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POLITICAL UPDATE: FRANCE, ITALY, SPAIN, EU ELECTIONS

Berenberg Macro Flash

The rise of radical anti-establishment movements poses grave risks to the cohesion of Europe as well as to its economic outlook. Anger against the establishment, as expressed for instance by the “yellow vest” protests in France, can be highly disruptive. However, populists find it difficult to deliver on their promises and are prone to scandals of their own. Their rise is far from unstoppable. On the left side of the political spectrum, Greece’s Syriza has turned itself from a collection of left-wing firebrands into a responsible party of government since mid-2015. In Italy and Spain, support for 5Stars and Podemos is ebbing. On the right-wing, some groups are on the rise, notably Italy’s Lega. But right-wing populists also face their problems. For example, Germany’s right-wing AfD has fallen back from a peak around 17% last September to 13% in the polls now.

The political situations in France, Italy and Spain as well as the outlook for the European Parliament elections on 23-26 May have made headlines recently. All in all, political risks in the Euro-zone now look a little more contained than they did late last year – despite serious issues looming in Italy.

In **France**, President Emmanuel Macron seems to have re-gained the upper hand versus the “yellow vest” protesters. By descending from the Elysee Palace to humble places around the country for a dialogue with citizens, the proven campaigner has revived his [popularity ratings](#) somewhat (see Chart 1) without giving in on the substance of his pro-growth supply side reforms. According to the monthly Ifop poll, support for Macron rose to a still weak 28% in February from a trough of 23% in December. That the protests against Macron have turned more violent and radical has also dented the appeal of the “yellow vests“. According to a Ifop/JDD survey in February, a majority of French people now wants the disruptive protests to stop. The number of protesters is down from a peak of 300k in November 2018 to 40k last Saturday. With the ebbing of the protest wave, consumer confidence in France has rebounded from a trough of -17.5 in December to -11.6 in February, only modestly below the post-1990 average of -9.7.

In **Italy**, the radical 5Stars are [falling rapidly in opinion polls](#) (see Chart 2). Hurt by the contrast between their lofty promises and harsh reality, they suffered heavy losses at recent regional elections. The clear winner is Italy’s other big populist party, Matteo Salvini’s right-wing Lega. As the Lega is less spendthrift than the 5Stars, this shift of power from one to the other radical party helps to mitigate the risks that Italy could be heading for a debt crisis in 2019 already. Of course, it may get noisy again in Italy after the elections to the EU parliament on 26 May. Salvini may be tempted to trigger snap national elections while the EU will review Italian fiscal policies again.

In **Spain**, the staunchly pro-European Socialists of Prime Minister Pedro Sanchez look set to regain votes from the somewhat deflated radicals of Podemos at the elections on 28 April. However, Sanchez may still lose his job. Although support for the Socialists has risen recently, opinion polls still project a majority of seats for a potential alliance of the centre-right People’s Party, liberal



Ciudadanos and right-wing Vox (see Chart 3). Capitalising on a counter-reaction in much of Spain against Catalonia's bid for independence and on anti-immigration sentiment, Vox has surged in the polls. A potential centre-right/liberal/Vox government would take a hard line against Catalonia's pro-independence forces. While that could make headlines, the economic impact would likely remain very limited, as it has been so far. With some further pro-growth reforms, such a government may even enhance Spain's long-term growth prospects. It would also reduce the risk of policy mistakes such as the excessive 22.3% hike in the minimum wage implemented by the Socialists and Podemos with the help of Ciudadanos at the start of 2019. Spanish politics could remain interesting. However, Spain is not on our list of genuine economic or political risks.

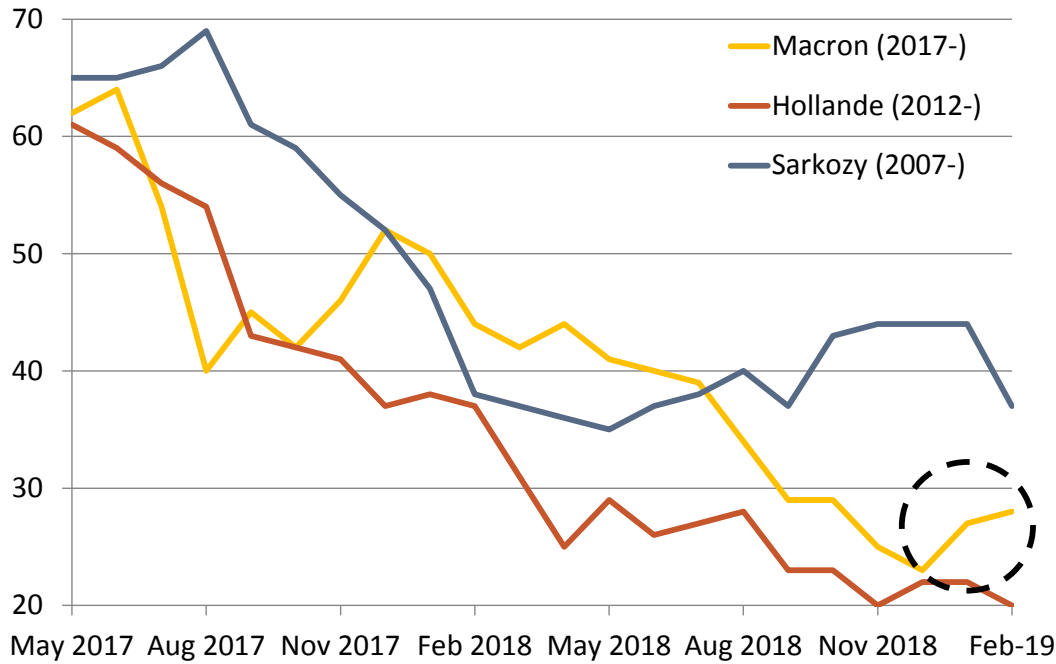
At the elections to the **European parliament** 23-26 May, anti-establishment parties look set to gain seats largely because some right-wing movements are projected to do significantly better than before. However, opinion polls still suggest a two-thirds majority for the mainstream parties in the European parliament (see Chart 4). By and large, the polls are no longer moving further towards the radical parties. In the new and more fractured EU parliament, more than two of the major mainstream groups will have to work together to vote in a new European Commission and approve future EU budgets. But as all the mainstream parties support the EU and are used to finding common ground on key issues, they will almost certainly be able to forge the required compromises in the future. That radical parties could seriously disrupt the workings of the future European parliament looks highly unlikely. Even a – hypothetical – anti-establishment majority in parliament could not change EU treaties or fiscal rules. Major changes would have to be agreed by all national governments and would have to be ratified by all national parliaments. Also, the populists are a highly diverse bunch. While they may all rail against “Brussels”, they find it hard to agree on substance. For example, the far right in Nordic countries would not want to give Italy more leeway to breach fiscal rules – quite the opposite. The xenophobes of Europe are not fond of Brussels – but they do not like each other very much either.

The European elections will reshuffle the relative influence that key mainstream groups such as the centre-right, centre-left, liberals and Greens have on EU policies and the distribution of top jobs in Brussels. But they will not disrupt the EU. The key issue to watch may well be whether the results change the domestic political dynamic in some EU member states, especially in Italy where a strong showing for the Lega relative to 5Stars could encourage Salvini to go for new elections (see above).



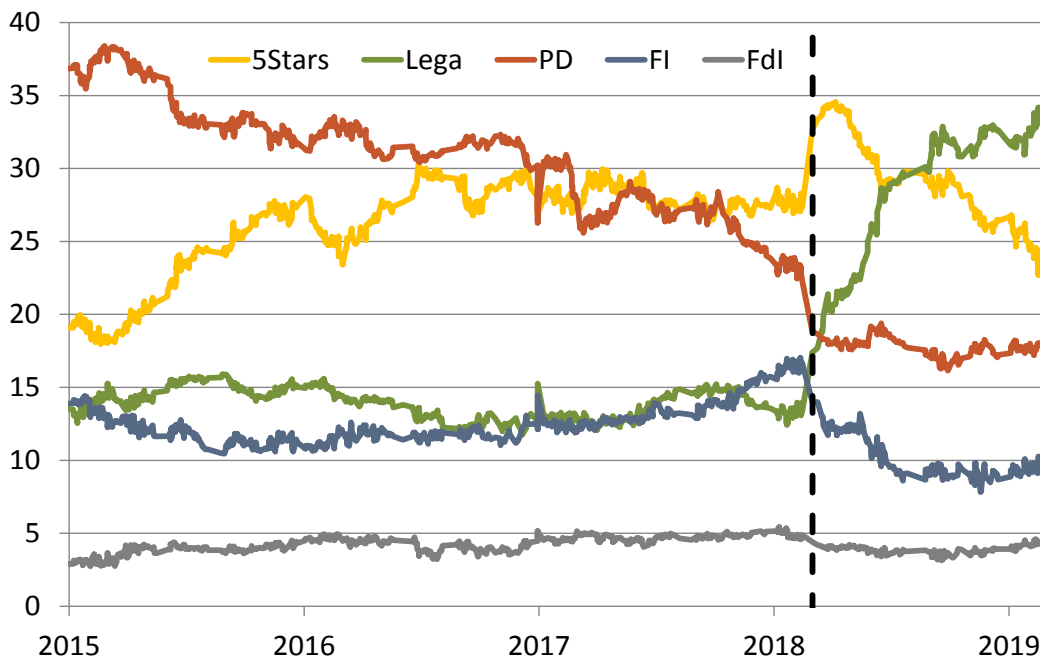
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Chart 1: Popularity ratings for French presidents after taking office



The timeline on the horizontal scale refers to the tenure of Macron. Source: Ifop

Chart 2: Italian opinion polls – reality shock reshuffles the populist deck

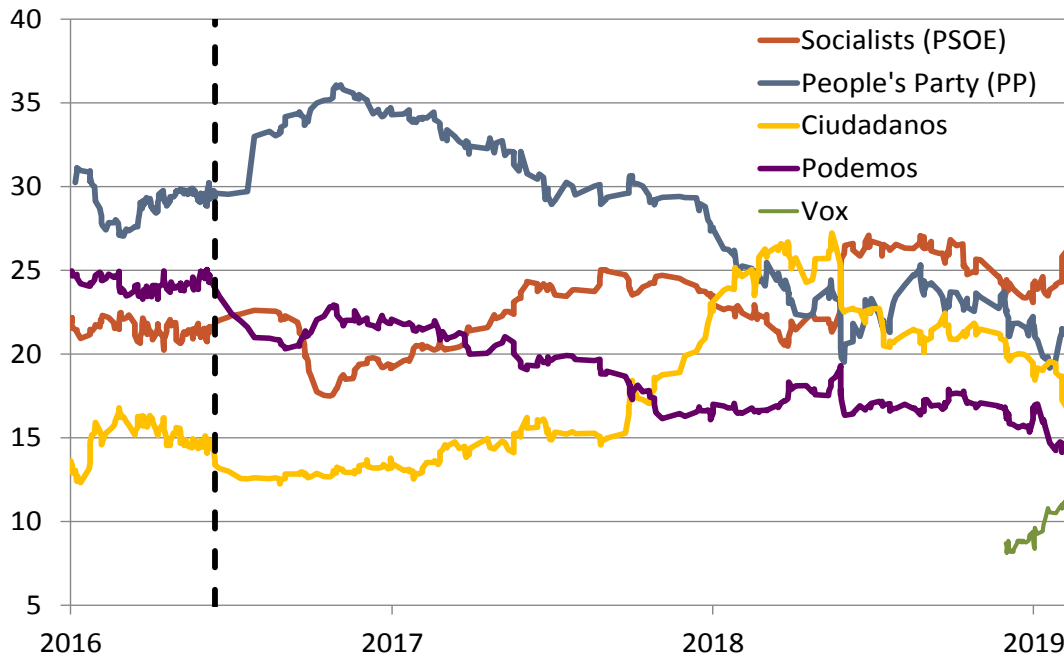


M5S: 5 Stars (Di Maio), LN: Lega (Salvini); PD: centre-left Democratic Party, FI: centre-right Forza Italia (Berlusconi); Fdl: right-wing Fratelli d'Italia, average of 7 latest available polls, vertical line marks election result in March 2018. Sources: National opinion polls



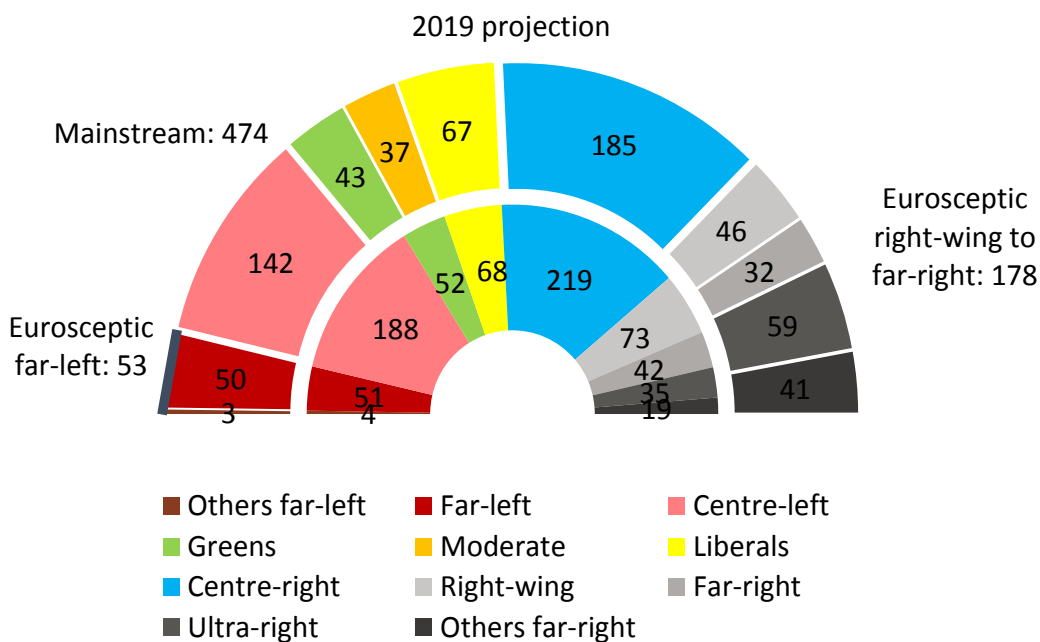
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Chart 3: Spanish opinion polls



Centre-left Socialists (PSOE), centre-right People's party (PP), liberal Ciudadanos, left-wing Podemos, right-wing Vox, average of 7 latest available polls, vertical line marks election result in June 2016. Sources: National opinion polls

Chart 4: Current and projected seats in the European Parliament – only modest changes



Current seats in European Parliament by political group (751 seats) versus seat projections for the election on 23-26 May 2019 (705 seats). Sources: European Parliament, europeanelectionsstats.eu.



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