

Our future is in French hands

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France's opposition Socialist Party candidate Francois Hollande celebrates the first-round results of the 2012 presidential election. Source: AFP

IT is almost five years since a credit crisis consumed Europe's economy, ultimately making way for the broader financial crisis that swept the world.

Now, a voter revolt threatens to jeopardise efforts in the region to avert another recession and looks certain to usher in yet more market volatility - with the waves to wash around the world to Australia.

Economists say political instability in Europe is one of the biggest threats to the health of the global economy.

In France, socialist leader Francois Hollande wants to renegotiate the fiscal pact that obliges eurozone nations to run balanced budgets.

The election will be decided in a run-off next weekend.

Hollande holds a 10 per cent lead over President Nicolas Sarkozy in opinion polls.

German chancellor Angela Merkel agreed to support bailouts for struggling eurozone economies such as Greece and Spain in large part because of the pact.

It also encouraged the European Central Bank to plough almost \$1 billion into banks to keep the economy churning.

AMP Capital Investors chief economist Shane Oliver said the renewed political deadlock could be a catalyst for a likely 5 to 10 per cent fall in world sharemarkets this year.

"The good news has receded in Europe and the underlying problems are still there," Dr Oliver said.

If Hollande defeats Sarkozy, ending the current French president's alliance with Merkel, it could rupture the political accord that pulled Europe back from the brink last year.

"The centre of the rescue effort was 'Merkozy' - Nicolas Sarkozy and Angela Merkel," Dr Oliver said.

"If that sort of team falls apart it would be a blow to confidence."

Bell Potter Securities director of research Peter Quinton said there was no question the eurozone crisis was unresolved.

"Any political problems ... (such as) a reluctance to cut deficits, will make it worse."

Mr Quinton agreed there would be a market slide veering towards 10 per cent.

This week, Mr Hollande has attempted to reframe the economic debate, saying the Europe-wide austerity pledge would make things worse and drive the continent into a deep recession.

Montgomery Investment Management founder Roger Montgomery believes the arguments over France distract from the larger questions about the future of the euro.

"Ultimately, we believe the euro cannot survive in its current form," Mr Montgomery said.

Dr Oliver also points out that the last time France elected a socialist president, in 1981, the French market dropped 33 per cent.