

## Three calls for the eurozone's big three

German growth, French uncertainty, Italian doubts; here are our three calls for each of these major eurozone countries



French President Emmanuel Macron, left, and Italian Premier Mario Draghi

### 1 Germany: The return of Europe's growth champion

Throughout 2021 the German economy often seemed to suffer more from global supply chain frictions than from the pandemic. Industrial production contracted in two consecutive quarters despite filled order books and low inventories. As a result, Germany ended at the end of growth league tables and many may wonder where the large fiscal stimulus of the last two years has gone.

No worries! Previous government stimulus plus the new government's impressive investment policies will unfold in 2022 and lead to stellar growth performance. As soon as global supply chain frictions start to abate and the fourth wave of the pandemic is behind us, industrial production will strongly rebound, private consumption will start to pick up and investments will flourish and the German economy should stage an impressive comeback as European growth champion 2022.

### 2 France: Macron likely winner, but unlikely reformer

Macron's re-election at the upcoming presidential elections in April 2022 remains the most probable outcome, despite the uncertainty over his likely opponent in the second round. The subsequent legislative elections in June should also give him a majority as Macron-compatible

political forces are already preparing an alliance. Nevertheless, this will be more of a default vote than a real vote of support. In the current hyper-polarised political climate, outright opposition from civil society is expected at any attempt at major reform, just like we saw with the “yellow vests”.

Emmanuel Macron will therefore have to navigate an even narrower path to reform France, notably concerning pensions, the public service and the labour market. He can no longer count on the enthusiasm for a fresh new movement as in 2017, as the French population is unlikely to embrace painful reform after years of tough Covid-19 measures impacting daily life. This will make Macron a winner but not necessarily a reformer.

### 3 Italy: Not a victim of Mario Draghi's success

Under Prime Minister Mario Draghi's leadership, the Italian government has so far broadly delivered on the targets and milestones set within the recovery and resilience plan. Yet, with another 5 years until completion, the plan is still in its infancy and needs continuity. From this perspective, the upcoming presidential elections, due late in January 2022, represent a potentially risky event. As Draghi is often cited as one of the possible candidates, the worry is that his eventual success could mark a break in the reform process, depriving the current national unity government of its crucial aggregator, with a government crisis and snap elections already a possible consequence for 2022.

While acknowledging this risk, we still think the government and its reform agenda will make it until the end of its official term in spring 2023 as no party wants to bear the political costs of being responsible for pulling the plugs and rushing to the polls.

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