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GERMAN ELECTION: UPHEAVAL AND STABILITY**Berenberg Macro Flash**

Despite major losses for her CDU/CSU, Angela Merkel has apparently won a fourth term as German chancellor. The rise of the right-wing AfD to No. 3 position with 13%+ of the popular vote according to projections based on exit polls will trigger negative headlines. However, we do not expect German policies to change very much, especially not on the European and international level. Four Merkel's fourth term, a novel "Jamaica" alliance between Merkel's "black" CDU/CSU, the "yellow" liberals and the Greens now looks much more likely than a renewed "grand coalition" with the heavily battered SPD which apparently fell to a postwar low. If the exit polls are half reliable, a potential alternative coalition of CDU/CSU and FDP would fall far short of a majority of seats. In any case, the outlook for the German economy and European reforms will not change significantly for the next few years. We do not look for Merkel to harden her European views in response to the losses of her CDU/CSU and the gains of the AfD. After all, reforming Europe could well be the key issue on which she may want to be judged in future history books.

The exit polls suggest that the trend away from CDU/CSU and SPD and towards the AfD, which had been visible in polls in the last three weeks, has continued until election day.

AfD STRONG, CDU/CSU AND SPD WEAK: EXIT POLLS VERSUS PRE-ELECTION POLLS AND PREVIOUS RESULTS

	CDU/CSU	SPD	FDP	Greens	The Left	AfD
Exit polls						
- ARD	32.5	20.0	10.5	9.5	9.0	13.5
- ZDF	33.5	21.0	10.0	9.0	9.0	13.0
Average of opinion polls	35.9	21.5	9.6	7.8	9.6	11.1
Earlier results						
- 2013	41.5	25.7	4.8	8.4	8.6	4.7
- 2009	33.8	23.0	14.6	10.7	11.9	-
- 2005	35.2	34.2	9.8	8.1	8.7	-

24 September 2017 German election, exit polls published 18h local time by ARD and ZDF versus average of latest pre-election opinion polls and results of previous three federal elections, in %. Source: ARD, ZDF, Bundeswahlleiter, Allensbach, Emnid, Forsa, FGW, GMS, Infratest dimap, INSA

LETTING OFF STEAM WHILE IT FEELS SAFE TO DO SO

Seen from one angle, the apparent German election result as projected by exit polls indicates serious popular discontent. Germany's two traditional "big-tent" parties, the centre-right CDU/CSU and the centre-left SPD, both suffered major losses, possibly falling to their worst result since 1949 (CDU/CSU) or since the war (SPD). Although the German economy is stronger than it has been for more than a century, voters did not reward them at all for governing Germany together in the last four years. While CDU/CSU and SPD had usually won more than 80% of the (West) German vote until 1990, the two parties are now down less than 55% between them. As today's main beneficiary of this trend, the right-wing AfD garnered even more protest votes than opinion polls had projected. With a result above 13%, they look set to become the third biggest party in the Bundestag by a wide margin. Germany's other protest party, the left-wing Left Party, may



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have marginally exceeded its 8.6% of 2013 with a result around 9%. With six rather than four political groups entering the Bundestag, the new parliament will be Germany's most diverse and possibly most noisy since 1953.

Seen from a different angle, the situation looks more stable. Merkel will most likely remain chancellor. The level of discontent as expressed in votes for protest parties (AfD, The Left) remains well below that in almost any other country in the Western world. Beyond the discontent stirred by the migrant crisis of 2015, one reason why Merkel's CDU/CSU and the SPD lost support in the last three weeks of the campaign and why the AfD surged ahead seems to be that, as virtually everybody expected Merkel to win anyway and few people saw her SPD challenger Martin Schulz as a genuine alternative any more, it felt safe for voters to let off steam by voting for the AfD.

Some observers may be tempted to treat the rise of the AfD as a sign that the turn away from protest parties visible in the Dutch and French elections is over. Given the special German circumstances with an election that no longer looked very competitive, that could be an overinterpretation.

MERKEL TO REMAIN A STRONG LEADER DESPITE HER LOSSES

Many observers may worry that the significant losses for the CDU/CSU will weaken Merkel's position at home and abroad. These concerns are vastly overdone. First, as the CDU/CSU had exceeded expectations in 2013, part of the losses in 2017 reflect a return to normal. Second, remember the past: in her three terms so far, Merkel governed effectively after her party had done worse than expected (2005 and 2009) or better than expected (2013) in the election before. For example, she dealt with the euro crisis 2010-2012 as a firm and undisputed German leader right after a particularly bad election result for her CDU/CSU in 2009 (33.8%, the worst since 1949).

We still expect Wolfgang Schäuble (CDU) to remain finance minister for a fourth term. But it is a finely balanced call now. If three political groups (CDU/CSU, FDP and Greens) have to share the top jobs in Berlin in a "Jamaica" coalition, the probability that Schäuble may have to yield – possibly to become president of the Bundestag – would rise. If so, he would probably be replaced by an FDP finance minister. Would that make a major difference? It would tilt the domestic discussion a bit further towards serious income tax cuts. But for the upcoming Franco-German discussion about the future of Europe, the impact would likely be marginal. The positions of Schäuble and the FDP on these issues are fairly similar.

WATCH THE SPD

What happens next in Berlin will partly depend on the SPD, which is torn between two strategies. The national leaders may like to stay on as junior partners in government with Merkel. However, many regional party stalwarts and rank-and-file members fear that the SPD would continue to lose out in such a position and should rejuvenate itself in opposition. The weak result for the SPD strengthens the case of those who prefer to go into opposition.

In coming weeks, Merkel's CDU/CSU will likely hold exploratory talks with potential partners. All sides may shy away from the inevitable compromises needed to form a government before the state election in Lower Saxony on 15 October, though. Formal coalition talks between the CDU/CSU and the likely future partners, probably the FDP and Greens, may start only thereafter. Expect the new government to be sworn in just before Christmas.



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DEALING WITH THE AfD

Dealing with the right-wing AfD will present a major challenge for all other parties in parliament. The AfD can now use its prominent position in the Bundestag as a platform for its views. However, chances are that – after flying high now – the AfD could soon deflate itself somewhat. The party is riven by infighting between its ultra-right and somewhat less radical wings. Chances are that the party will ditch its current chairwoman, Frauke Petry, within weeks. As the party will now stand on an elevated platform, the AfD may expose itself as not being up to the job of a serious opposition party, as it has done in some federal states already. The 2017 federal election may well mark the peak of electoral appeal for the AfD.

For the potential impact of the various coalition scenarios on German domestic politics and the European level, see pages 5-6 of our [Berenberg guide to the German election](#).

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