

European elections: What a shift to the right could mean for the economy and markets

The European elections brought the expected shift to the political right in the European Parliament. The biggest risk for policy, however, stems from national politics in France and Germany



The results are clear. By a huge margin, the centre-right European People's Party (EPP) will be the strongest political group in the next European Parliament, gaining almost 26% of the seats. Greens and Liberals (Renew) were the biggest losers. At the same time, both right-wing and nationalist party groups gained seats. The biggest increase in terms of percentages actually came from the so-called nonaligned parties, which do not form a political group in parliament. The gains of the latter were mainly a result of the German AfD, which until two weeks ago was still part of the "Identity and Democracy" group but was kicked out by Marine Le Pen.

As already described [here](#), the elections will affect the European economy both at the European and national level. This two-channel impact has become even more relevant after Emmanuel Macron's announcement of snap elections.

The European dimension: Changing priorities

While far-right parties made inroads in these elections, the political centre still holds a majority. A lot now will depend on whether the parties are willing and able to work together. And not just for a few weeks but for five years. Comments from some EPP members suggest that the party is not ruling out cooperation with the “Conservatives and Reformists”, informally led by Italy’s Giorgia Meloni. It is highly likely that the EPP will bring forward the next president of the European Commission and that a second term for Ursula von der Leyen looks likely.

A second term would, however, bring different priorities. With the strong losses of the Greens and the rise of populist parties, a new or more ambitious Green Deal looks highly unlikely. Instead, a second von der Leyen commission would probably focus on security issues, industrial policy and extended or softened deadlines and regulations for the green transition. Changes to EU taxonomy should not be ruled out either. In this regard, it is interesting to note that the losses of the Greens were not entirely due to voters turning away from green politics. Some voters actually turned to more radical green parties.

The combination of more complicated majority-building in the European Parliament and the shift towards more nationalist parties and policies, both at the European and national level, means that big cross-border European projects are less likely to be finalised or further developed. Think of the capital markets union or new common European investment vehicles. The rise of anti-European parties will probably be more visible in policy areas like security and immigration than in traditional economic areas.

The national dimension: Waiting for clarity

The more important implications for the European economy will come from national politics, with the most significant developments in France and Germany.

The already stuttering Franco-German axis has become weaker. In Germany, Olaf Scholz’s party only gained 14% of the votes, while in France, Emmanuel Macron’s party gained 15%. Huge disappointments.

In Germany, the government coalition got less than 30% of the vote. Snap elections still look unlikely but more tensions within the coalition, most noticeable in the current budget talks, will add to policy uncertainty and also political disappointments. After the summer, there will be three regional elections in East Germany, with a high likelihood of strong results again for the AfD. Another possible moment of political tension. Even without snap elections, the next national elections are scheduled for the autumn of 2025. It is currently hard to see any new growth-oriented policies until then.

In France, Sunday’s result prompted President Macron to call a snap election at the end of the month. This may be a [strategic move](#) by Macron to allow him to regain control of the narrative. The announcement has, after all, helped to shift the focus from Le Pen’s victory to his own political future. Whether this political move is also a smart move longer-term remains to be seen.

In the short run, the French snap elections have already led to a widening of bond yield spreads as a result of increased uncertainty. It is impossible to tell what kind of policies could be enacted with a French government led by President Macron and a far-right Prime Minister Jordan Bardella. However, what we do know is that the European Commission will very likely put France into an

Excessive Deficit Procedure next week and that France's public finances have become less sustainable. Markets will question whether changes to France's political leadership could lead to more irresponsible fiscal policies and opposition against the European fiscal rules.

The short- and longer-term implications

European politics will not change overnight nor will the impact on the economy be felt immediately. This has always been a gradual process. And the results of the European elections align precisely with this view. Over time, we are likely to see the Green Deal watered down, further steps towards more integration put on hold and more emphasis placed on security and industrial policies.

The national consequences of the election results are likely to change the parameters of EU cooperation, with a greater shift to the domestic agenda. For now, the risk of new sovereign debt tensions remains limited to France until the elections. However, the shift to the right in many countries could bring looser fiscal policies at the national level, be it via pro-growth stimulus or simply more social transfers. This could consequently bring new tensions with the European Commission and uncertainty to financial markets.

Another potential longer-term implication of both the European and the national dimension is that Europe as a bloc could become less predictable and hence also less attractive to international investors. It will be the task of European and national politicians and policymakers to nip these growing concerns in the bud.

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