



EU Politics: Reform debate to pick up pace after the German elections

- Optimism about Europe's future surged after the French elections, while the EU is increasingly losing patience with British "divorce tactics". Franco-German initiatives will be key to set the path for European reforms but the debate is expected to only gain speed after the formation of a new German government towards the end of the year. Meanwhile, the refugee challenge and EU external relations will remain on top of Europe's political agenda.

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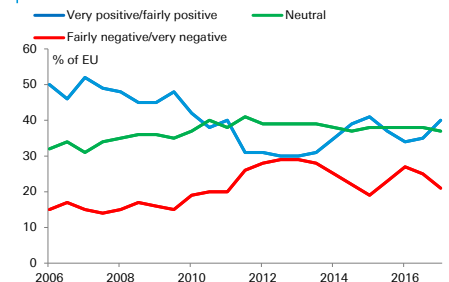
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Juncker speech to guide the debate about the future of Europe. If the "stay" camp had prevailed in last year's Brexit referendum, the UK would now hold the Presidency of the EU Council. Instead Estonia oversees a packed European agenda at a time when momentum for reforms and further integration gained speed following the victory of Macron in the French elections. Following on from the European Commission's series of "reflection papers" on further EU deepening (see [here for our take on the Commission's "vision" for EMU reforms](#)), EC President Juncker will give his annual State of the Union speech on September 13. But the discussion on major reform proposals that go as far as an EA treasury headed by a European finance minister will have to wait until after the German elections.

The EU is losing patience in Brexit negotiations. Elections in the EU's largest economy will not, though, provide reasons for delaying ongoing Brexit negotiations as EU27 members, including Germany, unanimously agreed on the political guidelines for the EU Brexit Task Force. Nevertheless, it still appears increasingly unlikely that negotiations will move, as scheduled, to the second phase in October to tackle the post-Brexit relationship between the UK and the EU, including a future trade agreement. This would require Brussels to see "sufficient progress" on separation issues (which it currently does not), including the rights of EU citizens, the Irish border and the UK's "divorce bill" (on which the British so far remained muted).

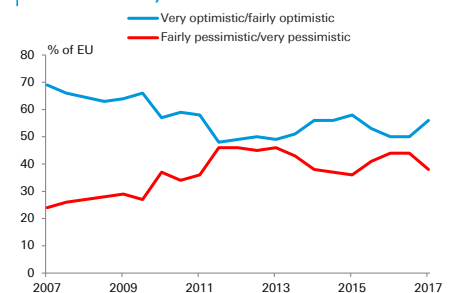
German elections – a low risk event but important for Europe nevertheless. With less than four weeks to go until the vote for the German Bundestag on September 24, Chancellor Merkel's conservative party is comfortably leading in recent opinion polls at an average of around 39% vs. 23% for her social democratic challenger Martin Schulz. While Merkel's re-election is broadly seen as a given, the composition of the next government coalition is much less certain. It is likely though to impact Germany's position in the upcoming discussion about Europe's future. The appetite for far-reaching reforms might be stronger under a continued CDU/CSU/SPD coalition, while a coalition between conservatives and liberals is likely to have a stronger focus on fiscal discipline (see [here for the German political parties' positions on EU politics](#)). The new government will likely be sworn in just in time for the EU leaders' summit in December. This will allow for an intense debate among the EU27 over the next stage of Brexit negotiations,

Figure 1: Eurobarometer: Improving image of the European Union



Survey question: "In general, does the EU conjure up for you a very positive, fairly positive, neutral, fairly negative or very negative image?"
Source: Eurobarometer 2017, Deutsche Bank

Figure 2: Eurobarometer: EU's future seen more optimistic



Survey question: "Would you say that you are very optimistic, fairly optimistic, fairly pessimistic or very pessimistic about the future of the EU?"
Source: Eurobarometer 2017, Deutsche Bank



completing banking union and embarking on a structured reform process of the EA.

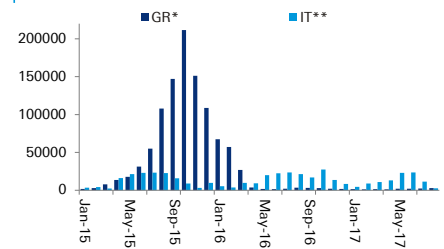
How much of the revived European spirit can be translated into bold integration steps remains to be seen. Much will depend on the Franco-German initiatives in various policy fields. President Macron this week emphasized his call for social and fiscal “convergence” in the euro area and announced reform proposals to be released after the German elections. Chancellor Merkel also expressed support for the idea of a Eurozone finance minister as well as a euro-budget, even though German and French perceptions of the scope and precise function of such entities differ substantially.

The Commission’s scenario of a “multi-speed” Europe where some members take a faster lane towards integration than others is met with strong skepticism by a number of countries. How to reconcile a deeper integration of the EA with the functioning of the single market or the regulatory framework of the banking union remains a political and economic challenge. Eastern European (non-euro) members are particularly concerned as these reflections come at a time of rising disputes between Brussels and some of the EU’s Eastern members stemming from an infringement procedure against Poland over its controversial court reform to a legal case against Poland, Hungary and Czech Republic in the context of the EU’s refugee relocation agreement.

The refugee challenge remains top of Europe’s political agenda. France, Germany, Italy and Spain agreed to establish “safe zones” for asylum seekers in Africa in a European-African Paris summit end of August. The migration crisis also overshadows Italy’s upcoming parliamentary elections to be held by May 2018 at the latest, where the anti-European Five Star Movement benefits from its populist stance. Tensions over migration politics have also grown between Italy and Austria, which also faces polls on October 15.

A difficult European neighborhood, but progress in defence integration. Facing repeated US criticism of Europe’s defence spending below the agreed 2% of GDP NATO target and growing wariness of NATO/EU Eastern members, European leaders pushed forward with plans for further European defence integration, including a EUR 5.5 bn (per year) European defence fund (see [here for more details](#)). In June, the European Council extended sanctions against Russia for a further six months, whereas European leaders expressed opposition to new Russia sanctions by the US congress that they perceive as a threat to European energy security.

Figure 3: Sea arrivals in Italy and Greece



* as of 23 Aug 2017, ** as of 20 Aug 2017
Source: UNHCR, Deutsche Bank



Appendix 1

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