



EU elections countdown #3

Meet the EU(ro)sceptics

April 11, 2019

Author

Kevin Körner
+49 69 910-31718
kevin.koerner@db.com

Editor

Barbara Böttcher

Deutsche Bank AG
Deutsche Bank Research
Frankfurt am Main
Germany
E-mail: marketing.dbr@db.com
Fax: +49 69 910-31877

www.dbresearch.com

DB Research Management
Stefan Schneider

Soft and hard EU(ro)sceptic as well as anti-establishment parties could account for one-quarter up to one-third of the seats in the next EP, according to our updated poll-based projections. Polls suggest that Eurosceptic parties at the right end of the political spectrum could increase their share of seats in the next EP to almost 26% from the current 23%, while parties at the left end of the spectrum are likely to keep their share unchanged at around 7%.

If the UK participated in the EP elections, the impact on seat distribution in the next EP would be limited. The Eurosceptic camp would gain an additional share of seats of around 2-3 pp compared to our baseline projections. While this would not shift the balance in the EP substantially, it could affect the formation of Eurosceptic groups.

We have doubts about whether Eurosceptic and nationalistic groups in the EP will be able to overcome their previous discrepancies and build a significantly more united bloc. While their political and economic rhetoric might be similar, their specific vantage points and demands often differ significantly. However, even without a joint agenda, Eurosceptics could make coalition building (as on the national level) much more complex.

If Eurosceptic groups performed even better than projected, the EP could become increasingly split into two camps: one "pro-EU" which is generally committed to the European project and one "anti-EU" which (to varying degrees) questions the EU's current institutional setup. Together with previous shifts in the Council, where a number of leaders now openly clash with the EU about its rules and values, as well as the prospect of a new Commission likely to include (nationally selected) Commissioners less devoted to the EU in its current form, this could contribute to an increasingly divided Union.

The economic impact of an increased Eurosceptic influence in the European Parliament is hard to quantify, as these groups are characterized by rather heterogeneous economic and fiscal agendas. But they certainly add to increased uncertainty regarding EU decision-making capabilities and policy coherence and could thus negatively affect investors' confidence and markets' political risk perception.

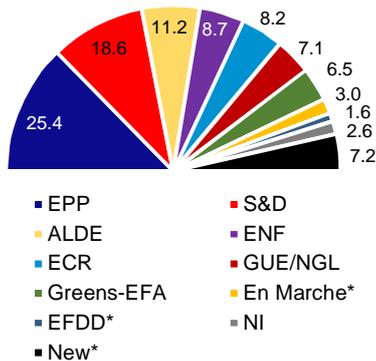


Meet the EU(ro)-sceptics

Potential distribution of seats in the next EP (total 705)

1

Share of seats (% of total)



Note: DB projections of the potential distribution of seats in the next European Parliament based on current national polls (without UK).

* En Marche and new parties (e.g. the Spanish far-right VOX) are not included in the current parliament; we included M5S among "New", as it announced to leave EFDD and form a new group after the EP elections.

Sources: Deutsche Bank Research est., based on PollofPolls.eu data, European Parliament

Less than 50 days to the European Parliament elections and things are getting more heated by the day. In our third elections countdown note, we focus on one of the main questions surrounding the elections - the rise of anti-European parties. Who are they, how many and what will be their influence in the next EP? What drives them and what motivates their voters?

As our updated projections show, the elections remain surrounded by a high degree of uncertainty. Right-wing anti-EU and EU-sceptic parties could reach more than one-quarter of the seats, according to our poll-based projections. If one adds softly Eurosceptic and anti-establishment parties on the far left, their share could rise to one-third. This means that a broader consensus across the centrist political groups would be necessary for constructive policymaking in the next EP.

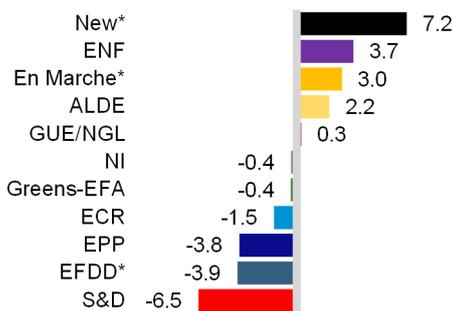
The rise of Eurosceptics also shows that the traditional political left-right spectrum as well as the geographical North-South and East-West axes appear to become increasingly replaced by a divide between pro- and anti-EU forces.

The outcome of the May EP elections could demonstrate how deep this schism has become. If Eurosceptic groups perform even better than projected, the EP could become increasingly split into two camps: one "pro-EU" which is generally committed to the European project and one "anti-EU" which (to varying degrees) questions the EU's current institutional setup. Together with previous shifts in the Council, where a number of leaders now openly clash with the EU about its rules and values, as well as the prospect of a new Commission likely to include (nationally selected) Commissioners less devoted to the EU in its current form, this could contribute to an increasingly divided Union (see also our EU elections countdown #2).

Potential wins and losses in the next EP (share of seats, percentage points)

2

+/- share of seats compared to current EP, pp



Note: DB projections of the potential distribution of seats in the next European Parliament based on current national polls (without UK).

* En Marche and new parties (e.g. the Spanish far-right VOX) are not included in the current parliament; we included M5S among "New", as it announced to leave EFDD and form a new group after the EP elections.

Sources: Deutsche Bank Research est., based on PollofPolls.eu data, European Parliament

Projections update – EFDD likely to lose group status

Our updated poll-based projections show some significant changes compared to our estimations from early February:

The Eurosceptic EFDD is set to lose its group status as several of its members, including the Italian Five Star Movement, announced to seek new alliances after the May elections.¹ Its share of seats is now expected to drop by more than two-thirds (3.9 percentage points), compared to our previous projection of a slight increase of 0.5 pp (see Charts 1 and 2). The expected loss of seats for the S&D and EPP compared to the current EP increases slightly to -6.5 pp (Δ -0.4 pp) and -3.8 pp (Δ -0.5 pp), respectively. The expected wins of En Marche, Greens, and United Left remain unchanged, while ALDE's share is now projected to grow by 2.2 pp (Δ +1.2 pp). ENF extends its lead to 3.7 pp (Δ +0.4 pp). Based on current polls, new parties are expected to win 7.2 pp in the next EP (now including M5S and the Spanish VOX), while currently non-affiliated parties could slightly reduce their share by 0.4 pp.

As in previous projections, EPP and S&D are anticipated to remain the largest factions in the next EP, followed by ALDE and the ENF. The ECR rises one rank to #5 at the expense of the United Left. The EFDD becomes the smallest group behind French President Macron's En Marche.

¹ Politico (February 15).



There is a lot of talk about a rise of anti-EU populism in Europe, but who are these groups and parties actually?

Eurosceptic and anti-EU parties are not a homogenous group and there is no clear-cut classification. They are mainly at the far-right and far-left fringes of the political spectrum, but can also be found among centrist parties. Often, they follow a pronounced populist agenda, i.e. by offering simplified and emotionally appealing answers to complex political realities. But they are certainly not the only ones using populist rhetoric and drawing a clear line can therefore be a difficult task.

What Eurosceptic populists often do have in common is their claim to know and represent "the people", where "people" might not necessarily refer to the full or even the majority of the electorate. They see themselves as voice of "the people" against a disaffected and corrupt national and European political "elite" or "establishment" of mainstream parties (to which they claim not to belong).²

Usually, Eurosceptics also present themselves as defenders of national interests against a "Brussels bubble" of European institutions and bureaucracy. Right-wing Eurosceptics and anti-European parties usually focus on topics such as traditional values, identity, national sovereignty, nationalism and immigration, while left-wing groups commonly have a stronger focus on economic topics such as austerity measures, income inequality, globalization and trade (even though many started to adapt more anti-migrant rhetoric in recent years as well).³

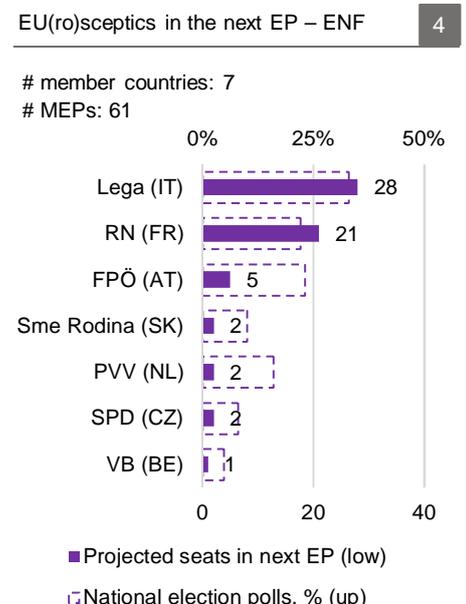
Eurosceptic and anti-European parties can be found across the EU, even though there are substantial differences in their national influence and voters' support. Generally, one can observe an increasing appeal among these groups to parts of the European electorate over the last years, in particular since the 2009/8 financial crisis and 2015 migrant crisis.

In the European Parliament, Eurosceptic and anti-Europeans are mainly organized in four out of the currently eight transnational groups or party families:

Political groups in the current European Parliament 3

EPP - European People's Party (Christian Democrats)
S&D - Socialists and Democrats
ECR - European Conservatives and Reformists
ALDE - Liberals and Democrats for Europe
GUE/NGL - United Left/ Nordic Green
Greens/EFA - Greens/ European Free Alliance
EFDD - Europe of Freedom and Direct Democracy
ENF - Europe of Nations and Freedom
NI - Non-Inscrits (not member of an EP group)

Source: European Parliament



Note: DB projections based on current national polls; group composition based on current information (without UK).

Sources: Deutsche Bank Research est., based on PollofPolls.eu data, European Parliament

- The far-right, nationalist, anti-migration and often outright anti-European [Europe of Nationals and Freedom \(ENF\)](#). The ENF includes Marine Le Pen's "National Rally" (formerly "National Front") from France, Matteo Salvini's Italian "Lega", Austria's FPÖ and the Netherland's Party for Freedom.
- The anti-establishment, partly far-right and hard Eurosceptic [Europe of Freedom and Direct Democracy \(EFDD\)](#). EFDD includes the Germany's "Alternative für Deutschland" (AfD). Its currently largest member, the British UKIP will drop out after Brexit while the Italian Five Star Movement announced to found a new alliance in the next EP.
- The Eurosceptic and anti-federalist [European Conservatives and Reformists \(ECR\)](#), which has moved more to the right by including the Nordic right-wing parties. After Brexit, the group will lose the British Tories which have secured a somewhat pragmatic policy approach in the ECR. Its largest member will become the Polish PiS, which struggles with Brussels over the country's breaches of European rule of law.
- The far-left European [United Left–Nordic Green Left \(GUE/NGL\)](#) which comprises socialist, communist and anti-establishment but also Eurosceptic parties. They include the German Linke, Spanish Podemos but also the moderately Eurosceptic "La France Insoumise" and Greek Syriza.

² See also Böttcher, Barbara, and Patricia Wruock (2017). Who is afraid of populists? EU Monitor.

³ See also Meijers, M.J. (2017). Radical Right and Radical Left Euroscepticism. A Dynamic Phenomenon. Jaques Delors Institut Berlin.

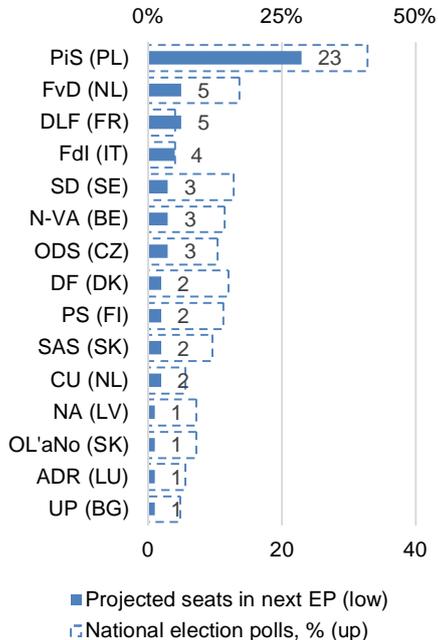


EU elections countdown #3

EU(ro)sceptics in the next EP – ECR

5

member countries: 13
MEPs: 58



Note: DB projections based on current national polls; group composition based on current information (without UK).

Sources: Deutsche Bank Research est., based on PollofPolls.eu data, European Parliament

Fidesz of Hungary's PM Viktor Orbán is certainly the most prominent Eurosceptic party among the generally pro-European and centrist EPP, and its group membership has recently been suspended over continuous anti-EU rhetoric and breaches of EU law. Some (radical or extremist) anti-European MEPs and national parties do not belong to any group and therefore sit in the European Parliament as non-aligned members or "Non-Inscrits" (such as the Hungarian Jobbik, German NPD or Greek Golden Dawn).

In which EU countries and regions (and why so) are anti-EU groups the strongest?

Even though Eurosceptic and anti-EU groups can be found across the EU they are much more established in some countries compared to others. Euroscepticism is not limited to specific geographic regions and can be found among old EU members as well as new ones. It can be observed among EU countries with very different historical experiences, socioeconomic conditions and demographic structures. Most European party systems in the EU include at least one right-wing or left-wing populist Eurosceptic party. While in most EU countries they are still mainly found in the political opposition (such as in France, Germany and Spain), in recent year the share of member countries with Eurosceptic governments (or partners in government coalition) has increased substantially, including Hungary, Poland, Austria and Denmark, Finland and since last year Italy.

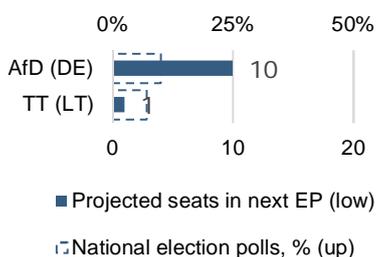
When it comes to voters' share, Hungary's Fidesz (50%) and Poland's PiS party (41%) perform particularly strong (see Charts 4-8), followed by Italy's Lega (33%). Together with M5S (22%), the Italian government coalition is supported by more than half of the Italian electorate. Greek PM Alexis Tsipras's Syriza or "Coalition of the Radical Left" stands at 26% of votes in recent polls. Heinz-Christian Strache's FPÖ in Austria, which is part of a government coalition with the conservative ÖVP of Sebastian Kurz, is supported by around 23% of the voters. Le Pen's French National Rally (22%) is in neck-and-neck with President Macron "En Marche" in the race for the national pole position. The "Sweden Democrats" stand at 19% while the German "Alternative für Deutschland" (AfD) is a latecomer among the Eurosceptic parties. Its voters' share has shrunk over the recent months from a peak of 15-16% to currently around 10%-13%.⁴ Also the appeal of Geert Wilder's PVV to voters in the Netherlands has dropped to 8%.

While the rise of Eurosceptic populism over the recent years is not fully understood, there seem to be common as well as country-specific drivers but also resiliencies. Far-leftist parties play a minor role in most former Warsaw Pact EU member states. And regarding right-wing populism, Greece, Portugal and Spain demonstrated a significant resilience, which is often explained by the experience of right-wing totalitarianism until the late 20th century. However, this experience seems to have faded out over the recent years, illustrated by the rise of the extreme rightist Golden Dawn in Greece (currently 8% in polls) and more recently the right-wing populist VOX (13%) in Spain.

EU(ro)sceptics in the next EP – EFDD (minimum requirements for groups not fulfilled)

6

member countries: 2
MEPs: 11



Note: DB projections based on current national polls; group composition based on current information (without UK). Under our baseline assumptions, EFDD would not fulfill the minimum requirements to form a group in the next EP (25 MEPs from 7 member countries). The group's previously largest member, UKIP (now divided in UKIP and Brexit Party) is assumed to leave before the May elections; the Italian "Five Star Movement" (M5S) announced to form a new group after the elections; the French "Debout la France" (DLF) to join ECR.

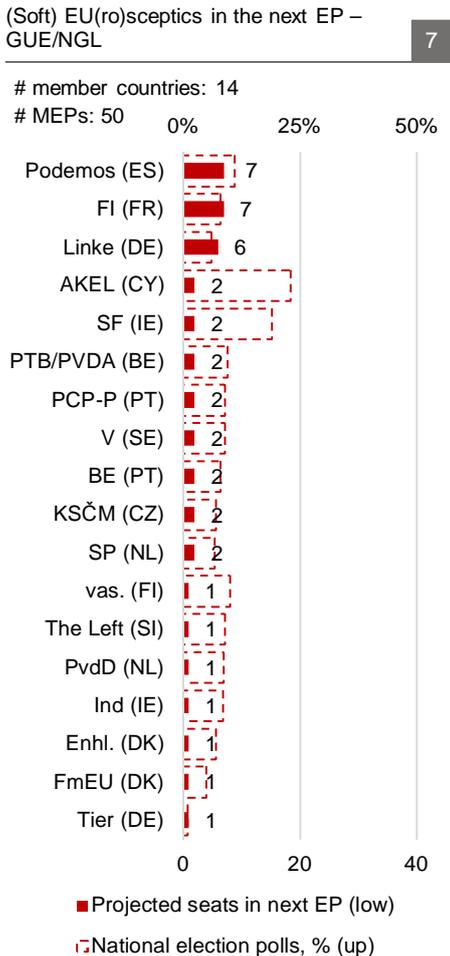
Sources: Deutsche Bank Research est., based on PollofPolls.eu data, European Parliament

⁴ Different results for European Parliament (10%) and national polls (13%).



EU elections countdown #3

What do the EU(ro)sceptics stand for (or against)?



Note: DB projections based on current national polls; group composition based on current information (without UK).

Sources: Deutsche Bank Research est., based on PollofPolls.eu data, European Parliament

“Soft” and “hard” Eurosceptic parties are often distinguished even though the grades of distinction are disputed. In a simplified form, “soft” Euroscepticism can be considered as generally agreeing with the European framework of institutions and EU membership while calling for reforms of aspects of it (e.g. re-transfer more sovereignty to the national level). Hard Euroscepticism usually questions EU integration and membership per se and includes calls to leave the EU as a whole. However, often parties do not clearly fall in one of the groups and there can be a smooth transition.

Also within the Eurosceptic groups in the European Parliament, parties differ in their degree of anti-European rhetoric and policy agenda. If one tries to categorize them broadly, hard Euroscepticism calls for leaving the EU can be found mainly in the ENF and EFDD, while Euroscepticism found among parties in the ECR tends mostly to the “soft” or moderate side, with notable exceptions such as the Sweden Democrats in the ECR. GUE/NGL is not a generally Eurosceptic group but soft Eurosceptic positions can be found among some members, such as the Greek Syriza.

What is important: several hard Eurosceptic parties have softened their rhetoric and adjusted their narrative recently. They no longer advocate their countries' departure from the EU but rather question the EU's institutional setup. They frequently call for “taking back” control as a nation state in certain policy areas, in particular related to topics such as migration and economic policy and to defend what they consider the “true Europe” against a Brussels-centered bureaucracy. Instead of leaving the EU, Le Pen's National Rally in France now talks about a “reformed EU”, while for the German AfD, “DEXIT” is not a core demand but an option “of last resort” if desired reforms fail.⁵ This might reflect a lack of support for radical steps among their domestic electorates, which in most European countries by a majority support EU membership, and also be an attempt to approach more moderate voters. It certainly also reflects the cautionary tale of the UK's Brexit experience. Eurosceptic parties that manage to enter government also seem to soften their stance on an EU exit rather quickly, as happened in the case of the Italian Lega and Five Star Movement.⁶

However, from the perspective of pro-EU and centrist groups, this changed rhetoric of “decentralising” the EU and transforming it “from within” and into a “Europe of nations” might be an even bigger challenge, as the “reform” agenda of Eurosceptics calls the legitimacy of EU's core institutions such as the European Parliament and Commission into question. If Eurosceptics managed to channel anxieties over migration and concerns about cultural identity and economic prospects among the electorate towards the European institutions, the very acceptance of the EU's setup could be increasingly put into question.

Who are the Eurosceptics' supporters and target groups?

By frequently following a rather sentiment than fact based agenda, many of the Eurosceptic and anti-European parties managed to appeal to parts of the electorate in Europe that increasingly felt left behind (and left alone by centrist parties) in the generally observed rise of prosperity assigned to globalization, European integration and technological progress. As these developments affect parts of the population across the continent, parties with a pronounced anti-EU, anti-globalisation and anti-migration agenda gained across Europe. But this does not mean that they are only supported by precarious and economically disadvantaged parts of the electorate or in structurally weak regions of the EU.

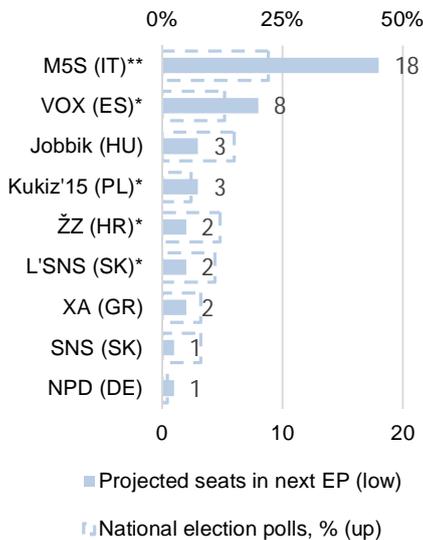
⁵ AfD (2019). Europawahlprogramm.

⁶ Bloomberg (February 15) and Washington Post (March 29).



EU elections countdown #3

EU(ro)sceptics in the next EP – new and non-aligned right-wing parties (selected) **8**



Note: DB projections based on current national polls; group composition based on current information (without UK).
*: new party not represented in the current EP
**: M5S was previously a member of EFDD but has announced to form a new group after the May elections

Sources: Deutsche Bank Research est., based on PollofPolls.eu data, European Parliament

A German research project on the rise of the far-right AfD finds, for example, that despite a measurable influence of socio-demographic factors such as unemployment, and average educational, one cannot derive a generalisation of a "typical AfD voter".⁷

What are the underlying factors and issues driving the rise of anti-EU movements in Europe?

It is certainly not possible to identify a single driver that explains the rise of Eurosceptic or anti-European populism over the recent years. There are some structural trends that clearly need to be taken into account, including the impact of globalization, digitalization, less homogeneous societies, changing political engagement and lower levels of institutional trust – which is not limited to Europe but a commonly observed phenomenon in western societies.

Left-wing and right-wing Euroscepticism might differ in how much they refer to economic and cultural factors, but to some extent this distinction has become too simplistic and rather outdated. Left-wing Eurosceptic parties certainly have a stronger focus on the detrimental impact of socioeconomic consequences of the globalisation such as rising inequality, while right-wing Eurosceptics will rather instrumentalise a cultural backlash among voters. But in the end, these factors are closely intertwined and often not easily disentangled. Economic insecurity might add to individual anxiety and thereby increase susceptibility to in-group / out-group thinking and the perception of economic threat through outside groups (immigrants, EU-institutions). For that reason, far-right and far-left parties often touch at the fringes and overlap in their target groups among the electorate.

Those rather global phenomena coincide with a European twist that can be seen in the way the euro crisis of 2011/12 and a few years later the refugee crisis are perceived to have been (mis)managed by EU governments and bodies, whether justified or not (see also Focus Europe, Oct 2018). Also, frictions in the decision-making process can harden the perception of inefficiency and feed frustration with EU politics that is often perceived to be out of touch with EU citizens.

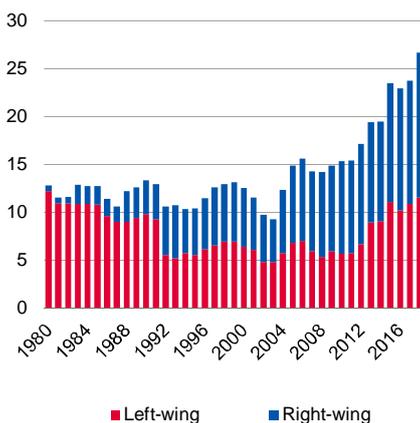
How strong are Eurosceptics set to become in the next EP?

In our baseline scenario (without UK participation in the May European Parliament elections), our poll-based projections suggest Eurosceptic parties at the right end of the political spectrum will increase their share of seats in the next EP to almost 26% from currently 23%. And this despite the fact that post-Brexit, the ECR will lose its currently largest member, the Tories and the EFDD and ENF UKIP, previously one of largest (now split) parties in the EP. Parties at the far-left of the political spectrum keep their share relatively unchanged at around 7%. So the total share of soft and hard Eurosceptic and anti-establishment parties could account for one quarter to one third of the seats in the next EP.

They will remain strong in countries, where they gained a substantial foothold already in previous EP elections, such as in France (Front National/National Rally), Austria (FPÖ), Hungary (Fidesz) and Poland (PiS), where they are even (part of) the government. But when it comes to the biggest gains of populist, nationalist anti-EU parties, two countries again stick out among their peers – Italy and Germany. In Italy, the anti-EU government coalition of Lega Nord and

Support for 'authoritarian populist' parties in the EU up since early 2000s **9**

% of total votes (population-weighted EU average)



Note: TIMBRO electoral data and definitions for 'authoritarian populism'; DB estimates for population-weighted EU average.

Sources: TIMBRO (2019), Eurostat, Deutsche Bank Research

⁷ Giebler, Heiko and Sven Regel (2018). Who Votes Right-Wing Populist? Friedrich Ebert Stiftung.



EU elections countdown #3

Three main drivers of anti-EU sentiment 10

§ **Fallout of the 2008/9 financial crisis.** Bail-out packages for member states and banks have been attacked as a moral dictate over fiscal prudence on one side and as obligation to pay for the self-inflicted failures of euro partners on the other side of the Union.

§ **2015/16 refugee crisis.** The experience of the migration crisis has put the coherence of the EU regarding border control and crisis management into question. Frontline countries such as Italy and Greece which experience a steady inflow of refugees feel abandoned by the current asylum system while members in particular in Central and Eastern Europe refuse quotas and redistribution of refugees within the EU.

§ **National sovereignty and role of the EU.** Balance of power between the EU and its member states, i.e. the question of how much should be decided in Brussels and how much on the national level.

Source: Deutsche Bank Research

M5S might win 46 seats or 60% of Italy's total seats. In Germany, the far-right anti-migration AfD could gain at least 10 seats compared to currently 7.

How will Eurosceptic groups and seat allocation look like in the next EP?

This question is not so easy to be answered. Most right-wing and far-left Eurosceptic and anti-establishment parties are currently members of ECR, EFDD and ENF. But to establish a group in the EP a minimum of 25 MEPs from one quarter of EU countries (i.e. currently 7) is required. As can be seen in Chart 6, EFDD is expected to fail both criteria. Its previously largest member UKIP is now split and has partly defected to the ENF. But unless Brexit is postponed (or revoked) it will drop out of the EP anyway. The French "Debout la France", so far a member of the EFDD, declared its intention to join the ECR after the May elections.

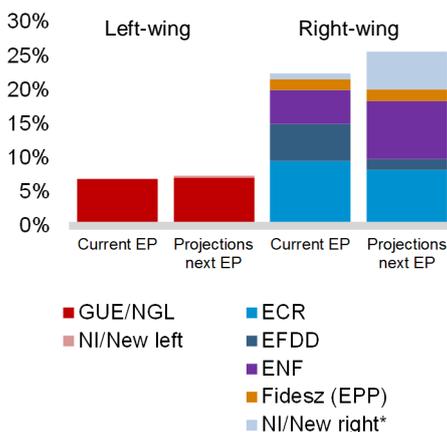
The Italian Five Star Movement already announced that it considers to form a new group in the EP, together with Poland's far-right Kukiz'15, Croatia's Živi zid and two other smaller parties from Greece and Finland. But they would require at least two more members from other EU countries to form a group of their own and according to current polls, not all of them might enter the EP.⁸ Whether M5S efforts to reach out to French 'yellow vests' might win them potential allies in the next EP remains to be seen. Several 'yellow vest' groups plan to run with their own lists, which according to one poll could obtain 13% of the French votes.⁹

ECR, which is expected to gain new members such as the Dutch "Forum for Democracy" and French DLF, will remain the largest group in terms of represented EU countries but not in terms of MEPs. Here, ENF, which includes the French National Rally and the Italian Lega is set to become the largest Eurosceptic bloc at 8.7% and fourth largest group of the EP. If the EFDD will be dissolved, its two remaining members, the German AfD and Lithuanian TT could either join ECR, ENF, become non-affiliated or join a newly founded coalition e.g. with Five Star Movement. Also the future alignment of the far-right Spanish VOX, which is expected to enter the next EP as a newcomer as well as some so far non-aligned parties such as the Hungarian Jobbik are not settled yet.¹⁰ Also Hungary's Fidesz, which is expected to send 12 representatives to the next EP and whose membership in the EPP was temporarily suspended recently, has been wooed by the ECR already to join its ranks.¹¹

If all right-wing Eurosceptic and anti-EU parties would form one group (including currently non-aligned and new parties as well as Hungary's Fidesz) they could even become the largest group in the EP with almost 26% of seats, ahead of the conservative EPP. However, such a group seems rather unlikely, as it would cover a broad ideological range from mild Eurosceptics and national conservatives towards outright anti-European parties and radical right-wing extremists.

At the far left, the anti-establishment and partly (soft) Eurosceptic United Left/Nordic Greens (GUE/NGL) keep their share of seats relatively constant at around 7%, while the share of non-aligned anti-establishment and socialist/communist parties is marginal at below 0.5% of seats.

Left-wing and right-wing (soft) Eurosceptics in the next EP 11



Note: DB projections based on current national polls; group composition based on current information (without UK).
* including the Italian M5S

Sources: Deutsche Bank Research est., based on PollofPolls.eu data, European Parliament

⁸ Euractiv (February 18).

⁹ Euractiv (February 05).

¹⁰ Euobserver (April 3).

¹¹ Financial Times (March 4).



EU elections countdown #3

Immigration and terrorism by far most important topics on European voters' minds 12

Two most important issues facing the EU, %

	1st most frequently	2nd most frequently
EU28	Immigration (40)	Terrorism (20)
AUT	Immigration (38)	EU public finances (28)
BEL	Immigration (42)	Climate change (26)
BGR	Immigration (51)	Terrorism (33)
CYP	Immigration (52)	Terrorism (26)
CZE	Immigration (58)	Terrorism (42)
DEU	Immigration (45)	EU public finances (30)
DNK	Immigration (48)	Climate change (31)
ESP	Immigration (38)	Economy (25)
EST	Immigration (65)	Terrorism (25)
FIN	Immigration (38)	Climate change (36)
FRA	Immigration (33)	Terrorism (22)
GRC	Immigration (44)	Economy (27)
HRV	Immigration (48)	Terrorism (32)
HUN	Immigration (54)	Terrorism (29)
IRL	Immigration (32)	Terrorism (27)
ITA	Immigration (41)	Unemployment (34)
LTU	Immigration (42)	Terrorism (35)
LUX	Immigration (41)	EU public finances (20)
LVA	Immigration (47)	Terrorism (26)
MLT	Immigration (61)	Terrorism (27)
NLD	Immigration (49)	EU public finances (34)
POL	Immigration (43)	Terrorism (30)
PRT	Terrorism (35)	Immigration (30)
ROM	Immigration (25)	Terrorism (24)
SVK	Immigration (48)	Terrorism (23)
SVN	Immigration (58)	Terrorism (24)
SWE	Climate change (46)	Immigration (38)
GBR	Immigration (31)	Economics (24)

Note: Important topics in descending order: immigration, terrorism, EU public finances, economy, climate change, unemployment, EU's global influence, cost of living, environment, crime, pensions, energy, and taxes.

Sources: Eurobarometer Nov 2018, Deutsche Bank Research

What about Brexit?

We already discussed the impact of Brexit on the European elections extensively in our EU elections countdown #1. If the UK leaves the EU as originally planned until May 22, i.e. one day before the elections start, no British MEPs will sit in the next EP. If the UK asks for a longer extension of Article 50 and thus is required to participate in the elections, this would have a measurable but limited impact on the seat distribution. Our updated projections confirm our previous results that the Eurosceptic camp would gain around 2 to 3 pp compared to our baseline projections. UKIP, which joined the EFDD in 2014 is now fragmented between the ENF, EFDD and non-attached members while its previous leader Nigel Farage has joined the newly founded "Brexit Party". While the UK's participation in the EP elections would not shift the balance in the next EP substantially, it could nevertheless have an impact on group formation.

Do Eurosceptics in the EP have a joint agenda?

Earlier last year the idea of a pan-European joint movement of the fragmented nationalistic, EU-sceptic camp received broad attention. Party leaders across the anti-EU spectrum expressed their desire for a more united faction within the parliament. Italy's deputy PM Matteo Salvini (Lega) called for a "League of the Leagues of Europe, bringing together all the free and sovereign movements that want to defend their people and their borders".¹² He also invited far-right parties from across the EU to a meeting on April 8 in Milan in order to build an alliance ahead of the May elections. Only a few of them actually participated, however.¹³

A united anti-EU alliance is certainly what former advisor to US President Trump, Steve Bannon, had in mind when he recently co-founded "The Movement" to rally all Eurosceptic and nationalist forces under one banner. But so far, the reception of Bannon's efforts among EU-sceptic party leaders has been rather lukewarm.¹⁴

We have doubts whether anti-EU and nationalistic groups in the EP will be able to overcome their previous discrepancies and build a significantly more united bloc. This is partly due to differences in the political orientation and ideology between parties but also is partly owed to the personalities and claims for leadership in large anti-European and Eurosceptic parties. Italy's Lega-M5S government coalition itself is a good example for how difficult agreeing and implementing a joint agenda can be for right-wing and left-wing populist parties.

But also for structural reasons, a stronger unification of Eurosceptic parties might be a challenge, making the formation of one large group or alliance in the next EP rather unlikely. Despite ideological overlaps, e.g. on migration and external border, there are substantial (regional) divides regarding the preferred policy response, for example regarding the redistribution of refugees in the Union. Some of them, such as French National Rally, Italian Lega, German AfD and Austrian FPÖ are considered close to Russia while particularly the Polish PiS has strong reservations towards the Eastern neighbour.¹⁵

However, while unity and consensus among EU critics is necessary for constructive policymaking, it is not so much for giving other groups in the EP a hard time. Even without a joint agenda, these groups could make coalition building (as on the national level) much more complex.¹⁶

¹² Guardian (July 1, 2018).

¹³ Guardian (April 8).

¹⁴ Politico (March 6).

¹⁵ Reuters (January 9), euobserver (February 25).

¹⁶ See also Dennison, Susi and Pawel Zerka (2019). The 2019 Election: How Anti-Europeans Plan to Wreck Europe and what can be done to stop it.

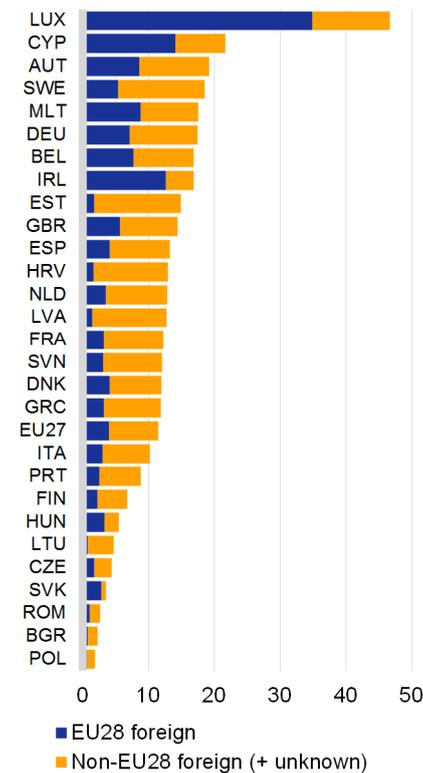


What are the political and economic consequences of anti-EU populism?

Immigrant population by far lowest in Eastern Europe

13

Population by country of birth, % (2018)



Sources: Eurostat, Deutsche Bank Research

We do not expect a tectonic shift of majorities in the next EP that will lead to a dramatically changed agenda. However, increased fragmentation in the next parliament will make important decisions more complicated. This can affect a broad range of institutional and economic topics, including the election of the new Commission President, the EU's next multiyear budget, trade agreements with third countries and the post-Brexit relationship with the UK. Also the style of the political dialogue and rhetoric can be expected to become more populist. This can make the pursuit of politics with long-term benefits (which might not show their positive impact immediately) more difficult.

Increased influence of anti-European populist parties both in the next EP as well as in the European Council and domestic politics contributes to a heightened level of political uncertainty, which affects both the EU's internal affairs as well as its standing in a rapidly changing and increasingly competitive global order. High levels of uncertainty can have substantial economic costs. It is likely to pose impediments to investment as companies might postpone decisions or reduce investment budgets. This is best illustrated for the United Kingdom ahead of its historical exit from the EU.

Beyond companies, political uncertainty can also emphasize a more myopic orientation of governments' economic policy and public investment. Here, Italy in its standoff with the European Commission about the country's fiscal policy and debt policy and reforms is an obvious example. Also, uncertainty can impact on consumers who tend to withhold consumption.

Economic conditions are very heterogeneous in the EU and not all countries where anti-European populism thrives are struggling with high unemployment and sluggish growth. At the same time, anti-European or Eurosceptic governments do not necessarily conduct harmful economic policies, at least in the short-term, as can be shown in Poland or Hungary. But in countries, where populists win influence or gain power due to economic imbalances, their ambition to please voters with short-sighted fiscal easing might worsen the conditions in the medium term. Domestic mismanagement can add to the conditions under which populists thrive and add to a feeling of European decline, which might further fuel appetite for national solutions.

On economic policies, populists often do not fit with the traditional left/right spectrum. While there is sometimes a distinction between left and right wing populists, economic policies are just not their defining feature. Populists emphasize a different cleavage ("the people" vs. "the elites"). To that effect economic policies are secondary and a means rather than an end. As such, they need to be popular rather than coherent. This allows for a considerable range (and changes) of positions on typical economic policy topics such as redistribution and taxation or protectionism and trade. Similarly, the general economic policy approach can combine interventionism with blends of laissez-faire.

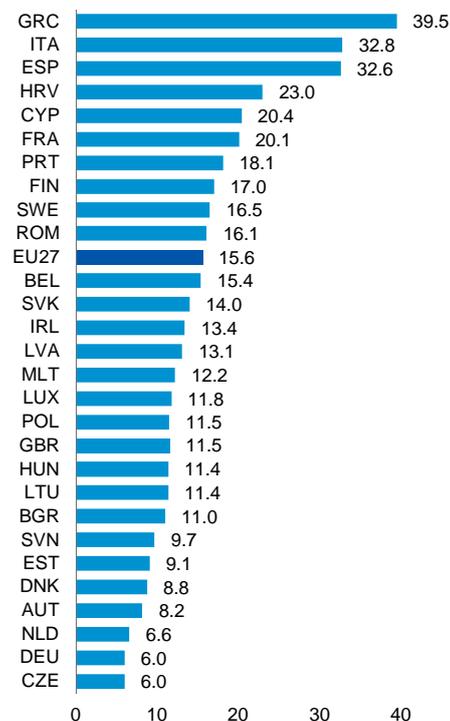
Arguably, populist economic policy is tilted towards the short term (and in turn tends to overlook or downplay mid- to longer-term risks e.g. from rising deficits, inflation), with greater emphasis on macro than micro topics such as structural reforms. Key risks of populist economic policies are protectionism, debt and a weakening of (economic) institutions.



Severe youth unemployment in southern Europe

14

Unemployment, % of active population under 25Y



Note: Seasonally adjusted data, not calendar adjusted data; Dec 2018 (for UK Nov, for ROM Sep)

Sources: Eurostat, Deutsche Bank Research

What is pro-European parties' response to the challenge?

Their response is often either of two options:

- They attack them as populist demagogues and enemies of European values and achievements. French President Macron and his call for a "pro-European alliance" and "European renewal" is a primary example.
- Alternatively, centrist parties might adapt or copy (part of) the Eurosceptics' agenda and rhetoric, hoping to steal their thunder. A (successful) example for this approach could be seen in Austrian Prime Minister Kurz's centre-right government coalition but also Germany's move towards a more restrictive migration policy.

Both approaches might qualify as (short-term) remedies but can easily backfire as well.

- For Eurosceptics, presenting themselves to their electorate as struggling with an external opponent, in this case the "oppressive" EU institutions/establishment and their representatives, is core business. Accepting this mock fight by attacking them openly can strengthen Eurosceptics' support at home even further.
- Trying to win back voters by adapting a populist anti-migrant and anti-European agenda might also have the desired effect at least in the short-term. But it can also help to bring previously frowned upon positions and views from the political fringes to the center of society and promote an increasingly emotional rather than fact-based political debate.

What then can pro-European parties and leaders do to win back disappointed and disengaged voters?

There is no easy and universally applicable answer to that one. Pro-European parties and leaders can be assumed to be fully aware of the challenge but as described above, finding the right response is another pair of shoes.¹⁷

- Generally, trust in the EU's democratic, institutional and legal framework requires that the EU meets its citizens' needs of security, prosperity and participation. This is reflected in the Commission's call for a "Europe that delivers". However, simultaneously living up to the expectations of more than 500 million EU citizens from diverse geographical, cultural and economic backgrounds is an enormous task. It also requires an open and continuous discussion about European public goods.
- Identifying the underlying reasons for the rise of Eurosceptics both on the EU and national level is also essential. Emotional and simplified rhetoric as well as unfounded claims might be used to manipulate voters; but they would not appeal to a broader electorate if it wasn't for some underlying societal imbalances and vulnerabilities. Increased anxieties about Europeans' individual and collective future, often related to rapid economic, cultural and technological changes over the last years, need to be met with sincerity. Where they are unfounded or exaggerated, it should be possible to communicate this accordingly. Where they are justified, voters will demand appropriate policy options.
- (Intergenerational) inequalities of opportunity and rising inequalities of income and wealth can be a breeding ground for populists and Eurosceptics; however, approaching these issues with short-sighted and

¹⁷ See also Dennison, Susi and Pawel Zerka (2019). The 2019 Election: How Anti-Europeans Plan to Wreck Europe and what can be done to stop it.



unsustainable fiscal easing might backfire in the medium term. In the end, the EU's heterogeneity might require more tailor-made country-specific responses.

- Criticism of European institutions and leadership is not automatically anti-European. But often enough, generalized accusations of economic and political "elitism", corruption and client politics do not have a strong factual basis. Still, in order to disprove these claims where they are unfounded and to prevent future misconduct where they might be, highest standards of transparency and integrity among European political representatives become increasingly important.
- The impact of technology and social media on the political debate and impact on voters is not yet properly understood. While the line between information and manipulation in politics has never been clear cut, targeted disinformation and psychological profiling used to systematically influence voters' behaviour is a dangerous game changer for democratic societies. Addressing this issue, whether in the context of the European Parliament or national elections requires a joint European effort as well as firm awareness of related censorship risks.
- European institutions and representatives are often used as a scapegoat by national politicians not only from the Eurosceptic but also from the generally pro-European and centrist camp in order to distract from their own failures, to consolidate power or to push forward their own domestic agenda. While this might be tempting, the potential political costs and backlash of such tactics are becoming increasingly visible.
- The EU has made substantial efforts to communicate the merits of EU membership and the historical achievements of European integration to European citizens. In comparison, pro-European communication by national leaders and representatives often lacks behind.
- The view that "more Europe" is not by definition the best approach to all European issues is not reserved for Eurosceptics. Also pro-European centrist parties and governments are becoming increasingly cautious regarding further integration and centralization of policy fields in the EU, where it is not clearly favoured by a majority of their voters.



EU elections countdown #3

Selected EU(ro)sceptic parties

15

+/- share of seats compared to current EP, pp

Country	Party (current EP faction)	Projected EP seats (national polls)	Core political positions on: EU(ro), national sovereignty, migration
Austria	FPÖ - Freiheitliche Partei Österreichs (ENF)	5 of 19 (23%)*	"Reform" of EU and euro; more sovereignty for nation state; pro referenda; restrictive immigration/asylum policy
France	RN – National Rally/Front National (ENF)	19 of 79 (21%)	Previous calls for "Frexit" vote replaced by agenda to "reform Europe"; leave euro; leave Schengen; cut EU contributions; decrease immigration; leave NATO
Germany	AfD - Alternative for Germany (EFDD)	10 of 96 (12%)	Decentralisation of EU,(leave EU as option of "last resort"); less interference of EU; restrictions on immigration; more citizens' participation (e.g. referenda)
Greece	Syriza - Coalition of the Radical Left (GUE/NGL)	7 of 21 (25%)*	Moderate euroscepticism; harsh confrontation with EC/ECB/IMF about austerity packages in the past
Hungary	Fidesz - Hungarian Civic Alliance (EPP)	12 of 21 (50%)*	Promotes "illiberal democracy"; critical of EU-setup, more national sovereignty; Art. 7 procedure triggered over democracy and rule of law; anti-immigration
Italy	M5S - Five Star Movement (EFDD)	18 of 76 (22%)*	More flexibility in Maastricht fiscal framework, renegotiate structure of EU budget; questioning Schengen; stop arrival of refugees
Italy	Lega (ENF)	28 of 76 (33%)*	Overhaul of EU Treaties in favour of more national sovereignty; more flexibility in fiscal framework; restrictive immigration policy; leave Schengen; (leave euro)
Netherlands	PVV - Party for Freedom (ENF)	2 of 29 (8%)	Leave euro/EU; more national sovereignty; pro referenda; reduce/stop immigration - especially from Muslim countries
Poland	PIS - Law and Justice (ECR)	23 of 52 (41%)*	Anti-federalist, questions status of EU, more national sovereignty; Art. 7 procedure triggered over rule of law; against European quotas for refugees
Spain	VOX (new)	13 of 59 (13%)	Centralistic/anti-separatist (Basque, Catalan); anti-immigration; return nat. sovereignty from EU; call for Spanish sovereignty over Gibraltar
Sweden	SD - Sweden Democrats (ECR)	3 of 21 (16%)	Previous calls for "Swexit" and referendum on EU membership, recently softer approach of "reforming" EU from within; renegotiate Schengen; anti-immigration

Note: European Parliament elections poll where available otherwise national elections.

* Participating in national government

Sources: European Parliament, PollofPolls.eu, party/government programs, speeches, articles, news reports, Deutsche Bank Research

The author would like to thank Fabian Wassmann for his valuable contribution to this research.

Kevin Körner (+49 69 910-31718, kevin.koerner@db.com)



EU Monitor

- " EU elections countdown #3:
Meet the EU(ro)sceptics April 11, 2019
- " Digital structural change
and the welfare state in the 21st century March 25, 2019
- " EU elections countdown #2:
Tough race to the top of the European Commission February 28, 2019
- " EU elections countdown #1:
Brexit delay and the next European Parliament February 13, 2019
- " The multiple stages of the blockchain revolution -
or into the crypto future and back December 12, 2018
- " European Parliament elections 2019:
The next "battle for Europe"? October 24, 2018
- " Digital infrastructure:
Bottlenecks hamper Europe's progress October 12, 2018
- " Brexit impact on investment banking in Europe July 2, 2018
- " PSD 2, open banking and the value of personal data ... June 28, 2018
- " Digital economics: How AI and robotics
are changing our work and our lives May 14, 2018

Our publications can be accessed, free of charge, on our website www.dbresearch.com. You can also register there to receive our publications regularly by E-mail.

Ordering address for the print version:
Deutsche Bank Research
Marketing
60262 Frankfurt am Main
Fax: +49 69 910-31877
E-mail: marketing.dbr@db.com

Available faster by E-mail:
marketing.dbr@db.com

© Copyright 2019. Deutsche Bank AG, Deutsche Bank Research, 60262 Frankfurt am Main, Germany. All rights reserved. When quoting please cite "Deutsche Bank Research".

The above information does not constitute the provision of investment, legal or tax advice. Any views expressed reflect the current views of the author, which do not necessarily correspond to the opinions of Deutsche Bank AG or its affiliates. Opinions expressed may change with out notice. Opinions expressed may differ from views set out in other documents, including research, published by Deutsche Bank. The above information is provided for informational purposes only and without any obligation, whether contractual or otherwise. No warranty or representation is made as to the correctness, completeness and accuracy of the information given or the assessments made.

In Germany this information is approved and/or communicated by Deutsche Bank AG Frankfurt, licensed to carry on banking business and to provide financial services under the supervision of the European Central Bank (ECB) and the German Federal Financial Supervisory Authority (BaFin). In the United Kingdom this information is approved and/or communicated by Deutsche Bank AG, London Branch, a member of the London Stock Exchange, authorized by UK's Prudential Regulation Authority (PRA) and subject to limited regulation by the UK's Financial Conduct Authority (FCA) (under number 150018) and by the PRA. This information is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. and in Singapore by Deutsche Bank AG, Singapore Branch. In Japan this information is approved and/or distributed by Deutsche Securities Inc. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product.