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POLITICAL RISK IN GERMANY?

Berenberg Macro Flash

Not for the first time, the ongoing dispute within Germany's centre-right CDU/CSU about migration policy is making headlines. Even ECB President Mario Draghi had to dodge a question about an alleged German political risk at his press conference today. In our view, the dispute within Germany's conservative camp is serious, but not to the extent that it could really topple Chancellor Angela Merkel. In the end, both sides – namely Merkel and the CSU led by interior minister Horst Seehofer – would have too much to lose from a failure to agree.

Ever since an unexpectedly large number of migrants and refugees flooded into Germany in the autumn of 2015 after Merkel's decision to open the border for refugees stranded in Hungary and following her long hesitation to return to a harsher border regime thereafter, the CSU and parts of Merkel's own CDU have been at odds with her on this key aspect of policy. An open disagreement whether Germany could and should limit the number of asylum seekers to 200k a year as demanded by Seehofer even marred the CDU/CSU's otherwise co-ordinated election campaign last September.

The current dispute is about asylum seekers who show up at the German border after having applied for asylum in another EU country first. Merkel insists that, according to EU regulations, they need to be admitted into Germany where their situation can then be assessed, including a possibility to send them back to the EU country they came from. This is the current German practice. Seehofer wants to change this practice to reject at the border certain groups of asylum seekers already registered elsewhere in the EU. While Seehofer claims that EU regulations can be interpreted his way, Merkel disputes that. She seeks a European solution, Seehofer stresses the urgency and for that reason seems ready to implement a purely national solution.

At a session of the CDU's Bundestag members earlier this week, Seehofer reportedly received some backing from parts of Merkel's CDU. An attempt by Merkel and Seehofer to defuse the conflict failed last night. Both sides now apparently want to resolve the issue by Monday. For Merkel, this is probably the most serious challenge she has ever faced from within the conservative camp.

Merkel and Seehofer may well have different priorities. Ahead of the EU summit on 28-29 June 2018, Merkel does not want to endorse any action at the national level that could make it more difficult to come to an agreement with other European countries on migration policy. Seehofer is probably keeping an eye on the regional election in Bavaria on 14 October where his CSU is at risk of losing its absolute majority of seats due to a tough challenge from the right-wing and anti-immigration AfD.

Many senior CDU leaders rallied today to support Merkel. At a new session of CDU Bundestag members, most speakers also reportedly endorsed her position. Still, the very fact that others feel compelled to explicitly support her line shows that her position is no longer as strong as it used to be. Hence the talk about "political risk" in Germany. Nonetheless, Merkel is also a master of compromise while Seehofer, for all his high-profile insistence on his position, is also quite capable of changing tack. A lasting political crisis at the federal level in Berlin, let alone a purely hypothetical fall of the Merkel government, would probably damage rather than help the conservative CSU in Bavaria at the regional election in October. Amid some significant noise, we expect Merkel and Seehofer to find a compromise in the end, as they have before when they really had to after a lot of posturing. Elements of a compromise could be that Merkel first tries to find a



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solution either at the EU level or – more likely – with some key countries on the transit route to Germany such as Austria and Italy before Germany may then decide to reject at its border some groups of asylum seekers already registered elsewhere. With luck, outlines of a potential compromise may become visible by Monday.

Some observers have asked us about potential tail risks. For the sake of argument, let us briefly ponder what might happen if the situation were to escalate out of control, as unlikely as that seems to be. That the CSU would leave the federal government while Merkel's CDU would stay in a coalition with the centre-left SPD would be highly unlikely in such a case. After all, the CSU view enjoys some support within the CDU as well. CDU and SPD would be two seats short of a majority in the Bundestag without the CSU anyway. No government could be formed against the CDU/CSU as that would require the centre-left SPD to team up with all other parties in the Bundestag including the de facto untouchable AfD. New elections would not resolve anything, especially as this is a dispute within the conservative camp rather than the usual controversies between different political groups. The least unlikely of hypothetical outcomes would be that CDU and CSU would jointly agree on a successor to Merkel who would then try to continue the current coalition with the SPD. But again, we see little need to delve deeper into such "what if" scenarios as we expect the tense situation to be resolved by a compromise in the near future.

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