European Economics

European elections – collision avoided

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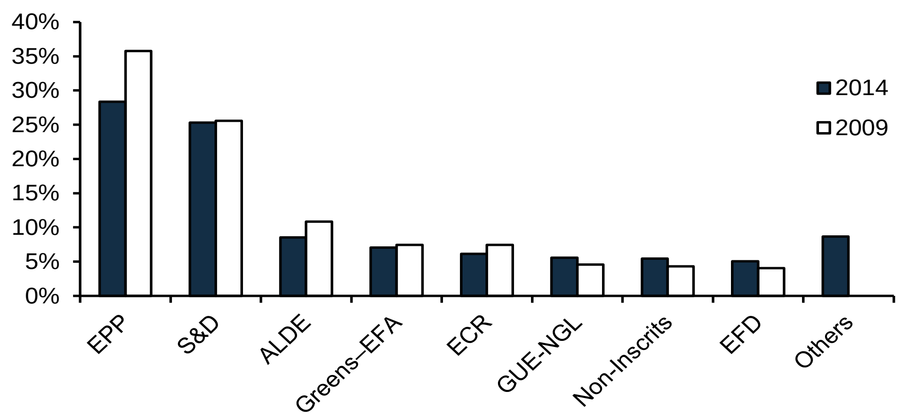
- **The 22-25 May European parliamentary elections went relatively smoothly, with no major surprise at the aggregate level.** There was an increase in anti-European support, as expected, but the increase was contained: it remained well below the 30% threshold – at around 25%, on our estimates.
- **As such, we do not expect major changes from this vote at the European level and expect consequences at the national level to be contained...** Market reaction has been constructive so far, with peripheral spreads coming in and equities generally supported.
- **…But lessons must be learned.** European policymakers must step up their game to avoid a further strengthening of anti-European sentiment in future election rounds.
- **The ECB, next week, is the first line of defence**, as we discussed here. But more needs to be done at the European government(s) level, too. If growth and employment return, these elections may have represented the peak in anti-euro(pean) sentiment. If not, the next elections might become seriously painful.

Exhibit 1: Elections in 2014 vs. elections in 2009

European Parliament



See Exhibit 2 for details on the parties' names and political family.
Source: Credit Suisse

European elections – collision avoided

Anti-European forces grew significantly, but less than feared. If we include the far-right and the far-left parties, together with the "non-inscrits" – assuming that all of them are anti-European – these forces hold just over 180 seats out of 751, representing less than 25% of the European Parliament. As we mentioned in the past, moreover, there is a high degree of heterogeneity amongst these anti-system parties, making them unlikely to vote in a compact manner on most European decisions.

The centre-right (EPP) managed to retain a relative majority, with 213 seats (28%), despite losing more than 50 seats when compared to the last round of European elections, in 2009. This should allow this group to suggest the next President of the European Commission (with Jean-Claude Juncker being its official candidate). MEPs are likely to elect the European Parliament president in the first European Parliament plenary session (1-4 July). MEPs are likely to elect the European Commission president in the second European Parliament plenary session (14-17 July). However, as was the case in the current European Parliament, decisions will have to be taken by a grand coalition, as the EPP only has a marginal and relative majority.

The centre-left (S&D) failed to meet expectations of a relative majority in parliament, with only a limited progression, to 192 seats (from 183 in 2009). Overall. The centre-left controls 26% of the European Parliament.

The fall in support for the centre-right was captured mainly by the far-right, which managed to increase its support significantly. The centre-left limited improvement was due to the poor showing of the French socialists and to a contained increase of the far-left, mainly in some peripheral countries.

Exhibit 2: Seats by political group in selected countries

Estimated

	EPP	S&D	ALDE	Greens / EFA	ECR	GUE / NGL	EFD	NI	Others	Predominantly Pro-European	Predominantly Eurosceptic	Total
Belgium	4	4	6	6				1		20	1	21
Czech Republic	7	4	4		2	3			1	17	4	21
Germany	34	27	4	12		7			12	77	19	96
Greece	5	4				8			6	9	12	21
France	20	13	7	6		4		24		46	28	74
Hungary	12	4		2				3		18	3	21
Italy	17	31					5		20	48	25	73
Netherlands	5	3	7	2	1	2	1	4	1	18	8	26
Poland	23	5			19				4	47	4	51
Portugal	7	8				4			2	15	6	21
Romania	9	16	6						1	31	1	32
Spain	17	14	2	5		5		4	7	38	16	54
UK		20	1	6	20	1	24	1		47	26	73
EU	**213**	**192**	**64**	**52**	**46**	**42**	**38**	**41**	**63**	**567**	**184**	**751**

Source: Credit Suisse, TNS

Exhibit 3: Difference vs. 2009 elections

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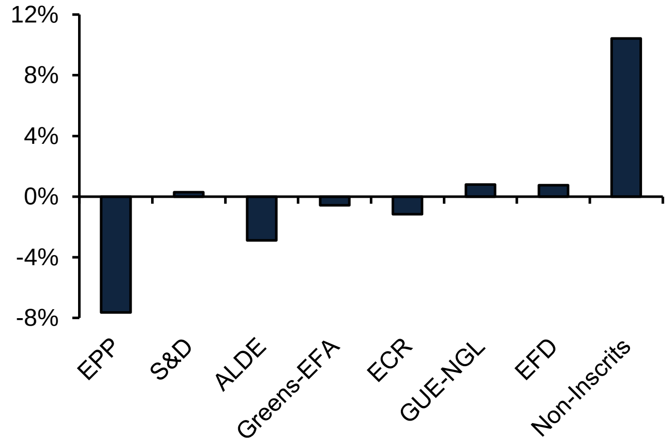

Source: Credit Suisse

Exhibit 4: Minor differences vs. expectations (polls)

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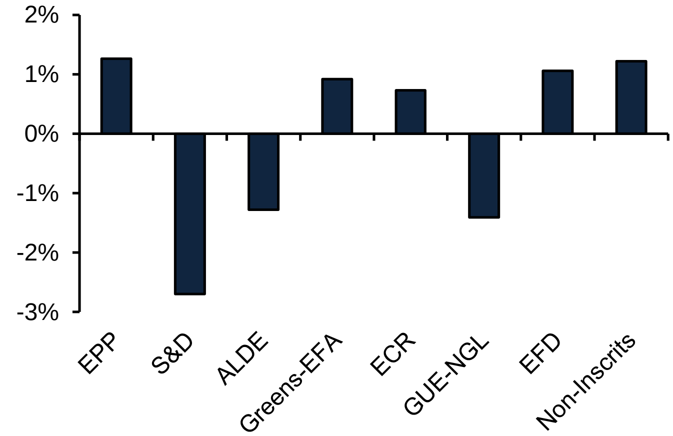

Source: Credit Suisse

Exhibit 5: Anti-Europeans rising, but still a minority

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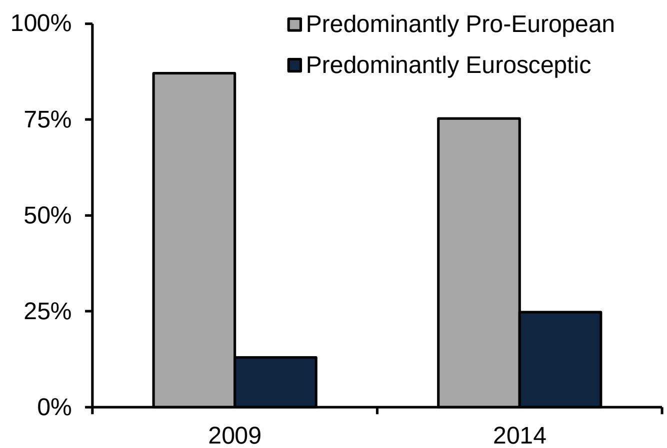
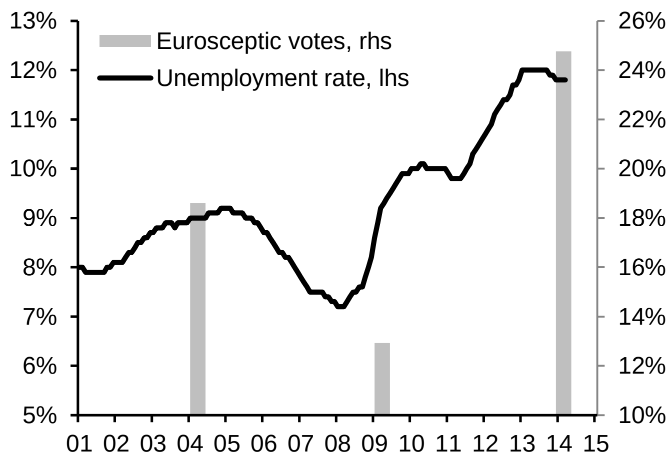


Source: Credit Suisse

Exhibit 6: Peak unemployment = peak protest vote?

Unemployment vs. Eurosceptic votes



Source: Credit Suisse, Eurostat

Exhibit 7: Actual and predicted percentage of seats held by each parliamentary group

Abbr.	Group Name	2009 Elections	Expectation for 2014 Elections	2014 Elections	Predominantly Pro-European (PP) or Predominantly Eurosceptic (PE)
EPP	European People's Party	36.0%	27.1%	28.4%	PP
S&D	Socialists & Democrats	25.0%	28.0%	25.3%	PP
ALDE	Alliance of Liberals and Democrats for Europe	11.4%	9.8%	8.5%	PP
Greens-EFA	The Greens–European Free Alliance	7.5%	6.0%	6.9%	PP
ECR	European Conservatives and Reformists	7.3%	5.4%	6.1%	PP
GUE-NGL	**European United Left–Nordic Green Left**	**4.8%**	**7.0%**	**5.6%**	**PE**
EFD	**Europe of Freedom and Democracy**	**4.3%**	**4.0%**	**5.1%**	**PE**
Non-Inscrits	**Non-Inscrits (and others)**	**3.7%**	**13.0%**	**14.1%**	**PE**
Total		100.0%	100.0%	100.0%	

Source: Credit Suisse, average of various polls

Selected country detail

France

With 25% of the vote expressed at the national level, Marine Le Pen's "Front National" did even better than expected, although polls had correctly indicated the French nationalist party as a clear winner in this electoral round. This is another important sign that the Socialist government has lost popular support, but we don't expect new elections soon; neither do we expect a change in economic policies. Indeed, a new Prime Minister took office only recently, giving a more centrist cut to the government's action. We don't think that Hollande is willing (or even able) to make changes for now. The hope for France is that the global and European rebound, plus the impact of already enacted reforms, will lift growth and help bring unemployment done – both events a precondition for an improvement in political support ahead of presidential elections, in 2017.

Italy

Matteo Renzi's "Partito Democratico" represented the biggest surprise for the pro-European camp, with a much larger-than-expected showing (more than 40% of the votes expressed), and leaving Beppe Grillo's M5S movement well behind (21%). This gives a strong mandate to the Prime Minister for reforms and should support Italian assets, while lowering the level of political uncertainty. Worth noting also that Berlusconi's party did less well than expected (at just under 17%) – although, if we include the other parties of the centre-right galaxy, the latter can still count on slightly more than 30% of the voters' preferences.

Greece

There was an – expected – good showing from the opposition far-left party, Syriza (27%, ahead of the centre-right New Democracy, at 23%). However, Syriza did less well than in the last elections, while the junior party PASOK/Elia did better than feared, collecting 8% of the preferences. The far-right party "golden Down" did well, although also the new, pro-European "To Potami" (the River) managed to score a healthy 7%. Overall, and together with the local election results that also came out this week, there seems to be only a very minor risk of immediate elections, in our view. The most likely consequence of the vote should be a government reshuffle in the near future. Early elections are still a clear possibility in the next 6-9 months, though, as we discussed in the past.

United Kingdom

The results of the UK European Parliament election were also a surprise, with the right wing, anti-EU UK Independence Party winning 27.5% of the votes and beating the two major mainstream parties into second and third place. Indeed, this was the first UK election in which neither of the major parties won.

In general, it would be normal for the main opposition party – in this case Labour – to poll well in the European Parliament elections. The fact that they didn't do well suggests a further fracturing of the vote in next year's UK General Election. It suggests no party could win an overall majority, making the form, balance and direction of the next government uncertain, in our view. Given the UK's large current account and public deficit, that poses a risk to the continued strength of sterling, in our view.

The other implication we'd draw is that support for the UK Independence Party reflects – as it does elsewhere in Europe – considerable discontent with the political establishment. That signifies a risk for the Scottish independence referendum (which we discuss here) in September: although opinion polls continue to suggest the Scottish electorate will vote to remain in the UK, it is possible that the discontent reflected in the European Parliament elections results in a different outcome.

CE3 – Hungary, Poland and Czech Republic

In Central Europe mainstream parties continued to dominate the political arena, but their stance towards the EU may become more assertive following the elections, in our view. In Hungary and Poland, rightist parties received most of the votes. In Poland, governing pro-EU Civic Platform (PO) and opposition Law and Justice (PiS) came neck-and-neck, each having received about 32% of the votes, adding 19-19 seats to the EPP and to the ECR political groups in the European Parliament, respectively. Although PiS is unlikely to have a major influence on domestic or EU-level policies for now, in our view, its more radical stance is likely to put pressure on Prime Minister Tusk ahead of next year's national elections. In Hungary, Prime Minister Orban's governing Fidesz party captured around 52% of the votes, adding 12 seats to the EPP group in the European Parliament. However, just before the elections, on 24 May, PM Orban declared that Fidesz would not vote for Juncker to head the European Commission "under any circumstance", which might complicate negotiations about the presidency of the Commission to some extent, in our view. In the Czech Republic centrist ANO and centre-right TOP09 each won around 16% of the votes, ahead of PM Sobotka's Social Democrats with about 14%. In Slovakia, Prime Minister Fico's Smer party won, taking 24% of the vote, although the turnout was a record low of 13%.

Belgium – national elections

The other key vote was in Belgium, in particular related to the (separate) national election round. The Flemish nationalist party, N-VA was the relative winner. The party received around 20% of the national vote, more than polls were predicting. The largest party in French-speaking Wallonia was again the Social Democrats (PS) of PM di Rupo but they lost three seats, while their opponents, the liberals (MR), gained two seats. The problem here is that both the PS and the N-VA have said that they won't work together. The situation as such remains complex and it might take some time to form a government. It is worth noting that both the current governing majority, as well as an aggregation of Flemish and Walloon centre-right parties would in theory have enough seats to withstand a large majority in Parliament, as we wrote a couple of weeks ago.

If uncertainty persists for too long, it could hurt Belgian securities, although the assumption is that this time it will take significantly less than after the previous elections (it took more than 500 days then).

For now, the N-VA leader has just received a mandate to form a government and has a few days to make his consultations with the other party leaders. As such, we will know in the coming days if that will lead to the formation of a centre-right majority or if Belgium will revert to the broad coalition in place before the elections – and thus excluding again the N-VA.

Exhibit 8: Votes and seats by party

	Percent	Seats	+/-
N-VA	20,26%	33	6
PS	11,67%	23	-3
MR	9,64%	20	2
CD&V	11,61%	18	1
OpenVld	9,78%	14	1
SP.A	8,83%	13	0
CDH	4,99%	9	0
Groen	5,32%	6	1
Ecolo	3,3%	6	-2
Vlaams Belang	3,67%	3	-9
PTB-GO !	1,97%	2	2
FDF	1,8%	2	2
Parti Populaire	1,52%	1	0

Source: Credit Suisse

Exhibit 9: Possible government coalitions

Outright majority = 76

	Majority	Opposition	Margin
Potential centre-right coalition	85	65	9
Potential grand coalition	97	53	21

Source: Credit Suisse

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