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## GERMAN POLITICS: THE IMPACT OF THE POLITICAL CRISIS

### Berenberg Macro Flash

**A fix at last:** Horrified by the prospects of a messy divorce, the joint parliamentary faction of CDU and CSU finally forced their party leaders Angela Merkel (CDU) and Horst Seehofer (CSU) to find a compromise on the details of their hotly contested migration policy last night. Logic prevailed. Both parties would have had too much to lose if the CSU had walked out of the government. While the leaders of the third coalition partner SPD see a need to clarify details at an 18h meeting today (German time), the SPD did not reject the new proposal.

The deal calls for “transit centres“ at the German border to Austria from which asylum seekers already registered elsewhere in Europe can be sent back fast to Austria or to their original country of entry into the EU. To what extent Austria and especially Italy will cooperate does not seem to be fully clear yet. Assuming that the deal stands, what is the net result?

- That the conflict has been resolved and Merkel maintains her majority in parliament is good news.
- In line with a clear trend at home and abroad, and the preferences of many voters, the CDU-CSU deal marks a further significant hardening of German migration policy.
- As the German economy is in robust fundamental health despite an on-going trade related dent to demand growth, the economic impact of the noisy conflict should be small.
- The deafening noise and the bitter conflict in which other German conservatives such as Bundestag president Wolfgang Schäuble had to mediate between Chancellor Merkel (CDU) and her minister of the interior, Seehofer (CSU), may weaken Merkel’s standing at home and abroad somewhat. Standing up to Donald Trump and Vladimir Putin will not be any easier now.
- Merkel has weathered lesser crises before. This one looks set to leave scars, though. While she is not quite a “lame“ duck, the conflict makes it even clearer than before that she is serving her final term.
- Merkel ‘sort of’ managed to preserve a veneer of co-ordinated solutions with other EU countries instead of going it alone. But the deal comes close to unilateral German action with negative repercussions on its neighbours. Striking compromises in Europe will be even a little more complex.
- The risk of an eventual clash between Germany and Italy over migration (or fiscal issues) has not receded. If such a clash were to erupt, Italy’s bond market would be vulnerable. See [Italy: A timeline for potential trouble](#).
- Both CDU and CSU and the various factions within the two parties will likely tread more carefully for a while. That will likely hold for those who want a harder and those who, like Merkel, prefer a more generous approach to European reforms. At the margin, this can constrain her leeway for compromises.
- The noisy conflict within the conservative mainstream could help the far right AfD to raise its share of the vote to up to 15% or more at the upcoming state elections in Bavaria (14 October) and Hesse (28 October 2018), making it more likely that the CSU and CDU will suffer heavy losses in Bavaria and Hesse, respectively. Such setbacks could trigger new conflicts within and among CDU and CSU



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and raise questions as to how long their current leaders should stay on. This holds for the abrasive Seehofer more than for the much steadier Merkel.

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