

# Guide for 2012

## Political risk, *bis repetita*?



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Bruno Cavalier – Chief economist, [bcavalier@oddo.fr](mailto:bcavalier@oddo.fr), 33.(0)1.44.51.81.35

Thomas Foicik – Economist, [tfoicik@oddo.fr](mailto:tfoicik@oddo.fr), 33.(0)1.44.51.85.38



# Summary

## Political risk, *bis repetita*?

- In 2011, politicians, via their decisions and more often via their indecision, played a crucial, and unfortunately negative role, for the economy and the financial markets. It is reasonable to assume that politics will once again take centre stage in 2012, judging by the number of important elections which are due to be held this year: US, France, Greece, Russia, South Korea, Venezuela, Iran, amongst others, to which must be added the introduction of the new "generation" of Chinese leaders (at the Congress of the CCP in October-November)
- The US electoral campaign (the appointment of a Republican challenger, followed by the elections in November) is set to take place against a polarised backdrop rarely seen in the past. The Republicans have all the more chance of winning the elections as the economic track record of the incumbent president will be perceived as poor (high unemployment, possible slide back into recession). Barack Obama's best chance of re-election is to underscore the dogmatic and risky nature of some of the positions adopted by his opponents, notably in the fiscal sphere. Neither side will be looking for a compromise. The risk, as in 2011, is of putting partisan interests ahead of the general interest. Fiscal debate is set to continue, undoubtedly accompanied by a series of psychodramas no less eye-catching than those that materialised last year.
- The presidential election in France is important not just for France but also for Europe. By trial and error, the Franco-German tandem (Merkel-Sarkozy) was able to advance – admittedly slowly– towards a stabilisation of the debt crisis. What will happen in the event of a swing in the political pendulum in France? Given the pre-electoral context, the two main parties, the right-wing government and the socialist opposition, have stood out more by what they have not said rather than by what they have said. Fiscal austerity is at present relatively modest in France, so that the 2012 budget will undoubtedly be revised during the year. The question of the level of public spending (a world record as a percentage of GDP) has not yet been broached for fear of incurring the wrath of each side's client interest groups. The question of the "golden rule" has made no progress, whilst its adoption by France, like other European countries, must be completed by end-2012. The European question (the costs and benefits of the euro, transfer of fiscal sovereignty) continues to divide opinion along the fault lines which led to the rejection of the European constitution in 2005. Meanwhile, France's AAA rating hangs in the balance with rating agencies.
- For Europe, 2012 is starting with a recession (this will be the fourth consecutive year of recession for Greece). Against this negative backdrop, new governments (Portugal, Greece, Italy, Spain) will have to prove to investors that there are credible, whilst maintaining the social equilibrium. No mean feat. Clearly, there is no shortage of pitfalls on the road to austerity and reform. Uncertainty and volatility are on the agenda. Are the existing firewalls (EFSF, IMF, ECB) enough?
- Is there nothing to erase the memory of 2011? Yes, there are two things. The first is the ECB: this time last year, the European Central Bank was preparing for monetary tightening. Today, it is providing support for the economy and banks. The second factor is linked to the growing awareness of the incalculable risk linked to the disintegration of the eurozone. Europe: there *really* is no alternative for reasonable policymakers. This point did not go without saying in at the beginning of 2011.