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12 / 06 / 17

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## EUROZONE POLITICAL UPDATE: FRENCH RENAISSANCE, ITALY'S GRILLO DEFLATED

### Berenberg Macro Flash

#### FRANCE: MACRON CAN DELIVER

The renaissance of France remains firmly on track. After winning some 32% of the popular vote in the first round of the parliamentary elections on Sunday, the new French president Emmanuel Macron can expect to end up with around 400 out of 577 seats in the National Assembly after the second round on 18 June. That will give him a solid base to implement his reform agenda, starting with some decrees to liberalise the labour market in September. Macron has managed an impressive start to his presidency: remember the firm handshake with Trump and his candid comments about Russian fake news in a joint press conference with Putin? As a result, French voters are giving him the benefit of the doubt, even more so than they have usually done with newly elected presidents. That Macron's victory was widely expected apparently contributed to a record low voter turnout.

Encouragingly, both the right-wing and left-wing radicals did less well than expected with a mere 13.5% of the vote for the Front National and 11% for the outfit of left-wing firebrand Jean-Luc Melenchon. With the centre-right Republicans at around 21% of the vote and a likely tally of seats in parliament of close to 100, the two parties that stand for serious pro-growth economic reforms in France will probably have around 500 out of 577 seats in the National Assembly. Rarely has the opportunity to overhaul a country and to brave the inevitable street protests been more promising than it seems to be in France now. We maintain our view that, after the reforms which we expect Macron to implement, France could turn into the [strongest of all major economies in Europe](#) in the next decade, outclassing a Germany that is resting on its laurels and a UK that is impairing its long-term growth prospects by losing (some of) its preferential access to its major market, the EU. If Macron seizes the opportunity and delivers what he has promised and what French voters have once again broadly endorsed on Sunday, France could be heading for a golden decade.

The economic renaissance of France and, to a much lesser extent, some institutional reforms to strengthen the cohesion of the Eurozone and the EU27 to be discussed in detail after the German elections on 24 September can underpin a long and firm economic recovery in France and the Eurozone as a whole. That, in turn, should help to defuse the residual political risks in the region such as those lurking in Italy.

#### ITALY: FIVE STARS LOSE SOME OF THEIR SHINE

Radical Five Stars suffered a setback in Sunday's local elections according to early results and exit polls. Beppe Grillo's movement failed to make it into the second round in almost all major cities (including Grillo's home town of Genoa) and smaller municipalities that were at stake. Most of the run-off battles on 25 June will be fought between local coalitions of the centre-right and centre-left. The centre-right leads in Genoa, Verona, Lecce and Padova while centre-left candidates won the first round in Palermo and L'Aquila.

Five Stars' troubled start in running the city of Rome last year and the recent inner party spat around the introduction of a new electoral law may have caused some voters to turn away from a party that is asking for a Euro referendum. While Five Stars are running neck-and-neck with the staunchly pro-euro centre-left Democrats in national opinion polls, the local results suggest that Five Stars may fare less well in actual elections than in the polls. Other European anti-establishment parties (Wilders in the Netherlands, Le Pen and Front National in France, UKIP in the UK) have also lost some momentum recently. However, partial local elections are no reliable guide to national votes.



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Whether or not the risk of early national elections in Italy this autumn has really evaporated remains unclear. Although the new election law seen as a prerequisite for an early vote stumbled at the first minor parliamentary hurdle last week, it remains technically possible for the leaders of the major parties to revive it and get it through parliament in time for early elections this autumn. But the events last week show that the party leaders cannot fully count on the loyalty of their own members of parliament.

More so than parliamentarians from the centre-right and the centre-left, members of the Five Star movement had defied their party leader (Beppe Grillo) in the first vote on the election law. In a way, this could be a positive. A movement as disoriented and internally divided as the Five Stars is unlikely to really rock the Italian boat badly by taking the country out of the euro even if the Five Stars were to end up as part of a government eventually. More likely than not, the next Italian election will be held between late March and early May next year, that is after the regular end of the current term of parliament. Although passing a 2018 budget to bring the deficit down to a mere 1.8% as demanded by the EU will be tricky this autumn, a firming economic recovery and falling unemployment could help to further dent the appeal of radical populists over time.

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