Holger Schmieding, Chief economist | holger.schmieding@berenberg.com | +44 7771 920377

EU ELECTION: MAJORITY FOR THE PRO-EU CENTRE – BUT MACRON TAKES A GAMBLE

Berenberg Macro View

The European Union has voted. In the largest exercise of direct democracy in the advanced world, self-styled "anti-establishment parties" of the far right seem to have raised their share of seats in the European Parliament from c17% to c22% judging by the partial results and exit polls available at 09:00h CEST. Although these gains are largely in line with prior opinion polls, the vote has already had one major consequence at the national level. French president Emmanuel Macron has called new parliamentary elections for 30 June and 7 July.

According to preliminary results, Marine Le Pen's Rassemblement National (RN) scored the victory in France which opinion polls had projected, with 31.4% of the French vote, relegating president Macron's group to a distant second place with just 14.6% (and 13.8% for the centre-left). Her party thus achieved its best-ever result in a multi-party national election, well beyond its showing in the 2022 French national elections (18.7% for RN in the legislative elections and 23.2% for Le Pen in the first round of the presidential vote).

By unexpectedly bringing things to a head in a new parliamentary election, Macron may hope to revive the fortunes of his party. In France's two-round first-past the post system for national elections, a swing in votes to right-wing parties need not translate into a major advance in seats in parliament if non-Le Pen voters unite against hger party in the second round. Macron seems to be hoping for this effect. However, barring a major swing in sentiment, his party still looks set to lose heavily in the parliamentary elections. Even now, Macron needs to rely on support from the centre-right Republicans for a majority in parliament. Whereas foreign and defence policy is largely a prerogative of the president, fiscal and domestic economic policies are set by the government which needs a majority for its legislation in parliament. For a fiscally challenged France, new parliamentary elections add a level of uncertainty. This could turn into a concern for markets.

One possible result of snap elections is that France may be heading for a period of co-habitation between a clearly pro-European president and a prime minister with different views. Note, however, that Le Pen has ditched earlier calls to leave the EU and the euro long ago in order to broaden her electoral appeal.

Whether yesterday's French result and likely gains at the snap parliamentary election may put Le Pen on course to become president eventually is a very different matter, though. For her, it is easy to rail against a second-term president who has lost popularity. But that is not the same as winning in a presidential election (due in 2027) against a fresh contender. A lot will depend on whether French centrist parties can field an attractive candidate against her (current prime minister Gabriel Attal, former prime minister Edouard Philippe?).

The EU dimension

The advance of the populist right and the French snap elections will further complicate decision-making in the multinational EU at a time when Europe needs to get its act together to stop Putin, enhance competitiveness, protect the climate, manage immigration, deal with China and prepare for a potential second term of Donald Trump in the US. Barring major surprises, the results will not paralyse the EU, in our view: After some huffing and puffing, the EU tends to find workable compromises in the end. The current Commission president Ursula von der Leyen has a better-than-even chance to serve a second term, in our view, helped partly by gains for Germany's centre-right CDU/CSU. Relative to the populist upheavals in the

US (Trump 2016) and the UK (Brexit referendum 2016), the gains of the populist right in the EU still remain more contained and less consequential.

Results and projections for other key countries

Germany: Relative to the last national election of September 2021, the centre-right CDU/CSU opposition raised its share of the vote from 24.1% to 30% according to preliminary results. With heavy losses for the centre-left SPD of chancellor Olaf Scholz, the Greens and the liberal FDP, the combined tally of the three parties forming chancellor Olaf Scholz's government plunged from 52% to 31%. The far-right AfD advanced from 10.3% to 15.9% to become the second strongest party. However, the AfD had often scored at 20%+ in opinion polls early this year. AfD gains were somewhat contained by the emergence of the new pro-Putin populist Bündnis Sahra Wagenknecht (BSW) with 6.2% of the vote.

With a total of well below 25%, the outright populists (AfD and BSW) still play a smaller role in Germany than elsewhere. Although German politics will likely be quite noisy in the next four weeks (the government needs to identify cuts in the draft budget for 2025 it wants to present to parliament in early July), none of the three parties in the current coalition has anything to gain from early elections. Expect the coalition to soldier on even after likely setbacks at regional elections in September in three small east German states where AfD and BSW could together gain up to 50% of the seats. On the national level, the CDU/CSU looks set to lead the next government after the September 2025 election, probably in a coalition with the SPD.

Spain: With 34.2% of the vote, the centre-right PP has edged ahead of prime minister Pedro Sanchez's centre-left PSOE (30.2%). Including far-right Vox (9.6%) and the two major leftists parties (Sumar with 4.7% and Podemos with 3.3%), Spain remains split almost right in the middle between right-of centre and left-of-centre parties, with some regional and smaller parties holding the balance.

Netherlands: Voters relegated the party of right-wing Geert Wilders to second place after the centre-left. Following his surprise success at the national election of November 2023 with 23.5%, the vote for his party slipped to 17.7%. That will restrain his power to put his stamp on the policies of the partly technocratic government that he has helped to instal.

Italy: Prime minister Giorgia Meloni cemented her lead position in Italian politics with 28.6% of the vote for her Fratelli d'Italia. Her gains came mostly at the expense of her right-wing coalition partner Lega. With 25.6%, the centre-left Democrats did better than expected. As none of Meloni's two coalition partners (Lega with 8.8% and the centre-right Forza Italia with 8.8%) each should have a reason to risk early elections, Meloni can probably look forward to ruling Italy until the next regular election in late 2027, and possibly beyond.

Austria: With 25.7% of the Austrian vote in the European election, the far-right FPÖ won the European election by a smaller margin than opinion polls had suggested. With 24.7% and 23.2%, the centre-right ÖVP and the centre-left SPÖ are only modestly behind. The FPÖ remains in the pole position to emerge as the strongest party in the national election due this autumn. If so, however, the FPÖ would still need a coalition partner to govern Austria. As in the Netherlands, the FPÖ would have to scale back its radical ambitions dramatically to find a partner – and might well have to accept a technocratic prime minister instead of securing the top jobs for its own ultra-right leader Herbert Kickl. However, the result raises the chance that the FPÖ may not be No. 1 in the national election and/or that Austria's other parties will form a mainstream coalition without the FPÖ.

Two key issues ahead on the EU level

On the EU level, the major question now is not whether the centrist parties still have a majority (they do), but whether the centrist parties can work together. Once the final result of the European election is known, we need to watch two key issues in the next few weeks: (i) can the mainstream political forces agree on and elect a president of the European Commission for the new five-year term, and (ii) will the far-right factions and parties join forces – or will they remain a divided bunch with the Fratelli d'Italia of Italian prime minister Giorgia Meloni often supporting the centre-right rather than the radical pro-Putin right-wingers?

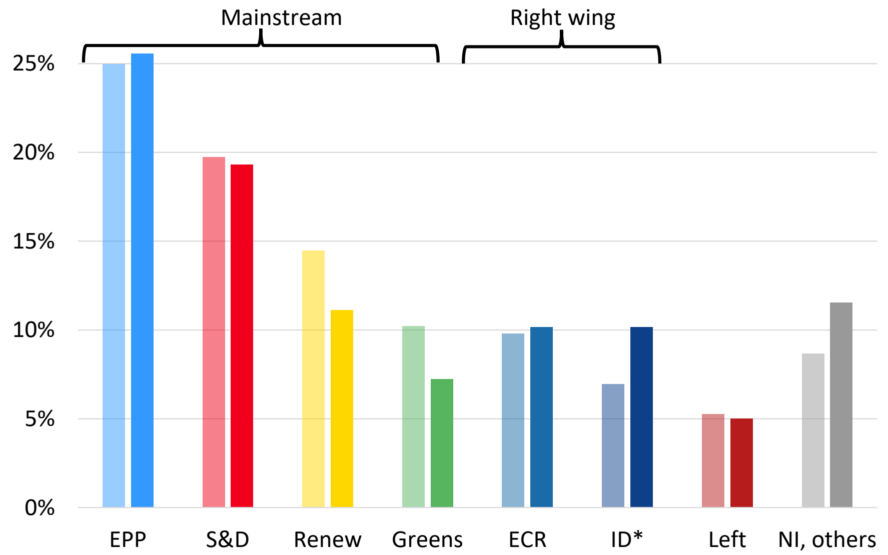
The current Commission president Ursula von der Leyen is the EPP's "Spitzenkandidat" (lead candidate) for the top job. To be re-appointed, she needs to be nominated by the council of EU national leaders and elected by the new European parliament in a secret ballot with an absolute majority (at least 361 of 720 votes). EU leaders do not need to propose the Spitzenkandidat of the strongest (or any) faction in the European parliament. In 2019, they did not do so. However, the result was that their choice at the time, von der Leyen, only scraped by with a tiny margin (including some votes from fringe parties) although the mainstream parties that were supposed to back her had a huge majority. Parts of the mainstream were so upset that EU leaders did not propose any of the "Spitzenkandidaten" that they did not vote for her. In an even more fractured parliament, it could be even more risky for EU leaders to not propose the Spitzenkandidat. Although other names have been mentioned (ex-ECB president Mario Draghi, Italy's deputy prime minister Antonio Tajani or even Romanian president Klaus Johannis), von der Leyen remains the favourite, in our view. If EU leaders can agree on a package with her as Commission president (and policy makers from other nations and political camps as President of the European Council and as EU foreign policy czar), we would expect her to find a majority in parliament.

Due to their very nature, right-wing proponents of "my country first" policies have so far found it difficult to effectively work together within the multinational EU. The two right-wing factions in parliament, the European Conservatives and Reformists (ECR) and the somewhat more radical Identity and Democracy (ID) differ on key issues, most importantly on their attitude towards Putin (unlike some of the ID members, ECR parties support the EU's clear pro-Ukraine stance). Upon broadening their popular appeal, some right-wing parties have become less radical. Most importantly, Italy's Meloni has moved close to the centre-right in terms of the policies that count most for the EU, namely support for the EU, Ukraine, NATO and the rule of law. If she tries to forge an alliance of all right-wing parties, as France's Marine Le Pen has proposed, she could be disruptive. But if Meloni tilts further to the political centre (and supports von der Leyen), she could help to keep the EU well on track, with some adjustments as to details of migration policies or a more pragmatic approach to meeting emission targets. Her choice may depend on whether the mainstream parties will accept her potential support. Rejecting it could be a major mistake, in my view.

EU timeline: key vote in July – or in limbo for much longer?

The future distribution of top jobs in the EU will likely be a key subject for talks between the leaders of Germany, France and Italy on the sidelines of the G7 summit in Italy 13-15 June. The national leaders of all 27 EU members then convene on 17 June for an informal discussion followed by a formal summit on 27-28 June. If they can agree on a candidate for the presidency of the Commission with the required qualified majority (at least 15 countries with at least 65% of EU population), the European parliament could then elect the candidate in a secret ballot when it first convenes on 16-18 July. A vote on the full European Commission can follow well after the summer break, that is probably in September. If EU leaders cannot agree on a candidate, or if parliament rejects their choice, the processes could take much longer. If so, the current Commission would remain in office for the time being – but with much reduced political clout.

Chart: Seats in the European parliament – centre-right remains in the lead



*Share of seats in %, 2019 (left column) and 2024 (right). EPP: centre-right; S&D: centre-left; Renew: Liberals including France's Ensemble; ECR: right-wing faction including Italy's Fratelli d'Italia and Poland's PiS; ID: far-right faction including France's Rassemblement National; *German AfD still included in ID tally; NI: non-affiliated. Sources: European Parliament, Wikipedia, Berenberg*

Disclaimer
This document was compiled by the above mentioned authors of the economics department of Joh. Berenberg, Gossler & Co. KG (hereinafter referred to as "the Bank"). The Bank has made any effort to carefully research and process all information. The information has been obtained from sources which we believe to be reliable such as, for example, Thomson Reuters, Bloomberg and the relevant specialised press. However, we do not assume liability for the correctness and completeness of all information given. The provided information has not been checked by a third party, especially an independent auditing firm. We explicitly point to the stated date of preparation. The information given can become incorrect due to passage of time and/or as a result of legal, political, economic or other changes. We do not assume responsibility to indicate such changes and/or to publish an updated document. The forecasts contained in this document or other statements on rates of return, capital gains or other accession are the personal opinion of the author and we do not assume liability for the realisation of these.

This document is only for information purposes. It does not constitute investment advice or recommendation to buy financial instruments. It does not replace consulting regarding legal, tax or financial matters.

Remarks regarding foreign investors
The preparation of this document is subject to regulation in the United Kingdom. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

United Kingdom
This document is meant exclusively for institutional investors and market professionals, but not for private customers. It is not for distribution to or the use of private investors or private customers.

United States of America
This document has been prepared exclusively by the Bank. Although Berenberg Capital Markets, LLC ("BCM"), an affiliate of the Bank and registered US broker-dealer, distributes this document to certain investors, BCM does not provide input into its contents, nor does this document constitute research of BCM. In addition, this document is meant exclusively for institutional investors and market professionals, but not for retail investors or private customers. It is not for distribution to or the use of retail investors or private customers. BCM accepts responsibility for this research document's contents and institutional investors receiving this research and wishing to effect any transactions in any security discussed herein should do so through BCM and not the Bank.
Please contact Berenberg Capital Markets, LLC (+1 646 949 9000) if you require additional information.