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## DUTCH RELIEF: THE IMPACT OF THE VOTE

### Berenberg Macro Flash

A victory for common sense and a great start for Europe's election season. Unlike the voters in the US and the UK, who fell for Donald Trump and the Brexiteers last year, a vast majority of Dutch voters opted for the pro-European mainstream yesterday. With a mere 13% of the popular vote and just 20 out of 150 seats in parliament according to projections at 4am, the rabidly anti-European and anti-foreigner Geert Wilders fell far short of what opinion polls had predicted until three weeks ago. Instead, prime minister Mark Rutte is in the pole position to lead the next Dutch government as his centre-right liberal VVD party remained the biggest single party with 33 seats despite some significant losses (-8 seats). The Dutch vote shows that the rise of populism can be contained. The cohesion of the Eurozone remains fairly strong. Although Wilders got more than the 15 seats he had garnered in 2012, he did not get close to his erstwhile record of 24 seats he had won in 2010.

We had never worried much about the Dutch election. Even when opinion polls had projected that anti-EU Wilders might "win" the election with up to 35 seats for his PVV, the risk that he might be able to find coalition partners for a government and lead the Netherlands out of the euro or even the EU always looked remote. For a small open economy that is highly dependent on European trade and that had shadowed the Deutschmark even before the birth of the euro, a return to a national currency never made much sense anyway.

The real importance of the Dutch vote is what it might mean for the much more crucial elections in France and, potentially, even in Italy later this year. That most Dutch voters rebuked the siren songs of the populists may help a little. If Wilders had won, an avalanche of reports proclaiming an irresistible rise of anti-EU populists could have added a little momentum to Marine Le Pen's campaign in France. But the impact is probably small. Whereas the Dutch result should help to ease market anxiety about France and Italy a little further, it does not tell us much about how politics will go in other countries.

The situation in the Netherlands differs a lot from that in France. Although the country of polders is still reeling from the damage done by the Great Financial Crisis and a subsequent real estate correction, the economy has turned up much more decisively in the Netherlands than France over the course of 2016. In addition, the Netherlands has a popular prime minister who managed to wage a professional campaign. Rutte skillfully exploited the diplomatic spat with Turkey to show voters that one can take a firm stance against the unreasonable behaviour of foreign governments without going for the crude xenophobia of Wilders.

Although the Dutch result does not in itself reduce the tail risk of a victory for Marine Le Pen in France or potentially Beppe Grillo in Italy very much, it presents an opportunity to restate our base case: While political risks are more serious than ever before in the Eurozone, the probability that they will actually materialise remains low. Under stress, the cohesion of continental Europe and the Eurozone tends to be stronger than many outside observers seem to believe. The most likely outcome this year is that Italy will continue to muddle through, that Germany will re-elect a staunchly pro-European chancellor or elect an at least equally Europhile successor and that France will get a pro-reform president who will help to cure the French malaise at home and strike a deal with Berlin and other capitals in the EU on how to move Europe forward. Amid a firming economic recovery, the Eurozone will likely make political progress as well.

The Dutch result also shows that populist threats from abroad such as the insults meted out by Turkey's Erdogan tend to strengthen rather than weaken the forces of reason in Europe.

As the major losers in the Netherlands with a drop from 38 to just 9 seats, the Social Democrats (PvdA) paid a heavy price for backing austerity as the junior partner in Rutte's government so far. The centre-right CDA (from 13 to 19 seats) and the liberal D66 (from 12 to 19 seats, just behind Wilders) advanced mostly at the expense of the PvdA. The Dutch parliament is now even more fractured than before. Rutte will need at least three other parties to support a new government. Forming a coalition could be difficult and lengthy, especially as the PvdA will probably prefer to revive its



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fortunes in opposition. But in a country that does not face an immediate crisis, a protracted period without a regular government need not do much damage. It certainly won't upset Europe. Remember that Belgium had 589 days without a regular government after its 2010 election without suffering any serious economic consequences as a result.

The next major political events to watch in Europe are

- the TV debate of French presidential candidates on 20 March
- the German regional election in the Saar region on 26 March
- the Turkish constitutional referendum on 16 April
- the first round of the French presidential election on 23 April, followed by the run-off vote on 7 May
- the leadership vote in Italy's centre-left Democratic Party on 30 April
- the German regional elections in big North Rhine-Westphalia on 7 May and Schleswig-Holstein on 14 May
- the French parliamentary elections on 11 and 18 June
- the German general election on 24 September

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