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## GERMAN POLITICS: LIMBO IN BERLIN

### Berenberg Macro Flash

Eight weeks after the German election, chancellor Angela Merkel's attempts to form a new government for a fourth term fell flat last night. The liberal FDP pulled out of 4-way coalition talks with Merkel's CDU, the CSU and the Greens, citing a lack of trust between the would-be partners. Although the talks had proved to be very difficult in the last few days already, the failure of these talks is still a significant surprise. The consequences could be a renewed attempt to form such a coalition after a period of reflection, a Merkel-led minority government or - after quite a while - even repeat elections. Merkel and her current CDU/CSU-SPD government stay on in a caretaker position for now, with no given time limit. While it remains likely that, one way or the other, Merkel will be able to govern for a fourth term in the end, her position is now potentially at risk.

For Germany, this is a significant political upset. The consequences should be very limited, though.

- The economy is in such good shape with 2.5% growth, strong business confidence, full employment and a fiscal surplus that few major decisions need to be taken for the time being. Businesses will not curtail investment growth by much, growth can rumble even in a political limbo.

- In Europe, Germany will be too pre-occupied with its domestic affairs to agree and drive an ambitious reform agenda with French president Emmanuel Macron. This is a pity. But in the absence of an acute crisis, this is not dramatic. As the agreement of most EU members to cooperate more closely on defence has shown two weeks ago, Europe can make progress even if Berlin has just a caretaker government.

- In foreign policy, all mainstream parties in Berlin are so close and so willing to cooperate that the current political uncertainty will not make a major difference.

The way ahead should become clearer over the next few days. The SPD has ruled out joining Merkel in a renewed "grand coalition" (while still staying on in the current caretaker government). Repeat elections and a minority government are unprecedented on the federal level in Germany. Judging by opinion polls, repeat elections may not yield a different outcome anyway, forcing the same parties to negotiate a new government again. After repeat elections, a new "grand" coalition may be an additional option, though.

Due to Germany's specific history with the unstable Weimar republic, Germans don't value minority governments and repeat elections. Still, repeat elections in early 2018 are now an option. The pressure on the major parties to form a stable arrangement will be immense in coming days.



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## MACRO NEWS

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