



Global Economic Prospects

Europe's Challenging Political Economy

Jacob Funk Kirkegaard
Senior Fellow

Agenda



- I. Brexit Means.....?**
- II. Euro Area Election Super Cycle**
- III. European Policy Mix Shifts More Towards Fiscal**

Brexit Means....Not So Much in SR



UK PMI Index Nov 2015-September 2016, <50 = Recession



BUT Brexit Means....A Lot in LR



- Investment and employment growth slowing
- No progress on 3 necessary political deals
 - Agreement in UK on “vision for country”
 - Agreement with EU27 on Brexit
 - Agreement with EU27 + EP on long-term future
- Domestic UK politics dictate immigration controls

Verdict: “Hard Brexit” = No IM/passporting and customs union with limited transition period now base-case

EA19 Election Super-Cycle Coming



Top 5 economies and 85+% of EA19 GDP will have a national election event in next 12months

Italy – Referendum Dec 4, 2016

Spain – (Likely 3rd) Parliament Dec 25, 2016

Netherlands – Parliament March 15, 2017

France – Prez+Parliament May/June 2017

Germany – Parliament Sep 2017

NOT Your Normal EU Elections



The Netherlands Ours Again!

Millions of Dutch citizens have simply had enough of the Islamization of our country. Enough of mass immigration and asylum, terror, violence and insecurity.

Here is our plan: instead of financing the entire world and people we don't want here, we'll spend the money on ordinary Dutch citizens.

This is what the PVV will do:

1. De-islamize the Netherlands

- Zero asylum seekers and no immigrants anymore from Islamic countries: close the borders
- Withdraw all asylum residence permits which have already been granted for specific periods, close the asylum centers

- No Islamic headscarves in public functions

- Prohibition of other Islamic expressions which violate public order

- Preventive detention of radical Muslims

- Denaturalization and expulsion of criminals with a dual nationality

- Jihadists who went to Syria will not be allowed to return to the Netherlands

- Close all mosques and Islamic schools, ban the Koran

2. The Netherlands independent again. Leave the EU

3. Direct democracy: a binding referendum, power to the citizens

4. Completely abolish health care deductibles

5. Lower housing fees

6. Retirement age at 65, indexation of supplementary pensions

7. No public money for development aid, windmills, art, innovation, broadcasting, etc.

8. Rollback cuts in home care and elderly care, more hands on the bed

9. A lot of extra money for defense and police

10. Lower income taxes

11. Halving of car taxes

Financial paragraph per measure and total:

1. +7.2 bn

2. PM

3. PM

4. -3.7 bn

5. -1.0 bn

6. -3.5 bn

7. +10.0 bn

8. -2.0 bn

9. -2.0 bn

10. -3.0 bn

11. -2.0 bn

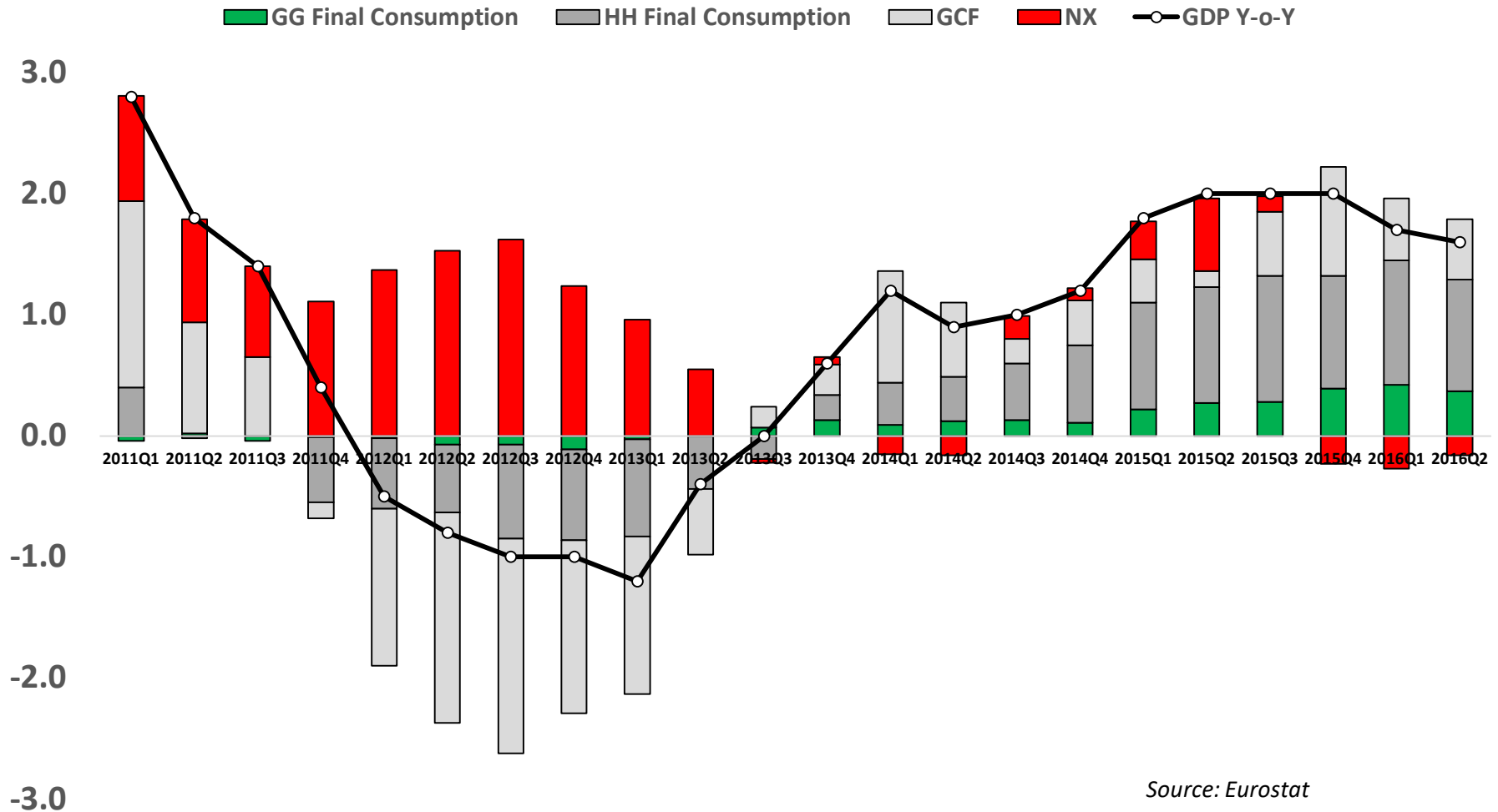
Total: 0



EA19 Has Had Mildly Expansionary Fiscal Policy Since 2013 But Mostly Relied on ECB



Contributions to EA19 Real GDP 2008 Q1 - Present, % Y-o-Y



Source: Eurostat

Several Factors Point to a Larger Future Role for EA19 Fiscal Policy



- 1) Politics matter and the situation in the “austere core” is changing dramatically
- 2) ECB monetary policy is pretty close to “maxed out” (without an another emergency)
- 3) The “New and Improved SGP” was killed again over the summer (largely by Wolfgang Schäuble)

Conclusions



- 1) Brexit – The hit is still to come and don't expect an amicable divorce**
- 2) Euro Area political super-cycle looks to materially change domestic politics in NL/GER**
- 3) Euro area will be compelled by politics and economics to rely more on fiscal policy**
- 4) Political challenge will be to match additional fiscal policy with accompanying structural reforms**