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# European Economics

## EU Political Risks – Not Just Brexit

Giada Giani

[giada.giani@citi.com](mailto:giada.giani@citi.com)

+44 (0)20 7986 3281

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# What Lies Ahead Key Elections and Political Signposts 2016-2018

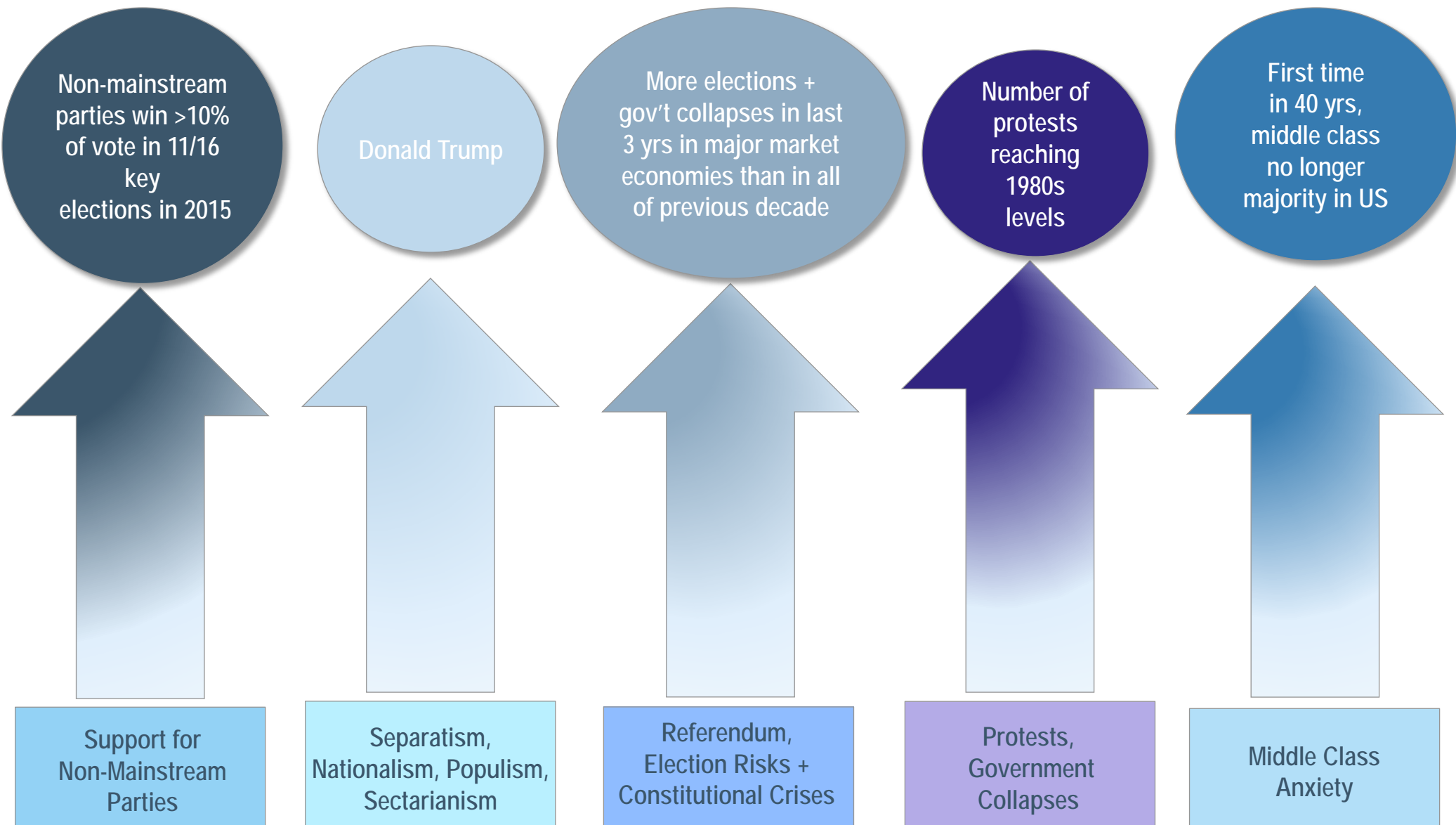
2016

2017

2018

Nov	4 Dec	31 Jan	March	23 Apr, 7 May	2H of 2017	March, TBC*	6 Nov	
<b>U.S. Presidential Election (8 Nov)</b>  French Conservative Party Primaries (20 Nov, 27* Nov TBC)	Italian Referendum	EU-Russia Sanctions Renewed?	Article 50 Triggered In UK <b>(by end of March)</b>  Dutch general Election (15 March)	French Presidential Election 1 <sup>st</sup> + 2 <sup>nd</sup> Rounds	German Federal Election (Aug 27 – Oct 22, TBC*)  19th National Congress of the Communist Party of China	<b>Russian Presidential Election</b>	US Mid-Term Elections	Other snap elections or referendums ?

# Vox Populi Risks High and Gathering Steam in Developed Markets



# EU Referendum Risk Will Continue

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- Further In/Out referendums on EU or Eurozone membership are **unlikely in any EU country in the near-term**
- Nevertheless, **political risks in Europe are high and probably rising**, accelerated by the immigration crisis
- The next major political event is the **Italian referendum on a constitutional reform** – PM Renzi's political future may be tied to the outcome . **Anti-EU/anti-Euro parties in Italy gather more than 40% of voting intentions**, according to recent polls. M5S has promise to call a referendum on euro membership if elected.
- 2017 will see crucial elections in France, Germany and the Netherlands. **France's FN has promised a referendum**
- **The mix of populism, middle class angst and anti-establishment sentiment is not limited to Europe**, and is on the rise across many AEs, including the US ahead of presidential elections

## Referendum Risks Come In Various Shapes

Referendums on EU or Eurozone membership

Referendums on EU-related issues

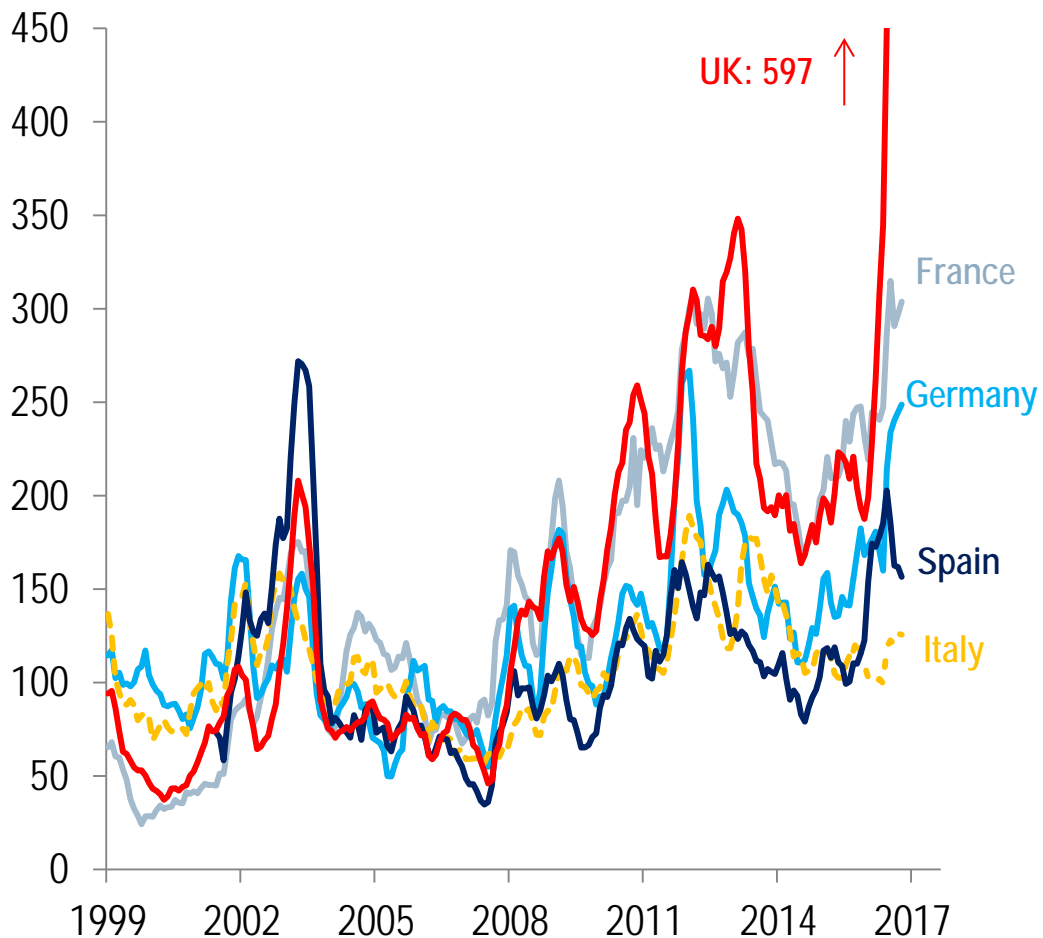
Promises to hold EU referendums to boost electoral prospects

The effect of potential referendums and EU-scepticism in general on policies

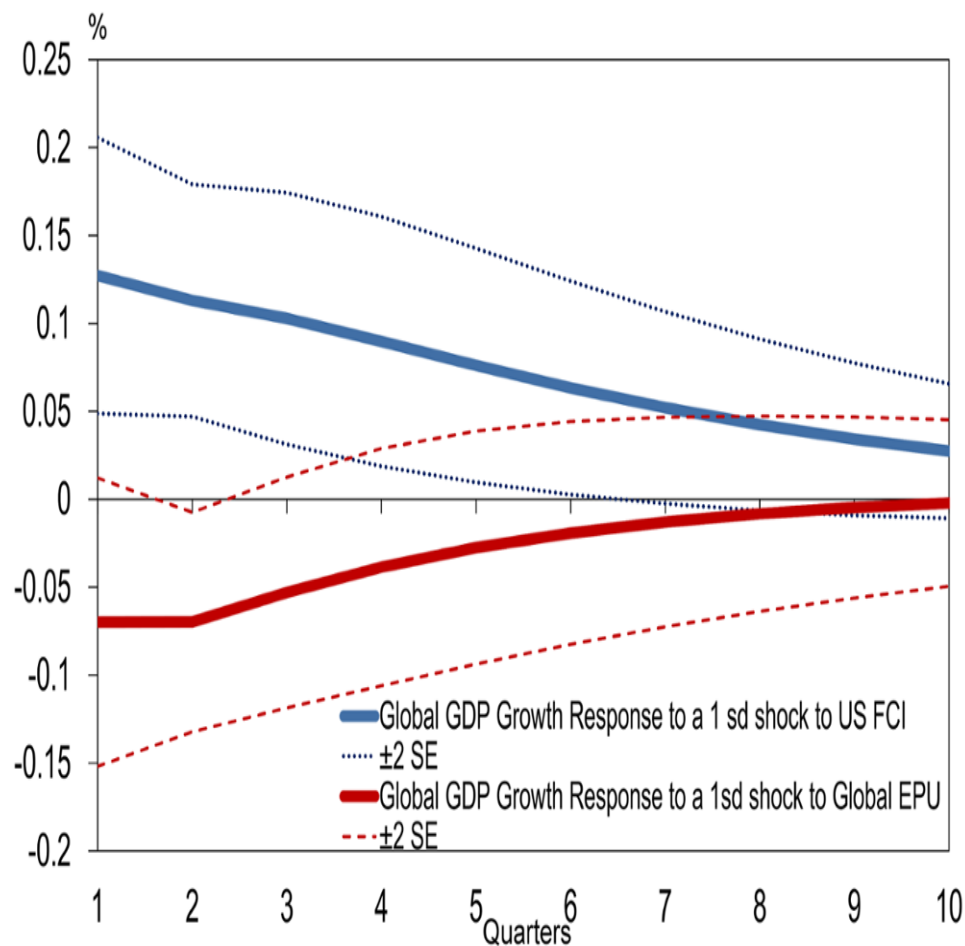
# Political Uncertainty Is High... And Negative for Growth

Our estimates suggest that a one SD rise in global policy uncertainty shaves 0.2-0.3pp off global GDP growth over six quarters

### Economic Policy Uncertainty Index (pre-2011 avg = 100)



### Global GDP Response to 1SD Shock to Policy Uncertainty



Sources: PolicyUncertainty.com and Citi Research.

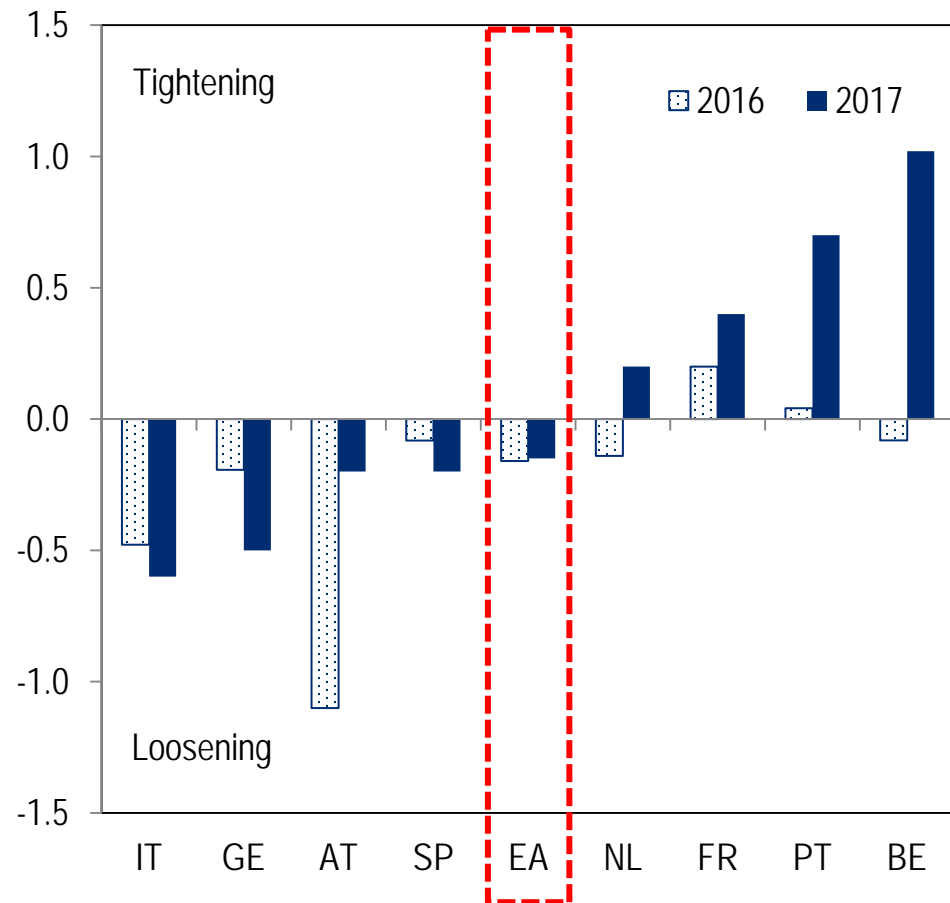
Note: Based on VAR model simulations, including global EPU, US Financial Condition index, US GDP growth, global GDP growth.

Sources: PolicyUncertainty.com and Citi Research

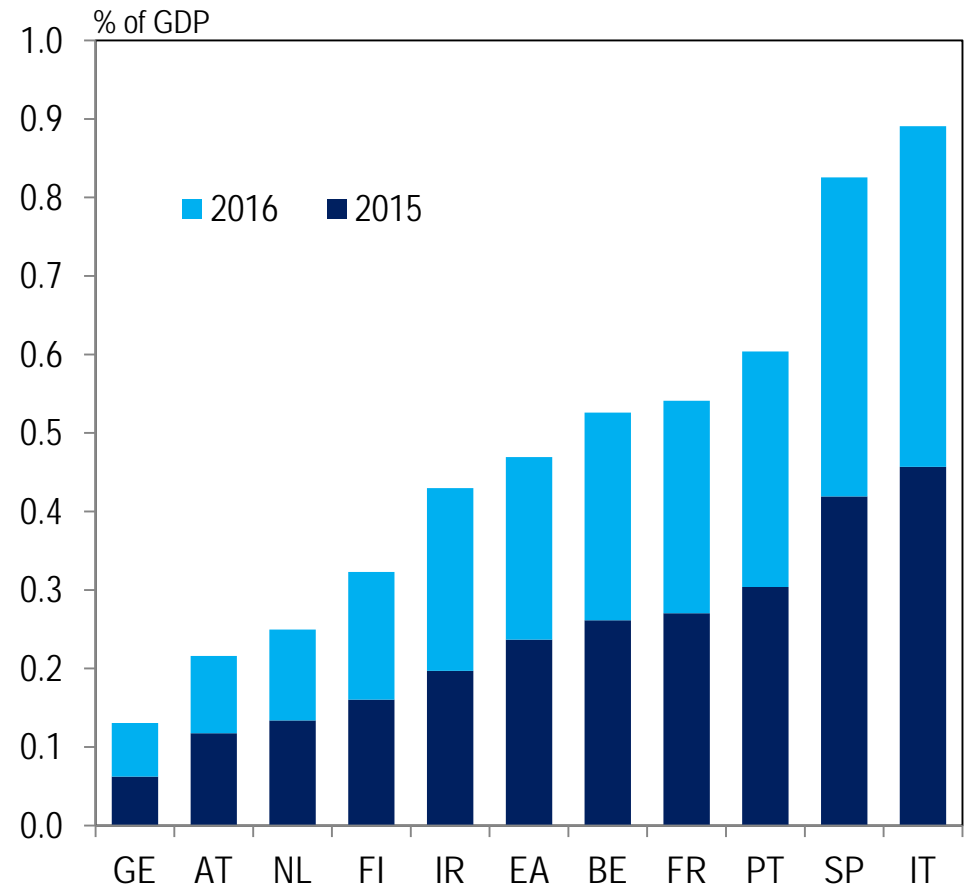
# Fiscal Policy: Too Little To Matter

2017 budgets point to a modest (up to 0.3% of GDP) fiscal impulse in the euro area aggregate

Fiscal stance (pp of GDP)



Funding Cost Savings out of QE (% of GDP)



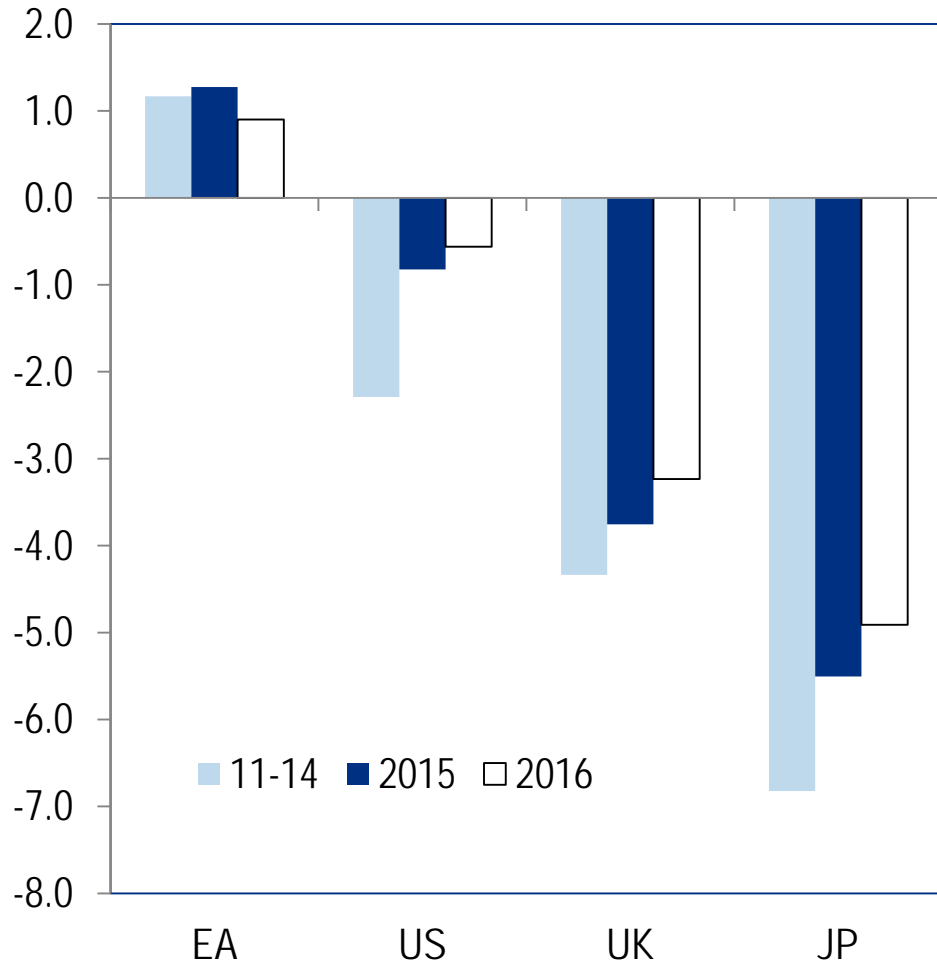
Note: fiscal stance measured by the change in the structural primary balance in % of GDP as reported in the 2017 Budget plans. Sources: 2017 Budget Plans and Citi Research

Sources: IMF, Haver Analytics and Citi Research

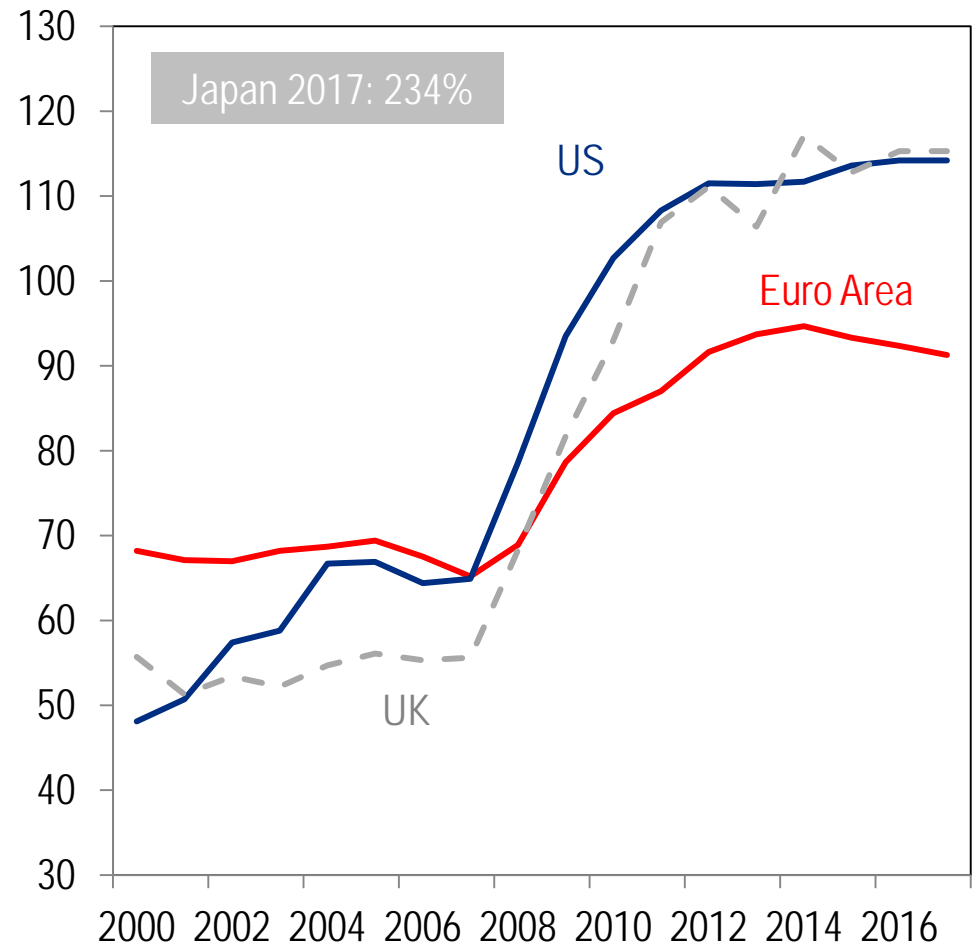
# Euro Area Has More Fiscal Space Than Others

Fiscal consolidation efforts in 2011-13 put the euro area in a stronger fiscal positions than other advanced economies

### Structural Primary Balance (pp of GDP)



### General Government Debt (% of GDP)



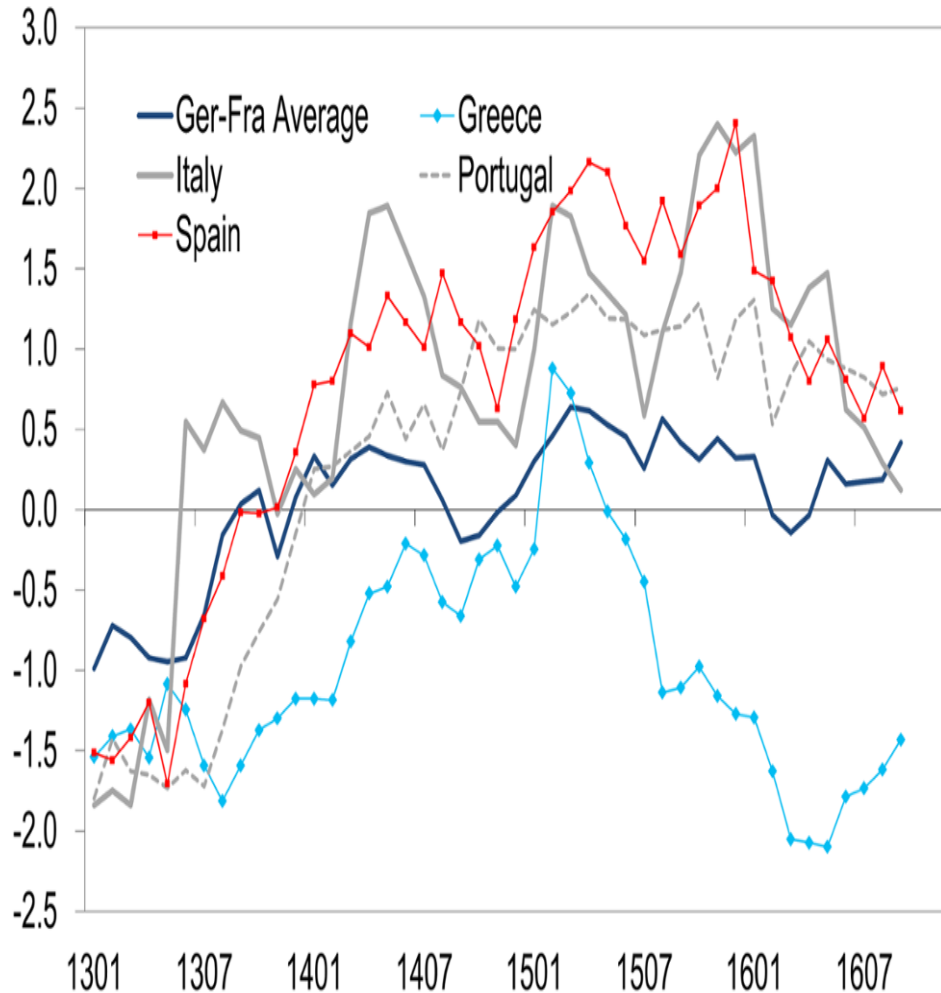
Sources: OECD Economic Outlook and Citi Research

Sources: OECD Economic Outlook and Citi Research

# Euro Area Periphery Lost Its Reform Momentum

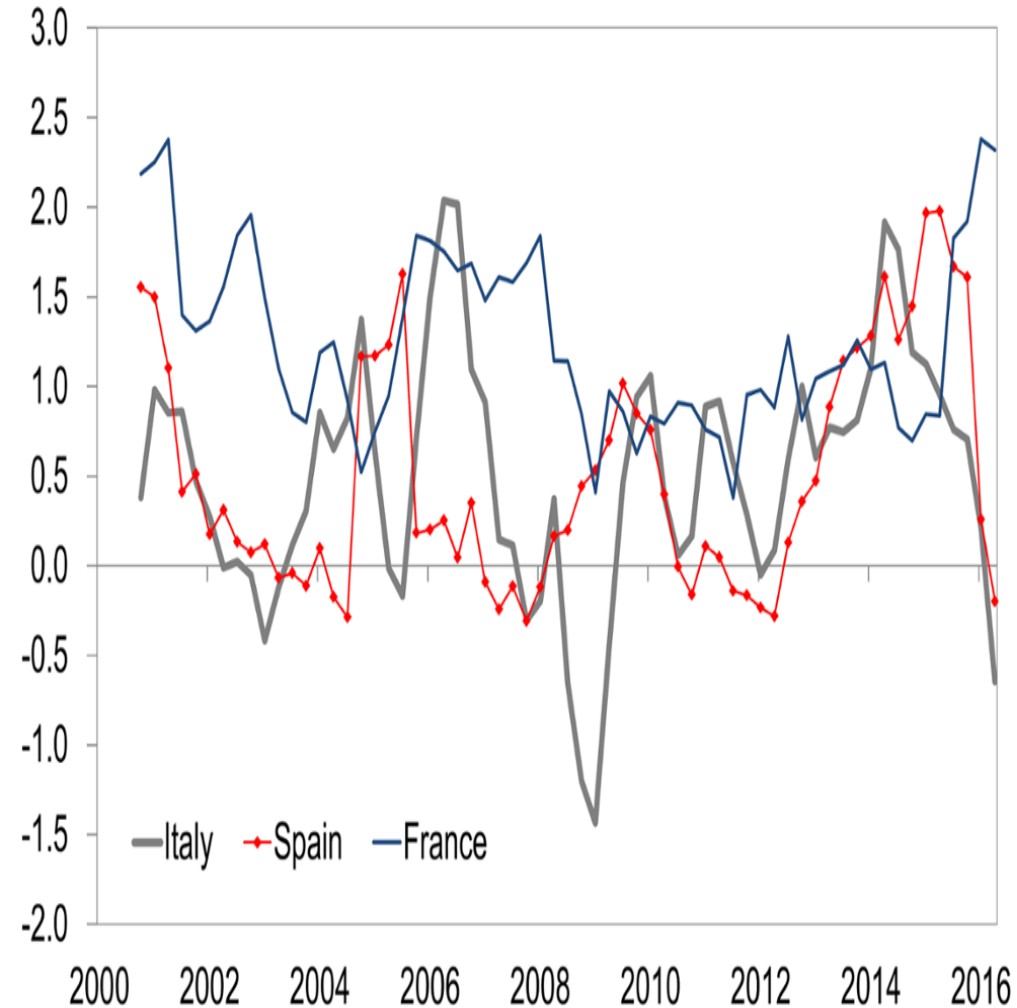
Rising political uncertainty/shift in reform momentum likely behind the worsening expectations in the euro area periphery

Households' Expectations on the Economy (SD Around LT Mean)



Sources: EU Commission and Citi Research

Equity Portfolio Investment Inflows (4Q Sum, % of GDP)



Sources: Eurostat and Citi Research

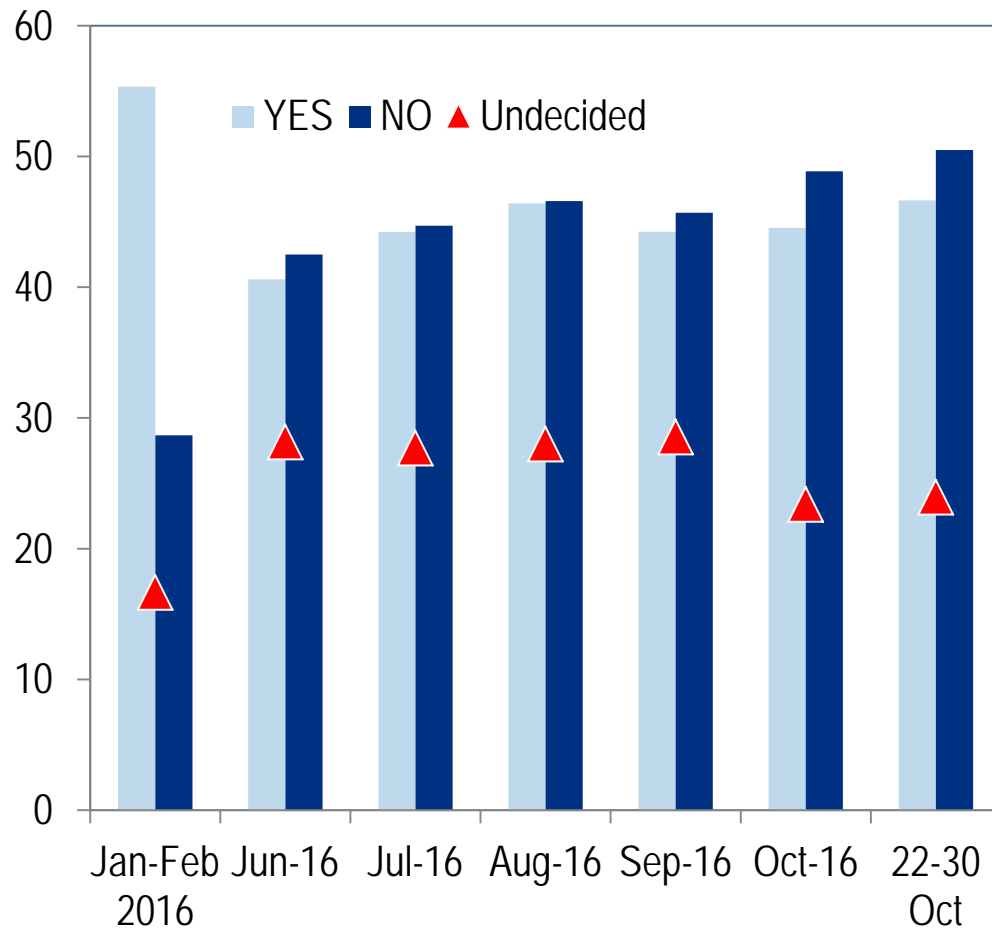


# Italy – Political Uncertainty Bound to Rise Ahead of Referendum

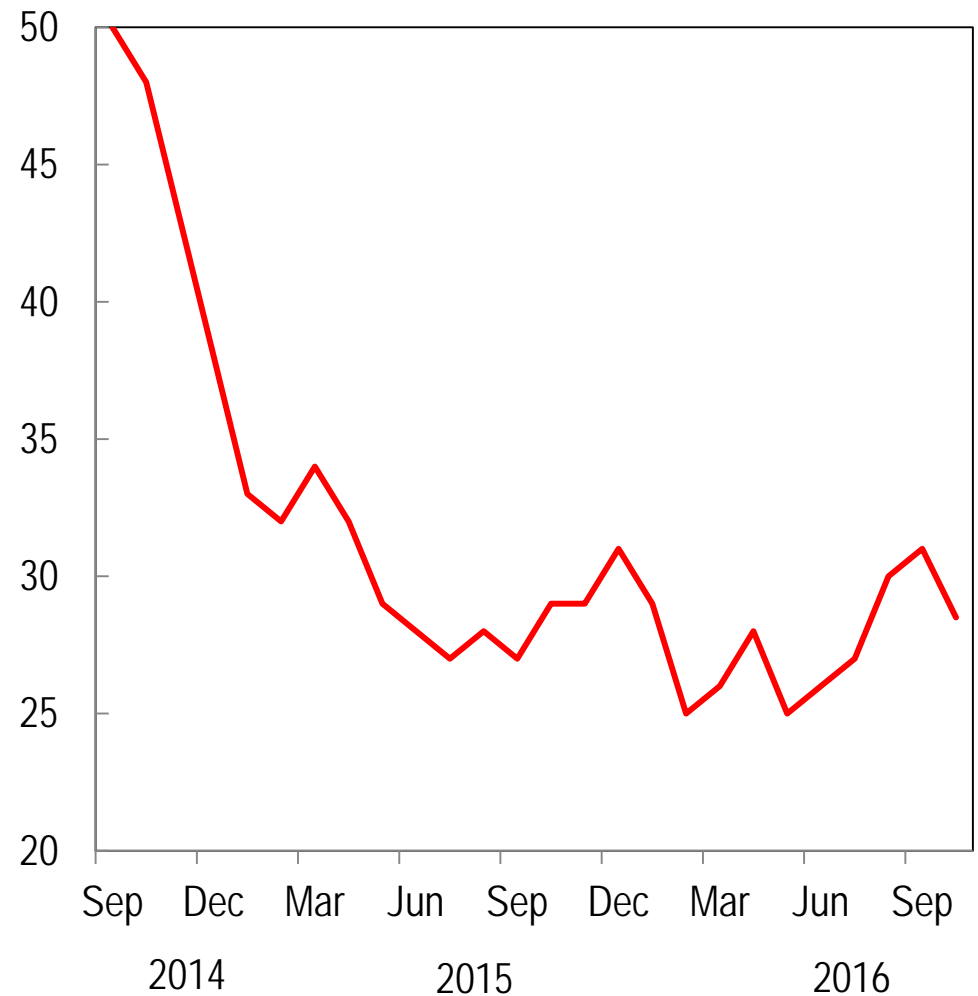
Rejection of constitutional reform unlikely to lead to major political turmoil/early elections.

However, it could lead to rating downgrades and it would constitute a bad signal for Italy's reform progress

### Voting Intentions on Constitutional Reform Referendum (%)



### Renzi Government Popularity (%)



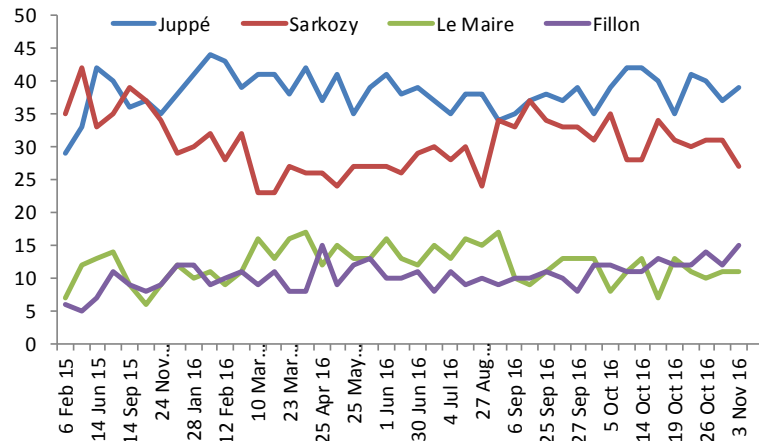
Note: voting intentions among those who intend to vote.  
Sources: [www.sondaggipoliticoelettorali.it](http://www.sondaggipoliticoelettorali.it) and Citi Research.

Sources: Ixe' Poll, [www.sondaggipoliticoelettorali.it](http://www.sondaggipoliticoelettorali.it) and Citi Research

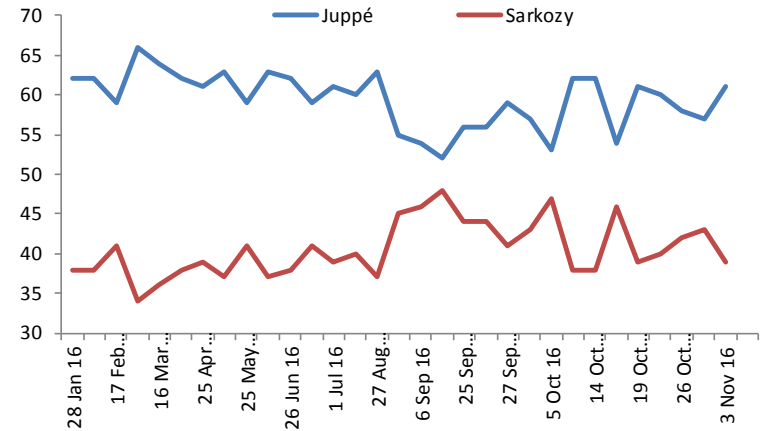
# France – 2017 Presidential Elections

Clear opposition between ambitious supply-side reforms championed by the Right, the likelihood of “more of the same” under Hollande or a radical switch towards anti-EU, anti-immigration offering by Le Pen

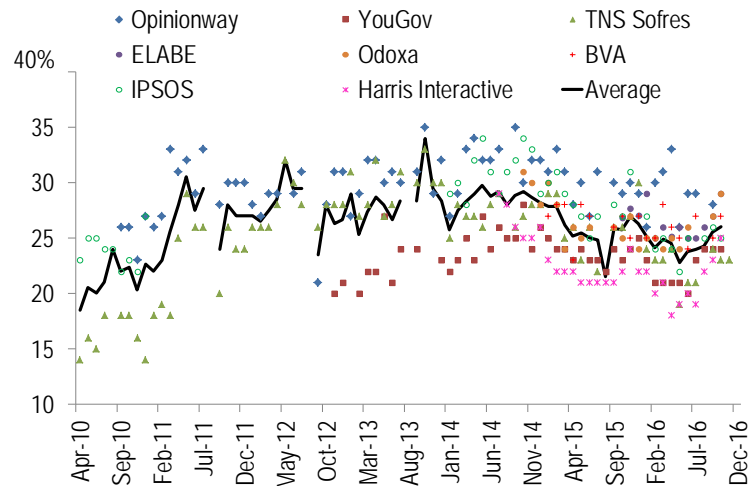
Polls of Conservative Primary 1st Round Voting Intentions, %



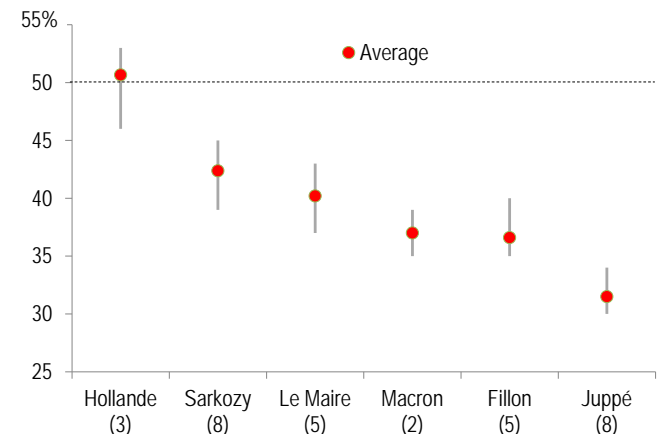
Polls of Conservative Primary 2nd Round Voting Intentions, %



Polls of Le Pen's Popularity Ratings, %



Le Pen's Share of Voting Intentions, 2nd Round vs. ≠ Opponents

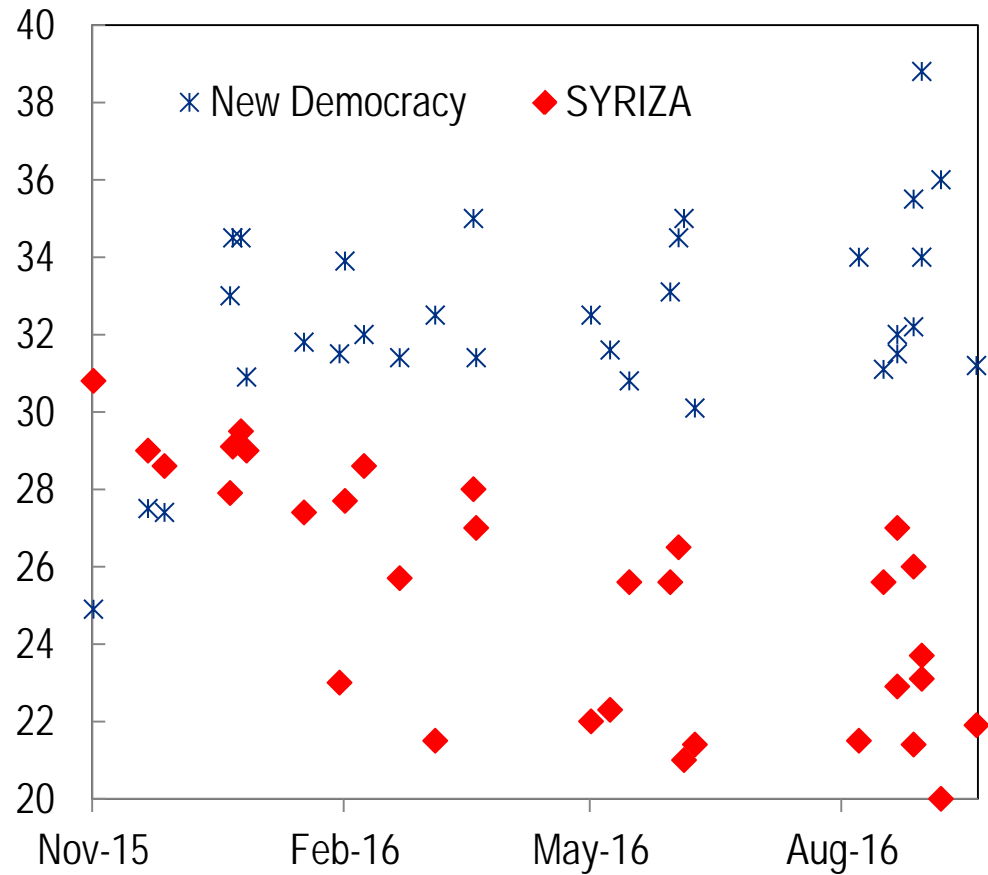
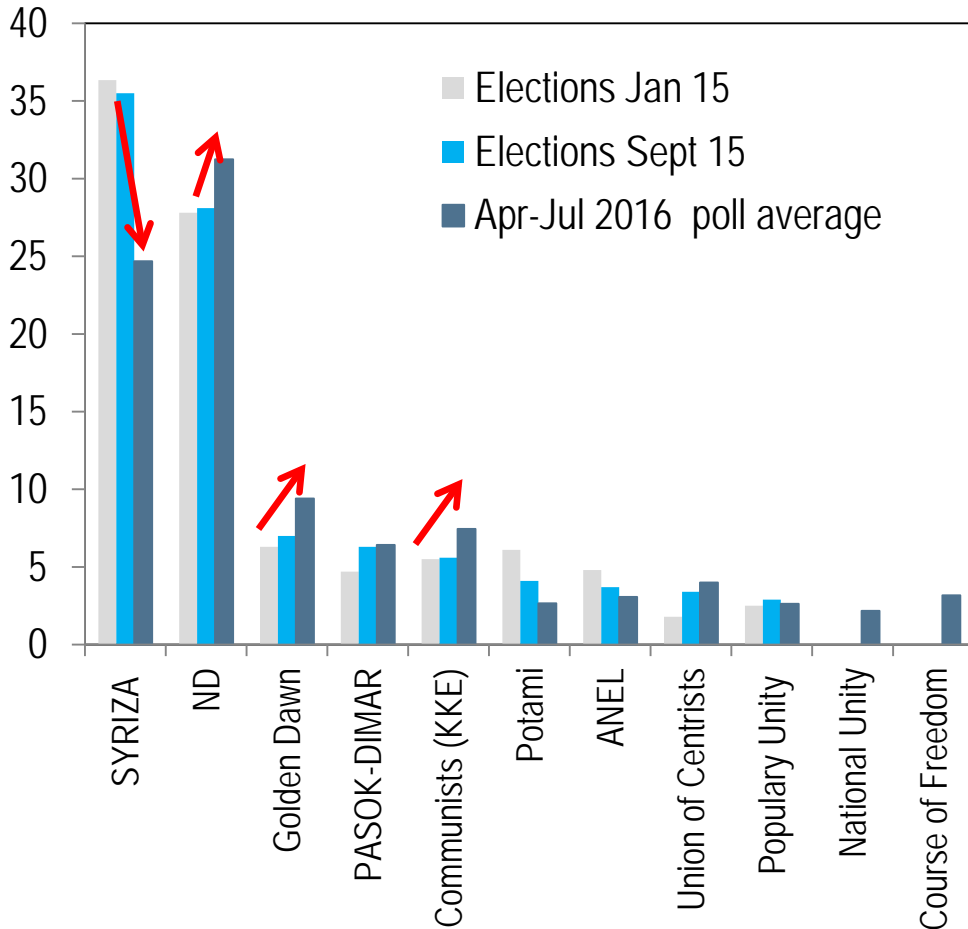


# Greece – Pro-Bailout Forces Maintain Majority in Parliament

SYRIZA losing support mainly to mainstream party New Democracy, not much to extremist parties

Voting Intentions and Election Results

Voting Intentions for Two Largest Parties



Sources: Various Pollsters and Citi Research

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