of her government and expected to win an overwhelming victory over the opposition Labour Party and substantially

increase the number of parliamentary seats held by her party. Her strong expectations might have been justified by a big gap of nearly 20 points in the approval ratings for the Conservative Party over the Labour Party. Instead of increasing the number of parliamentary seats under its control, however, the Conservative Party even failed to win a parliamentary majority. Prime Minister May's plan fell apart and her ability to unify the party suffered a significant blow.

Going forward, the "Brexit" negotiations with the EU are likely to be arduous. At the first round of negotiations held between Britain and the EU on June 19, both sides agreed on the EU-proposed negotiating procedure that places negotiations on a Britain's withdrawal agreement before negotiations on a post-Brexit free trade agreement. As the British proposal for parallel discussions on the Brexit agreement negotiations and the FTA negotiations were turned down, the first round of talks left the impression that the initiative in the Brexit negotiations was in EU hands. Britain and the EU will hold negotiations for one week each month until October, discussing the issues of Britain's cash payment to settle its financial commitments to the EU and the preservation of the status of EU citizens in Britain and British nationals in the EU member states. It remains to be seen whether Prime Minister May, with her ability to unify the party undermined by the election loss, will be able to hold together the debate within the ruling party. Some people are saying that they would not be surprised if Prime Minister May, already "a dead woman walking" in the words of former Chancellor of the Exchequer George Osborne, would be forced to resign at any moment.

In the second half of 2017, Germany will hold an election of the Bundestag on September 24, and Austria will have an election for the National Council on October 15. In Italy as well, the elections of the Chamber of Deputies and the Senate are scheduled to be held by spring 2018. While the political situation may become fluid in some countries and political parties of EU skeptics may also leap ahead in some countries, it seems unlikely that the elections in the second half of the year will lead to the rekindling of concerns over the domino-like departure from the EU, such as the holding of a national referendum on an exit from the EU.

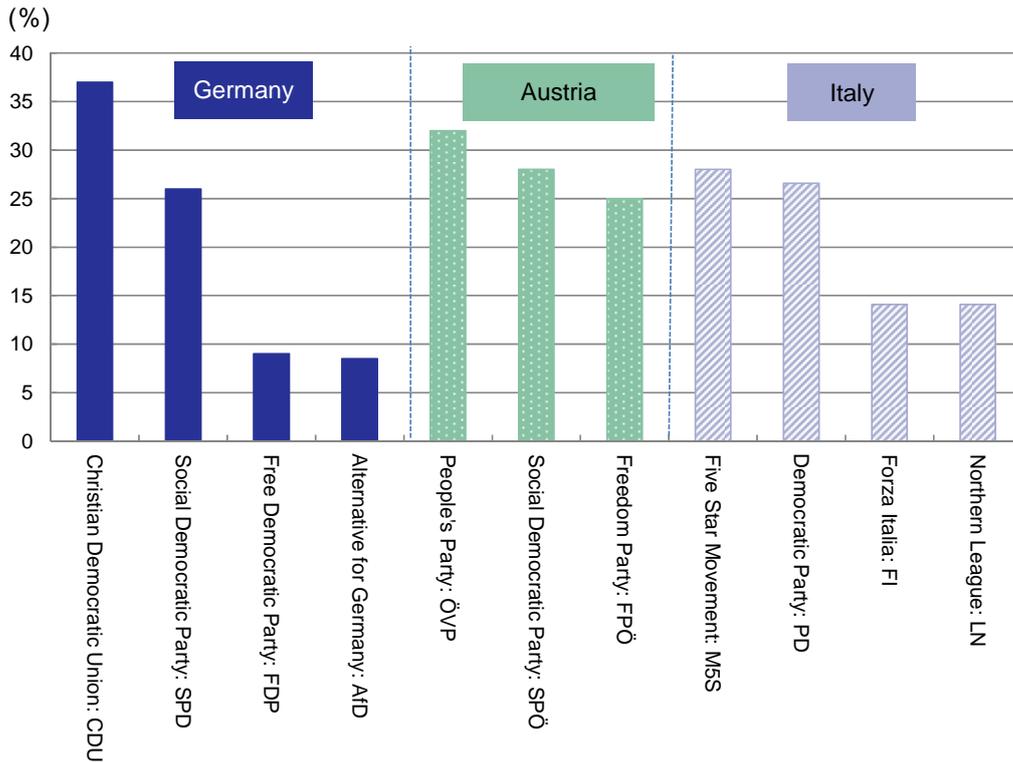
In Germany, Chancellor Merkel's Christian Democratic Union (CDU) is highly likely to win the election (**Chart**). The Social Democratic Party (SPD), which has formed a grand coalition with the CDU, has seen its approval rating surge since Martin Schulz became its leader. But popular support for the SPD has turned down sharply recently, allowing the CDU to once again take a big lead over it. The SPD suffered defeats in the Landtag elections held in March through May, and is now under pressure to rebuild the party prestige ahead of the Bundestag election in September.

In Austria, the left-wing Social Democratic Party (SPO), the right-wing People's Party (OVP), and the far-right Freedom Party (FPO) are fighting a cutthroat three-way struggle (**Chart**). Sebastian Kurz, who became the OVP's new leader in May, is young at the age of 30 and quite popular among voters, with the party's approval rating rising sharply. As Austria's National Council election is held for proportional representation, it is difficult for any single political party to obtain a majority of seats on its own. Thus, after the election, the far-right FPO may have a casting vote in the formation of a cabinet. The SPO has recently turned its back on the party's 30-year-old principle and adopted a policy of accepting the coalition with the FPO. However, since the participation in the coalition government requires meeting certain conditions, such as support for the EU, the FPO's possible participation in a coalition government is unlikely to lead directly to an exit from the EU.

Italy's elections are also drawing keen interest, although the possibility of a general election by the end of 2017 has now receded. In Italy, the elections of the Chamber of Deputies and the Senate are scheduled to be held by May 2018 at the latest. At the time of this writing, the enactment of a new election law is nowhere in sight

and the timing of holding the elections has yet to be decided. Opinion polls indicate that the Five Star Movement (M5S) maintains the highest approval rating (**Chart**). Whether the M5S or the Northern League (LN), both skeptical about the EU, will come to power is the subject of much attention, but at the moment, that likelihood is slim, as the M5S rules out the possibility of a coalition with other parties. But no excessive optimism is warranted as the M5S sometimes decides its policy by a vote among party members.

[ Chart : Approval ratings of the major political parties of Germany, Austria and Italy ]



Note: The opinion polls were conducted in Germany on June 27, in Austria on June 23, and in Italy on June 25.  
 Source: Made by MHRI based on *INSA/Yougov*, *Unique research /profil* and *EMG ACQUA*

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