



PERSPECTIVES

# Does Macron's EU Reform Agenda Need German Support?

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This summer, Germany and France appeared on the cusp of leading the charge to bring the European Union closer together. However, some observers say September's German election put those plans on pause. Here, Franklin Mutual Series Executive Vice President Philippe Brugere-Trelat discusses the outlook for French President Emmanuel Macron's eurozone proposals and European equities in the current political climate. Is Macron's eurozone "wish list" in jeopardy?



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Two days after the German election on September 24, French President Emmanuel Macron outlined his broad vision for the eurozone. His wish list covered a range of topics from tackling Europe's immigration issue to establishing common defence and finance budgets.

However, based on the results of that election, which saw the far-right Alternative for Germany (AfD) gain seats in parliament for the first time, his ambitions may need to be pared back.

At any rate, German Chancellor Angela Merkel—considered Macron's partner in eurozone reforms before the election—is unlikely to respond with her views before Christmas. Over the next few months, Merkel will likely work to build a coalition that considers the opinions of the AfD party, the Free Democratic Party (FDP) and smaller parties, such as the Left and the Greens.

I don't think this new potential German coalition will be as open to significant changes in Europe as the previous one with Merkel's Christian Democratic Union/Christian Social Union in Bavaria (CDU/CSU) and the Social Democratic Party (SPD). I expect more negotiations in Germany and more give and take. Merkel's policies also seem likely to shift somewhat to the right.

On the economic side, Macron suggested the eurozone should have a finance ministry with a separate budget and finance minister. Although Merkel supported these proposals before the election, I believe that goal will now be more difficult to achieve. FDP leader Christian Linder, who has been an outspoken critic of Macron's eurozone budget, will likely be part of Merkel's coalition.

Without an eager partner in Germany, I think Macron will face challenges implementing his more radical eurozone reforms. Although there is broad support for unification in the wake of last year's Brexit vote, some of the European Union's (EU) Eastern partners are using all the brakes to prevent further unification. I see it as a long road to reach that goal.

That's why Macron's proposals are not for the next year—they are a roadmap for France and the eurozone for the next decade. On the other hand, I think there is a general agreement in Germany and among other EU members for shared progress on Macron's proposals on infrastructure, defence, border control and terrorism. I believe immigration, in particular, is becoming a more pressing problem across Europe. I think how the immigration issue is addressed will likely be a major driver of EU strength—or weakness.

In the meantime, Macron is building inroads with European peers. In September, he gave his blessing for an Italian state-owned shipbuilder to acquire control of a French state-owned shipbuilder and for a German conglomerate to merge its rail businesses with a French company. I believe those deals are Macron's attempts to change the view that France is hostile to takeover attempts, and show that the country is open to unifying the eurozone on an economic level. His proposal to require all university students to spend time in other eurozone countries to learn at least two languages is another example of his long-term collaborative thinking, something which I applaud.

If Merkel can forge a coalition on terms that are still fairly favourable to Macron's broad view of the eurozone's future, I see her and Macron as the vanguard for progress. Together, they could build a more powerful Europe, which is still reeling from the effects of 2007–2009 Global Financial Crisis and the 2012–2014 Greek Crisis. If they join forces, I think the prospects would be quite favourable for European equities, as both eurozone economies and stock markets could enjoy a true renaissance.

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