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## EUROPEAN POLITICAL UPDATE: ITALY, FRANCE, AUSTRIA

### Berenberg Macro Flash

#### ITALY: CRUCIAL REFERENDUM IN LATE NOVEMBER OR EARLY DECEMBER

The political situation in Italy will come to a head late this year. In a TV interview, prime minister Matteo Renzi announced yesterday that the referendum to ratify his constitutional reform will be held either on 20 or 27 November or on 4 December. Having stated early this year that he would resign if he loses that vote, he confirmed in the interview that he has not changed his mind. As Renzi admitted a month ago, tying his fate to the referendum result was probably a mistake. The substance of the referendum, namely downgrading Italy's Senate from a full blown US-style second chamber of parliament with 315 well-paid members to a much smaller body of just 100 senators with little power to block crucial legislation, makes sense and would probably be quite popular on its own. But as the referendum is now seen mostly as a vote about Renzi, even some opposition groups which initially helped to get the constitutional change through parliament are now campaigning against the reform.

As discussed repeatedly, the Italian referendum poses the most significant political risk within the Eurozone for the foreseeable future. If Renzi loses the referendum and resigns, his government would probably try to soldier on without him under a new centre-left or a technocratic prime minister until the next regular election in early 2018. But without Renzi's charisma, holding the government together could be more tricky. The tail risk of early elections could excite markets. In opinion polls, parties that are occasionally toying with the idea of a referendum on euro membership (notably Five Stars, the ultra-right Lega Nord and the remnants of Berlusconi's once stronger and more reasonable centre-right "Forza Italia") score about 50% or slightly more although a majority of Italians still seem to favour the euro and the EU. Italy is the only country where we see a small tail risk of a referendum on euro membership.

Fortunately, Renzi is a good campaigner. He may also be helped by the reality shock which is starting to hit the populist "Five Star" movement. Having made waves by winning the mayoral elections in Rome and Torino, on 19 June, the "Five Stars" are already engulfed in a scandal in Rome very reminiscent of those which had afflicted their mainstream predecessors there. If the "Five Stars" shine less brightly, some Italians may see the arguments for Renzi's constitutional reform more clearly again. And even if he loses, a later referendum on euro membership would only be a small tail risk. We have spelled out [the Italian risk](#) in slightly more detail in our Chart of the Week from 8 July.

#### FRANCE: WARMING UP FOR THE VOTES

The jockeying for position for the presidential elections next spring has begun in earnest. After Socialist left-winger **Arnaud Montebourg** threw his hat in the ring on 21 August, his successor as French economics minister, pro-reform **Emmanuel Macron**, resigned a week ago from cabinet to build his non-partisan "En Marche" movement as a stepping stone for his own presidential bid. Separately, ex-president **Nicolas Sarkozy** from the centre-right "Republicains" has also formally announced his intention to succeed his successor **Francois Hollande**.

For two reasons, we need not watch the nascent campaign on the centre-left very closely yet. First, the real campaign on that side of the political spectrum can only begin once Hollande has decided whether he



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will run again or let his more popular prime minister Manuel Valls be the standard-bearer for the mainstream Socialists. Second, the result of the first ever centre-right primaries on 20 November with a potential run-off on 27 November may virtually seal the fate of any centre-left candidate. If the reform-minded former prime minister **Alain Juppe** wins the Republican race, he could expect to win the actual presidential election so comfortably that the choice of centre-left nominee would not make a decisive difference. If Sarkozy instead of Juppe becomes the centre-right candidate, Sarkozy would still very likely prevail next spring, beating most potential centre-left candidates in the first round of the presidential vote on 23 April and prevailing against the Front National's Marine Le Pen in the second round on 7 May. But the outlook would be less clear-cut, leaving a risk that he might not make it.

Unfortunately for him, Juppe is not quite as popular with core supporters of the Republican Party, which is headed by Sarkozy, than with French voters in general. Among those likely to vote in the Republican primary, Sarkozy has edged marginally ahead of Juppe according to some opinion polls. The focus on internal security in the wake of recent terror attacks has helped Sarkozy with the core centre-right constituency, pushing Juppe's strength, his credible focus on economic reforms, somewhat into the background. Sarkozy has started his campaign well by admitting in a book that he made some mistakes as president 2007-2012. However, he is also making negative headlines again. Two days ago, a French prosecutor requested that Sarkozy should stand trial for breaching campaign finance in his last unsuccessful re-election bid in 2012. While this may remind many voters of the various legal issues Sarkozy has faced in recent years, it is no surprise and will thus probably not bother Sarkozy's core supporters very much. On balance, the outcome of the Republican primary looks too close to call at this stage despite Juppe's overall popularity.

On the centre-left, **Hollande** remains too unpopular to be a promising presidential candidate with an approval rating of just 18% in August (Ipsos Mori, up only slightly from 16% in June). However, he seems to be clinging to the hope that a slight improvement in the labour market could allow him to claim that his policies are finally working and enter the fray in late 2016. With some training schemes designed to reduce the number of people counted as unemployed and some fiscal support for labour-intensive construction, the French government is trying to engineer an apparent improvement in labour market data. If Hollande runs and prime minister Valls were to support him instead of challenging him, the incumbent may have a chance to win the primaries in the Socialist party on 22 and 29 January. But his chance to make it into the second round of the presidential elections on 7 May 2017 would look very slim against either Sarkozy or Juppe.

Judging by his popularity, **Macron's** position does look somewhat promising. Asked whom they would like to play a bigger political role, 30% of respondents to a TNS-Sofres poll named Macron, putting him only behind Juppe (37%) and ahead of all potential centre-left candidates, But unless many Socialists call him to enter the Socialist primaries, he may have to run as an independent rather than a Socialist candidate, having emphasised himself that he is not a Socialist. Even popular candidates do not tend to do well in French elections if they are not backed by one of the major parties.

We need to watch the French political risk. France is an indispensable euro member. **Fortunately, the risk that Le Pen could be next president of France looks slim.** Only if she were pitted against unpopular Hollande or some left-wing firebrand in the second round on 7 May would she stand a chance according to opinion polls. That seems quite unlikely. Encouragingly, France may be ready for some reforms after the 2017 elections, at least judging by the fact that most reform-minded politicians, Juppe, Macron and Valls, are all three among the country's most popular politicians.



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### AUSTRIA: ANOTHER CLOSE SHAVE?

Four weeks ahead of the repeat presidential election in Austria on 2 October, the outcome remains highly uncertain. The most recent opinion poll (Hajek/ATV from 2 September) puts the pro-European candidate **Alexander Van der Bellen** marginally ahead of **Norbert Hofer** from the far-right FPÖ. Gallup polls taken in July and August in the wake of the terror attacks in France and Germany had given a 4-6 point lead to Hofer instead. The lead for either candidate in these polls is within the margin of error. The widespread reporting about the recent one-year anniversary of the outbreak of refugee crisis may help the far-right candidate. However, with much fewer refugees and migrants arriving now, this divisive issue may recede somewhat into the background again soon.

In the first election on 22 May, which had been nullified by the Austrian Supreme Court largely because many postal ballots were opened too early, the pro-European Van der Bellen had narrowly won with 50.3% versus 49.7% for Hofer. In Austria, the euro-sceptic far-right is stronger than in all other Eurozone countries, usually scoring some 33% in opinion polls. The FPÖ's Hofer now has a reasonable chance of winning the presidential election for one major reason: as a former boss of the Green party, his opponent Van der Bellen is not ideally suited to attract all votes from the mainstream parties, including those from the centre-right.

**Would it matter if the far-right were to win in Austria on 2 October?** It would be a first within the Eurozone. It would make headlines and be seized upon by France's Le Pen and far-right candidates elsewhere as evidence that they are on the way up. However, the practical consequences would be very limited. The position of president is a largely ceremonial post in Austria. He could not influence actual policies, let alone call a referendum on the euro. Although the far-right FPÖ has a chance to become the strongest single party at Austria's next parliamentary elections due by the autumn of 2018, the mainstream pro-EU and pro-euro parties from the centre-right and centre-left would still get 60% to 65% of the popular votes and seats in parliament. They would see to it that Austria does not turn its back on Europe and prevent any referendum on the euro – which would likely result in a clear vote for the euro anyway. After all, Austria had de facto let its monetary policy be run from Frankfurt even well before the euro.

For more on European politic risks see

- [European political update: Germany and Spain](#)

and a general discussion of the rise and likely fall of populism in the Western world

- [Coping with the politics of anger.](#)



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