

The elections to be held on 24-26 May 2019 will mark the beginning of the next five-year European Union (EU) parliamentary cycle. The newly elected European Parliament (the Parliament) is expected to be more fragmented than in the past. However, commitment to the EU is likely to be broadly undiminished, even with the Brexit saga continuing. DBRS expects continued efforts in this parliament to address some difficult and potentially divisive issues, especially at crises times. Though sometimes messy, EU democracy will continue to deliver needed adjustments when a consensus can be found. But getting things done will be more difficult, and the EU's ability to find consensus could be diminished.

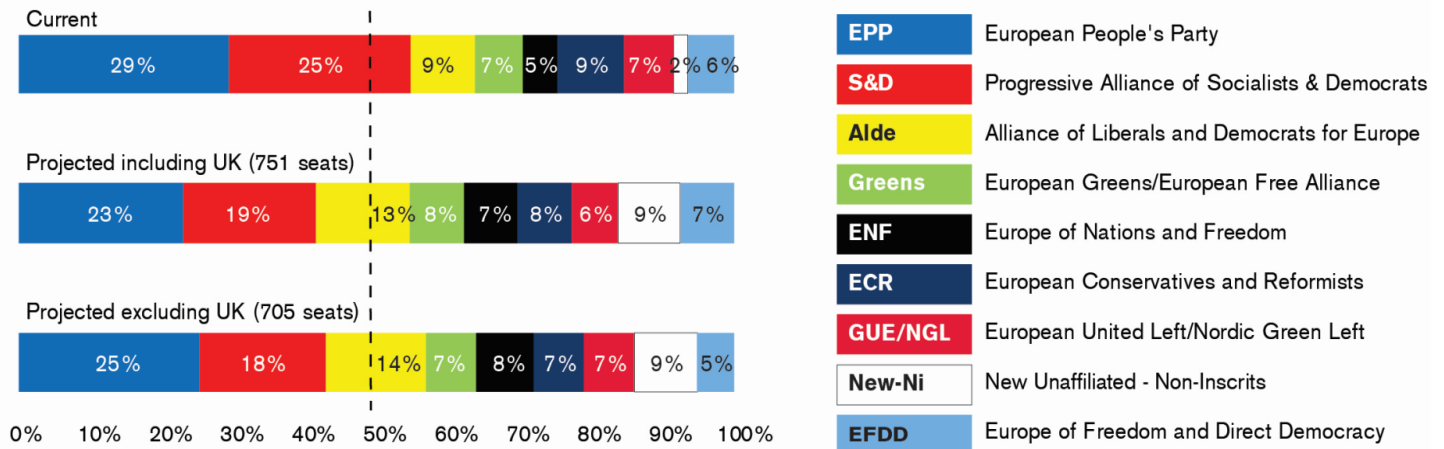
If opinion polls prove correct, the two main traditional groups – the centre-right European People's Party (EPP) and the centre-left Progressive Alliance of Socialists and Democrats (S&D) – are likely to lose their combined majority in the EU Parliament. In contrast, the less traditional political factions, including the populist/nationalist groups and the progressive and liberal pro-EU parties, are expected to increase their share of seats in the Parliament. (See Exhibit 1.) Adding to this confusion is the still uncertain role of the U.K. in these elections. The U.K. will now participate, but newly elected U.K. MEPs might not take their seats on 2<sup>nd</sup> July, if the U.K. reached an agreement on how to Brexit by that date.

This fragmentation reflects the growing public perception that traditional political forces have not been able to meet people's expectations amid globalization, immigration and varying stages of economic convergence among EU regions. A more fragmented Parliament might have implications for decision-making, starting with the appointment of the President of the European Commission, as well as in finding a common agenda to further support the European integration project.

### *A Pro-European Majority Seems the Likely Outcome...*

Pro-European parties should continue to retain a majority, according to recent polls. The two traditional groups will likely receive fewer votes than previous elections with the combined share of EPP and S&D votes likely declining from 54% to around 42%. However, the Alliance of Liberals and Democrats for Europe group, which could include the En Marche! party, will likely increase its share of seats to around 14%-13% from 9%. When combined with the Greens (7%), there would still be a bloc of pro-European parties at around 64-62%.

**Exhibit 1: Share of Seats in European Parliament**



Source: As of May 5, 2019, Wikipedia, EuropeanElectionsStats.eu and DBRS.

The U.K. has now committed to participating in the elections, but this only adds to the likelihood of fragmentation. The outcome of the local elections in the U.K. suggests that the new MEPs from the U.K. will come from a range of parties and be less dominated by the major parties. Even if the U.K. does participate in the EU elections, British MEPs may still not take their seats on 2<sup>nd</sup> July, if the current U.K. government can engineer an exit agreement that achieves Brexit by this date. Such a U.K. exit would shrink the overall number of seats to 705 from 751. Nonetheless, when excluding the U.K., the Parliament's projected structure is not

expected to significantly change. In this case, the S&D's share of seats would decline slightly because of the loss of the U.K. Labour MEPs but this would not have a significant impact on the size of the pro-EU majority.

That said, if nationalist/populist parties perform better than expected on voting day, their influence could significantly impact the agenda of the new parliament. They would generally be expected to press for policies that increase the autonomy of individual member states within the EU. However, this will largely depend on whether they are able to find common ground with each other, which remains far from certain.

### *...but Expect More Complex and Longer Negotiations when Policies Diverge*

Although DBRS does not expect a material change in policies and priorities, a more fragmented parliament could require longer and more complex negotiations with potential delays. Within the potential pro-EU majority, for example, small parties like the Greens and ALDE have political platforms that do not necessarily align with that of mainstream parties, and the process of setting priorities and reaching consensus could be more challenging. Starting with the appointment of the President of European Commission, this process may not be clear cut and might have implications for other top EU institutional appointments.

An early indication of the extent of increased negotiations and less predictability could arise in the selection of the President of the Commission. The current system, introduced in 2014, sees the "*Spitzenkandidaten*" (lead candidate) of the group obtaining the most votes as the most likely candidate. However, if there is not enough consensus in both the Parliament and the European Council around this choice, there could be delays. Typically, the Council oversees proposing the candidate, but his/her election also requires the approval of Parliament. In DBRS's view, with the EPP projected to win the most seats, its *Spitzenkandidaten*, Mr Weber, who belongs to the German CSU (Christian Social Union in Bavaria) is most likely to be proposed for President. It would then be up to parliament to approve. However, the selection of the President affects top appointments in other institutions, such as the ECB president, due to the informal practice of balancing power among member states or between Northern and Southern countries.

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