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Macron wins French elections

Gerhard Winzer



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The elections are over. The next President of France will be Emmanuel Macron. This strengthens the camp of the liberal EU supporters. What does this result mean for the capital markets?

Cyclical upswing

The elections in France took place against the backdrop of a cyclical upswing in the Eurozone. Experts expect economic growth of 2.1% for 2017 after 1.7% last year. In France, too, numerous economic indicators suggest an acceleration of real economic growth. The economy is expected to grow by 1.4% this year after 1.1% in 2016. This means that France has clearly embarked on a recovery phase. While actual output continues to fall short of potential output, the so-called output gap has been shrinking (last year: almost -2% relative to potential). The immediate risk of deflation has also been overcome. Consumer price inflation is expected to increase from 0.3% to 1.4%.

Structural problems are not going anywhere

However, France continues to grapple with its structural problems. Average growth across the economic cycle and competitiveness are low. Also, government spending (56% of GDP), government debt (almost 100% of GDP), the unemployment rate (10%), and the degree of regulation are high. With Macron's victory, at least the potential for structural reforms and economically agreeable measures in France has increased.

Parliamentary elections as hurdle

The next hurdle Macron has to clear are the parliamentary elections in France on 11 and 18 June. It is questionable whether Macron's new movement can achieve a majority. And if it cannot do so, the different parties have to find a way of hammering out a sustainable, reform-friendly labour programme.

EU strengthened

Mr. Macron is a declared EU supporter. The probability of the long, dogged integration process in the European Union and the Eurozone and of the efforts to put these associations on a self-supporting, sustainable basis continuing has increased. This includes the expansion of the joint institutions for concerted economic and financial policies and the addressing of the deficit of legitimisation of the European Union.

Anti-globalisation wave warded off only temporarily

After the Brexit vote and Donald Trump's election as US President, the big anti-globalisation wave has been stopped – for the time being. The next cyclical downturn will come at some point, and the parliamentary elections in France could lead to a political standstill, which would intensify the structural problems in France. As a result, this situation would slightly tarnish the glimmer of hope for a long-term functioning EU. All of that would ultimately lend further support to the nationalist forces.

Conclusion

The combination of good economic indicators, a decrease in concerns over a possible break-up of the European Union, and hopes for reforms in France and the EU is positive for risky assets such as equities.

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