

# *2019 EU Parliament elections: Setting the scene for the ‘European Game of Thrones’*

Aiila Mihr  
Senior Analyst  
+45 45 12 85 35  
amih@danskebank.dk

Rune Thyge Johansen  
Assistant Analyst  
rujo@danskebank.dk

Arne Lohmann Rasmussen  
Head of FI Research  
+45 45 12 85 32  
arr@danskebank.dk

Piet P. H. Christiansen  
Senior Analyst  
+45 45 13 20 21  
phai@danskebank.dk

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## *Summary: EP elections set the scene for European politics in 2019*

- **We think the EU elections will be less of a shock event than many fear.** Polls point to some erosion of the political centre, with Social Democrats and Conservatives losing their absolute majority for the first time since 1979. But this should easily be offset by gains for the Liberals and Greens, paving the way for broader alliances and more diverse debates in the parliament. Although the political centre could be more fragmented after the 2019 elections, the overall sentiment in the European Parliament should remain pro-EU.
- **Although it is unlikely to be a major market-moving event, the EU elections will still have important repercussions in the European politics sphere.** The 'European Game of Thrones' will heat up after the EP elections (see page 10), with the nationality of the next EU Commission President setting the scene for Mario Draghi's successor as ECB President. In France, the performance of President Macron's LREM party will define the scope of his domestic reform agenda for the remainder of his presidency, while in Italy a strong showing by Lega could trigger the countdown for a breakdown in the governing coalition and snap election in H2 19. Amid growing cracks in the Franco-German alliance, the eurozone reform engine will likely remain stuck in low gear, in our view, irrespective of the election outcome.
- **The EP elections are a major political event in 2019. However, we doubt we will see any significant market impact on the European Government Bond market.** That said, the market will still follow the results and for the Italian market in particular the elections will be scrutinised to see the level of support for Salvini and other EU-sceptical parties. If we see a strong EU-sceptical group in the Parliament it could potentially weigh on periphery markets, but we strongly doubt that the impact would be significant. Instead, the economic development and the ECB communication ahead of the June ECB meeting would be the main market drivers in May. In the subsequent months, the market will also follow the election of the Commission President. If Germany secures the Presidency, it could further fuel the 'low for longer' environment as Jens Weidmann effectively would be out of the ECB race. On the other hand, if Germany loses out, it could make a push for the ECB Presidency instead. A 'hawkish' German at the helm of the ECB could create some market nervousness, but given the current weakness in the German economy, we would be careful calling for an abrupt change in the ECB's policy outlook.

## European parliament elections: the basics

- The role of the European Parliament (EP) is laid out in the Lisbon treaty and essentially comprises three key functions:
  1. Adopting EU legislation (including approving EU trade agreements)
  2. Supervising the European Commission
  3. Overseeing the EU budget.
- Should the 'Spitzenkandidaten' system of 2014 be applied again, the EP will also play a crucial role in the appointment of Jean-Claude Juncker's successor as EU Commission President (see more on page 8).
- The EP currently consists of 751 seats. However, uncertainty about the number of members in the European Parliament (MEPs) persists at the moment due to uncertainty as to whether the UK will participate in the election. **Should the UK parliament be able to ratify Theresa May's deal before 22 May, 27 of the UK's current 73 seats will be redistributed to other member countries, while the remaining 46 will be held in reserve for future EU enlargements. This means that the total number of MEP's after the 2019 election could fall from 751 to 705** (see table on the right).
- The country allocation of seats in the EP is regulated by European treaties and takes into account population size, but with smaller countries getting more seats than strict proportionality would imply. In the 2019 election, the number of MEPs will range from 96 in Germany to 6 in Malta.
- In the distribution of seats, countries have some freedom in choosing the exact procedure. For example, some countries split their territory into regional electoral districts, while others keep a single electoral district. EU rules state that some form of proportional representation should be maintained, so that both larger and smaller political parties have a chance to send representatives to the EP.

European parliament seats				
	Current	If UK does not participate	Difference	
Germany	96	96	0	→
France	74	79	5	↗
UK	73	0	-73	↘
Italy	73	76	3	↗
Spain	54	59	5	↗
Poland	51	52	1	↗
Romania	32	33	1	↗
Netherlands	26	29	3	↗
Greece	21	21	0	→
Belgium	21	21	0	→
Portugal	21	21	0	→
Czech Republic	21	21	0	→
Hungary	21	21	0	→
Sweden	20	21	1	↗
Austria	18	19	1	↗
Bulgaria	17	17	0	→
Denmark	13	14	1	↗
Slovakia	13	14	1	↗
Finland	13	14	1	↗
Ireland	11	13	2	↗
Croatia	11	12	1	↗
Lithuania	11	11	0	→
Slovenia	8	8	0	→
Latvia	8	8	0	→
Estonia	6	7	1	↗
Cyprus	6	6	0	→
Luxembourg	6	6	0	→
Malta	6	6	0	→
<b>Total</b>	<b>751</b>	<b>705</b>	<b>-46</b>	

Source: European Parliament, Danske Bank

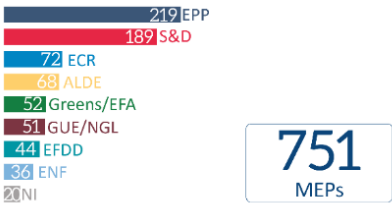
# Political groups in the EP can be a diverse mix

- Usually, MEPs opt to become part of a transnational political group as most national parties are already affiliated to a Europe-wide political party.
- Currently there are [eight pan-European groups](#) in the EP across the political spectrum. The largest are the centre-right European People’s Party (EPP) and the centre-left Socialists and Democrats (S&D) which have a total of 408 seats and therefore command a majority between them.
- EU rules stipulate that forming an EP group requires 25 or more MEPs from seven or more member states. The composition of the EP groups remains fluid and nationalist parties in particular have been reluctant to pre-commit to a specific EP group ahead of the election to avoid negative press coverage at home.
- **The political views represented in EP groups can be diverse and collaboration fractious.** The EPP, for example, is dominated by Germany’s CDU/CSU party, but also includes contentious members such as Viktor Orban’s Fidesz party, which due to its anti-EU campaign currently has its membership in the EPP suspended.

## European Parliament, 2014-19

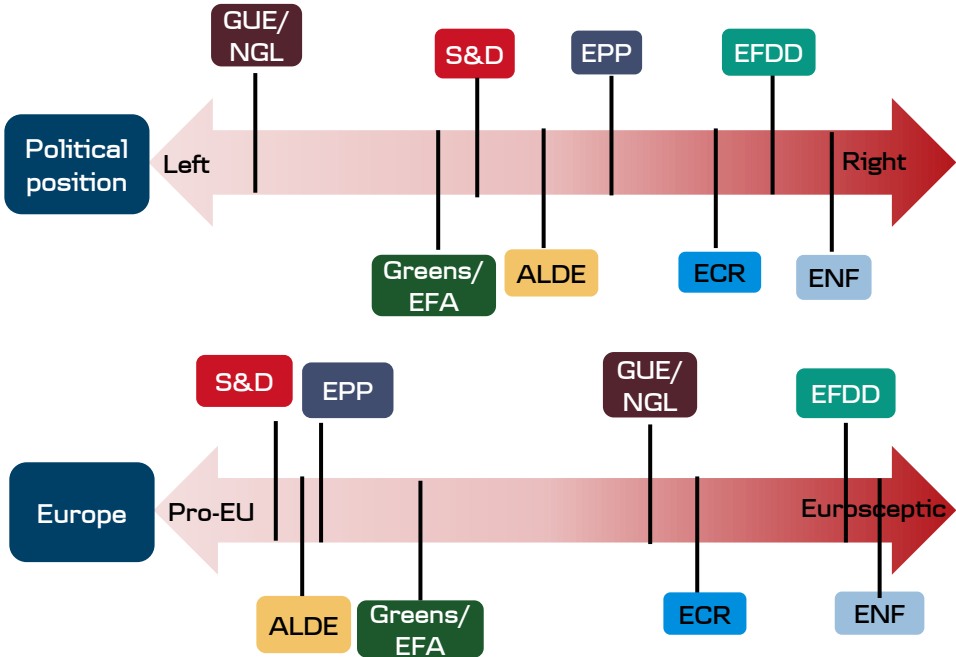
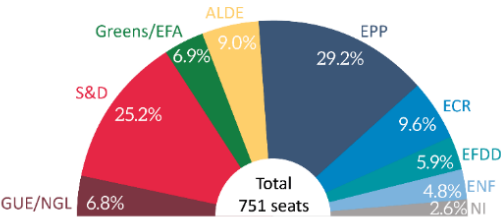
### Size of the political groups

Number of MEPs in each political group as of 1 April 2018.



### Proportion of Members in each political group

Share of each political group in the total 751 seats in the Parliament.

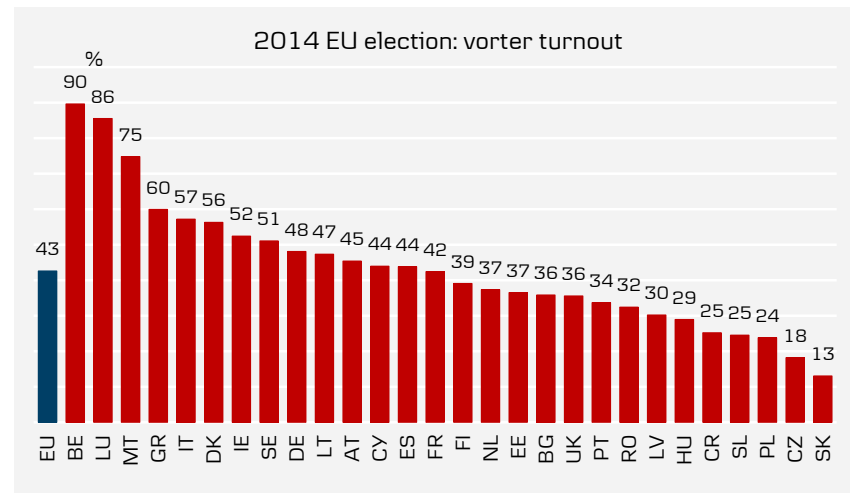
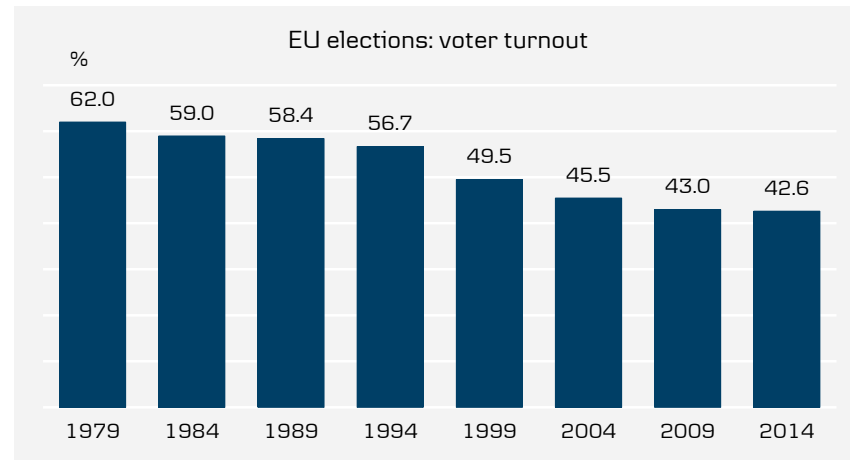


Source: European Parliament, Danske Bank

# Voter turnout will set the tone

- **Voter turnout for EU elections has usually been lacklustre** compared to national votes and participation has been on a declining trend since 1979, reaching a trough of 42.6% in 2014.
- This might reflect a **growing sense of disengagement with EU matters by the general public and also raises questions about the legitimacy of EU institutions**, which can wield significant power (think Commission role in the Greek 'Troika' or EU Parliament's power to block EU trade agreements).
- **The 2019 election will likely be much more polarised in the battle between nationalism and multilateralism.** This could well lead to higher voter engagement in the election, although this will on balance be at the cost of centrist parties, in our view.
- It will be especially interesting to see whether voter turnout increases in Italy and France, where President Macron is trying to fight off a challenge from the far-right National Rally to continue his national reform agenda, while in Italy a strong performance by Matteo Salvini's Lega could pave the way for a snap election in H2 19.

## Growing voter disengagement with EU matters

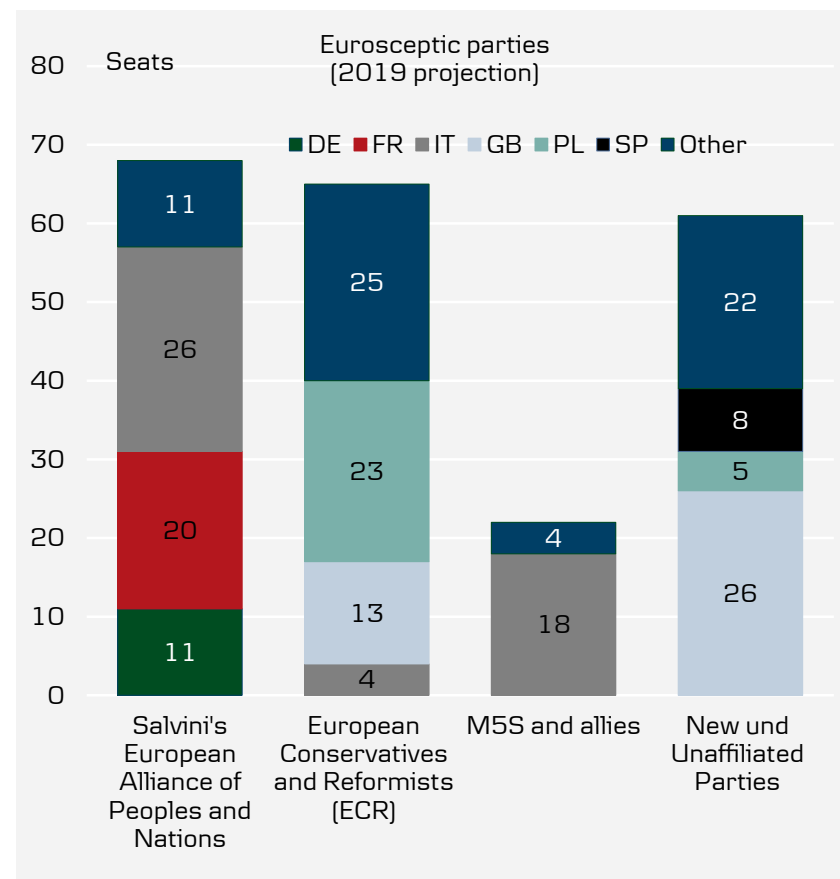


Source: European Parliament, Danske Bank

# Populist power on the rise?

- During the last election in 2014 the three EU-sceptical groups received 20.4% of the vote. A rise in populist parties' influence is expected, since national parliaments have seen a similar transition. **Still, with Eurosceptic outfits currently polling around 25%, it is unlikely that we will see the same kind of 'populist surge' as happened for example in the Italian election last year.**
- The eventual departure of the UK's MEPs will be another counteracting force. With over half of Britain's 73 MEPs currently sitting in EU-sceptical groups, their departure would mainly weaken the populists' clout.
- Another important question will be whether EU-sceptical parties can present a united front and work together to maximise their influence, while still remaining split into different political groups. Aware of this problem, Lega party leader Matteo Salvini has recently initiated the creation of a populist alliance (European Alliance of Peoples and Nations), which already includes Germany's AfD party, France's National Rally as well as the Finns Party and Danish People's party. Interestingly, Salvini's M5S domestic coalition partner remains notably absent from the list, and as the Italian governing coalition has repeatedly shown, such alliances between populist parties can often be fractious, even more so in light of differing national priorities.

Eurosceptic outfits currently polling around 25% (poll from 23 April)

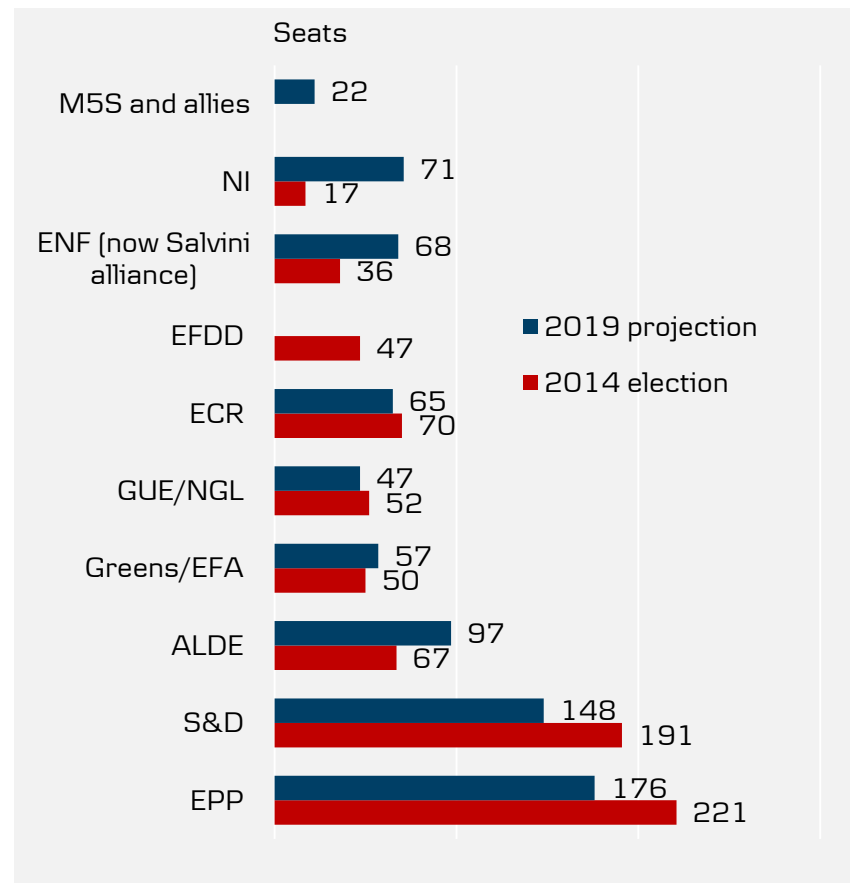


Source: Pollofpolls, Danske Bank

## 2019 election paves the way for more diverse EP alliances and policies

- EPP is likely to remain largest faction in the EP, although its performance might be further weakened by the expulsion of Fidesz. Similarly, S&D is likely to see its vote share reduced, in line with the European-wide setback of Social Democratic parties. Macron's La Republique En Marche (LREM) has vowed to team up with the liberal ALDE group, likely making it the third-largest group with 90-100 seats.
- Current polling suggests that EU-sceptical groups are likely to hold between 20-25% of seats in the new Parliament (from 20.4% currently). Due to parties' differing views, we think it unlikely they will unite behind one single group. A possible alternative could be to form an "against" bloc with a focus on blocking new proposals.
- Overall, 376 seats are needed for a majority (assuming the UK participates in the election). **The 2019 election will likely see EPP and S&D losing their absolute majority for the first time since the 1970s. However, this is not necessarily a negative development, as it paves the way for broader agreements and more heterogeneous debates. A broader alliance of centrist parties involving the Greens or ALDE should still command a sizable majority in the EP, while the influence of Eurosceptic parties should remain limited.**


**EPP and S&D set to lose their absolute majority in 2019**  
(poll from 23 April)




Source: European Parliament, Pollofpoils, Danske Bank

# No clear frontrunner for Commission presidency

- In the 2014 election, the European political parties for the first time nominated their lead candidates ('Spitzenkandidaten') for the EU Commission President position. As the candidate of the largest EP faction, the European People's Party, Jean-Claude Juncker went on to win after obtaining the approval of both the European Council and EU Parliament.
- It is expected that the same system will be used in the 2019 election and several EP groups have named their top candidates. However, sceptical voices about the Spitzenkandidaten system abound (for example from ALDE and French President Macron) and not all EP groups have put forward a Spitzenkandidat.
- The process is further complicated by the fact that the traditional S&D and EPP alliance will likely lose its outright majority and instead will have to rely on a broader alliance with either the Greens or Liberals (ALDE). This will by default also expand the range of possible Commission President candidates and a compromise candidate might well come from outside the field of the already-known Spitzenkandidaten.



**Manfred Weber** 

- German CSU moderate and close ally of Angela Merkel
- Member of the EP since 2004 and currently EPP chairman
- 'Man of the people', but has not played a major role in any significant legislative policies and no previous ministerial experience
- Hard-line on immigration and security questions (opposing EU accession with Turkey)




**Frans Timmermans** 


- Juncker's deputy and highly experienced Dutch/EU politician (multilingual and rhetorically skilled)
- Known as the face of the Commission's fight to defend the rule of law (taking hard stance against Poland) and fighting against Euroscepticism and nationalism
- Social democratic idealist, who embraces welfare policy and market regulations



**Ska Keller & Bas Eickhout**  

- Both German MEP Ska Keller and Dutch MEP Bas Eickhout joined the EP in 2009
- Advocate multilateralism, but with stricter social and environmental standards for example in trade deals
- Campaign topics include social justice, climate change, taxation, rule of law and gender equality




**Jan Zahradil** 

- Conservative Czech MEP, advocating more power to member states and a multi-currency/multi-speed EU

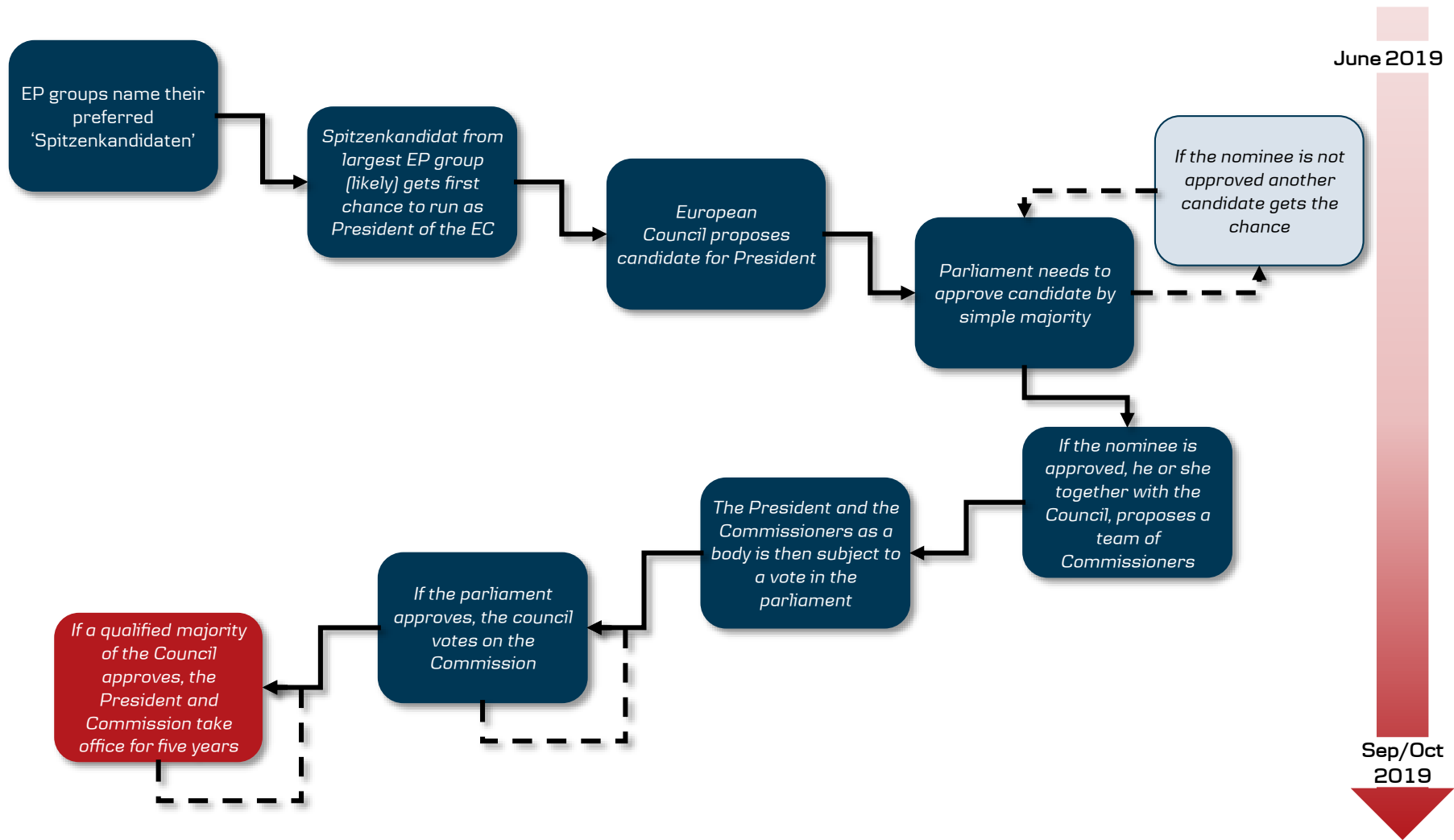
Other possible candidates for the Commission President position include:

- ALDE leader Guy Verhofstadt
- EU Commissioner Margrethe Vestager
- ALDE Vice President Luis Garicano
- German FDP MP Nicola Beer

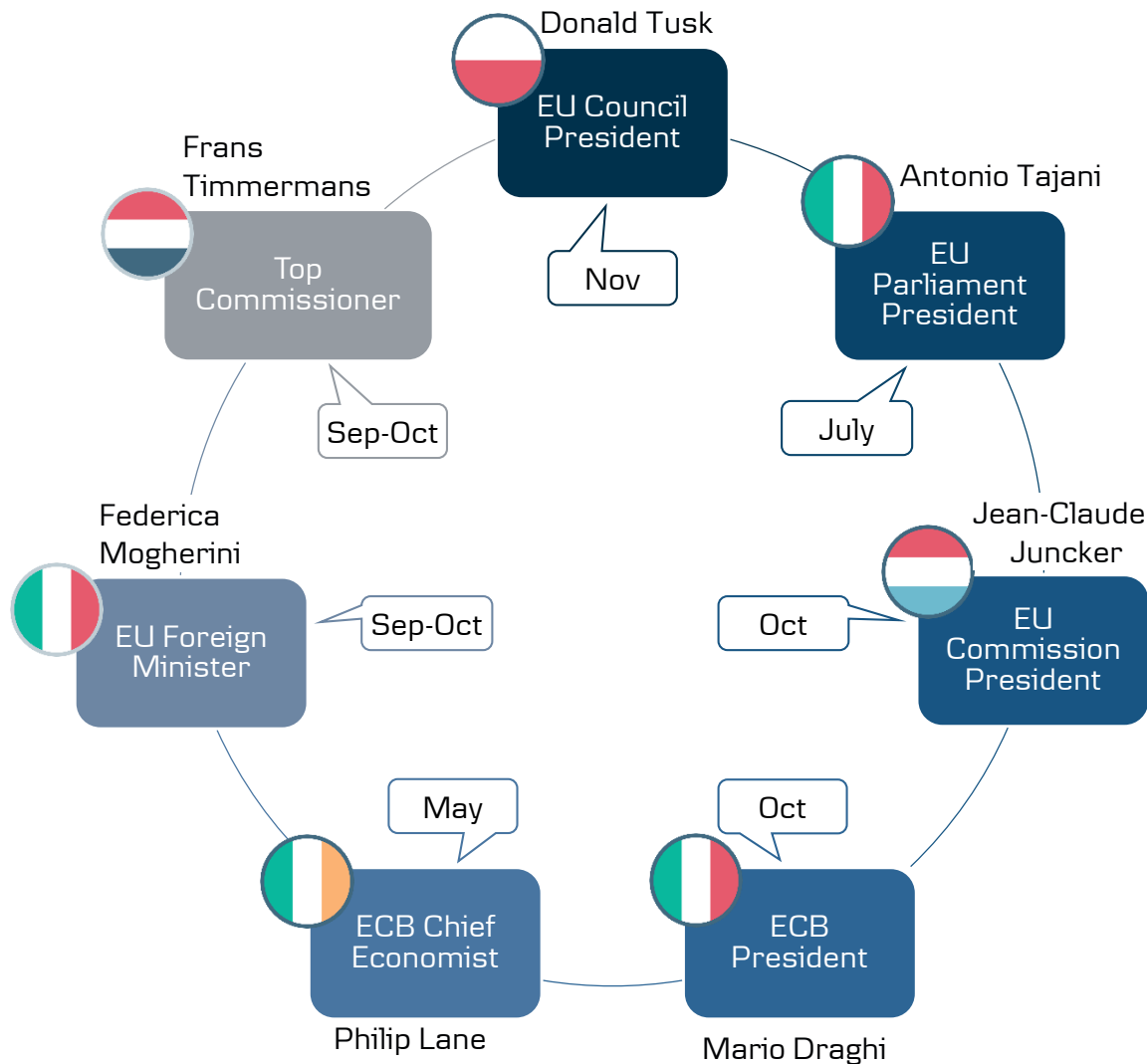




# The path towards becoming European Commission President



# The European Game Of Thrones



- The nationality of the next EU Commission President will also have important implications for the 'European Game of Thrones' playing out in 2019, with a range of EU top positions to be filled in the autumn.
- Informal rules about the balance of power between Northern and Southern member states will guide the political 'horse trading' that will gather momentum after the EU elections.
- Most important from a market perspective will be how the nationality of the next Commission president will affect the ECB President succession. With Germany seemingly preferring to secure the Commission presidency, this could pave the way for a more moderate consensus candidate from France or Finland taking over the reigns from Mario Draghi. Such policy continuity should be seen as a positive/calming factor for markets.

# The Franco-German alliance remains stuck in low gear



## France's view "European Renaissance"



- Schengen membership requires strict external border controls and solidarity (common asylum acceptance /refusal rules)
- Opening the door to possible EU treaty changes with a "Conference of Europe" by end-2019
- An EU minimum wage, appropriate to each country, negotiated collectively every year
- Preferential treatment of European companies in strategic industries/public procurement
- Ban/penalties for companies not adhering to environmental standards, data protection and tax rules
- Increased military spending and a European security council that includes the UK
- Multi-speed Europe to accommodate varying ambitions



## Germany's view "Getting Europe right"



- Respect countries differing approaches to migration policy, strengthening external borders (Frontex) and verify asylum claims directly at Schengen border
- A stronger Europe, but without taking more power away from national governments and creating new EU Institutions
- Working towards a banking union, but opposed to European centralism, pooling of debts, Europeanization of social systems (i.e. common unemployment scheme) and EU-wide minimum wage
- A new strategic approach to European technology, introduce digital taxation
- Replace France's permanent seat in the UN Security Council with an EU one
- Abolish second seat of EU Parliament in Strasbourg

Source: CDU

- Although France and Germany agree on 'making Europe stronger', there remain significant differences in their approach how to achieve this in practice, raging from migration policy to the question of whether to strengthen national governments rather than EU institutions.
- One topic that remains notably absent in both election manifestos is Eurozone reforms, which does not bode well for any rapid progress on this front post the EU elections, independent of who becomes the new Commission President. If anything, cracks in the Franco-German alliance have become increasingly apparent recently, for example in the diverging positions on the Brexit extension and the EU-US trade negotiations.

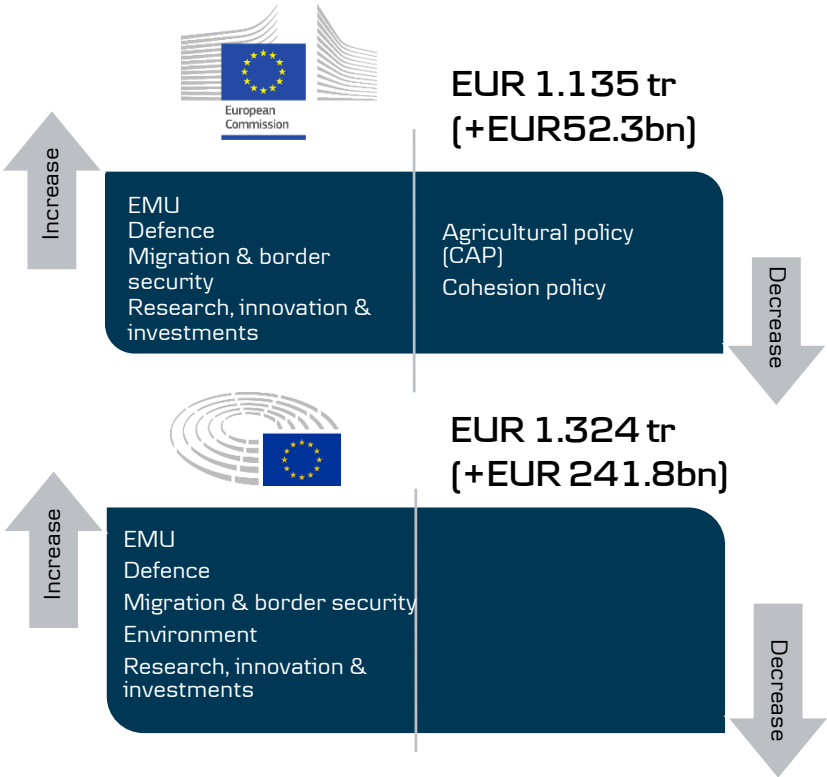
# More diverse EP could complicate EU budget negotiations

Another area where the repercussions of the EU election will be felt are the ongoing negotiations for the next EU budget (Multiannual Financial Framework - MFF) for the years 2021-2027, as it could make it more difficult to reach an agreement between the EU Council and a more polarised EU Parliament with very different views on EU priorities.

## EU Budget: the tricky questions

- Who will plug the Brexit hole? "Smaller EU, smaller budget"?
- Link cohesion funds to respect of rule of law?
- A separate Eurozone budget within the MFF as proposed by France? How big should it be? How would it work? What is the governance structure?
- A stabilisation instrument inside the EU budget for EMU countries?
- Should CAP funds be cut? Will more discretion for national governments lead to sharper competition and laxer environmental standards?

## EU Commission and EU Parliament view on the budget



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