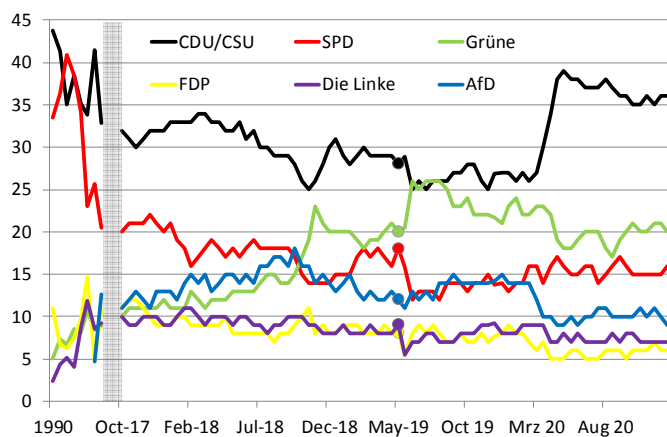


15 December 2020

German politics after Merkel: stability or trouble ahead?

Support for Germany's major political parties, in %



Federal election results 1990-2017; ARD Deutschlandtrend opinion polls from October 2017 onwards. Source: Bundeswahlleiter, ARD Deutschlandtrend

- Three stages to choose a successor:** German Chancellor Angela Merkel has shaped European politics like few other leaders in the past 15 years. She will leave office at the end of her fourth and final term next autumn. The three-stage process to replace her has just started. On Monday, her centre-right CDU party announced that it will elect its new party chairperson at a digital convention on 15-16 January (stage one). The winner will then need to agree with the boss of the Bavarian centre-right CSU, Markus Söder (53), who of the two will be the CDU/CSU's joint candidate for chancellor (stage two, likely to be completed between February and April). German voters will then get their say in the national election on 26 September 2021 (stage three).
- Three candidates** are running to lead the CDU: i) Friedrich Merz (65), an erstwhile Merkel rival with strong grassroots support and a centre-right/pro-business policy tilt; ii) Armin Laschet (59), the centrist state prime minister of North Rhine-Westphalia with significant backing from the CDU's upper echelons as his views are close to those of Merkel; and iii) Norbert Röttgen (55), a lesser-known centrist who has raised his profile a bit recently.
- Advantage Merz?** Although it is hard to predict whom the 1,001 CDU delegates will elect as their new party boss, Merz seems to have a slight edge over his rivals. Laschet still has a good chance to win. Röttgen could spring a surprise if Laschet drops out in the first round and Röttgen then scoops up the Laschet votes in a run-off against the more divisive Merz. If Merz prevails on 16 January, he would most likely be the CDU/CSU's joint candidate to succeed Chancellor Merkel. If Röttgen wins instead, he would likely offer that role to the more popular Söder (53). If Laschet wins the intra-CDU race by just a whisker rather than convincingly, he may also be forced to cede to Söder.
- The key question** for Germany is not who will be the CDU/CSU candidate to succeed Merkel and whether or not the conservatives will forge a post-Merkel coalition with the centre-left Greens instead of the centre-left SPD. The impact on actual policies would be minimal. The only outcome of the 26 September election that would significantly change the outlook would be a green-red-red coalition between the Greens, the SPD and the left-wing Left Party. Such a federal government without the CDU/CSU may harm the economy through some reform reversals and regulations along the lines of the cap on housing rents, which a red-red-green state government has imposed in the city state of Berlin. As most tax and some key spending decisions would need to be approved by the upper house of parliament in which CDU/CSU would still have a veto, the size of any future fiscal stimulus and the generosity of Germany's support for its European partners would only be affected modestly by a switch to a green-red-red government.
- The Merz paradox:** Opinion polls show that, taken together, Greens, SPD and Left Party are 4-5 points away from the 47.5% needed for a potential majority in parliament. Merz may strengthen the CDU/CSU by taking votes back from the right-wing AfD and the small liberal FDP. But in a more polarised debate, he may also energise rather than weaken the political left. Although Merz may possibly win more votes for the CDU/CSU, this would raise the tail risk that the CDU/CSU loses power from, say, 20% to 30%. For example, Merz is popular with parts of the pro-business base of the liberal FDP. He may thus add to the risk that the FDP falls below the 5% threshold required to gain seats in parliament. Without the FDP in the Bundestag, green-red-red would need only some 45% instead of 47.5% of the popular vote for a majority of seats. Laschet and Söder may appeal less to AfD and FDP and more to centrist voters than Merz and thus contain the tail risk of a green-red-red upset after Merkel instead of a new CDU-led coalition.

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